Supreme.

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The Supreme Cannabis Company Inc.

Annual Report 2020

TSX : FIRE

Message to Shareholders

Optimizing our Business for Sustainable Growth and Value Creation in 2021

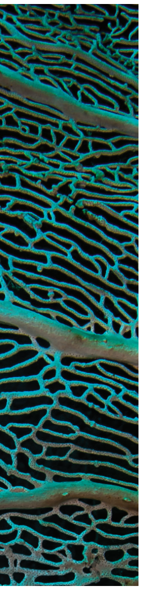
Beena Goldenberg, President & CEO, *The Supreme Cannabis Company*

I joined Supreme Cannabis as President & CEO in April because I was drawn to the Company's focus on quality – not just in our products, practices, and facilities – but in the emphasis our people place on continuous improvement across the organization. Since joining, I have seen us make significant progress in transforming ourselves into a premier cannabis CPG company.

2020 was a challenging year for Canadian cannabis. Companies saw sharp and widespread share price corrections and reduced valuations, and Supreme was not immune. To address these challenges, the Company assessed its entire business and took the strategic direction necessary to position Supreme for sustainable, profitable growth. This included reducing personnel, restructuring the organizational model, and adjusting the assumed valuations on parts of the business. These were not easy decisions, but they were necessary to create a platform for the future.

With construction and licensing activities complete, we began to work toward optimizing operations with a focus on building a differentiated marketing presence. We achieve this by going to market with an offering that serves the broad range of cannabis consumers, from the novice user to the enthusiast, to the discerning cannabis connoisseur. We expanded our cannabis 2.0 offering, including vape products and concentrates, and addressed gaps in our offering both in terms of price points and formats.

This is a process of continuous improvement. Today, Supreme is creating excitement with knowledgeable consumers through unique strains offered on a short-term basis by 7ACRES Craft Collective. We are also preparing to serve the seasoned cannabis consumer with value-priced products sold under our new Hiway brand.



Supporting this strategy is our sales agency agreement with humble+fume to act as our exclusive agent for recreational products across Canada. Humble+fume is the leading distributor of cannabis accessories in Canada, and their established relationships with both government and private retailers will accelerate our retail presence.

We also took a new approach to international B2B sales when we struck an agreement with Breath of Life International Ltd. to offer Truverra-branded premium medical cannabis to patients in Israel. To date, we have made three shipments of medical cannabis through the agreement. This "capital-light" approach further diversifies our revenue and builds Truverra as a global medical brand.

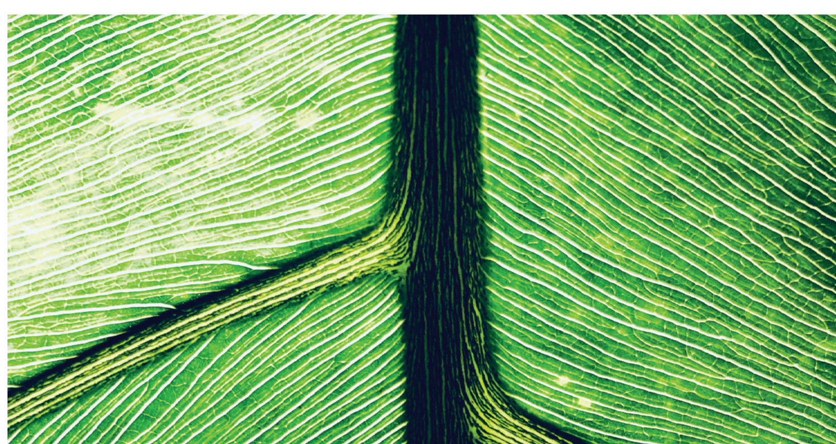
To close, I am encouraged by the speed at which Supreme's transformation is unfolding. We are on a solid financial footing, fully-funded to execute on all our planned initiatives. In fiscal 2021, I am committed to leveraging these advantages to capitalize on value creation opportunities.

While I acknowledge the frustration and disappointment some shareholders are feeling, the progress we continue to make – though not yet reflected in our share price – is genuine. I am confident that Supreme is built to last, and the positive changes we made will manifest themselves in robust results and ensuing shareholder value.

I want to express my gratitude to our Board for their valued support and guidance and all of our employees for their dedication, resilience, and ingenuity; you have been instrumental in transforming and positioning Supreme Cannabis for sustainable profitability, revenue growth and value creation. I also want to thank our shareholders for their ongoing patience and confidence in the Company. I see a clear path ahead for Supreme – one that will benefit our investors, consumers, and employees.

Sincerely,

BEENA GOLDENBERG,
President & CEO



Brands

In FY2020, Supreme Cannabis brought +35 cannabis consumer products to 10 provinces across Canada, formed an industry-leading sales partnership, maintained a strong wholesale business and completed its first international medical cannabis export.

In FY2021, the company will drive revenue generation with its diverse and unique portfolio of high-quality recreational, wholesale and medical brands.

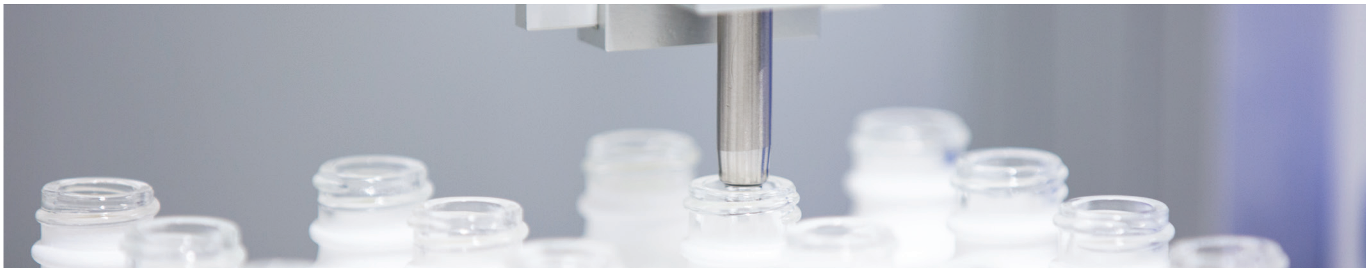
Stay up to date on what Supreme Cannabis and its brands are up to in FY2020

https://thesupre.me/annualreport20

Operations

Supreme Cannabis ended FY2020 with two completed and fully licensed facilities, 7ACRES and Blissco. These cultivation and extraction assets allow the company to control key steps in its value-chain by growing, processing and packaging its full suite of cannabis and CBD products in-house.

Supreme Cannabis is optimizing and enhancing its purposeful infrastructure and expects to continue to realize further efficiencies and create differentiated products in FY2021.



Supreme.

Management's Discussion and Analysis Of Financial Results

For the Year Ended June 30, 2020

All figures expressed in Canadian Dollars

September 24, 2020

The Supreme Cannabis Company, Inc. | TSX:FIRE

THE SUPREME CANNABIS COMPANY, INC.

Management's Discussion and Analysis.

The following Management's Discussion and Analysis ("**MD&A**") should be read in conjunction with The Supreme Cannabis Company, Inc.'s (the "**Company**" or "**Supreme Cannabis**") consolidated financial statements and notes for the year ended June 30, 2020 (the **"Financial Statements**"). The Financial Statements, together with this MD&A are intended to provide investors with a reasonable basis for assessing the financial performance of Supreme Cannabis as well as forward-looking statements relating to future performance. The Company's Financial Statements have been prepared in accordance and in compliance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and Interpretations of the IFRS Interpretations Committee ("IFRIC").

This MD&A contains disclosures up to September 24, 2020 and has been approved by the Company's Board of Directors.

Certain capitalized terms used in this MD&A which are not defined herein have the meanings ascribed to them under "Glossary" in the Company's Annual Information Form dated September 24, 2020 and available on the Company's profile at www.sedar.com.

Forward-Looking Statements.

This MD&A contains certain information that may constitute "forward-looking information" and "forward-looking statements" (collectively, "**forward-looking statements**") which are based upon the Company's current internal expectations, estimates, projections, assumptions and beliefs. Such statements can, in some cases, be identified by the use of forward-looking terminology such as "expect," "likely", "may," "will," "should," "intend," "anticipate," "potential," "proposed," "estimate" and other similar words, including negative and grammatical variations thereof, or statements that certain events or conditions "may" or "will" happen, or by discussions of strategy. Forward-looking statements include estimates, plans, expectations, opinions, forecasts, projections, targets, guidance, or other statements that are not statements of fact. The forward-looking statements included in this MD&A are made only as of the date of this MD&A. Forward-looking statements in this MD&A include, but are not limited to, statements with respect to:

- performance of the Company's business and operations;
- intention and plans to grow the business, operations and potential activities of the Company;
- licensing risks and expectations with respect to renewal and/or extension of the Company's licences;
- the impact of the current global health crisis caused by COVID-19 (as defined herein) including the duration and impact thereof;
- risks and any commentary with respect to Canada's cannabis regulatory regime;
- change in laws, regulations and guidelines;
- expectations with respect to the advancement and adoption of new product lines and ingredients related to ingestible cannabis, cannabis extracts and cannabis topical products;
- expectations with respect to the cannabis market and market risks;
- the expected growth in the number of customers and patients using the Company's adult use and medical cannabis;
- the Company's ability to enter into and maintain strategic arrangements with distributors and retailers and the potential benefits of such arrangements;

- the success of the entities the Company acquires and the Company's collaborations;
- the development of the Company's brands, product diversification and future corporate development;
- the expansion and production capacity of the Company's sites and the timing related thereto;
- risks inherent in an agricultural business;
- future liquidity and financial capacity;
- the advancement of the Company's international projects and targeting other opportunities as the laws and regulations governing cannabis evolve internationally;
- the competitive and business strategies of the Company;
- history of net losses; and
- the competitive conditions of the medical and adult use cannabis industry.

Certain of the forward-looking statements and other information contained herein concerning the medical and adult use cannabis industry and the general expectations of Supreme Cannabis concerning the medical and adult use cannabis industry and concerning Supreme Cannabis are based on estimates prepared by Supreme Cannabis using data from publicly available governmental sources as well as from market research and industry analysis and on assumptions based on data and knowledge of this industry which Supreme Cannabis believes to be reasonable. While Supreme Cannabis is not aware of any misstatement regarding any industry or government data presented herein, the medical and the adult use cannabis industry involves risks and uncertainties that are subject to change based on various factors and the Company has not independently verified such third-party information.

Although the Company believes that the expectations reflected in such forward-looking statements are reasonable, it can give no assurance that such expectations will prove to have been correct. The Company's forward-looking statements are expressly qualified in their entirety by this cautionary statement. In particular, but without limiting the foregoing statements regarding the Company's objectives, plans and goals, including future operating results and economic performance may make reference to or involve forward-looking statements. A number of factors could cause actual events, performance or results to differ materially from what is projected in the forward-looking statements. See below under "*Risk and Uncertainties*" for further details. The purpose of forward-looking statements is to provide the reader with a description of management's expectations, and such forward-looking statements may not be appropriate for any other purpose. You should not place undue reliance on forward-looking statements contained in this MD&A. Supreme Cannabis undertakes no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by applicable law.

Non-GAAP Measures and Additional Subtotals.

This MD&A contains certain financial performance measures that are not recognized or defined under IFRS ("**Non-GAAP Measures**"). As a result, this data may not be comparable to data presented by other cannabis companies. For an explanation and reconciliation of these measures to related comparable financial information presented in the Financial Statements prepared in accordance with IFRS, refer to the "*Results of Operations"* section below. The Company believes that these Non-GAAP Measures are useful indicators of operating performance and are specifically used by management to assess the financial and operational performance of the Company. These Non-GAAP Measures include, but are not limited to, Adjusted EBITDA.

The Company defines Adjusted EBITDA as net income (loss) excluding fair value changes on growth of biological assets, realized fair value changes on inventory sold or impaired, cash impairment included in production costs, amortization of property plant and equipment & intangible assets, share based payments, restructuring charges, finance expense, impairment of assets, loss on modification of lease, loss on disposal of property plant and equipment, unrealized and realized gains or losses on investments and income taxes.

During the three months ended June 30, 2020, the Company re-assessed and changed the definition of Adjusted EBITDA to exclude cash impairment included in productions costs, restructuring charges and loss on modification of lease. The Company believes that the exclusion of these measures better depicts the normal course operations of the Company. Further, the Company does not expect restructuring charges to be a recurring expense during the normal course operations of the Company. The Company has restated comparative non-GAAP information to conform to this revised presentation of Adjusted EBITDA as at June 30, 2020.

The Company presents additional subtotals in its Financial Statements prepared in accordance with IFRS. The additional subtotals include, but are not limited to, gross margin, excluding fair value items in its statements of comprehensive loss ("**Additional Subtotals**"). The Company defines gross margin, excluding fair value items as the gross margin before recording fair value changes on growth of biological assets and realized fair value changes on inventory sold or impaired. More information on changes in fair value of biological assets can be found in *Changes in fair value of biological assets* below.

Non-GAAP Measures and Additional Subtotals should be considered together with other financial information prepared in accordance with IFRS to enable investors to evaluate the Company's operating results, underlying performance and prospects in a manner similar to Supreme Cannabis' management. Accordingly, these Non-GAAP Measures and Additional Subtotals are intended to provide additional information and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with IFRS.

Supreme Cannabis.

Supreme Cannabis is a global diversified portfolio of distinct cannabis products and brands. Supreme Cannabis trades as FIRE on the Toronto Stock Exchange (TSX: FIRE), SPRWF on the OTC Exchange in the United States (OTCQX: SPRWF) and 53S1 on the Frankfurt Stock Exchange (FRA: 53S1). Supreme Cannabis' global headquarters are located in Toronto, Canada. Since its founding in 2014, Supreme Cannabis has grown to operate multiple brands and offerings.

Supreme Cannabis' Brands.

Supreme Cannabis' portfolio of brands caters to diverse consumer experiences, with brands and products that address recreational, medical and wellness consumers.

BRAND	ETHOS	PRODUCTS[1]	DISTRIBUTION[2]
7ACRES	Flagship premium recreational cannabis brand with high-quality flower products for the discerning recreational consumer.	Whole Flower Pre-Rolls Concentrates (PAX Era Pods)	Available in 10 provinces: Alberta, British Columbia, Manitoba, New Brunswick, Newfoundland and Labrador, Nova Scotia, Ontario, PEI, Québec and Saskatchewan

7ACRES CRAFT COLLECTIVE	7ACRES brand extension focused on ultra-premium, small batch and high potency craft cannabis products.	Whole Flower	Available in 2 provinces: British Columbia and Ontario
blissco	Wellness brand producing high-quality and sustainable CBD products.	CBD Oils Whole Flower Pre-Rolls	Available in 6 provinces: Alberta, British Columbia, Manitoba, New Brunswick, Ontario and Saskatchewan
sugar leaf	Entry level brand delivering accessible high-quality products for convenient cannabis experiences.	Pre-Rolls Milled Flower THC and CBD Oils	Available in 6 provinces: Alberta, British Columbia, Manitoba, Ontario, Québec and Saskatchewan.
Hi Way	Hi-quality, hi-value brand committed for cannabis consumers migrating to the formal market in search of convenience, quality assurance, and fair prices.	Hash	Available in 3 provinces: Alberta British Columbia and Ontario
truverra	Medical cannabis brand in Canada and international medical markets.	Medical Cannabis	Medical cannabis available internationally in Israel through BOL Pharma.

1 Products are based on offerings available as at September 24, 2020.
2 Provinces and other jurisdictions the brand is available in as at September 24, 2020.

Supreme Cannabis' Core Operating Assets in Canada.

Supreme Cannabis' brands are backed by a focused suite of world-class operating assets that serve key functions in the value chain, including, scaled cultivation, value-add processing, genetics testing and R&D.

ASSET	LOCATION	SIZE	CAPACITY[1]	LICENCE	PURPOSE
CULTIVATION: 7ACRES	Kincardine, ON	440,000 sqft	50,000 kg	Standard Cultivation, Standard Processing and Sale for Medical Purposes	Scaled cultivation, processing and packaging of premium cannabis
EXTRACTION & PROCESSING: BLISSCO	Langley, BC	12,000 sqft	7,000,000 tincture bottles	Standard Cultivation, Standard Processing and Sale for Medical Purposes	Value-added processing and sales of cannabis products
GENETICS: CAMBIUM	Kincardine, ON	Operates from a licensed laboratory within the 7ACRES Cultivation facility	N/A	Cambium is not a Licence Holder and operates at the 7ACRES Site under the 7ACRES licence	Proprietary R&D for cultivation and development of new varieties of cannabis plants

[1] Figures are estimated on an annual basis

Key Developments During the Quarter.

April 2, 2020

Supreme Cannabis Completes First Shipment to Israel and Provides Corporate Update

Supreme Cannabis announced the completion of its landmark international medical cannabis export from Canada to Israel. Supreme Cannabis partnered with Breath of Life International Ltd., Israel's largest and leading producer of medical cannabis and cannabis products, to offer Truverra-branded premium medical cannabis to patients in Israel. The Company also provided a corporate update relating to COVID-19.

April 24, 2020

Supreme Cannabis Announces At-the-Market Equity Program

Supreme Cannabis announced that it has established an at-the-market equity program (the "ATM Program") that allows the Company to issue and sell up to C$9,750,000 of common shares in the capital of the Company (the "**Common Shares**") from treasury to the public. All Common Shares sold under the ATM Program will be sold through the Toronto Stock Exchange or another marketplace (*as defined in National Instrument 21-101 - Marketplace Operation)* upon which the Common Shares are listed, quoted or otherwise traded, at the prevailing market price at the time of sale. The volume and timing of distributions under the ATM Program, if any, will be determined at the Company's sole discretion. The ATM Program is designed to provide the Company with additional financing flexibility should it be required in the future. Distributions of the Common Shares under the ATM Program are made pursuant to the terms of an equity distribution agreement dated April 24, 2020 entered into between the Company and BMO Capital Markets.

April 27, 2020

Supreme Cannabis Appoints Beena Goldenberg as President and CEO

Supreme Cannabis appointed Beena Goldenberg, former CEO of Hain-Celestial Canada, a leading organic and natural products company, as the Company's new President and CEO to drive Supreme Cannabis' long-term profitable growth as a premium cannabis CPG company. Ms. Goldenberg succeeds interim President and CEO, Colin Moore, who led the transformation of the Company, streamlining costs and focusing on near-term revenue drivers.

Key Developments Subsequent to June 30, 2020.

July 3, 2020

Supreme Cannabis Announces Change to its Board of Directors

Supreme Cannabis announced that Navdeep Dhaliwal resigned his seat on the Board of directors effective June 30, 2020. As previously announced on April 27, 2020, Beena Goldenberg, Chief Executive Officer of Supreme Cannabis, has joined the Company's Board.

August 4, 2020

Supreme Cannabis Announces Agreement to Partially Convert and Amend Debentures

Supreme Cannabis announced that the requisite majority holders (the "**Debenture Holders**") of the Company's outstanding October 2018 Convertible Debentures ("**Debentures**") agreed to amend the terms of the Debentures. The Company reduced the principal amount of the Debentures by $63,500 in exchange for the issuance of 116.6 million common shares, thereby converting debt to equity at a premium to the current share price. See "*Subsequent Events*".

August 31, 2020
Supreme Cannabis Obtains Approval from Debenture holders to Partially Convert and Amend Debentures
Supreme Cannabis announced that the Debenture Holders approved an extraordinary resolution approving the previously announced amendments to the terms of the Debentures. See "*Subsequent Events*".

September 21, 2020
Supreme Cannabis Amends Credit Facility
Supreme Cannabis announced that it had entered into an agreement with its lenders to amend the three-year term credit facility initially announced on November 14, 2019. See "*Subsequent Events*".

Results of Operations.

Three Months Ended June 30, 2020 vs March 31, 2020.

Financial Highlights (in 000's)	Three months ended June 30, 2020	Three months ended March 31, 2020
Gross revenue	**$ 10,855**	$ 11,022
Net revenue	**9,532**	9,725
Gross margin, excluding fair value items [(1)]	**(8,246)**	(1,473)
Gross margin	**(11,544)**	448
Operating expenses	**15,886**	17,450
Impairment on assets	**3,414**	57,519
Net Loss	**(33,252)**	(72,328)
Net comprehensive loss	**(33,806)**	(73,396)
Adjusted EBITDA [(2)(3)]	**(4,167)**	(4,958)

[1] Gross margin, excluding fair value items is an Additional Subtotal presented by the Company. The Company defines gross margin, excluding fair value items as the gross margin before recording fair value changes on growth of biological assets and realized fair value changes on inventory sold or impaired. More information on changes in fair value of biological assets can be found in "Changes in fair value of biological assets."
[2] Adjusted EBITDA is a Non-GAAP measure and does not have standardized meaning under GAAP. As a result, it may not be comparable to data presented by other cannabis companies. For an explanation and reconciliation of Adjusted EBITDA to related comparable financial information presented in the Financial Statements prepared in accordance with IFRS, refer to the *Results of Operations*.
[3] During the three months ended June 30, 2020, the Company re-assessed and changed the definition of Adjusted EBITDA. The Company has restated the Adjusted EBITDA for the three months ended March 31, 2020 to conform to the new definition. Please refer to "Non-GAAP Measures and Additional Subtotals".

During the three months ended June 30, 2020, Supreme Cannabis operated through the unprecedented challenges associated with the onset of COVID-19. The impacts of this global pandemic were far reaching and similar to other Canadian cannabis producers the Company operated through several industry-specific changes, including fewer employees at its facilities, cannabis testing and product supply delays, changes to provincial purchasing patterns and a move to virtual retail sales efforts. Despite these limitations, Supreme Cannabis delivered quarter-over-quarter recreational sales growth and continued to optimize its operating structure, achieving a $0.7 million or 4% decrease in operating expenses, excluding restructuring charges. Operating expenses for the three months ended June 30, 2020 were also impacted by a $2.2 million write-off related to an accounts receivable balance that the Company deemed as uncollectable during the period. Excluding this write-off and restructuring charges, the Company achieved a $2.8 million or 18% decrease in operating expenses quarter over quarter. The Company continued to execute on its goal of accelerating near-term revenue generation and driving efficiencies that support long-term, profitable growth.

