# SLANG Worldwide Inc.

## Consolidated Financial Statements

## For the years ended December 31, 2019 and 2018

# SLANG Worldwide Inc.

## Consolidated Contents

# Independent Auditor's Report

**To the Shareholders of SLANG Worldwide Inc.:**

**Opinion**

We have audited the consolidated financial statements of SLANG Worldwide Inc. and its subsidiaries (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2019 and 2018, and the consolidated statements of loss and comprehensive loss, changes in shareholders' equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2019 and 2018, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

**Basis for Opinion**

We conducted our audits in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**Other Information**

Management is responsible for the other information. The other information comprises Management's Discussion and Analysis.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audits of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audits or otherwise appears to be materially misstated. We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

**Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements**

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

**Auditor's Responsibilities for the Audit of the Consolidated Financial Statements**

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audits and significant audit findings, including any significant deficiencies in internal control that we identify during our audits.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Marufur Raza.

MNP LLP

Toronto, Ontario
May 25, 2020

**Chartered Professional Accountants**
**Licensed Public Accountants**

MNP

# SLANG Worldwide Inc.
# Consolidated Statements of Financial Position

As at December 31, 2019 and 2018
(Prepared in Canadian dollars)

| | **December 31, 2019** | December 31, 2018 |
|---|---|---|
| **Assets** | | |
| Current assets | | |
| Cash | **$ 8,233,860** | $ 176,432 |
| Funds held in trust | **701,500** | 63,929,156 |
| Marketable securities (Note 7) | **10,000,000** | - |
| Accounts receivable (Note 8) | **8,877,622** | 617,857 |
| Other receivables (Note 9) | **896,303** | 781,926 |
| Income taxes receivable | **102,170** | 136,420 |
| Inventory (Note 10) | **1,680,354** | - |
| Prepaids | **942,508** | 78,694 |
| Investments, at fair value (Note 12) | **1,972,710** | - |
| Option asset, net (Note 19) | **7,165,428** | - |
| **Total current assets** | **40,572,455** | 65,720,485 |
| Notes receivable (Note 11) | **5,301,794** | 4,644,769 |
| Investments, at fair value (Note 12) | **2,488,503** | 16,236,073 |
| Investment in associate (Note 13) | **2,027,142** | - |
| Due from related parties (Note 14) | **5,192,121** | 66,424 |
| Property, plant and equipment (Note 16) | **1,022,951** | 174,714 |
| Investment properties (Note 15) | **4,947,593** | 4,434,392 |
| Intangible assets (Note 17) | **39,291,407** | - |
| **Total assets** | **$ 100,843,966** | $ 91,276,857 |
| **Liabilities** | | |
| Current liabilities | | |
| Accounts payable and accrued liabilities (Notes 20 & 36) | **$ 8,870,025** | $ 5,685,888 |
| Loan payable (Note 22) | **-** | 2,728,400 |
| Current portion of notes payable (Note 23) | **853,018** | - |
| Current portion of deferred revenue (Note 24) | **653,016** | - |
| Contract liability (Note 21) | **293,190** | - |
| Due to related parties (Note 25) | **3,873,365** | 26,483 |
| Option liability, net (Note 19) | **21,353,309** | - |
| **Total current liabilities** | **35,895,923** | 8,440,771 |
| Loan payable (Notes 22 & 33) | **1,966,262** | - |
| Notes payable (Note 23) | **532,279** | - |
| Deferred revenue (Note 24) | **17,577,010** | - |
| Derivative liability (Note 26) | **4,222,002** | 17,236,727 |
| **Total liabilities** | **60,193,476** | 25,677,498 |
| **Shareholders' equity** | | |
| Share capital (Note 27) | **219,119,332** | 29,315,764 |
| Share capital to be issued | **1,053,120** | - |
| Restricted share capital (Note 27) | **26,800,983** | - |
| Contributed surplus | **11,710,326** | 3,971,005 |
| Subscription receipts | **-** | 59,041,705 |
| Warrants (Note 27) | **15,736,929** | 2,173,464 |
| Deficit | **(232,184,194)** | (29,127,599) |
| Foreign currency translation reserve | **(1,586,006)** | 225,020 |
| **Total shareholders' equity** | **40,650,490** | 65,599,359 |
| **Total liabilities and shareholders' equity** | **$ 100,843,966** | $ 91,276,857 |

Commitments (Note 33)

Subsequent events (Note 36)

# SLANG Worldwide Inc.
# Consolidated Statements of Loss and Comprehensive Loss

For the years ended December 31, 2019 and 2018
(Prepared in Canadian dollars)

| | December 31, 2019 | December 31, 2018 |
|---|---|---|
| **Revenue** | | |
| Product and licensing revenue (Notes 24 & 32) | $ **25,521,289** | $ - |
| Rental income (Note 15) | **2,656,675** | 4,774,441 |
| Interest income | **1,051,171** | 455,536 |
| **Total revenue** | **29,229,135** | 5,229,977 |
| **Cost of goods sold** (Note 10) | **16,093,823** | - |
| **Gross margin** | **13,135,312** | 5,229,977 |
| **Expenses** | | |
| Consulting and subcontractors (Note 32) | **3,655,829** | 2,581,500 |
| Depreciation and amortization (Notes 15, 16 & 17) | **21,029,946** | 74,059 |
| Expected credit losses (Notes 8, 11, 14 & 35) | **14,138,742** | 4,766,902 |
| General and administrative | **5,983,141** | 472,821 |
| Marketing | **3,852,722** | 8,232,807 |
| Professional fees | **4,441,644** | 1,747,269 |
| Salaries and wages (Note 32) | **10,634,811** | - |
| Share based payments (Notes 27 & 32) | **9,074,396** | 2,066,582 |
| **Total expenses** | **72,811,231** | 19,941,940 |
| **Loss from operations** | **(59,675,919)** | (14,711,963) |
| Impairment (Notes 13 & 18) | **223,990,645** | 7,689,874 |
| Share of loss on investment in associate (Note 13) | **2,174,002** | - |
| Financing cost and FV adjustment (Note 28) | **(51,555,724)** | 5,909,454 |
| Unrealized exchange loss (gain) | **466,669** | (32,558) |
| **Loss before income taxes** | **(234,751,511)** | (28,278,733) |
| Current tax (Note 29) | **41,111** | - |
| Deferred tax (recovery) (Note 29) | **(34,456,408)** | - |
| | **(34,415,297)** | - |
| **Net loss for the period** | **(200,336,214)** | (28,278,733) |
| **Other comprehensive loss for the period** | | |
| Exchange differences on translation of foreign operations | **(1,811,026)** | 225,020 |
| **Total comprehensive loss for the period** | $ **(202,147,240)** | $ (28,053,713) |

| | | |
|---|---|---|
| **Net loss per common and restricted voting share** | | |
| Basic (Note 31) | $ **(0.87)** | $ (0.37) |
| Diluted (Note 31) | $ **(0.87)** | $ (0.37) |
| **Weighted average number of common and restricted voting shares outstanding** | | |
| Basic (Note 31) | **230,709,026** | 76,764,927 |
| Diluted (Note 31) | **230,709,026** | 76,764,927 |

# SLANG Worldwide Inc.
# Consolidated Statements of Changes in Shareholders' Equity

For the years ended December 31, 2019 and 2018
(Prepared in Canadian dollars)

| | Common share capital | Restricted voting share capital | Shares to be issued | Warrants | Subscription receipt | Contributed surplus | Foreign Currency Translation | Deficit | Total |
|---|---|---|---|---|---|---|---|---|---|
| **Balance as at December 31, 2017** | $ 1,366,300 | $ - | $ 420,000 | $ - | $ - | $ 5,332 | $ - | $ (848,866) | $ 942,766 |
| Net loss for the year | - | - | - | - | - | - | - | (28,278,733) | (28,278,733) |
| Exchange differences on translation of foreign operations | - | - | - | - | - | - | 225,020 | - | 225,020 |
| Stock-based compensation expense | - | - | - | - | - | 1,366,582 | - | - | 1,366,582 |
| Issued pursuant to services | 1,120,000 | - | (420,000) | - | - | - | - | - | 700,000 |
| Issued pursuant to investments | 14,000,000 | - | - | - | - | - | - | - | 14,000,000 |
| Issued pursuant to subscription receipt offering, net | - | - | - | - | 59,041,705 | 2,020,595 | - | - | 61,062,300 |
| Issued pursuant to private placements, net | - | - | - | 14,985,461 | - | 583,463 | - | - | 15,568,924 |
| Options exercised | 17,467 | - | - | - | - | (4,967) | - | - | 12,500 |
| Conversion of special warrants to common shares | 12,811,997 | - | - | (12,811,997) | - | - | - | - | - |
| **Balance as at December 31, 2018** | 29,315,764 | - | - | 2,173,464 | 59,041,705 | 3,971,005 | 225,020 | (29,127,599) | 65,599,359 |
| Net loss for the period | - | - | - | - | - | - | - | (200,336,214) | (200,336,214) |
| Exchange differences on translation of foreign operations | - | - | - | - | - | - | (1,811,026) | - | (1,811,026) |
| Stock based compensation expense | - | - | - | - | - | 5,127,542 | - | - | 5,127,542 |
| Restricted share unit compensation expense | - | - | - | - | - | 2,551,351 | - | - | 2,551,351 |
| Issued pursuant to services | - | - | 1,053,120 | - | - | 342,383 | - | - | 1,395,503 |
| Issued pursuant to business and asset acquisitions | 108,131,196 | 26,800,983 | - | - | - | - | - | - | 134,932,179 |
| Shares re-acquired in NCG business combination | 2,720,381 | - | - | - | - | - | - | (2,720,381) | - |
| Conversion pursuant to subscription receipt offering | 50,607,176 | - | - | 8,434,529 | (59,041,705) | - | - | - | - |
| Issued pursuant to private placements, net | 9,916,541 | - | - | 7,386,657 | - | - | - | - | 17,303,198 |
| Stock options exercised | 21,273 | - | - | - | - | (8,773) | - | - | 12,500 |
| Warrants and compensation units exercised | 18,407,001 | - | - | (2,219,740) | - | (311,163) | - | - | 15,876,098 |
| Warrants expired | - | - | - | (37,981) | - | 37,981 | - | - | - |
| **Balance as at December 31, 2019** | **$ 219,119,332** | **$ 26,800,983** | **$ 1,053,120** | **$ 15,736,929** | **$ -** | **$ 11,710,326** | **$ (1,586,006)** | **$ (232,184,194)** | **$ 40,650,490** |

# SLANG Worldwide Inc.
# Consolidated Statements of Cash Flows

For the years ended December 31, 2019 and 2018
(Prepared in Canadian dollars)

| | **December 31, 2019** | December 31, 2018 |
|---|---|---|
| **Cash flows used in operating activities** | | |
| Net loss for the year | **$(200,336,214)** | $ (28,278,733) |
| Items not affecting cash | | |
| Expected credit losses | **14,138,742** | 4,766,902 |
| Interest not paid in cash | **-** | 16,775 |
| Interest not received in cash | **(546,452)** | (258,019) |
| Depreciation and amortization (Notes 15, 16 & 17) | **21,029,946** | 74,059 |
| Investment in associate, downstream elimination | **12,858** | - |
| Inventory write off | **538,350** | - |
| Impairment (Notes 13 & 18) | **223,990,645** | 7,689,874 |
| Marketing | **-** | 8,211,000 |
| Fair value adjustment derivative liability (Note 26) | **(13,014,725)** | 11,812,210 |
| Fair value adjustment on option asset and liability, net (Note 19) | **(40,599,499)** | - |
| Fair value adjustment on investments (Note 12) | **1,839,611** | (9,087,997) |
| Gain on modification of GHNA loan, net of accretion (Note 22) | **(564,914)** | - |
| Loss on extinguishment of convertible debt | **-** | 3,059,668 |
| Share of loss on investment | **2,174,002** | - |
| Share-based payment (Note 27) | **9,074,396** | 2,066,582 |
| Amortization of deferred revenue | **(666,993)** | - |
| Deferred taxes (recovery) | **(34,456,408)** | - |
| Unrealized foreign exchange loss | **466,669** | - |
| | **(16,919,986)** | 72,321 |
| Change in non-cash working capital balances | | |
| Accounts receivable | **(8,169,435)** | (4,795,825) |
| Other receivables | **(229,292)** | (832,597) |
| Inventory | **2,570,437** | - |
| Prepaids | **(293,476)** | (70,039) |
| Accounts payable and accrued liabilities | **(1,914,103)** | 2,549,635 |
| Contract liability | **299,465** | - |
| | **(24,656,390)** | (3,076,505) |
| **Cash flows from financing activities** | | |
| Repayment of note payable | **(421,977)** | (2,177,350) |
| Net advances from related parties | **2,347,152** | 26,483 |
| Proceeds pursuant to issuance of warrants, net | **7,386,657** | 15,568,924 |
| Proceeds pursuant to issuance of common shares | **25,792,639** | - |
| Proceeds pursuant to issuance of subscription receipt | **-** | 63,929,156 |
| Proceeds pursuant to exercise of options | **12,500** | 12,500 |
| | **35,116,971** | 77,359,713 |

## SLANG Worldwide Inc.
## Consolidated Statements of Cash Flows
For the years ended December 31, 2019 and 2018
(Prepared in Canadian dollars)

| | **December 31, 2019** | December 31, 2018 |
|---|---|---|
| **Cash flows from (used in) investing activities** | | |
| Purchase of marketable securities | **(10,000,000)** | - |
| Advances of notes receivable | **(7,129,480)** | (3,658,013) |
| Repayment of notes receivable | **79,694** | 36,344 |
| Purchase of investment property | **(206,916)** | - |
| Purchase of property, plant and equipment | **(255,749)** | (592,002) |
| Purchase of intangible assets | **(90,391)** | - |
| Investments | **(2,021,626)** | (6,028,092) |
| Net advances to related parties | **(8,427,494)** | (66,424) |
| Cash paid on business combinations and asset acquisition (Note 5) | **(38,731,842)** | - |
| Cash acquired through business combinations (Note 5) | **1,414,040** | 16,241 |
| | **(65,369,764)** | (10,291,946) |
| **Net increase (decrease) in cash and funds held in trust** | **(54,909,183)** | 63,991,262 |
| **Exchange rate changes on foreign currency cash balances** | **(261,045)** | (51,014) |
| **Cash and funds in trust, beginning of year** | **64,105,588** | 165,340 |
| **Cash and funds held in trust, end of year** | **8,935,360** | 64,105,588 |
| **Cash, end of year** | **8,233,860** | 176,432 |
| **Funds held in trust, end of year** | **$ 701,500** | $ 63,929,156 |

| | | |
|---|---|---|
| **Supplemental cash flow information** | | |
| Income taxes paid | **$ 41,111** | $ 130,550 |
| Interest expense paid | **$ 324,062** | $ 48,049 |

## 1. Nature of operations

Slang Worldwide Inc. formerly known as Fire Cannabis Inc., (the "Company") was incorporated on May 29, 2017 under the laws of Canada Business Corporations Act. On November 26, 2018 the Company filed articles of amendment to change its name to SLANG Worldwide Inc.

The address of the Company's registered office is 77 King Street West, Suite 400, Toronto, Ontario, Canada.

