TILT HOLDINGS

TILT HOLDINGS INC.

CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in Thousands of United States Dollars Unless Otherwise Stated)

FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

TILT
HOLDINGS

INDEX

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of TILT Holdings Inc.:

Opinion

We have audited the consolidated financial statements of TILT Holdings Inc. and its subsidiaries (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2020 and 2019, and the consolidated statements of operations and comprehensive loss, consolidated statements of changes in shareholders' equity and consolidated statements of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2020 and 2019, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

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

Other Information

Management is responsible for the other information. The other information comprises the information included in the Management's Discussion and Analysis filed with the relevant Canadian securities commissions.

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

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

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

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is John C. Sinclair.

Yours very truly,

Baker Tilly WM LLP

Chartered Professional Accountants, Licensed Public Accountants

Toronto, Ontario
April 14, 2021

TILT HOLDINGS INC.
Consolidated Statements of Financial Position
For the Years Ended December 31, 2020 and 2019
(Amounts Expressed in Thousands of United States Dollars Unless Otherwise Stated)

	Note	**2020**	**2019**
ASSETS			
Current assets			
Cash and cash equivalents		$ 7,427	$ 2,580
Trade receivables and others	5	14,568	19,743
Biological assets	6	11,201	8,580
Inventory	7	52,634	48,169
Loans receivable, short-term	12	2,660	2,392
Prepaid expenses and other current assets		5,988	6,862
Advances for acquisition target	12	7,411	6,382
Total current assets		**101,889**	**94,708**
Non-current assets			
Property, plant and equipment	8	66,795	80,576
Right-of-use assets	9	11,184	22,891
Investments		1,189	1,000
Intangible assets	10	138,637	186,690
Loans receivable, long-term	12	14,483	21,689
Deferred tax asset	14	7,007	-
Goodwill	11	88,420	138,349
TOTAL ASSETS		**$ 429,604**	**$ 545,903**
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Accounts payable and accrued liabilities		$ 31,818	$ 39,614
Income taxes payable		76	2,365
Deferred revenue	21	6,311	5,093
Lease liabilities, short-term	17	1,615	2,389
Current portion of notes payable	16	4,668	904
Total current liabilities		**44,488**	**50,365**
Non-current liabilities			
Lease liabilities, long-term	17	11,647	22,317
Notes payable, long-term	16	67,082	64,806
Deferred tax liability	14	23,340	24,549
Total liabilities		**146,557**	**162,037**
Shareholders' equity			
Share capital	13	851,851	849,696
Warrants reserve	13	6,757	17,809
Share options reserve	13	7,391	108,513
Contribution to capital		216,108	101,647
Accumulated other comprehensive income		1,014	518
Accumulated deficit		(800,074)	(694,317)
Total shareholders' equity		**283,047**	**383,866**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**$ 429,604**	**$ 545,903**

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Approved and authorized for issue on behalf of the Board of Directors on April 14, 2021

(signed) "Mark Scatterday"
Mark Scatterday, Chairman
and Chief Executive Officer

(signed) "Brad Hoch"
Brad Hoch, Chief Financial Officer

See accompanying notes

TILT HOLDINGS INC.
Consolidated Statements of Operations and Comprehensive Loss
For the Years Ended December 31, 2020 and 2019
(Amounts Expressed in Thousands of United States Dollars, Except for Gram, Unit, Share and Per Share Amounts)

	Note	2020		2019
Sales	*21*	**158,409**	**$**	**146,935**
Production costs expensed to cost of sales		(111,738)		(106,236)
Gross profit before fair value adjustment		**46,671**		**40,699**
Unrealized gain on changes in fair value of biological assets	*6*	47,298		37,459
Fair value changes in biological assets included in inventory sold		(35,014)		(19,790)
Gross profit		**58,955**		**58,368**
Operating expenses:				
Share-based compensation	*13*	4,200		75,628
Depreciation and amortization		18,516		22,963
Wages and benefits		12,927		19,097
Professional fees		10,074		10,506
Business acquisition costs		-		2,440
Rent		606		748
Insurance		2,323		2,792
Advertising and marketing		611		1,927
Travel		228		1,535
General and administrative	*22*	9,853		10,158
Derecognition and impairment loss	*8, 10, 11*	34,214		22,560
Total operating expenses		**93,552**		**170,354**
(Loss) from operations		**(34,597)**		**(111,985)**
Other income (expense):				
Other income		1,051		771
Interest income		3,835		3,280
Unrealized loss on investments		(337)		-
Loss on sale of assets		(70)		(610)
Finance expense		(10,336)		(13,463)
Loan losses		(16,416)		(4,689)
Loss on termination of lease		(280)		-
Foreign exchange gain		-		76
Recovery of inventory		-		1,418
Other income (expense)		**(22,553)**		**(13,217)**
(Loss) from continuing operations before income taxes		**(57,150)**		**(125,202)**
Income taxes				
Recovery of income taxes	*14*	5,043		3,275
Net (loss) from continuing operations, net of tax		**(52,107)**		**(121,927)**
Loss from discontinued operations before income taxes	*4*	(56,481)		(14,831)
Recovery of income taxes from discontinued operations	*4, 14*	2,831		3,384
Net (loss) from discontinued operations, net of tax		**(53,650)**		**(11,447)**
Net (loss)		**(105,757)**		**(133,374)**
Other comprehensive (loss) income				
Items that may reclassified to profit and loss				
Foreign currency translation differences		496		2,857
Comprehensive (loss)		**(105,261)**	**$**	**(130,517)**
Loss per common share				
Weighted average number of common shares outstanding - basic and diluted	*15*	**364,560,989**		**355,837,933**
Basic and diluted		($0.29)		($0.37)
Basic and diluted, from continued operations		($0.14)		($0.34)
Basic and diluted, from discontinued operations		($0.15)		($0.03)

See accompanying notes.

TILT HOLDINGS INC.
Consolidated Statements of Changes in Shareholders' Equity
For the Year Ended December 31, 2020
(Amounts Expressed in Thousands of United States Dollars, Except For Share and Per Share Amounts)

		Number of Shares/Units		$ Amount		
	Note	Common Shares	Jimmy Jang, L.P. Units	Common Shares	Jimmy Jang, L.P. Units	Share Capital Total
Balance - January 1, 2020		**307,365,348**	**54,914,224**	**$ 695,696**	**$ 154,000**	**$ 849,696**
Conversion of L.P. Units to Common Shares	13	10,992,845	(10,992,845)	30,828	(30,828)	-
Options exercised	13	62,100	-	1	-	1
Options forfeited		-	-	-	-	-
Share-based compensation	13	481,999	-	175	-	175
Warrants exercised	13	100,857	-	-	-	-
Warrants expired		-	-	-	-	-
Shares returned from escrow	13	(660,044)	-	-	-	-
Issuance and vesting of restricted share units	13	4,918,189	-	1,979	-	1,979
Comprehensive (loss) for the year		-	-	-	-	-
Balance - December 31, 2020		**323,261,294**	**43,921,379**	**$ 728,679**	**$ 123,172**	**$ 851,851**

		Reserves					
	Note	Contribution to Capital	Options	Warrants	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Shareholders' Equity Total
Balance - January 1, 2020		**$ 101,647**	**$ 108,513**	**$ 17,809**	**$ 518**	**$ (694,317)**	**$ 383,865**
Conversion of L.P. Units to Common Shares		-	-	-	-	-	-
Options exercised	13	241	(241)	-	-	-	1
Options forfeited	13	103,102	(103,102)	-	-	-	-
Share-based compensation	13	-	2,221	66	-	-	2,463
Warrants exercised	13	27	-	(27)	-	-	-
Warrants expired	13	11,091	-	(11,091)	-	-	-
Shares returned from escrow		-	-	-	-	-	-
Issuance and vesting of restricted share units	13	-	-	-	-	-	1,979
Comprehensive (loss) for the year		-	-	-	496	(105,757)	(105,261)
Balance - December 31, 2020		**216,108**	**7,391**	**6,757**	**1,014**	**(800,074)**	**283,047**

See accompanying notes.

TILT HOLDINGS INC.
Consolidated Statements of Changes in Shareholders' Equity
For the Year Ended December 31, 2019
(Amounts Expressed in Thousands of United States Dollars, Except For Share and Per Share Amounts)

		Number of Shares/Units			$ Amount			
	Note	Common Shares	Compressed Shares	Jimmy Jang, L.P. Units	Common Shares	Compressed Shares	Jimmy Jang, L.P. Units	Share Capital Total
Balance - January 1, 2019		**91,816,380**	**1,835,303**	**-**	**$ 257,409**	**$ 363,168**	**$ -**	**$ 620,577**
Acquisition of Jupiter	*1,3*	-	-	54,914,224	-	-	154,000	154,000
Acquisition of Blackbird	*1,3*	-	161,543	-	-	45,000	-	45,000
Acquisition of Standard Farms	*1,3*	11,090,427	-	-	28,000	-	-	28,000
Conversion of compressed shares to common shares	*13*	200,668,000	(2,006,680)	-	408,572	(408,572)	-	-
Shares issued - private placement	*13*	128,476	-	-	394	-	-	394
Options exercised	*13*	444,199	6,534	-	124	226	-	350
Options forfeited		-	-	-	-	-	-	-
Warrants exercised	*13*	396,616	-	-	128	-	-	128
Share-based compensation	*13*	-	-	-	-	-	-	-
Purchase of non-controlling interest	*9*	330,000	3,300	-	178	178	-	356
Issuance and vesting of restriced share units	*13*	2,491,250	-	-	891	-	-	891
Warrants issued as severance		-	-	-	-	-	-	-
Warrants issued as part of debt offering		-	-	-	-	-	-	-
Comprehensive income (loss) for the year		-	-	-	-	-	-	-
Balance - December 31, 2019		**307,365,348**	**-**	**54,914,224**	**$ 695,696**	**$ -**	**$ 154,000**	**$ 849,696**

	Note	Subscriptions Received	Contribution to Capital	Reserves		Non-controlling Interests	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Shareholders' Equity Total
				Options	Warrants				
Balance - January 1, 2019		**$ 495**	**$ 91,169**	**$ 43,054**	**$ 12,346**	**$ -**	**$ (2,340)**	**$ (560,436)**	**$ 204,864**
Acquisition of Jupiter	*1,3*	-	-	-	-	-	-	-	154,000
Acquisition of Blackbird	*1,3*	-	-	-	-	-	-	-	45,000
Acquisition of Standard Farms	*1,3*	-	-	-	-	-	-	-	28,000
Conversion of compressed shares to common shares		-	-	-	-	-	-	-	-
Shares issued - private placement	*13*	(495)	-	-	101	-	-	-	-
Options exercised	*13*	-	4,026	(4,026)	-	-	-	-	350
Options forfeited	*13*	-	5,011	(5,011)	-	-	-	-	-
Warrants exercised	*13*	-	1,440	-	(1,440)	-	-	-	128
Share-based compensation	*13*	-	-	74,497	240	-	-	-	74,737
Purchase of non-controlling interest	*9*	-	-	-	-	(300)	-	(206)	(150)
Issuance and vesting of restriced share units	*13*	-	-	-	-	-	-	-	891
Warrants issued as severance	*13*	-	-	-	656	-	-	-	656
Warrants issued as part of debt offering	*13*	-	-	-	5,906	-	-	-	5,906
Comprehensive income (loss) for the year		-	-	-	-	300	2,857	(133,674)	(130,517)
Balance - December 31, 2019		**$ -**	**$ 101,647**	**$ 108,513**	**$ 17,809**	**$ -**	**$ 518**	**$ (694,317)**	**$ 383,866**

See accompanying notes.

TILT HOLDINGS INC.

Consolidated Statements of Cash Flows

For Years Ended December 31, 2020 and 2019

(Amounts Expressed in Thousands of United States Dollars Unless Otherwise Stated)

	Note	2020	2019
Cash flows from operating activities:			
Net loss		$ (105,757)	$ (133,374)
Adjustments to reconcile net loss to net cash used in operating activities:			
Loss on sale of discontinued operation, net of tax	4	53,650	11,447
Unrealized loss on investments		337	-
Loss on disposal of property		70	608
Depreciation and amortization	8, 9, 10	21,617	25,997
Change in allowance for doubtful accounts	5	757	(35)
Unrealized gain on changes in fair value of biological assets	6	(47,298)	(37,459)
Changes in fair value of inventory sold		35,014	19,790
Non-cash interest income	12	(3,740)	(3,217)
Deferred tax (recovery)	14	(3,845)	(5,471)
Share-based compensation	13	4,200	75,628
Accretion of debt discount	16	2,227	5,458
(Recovery) impairment of inventory		-	(1,418)
Accounts receivable write off		2,169	-
Loan losses	12	16,416	4,689
Derecognition and impairment loss	8, 10, 11	34,214	22,560
Warrants and severance		66	656
Non-cash interest expense	16	4,329	3,330
Net change in working capital items:			
Trade receivables and others		(405)	(6,286)
Biological assets	6	44,677	31,393
Inventory	7	(39,479)	(44,878)
Prepaid expenses and other current assets		797	8,993
Accounts payable and accrued liabilities		(2,252)	4,509
Income taxes payable		(2,289)	2,348
Deferred revenue		1,218	(2,819)
Cash provided by (used in) operating activities - continuing operations		16,693	(17,551)
Cash (used in) operating activities - discontinuing operations		(7,040)	(10,404)
Net cash provided by (used in) operating activities		**9,653**	**(27,955)**
Cash flows from investing activities:			
Purchases of property, plant and equipment	8	(1,908)	(30,894)
Proceeds from sale of property	8	138	539
Repayment of loan receivable, net of advances	12	(808)	(9,478)
Cash paid for investments		-	(1,000)
Cash paid for acquisitions		-	(54,248)
Purchase of intangible asset	10	-	(881)
Cash (used in) investing activities - continuing operations		(2,578)	(95,962)
Cash provided by (used in) investing activities - discontinuing operations		58	(275)
Net cash (used in) investing activities		**(2,520)**	**(96,237)**
Cash flows from financing activities:			
Payments on lease liability		(1,760)	(1,160)
Repayment of loans	16	(516)	(20,000)
Debt issuance costs		-	(1,828)
Proceeds from loans		-	51,805
Purchase of non-controlling interest		-	(150)
Proceeds from options and warrants exercised		1	478
Cash (used in) provided by financing activities - continuing operations		(2,275)	29,145
Cash (used in) provided by financing activities - discontinuing operations		(638)	(633)
Net cash (used in) provided by financing activities		**(2,913)**	**28,512**
Effect of foreign exchange on cash and cash equivalents		627	1,012
Net change in cash and cash equivalents		4,847	(94,667)
Cash and cash equivalents, beginning of year		2,579	97,247
Cash and cash equivalents, end of year		**$ 7,427**	**$ 2,579**
Other non-cash investing and financing activities			
Issuance of shares on acquisitions		-	227,000
Unpaid portion of acquisition cash consideration converted to sellers note		-	35,000
Impact of IFRS 16 adoption		-	14,216
Additions to rights of use assets (Note 8)		-	12,290
Issuance of warrants for debt offerings		-	9,789
Warrants issued for severance		-	656
Conversion of note receivable to investment		(526)	-

1 Nature of Operations

TILT Holdings Inc. ("TILT" or the "Company") was incorporated under the Nevada Revised Statutes Chapter 78 on June 22, 2018. TILT is the successor of Sea Hunter Therapeutics, LLC ("Sea Hunter"), a company formed under the laws of Delaware on September 20, 2017. The common shares, in the capital of Tilt (the "Common Shares"), began trading on the Canadian Securities Exchange ("CSE") under the symbol "TILT" on December 6, 2018. The Company's registered and records office address is 745 Thurlow Street, #2400 Vancouver, BC V6C 0C5 Canada. The Company's head office in the United States of America ("U.S.") has transitioned from Cambridge, Massachusetts to Phoenix, Arizona as of August 1, 2020.

