



The Green Organic Dutchman Holdings Ltd.

Consolidated Financial Statements

For the years ended December 31, 2021 and December 31, 2020



INDEPENDENT AUDITORS' REPORT

To the Shareholders of The Green Organic Dutchman Holdings Ltd.

Opinion

We have audited the consolidated financial statements of The Green Organic Dutchman Holdings Ltd. (the Entity), which comprise:

- the consolidated statements of financial position as at December 31, 2021 and December 31, 2020
- the consolidated statements of loss and comprehensive loss for the years then ended
- the consolidated statements of changes in shareholders' equity for the years then ended
- the consolidated statements of cash flows for the years then ended
- and notes to the consolidated financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Entity as at December 31, 2021 and December 31, 2020, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "***Auditors' Responsibilities for the Audit of the Financial Statements***" section of our auditors' report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 2 in the financial statements, which indicates that the Entity incurred a net loss from continuing operations of \$39,544 thousand and net cash outflows from operating activities of \$18,038 thousand during the year ended December 31, 2021 and, as of that date, the Company's accumulated deficit was \$478,697 thousand.



As stated in Note 2 in the financial statements, these events or conditions, along with other matters as set forth in Note 2 in the financial statements, indicate that a material uncertainty exists that may cast significant doubt on the Entity's ability to continue as a going concern.

Our opinion is not modified in respect of this matter.

Other Information

Management is responsible for the other information. Other information comprises:

- the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions.

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

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit and remain alert for indications that the other information appears to be materially misstated.

We obtained the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions as at the date of this auditors' report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditors' report.

We have nothing to report in this regard.

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

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.



Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

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

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
- Provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.



- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group Entity to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

The engagement partner on the audit resulting in this auditors' report is Pardeep Singh Gill.

Vaughan, Canada

April 5, 2022

The Green Organic Dutchman Holdings Ltd.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(expressed in thousands of Canadian dollars, except common shares outstanding)

| | Notes | As at December 31, 2021 | As at December 31, 2020 |
|--|--------|----------------------------|----------------------------|
| ASSETS | | | |
| Current assets | | | |
| Cash and cash equivalents | | \$ 4,089 | \$ 11,212 |
| Restricted cash | 19 | 219 | 622 |
| Refundable sales taxes receivable | | 347 | 160 |
| Trade receivables | 19 | 8,833 | 10,023 |
| Biological assets | 10 | 3,149 | 1,984 |
| Inventories | 11 | 20,942 | 17,135 |
| Prepaid expenses and deposits | | 1,502 | 1,641 |
| Other current assets | 12 | 1,841 | 853 |
| Deferred financing costs | | — | 750 |
| Due from related parties | | 573 | — |
| Assets held for sale | 5 | 13,612 | — |
| | | \$ 55,107 | \$ 44,380 |
| Non-current assets | | | |
| Property, plant and equipment | 8 | 117,980 | 147,263 |
| Intangible assets | 9 | 15,585 | 8,933 |
| Goodwill | 9 | 3,939 | — |
| Other assets | 12, 17 | 1,735 | 10,999 |
| Total assets | | \$ 194,346 | \$ 211,575 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | | |
| Current liabilities | | | |
| Accounts payable and accrued liabilities | | \$ 17,664 | \$ 24,453 |
| Sales taxes payable | | 595 | — |
| Deferred revenue | | — | 150 |
| Current portion of loans | 7 | 2,021 | 40,755 |
| Current portion of lease liabilities | 13 | 1,049 | 1,019 |
| Loan payable to disposal group | 5 | 5,492 | — |
| Liabilities held for sale | 5 | 2,570 | — |
| | | 29,391 | 66,377 |
| Non-current liabilities | | | |
| Lease liabilities | 13 | 6,517 | 4,551 |
| Loans | 7 | 18,204 | — |
| Contingent consideration | 4 | 3,423 | 39 |
| Deferred tax liability | | — | 804 |
| | | 28,144 | 5,394 |
| Total liabilities | | \$ 57,535 | \$ 71,771 |
| Shareholders' equity | | | |
| Share capital | 14 | 508,504 | 468,379 |
| Contributed surplus | 15 | 108,836 | 108,874 |
| Deficit | | (478,697) | (436,559) |
| Reserve for foreign currency translations | | (969) | 255 |
| Total Shareholders' Equity attributed to The Green Organic Dutchman Holdings Ltd. | | \$ 137,674 | \$ 140,949 |
| Non-controlling interests | | (863) | (1,145) |
| Total Shareholders' Equity | | 136,811 | 139,804 |
| Total Liabilities and Shareholders' Equity | | \$ 194,346 | \$ 211,575 |
| Total number of common shares outstanding | | 749,660,647 | 486,675,760 |
| Going concern | 2 | | |
| Commitments and contingencies | 17 | | |
| Events after the reporting period | 23 | | |

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

Approved and authorized by the Board of Directors on April 5, 2022:

(signed) "Nicholas Kirton"
Director

(signed) "Jacques Dessureault"
Director

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

| | | For the years ended | |
|---|-------|---------------------|--------------------------------|
| | Notes | December 31, 2021 | December 31, 2020 Restated* |
| Continuing operations | | | |
| Revenue | | \$ 39,185 | \$ 15,761 |
| Excise duties | | (8,944) | (3,017) |
| Net revenue | | 30,241 | 12,744 |
| Cost of sales | | 22,465 | 13,495 |
| Gross profit (loss) before change in fair value of biological assets | | 7,776 | (751) |
| Realized fair value adjustment on sale of inventories | | (8,161) | (5,868) |
| Unrealized gain on changes in fair value of biological assets | 10 | 12,118 | 7,988 |
| Gross profit | | \$ 11,733 | \$ 1,369 |
| Operating expenses | | | |
| Sales and marketing expenses | | \$ 4,186 | \$ 7,132 |
| Research and development expenses | | 528 | 942 |
| General and administrative expenses | | 20,215 | 23,825 |
| Share based compensation | 15 | 3,381 | 4,873 |
| Depreciation and amortization | 8, 9 | 12,164 | 5,561 |
| Total operating expenses | | \$ 40,474 | \$ 42,333 |
| Loss from operations | | (28,741) | (40,964) |
| Foreign exchange loss | 19[c] | (648) | (680) |
| Finance costs | | (6,137) | (3,935) |
| Accretion expense | 7 | (5,445) | (1,875) |
| Finance income | | 89 | 243 |
| Share of loss on investments in associates | | — | (148) |
| Revaluation of contingent consideration | | 1,851 | 423 |
| Loss on disposal of assets | 8 | (63) | (455) |
| Impairment of investment in associates | | — | (3,082) |
| Reversal of impairment / (impairment) charge for non-financial assets | 8, 9 | 21,811 | (120,602) |
| Loss on derecognition on investment in joint venture | | (761) | — |
| Impairment loss on remeasurement of disposal group | 5 | (5,118) | — |
| Loss on assets held for sale | 6 | (17,688) | — |
| Debt modification | 7 | 1,187 | 799 |
| Acquisition related costs | 4 | (317) | — |
| Change in fair value of investments | 12[b] | — | (1,502) |
| Loss before income taxes | | (39,980) | (171,778) |
| Deferred income tax recovery | 18 | 436 | — |
| Net loss from continuing operations | | \$ (39,544) | \$ (171,778) |
| Discontinued operations | | | |
| Loss from discontinued operation | 5 | (2,753) | (11,353) |
| Net loss from operations | | (42,297) | (183,131) |

* Comparative information has been re-stated due to a discontinued operation and change in classification. See Note 5.

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

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

| | Notes | For the years ended | |
|---|-------|---------------------|--------------------------------|
| | | December 31, 2021 | December 31, 2020 Restated* |
| Other comprehensive (income)/loss | | | |
| Foreign currency translation (income)/loss | | 1,227 | (1,788) |
| Foreign currency translation income on equity method investment | | — | (708) |
| Comprehensive loss | | \$ (43,524) | \$ (180,635) |
| Net loss attributable to: | | | |
| The Green Organic Dutchman Holdings Ltd. | | (42,138) | (182,541) |
| Non-controlling interests | | (159) | (590) |
| Comprehensive loss attributable to: | | | |
| The Green Organic Dutchman Holdings Ltd. | | (43,365) | (180,045) |
| Non-controlling interests | | (159) | (590) |
| Basic and diluted loss per share | | | |
| Basic and diluted loss per share | | \$ (0.08) | \$ (0.50) |
| Basic and diluted loss per share - Continuing operations | | \$ (0.07) | \$ (0.46) |
| Weighted average number of outstanding common shares | | 552,109,127 | 369,698,781 |

* Comparative information has been re-presented due to discontinued operations.

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

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

| | Notes | Share Capital | | Contributed Surplus | | | | | Reserve for foreign currency translations | Accumulated deficit | Non-Controlling Interests | Total | |
|---|---------|--------------------|----------------|----------------------------------|----------------------|---------------------------|----------------------|---------------------|---|---------------------|---------------------------|----------------|---------------------------|
| | | Common Shares | Amount | Reserve for share based payments | Reserve for warrants | Other contributed surplus | Escrowed share units | Shares to be issued | | | | | Total Contributed surplus |
| | | # | \$ | \$ | \$ | \$ | \$ | \$ | | | | | \$ |
| Balance, December 31, 2020 | | 486,675,760 | 468,379 | 23,258 | 66,111 | 11,129 | 7,972 | 404 | 108,874 | 255 | (436,559) | (1,145) | 139,804 |
| Issuance of common shares in relation to acquisition | 4,14[a] | 122,805,153 | 19,035 | — | — | — | — | — | — | — | — | — | 19,035 |
| Issuance of contingent shares in relation to acquisition | 4,14[b] | 85,714,286 | — | — | — | — | — | — | — | — | — | — | — |
| Issuance of common shares | 14[c] | 21,035,458 | 9,322 | — | — | — | — | — | — | — | — | — | 9,322 |
| Share based compensation | 15[a,c] | — | — | 3,381 | — | — | — | — | 3,381 | — | — | — | 3,381 |
| Exercise of warrants | 14[d] | 24,198,600 | 8,684 | — | (1,125) | — | — | — | (1,125) | — | — | — | 7,559 |
| Expiry of stock options | 15[a] | — | — | (4,102) | — | 4,102 | — | — | — | — | — | — | — |
| Expiry of warrants | 15[b] | — | — | — | (54,881) | 54,881 | — | — | — | — | — | — | — |
| Restricted share units exercised during period - escrowed | 14[e] | 314,933 | 1,276 | — | — | 6,656 | (7,932) | — | (1,276) | — | — | — | — |
| Restricted share units exercised during period | 14[h] | 1,937,903 | 584 | (584) | — | — | — | — | (584) | — | — | — | — |
| Shares issued to settle accounts payable | 14[f] | 4,241,712 | 704 | (300) | — | — | — | (404) | (704) | — | — | — | — |
| Shares and warrants issued in connection with debt modification | 14[g] | 2,736,842 | 520 | — | 270 | — | — | — | 270 | — | — | — | 790 |
| Comprehensive loss | | — | — | — | — | — | — | — | — | (1,227) | (42,138) | (159) | (43,524) |
| Elimination of non-controlling interest on disposal of Denmark | | — | — | — | — | — | — | — | — | 3 | — | 441 | 444 |
| Balance, December 31, 2021 | | 749,660,647 | 508,504 | 21,653 | 10,375 | 76,768 | 40 | — | 108,836 | (969) | (478,697) | (863) | 136,811 |

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

| | Share Capital | | Contributed Surplus | | | | | Reserve for foreign currency translations | Accumulated deficit | Non-Controlling Interests | Total | |
|--|--------------------|----------------|----------------------------------|----------------------|---------------------------|----------------------|---------------------|---|---------------------|---------------------------|----------------|---------------------------|
| | Common Shares | Amount | Reserve for share based payments | Reserve for warrants | Other contributed surplus | Escrowed share units | Shares to be issued | | | | | Total Contributed surplus |
| | # | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ | |
| Balance, December 31, 2019 | 312,733,244 | 428,651 | 22,247 | 64,415 | 1,129 | 7,972 | — | 95,763 | (2,241) | (254,018) | (555) | 267,600 |
| Bought deal offering | 162,104,000 | 35,688 | — | 8,210 | — | — | — | 8,210 | — | — | — | 43,898 |
| Issuance of warrants in connection with debt | — | — | — | 1,743 | — | — | — | 1,743 | — | — | — | 1,743 |
| Share based compensation 14[i,j,k,l] | 3,536,858 | 984 | 3,485 | — | — | — | 404 | 3,889 | — | — | — | 4,873 |
| Exercise of stock options 14[m] | 847,600 | 763 | (339) | — | — | — | — | (339) | — | — | — | 424 |
| Exercise of warrants 14[d] | 564,000 | 248 | — | (34) | — | — | — | (34) | — | — | — | 214 |
| Expiry of stock options | — | — | (1,877) | — | 1,877 | — | — | — | — | — | — | — |
| Expiry of warrants | — | — | — | (8,223) | 8,223 | — | — | — | — | — | — | — |
| Restricted share units exercised during period 14[h] | 703,837 | 258 | (258) | — | — | — | — | (258) | — | — | — | — |
| Shares issued to settle accounts payable 14[f] | 6,161,530 | 1,687 | — | — | — | — | — | — | — | — | — | 1,687 |
| Issuance of convertible units 14[o] | 24,691 | 100 | — | — | (100) | — | — | (100) | — | — | — | — |
| Comprehensive loss | — | — | — | — | — | — | — | — | 2,496 | (182,541) | (590) | (180,635) |
| Balance, December 31, 2020 | 486,675,760 | 468,379 | 23,258 | 66,111 | 11,129 | 7,972 | 404 | 108,874 | 255 | (436,559) | (1,145) | 139,804 |

An unlimited number of common shares are authorized for issue.