The Company invests and operates in the cannabis industry. The Company invests in companies that have a consumer centric product portfolio with brands that have widespread distribution.

The consolidated financial statements were approved by the Company's Board of Directors on May 25, 2020.

## 2. Basis of presentation

(a) Statement of compliance

The Company's consolidated financial statements have been prepared in accordance with and using accounting policies in full compliance with the International Reporting Standards ("IFRS") and International Accounting Standards ("IAS") as issued by the International Accounting Standards Board ("IASB") and the IFRS Interpretations Committee ("IFRIC"), effective for the Company's reporting for the periods ended December 31, 2019 and 2018.

(b) Basis of measurement

The Company's consolidated financial statements have been prepared on a historical cost basis except for certain financial instruments which are measured at fair value. Historical cost is generally based on fair value of the consideration given in exchange for assets.

(c) Basis of consolidation

The consolidated financial statements for the year ended December 31, 2019 include the accounts of the Company and its wholly-owned subsidiaries, The Purple Organization, Inc. ("Purple"), National Concessions Group, Inc. ("NCG"), NCG Transport LLC, a non-operational dormant entity, NWT Holdings LLC ("NWT"), and SLANG Worldwide US Inc., a non-operational dormant entity, on a consolidated basis after elimination of intercompany transactions and balances (2018 - Purple). The subsidiaries are controlled by the Company. Control exists when the Company has power over an investee, when the Company is exposed, or has rights, to variable returns from the investee and when the Company has the ability to affect those returns through its power over the investee. The financial statements of subsidiaries are fully consolidated from the date that control commences and de-consolidated from the date control ceases.

The functional currency of the Company is Canadian Dollar which is also the presentation currency of the consolidated financial statements. The functional currency of Purple, NCG, NCG Transport LLC, NWT, and SLANG Worldwide US Inc. is the US dollar.

(d) Adoption of new and revised standards and interpretations

At the date of authorization of these consolidated financial statements, the IASB and the IFRS Interpretations Committee ("IFRIC") has issued certain new and revised:

**2. Basis of presentation, continued**

(i) Standards and Interpretations which have come into effect during the reporting period.

IIFRS 16 - Leases

On January 6, 2016, the IASB issued IFRS 16, Leases ("IFRS 16"). This standard specifies the methodology to recognize, measure, present and disclose leases. This standard provides a comprehensive model for the measurement, presentation and disclosure of leases and supersedes IAS 17, Leases. The effective date is for reporting periods beginning on or after January 1, 2019 with early adoption permitted. The Company adopted IFRS 16 on January 1, 2019 using the modified retrospective approach. Under this approach, the cumulative effect of initially applying IFRS 16 is recognized as an adjustment to equity at the date of initial application. Comparative figures are not restated to reflect the adoption of IFRS 16. Additionally, the Company has applied the practical expedient to grandfather the assessment of which transactions are leases and has applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 have not been reassessed for whether a lease exists. Furthermore, the Company has accounted for leases for which the lease term ends within 12 months of the date of initial application as short term leases. The Company has also adopted the exemption for leases with a lease term of 12 months or less and for leases that are low value. No adjustments were required as a result of the adoption of IFRS 16.

(ii) Standards and Interpretations which have not yet come into effect.

Amendments to IFRS 3, Business Combinations ("IFRS 3")

In October 2018, the IASB issued Definition of a Business (Amendments to IFRS 3). The amendments clarify the definition of a business, with the objective of assisting entities to determine whether a transaction should be accounted for as a business combination or as an asset acquisition. The amendment provides an assessment framework to determine when a series of integrated activities is not a business.

The amendments are effective for business combinations and asset acquisitions occurring on or after the beginning of the first annual reporting period beginning on or after January 1, 2020, early adoption is permitted.

As permitted, the Company early adopted the IFRS 3 amendments on January 1, 2019. The Company assessed the impact of this standard on a case by case basis for acquisitions performed beginning January 1, 2019 (see Note 6).

**3. Summary of significant accounting policies**
**Revenue**

IFRS 15 applies to all contracts with customers, with only some exceptions, including certain contracts accounted for under other IFRSs. The standard requires revenue to be recognized in a manner that depicts the transfer of promised goods or services to a customer and at an amount that reflects the consideration expected to be received in exchange for transferring those goods or services. This is achieved by applying the following five steps: i) identify the contract with a customer; ii) identify the performance obligations in the contract; iii) determine the transaction price; iv) allocate the transaction price to the performance obligations in the contract; and v) recognize revenue when (or as) the entity satisfies a performance obligation.

3. **Summary of significant accounting policies, continued**

Revenue is derived from interest income on deposits and loans, rental income, sale of the Company's manufactured products including a product license fee and a licensee revenue-based milestone license fee structure as established in the terms of the licensee contract.

Licensed product sales are recognized when the Company has shipped the product to the customer, and control of the product has been transferred to the customer, per the agreed upon shipping terms. The Company recognizes product licensing revenue when the underlying product has been sold to the licensee, and the Company is entitled to their related fee based on the terms in the licensee contract which is recognized preceding the month the revenue-based milestone in achieved. When the terms of the transaction provide for licensing the right to access a product for a determinate period of time, revenue is recognized over that period, typically on a straight-line basis.

Rental income is recognized as revenue on a straight-line basis over the term of the lease. Lease incentives granted are recognized as an integral part of the total rental income, over the term of the lease.

Interest income is recognized based on the number of days the investment or loan was held during the year using the effective interest rate method.

Contract obligations arise when the Company has received payments for goods not yet delivered to the customer based on the shipping terms.

**Financial instruments**

(a) Financial assets

(*i) Recognition and initial measurement*

The Company recognizes financial assets when it becomes party to the contractual provisions of the instrument. Financial assets are measured initially at their fair value plus, in the case of financial assets not subsequently measured at fair value through profit or loss, transaction costs that are directly attributable to their acquisition. Transaction costs attributable to the acquisition of financial assets subsequently measured at fair value through profit or loss are expensed in profit or loss when incurred.

*(ii) Classification and subsequent measurement*

On initial recognition, financial assets are classified as subsequently measured at amortized cost, fair value through other comprehensive income ("FVOCI") or fair value through profit or loss ("FVTPL"). The Company determines the classification of its financial assets, together with any embedded derivatives, based on the business model for managing the financial assets and their contractual cash flow characteristics.

Financial assets are classified as follows:

## 3. Summary of significant accounting policies, continued

- Amortized cost - assets that are held for collection of contractual cash flows where those cash flows are solely payments of principal and interest are measured at amortized cost. Interest revenue is calculated using the effective interest method and gains or losses arising from impairment, foreign exchange and derecognition are recognized in profit or loss. Financial assets measured at amortized cost are comprised of accounts and other receivables, due from related parties and notes receivable.

- Fair value through other comprehensive income - assets that are held for collection of contractual cash flows and for selling the financial assets, and for which the contractual cash flows are solely payments of principal and interest, are measured at fair value through other comprehensive income. Interest income calculated using the effective interest method and gains or losses arising from impairment and foreign exchange are recognized in profit or loss. All other changes in the carrying amount of the financial assets are recognized in other comprehensive income. Upon derecognition, the cumulative gain or loss previously recognized in other comprehensive income is reclassified to profit or loss. The Company does not hold any financial assets measured at fair value through other comprehensive income.

- Mandatorily at fair value through profit or loss - assets that do not meet the criteria to be measured at amortized cost, or fair value through other comprehensive income, are measured at fair value through profit or loss. All interest income and changes in the financial assets' carrying amount are recognized in profit or loss. Financial assets mandatorily measured at fair value through profit or loss are comprised of cash, funds in trust / escrow, marketable securities, option assets and investments.

- Designated at fair value through profit or loss – On initial recognition, the Company may irrevocably designate a financial asset to be measured at fair value through profit or loss in order to eliminate or significantly reduce an accounting mismatch that would otherwise arise from measuring assets or liabilities, or recognizing the gains and losses on them, on different bases. All interest income and changes in the financial assets' carrying amount are recognized in profit or loss. The Company does not hold any financial assets designated to be measured at fair value through profit or loss.

*Business model assessment*

The Company assesses the objective of its business model for holding a financial asset at a level of aggregation which best reflects the way the business is managed, and information is provided to management. Information considered in this assessment includes stated policies and objectives.

*Contractual cash flow assessment*

The cash flows of financial assets are assessed as to whether they are solely payments of principal and interest on the basis of their contractual terms. For this purpose, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money, the credit risk associated with the principal amount outstanding, and other basic lending risks and costs. In performing this assessment, the Company considers factors that would alter the timing and amount of cash flows such as prepayment and extension features, terms that might limit the Company's claim to cash flows, and any features that modify consideration for the time value of money.

**3. Summary of significant accounting policies, continued**

(iii) Impairment

The Company recognizes a loss allowance for the expected credit losses associated with its financial assets, other than financial assets measured at fair value through profit or loss. Expected credit losses are measured to reflect a probability-weighted amount, the time value of money, and reasonable and supportable information regarding past events, current conditions and forecasts of future economic conditions.

The Company applies the simplified approach for trade receivables. Using the simplified approach, the Company records a loss allowance equal to the expected credit losses resulting from all possible default events over the assets' contractual lifetime.

The Company assesses whether there has been a significant increase in credit risk since initial recognition or a financial asset is credit-impaired at the reporting date. Regular indicators that a financial instrument is credit-impaired include significant financial difficulties as evidenced through borrowing patterns or observed balances in other accounts and breaches of borrowing contracts such as default events or breaches of borrowing covenants. For financial assets with significant increase in credit risk since initial recognition and financial assets assessed as credit-impaired at the reporting date, the Company continues to recognize a loss allowance equal to lifetime expected credit losses.

For financial assets measured at amortized cost, loss allowances for expected credit losses are presented in the statement of financial position as a deduction from the gross carrying amount of the financial asset.

Financial assets are written off when the Company has no reasonable expectations of recovering all or any portion thereof.

(*iv) Derecognition of financial asset*s

The Company derecognizes a financial asset when its contractual rights to the cash flows from the financial asset expire.

(b) Financial liabilities

*(i) Recognition and initial measuremen*t

The Company recognizes a financial liability when it becomes party to the contractual provisions of the instrument. At initial recognition, the Company measures financial liabilities at their fair value plus transaction costs that are directly attributable to their issuance, with the exception of financial liabilities subsequently measured at fair value through profit or loss for which transaction costs are immediately recorded in profit or loss.

Where an instrument contains both a liability and equity component, these components are recognized separately based on the substance of the instrument, with the liability component measured initially at fair value and the equity component assigned the residual amount.

*(ii) Classification and subsequent measurement*

Subsequent to initial recognition, all financial liabilities are measured at amortized cost using the effective interest rate method. Interest, gains and losses relating to a financial liability are recognized in profit or loss.

## 3. Summary of significant accounting policies, continued

*(iii) Derecognition of financial liabilities*

The Company derecognizes a financial liability only when its contractual obligations are discharged, cancelled or expire.

(c) Summary of the Company's classification and measurements of financial assets and liabilities

| | Classification | Measurement |
|---|---|---|
| Cash | FVTPL | Fair value |
| Accounts & other receivables | Amortized cost | Amortized cost |
| Funds held in trust | FVTPL | Fair value |
| Marketable securities | FVTPL | Fair value |
| Notes receivable | Amortized cost | Amortized cost |
| Investments | FVTPL | Fair value |
| Option asset | FVTPL | Fair value |
| Due to/from related parties | Amortized cost | Amortized cost |
| Accounts payable and accrued liabilities | Amortized cost | Amortized cost |
| Loan payable | Amortized cost | Amortized cost |
| Notes payable | Amortized cost | Amortized cost |
| Derivative liability | FVTPL | Fair value |
| Option liability | FVTPL | Fair value |

**Foreign currency translation**

Monetary assets and liabilities denominated in currencies other than functional currencies are translated into functional currencies at the rate of exchange in effect at the statement of financial position date. Non-monetary assets and liabilities are translated at the historical rates. Revenues and expenses are translated at the transaction date exchange rate. Foreign currency gains and losses resulting from translation are reflected in net comprehensive loss for the period.

The assets and liabilities of entities with a functional currency that differs from the presentation currency are translated to the presentation currency as follows:

- Assets and liabilities are translated at the closing rate on the statement of the financial position date;
- Income and expenses are translated at average exchange rates (unless the average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case, income and expenses are translated at the rate on the dates of the transactions) for the year or period presented;
- Equity transactions are translated using the exchange rate at the date of the transaction; and
- All resulting exchange differences are recognized as a separate component of equity as reserve for foreign currency translation.

Foreign exchange gains or losses arising from a monetary item receivable from or payable to a foreign operation, the settlement of which is neither planned nor likely to occur in the foreseeable future and which in substance is considered to form part of the net investment in the foreign operation, are recognized in other comprehensive income in the foreign currency translation reserve.

## 3. Summary of significant accounting policies, continued

### Accounts receivables and expected credit loss

Accounts receivable are recorded at the invoiced amount and do not bear interest except rent receivable which bears interest based on the terms of lease agreement. Expected credit loss reflect the Company's estimate of amounts in its existing accounts receivable that may not be collected due to customer claims or customer inability or unwillingness to pay. Collectability of trade receivables is reviewed on an ongoing basis. The expected credit loss is determined based on a combination of factors, including the Company's risk assessment regarding the credit worthiness of its customers, historical collection experience and length of time the receivables are past due. Account balances are charged off against the allowance when the Company believes it is probable the receivable will not be recovered.

### Investment properties

Investment properties include properties held to earn rental income. Investment property is measured using the cost model under IAS 40 - Investment Property. The property is recorded at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditure that is directly attributed to the acquisition of the asset. Investment properties comprise non-owner occupied properties held to earn rentals and for capital appreciation.

Depreciation on building held as investment property is calculated on a straight line basis over 25 years.

### Property, plant and equipment

Property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditure that is directly attributable to bring the asset to the location and condition necessary for its use in operation.

Gains and losses on disposal of an item of property and equipment are determined by comparing the proceeds from disposal with the carrying amount of property and equipment and are recognized in the consolidated statement of loss and comprehensive loss.

The costs of the day-to-day servicing of property and equipment are recognized in profit or loss as incurred.

Depreciation is computed using a straight-line basis over the following periods:

| | |
|---|---|
| Office equipment | 7 to 10 years |
| Equipment and machinery | 2 to 7 years |
| Computer equipment & fixtures | 2 to 5 years |
| Leasehold improvements | shorter of the term of the lease or 20 years |
| Vehicles | 4 years |

## 3. Summary of significant accounting policies, continued

### Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value at the date of acquisition. Acquisition related transaction costs are expensed as incurred. Identifiable assets and liabilities, including intangible assets, of acquired businesses are recorded at their fair value at the date of acquisition. When the Company acquires control of a business, any previously held equity interest also is re-measured to fair value. The excess of the purchase consideration and any previously held equity interest over the fair value of identifiable net assets acquired is goodwill. If the fair value of identifiable net assets acquired exceeds the purchase consideration and any previously held equity interest, the difference is recognized in the consolidated statements of loss and comprehensive loss immediately as a gain or loss on acquisition.