TILT is a business solutions provider to the global cannabis industry offering a diverse range of value-added products and services to industry participants. Through a portfolio of companies providing technology, hardware, cultivation and production, TILT services brands and cannabis retailers across 35 states in the U.S., as well as Canada, Israel, Mexico, South America and the European Union ("EU").

The Company was created as a result of a Business Combination Agreement ("BCA") dated July 9, 2018 (the "Agreement") pursuant to which Baker Technologies Inc. ("Baker"), Briteside Holdings, LLC ("Briteside"), Sea Hunter, Santé Veritas Holdings Inc. ("SVH" or "Santé Veritas"), and 1167411 B.C. Ltd. ("Finco") agreed to combine their respective businesses (the "Business Combination"). The Business Combination consisted of a series of transactions that resulted in the acquisition via Reverse Takeover ("RTO") by TILT, a British Columbia company, of all of the outstanding common shares of SVH, a British Columbia company, previously listed for trading on the CSE under the symbol "SV". Prior to the acquisition of SVH, for accounting purposes, Sea Hunter was considered the acquirer when TILT was acquired by Sea Hunter in the RTO on November 13, 2018.

On January 11, 2019, through its subsidiaries Jimmy Jang Holdings Inc. and Jimmy Jang, L.P. ("JJ LP"), TILT acquired all assets and assumed all liabilities of Jupiter Research, LLC ("Jupiter"), an inhalation and vaporization technology company (the "Jupiter Acquisition"). The Jupiter Acquisition broadened the Company's product offerings and increased Jupiter's reach by integrating it into the Company's proprietary supply chain. The terms of the Jupiter Acquisition provided for gross consideration of $70,000 cash and 54,914,224 limited partnership units of JJ LP (each, an "LP Unit") and 54,914,224 rights of TILT (each, a "Right"), with one LP Unit and one Right being convertible together, at the request of the holder, into one common share. The $70,000 cash was not paid in full in accordance with the agreement and a seller's note of $35,000 was issued in 2019 as discussed in Note 16 "Notes Payable". During the year ended December 31, 2020, 10,992,845 LP Units were converted to Common Shares (Note 13).

1 Nature of Operations (continued)

On January 15, 2019, through its wholly owned subsidiary Yaris Acquisition LLC ("Yaris"), TILT acquired all assets and assumed all liabilities of Blackbird Holdings Corp. ("Blackbird"), a distribution company providing logistics operations and software solutions for each touchpoint in the cannabis supply chain (the "Blackbird Acquisition"). The Blackbird Acquisition further supported the Company's expansion of offerings for both cannabis business owners and consumers. Consideration paid for the Blackbird Acquisition consisted of $4,700 of cash and 161,543 compressed shares in the capital of TILT ("Compressed Shares"). Each Compressed Share was convertible into 100 Common Shares subject to certain adjustments of the conversion ratio.

On January 25, 2019, TILT acquired all assets and assumed all liabilities of Standard Farms, LLC ("Standard Farms") and White Haven RE, LLC ("White Haven"), a medical cannabis operator focused on greenhouse cultivation and CO2 extraction (the "Standard Farms Acquisition"). The Standard Farms Acquisition expanded the Company's infrastructure platform, providing access to additional customers. Consideration paid for the Standard Farms Acquisition consisted of $12,000 cash and 11,090,427 Common Shares.

On November 30, 2020, TILT completed the sale of all membership interests of Yaris Acquisition, LLC d/b/a Blackbird (the "Blackbird Sale") to Slam Dunk, LLC, a Nevada limited liability corporation controlled by a member of the board of directors of the Company, for a convertible senior secured promissory note with a principal amount of $10,000, and up to an additional $1,000 of additional funding amounts under the same note.

Statement of Compliance

The consolidated financial statements of the Company have been prepared in accordance with IFRS as issued by the International Accounting Standards Board ("IASB").

The consolidated financial statements of the Company were approved and authorized for issue by the board of directors of the Company on April 14, 2021.

2 Summary of Significant Accounting Policies

Basis of Measurement

These consolidated financial statements have been prepared under the historical cost convention, except for certain financial instruments that are measured at fair value and biological assets that are measured at fair value less costs to sell.

Functional Currency

The Company's functional currency, as determined by management, is based on the primary economic environment in which the Company and its subsidiaries operate. The Company has determined that the functional currency of each entity is the U.S. dollar, except as noted below.

The functional currency of TILT, the parent company, and its subsidiaries, SVH, as determined by management, is based on the primary economic environment in which they operate, which is Canadian dollar. Exchange differences arising on the translation of the foreign controlled entities are recognized in other comprehensive income and in accumulated other comprehensive income within equity. The cumulative amount is reclassified to profit or loss when the subsidiary is disposed of.

These consolidated financial statements are presented in U.S. dollars. All references to "C$" refer to Canadian dollars.

Foreign Currency Translation

Foreign currency transactions are translated into the functional currency using the exchange rates at the dates of the transactions. Foreign exchange gains or losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year end exchange rates are generally recognized in profit or loss. They are deferred in equity if they are attributable to part of the net investment in a foreign operation.

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the transaction occurred. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss.

The results and financial position of foreign operations (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the Company's presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position.

2 Summary of Significant Accounting Policies (continued)

Foreign Currency Translation (continued)

- income and expenses for each statement of operations and comprehensive loss presented are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- all resulting exchange differences are recognized in other comprehensive income.

On consolidation, exchange differences arising from the translation of any net investment in a subsidiary with a different functional currency are recognized in other comprehensive income. When a subsidiary with a different functional currency is sold, the associated exchange differences are reclassified to profit or loss, as part of the gain or loss on sale.

Basis of Consolidation

The consolidated financial statements include the financial results of the Company and its subsidiaries. Subsidiaries are entities controlled by the Company. Control exists when the Company has power to govern the financial and operating policies of an entity and is exposed to the variable returns from its activities. These consolidated financial statements include the accounts of the Company and its direct subsidiaries over which the Company has direct control. All intercompany balances and transactions are eliminated upon consolidation. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Non-controlling (“NCI”) interests are measured initially at their proportionate share of the acquired entity's identifiable net assets at the date of acquisition. Changes in the Company’s interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

When the Company loses control over a subsidiary, it derecognizes the assets and liabilities of the subsidiary, and any related NCI and other components of equity. Any resulting gain or loss is recognized in the profit and loss statement. Any interest retained in the former subsidiary is measured at fair value when control is lost.

(Amounts Expressed in Thousands of United States Dollars, Except for Gram, Unit, Share and Per Share Amounts)

2 Summary of Significant Accounting Policies (continued)

Basis of Consolidation (continued)

The following are the Company's significant consolidated entities and the ownership interest in each that are included in these consolidated financial statements for the reporting period ended December 31, 2020:

Major subsidiaries	Place of Incorporation	Ownership Percentage
Jimmy Jang Holdings Inc.	British Columbia	100%
Jimmy Jang, L.P. (i)	Delaware	100%
Santé Veritas Holdings Inc.	**British Columbia**	**100%**
Jupiter Research, LLC	**Arizona**	**100%**
Baker Technologies Inc.	**Delaware**	**100%**
Standard Farms, LLC	**Pennsylvania**	**100%**
Sea Hunter, Therapeutics, LLC	**Delaware**	**100%**
Commonwealth Alternative Care, Inc.	Massachusetts	100%

(i) For a description and rights related to the units of Jimmy Jang, L.P. see Note 13.

A brief description of the major entity groups shown in bold above are as follows:

- Santé Veritas Therapeutics' (SVT) activities are focused on developing the emerging cannabis market with a specific focus on the wholesale sector of the cannabis market in Canada.

- Jupiter is a provider of customized solutions for brand and retail businesses offering products in the inhalation and vape segment in the cannabis industry. Jupiter's business model leverages in-house technical and product design acumen along with supply chain expertise to deliver unique and reliable products engineered to the high industry safety standards. Jupiter partners with Shenzen-based Smoore Technology to incorporate industry-leading CCELL technology in Jupiter's product solutions.

- Baker, through its CRM platform, helps dispensaries grow their brand and build relationships with their customers through a variety of products including online ordering, customer loyalty, customer messaging and analytics.

- Blackbird is a distribution company providing logistic operations and software solutions throughout the cannabis supply chain. Blackbird transports, delivers, and has built the software to facilitate transport and delivery while capturing actionable data. Blackbird supports more than 250 wholesale and retail cannabis operators in Nevada and California. In addition to back-end delivery and operations solutions for cannabis dispensaries, Blackbird has a consumer marketplace for cannabis delivery and pick-up called BlackbirdGo via business-to-consumer ("B2C") model. Blackbird's results have been included in the consolidated results for the periods to November 30, 2020, the date of disposal (Note 4).

2 Summary of Significant Accounting Policies (continued)

Basis of Consolidation (continued)

- Standard Farms and White Haven together form a multi-state medical cannabis operator focused on greenhouse cultivation and CO2 extraction, with the majority of its operations in Pennsylvania. Standard Farms provides clean and pure medical cannabis products including vape cartridges, capsules and dry flower which are carried in Pennsylvania's dispensaries.

- Sea Hunter is a vertically integrated cannabis cultivator with dispensary and wholesale operations and provides patient-centered alternative care through its medical cannabis products, which include flower, infused products, concentrates, topicals and tinctures.

Cash and Cash Equivalents

Cash and cash equivalents include cash deposits in financial institutions and other deposits that are readily convertible into cash.

Trade Receivables

The Company reviews all outstanding trade receivables for collectability on a quarterly basis. For trade receivables, the Company applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognized from initial recognition of the receivables.

Biological Assets

The Company's biological assets consist of cannabis plants. The Company capitalizes the direct and indirect costs incurred related to the biological transformation of the biological assets between the point of initial recognition and the point of harvest. The Company then measures the biological assets at fair value less estimated costs to sell up to the point of harvest in accordance with IAS 41, "Agriculture", which becomes the initial basis for the cost of inventory after harvest. Any subsequent post-harvest costs are capitalized to inventory to the extent that cost is less than net realizable value. The net unrealized gains or losses arising from changes in fair value less estimated costs to sell during the year are included in the results of operations of the related year.

Inventory

Inventory is valued at the lower of cost and net realizable value. Cost is determined using the weighted average method. Net realizable value is defined as the estimated selling price in the ordinary course of business less estimated costs to sell. Biological assets are transferred into inventory at their fair value at the point of harvest less costs to sell, which becomes the cost of the inventory. Inventory of vaporization and inhalation devices, supplies and accessories are initially valued at cost. The Company reviews inventory for obsolescence, redundant and slow-moving goods and any such inventory is written down to net realizable value.

2 Summary of Significant Accounting Policies (continued)

Property, Plant and Equipment

Property, plant and equipment are measured at cost less accumulated depreciation and impairment losses as applicable. The cost of self-constructed assets includes the cost of materials and direct labor, any other costs directly attributable to bringing the asset to a working condition for the intended use and borrowing costs on qualifying assets. During their construction, items of property, plant and equipment are classified as construction in progress. When the asset is available for use, it is transferred from construction in progress to the appropriate category of property, plant and equipment and depreciation on the item commences. Certain items of buildings and equipment that are not ready for intended use, given licensing or construction requirements are initially classified as property not in service. Subsequently after deployment to their intended use, these items are reclassified to the appropriate category of property, plant and equipment.

Depreciation is provided on a straight-line basis over the following estimated useful lives:

Machinery and equipment	3 - 10	years
Furniture and fixtures	3 - 7	years
Autos and trucks	5	years
Buildings, leasehold and land improvements	5 - 40	years
Greenhouse-agricultural structure	7 - 15	years
Construction in progress	Not depreciated	
Property not in service	Not depreciated	

The assets’ residual values, useful lives and methods of depreciation are reviewed annually and adjusted prospectively, if appropriate. Leasehold and land improvements are amortized over term of the lease. An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected from its use. Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying value of the asset) is included in the consolidated statements of operations and comprehensive loss in the year the asset is derecognized.

The Company assesses impairment on property, plant and equipment when an indication of impairment occurs, such as evidence of obsolescence or physical damage. In assessing impairment, the Company compares the carrying amount to the recoverable amount which is determined as the higher of the asset’s fair values less costs of disposal and its value in use. Fair value is determined in accordance with IFRS 13, “Fair Value Measurement”. Value in use is assessed based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is recognized whenever the carrying amount of the asset exceeds its recoverable amount and is recorded in the consolidated statements of operations and comprehensive loss.

All other costs, such as repairs and maintenance, are charged to the consolidated statements of operations and comprehensive loss during the period in which they are incurred.

2 Summary of Significant Accounting Policies (continued)

Intangible Assets

Expenditures on research activities undertaken with the prospect of gaining new technical knowledge and understanding is recognized in the consolidated statements of operations and comprehensive loss as an expense when incurred.

Intangible assets are recorded at cost, less accumulated amortization and impairment losses, if any. Intangible assets acquired in a business combination are measured at fair value at the acquisition date. Amortization is recorded on a straight-line basis over their estimated useful lives, which do not exceed the contractual period, if any, over the following terms:

Customer relationships	10 - 13	years
Trademarks	7 - 10	years
License rights	9 - 15	years
Management contract rights	Over the term of agreement	
Patents and technologies	10	years
Software	7 - 10	years
Backlog and non-competition agreements	2	years

Intangible assets that have indefinite useful lives are not subject to amortization and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. The estimated useful lives, residual values and amortization methods are reviewed at each year-end, and any changes in estimates are accounted for prospectively.

Licenses to cultivate, process or dispense cannabis are considered to have indefinite lives as they can be renewed in perpetuity.

Goodwill

Goodwill represents the excess of the purchase price paid for the acquisition of a business over the fair value of the net tangible and intangible assets and liabilities acquired. Goodwill is allocated to the cash-generating unit (“CGU”) or CGUs which are expected to benefit from the synergies of the combination.

Goodwill is tested annually for impairment, or more frequently if there is any indication of impairment.

2 Summary of Significant Accounting Policies (continued)

Impairment of Goodwill and Indefinite Life Intangible Assets

Impairment testing for goodwill and indefinite life intangibles is performed by assessing if the carrying value of the CGU, including goodwill and / or indefinite life intangibles exceeds its recoverable amount determined as the greater of the estimated fair value less costs of disposal and the value in use. Impairment losses recognized in respect of a CGU are first allocated to the carrying value of goodwill and any excess is allocated to the carrying amount of assets in the CGU. Any goodwill impairment loss is recognized in the consolidated statement of operations and comprehensive loss in the period in which the impairment is identified. Impairment losses on goodwill are not subsequently reversed.

Impairment of Other Non-Financial Assets

The carrying amount of the Company's non-financial assets is reviewed at each financial reporting date to determine whether there is any indication of impairment. If such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. An impairment loss is recognized when the carrying amount of an asset or a CGU exceeds its recoverable amount. Impairment losses are recognized in the consolidated statement of operations and comprehensive loss for the year.

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

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

2 Summary of Significant Accounting Policies (continued)

Income Taxes

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

Current Tax

Current tax assets and/or liabilities comprise those claims from, or obligations to, fiscal authorities relating to the current or prior reporting periods that are unpaid at the reporting date. Current tax is payable on taxable profit, which differs from profit or loss in the consolidated financial statements. Calculation of current tax is based on tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period.

Deferred Tax

Deferred taxes are calculated using the liability method on temporary differences between the carrying amounts of assets and liabilities and their tax bases. Deferred tax assets and liabilities are calculated, without discounting, at tax rates that are expected to apply to their respective period of realization, provided they are enacted or substantively enacted by the end of the reporting period. Deferred tax assets are recognized to the extent that it is probable that they will be able to be utilized against future taxable income. Deferred tax assets and liabilities are offset only when the Company has a right and intention to offset current tax assets and liabilities from the same taxation authority.