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

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

| | Notes | For the years ended | |
|---|--------|---------------------|--------------------|
| | | December 31, 2021 | December 31, 2020 |
| OPERATING ACTIVITIES | | | |
| Net loss from operations | | \$ (42,297) | \$ (183,131) |
| Items not affecting cash: | | | |
| (Reversal of impairment) / Impairment of property, plant and equipment | 8 | (17,765) | 118,316 |
| (Reversal of impairment) / Impairment of intangible assets | 9 | (4,046) | 10,930 |
| Loss on assets held for sale | 6 | 17,688 | — |
| Impairment loss on remeasurement of disposal group | 5 | 5,118 | — |
| Impairment of investment in associates | | — | 3,082 |
| Share based compensation | 15 | 3,381 | 4,873 |
| Depreciation of property, plant and equipment | 8 | 12,037 | 5,768 |
| Amortization of intangible assets | 9 | 1,716 | 1,452 |
| Realized fair value adjustment on sale of inventories | | 8,161 | 5,868 |
| Unrealized gain on change in fair value of biological assets | 10 | (12,118) | (7,988) |
| Accretion expense | 7 | 5,445 | 1,875 |
| Share of loss on investments in associates | | — | 148 |
| Revaluation of contingent consideration | | (1,851) | (423) |
| Loss on disposal of assets | 8 | 63 | 384 |
| Loss on derecognition on investment in joint venture | | 761 | — |
| Deferred financing costs expensed | | 750 | 737 |
| Deferred income tax recovery | | (804) | (224) |
| Write-down of deposit | 12[c] | 1,564 | — |
| Change in fair value of investments | | — | 1,502 |
| Provision recorded on inventory | | — | 1,478 |
| Debt modification | 7 | (1,187) | (799) |
| Income taxes paid | | — | (14) |
| Changes in non-cash operating working capital items | 16 | 5,346 | 208 |
| Net cash used in operating activities | | \$ (18,038) | \$ (35,958) |
| INVESTING ACTIVITIES | | | |
| Additions to property, plant and equipment | | (9,121) | (50,259) |
| Net proceeds from the disposition of the Valleyfield Assets | 6 | 25,512 | — |
| Net cash inflow on deposits | 12[a] | 5,761 | — |
| Proceeds on disposal of assets | 8 | 1,698 | 1,415 |
| Transfer from restricted cash | | 403 | 8,359 |
| Acquisition from business combination | | 307 | — |
| Net cash inflow on sale of investment | 12[b] | 1,242 | — |
| Transfer to restricted cash | | — | (403) |
| Net cash outflow on investment in QuebecCo | | — | (1,000) |
| Additions to intangible assets | 9 | (6) | (288) |
| Net cash proceeds from (used in) investing activities | | \$ 25,796 | \$ (42,176) |
| FINANCING ACTIVITIES | | | |
| Proceeds from issuance of shares and warrants, net of share issue costs | 14 | 9,322 | 43,898 |
| Proceeds from issuance of debt, net of issue costs | 7 | 6,790 | 22,021 |
| Proceeds from the exercise of stock options and warrants | 14, 15 | 7,559 | 638 |
| Interest received | | 55 | 173 |
| Interest paid on lease liabilities | 13 | (535) | (494) |
| Interest paid on debt | 7 | (4,496) | (4,741) |
| Principal payments of lease liabilities | 13 | (704) | (525) |
| Principal payments of debt | 7 | (32,200) | (500) |
| Net proceeds of borrowings and repayments under the Revolver Loan | 7 | 766 | — |
| Net cash provided by (used in) financing activities | | \$ (13,443) | \$ 60,470 |
| Net cash outflow | | \$ (5,685) | \$ (17,664) |
| Net effects of foreign exchange | | (597) | 1,307 |
| Cash, beginning of period | | 11,212 | 27,569 |
| Cash related to assets held for sale | 5 | (841) | — |
| Cash and cash equivalents, end of period | | \$ 4,089 | \$ 11,212 |

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

The Green Organic Dutchman Holdings Ltd.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020
(expressed in thousands of Canadian Dollars except as otherwise indicated)

1. NATURE OF ACTIVITIES

The Green Organic Dutchman Holdings Ltd. (“Company”) was incorporated on November 16, 2016, under the *Canada Business Corporations Act* (“CBCA”). The Company is a reporting issuer domiciled in Canada whose common shares (the “Common Shares”) are publicly traded on the Canadian Securities Exchange (“CSE”) under the symbol “TGOD” and on the OTCQX under the symbol “TGODF”. The Company also has four classes of warrants listed on the CSE under the symbols “TGOD.WS”, “TGOD.WR”, “TGOD.WA” and “TGOD.WB”. The Company’s registered and head office is located at 6205 Airport Road, Building A – Suite 200, Mississauga, ON, L4V 1E3. These consolidated financial statements for the years ended December 31, 2021 and December 31, 2020 (“Consolidated Financial Statements”) include the financial statements of The Green Organic Dutchman Holdings Ltd. and its subsidiaries from the date the Company gained control of each subsidiary.

The Company’s wholly-owned Canadian subsidiary, The Green Organic Dutchman Ltd. (“TGOD”) is a licensed producer under the *Cannabis Act* (Canada) and holds a licence to produce cannabis plants, cannabis plant seeds, dried cannabis, fresh cannabis, cannabis oils, cannabis topicals, cannabis extracts and edible cannabis and sell such cannabis products within Canada to provincially authorized retailers or distributors and federally licensed entities. The Company owns a cannabis cultivation facility near Hamilton, Ontario (the “**Hamilton Facility**”) and also has a presence in Québec with certain continuing operations out of its previously owned facility located in Valleyfield, Québec (the “**Quebec Facility**”). On November 17, 2021, the Company purchased all of the issued and outstanding shares of Galaxie Brands Corporation (“**Galaxie**”), a manufacturer of cannabis, cannabis oils, and edible cannabis products located in Puslinch, Ontario (the “**Puslinch Facility**”).

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

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

2. BASIS OF PRESENTATION

[i] Statement of compliance

These Consolidated Financial Statements have been prepared by management in accordance with International Financial Reporting Standards (“IFRS”). These Consolidated Financial Statements were approved and authorized for issue by the Board of Directors of the Company on April 5, 2022.

[ii] Going concern

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

As of December 31, 2021, the Company had working capital of \$25,716 (negative working capital December 31, 2020 – \$21,997) and an accumulated deficit of \$478,697 (December 31, 2020 - \$436,559). During the year ended December 31, 2021, the Company used cash in operating activities of \$18,038 (year ended December 31, 2020 - \$35,958) resulting primarily from the loss from operations \$28,741 (year ended December 31, 2020 - \$40,964) offset by items not affecting cash such as depreciation, amortization and share-based compensation. The Company has insufficient cash on hand to fund its planned operations. The Company’s ability to continue as a going concern is dependent upon its ability to generate sufficient revenues and positive cash flows from its operating activities and/or obtain sufficient funding to meet its obligations.

The Company may need to obtain further funding in the form of asset sales, debt, equity or a combination thereof to continue operations for the next twelve months. There can be no assurance that additional funding will be available to the Company,

The Green Organic Dutchman Holdings Ltd.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

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

or, if available, that this funding will be on acceptable terms. If positive operating cash flows are not achieved, debt obligations are not repaid, or adequate funding is not available, the Company may be required to delay or reduce the scope of any or all of its operations. In addition, the terms of the renewed secured revolving credit facility (the “Revolver Loan”) require the Company to satisfy various affirmative and negative covenants and to meet certain future financial tests. A failure to comply with these covenants, including a failure to meet the financial tests, would result in an event of default under the Revolver Loan and if not cured would allow the Lender to accelerate the repayment of the debt, which could materially and adversely affect the business, results of operations and financial condition of the Company. These conditions indicate the existence of a material uncertainty that may cast significant doubt about the Company’s ability to continue as a going concern.

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

[iii] Basis of measurement

These Consolidated Financial Statements have been presented in thousands of Canadian dollars (unless otherwise noted) on a historical cost basis, except for certain financial instruments that are measured at fair value and biological assets which are recorded at fair value less costs to sell. The Company’s functional currency is Canadian dollars. The expenses with the consolidated statements of loss and comprehensive loss are presented by function.

[iv] Use of estimates and judgments

The preparation of these Consolidated Financial Statements requires the use of estimates and judgments that affect the application of the Company’s accounting policies and reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods effected.

(a) *Biological assets and inventory*

In calculating the fair value less costs to sell of the biological assets, management is required to make a number of judgments and estimates, including estimating the stage of growth of the cannabis plants up to the point of harvest, harvesting costs, selling costs, sales price, wastage and expected yields for the cannabis plants. In calculating inventory values, management is required to determine an estimate of indirectly attributable production costs as well as obsolete inventory and compares the inventory cost to estimated net realizable value.

(b) *Impairment, estimated useful lives, depreciation and amortization of property, plant and equipment and intangible assets*

Depreciation and amortization of property, plant and equipment and intangible assets are dependent upon estimates of useful lives, residual values, and depreciation rates. The depreciation and amortization methods are judgments based on the Company’s assessment of the pattern of use of the assets. The estimate of useful lives and residual values are based on the Company’s intended use of the assets. The assessment of any impairment of these assets is dependent upon estimates of recoverable amounts that take into account factors such as economic and market conditions.

(i) *Cash generating units:*

Judgment is required to assess the Company’s determination of cash generating units for the purpose of impairment testing.

(ii) *Impairment of non-financial assets:*

The process to calculate the recoverable amount of each cash generating unit requires use of valuation methods such as the discounted cash flow method which uses assumptions of key variables including estimated cash flows, discount rates and terminal value growth rates. The Company applies judgment when determining which methods are most appropriate to estimate that value in use and fair value less costs of disposal for each CGU. Please see note 8 and note 9 for additional estimates and judgment applied by the Company in connection with the impairment of non-financial assets.

(c) *Business combinations*

Judgment is used in determining whether an acquisition is a business combination or an asset acquisition based on the facts and circumstances of the transaction in relation to the criteria listed in *IFRS 3 Business Combinations*. Determining the purchase price of a business combination, including any acquisition-related contingent consideration, and determining the

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allocation of the purchase price requires estimation of the fair value of the non-cash consideration and fair value of the assets acquired and liabilities assumed. Market based and appraisal values are used.

(d) **Revenue and accounts receivable**

The Company uses estimates to determine the likelihood of returns, discounts, price concessions and rebates it may offer to distributors. This is based on trends observed by the Company related to its historical financial sales and industry practices. Due to the complexity in tax legislations, significant judgment is applied in the assessment of whether taxes are borne by the Company or collected on behalf of a third party impacting the net or gross presentation of revenue.

(e) **Shared based compensation**

Significant estimates are used to determine the fair value of stock options and restricted stock units of the Company. The Company typically uses a Black Scholes pricing model to determine the valuations. Refer to notes 14 and 15 for further information.

(f) **Warrants**

Significant estimates are used to determine the fair value of warrants issued by the Company. The Company typically uses a Black Scholes pricing model to determine the valuations. Refer to notes 14 and 15 for further information.

(g) **Leases**

The Company recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received. The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. The Company has elected not to recognize right-of-use assets and lease liabilities for leases of low-value assets and short-term leases, including IT equipment. The Company recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

Significant estimates are used to determine the Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate for new leases.

(h) **Assets held for sale**

The determination as to whether a disposal group meets the requirements to be classified as held for sale, and the assets and liabilities to be included within that disposal group, requires management to exercise judgement when making these determinations. Management must also exercise judgement when determining at which date all of the criteria are satisfied to be classified as held for sale. Management must also use estimates when determining the fair value less costs to sell of the disposal group to assess if the carrying value of the disposal group is greater than its recoverable amount.

[v] Basis of consolidation

These Consolidated Financial Statements incorporate the financial statements of the Company and its subsidiaries. Subsidiaries are entities controlled by the Company. The Company controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Intercompany balances and transactions are eliminated upon consolidation and preparation of these Consolidated Financial Statements. The Company's primary controlled subsidiaries are as follows:

| Major subsidiary | Percentage ownership | Functional currency |
|---|----------------------|---------------------|
| The Green Organic Dutchman Ltd. ("TGOD") | 100% | Canadian Dollar |
| Medican Organic Inc. ("Medican") | 100% | Canadian Dollar |
| Galaxie Brands Corporation ("Galaxie") | 100% | Canadian Dollar |
| TGOD Europe B.V. | 100% | European Euro |
| HemPoland S.p.a. Z.o.o. ("HemPoland") (i) | 100% | European Euro |

(i) Classified as held for sale as at December 31, 2021, see note 5

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All shareholdings are of ordinary shares or other equity. Other subsidiaries, while included in the Consolidated Financial Statements, are not material and have not been included in the table above.

3. SIGNIFICANT ACCOUNTING POLICIES

(a) Measurement Uncertainty

The Company continues to monitor the evolution of the COVID-19 pandemic. The extent to which the COVID-19 pandemic may impact the Company's business and activities will depend on future developments which remain highly uncertain and cannot be predicted with confidence, such as the spread and severity of the disease, the duration of the outbreak including any possible resurgence, and actions taken by authorities to control the spread of the virus, the impact of the pandemic on spending, and the ability or willingness of suppliers and vendors to provide products and services.

Any of these developments, and others, could have a material adverse effect on the Company's business, affairs, operations, results of operations, financial condition, liquidity, availability of credit and foreign exchange exposure. In addition, because of the severity and global nature of the COVID-19 pandemic, it is possible that estimates in the Company's financial statements could change in the near term and the effect of any such changes could be material, which could result in, among other things, an impairment of non-current assets and a change in the expected credit losses on accounts receivable. The Company is constantly evaluating the situation and monitoring any impacts or potential impacts on its business.

(b) Business combinations

The Company accounts for business combinations using the acquisition method when control is transferred to the Company. The Company measures the consideration transferred, the assets acquired, and liabilities assumed in a business combination at their acquisition-date fair values. Acquisition related costs are recognized as expenses in the periods in which the costs are incurred, and the services are received, except for the costs to issue debt or equity securities which are recognized according to specific requirements. The excess of the consideration transferred to obtain control, over the net of the acquisition-date fair values of the identifiable assets acquired and the liabilities assumed, is recognized as goodwill as of the acquisition date.