### Impairment of non-financial assets

The carrying amount of the Company's non-financial assets is reviewed at each financial reporting date to determine whether there is any indication of impairment. If such indication exists, the recoverable amount of the asset is estimated to determine the extent of the impairment loss. An impairment loss is recognized when the carrying amount of an asset or its Cash Generating Unit ("CGU") exceeds its recoverable amount.

The recoverable amount of an asset or CGU is the greater of its fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects the current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is only reversed if there is an indication that the impairment loss may no longer exist and there has been a change in the estimates used to determine the recoverable amount, however, not to an amount higher than the carrying amount that would have been determined had no impairment loss been recognized in previous years.

### Convertible promissory note

The convertible promissory note is considered to contain an embedded derivative relating to the conversion feature. The conversion feature was measured at fair value upon initial recognition using the Black-Scholes valuation model and was separated from the debt component of the note. The debt component of the note was measured at residual value upon initial recognition. Subsequent to initial recognition, the embedded derivative component is re-measured at fair value at each reporting date while the debt component is accreted to the face value of the note using the effective interest rate through periodic charges to finance expense over the term of the note.

## 3. Summary of significant accounting policies, continued

### Share-based payments

The Company operates equity settled share-based remuneration plans for its eligible directors, officers, employees and consultants. All goods and services received in exchange for the grant of any share-based payments are measured at their fair value unless the fair value cannot be estimated reliably. If the Company cannot estimate reliably the fair value of the goods and services received, the Company shall measure their value indirectly by reference to the fair value of the equity instruments granted. For transactions with employees and others providing similar services, the Company measures the fair value of the services by reference to the fair value of the equity instruments granted.

Equity settled share-based payments under share-based payments plans are ultimately recognized as an expense in profit or loss with a corresponding credit to reserve for share-based payments, in equity.

If vesting periods or other vesting conditions apply, the expense is allocated over the vesting period, based on the best available estimate of the number of share options expected to vest. Non-market vesting conditions are included in the assumptions about the number of options that are expected to become exercisable. Estimates are subsequently revised if there is any indication that the number of share options expected to vest differs from the previous estimate. Any cumulative adjustment prior to vesting is recognized in the current period. No adjustment is made to any expense recognized in prior period if share options ultimately exercised are different to that estimated on vesting.

### Provisions and contingent liabilities

Provisions, where applicable, are recognized in other liabilities when the Company has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated. Provisions are measured at management's best estimate of the expenditure required to settle the obligation at the end of the reporting period and are discounted to present value where the effect is material.  The Company performs evaluations to identify onerous contracts and, where applicable, records provisions for such contracts.

## 3. Summary of significant accounting policies, continued

### Income taxes

Tax expense recognized in profit or loss comprises the sum of current and deferred taxes not recognized in other comprehensive income or directly in equity.

(i) Current tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the date of the statement of financial position.

(ii) Deferred tax

Deferred tax is recognized using the liability method on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. However, the deferred tax is not recognized if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the reporting date and are expected to apply when the related deferred tax asset is realized or the deferred tax liability is settled.

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Changes in deferred tax assets or liabilities are recognized as a component of tax income or expense in profit or loss except where they related to items that are recognized in other comprehensive income or directly in equity, in which case, related deferred tax is also recognized in other comprehensive income or equity, respectively.

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.

### Share capital

Common shares and restricted voting shares and shares to be issued are classified as equity. Incremental costs directly attributable to the issuance of shares are recognized as a deduction from equity. The proceeds from the exercise of stock options or warrants together with amounts previously recorded in reserves over the vesting periods are recorded as share capital. Income tax relating to transaction costs of an equity transaction is accounted for in accordance with IAS 12, Income Taxes.

3. **Summary of significant accounting policies, continued**

**Loss per share**

Basic loss per share is calculated by dividing the net loss attributable to shareholders by the weighted average number of common shares outstanding during each of the years presented. Contingently issuable shares (including shares held in escrow) are not considered outstanding Common Shares and consequently are not included in the loss per share calculations.

Diluted loss per share is calculated by adjusting the weighted average number of common shares outstanding to assume conversion of all dilutive potential common shares. The Company has two categories of dilutive potential common shares: warrants and stock options. In order to determine diluted loss per share, it is assumed that any proceeds from the exercise of dilutive stock options would be used to repurchase common shares at the average market price during the period. The diluted loss per share calculation excludes any potential conversion of options that would increase earnings per share or decrease loss per share.

**Intangible assets**

Intangible assets are recorded at cost less accumulated amortization and impairment losses, if any. Intangible assets acquired in a business combination are measured at fair value at the acquisition date.

Amortization of intangible assets is measured on a straight-line bases over the following periods;

| | |
|---|---|
| Proprietary technology & know how | 5 years |
| Brands | 10 years |
| Distributor relationships | 5 years |

The estimated useful lives, residual values and amortization methods are reviewed at each year end and any changes in estimates are accounted for prospectively.

**Inventories**

Inventories are stated at the lower of cost and net realizable value, with cost determined using the weighted average cost basis. Net realizable value is determined as the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale. The Company reviews inventory for obsolete, redundant and slow-moving goods and any such inventories are written down to net realizable value.

## 3. Summary of significant accounting policies, continued

### Investment in associates

The Company holds equity investments in associates. An associate is an entity over which the Company has significant influence and is neither a controlled subsidiary nor a jointly controlled entity. The Company has significant influence when it has the power to participate in the financial and operating policy decisions of the associate but does not have control or joint control over those policies.

The Company accounts for equity investments using the equity method. Under the equity method, the Company’s investment in an associate is initially recognized at cost and is subsequently increased or decreased to recognize the Company’s share of earnings or losses of the associate, and for impairment losses after the initial recognition date. The Company’s share of an associate’s losses that are in excess of its investment in the associate are recognized only to the extent that the Company has incurred legal or constructive obligations or made payments on behalf of the associate. The Company’s share of earnings or losses of associates are recognized through net income or loss during the year. Cash distribution received from an associate are accounted for as a reduction in the carrying amount of the Company’s investment in the associate.

At the end of each reporting period, the Company assesses whether there is any objective evidence that an investment in an associate is impaired. Objective evidence includes observable data indicating that there is a measurable decrease in the estimated future cash flows of the associate’s operations. When there is objective evidence that an investment in an associate is impaired, the carrying amount of such investment is compared to its recoverable amount, being the greater of its fair value less costs of disposal and value in use (i.e. present value of its future cash flows). If the recoverable amount of an investment in an associate is less than its carrying amount, then an impairment loss is recognized in that period. When an impairment loss reverses in a subsequent period, the carrying amount of the investment in an associate is increased to the revised estimate of the recoverable amount to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had an impairment loss not been previously recognized. A reversal of an impairment loss is recognized through net income or loss in the period in which the reversal occurs.

## 4. Significant accounting judgements and estimation uncertainties

The preparation of financial statements under IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities and revenue and expenses. The Company makes estimates and assumptions concerning the future that will, by definition, seldom equal actual results. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances.

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 financial statements relate to, but are not limited to the following:

## 4. Significant accounting judgements and estimation uncertainties, continued

Expected credit loss

Management determines the expected credit loss by evaluating individual receivable balances and considering a member's financial condition and current economic conditions. Accounts and other receivable are written off when deemed uncollectible. Recoveries of accounts receivable previously written off are recorded as income when received. All accounts and other 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.

Estimated useful lives and depreciation of property, plant and equipment

Depreciation of property, plant 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.

Fair value of financial instruments

The individual fair values attributed to the different components of a financing transaction, and/or 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.

Impairment of goodwill

The values associated with goodwill involve significant estimates and assumptions, including those with respect to the determination of cash generating units, future cash inflows and outflows, discount rates and asset lives. At least annually, the carrying amount of goodwill is reviewed for potential impairment. Among other things, this review considers the recoverable amounts of the CGUs based on the higher of value in use or fair value less costs of disposal using discounted estimated future cash flows. These significant estimates require considerable judgment which could affect the Company's future results if the current estimates of future performance and fair value change.

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.

## 4. Significant accounting judgements and estimation uncertainties, continued

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.

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.

## 5. Business combinations

The Company has determined that the below acquisitions are business combinations under IFRS 3, Business Combinations. They are accounted for by applying the acquisition method, whereby the assets acquired, and the liabilities assumed are recorded at their fair values with any excess of the aggregate consideration over the fair values of the identifiable net assets allocated to goodwill. Operating results have been included in these Financial Statements from the date of the acquisition. Any goodwill recognized is attributed based on Cash Generating Units ("CGUs").

On January 22, 2019, the Company acquired 92.5% of the issued and outstanding shares of NCG it didn't own and 100% of the outstanding membership interests of NWT. Each of the acquisitions is a business combination accounted for using the acquisition method in accordance with IFRS 3 Business Combinations.

NCG Acquisition

NCG maintains a portfolio of brand-related intellectual property that is synergistic with the cannabis business sector. NCG's primary business consists of licensing its intellectual property to cannabis-related businesses in exchange for customary royalty payments. Because the Company held a 7.5% equity interest in NCG before closing of this acquisition, this is considered to be a business combination achieved in stages under IFRS 3. The fair value of the Company's pre-existing equity interest in NCG immediately before the acquisition was $11,967,314.

The following tables summarize the purchase price allocation for the NCG acquisition:

## 5. Business combinations, continued

| | |
|---|---|
| Fair value of consideration transferred | |
| Cash paid | $ 26,470,562 |
| Common shares issued | 97,500,000 |
| Restricted voting shares issued | 23,625,000 |
| Fair value of existing equity interest in NCG | 11,967,314 |
| Net fair value of ACG options (Note 19) | 35,065,524 |
| Net fair value of NSH options (Note 19) | 19,721,856 |
| Settlement of pre-existing relationships | (2,421,156) |
| Shares to be issued to employees for pre-combination services | 4,400,381 |
| **Total consideration transferred** | **$ 216,329,481** |
| Fair value of identifiable net assets | |
| Cash | 85,376 |
| Accounts receivable | 5,118,558 |
| Prepaid expenses | 509,588 |
| Inventory | 4,595,630 |
| Property and equipment | 1,257,962 |
| Due from related parties | 2,223,778 |
| Investment in associate | 4,494,560 |
| Intangibles - proprietary technology & know how | 20,743,700 |
| Intangibles - brands | 114,230,420 |
| Intangibles - distributor relationship | 18,769,380 |
| Equity investments | 60,200 |
| Accounts payable and accrued liabilities | (5,494,537) |
| Deferred revenue | (19,394,809) |
| Notes payable | (1,847,278) |
| Deferred tax liability | (34,648,612) |
| **Total identifiable net assets** | **$ 110,703,916** |
| **Goodwill on acquisition** | **$ 105,625,565** |

As consideration for the NCG shares, the Company issued 65,000,000 common shares which were estimated at $1.50 per share (based on quoted market price) and 17,500,000 restricted voting shares which were estimated at $1.35 per share on the date of acquisition. A discount of 10% was applied to the restricted voting shares due voting restrictions placed on these shares.

The following pre-existing relationships were effectively settled on the acquisition date:

Reacquired shares

NCG held an equity interest in the Company as of the acquisition date, resulting in the Company having reacquired 3,000,000 shares of its own equity at a fair value of $4,400,381, which were recorded as treasury shares on the date of acquisition. The return of treasury shares resulted in a net increase in share capital of $2,720,381, and a corresponding increase in deficit of $2,720,381. NCG was obligated to grant these shares to certain employees as compensation. Since this obligation was settled in the Company's own shares, it was recognized as share-based payment relating to pre-combination services, and included as part of the consideration on the acquisition date. Settlement of the share-based payment transaction occurred in April 2019.

## 5. Business combinations, continued

Note receivable

The Company had a previous note receivable from NCG, which was effectively settled at its fair value of $1,979,225 on the date of acquisition.

Identifiable intangible assets

The identifiable proprietary technology and know-how, brands and distributor relationship have been valued using an income approach. Specifically, proprietary technology and know-how were valued using a discounted cash flow method. Brands and the distributor relationships were valued using the multi-period excess earnings method. All methods applied a 19% discount rate.

Proprietary technology and know-how and distributor relationships are considered definite useful life intangible assets and are being amortized over their remaining useful lives of 5 years. Brands were estimated to have a useful life of 10 years and as such are being amortized over that period.

Goodwill

Goodwill of $105,625,565 is primarily related to growth expectations, particularly driven by introduction of brands in new markets where cannabis regulations are shifting toward legalization. Goodwill recognized will not be deductible for income tax purposes.

Acquisition costs charged to general and administrative expenses amounting to $771,141 and $342,383 are recognized as part of professional fee expenses and share based payments, respectively, for the year ended December 31, 2019.

Contribution to Company Results

If the transaction had closed on January 1, 2019, the Company’s revenue for the year ended December 31, 2019 would have increased by $912,928, and net loss for the year ended December 31, 2019 would have decreased by $991,091.

Consolidated revenue and loss for the year, before impairment, of the acquiree after the acquisition date, as recorded in the consolidated statement of loss and comprehensive loss for the year ended December 31, 2019 is $19,062,390 and $36,696,414, respectively.

## 5. Business combinations, continued

NWT Acquisition

NWT is a supplier and distributor of vaporizer products to wholesale distributors and online consumers. NWT's vaporizers service multiple cannabis formats including flower, liquid oil, and solid extracts.

The following tables summarize the purchase price allocation for the NWT acquisition:

| | |
|---|---|
| Fair value of consideration transferred | |
| Cash paid | $ 10,672,000 |
| Shares issued | 10,631,196 |
| Settlement of pre-existing relationship | 1,051,192 |
| **Total consideration transferred** | **$ 22,354,388** |

| | |
|---|---|
| Recognized amounts of identifiable net assets | |
| Cash | 1,328,664 |
| Accounts receivable | 42,688 |
| Inventory | 242,788 |
| Prepaid and other | 76,038 |
| Property, plant and equipment | 45,356 |
| Intangibles - proprietary technology & know how | 4,335,500 |
| Intangibles - brand | 4,282,140 |
| Intangibles - distributor relationship | 5,295,980 |
| Accounts payable, notes payable & other liabilities | (1,966,418) |
| **Total identifiable net assets** | **$ 13,682,736** |
| **Goodwill on acquisition** | **$ 8,671,652** |

As consideration for the NWT shares, the Company issued 7,087,464 common shares which were estimated at $1.50 per share (based on quoted market price) on the date of acquisition.

A pre-existing relationship consisting of a note receivable issued by the Company to NWT with a fair value of $1,051,192 on the date of acquisition was effectively settled.

Identifiable intangible assets

The identifiable proprietary technology and know-how, brands and distributor relationship have been valued using an income approach. Specifically, proprietary technology and know-how and brands using a relief from royalty method. Distributor relationships were valued using the multi-period excess earnings method. All methods applied a 33.7% discount rate.

Proprietary technology and know-how and distributor relationships are considered definite useful life intangible assets and are being amortized over their remaining useful lives of 5 years. Brands were estimated to have a useful life of 10 years and as such are being amortized over that period.

## 5. Business combinations, continued

Goodwill

Goodwill of $8,671,652 is primarily related to growth expectations, particularly driven by introduction of brands and products in new markets where cannabis regulations are shifting toward legalization. Goodwill recognized will not be deductible for income tax purposes going forward.