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

Provisions for taxes are made using the best estimate of the amount expected to be paid based on a qualitative assessment of all relevant factors. The Company reviews the adequacy of these provisions at the end of the reporting period. However, it is possible that at some future date an additional liability could result from audits by taxing authorities. Where the final outcome of these tax-related matters is different from the amounts that were initially recorded, such differences will affect the tax provisions in the period in which such determination is made.

IFRIC Interpretation 23, Uncertainty over Income Tax Treatments, provides guidance on the accounting for current and deferred tax liabilities and assets in circumstances in which there is uncertainty over income tax treatments. As at December 31, 2020, the Company assessed for circumstances in which there is uncertainty over income tax treatments and has not recorded any uncertain tax positions.

2 Summary of Significant Accounting Policies (continued)

Non-Controlling Interest

Non-controlling interest represents equity interests owned by parties that are not shareholders of the ultimate parent. Non-controlling interest is initially measured at the non-controlling interest's proportionate share of the recognized amounts of the acquiree's identifiable net assets. The choice of measurement is made on a transaction-by-transaction basis. The share of net assets attributable to non-controlling interests is presented as a component of equity. Changes in the parent Company's ownership interest that do not result in a loss of control are accounted for as equity transactions.

Revenue Recognition

The IASB issued IFRS 15, which provides a single, principles based five- step model for revenue recognition to be applied to all customer contracts and requires enhanced disclosures.

Revenue recognition is determined through the following five steps:

- identification of the contract with the customer;
- identification of the performance obligation in the contract;
- determination of the transaction price;
- allocation of the transaction price to the performance obligations in the contract; and
- recognition of revenue when, or as, the Company satisfies a performance obligation.

Revenue represents the amount the Company expects to receive for goods and services in its contracts with customers, net of discounts and sales taxes. The Company's revenue is derived from the following:

- *Sale of Goods-Vaporization and inhalation devices*

  Revenue from the wholesale sales of accessories is recognized when the Company transfers control and satisfies its performance obligations on wholesale sales of accessories. Revenue is recognized from product sales based upon the specific terms with the customer, which is the point at which title passes and is typically when the product has been shipped to the customer.

- *Sale of Goods-Cannabis*

  Revenue from the direct sale of goods to customers for a fixed price is recognized when the Company transfers control of the good to the customer. The Company transfers control and satisfies its performance obligations on retail sales upon delivery and acceptance from the customer. For dispensary sales, this occurs at the point of sale at the dispensary. The Company satisfies its performance obligation on wholesale sales when goods are delivered to the customer.

  Shipping and handling costs, if applicable, are included in cost of sales in the accompanying consolidated statements of operations and comprehensive loss.

2 Summary of Significant Accounting Policies (continued)

Revenue Recognition (continued)

- <u>*Sale of Logistic Services*</u>

  Revenue from transportation and distribution services of cannabis products from business to business, retailing to consumers, are recognized at a point in time when control over the goods have been transferred to the customer. The Company transfers control and satisfies its performance obligation upon delivery and acceptance by the customer.

Research and Development

Research costs are expensed as incurred. For the years ended December 31, 2020 and 2019, research and development costs were $58 and $114, respectively.

Development costs 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 the development to use or sell the asset. As of December 31, 2020, and December 31, 2019, capitalized development costs were $507 and $105, respectively.

Finance Income and Finance Costs

Interest income and expenses are recognized using the effective interest method.

Provisions

Provisions are recognized when the Company has a legal or construction obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably measured. Provisions are measured at management's best estimate of the expenditure required to settle the obligation at the end of the reporting period and are discounted to present value where the effect is material.

Equity

Share capital represents the value of the shares that have been issued. Any transaction costs associated with the issuing of shares are deducted from share capital.

From time to time, the Company issues units consisting of Common Shares and share purchase warrants. Proceeds from unit placements are allocated between shares and warrants issued based on the residual value method.

The units of Jimmy Jang, L.P., exchangeable into Common Shares, are subject to certain terms and conditions (see Note 13 for additional details). The exchangeable units do not provide an economic interest in the U.S. subsidiary and have been accounted for in the same manner as Common Shares.

2 Summary of Significant Accounting Policies (continued)

Share-Based Payments

Share-based payments to employees are measured at the fair value of the equity instruments issued and amortized over the vesting periods. Share-based payments to non- employees are measured at the fair value of goods or services received, or if it is determined the fair value of the goods or services cannot be reliably measured, the fair value of the equity instruments issued. Share-based payments are recorded at the date the goods or services are received. The corresponding amount is recorded to option reserves. The fair value of options is determined using the Black-Scholes option pricing model which incorporates all market vesting conditions. The number of shares and options expected to vest is reviewed and adjusted at the end of each reporting period such that the amount recognized for services received as consideration for the equity instruments granted shall be based on the number of equity instruments that eventually vest.

The fair value of share-based awards are estimated on grant date using the Black-Scholes option pricing model. Option pricing models require the use of estimates and assumptions including the expected volatility. Changes in the underlying assumptions can materially affect the fair value estimates.

Leases

The Company's accounting policy under IFRS 16 Leases is as follows:

At inception of a contract, the Company assesses whether a contract is, or contains, a lease based on whether the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Company has elected to apply the practical expedient under IFRS to account for each lease component and any non-lease components as a single lease component. 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 based on 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 assets are depreciated to the earlier of the end of the useful life of the right-of-use asset or the lease term using the straight-line method as this most closely reflects the expected pattern of consumption of the future economic benefits. The lease term includes periods covered by an option to extend if the Company is reasonably certain to exercise that option.

In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain re-measurements of the lease liability if applicable.

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. Generally, the Company uses its incremental borrowing rate as the discount rate.

2 Summary of Significant Accounting Policies (continued)

Leases (continued)

The lease liability is measured at amortized cost using the effective interest method. It is re-measured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, or if the Company changes its assessment of whether it will exercise a purchase, extension or termination option.

When the lease liability is re-measured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Company has elected to apply the practical expedient not to recognize right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low-value assets. The lease payments associated with these leases is recognized as an expense on a straight-line basis over the lease term.

Earnings Per Share

The Company presents basic and diluted earnings per share ("EPS") data for its Common Shares. Basic EPS 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, adjusted for its own shares held, including Jimmy Jang, L.P. units which are exchangeable for Common Shares on a one-to-one basis. Diluted EPS is determined by adjusting the profit or loss attributable to common shareholders and the weighted average number of Common Shares outstanding, adjusted for its own shares held, including Jimmy Jang, L.P. units which are exchangeable for Common Shares on a one-to-one basis, for the effects of all dilutive potential Common Shares.

Financial Instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument to another entity. Financial assets and financial liabilities are recognized in the consolidated statements of financial position at the time the Company becomes a party to the contractual provisions of the financial instrument.

IFRS 9 requires all recognized financial assets to be measured at amortized cost or fair value in subsequent accounting periods following initial recognition. IFRS 9 also requires a single, forward-looking expected loss impairment model.

2 Summary of Significant Accounting Policies (continued)

Financial Instruments (continued)

Classification

The Company classifies its financial assets and financial liabilities in the following measurement categories: (i) fair value through profit or loss ("FVTPL"); (ii) fair value through other comprehensive income ("FVOCI"); and (iii) amortized cost. The classification of financial assets depends on the business model for managing the financial assets and whether the contractual cash flows represent solely payments of principal and interest. Financial assets and financial liabilities with embedded derivatives are considered in their entirety and classified at FVTPL. Financial liabilities are classified as those to be measured at amortized cost unless they are designated as those to be measured subsequently at FVTPL (irrevocable election at the time of recognition). For financial assets and financial liabilities measured at fair value, gains or losses are either recorded in profit or loss or other comprehensive income.

The Company reclassifies financial assets when and only when its business model for managing those assets changes. Financial liabilities are not reclassified. Equity instruments that are not held-for-trading can be irrevocably designated to have their change in fair value recognized through other comprehensive income instead of through profit or loss. This election can be made on individual instruments and is not required to be made for the entire class of instruments. Attributable transaction costs are included in the carrying value of the instruments. Financial assets at fair value through other comprehensive income are initially measured at fair value and changes therein are recognized in other comprehensive income.

Measurement

All financial instruments are required to be measured at fair value on initial recognition, plus, in the case of a financial asset or financial liability not at FVTPL, transaction costs that are directly attributable to the acquisition or issuance of the financial asset or financial liability. Transaction costs of financial assets and financial liabilities carried at FVTPL are expensed in the profit or loss.

Financial assets that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are measured at amortized cost subsequent to initial recognition. All other financial assets including equity investments are measured at their fair values subsequent to initial recognition, with any changes taken through profit or loss or other comprehensive income (irrevocable election at the time of recognition). For financial liabilities measured subsequently at FVTPL, changes in fair value due to credit risk are recorded in other comprehensive income.

2 Summary of Significant Accounting Policies (continued)

Financial Instruments (continued)

Impairment

The Company assesses all information available, including on a forward-looking basis the expected credit loss associated with its financial assets carried at amortized cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk. To assess whether there is a significant increase in credit risk, the Company compares the risk of a default occurring on the asset at the reporting date with the risk of default at the date of initial recognition based on all information available, and reasonable and supportive forward-looking information. Evidence of increased credit risk may include indications that the counterparty debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicates that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults. Receivables are reviewed qualitatively on a case-by-case basis to determine whether they need to be written off.

Expected credit losses are measured as the difference in the present value of the contractual cash flows that are due to the Company under the contract, and the cash flows that the Company expects to receive. The Company assesses all information available, including past due status, credit ratings, the existence of third-party insurance, and forward-looking macro-economic factors in the measurement of the expected credit losses associated with its financial assets carried at amortized cost. The Company measures expected credit loss by considering the risk of default over the contract period and incorporates forward-looking information into its measurement.

See Note 24 for details on the Company’s policy for estimating expected credit losses.

2 Summary of Significant Accounting Policies (continued)

Financial Instruments (continued)

The following table provides the financial instrument classifications for the Company's financial assets and liabilities:

	IFRS 9	
Financial Instrument	**Classification**	**Measurement**
Cash and cash equivalents	Amortized cost	Amortized cost
Trade receivables and others	Amortized cost	Amortized cost
Due from related parties	Amortized cost	Amortized cost
Loan receivable in connection with the Blackbird sale (Note 4)	FVTPL	Fair value
Other loans receivable	Amortized cost	Amortized cost
Investments	FVTPL	Fair value
Accounts payable and accrued liabilities	Amortized cost	Amortized cost
Due to related parties	Amortized cost	Amortized cost
Notes payable	Amortized cost	Amortized cost

Significant Accounting Judgments and Estimates

The preparation of the Company's consolidated financial statements requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, and revenue and expenses. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the review affects both current and future periods. Significant judgments and estimates that have the most significant effect on the amounts recognized in the consolidated financial statements are described below.

Classification and measurement of Jimmy Jang, L.P. Units

Significant judgment is applied in connection with the classification and measurement of exchangeable units of Jimmy Jang, L.P., as discussed within the significant accounting policy for equity.

2 Summary of Significant Accounting Policies (continued)

Significant Accounting Judgments and Estimates (continued)

Estimated Useful Lives and Depreciation of Property, Plant and Equipment

Depreciation of property, plant and equipment is dependent upon estimates of useful lives which are determined through the exercise of judgment. The assessment of any impairment of these assets is dependent upon estimates of recoverable amounts that take into account factors such as economic and market conditions and the useful lives of assets.

Measurement and Valuation of Biological Assets

In calculating the fair value of biological assets and inventory, management is required to make a number of estimates, including the stage of growth of the plant up to the point of harvest, harvesting costs, selling costs, average or expected selling and list prices, expected yields for the plants, and oil conversion factors. See "Note 6 - Biological Assets" for further information on estimates used in determining the fair value of biological assets.

The valuation of biological assets at the point of harvest is the cost basis for all cannabis-based inventory and thus any critical estimates and judgments related to the valuation of biological assets are also applicable for inventory. The valuation of work-in-process and finished goods also requires the estimate of conversion costs incurred, which become part of the carrying amount for the inventory. The Company must also determine if the cost of any inventory exceeds its net realizable value, such as cases where prices have decreased, or inventory has spoiled or has otherwise been damaged.

Business Combinations

In a business combination, all identifiable assets, liabilities and contingent liabilities acquired are recorded at their fair values. For any intangible asset identified, depending on the type of intangible asset and the complexity of determining its fair value, an independent valuation expert or management may develop the fair value, using appropriate valuation techniques, which are generally based on a forecast of the total expected future net cash flows.

The evaluations are linked closely to the assumptions made by management regarding the future performance of the assets concerned and any changes in the discount rate applied.

Certain fair values of the acquired assets and assumed liabilities may be estimated at the acquisition date pending confirmation or completion of the valuation process. Where provisional values are used in accounting for a business combination, they may be adjusted retrospectively in subsequent periods within the measurement period when it reflects new information obtained about facts and circumstances that were in existence at the acquisition date. The measurement period cannot exceed one year from the acquisition date.

2 Summary of Significant Accounting Policies (continued)

Significant Accounting Judgments and Estimates (continued)

Measurement of Share-Based Payments

The Company uses the Black-Scholes option-pricing model to determine the fair value of equity-settled share-based payments. In estimating fair value, management is required to make certain assumptions and estimates such as the expected life of units, volatility of the Company's future share price, risk free rates, future dividend yields and estimated forfeitures at the initial grant date. Changes in assumptions used to estimate fair value could result in materially different results.

Impairment of Non-Financial Assets

The assessment of any impairment of non-financial assets is dependent upon estimates of recoverable amounts that take into account factors such as economic and market conditions, the useful lives of assets, definition of the cost generating unit and estimates used to measure impairment losses. The recoverable value of these assets is determined using present value techniques, which incorporate assumptions regarding future events, specifically future cash flows, growth rates and discount rates.

Goodwill and Indefinite Life Intangible Asset Impairment

Goodwill and intangible assets with an indefinite useful life are tested for impairment annually during the fourth quarter and whenever there are indicators that the carrying amount of goodwill or intangible assets with an indefinite useful life have been impaired. In order to determine if the value of these assets have been impaired, the Company calculates the recoverable amount of the cash-generating unit to which asset has been allocated using present value techniques. When applying this valuation technique, the Company relies on a number of factors, including historical results, business plans, forecasts and market data. Changes in these judgments and estimates can significantly affect the assessed recoverable amount of goodwill and indefinite life intangible assets.

Deferred Tax Assets

Deferred tax assets, including those arising from tax loss carry-forwards, require management to assess the likelihood that the Company will generate sufficient taxable earnings in future periods in order to utilize recognized deferred tax assets. Assumptions about the generation of future taxable profits depend on management's estimates of future cash flows.

In addition, future changes in tax laws could limit the ability of the Company to obtain tax deductions in future periods. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the Company to realize the deferred tax assets recorded at the reporting date could be impacted.

2 Summary of Significant Accounting Policies (continued)

Accounting Pronouncements Adopted

Amendment to IFRS 3: Definition of a Business

In October 2018, the IASB issued "Definition of a Business (Amendments to IFRS 3)". The amendments clarify the definition of a business, with the objective of assisting entities to determine whether a transaction should be accounted for as a business combination or as an asset acquisition. The amendment provides an assessment framework to determine when a series of integrated activities is not a business. The amendments are effective for business combinations occurring on or after the beginning of the first annual reporting period beginning on or after January 1, 2020, however early application is permitted. The Company has adopted the IFRS 3 amendment as of January 1, 2020, with no impact on its consolidated financial statements.

IAS 1: Presentation of Financial Statements & IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors

In October 2018, the IASB issued "Definition of Material", an amendment to IAS 1 – Presentation of Financial Statements and IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors, to clarify the definition of material and to align the definition used in the Conceptual Framework and the standards themselves. Materiality is defined as "information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity." This amendment is effective for the annual period beginning January 1, 2020. The Company has adopted IAS 1 and IAS 8 as of January 1, 2020, with no impact on its consolidated financial statements.