Contingent consideration for a business combination is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Contingent consideration that is classified as an asset or liability is measured at subsequent reporting dates in accordance with IFRS 9, or IAS 37 Provisions, Contingent Liabilities and Contingent Assets, as appropriate, with the corresponding gain or loss being recognized in profit or loss.

(c) Property, plant and equipment

Property, plant and equipment is measured at cost less accumulated depreciation and impairment losses. Depreciation is recognized on a declining basis using the following rates:

| | |
|-------------------------------------|---|
| Building | 2.5 - 5% |
| Furniture and fixtures | 20 - 33% |
| Production equipment | 14 - 100% |
| Building and leasehold improvements | 5 - 20%, or straight line over the lease term if applicable |
| Computer equipment | 33 - 100% |
| Automobiles | 14 - 30% |

Residual values, useful lives and depreciation methods of property, plant and equipment are reviewed at least each financial year and adjusted if appropriate. When parts of an item of equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment. Land is not depreciated.

Gains and losses on disposal of items of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of the item at the date of disposal and recognized in profit or loss.

Assets and construction in progress are transferred to building, production equipment, and building improvements when available for use and depreciation of the asset commences at that point.

(d) Intangible assets

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Finite-lived intangible assets are recorded at cost less accumulated amortization and impairment losses. Amortization is provided on a straight-line basis over the following term:

| | |
|------------------------|--|
| Health Canada Licences | 20 years, in accordance with the estimated useful life of buildings at the Hamilton Facility and Puslinch Facility |
| Technology Licences | 6 years |
| Website | 10 years |
| Customer Relationships | 10 years |
| Distribution Channels | 10-20 years |
| Brands | 10-20 years |

The estimated useful lives and amortization methods of intangible assets are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. The Company does not currently have any intangible assets with indefinite useful lives.

(e) Impairment of non-financial assets

Non-financial assets (other than biological assets and inventories) are reviewed for indicators of impairment at each statement of financial position date or whenever events or changes in circumstances indicate that the carrying amount of an asset exceeds its recoverable amount. Goodwill is tested for impairment annually in the fourth quarter or more often if events or circumstances indicate there may be an impairment. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the cash-generating unit, or "CGU"). Goodwill arising from a business combination is allocated to the CGU or group of CGUs that are expected to benefit from the synergies of the combination. The recoverable amount of an asset or a CGU is the higher of its fair value less costs of disposal, and its value in use. If the carrying amount of an asset exceeds its recoverable amount, an impairment charge is recognized immediately in profit or loss by the amount by which the carrying amount of the asset exceeds the recoverable amount. Impairment losses are allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to reduce the carrying amounts of the other non-financial assets in the CGU, excluding biological assets and inventories, on a pro-rata basis. Impairment losses in respect of goodwill are not subsequently reversed. For other non-financial assets excluding biological assets and inventories, an impairment loss is subsequently reversed only to an amount that is the lesser of the revised estimate of recoverable amount, and the carrying amount, net of depreciation or amortization, that would have been recorded at the date of the reversal had no impairment loss been recognized previously. The Company currently has four CGUs being (i) cannabis related activities from production at the Hamilton Facility and Quebec Facility, ("TGOD CGU") (ii) the newly acquired cannabis manufacturing productions at the Puslinch Facility ("Galaxie CGU") (iii) hemp related activities in Europe ("European CGU") and (iv) other strategic international investments ("International CGU").

(f) Goodwill

Goodwill represents the excess of the price paid for a business combination over the net fair value of the identifiable assets acquired and liabilities assumed in the business combination and is subsequently measured at historical cost less accumulated impairment losses, if any. Goodwill is not depreciated.

(g) Inventories

Inventories are valued at the lower of cost and net realizable value. Inventories of harvested cannabis (i.e. raw materials) are transferred from biological assets at their fair value less costs to sell at harvest, which becomes the initial cost of the harvested cannabis. Any subsequent post-harvest costs, such as processing and packaging the inventories to a finished state, are capitalized to inventory as they are incurred to the extent that the aggregated cost of the inventory item is less than its net realizable value and are subsequently recorded within cost of sales related to inventory production costs in the consolidated statement of loss and comprehensive loss. Net realizable value is determined as the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. Cost is determined using the average cost basis.

(h) Biological assets

While the Company's biological assets are within the scope of IAS 41 Agriculture, the direct and indirect costs of biological assets are capitalized using an approach similar to the capitalization criteria outlined in IAS 2 Inventories. Direct and indirect costs of biological assets include the direct cost of seeds and growing materials, and indirect costs such as utilities and supplies used in the growing process. Indirect labour for individuals involved in the growing and quality control process is also included. Certain direct and indirect costs of biological assets, excluding depreciation, are capitalized as they are incurred, and are subsequently recorded in inventories on the consolidated statement of financial position after the biological

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assets are harvested, and subsequently recorded within the line item 'cost of sales' on the consolidated statement of loss and comprehensive loss in the period that the related product is sold or impaired. The unrealized gain on changes in fair value of biological assets are recorded in a separate line on the consolidated statement of loss and comprehensive loss. Biological assets are measured at their fair value less costs to sell on the consolidated statement of financial position.

(i) Revenue

The Company's accounting policy for revenue recognition under IFRS 15 is as follows:

To determine the amount and timing of revenue to be recognized, the Company follows the five-step model:

1. Identifying the contract with a customer.
2. Identifying the performance obligations.
3. Determining the transaction price.
4. Allocating the transaction price to the performance obligations.
5. Recognizing revenue when/as performance obligations are satisfied.

Revenue from the direct sale of cannabis products for a fixed price is recognized when the Company transfers control of the good to the customer, which is at the point of shipment for medical cannabis and at the point of delivery for recreational cannabis.

Revenue earned in Canada includes excise duties, which the Company pays as principal, but excludes sales taxes collected on behalf of tax authorities. Revenue is recognized to the extent that it is highly probable that a significant reversal will not occur. Therefore, revenue is stated net of expected price discounts, allowances for customer returns and certain promotional activities and similar items. Generally, payment of the transaction price is due within credit terms that are consistent with industry practices.

Under certain revenue arrangements, the Company provides production or licensing services. For these revenue arrangements, the Company earns a manufacturing or licencing fee, which is recognized as revenue net of associated costs as the Company acts as an agent in the arrangement. The Company does not control pricing or bear inventory, or credit risk associated with the goods in these arrangements, and as such is acting as an agent in these arrangements.

(j) Financial instruments

[i] Recognition and initial measurement

Trade receivables are initially recognized when they are originated. All other financial assets and liabilities are initially recognized when the Company becomes a party to the contractual provisions of the instrument. A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at fair value through profit and loss ("FVTPL"), transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

[ii] Classification and subsequent measurement

Financial Assets

On initial recognition, a financial asset is classified and measured at: amortized cost; fair value through other comprehensive income ("FVOCI") – debt investment; FVOCI – equity investment; or FVTPL. Financial assets are not reclassified subsequent to their initial recognition unless the Company changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the reporting period following the change in the business model. A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt investment is measured at FVOCI if it meets both of the following conditions and is not designated as FVTPL:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- its contractual terms give rise on specific dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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On initial recognition of an equity investment that is not held for trading, the Company may irrevocably elect to present subsequent changes in the investment's fair value in other comprehensive income ("OCI"). This election is made on an investment by investment basis.

All financial assets not classified as measured at amortized cost or FVOCI as described above are measured at FVTPL. This includes all derivative financial assets, if applicable. On initial recognition, the Company may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortized cost or at FVOCI as FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Financial Assets – Subsequent measurement and gains and losses

| | |
|------------------------------------|---|
| Financial assets at FVTPL | These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognized in profit or loss. |
| Financial assets at amortized cost | These assets are subsequently measured at amortized cost using the effective interest rate method. The amortized cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognized in profit or loss. Any gain or loss on derecognition is recognized in profit or loss. |
| Debt investments at FVOCI | These assets are subsequently measured at fair value. Interest income calculated using the effective interest rate method, foreign exchange gains and losses and impairment are recognized in profit or loss. Other net gains and losses are recognized in OCI. On derecognition, gains and losses accumulated in OCI are reclassified to profit and loss. |
| Equity investments at FVOCI | These assets are subsequently measured at fair value. Dividends are recognized as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognized in OCI. Changes in fair value are recognized in OCI and are never recycled to profit and loss, even if the asset is sold or impaired. |

Financial Liabilities

Financial liabilities are classified and measured at amortized cost or FVTPL. A financial liability is classified at FVTPL if it is classified as held for trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognized in profit or loss. Other financial liabilities are subsequently measured at amortized cost using the effective interest rate method. Interest expense and foreign exchange gains and losses are recognized in profit or loss. Any gain or loss on derecognition is also recognized in profit or loss.

[iii] Derecognition

Financial assets

The Company derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Company neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset. The Company may enter into transactions whereby it transfers assets recognized in its statements of financial position but retains either all or substantially all of the risks and rewards of the transferred assets. In these cases, the transferred assets are not derecognized.

Financial liabilities

The Company derecognizes a financial liability when its contractual obligations are discharged or cancelled or expire. The Company also derecognizes a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognized at fair value. On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognized in profit or loss.

Transaction Costs

Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

[iv] Offsetting

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Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realize the asset and settle the liability simultaneously.

(k) Impairment of financial assets

The Company recognizes loss allowances for expected credit losses (“ECLs”) on financial assets measured at amortized costs, debt investments measured at FVOCI, and contract assets – the Company had no debt investment measured at FVOCI and no contract assets as at December 31, 2021 and December 31, 2020.

When determining whether the credit risk of a financial asset has increased significantly and when estimating ECLs, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analyses, based on the Company’s historical experience and informed credit assessment and including forward looking information.

(l) Investments in associates

Associates are those entities in which the Company has significant influence, but not control or joint control, over the financial and operating policies. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control of those policies. Significant influence is usually evidenced by but not limited to, the ability to exercise significant influence through board representation, material transactions with the investee, provision of technical information, and the interchange of managerial personnel.

Investments in associates are accounted for using the equity method of accounting and are initially recognized at cost, inclusive of transaction costs. Subsequent to initial recognition, the Company includes in its consolidated financial statements the Company’s share of the income and expenses of equity accounted investees until the date on which significant influence ceases. In accordance with IFRS, the investee’s most recent available financial statements are used in the application of the equity method. The Company does not recognize losses exceeding the carrying value of its interest in the associate.

Unrealized gains arising from transactions with equity-accounted investees are eliminated against the investment to the extent of the Company’s interest in the investee. Unrealized losses arising from transaction with equity-accounted investees are eliminated against the investment to the extent of the Company’s interest in the investee, but only to the extent there is no evidence of impairment.

(m) Research and development

Research costs are expensed as incurred. Development expenditures are capitalized only if development costs can be measured reliably, the product or process is technically, and commercially feasible, future economic benefits are probable, and the Company intends to and has sufficient resources to complete development to use or sell the asset. Other development expenditures are recognized in profit or loss as incurred. Subsequent to initial recognition, capitalized development expenditures are measured at costs less accumulated amortization and impairment losses.

(n) Taxes

Income tax expense is comprised of current and deferred tax. It is recognized in net loss except to the extent that it relates to a business combination, or items recognized directly in equity or other comprehensive income.

Current taxes

Current tax comprises the expected tax payable or receivable on the taxable earnings for the period and any adjustments to the tax payable or receivable in respect of previous years. Taxable earnings may differ from earnings as reported in the consolidated statement of loss and comprehensive loss because of items of income and expenses that are taxable or deductible in other years and items that will never be taxable or deductible. The Company’s receivables and liabilities for current tax are calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred taxes

The Company uses the liability method to account for income taxes. Deferred income tax assets and liabilities are recognized for the future tax consequences attributable to differences between the carrying amounts of existing assets and liabilities for accounting purposes, and their respective tax bases. Deferred income tax assets and liabilities are measured using tax rates that have been enacted or substantively enacted applied to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred income tax assets and liabilities of a change in statutory tax

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rates is recognized in profit or loss in the year of change. Deferred income tax assets are recorded when their recoverability is considered probable and are reviewed at the end of each reporting period.

Refundable sales tax receivable

The Company recognizes receivables for refundable input tax credits for various value added taxes paid in conjunction with the laws governing each jurisdiction where the credits are claimed.

(o) Share-based compensation

The Company measures equity settled share-based payments based on their fair value at the grant date and recognizes compensation expense over the vesting period based on the Company's estimate of equity instruments that will eventually vest. Expected forfeitures are estimated at the date of grant and subsequently adjusted if further information indicates actual forfeitures may vary from the original estimate. The impact of the revision of the original estimate is recognized in profit or loss such that the cumulative expense reflects the revised estimate. For share-based payments granted to non-employees, the compensation expense is measured at the fair value of the good and services received except where the fair value cannot be estimated in which case it is measured at the fair value of the equity instruments granted. The fair value of share-based compensation to non-employees is periodically re-measured until counterparty performance is complete, and any change therein is recognized over the period and in the same manner as if the Company had paid cash instead of paying with or using equity instruments. Consideration paid by employees or non-employees on the exercise of stock options is recorded as share capital and the related share-based compensation is transferred from share-based reserve to share capital.

(p) Loss per share

The Company presents basic and diluted earnings (loss) per share data for its common shares. Basic earnings (loss) per share is calculated by dividing the profit or loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted earnings (loss) per share is determined by adjusting the profit or loss attributable to common shareholders and the weighted average number of common shares outstanding, adjusted for the effects of all dilutive potential common shares. In a period of losses, the options and warrants are excluded for the determination of dilutive net loss per share because their effect is antidilutive.

(q) Related party transactions

Related party transactions that are in the normal course of business and have commercial substance are measured at the exchange amount, which is the amount of consideration paid or received as established and agreed to by the related parties.