For the three months ended June 30, 2020, net revenue decreased to $9.5 million (March 31, 2020: $9.7 million) primarily driven by a decrease in the Company's wholesale average selling price per gram and decrease in Canadian wholesale cannabis sales by $1.7 million. This was partially offset by an increase in recreational cannabis sales by $1.5 million. The Company's average selling price for recreational cannabis increased to $5.00 per gram (March 31, 2020: $4.32 per gram), primarily driven by lower discounts and return provisions compared to the three months ended March 31, 2020. As planned the Company continuous to organically grow recreational revenue through the introduction of additional high quality products and brands at each key price point. The Company has established international medical distribution channels and plans to add additional wholesale medical partners in various international jurisdictions, the Company will also continue its current practice of pursuing opportunistic Canadian wholesale transactions.

Gross margin, excluding fair value items for the three months ended June 30, 2020 and March 31, 2020 were negative. For the three months ended June 30, 2020 and March 31, 2020 the gross margin, excluding fair value items included impairment charges recorded in production costs of $12.1 million and $5.0 million, respectively. These impairment charges include write-offs related to capitalized amortization on inventory of $1.5 million and $0.4 million, respectively. Excluding the impact of impairment charges recorded in production costs, gross margin, excluding fair value items would have been 41% (March 31, 2020: 37%). Excluding the impact of impairment charges, gross margin, excluding fair value items increased as compared to the prior quarter mainly due to further cost savings realized in the Company's production facilities, higher average selling price per gram and lower utilization of third party manufacturing partners. This was partially offset by lower wholesale cannabis sales.

During the three months ended June 30, 2020, the Company's operating expenses, excluding restructuring charges of $1.2 million and $2.2 million write-off related to an accounts receivable decreased to $12.5 million (March 31, 2020: $15.4 million), a reduction of 18%. The cost efficiencies were driven by a decrease in wages and benefits of 24%, decrease in facility costs of 57%, a decrease in sales, marketing and business development expense of 31%. General and administrative expenses decreased by 57%, after adjusting for the accounts receivable balance write-off of $2.2 million. During the three months ended June 30, 2020, the Company incurred $1.2 million (March 31, 2020: $2.1 million) in restructuring costs as part of the Company's efforts to further reduce headcount and optimize its cost structure. The cost savings are a result of the continued realigned and rightsized operating model that has delivered immediate substantial cost savings over the second half of fiscal 2020. The Company continues to realize efficiencies and retain its focus on cost savings and near-term revenue growth.

In addition to a reduction in operating expenditures, investments in capital expenditures during the three months ended June 30, 2020 decreased to $1.1 million (March 31, 2020: $2.3 million). With the completion of construction projects at the Company's BlissCo and 7ACRES sites, capital expenditure for fiscal 2021 is expected to be minimal and focused on productivity enhancements justified by near-term cash flow returns.

During the three months ended June 30, 2020, the Company recorded impairment of assets of $3.4 million (March 31, 2020: $57.5 million). These primarily include write downs of certain deposits related to property, plant and equipment and other prepaid assets for which the Company decided to not utilize their benefits. The impairment charge recorded during the three months ended March 31, 2020 was related to the impairment review carried out as at March 31, 2020, which were driven by revisions to the

Company's strategic plan and restructuring initiatives, combined with a decline in the market capitalization of the Company. Based on this review, the Company had recognized a total non-cash impairment of assets of $57.5 million, primarily consisting of impairment to goodwill and intangible assets that were recognized as part of the BlissCo and Truverra acquisitions on July 11, 2019 and August 13, 2019 respectively. The impairment was primarily driven by slower than expected development of the recreational cannabis market in Canada that has resulted in slower than anticipated growth in sales of the Company. Further, the assumptions used by management to value goodwill that arose on the BlissCo and Truverra acquisitions have been revised as market conditions rapidly evolve and the Company's plans for the respective assets has changed.

Based on the impairment review carried out, the Company did not take any impairment charges on its 7ACRES site, the Company's core cultivation asset, which continues to hold its value as a premium cultivation asset in Canada. The Company will continue to closely monitor market conditions and to assess the carrying value of its assets, which may result in additional impairment or reversal of prior impairment charges taken.

Three and Twelve Months Ended June 30, 2020 vs June 30, 2019.

Financial Highlights (in 000's)	Three months ended June 30, 2020	Three months ended June 30, 2019	Year ended June 30, 2020	Year ended June 30, 2019
Gross revenue	$ 10,855	$ 19,579	$ 44,622	$ 43,015
Net revenue	9,532	19,005	39,749	41,833
Gross margin, excluding fair value items (1)	(8,246)	12,498	(21)	25,034
Gross margin	(11,544)	22,123	5,480	36,853
Operating expenses	15,886	11,562	71,582	38,713
Impairment on assets	3,414	-	60,933	-
Net Loss (2)	(33,252)	(421)	(139,420)	(14,497)
Total comprehensive loss (2)	(33,806)	(316)	(150,417)	(14,392)
Adjusted EBITDA (3)	(4,167)	6,013	(22,608)	(876)

Financial Position (in 000's)	June 30, 2020	June 30, 2019
Biological assets	$ 4,603	$ 8,762
Inventory	40,205	19,026
Total assets	311,948	334,801
Total liabilities	179,507	123,829

[1] Gross margin, excluding fair value items is an Additional Subtotal presented by the Company. The Company defines gross margin, excluding fair value items as the gross margin before recording fair value changes on growth of biological assets and realized fair value changes on inventory sold or impaired. More information on changes in fair value of biological assets can be found in "Changes in fair value of biological assets."

[2] The Company has applied IFRS 16 using the modified retrospective approach at July 1, 2019, under which comparative information is not restated. Under IFRS 16, leases that were previously classified as operating leases are now on-balance sheet. Instead of recognizing operating lease expense, the Company now recognizes amortization and interest expense related to these leases. (See "*New Accounting Standards and Interpretations Effective July 1, 2019"*).

[3] Adjusted EBITDA is a Non-GAAP measure and does not have standardized meaning under GAAP. As a result, it may not be comparable to data presented by other cannabis companies. For an explanation and reconciliation of Adjusted EBITDA to related comparable financial information presented in the Financial Statements prepared in accordance with IFRS, refer to the *Results of Operations* and *Non-GAAP Measures and Additional Subtotals.* During the three months ended June 30, 2020, the Company re-assessed and changed the definition of Adjusted EBITDA. Please refer to "*Non-GAAP Measures and Additional Subtotals*.".

For the three and twelve months ended June 30, 2020, the Company reported net revenue of $9.5 million and $39.7 million, respectively. Compared to the same periods of the prior year, this was a decrease of $9.5 million and $2.1 million, respectively. Net revenue decreased during the three months ended June 30, 2020, compared to the same period of the prior year, primarily due to lower Canadian wholesale cannabis sales. This decrease was partially offset by higher revenues from recreational cannabis sales during the three months ended June 30, 2020 compared to the same period in the prior year. Net revenue during the twelve months ended June 30, 2020 was lower than the same period of the prior year primarily due to a decrease in wholesale cannabis sales and due to actual and expected sales discounts and returns provisions of $2.2 million. This was partially offset by higher recreational cannabis sales during the twelve months ended June 30, 2020. Net revenue during the three and twelve months ended June 30, 2020, were impacted by a decrease in the Company's recreational average selling price per gram compared to the same periods of the prior year.

Gross margin, excluding fair value items was ($8.2) million and ($21) thousand for the three and twelve months ended June 30, 2020, respectively. These were decreases of $20.7 million and $25.1 million, respectively, compared to the same periods of the prior year. The decreases were primarily a result of the Company recording impairment related to inventory sold during the current periods in production costs of $12.1 million and $19.3 million including amortization expense, respectively. These impairment charges include write-offs related to capitalized amortization on inventory of $1.5 million and $2.2 million, respectively. The impairment recorded in production costs were driven by aged inventory and lower selling prices for flower and trim products due to market conditions in the cannabis industry. Specifically, aging and lower flower prices were driven by a slower transition of consumers into the legal market and slower rollout of retail stores in key Canadian markets while lower trim prices are primarily due to lower demand in the wholesale market.

Operating expenses for the three and twelve months ended June 30, 2020 were $15.9 million and $71.6 million, respectively. These were increases of $4.3 million and $32.9 million, respectively, compared the same periods of the prior year. The increases are primarily driven by higher operating expenses consistent with the scaling up of the Company's operations, including the acquisitions of BlissCo during the first quarter of fiscal 2020. Included in operating expenses are restructuring charges recorded during the three and twelve months ended June 30, 2020, resulting from the Company's cost optimization initiatives. Additionally, there was a $2.2 million charge recorded during the three months ended June 30, 2020 resulting from the write-off of an outstanding accounts receivable balance related to a specific customer.

The Company reported total comprehensive loss for the three and twelve months ended June 30, 2020 of $33.8 million and $150.4 million, respectively. These were increases of $33.5 million and $136.0 million, respectively, compared to the same periods of the prior year. Excluding non-cash valuation of investments and fair value items related to biological assets and inventory sold or impaired, the increase was contributed to by the aforementioned lower gross margin, excluding fair value items and higher operating expenses. In addition, the increase in net loss for the three and twelve months ended June 30, 2020 was impacted by impairment of assets of $3.4 million and $60.9 million, respectively.

Adjusted EBITDA.

Adjusted EBITDA (in 000's)	Three months ended June 30,		Year ended June 30,	
	2020	2019	2020	2019
Net loss[1]	**$ (33,252)**	**$ (421)**	**$ (139,420)**	**$ (14,497)**
Adjustments:				
Amortization of property, plant and equipment & intangible assets[1]	1,315	1,366	6,824	3,340
Amortization expense included in production costs, including impairment	2,188	2,527	4,808	2,527
Share based payments	4,713	1,183	17,005	6,936
Restructuring charges	1,172	-	3,255	-
Impairment of inventory in production costs, net of amortization	10,577	-	17,103	-
Fair value changes on growth of biological assets[2]	(9,994)	(16,928)	(48,300)	(31,424)
Realized fair value changes on inventory sold or impaired[2]	13,292	7,303	42,799	19,605
Finance expense, net[1]	5,213	2,166	17,211	5,185
Impairment of assets	3,414	-	60,933	-
(Gain) loss on disposal of property, plant and equipment	(5)	-	1,884	3,892
Loss on modification of lease	900	-	900	-
Unrealized gain (loss) on investments	-	1,674	-	1,128
Realized loss on investment	-	-	680	-
Income tax (recovery) expense	(3,700)	7,142	(8,290)	2,432
Adjusted EBITDA [1][3]	**$ (4,167)**	**$ 6,013**	**$ (22,608)**	**$ (876)**

[1] The Company has applied IFRS 16 using the modified retrospective approach at July 1, 2019, under which comparative information is not restated. Under IFRS 16, leases that were previously classified as operating leases are now on-balance sheet. Instead of recognizing operating lease expense, the Company now recognizes amortization and interest expense related to these leases. (See *New Accounting Standards and Interpretations Effective July 1, 2019*).

[2] Effective July 1, 2019, the Company made a voluntary change in accounting policy related to the accounting for biological assets. Previously, all direct and overhead costs incurred during the biological transformation process and up to the point of harvest were expensed to production costs on the consolidated statement of comprehensive loss in the period the costs are incurred. Under the new accounting policy, the Company will capitalize all direct and overhead costs incurred during the biological transformation process and up to the point of harvest to biological assets on the consolidated statement of financial position. Prior period numbers have been updated to conform with the presentation under the new accounting policy. (See *Voluntary Change in Accounting Policy*).

[3] During the three months ended June 30, 2020, the Company re-assessed and changed the definition of Adjusted EBITDA. Please refer to "Non-GAAP Measures and Additional Subtotals.".

During the three and twelve months ended June 30, 2020, the Company generated an Adjusted EBITDA loss of $4.2 million (June 30, 2019: gain of $6.0 million) and $22.6 million (June 30, 2019: $0.9 million), respectively. See "*Non-GAAP Measures and Additional Subtotals.*" for the definition of Adjusted EBITDA.

The increase in Adjusted EBITDA loss during the three and twelve months ended June 30, 2020 compared to the same periods of the prior year is a result of an increase in net loss of $32.8 million and $124.9 million, respectively, partially offset by increases in non-cash and other adjustments.

The adoption of IFRS 16, *Leases* ("**IFRS 16**") as at July 1, 2019, resulted in a $0.5 million and $1.8 million positive impact on Adjusted EBITDA for the three and twelve months ended June 30, 2020, respectively, as results exclude lease expenses since the Company now recognizes depreciation and interest expense related to right-of-use assets and lease liabilities, respectively. See *New Accounting Standards and Interpretations Effective July 1, 2019.*

Revenue.

	Three months ended June 30, 2020		Three months ended June 30, 2019	
	Net Revenue (in 000's)	Average selling price[1]	Net Revenue (in 000's)	Average selling price[1]
Wholesale cannabis flower revenue[2]	$ 2,139	$ 2.74	$ 4,560	$ 5.99
Wholesale cannabis trim revenue	141	0.26	12,011	3.66
Recreational cannabis revenue	7,252	5.00	2,434	6.52
Net revenue	**$ 9,532**	**$ 3.43**	**$ 19,005**	**$ 4.31**

[1]Average selling price indicates price per gram equivalent, net of excise tax and discounts and returns provisions.
[2]Includes packaged cannabis sold internationally.

	Year ended June 30, 2020		Year ended June 30, 2019	
	Net Revenue (in 000's)	Average selling price[1]	Net Revenue (in 000's)	Average selling price[1]
Wholesale cannabis flower revenue[2]	$ 14,990	$ 3.65	$ 20,037	$ 6.39
Wholesale cannabis trim revenue	912	0.98	16,752	3.45
Recreational cannabis revenue	23,847	5.19	5,044	6.26
Net revenue	**$ 39,749**	**$ 4.13**	**$ 41,833**	**$ 4.76**

[1]Average selling price indicates price per gram equivalent, net of excise tax and discounts and returns provisions.
[2]Includes packaged cannabis sold internationally.

During the three and twelve months ended June 30, 2020, the Company generated net revenues of $9.5 million (June 30, 2019: $19.0 million) and $39.7 million (June 30, 2019: $41.8 million), respectively. The decreases in net revenue for the three and twelve months ended June 30, 2020, compared to the same periods of the prior year, were primarily due to reduced demand for cannabis trim and wholesale cannabis in the current periods and due to lower average selling prices for wholesale and recreational cannabis sales. These decreases were partially offset by higher volumes of recreational cannabis sales during the three and twelve months ended June 30, 2020, compared to the prior periods.

Net revenue for the three and twelve months ended June 30, 2020 were comprised of $2.2 million (June 30, 2019: $16.6 million) and $15.9 million (June 30, 2019: $36.8 million), respectively, of wholesale revenue and $7.3 million (June 30, 2019: $2.4 million) and $23.8 million (June 30, 2019: $5.0 million), respectively, of recreational revenue. The increase in recreational sales for the three and twelve months ended June 30, 2020, is a result of the Company's strategy to focus towards recreation revenue channels as the Company believes it has a distinctive advantage to increase its market share with well positioned brands and products, as part of this shift the Company is focused on launching new SKUs across all key consumer categories.

Average selling prices per gram for the three and twelve months ended June 30, 2020 were $0.26 (June 30, 2019: $3.66) and $0.98 (June 30, 2019: $3.45), respectively, for wholesale cannabis trim, $2.74 (June 30, 2019: $5.99) and $3.65 (June 30, 2019: $6.39), respectively for wholesale flower and $5.00 (June 30, 2019: $6.52) and $5.19 (June 30, 2019: $6.26), respectively, for gram equivalent of recreational sales. The decrease in wholesale pricing is a result of the current wholesale market conditions and the end of Supreme Cannabis' remaining fixed price wholesale flower supply agreements. The decrease in recreational average selling price is due to product, strain and geographical mix in addition to the changes in the recreational market conditions.

Recreational net revenue for the three months ended June 30, 2020 was $7.3 million compared to $5.7 million for the three months ended March 31, 2020 an increase of 28% as a result of existing and new products being well received by the recreational cannabis consumer. However, recreational sales were impacted by market conditions, including slower than expected retail store rollouts in key Canadian provinces. Recreational net revenue was also impacted by a lower than expected contribution from the Company's recently acquired businesses.

Production costs.

Production costs consist of direct and overhead costs attributable to cannabis production and processing activities that have been capitalized to biological assets and inventory and subsequently expensed through production cost as the related cannabis products are sold.

Production costs include direct and overhead allocation for wages and benefits, facilities, materials, supplies, third party payments and amortization expense for production, drying, trimming, packaging, sanitation, record keeping, quality assurance, security and maintenance activities. These costs are initially capitalized to inventory in the period incurred and subsequently expensed to production costs as cannabis is sold.

Effective July 1, 2019, the Company changed its accounting policy to capitalize all production and processing costs as described above. See *New Accounting Standards and Interpretations Effective July 1, 2019*. The table below reflects the change of accounting policy for both periods presented.

Production costs for the three and twelve months ended June 30, 2020 and 2019 include the following direct and overhead costs:

(In 000's)	**Three months ended June 30, 2020**	Three months ended June 30, 2019(1)	**Year ended June 30, 2020**	Year ended June 30, 2019(1)
Wages and benefits expense	$ 6,166	$ 3,935	$ 17,292	$ 10,460
Facilities, materials and supplies expense	3,870	1,776	9,006	4,367
Amortization expense	2,188	796	4,808	1,972
Purchased cannabis	5,361	-	7,158	-
Third party royalties and processing costs	193	-	1,506	-
	$ 17,778	**$ 6,507**	**$ 39,770**	**$ 16,799**

(1) Effective July 1, 2019, the Company made a voluntary change in accounting policy related to the accounting for biological assets. Previously, all direct and overhead costs incurred during the biological transformation process and up to the point of harvest were expensed to production costs on the consolidated statement of comprehensive loss in the period the costs are incurred. Under the new accounting policy, the Company will capitalize all direct and overhead costs incurred during the biological transformation process and up to the point of harvest to biological assets on the consolidated statement of financial position. Prior period numbers have been restated to conform with presentation under the new accounting policy. (See *Voluntary Change in Accounting Policy*).

Production costs increased by $11.3 million and $23.0 million, respectively, during the three and twelve months ended June 30, 2020, compared to the same periods of the prior year. This is due to a substantial increase in the footprint and output of the 7ACRES Site and the addition of BlissCo as an operating asset resulting in an increase in personnel, facility, materials, supplies and amortization expenses that have been incurred. In addition, during the three months and year ended June 30, 2020, the Company incurred production costs related to purchased cannabis through BlissCo and third-party processing costs and royalties.

For the three and twelve months ended June 30, 2020, impairment expense of $12.1 million (June 30, 2019: $nil) and $19.3 million (June 30, 2019: $nil), respectively, was recorded as production costs due to the capitalized cost carrying value of certain inventory exceeding realizable value driven by a change in market conditions.

Gross margin, excluding fair value items.

Gross margin, excluding fair value items, for the three and twelve months ended June 30, 2020 was negative (86%) (June 30, 2019: 66%) and 0% (June 30, 2019: 60%), respectively. The decline in the percentage for the three and twelve months ended June 30, 2020, compared to the same periods in the previous year, was primarily due to impairment on inventory as a result of carrying value exceeding net realizable value, decrease in wholesale cannabis and trim sales and decrease in the average selling price of cannabis products. Excluding impairment charges recorded in production costs, gross margin, excluding fair value items, for the three and twelve months ended June 30, 2020 would have been 41% (June 30, 2019: 66%) and 48% (June 30, 2019: 60%), respectively.

Compared to the three months ended March 31, 2020 gross margin, excluding fair value items and inventory impairment charges increased, by 11% from 37% to 41% as a result of cost optimization initiatives taken by the Company in the second half of the fiscal year.

Changes in fair value of biological assets.

In accordance with IFRS, the Company is required to record its biological assets at fair value less cost to sell. At each reporting period, each harvest is adjusted to full fair value less costs to complete and sell based on the actual yield in grams for completed harvests and estimated yield for harvests in progress. Costs incurred during the biological transformation process are capitalized to biological assets when the costs are incurred (See *Voluntary Change in Accounting Policy*), fair value adjustments are recorded to reflect the difference between the capitalized costs and fair value less costs to complete and sell. Cannabis which has been harvested is transferred to inventory at the full biological asset carrying value, comprised of capitalized costs and fair value adjustments, for each harvest.

During the three months and twelve months ended June 30, 2020, the Company recognized a gain of $10.0 million (June 30, 2019: $16.9 million) and $48.3 million (June 30, 2019: $31.4 million), respectively, related to the fair value adjustments of biological assets.

Biological assets as at June 30, 2020 of $4.6 million (June 30, 2019: $8.8 million) are comprised of $1.7 million (June 30, 2019: $2.2 million) of capitalized costs and $2.9 million (June 30, 2019: $6.6 million) of fair value adjustments. Biological assets are comprised of 26,142 (June 30, 2019: 23,079) cannabis plants that are estimated to be 69% (June 30, 2019: 69%) complete to harvest. Once harvested, the produced cannabis is transferred to inventory. During the twelve months ended June 30, 2020, the Company transferred approximately 35,099 kilograms (June 30, 2019: 10,039 kilograms) of cannabis to inventory.

Assumptions related to biological assets include average selling price and yield per plant. During the three months ended June 30, 2020 the Company reduced its estimate of selling prices for premium flower by $0.48 or 11% as compared to the preceding quarter to account for greater expected volatility in the wholesale market. Estimated selling prices for cannabis trim are $nil or 100% to account for current market conditions. The Company no longer recognizes fair value or capitalized costs for cannabis trim to reflect the current market conditions. Yield estimates have increased by 4% per plant for premium flower as compared to the preceding quarter to account for actual yield expectations. Yield estimates are revised on a quarterly basis as the existing and cultivation areas are calibrated for optimal environmental controls and growing conditions.

Realized fair value changes on inventory sold or impaired.

Realized fair value changes on inventory sold or impaired is the fair value less cost to sell recognized during the biological transformation process related to cannabis sold during the period and impairment charges related to cannabis inventory.

During the three and twelve months ended June 30, 2020, the Company recognized realized fair value changes on inventory sold or impaired of $13.3 million (June 30, 2019: $7.3 million) and $42.8 million (June 30, 2019: $19.6 million), respectively, as a result of cannabis sold during the period and impairment charges.

During the three and twelve months ended June 30, 2020, included in realized fair value changes on inventory sold or impaired is an impairment charge of $10.1 million (June 30, 2019: gain of $1.0 million) and $22.1 million (June 30, 2019: $0.4 million), respectively, related to fair value gains previously recognized. The non-cash impairment charge is a result of the lower estimated selling prices and due to write-off of trim and aged inventory.

Gross Margin.