New Standards and Interpretations Issued but Not Yet Adopted

Amendments to IAS 1: Classification of Liabilities as Current or Non-Current

In January 2020, the IASB issued Classification of Liabilities as Current or Non-current ("Amendments to IAS 1"). The amendments aim to promote consistency in applying the requirements by helping companies determine whether, in the statement of financial position, debt and other liabilities with an uncertain settlement date should be classified as current (due or potentially due to be settled within one year) or non-current. The amendments include clarifying the classification requirements for debt a company might settle by converting it into equity. The amendments are effective for annual reporting periods beginning on or after January 1, 2022, with earlier application permitted.

Amendments to IAS 37: Onerous Contracts – Cost of Fulfilling a Contract

In May 2020, the IASB issued Onerous Contracts – Cost of Fulfilling a Contract ("Amendments to IAS 37") amending the standard regarding costs a company should include as the cost of fulfilling a contract when assessing whether a contract is onerous. The amendment is effective for annual reporting periods beginning on or after January 1, 2022.

2 Summary of Significant Accounting Policies (continued)

New Standards and Interpretations Issued but Not Yet Adopted (continued)

The Company does not expect these amendments to have a material impact on the consolidated financial statements in the period of initial application.

Reclassification

Certain amounts in the prior period consolidated financial statements have been reclassified to conform to the presentation of the current period consolidated financial statements. Additionally, the Company reclassified derecognition and impairment from non-operating expenses to operating expenses with no effect to previously reported net loss.

Fair Value Measurement

A number of the Company's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities.

The Company has an established control framework with respect to the measurement of fair values. This includes a valuation team that has overall responsibility for overseeing all significant fair value measurements, including Level 3 fair values, and reports directly to the chief financial officer.

The valuation team regularly reviews significant unobservable inputs and valuation adjustments. If third party information is used to measure fair values, then the valuation team assesses the evidence obtained from the third parties, including the level in the fair value hierarchy in which the valuations should be classified.

When measuring the fair value of an asset or a liability, the Company uses observable market data as far as possible. Fair values are categorized into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: 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).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's-length transaction between knowledgeable and willing parties. If the inputs used to measure the fair value of an asset or a liability fall into different levels of the fair value hierarchy, then the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

(Amounts Expressed in Thousands of United States Dollars, Except for Gram, Unit, Share and Per Share Amounts)

3 Business Combinations

On January 11, 2019, TILT completed the Jupiter Acquisition.

The following table summarizes the consideration for the Jupiter Acquisition and the net assets of Jupiter at their fair values on January 11, 2019:

Identifiable Net Assets		
Cash overdrawn	$	(89)
Receivables		8,960
Inventory		13,064
Deposits, prepaid expenses and other current assets		5,139
Property, plant and equipment		132
Intangible assets:		
Technology		32,900
Customer list		79,400
Trademarks		27,900
Backlog		3,800
Non-competition agreement		6,600
Right of use assets		2,383
Accounts payable and other current liabilities		(11,643)
Deferred tax liability		(25,433)
Customer prepayments		(7,716)
Lease liabilities		(2,383)
Identifiable net assets	$	133,014

Consideration		
Cash*	$	70,000
Purchaser portion of the 2018 tax liability		2,800
54,914,224 Jimmy Jang, L.P. Units and 54,914,224 TILT Rights, where one Unit and one Right can be converted into one Common Share		154,000
	$	226,800
Fair value of consideration paid in excess of net assets acquired (Goodwill)	$	93,786

The goodwill was attributable to factors such as synergies, reputation with customers and vendors, and the skilled workforce of Jupiter. Goodwill of $21,941 was deductible for tax purposes.

* As disclosed in Note 16, $35,000 of the cash consideration payable on January 11, 2019 was subsequently restructured into a junior secured note.

(Amounts Expressed in Thousands of United States Dollars, Except for Gram, Unit, Share and Per Share Amounts)

3 Business Combinations (continued)

On January 15, 2019, TILT completed the Blackbird Acquisition.

The following table summarizes the consideration for the Blackbird Acquisition and the net assets of Blackbird at their fair values on January 15, 2019:

Identifiable Net Assets		
Cash and cash equivalents	$	466
Receivables		634
Loans receivable		57
Inventory		159
Deposits, prepaid expenses and other current assets		84
Property, plant and equipment		463
Intangible assets:		
Distribution license		20,944
Customer list		5,500
Software costs		1,600
Trademarks		900
Right of use assets		2,880
Accounts payable and other current liabilities		(725)
Deferred tax liability		(6,680)
Lease liabilities		(2,872)
Identifiable net assets	$	23,410

Consideration		
Cash	$	4,716
Fair value of 161,543 Compressed Shares of TILT		45,000
Surplus working capital allowance		1,199
Settlement of pre-existing indebtedness		3,000
	$	53,915
Fair value of consideration paid in excess of net assets acquired (Goodwill)	$	30,505

The goodwill was attributable to factors such as synergies, reputation with customers and vendors, and the skilled workforce of Blackbird. Goodwill was not deductible for tax purposes.

On November 30, 2020, TILT completed the Blackbird Sale to Slam Dunk, LLC, a Nevada limited liability corporation (see Note 4 for more details).

(Amounts Expressed in Thousands of United States Dollars, Except for Gram, Unit, Share and Per Share Amounts)

3 Business Combinations (continued)

On January 25, 2019, TILT completed the Standard Farms Acquisition.

The following table summarizes the consideration for the Standard Farms Acquisition and the net assets of Standard Farms and White Haven at their fair values on January 25, 2019:

Identifiable Net Assets		
Cash and cash equivalents	$	520
Receivables		264
Biological assets		645
Inventory		1,774
Deposits, prepaid expenses and other current assets		2
Property, plant and equipment		8,270
Intangible assets:		
Other intangible assets		7
Cultivation license		14,000
Customer list		5,900
Trademarks		1,100
Accounts payable and other current liabilities		(559)
Identifiable net assets	$	31,923

Consideration		
Cash	$	12,000
Fair value of 11,090,427 Common Shares		28,000
Surplus working capital allowance		2,229
	$	42,229
Fair value of consideration paid in excess of net assets acquired (Goodwill)	$	10,306

The goodwill was attributable to factors such as synergies, reputation with customers and vendors, and the skilled workforces of Standard Farms and White Haven. The entire goodwill balance of $10,306 was deductible for tax purposes.

(Amounts Expressed in Thousands of United States Dollars, Except for Gram, Unit, Share and Per Share Amounts)

4 Discontinued Operations

During the fiscal fourth quarter of 2020, the Company evaluated the divestiture of non-core assets, and as a result, management entered a plan to sell Blackbird to improve TILT's profitability and free up cash flow.

On November 30, 2020, the Company completed the Blackbird Sale, for a convertible senior secured promissory note with a principal amount of $10,000 and recognized a loss of $46,622 from the transactions. See Note 12 for the terms of the convertible senior promissory note received as consideration for the sale. Blackbird was reported within the 'Technology/ Distribution' segment of the Company (See Note 20).

The following table summarizes the assets and liabilities of the Blackbird Sale and consideration received:

		2020
Carrying value of net assets sold:		
Cash and cash equivalents	$	31
Trade receivables and others		768
Prepaid expenses and other current assets		90
Property, plant and equipment		298
Right-of-use assets		2,423
Intangible assets		27,410
Loans receivable, long-term		58
Goodwill		30,505
Accounts payable and accrued liabilities		(4,903)
Lease liability		(2,485)
Deferred tax liability		(1,540)
		52,655
Sale consideration on disposition of net assets:		
Fair value of convertible senior promissory note (Note 12)		6,518
Cost to sell		(485)
		6,033
Loss on sale of discontinued operations		46,622
Net loss from discontinued operations		7,028
Net loss from discontinued operations, net of tax	**$**	**53,650**

(Amounts Expressed in Thousands of United States Dollars, Except for Gram, Unit, Share and Per Share Amounts)

4 Discontinued Operations (continued)

Revenues, expenses, and gains or losses relating to the discontinuance of Blackbird have been eliminated from profit or loss from the Company's continuing operations and are shown as a single line item in the Consolidated Statements of Operations. As a result, the Company's prior period has been restated to present Blackbird as a discontinued operation.

Net loss from the discontinued operations is summarized as follows:

	2020*	2019
Sales	$ 6,246	$ 6,003
Production costs expensed to cost of sales	(6,593)	(9,230)
Gross profit	**(347)**	**(3,227)**
Operating expenses:		
Depreciation and amortization	851	1,757
Wages and benefits	5,755	7,789
Professional fees	57	521
Rent	218	244
Insurance	29	38
Advertising and marketing	54	272
Travel	21	222
General and administrative	1,306	616
Total operating expenses	**8,291**	**11,459**
(Loss) from operations	**(8,638)**	**(14,686)**
Other income (expense):		
Other income	-	219
Other expense	(1,099)	(17)
Loss on sale of assets	(44)	2
Finance expense	(78)	(349)
Total other income (expense)	**(1,221)**	**(145)**
(Loss) from discontinued operations	**(9,859)**	**(14,831)**
Income Taxes		
Recovery of income taxes	2,831	3,384
Net (loss) from discontinued operations	**(7,028)**	**(11,447)**
(Loss) on sale of discontinued operations	(46,622)	-
Net (loss) from discontinued operations, net of tax	**$ (53,650)**	**$ (11,447)**

* 2020 results are covered through the period ended November 30, 2020, the date the Blackbird Sale was completed.

(Amounts Expressed in Thousands of United States Dollars, Except for Gram, Unit, Share and Per Share Amounts)

5 Trade Receivables and Others

As of December 31, 2020 and December 31, 2019, trade receivables were $14,568 and $19,743, respectively. An allowance for doubtful accounts is recorded for any amounts deemed uncollectable and amounts based on the expected credit loss. Management determined that the allowance for doubtful accounts required was $849 and $92, respectively, as of December 31, 2020 and December 31, 2019.

6 Biological Assets

Biological assets consist of live cannabis plants. The changes in the carrying value of biological assets are as follows as of December 31, 2020 and December 31, 2019:

Reconciliation of carrying amount	December 31, 2020		December 31, 2019	
Balance, beginning of year	$	8,580	$	1,868
Biological assets acquired in business acquisitions (Note 3)		-		645
Net increase in fair value less costs to sell due to biological transformation		47,298		37,459
Production costs capitalized		9,697		8,974
	$	65,575	$	48,946
Transferred to inventory upon harvest		(54,374)		(40,366)
Balance, end of year	**$**	**11,201**	**$**	**8,580**

On average, the growing time for a full harvest approximates 19 weeks. As listed below, key estimates are involved in the valuation process of the cannabis plants. The Company's estimates are subject to changes that could result in future gains or losses on biological assets. Changes in estimates could result from volatility of sales prices, changes in yields, and variability of the costs necessary to complete the harvest.

The fair value of biological assets is considered a Level 3 categorization in the IFRS fair value hierarchy. The significant estimates and inputs used to assess the fair value of biological assets include the following assumptions:

- the selling price per gram based on average selling prices for the period;
- the cost to complete the cannabis production process post-harvest and the cost to sell;
- attrition rate;
- the stage of plant growth; and
- expected yields from each cannabis plant.

(Amounts Expressed in Thousands of United States Dollars, Except for Gram, Unit, Share and Per Share Amounts)

6 Biological Assets (continued)

The Company measures the yield of cannabis in active milligrams extracted from a plant. A plant typically produces a total of approximately 95 grams, which is comprised of THC and CBD. The Company has quantified the sensitivity of the inputs in relation to the biological assets as of December 31, 2020 and 2019 as follows:

Significant inputs and assumptions	Range of inputs	Sensitivity	Effect on fair value as of December 31, 2020	Effect on fair value as of December 31, 2019
Selling price per	$ 8.16 to	Increase 5%	$ 1,122	$ 1,398
active gram	$ 8.26	Decrease 5%	(1,122)	(1,398)
Estimated yield per	61.73 grams to	Increase 5%	560	429
cannabis plant	145.76 grams	Decrease 5%	(560)	(429)
Estimated cost to	$ 0.49 to	Increase 5%	(121)	(142)
complete	$ 1.31	Decrease 5%	121	142

All of the plants are to be harvested as agricultural produce (i.e., medical cannabis). For the periods ended December 31, 2020 and December 31, 2019, plants were on average 37% and 48% complete, respectively. The Company estimates the harvest yields for the plants at various stages of growth. The Company's estimates are, by their nature, subject to change and differences from the anticipated yield will be reflected in the gain or loss on biological assets in future periods. As of December 31, 2020, it is expected that the Company's biological assets will yield approximately 4,308,111 grams.

7 Inventory

The Company's inventory as of December 31, 2020 and 2019 consisted of the following:

Reconciliation of carrying amount	December 31, 2020	December 31, 2019
Work in process – cannabis and cannabis oil	$ 24,781	$ 11,120
Finished goods – harvested cannabis	872	6,449
Finished goods – cannabis oils	5,090	3,160
Finished goods – cartridges and power supplies	20,545	26,157
Materials	580	543
Supplies and accessories	766	740
Total Inventory	**$ 52,634**	**$ 48,169**

For the years ended December 31, 2020 and 2019, the Company recorded inventories expensed to cost of sales of $93,266 and $94,919. The Company recorded no inventory impairments for the years ended December 31, 2020 and 2019, respectively.

(Amounts Expressed in Thousands of United States Dollars, Except for Gram, Unit, Share and Per Share Amounts)

8 Property, Plant and Equipment

The property, plant and equipment as of December 31, 2020 and 2019 consisted of the following:

Property, plant and equipment	Net balance 12/31/2019	Business acquisitions	Additions	Disposals/ adjustments	Derecognition	Discontinued operations	Net balance 12/31/2020
Land	$ 169	$ -	$ -	$ -	$ -	$ -	$ 169
Land improvements	438	-	22	-	-	-	460
Machinery & equipment	8,752	-	1,240	1,783	(322)	(85)	11,368
Furniture & fixtures	1,095	-	89	(73)	-	(162)	949
Buildings	6,287	-	304	-	-	-	6,591
Greenhouse-agricultural structure	12,494	-	-	-	(4,302)	-	8,192
Leasehold improvements	45,802	-	95	(6,008)	-	(227)	39,662
Construction in progress	8,781	-	-	3,630	(5,475)	-	6,936
Autos & trucks	554	-	-	(204)	-	(158)	192
Property not in service	1,481	-	197	35	-	-	1,713
Total cost	85,853	-	1,947	(837)	(10,099)	(632)	76,232
Less: accumulated depreciation	(5,277)	-	(4,466)	(28)	-	334	(9,437)
Total property, plant and equipment	**$ 80,576**	**$ -**	**$ (2,519)**	**$ (865)**	**$ (10,099)**	**$ (298)**	**$ 66,795**

(Amounts Expressed in Thousands of United States Dollars, Except for Gram, Unit, Share and Per Share Amounts)

8 Property, Plant and Equipment (continued)

Property, plant and equipment	Net balance 12/31/2018	Business acquisitions	Additions	Disposals/ adjustments	Derecognition	Discontinued operations	Net balance 12/31/2019
Land	$ -	$ 168	$ -	$ -	$ -	$ -	$ 168
Land improvements	-	386	52	-	-	-	438
Machinery & equipment	5,843	438	2,495	(23)	-	-	8,753
Furniture & fixtures	340	117	638	-	-	-	1,095
Buildings	-	4,327	636	1,325	-	-	6,287
Greenhouse-agricultural structure	4,704	1,424	6,366	-	-	-	12,494
Leasehold improvements	25,494	67	19,019	1,222	-	-	45,802
Construction in progress	10,307	-	2,302	1,494	(5,322)	-	8,782
Autos & trucks	136	371	46	-	-	-	553
Property not in service	5,483	1,567	-	(5,569)	-	-	1,481
Total cost	52,307	8,865	31,554	(1,551)	(5,322)	-	85,853
Less: accumulated depreciation	(1,615)	-	(3,664)	2	-	-	(5,277)
Total property, plant and equipment	**$ 50,692**	**$ 8,865**	**$ 27,891**	**$ (1,549)**	**$ (5,322)**	**$ -**	**$ 80,576**