(r) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies at exchange rates at the dates of the transactions. Monetary assets and monetary liabilities denominated in foreign currencies at the reporting date are re-measured to the functional currency of the subsidiary in which the transactions are recorded at the exchange rate at the reporting date and the date they are settled. Non-monetary items that are based on historical cost in the functional currency of the subsidiary in which the amounts are recorded are translated into Canadian dollars using the exchange rate at the date of the transaction. Foreign currency gains and losses due to translating foreign currency transactions are reported in the consolidated statement of loss and comprehensive and loss on a net basis. The effect of currency translation adjustments on cash and cash equivalents is presented separately in the statements of cash flows and separated from investing and financing activities when deemed significant.

(s) Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to Canadian dollars at exchange rates at the reporting date. The income and expenses of foreign operations are translated to Canadian dollars using average exchange rates for the month during which the transactions occurred. These foreign currency differences are recognized in other comprehensive income in the reserve for foreign currency translations.

(t) Government grants

The Company recognizes government grants when there is reasonable assurance that it will comply with the conditions required to qualify for the grant, and that the grant will be received. The Company made an accounting policy choice under *IAS 20 - Government Grants* to record and present the grants net against the associated expenses for which it was subsidizing. These grants are recognized upon receipt as all conditions subject to the grant are met upon receipt.

(u) Changes in or adoption of significant accounting policies

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i. Non-current assets (or disposal groups) held for sale

Non-current assets (or disposal groups) are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. Assets held for sale (or disposal group) are measured at each reporting period at the lower of their carrying amount and fair value less costs to sell (“FVLCS”), except for inventories, biological assets, deferred tax assets, assets arising from employee benefits, financial assets and investment property that are carried at fair value and contractual rights under insurance contracts, which are measured in accordance with the Company’s other accounting policies, as applicable.

An impairment loss is recognized for any initial or subsequent write-down of the assets held for sale (or disposal group) to FVLCS. A gain is recognized for any subsequent increases in FVLCS of assets held for sale (or disposal group), but not in excess of any cumulative impairment loss previously recognized or the asset’s (or disposal group’s) carrying value. A gain or loss not previously recognized by the date of the sale of the non-current assets (or disposal group) is recognized at the date of derecognition.

Non-current assets (including those part of a disposal group) are not depreciated or amortized while they are classified as held for sale. Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale continue to be recognized.

Non-current assets classified as held for sale are presented separately from the other assets in the statement of financial position. The liabilities of a disposal group classified as held for sale are presented separately from other liabilities in the statement of financial position.

(v) New accounting pronouncements or policies adopted in 2021

The Company adopted the following new standard and amendment to standards that were effective January 1, 2021. These changes did not have a material impact on these Consolidated Financing Statements.

- Interest Rate Benchmark Reform – Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)

(w) New standards, interpretations and amendments not yet adopted by the Company

A number of new standards are effective for annual periods beginning on or after January 1, 2022 and earlier application is permitted. However, the Company has not early adopted the new or amended standards in preparing these Consolidated Financial Statements. The following amended standards and interpretations are not expected to have a significant impact on the Company’s consolidated financial statements:

i. Onerous contracts – Cost of Fulfilling a Contract (Amendments to IAS 37)

The amendments specify which costs an entity includes in determining the cost of fulfilling a contract for the purpose of assessing whether the contract is onerous. The amendments apply for annual reporting periods beginning on or after January 1, 2022 to contracts existing at the date when the amendments are first applied. At the date of initial application, the cumulative effect of applying the amendments is recognized as an opening balance adjustment to retained earnings or other components of equity, as appropriate. The comparatives are not restated.

ii. Deferred Tax related to Assets and Liabilities arising from a Single Transaction – (Amendments to IAS 12)

The amendment narrowed the scope of certain recognition exceptions so that it no longer applies to transactions that, on initial recognition, give rise to equal taxable and deductible temporary differences. An entity applies the amendments to transactions that occur on or after the beginning of the earliest comparative period presented. It also, at the beginning of the earliest comparative period presented, recognized deferred tax for all temporary differences related to leases and decommissioning obligations and recognized the cumulative effect of initially applying the amendments as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) at that date. The amendment is effective for annual periods beginning on or after January 1, 2023 with early application permitted. The Company is currently evaluating the potential impact of these amendments of the Company’s consolidated financial statements.

iii. Definition of Accounting Estimates – (Amendments to IAS 8)

On February 12, 2021, the IASB issued *Definition of Accounting Estimates (Amendments to IAS 8)*.

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The amendments introduce a new definition for accounting estimates, clarifying that they are monetary amounts in the financial statements that are subject to measurement uncertainty. The amendments also clarify the relationship between accounting policies and accounting estimates by specifying that a company develops an accounting estimate to achieve the objective set out by an accounting policy.

The amendments are effective for annual periods beginning on or after January 1, 2023. Early adoption is permitted. The Company is currently evaluating the potential impact of these amendments on the Company's consolidation financial statements.

iv. Disclosure initiative – Accounting Policies (Amendments to IAS 1 and IFRS 2 Practice Statement 2)

On February 12, 2021, the IASB issued *Disclosure Initiative – Accounting Policies (Amendments to IAS 1 and IFRS 2 Practice Statement 2 Making Material Judgments)*. The amendments help companies provide useful accounting policy disclosures. The key amendments include:

- requiring companies to disclose their material accounting policies rather than their significant accounting policies;
- clarifying that accounting policies related to immaterial transactions, other events or conditions are themselves immaterial and as such need not be disclosed; and,
- clarifying that not all accounting policies that relate to material transactions, other events or conditions are themselves material to a company's financial statements.

The amendments are effective for annual periods beginning on or after January 1, 2023. Early adoption is permitted. The Company is currently evaluating the potential impact of these amendments on the Company's consolidation financial statements.

4. BUSINESS COMBINATION

Acquisition of Galaxie

On October 29, 2021, the Company entered into a share purchase agreement (the "Galaxie Definitive Agreement") to purchase all of the issued and outstanding shares of Galaxie (the "Galaxie Transaction"). Galaxie is a licensed producer of cannabis and cannabis related products focused on product innovation, branding, manufacturing, and distribution. Pursuant to the terms of the Galaxie Definitive Agreement, upon closing of the Galaxie Transaction on November 17, 2021, the Company paid an aggregate purchase price of \$24,270 (the "Purchase Price"). The Purchase Price was comprised of: (a) 80,000,000 Common Shares valued at \$12,400 (the "Escrow Shares"); (b) 40,000,000 Common Shares valued at \$6,200 (the "Indemnity Escrow Shares"); (c) 2,805,153 Common Shares valued at \$435 related to the Underlying Shares (as defined below); and (d) up to 85,714,286 Common Shares valued at \$5,235 (the "Contingent Milestone Shares"), subject to the achievement of certain financial targets over the twelve months ending December 31, 2022.

The Escrow Shares are subject to an escrow agreement with Computershare Investor Services Inc., as escrow agent, (the "Escrow Agent") whereby one sixth of these shares will be released every four months with the first release starting March 17, 2022. The Indemnity Escrow Shares and Contingent Milestone Shares were placed into an indemnity escrow account with the Escrow Agent, to be released no later than December 31, 2023 and January 31, 2023, respectively, subject to earlier release pursuant to the escrow release terms of an indemnity escrow agreement.

All issued and outstanding options to acquire shares of Galaxie (the "Galaxie Options") vested prior to the closing of the Galaxie Transaction. Each holder of vested Galaxie Options had the option of exercising its Galaxie Options into underlying shares of Galaxie (the "Underlying Shares"). The Underlying Shares were converted into Common Shares at the closing of the Galaxie Transaction based upon the terms set forth in the Galaxie Definitive Agreement. A total of 2,805,153 Common Shares were issued to holders of Galaxie Options in exchange for the issued and outstanding Underlying Shares. Total consideration issued to the former shareholders of Galaxie was 205,714,286 Common Shares with a fair value of \$23,835, with an additional 2,805,153 Common Shares being issued to holders of Galaxie Options with a fair value of \$435.

The Company's initial allocation of the Purchase Price is as noted in the table below. As the Galaxie Transaction is within the measurement period, management will continue to refine and finalize the allocations in relation to any subsequent working capital adjustments. The measurement period is the period from the acquisition date to the date complete

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information about facts and circumstances that existed as of the acquisition date is received. The measurement period cannot extend beyond one year from date of acquisition. The table below summarizes the estimated fair value of the assets acquired and the liabilities assumed as at the acquisition date:

| | Note | Number of shares | Share price | Amount |
|---|------|------------------|-------------|---------------|
| Consideration paid | | | | |
| Common Shares issued | (i) | 122,805,153 | \$0.155 | 19,035 |
| Contingent consideration | (ii) | 85,714,286 | | 5,235 |
| Total consideration transferred | | | | 24,270 |
| Net assets acquired | | | | |
| Cash and cash equivalents | | | | 307 |
| Trade receivables | | | | 1,366 |
| Prepaid expenses and deposits | | | | 117 |
| Due from related party | | | | 503 |
| Inventories | | | | 1,172 |
| Accounts payable and accrued liabilities | | | | (2,490) |
| Property, plant and equipment | 8 | | | 14,308 |
| Brands | 9 | | | 2,783 |
| Health Canada Licence | 9 | | | 4,432 |
| Customer contracts | 9 | | | 2,650 |
| Goodwill | 9 | | | 3,939 |
| Lease liabilities | 13 | | | (3,665) |
| Loans | 7 | | | (1,152) |
| Total identifiable net assets acquired | | | | 24,270 |

(i) Closing price of TGOD Common Shares as at acquisition date

(ii) Recorded at fair value, which was determined using the Black-Scholes Pricing Model.

The licence acquired is subject to amortization over a period equivalent to the useful life of the Puslinch Facility which has a useful life of 20 years. The licence consists of Galaxie's cultivation, processing, and sales license.

Brands acquired under the Galaxie Transaction include Cruzy, which offers a range of high potency products for distribution in the recreational adult-use market, and GRx, which offers high potency CBD products to medical patients. Such brands are subject to amortization with estimated useful lives of 10 years.

The primary reason for the acquisition and the goodwill is attributed to the achievement of synergies expected from integrating Galaxie and the Company to produce cannabis extracts, including cannabis concentrates for consumers. Goodwill is calculated as the excess of the consideration paid in comparison to the net assets identified as at acquisition date. Goodwill is not tax deductible.

The Contingent Milestone Shares are subject to revaluation based on the modified probability assessment of asymmetric payment structures model at each period end (combination of level 1 and level 3 inputs on the fair value hierarchy). As at December 31, 2021, the contingent consideration was revalued to \$3,423, resulting in a gain on revaluation of \$1,812 for the year ended December 31, 2021. The Contingent Milestone Shares are to be released no later than January 31, 2023.

The Company recognized \$317 in transaction costs recorded in the acquisition related costs line in the consolidated statement of loss and other comprehensive loss in connection with the Galaxie Transaction.

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5. DISPOSAL GROUP HELD FOR SALE AND DISCONTINUED OPERATION

As at December 31, 2021, management was committed to a plan to sell the Company's wholly owned hemp cultivation and extraction business based in Poland. Accordingly, the Company has presented HemPoland as a disposal group held for sale. Efforts to sell the disposal group have started and a sale is expected within the next twelve months.

Results of discontinued operation

| | For the twelve months ended | |
|--|-----------------------------|--------------------|
| | December 31, 2021 | December 31, 2020 |
| Revenue | \$ 6,270 | \$ 8,751 |
| Gross profit | \$ 2,330 | \$ 4,745 |
| Expenses | \$ 5,398 | \$ 16,322 |
| Loss from discontinued operations | \$ (3,068) | \$ (11,577) |
| Deferred tax recovery | \$ 315 | \$ 224 |
| Loss from discontinued operations, net of tax | \$ (2,753) | \$ (11,353) |
| Basic and diluted loss per share | \$ (0.00) | \$ (0.04) |

Cash flows from (used in) discontinued operation

| | For the twelve months ended | |
|---|-----------------------------|-------------------|
| | December 31, 2021 | December 31, 2020 |
| Net cash provided by (used in) operating activities | \$ 1,339 | \$ (697) |
| Net cash used in investing activities | (188) | (325) |
| Net cash used in financing activities | (519) | (556) |
| Net cash (outflows) inflows for the year | \$ 632 | \$ (1,578) |

Impairment losses related to the disposal group

Impairment losses of \$5,118 for write-downs of the disposal group to the lower of its carrying amount and its fair value less costs to sell have been recognized for the year ended December 31, 2021 (year ended December 31, 2020, \$Nil). The impairment losses have been applied to reduce the carrying amount of property, plant and equipment, and intangible assets

Assets and liabilities of disposal group held for sale

As at December 31, 2021, the disposal group was stated at fair value less costs to sell and comprised of the following assets and liabilities.

| | Disposal Group |
|--|-----------------------|
| Cash and cash equivalents | 841 |
| Refundable sales taxes receivable | 57 |
| Trade receivables | 446 |
| Prepaid expenses and deposits | 167 |
| Inventories | 3,035 |
| Property, plant and equipment | 1,589 |
| Intangible assets | 1,985 |
| Loan receivable from TGODH | 5,492 |
| Assets held for sale | 13,612 |
| Accounts payable and accrued liabilities | 695 |
| Lease liabilities | 1,409 |
| Loans | 466 |
| Liabilities held for sale | 2,570 |

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Measurement of fair values

The fair value of the disposal group's net assets was estimated to be \$11,742 (before estimated costs to sell of \$700) using a market approach (level 2 on the fair value hierarchy), from a non-binding competitive offer which provided reliable information to determine the fair value of the disposal group.