Contribution to Company Results

If the transaction had closed on January 1, 2019, the Company's revenue for the year ended December 31, 2019 would have increased by $98,068, and net loss for the year ended December 31, 2019 would have increased by $63,225.

Consolidated revenue and loss for the year, before impairment, of the acquiree after the acquisition date, as recorded in the consolidated statement of loss and comprehensive loss for the year ended December 31, 2019 is $6,473,215 and $4,621,316, respectively.

Purple Acquisition

On April 3, 2018, the Company and Purple, an Ontario corporation controlled by the Company's CEO, entered into an amended and restated share purchase agreement (the "SPA") amending, restating, superseding and replacing a share purchase agreement dated November 22, 2017. Pursuant to the SPA, the Company agreed to purchase from the Vendor 50 shares of common stock of the Purple Organization, Inc., a Delaware corporation, and, the ownership of which amounts to one hundred percent (100%) of the issued and outstanding shares of common stock in the capital of Purple (collectively, the "Purple Shares") after the redemption of 2 shares of common stock of Purple from two previous shareholders.

As consideration for the Purple Shares, the Company issued 10,000,000 common shares, which were estimated at $0.56 per share on the date of transaction.

The acquisition by the Company of all of the shares of common stock of Purple closed on April 30, 2018.

The revenue and net loss of Purple was consolidated for the twelve months ended December 31, 2019.

The following tables summarize the purchase price allocation for the Purple acquisition:

## 5. Business combinations, continued

| | |
|---|---|
| Fair value of identifiable net assets | |
| Cash and cash equivalents | $ 16,241 |
| Accounts receivable | 334,327 |
| Property and equipment and investment property | 3,852,355 |
| Trade payables, accruals and loans | (70,598) |
| Note payable #1 | (2,177,350) |
| Note payable #2 | (2,364,849) |
| **Net liabilities acquired** | **$ (409,874)** |
| Consideration paid | |
| Shares issued | $ 5,600,000 |
| **Total consideration paid** | **5,600,000** |
| **Total goodwill** | **$ (6,009,874)** |

The recoverable amount of the Purple's CGU was determined based on a value in use calculation which uses rent cash flow projections at a discount rate of 12% to 14% per annum.

The carrying value of Purple's CGU at December 31, 2018 exceeded its recoverable amount due to expectation for reduced rent receivables from current tenant and the Company recognized a full impairment of the goodwill in its consolidated statements of income (loss) and comprehensive income (loss). Key assumptions the company used to calculate the value in use includes: market rental income of approximately USD$388,000 (CAD$507,000) per annum, cap rate of 12% to 14% per annum.

## 6. Asset acquisition

On October 1, 2019 the Company entered into an Intellectual Property Purchase Agreement and separately, an Asset Purchase Agreement, with National Patent Solutions, LLC, SPJ & Co, LLC, and their unit holders. Pursuant to the agreements the Company acquired certain intellectual property, real estate and equipment assets and settled a pre-existing lease liability the Company owed to National Patent Solutions. Under Amendments to IFRS 3, Business Combinations, it was determined that the acquisition did not qualify as a business combination, and therefore it was accounted for as an asset acquisition. The aggregate consideration payable was comprised of the issuance of 6,416,128 restricted voting shares of the Company totaling $3,175,983 (based on quoted market price) and US $1.2 million in cash (CAD - $1,589,280). A discount of 10% was applied to the restricted voting shares due voting restrictions placed on these shares. The allocation of the purchase price was based on the relative fair values of the assets acquired as summarized below:

| | |
|---|---|
| Intellectual property - District Edibles | $ 3,736,542 |
| Investment property | 635,712 |
| Equipment | 255,271 |
| Settlement of pre-existing lease liability | 137,738 |
| | $ 4,765,263 |

## 6. Asset acquisition, continued

On October 1, 2019, Company also entered into a consulting agreement with the unit holders whereby the unit holders will provide consulting, marketing and advertising services to the Company in exchange for restricted voting shares of the Company. The consulting agreement covers a period of three years and the payout of restricted voting shares are due quarterly based on achievement of performance conditions. The first quarterly payment totaled $1,053,120, resulting in 2,340,266 shares to be issued, and was recorded as shares to be issued in the consolidated statement of changes in shareholders' equity and share based compensation in the consolidated statement of loss and comprehensive loss.

## 7. Marketable securities

Marketable securities represent short term investments recorded at fair value through profit and loss. At December 31, 2019 the Company held a guaranteed investment certificate in the amount of $10,000,000 bearing interest at 2%, maturing on December 24, 2020.

## 8. Accounts receivable

Accounts receivables consist of the following:

| | **December 31, 2019** | December 31, 2018 |
|---|---|---|
| Accounts receivable | **$ 14,505,022** | $ 5,192,519 |
| Expected credit losses (Note 35) | **(5,627,400)** | (4,574,662) |
| | **$ 8,877,622** | $ 617,857 |

## 9. Other receivables

Other receivables consist of the following:

| | **December 31, 2019** | December 31, 2018 |
|---|---|---|
| Indirect tax receivable | **$ 826,918** | $ 469,494 |
| Other receivables | **69,385** | 312,432 |
| | **$ 896,303** | $ 781,926 |

## 10. Inventory

The following comprise inventory:

| Category | December 31, 2019 | December 31, 2018 |
|---|---|---|
| Batteries | $ 691,567 | $ - |
| Packaging | 411,307 | - |
| Cartridges | 382,271 | - |
| Finished goods | 361,104 | - |
| Other | 207,133 | - |
| Reserve for obsolete inventory | (373,028) | - |
| | $ 1,680,354 | $ - |

The Company classifies slow-moving inventory, not expected to be consumed or realized in cash in its normal operating cycle, as a non-current asset. As of December 31, 2019, no slow-moving inventory was noted. Inventory is periodically reviewed for potential obsolescence, and the Company writes down inventory based on its assessment of market conditions. Inventory is net of a reserve for obsolete inventory of $373,028, of which $373,028 was recorded in the period ended December 31, 2019 (2018 - $Nil).

During the year ended December 31, 2019, the total inventory expensed through cost of goods sold was $14,633,747 (2018 - $Nil).

Included in cost of sales is the fair value adjustment of $2,418,542 recognized on inventory acquired in the NCG and NWT acquisition. The inventory was sold subsequent to acquisition during 2019, and therefore the fair value adjustment was included in cost of sales.

## 11. Notes receivable

On November 8, 2017 the Company loaned $750,000 (“Original Promissory Note”) to Pine River Consulting Ltd. (controlled by the Company’s CEO) (“Pine River”). The loan was pursuant to a credit facility in the amount of $1,000,000. Pine River and the Company subsequently amended and restated the Original Promissory Note on July 30, 2018, and again on October 15, 2018. During the year ended December 31, 2019 the Company advanced an additional $26,497 to Pine River. The maturity date of the loan was extended to November 8, 2020 at 15% interest for up to $1,500,000. Ten percent of the quarterly interest shall be payable by Pine River to the Company and the remaining five percent of the quarterly interest payment shall be added to the principal amount. As at December 31, 2019 principal and interest due is $1,798,113 (2018 - $1,656,009). In a prior period, the Company estimated an expected credit loss of $192,240, the remaining balance of the loan is $1,605,873. Interest of $34,692 was paid by Pine River in 2019 (2018 - $Nil) and interest income for the year ended December 31, 2019 amounted to $229,994 (2018 - $108,008). The loan remains outstanding at the date of these consolidated financial statements.

## 11. Notes receivable, continued

On March 21, 2019, the Company entered into a promissory note with NS Holdings, LLC ("NSH"), a related entity, in the amount of US$3,206,188 (CAD - $4,285,267), which is secured by substantially all of the assets of NSH, bears interest at 12% per annum and is due in full in February 2022. On May 3, 2019, July 24, 2019 and August 13, 2019, the Company advanced a further US$1,028,755 (CAD - $1,383,080), US$528,907 (CAD - $690,398) and US$399,410 (CAD - $528,191), respectively, under the same terms of the original note. Interest of $241,380 was paid by NSH in the year and interest accrued and included in the principal for the year ended December 31, 2019 amounted to $327,223. An unrealized foreign exchange loss of $185,957 was recognized in the year ended December 31, 2019. On December 31, 2019, the Company estimated an expected credit loss of $3,547,439. The loan remains outstanding at the date of these consolidated financial statements.

On October 23, 2019, the Company entered into a promissory note with Pleasant Valley Ranch, an unrelated entity, in the amount of US$165,659 (CAD - $215,158), which is unsecured, bears interest at 15% per annum and is due in full on December 31, 2020. The loan remains outstanding on the date of these consolidated financial statements.

A summary of the Company's loans and notes receivable is as follows:

| | **December 31, 2019** | December 31, 2018 |
|---|---|---|
| Pine River, net of allowance | **$ 1,605,873** | $ 1,463,768 |
| NSH, net of allowance | **3,480,763** | - |
| Pleasant Valley Ranch | **215,158** | - |
| NCG | **-** | 2,106,385 |
| NWT | **-** | 1,074,616 |
| | **$ 5,301,794** | $ 4,644,769 |

## 12. Investments, at fair value

A summary of all investments held at fair value include the following:

| | **December 31, 2019** | December 31, 2018 |
|---|---|---|
| Allied Concessions Group Inc. ("ACG") (a) | **$ 1,865,104** | $ 1,744,422 |
| NS Holdings Inc. ("NSH") (a) | **155,140** | 1,745,636 |
| NCG (e) | **-** | 12,246,015 |
| 10663522 Canada Inc. (b) | **408,889** | 500,000 |
| Duby (c) | **59,370** | - |
| LBA - Convertible loan (d) | **1,972,710** | - |
| Less: Current portion | **(1,972,710)** | - |
| | **$ 2,488,503** | $ 16,236,073 |

## 12. Investments, at fair value, continued

a. NSH & ACG Warrants

As at December 31, 2019 and 2018 the Company held warrants which entitle the Company to acquire 339,930 and 327,601 shares of NSH and ACG respectively at an exercise price of US$0.001 per share until March 20, 2028. Had the warrants been exercised before or on December 31, 2019 and 2018, the Company would have owned 7.5% outstanding common shares of each of ACG and NSH respectively. The warrants were re-valued on December 31, 2019. As a result of the re-valuation the NSH warrant had a loss of $1,590,496 and the ACG warrant a gain of $120,682, which was recorded in financing and fair value adjustments in the consolidated statement of loss and comprehensive loss (Note 28). The fair value of the warrants was estimated using the Monte Carlo Simulation approach using a risk-free rate of 1.86%, NSH volatility of 266.4%, ACG volatility of 238.4%, stock price of $0.48 and term of 8.22 years. A 1% change in any key input would not result in a significant change in the value of the warrants.

b. 10663522 Canada Inc.

On May 31, 2018, the Company entered into an investment agreement with 10663522 Canada Inc. whereby the Company acquired 1,111,111 shares of 10663522 Canada Inc. At December 31, 2019, the Company estimated a decrease in the fair value of the investment in 10663522 Canada Inc., resulting in a loss of $91,111 which was recorded in the consolidated statements of loss and comprehensive loss in 2019 (2018 - gain of $333,254). The fair value at December 31, 2019 was estimated by reference to a financing which closed in the valuation assessment period.

c. Duby Inc.

Prior to acquisition by the Company of NCG, NCG had invested a total of $180,000 in Duby Inc, (Duby) representing a 2.6% ownership interest. Duby provides a network for people to gain and share knowledge around their cannabis experiences. NCG invested in Duby for a strategic marketing purpose. Duby is a private company, no quoted market prices are available for its shares. Prior to the acquisition of NCG by the Company, NCG had recognized an impairment loss on the investment, bringing the net investment value to US $45,700 (CAD - $59,370). The Company has estimated no change in the value of the investment for the year ended December 31, 2019.

d. LBA - Convertible Loan

On May 23, 2019, the Company loaned US $1,500,000 (CAD - $2,021,626) to LBA Global Corporation, an unrelated third party. The loan is unsecured, carries interest at 12% per annum and is due in full in May 2020. Interest of $119,045 was paid by LBA in 2019 and interest accrued and receivable for the year ended December 31, 2019 amounted to $24,625. The loan is convertible at the Company's option, and it is measured at fair value through profit or loss. The fair value adjustment recognized in the year ended December 31, 2019 was $Nil and a foreign exchange loss totaled of $73,541. The loan has not been repaid as of the date of these consolidated financial statements.

e. Investment in NCG

Immediately prior to the acquisition of NCG (Note 5), the Company estimated a decrease in the fair value of the investment in NCG, resulting in loss of $278,686 (2018 - gain of $8,754,743) which was recorded in financing cost and fair value adjustments in the consolidated statements of loss and comprehensive loss. The fair value of the investment in NCG was determined based on the value of the consideration in the share purchase agreement with the shareholders of NCG.

## 13. Investment in associate

Prior to the acquisition of NCG by the Company, NCG received a 20% ownership share in Agripharm Corp. (Agripharm), a licensed producer located in Creemore, Ontario, for the use of intellectual property ("IP"), over a period of 30 years plus two 5-year renewal periods, valued on initial recognition at $19,200,000 (USD - $15,083,520). As such, the consideration transferred has been recorded as deferred revenue and will be amortized over the 30-year period (Note 24). During the period from January 22, 2019 (NCG acquisition) to December 31, 2019, NCG recognized an equity pick-up of a loss of $2,174,002 and an impairment loss of $286,563 in the consolidated statement of loss and comprehensive loss.

Investment in Agripharm can be summarized as follows:

| | |
|---|---|
| Investment on acquisition | $ 4,494,560 |
| Loss on share of investment | (2,174,002) |
| Impairment loss | (286,563) |
| Currency translation | 6,005 |
| | 2,040,000 |
| Downstream elimination | (12,858) |
| **Total investment at December 31, 2019** | **$ 2,027,142** |

The aggregated financial information for Agripharm is summarized below:

| | December 31, 2019 |
|---|---|
| Current assets | $ 9,589,103 |
| Non-current assets | 28,727,200 |
| **Total assets** | $ 38,316,303 |
| Current liabilities | 4,939,027 |
| Non-current liabilities | 22,614,119 |
| **Total liabilities** | $ 27,553,146 |
| **Net assets** | $ 10,763,157 |
| Revenue | $ 5,092,982 |
| Income (loss) | $ (48,511,997) |
| Total comprehensive income (loss) for the year | $ (48,511,997) |

## 14. Due from related parties

The Company's wholly owned subsidiary, NCG, routinely conducts business with Allied Concessions Group, Inc. ("ACG"), GNT Oregon LLC ("GNT"), CalVape Inc ("CalVape"). and NS Holdings Inc. ("NSH"). ACG, GNT, CalVape and NSH have common management with the Company. All entities are separate entities due to the US marijuana regulation licensing requirements. ACG, GNT, Calvape and NSH operate labs that manufacture oil, packages and market products to be sold to dispensaries. Peter Miller Enterprises and Green House Holdings North America are controlled by a senior management member of the Company.