During the three and twelve months ended June 30, 2020, the Company generated a gross margin of ($11.6) million or (121)% (June 30, 2019: $22.1 million or 116%) and $5.5 million or 14% (June 30, 2019: $36.9 million or 88%), respectively. The decrease in gross margin percentage for the three months ended June 30, 2020, compared to the same period of the prior year, was primarily due to impairment on inventory as a result of carrying value exceeding net realizable value, decrease in wholesale cannabis and trim sales, decrease in the average selling price of cannabis products, lower net gains on fair value adjustments related to biological assets and higher realized fair value losses on inventory sold for the three months ended June 30, 2020. The decrease in gross margin percentage for the year ended June 30, 2020, compared to the prior year, was primarily due to impairment on inventory as a result of carrying value exceeding net realizable value, decrease in wholesale cannabis and trim sales, decrease in the average selling price of cannabis products and higher realized fair value losses on inventory sold for the year ended June 30, 2020. This was partially offset by higher net gains on fair value adjustments related to biological assets during the year ended June 30, 2020.

Operating expenses.

Operating Expenses	Three months ended June 30,		Year ended June 30,	
	2020	2019	2020	2019
Wages and benefits	$ 3,594	$ 3,372	$ 20,009	$ 13,133
Facilities	393	603	3,218	2,187
Professional fees	1,039	1,314	4,311	3,557
Regulatory recovery fee	126	-	1,950	-
Sales, marketing and business development	707	2,307	6,557	6,224
General and administrative	2,827	1,417	7,730	3,336
Acquisition related costs	-	-	723	-
Amortization of property, plant and equipment & intangible assets	1,315	1,366	6,824	3,340
Share based payments	4,713	1,183	17,005	6,936
Restructuring charges	1,172	-	3,255	-
	$ 15,886	$ 11,562	$ 71,582	$ 38,713

During the three months and year ended June 30, 2020, total operating expenses were $15.9 million (June 30, 2019: $11.6 million) and $71.6 million (June 30, 2019: $38.7 million), respectively. These were increases of $4.3 million and $32.9 million, respectively, compared to the same periods of the prior year.

The operating expenses contributing to the overall movement for the periods are due to the following:

- For the three and twelve months ended June 30, 2020, the Company's total wages and benefits expense increased to $3.6 million (June 30, 2019: $3.4 million) and $20.0 million (June 30, 2019: $13.1 million), respectively. The increase in wages and benefits expense for the three and nine months ended June 30, 2020, is primarily due to the increased staffing requirements at the 7ACRES Site, the addition of BlissCo and Truverra wages and benefits expenses and additions to the management team as the Company experiences an increase in organic business activity and through acquisitions. This was partially offset by decreases in staff as part of the restructuring initiatives during the second half of fiscal 2020.

- For the three and twelve months ended June 30, 2020, the Company's facilities expense decreased to $0.4 million (June 30, 2019: $0.6 million) and increased to $3.2 million (June 30, 2019: 3.6 million), respectively. The decrease in facilities expense for the three months ended June 30, 2020, is a result of cost savings initiatives undertaken by the Company during the second half of fiscal 2020 and due to lower activity resulting from the COVID 19 pandemic. The increase in facilities expense for the twelve months ended June 30, 2020, is due to the increase in the number of employees requiring more office space, the expansion of the 7ACRES Site, and the addition of the BlissCo Site and Supreme Cannabis Scarborough, all of which resulted in an increase in utilities, security and other related occupancy costs. This was partially offset by lower spend resulting from the cost savings initiatives in the second half of fiscal 2020 and due to the COVID 19 pandemic. For the three and twelve months ended June 30, 2020, facilities expense were favourably impacted by the adoption of IFRS 16. Instead of recognizing rent or operating lease expenses the Company now recognizes depreciation and interest expense related to these leases. (See *New Accounting Standards and Interpretations Effective July 1, 2019*).

- For the three and twelve months ended June 30, 2020, the Company's total professional fees expense decreased to $1.0 million (June 30, 2019: $1.3 million) and increased to $4.3 million (June 30, 2019: $3.6 million), respectively. The decrease in professional fees expense for the three months ended June 30, 2020, compared to the same period of the prior year, was due to cost saving initiatives undertaken by the Company in the current period and due to lower spend on business development initiatives and enterprise resource planning integration costs as compared to the prior year. The increase in professional fees for the twelve months ended June 30, 2020, compared to the same period of the prior year, was due to higher legal fees, regulatory fees and exchange listing fees. This was partially offset by higher enterprise resource planning integration costs during the same period of the prior year.

- For the three and twelve months ended June 30, 2020, the Company incurred $0.1 million June 30, 2019: $nil) and $1.9 million (June 30, 2019: $nil), respectively, in regulatory recovery fee, which is a required regulatory cost.

- For the three and twelve months ended June 30, 2020, the Company's total sales, marketing and business development expense decreased to $0.7 million (June 30, 2019: $2.3 million) and increased to $6.6 million (June 30, 2019: $6.2 million), respectively. The sales, marketing and business development expense increased during the twelve months ended June 30, 2020, due to additional brands launched and the related development expenses, international business development expenses and the addition of BlissCo and Truverra businesses. The decrease in the three months ended June 30, 2020, compared to the same period in the prior year, was primarily due to the implementation of new operating models that prioritize near-term revenue growth in the Canadian market as part of the restructuring initiatives during the second half of fiscal 2020 and due to the transition period impact of entering the humble+fume sales partnership.

- For the three and twelve months ended June 30, 2020, the Company's total general and administrative expense increased to \$2.8 million (June 30, 2019: \$1.4 million) and \$7.7 million (June 30, 2019: \$3.3 million), respectively. The increase in the three months ended June 30, 2020, compared to the same period in the prior year, was primarily due to the write-off of an accounts receivable balance that the Company deemed as uncollectable. In addition to this write-off, the increase in general and administrative expense for the twelve months ended June 30, 2020, compared to the same period in the prior year, was due to the additional information technology expenses, insurance premiums and consulting expenses related to the implementation of production automation at the 7ACRES Site aimed at delivering higher sustained gross margin.

- For the twelve months ended June 30, 2020, the Company incurred a total of \$0.7 million (June 30, 2019: \$nil) of acquisition related expenses related to the completed acquisitions of BlissCo and Truverra. The acquisition costs include legal fees, regulatory fees and integration expenses.

- For the three and twelve months ended June 30, 2020, the Company's amortization expense related to property, plant and equipment and intangibles was \$1.3 million (June 30, 2019: \$1.4 million) and \$6.8 million (June 30, 2019: \$3.3 million), respectively. Property, plant and equipment amortization primarily increased for the twelve months ended June 30, 2020, as a result of the substantial completion of the 7ACRES Site, which resulted in a majority of costs being designated as in use and amortization expense being incurred, the addition of the BlissCo Site and Supreme Cannabis Scarborough and amortization of right-of-use assets as a result of the adoption of IFRS 16 (See "*New Accounting Standards and Interpretations Effective July 1, 2019*"). The decrease during the three months ended June 30, 2020, compared to the same period of the prior year, was due to intangible amortization as a result of the impairment of the KKE product licence earlier in fiscal 2020.

- For the three and twelve months ended June 30, 2020, the Company's share-based payments expense amounted to \$4.7 million (June 30, 2019: \$1.2 million) and \$17.0 million (June 30, 2019: \$6.9 million), respectively. Share based payments were incurred through the issuances of stock options, RSUs, PSUs, PDSUs, DSUs and other vested share-based compensation related to acquisition compensation. The grants are used by management to obtain and retain key executives, employees and directors. For the three and twelve months ended June 30, 2020, share-based payment expense includes the collective impact of RSUs, PSUs, PDSUs and DSUs, which was an expense of \$1.0 million and \$4.1 million, respectively. The expense related to these instruments in the comparative periods of the prior year were \$nil as the Company started granting these instruments during the three months ended September 30, 2019. During the three and twelve months ended June 30, 2020, expense related to vested options and other vested share-based compensation were \$3.7 million (June 30, 2019: \$1.2 million) and \$12.9 million (June 30, 2019: \$6.9 million), respectively.

- Restructuring expenses for the three and twelve months ended June 30, 2020 were \$1.2 million (June 30, 2019: \$nil) and \$3.3 million (June 30, 2019: \$nil) and reflect severance payments made and expected to be made to employees impacted by the cost saving measures undertaken by the Company in the second half of the fiscal year.

Other Expenses.

Other expenses and income primarily consist of the following items;

- For the three and twelve months ended June 30, 2020, the Company incurred net finance expense of $5.2 million (June 30, 2019: $2.2 million) and $17.2 million (June 30, 2019: $5.2 million), respectively. The increase in finance expense is due to interest and accretion expense related the $100.0 million convertible debentures, KKE royalty accretion expense and lease liability accretion as a result of the adoption of IFRS 16, partially offset by interest income. Further, the three and twelve months ended June 30, 2020, also included finance expense related to the Company's Credit Facility borrowings.

- For the three and twelve months ended June 30, 2020, the Company recognized impairment of assets of $3.4 million (June 30, 2019: $nil) and $60.9 million (June 30, 2019: $nil), respectively. The impairment charge recorded during the three months ended June 30, 2020, primarily related to certain deposits related to property, plant and equipment and other prepaid assets that the Company decided not to convert or to utilize their benefits.

  The remainder $57.5 million impairment charge impacting the twelve months ended June 30, 2020, was a result of impairment tests performed at March 31, 2020. The Company has determined that the recoverable amount of its BlissCo and Truverra cash-generating units ("**CGUs**") were lower than their carrying values. For the BlissCo CGU, the carrying value exceeded the recoverable amount by $23.6 million and an impairment loss of $23.6 million was allocated to goodwill and intangible assets. For the Truverra CGU, the carrying value exceeded the recoverable amount by $21.2 million and an impairment loss of $21.2 million was allocated to goodwill, intangible assets and property, plant and equipment. As at March 31, 2020, the Company also recorded an impairment of $12.6 million for its product license intangible related to its agreement with KKE, resulting in a revised carrying value of $nil. The Company determined that the future cash flows and benefits from the asset were negatively impacted by current Health Canada direction and market conditions.

- For the three and twelve months ended June 30, 2020, the Company incurred a loss on disposal of property, plant and equipment of $nil (June 30, 2019: $nil) and $1.9 million (June 30, 2019: $3.9 million), respectively. During the twelve months ended June 30, 2020, the Company recognized a $1.9 million loss related to designated assets held for sale being revalued at their fair value less costs to sell. (See "*Assets Sale*"). Loss on disposal of property, plant and equipment for the twelve months ended June 30, 2020 was lower than the same period in the prior year due to more disposals related to construction and retooling activities at the 7ACRES Site in the comparative period.

- For the three and twelve months ended June 30, 2020, the Company recorded a $0.9 million (June 30, 2019: $nil) loss on modification of lease. During the twelve months ended June 30, 2020, the Company terminated the lease of a facility, which resulted in this loss, primarily comprised of one-time lease termination costs and the impact of derecognizing the related right-of-use asset and lease liability.

- Unrealized gain on investments for the three and twelve months ended June 30, 2020 were $nil (June 30, 2019: $1.7 million) and $nil (June 30, 2019: $1.1 million), respectively. The decline is due to comparative periods in the prior year having fair value adjustments related to the Company's investment in shares and warrants of BlissCo. As a result of the Company's acquisition of BlissCo during the twelve months ended June 30, 2020, there was a realized loss on investment of $0.7 million (June 30, 2019: $nil) related to the deemed disposition of the investment in BlissCo shares and warrants.

Construction activities.

For the three and twelve months ended June 30, 2020, the Company's total capitalized expenditure related to expansion of the Company's various facilities amounted to $1.1 million (June 30, 2019: $22.4 million) and $31.6 million (June 30, 2019: $84.5 million), respectively. The Company's various licensed facilities are considered complete and management expects to only require maintenance and efficiency driven capital investments in future years.

Asset Sale.

During the twelve months ended June 30, 2020, the Company finalized the sale of its 34,000 square foot facility located in Goderich, ON. This resulted in the Company recognizing a $1.9 million loss in the period, representing the amount by which the carrying value of the facility exceeded the net proceeds. The previously planned activities at this facility will now be carried out at the 7ACRES Site.

Selected Financial Information – Quarterly Highlights.

The following table sets out certain unaudited quarterly information for the last 8 completed fiscal quarters of the Company up to and including the three months ended June 30, 2020. The financial information was prepared in accordance with IFRS.

(In 000's)	30-Jun-20	31-Mar-20	31-Dec-19	30-Sep-19	30-Jun-19	31-Mar-19	31-Dec-18	30-Sep-18
Net Sales / Revenue	$ 9,532	$ 9,725	$ 9,059	$ 11,433	$ 19,005	$ 9,970	$ 7,718	$ 5,140
Net loss after tax	$ (33,252)	$ (72,328)	$ (17,315)	$ (16,525)	$ (421)	$ (7,139)	$ (1,551)	$ (5,385)
Basic and diluted loss per share	$ (0.09)	$ (0.20)	$ (0.06)	$ (0.05)	$ (0.00)	$ (0.02)	$ (0.01)	$ (0.02)

The quarterly variation in operating results has been discussed above in *Results of Operations*. The Company's results of operations are not exposed to seasonal variations.

Selected Annual Information.

(In 000's)	June 30, 2020 (Audited)	June 30, 2019 (Audited)	June 30, 2018 (Audited)
Revenue	$ 39,749	$ 41,833	$ 8,855
Net loss before taxes	(147,710)	(12,065)	(6,600)
Net loss after taxes	(139,420)	(14,497)	(7,347)
Net comprehensive loss after taxes	(150,417)	(14,392)	(7,347)
Basic and diluted loss per share	(0.40)	(0.05)	(0.03)
Total assets	311,948	334,801	199,784
Total long-term liabilities	159,568	91,882	31,722
Dividends declared per share	-	-	-

During the year ended June 30, 2018, the Company generated its first revenue from the cultivation and sale of cannabis. The company was in the process of building out its primary asset, the 7ACRES Site. For the year ended June 30, 2019 the Company started to make recreational sales and shifted its focus on the recreational market. The increase in net comprehensive loss for the year ended June 30, 2019 as compared to June 30, 2018 is a result of an increase in revenues, increase in the net impact of fair value adjustment on biological assets offset by higher productions costs, operating expenses, finance expenses, loss on disposal of assets, loss on investments and deferred tax expense. The increase in net assets from the year ended June 30, 2018 to the year ended June 30, 2019 is mainly due to the increase in investments made to property, plant and equipment related to the 7ACRES Site, increase in inventory and biological assets, and other assets. The increase in liabilities from the year ended June 30, 2018 to the year ended June 30, 2019 is due to the issuance of convertible debentures, increase of accounts payable and accruals, KKE royalty payments and deferred taxes.

For discussion of results for the year ended June 30, 2020 as compared to the year ended June 30, 2019 refer to "*Three and Twelve Months Ended June 30, 2020 vs June 30, 2019*"

The weighted average number of common shares, basic and diluted, outstanding for the twelve months ended June 30, 2020 is 350,347,041 (June 30, 2019: 281,418,793).

Liquidity.

As at June 30, 2020, the Company has a working capital surplus of $70.6 million (June 30, 2019: $76.9 million).

Cash used in operating activities during the twelve months ended June 30, 2020 is $49.7 million (June 30, 2019: 14.8 million). The cash outflows from operating activities mainly relates to a loss for the period of $139.4 million, offset by non-cash expenses and gains of $96.0 million, which includes impairment of assets of $60.9 million, and working capital changes of $6.3 million.

Cash used in investing activities during the twelve months ended June 30, 2020 is $43.0 million (June 30, 2019: $95.3 million). The cash used for investing activities is primarily related to investments (net of disposals) made to the Company's facilities, partially offset by cash from acquisitions of $0.8 million.

Cash provided from financing activities during the twelve months ended June 30, 2020 is $66.3 million (June 30, 2019: $109.1 million). The cash inflows from financing activities were driven by the Company's initial draw on the Credit Facility, funds raised under the ATM program and due to warrant and option exercises. This was partially offset by transfer of funds to restricted cash and repayment of lease liabilities during the period.

During the three months ended June 30, 2020, the Company sold an aggregate of 5,270,000 Common Shares at an average price of $0.32 per Common Share under the ATM Program and the net proceeds resulting from such sales were $1.7 million.

On November 14, 2019, the Company entered into a credit agreement with BMO acting as a lead arranger and agent on behalf of a group of lenders for $90.0 million of senior secured credit facilities consisting of a term loan of $70.0 million and a revolving credit facility of $20.0 million. Costs related to the Credit Facility of $0.9 million were deferred and are being amortized to finance costs using the effective interest method. At June 30, 2020, the Company had drawn $66.0 million under the Credit Facility.

The Credit Facility is secured by the assets of the Company. Pricing is based on a set margin over the BMO CAD Prime Rate or Bankers' Acceptance and a pricing grid linked to certain financial ratios. At June 30, 2020, the effective interest rate on the Credit Facility is 4.45%. The Credit Facility has a three-year term and contains customary financial and restrictive covenants (**"Covenants"**). The Company may repay any portion drawn under the Credit Facility at any time without penalty. The Company has the option to increase the revolving credit facility by $10.0 million subject to agreement by the Lenders and satisfaction of certain conditions.

The Covenants under the Credit Facility include a total funded debt to tangible net worth ratio, a minimum fixed charge coverage ratio and a maximum total funded debt to earnings before interest, taxes, depreciation and amortization ratio, as these terms are defined in the Credit Agreement. The Company monitors these ratios and is required to report them to its lenders on a quarterly basis. As at June 30, 2020, the Company was in compliance with all Covenants. Going forward, the Company anticipated to not be in compliance with the covenants applicable under the Credit Agreement effective on June 30, 2020. As such, the Company engaged in the process of renegotiating its Credit Agreement to revise the Covenants. Subsequent to June 30, 2020, the Company renegotiated the terms of the Credit Agreement, as described in "*Subsequent Events.*".

The Company's contractual obligations, excluding leases which are now on-balance sheet as a result of adopting IFRS 16, for the next five fiscal years ending June 30, and thereafter are summarized as follows:

(In 000's)	Third-Party Minimum Royalty Payments	Convertible debentures	Credit Facility
2021	3,500	6,000	5,672
2022	2,500	101,800	8,223
2023	3,000	-	58,693
2024	-	-	-
2025 and beyond	-	-	-
	$ 9,000	**$ 107,800**	**72,588**

Capital Resources and Liquidity Risk.

The Company constantly monitors and manages its capital resources to assess the liquidity necessary to fund operations and capacity expansion. As at June 30, 2020 the Company had a cash balance of $28.4 million and current liabilities of $19.9 million. At June 30, 2020, the Company also had $24.0 million available under the Credit Facility. The Company's current resources are sufficient to settle its current liabilities. Management believes the current resources available will be sufficient to execute on the Company's strategy and settle its obligations as they become due for the foreseeable future. As at June 30, 2020, all of the Company's liabilities are due within twelve months except for convertible debt, lease liabilities, long-term portion of borrowings under the Credit Facility, deferred taxes and third-party royalty fees. Subsequent to June 30, 2020, the Company had developments related to the Credit Facility, convertible debt and third-party royalty fees. These events had the overall impact of reducing the Company's future obligations in settling the convertible debt and third party royalty fees, while the revised covenants under the Credit Facility mitigates the risk of the Company having to accelerate the repayment of the borrowings under the Credit Facility (please refer to "*Subsequent Events.*").

Commitments related to construction activities are reflected in the Company's Financial Statements on the consolidated statements of financial position. Should additional capital requirements or the replacement of debt be necessary, the Company expects it could satisfy short-term and long-term requirements through availability under the Credit Facility, capital raises, debt restructurings, term debt or asset sales. However, the outcome of these matters cannot be predicted with certainty at this time. The carrying value of certain assets may be negatively impacted should the financial performance of the Company or other external factors vary from the assumptions and forecasts prepared by the Company.

The impact of the COVID-19 outbreak may have a negative impact on the Company's liquidity but due to the speed with which the COVID-19 situation is developing and the uncertainty of its magnitude, outcome and duration, it is not possible to estimate its impact on the Company at this time.

Regulatory Background.

Legal Developments.

On October 17, 2018, the Cannabis Act and the Cannabis Regulations came into force, regulating the cultivation, processing, possession and sale of cannabis in Canada for both medical and adult use purposes. The Cannabis Act and the Cannabis Regulations replaced the Controlled Drugs and Substances Act (Canada) (the "**CDSA**") and the ACMPR as the governing laws and regulations of cannabis in respect of the production, sale and distribution of cannabis for medical purposes. The Cannabis Act also regulates, for the first time, sale of cannabis for adult use purposes.

The Cannabis Act provides a licensing and permitting scheme for the production, importation, exportation, testing, packaging, labelling, sending, delivery, transportation, sale, possession and disposal of cannabis for adult use, implemented by regulations made under the Cannabis Act. The Cannabis Act maintains separate access to cannabis for medical purposes, including providing that import and export permits will only be issued in respect of cannabis for medical or scientific purposes or in respect of industrial hemp.

The Cannabis Regulations, among other things, set out regulations relating to the following matters: (1) Licences, Permits and Authorizations; (2) Security Clearances; (3) Cannabis Tracking System; (4) Cannabis Products; (5) Packaging and Labelling; and (6) Cannabis for Medical Purposes.

Under the Cannabis Act, cannabis is defined to include: (a) any part of a cannabis plant, including the phytocannabinoids produced by, or found in, such a plant, regardless of whether that part has been processed or not, other than: (i) a non-viable seed of a cannabis plant, (ii) a mature stalk, without any leaf, flower, seed or branch, of such a plant, (iii) fiber derived from such mature stalk and (iv) the root or any part of the root of such a plant; (b) any substance or mixture of substances that contains or has on it any part of such a plant, and (c) any substance that is identical to any phytocannabinoid produced by, or found in, such a plant, regardless of how the substance was obtained.

Licences, Permits and Authorizations

The Cannabis Regulations establish the following six classes of licences under the Cannabis Act:

- cultivation licences;
- processing licences;
- licences for sale;
- analytical testing licences;
- research licences; and
- cannabis drug licences.

The Cannabis Regulations also create subclasses of cultivation licenses (standard cultivation, micro-cultivation and nursery), processing licences (standard processing and micro-processing) and licences for sale (for medical purposes). Different licences and each subclass therein, carry differing rules and requirements that are intended to be proportional to the public health and safety risks posed by each licence category and each subclass. Any licence issued will be valid for no more than five years. A licence, once issued, identifies the specific activities that the Licence Holder is authorized to conduct. A holder of a licence is permitted to carry out those activities permitted to be conducted pursuant to the Cannabis Regulations that are set out in the licence.