6. SALE OF VALLEYFIELD ASSETS

On June 22, 2021, the Company completed the sale of the majority of its assets in Valleyfield, Quebec, including all of the industrial and agricultural land, main hybrid greenhouse, rooftop greenhouse, all support buildings and certain related equipment (the "Valleyfield Assets") for gross proceeds of \$27,000 (net proceeds of \$25,512) (the "Quebec Disposition")

The following is a continuity of the Company's Valleyfield Assets held for sale:

| | Valleyfield Assets |
|--|--------------------|
| Balance, December 31, 2020 | \$ — |
| Transferred from property, plant and equipment | 43,200 |
| Remeasurement of assets held for sale | (17,688) |
| Gross proceeds on sale | (27,000) |
| Transaction costs | 1,488 |
| Balance, December 31, 2021 | — |

The Company was also refunded the deposit that it had with Hydro-Quebec, including interest, of \$5,761, see Note 12 – Other Assets. Concurrent with the Quebec Disposition, the Company repaid the remaining principal balance of its senior secured first lien credit facility (the "Senior Loan"), including a 2% prepayment penalty, to settle all of its outstanding obligations under the Senior Loan and terminated the Senior Loan with such lender, see Note 7 – Loans.

Concurrent with the closing of the Quebec Disposition, the Company entered into a lease with the purchaser of the Valleyfield Assets for approximately 80,000 square feet of cultivation and processing space in the Quebec Facility, see Note 13 – Leases.

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7. LOANS

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

| | For the year ended December 31, 2021 | For the year-ended December 31, 2020 |
|--|---|---|
| Opening Balance | \$ 40,755 | \$ 17,433 |
| Additions | 7,000 | 24,658 |
| Addition through business combination | Note 4 1,152 | — |
| Deferred financing fee | (1,000) | (3,044) |
| Residual fair value of equity portion | — | (1,628) |
| Accretion | 5,445 | 4,199 |
| Debt modification | (1,187) | (799) |
| Principal payments | (32,200) | (500) |
| Effects of movements in foreign exchange | (33) | (19) |
| Reclassification to liabilities held for sale | (473) | — |
| Net proceeds related to the borrowing from and repayments to the Revolver Loan | 766 | 455 |
| Ending Balance | \$ 20,225 | \$ 40,755 |

| | December 31, 2021 | December 31, 2020 |
|-------------------------------------|--------------------------|--------------------------|
| Loans | \$ 20,225 | \$ 40,755 |
| Current portion | (2,021) | (40,755) |
| Long term portion | \$ 18,204 | \$ — |
| Revolver Loan | \$ 19,045 | \$ 12,409 |
| Promissory notes to related parties | 1,180 | — |
| Senior Loan | — | 27,839 |
| HemPoland Loan | — | 507 |
| | \$ 20,225 | \$ 40,755 |

Senior Loan

On December 24, 2019, the Company closed its Senior Loan with a commercial lender with security rights over the Company's assets, and primarily on its production facilities. Under the Senior Loan the Company received gross proceeds of \$32,700 from the lender at a thirteen percent (13%) rate of interest. Per the Senior Loan agreement, there were no scheduled principal repayments required for the first twelve months of the term of the Senior Loan, after which the Company was required to make monthly repayments commencing on January 1, 2021 plus interest, with the remaining unpaid balance to be paid on December 15, 2021, upon maturity. The Senior Loan carried a prepayment option at any time with a 2% prepayment premium on the outstanding principal of the Senior Loan.

On June 22, 2021, the Company repaid the remaining principal of \$30,977 concurrent with the Quebec Disposition and a 2% prepayment premium of \$620, recorded in finance costs. The Company settled all obligations as a result and terminated the loan agreement relating to the Senior Loan with such lender.

Revolver Loan

On April 22, 2020, the Company closed its Revolver Loan with a commercial lender for gross proceeds of up to \$30,000 of which \$10,000 was funded on April 22, 2020 and carries a conventional competitive rate. The Revolver Loan was secured by a second lien over the assets of the Company with a first lien over substantially all of the cannabis and cannabis derived inventories and Canadian trade receivables. As the accounts receivable balance eligible for collateral increases, additional credit is available to the Company up to a maximum of an additional \$20,000. In connection with the Quebec Disposition, the lender for the Revolver Loan agreed to release its second lien security on the Valleyfield Assets and with the settlement of the Senior Loan described above, holds first security on the Company's Hamilton Facility with all other terms and conditions still in place.

On August 10, 2021, the lender provided a further \$3,000 term portion advance to the Company under the current facility. The Company incurred \$60 of costs related to the transaction.

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On September 29, 2021, the Revolver Loan was amended and restated where the lender agreed to provide an additional advance of \$1,000, extend the Revolver Loan maturity to June 30, 2023, and reduce the overall Revolver Loan limit from \$30,000 to \$25,000 total, in exchange for \$520 worth of Common Shares of the Company. As part of the debt modification on September 29, 2021, the Company agreed to a financial covenant requiring achievement of positive EBITDA monthly by March 31, 2022, as well as provide \$6,000 from the net proceeds of sales from HemPoland.

On November 29, 2021, the Revolver Loan was amended and restated where the lender agreed to provide an additional advance of \$3,000, increasing the term portion of the Revolver Loan from \$17,000 to \$20,000, in exchange for transaction fees of \$150, and 3,000,000 warrants entitling the holder to purchase one Common Share for a period of 60 months at a price of \$0.14 per warrant. As part of the November 29, 2021, amendment, the lender agreed to modify the financial covenants noted above. Furthermore, the timing of the financial covenant requiring achievement of positive EBITDA (as defined by the lender) on a monthly basis was extended to April 30, 2022 as well as the net proceeds to be used from the sale of the HemPoland decreased from \$6,000 to \$4,000 to repay amounts borrowed under the Revolver Loan.

Subsequent to the year ended December 31, 2021, the Revolver Loan was amended and restated on March 10, 2022, where the lender agreed to increase the overall Revolver Loan limit from \$25,000 to \$30,000, allow certain eligible inventory to be included as collateral to the Revolver Loan, and relax certain covenants set forth in the credit agreement relating to the Revolver Loan. As consideration for these amendments, the Company issued 500,000 Common Shares worth \$50 (note 23), to the lender.

As at December 31, 2021, the total principal balance outstanding related to the Revolver Loan was \$21,221. The Revolver Loan has other non-financial covenants which the Company had met as at December 31, 2021.

Promissory notes to related parties

In connection with the Galaxie Transaction, the Company assumed shareholder loans with principal note balances totaling \$1,300 (the “Promissory Notes”). The fair value of the shareholder loans at acquisition date was determined to be \$1,152, based on the time to maturity (note 4). The Promissory Notes are subordinate to the Revolver Loan.

| | Principal note balance | Amortized Cost | Agreement Date | Maturity Date | Terms |
|---|-----------------------------------|---------------------------|---------------------------|--------------------------|--|
| Promissory Note #1 | \$ 400 | 400 | 2021-10-28 | 2022-01-31 | No interest to maturity, 10% interest compounded monthly if note not repaid in full at maturity |
| Promissory Note #2 | 400 | 400 | 2021-10-28 | 2022-01-31 | No interest to maturity, 10% interest compounded monthly if note not repaid in full at maturity |
| Promissory Note #3 | 500 | 380 | 2021-05-26 | 2026-06-01 | \$100 to be repaid on June 1, 2023 \$100 to be repaid on June 1, 2024 \$100 to be repaid on June 1, 2025 \$200 plus interest to be repaid on June 1, 2026 |
| Total Promissory Notes to related parties | \$ 1,300 | 1,180 | | | |

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8. PROPERTY, PLANT AND EQUIPMENT

| Cost: | Notes | Land | Buildings | Furniture and fixtures | Production equipment | Building improvements | Computer equipment | Automobiles | Construction in progress | Right-of- use assets | Total |
|--|-------|-----------------|------------------|------------------------------|-------------------------|--------------------------|-----------------------|---------------|-----------------------------|-------------------------|-------------------|
| Balance, December 31, 2020 | | \$ 6,855 | \$ 61,205 | \$ 390 | \$ 65,714 | \$ 698 | \$ 1,352 | \$ 366 | \$ 250,019 | \$ 7,273 | \$ 393,872 |
| Additions | | — | — | 7 | 586 | — | — | 38 | 57 | 2,039 | 2,727 |
| Additions from business combination | 4 | — | — | 159 | 1,180 | 9,259 | 45 | — | — | 3,665 | 14,308 |
| Disposals | | — | — | — | (965) | — | — | (51) | (2,782) | (3,616) | (7,414) |
| Transfers | | — | 5,037 | — | 1,473 | — | — | — | (6,510) | — | — |
| Derecognition of investment in joint venture | | — | — | — | (683) | — | — | — | — | — | (683) |
| Reclassification to assets held for sale (Valleyfield) | 6 | (4,080) | (1,472) | (14) | (244) | (37) | — | — | (240,784) | — | (246,631) |
| Reclassification to assets held for sale (HemPoland) | 5 | — | (1,574) | (114) | (1,245) | — | (21) | (54) | — | (2,078) | (5,086) |
| Effects of movements in foreign exchange and other | | — | (110) | (8) | (82) | — | (2) | (5) | — | (149) | (356) |
| Balance, December 31, 2021 | | \$ 2,775 | \$ 63,086 | \$ 420 | \$ 65,734 | \$ 9,920 | \$ 1,374 | \$ 294 | \$ — | \$ 7,134 | \$ 150,737 |
| Accumulated depreciation and impairment: | | | | | | | | | | | |
| Balance, December 31, 2020 | | \$ — | \$ 40,061 | \$ 236 | \$ 42,479 | \$ 504 | \$ 1,097 | \$ 277 | \$ 160,484 | \$ 1,471 | \$ 246,609 |
| Transfers | | — | 2,014 | — | 42 | — | — | — | (2,056) | — | — |
| Depreciation | | — | 2,380 | 35 | 8,388 | 90 | 171 | 28 | — | 945 | 12,037 |
| Disposals | | — | — | — | (261) | — | — | (1) | (1,806) | (926) | (2,994) |
| Derecognition of investment in joint venture | | — | — | — | (52) | — | — | — | — | — | (52) |
| Impairment (reversal of impairment) | | — | (34,632) | (79) | (27,771) | (109) | (401) | (56) | 45,283 | — | (17,765) |
| Reclassification to assets held for sale (Valleyfield) | 6 | — | (1,274) | (13) | (207) | (33) | — | — | (201,904) | — | (203,431) |
| Reclassification to assets held for sale (HemPoland) | 5 | — | (125) | (34) | (467) | — | (20) | (20) | — | (882) | (1,548) |
| Effects of movements in foreign exchange and other | | — | (7) | (2) | (27) | — | (2) | (1) | (1) | (59) | (99) |
| Balance, December 31, 2021 | | \$ — | \$ 8,417 | \$ 143 | \$ 22,124 | \$ 452 | \$ 845 | \$ 227 | \$ — | \$ 549 | \$ 32,757 |
| Net book value, December 31, 2021 | | \$ 2,775 | \$ 54,669 | \$ 277 | \$ 43,610 | \$ 9,468 | \$ 529 | \$ 67 | \$ — | \$ 6,585 | \$ 117,980 |

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| Cost: | Land | Buildings | Furniture and fixtures | Production equipment | Building improvements | Computer equipment | Automobiles | Construction in progress | Right-of-use assets | Total |
|---|----------------|------------------|-----------------------------------|---------------------------------|----------------------------------|-------------------------------|--------------------|-------------------------------------|--------------------------------|------------------|
| Balance, December 31, 2019 | \$2,683 | \$56,480 | \$265 | \$15,674 | \$710 | \$1,337 | \$551 | \$277,646 | \$4,154 | \$359,500 |
| Transfers | — | 4,068 | 110 | 48,351 | — | 2 | 27 | (52,566) | 8 | — |
| Additions | 4,172 | 670 | 13 | 1,768 | — | 13 | 105 | 26,396 | 3,583 | 36,720 |
| Disposals | — | — | — | (114) | (12) | — | (318) | (1,456) | (436) | (2,336) |
| Effect of movements in foreign exchange | — | (13) | 2 | 35 | — | — | 1 | (1) | (36) | (12) |
| Balance, December 31, 2020 | \$6,855 | \$61,205 | \$390 | \$65,714 | \$698 | \$1,352 | \$366 | \$250,019 | \$7,273 | \$393,872 |
| Accumulated amortization and impairment: | | | | | | | | | | |
| Balance, December 31, 2019 | \$ — | \$19,559 | \$139 | \$5,730 | \$401 | \$673 | \$261 | \$95,062 | \$642 | \$122,467 |
| Transfers | — | 1,816 | 5 | 20,126 | — | 2 | 1 | (21,950) | — | — |
| Depreciation | — | 1,443 | 35 | 3,397 | 26 | 157 | 117 | — | 949 | 6,124 |
| Disposals | — | — | — | (33) | (1) | — | (143) | — | (111) | (288) |
| Impairment | — | 17,244 | 57 | 13,260 | 77 | 265 | 41 | 87,372 | — | 118,316 |
| Effects of movements in foreign exchange and other | — | (1) | — | (1) | 1 | — | — | — | (9) | (10) |
| Balance, December 31, 2020 | \$- | \$40,061 | \$236 | \$42,479 | \$504 | \$1,097 | \$277 | \$160,484 | \$1,471 | \$246,609 |
| Net book value, December 31, 2020 | \$6,855 | \$21,144 | \$154 | \$23,235 | \$194 | \$255 | \$89 | \$89,535 | \$5,802 | \$147,263 |

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Impairment of property, plant and equipment

The Company performs tests for impairment of its property, plant and equipment, a non-financial asset, when there are indicators of impairment or annually for CGUs with goodwill or indefinite life intangible assets. As a result of the reclassification of the Valleyfield Assets to assets held for sale, the Company performed an impairment analysis as at March 31, 2021 on its cannabis related activities from the TGOD CGU.