Balances due from related parties have no specific repayment terms and consist of the following:

| | **December 31, 2019** | December 31, 2018 |
|---|---|---|
| CalVape | **$ 5,310,557** | $ - |
| ACG | **4,530,338** | - |
| GNT | **346,353** | - |
| Peter Miller Enterprises | **315,430** | - |
| Green House Holdings North America | **-** | 66,424 |
| Expected credit losses (Note 35) | **(5,310,557)** | - |
| | **$ 5,192,121** | $ 66,424 |

## 15. Investment properties

| | Building and land improvements | Land | Total |
|---|---|---|---|
| **Cost** | | | |
| Balance at December 31, 2018 | $ 2,374,685 | $ 2,114,510 | $ 4,489,195 |
| Additions | 842,628 | - | 842,628 |
| Currency translation | (128,175) | (101,370) | (229,545) |
| **Balance at December 31, 2019** | **$ 3,089,138** | **$ 2,013,140** | **$ 5,102,278** |
| **Accumulated depreciation** | | | |
| Balance at December 31, 2018 | $ 54,803 | $ - | $ 54,803 |
| Depreciation expense | 100,937 | - | 100,937 |
| Currency translation | (1,055) | - | (1,055) |
| **Balance at December 31, 2019** | **154,685** | **-** | **154,685** |
| **Net book value December 31, 2019** | **$ 2,934,453** | **$ 2,013,140** | **$ 4,947,593** |
| **Net book value December 31, 2018** | **$ 2,319,882** | **$ 2,114,510** | **$ 4,434,392** |

The Company has two investment properties in Denver and Carbondale Colorado, USA. The Carbondale property is leased out on an operating lease with an arm lengths party. The lease in effect during the year ended December 31, 2019 had monthly rental amounts of US$40,000 and additional annual rents of US$100,000 (2017), US$300,000 (2018) and US$500,000 (2019 & 2020). This lease was amended on December 31, 2019, with the new lease term ending December 31, 2024 and monthly rental amounts of US$40,000. In addition, annual rents of US$500,000 (May 2021), US$600,000 (May 2022), US$700,000 (May 2023), US$800,00 (May 2024) and US$900,000 (December 2024). The Denver property was not leased out at December 31, 2019.

The rental income recorded in the Company's consolidated statement of income (loss) and comprehensive income (loss) for the year ended December 31, 2019 includes $1,224,728 (2018 - $4,241,108) in penalties and late charges.

The fair value of the Company's Carbondale property assets is estimated based on an income capitalization approach (2018 - replacement cost basis). Management used an external valuator with experience in the Cannabis industry to assist with the investment property valuation. As at December 31, 2019, the fair value of property was estimated to be approximately US$4,970,000 (CAD - $6,455,036) (2018 - between US$3,196,200 to US$3,897,000 (CAD - $4,172,639 to $5,087,534).

The fair value of the Company's Denver property assets is estimated based on a sales comparison and income capitalization approach. Management used an external valuator with experience in the Cannabis industry to assist with the investment property valuation. As at December 31, 2019, the fair value of property was estimated to be between US$460,000 to US$500,000 (CAD - 597,448 to $649,400).

## 16. Property, plant and equipment

| | Office equipment | Equipment and machinery | Computer equipment | Leasehold improvements | Vehicles | Total |
|---|---|---|---|---|---|---|
| **Cost** | | | | | | |
| Balance at December 31, 2018 | $ 15,532 | $ 138,876 | $ - | $ - | $ 39,562 | $ 193,970 |
| Additions on business combination (Note 5) | 148,823 | 1,092,742 | 20,998 | 40,783 | - | 1,303,346 |
| Additions | - | 506,695 | 4,325 | - | - | 511,020 |
| Disposals | - | (699,908) | - | - | - | (699,908) |
| Currency translation | (4,672) | (31,443) | (644) | (1,076) | (1,897) | (39,732) |
| Impairment (Note 18) | - | - | - | - | - | - |
| **Balance at December 31, 2019** | **$ 159,683** | **$ 1,006,962** | **$ 24,679** | **$ 39,707** | **$ 37,665** | **$ 1,268,696** |
| **Accumulated depreciation** | | | | | | |
| Balance at December 31, 2018 | $ 2,071 | $ 13,888 | $ - | $ - | $ 3,297 | $ 19,256 |
| Depreciation expense | 26,619 | 487,293 | 16,779 | 1,936 | 9,620 | 542,247 |
| Disposals | - | (309,714) | - | - | - | (309,714) |
| Currency translation | (762) | (5,162) | (351) | (41) | 272 | (6,044) |
| **Balance at December 31, 2019** | **$ 27,928** | **$ 186,305** | **$ 16,428** | **$ 1,895** | **$ 13,189** | **$ 245,745** |
| **Net book value at December 31, 2019** | **$ 131,755** | **$ 820,657** | **$ 8,251** | **$ 37,812** | **$ 24,476** | **$ 1,022,951** |
| **Net book value at December 31, 2018** | **$ 13,461** | **$ 124,988** | **$ -** | **$ -** | **$ 36,265** | **$ 174,714** |

## 17. Intangible assets

| | Proprietary technology & know how | Brands | Distributor relationships | Total |
|---|---|---|---|---|
| **Cost** | | | | |
| Balance at December 31, 2018 | $ - | $ - | $ - | $ - |
| Additions on business combination | 25,079,200 | 118,512,560 | 24,065,360 | 167,657,120 |
| Additions | 90,391 | 3,736,542 | - | 3,826,933 |
| Currency translation | (366,789) | (1,570,491) | (254,776) | (2,192,056) |
| Impairment | (14,166,193) | (77,730,246) | (18,144,459) | (110,040,898) |
| **Balance at December 31, 2019** | **$ 10,636,609** | **$ 42,948,365** | **$ 5,666,125** | **$ 59,251,099** |
| **Accumulated amortization** | | | | |
| Balance at December 31, 2018 | $ - | $ - | $ - | $ - |
| Amortization expense | 4,701,518 | 11,181,936 | 4,503,308 | 20,386,762 |
| Currency translation | (98,524) | (234,175) | (94,371) | (427,070) |
| **Balance at December 31, 2019** | **4,602,994** | **10,947,761** | **4,408,937** | **19,959,692** |
| **Net book value December 31, 2019** | **$ 6,033,615** | **$ 32,000,604** | **$ 1,257,188** | **$ 39,291,407** |

## 18. Impairment

Goodwill is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it may be impaired. At December 31, 2019, management determined there are events and changes in circumstances that indicate goodwill is impaired for the NCG and NWT CGU's. Although management identified two separate CGU's, goodwill is monitored for internal management purposes at a combined level and for impairment analysis the goodwill was allocated to a combined level of both CGU's. The carrying value of NCG and NWT CGU's exceeded their recoverable amount, resulting in management recognizing an impairment loss in the consolidated statements of loss and comprehensive loss. A total impairment loss of $223,704,082 was recognized for the year ended December 31, 2019. Goodwill of $113,663,184 (adjusted for currency translation at December 31, 2019) was fully impaired and various intangible assets were impaired by $110,040,898 (Note 17).

The recoverable amount of NCG and NWT CGU's was based on its value in use, which is estimated using the discounted future cash flows of NCG and NWT from the continuing use of these CGU's. The cash flow projections include management's best estimates for five years. Additionally, the key assumptions used in the estimation of the recoverable amount are set out in the schedule below:

| **Assumptions** | |
|---|---|
| Discount Rate | **15% - 17%** |
| Terminal Value Multiple | **6.7x - 7.7x** |
| Long-term Growth Rate | **2%** |

### 18. Impairment, continued

The value assigned to the terminal value multiple and the discount rate reflect management's assessment of the marketplace, NCG's maturity in the marketplace, management's observed acceptance of NCG's products, and other similar market participant discount rates around the estimation date. The budgeted revenue growth rate, gross profit margin, and OPEX growth rate was estimated by taking into account the events and changes that have occurred between purchase date and December 31, 2019. An increase (decrease) of 1% to the discount rate used would have resulted in an increase (decrease) of $2,597,600 in impairment on the CGU.

Impairment expense for the year ended December 31, 2018 included impairment on the investment in Slang Organa Brands Inc. for $1,680,000 and impairment on goodwill (Note 5) of $6,009,874.

### 19. Options to acquire ACG and NSH

As part of the acquisition of NCG, the Company also acquired an option to acquire 92.5% of the outstanding equity interests of Allied Concessions Group, Inc. ("ACG") and NS Holdings Inc. ("NSH"). Under the terms of the option agreements, the Company can choose to acquire either or both ACG and NSH ("call options"), in exchange for the issuance of an additional 33 million and 49.5 million of the Company's shares, respectively. These call options expire 36 months after closing of the NCG acquisition. During a 120 day period, commencing on the 13th month after closing of the NCG acquisition, the shareholders of ACG and NSH also have the right to sell 92.5% of the outstanding equity ("put rights") of ACG or NSH, to the Company, on the same terms as the call options.

The call options and put rights (collectively, "the options") related to ACG and NSH were recognized at fair value on the January 22, 2019 acquisition date. On December 31, 2019 the options were re-measured at fair value through profit or loss. The revaluation resulted in a fair value gain of $42,230,952 on the ACG options resulting in an option asset of $7,165,428 and a fair value loss of $1,631,453 on the NSH options resulting in an option liability of $21,353,308.

The fair value of the option liability as at December 31, 2019 and January 22, 2019 was estimated using an option pricing methodology based on the Monte Carlo Simulation approach using the following assumptions:

| | **December 31, 2019** | January 22, 2019 |
|---|---|---|
| Company's Share price | **$0.48** | $1.99 |
| Stock price volatility | | |
| NSH | **266%** | 104% |
| ACG | **238%** | 185% |
| Slang Worldwide Inc. | **92%** | 120% |
| Risk-free rate | **1.57%** | 2.57% |
| Expected life of the option liability | **0.39 years** | 1.33 years |

If the Company's stock price increased (decreased) by 10%, the fair values of the option asset and liability would be as follows:

(i) NSH option liability - $23,721,062 ($18,983,879)

(ii) ACG option asset - $5,559,370 ($8,598,404)

## 20. Accounts payable and accrued liabilities

Accounts payable and accrued liabilities consist of the following:

| | **December 31, 2019** | December 31, 2018 |
|---|---|---|
| Accounts payable | **$ 3,802,470** | $ 2,647,366 |
| Accrued liabilities | **3,245,979** | 3,038,522 |
| Government remittances | **1,821,576** | - |
| | **$ 8,870,025** | $ 5,685,888 |

## 21. Contract liability

At December 31, 2019, a contract liability totaling $293,190 resulting from one contract with a customer whereby the Company receives revenue for the performance of marketing and consulting services. As at December 31, 2019, the Company has not performed the performance obligation related to the recognition of the revenue.

## 22. Loan payable

The loan payable represents a balance owing to Green House Holdings North America Inc. ("GHNA"), a company partially owned by the Company's CEO. The loan is non-interest bearing and matured on July 31, 2019, at which time the loan was extended to July 9, 2021 with the same terms and conditions. A gain of $713,576 was recorded in the consolidated statement of loss and comprehensive loss on the modification of the loan. In the current year, the Company reclassified an amount due from GHNA for $66,424 to be offset against the outstanding loan balance. Refer to Note 32.

| | **December 31, 2019** | December 31, 2018 |
|---|---|---|
| Opening balance | **$ 2,728,400** | $ - |
| Advances | **-** | 2,611,000 |
| Repayments | **(66,424)** | - |
| Foreign exchange loss (gain) | **(130,800)** | 117,400 |
| Gain on modification (Note 28) | **(713,576)** | - |
| Accretion expense (Note 28) | **148,662** | - |
| Closing balance | **$ 1,966,262** | $ 2,728,400 |

## 23. Notes payable

Prior to acquisition of NCG by the Company, NCG entered into a promissory note agreement with a third party for a total principal amount of US$1,750,000. The note is secured, bears interest at 15% per annum and has a term of 60 months, with repayments made on a monthly basis. The note carries a pre-payment penalty of 12% if the balance is repaid before the first anniversary of the note and 10% and 8% if the note is repaid before the second and third anniversaries, respectively.

All assets of NCG have been pledged as security for the above note. During the year ended December 31, 2019, the Company paid interest of $178,676.

Prior to acquisition of NCG by the Company, NCG acquired the assets from the owner-operator SC-GH Holdings, LLC, (“SC-GH”) the Colorado trade name “The Magic Buzz” from Inspired Specialty Products, LLC and the related registered trademark from an individual. The trade name and trademark are associated with the preparation, manufacture, assembly and creation of non-THC infused drinks, drink formulas, and recipes to be sold to producers and thereafter infused with THC.

As part of the purchase price NCG provided a note payable to SC-GH for US$319,000 maturing January 1, 2020, with an option to extend the note for an additional year at a penalty cost of US$5,000. Payments on the note are to be made monthly and are variable based on the total revenue made by the Company on the sales made associated with the trademark acquired. Subsequent to year end the Company sold the Magic Buzz trademark which resulted in the termination of the note payable with no further payments being required.

The following transactions occurred on the notes:

| | **December 31, 2019** | December 31, 2018 |
|---|---|---|
| Amount on business combination | **$ 1,847,278** | $ - |
| Repayment | **(421,977)** | - |
| Foreign exchange | **(40,004)** | - |
| Notes payable - December 31, 2019 | **1,385,297** | - |
| Less current portion | **853,018** | - |
| Long term portion | **$ 532,279** | $ - |

Estimated principal re-payments are as follows:

| | |
|---|---|
| 2020 | **$ 853,018** |
| 2021 | **532,279** |
| | **$ 1,385,297** |

## 24. Deferred revenue

Prior to the acquisition of NCG by the Company, NCG received a 20% ownership share in Agripharm Corp. (Agripharm), a licensed producer located in Creemore, Ontario, for the use of intellectual property ("IP"), over a period of 30 years plus two 5-year renewal periods, valued on initial recognition at $19,200,000 (US - $15,083,520). As such, the consideration transferred has been recorded as deferred revenue and will be amortized over the 30-year period.

Deferred revenue can be summarized as follows:

| | **December 31, 2019** | December 31, 2018 |
|---|---|---|
| Amount on business combination | **$ 19,394,809** | $ - |
| Recognized as license revenue | **(666,993)** | - |
| Foreign exchange | **(497,790)** | - |
| Total deferred revenue | **18,230,026** | - |
| Less current portion | **(653,016)** | - |
| **Long term portion** | **$ 17,577,010** | $ - |

## 25. Due to related parties

Balances due to related parties consist of the following;

| | **December 31, 2019** | December 31, 2018 |
|---|---|---|
| NS Holdings Inc. | **$ 3,480,764** | $ - |
| The Wppd Initiative | **177,398** | - |
| Peter Miller Enterprises | **22,576** | - |
| The Purple Company | **2,292** | - |
| Other | **190,335** | 26,483 |
| | **$ 3,873,365** | $ 26,483 |

The Wppd Initiative is controlled by the President of the Company. All balances are non-interest bearing and have no specified terms of repayment.

## 26. Derivative liability

On April 30, 2018, the Company issued a 4-year, 4% unsecured convertible promissory note to The Purple Co. (controlled by the Company's CEO) in the amount of US$1,843,031 (CAD $2,364,849) (the "Purple Note") to exchange an existing loan to Purple Organization, Inc. The expiry date of the Purple Note is April 30, 2022. The transaction met the definition of extinguishment, and the Company recognized a loss on extinguishment of $3,059,668 in financing cost and fair value adjustments in its consolidated statement of loss and comprehensive loss (Note 28). The Company has the right to prepay all or a portion of the amount due under the Purple Note any time and from time to time. The Purple Co. has the right to convert the principal amount outstanding under the Purple Note into common shares in the capital of the Company, at a conversion price of CAD$0.20 per share, on thirty (30) days' written notice.