The holder of a processing licence is, subject to the Cannabis Regulations and the licence, permitted to possess cannabis, to produce cannabis (other than obtain it by cultivating, propagating or harvesting it) and sell cannabis to other licence holders. A processing licence may authorize a holder thereof to engage in manufacturing cannabis products, extraction and formulation of cannabis, and to distribute, import and export cannabis and cannabis products in accordance with the Cannabis Act and Cannabis Regulations.

Other licences regulated under the Cannabis Regulations are medical sale, analytical testing, research and cannabis drug licences. A medical sales licence allows a holder to sell cannabis products to registered clients authorized to use cannabis for medical purposes in Canada, other Licence Holders, the Minister of Health (the "**Minister**") and certain hospital employees. An analytical testing licence allows testing of cannabis and cannabis products. Research licences entitle the holder to, for the purpose of research, possess, produce and transport cannabis between sites authorized by the licence, and distribute cannabis to another research licence holder, an analytical testing licence holder, a cannabis drug licence holder, a research subject or the Minister. A cannabis drug licence authorizes a company to manufacture and sell a drug (as defined in the Food and Drugs Act (the "**FDA**")) that contains cannabis. A prerequisite for applying for a cannabis drug licence, including authorization to manufacture a drug containing cannabis, is that the company must already be a holder of a Drug Establishment Licence ("**DEL**") under Section C.01A.008 of the Food and Drug Regulations. A DEL is also required for manufacturing drugs that do not contain cannabis. Achieving both the DEL and cannabis drug licence would permit a site to engage in the following activities with respect to drugs containing cannabis: possession, production/manufacturing, distribution and sale. Note that each drug containing cannabis would require a Drug Identification Number ("**DIN**") to be regulated for sale.

Transitional provisions of the Cannabis Act provide that every licence issued under Section 35 of the ACMPR that was in force immediately before the day on which the Cannabis Act came into force (October 17, 2018) was deemed to be a licence issued under the Cannabis Act, and that such licence will continue in force until it is revoked or expires. For example, a licence for production and sale of dried cannabis, cannabis resin, cannabis seeds, cannabis plants and cannabis oil under the ACMPR would be deemed to be licences for cultivation, processing and sale for medical purposes under the Cannabis Act, provided that the licence holder met certain requirements.

Similarly, the Cannabis Act generally provides that licences pertaining to cannabis or its derivatives issued under the Narcotic Control Regulations that were in force immediately before the Cannabis Act came into force be deemed to be licences issued under the corresponding provisions of the Cannabis Act and any such licences will continue in force until it is revoked or expires. For example, a dealer licence issued under the Narcotic Control Regulations authorizing cultivation of cannabis for scientific purposes would have become a research licence under the Cannabis Act.

Security Clearances

The Cannabis Regulations require that certain individuals associated with a holder of a licence for cultivating, processing or sale obtain security clearances. Key Personnel must hold valid security clearances. In addition, a number of Key Personnel involved in the licence holder's activities related to cannabis are required to hold security clearances, including the "responsible person" and the "head of security." The "master grower" associated with any cultivation licence, and the "quality assurance person" associated with any processing licence, must each also hold a security clearance. Alternate individuals tasked as Key Personnel with these operational roles must also hold security clearances. The Minister grants security clearances if the Minister determines that the applicant does not pose an unacceptable risk to public health or public safety, including the risk of cannabis being diverted to an illicit market or activity.

Cannabis Tracking System

Pursuant to the Cannabis Act, the Minister has established a national cannabis tracking system, known as the Cannabis Tracking and Licensing System (the "**CTLS**"). The CTLS provides a single-entry-point online secure platform for filing applications for security clearances and licences under the Cannabis Regulations. It also permits the Minister to track cannabis through the supply chain to help prevent diversion of cannabis into, and out of, the legal market. Licence Holders are required to submit monthly reports to the Minister relating to inventory of their cannabis products, among other things.

Cannabis Products

The Cannabis Act and Cannabis Regulations authorize commercial sale of cannabis products in the dried cannabis, cannabis oil, fresh cannabis, cannabis plants, cannabis plant seeds, edible cannabis, cannabis extracts and cannabis topicals classes of cannabis. Cannabis oil will be deleted from the Cannabis Act effective October 17, 2020 and any products currently sold as cannabis oil may be sold as cannabis extracts, subject to compliance with other prohibitions and requirements of the Cannabis Regulations.

Packaging and Labelling

The Cannabis Regulations require plain packaging for cannabis products, including strict requirements for logos, colours and branding. Cannabis package labels must include specific information, such as: (i) product source information, including the class of cannabis and the name, phone number and email of the processor; (ii) a mandatory health warning, rotating between Heath Canada's list of standard health warnings; (iii) the Health Canada standardized cannabis symbol; and (iv) information specifying THC and CBD content.

These requirements are intended to promote informed consumer choice and allow for the safe handling and transportation of cannabis, while also reducing the appeal of cannabis to youth and promoting safe consumption.

Health Products Containing Cannabis

Health Canada is taking a scientific, evidenced-based approach for the oversight of health products with cannabis that are approved with health claims, including prescription and non- prescription drugs, natural health products, veterinary drugs, veterinary health products and medical devices (discussed further below). Under the current regulatory framework, these health products are subject to the FDA and its regulations, in addition to the Cannabis Act and the Cannabis Regulations. The Cannabis Exemption (Food and Drugs Act) Regulations exempt cannabis from the FDA unless, among other things, therapeutic claims are made in association with such products. For many of these products, such as drugs, natural health products and most classes of medical devices, pre-market approval is required. Note, when the Cannabis Act and Cannabis Regulations were introduced, the Natural Health Products Regulations under the FDA were amended to essentially prohibit cannabis products from being regulated as a natural health product. Instead, cannabis, if not exempt from the FDA, will be treated as a drug product. On June 19, 2019, Health Canada announced a new public consultation in relation to a potential new category of products referred to as "cannabis health products". The comment period closed on September 3, 2019. This new category may potentially address the current gap in the legislation/regulations that essentially prohibits health claims from being made in relation to cannabis products (including medical cannabis). A Science Advisory Committee is being formed to advise Health Canada on a regulatory framework for cannabis health products. A nomination period for nomination of permanent and ad hoc members of the Science Advisory Committee closed on May 11, 2020. Cannabis health products are not yet regulated for sale and draft regulations have not yet published.

Promotional Activity

The Cannabis Act stipulates strict restrictions regarding the promotion of cannabis products. The Cannabis Act generally prohibits promotions of cannabis, cannabis accessories, and services related to cannabis, subject to certain exceptions. Brand preference or informational promotion is compliant provided that it is communicated in a fashion that excludes young people. Within permitted channels for promotional activity, content restrictions prohibit any promotional activity that (a) communicates price or distribution, (b) could be appealing to young persons, (c) includes a testimonial or endorsement, (d) depicts a person, character or animal, whether real or fictional or (e) presents in way that evokes a positive or negative emotion about or image of, a way of life such as one that includes glamour, recreation, excitement, vitality, risk or daring. It is also prohibited to promote cannabis or a cannabis accessory in a manner that is false, misleading or deceptive or that is likely to create an erroneous impression about its characteristics, value, quantity, composition, strength, concentration, potency, purity, quality, merit, safety, health effects or health risks. Display of a brand element in sponsorship of a person, event, entity, activity or facility, and naming of a sports or cultural facility with a cannabis brand element, are also prohibited. The Cannabis Act also prohibits offering cannabis or a cannabis accessory without consideration or as consideration for other purchases or transactions. Similarly, it is prohibited to offer benefits conditional on purchase of cannabis or a cannabis accessory.

The Cannabis Regulations restrict the number and size of brand elements that may be displayed on promotional items. The Cannabis Regulations prohibit promotional activity that may connect cannabis, cannabis accessories or services related to cannabis in a manner that could create the impression that health or cosmetic benefits may be derived from the cannabis, cannabis accessory or service related to cannabis. Similarly, the Cannabis Regulations prohibit promotional activity that may imply that any edible cannabis or cannabis accessory that includes edible cannabis may meet dietary requirements or provide certain energy levels. The Cannabis Regulations also prohibit any association between cannabis, cannabis accessories or services related to cannabis and alcoholic beverages, tobacco and vaping products (vaping products as defined in the Tobacco and Vaping Products Act, which do not include cannabis, such as e-cigarettes, e-liquid or pods including e-liquid for vaping).

Cannabis for Medical Purposes

Access to cannabis for medical use transitioned from the ACMPR under the CDSA to the Cannabis Regulations under the Cannabis Act on October 17, 2018. Part 14 of the Cannabis Regulations remains substantively similar to the medical cannabis regulatory framework under the ACMPR, with adjustments to create consistency with regulations applicable to adult use, to improve patient access, and to reduce the risk of abuse within the medical access system. Under Part 14 of the Cannabis Regulations, patients have three options for obtaining cannabis for medical purposes: (i) register a medical document with a holder of a medical sales licence to become a client of, and to purchase cannabis products from, the medical sales licence holder; (ii) register a medical document with Health Canada to produce a limited amount of cannabis; or (iii) register a medical document with Health Canada to designate someone else to produce a limited amount of cannabis for them. With respect to (ii) and (iii), starting materials, such as cannabis plants or cannabis plant seeds, must be obtained from a medical sales licence holder, or from a cultivation licence holder or processing licence holder at the direction of a medical sales licence holder. Health Canada also offers an option for medical access to be obtained through exemptions under the Cannabis Act allowing larger purchases to be made from provincial retail channels for medical purposes.

The Cannabis Regulations provide that a medical document authorizing the use of cannabis for medical purposes must include the daily quantity of cannabis that the healthcare practitioner who provides the medical document authorizes for the patient. The maximum amount of cannabis products that may be sold to the patient are based on this daily quantity.

Provincial Regulatory Framework

The Cannabis Act allows the possession, sale, and distribution of cannabis by persons authorized under provincial legislation. Such provincially authorized persons may only sell cannabis products sourced from federally licenced cannabis producers.

All Canadian provinces and territories have regulated distribution and sale of cannabis for adult use purposes, allowing all Canadians over the age of 19 (18 in Alberta and Québec) to purchase cannabis products without medical access. The only provinces with restrictions on classes of cannabis that may be sold in the adult use markets are Québec and Manitoba, where plants and seeds are not sold because personal cultivation for adult use purposes is prohibited in those two provinces. Regardless of the framework, all cannabis products for the adult use cannabis market are ultimately supplied by federally licenced cultivators (plants and seeds only) and processors (all saleable classes of cannabis, including dried cannabis, cannabis oil, edible cannabis, cannabis extracts and cannabis topicals).

In most provinces and territories, a liquor or cannabis authority operated by the province serves as a wholesaler, with retailers purchasing cannabis products from the liquor or cannabis authority or from provincially licenced distributors. The wholesalers, in turn, acquire the cannabis products from federally licenced cultivators and processors. Storefront and online sales of adult use cannabis products are regulated as part of the private sector or as public entities as in the following chart:

Activity	Privately Operated	Publicly Operated
Storefront adult use sale	British Columbia Alberta Saskatchewan Manitoba Ontario Newfoundland Nunavut Northwest Territories Yukon	British Columbia Québec New Brunswick Nova Scotia Prince Edward Island Yukon Northwest Territories
Online adult use sale	Manitoba Saskatchewan	British Columbia Alberta Ontario Québec New Brunswick Nova Scotia Prince Edward Island Newfoundland Yukon Northwest Territories Nunavut

Risks and Uncertainties.

Overview

Regulated commercial cannabis production for medical and adult use markets is a new industry in Canada. Participation in this industry requires, among other things, obtaining and maintaining regulatory approvals. As a result, there is a high degree of risk associated with the Company's business. There is a significant risk that the expenditures made by the Company in developing its cannabis business units for the medical and wellness markets in Canada and internationally, and the adult use market in Canada, and specifically the 7ACRES, BlissCo, Truverra, Cambium Medigrow Lesotho businesses, will not result in profitable operations.

There are a number of risk factors that could cause future results to differ materially from those described herein. The following sets out the principal risks faced by the Company. Additional risks and uncertainties, including those that the Company does not know about or that it currently deems immaterial, could also adversely affect the Company's business and results of operations.

COVID-19

On March 11, 2020, the World Health Organization declared the outbreak of a novel strain of coronavirus ("**COVID-19**") a global pandemic. The number of confirmed cases of COVID-19 in Canada as of the date of this MD&A is estimated to be in excess of 147,000 and the global number of confirmed cases is estimated to be in excess of thirty-one million. In response to the outbreak, governmental authorities in Canada and internationally have introduced various recommendations and measures to try to limit the pandemic, including travel restrictions, border closures, nonessential business closures, quarantines, self-isolations, shelters-in-place, and social distancing. The COVID-19 outbreak and the response of governmental authorities to try to limit it are having a significant impact on the private sector and individuals, including unprecedented business, employment and economic disruptions.

Although the Company has taken steps to mitigate the impact of COVID-19, the continued presence and spread of COVID-19 nationally and globally could have a material adverse impact on the Company's business, operations, financial results and position and prospects, including through employee attrition, disruptions to the Company's cultivation and processing activities, supply chains and sales channels, further retail store closures, restriction of operations at retail stores and suspension of issuance of new retail store licences, changes in demand for the Company's products, as well as a deterioration of general economic conditions including a possible national or global recession. Due to the speed with which the COVID-19 situation is developing and the uncertainty of its magnitude, outcome and duration, it is not possible to estimate its impact on the Company's business, operations, financial results and position or prospects at this time.
The Company continues to monitor the situation and work with its stakeholders (including customers, employees and suppliers) in order to assess further possible implications to its business, supply chain and customers, and, where practicable, mitigate adverse consequences and responsibly address this global pandemic.

Business Interruption Risks

The Company may be impacted by business interruptions resulting from pandemics and public health emergencies, including those related to COVID-19. An outbreak of infectious disease, a pandemic or a similar public health threat, such as COVID-19, or a fear of any of the foregoing, could adversely impact the Company by causing operating, manufacturing supply chain, and project development delays and disruptions, labour shortages, travel and shipping disruption and shutdowns (including as a result of government regulation and prevention measures). It is unknown whether and how the Company may be affected if such an epidemic persists for an extended period of time. The Company may incur expenses or delays relating to such events outside of its control, which could have a material adverse impact on its business, operating results and financial condition.

Key Personnel Risks

The Company's efforts are dependent to a large degree on the skills and experience of certain of its Key Personnel, including the executive team and the Board of Directors. Key Personnel require security clearances, which may be issued for a period of up to five years and must be renewed in order for individuals to remain in a Key Personnel position. The Company does not maintain "key man" insurance policies on these individuals. Should the availability of these persons' skills and experience be in any way reduced or curtailed, due to departure or other reasons, this could have a material adverse outcome on the Company and its securities.

Low Quality Cannabis Risk

Supreme Cannabis currently operates in an early stage market which has a small representation of Canadian cannabis consumers. Should the Company be unable to grow a quality product demanded by the consumers, this could have a material impact on the Company's revenues and average price per gram.

Licensing Risk

Certain of the Company's subsidiaries are dependent on maintaining its status as a Licence Holder. Although the Company's subsidiaries have been successful in obtaining status as a Licence Holder, there is no guarantee that the Company's subsidiaries will retain such status as licensing is beyond the control of Supreme Cannabis and its subsidiaries and the sole discretion lies with Health Canada. The Licence held by 7ACRES. 7ACRES is valid until March 2023, thereafter requiring approval for renewal by Health Canada. The Licence held by BlissCo is valid until March 2021, thereafter requiring approval for renewal by Health Canada. The Licence held by CCC is valid until March 2022, thereafter requiring approval for renewal by Health Canada. Supreme Cannabis, 7ACRES, CCC and BlissCo must strictly adhere to the regulations and applicable law in order to maintain the Licences and to secure renewals. There can be no guarantee that Health Canada will renew any or all of the Licences. Failure to comply with the requirements of or otherwise maintain the Licences held by 7ACRES and by BlissCo, would have a material adverse impact on the business, financial condition and operating results of the Company.

Regulatory Risks

Supreme Cannabis operates in a new industry which is highly regulated and is in a market which is very competitive and evolving rapidly. Sometimes new risks emerge and management may not be able to predict all such risks, or be able to predict how risks may cause actual results to be different from those contained in any forward-looking statements. 7ACRES' and BlissCo's ability to grow, store and sell medical and adult use cannabis in Canada is dependent on the Licences and the need to maintain the Licence in good standing (see Licensing Risk section). Failure to comply with the requirements of the Licences or any failure to maintain this Licences would have a material adverse impact on the business, financial condition and operating results of Supreme.

Supreme Cannabis will incur ongoing costs and obligations related to regulatory compliance. Failure to comply with regulations may result in additional costs for corrective measures, penalties or in restrictions of our operations. In addition, changes in regulations, more vigorous enforcement thereof or other unanticipated events could require extensive changes to Supreme Cannabis' operations, increased compliance costs or give rise to material liabilities, which could have a material adverse effect on the business, results of operations and financial condition of the Company.

The industry is subject to extensive controls and regulations, which may significantly affect the financial condition of market participants. The marketability of any product may be affected by numerous factors that are beyond Supreme Cannabis' control and which cannot be predicted, such as changes to government regulations, including those relating to taxes and other government levies which may be imposed. Changes in government levies, including taxes, could reduce the Company's earnings and could make future capital investments or Supreme Cannabis' operations uneconomic. The industry is also subject to numerous legal challenges which may significantly affect the financial condition of market participants and which cannot be reliably predicted.

The Company's business as a Licence Holder under the Cannabis Regulations involves engaging in a new industry and new market regulated under the Cannabis Act, the Cannabis Regulations and the Industrial Hemp Regulations. In addition to being subject to general business risks and to risks inherent in the nature of an early stage business, a business involving an agricultural product and a regulated consumer product, the Company will need to continue to build brand awareness in the industry and market through significant investments in its strategy, its production capacity, quality assurance, and compliance with regulations, including significant restrictions on promotional activity. These activities may not promote the Company's brand and products as effectively as intended. The new market and industry into which management is entering will have competitive conditions, consumer tastes, patient requirements and unique circumstances, and spending patterns that may differ from existing markets.

Change in Laws, Regulations and Guidelines

The Company's operations are subject to a variety of laws, regulations and guidelines relating to the manufacture, management, transportation, storage, sale and disposal of cannabis as well as laws and regulations relating to health and safety, privacy, the conduct of operations and the protection of the environment. While to the knowledge of management, Supreme Cannabis is currently in compliance with all such laws, regulations and guidelines, changes to such laws, regulations and guidelines due to matters beyond the control of Supreme Cannabis may have an adverse effect on the Company's operations and the financial condition of Supreme Cannabis. While the potential impact of any of such changes is highly uncertain and fact dependent, it is not expected that any such changes would have an effect on Supreme Cannabis' operations that is materially different than the effect on similar-sized companies in the same business as Supreme Cannabis.

In addition, the industry is subject to extensive controls and regulations, which may significantly affect the financial condition of market participants. The marketability of any product may be affected by numerous factors that are beyond Supreme Cannabis' control and which cannot be predicted, such as changes to government regulations, including those relating to taxes and other government levies which may be imposed. Changes in government levies, including taxes, could reduce Supreme Cannabis' earnings and could make future capital investments or Supreme Cannabis' operations uneconomic.

Market Risks

The Company's securities trade on public markets and the trading value thereof is determined by the evaluations, perceptions and sentiments of both individual investors and the investment community taken as a whole. Such evaluations, perceptions and sentiments are subject to change, both in short term time horizons and longer-term time horizons. An adverse change in investor evaluations, perceptions and sentiments could have a material adverse outcome on the Company and its securities.

Commodity Price Risks

Cannabis is a developing market and likely subject to volatile and possibly declining prices year over year as a result of increased competition. Because the medical and adult use cannabis markets are part of a newly commercialized and regulated industry in Canada, historical price data is either not available or not predictive of future price levels. There may be downward pressure on the average price for cannabis products sold in medical and adult use markets, and Supreme Cannabis has arranged its proposed business accordingly. However, there can be no assurance that price volatility will be favorable to Supreme Cannabis or in line with expectations. Pricing will depend on general factors including, but not limited to, the number of Licences granted by Health Canada, the volume and quality of cannabis and cannabis products that Licence Holders other than subsidiaries of the Company are able to generate, and the number of patients who gain physician approval to purchase medical cannabis as clients of medical sales licence holders. An adverse change in cannabis prices, or in investors' beliefs about trends in those prices, could have a material adverse outcome on the Company and its securities.

Reliance on Key Inputs

7ACRES. CCC and BlissCo are dependent on a number of key inputs and their related costs, including raw materials and supplies related to cultivation and processing operations, such as electricity, water and other utilities. Any significant interruption or negative change in the availability or economics of the supply chain for key inputs or any inability to secure required supplies and services or to do so on appropriate terms could materially impact their business, financial condition and operating results.

Financing Risks

Entering the Cannabis Act regulated medical cannabis marketplace requires a substantial outlay of capital. There can be no assurance that the capital markets will remain favorable in the future and/or that the Company will be able to raise the financing needed to continue its business at favorable terms or at all. Restrictions on the Company's ability to raise financing could have a material adverse outcome on the Company and its securities.

Expansion of 7ACRES Site

Any potential changes to the 7ACRES Site would be subject to Health Canada regulatory approvals. The delay or denial of such approvals may have a material adverse impact on the business and may result in Supreme Cannabis not meeting anticipated or future demand when it arises.

Reliance on Specific Sites

The Company's current and future production is expected to take place at the 7ACRES Site, and the BlissCo Site. Adverse changes or developments affecting any of these sites could have a material adverse effect on Supreme Cannabis' ability to continue producing cannabis for the medical market, and cannabis products for the adult use market, its financial condition and prospects.

Risks Inherent in an Agriculture Business

The Company's business involves cultivation of cannabis plants for processing by the Company or third parties into cannabis products. Cannabis plants are an agricultural product. As such, the business is subject to the risks inherent in the agricultural business, including but not limited to, pests, plant diseases, crop failure and similar agricultural risks. Although Supreme Cannabis grows its products indoors under climate controlled conditions and carefully monitors the growing conditions with trained personnel, there can be no assurance that natural elements will not have a material adverse effect on the volume, quality and consistency of its cannabis plants, and of cannabis products processed from the cannabis plants, and consequently on the Company's sales, profitability and financial condition.