(Amounts Expressed in Thousands of United States Dollars, Except for Gram, Unit, Share and Per Share Amounts)

8 Property, Plant and Equipment (continued)

A reconciliation of the beginning and ending balances of accumulated depreciation is as follows for the year ended December 31, 2020:

Accumulated depreciation	Balance 12/31/2019	Depreciation	Adjustments	Disposals	Discontinued operations	Balance 12/31/2020
Land improvements	$ 28	$ 29	$ -	$ -	$ -	$ 57
Machinery & equipment	3,950	1,660	(1,873)	(27)	(19)	3,691
Furniture & fixtures	132	199	-	(2)	(72)	257
Buildings	397	400	-	-	-	797
Greenhouse-agricultural structure	179	179	-	-	-	358
Leasehold improvements	345	1,913	2,062	-	(122)	4,198
Autos & trucks	246	86	(132)	-	(121)	79
Total accumulated depreciation	**$ 5,277**	**$ 4,466**	**$ 57**	**$ (29)**	**$ (334)**	**$ 9,437**

A reconciliation of the beginning and ending balances of accumulated depreciation is as follows for the year ended December 31, 2019:

Accumulated depreciation	Balance 12/31/2018	Depreciation	Adjustments	Disposals	Discontinued operations	Balance 12/31/2019
Land improvements	$ -	$ 28	$ -	$ -	$ -	$ 28
Machinery & equipment	670	2,539	743	(2)	-	3,950
Furniture & fixtures	13	119	-	-	-	132
Buildings	-	397	-	-	-	397
Greenhouse-agricultural structure	-	179	-	-	-	179
Leasehold improvements	930	158	(743)	-	-	345
Autos & trucks	2	244	-	-	-	246
Total accumulated depreciation	**$ 1,615**	**$ 3,664**	**$ -**	**$ (2)**	**$ -**	**$ 5,277**

8 Property, Plant and Equipment (continued)

The depreciation expense includes $162 and $280 of depreciation for Blackbird for the eleven and twelve months ended November 30, 2020 and December 30, 2019, respectively. Major highlights for the for loss on disposal are stated below:

In connection with management's plan to align the Company's cultivation footprint with current demand, due to the limitations the location presented, the Company decided not to pursue the expansion and obtaining of license to cultivate and sell cannabis in its British Colombia location. This is consistent with the Company's long-term strategy to streamline operations and improve profitability. As a result, the Company derecognized $4,981 of SVT's property, plant and equipment within the construction in progress category for the year ended December 31, 2020, based on management's expectations of limited economic benefits from the continuing use of these assets.

Also, in connection with management's plan, for the year ended December 31, 2020, the Company derecognized unoccupied modular units at its Massachusetts facility in order to accelerate acceptance for its final occupancy permit with local government. As a result, the Company derecognized $4,302 of the Sea Hunter's property, plant and equipment within the greenhouse-agricultural structure category for the year ended December 31, 2020, based on management's expectations of limited economic benefits from the continuing use of these assets.

(Amounts Expressed in Thousands of United States Dollars, Except for Gram, Unit, Share and Per Share Amounts)

9 Right-of-use Assets

The Company leases many assets including land, buildings, and vehicles. The following table presents the right-of-use assets for the Company as of December 31, 2020 and 2019:

Right-of-use assets	Property	Vehicles	Total
Balance, December 31, 2019	$ 21,272	$ 1,619	$ 22,891
Additions	383	48	431
Lease terminations	(6,992)	-	(6,992)
Depreciation	(2,099)	(575)	(2,673)
Effect of movement in exchange rates	(49)	-	(49)
Discontinued operations	(1,331)	(1,092)	(2,423)
Balance, December 31, 2020	**$ 11,184**	**$ -**	**$ 11,184**

Right-of-use assets	Property	Vehicles	Total
Balance, December 31, 2018	$ 14,216	$ -	$ 14,216
Additions	10,043	2,248	12,291
Lease terminations	-	-	-
Depreciation	(3,055)	(629)	(3,684)
Effect of movement in exchange rates	68	-	68
Discontinued operations	-	-	-
Balance, December 31, 2019	**$ 21,272**	**$ 1,619**	**$ 22,891**

Included within depreciation are $571 and $1,194 related to depreciation charges on right-of-use assets of Blackbird for the eleven and twelve months ended November 30, 2020 and December 30, 2019, respectively.

(Amounts Expressed in Thousands of United States Dollars, Except for Gram, Unit, Share and Per Share Amounts)

10 Intangible Assets

For the years ended December 31, 2020 and 2019, intangible assets consisted of the following:

Intangible assets	Balance 12/31/2019	Business acquisitions	Additions/ adjustments	Derecognition/ impairment	Discontinued operations	Balance 12/31/2020
Customer relationships	$ 93,300	$ -	$ -	$ (2,500)	$ (5,500)	$ 85,300
Trademarks	30,300	-	-	(400)	(900)	29,000
License rights	35,031	-	10	-	(20,996)	14,045
Management agreements	2,750	-	-	(2,750)	-	-
Patents & technologies	32,900	-	-	-	-	32,900
Software	2,305	-	(5)	(700)	(1,600)	-
Backlog and non-competition agreements	10,407	-	(1)	-	-	10,406
Total cost	$ 206,993	$ -	$ 4	$ (6,350)	$ (28,996)	$ 171,651
Less: accumulated amortization	(20,303)	-	(15,956)	1,659	1,586	(33,014)
Total intangible assets	**$ 186,690**	**$ -**	**$ (15,952)**	**$ (4,691)**	**$ (27,410)**	**$ 138,637**

(Amounts Expressed in Thousands of United States Dollars, Except for Gram, Unit, Share and Per Share Amounts)

10 Intangible Assets (continued)

Intangible assets	Balance 12/31/2018	Business acquisitions	Additions/ adjustments	Derecognition/ impairment	Discontinued operations	Balance 12/31/2019
Customer relationships	$ 2,500	$ 90,800	$ -	$ -	$ -	$ 93,300
Trademarks	1,878	29,900	-	(1,478)	-	30,300
License rights	8,525	34,944	408	(8,846)	-	35,031
Management agreements	2,750	-	-	-	-	2,750
Patents & technologies	3,404	32,900	-	(3,404)	-	32,900
Software	1,504	1,600	5	(804)	-	2,305
Backlog and non-competition agreements	-	10,407	-	-	-	10,407
Total cost	$ 20,561	$ 200,551	$ 413	$ (14,532)	$ -	$ 206,993
Less: accumulated amortization	(782)	-	(20,408)	887	-	(20,303)
Total intangible assets	**$ 19,779**	**$ 200,551**	**$ (19,995)**	**$ (13,645)**	**$ -**	**$ 186,690**

(Amounts Expressed in Thousands of United States Dollars, Except for Gram, Unit, Share and Per Share Amounts)

10 Intangible Assets (continued)

For the years ended December 31, 2020 and 2019, accumulated amortization consisted of the following:

Accumulated amortization	Balance 12/31/2019	Amortization/ adjustments	Derecognition/ impairment	Discontinued operations	Balance 12/31/2020
Customer relationships	$ 7,831	$ 7,660	$ (1,042)	$ (1,054)	$ 13,395
Trademarks	3,104	3,082	(119)	(173)	5,894
License rights	61	36	-	(52)	45
Management agreements	290	-	(290)	-	-
Patents & technologies	3,290	3,290	-	-	6,580
Software	277	238	(208)	(307)	-
Backlog and non-competition agreements	5,450	1,650	-	-	7,100
Total accumulated amortization	**$ 20,303**	**$ 15,956**	**$ (1,659)**	**$ (1,586)**	**$ 33,014**

Accumulated amortization	Balance 12/31/2018	Amortization/ adjustments	Derecognition/ impairment	Discontinued operations	Balance 12/31/2019
Customer relationships	$ 73	$ 7,758	$ -	$ -	$ 7,831
Trademarks	43	3,395	(334)	-	3,104
License rights	2	59	-	-	61
Management agreements	107	183	-	-	290
Patents & technologies	97	3,450	(257)	-	3,290
Software	460	113	(296)	-	277
Backlog and non-competition agreements	-	5,450	-	-	5,450
Total accumulated amortization	**$ 782**	**$ 20,408**	**$ (887)**	**$ -**	**$ 20,303**

(Amounts Expressed in Thousands of United States Dollars, Except for Gram, Unit, Share and Per Share Amounts)

10 Intangible Assets (continued)

Included within amortization are $741 and $814 related to amortization charges on intangible assets of Blackbird for the eleven and twelve months ended November 30, 2020 and December 30, 2019, respectively.

In connection with the sale of Blackbird, the Company re-evaluated Baker CGU's non-core assets. Accordingly, the Company performed an assessment based on value in use (VIU). The carrying amount of the Baker CGU exceeded its VIU of nil. Therefore, the Company incurred an impairment loss of $2,231 allocated to Intangible Assets and an impairment loss of $3,752 allocated to Goodwill (Note 11).

For year ended December 31, 2019, the Company recorded an impairment loss of $13,645, based on the CGU level analysis of recoverable amounts carried out for SVT and Briteside CGUs. As a result, $8,846 and $4,799 of impairment losses were recognized within SVT and Briteside, respectively.

11 Goodwill

For the purposes of impairment testing, goodwill is allocated to the Company's CGUs as follows:

Goodwill	Baker	Blackbird	Jupiter	Standard Farms	Total
Balance, December 31, 2019	$ 3,752	30,505	$ 93,786	$ 10,306	$ 138,349
Impairment	(3,752)	-	(15,672)	-	(19,424)
Discontinued operations	-	(30,505)	-	-	(30,505)
Balance, December 31, 2020	**$ -**	**$ -**	**$ 78,114**	**$ 10,306**	**$ 88,420**

(Amounts Expressed in Thousands of United States Dollars, Except for Gram, Unit, Share and Per Share Amounts)

11 Goodwill (continued)

As at December 31, 2020, the Company performed its annual impairment test on goodwill. Impairment testing for goodwill is performed by assessing if the carrying value for the Jupiter and Standard Farms CGUs exceeds its recoverable amount determined as the greater of the estimated fair value less costs of disposal (FVLCD) and the value in use (VIU). An impairment loss is recognized when the carrying amount of CGU exceeds its recoverable amount.

The recoverable amounts for Jupiter and Standard Farms CGUs were based on FVLCD, using an income approach. Where applicable, the Company uses its comparative market multiples to corroborate discounted cash flow results. The fair value measurement was categorized as a Level 3 based on inputs in the valuation technique used. The key assumptions used in the calculation of the fair value of each CGU include management's projections of future cash flows for a five-year period, as well a terminal value, growth rate, and discount rate based on the estimated weighted average cost of capital, that incorporates the risks specific to the CGUs.

The following table details the key assumptions used in determining the recoverable amount as of December 31, 2020.

	Jupiter CGU	Standard Farms CGU
Balance, December 31, 2020		
Terminal value growth rate	3.0%	3.0%
Discount rate	22.5%	21.2%
Projected revenue growth rate*	24.6%	30.8%
Fair value less cost to dispose	$ 194,361	$ 56,412

* Projected revenue growth rate averaged over the next five years

Based on the test results for Standard Farms, the recoverable amount exceeded the CGU's carrying value, therefore, no impairment losses were recognized for the year ended December 31, 2020.

Based on the test results for Jupiter, the carrying amount of the CGU exceeded its estimated recoverable amount by $15,672 as of December 31, 2020. Consequently, the impairment loss was recorded to goodwill.

As stated in the intangible note, the carrying amount of the Baker CGU exceeded its VIU of nil. Therefore, the Company also incurred an impairment loss $3,752 for Baker CGU allocated to goodwill. Please see Note 10 for impairment analysis of the Baker CGU.

(Amounts Expressed in Thousands of United States Dollars, Except for Gram, Unit, Share and Per Share Amounts)

12 Loans Receivable

A breakdown of the loans receivable balances for the years ended December 31, 2020 and 2019 are as follows:

Loans receivable		**12/31/2020**		**12/31/2019**
Ermont note	$	20,541	$	17,271
Blackbird note (FVTPL)		7,128		-
Verdant note		2,182		2,210
Medical 420 note		1,410		1,410
PBM note		1,250		945
SSZ and Elev8 note		968		820
Trellis note		-		500
Diamond note receivable		-		482
Pure Hana Synergy note		224		224
IESO note		161		161
Sky City Phoenix note		-		58
Total loans receivable	**$**	**33,865**	**$**	**24,080**
Less allowance for expected credit losses		(16,721)		-
Loans receivable, net of expected credit losses		17,143		24,080
Less current portion of loan receivable		(2,660)		(2,392)
Loans receivable, long-term	**$**	**14,483**	**$**	**21,688**

Expected credit losses (ECLs) are measured by the Company on a probability-weighted basis based on historical experience with losses and forward-looking information, which includes considerations of ongoing legal and regulatory developments in the industry. Loss given default parameters utilized by the Company in estimating ECL generally reflect the assumed recovery rate from underlying collateral, with adjustments for time value of money and estimated costs for obtaining and selling the collateral. Given the repayment profile and underlying terms of such loans, ECLs are generally estimated over the contractual term of the loan. The Company recorded an allowance for ECL of $16,721 for the year ended December 31, 2020. See Note 24 for an analysis of the credit quality of loans receivable. During 2019, the Company wrote off loan amounts of $4,689 mainly related to the AFS Cultivation loan that the Company deemed to be uncollectible. During 2020, $305 of the amount previously written off was reversed in connection with the assignment of the Herbology note to PBM.

Ermont, Inc. ("Ermont") note receivable:

During June 2018, the Company entered into a secured loan agreement with Ermont (the "Ermont Note"). The Ermont Note has a maximum credit of $20,000, a maturity date of 5 years and an interest rate of 18% per year, compounded annually. During the years ended December 31, 2020 and 2019, the Company recorded $3,298 and $2,740 of interest income, respectively. See Note 26 for details regarding a subsequent assignment of the Ermont note.

12 Loans Receivable (continued)

Blackbird note receivable:

On November 30, 2020, the Company entered a secured convertible promissory note with Slam Dunk, LLC (the "Blackbird Note"), a Nevada limited liability corporation controlled by a Board member, related to the Company's sale of all membership interests of Blackbird (Note 19). The Blackbird note includes a principal amount of $10,000 and up to an additional $1,000 of additional funding amounts. The principal amount has a maturity date of November 30, 2023, at an annual interest rate of 10% in year one, 11% in year two and 12% in year three, payable at the maturity date. The additional funding of up to $1,000 has a maturity date of November 30, 2023, at an interest rate of 15% in year one, 16% in year two and 17% in year three, compounded quarterly. As of December 31, 2020, the Company has provided a total of $625 additional funding amounts.

The Company has recorded the notes at fair value, estimated based on the present value of cash flows from the notes, discounted using an estimated rate of 30% for the initial amount and 35% for the additional funding amounts. The discount rates were estimated with reference to venture capital rates of return commensurate with the risks underlying the notes. Included in the balance on December 31, 2020 of $7,128 is accrued interest amounting to $91.

Verdant Medical, Inc. ("Verdant Medical") note receivable:

During September 2017, the Company entered into a secured loan agreement with Verdant Medical. The secured loan has a maximum credit of $15,000, a maturity date of September 19, 2023 and an annual interest rate of 10% compounded quarterly.

Pharma EU, LLC ("Pharma") note receivable:

During 2019, the Company entered into $1,410 promissory note agreement with Medical 420 USA, LLC. The promissory note had a maturity date of December 31, 2020 and an interest rate of 12% per year. On March 4, 2019, the obligations under the promissory note were transferred to Pharma on the same terms as the previous note and a principal of Pharma guaranteed all obligations of this promissory note.