The conversion option created an embedded derivative which meets the definition of a financial liability as it being denominated in a currency other than the Company's functional currency.

Accordingly, it must be bifurcated and recorded at fair value on initial recognition and at the end of each reporting period. The host contract is a financial liability that is stated at amortized cost using the effective interest method.

The Company estimated the fair value of the derivative liability as $5,424,517, $17,236,727 and $4,222,002 on issuance date, April 30, 2018, December 31, 2018 and December 31, 2019 accordingly and assigned a nominal value to the host contract on April 30, 2018. The amortized cost of the host contract at December 31, 2019 is nominal (2018 - nominal). The loan is accreted using an effective interest rate of 428.94%. The fair value adjustment to the derivative liability on December 31, 2019 resulted in a fair value gain of $13,014,725 (2018 - loss of $11,812,210).

Interest expense on the convertible note for the year ended December 31, 2019 of $97,968 (2018 - $64,825) was recorded in the consolidated statements of income (loss) and comprehensive income (loss).

The fair value of the derivative liability as at December 31, 2019 and December 31, 2018 was estimated using Black-Scholes valuation model based on the following assumptions:

| | **December 31, 2019** | December 31, 2018 |
|---|---|---|
| Share price | **0.48** | $1.50 |
| Stock price volatility | **102%** | 104% |
| Expected life of the derivative liability | **2.33 years** | 3.67 years |
| Risk free rate | **1.66%** | 1.57% |

Inter-relationship between key unobservable inputs and fair value measurement as at December 31, 2019:

- If the share price was lower (higher) by 10%, the fair value would decrease (increase) by $515,955 ($521,749).
- If the volatility was lower (higher) by 10%, the fair value would decrease (increase) by $141,649 ($138,641).

## 27. Share capital

Authorized

Unlimited number of Class A preferred shares

Unlimited number of common shares

Unlimited number of restricted voting shares

There are no outstanding Class A preferred shares as at December 31, 2019 and December 31, 2018.

Each restricted voting share may be converted to one common share, without payment of additional consideration if the following conditions are met: (a) conversion is not during a restricted period as determined by the Board; (b) following the date that is the three year anniversary of the date of issuance of such restricted voting shares; and (c) with the consent of the Board.

**Common share continuity:**

| | Number of shares | Share capital |
|---|---|---|
| **Balance - January 1, 2018** | 38,300,000 | $ 1,366,300 |
| Issued during the reporting period | 53,872,028 | 27,931,997 |
| Options exercised during the reporting period | 250,000 | 17,467 |
| Balance - December 31, 2018 | 92,422,028 | 29,315,764 |
| Issued pursuant to business combinations | 72,087,464 | 108,131,196 |
| Shares re-acquired in NCG business combination | (3,000,000) | (1,680,000) |
| Shares issued to employees for pre-combination services | 3,000,000 | 4,400,381 |
| Issued pursuant to private placements | 34,840,208 | 9,916,541 |
| Options exercised during the reporting period | 250,000 | 21,273 |
| Issued pursuant to conversion of subscription receipts | 43,998,590 | 50,607,176 |
| Warrants and compensation warrants exercised during the reporting period | 13,381,696 | 17,718,690 |
| Compensation units exercised during the reporting period | 749,516 | 688,311 |
| **Balance - December 31, 2019** | **257,729,502** | **$ 219,119,332** |

## 27. Share capital, continued

**Restricted voting share continuity:**

| | Number of shares | Share capital |
|---|---|---|
| **Balance - December 31, 2018** | - | $ - |
| Issued pursuant business and asset acquisitions | 23,916,128 | 26,800,983 |
| **Balance - December 31, 2019** | **23,916,128** | **$ 26,800,983** |

2018

The Company entered into an advisory services agreement with PowerOne Management & Advisory Services Limited ("PowerOne") whereby PowerOne agreed to provide corporate and financial advisory services to the Company in exchange for 750,000 common shares. The common shares were issued on February 17, 2018 at estimated value of $0.56 per share.

A special warrant offering was announced on January 8, 2018 and closed on February 21, 2018.

Transaction details were as follows:

Offering price of units was $0.75 per unit comprised of one common share and one-half common share purchase warrant. A total of 22,393,366 units were issued. On July 21, 2018 the units were converted to common shares and warrants. In total, 26,872,028 common shares were issued which included penalty shares for not meeting specific listing timelines.

On February 17, 2018, the Company appointed XIB Consulting Inc. ("XIB") and 1821 Capital Inc. to act as consultants with respect to capital markets strategy and private and public transactions. The Company issued XIB 750,000 common shares and 1821 Capital Inc. 500,000 common shares at estimated value of $0.56 per share.

In 2018 an option to acquire 250,000 common shares was exercised at a price of $0.05 per share.

2019

In 2019 an option to acquire 250,000 common shares was exercised at a price of $0.05 per share.

In 2019, 13,181,997 common shares were issued pursuant to the exercise of 13,181,997 warrants at an exercise price of $1.15 per share.

In 2019, 100,000 common shares were issued pursuant to the exercise of 100,000 warrants at an exercise price of $2.25 per share.

In 2019, 749,516 common shares were issued pursuant to the exercise of 749,516 compensation units at an exercise prices between of $0.75 - $1.50 per share.

**27. Share capital, continued**

On September 17, 2019, the Company entered into a subscription agreement with a third-party, whereby the Company issued 347,222 units for gross proceeds of $250,000. Each subscription unit consists of one common share and one common share purchase warrant. Each warrant is exercisable into one common share of the Company at an exercise price of $0.89 per share, expiring in September 2024. The common shares and the purchase warrants were valued at $145,192 and $104,808, respectively, using the relative fair value method.

On November 26, 2019, the Company entered into a subscription agreement with a group of existing shareholders, whereby the Company issued 30,922,579 units for gross proceeds of $15,111,814, net of $40,250 in share issuance costs. Each subscription unit consists of one common share and one common share purchase warrant. Each warrant is exercisable into one common share of the Company at an exercise price of $0.52 per share, expiring in November 2024. The common shares and the purchase warrants were valued at $8,793,079 and $6,358,985, respectively, using the relative fair value method.

On December 5, 2019, the Company entered into a subscription agreement with a group of existing shareholders, whereby the Company issued 3,570,407 units for gross proceeds of $1,749,499. Each subscription unit consists of one common share and one common share purchase warrant. Each warrant is exercisable into one common share of the Company at an exercise price of $0.52 per share, expiring in December 2024. The common shares and the purchase warrants were valued at $1,018,520 and $730,979, respectively, using the relative fair value method.

Shares issued for investments:

On February 20, 2018 the Company issued 3,000,000 shares at estimated value of $0.56 per share in connection with its investment in Slang Organa Brands, Inc. These shares were reacquired at $4,400,381 on NCG business combination (see Note 5).

On March 20, 2018, the Company issued 2,000,000 shares at estimated value of $0.56 per share in connection with its investment in NCG, ACG and NSH. Cash consideration was $5,861,330 for this investment.

On April 30, 2018, the Company acquired The Purple Organization, Inc. As consideration for the Purple Shares, the Company issued 10,000,000 common shares at estimated value of $0.56 per share.

On August 3, 2018, the Company issued 10,000,000 common shares at estimated value of $0.56 per share to GHNA and has a loan payable of USD $2,000,000 (CAD $2,611,000) in connection with the transaction (see Note 22).

On January 22, 2019 the Company issued 7,087,464 common shares at estimated value of $1.50 per share in connection with its acquisition of NWT (see Note 5).

On January 22, 2019 the Company issued 65,000,000 common shares which were estimated at $1.50 per share and 17,500,000 restricted voting shares which were estimated at $1.35 per share in connection with its acquisition of NCG (see Note 5).

On October 1, 2019 the Company issued 6,416,128 restricted voting shares at estimated value of $0.495 per share in connection with its asset acquisition outlined in Note 6.

## 27. Share capital, continued

Share-based payments

During 2017, the shareholders of the Company approved the stock option plan (the Plan). Stock options granted under the Plan (options) are equity settled, will be non-transferable and will be exercisable for a period not to exceed ten years. Stock options vest evenly over the related service period between one to four years.

The following provides a summary of the status of the Plan as at December 31, 2019:

| | Options issued | Weight exercise price |
|---|---|---|
| Balance outstanding - December 31, 2017 | 1,750,000 | $ 0.05 |
| Granted | 1,960,000 | 0.75 |
| Forfeited / cancelled | - | - |
| Exercised | (250,000) | 0.05 |
| **Balance outstanding - December 31, 2018** | **3,460,000** | **0.45** |
| Granted | 9,383,388 | 1.38 |
| Forfeited / cancelled | (1,243,972) | 1.54 |
| Exercised | (250,000) | 0.05 |
| **Balance outstanding - December 31, 2019** | **11,349,416** | **$ 1.11** |

**27. Share capital, continued**

| Grant date | Expiry date | Exercise price | | Number outstanding | Weighted average remaining contractual life | Number exercisable |
|---|---|---|---|---|---|---|
| Nov 2, 2017 | Nov 2, 2027 | $ | 0.05 | 1,250,000 | 0.86 | 1,000,000 |
| Jul 6, 2018 | Jul 6, 2023 | $ | 0.75 | 560,000 | 0.17 | 560,000 |
| Jul 6, 2018 | Jul 6, 2023 | $ | 0.75 | 850,000 | 0.26 | 212,500 |
| Jul 16, 2018 | Jul 16, 2023 | $ | 0.75 | 550,000 | 0.17 | 550,000 |
| Jan 22, 2019 | Jan 22, 2029 | $ | 1.50 | 2,500,000 | 2.00 | - |
| Jan 22, 2019 | Jan 22, 2029 | $ | 1.50 | 665,888 | 0.53 | 610,397 |
| Jan 28, 2019 | Jan 28, 2024 | $ | 1.50 | 600,000 | 0.22 | 550,000 |
| Jan 28, 2019 | Jan 28, 2024 | $ | 1.50 | 3,113,528 | 1.12 | - |
| Jun 3, 2019 | Jun 3, 2024 | $ | 1.89 | 60,000 | 0.02 | - |
| Nov 26, 2019 | Nov 26, 2024 | $ | 0.49 | 1,200,000 | 0.52 | - |
| | | | | 11,349,416 | 5.88 | 3,482,897 |

The options granted on November 2, 2017 vest over 4 years annually. The options granted in July 2018 vest over the period between 1 and 4 years.

The fair value of each of the 2018 options was estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions: risk free interest rate: 1.57%; stock price: $0.56; volatility: 102%; Dividend yield: 0%; and expected life: four years.

On January 22, 2019 the Company approved the grant of options to various employees, advisors and contractors. A total of 3,332,360 options were granted which will vest over a period between 1 and 2 years. These options were valued at the grant date using the Black-Scholes option pricing model with the following assumptions: risk free interest rate: 1.83%, stock price: $1.50; volatility: 108%; Dividend yield: 0%; and expected life: five years. During the year ended December 31, 2019, 166,472 options were forfeited.

On January 28, 2019 the Company approved the grant of options to various employees, advisors and contractors. 3,923,528 options were granted which will vest over a 4-year period and 700,000 options were granted which vest on a monthly basis over 1 year. These options were valued at the grant date using the Black-Scholes option pricing model with the following assumptions: risk free interest rate: 1.83%; stock price: $1.50; volatility: 108%; Dividend yield: 0%; and expected life: five years. During the year ended December 31, 2019, 910,000 options were forfeited.

## 27. Share capital, continued

On June 3, 2019 the Company approved the grant of options to various employees, advisors and contractors. A total of 220,000 options were granted which will vest over a 4-year period. These options were valued at the grant date using the Black-Scholes option pricing model with the following assumptions: risk free interest rate: 1.42%; stock price: $1.93; volatility: 97%; Dividend yield: 0%; and expected life: four years. During the year ended December 31, 2019, 160,000 options were forfeited.

On November 26, 2019 the Company approved the grant of options to various employees, advisors and contractors. A total of 1,207,500 options were granted which will vest over a 4-year period. These options were valued at the grant date using the Black-Scholes option pricing model with the following assumptions: risk free interest rate: 1.58%; stock price: $0.44; volatility: 100%; Dividend yield: 0%; and expected life: four years. During the year ended December 31, 2019, 7,500 options were forfeited.

Compensation expense related to stock options is recognized over the years in which entitlement to the compensation vests. For the year ended December 31, 2019, the Company recorded $5,127,542 in stock based compensation expense its consolidated statement of loss and comprehensive loss (2018 - $437,652)

The expected volatility is based on the historical volatility of the Company and comparable companies, which may not necessarily be the actual outcome.

Restricted stock units

On January 22, 2019 and November 26, 2019 the Company provided key management personnel with a Restricted Share Units (“RSU”) to vest in equal annual amounts over a two-year period and contingent on continued employment at the Company. There was a total of 6,050,000 RSUs issued. For the year ended December 31, 2019, the Company recorded a compensation expense of $2,551,351 for the RSUs in its consolidated statement of income (loss) and comprehensive income (loss) (2018 - $Nil), based on the vesting period and a fair value of ranging from $0.44 to $1.50 per share.

Agents’ options and compensation warrants

On February 21, 2018, pursuant to the terms of an agency agreement as between the Company and the Agents (“February Agency Agreement”), the Company issued 1,414,177 compensation options (the “February Compensation Options”). Each February Compensation Option entitles the holder thereof to purchase one (1) Compensation Unit an at exercise price of $0.75 per Compensation Unit until the date that is the earlier of (i) twenty-four (24) months following the Liquidity Date (as defined in the February Agency Agreement) and (ii) July 21, 2020. Each Compensation Unit issued upon exercise of the Compensation Option shall consist of one common share and one-half of one Compensation Warrant. Each whole Compensation Warrant will entitle the holder thereof to purchase one common share at a price of $1.15 per Compensation Warrant Share. During the year ended December 31, 2019, 740,322 compensation options were exercised and 99,699 compensation warrants were exercised. At December 31, 2019, 673,855 compensation options were outstanding at an exercise price of $0.75.

## 27. Share capital, continued

On September 26, 2018, pursuant to the terms of an agency agreement as between the Company and the Agents ("Agency Agreement"), the Company issued 1,465,448 broker warrants and 974,467 corporate finance warrants (together "Compensation Options"). Each compensation option will entitle the holder to acquire one unit at the subscription price of $1.50 for the period of 24 months from the listing date as defined in the Agency Agreement. Each compensation option will be comprised of one common share ("compensation share") and one half of one common share purchase warrant (each whole common share purchase warrant, a "compensation warrant"). Each compensation warrant shall entitle the holder to acquire one common share ("compensation warrant share") at an exercise price of $2.25 per warrant for the period of 24 months following the listing date. During the year ended December 31, 2019, 9,194 compensation options were exercised, and no compensation warrants were exercised. At December 31, 2019, 2,430,721 compensation options were outstanding at an exercise price of $1.50.