As a result of this impairment assessment, the Company determined that the Valleyfield Assets met the criteria to be tested for impairment separately from the TGOD CGU. The Company tested the Valleyfield Assets for impairment first, then subsequently tested the TGOD CGU for an impairment reversal as the change in the use of the Valleyfield Assets was an indicator to test for an impairment reversal. The Company recognized a \$46,475 impairment loss at March 31, 2021 associated with the Valleyfield Assets recognized in property, plant and equipment based on the initial offers and information at the time to determine the fair value of the assets. As a result of the impairment analysis, the TGOD CGU yielded a higher recoverable amount in comparison to its applicable carrying value. The recoverable amount of the TGOD CGU was based on its value in use, which was determined to be greater than its fair value less costs of disposal and resulted in a reversal of previously recognized impairment losses. As a result, the Company recognized a \$68,286 reversal of previously recognized impairment losses on the TGOD CGU of which \$64,240 was allocated to property, plant and equipment and \$4,046 allocated to intangible assets (note 9). The net impact of the impairment charge and reversal of previously recognized impairment charges to property, plant and equipment was a reversal of impairment of \$17,765 (year ended December 31, 2020 – impairment loss of \$118,613), all of which were related to the TGOD CGU. Refer to Note 9 for non-cash impairment recovery of intangible assets.

The following table indicates the year-to-date non-cash impairment charges (recovery) recognized by the Company for its Valleyfield Assets and TGOD CGU by period:

| | Period ending | Recoverable amount [Value in Use] | Carrying Amount | Impairment (recovery) for the period then ended |
|---|----------------|--------------------------------------|-----------------|--|
| Valleyfield Assets | March 31, 2021 | \$43,200 | \$89,675 | \$46,475 |
| TGOD CGU | March 31, 2021 | \$181,903 | \$113,617 | \$(68,286) |
| Total impairment recovery for the year ended, December 31, 2021: | | | | \$(21,811) |

| | Period ending | Recoverable amount [Value in Use] | Carrying Amount | Impairment for the period then ended |
|--|--------------------|--------------------------------------|-----------------|---|
| TGOD CGU | March 31, 2020 | \$196,600 | \$249,365 | \$52,765 |
| TGOD CGU | September 30, 2020 | \$150,745 | \$218,582 | \$67,837 |
| Total impairment for the year ended, December 31, 2020: | | | | \$120,602 |

The significant assumptions applied in the determination of the recoverable amount are described as follows:

- i. Cash flows: Estimated cash flows were projected based on industry and market trends in addition to the Company's own internal sources which included estimates for price compression and industry growth. Estimated cash flows are primarily driven by estimated sales volumes, selling prices and operating costs. The projections were extended to a total of five years (and a terminal period). The present value of future cash flows was estimated using an expected cash flow approach;
- ii. Long-term growth rate: A long-term growth rate has been determined as an inflationary rate for the country in which the CGU operates estimated by management. The long-term growth rate used by management was calculated as 2%;
- iii. Discount rate: The discount rate is estimated based on the Company's weighted average cost of capital ("WACC") in which the Company's cost of equity and cost of debt are proportionately weighted. The inputs into the WACC are based on the Company's specific borrowing rate, over 10-year government bonds issued by the government in the relevant market and in the same currency as the cash flows, adjusted for risk premium to reflect both the increased risk of investing in equities generally and the unsystematic risk on the specified CGU. The discount rate calculated and used by management in calculating the recoverable amount for the TGOD CGU during the years ended December 31, 2021 and December 31, 2020 was 16.5%.

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9. INTANGIBLE ASSETS AND GOODWILL

A continuity of the intangible assets is as follows:

| | Notes | Health Canada Licences | Technology Licences | Website | Distribution Channels | Brands | Other acquired rights | Goodwill | Total |
|---|-------|------------------------------|------------------------|---------------|--------------------------|-----------------|-----------------------------|-----------------|------------------|
| Cost: | | | | | | | | | |
| Balance, December 31, 2020 | | \$ 5,870 | \$ 3,065 | \$ 400 | \$ 5,869 | \$ 1,048 | \$ 1,388 | \$ — | \$ 17,640 |
| Additions | | — | 6 | — | — | — | — | — | 6 |
| Additions from business combination | 4 | 4,432 | — | — | — | 2,783 | 2,650 | 3,939 | 13,804 |
| Reclassification to assets held for sale | 5 | — | (484) | — | (5,562) | (993) | (1,242) | — | (8,281) |
| Transfers | | — | 61 | — | — | — | (61) | — | — |
| Effect of movements in foreign exchange | | — | (35) | — | (307) | (55) | (68) | — | (465) |
| Balance, December 31, 2021 | | \$ 10,302 | \$ 2,613 | \$ 400 | \$ — | \$ 2,783 | \$ 2,667 | \$ 3,939 | \$ 22,704 |
| Accumulated amortization and impairment: | | | | | | | | | |
| Balance, December 31, 2020 | | \$ 4,262 | \$ 2,106 | \$ 297 | \$ 943 | \$ 169 | \$ 930 | \$ — | \$ 8,707 |
| Amortization for the period | | 260 | 488 | 53 | 305 | 69 | 325 | — | 1,500 |
| Reclassification to assets held for sale | 5 | — | (287) | — | (1,192) | (213) | (1,153) | — | (2,845) |
| Reversal of impairment | 8 | (2,770) | (1,105) | (171) | — | — | — | — | (4,046) |
| Effect of movements in foreign exchange | | — | (16) | — | (56) | (10) | (54) | — | (136) |
| Balance, December 31, 2021 | | \$ 1,752 | \$ 1,186 | \$ 179 | \$ — | \$ 15 | \$ 48 | \$ — | \$ 3,180 |
| Net book value, December 31, 2021 | | \$ 8,550 | \$ 1,427 | \$ 221 | \$ — | \$ 2,768 | \$ 2,619 | \$ 3,939 | \$ 19,524 |
| Cost: | | | | | | | | | |
| Balance, December 31, 2019 | | \$5,870 | \$2,872 | \$400 | \$5,500 | \$982 | \$1,256 | \$10,108 | \$26,988 |
| Additions | | — | 242 | — | — | — | 46 | — | 288 |
| Disposals | | — | — | — | — | — | (66) | — | (66) |
| Transfers | | — | (69) | — | — | — | 69 | — | — |
| Effect of movements in foreign exchange | | — | 20 | — | 369 | 66 | 83 | 543 | 1,081 |
| Balance, December 31, 2020 | | \$5,870 | \$3,065 | \$400 | \$5,869 | \$1,048 | \$1,388 | \$10,651 | \$28,291 |
| Accumulated amortization and impairment: | | | | | | | | | |
| Balance, December 31, 2019 | | \$2,596 | \$1,035 | \$159 | \$491 | \$88 | \$492 | \$2,007 | \$6,868 |
| Amortization for the period | | 150 | 383 | 34 | 412 | 74 | 399 | — | 1,452 |
| Impairment | | 1,516 | 666 | 104 | — | — | — | 8,644 | 10,930 |
| Effect of movements in foreign exchange | | — | 22 | — | 40 | 7 | 39 | — | 108 |
| Balance, December 31, 2020 | | \$4,262 | \$2,106 | \$297 | \$943 | \$169 | \$930 | \$10,651 | \$19,358 |
| Net book value, December 31, 2020 | | \$1,608 | \$959 | \$103 | \$4,926 | \$879 | \$458 | \$ | \$8,933 |

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Impairment of intangible assets and goodwill

During the year ended December 31, 2021, the Company recognized an impairment recovery within its TGOD CGU as described in Note 8, of which \$4,046 related to intangible assets (year ended December 31, 2020 - \$2,286 impairment loss related to TGOD CGU intangible assets and \$8,644 goodwill impairment related to the European CGU).

10. BIOLOGICAL ASSETS

As at December 31, 2021, the Company's biological assets consisted of cannabis seeds and cannabis plants. The continuity of the Company's biological assets is as follows:

| | Capitalized cost | Biological asset fair value adjustment | Amount |
|---|------------------|--|-----------------|
| Balance, December 31, 2020 | \$ 1,374 | \$ 610 | \$ 1,984 |
| Unrealized gain on changes in fair value of biological assets | — | 12,118 | 12,118 |
| Production costs capitalized | 7,367 | — | 7,367 |
| Transfer to inventories upon harvest | (7,259) | (11,061) | (18,320) |
| Balance, December 31, 2021 | \$ 1,482 | \$ 1,667 | \$ 3,149 |

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

The following significant unobservable inputs, all of which are classified as level 3 on the fair value hierarchy, were used by management as part of this model:

- Estimated selling price per gram – calculated as the expected approximate future per gram selling prices of the Company's cannabis products.
- Stage of growth – represents the weighted average number of weeks out of the estimated week growing cycle that biological assets have reached as of the measurement date based on historical experience. The Company accretes fair value on a straight-line basis according to the stage of growth and estimated costs to complete cultivation.
- Yield by plant – represents the expected number of grams of finished cannabis inventories which are expected to be obtained from each harvested cannabis plant based on historical experience.

The inter-relationship between these aforementioned unobservable inputs and the fair-value of the biological assets is such that the carrying value of the biological assets as at December 31, 2021 and December 31, 2020 would increase (decrease) if any of these inputs were to be higher (lower).

Other unobservable, level 3 inputs into the biological asset model include estimated post-harvest costs, costs to complete and wastage. These additional level 3 inputs are not considered to be significant.

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

| | As at December 31, 2021 | As at December 31, 2020 | Impact of 10% change as at December 31, 2021 | Impact of 10% change as at December 31, 2020 |
|--|----------------------------|-------------------------------|---|---|
| Estimated net selling price per gram (1) | \$1.83 to \$4.79 | \$2.19 to \$6.06 | \$ 535 | \$ 503 |
| Estimated stage of growth | 8 to 9 weeks | 7 to 8 weeks | \$ 824 | \$ 552 |
| Estimated yield of agricultural produce by plant (2) | 80 to 100 grams | 52 to 100 grams | \$ 357 | \$ 241 |

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

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

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The Company's estimates are, by their nature, subject to change. Changes in the significant assumptions described will be reflected in future changes in the gain or loss on biological assets. There were no changes between fair value hierarchy levels during the year ended December 31, 2021.

11. INVENTORIES

The Company's inventory assets include the following as of December 31, 2021 and December 31, 2020:

| | <u>As at December 31, 2021</u> |
|-----------------------------|--------------------------------|
| Raw Materials and Packaging | \$ 2,617 |
| Work-in-progress | 14,946 |
| Finished Goods | 3,379 |
| Total Inventories | \$ 20,942 |

Classification above is related to cannabis and cannabis derived products only. Hemp and hemp derived products, as shown in the prior period, relate to HemPoland which is classified under Assets Held for Sale as at December 31, 2021 (Note 5)

| | <u>Cannabis and cannabis derived products</u> | <u>Hemp and hemp derived products</u> | <u>As at December 31, 2020</u> |
|-----------------------------|---|---|------------------------------------|
| Raw Materials and Packaging | \$ 2,614 | \$ 1,589 | \$ 4,203 |
| Work-in-progress | 7,561 | 2,152 | 9,713 |
| Finished Goods | 2,424 | 795 | 3,219 |
| Total Inventories | \$ 12,599 | \$ 4,536 | \$ 17,135 |

During the year ended December 31, 2021, inventories expensed directly to cost of sales were \$13,121 (year ended December 31, 2020 - \$8,002).

12. OTHER ASSETS

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

| | <u>Notes</u> | <u>As at December 31, 2021</u> | <u>As at December 31, 2020</u> |
|---|--------------|------------------------------------|--|
| Deposit per Hydro-Quebec contribution agreement | 12[a] | — | 5,681 |
| Investment in Califormulations | 12[b] | — | 1,272 |
| Term deposits held as letter of credit collateral | 17,19 | 935 | 935 |
| Term deposits not held as letter of credit collateral | | 100 | 100 |
| Other | 12[c] | 2,541 | 3,864 |
| | | 3,576 | 11,852 |
| Less: Current portion | | (1,841) | (853) |
| | | 1,735 | 10,999 |

[a] Deposit per Hydro-Quebec Contribution Agreement

On June 22, 2021, in connection with the Quebec Disposition, the Company was refunded its deposit with Hydro Quebec of \$5,761, including interest accrued of \$80.

[b] Investment in Califormulations

On March 29th, 2021, the Company sold its investment in Califormulations, LLC for \$1,242 (US\$1 million) to the other owners of Califormulations.

[c] Packaging equipment deposit

The Company settled a dispute with a vendor in November 2021 whereby it received \$150 from a deposit previously made in cash and a transferable credit of \$850 for future work. The resulting loss of \$1,564 related to the original deposit of \$2,564 was recorded in general and administrative expenses.

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13. LEASES

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

| | For the years ended | |
|---|---------------------|-------------------|
| | December 31, 2021 | December 31, 2020 |
| Opening Balance | \$ 5,570 | \$ 3,545 |
| Additions | 13[b] 2,049 | 2,889 |
| Additions from business combination | Note 4 3,665 | — |
| Interest on lease liabilities | 535 | 494 |
| Interest payments on lease liabilities | (535) | (494) |
| Principal payments on lease liabilities | (704) | (525) |
| Extinguishment of lease liabilities | 13[b] (1,687) | (315) |
| Reclassification to liabilities held for sale | (1,235) | — |
| Foreign exchange differences | (92) | (24) |
| Closing Balance | \$ 7,566 | \$ 5,570 |
| Current portion lease liabilities | \$ 1,049 | \$ 1,019 |
| Long-term portion lease liabilities | \$ 6,517 | \$ 4,551 |

[a] Puslinch Lease

In connection with the Galaxie Transaction, the Company acquired a 20-year lease on the land on which the Puslinch Facility is located, which commenced on December 1, 2020.

[b] Valleyfield Lease

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

14. SHARE CAPITAL

| | For the years ended | | | |
|---|---------------------|------------------|--------------------|------------------|
| | December 31, 2021 | | December 31, 2020 | |
| | Number of shares | Amount | Number of shares | Amount |
| Balance - beginning of period | 486,675,760 | \$468,379 | 312,733,244 | \$428,651 |
| Issuance of common shares in relation to acquisition | [a] 122,805,153 | 19,035 | — | — |
| Issuance of contingent shares in relation to acquisition | [b] 85,714,286 | — | — | — |
| Issuance of common shares | [c] 21,035,458 | 9,322 | — | — |
| Exercise of warrants | [d] 24,198,600 | 8,684 | 564,000 | 248 |
| Restricted share units exercised during period - escrowed | [e] 314,933 | 1,276 | — | — |
| Shares issued to settle accounts payable | [f] 4,241,712 | 704 | 6,161,530 | 1,687 |
| Shares issued in connection with debt modification | [g] 2,736,842 | 520 | — | — |
| Restricted share units exercised during period | [h] 1,937,903 | 584 | 703,837 | 258 |
| Bought deal offering | [i,j,k,l] — | — | 162,104,000 | 35,688 |
| Share based compensation | [m] — | — | 3,536,858 | 984 |
| Exercise of stock options | [n] — | — | 847,600 | 763 |
| Issuance of convertible units | [o] — | — | 24,691 | 100 |
| Balance - end of period | 749,660,647 | \$508,504 | 486,675,760 | \$468,379 |

[i] Authorized

An unlimited number of Common Shares.