PBM Enterprises, LLC ("PBM") note receivable:

During July 2017, the Company entered into a secured loan agreement with Herbology Group Inc. (the "Herbology Note"). The secured loan had a maximum credit of $15,000, a maturity date of 6 years and an interest rate of 10% per year, payable quarterly, in cash at the election of Herbology.

During May 2020, the Company entered into a promissory note with PBM as full consideration and satisfaction of the Herbology Note (the "PBM Note"). The PBM Note includes a principal balance of $1,250, with an interest rate of zero percent and a maturity date of October 1, 2020. Payment of the PBM Note is conditioned on the approval of PBM's Change of Ownership and Control Request Application with the Massachusetts Cannabis Control Commission for a proposed transaction by and among PBM and Herbology Group Inc.

12 Loans Receivable (continued)

PBM Enterprises, LLC ("PBM") note receivable (continued):

As described in Note 26 – Subsequent Events, the PBM Note was amended and restated in February 2021 with an interest rate of zero percent and a maturity date of December 31, 2022.

SSZ Real Estate Holding LLC ('SSZ") and Elev8 Cannabis LLC ("Elev8") note receivable:

During January 2019, the Company entered a secured loan agreement with SSZ and Elev8. The secured loan has a maximum credit of $1,000, a maturity date of 5 years and an interest rate of 8% per year, payable on the maturity date.

Trellis Solutions, Inc. ("Trellis") note receivable:

During 2018, the Company entered into a convertible promissory note with Trellis. The convertible promissory note had a maturity date of October 9, 2019 and an annual interest rate of 3.5%. On April 10, 2020, the Company converted $526 in principal and interest and received 177,238 shares of Trellis (the "Conversion"). Immediately following the Conversion, Trellis participated in a share exchange with Akerna Corporation ("Akerna") in which the shareholders of 100% of the outstanding equity in Trellis exchanged shares in Trellis for shares in Akerna. TILT received 58,293 shares of Akerna as a result of the share exchange. Accordingly, the Company changed its classification and measurement of the amounts due under the Trellis note from a loan receivable at amortized cost to an investment at fair value through profit or loss. At December 31, 2020, $189 within Investments on the Company's consolidated statement of financial position represented the fair value of the Company's investment in Akerna. The shares are subject to a lockup agreement and holding period under Rule 144 of the Securities Act of 1933.

CarrieBoltz, James Sparman, Benjamin Stafft, Diamond Cultivation LLC, Diamond Original LLC, AGFO LLC, Diamond Elite LLC, and Diamond Enterprises LLC ("Diamond") note receivable:

During September 2018, the Company entered into a $550 line of credit agreement with Diamond. The line of credit had an interest rate of 15% per year and a maturity date of January 1, 2021. The loan was repaid in full in December 2020.

Pure Hana Synergy LLC ("Pure Hana Synergy") note receivable:

During July 2018, the Company entered into a secured loan agreement with Pure Hana Synergy. The secured loan has a maximum credit of $1,500, a maturity date of August 1, 2022 and a fixed annual interest rate of 10%.

IESO note receivable:

During 2018, the Company entered into an unsecured financing agreement with IESO. IESO will be using the advances to obtain a license. The loan is without interest and matures in 2021.

12 Loans Receivable (continued)

Sky City Phoenix note receivable:

During August 2018, the Company entered a $30 note receivable with Sky City Phoenix with future advances permitted. The loan is without interest and is not due until after January 1, 2021. The balance of $58 as at December 31, 2019 under this note was part of the net assets of Blackbird disposed – see Note 4.

Advances for acquisition target (Standard Farms Ohio LLC):

During February 2019, the Company entered into a secured loan agreement with Standard Farms Ohio LLC ("Standard Farms Ohio"), an unrelated party, for a financing of $2,683, in connection with the build-out of facilities and other agreed upon pre-operational expenses as set forth in the agreement (the "Build-Out Note"). The Build-Out Note replaced a previously outstanding promissory note with Standard Farms Ohio. In April 2019, the Company entered into a second secured loan agreement with Standard Farms Ohio for additional financing in two installments for a principal amount of $3,000 (the "Loan Notes"). The Loan Notes carry interest at a fixed annual rate of 5.5% and mature on April 11, 2029.

In accordance with the terms set forth in the agreements, upon closing of the first installment under the Loan Notes, holders of the Build-Out Note will have no further obligations to the Company with respect to principal and interest amounts due under the Build-Out Note and upon completion of legal formalities, including approval by the appropriate governmental authority, the amounts due under the Build-Out Note and Loan Notes would be converted into ownership interests in Standard Farms Ohio. See Note 26, Subsequent Events, for further details regarding the acquisition of Standard Farms Ohio.

At December 31, 2019, the Company had closed both installments under the Loan Notes but had not completed the legal formalities required for transfer of ownership interests and accordingly, amounts due under the Build-Out Note of $2,683 were presented as Advances for acquisition targets on the Company's consolidated statement of financial position.

At December 31, 2020, the Company provided additional capital of $1,457 for operating costs incurred under the Build-Out Note. An aggregate of $7,411, as of December 31, 2020, under the Build-Out Note and Loan Notes were presented as Advance for acquisition targets on the Company's consolidated statement of financial position.

13 Shareholders' Equity

Authorized Share Capital

The authorized share capital of the Company is comprised of the following:

(i) Unlimited Number of Common Shares without par value

The holders of the Common Shares shall be entitled to receive notice of and to vote at every meeting of the shareholders of the Company and shall have one vote for each Common Share so held. Holders of Common Shares are entitled to receive as and when declared by the directors of the Company, dividends in cash or property of the Company.

(ii) Unlimited Number of Compressed Shares without par value

The holders of Compressed Shares (the "Compressed Shareholders") have the right to one vote for each Common Share into which such Compressed Shares are convertible (disregarding the Conversion Limitations set forth). Compressed Shareholders have voting rights and powers equal and identical to the voting rights and powers of the holders of Common Shares.

<u>*Conversion Limitation*</u>

(1) 40% Threshold. The Company shall not affect any conversion of Compressed Shares, and the Compressed Shareholders shall not have the right to convert any portion of the Compressed Shares, to the extent that after giving effect to such issuance after conversions, the aggregate number of Common Shares and Compressed Shares held of record, directly or indirectly, by residents of the United States would exceed forty percent (40%) (the "40% Threshold") of the aggregate number of Common Shares and Compressed Shares issued and outstanding (the "FPI Protective Restriction").

(2) Conversion Limitations. In order to affect the FPI Protective Restriction, each Compressed Shareholder will be subject to the 40% Threshold based on the number of Compressed Shares held by such Compressed Shareholder as of the date of the initial issuance of any Compressed Shares and, thereafter, at the end of each of the Company's subsequent fiscal quarters (each, a "Determination Date") for the current fiscal quarter (the "Relevant Fiscal Quarter").

Subject to the Conversion Limitations, Compressed Shareholders have the right to convert each Compressed Share into Common Shares by multiplying the number of Compressed Shares by the Conversion Ratio in effect on the applicable date the Compressed Shares are surrendered for conversion. In accordance with the initial "Conversion Ratio", each Compressed Share shall be convertible into 100 Common Shares.

The Company may require a ("Mandatory Conversion") by giving a ("Mandatory Conversion Notice") at least 20 days prior to the record date of Mandatory Conversion.

(Amounts Expressed in Thousands of United States Dollars, Except for Gram, Unit, Share and Per Share Amounts)

13 Shareholders' Equity (continued)

Authorized Share Capital (continued)

The Compressed Shareholders are entitled to receive dividends and distributions payable in respect of Common Shares, out of any cash or other assets legally available therefor, received by shareholders, distributed among the Compressed Shareholders and the holders of Common Shares based on (i) the number of Common Shares and (ii) the number of Compressed Shares (on an as converted basis, assuming conversion of all Compressed Shares into Common Shares at the applicable Conversion Ratio, disregarding the Conversion Limitations). As of December 31, 2019, all Compressed Shares have been converted to Common Shares.

LP Units of JJ LP

LP Units of JJ LP, a subsidiary of TILT, are exchangeable for one Common Share at any time per request of the owner of LP Units and are not saleable or transferable without the Company's authorization. In connection with the Jupiter Acquisition discussed in Note 3, 1,002,081 of the LP Units that were issued, as consideration for the Jupiter Acquisition were being held in escrow in accordance with the underlying agreement. Those shares were released to the Jupiter shareholders during the year ended December 31, 2020. During the year ended December 31, 2020, 10,992,845 LP Units were converted to Common Shares.

Warrants

Each whole warrant entitles the holder to purchase one Common Share. A summary of the status of the warrants outstanding is as follows:

Warrants	**Number of warrants**	**Weighted-average exercise price**	
Balance as of December 31, 2019	**76,042,967**	**CAD$**	**2.29**
Exercised	(182,500)	CAD$	0.33
Issued	500,000	CAD$	0.33
Expiration of warrants	(1,798,256)	CAD$	5.25
Balance as of December 31, 2020	**74,562,211**	**CAD$**	**0.43**

The Company issued 500,000 warrants to a consultant during the year December 31, 2020 at an exercise price of $0.25. For the year ended December 31, 2020 and 2019, the Company recorded warrant compensation expense of $66 and $731 with a fair value of $0.15-$0.25 and $0.18 per warrant, respectively.

(Amounts Expressed in Thousands of United States Dollars, Except for Gram, Unit, Share and Per Share Amounts)

13 Shareholders' Equity (continued)

Warrants (continued)

The following table summarizes the warrants that remain outstanding as of December 31, 2020.

Security issued	Exercise price (C$)	Number of warrants	Expiration date
Warrants issued as part of debt offering	0.33	45,906,520	November 1, 2022
Warrants issued as part of debt offering	0.39	18,360,000	November 20, 2022
Consultant warrants	0.53	750,000	November 22, 2022
Consultant warrants	0.33	500,000	January 28, 2023
Founders separation warrants	1.05	9,045,691	September 30, 2024

The fair value of warrants issued was determined using the Black-Scholes option- pricing model with the following assumptions at the time of issuance:

Risk-Free Annual Interest Rate	2.6% - 1.5%
Expected Annual Dividend Yield	0%
Expected Share Price Volatility	80% - 95%
Expected Life of Warrants	0.78 - 3.0 years

Volatility was estimated by using the average historical volatility of comparable companies from a representative peer group of publicly traded cannabis companies. The expected life in years represents the period of time that warrants issued are expected to be outstanding.

Share Options

A summary of the status of the options outstanding follows:

Share options	Stock options common shares	Weighted-average exercise price
Balance as of December 31, 2019	**12,525,614**	**US$ 1.35**
Granted	17,837,463	US$ 0.62
Exercised	(62,100)	US$ 0.09
Forfeited	(11,159,789)	US$ 1.14
Balance as of December 31, 2020	**19,141,188**	**US$ 0.63**

In accordance with its amended and restated 2019 stock incentive plan, the Company granted employees and consultants options totaling 17,837,463 at an exercise price ranging from CAD $0.39-$0.65. During the year ended December 31, 2020 and 2019, the Company recorded $4,200 and $75,628 of net share-based compensation, respectively.

(Amounts Expressed in Thousands of United States Dollars, Except for Gram, Unit, Share and Per Share Amounts)

13 Shareholders' Equity (continued)

The following table summarizes the share options that remain outstanding as of December 31, 2020:

Security issuable	Number of options	Exercise price	Expiration date	Options exercisable
Legacy employees	1,762,900	US$ 0.31-1.58	June 27, 2023-February 14, 2029	1,762,900
2020 employee grant	11,206,190	US$ 0.30-0.48	June 25, 2030	113,423
Other employee grants	6,172,098	US$ 0.41-3.98	June 17, 2024-November 21, 2029	5,672,098
Total	**19,141,188**			**7,548,421**

The fair value of share options granted was determined using the Black-Scholes option-pricing model with the following assumptions at the time of grant:

Risk-Free Annual Interest Rate	0.95% - 2.66%
Expected Annual Dividend Yield	0%
Expected Share Price Volatility	80% - 105.68%
Expected Life of Share Options	5.75 - 10 years
Forfeiture Rate	0%

Volatility was estimated by using the average historical volatility of comparable companies from a representative peer group of publicly traded cannabis companies. The expected life in years represents the period of time that options issued are expected to be outstanding. The risk-free rate is based on U.S. Treasury bills with a remaining term equal to the expected life of the options.

(Amounts Expressed in Thousands of United States Dollars, Except for Gram, Unit, Share and Per Share Amounts)

14 Income Taxes

The provision for income tax consisted of the following for the years ended December 31, 2020 and 2019:

Income tax provision	**12/31/2020**	**12/31/2019**
Current:		
US Federal	$ (637)	$ 1,552
US State	76	813
Canada	903	-
Deferred		
US Federal	(4,106)	(4,187)
US State	(1,279)	(1,453)
(Recovery) of income taxes	**$ (5,043)**	**$ (3,275)**

On December 22, 2017, the U.S. enacted the "Tax Cuts and Jobs Act" ("Tax Act"), which lowered the U.S. statutory tax rate from 35% to 21% effective January 1, 2018:

The reconciliation between the effective tax rate and income from continuing operations and the combined Canadian federal and provincial statutory tax rate is as follows:

Income tax provision	**12/31/2020**	**12/31/2019**
(Loss) from continuing operations before income taxes	$ (57,150)	$ (125,202)
	27%	27%
Pre-tax (loss) at statutory rate from continuing operations	(15,430)	(33,805)
US State tax	(139)	(635)
Non-deductible expenses	11,211	24,077
(Income) loss taxed in foreign jurisdictions	493	(5,573)
Prior year adjustments	(410)	-
Other	(37)	(285)
Change in unrecognized deferred tax assets	(731)	12,946
(Recovery) of income taxes	**$ (5,043)**	**$ (3,275)**

(Amounts Expressed in Thousands of United States Dollars, Except for Gram, Unit, Share and Per Share Amounts)

14 Income Taxes (continued)

As of December 31, 2020 and 2019, the components of deferred tax assets and liabilities were as follows:

Deferred tax asset (liability)		**12/31/2020**		**12/31/2019**
Property and equipment	$	316	$	1,554
Intangible deferred tax asset		3,062		2,800
Financing costs and others		7,496		4,517
Net operating loss carry-forwards		20,501		21,986
Capital loss carryforward		7,899		-
Unrecognized deferred tax asset		(27,439)		(21,716)
Deferred tax asset recognized		11,835		9,141
Intangible deferred tax liability		(20,042)		(29,120)
Property and equipment		(571)		-
Biological assets and inventory		(7,555)		(4,570)
Net deferred tax liability	**$**	**(16,333)**	**$**	**(24,549)**

For the years ended December 31, 2020 and 2019, the Company had unrecognized Canadian non-capital losses of approximately $43,000 and $35,400 expiring between 2038 to 2040. The Company had unrecognized US non-capital losses of approximately $12,300 with no expiration and unrecognized capital losses of approximately $31,600 expiring in 2025. The Company had unrecognized deductible temporary differences of approximately $20,200. The Company's U.S. tax attributes are subject to an annual limitation from equity shifts, which constitute a change of ownership as defined under Internal Revenue Code ("IRC") Section 382, which will limit their utilization.

As the Company operates in the cannabis industry, it is subject to the limits of IRC Section 280E under which the Company is only allowed to deduct expenses directly related to the cost of goods sold. This results in permanent book/tax differences for ordinary and necessary business expenses deemed non-allowable under IRC Section 280E. Therefore, the effective tax rate can be highly variable and may not necessarily correlate with pre-tax income or loss.

The Company is treated as a U.S. corporation under section 7874 of the IRC and is expected to be subject to U.S. federal income tax. However, the Company is expected, regardless of any application of section 7874 of the U.S. tax code, to be treated as a Canadian resident Company for Canadian income tax purposes. As a result, the Company will be subject to taxation both in Canada and the U.S.