On January 29, 2019, pursuant to an advisory services agreement with PowerOne Management & Advisory Services Limited ("PowerOne") whereby PowerOne agreed to provide corporate and financial advisory services to the Company in exchange for 439,985 compensation options with the same terms as those issued under the September 26, 2018 Agency Agreement, above. During the year ended December 31, 2019, none of these compensation options or compensation warrants were exercised and 439,985 of these compensation options were outstanding at an exercise price of $1.50 at December 31, 2019.

Warrants issued:

| | Number of warrants | Total |
|---|---|---|
| **Outstanding - December 31, 2018** | **16,711,005** | **$ 2,173,464** |
| Converted pursuant to subscription receipt offering | 21,999,281 | 8,434,529 |
| Issued pursuant to private placement | 34,840,208 | 7,194,772 |
| Issued pursuant to agency agreements | 374,758 | 191,885 |
| Warrants and compensation warrants exercised | (13,381,696) | (2,219,740) |
| Warrants expired | (254,008) | (37,981) |
| **Outstanding - December 31, 2019** | **60,289,548** | **$ 15,736,929** |

## 27. Share capital, continued

During the year ended December 31, 2018, the Company issued 3,275,000 units of share purchase warrants to XIB Consulting Inc. in exchange of services. The warrants are valued at $928,930 and are recorded as part of contributed surplus. The warrants can be exercised at a price of $0.75 per share until the date on the later of (i) September 30, 2020; or (ii) the date that is 24 months from the date of a Liquidity Event.

In December 2017 the Company issued a warrant certificate to a third-party to acquire up to 19.99% of the issued shares of the Company. The warrants meet the definition of a share-based payment under IFRS 2 and will be recognised as a service expenses with associated increase in equity. Since no service has been provided during the reporting period and terms of the warrant certificate for an exercise start date have not been met, the Company did not record any expenses related to these warrants. The expiry date of the warrants is the earlier of 15 years from issuance or 2 years after the trigger event, which is when cannabis can legally be sold in the US.

On February 21, 2018, the Company completed a special warrant private placement (the “Special Warrants”) offering for aggregate gross proceeds of approximately $16,800,000 (net $14,985,461 after closing costs and agents’ fees). A total of 22,393,366 Special Warrants were issued. Each Special Warrant was sold at a price of $0.75 per warrant. Each Special Warrant was comprised of one common share and one-half of one common share purchase warrant. Terms of the Special Warrant stated that they will automatically be exercised (without payment of any further consideration and subject to customary anti-dilution adjustments) into a unit (a “Unit”) comprised of one common share (a “Unit Share”) and one half ( ½ ) of one common share purchase warrant of the Company (each whole warrant, a “Warrant”) on the date (the “Automatic Exercise Date”) that is the earlier of: (i) the date that is three business days following the date on which the Company obtains a receipt from the applicable security regulatory authorities in Canada (the “Securities Commissions”) for a (final) long form prospectus qualifying the distribution of the Units issuable upon exercise of the Special Warrants (the “Qualification Prospectus”), and (ii) the date that is 150 days following the Closing Date. The Automatic Exercise Date did not occur within 150 days following the Closing Date, thereby entitling the holder to receive 1.20 Units (comprised of 1.20 Unit Shares and 0.60 Warrants).

The Special Warrants were automatically converted on July 21, 2018. As a result, holders received an additional 4,478,662 common shares which added to the 22,393,366 original special warrants totaled 26,872,028. Holders also received an additional 2,209,331 warrants bringing the total issued to holders of 13,436,005. Each warrant holder is entitled to acquire one common share at an exercise price of $1.15 for a period of two years following the liquidity date, which is July 21, 2018. The terms of the warrants contain an acceleration provision, applicable in the event that, at any time during the term of the warrants, the closing price of the common shares of the Company is greater than $1.75 for 20 consecutive trading days.

On May 24, 2019 the Company announced that it had elected to exercise its right under the warrant indenture governing the common share purchase warrants of the Company issued on July 21, 2018 to accelerate the expiry date of the warrants. The expiry date of the warrants was accelerated to June 28, 2019 which resulted in the exercise of 13,181,997 warrants for proceeds totaling $15,159,297.

On September 26, 2018, Subscription Receipts were sold at a price of $1.50 per Subscription Receipt. Each receipt entitles the holder to receive one unit of the Company upon satisfaction of the escrow requirements. Each Subscription Receipt entitles the holder thereof to receive, upon satisfaction or waiver of the escrow release conditions prior to the escrow release deadline and without payment of additional consideration or further action, one unit (the “Unit”) of the Company.

**27. Share capital, continued**

Each Unit is comprised of one common share in the capital of the Company (a "Underlying Share") and one-half of one common share purchase warrant (each whole warrant, a "Warrant"). Each Warrant entitles the holder thereof to purchase one common share of the Company (each, a "Warrant Share") at an exercise price of $2.25 for a period of twenty-four (24) months from the date the common shares of the Company are listed for trading on the Canadian Securities Exchange. The warrants will be subject to an accelerated expiry in the event that the closing price of the common shares of the Company is above $3.50 for ten (10) consecutive trading days. In April 2019, 100,000 warrants were exercised for proceeds totaling $225,000.

On September 26, 2018, the Company closed the Subscription Receipt Offering and issued 43,998,590 Subscription Receipts for total gross proceeds to the Company of approximately $65,997,885 (net $63,929,156 after agents' fees paid in cash and net $59,041,705 after closing costs and agents' fees paid in cash and compensation options and to be paid in cash).

Each Subscription Receipt was automatically converted, without payment of any additional consideration and without any further action by the holder and subject to adjustment, for one Common Share and one-half of one Warrant on the satisfaction of the following escrow release conditions (the "Escrow Release Conditions"):

(i) the Company obtaining a receipt for the prospectus from the securities' regulatory authorities in each of the Qualifying Provinces;

(ii) the satisfaction or waiver of all conditions' precedent to completion of:
(a)the NCG Acquisition; and
(b)the NWT Acquisition,
other than the closing of such transactions, each of which closing will be completed forthwith upon release of the Escrowed Funds and in each case in accordance with the definitive agreement governing such transactions, to the satisfaction of the Lead Agent;

(iii) the receipt of all required shareholder and regulatory approvals in connection with the Liquidity Event, including, without limitation, the conditional approval of the CSE for the listing of the Company's Common Shares and the relevant listing documents having been accepted for filing with the CSE; and

(iv) the Company and the Lead Agent having delivered a joint notice and direction to Odyssey, confirming that the conditions set forth in (i) to (iii) above have been met or waived.

The Escrow Release Conditions were satisfied on January 29, 2019 and the Subscription Receipts were converted into Underlying Shares and Underlying Warrants.

## 28. Financing cost and fair value adjustment

| | **December 31, 2019** | December 31, 2018 |
|---|---|---|
| Fair value adjustment on option asset and liability (Note 19) | **$ (40,599,499)** | $ - |
| Fair value adjustment on derivative liability (Note 26) | **(13,014,725)** | 11,812,210 |
| Fair value adjustment on investments (Note 12) | **1,839,611** | (9,087,997) |
| Gain on modification of GHNA loan (Note 22) | **(713,576)** | - |
| Accretion expense (Note 22) | **148,662** | - |
| Loss on extinguishment (Note 26) | **-** | 3,059,668 |
| Interest on convertible note (Note 26) | **97,968** | 64,825 |
| Other interest expense | **226,562** | - |
| Foreign currency exchange loss | **459,273** | 60,748 |
| Total | **$ (51,555,724)** | $ 5,909,454 |

## 29. Income taxes

The reconciliation of the combined US federal and state statutory income tax rate of 23.9% (2018 - Canadian tax rate of 26.5%) to the effective tax rate is as follows:

| | **December 31, 2019** | December 31, 2018 |
|---|---|---|
| Net loss before recovery of income taxes | **$ (234,751,511)** | $ (28,278,733) |
| Expected income tax (recovery) expense | **(56,201,219)** | (7,493,864) |
| Share based compensation and non-deductible expenses | **3,662,524** | 752,128 |
| Loss on extinguishment of convertible debt | **-** | 810,810 |
| Share issuance cost booked to equity | **-** | (468,190) |
| Unrealized loss from convertible debt | **-** | 3,130,238 |
| Goodwill impairment | **25,147,218** | 1,592,620 |
| Unrealized gain on investment | **-** | (1,204,160) |
| Gain on fair value of derivative liability | **(12,835,510)** | - |
| Tax rate changes and other adjustments | **(403,287)** | (81,537) |
| Change in tax benefits not recognized | **6,214,977** | 2,961,955 |
| Income tax recovery | **$ (34,415,297)** | $ - |

The Company’s income tax recovery is allocated as follows:

| | | |
|---|---|---|
| Current tax (recovery) expense | **$ 41,111** | $ - |
| Deferred tax (recovery) expense | **(34,456,408)** | - |

## 29. Income taxes, continued

Deferred tax

The following table summarizes the components of deferred tax:

| | December 31, 2019 | December 31, 2018 |
|---|---|---|
| Deferred tax assets | | |
| Intangible assets | **$ 4,047,230** | $ - |
| Net operating losses carried forward - US | **4,055,890** | 176,498 |
| Net capital losses carried forward - Canada | **-** | 984,025 |
| Deferred tax liabilities | | |
| Property, plant and equipment | **(394,530)** | (176,498) |
| Intangible assets | **(7,708,590)** | - |
| Investment at fair value | **-** | (984,025) |
| Net deferred tax asset | $ - | $ - |

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.

| | December 31, 2019 | December 31, 2018 |
|---|---|---|
| Movement in net deferred tax liabilities | | |
| Balance at beginning of the year | **$ -** | $ - |
| Recognized in business combination (Note 5) | **(34,648,612)** | - |
| Recognized in net income (loss) | **34,456,408** | - |
| Currency translation recognized in other comprehensive loss | **192,204** | - |
| Balance at the end of the year | **$ -** | $ - |

## 30. Income taxes

Unrecognized deferred tax assets

Deferred taxes are provided as a result of temporary differences that arise due to the differences between the income tax values and the carrying amount of assets and liabilities. Deferred tax assets have not been recognized in respect of the following deductible temporary differences:

| | **December 31, 2019** | December 31, 2018 |
|---|---|---|
| USA | | |
| Goodwill | **$ 7,926,880** | $ - |
| Intangible assets | **-** | 8,005,730 |
| Expected credit losses | **1,284,790** | - |
| Provision for due from related parties | **4,118,930** | - |
| Investments at fair value | **19,429,640** | - |
| Net operating losses carried forward - US | **12,320,410** | - |
| Capital losses carried forward | **2,101,460** | - |
| Deferred revenue | **18,230,030** | - |
| Related party interest - US | **-** | 558,720 |
| Other temporary differences | **449,080** | - |
| Unrecognized deductible temporary differences | **$ 65,861,220** | $ 8,564,450 |

| | **December 31, 2019** | December 31, 2018 |
|---|---|---|
| Canada | | |
| Intangible assets | **$ 7,605,440** | $ - |
| Unrealized foreign exchange gains from US denominated loans (taxable portion) | **510,180** | - |
| Provision for related party debt | **3,547,440** | - |
| Accrued bonus | **509,520** | - |
| Investments at fair value | **2,907,670** | - |
| Share issuance costs - 20(1)(e) | **4,114,590** | 1,487,430 |
| Non capital losses carried forward | **11,912,560** | 2,257,560 |
| Unrecognized deductible temporary difference | **$ 31,107,400** | $ 3,744,990 |

The US and Canadian non capital loss carry forwards expire as noted in the table below. The net capital loss carry forward may be carried forward indefinitely, but can only be used to reduce capital gains. Deferred tax assets have not been recognized in respect of these items because it is not probable that future taxable income will be available agaisnt which the Company can utilize the benefits therefrom.

The Company's US non operating income tax losses expire as follows:

| | |
|---|---|
| 2037 | $ 57,180 |
| Indefinate | 12,263,230 |
| | $ 12,320,410 |

## 30. Income taxes, continued

The Company's Canadian non operating income tax losses expire as follows:

| | |
|---|---|
| 2037 | $ 885,210 |
| 2038 | 5,603,720 |
| 2039 | 5,453,630 |
| | $ 11,942,560 |

### Inversion

The Corporation will be treated as a U.S corporation for U.S. federal income tax purposes under U.S. Internal Revenue Code ("IRC") Section 7874 and be subject to U.S. federal income tax. However, for Canadian tax purposes, the Corporation is expected, regardless of any application of IRC Section 7874, to be treated as a Canadian resident company (as defined in the Income Tax Act (Canada)) for Canadian income tax purposes. As a result, the Corporation will be subject to taxation both in Canada and the U.S. Notwithstanding the foregoing, it is management's expectation that the Company's activities will be conducted in such a manner that income from operations will not be subjected to double taxation

### IRC Section 280E

As the Company derives revenue from third parties in the cannabis industry and taking into account the potential impact of ongoing US tax cases that interpret the application of IRC Section 280E, the Company may be subject to the limits of IRC Section 280E under which the Company is only allowed to deduct expenses directly related to the cost of producing the products or cost of production. This results in permanent differences between ordinary and necessary business expenses deemed unallowable under IRC Section 280E. The Company does not believe it is subject to the 280E. However, similar to all ancillary companies in the cannabis sector, there is a general risk that the regulators may consider application of Section 280E

## 31. Loss per share

| | **December 31, 2019** | December 31, 2018 |
|---|---|---|
| **Basic & Diluted** | | |
| Loss attributable to shareholders | **(200,336,214)** | (28,278,733) |
| Basic & diluted loss per share | **(0.87)** | (0.37) |
| Weighted average number of shares | **230,709,026** | 76,764,927 |

Any impact from the conversion of all dilutive potential common shares is anti dilutive as the Company in in a net loss position for the year ended December 31, 2019.

## 32. Related party transactions

The Company routinely conducts business with ACG and subsidiaries of NSH, GNT and CalVape Inc. ACG, and NSH have common management with the Company. All entities are separate entities due to the US marijuana regulation licensing requirements. ACG, GNT and CalVape operate labs that manufacture oil and packages and markets products to be sold to dispensaries. NCG provides all packaging and marketing materials for their operations. ACG products are sold in the State of Colorado, whereas GNT's products are sold in the state of Oregon, and CalVape products are sold in the state of California.

The Company's net product sales to ACG, CalVape and GNT Oregon for the year ended December 31, 2019, were approximately as follows:

| | **December 31, 2019** | December 31, 2018 |
|---|---|---|
| ACG | **$ 8,066,610** | $ - |
| CalVape | **3,992,037** | - |
| GNT | **936,894** | - |
| | **$ 12,995,541** | $ - |

ACG, CalVape and GNT accounted for approximately 28%, 13% and 3% of the Company's revenue respectively for the year ended December 31, 2019.

As of December 31, 2019, The Company held accounts receivable balances (net of provision) with ACG, CalVape, and GNT for merchandise of approximately $3,922,191, $2,147,189 and $351,367 respectively. These balances were included in accounts receivable.