Brand Perception

Supreme Cannabis is targeting making its brands and businesses a premium cannabis offering that is recognized as such by retailers and consumers. Any negative changes to the Company's brands as a quality cannabis offering could have a material adverse effect on Supreme Cannabis' sales, profitability and financial condition.

Share Price Volatility and Price Fluctuations

In recent years, the securities markets in Canada have experienced a high level of price and volume volatility, and the market prices of securities of many corporations have experienced wide fluctuations which have not necessarily been related to the operating performance, underlying asset values or prospects of such companies. Such volatility has been particularly evident with regards to the share price of the medical and adult use cannabis companies that are public issuers in Canada.

Competition

There is potential that Supreme Cannabis will face intense competition from other companies, some of which can be expected to have more financial resources, industry, manufacturing and marketing experience than Supreme. Additionally, there is potential that the industry will undergo consolidation, creating larger companies that may have increased geographic scope and other economies of scale. Increased competition by larger, better- financed competitors with geographic or other structural advantages could materially and adversely affect the business, financial condition and results of operations of Supreme.

To date, Health Canada has issued a limited number of Licences. The number of Licences granted, and the resulting additional number of Licence Holders, could have an impact on the operations of the Company. The Company expects to face additional competition from new Licence Holders. As of September 24, 2020, Health Canada has granted cultivation, processing or cannabis sales licences to a total of 484 Licence Holders. If the number of users of cannabis products purchased in medical or adult use markets in Canada increases, the demand for cannabis products will increase and the Company expects that competition will become more intense as current and future competitors begin to offer an increasing number of diversified cannabis products at lower prices. To remain competitive, the Company will require a continued level of investment in research and development, marketing, sales and client support. The Company may not have sufficient resources to maintain research and development, marketing, sales and client support efforts on a competitive basis which could materially and adversely affect the business, financial condition and results of operations of the Company.

Intellectual Property

The ownership and protection of trademarks, industrial designs, patents, plant breeders' rights, copyright, trade secrets and other intellectual property rights are significant aspects of the Company's future success. Unauthorized parties may attempt to replicate or otherwise obtain and use the Company's branding and technology. Protecting the company's current or future branding and technology by filing applications for trademarks, industrial designs, patents, plant breeders' rights and copyright, and by maintaining trade secrets or other intellectual property rights, could be difficult, expensive, time-consuming and unpredictable. Similarly, policing unauthorized use of the Company's branding and technology by enforcing these rights against unauthorized use by others could be difficult, expensive, time- consuming and unpredictable.

In addition, other parties may claim that the Company's branding or products infringe on their trademarks, industrial designs, patents, plant breeders' rights, copyright or other intellectual property rights. Such claims, whether or not meritorious, may result in the expenditure of significant financial and managerial resources, legal fees, injunctions or temporary restraining orders, and require the payment of damages or other monetary remedies. As well, the Company may need to obtain intellectual property licences from third parties who allege that the Company has infringed on their intellectual property rights. Such licences, however, may not be available on terms acceptable to the Company or at all. In addition, the Company may not be able to obtain or utilize on terms that are favorable to it, or at all, licences or other rights with respect to intellectual property rights that it does not own or otherwise have access to.

Environmental and Other Regulatory Requirements

The current or future operations of the Company, including development activities and production within the 7ACRES Site and the BlissCo Site, may require permits from various governmental authorities and such operations are and may be subject to laws and regulations governing disposal, growing, storage, transportation, record keeping, sales and similar activities. Companies engaged in the cannabis business need to comply with numerous laws, regulations and permits. There can be no assurance that the Company will be able to obtain or maintain all approvals and permits that may be required to develop or operate the 7ACRES Site, the BlissCo on terms which enable operations to be conducted at economically justifiable costs.

Environmental regulations mandate, among other things, the maintenance of air and water quality standards and land reclamation, and usage of water and other inputs that may be required for the Company's operations. Such regulations also set forth limitations on the generation, transportation, storage and disposal of solid and hazardous waste. Environmental legislation is evolving in a manner which may require stricter standards and enforcement, increased fines and penalties for non-compliance, more stringent environmental assessments of proposed projects and a heightened degree of responsibility for companies and their officers, directors and employees. There is no assurance that future changes in environmental regulation, if any, will not adversely affect the Company's operations.

Failure to comply with applicable laws, regulations, and permitting requirements may result in enforcement actions thereunder, potentially including orders issued by regulatory or judicial authorities causing operations to cease or be curtailed, and may include corrective measures requiring capital expenditures, installation of additional equipment, or remedial actions. Parties engaged in cannabis cultivation and processing may be required to compensate those suffering loss or damage by reason of such activities and may have civil or criminal fines or penalties imposed for violations of applicable laws or regulations.

Product Liability

As a distributor of cannabis products designed to be ingested by humans, Supreme Cannabis faces an inherent risk of exposure to product liability claims, regulatory action and litigation if its products are alleged to have caused significant loss or injury. In addition, the sale of the Company's cannabis products involves the risk of injury to consumers due to tampering by unauthorized third parties or product contamination. Previously unknown adverse reactions resulting from human consumption of Supreme Cannabis' cannabis products alone or in combination with medications or other substances could occur. Supreme Cannabis may be subject to various product liability claims, including, among others, that the Company's products caused injury or illness, include inadequate instructions for use or include inadequate warnings concerning possible side effects or interactions with other substances. A product liability claim or regulatory action against Supreme Cannabis could result in increased costs, could adversely affect the Company's reputation with its clients and consumers generally, and could have a material adverse effect on our results of operations and financial condition of the Company.

Product Recalls

Manufacturers and distributors of cannabis products are sometimes subject to the recall or return of their cannabis products for a variety of reasons, including product defects, such as contamination, unintended harmful side effects or interactions with other substances, packaging safety and inadequate or inaccurate labelling disclosure. If any of the Company's cannabis products are recalled due to an alleged product defect or for any other reason, Supreme Cannabis could be required to incur the unexpected expense of the recall and any legal proceedings that might arise in connection with the recall. Supreme Cannabis may lose a significant amount of sales and may not be able to replace those sales at an acceptable margin or at all.

Results of Future Clinical Research

Research regarding the medical benefits, viability, safety, efficacy, dosing and social acceptance of cannabis or isolated phytocannabinoids (such as CBD and THC), alone or in combination with specific terpenoids, phenylpropanoids or other molecules found in the cannabis plant, remain in early stages. There have been relatively few clinical trials on the benefits of cannabis or specific preparations of phytocannabinoids, terpenoids, phenylpropanoids or other molecules found in the cannabis plant. Future research studies and clinical trials may reach negative conclusions regarding the medical benefits, viability, safety, efficacy, dosing, social acceptance or other facts and perceptions related to cannabis, which could have a material adverse effect on the demand for the Company's cannabis products with the potential to lead to a material adverse effect on the Company's business, financial condition and results of operations.

Litigation

The Company may become party to litigation from time to time in the ordinary course of business, which could adversely affect its business. Should any litigation in which the Company becomes involved be determined against the Company, such a decision could adversely affect the Company's ability to continue operating and the value of its securities and could use significant resources. Even if the Company is involved in litigation and wins, litigation can redirect significant Company resources, including the time and attention of management and available working capital. Litigation may also create a negative perception of the Company's brand.

Uncertain tax burden

Tax regimes, including excise taxes and sales taxes, can disproportionately affect the price of our products, or disproportionately affect the relative price of our products versus other cannabis products. Because our products are targeted at the premium cannabis market, tax regimes based on sales price can place us at a competitive disadvantage in certain price- sensitive markets. As a result, our volume and profitability may be adversely affected in these markets.

History of Net Losses; Accumulated Deficit; Revenue from Operations

The Company has incurred net losses to date and the Company may continue to incur losses. There is no certainty that the Company will continue to produce revenue or operate profitably in the future. There is also no certainty that the Company will provide a return on investment in the future.

Breaches of security

Given the nature of the Company's product and the concentration of inventory in its sites, despite meeting or exceeding Health Canada's physical security requirements, there remains a risk of shrinkage as well as theft. A security breach at one of the Company's sites could expose the Company to additional liability and to potentially costly litigation, increase expenses relating to the resolution and future prevention of these breaches and may deter potential patients from choosing the Company's products.

Uninsurable risks

The Company may become subject to liability for pollution, fire and explosion, against which it cannot insure or against which it may elect not to insure. Such events could result in substantial damage to property and personal injury. The payment of any such liabilities may have a material, adverse effect on the Company's financial position.

Financial Performance of Subsidiary

Supreme Cannabis is a holding company that conducts its business through 7ACRES which currently generates substantially all of the Company's revenues. As a result, our financial performance and ability to meet financial obligations is dependent on the operating results and revenues of 7ACRES, and the distribution of those earnings to Supreme. In the event of a liquidation or bankruptcy of 7ACRES, lenders and trade creditors will generally be entitled to payment of their claims from the assets of 7ACRES before any assets are made available for distribution to Supreme.

Expansion into Foreign Jurisdictions

The Company's expansion into jurisdictions outside of Canada is subject to risks. In addition, in jurisdictions outside of Canada, there can be no assurance that any market for the Company's products will develop. The Company may face new or unexpected risks or significantly increase its exposure to one or more existing risk factors, including economic instability, changes in laws and regulations, and the effects of competition. These factors may limit the Company's ability to successfully expand its operations into such jurisdictions and may have a material adverse effect on the Company's business, financial condition and results of operations.

U.S. Border Officials Could Deny Entry into the U.S. to Employees of, or Investors in, Companies with Cannabis Operations in the United States and Canada

Since cannabis remains illegal under U.S. federal law, those employed at or investing in legal and licenced Canadian cannabis companies could face detention, denial of entry or lifetime bans from the U.S. for their business associations with U.S. cannabis businesses. Entry happens at the sole discretion of the U.S. Customs and Border Protection officers on duty, and these officers have wide latitude to ask questions to determine the admissibility of a foreign national. The Government of Canada has started warning travelers on its website that previous use of cannabis, or any substance prohibited by U.S. federal laws, could mean denial of entry to the U.S. In addition, business or financial involvement in the legal cannabis industry in Canada or in the United States could also be reason enough for U.S. border guards to deny entry. On September 21, 2018, U.S. Customs and Border Protection released a statement outlining its current position with respect to enforcement of the laws of the United States. It stated that Canada's legalization of cannabis will not change U.S. Customs and Border Protection enforcement of United States laws regarding controlled substances and because cannabis continues to be a controlled substance under United States law, working in or facilitating the proliferation of the legal cannabis industry in U.S. states where it is deemed legal or Canada may affect admissibility to the U.S. As a result, U.S. Customs and Border Protection has affirmed that, a Canadian citizen working in or facilitating the proliferation of the legal cannabis industry in Canada, coming to the U.S. for reasons unrelated to the cannabis industry, will generally be admissible to the U.S. However, if a traveler is found to be coming to the U.S. for reason related to the cannabis industry, they may be deemed inadmissible.

The Company Relies on International Advisors and Consultants in Order to Keep Abreast of Material Legal, Regulatory and Government Developments that Impact its Business and Operations in the Jurisdictions in which it Operates

The legal and regulatory requirements in the foreign countries in which the Company operates with respect to the cultivation and sale of cannabis, banking systems and controls, as well as local business culture and practices are different from those in Canada. The Company's officers and directors must rely, to a great extent, on local legal counsel and consultants in order to keep abreast of material legal, regulatory and governmental developments as they pertain to and affect the Company's business operations, and to assist with governmental relations. The Company must rely, to some extent, on those members of management and the Board of Directors who have previous experience working and conducting business in these countries, if any, in order to enhance its understanding of and appreciation for the local business culture and practices. The Company also relies on the advice of local experts and professionals in connection with current and new regulations that develop in respect of the cultivation and sale of cannabis as well as in respect of banking, financing, labour, litigation and tax matters in these jurisdictions. Any developments or changes in such legal, regulatory or governmental requirements or in local business practices are beyond its control. The impact of any such changes may adversely affect the Company's business.

The Company's Operations in Emerging Markets are Subject to Political and Other Risks Associated with Operating in a Foreign Jurisdiction

The Company's investments have operations in various emerging markets and may have operations in additional emerging markets in the future. Such operations expose the Company to the socioeconomic conditions as well as the laws governing the cannabis industry in such countries. Inherent risks with conducting foreign operations include, but are not limited to: high rates of inflation; extreme fluctuations in currency exchange rates, military repression; war or civil war; social and labour unrest; organized crime; hostage taking; terrorism; violent crime; expropriation and nationalization; renegotiation or nullification of existing licences, approvals, permits and contracts; changes in taxation policies; restrictions on foreign exchange and repatriation; and changing political norms, banking and currency controls and governmental regulations that favour or require the Company to award contracts in, employ citizens of, or purchase supplies from, the jurisdiction.

Governments in certain foreign jurisdictions intervene in their economies, sometimes frequently, and occasionally make significant changes in policies and regulations. Changes, if any, in marijuana industry or investment policies or shifts in political attitude in the countries in which the Company operates may adversely affect the Company's operations or profitability. Operations may be affected in varying degrees by government regulations with respect to, but not limited to, restrictions on production, price controls, export controls, currency remittance, importation of product and supplies, income and other taxes, royalties, the repatriation of profits, expropriation of property, foreign investment, maintenance of concessions, licences, approvals and permits, environmental matters, land use, land claims of local people, water use and workplace safety. Failure to comply strictly with applicable laws, regulations and local practices could result in loss, reduction or expropriation of licences, or the imposition of additional local or foreign parties as joint venture partners with carried or other interests.

The Company continues to monitor developments and policies in the emerging markets in which it operates or invests and assess the impact thereof to its operations; however such developments cannot be accurately predicted and could have an adverse effect on the Company's operations or profitability.

Corruption and Fraud in Certain Emerging Markets Relating to Ownership of Real Property May Adversely Affect the Company's Business

There are uncertainties, corruption and fraud relating to title ownership of real property in certain emerging markets in which the Company operates or may operate. Property disputes over title ownership are frequent in emerging markets, and, as a result, there is a risk that errors, fraud or challenges could adversely affect the Company's ability to operate in such jurisdictions.

The Company's Operations may be Impaired as a Result of Restrictions on the Acquisition or Use of Properties by Foreign Investors or Local Companies under Foreign Control

Non-resident individuals and non-domiciled foreign legal entities may be subject to restrictions on the acquisition or lease of properties in certain emerging markets. Limitations also apply to legal entities domiciled in such countries which are controlled by foreign investors, such as the entities through which the Company operates in certain countries. Accordingly, the Company's current and future operations may be impaired as a result of such restrictions on the acquisition or use of property, and the Company's ownership or access rights in respect of any property it owns or leases in such jurisdictions may be subject to legal challenges, all of which could result in a material adverse effect on the Company's business, results of operations, financial condition and cash flows.

Conflicts of Interest

The Company may be subject to various potential conflicts of interest because of the fact that some of its officers and directors may be engaged in a range of business activities. In some cases, the executive officers and directors may have fiduciary obligations associated with these business interests that interfere with their ability to devote time to the Company and its affairs, and that could adversely affect Company operations. These business interests could require significant time and attention of the Company's executive officers and directors. In addition, the Company may also become involved in other transactions which conflict with the interests of the Company's directors and officers who may from time to time deal with persons, firms, institutions or corporations with which the Company may be dealing, or which may be seeking investments similar to those the Company desires. The interests of these persons could conflict with the Company's interests. In addition, from time to time, these persons may be competing with the Company for available investment opportunities. Conflicts of interest, if any, will be subject to the procedures and remedies provided under applicable laws. In particular, in the event that such a conflict of interest arises at a meeting of directors, a director who has such a conflict will abstain from voting for or against the approval of such participation or such terms. In accordance with applicable laws, directors are required to act honestly, in good faith and in the Company's best interests.

Third Party Transportation

In order for customers of the Company to receive their product, the Company must rely on third-party transportation services. This can cause logistical problems with and delays in patients, government entities and private retailers obtaining their orders and cannot be directly controlled by the Company. Any delay by third party transportation services may adversely affect the Company's financial performance.

The Company may be held Responsible for Corruption and Anti-bribery Law Violations

The Company's business is subject to Canadian laws, which generally prohibit companies and employees from engaging in bribery or other prohibited payments to foreign officials for the purpose of obtaining or retaining business. In addition, the Company is subject to the anti-bribery laws of any other countries in which it conducts business now or in the future. The Company's employees or other agents may, without its knowledge and despite its efforts, engage in prohibited conduct under the Company's policies and procedures and anti- bribery laws for which the Company may be held responsible. The Company's policies mandate compliance with these anti-corruption and anti-bribery laws. However, there can be no assurance that the Company's internal control policies and procedures will always protect it from recklessness, fraudulent behaviour, dishonesty or other inappropriate acts committed by its affiliates, employees, contractors or agents. If the Company's employees or other agents are found to have engaged in such practices, the Company could suffer severe penalties and other consequences that may have a material adverse effect on its business, financial condition and results of operations.

Fraudulent or Illegal activity by the Company's Employees, Contractors and Consultants

The Company is exposed to the risk that its employees, independent contractors and consultants may engage in fraudulent or other illegal activity. Misconduct by these parties could include intentional, reckless and/or negligent conduct that violates: (i) government regulations; (ii) manufacturing standards; (iii) federal and provincial healthcare fraud and abuse laws and regulations; or (iv) laws that require the true, complete and accurate reporting of financial information or data. It is not always possible for the Company to identify and deter misconduct by its employees and other third parties, and the precautions taken by the Company to detect and prevent this activity may not be effective in controlling unknown or unmanaged risks or losses or in protecting the Company from governmental investigations or other actions or lawsuits stemming from a failure to comply with such laws or regulations. If any such actions are instituted against the Company, and it is not successful in defending itself or asserting its rights, those actions could have a significant impact on the Company's business, including the imposition of civil, criminal and administrative penalties, damages, monetary fines, contractual damages, reputational harm, diminished profits and future earnings, and curtailment of the Company's operations, any of which could have a material adverse effect on the Company's business, financial condition and results of operations.

Global Economy Risk

An economic downturn of global capital markets has been shown to make the raising of capital by equity or debt financing more difficult. The Company will be dependent upon the capital markets to raise additional financing in the future, while it establishes a user base for its products. As such, the Company is subject to liquidity risks in meeting its development and future operating cost requirements in instances where cash positions are unable to be maintained or appropriate financing is unavailable. These factors may impact the Company's ability to raise equity or obtain loans and other credit facilities in the future and on terms favorable to the Company and its management. If uncertain market conditions persist, the Company's ability to raise capital could be jeopardized, which could have an adverse impact on the Company's operations and the trading price of the Company's shares on the TSX, OTCQX, and FRA.

Dividend Risk

The Company has not paid dividends in the past and does not anticipate paying dividends in the near future. The Company expects to retain its earnings to finance further growth and, when appropriate, retire debt.

Unallocated Proceeds of the ATM Program

The net proceeds from the ATM Program will be used for general corporate purposes, working capital needs and capital expenditures. Accordingly, the Company's management will have broad discretion concerning the use of the net proceeds of the ATM Program as well as the timing of their expenditures, and there can be no assurance as to how the funds will be allocated. The failure by the Company's management to apply these funds effectively could result in financial losses that could have a material adverse effect on the Company's business and cause the price of the Common Shares to decline. Pending their use, the Company may invest the net proceeds from the ATM Program in a manner that does not produce income or that loses value.

Credit Facility

In relation to the Credit Facility, the Company is subject to risks typically associated with secured debt financing. The Company's cash flows could be insufficient to satisfy required payments of principal and interest under the Credit Facility. Further, the Company may be exposed to increased interest rates as the interest rate under the Credit Facility is set to margin over the BMO CAD Prime Rate or Bankers' Acceptance and a pricing grid linked to certain financial ratios.

The Company's ability to make scheduled payments of principal and interest on the Credit Facility depends on its future cash flow, which is subject to the financial performance of the Company's business, prevailing economic conditions, prevailing interest rate levels, and other financial, competitive and operational factors, many of which are beyond the Company's control.

The Covenants limit the Company's ability to engage in activities that may be in the Company's long-term best interest. In addition, the terms and conditions thereof contain financial, operational and reporting Covenants, and compliance with the Covenants by the Company may increase the Company's legal and financial costs, make certain activities more difficult or restricted, time-consuming or costly and increase demand on the Company's systems and resources. The Company's failure to comply with any such Covenants could result in an event of default which could result in the acceleration of repayment of the Company's debt or realization of the security granted.

Financial Instruments & Other Instruments.

The Company's financial instruments consist of cash, restricted cash, receivables, investments, debt securities, accounts payable and accrued liabilities, other liabilities, long-term debt and convertible debt. The fair values of cash, receivables, accounts payable and accrued liabilities approximate their carrying values due to the relatively short-term to maturity. The Company classifies its cash as fair value through profit and loss ("**FVTPL**"), receivables as amortized cost, investments as fair value through other comprehensive income ("**FVOCI**") or FVTPL, and accounts payable, accrued liabilities, other liabilities, long-term debt and convertible debt as amortized cost.

The FVTPL investment in common shares is considered Level 1 categorization in the IFRS fair value hierarchy as a quoted price if an active market exists. The FVTPL investment in common share purchase warrants that are not traded on active markets is considered Level 2 categorization in the IFRS fair value hierarchy as fair value is determined by observable inputs such as volatility, discount rates and the underlying stock price for the common shares.

The FVOCI investments are considered Level 3 categorization in the IFRS fair value hierarchy, as it is a security without a quoted value. If Level 2 inputs are available, such as implied valuations from follow-on financing rounds, third party sale negotiations, or market-based approaches, fair value is considered determinable.

The Company's cash and restricted cash is based on Level 1 inputs.

For the year ended June 30, 2020, the Company has recognized a realized loss from investments classified as FVTPL of $0.7 million (June 30, 2019: $nil) due to the deemed disposal of its investment in BlissCo. For the year ended June 30, 2020, the Company recognized unrealized loss on investments classified as FVTPL of $nil (June 30, 2019: $1.1 million). The unrealized gains / losses were determined using Level 1 and Level 2 inputs. The Company has also recognized a loss from its investments classified as FVOCI of $11.0 million, net of tax (June 30, 2019: $0.1 million), which was determined using Level 3 inputs.

Some of these instruments face the risk that the fair value or future cash flows will fluctuate and be impacted from changes in the market, generally. Management of the Company is aware of these risks and manages each separately by utilizing a variety of general strategies. Some of the Company's investments are not publicly listed which may negatively impact the liquidity of the investments.

Off-Balance Sheet Arrangements.