Amounts reported on the consolidated statement of financial position:

Deferred tax asset (liability)		**12/31/2020**		**12/31/2019**
Deferred tax asset	$	7,007	$	-
Deferred tax liability		(23,340)		(24,549)
Net deferred tax liability	**$**	**(16,333)**	**$**	**(24,549)**

(Amounts Expressed in Thousands of United States Dollars, Except for Gram, Unit, Share and Per Share Amounts)

14 Income Taxes (continued)

For the years ended December 31, 2020 and 2019, the Company recognized $7,007 and $nil respectively of deferred tax assets in excess of profits arising from its existing taxable temporary differences as the Company expects to utilize these deductible temporary differences against future taxable profits from revenues from its cannabis operations.

15 Earnings (Loss) Per Share

The following is a calculation of basic and diluted earnings (loss) per share for the years ended December 31, 2020 and 2019:

Loss per share	**12/31/2020**	**12/31/2019**
Net loss	$ (105,757)	$ (133,373)
Weighted-average number of shares and units outstanding - basic	364,562,929	355,837,933
Loss per share - basic and diluted	($0.29)	($0.37)
Loss per share - basic and diluted from continued operations	**($0.14)**	**($0.34)**
Loss per share - basic and diluted from discontinued operations	**($0.15)**	**($0.03)**

Diluted earnings (loss) per share for the years ended December 31, 2020 and 2019 is the same as basic (loss) per share as the issuance of shares on exercise of warrants and share options is anti-dilutive.

16 Notes Payable

As of December 31, 2020 and 2019, the notes payable, unamortized portions of the debt discount and the debt issuance costs are as follows:

Notes payable	**12/31/2020**	**12/31/2019**
Balance, beginning of year	$ 65,710	$ -
Proceeds from original issue discount	-	16,000
Proceeds from notes issued	-	72,887
Accretion of debt discount	2,227	4,354
Repayment of borrowings	(516)	(20,000)
Transaction costs related to notes issued	-	(1,838)
Proceeds allocated to warrants	-	(5,948)
Interest expense	6,994	255
Interest paid	(2,665)	-
Notes payable, end of year	71,750	65,710
Less current portion	(4,668)	(904)
Notes payable, long-term	**$ 67,082**	**$ 64,806**

(Amounts Expressed in Thousands of United States Dollars, Except for Gram, Unit, Share and Per Share Amounts)

16 Notes Payable (continued)

As of December 31, 2020 future principal payments due under notes payable were as follows:

Year ended December 31,	Amount
2021	$ 400
2022	35,805
2023	36,180
Total	**$ 72,385**

Bridge Loans

On April 29, 2019 and May 13, 2019, the Company entered into two credit facilities of original issue discount ("OID") term loans that were scheduled to mature on November 9, 2019. On these dates, the lender advanced OID terms loans in an amount equal to 80% of the face amount which consisted of two separate tranche advances of $6,400 and $9,600, net of related costs representing a $16,000 face amount and resulting in an OID of $4,000, which was amortized through interest expense over the term of the loans.

Each of the loans required monthly payments of interest at a 15% fixed rate per annum of the face amount commencing on June 1, 2019. As defined in the loan agreement, upon the occurrence and during the continuance of any event of default, the loans shall bear interest from and including the issue date, at a 20% fixed rate per annum of the principal balance paid on a monthly basis. The loans were secured by all personal property and all accounts receivables as defined in the loan agreements.

The Company incurred debt issuance costs and OID accretion totaling approximately $4,000, which has been recognized as additional interest expense over the life of the debt commitment.

The two credit facilities were repaid in full on November 4, 2019.

Promissory Note

On December 10, 2019, the Company entered into a private placement agreement ("Promissory Note") for an aggregate principal amount of $903. The Promissory Note accrued interest at 2% and was due on the earlier of September 20, 2020 or the date the Company closes the sale of all or any of its interest in Standard Farms. On September 20, 2020, $216 was paid, and an amendment was signed to allow for $100 monthly payments until the remaining $700 is paid in full. As of December 31, 2020, the remaining balance of the Promissory Note was $400.

16 Notes Payable (continued)

Senior Secured Notes

On November 4, 2019, the Company entered into a private placement of up to $35,000 of senior secured notes from a syndicate consisting of new investors and existing shareholders, including the Company's CEO (the "Senior Notes"). The first close totaled $25,500 on November 4, 2019, and a further closing of $10,300, which was oversubscribed by $800, occurred on November 20, 2019. The financing was used specifically to retire in full the Company's $20,000 bridge loan dated April 29, 2019 as well as other payables. All personal property, including inventory and equipment, as well as all proceeds have been pledged as security for the Company's Senior Secured Notes.

All Senior Notes have a maturity date of 36 months from the closing date and bear interest from their date of issue at 8.0% per annum, payable quarterly. In connection with the issuance of the Senior Notes, the Company issued 1,800 common share purchase warrants (the "Warrants") to the subscribers for each $1 principal amount of Senior Notes subscribed, for a total aggregate of approximately 64,400,000 Warrants (representing 45% warrant coverage on the aggregate gross proceeds of the Senior Notes). Each Warrant is exercisable for one Common Share at a price ranging from C$0.33 to C$0.39 per Common Share for a period of 36 months from the applicable closing date.

The Company used the residual fair value method to allocate the proceeds of the Senior Notes and the Warrants using the Black Scholes method. The Senior Notes are carried at $35,804 and the Warrants valued at $5,906. Please see Note 13 Shareholders' Equity for more details regarding the Warrants issued.

Interest amortization was $1,983 and $330 for the years ended December 31, 2020 and 2019, respectively. As of December 31, 2020, the remaining balance of the Senior Secured Notes was $31,665, including interest.

Junior Secured Notes

The previous sellers of Jupiter (the "Jupiter Sellers") agreed to restructure the $35,000 purchase consideration payable in connection with the Jupiter Acquisition plus accrued interest of $1,180. The junior secured notes mature on January 1, 2023 and bear interest at 8% per annum that accrues and is payable at maturity. Upon repayment of the Senior Notes, should any Jupiter debt be outstanding, the Jupiter Sellers will assume the same rights and security as the original financing syndicate until repaid. All personal property, including inventory and equipment, as well as all proceeds have been pledged as security for the Company's Junior Secured Notes. As of December 31, 2020, the remaining balance of the Junior Secured Notes was $39,685, including interest.

(Amounts Expressed in Thousands of United States Dollars, Except for Gram, Unit, Share and Per Share Amounts)

17 Lease Liabilities

The following table presents the contractual undiscounted cash flows for lease liabilities for the year ended December 31, 2020:

As of December 31, 2020	Amount
One to five years	$ 12,898
More than five years	4,264
Total undiscounted lease liabilities	**$ 17,162**

Lease liabilities included in the consolidated statement of financial position for the year ended December 31, 2020:

As of December 31, 2020	Amount
Current	$ 1,615
Non-current	11,647
Total	**$ 13,262**

Interest expense on lease liabilities for the years ended December 31, 2020 and 2019 was $1,617 and $2,006, respectively. All extension options that are reasonably expected to be exercised have been included in the measurement of lease liabilities.

18 Commitments and Contingencies

Guarantees

A subsidiary is a guarantor in the lease agreement of one of the Massachusetts dispensaries to which the Company has extended a loan. The Company may be liable for the future minimum rental payments under this lease if the dispensary defaults as follows:

Year ended December 31,		Amount
2021	$	414
2022		434
2023		450
2024		463
2025 and thereafter		1,997
Total	**$**	**3,758**

18 Commitments and Contingencies (continued)

Litigation

The Company has been named as a defendant in several legal actions and is subject to various risks and contingencies arising in the normal course of business. Management is of the opinion that the outcome of these uncertainties will not have a material adverse effect on the Company's financial position.

In July 2019, Richard Komaiko and Marcie Cooperman filed a suit on behalf of themselves and others similarly situated against TILT and Baker, alleging the Company violated federal law by spamming them and other customers with unsolicited text message marketing. The lawsuit, which was filed in the U.S. District Court for the Northern District of California, alleged that TILT and Baker violated the federal Telephone Consumer Protection Act and California's Unfair Competition Law.

The Court dismissed without prejudice the claims against TILT for lack of personal jurisdiction and denied the Plaintiffs' request for jurisdictional discovery against TILT. The Court subsequently granted Baker's motion to stay the case pending a forthcoming Supreme Court ruling and while the case was stayed, Baker and the Plaintiffs participated in a settlement conference and agreed to settle the Plaintiffs' individual claims against Baker. The lawsuit was subsequently dismissed with prejudice and the terms of the confidential settlement were finalized in January 2021. The settlement amount was accrued for as of December 31, 2020 and paid for in January 2021.

On July 14, 2020, the Company was served with a claim filed in the Ontario Superior Court of Justice against them and its former directors and officers. The plaintiff claimed and seeked to claim on behalf of a proposed class, an unspecified amount of damages for alleged misrepresentations made by the Company about its business in its public disclosure during the proposed class period of October 12, 2018 to May 1, 2019. The claim has not been granted leave to proceed and has yet to be certified. The Company intends to defend the claim vigorously.

In September 2020, the Company entered into a settlement agreement and release with O'Melveny & Myers LLP ("OMM") in respect of a previously disclosed arbitration instituted by OMM. Pursuant to initial arbitration documents, OMM claimed that the Company had failed to pay approximately $3,100 in fees, of which an amount in excess of $.10 was specifically attributable to Baker. Pursuant to the settlement agreement & release, the Company agreed to pay $.10 in full and final settlement of the invoices outstanding for services rendered and costs incurred in the legal representation by OMM of Baker, but not of the invoices concerning OMM's other representation of the Company. Consequently, OMM filed suit against the Company concerning its claims against the Company in British Columbia, and the Company filed suit against OMM in San Francisco concerning OMM's claims, while also asserting its own claims against OMM and certain of its partners.

(Amounts Expressed in Thousands of United States Dollars, Except for Gram, Unit, Share and Per Share Amounts)

18 Commitments and Contingencies (continued)

COVID-19 Risk Factor

COVID-19 was identified in China in late 2019 and has spread globally. The rapid spread has resulted in authorities implementing numerous measures to try to contain the virus, such as travel bans and restrictions, quarantines, shelter in place orders and shutdowns. Even though the Company is considered a U.S. federally designated essential critical business, these measures have impacted and may further impact all or portions of the Company's workforce and operations, customers, and the operations of respective vendors and suppliers. There is considerable uncertainty regarding such measures and potential future measures.

Restrictions on the Company's access to facilities or workforce, or similar limitations for suppliers, and restrictions or disruptions of transportation, could limit the Company's ability to meet customer demand and have a material adverse effect on financial condition, cash flows and results of operations. There is no certainty that measures taken by governmental authorities will be sufficient to mitigate the risks posed by the virus, and our ability to perform critical functions could be harmed.

The ultimate magnitude of COVID-19, including the extent of its impact on our financial and operational results, which could be material, will be determined by the length of time that the pandemic continues, its effect on the demand for our products and services and the supply chain, as well as the effect of governmental regulations imposed in response to the pandemic. The Company cannot at this time predict the impact of the COVID-19 pandemic, but it could have a material adverse effect on our business, financial condition, results of operations and/or cash flows. An estimate of the financial effects of COVID-19 cannot be made as of the date the consolidated financial statements were authorized for issuance on April 14, 2021.

19 Related Party Transactions

Compensation of Key Management Personnel

The Company's key management personnel have the authority and responsibility for planning, directing, and controlling the activities of the Company and consists of the Company's executive management team and directors.

	Year ended December 31,	
Compensation of key management personnel	**2020**	**2019**
Management compensation	$ 2,556	$ 2,468
Share-based payments	2,658	73,856

19 Related Party Transactions (continued)

Related Party Balances

A related party is a person or an entity that is related to the reporting entity if that person or entity has control, joint control or significant influence over the entity or is a member of key management personnel.

The Company has a payable of $20,154 as of December 31, 2020 and 2019 to the Company's CEO, for his portion of the amounts payable in connection with the Jupiter Acquisition. $17,728 of the total amount is included within notes payable (see Note 16) and the remaining within accounts payable and accrued liabilities, on the consolidated statements of financial position.

The Company has payables of $1,619 and $1,000, respectively, to the Company's CEO and Corner Health, LLC, an entity partially owned and managed by a current Board member, related to their portion of the amounts payable in connection with the senior notes (see Note 16) for the years ended December 31, 2020 and 2019.

The Company has a receivable of $7,128 as of December 31, 2020 from Slam Dunk, LLC, a Nevada limited liability corporation controlled by a Board member, related to the Company's sale of all membership interests of Blackbird (Note 4 and 12).

20 Segment Information

The Company operates in five reportable segments: cannabis segment (SVH, Sea Hunter and Standard Farms), technology/distribution (Baker, Blackbird and Briteside), accessories (Jupiter) and other (White Haven). The cannabis segment includes production, cultivation, and sale of cannabis products; technology/ distribution segment delivers range of products and services across the cannabis industry and includes logistic operations and software solutions throughout the cannabis supply chain; accessories include the manufacturing and distribution of electronic, non-nicotine (i.e., cannabis) devices and systems.

Information related to each operating segment is set out below. Operating segment net income (loss) is used to measure performance because management believes that this information is the most relevant in evaluating the results of the respective segments relative to other entities that operate in the same industries.

(Amounts Expressed in Thousands of United States Dollars, Except for Gram, Unit, Share and Per Share Amounts)

20 Segment Information (continued)

Operating Segments

The following tables presents the Company's operating segments for the years ended December 31, 2020 and 2019, respectively:

	Year ended December 31, 2020					
	Technology/Distribution	Cannabis	Accessories	Corporate & Elim	Other	Total
Revenue	$ 54	$ 37,901	$ 122,042	$ -	$ -	$ 159,997
Inter-segment revenue	-	-	(1,588)	-	-	(1,588)
Net revenue	$ 54	$ 37,901	$ 120,454	$ -	$ -	$ 158,409
Share-based compensation	-	-	384	3,816	-	4,200
Depreciation and amortization	948	2,530	14,424	-	614	18,516
Wages and benefits	95	2,478	3,685	6,669	-	12,927
Impairment loss	6,478	9,604	15,672	2,460	-	34,214
Finance expense	194	1,373	181	8,587	-	10,335
Loan losses	-	1,158	-	15,258	-	16,416
Net income (loss) from continued operations	(7,497)	10,936	(26,933)	(27,912)	(701)	(52,107)
Loss on discontinued operations, net of tax	(53,650)	-	-	-	-	(53,650)
Net income (loss)	(61,147)	10,936	(26,933)	(27,912)	(701)	(105,757)
Total assets	15,125	149,733	239,679	17,410	7,657	429,604
Total liabilities	1,949	17,675	48,206	78,716	11	146,557

* Blackbird's segment is covered through the period ending November 30, 2020, the date the Blackbird Sale was completed.

(Amounts Expressed in Thousands of United States Dollars, Except for Gram, Unit, Share and Per Share Amounts)

20 Segment Information (continued)

Operating Segments (continued)

	Year ended December 31, 2019					
	Technology/Distribution	Cannabis	Accessories	Corporate & Elim	Other	Total
Revenue	$ 6,186	$ 26,788	$ 116,691	$ 18	$550	$ 150,233
Inter-segment revenue	(3,298)	-	-	-	-	(3,298)
Net revenue	$ 2,888	$ 26,788	$116,691	$ 18	$550	$ 146,935
Share-based compensation	-	-	-	75,628	-	75,628
Depreciation and amortization	1,311	3,055	18,031	-	566	22,963
Wages and benefits	895	6,100	3,305	8,797	-	19,097
Finance expense	376	1,269	2,266	9,901	-	13,812
Impairment loss	7,553	15,007	-	-	-	22,560
Loan losses	-	-	-	4,689	-	4,689
Net income (loss) from continued operations	(14,328)	(12,183)	(11,976)	(83,298)	(142)	(121,927)
Loss on discontinued operations, net of tax	(11,447)	-	-	-	-	(11,447)
Net income (loss)	(25,775)	(12,183)	(11,976)	(83,298)	(142)	(133,374)
Total assets	81,345	179,191	272,809	4,809	7,749	545,903
Total liabilities	18,251	15,710	66,781	61,293	2	162,037

The Company entered an Expense Sharing and Cost Allocation Agreement on September 10, 2020 amongst their respective subsidiaries. Effective as of January 1, 2019, the Company’s affiliates incurred costs and expenses in support of certain service departments and functions which benefit from its mutual covenants. Operating Segments as of December 31, 2020 and 2019 are disclosed with the Expense Sharing and Cost Allocation Agreement in effect.