Key management includes the Company's directors and members of the executive team.

| | **December 31, 2019** | December 31, 2018 |
|---|---|---|
| **Type of expense** | | |
| Management compensation and directors' expense | **7,316,874** | 1,316,391 |
| Restricted share unit compensation expense (Note 27) | **2,535,529** | - |
| Stock-based compensation expense (Note 27) | **3,190,068** | 86,660 |
| | **13,042,471** | **1,403,051** |

Management compensation and directors' expense are included in salaries and wages and restricted share unit and stock-based compensation expense are included in share based payments in the statement of loss and comprehensive loss.

Included in the above, in the normal course of business, expenses were incurred with the Purple Company Inc., a company controlled by a senior management member and director. The expense amounted to $67,563 (2018 - $111,611).

Included in the above, in the normal course of business, expenses were incurred with The Wppd Initiative, a company controlled by a director and senior management member of the Company. The expense amounted to $12,500 (2018 - $698,018).

## 32. Related party transactions, continued

Included in the above, in the normal course of business, expenses were incurred with Peter Miller Enterprise Inc., a company controlled by the CEO of the Company. The expense amounted to $12,500 (2018 - $172,393).

Included in the above, in the normal course of business expenses were incurred with a company controlled by the CFO. The expense amounted to $577,400 (2018 - $334,369).

As at December 31, 2019, included in accounts payable and accrued liabilities is $46,870 (2018 - $37,144) due to the related companies controlled by senior management members and directors.

Related party loans are disclosed in Notes 14, 21 and 25.

## 33. Commitments

On July 9, 2018, the Company entered into a rights agreement with GHNA (a company partially owned by the Company's CEO), pursuant to which the Company has the right to license certain intellectual property of GHNA for use in certain territories. The Company and GHNA agreed on a future revenue share model based on a 60/40 split in favor of the Company, but subject to adjustment based on market conditions and potential opportunity for a particular territory. In consideration of the grant of rights, the Company entered a loan with GHNA for US$2,000,000 (CAD $2,728,400) and issued 10,000,000 common shares at estimated price of $0.56 per share. Terms of the cash due is non-interest bearing and due July 9, 2021, repayable at any time (Note 22). The issuance of shares was ratified by the Company on August 3, 2018 and the Company recorded the full amount of $8,211,000 as marketing expense in the consolidated statement of income (loss) and comprehensive income (loss) in the year ended December 31, 2018.

On July 11, 2018, the Company entered into a letter of intent with Agripharm, a company with a common management team as the Company, pursuant to which the Company agreed to license certain intellectual property to Agripharm. Refer to Note 24.

On June 21, 2019, the Company entered into a new lease agreement for its office space in Denver Colorado with a commencement date of January 13, 2020. The lease term spans 10 years with two optional renewal periods of 5 years each. Minimum lease payments under the lease are as follows:

| | |
|---|---|
| 2020 | $ 399,140 |
| 2021 | 540,109 |
| 2022 | 550,870 |
| 2023 | 561,900 |
| 2024 | 573,207 |
| Thereafter | 3,205,091 |
| | $ 5,830,317 |

## 34. Segmented information

*Geographical Information:*

The Company operates in two geographical locations: Canada and USA. The following tables present the Company's revenues and non-current assets by location.

| | December 31, 2019 | December 31, 2018 |
|---|---|---|
| **Revenue** | | |
| Canada | **$ 1,036,632** | $ 455,536 |
| USA | **28,192,503** | 4,774,441 |
| | **-** | - |
| | **$ 29,229,135** | $ 5,229,977 |

| | December 31, 2019 | December 31, 2018 |
|---|---|---|
| **Non-current assets** | | |
| Canada | **$ 8,047,055** | $ 20,947,266 |
| USA | **52,224,456** | 4,609,106 |
| | **$ 60,271,511** | $ 25,556,372 |

Refer to Note 32 for sales to major customers who were related parties to the Company. ACG, GNT and CalVape comprise a total of 44% of total Company revenue, and 46% of USA revenue for the year ended December 31, 2019.

In 2018 the Company had one major customer which represented 91% (USA segment) of total revenues. 100% (USA segment – 100%) of the Company’s accounts receivable at December 31, 2018 was from one customer.

## 35. Financial instruments and capital management

Fair value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements for invested assets are categorized into levels within a fair value hierarchy based on the nature of valuation inputs (Level 1, 2 or 3).

The fair value of other financial assets and financial liabilities is considered to be the carrying value when they are of short duration or when the instrument's interest rate approximates current observable market rates.

Where other financial assets and financial liabilities are of longer duration, then fair value is determined using the discounted cash flow method using discount rates based on adjusted observable market rates.

The table below summarizes the assets and liabilities that are included at their fair values in the Company's statement of financial position as at December 31, 2019 and December 31, 2018. These assets and liabilities have been categorized into hierarchical levels, according to the significance and reliability of the inputs used in determining fair value measurements. The fair value hierarchy has the following levels:

Level 1 – quoted prices
Represents unadjusted quoted prices for identical instruments exchanged in active markets.

Level 2 – significant other observable inputs
Includes directly or indirectly observable inputs, other than quoted prices for identical instruments exchanged in active markets.

Level 3 – significant unobservable inputs
Includes inputs that are not based on observable market data. (See Note 26 for inter-relationship between key unobservable inputs and fair value measurement.)

| | As at December 31, 2019 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| Cash and cash equivalents | $ 8,233,860 | $ - | $ - | **$ 8,233,860** |
| Funds held in trust | 701,500 | - | - | **701,500** |
| Marketable securities | 10,000,000 | - | - | **10,000,000** |
| Investments | - | - | 4,461,213 | **4,461,213** |
| Option asset | - | - | 7,165,428 | **7,165,428** |
| Option liability | - | - | (21,353,309) | **(21,353,309)** |
| Derivative liability | - | - | (4,222,002) | **(4,222,002)** |
| | $ 18,935,360 | $ - | $ (13,948,670) | **$ 4,986,690** |

## 35. Financial instruments and capital management, continued

| | As at December 31, 2018 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| Cash and cash equivalents | $ 176,432 | $ - | $ - | **$ 176,432** |
| Funds held in trust | 63,929,156 | - | - | **63,929,156** |
| Investments | - | - | 16,236,073 | **16,236,073** |
| Derivative liability | - | - | (17,236,727) | **(17,236,727)** |
| | $ 64,105,588 | $ - | $ (1,000,654) | **$ 63,104,934** |

Foreign currency risk

The operating results and financial position of the Company are reported in CAD. As the Company operates in an international environment, some of the Company's financial instruments and transactions are denominated in currencies other than the CAD. The results of the Company's operations are subject to currency transaction and translation risks. The Company holds cash in US dollars. The Company's main risk is associated with fluctuations in the US dollar. Assets and liabilities are translated based on the foreign currency translation policy described in Note 3. As at December 31, 2019 and 2018, the Company had 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. The Company has estimated that the effect of a 10% increase or decrease in the US dollar against the Company's functional currency (CAD) on the financial assets and liabilities, as at December 31, 2019, including cash, accounts receivable, investments, notes receivable, accounts payable and loan payable would result in an increase or decrease of approximately $2,605,000 (2018 - $53,000) in the net loss for the year ended December 31, 2019.

Interest rate risk

Interest rate risk is the risk that future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Interest rates on the notes payable to shareholders and third parties are fixed.

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with its financial liabilities. The Company typically settles its financial obligations in cash. The ability to settle obligations in cash dependent on the Company raising financing in a timely manner and by maintaining sufficient cash in excess of anticipated needs. As at December 31, 2019 the Company had a cash balance of $8,233,860 (2018 - $176,432) and current liabilities of $35,895,923 (2018 - $8,440,771), of which $21,355,308 represents an option liability to be settled in shares. All of the Company's current liabilities are expected to be settled within the next 12 months.

## 35. Financial instruments and capital management, continued

Credit risk

The Company's financial instruments exposed to concentrations of credit risk consist primarily of cash, accounts receivable, other receivables and notes receivable. The Company minimizes the credit risk of cash by depositing with only reputable financial institutions. The Company's objective with regard to credit risk in its operating activities is to reduce its exposure to losses. As of December 31, 2019, the overdue accounts receivable balance, net of provision, is $3,962,327 (2018 - $617,587). The Company believes that the balance is collectable and that no additional allowance is required.

The Company applies the simplified approach to providing for expected credit losses as prescribed by IFRS 9, which permits the use of the lifetime expected loss provision for all trade receivables. The loss allowance is based on the Company's historical collection and loss experience and incorporates forward-looking factors, where appropriate. The provision matrix below shows the expected credit loss rate at each aging category of receivables.

| | As at December 31, 2019 | | | |
|---|---|---|---|---|
| | Current | Aged 1-30 days past due | Aged 31-60 days past due | Aged >60 days past due |
| Expected loss rate | 3.32% | 4.88% | 5.50% | 60.98% |
| Gross carrying amount | $ 5,083,864 | $ 242,130 | $ 270,379 | $ 8,908,649 |
| Loss allowance provision, end of the period | $ 168,569 | $ 11,814 | $ 14,875 | $ 5,432,142 |

| | As at December 31, 2018 | | | |
|---|---|---|---|---|
| | Current | Aged 1-30 days past due | Aged 31-60 days past due | Aged >60 days past due |
| Expected loss rate | 37.50% | 57.45% | 66.10% | 98.92% |
| Gross carrying amount | $ 742,125 | $ 128,235 | $ 160,975 | $ 4,161,184 |
| Loss allowance provision, end of the period | $ 278,296 | $ 73,669 | $ 106,407 | $ 4,116,290 |

The Company's total expected credit losses in the consolidated statement of loss and comprehensive loss can be summarized as follows:

| | Accounts Receivable | Notes Receivable | Due from Related Parties | Total |
|---|---|---|---|---|
| Opening expected credit losses | $ 4,574,662 | $ 192,240 | $ - | $ 4,766,902 |
| Increase in expected credit loss | 5,747,852 | 3,547,439 | 5,424,227 | 14,719,518 |
| Write off of opening expected credit loss | (4,574,662) | - | - | (4,574,662) |
| Currency translation | (120,452) | - | (113,670) | (234,122) |
| Closing expected credit losses | $ 5,627,400 | $ 3,739,679 | $ 5,310,557 | $ 14,677,636 |

## 35. Financial instruments and capital management, continued

| | Accounts Receivable | Notes Receivable | Due from Related Parties | Total |
|---|---|---|---|---|
| Increase in expected credit losses (above) | $ 5,747,852 | $ 3,547,439 | $ 5,424,227 | $ 14,719,518 |
| Write off (recovery) | (770,891) | 190,115 | - | (580,776) |
| Total expected credit losses | $ 4,976,961 | $ 3,737,554 | $ 5,424,227 | $ 14,138,742 |

Management of capital

The Company's objective of managing capital (comprising share capital) is to ensure its continued ability to operate as a going concern. The Company manages its capital structure and makes changes to it based on economic conditions. With approval from the board of directors, management will adjust its capital structure through the issue of new shares, convertible debentures, debt or other activities deemed appropriate under the specific circumstances. Management and the board of directors review the Company's capital management approach on an ongoing basis and believe this approach, given the relative size of the Company, is reasonable. The Company is not subject to externally imposed capital requirements and the Company's strategy with respect to capital risk management has not changed since the period ended December 31, 2018.

## 36. Subsequent events

The Company evaluated subsequent events through to May 25, 2020, the date these financial statements were issued.

On November 15, 2019, the Company delivered notice of its intent to exercise its option to acquire Allied Concessions Group, Inc. ("ACG") pursuant to the option purchase agreement dated January 22, 2019 between SLANG, ACG and the shareholders of ACG. Completion of the proposed acquisition of ACG is subject to the negotiation and execution of a definitive purchase agreement and the satisfaction or waiver of all closing conditions, including the receipt of all necessary regulatory approvals (including the approval of the Marijuana Enforcement Division of the Department of Revenue of the State of Colorado). Subsequent to year end this notice and original option agreement were terminated and a new option purchase agreement was signed with substantially the same terms as the original option purchase agreement dated January 22, 2019. The Company also delivered a new notice of its intent to exercise its option to acquire ACG pursuant to the new option purchase agreement on February 26, 2020.

On May 4, 2020, the Company completed an acquisition of Cultivate Brands Corp "Cultivate". The acquisition was completed by way of a three-cornered amalgamation pursuant to which 1241306 B.C. Ltd., a newly incorporated subsidiary of the Company, amalgamated with Cultivate to form a newly amalgamated company which operates under the name "Cultivate Brands Corp." as a wholly owned subsidiary of the Company. Pursuant to the acquisition, the Company issued 25,996,722 common shares to shareholders of Cultivate in exchange for all the issued and outstanding shares of Cultivate. In addition, SLANG issued an aggregate of 1,418,181 common shares to certain officers of Cultivate as a change of control payment pursuant to the terms of existing agreements and has assumed options to purchase 122,000 common shares of the Company at an exercise price of $0.41. The Company is working to complete the initial accounting for this transaction and perform an allocation of the purchase price to the assets

## 36. Subsequent events, continued

Subsequent to year-end the Company entered into a definitive agreement to acquire Oregon-based LBA Global Corporation (“LBA”) for estimated share consideration of approximately $11,000,000 which will be increased / decreased for closing indebtedness, working capital requirements and closing tax liabilities. The close of the transaction is subject to regulatory approval and certain performance targets being met by LBA.

Subsequent to year end, the Company guaranteed a note offering by LBA Global Corporation to third parties in the amount of $275,000 U.S. The note offering is guaranteed with Company restricted voting shares at a conversion price of $0.46 U.S. per share. The Company has agreed to guarantee up to a maximum note offering of $500,000 U.S.

Subsequent to year-end, the Company entered into a Membership Interest Purchase Agreement with Peoria Partners LLC (“Peoria”) and its unitholders to acquire all of the outstanding membership interests of Peoria for estimated consideration of $300,000 U.S. The close of the transaction is subject to regulatory approval.

Subsequent to year-end, there was a global outbreak of COVID-19, which has had a significant impact on businesses through the restrictions put in place by the Canadian and American authorities regarding travel, business operations and isolation/quarantine orders. At this time, it is unknown the extent of the impact the COVID-19 outbreak may have on the Company as this will depend on future developments that are highly uncertain and that cannot be predicted with confidence. These uncertainties arise from the inability to predict the ultimate geographic spread of the disease, and the duration of the outbreak, including the duration of travel restrictions, business closures or disruptions, and quarantine/isolation measures that are currently, or may be put, in place by Canada, the United States and other countries to fight the virus. While the extent of the impact is unknown, the Company anticipates this outbreak may cause reduced customer demand, supply chain disruptions, staff shortages, and regulatory backlog, all of which may negatively impact the Company’s business and financial condition.

Subsequent to year-end, the Company offered employees eligible for bonus payments to elect to receive their bonus compensation partially or fully in Company shares. Various eligible employees elected to receive shares which have not yet been issued as of the issue date of these consolidated financial statements. The cash bonus entitlement the Company is obligated to pay has been accrued in salaries and wages in the consolidated statement of loss and comprehensive loss at December 31, 2019.

Subsequent to year-end, the promissory note receivable (“PRC Note”) from Pine River Consulting Ltd. (“PRC”) was transferred to Pleasant Valley Ranch (“PVR”), an unrelated third party, by way of a Novation Agreement dated April 1, 2020. The existing terms and conditions and outstanding balance obligations under the PRC Note were effectively transferred and accepted by PVR.