The Company has no off-balance sheet arrangements that would potentially affect current or future operations or the financial condition of the Company.

Related Party Transactions.

For the three and twelve months ended June 30, 2020, related party transactions include wages and stock-based compensation as described in the Financial Statements. The Company acquired all of the issued and outstanding shares of Truverra, consideration for the transaction consisted of the issuance of 14,699,966 Supreme Cannabis common shares to shareholders of Truverra. Certain directors and management of the Company were insignificant shareholders of Truverra at the time of the Company's acquisition.

On September 17, 2019, the Company made a $1.7 million investment to acquire 5,507,000 Multiple Voting Shares in Supreme Heights. Other investors had previously advanced $1.4 million in cash of seed capital to purchase ordinary shares in Supreme Heights in March 2019, including some directors, management and employees of the Company, Supreme Heights was considered a related party. This transaction resulted in Supreme Cannabis holding a 16.435% ownership interest and 95.162% of voting interest in Supreme Heights. In addition, the Company had a right to invest an additional £2.0 million at similar terms as the current investment increasing the Company's equity ownership interest to approximately 37.11%.

The Company obtained additional rights as part of its investment in Supreme Heights including: i) preferential liquidation rights which give the Company the right to recoup its investment in full before other shareholders, ii) preferential dividend rights which give the Company the right to dividend distributions, up to the Company's investment, before other shareholders receive dividends, and iii) retractable rights which give the Company the right to exchange the 5,507,000 Multiple Voting Shares for the initial capital invested, at the option of the Company.

In December 2019, the Company exercised its retractable rights resulting in the exchange of the 5,507,000 Multiple Voting Shares for return of the total amounts invested of $1.7 million. As a result, the Company no longer has any equity or voting interest in Supreme Heights, which consequently, is no longer a consolidated entity in Company's Financial Statements.

Critical Accounting Estimates.

The preparation of the Financial Statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities and contingent liabilities at the date of the Financial Statements and reported amounts of revenues and expenses during the reporting period. Estimates and assumptions are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. However, actual outcomes can differ from these estimates.

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment to the amounts recognized in the Financial Statements are listed below:

i) Business Combination:

Determination of fair value of assets acquired, liabilities assumed and the fair value of total purchase consideration requires the use of various estimates made by management.

ii) Revenue:

The Company estimates whether certain vendors will exercise the right to early payment discounts based on past experience with each vendor. The Company also uses estimates to determine the likelihood of returns and discounts and rebates it may offer to distributors. This is based on trends observed by the Company related to its historical sales and industry practices.

iii) Biological Assets:

Determination of the fair values of the biological assets requires the Company to make various estimates and assumptions. 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 as at June 30, 2020:

a. Selling prices - selling prices are based on the Company's historical average selling price adjusted for current market conditions. Adjusted selling prices averaged $4.08 per gram (June 30, 2019: $6.13 per gram) for cannabis flower and $nil per gram (June 30, 2019: $2.44 per gram) for cannabis trim. Subsequent to December 31, 2019, the Company has not recognized fair value of biological assets related to cannabis trim grown to reflect the current market conditions.

b. Post-harvest costs - the costs are based on actual processing costs incurred by drying, trimming, testing, packaging and manufacturing activities incurred in the period, including overhead allocations for these activities. Post-harvest processing costs averaged $0.36 per gram (June 30, 2019: $0.42 per gram). Subsequent to December 31, 2019, the Company did not allocate any post-harvest costs to cannabis trim to reflect the current market conditions.

c. The stage of plant growth - the stage of plant growth is estimated by the number of days into the growing stage as compared to the estimated growing time for a full harvest. The estimated stage of growth of the cannabis plants as at June 30, 2020 averaged 64% (June 30, 2019: averaged 69%).

d. Expected yield - the expected yield per plant is based on the Company's historical adjusted average yield per plant. Expected total yield per plant is 81.23 grams (June 30, 2019: 70.96 grams) of cannabis flower.

iv) Property, Plant and Equipment:

Initial recognition of costs – The Company uses estimates to determine certain costs that are directly attributable to self-constructed assets. These estimates primarily include certain internal and external direct labor, overhead, and borrowing costs associated with the acquisition, construction, development, or betterment of its facilities.

Useful lives of property, plant and equipment – Components of an item of property, plant and equipment may have different useful lives. The Company makes significant estimates when determining depreciation rates and asset useful lives, which require considering company specific factors, such as past experience and expected use, and industry trends. The Company monitors and reviews residual values, depreciation rates, and asset useful lives at least once per year and changes them if they are different from previous estimates.

v) Intangible Assets and Goodwill:

The Company uses estimates in determining the useful life and residual values of its definite life intangible assets. The definite life intangible assets that are not under development and are ready for use, are amortized on a straight-line basis, based on the estimated useful lives as described in the table below:

Asset Class	Basis	Estimated useful life
Assets under development	Not amortized	N/A
Database & system technologies	Straight-line	3-5 years
Product license	Straight-line	Expected term of agreement
Health Canada Licence	Not amortized / Straight-line	If amortized, over life of leased facility
Brands	Straight-line	5 years

vi) Impairment of Assets:

The Company uses estimates in determining the recoverable amount of its CGUs. The determination of the recoverable amount for impairment testing requires the use of significant estimates, such as future cash flows, discount rates, terminal value and growth rates. Future cash flows are based on the Company’s estimates and expected future operating results of the CGU after considering economic conditions impacting the CGU. The following inputs have been used to determine the recoverable amount of CGUs based on the value in use approach:

Discount rates	21% - 28%
Forecast period	5 years
Growth rate for forecast period	2% - 45%
Terminal value growth rate	3%

vii) Provisions

The Company's best estimate of the royalty payments owed to KKE is the future minimum fixed royalty payments owed to KKE over the expected term of the Agreement and the timing of the payments. The initial carrying amount of the provision was determined by discounting the stream of future minimum royalty payments at a market interest rate of 18.31%.

viii) Investments

The Company uses the discounted cash flows valuation method to estimate the value of its FVOCI investments considered a Level 3 categorization on the IFRS fair value hierarchy. The significant unobservable input into the valuation models of these investments is the discount rate, which has been estimated to be between 35%-45%. Changes in discount rates will result in changes in the fair values of these investments.

ix) Convertible Debentures:

Market rate of interest – The market rate of interest is estimated by assessing market conditions and other internal and external factors. The market rate of interest used to calculate the fair value of the debt component of October 2018 Convertible Debenture is 18.31%. The market rate of interest used to calculate the fair value of the debt components of November 2017 and December 2016 Convertible Debentures is 19.9%.

x) Share Based Compensation:

Significant estimates are used to determine the fair value of stock options issued to various employees of the Company, the table below shows the estimates and assumptions used in applying the Black-Scholes option pricing model for options granted during the year ending June 30:

	2020	2019
Share price	$ 0.30-1.41	$ 1.47 - 2.25
Expected dividend yield	0.00%	0.00%
Stock price volatility	70.63%-79.68%	54.73% - 84.70%
Expected life of options	5 years	5 years
Forfeiture rate	1%	0% - 1%
Risk free rate	0.41%-1.58%	1.58% - 2.41%

Significant estimates are used to determine the fair value of PSUs and PDSUs issued to certain employees of the Company, the table below shows the estimates and assumptions used in applying the Monte Carlo simulation method for PSUs and PDSUs outstanding as at June 30, 2020:

	June 30, 2020
Share price	$ 0.26
Expected dividend yield	0.00%
Stock price volatility	73.80%
Expected life of instruments	2 years
Forfeiture rate	0%
Risk free rate	0.30%

Significant estimates are used to determine the fair value of replacement stock options issued as part of the BlissCo acquisition, the table below shows the estimates and assumptions used in applying the Black-Scholes option pricing model for replacement options granted on BlissCo's acquisition date of July 11, 2019:

		June 30, 2020
Share price	$	1.37
Expected dividend yield		0.00%
Stock price volatility		70.00%
Expected life of options		4.48 years
Forfeiture rate		1%
Risk free rate		1.60%

xi) Income Taxes:

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.

xii) Financial Instruments:

Financial instruments measured at fair value are classified into one of the levels in the fair value hierarchy according to the relative reliability of the inputs used to estimate the fair values. The three levels of the fair value hierarchy are:

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;

Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and

Level 3 – Inputs that are not based on observable market data.

New Accounting Standards and Interpretations Effective July 1, 2019.

The Company adopted the following new accounting standards effective July 1, 2019:

i. International Financial Reporting Standards 16, *Leases* ("**IFRS 16**")

The Company has adopted IFRS 16 with a date of initial application of July 1, 2019.

The Company has applied IFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognized in retained earnings at July 1, 2019. The Company has not restated comparative information presented, which has been presented as previously reported under IAS 17, *Leases* ("**IAS 17**") and other related interpretations.

Definition of a Lease

Previously, the Company determined at contract inception whether an arrangement contained a lease under International Financial Reporting Interpretations Committee 4, *Determining Whether an*

Arrangement contains a Lease ("**IFRIC 4**"). Under IFRS 16, the Company now assesses whether a contract is or contains a lease based on the new definition of a lease provided in IFRS 16.

On transition to IFRS 16, the Company elected to apply the practical expedient to grandfather the assessment of which transactions are leases. As a result, it applied IFRS 16 only to contracts that were previously identified as leases under IAS 17 and IFRIC 4. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed to determine whether they meet the new definition of a lease under IFRS 16. Therefore, the definition of a lease under IFRS 16 was applied only to contracts entered into or changed on or after July 1, 2019.

As a lessee, the Company previously classified a lease as either an operating or finance lease based on its assessment of whether the lease transferred significantly all of the risks and rewards incidental to ownership of the underlying asset to the Company. An operating lease was treated as an off-balance sheet item with payments recognized in profit and loss over the life of the lease. Under IFRS 16, as a lessee, the Company will recognize right-of-use assets and lease liabilities for leases that are not short-term or of low dollar value, resulting in the leases being brought on to the balance sheet.

As a lessor, the accounting for leases under IFRS 16 is not materially different to IAS 17.

Significant Accounting Policy under IFRS 16

At inception of a contract, the Company assesses whether a contract is, or contains, a lease under IFRS 16. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The Company is deemed to control the use of an identified asset when; a) the contract involves the use of an identified asset; b) the Company has the right to obtain substantially all of the economic benefits during the period of use, and; c) has the right to direct its use.

The Company recognizes a right-of-use asset at the lease commencement date. The right-of-use asset is initially measured at cost and subsequently measured at cost less any accumulated depreciation and impairments. The right-of-use asset may be adjusted for any remeasurements of the lease liability.

The lease liability is measured at the present value of future lease payments using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company’s incremental borrowing rate. The lease liability is subsequently measured at amortized cost using the effective interest method, decreased by lease payments made. The lease liability is remeasured when there is a change in future lease payments arising from a change in discount or index rate, change in estimate of the amount expected to be payable under a residual value guarantee, or changes in the assessment of whether a purchase, extension or termination option is reasonably certain to be exercised or not.

The Company has elected not to recognize right-of-use assets and lease liabilities for short-term leases (i.e. leases with terms less than 12 months or entered into on a month-to-month basis) and leases considered to be low-dollar value leases.

Transition Impact on Financial Statements

Transition Date Impact

At transition from IAS 17 to IFRS 16, lease liabilities were measured at the present value of the remaining lease payments. The Company used its incremental borrowing rate as at July 1, 2019 to discount the future lease payments. Right of-use assets were measured at an amount equal to what their net carrying value as of July 1, 2019 would have been if IFRS 16 was applied at the commencement date. The following practical expedients were applied when transitioning operating leases under IAS 17 to IFRS 16:

- The Company did not recognize right-of-use assets and liabilities for leases with a lease term of less than 12 months
- The Company did not recognize right-of-use assets and liabilities for leases of low dollar value
- The Company excluded initial direct costs related to right-of-use assets

Following is a reconciliation of the Company's operating lease commitments at June 30, 2019 to the opening lease liability balance under IFRS 16 at July 1, 2019:

	July 1, 2019
Operating lease commitments at June 30, 2019	14,077
Adjustments(1)	(2,165)
Impact of discounting using the incremental borrowing rate	(5,025)
Lease liabilities recognized at July 1, 2019	**6,887**

(1) Includes the impact of variable portion of payments under lease agreements eligible for recognition exemption under IFRS 16.

Current Period Impact

As a result of transition to IFRS, the Company recognized right-of-use assets of $6.1 million and lease liabilities of $6.9 million at the transition date (as noted above). The right-of-use assets were adjusted for lease incentives and lease liabilities were adjusted to include prepayments made.

The discount rates used to calculate the present value of the lease liabilities range from 10.73% to 13.24%, which is the Company's incremental borrowing rate. The Company also recognized an adjustment that increased opening deficit by $0.4 million resulting from the adoption of IFRS 16.

For the year ended June 30, 2020, the Company recorded depreciation expense of $0.9 million related to the newly recognized right-of-use assets and recorded interest expense of $0.9 million related to the accretion of the lease liabilities recognized at transition to IFRS 16.

ii. IFRIC 23 – Uncertainty over Income Tax Treatments ("**IFRIC 23**")

In June 2017, the IFRS Interpretations Committee of the IASB issued IFRIC 23. The interpretation provides guidance on the accounting for current and deferred tax liabilities and assets in circumstances in which there is uncertainty over income tax treatments. The interpretation is effective for the Company's annual period beginning on July 1, 2019. The adoption of IFRIC 23 did not have a material impact on the Company's Financial Statements.

Voluntary Change in Accounting Policy.

Effective July 1, 2019, the Company made a voluntary change in accounting policy related to the accounting for biological assets. Previously, all direct and overhead costs incurred during the biological transformation process and up to the point of harvest were expensed to production costs on the consolidated statement of comprehensive loss in the period the costs were incurred. Under the Company's new accounting policy, the Company capitalizes all direct and overhead costs incurred during the biological transformation process after 30 days and up to the point of harvest to biological assets on the consolidated statement of financial position.

The accounting for the Company’s biological assets is within the scope of IAS 41, Agriculture, however, the Company's revised accounting policy for the direct and overhead costs of biological assets is consistent with the capitalization criteria under IAS 2, Inventories. This approach provides reliable and more relevant information to users of financial statements as production costs on the consolidated statement of comprehensive loss only include costs incurred during the biological transformation process for inventory that is sold during the period. The accounting policy change also allows for the presentation of gross margin which further enables comparability of financial results. Notes 7 and 8 of the Company’s Financial Statements incorporate the revised accounting policy related to the Company’s biological assets.

Prior period balances impacted by the change have been restated to conform with current period presentation resulting from the voluntary accounting policy change.

Following are the changes made to prior period figures (in thousands of Canadian dollars):

For the year ended June 30, 2019:

Consolidated statements of comprehensive loss	**New Accounting Policy**	**Old Accounting Policy**	**Net Impact**
Production costs	$ (16,799)	$ (20,375)	$ 3,576
Gain on fair value changes of biological assets	31,424	45,684	(14,260)
Realized fair value changes on inventory sold or impaired	(19,605)	(30,289)	10,684
	$ (4,980)	**$ (4,980)**	**$ -**

For the year ended June 30, 2019:

Consolidated statements of cash flows	**New Accounting Policy**	**Old Accounting Policy**	**Impact**
Items not involving cash:			
Fair value changes on growth of biological assets	$ (31,424)	$ (45,684)	$ 14,260
Realized fair value changes on inventory sold	19,228	29,434	(10,206)
Impairment adjustment on fair value of inventory	377	855	(478)
Changes in non-cash working capital:			
Biological assets and inventory	(7,620)	(4,044)	(3,576)
	$ (19,439)	**$ (19,439)**	**$ -**

Changes in non-cash working capital related to biological assets and inventory, as a result of the accounting policy change, is due to additional capitalized costs under the new accounting policy compared to the previous accounting policy where these costs were expensed in production costs.

New Accounting Standards and Interpretations Not Yet Effective.

The Company has not identified any new accounting standards that would be applicable and are not yet effective that would have a material impact on the Company.

Internal Controls Over Financial Reporting.

The Company's Chief Executive Officer and Chief Financial Officer are responsible for establishing and maintaining internal controls over financial reporting for the Company. The Company has designed internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and preparation of financial statements for external reporting purposes in accordance with IFRS effective as at June 30, 2020.

The Chief Executive Officer and the Chief Financial Officer have evaluated the design and effectiveness of the Company's internal controls over financial reporting as of June 30, 2020 through inquiry, review and testing. The Chief Executive Officer and the Chief Financial Officer have used The Committee of Sponsoring Organizations of the Treadway Commission ("COSO") framework (2013) to evaluate the effectiveness of the Company's internal controls over financial reporting as of June 30, 2020. Based on this evaluation, the Chief Executive Officer and the Chief Financial Officer have concluded that as at June 30, 2020, the Company's internal controls over financial reporting were effective. There have been no changes to the design of internal controls over financial reporting that occurred during the twelve months ended June 30, 2020 that have materially affected or are reasonably likely to materially affect the internal controls over financial reporting.

Outstanding Share Data.

The authorized capital of the Company consists of an unlimited number of common shares without par value, 10,000,000 Class "A" preference shares with a par value of $10 each and 10,000,000 Class "B" preference shares with a par value of $50 each. The Company had 488,046,913 common shares issued and outstanding as at September 24, 2020.

The following table sets out the number of stock options granted and outstanding as at September 24, 2020, each of which is exercisable into one Supreme Cannabis common share.

Exercise Price	Expiry Date	Number of Options
$0.50	January 10, 2021	500,000
$0.75	August 29, 2021	840,858
$2.00	December 15, 2026	2,000,000
$1.45	September 25, 2022	1,325,000
$1.80	March 29, 2028	2,820,000
$1.50	August 23, 2023	200,000
$2.05	October 17, 2023	10,000
$1.80	February 14, 2024	75,000
$1.25	February 22, 2023	259,200
$1.31	October 21, 2023	9,600
$0.60	January 20, 2025	50,000
$0.30	April 29, 2025	850,000
		8,939,658

The following table sets out the number of share purchase warrants issued and outstanding as at September 24, 2020, each of which is exercisable into one Supreme Cannabis common share.

Exercise Price		Expiry Date	Number of Warrants
$	1.80	November 14, 2020	12,332,200
			12,332,200

The following table sets out the number of restricted share units ("**RSU**") issued and outstanding as at September 24, 2020, each of which is exercisable into one Supreme Cannabis common share.

Grant Date	Vesting Period	# of RSUs
22-Jul-19	Quarterly over 2 years	1,340,954
09-Aug-19	Quarterly over 2 years	322,280
11-Oct-19	Quarterly over 2 years	480,365
19-Nov-19	Quarterly over 2 years	438,704
20-Jan-20	Quarterly over 2 years	985,705
18-Feb-20	Fully vested on June 30, 2020	1,503,287
18-Feb-20	Fully vested within 3 months of grant date	46,053
20-Apr-20	Fully vested on June 30, 2020	125,000
29-Apr-20	Quarterly over 2 years	1,054,167
23-Jul-20	Quarterly over 2 years	10,714
		6,307,229

Subsequent Events.

Partial Conversion of October 2018 Convertible Debentures

On August 31, 2020, the Company obtained approval from the requisite majority holders (the "**Debenture Holders**") of the Company's outstanding October 2018 Convertible Debentures ("**Debentures**") to amend the terms of the Debentures.

The Company reduced the principal amount of the Debentures by $63.5 million in exchange for the issuance of 116.6 million common shares. Holders of the Debentures resident in eligible jurisdictions will receive half of the common shares as free-trading shares, and the other half of the common shares will be subject to a four-month restricted period. Holders of the Debentures resident in other jurisdictions will be entitled to receive shares subject to restricted periods, subject to applicable securities laws.

The total principal amount of convertible Debentures outstanding will be reduced from $100.0 million to $36.5 million and the maturity date will be extended from October 19, 2021 to September 1, 2025. The remaining Debentures will accrete at a rate of 11.06% per annum to $50.0 million, compounding on a semi-annual basis commencing on September 1, 2020, and ending on September 1, 2023. The accreted portion of the principal is payable in cash but does not bear cash interest and is not convertible into the Company's common shares. The accreted portion of the principal will be evidenced by a separate series of debentures, which will not be listed on the Toronto Stock Exchange.

The conversion price of the remaining convertible Debentures outstanding will be reduced from $2.45 per share to $0.285 per share ("**Conversion Price**") and annual interest payments will be reduced to $2.9 million from $6.0 million. The Company will have the right to force the conversion of the remaining principal amount of the convertible Debentures outstanding at the Conversion Price on not less than 30 days' notice if the daily volume weighted average trading price of the Company's common shares is greater than $0.45 for any 10 consecutive trading days. The principal amount of the remaining Debentures will amortize at 1.0% per month over the 24 months prior to maturity.

Termination of KKE Agreement

Subsequent to June 30, 2020, the Company and KKE mutually agreed to terminate the agreement entered on December 6, 2018. As part of the settlement, the Company settled the outstanding Royalty Payments for Product Licence with a one-time payment of $0.2 million. As a result of the termination, the Company expects to recognize a gain of $6.8 million from the derecognition of the outstanding liability in the period ended September 30, 2020.

Amendments to Credit Agreement

On September 21, 2020, under the terms of the Credit Facility Amendment, the Company secured a deferral of its financial covenants related to fixed charge coverage ratio and funded debt to earnings before interest, taxes, depreciation and amortization ratio by 12 months to begin in the quarter ending March 31, 2022. New covenants regarding minimum liquidity and earnings before interest, taxes, depreciation and amortization will be tested in the interim. In addition, the Company has agreed to a 75 basis point increase in the applicable interest rate margin on the Credit Facility to reflect current industry dynamics. The requirement for a minimum restricted cash balance has been removed and that balance has been used to repay a portion of the term loan outstanding. With the Credit Facility Amendment, the Credit Facility remains with a three-year term and has an amended term loan of $57.2 million and a revolving credit facility limit of $7.0 million.

Option Cancellations

Subsequent to June 30, 2020, the Company cancelled 10,581,657 stock options that had been issued to various employees and directors of the Company.

Warrants Expired

Subsequent to the year ended June 30, 2020, 2,368,566 warrants that were previously issued with an exercise price of $1.04 expired on July 21, 2020.

Restricted Share Unit Issuance

On July 23, 2020 the Company issued 10,714 restricted share units to an employee of the Company. The restricted share units will vest on a quarterly basis over two years.