[ii] Key Transactions in 2021 and 2020

- a) On November 17, 2021, 122,805,153 Common Shares were issued as part of the closing of the Galaxie Transaction (see note 4).

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- b) As part of the closing of the Galaxie Transaction, 85,714,286 Common Shares are held by the Escrow Agent, to be released to the former owners of Galaxie upon achievement of certain financial milestones by December 31, 2022 (see note 4).
- c) During the year ended December 31, 2021, 21,035,458 Common Shares were issued under the Company's at-the-market prospectus supplement dated December 2, 2020, for gross proceeds of \$9,611 (net proceeds of \$9,322).
- d) During the year ended December 31, 2021, 24,198,600 Common Shares of the Company were issued as a result of the exercise of 24,198,600 previously issued warrants of the Company. The weighted average exercise price was \$0.31 per warrant, for aggregate gross proceeds of \$7,559 (year ended December 31, 2020 – 564,000 warrants exercised at a weighted average exercise price of \$0.38 per warrant, for aggregate gross proceeds of \$214).
- e) During the year ended December 31, 2021, 314,933 Common Shares of the Company were issued as a result of the conversion of 314,933 escrowed restricted share units ("RSUs") issued in connection with the HemPoland consideration. There are no proceeds related to the conversion of such escrowed RSUs.
- f) During the year ended December 31, 2021, 4,241,712 Common Shares of the Company were issued to settle \$704 of outstanding accounts payable (year ended December 31, 2020 – 6,161,530 Common Shares issued to settle \$1,687 of accounts payable).
- g) On September 30, 2021, 2,736,842 Common Shares of the Company were issued to the lender of the Revolver Loan in connection to the amendments to the agreement (see note 7).
- h) During the year ended December 31, 2021, 1,937,903 Common Shares of the Company were issued as a result of the exercise of 1,937,903 previously issued equity settled RSUs of the Company that were issued at a weighted average fair value of \$0.30 per RSU. There are no proceeds related to the exercise of RSUs (year ended December 31, 2020 – 703,837 RSUs exercised at a weighted average fair value of \$0.37 per RSU, no proceeds related to the exercise)
- i) On April 27, 2020, the Company completed a bought deal financing of 20,536,700 units at a price of \$0.28 for aggregated proceeds of \$5,750. Each unit is comprised of one Common Share and one-half of one Common Share purchase warrant of the Company with value of the warrant being calculated using the Black Scholes valuation approach of \$0.04 per half warrant. Each full warrant entitles the holder to purchase one Common Share of the Company at an exercise price of \$0.38 for a period of 36 months from the date they were received on April 27, 2020. In addition, 1,232,202 broker warrants of the Company were issued to the underwriters in this bought deal; each broker warrant is exercisable at a price of \$0.38 per share for a period of 36 months from April 27, 2020 into one Common Share of the Company.
- j) On June 12, 2020, the Company completed a bought deal financing of 43,125,000 units at a price of \$0.40 for aggregated proceeds of \$17,250. Each unit is comprised of one Common Share and one Common Share purchase warrant of the Company with value of the warrant being calculated using a market price approach of \$0.09 per warrant. Each warrant entitles the holder to purchase one Common Share at an exercise price of \$0.50 for a period of 48 months from the date they were received on June 12, 2020.
- k) On October 23, 2020, the Company completed a bought deal financing of 53,263,400 units at a price of \$0.24 for aggregated proceeds of \$12,783. Each unit is comprised of one Common Share and three quarters (3/4) of one Common Share purchase warrant of the Company with value of the warrant being calculated using a market price approach of \$0.04 per three quarters (3/4) warrant. Each full warrant entitles the holder to purchase one Common Share at an exercise price of \$0.30 for a period of 60 months from the date they were received on October 23, 2020. In addition, 3,195,804 broker warrants of the Company were issued to the underwriters in this bought deal; each broker warrant is exercisable at a price of \$0.30 per share for a period of 60 months from October 23, 2020 into one Common Share of the Company.
- l) On December 10, 2020, the Company completed a bought deal financing of 45,178,900 units at a price of \$0.28 for aggregated proceeds of \$12,650 as part of its \$50,000 Base Shelf Prospectus which was filed on November 27, 2020. Each unit is comprised of one Common Share and one Common Share purchase warrant of the Company with value of the warrant being calculated using a market price approach of \$0.04 per warrant. Each full warrant entitles the holder to purchase one Common Share at an exercise price of \$0.35 for a period of 60 months from the date they were received on December 10, 2020. In addition, 2,710,734 broker warrants of the Company were issued to the underwriters in this bought deal; each broker warrant is exercisable at a price of \$0.35 per share for a period of 60 months from December 10, 2020 into one Common Share of the Company.

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- m) During the year ended December 31, 2020, the Company issued a total of 3,536,858 Common Shares with a value of \$984 to former employees in respect of severance.
- n) During the year ended December 31, 2020, a total of 847,600 Common Shares of the Company were issued as a result of previously issued and outstanding stock options of the Company that were exercised at a weighted average exercise price of \$0.50 per option, for aggregate gross proceeds of \$424.
- o) During the year ended December 31, 2020, a total of 24,691 Common Shares of the Company were issued as a result of 24,691 previously issued and outstanding convertible share units of the Company that were previously issued at a fair value of \$4.05 per convertible share units. There were no cash proceeds related to convertible share units.

15. CONTRIBUTED SURPLUS

[a] Share based payments

For the year ended December 31, 2021, the Company recorded \$2,339 in non-cash share-based compensation expense pursuant to the grant of stock options (year ended December 31, 2020 - \$3,176).

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

| | For the years ended | | | |
|--|---------------------|---------------------------------|-------------------|---------------------------------|
| | December 31, 2021 | | December 31, 2020 | |
| | Number of Options | Weighted Average Exercise Price | Number of Options | Weighted Average Exercise Price |
| Outstanding - beginning of period | 24,339,401 | 1.74 | 17,897,599 | 3.24 |
| Granted | 10,035,000 | 0.26 | 15,021,000 | 0.31 |
| Exercised | - | - | (847,600) | 0.50 |
| Cancelled/Expired | (9,766,403) | 2.04 | (7,731,598) | 2.58 |
| Outstanding, end of period | 24,607,998 | 1.01 | 24,339,401 | 1.74 |
| Exercisable, end of period | 7,836,325 | 2.08 | 5,663,387 | 3.82 |

| Grant date | Options Outstanding # | Options Exercisable # | Exercise Price \$ | Weighted Average remaining contractual life of outstanding options in years |
|------------------------------------|-----------------------|-----------------------|-------------------|---|
| June 25, 2018 - December 14, 2018 | 1,040,000 | 1,040,000 | \$3.08 - \$6.91 | 1.48 - 1.95 |
| January 8, 2019 - August 21, 2019 | 3,225,667 | 2,220,670 | \$2.67 - \$5.13 | 2.02 - 2.64 |
| November 18, 2019 | 656,333 | 450,005 | \$0.83 | 2.88 |
| March 13, 2020 - December 21, 2020 | 11,266,998 | 4,042,317 | \$0.26 - \$0.51 | 3.20 - 3.98 |
| March 12, 2021 - December 20, 2021 | 8,419,000 | 83,333 | \$0.11 - \$0.36 | 4.20 - 4.97 |
| Balance, December 31, 2021 | 24,607,998 | 7,836,325 | | 3.73 |

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

| | Averages for the year ended | |
|------------------------------------|-----------------------------|-------------------|
| | December 31, 2021 | December 31, 2020 |
| Risk-free interest rate | 0.78% | 0.36% |
| Expected dividend yield | Nil | Nil |
| Expected annualized volatility | 85.00% | 88.55% |
| Expected life of options (years) | 3.49 | 3.70 |
| Black-Scholes value of each option | \$0.15 | \$0.15 |

Volatility was estimated by using the historical volatility of the Company and other companies that the Company considers comparable that have trading and volatility history. The expected life of the options is based on historical data and current

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

[b] Reserve for warrants

The following table reflects the continuity of warrants:

| | <u>Number of warrants</u> | <u>Weighted Average</u> <u>Exercise Price</u> | <u>Amount, net of</u> <u>warrant issue costs</u> |
|-----------------------------------|---------------------------|--|---|
| | # | \$ | \$ |
| Balance, December 31, 2020 | 230,815,055 | 1.37 | 66,111 |
| Warrants issued in the period | 3,000,000 | 0.14 | 270 |
| Warrants exercised in the period | (24,198,600) | 0.31 | (1,125) |
| Warrants expired in the period | (49,025,015) | 4.80 | (54,881) |
| Balance, December 31, 2021 | 160,591,440 | 0.47 | 10,375 |

| | <u>Number of warrants</u> | <u>Weighted Average</u> <u>Exercise Price</u> | <u>Amount, net of</u> <u>warrant issue costs</u> |
|--|---------------------------|--|---|
| | # | \$ | \$ |
| Balance, December 31, 2019 | 91,855,628 | 4.02 | 64,415 |
| Bought deal offering units | 148,246,040 | 0.38 | 8,210 |
| Issuance of warrants in connection with debt | 6,500,000 | 0.38 | 1,743 |
| Warrants exercised in the period | (564,000) | 0.38 | (34) |
| Warrants expired in the period | (15,222,613) | 6.97 | (8,223) |
| Balance, December 31, 2020 | 230,815,055 | 1.37 | 66,111 |

As at December 31, 2021, the following warrants were outstanding:

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

[c] Restricted share units

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

At December 31, 2021, 4,651,040 (December 31, 2020 – 1,243,845) shares of the Company were reserved for issuance under the RSU Plan. For the year ended December 31, 2021, the Company recorded \$742 in non-cash stock-based compensation related to RSU compensation (year ended December 31, 2020 – \$309).

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| | For the year ended December 31, 2021 | | For the year-ended December 31, 2020 | |
|--|---|------------------------|---|------------------------|
| | Number of Units | Weighted Fair Value | Number of Units | Weighted Fair Value |
| Outstanding - beginning of period | 1,243,845 | 0.33 | 54,348 | 2.76 |
| Granted | 6,170,098 | 0.30 | 2,600,000 | 0.27 |
| Exercised | (1,937,903) | 0.30 | (703,837) | 0.37 |
| Forfeited | (825,000) | 0.30 | (706,666) | 0.27 |
| Outstanding, end of period | 4,651,040 | 0.30 | 1,243,845 | 0.33 |

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

The estimated fair value of the equity settled RSUs granted during the year ended December 31, 2021 was \$1,529, (year ended December 31, 2020 \$703) and will be recognized as an expense over the vesting period of the RSUs.

[d] Employee Stock Purchase Plan

The Company has established an employee stock purchase plan which created a reserve of 3,000,000 Common Shares that may be issued from treasury. As at December 31, 2021, no securities were issued from treasury under this plan.

16. SUPPLEMENTARY CASH FLOW INFORMATION

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

| | For the years ended | |
|--|---------------------|-------------------|
| | December 31, 2021 | December 31, 2020 |
| Prepaid expenses and deposits | \$ 89 | \$ 5,087 |
| Refundable sales taxes receivable | (244) | 8,393 |
| Trade receivables | 2,110 | (8,535) |
| Capitalized cost of biological assets | 7,151 | 5,565 |
| Inventories | (10,029) | (13,003) |
| Deferred financing costs | — | (1) |
| Due from related party | (70) | — |
| Other current assets | (1,007) | (169) |
| Other assets | 1,782 | (1,431) |
| Accounts payable and accrued liabilities | 5,119 | 4,152 |
| Sales taxes payable | 595 | — |
| Deferred revenue | (150) | 150 |
| Total | \$ 5,346 | \$ 208 |

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17. COMMITMENTS AND CONTINGENCIES

The Company has the following gross contractual obligations as at December 31, 2021, which are expected to be payable in the following respective periods:

| | Contractual cash flows - 12 months ending | | | | | | | Thereafter |
|--|---|--------|---------------|---------------|---------------|---------------|---------------|------------|
| | Carrying amount | Total | December 2022 | December 2023 | December 2024 | December 2025 | December 2026 | |
| | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ |
| Accounts payable and accrued liabilities | 17,664 | 17,664 | 17,664 | - | - | - | - | - |
| Sales taxes payable | 595 | 595 | 595 | - | - | - | - | - |
| Loan payable to disposal group | 5,492 | 5,492 | 5,492 | - | - | - | - | - |
| Loans | 20,225 | 26,284 | 4,541 | 21,343 | 100 | 100 | 200 | - |
| Lease liabilities | 7,566 | 17,793 | 1,052 | 1,066 | 1,067 | 1,088 | 1,198 | 12,322 |
| Total contractual obligations | 51,542 | 67,828 | 29,344 | 22,409 | 1,167 | 1,188 | 1,398 | 12,322 |

⁽¹⁾ Contractual cash flows are exclusive of any obligations of the HemPoland Operations held for sale which primarily are all due within one year of December 31, 2021.

[a] Construction agreements

In prior years, the Company entered into contracts to facilitate the construction of the Hamilton Facility with various vendors. Pursuant to some of these agreements, as at December 31, 2021, the Company has letters of credit in the amount of \$585 which may be drawn upon in the event of material breaches of the respective agreements. These letters of credit bear conventional rates of interest partially offset by the interest earned on guaranteed investment certificates (“GIC”) securing the letters as collateral. The Company has pledged corresponding GICs as collateral, which have been recorded in other assets. As at December 31, 2021, there have been no material breaches as defined by the agreements and no amounts have been drawn on the letters of credit.