(Amounts Expressed in Thousands of United States Dollars, Except for Gram, Unit, Share and Per Share Amounts)

20 Segment Information (continued)

Geographic Areas

The following table presents financial information relating to geographic areas in which the Company operated for the years ended December 31, 2020 and 2019.

	Year ended December 31, 2020			
	USA	Canada	Other	Total
Revenue	$ 148,793	$ 9,121	$ 495	$ 158,409
Gross profit	56,126	2,644	185	58,955
Total current assets	101,816	73	-	101,889
Total non-current assets	327,097	618	-	327,715
Total liabilities	147,247	(690)	-	146,557

	Year ended December 31, 2019			
	USA	Canada	Other	Total
Revenue	$ 140,411	$ 6,336	$ 188	$ 146,935
Gross profit	56,510	1,858	95	58,368
Total current assets	94,595	113	-	94,708
Total non-current assets	445,079	6,116	-	451,195
Total liabilities	160,583	1,454	-	162,037

(Amounts Expressed in Thousands of United States Dollars, Except for Gram, Unit, Share and Per Share Amounts)

21 Disaggregation of Revenue

The following table presents revenue for the years ended December 31, 2020 and 2019, disaggregated by major products, service lines and timing of revenue recognition.

Year ended December 31, 2020	Technology/ Distribution	Cannabis	Accessories	Corporate/Elim	Other	Total
Logistics, software and distribution (i)	$ -	$ -	$ -	$ -	$ -	$ -
Cannabis (ii)	-	37,901	-	-	-	37,901
Vaporization and inhalation devices (ii)	-	-	120,454	-	-	120,454
Distribution (ii)	-	-	-	-	-	-
Other (ii)	54	-	-	-	-	54
	$ 54	$ 37,901	$ 120,454	$ -	$ -	$ 158,409

Year ended December 31, 2019	Technology/ Distribution	Cannabis	Accessories	Corporate/Elim	Other	Total
Logistics, software and distribution (i)	$ 665	$ -	$ -	$ -	$ -	$ 665
Cannabis (ii)	800	21,571	-	-	-	22,371
Vaporization and inhalation devices (ii)	-	5,217	107,413	-	-	112,630
Distribution (ii)	-	-	9,278	-	-	9,278
Other (ii)	1,423	-	-	18	550	1,991
	$ 2,888	$ 26,788	$ 116,691	$ 18	$ 550	$ 146,935

Timing of revenue recognition:

(i) Rateably over contract term, with respect to license and set up fees and at a point in time with respect to usage-type fees.

(ii) At a point in time.

(Amounts Expressed in Thousands of United States Dollars, Except for Gram, Unit, Share and Per Share Amounts)

21 Disaggregation of Revenue (continued)

Deferred Revenue

Deferred revenue relates to advance consideration received from customers primarily for the sale of vaporization and inhalation devices. The amount of $5,093 included in deferred revenue as at December 31, 2019 has been recognized in revenue in 2020 (2018: $196).

22 General and Administrative

For the years ended December 31, 2020 and 2019, general and administrative expenses consisted of the following:

General and administrative	2020	2019
Bad debt expense	$ 3,747	$ 924
Commissions	912	1,116
Warehousing costs	625	687
Repairs and maintenance	569	351
Supplies and small equipment	532	559
Administrative and other	506	1,401
Noteholder representative fees	455	68
Selling expense	426	515
Utilities	419	513
Licenses and permits	366	1,111
Miscellaneous tax expense	323	254
Website and internet expense	290	182
Security	240	475
Software expenses	139	315
Bank charges and credit card fees	161	191
Meals and entertainment	84	154
Research and development	59	96
Subcontractors	-	1,246
Total general and administrative	**$ 9,853**	**$ 10,158**

As of December 31, 2020, the bad debt expense of $2,169 is due to derecognition of accounts receivable with Ermont in connection with the Ermont loan assignment (Note 26).

23 Expenses by Nature

Expenses are presented on the face of the consolidated statements of operations and comprehensive loss using a classification based on the functions “Production costs expensed to cost of sales,” “Advertising and marketing,” and “General and administrative”. The Company also presents other material operating expenses separately as they were deemed to be items of dissimilar function.

(Amounts Expressed in Thousands of United States Dollars, Except for Gram, Unit, Share and Per Share Amounts)

23 Expenses by Nature (continued)

Included within Production costs expensed to cost of sales for the years ended December 31, 2020 and 2019, were staff costs amounting to $9,989 and $7,016, and depreciation and amortization charges amounting to $3,722 and $3,035.

The staff costs expensed to cost of sales for Blackbird included $3,877 and $5,358, and depreciation and amortization charges for Blackbird amounting to $623 and $530 for the eleven and twelve months ended November 30, 2020 and December 30, 2019, respectively.

24 Financial Instruments and Capital Risk Management

Financial and Capital Risk Management

The Company examines the various financial instruments and risks to which it is exposed and assesses the impact and likelihood of those risks. These risks include market risk, interest rate risk, liquidity risk, currency risk, and credit risk. Where significant, these risks are reviewed and monitored by the Board.

The Board has overall responsibility for the determination of the Company's risk management objectives and policies. The overall objective of the Board is to set policies that seek to reduce risk as far as possible without unduly affecting the Company's competitiveness and flexibility.

Liquidity Risk

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

The following are the remaining contractual maturities of financial liabilities for the years ended December 31, 2020 and 2019:

	Carrying	Contractual cash flows			
December 31, 2020	**amount**	**Total**	**< 6 months**	**6 - 12 months**	**1 - 5 years**
Accounts payable and accrued liabilities	$ 31,818	$ (31,818)	(31,818)	-	-
Notes payable	71,750	(90,883)	(7,360)	(3,297)	(80,226)
Total	**$ 103,568**	**$ (122,701)**	**(39,178)**	**(3,297)**	**(80,226)**

	Carrying	Contractual cash flows			
December 31, 2019	**amount**	**Total**	**< 6 months**	**6 - 12 months**	**1 - 5 years**
Accounts payable and accrued liabilities	$ 39,614	$ (39,614)	(39,614)	-	-
Notes payable	65,710	(94,052)	(4,314)	(3,046)	(86,692)
Total	**$ 105,324**	**$ (133,666)**	**(43,927)**	**(3,046)**	**(86,692)**

24 Financial Instruments and Capital Risk Management (continued)

Financial and Capital Risk Management (continued)

Interest Rate Risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. As interest on the cash held with financial institutions is negligible and the Company does not have any variable interest rate instruments, the Company considers interest rate risk to be immaterial.

Currency Risk

The operating results and financial position of the Company are reported in U.S. dollars. Some of the Company's financial transactions are denominated in currencies other than the U.S. dollar. The Company's exposure to currency risk is minimal.

For the years ended December 31, 2020 and 2019, the Company had no hedging agreements in place with respect to foreign exchange rates. The Company has not entered into any agreements or purchased any instruments to hedge possible currency risks at this time.

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, and arises principally from the Company's trade receivables, advances for acquisition targets and loans receivable. The carrying amounts for these financial assets represent their maximum credit exposure to the Company.

Trade Receivables

The Company provides credit to its customers in the normal course of business and has established credit evaluation and monitoring processes to mitigate credit risk. Accounts receivable related to online sales are held in reputable merchant accounts and are typically received within a short period of time.

As of December 31, 2020 and December 31, 2019, the Company was not exposed to any significant credit risk related to counterparty performance of outstanding trade receivables.

Loans Receivable

The Company manages its exposure to credit risk arising from loans receivable by obtaining collateral in the form of guarantees and security interest in the underlying assets of the counterparty, including intangible assets such as cannabis licenses, which would allow the Company to foreclose on the loans or force a sale of the assets in the event of default by the counterparty.

At each reporting date, the Company assesses whether loans receivables are credit impaired. A financial asset is 'credit impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

(Amounts Expressed in Thousands of United States Dollars, Except for Gram, Unit, Share and Per Share Amounts)

24 Financial Instruments and Capital Risk Management (continued)

Financial and Capital Risk Management (continued)

Loans Receivable (continued)

Evidence that a loan is credit impaired is based on observable data such as significant financial difficulty of the debtor and a breach of contract such as a default or being past due.

Expected credit losses (ECLs) are measured by the Company on a probability-weighted basis based on historical experience with losses and forward-looking information, which includes considerations of ongoing legal and regulatory developments in the industry. Loss given default parameters utilized by the Company in estimating ECL generally reflect the assumed recovery rate from underlying collateral, with adjustments for time value of money and estimated costs for obtaining and selling the collateral. Given the repayment profile and underlying terms of such loans, ECLs are generally estimated over the contractual term of the loan.

The following tables present an analysis of the credit quality of loans receivable, together with impairment losses recognized based on lifetime ECLs, for the years ended December 31, 2020 and 2019:

	Year ended December 31, 2020		
Nature of collateral	**Gross amounts**	**Loan losses**	**Net**
Security interest in assets of counterparty	$ 32,069	$ (15,563)	**$ 16,506**
Third party guarantee	1,410	(882)	**528**
No collateral	385	(276)	**109**
Net loans receivable			**$ 17,143**

	Year ended December 31, 2019		
Nature of collateral	**Gross amounts**	**Loan losses**	**Net**
Security interest in assets of counterparty	$ 26,416	$ (4,689)	**$ 21,727**
Third party guarantee	1,410	-	**1,410**
No collateral	944	-	**944**
Net loans receivable			**$ 24,081**

24 Financial Instruments and Capital Risk Management (continued)

Financial and Capital Risk Management (continued)

Cash and Cash Equivalents

Cash is maintained with financial institutions of reputable credit and may be redeemed upon demand. The Company maintains its cash accounts at various financial institution in the United States and Canada. Federal Deposit Insurance Corporation ("FDIC") provides insurance of up to $250 for cash accounts held in the banks in the United States. Canadian Deposit Insurance Corporation ("CDIC") provides insurance of up to C$100 for cash accounts held in the banks in Canada. From time to time, the Company's balances may exceed this limit. The Company has not experienced any losses on its cash deposits. Credit risk exposure is limited through maintaining cash with high-credit quality financial institutions and management considers this risk to be minimal for all cash assets based on changes that are reasonable possible at each reporting period.

Capital Management

The Company's objectives when managing capital are to ensure that there are adequate capital resources to safeguard the Company's ability to continue as a going concern and maintain adequate levels of funding to support its ongoing operations and development such that it can continue to provide returns to shareholders and benefits for other shareholders.

The capital structure of the Company consists of items included in shareholders' equity and debt. The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the Company's underlying assets. The Company plans to use existing funds, as well as funds from the future sale of products, to fund operations and expansion activities. As of December 31, 2020, the Company is not subject to externally imposed capital requirements.

(Amounts Expressed in Thousands of United States Dollars, Except for Gram, Unit, Share and Per Share Amounts)

24 Financial Instruments and Capital Risk Management (continued)

Fair Value

The following tables show the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy for the years ended December 31, 2020 and 2019, respectively.

	Year Ended December 31, 2020					
	Measurement basis				Fair value hierarchy	
Fair value of assets	Financial assets at FVOCI	Financial assets at FVTPL	Financial assets at amortized cost	Financial liabilities at amortized cost	Level 2	Level 3
Cash and cash equivalents	$ -	$ -	$ 7,427	$ -	$ -	$ -
Trade receivables and others	-	-	14,568	-	-	-
Blackbird loan receivable	-	7,128	-	-	-	7,128
Other loans receivable	-	-	10,015	-	-	-
Investments	1,000	189	-	-	189	1,000
Accounts payable and accrued liabilities	-	-	-	31,818	-	-
Notes payable	-	-	-	71,750	-	-
Total	**$ 1,000**	**$ 7,317**	**$ 32,011**	**$ 103,568**	**$ 189**	**$ 8,128**

(Amounts Expressed in Thousands of United States Dollars, Except for Gram, Unit, Share and Per Share Amounts)

24 Financial Instruments and Capital Risk Management (continued)

Fair Value (continued)

	Year Ended December 31, 2019					
	Measurement basis				Fair value hierarchy	
Fair value of assets	Financial assets at FVOCI	Financial assets at FVTPL	Financial assets at amortized cost	Financial liabilities at amortized cost	Level 2	Level 3
Cash and cash equivalents	$ -	$ -	$ 2,580	$ -	$ -	$ -
Trade receivables and others	-	-	19,743	-	-	-
Loans receivable	-	-	27,780	-	-	-
Investments	1,000	-	-	-	-	1,000
Accounts payable and accrued liabilities	-	-	-	39,614	-	-
Notes payable	-	-	-	61,827	62,371	-
Total	**$ 1,000**	**$ -**	**$ 50,103**	**$ 101,441**	**$ 62,371**	**$ 1,000**

The carrying amounts of all financial assets and liabilities measured at amortized cost, other than notes payable, approximate their fair values. There were no transfers between the levels of fair value hierarchy during the years ended December 31, 2020 and 2019.

(Amounts Expressed in Thousands of United States Dollars, Except for Gram, Unit, Share and Per Share Amounts)

25 Supplemental Cash Flow Information

The following table presents the Company's supplemental cash flow related to changes in liabilities arising from financing activities, for the years ended December 31, 2020 and 2019:

Changes in liabilities arising from financing activities	**December 31, 2020**	**December 31, 2019**
New leases during the year	$ 431	$ 4,271
Lease terminations during the year	(6,992)	-
Payments on lease liability	(2,398)	(1,792)
Impact of IFRS 16 adoption	-	16,972
Acquisition	-	5,255
Blackbird sale	(2,485)	-
Net changes in lease liabilities	(11,444)	24,706
Non-cash interest expense	4,329	1,180
Accretion of debt discount	2,227	5,458
Repayment of loans	(516)	(20,000)
Debt issuance costs	-	(1,827)
Proceeds from loans	-	51,805
Unpaid portion of acquisition cash consideration converted to sellers note	-	35,000
Issuance of warrants for debt offerings	-	(5,906)
Net change in notes payable	6,040	65,710
Total changes in liabilities arising from financing activities	**$ (5,404)**	**$ 90,416**

26 Subsequent Events

On February 22, 2021, the Company announced the assignment of its loan with Ermont, Inc. to Teneo Funds SPVi LLC, through an arm's-length third-party transaction, in exchange for $1,250 in cash and a portion of future collections pursuant to the Ermont Note. The assignment agreement contains standard representations, warranties, and indemnifications between the parties.

On February 9, 2021, The Company entered a promissory note with PBM Enterprises, LLC, amending and restating in its entirety the original note entered during May 2020. The promissory note includes a principal balance of $1,250, with an interest rate of zero percent and a maturity date of December 31, 2022.

26 Subsequent Events (continued)

On March 15, 2021, The Company completed its acquisition of Standard Farms Ohio LLC ("SFO"). SFO's purpose-built processing and CO2 extraction facility is located just outside of Cleveland, providing ready access to the state's 52 operating dispensaries. The facility currently produces high-quality medical cannabis products including tinctures, vaporization cartridges, syringes and topicals, with the Company expecting to expand its product offerings to include concentrates and edibles inspired by the Company's operations in Massachusetts and Pennsylvania. The Company is in the process of formalizing the purchase price calculations.