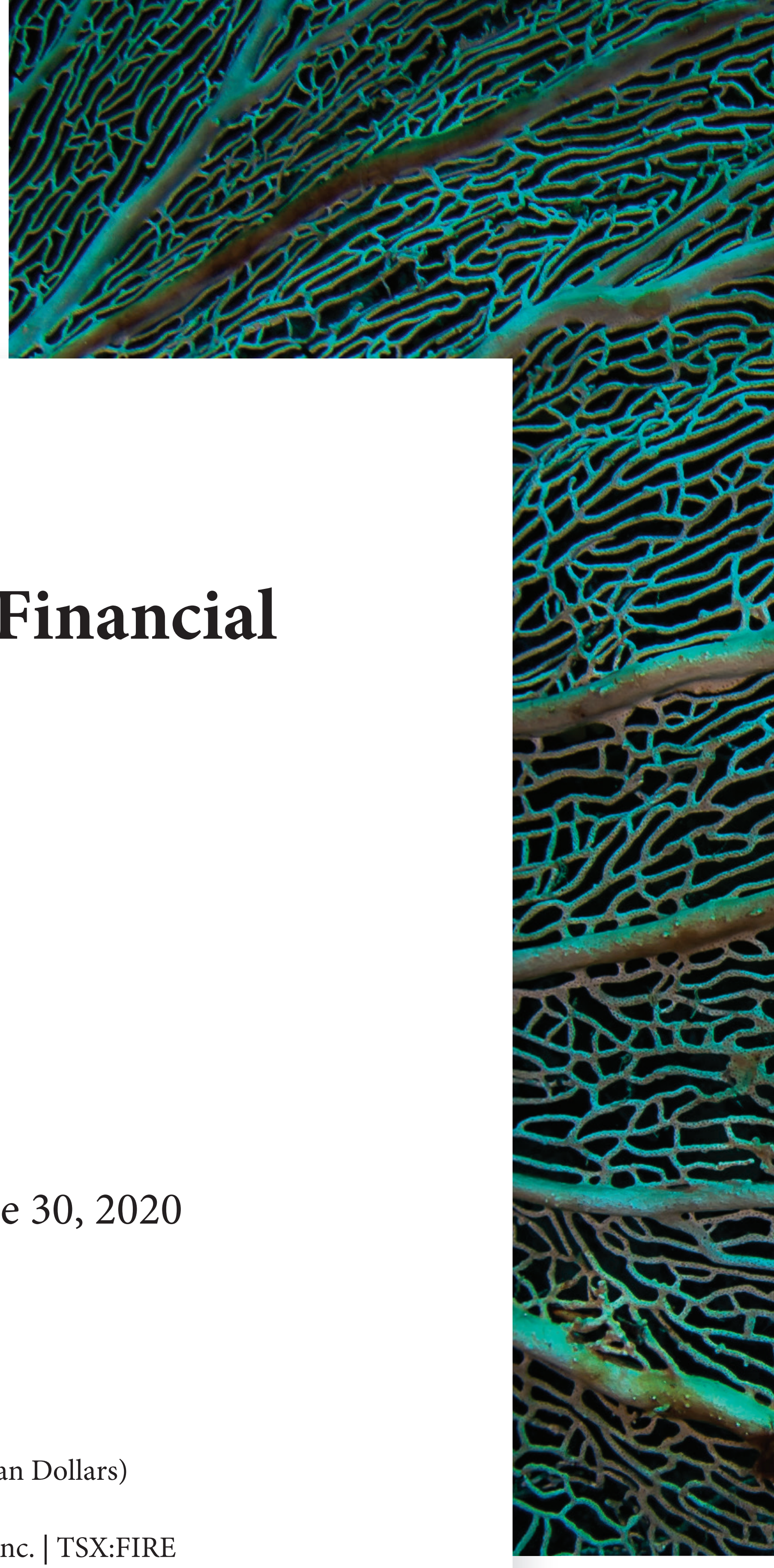
Restricted Share Unit Conversions

Subsequent to June 30, 2020, restricted share unit holders exercised 1,335,660 restricted share units.

Restricted Share Unit Cancellations

Subsequent to June 30, 2020, the Company cancelled 100,000 restricted share units.

Supreme.



Consolidated Financial Statements

For the Year Ended June 30, 2020

September 24, 2020
(Expressed in Thousands of Canadian Dollars)

The Supreme Cannabis Company, Inc. | TSX:FIRE

Management’s Responsibility for Financial Reporting

To the Shareholders of The Supreme Cannabis Company, Inc. (the “**Company**” or **“Supreme”**):

Management is responsible for the preparation and presentation of the accompanying consolidated financial statements, including responsibility for significant accounting judgments and estimates in accordance with International Financial Reporting Standards (“**IFRS**”). This responsibility includes selecting appropriate accounting principles and methods, and making decisions affecting the measurement of transactions in which objective judgment is required.

In discharging its responsibilities for the integrity and fairness of the consolidated financial statements, management designs and maintains the necessary accounting systems and related internal controls to provide reasonable assurance that transactions are authorized, assets are safeguarded, and financial records are properly maintained to provide reliable information for the preparation of the consolidated financial statements.

The Audit Committee is comprised of Directors who are neither management nor employees of the Company. The Board of Directors is responsible for overseeing management in the performance of its financial reporting responsibilities, and for approving the consolidated financial statements. The Audit Committee has the responsibility of meeting with management and external auditors to discuss internal controls over the financial reporting process, auditing matters and financial reporting findings. The Audit Committee is also responsible for recommending the appointment of the Company’s external auditors.

The consolidated financial statements for the year ended June 30, 2020 have been audited by KPMG LLP, an external independent firm of Chartered Professional Accountants, in accordance with Canadian generally accepted auditing standards on behalf of the Shareholders. KPMG LLP has full and free access to, and meet periodically and separately with, both the Audit Committee and management to discuss their audit findings.

September 24, 2020

(signed)

/Nikhil Handa/
Chief Financial Officer

(signed)

/Kenneth McKinnon/
Director

INDEPENDENT AUDITORS' REPORT

To the Shareholders of The Supreme Cannabis Company, Inc.

Opinion

We have audited the consolidated financial statements of The Supreme Cannabis Company, Inc. (the Entity), which comprise:

- the consolidated statement of financial position as at June 30, 2020
- the consolidated statement of comprehensive loss for the year then ended
- the consolidated statement of changes in shareholders' equity for the year then ended
- the consolidated statement of cash flows for the year then ended
- and notes to the consolidated financial statements, including a summary of significant accounting policies

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

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Entity as at June 30, 2020, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

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

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

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

Emphasis of Matter – Comparative Information

We draw attention to Note 2f to the financial statements ("Note 2f"), which explains that certain comparative information presented for the year ended June 30, 2019 has been restated.

Note 2f explains the reason for the restatement and also explains the adjustments that were applied to restate certain comparative information.

Our opinion is not modified in respect of this matter.

Other Matter – Comparative Information

The financial statements for the year ended June 30, 2019, excluding the adjustments that were applied to restate certain comparative information, were audited by another auditor who expressed an unmodified opinion on those financial statements on September 17, 2019.

As part of our audit of the financial statements for the year ended June 30, 2020, we also audited the adjustments that were applied to restate certain comparative information presented for the year ended June 30, 2019.

In our opinion, such adjustments are appropriate and have been properly applied.

Other than with respect to the adjustments that were applied to restate certain comparative information, we were not engaged to audit, review or apply any procedures to the financial statements for the year ended June 30, 2019.

Accordingly, we do not express an opinion or any other form of assurance on those financial statements taken as a whole.

Other Information

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

- the information included in the Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions.
- the information, other than the financial statements and the auditors' report thereon, included in a document likely to be entitled "Annual Report".

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

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

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

We have nothing to report in this regard.

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

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

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

We also:

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

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

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

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

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors’ report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors’ report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
- Provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group Entity to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

The engagement partner on the audit resulting in this auditors’ report is Derek Peters.

Vaughan, Canada
September 24, 2020

The Supreme Cannabis Company, Inc.

Consolidated Statements of Financial Position

(Expressed in thousands of Canadian Dollars)

As at:	Note(s)	June 30, 2020	June 30, 2019
ASSETS			
Current assets			
Cash		$ 28,419	$ 54,822
Restricted cash	16	6,300	-
Receivables	5	9,025	21,969
Prepaid expenses, deposits and other receivables		2,007	4,248
Inventory	7	40,205	19,026
Biological assets	8	4,603	8,762
Total current assets		90,559	108,827
Non-current assets			
Property, plant and equipment	9, 10	204,677	181,726
Deposits on property, plant and equipment		848	3,001
Right-of-use assets	2, 11	3,280	-
Intangible assets	3, 9, 12	11,460	24,446
Investments	14	213	15,325
Other assets and deposits		911	796
Goodwill	3, 9, 12	-	680
Total assets		$ 311,948	$ 334,801
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Accounts payable and accrued liabilities	13	$ 13,610	$ 30,629
Lease liabilities	2, 11	342	-
Current portion of long-term debt	16, 22	2,750	-
Other current liability	13, 22	3,237	1,318
Total current liabilities		19,939	31,947
Long-term liabilities			
Long-term debt	16, 22	62,516	-
Convertible debentures	15, 22	85,237	79,054
Other long term liability	13, 17, 22	3,751	5,023
Long-term lease liabilities	2, 11	3,330	-
Deferred tax liability	3, 20	4,734	7,805
Total liabilities		179,507	123,829
SHAREHOLDERS' EQUITY			
Share capital	18	282,561	217,646
Reserves		60,919	53,312
Shares to be issued		-	250
Accumulated other comprehensive (loss) income	14	(10,047)	950
Deficit		(200,992)	(61,186)
Total shareholders' equity		132,441	210,972
Total liabilities and shareholders' equity		$ 311,948	$ 334,801

Note 22 - Subsequent Events

Approved and authorized by the Board of Directors on September 24, 2020:

"Beena Goldenberg"
Director

"Kenneth McKinnon"
Director

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

The Supreme Cannabis Company, Inc.

Consolidated Statements of Comprehensive Loss

(Expressed in thousands of Canadian Dollars)

	Note(s)		Year Ended June 30, 2020		Year Ended June 30, 2019
Gross revenue	6	$	44,622	$	43,015
Excise taxes	6		(4,873)		(1,182)
Net revenue			39,749		41,833
Production costs	7, 10, 12		(39,770)		(16,799)
Gross margin, excluding fair value items			(21)		25,034
Fair value changes on growth of biological assets	8		48,300		31,424
Realized fair value changes on inventory sold or impaired	7, 8		(42,799)		(19,605)
Gross margin			5,480		36,853
Operating expenses					
Wages and benefits	19	$	20,009	$	13,133
Facilities			3,218		2,187
Professional fees			4,311		3,557
Regulatory recovery fee			1,950		-
Sales, marketing and business development			6,557		6,224
General and administrative			7,730		3,336
Acquisition related costs	3		723		-
Amortization of property, plant and equipment & intangible assets	10, 12		6,824		3,340
Share based payments	3,17, 19		17,005		6,936
Restructuring charges	13		3,255		-
			71,582		38,713
Other expenses					
Finance expense, net	2, 15, 16	$	17,211	$	5,185
Impairment of assets	9		60,933		-
Loss on disposal of property, plant and equipment	10		1,884		3,892
Loss on modification of lease	11		900		-
Unrealized loss on investments	14		-		1,128
Realized loss on investment	14		680		-
			81,608		10,205
Net loss before taxes		$	(147,710)	$	(12,065)
Deferred tax recovery (expense)	20		8,290		(2,432)
Net loss		$	(139,420)	$	(14,497)
Loss on revaluation of investments, net of tax	14		(10,997)		105
Total comprehensive loss		$	(150,417)	$	(14,392)
Weighted average number of common shares			350,347,041		281,418,793
Basic and diluted net loss per common share		$	(0.40)	$	(0.05)

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

The Supreme Cannabis Company, Inc.

Consolidated Statements of Cash Flows

(Expressed in thousands of Canadian Dollars)

For the years ended	Note(s)	June 30, 2020	June 30, 2019
Operating activities:			
Net loss		**$ (139,420)**	$ (14,497)
Adjustments:			
Amortization of property, plant and equipment, intangible assets and right-of-use assets	10,11, 12	**12,610**	5,808
Finance expense, net	15, 16	**17,211**	5,185
Flow-through share interest and penalties		**-**	10
Share based payments	3, 17, 19	**17,005**	6,936
Loss on disposal of property, plant and equipment	10	**1,884**	3,892
Fair value changes on growth of biological assets	8	**(48,300)**	(31,424)
Realized fair value changes on inventory sold	8	**20,720**	19,228
Impairment adjustment on fair value of inventory	7	**22,079**	377
Impairment of assets	9	**60,933**	-
Deferred tax recovery (expense)	20	**(8,290)**	2,432
Realized loss on investment	14	**680**	-
Gain on modification of lease	11	**(545)**	-
Unrealized loss on investment		**-**	1,128
Changes in non-cash working capital and other:			
Biological assets and Inventory		**(6,940)**	(7,620)
Receivables		**13,477**	(13,398)
Prepaid expenses, deposits and other receivables		**2,246**	(2,958)
Accounts payable and accrued liabilities		**(4,714)**	10,244
Other assets and deposits		**(115)**	(781)
Interest paid		**(10,913)**	(750)
Interest income and other		**673**	1,344
		(49,719)	(14,844)
Investing activities:			
Additions to property, plant and equipment	10	**(45,847)**	(89,642)
Additions to intangible assets	12	**(143)**	(3,244)
Acquired cash on business combination	3	**756**	55
Proceeds from sale of property, plant and equipment	10	**1,188**	-
Deposits on property, plant and equipment		**1,015**	(2,485)
		(43,031)	(95,316)
Financing activities:			
Borrowings from credit facility, net of issuance costs	16	**67,076**	-
Repayment of amounts borrowed under the credit facility	16	**(2,000)**	-
Warrants exercised	18	**6,949**	13,278
Stock options exercised	17	**231**	284
Convertible debentures issued, net of issuance costs		**-**	95,524
Shares issued under the ATM program, net of issuance costs	18	**1,680**	-
Repayment of lease liabilities	11	**(1,289)**	-
Transfer to restricted cash	16	**(6,300)**	-
		66,347	109,086
Net change in cash		**(26,403)**	(1,074)
Cash, beginning of period		**54,822**	55,896
Cash, end of period		**$ 28,419**	**$ 54,822**
Cash taxes paid		**$ -**	$ -
Cash interest paid		**$ 10,913**	$ 750

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

The Supreme Cannabis Company, Inc.

Consolidated Statements of Changes in Shareholders' Equity

(Expressed in thousands of Canadian Dollars)

	Note(s)	Number of Common Shares	Share Capital	Shares to be issued	Reserves	Accumulated Other Comprehensive Income	Deficit	Total Equity
Balance, June 30, 2018		**255,737,226**	**156,097**	**-**	**34,892**	**845**	**(46,689)**	**145,145**
Warrants exercised	18	16,148,712	15,406	250	(2,378)	-	-	13,278
Stock options exercised	18	361,666	460	-	(176)	-	-	284
Debenture conversions (Nov 2017), net of tax	15	22,483,557	35,467	-	(2,878)	-	-	32,589
Convertible debenture (Oct 2018), net of tax	15	-	-	-	18,249	-	-	18,249
Shares issued for business combination		358,423	667	-	-	-	-	667
Shares issued for asset acquisition		5,745,000	8,216	-	-	-	-	8,216
Share based payments	17	716,846	1,333	-	5,603	-	-	6,936
Net loss for the period		-	-	-	-	-	(14,497)	(14,497)
Other comprehensive income	14	-	-	-	-	105	-	105
Balance, June 30, 2019		**301,551,430 $**	**217,646 $**	**250 $**	**53,312 $**	**950 $**	**(61,186) $**	**210,972**
Impact of IFRS 16 to opening retained earnings	2	**-**	**-**	**-**	**-**	**-**	**(386)**	**(386)**
Warrants exercised	18	**14,346,089**	**9,367**	**(250)**	**(2,168)**	**-**	**-**	**6,949**
Stock options exercised	17	**501,068**	**412**	**-**	**(181)**	**-**	**-**	**231**
Restricted share units exercised	17	**190,638**	**184**	**-**	**(184)**	**-**	**-**	**-**
Shares issued for BlissCo's business combination	3	**16,988,015**	**23,274**	**-**	**2,056**	**-**	**-**	**25,330**
Shares issued for Truverra's business combination	3	**14,699,966**	**21,168**	**-**	**-**	**-**	**-**	**21,168**
Share based payments	3, 17	**6,446,136**	**8,830**	**-**	**8,084**			**16,914**
Shares issued from treasury for at-the-market ("ATM") program	18	**5,270,000**	**1,680**	**-**	**-**	**-**	**-**	**1,680**
Net loss for the period		**-**	**-**	**-**	**-**	**-**	**(139,420)**	**(139,420)**
Other comprehensive loss	14	**-**	**-**	**-**	**-**	**(10,997)**	**-**	**(10,997)**
Balance, June 30, 2020		**359,993,342 $**	**282,561 $**	**- $**	**60,919 $**	**(10,047) $**	**(200,992) $**	**132,441**

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

1. Nature of Operations

The Supreme Cannabis Company, Inc. (the "**Company**", or "**Supreme**") is a federally incorporated Canadian company with a globally diversified portfolio of distinct cannabis products and brands. Its common shares are listed on the Toronto Stock Exchange ("**TSX**") under the symbol "**FIRE**", Over-the-Counter ("**OTCQX**") under the symbol "**SPRWF**", and on the Frankfurt Stock Exchange ("**FRA**") under the symbol "**53S1**".

On May 23, 2014, Supreme purchased a facility including adjacent buildings located in Kincardine, Ontario (the "**7ACRES Site**"). 7ACRES is a Licenced Holder as defined under the Canadian Cannabis Act. The 7ACRES Site is licenced to cultivate, process and sell cannabis.

On July 11, 2019, Supreme acquired all of the issued and outstanding common shares of BlissCo Cannabis Corp. ("**BlissCo**"). BlissCo is a Canadian wellness company based in British Columbia and a Licenced Holder and distributor of cannabis. BlissCo owns and operates a cannabis extraction and processing facility located in Langley, British Columbia.

On August 13, 2019, Supreme acquired all of the issued and outstanding common shares of Truverra Inc. ("**Truverra**"). Truverra was a privately held Licenced Holder based in Toronto, Ontario. Through its subsidiaries, Truverra operates a Health Canada licensed facility. Subsequent to the acquisition of Truverra, the Company has re-branded the Health Canada licensed facility as Supreme Cannabis Scarborough.

The Company's head office and registered records office is located at 178R Ossington Avenue, Toronto, ON, Canada.

2. Significant Accounting Policies

a) Statement of compliance

These consolidated financial statements ("**Financial Statements**") have been prepared in accordance and in compliance with International Financial Reporting Standards ("**IFRS**") as issued by the International Accounting Standards Board ("**IASB**") and Interpretations of the IFRS Interpretations Committee ("**IFRIC**").

These Financial Statements were authorized for issuance by the Company's Board of Directors ("**Board**") on September 24, 2020.

b) Basis of measurement

These Financial Statements have been prepared on a historical cost basis except for certain financial instruments which have been measured at fair value and biological assets which have been measured at fair value less costs to sell, respectively.

c) Basis of consolidation

These Financial Statements include the accounts of the Company and its wholly-owned subsidiaries, summarized as follows:

2. Significant Accounting Policies (continued)

c) Basis of consolidation (continued)

Incorporation #	Commercial Name
8528934 Canada Ltd.	7ACRES
10695181 Canada Ltd.	Cambium Plant Sciences
8408432 Canada Ltd.	Bayfield Strategy Inc.
BC0224383	BlissCo Cannabis Corp.
2638343	Truverra Inc.
11095668 Canada Ltd.	Supreme Cannabis Kitchener

d) Functional and presentation of foreign currency

The Financial Statements are presented in thousands of Canadian dollars unless otherwise noted, which is the Company's and each of its subsidiaries functional currency.

e) New Accounting Standards effective July 1, 2019

The Company adopted the following new accounting standards effective July 1, 2019:

i. International Financial Reporting Standards 16, *Leases* ("**IFRS 16**")

The Company has adopted IFRS 16 with a date of initial application of July 1, 2019.

The Company has applied IFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognized in retained earnings at July 1, 2019. The Company has not restated comparative information presented, which has been presented as previously reported under IAS 17, *Leases* ("**IAS 17**") and other related interpretations.

Definition of a Lease

Previously, the Company determined at contract inception whether an arrangement contained a lease under International Financial Reporting Interpretations Committee 4, *Determining Whether an Arrangement contains a Lease* ("**IFRIC 4**"). Under IFRS 16, the Company now assesses whether a contract is or contains a lease based on the new definition of a lease provided in IFRS 16.

On transition to IFRS 16, the Company elected to apply the practical expedient to grandfather the assessment of which transactions are leases. As a result, it applied IFRS 16 only to contracts that were previously identified as leases under IAS 17 and IFRIC 4. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed to determine whether they meet the new definition of a lease under IFRS 16. Therefore, the definition of a lease under IFRS 16 was applied only to contracts entered into or changed on or after July 1, 2019.

As a lessee, the Company previously classified a lease as either an operating or finance lease based on its assessment of whether the lease transferred significantly all of the risks and rewards incidental to ownership of the underlying asset to the Company. An operating lease was treated as an off-balance sheet item with payments recognized in profit and loss over the life of the lease. Under IFRS 16, as a lessee, the Company will recognize right-of-use assets and lease liabilities for leases that are not short-term or of low dollar value, resulting in the leases being brought on to the balance sheet.

2. Significant Accounting Policies (continued)

e) New Accounting Standards effective July 1, 2019 (continued)

As a lessor, the accounting for leases under IFRS 16 is not materially different to IAS 17.

Significant Accounting Policy under IFRS 16

At inception of a contract, the Company assesses whether a contract is, or contains, a lease under IFRS 16. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The Company is deemed to control the use of an identified asset when; a) the contract involves the use of an identified asset; b) the Company has the right to obtain substantially all of the economic benefits during the period of use, and; c) has the right to direct its use.

The Company recognizes a right-of-use asset at the lease commencement date. The right-of-use asset is initially measured at cost and subsequently measured at cost less any accumulated depreciation and impairments. The right-of-use asset may be adjusted for any remeasurements of the lease liability.

The lease liability is measured at the present value of future lease payments using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. The lease liability is subsequently measured at amortized cost using the effective interest method, decreased by lease payments made. The lease liability is remeasured when there is a change in future lease payments arising from a change in discount or index rate, change in estimate of the amount expected to be payable under a residual value guarantee, or changes in the assessment of whether a purchase, extension or termination option is reasonably certain to be exercised or not.