The Company entered into escrow agreements in prior years with its construction partners and as such \$219 is included in the restricted cash balance as at December 31, 2021 related to a construction partner.

[b] Other contractual commitments

The lease for the office space of the Company’s headquarters required the issuance of a letter of credit in the amount \$350, which may be drawn upon by the landlord in the event of a material breach of the agreement. As at December 31, 2021, there have been no breaches and no amounts have been drawn upon this letter of credit.

[c] Claims and Litigation

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

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18. INCOME TAXES

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

| | For the year ended | |
|---|--------------------|-------------------|
| | December 31, 2021 | December 31, 2020 |
| Expected tax rate | 26.50% | 26.50% |
| | \$ | \$ |
| Expected tax benefit resulting from loss | (10,595) | (48,589) |
| Permanent differences | 3,770 | 4,271 |
| Changes in deferred tax benefits not recognized | 6,215 | 47,094 |
| Differences from statutory tax rate | 141 | 256 |
| Non-taxable foreign exchange | — | 8 |
| Deferred financing through equity | — | (1,971) |
| Other | 33 | (1,293) |
| Income tax recovery | (436) | (224) |

The following income tax recovery has been recognized for accounting purposes:

| | December 31, 2021 | December 31, 2020 |
|---------------------------------------|-------------------|-------------------|
| | \$ | \$ |
| Current income tax expense (recovery) | — | — |
| Deferred income tax recovery | (436) | (224) |
| Income tax recovery | (436) | (224) |

Deferred income taxes reflect the impact of loss carry forwards and of temporary differences between amounts of assets and liabilities for financial reporting purposes and such amounts as measured by tax laws. The tax effects of temporary differences and loss carry forwards that give rise to significant portions of the deferred tax liability, which has been recognized during the year ended December 31, 2021 are as follows:

| | Opening Balance | Recognized in Equity | Recognized in Other Comprehensive Loss | Recognized in Profit and Loss | Closing Balance |
|---|-----------------|----------------------|--|-------------------------------|-----------------|
| | \$ | \$ | \$ | \$ | \$ |
| Deferred tax assets | | | | | |
| Non-capital losses | 34,892 | — | — | 77,481 | 112,373 |
| Depreciation on property, plant and equipment | 62,969 | — | — | (54,286) | 8,683 |
| Contingent Reserves | 10 | — | — | 898 | 908 |
| Financing Costs | 4,316 | — | — | (1,784) | 2,532 |
| Investments | 627 | — | — | 381 | 1,008 |
| Other | 14 | — | — | (15) | (1) |
| Deferred tax liabilities | | | | | |
| Intangible assets | (941) | — | — | (4,609) | (5,550) |
| Unrealized gain on biological assets | (1,131) | — | — | 1,127 | (4) |
| Long term liabilities | (585) | — | — | 1,308 | 723 |
| Deferred tax assets not recognized | (100,975) | — | — | (19,697) | (120,672) |
| Net deferred tax liability | (804) | — | — | 804 | — |

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The tax effects of temporary differences and loss carry forwards that give rise to significant portions of the deferred tax liability, which has been recognized during the year ended December 31, 2020 are as follows:

| | Opening Balance | Recognized in Equity | Recognized in Other Comprehensive Loss | Recognized in Profit and Loss | Closing Balance |
|---|-----------------|----------------------|--|-------------------------------|-----------------|
| | \$ | \$ | \$ | \$ | \$ |
| Deferred tax assets | | | | | |
| Non-capital losses | 22,233 | — | — | 12,659 | 34,892 |
| Depreciation on property, plant and equipment | 32,267 | — | — | 30,702 | 62,969 |
| Contingent Reserves | 115 | — | — | (105) | 10 |
| Financing Costs | 3,045 | 1,971 | — | (700) | 4,316 |
| Investments | — | — | — | 627 | 627 |
| Other | 271 | — | — | (257) | 14 |
| Deferred tax liabilities | | | | | |
| Intangible assets | (1,823) | — | — | 882 | (941) |
| Unrealized gain on biological assets | (606) | — | — | (525) | (1,131) |
| Long term liabilities | (1,079) | — | — | 494 | (585) |
| Deferred tax assets not recognized | (55,451) | (1,971) | — | (43,553) | (100,975) |
| Net deferred tax liability | (1,028) | — | — | 224 | (804) |

The tax effects of temporary differences and loss carry forwards that give rise to significant portions of the deferred tax asset, which have not been recognized are approximately as follows:

| | December 31, 2021 | December 31, 2020 |
|-------------------------------|-------------------|-------------------|
| | \$ | \$ |
| Non-capital losses | 424,202 | 130,530 |
| Financing costs | 12,285 | 13,441 |
| Property, plant and equipment | 15,235 | 234,361 |
| Other | 3,802 | 2,366 |

The non-capital losses of \$426,821 are expected to start expiring as follows:

| Year | Non-Capital Losses |
|--------------|--------------------|
| | \$ |
| 2024 | 3,048 |
| 2025 | 20 |
| 2029 | 1,727 |
| 2036 | 421,017 |
| Indefinitely | 1,009 |
| | 426,821 |

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19. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

[a] Fair values

The Company's financial instruments were comprised of the following as at December 31, 2021: cash and cash equivalents; restricted cash; refundable sales taxes receivable; trade receivables; due from related parties; certain other current assets; accounts payable and accrued liabilities; sales taxes payable; loans and contingent consideration.

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

[b] Fair value hierarchy

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

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

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

During the year ended December 31, 2021, there were no transfers of amounts between levels (year ended December 31, 2020 – none).

[c] Management of risks arising from financial instruments

[i] Market risk

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

Foreign currency risk

Foreign currency risk arises due to fluctuations in the fair value or cash flows of financial instruments due to changes in foreign exchange rates. As at December 31, 2021, a portion of the Company's financial assets and liabilities were held in US dollars ("USD") and European Euros ("EUR") which consisted of cash and cash equivalents. The Company has not used foreign exchange contracts to hedge its exposure to foreign currency cash flows for the year ended December 31, 2021 as management has determined that this risk is not significant at this time.

Interest rate risk

The Company's exposure to interest rate risk relates to any investments of surplus cash as the Company's debt is fixed at a prescribed rate. The Company may invest surplus cash in highly liquid investments with short terms to maturity that would accumulate interest at prevailing rates for such investments. As at December 31, 2021, the Company had term deposits of \$585 bearing interest between 0.80% and 1.00% (December 31, 2020 - \$585, bearing interest between 0.80% and 1.00%). The Company also has \$219 in restricted cash held in trust related to the Quebec Facility construction projects and earning a conventional rate of interest from a reputable top tier Canadian bank.

[ii] Credit risk

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

The carrying amount of cash and cash equivalents, trade receivables, refundable sales taxes receivable, prepaid expenses and deposits, and other assets represents the maximum exposure to credit risk as at December 31, 2021. The objective of managing counterparty credit risk is to prevent losses in financial assets. The Company assesses the credit quality of

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the counterparties, taking into account their financial position, past experience and other factors. Credit risk is mitigated by entering into sales contracts with stable, creditworthy parties and through frequent reviews of exposures to individual entities.

The Company assesses the credit risk of trade receivables by evaluating the aging of trade receivables based on the invoice date and credit worthiness. The carrying amount of trade receivables is reduced through the use of an allowance account and the amount of the loss is recognized in the consolidated statements of loss and comprehensive loss. When a trade receivable balance is considered uncollectible, it is written off against the allowance for expected credit losses. Subsequent recoveries of amounts previously written off are credited against operating expenses in the consolidated statements of loss and comprehensive loss. The Company had two customers whose balances individually were greater than 10% of total trade receivables as at December 31, 2021 (December 31, 2020 – two customers). Customer A accounted for 48% and Customer B accounted for 24% of trade receivables as at December 31, 2021 (December 31, 2022 – Customer A accounted for 49% and Customer B accounted for 16%).

The following tables set forth details of trade receivables, including aging of trade receivables that are not overdue, as well as an analysis of overdue amounts and related allowance for doubtful accounts:

| | <u>December 31, 2021</u> | <u>December 31, 2020</u> |
|---|--------------------------|--------------------------|
| | \$ | \$ |
| Total trade receivables | 8,833 | 10,023 |
| Less allowance for expected credit losses | — | — |
| Total trade receivables, net | 8,833 | 10,023 |
| Of which | | |
| Current | 6,447 | 6,182 |
| 31-90 days | 2,256 | 3,784 |
| Over 90 days | 130 | 57 |
| Less allowance for expected credit losses | — | — |
| Total trade receivables, net | 8,833 | 10,023 |

[iii] Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company manages its liquidity risk by reviewing on an ongoing basis its capital requirements in relation to its current cash balances, maturity schedules and internal budgets. Refer to Note 17 – Commitments and Contingencies.

20. CAPITAL MANAGEMENT

The Company's objective is to maintain sufficient capital base to maintain investor, creditor and supplier confidence and to sustain future development of the business and provide the ability to continue as a going concern (See Note 2[ii] – Going Concern). Management defines capital as the Company's shareholders' equity and loans. The Company's Board of Directors does not establish quantitative return on capital criteria for management but rather promotes year over year sustainable profitable growth. The Company currently has not paid any dividends to its shareholders. As at December 31, 2021, total managed capital was comprised of share capital and loans of \$528,729 (December 31, 2020 - \$509,134), contributed surplus of \$108,836 (December 31, 2020 - \$108,874), and reserve for foreign currency translations of \$969 (December 31, 2020 – \$255). There were no changes in the Company's approach to capital management during the year ended December 31, 2021 (year ended December 31, 2020 – no changes).

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21. OPERATING EXPENSES

Sales and marketing expenses included the following items:

| | For the twelve months ended | |
|--------------------------------|------------------------------------|--------------------------|
| | December 31, 2021 | December 31, 2020 |
| Personnel costs | \$ 1,308 | \$ 1,741 |
| Third party marketing expenses | 2,468 | 2,036 |
| Travel and promotion expenses | 11 | 35 |
| Sales agency costs | 182 | 3,181 |
| Other marketing expenses | 170 | 139 |
| Termination benefits | 47 | — |
| | <u>4,186</u> | <u>7,132</u> |

Research and development expenses included the following items:

| | For the twelve months ended | |
|---|------------------------------------|--------------------------|
| | December 31, 2021 | December 31, 2020 |
| Personnel costs | \$ 314 | \$ 675 |
| Product development | 4 | 115 |
| Travel related expenses | 38 | 50 |
| Other research and development expenses | 47 | 102 |
| Termination benefits | 125 | — |
| | <u>528</u> | <u>942</u> |

General and administrative expenses included the following items:

| | For the twelve months ended | |
|--|------------------------------------|--------------------------|
| | December 31, 2021 | December 31, 2020 |
| Personnel costs | \$ 7,184 | \$ 8,830 |
| Office and other administrative expenses | 7,730 | 7,759 |
| Third party professional, consulting, legal fees | 4,308 | 5,081 |
| Computer and IT expenses | 780 | 1,128 |
| Termination benefits | 213 | 1,027 |
| | <u>20,215</u> | <u>23,825</u> |

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

| | For the twelve months ended | |
|---|------------------------------------|--------------------------|
| | December 31, 2021 | December 31, 2020 |
| Cost of sales related to inventory production | \$ 8,999 | \$ 4,645 |
| Sales and marketing expenses | 1,029 | 721 |
| Research and development expenses | 467 | 400 |
| General and administrative expenses | 5,050 | 4,668 |

As described in Note 3(t), during the year ended December 31, 2020, the Company received benefits under the CEWS program and recognized the benefit against the related personnel costs which amounts to \$987, of which, \$96 related to sales and marketing expenses, \$45 related to research and development expenses and \$342 in general and administrative expenses. The remainder of the benefits were allocated to inventory production related personnel. No benefits were received during the year ended December 31, 2021.

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22. RELATED PARTIES

Key Management Personnel

Key management personnel compensation comprised of the following:

| | Transactions for the year ended | | Outstanding balances payable as at | |
|----------------------|---------------------------------|----------------------|------------------------------------|----------------------|
| | December 31, 2021 | December 31, 2020 | December 31, 2021 | December 31, 2020 |
| Compensation | 1,567 | 1,997 | 147 | 91 |
| Share-based payments | 1,328 | 1,777 | - | - |
| | <u>2,895</u> | <u>3,774</u> | <u>147</u> | <u>91</u> |

Compensation of the Company's key management personnel includes salaries and director fees. In addition, key management personnel participate in the ESOP and RSU Plans, in which the share-based payment expense is recorded in line with the Company's accounting policy (Note 3 (o)).

There were no purchases or repayments to related parties during the current period.

The Company has certain shareholder loans described in note 7, which were assumed as part of the Galaxie Transaction.

All outstanding balances with these related parties were conducted at the exchange amount. None of the balances are secured. The former shareholders of Galaxie have guaranteed the Galaxie excise bond with the Canada Revenue Agency in place of expected excise tax remittances. No other new guarantees have been given or received by related parties during the year ended December 31, 2021. There are no other receivable or payable balances with key management personnel other than \$147 of director fees payable (December 31, 2020 – \$91 directors fee payable).

23. EVENTS AFTER THE REPORTING PERIOD

- a) On January 24, 2022, the Company issued options under its ESOP to acquire an aggregate of up to 500,000 Common Shares to Chris Schnarr, a newly appointed independent member of the Board of Directors of the Company. Each option is exercisable into one Common Share at an exercise price of \$0.10 per Common Share.
- b) On March 10, 2022, the Revolver Loan was amended and restated to, amongst other things, increase the overall Revolver Loan limit from \$25,000 to \$30,000, allow certain eligible inventory to be included as collateral to the Revolver Loan, and relax certain covenants set forth in the credit agreement relating to the Revolver Loan. As consideration for the amendments, the Company issued 500,000 Common Shares worth \$50 (Note 7), to the lender.