The Company has elected not to recognize right-of-use assets and lease liabilities for short-term leases (i.e. leases with terms less than 12 months or entered into on a month-to-month basis) and leases considered to be low-dollar value leases.

Transition Impact on Financial Statements

Transition Date Impact

At transition from IAS 17 to IFRS 16, lease liabilities were measured at the present value of the remaining lease payments. The Company used its incremental borrowing rate as at July 1, 2019 to discount the future lease payments. Right of-use assets were measured at an amount equal to what their net carrying value as of July 1, 2019 would have been if IFRS 16 was applied at the commencement date. The following practical expedients were applied when transitioning operating leases under IAS 17 to IFRS 16:

- The Company did not recognize right-of-use assets and liabilities for leases with a lease term of less than 12 months
- The Company did not recognize right-of-use assets and liabilities for leases of low dollar value
- The Company excluded initial direct costs related to right-of-use assets

(Expressed in thousands of Canadian Dollars, unless otherwise noted)

2. Significant Accounting Policies (continued)

e) New Accounting Standards effective July 1, 2019 (continued)

Following is a reconciliation of the Company's operating lease commitments at June 30, 2019 to the opening lease liability balance under IFRS 16 at July 1, 2019:

	July 1, 2019
Operating lease commitments at June 30, 2019	14,077
Adjustments[1]	(2,165)
Impact of discounting using the incremental borrowing rate	(5,025)
Lease liabilities recognized at July 1, 2019	**6,887**

[1] Includes the impact of variable portion of payments under lease agreements eligible for recognition exemption under IFRS 16.

Current Period Impact

As a result of transition to IFRS, the Company recognized right-of-use assets of $6,122 and lease liabilities of $6,887 at the transition date (as noted above). The right-of-use assets were adjusted for lease incentives and lease liabilities were adjusted to include prepayments made.

The discount rates used to calculate the present value of the lease liabilities range from 10.73% to 13.24%, which is the Company's incremental borrowing rate. The Company also recognized an adjustment that increased opening deficit by $386 resulting from the adoption of IFRS 16.

For the year ended June 30, 2020, the Company recorded depreciation expense of $859 related to the newly recognized right-of-use assets and recorded interest expense of $904 related to the accretion of the lease liabilities recognized at transition to IFRS 16.

ii. IFRIC 23 – Uncertainty over Income Tax Treatments ("**IFRIC 23**")

In June 2017, the IFRS Interpretations Committee of the IASB issued IFRIC 23. The interpretation provides guidance on the accounting for current and deferred tax liabilities and assets in circumstances in which there is uncertainty over income tax treatments. The interpretation is effective for the Company's annual period beginning on July 1, 2019. The adoption of IFRIC 23 did not have a material impact on the Company's Financial Statements.

f) Change in Accounting Policy

Biological Assets

Effective July 1, 2019, the Company made a voluntary change in accounting policy related to the accounting for biological assets. Previously, all direct and overhead costs incurred during the biological transformation process and up to the point of harvest were expensed to production costs on the consolidated statement of comprehensive loss in the period the costs were incurred. Under the Company's new accounting policy, the Company capitalizes all direct and overhead costs incurred during the biological transformation process after 30 days and up to the point of harvest to biological assets on the consolidated statement of financial position.

The accounting for the Company's biological assets is within the scope of IAS 41, *Agriculture*, however, the Company's revised accounting policy for the direct and overhead costs of biological assets is consistent with the capitalization criteria under IAS 2, *Inventories.* This approach provides reliable and more relevant information to users of financial statements as production costs on the consolidated statement of comprehensive loss only include costs incurred during the biological transformation process for inventory that is sold during the period. The accounting policy change also allows for the presentation of gross margin which further enables comparability of financial results. Notes 7 and 8 incorporate the revised accounting policy related to the Company's biological assets.

(Expressed in thousands of Canadian Dollars, unless otherwise noted)

2. Significant Accounting Policies (continued)

f) Change in Accounting Policy (continued)

Prior period balances impacted by the change have been restated to conform with current period presentation resulting from the voluntary accounting policy change.

Following are the changes made to prior period figures:

For the year ended June 30, 2019:

Consolidated statements of comprehensive loss		**New Accounting Policy**		**Old Accounting Policy**		**Net Impact**
Production costs	$	(16,799)	$	(20,375)	$	3,576
Gain on fair value changes of biological assets		31,424		45,684		(14,260)
Realized fair value changes on inventory sold or impaired		(19,605)		(30,289)		10,684
	$	**(4,980)**	**$**	**(4,980)**	**$**	**-**

For the year ended June 30, 2019:

Consolidated statements of cash flows		**New Accounting Policy**		**Old Accounting Policy**		**Impact**
Items not involving cash:						
Fair value changes on growth of biological assets	$	(31,424)	$	(45,684)	$	14,260
Realized fair value changes on inventory sold		19,228		29,434		(10,206)
Impairment adjustment on fair value of inventory		377		855		(478)
Changes in non-cash working capital:						
Biological assets and inventory		(7,620)		(4,044)		(3,576)
	$	**(19,439)**	**$**	**(19,439)**	**$**	**-**

Changes in non-cash working capital related to biological assets and inventory, as a result of the accounting policy change, is due to additional capitalized costs under the new accounting policy compared to the previous accounting policy where these costs were expensed in production costs.

g) Additional significant accounting policies, estimates, and judgements

The preparation of these Financial Statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities and contingent liabilities at the date of the Financial Statements and reported amounts of revenues and expenses during the reporting period. Estimates and assumptions are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. However, actual outcomes can differ from these estimates.

Following information is disclosed throughout the notes as identified in the table below:

(a) Information on the Company's significant accounting policies;

(b) Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment to the amounts recognized in the consolidated financial statements; and

(c) Information about judgments made in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements.

(Expressed in thousands of Canadian Dollars, unless otherwise noted)

2. Significant Accounting Policies (continued)

g) Additional significant accounting policies, estimates, and judgements (continued):

Note	Topic	Accounting Policy	Use of Estimates	Use of Judgments
3	Business Combination	X	X	X
5	Accounts Receivable	X		
6	Revenue	X	X	X
7	Inventory	X		
8	Biological Assets	X	X	
9	Impairment of Assets	X	X	X
10	Property, Plant and Equipment	X	X	X
11	Leases	X	X	X
12	Intangible Assets and Goodwill	X	X	X
13	Provisions	X	X	X
14	Investments	X	X	
15	Convertible Debentures	X	X	
16	Long-term Debt	X		
17	Share Based Compensation	X	X	
18	Share Capital	X		
20	Income Taxes	X	X	
21	Financial Risk Management and Financial Instruments	X	X	X

3. Business Combination

Accounting Policy:

A business combination is a transaction or event in which an acquirer obtains control of one or more businesses and is accounted for using the acquisition method. The total consideration paid for the acquisition is the aggregate of the fair values of assets given, liabilities incurred or assumed, and equity instruments issued in exchange for control of the acquiree at the acquisition date. The acquisition date is the date where the Company obtains control of the acquiree. The identifiable assets acquired, and liabilities assumed are recognized at their acquisition date fair values, except for deferred taxes and share-based payment awards where IFRS provides exceptions to recording the amounts at fair value. Acquisition costs are expensed to profit or loss.

Non-controlling interest in the acquiree, if any, is recognized either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets, determined on an acquisition-by-acquisition basis. For each acquisition, the excess of total consideration, the fair value of previously held equity interest prior to obtaining control and the non-controlling interest in the acquiree, over the fair value of the identifiable net assets acquired, is recorded as goodwill.

Certain fair values 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 during the measurement period. The measurement period is the period from the acquisition date to the date complete information about facts and circumstances that existed as of the acquisition date is received. However, the measurement period does not exceed one year from the acquisition date.

3. Business Combination (continued)

Use of Estimates:

Determination of fair value of assets acquired, liabilities assumed and the fair value of total purchase consideration requires the use of various estimates made by management. Estimates include expected operational cash flows discounted based on risk adjusted discount rates of 30% to 45% over a forecast period of 5 to 7 years and terminal value growth rate of 2%. The Company also estimated capital expenditures necessary to achieve the estimated operational cash flows.

Use of Judgment:

Classification of a transaction as a business combination depends on whether the assets acquired constitute a business in accordance with the criteria set forth in IFRS 3 – Business Combinations, which can be a complex judgment. The Company assessed the BlissCo Cannabis Corp. and Truverra Inc. acquisitions to be business combinations, based on the respective Company's inputs and processes in place at the time of acquisition.

Explanatory Information:

a) Acquisition of BlissCo Cannabis Corp.

On July 11, 2019 the Company acquired all of the issued and outstanding common shares of BlissCo Cannabis Corp. ("**BlissCo**") that were not previously held by the Company (the "**Acquisition**"). BlissCo is a Licence Holder and processor, cultivator and distributor of cannabis and cannabis related products based in Langley, British Columbia. Under the agreement, each former BlissCo common share was exchanged for 0.24 of a Supreme common share (the "**Exchange Ratio**"). In addition, all issued and outstanding stock options and common share purchase warrants of BlissCo were replaced with stock options and common share purchase warrants of Supreme having the same terms but adjusted for the Exchange Ratio. Following the acquisition, the BlissCo shares were delisted from the Canadian Securities Exchange as at the close of trading on July 11, 2019.

For the year ended June 30, 2020, BlissCo contributed gross revenue of $4,590 and net loss of $27,550, including the subsequent impairment of goodwill and certain acquired intangibles assets of $23,606 when the Company performed an impairment test on the BlissCo cash-generating unit ("**CGU**"), see Note 9 – Impairment of Assets. If the Acquisition had occurred on July 1, 2019, the revenue and net loss for year ended June 30, 2020 would not have been materially different.

The Company issued a total of 23,434,151 common shares to the former shareholders of BlissCo, with a fair value of $32,105, based on the Company's closing share price of $1.37 per share on July 11, 2019. Additionally, the Company issued replacement warrants and options with a fair value of $1,434 and $622, respectively, for issuance to the former holders of BlissCo warrants and options.

From the total numbers of shares issued, 6,446,136 shares, with a fair value of $8,830 is deemed to be share-based payment advances made to a BlissCo employee. The share-based payment advances have certain performance and claw-back agreements attached to them, which expire over a period of two years. During the year ended June 30, 2020, the Company recognized $8,830 related to these share-based payments advances as all performance obligations were satisfied under the agreement. This expense is included in share-based payment in the consolidated statement of comprehensive loss.

The Company also issued stock options with a fair value of $330 to BlissCo employees that will be recognized in profit and loss over their vesting period.

(Expressed in thousands of Canadian Dollars, unless otherwise noted)

3. Business Combinations (continued)

Explanatory Information (continued):

a) Acquisition of BlissCo Cannabis Corp. (continued)

As a result of remeasuring the Company's previously held interest in BlissCo at the acquisition-date fair value there was a loss of $262 recorded in profit and loss because the Company previously accounted for the investment as fair value through profit and loss. Further, the Company recognized a loss of $418 in connection with the cancellation of the BlissCo warrants the Company held at the date of the Acquisition.

Following is the allocation of the fair value of total consideration:

		July 11, 2019
Share consideration (90.7% interest)	$	32,105
Less: Share consideration deemed employment compensation		(8,831)
Replacement Warrants		1,434
Replacement Options		622
Fair value of previously held BlissCo common shares (9.3% interest)		3,288
Fair value of total consideration	**$**	**28,618**

		July 11, 2019
Tangible net assets acquired		
Cash and cash equivalents	$	112
Accounts receivable		120
Inventory		2,482
Prepaids and deposits		98
Property, plant and equipment		6,962
Less: Accounts payable and accrued liabilities		(1,113)
Less: Note payable		(514)
Less: Mortgage payable		(1,394)
Less: Deferred tax liability		(3,276)
Intangible assets and goodwill		
Licenses		11,500
Brand		635
Goodwill		13,006
Total net assets and goodwill acquired	**$**	**28,618**

The licenses acquired are of indefinite life and consist of BlissCo's cultivation and processing licenses. The BlissCo brand and trade name has also been identified as an intangible asset with a useful life of 5 years, over which period it will be amortized.

3. Business Combinations (continued)

Explanatory Information (continued):

a) Acquisition of BlissCo Cannabis Corp. (continued)

The goodwill is attributed to the achievement of synergies and combined capability of BlissCo and Supreme to deliver full-spectrum cannabis products to the wellness consumer.

The Company incurred $979 of acquisition-related costs for the acquisition of BlissCo, of which $566 has been recorded during the year ended June 30, 2020 as part of acquisition related costs in the consolidated statements of comprehensive loss, with the remaining recorded during the year ended June 30, 2019.

b) Acquisition of Truverra Inc.

On August 13, 2019 the Company acquired all of the issued and outstanding common shares of Truverra, Inc. (“**Truverra**”) (the “**Transaction**”). Truverra is a privately held medical cannabis company, operating through its wholly owned subsidiaries Canadian Clinical Cannabinoids Inc. (“**CCC**” now, “**Supreme Cannabis Scarborough**”), Truverra (Europe) B.V. (“**Truverra Europe**”), and Truverra Corp. CCC is a Licenced Holder to cultivate and sell cannabis at its facility located in Scarborough, Ontario. Truverra Europe is headquartered in the Netherlands and delivers CBD hemp products in the United Kingdom and the Netherlands. Under the Transaction, Supreme agreed to acquire all of the issued and outstanding shares of Truverra, including the Truverra shares resulting from the exercise of all the in-the-money Truverra options and warrants immediately prior to the closing of the acquisition, in an all-share transaction.

For the year ended June 30, 2020, Truverra contributed revenue of $7 and loss of $22,356, including the subsequent impairment of goodwill, acquired intangibles assets and certain acquired property, plant and equipment of $21,283 when the Company performed an impairment test on the Truverra CGU, see Note 9 – Impairment of Assets. If the Acquisition had occurred on July 1, 2019, the revenue and net loss for year ended June 30, 2020 would not have been materially different.

As a result of the Transaction, the Company issued a total of 14,699,966 common shares to the former shareholders of Truverra, with a fair value of $21,168 based on Supreme’s closing share price on the date of the Transaction.

(Expressed in thousands of Canadian Dollars, unless otherwise noted)

3. Business Combinations (continued)

Explanatory Information (continued):

b) Acquisition of Truverra Inc. (continued)

Following is the allocation of the fair value of total consideration:

		August 13, 2019
Tangible net assets acquired		
Cash	$	644
Receivable from shareholders		268
Inventory		406
Sales tax recoverable		145
Prepaid expenses		427
Property, plant and equipment		1,999
Less: Accounts payable		(67)
Less: Accrued liabilities		(344)
Less: Deferred tax liability		(1,950)
Intangible assets and goodwill		
Licenses		7,808
Tradename and brand		12
Goodwill		11,820
Total net assets and goodwill acquired	**$**	**21,168**

The licenses acquired are subject to amortization over a period equivalent to the lease term of the facility to which the license is assigned (approximately 18 years) and consists of Truverra's cannabis cultivation and sales license.

The goodwill is attributed to the achievement of synergies expected from integrating Truverra's site to produce cannabis extracts, including cannabis concentrates for consumers in Canada.

The Company incurred $233 of acquisition-related costs for the acquisition of Truverra, of which $157 has been recorded during the year ended June 30, 2020 as part of acquisition related costs in the consolidated statements of comprehensive loss, with the remaining recorded during the year ended June 30, 2019.

(Expressed in thousands of Canadian Dollars, unless otherwise noted)

4. Investment in Supreme Heights Limited

On September 17, 2019, the Company made a $1,652 investment to acquire 5,507,000 Multiple Voting Shares in Supreme Heights Limited ("**Supreme Heights**"), a private company incorporated under the laws of England and Wales. Supreme Heights was an investment entity whose business model is to acquire equity ownership in early stage health and wellness brand companies in the United Kingdom and Europe. This transaction resulted in Supreme holding a 16.435% equity ownership interest in Supreme Heights and 95.162% voting interest as of September 30, 2019. In addition, the Company had a right to invest an additional £2,000,000 at similar terms as the initial investment increasing the Company's equity ownership interest to approximately 37.11%.

In December 2019, the Company obtained the following additional rights as part of its investment in Supreme Heights: i) preferential liquidation rights which gave the Company the right to recover its investment in full before other shareholders, ii) preferential dividend rights which gave the Company the right to dividend distributions, up to the Company's investment, before other shareholders receive dividends, and iii) retractable rights which gave the Company the right to exchange the 5,507,000 Multiple Voting Shares for return of the initial amounts invested, at the option of the Company.

During the year ended June 30, 2020, the Company exercised its retractable rights resulting in the exchange of the 5,507,000 Multiple Voting Shares for return of the entire amounts invested of $1,652. As a result, the Company no longer has any equity or voting interest in Supreme Heights.

5. Accounts Receivable

Accounting Policy:

The Company initially recognizes accounts receivable on the date they originate. Receivables are initially measured at fair value, and subsequently at amortized cost, with changes recognized in net income.

The Company recognizes expected credit losses for trade receivables based on the simplified approach under IFRS 9. The simplified approach to the recognition of expected losses does not require the Company to track the changes in credit risk; rather, the Company recognizes a loss allowance based on lifetime expected credit losses at each reporting date from the date of the trade receivable.

The Company evaluates its overdue trade accounts and measures loss allowance at an amount equal to twelve months of expected losses, which is allocated to an allowance for doubtful accounts and recognized on the consolidated statement of comprehensive loss.

Explanatory Information:

The Company's accounts receivable consists of trade receivable and sales tax receivable. The breakdown of the accounts receivable balance is as follows:

	June 30, 2020	June 30, 2019
Trade accounts receivable (net of expected credit losses)	$ 7,355	$ 21,969
Sales tax receivable	1,670	-
Total accounts receivable	**$ 9,025**	**$ 21,969**

Trade accounts receivable is net of expected credit losses of $33 (June 30, 2019: $67). In addition, during the year ended June 30, 2020, the Company recorded a specific provision of $2,182 related to an uncollectable accounts receivable balance from a specific customer. This provision has been recorded as part of general and administrative expenses on the consolidated statement of comprehensive loss for the year ended June 30, 2020.

6. Revenue

Accounting Policy:

The Company recognizes revenue in accordance with IFRS 15. The Company recognizes revenue in a manner that depicts the transfer of promised goods or services to a customer and at an amount that reflects the consideration expected to be received in exchange for transferring those goods or services. This is achieved by applying the following five steps:

a) Identify the contract with a customer; the Company enters into binding sales agreements with all customers

b) Identify the performance obligations in the contract; the performance obligation of the Company's sales agreements is to deliver a fixed amount of cannabis products

c) Determine the transaction price; sales agreements have fixed prices for cannabis products

d) Allocate the transaction price to the performance obligations in the contract; the transaction price is allocated to the performance obligation to deliver cannabis products

e) Recognize revenue when (or as) the entity satisfies a performance obligation; the Company satisfies the performance obligations when the cannabis products are delivered to the customer as per the terms and conditions of the Company's sales agreements

The amount of recognized revenue is impacted by excise taxes as explained below. Excise taxes are applicable to the cannabis industry. The Company has determined that excise taxes are a production tax, as such excise tax becomes payable when goods are moved from the Company's warehouse to the end consumer and are not based on the retail sales value.

Increases in excise tax are not always (fully) passed on to customers and the Company cannot, or can only partly, reclaim the excise tax in the case products are eventually not sold to customers. Excise tax is borne by the Company and included in gross revenue.

The Company presents excise tax expense on a separate line below revenue in the consolidated statement of comprehensive loss. A new subtotal called 'Net revenue' is added. This 'Net revenue' subtotal is revenue as defined in IFRS 15 after discounts minus the excise tax expense.

For revenue contracts that allow the customer to return product, the Company recognizes revenue to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur. As such, the amount of revenue recognized is adjusted for expected returns, which the Company estimates based on historical data pertaining to returns related to product sold. The Company may also offer discounts or rebates to customers or distributors of its products after the initial sale has been made. As such, the amount of revenue recognized is adjusted for expected discounts and rebates, which the Company estimates using historical data pertaining to cases where the Company has offered similar such discounts and rebates. Any specific discounts and rebates offered are also adjusted in revenue during the period in which they are offered. The estimated liability pertaining to returns, discounts and rebates is included in accounts payable and accrued liabilities.

Use of Estimates:

The Company estimates whether certain vendors will exercise the right to early payment discounts based on past experience with each vendor. The Company also uses estimates to determine the likelihood of returns and discounts and rebates it may offer to distributors. This is based on trends observed by the Company related to its historical sales and industry practices.

(Expressed in thousands of Canadian Dollars, unless otherwise noted)

6. Revenue (continued)

Use of Judgements:

Due to the complexity in tax legislations, significant judgement is applied in the assessment of whether taxes are borne by the Company or collected on behalf of a third party impacting the net or gross presentation of revenue.

Explanatory information:

The Company's sales transactions primarily occurred in Canada and Israel and are substantially comprised of the sale of cannabis products. During the year ended June 30, 2020 the Company recognized gross revenue of $44,622 (June 30, 2019: $43,015) from the sale of cannabis products. For the year ended June 30, 2020, the Company recorded excise taxes of $4,873 (June 30, 2019: $1,182).

For the year ended June 30, 2020, the Company adjusted gross revenue in the amount of $1,244 (June 30, 2019: $nil) for discounts provided on sale of product. As at June 30, 2020, the Company also recorded a provision of $910 (June 30, 2019: $nil) for expected discounts and sales returns on product sold.

During the year ended June 30, 2020, the Company had four major customers that accounted for 17%, 17%, 15%, and 11% (June 30, 2019: three major customers accounted for 19%, 17%, and 13%), respectively, of total revenues for the period.

7. Inventory

Accounting Policy:

Inventories consist of dried cannabis and cannabis products, cannabis distillate oil, cannabis seeds and supplies.

Finished goods inventory consist of dried cannabis flower and products that have been processed and are available for sale. Work in progress inventory consists of harvested cannabis plants that are in the processing stage. Cannabis distillate oil is a liquid cannabis concentrate that may be sold in the wholesale market in its current form or further refined in non-flower consumable products. Seeds inventory consists of cannabis seeds to be used in the genetic selection of cannabis strains. Supplies inventory includes consumables used in the production and processing of cannabis cultivation activities.

Subsequent to harvest, all direct and overhead post-harvest costs are capitalized to inventory to the extent that the cost is less than net realizable value. Prior to harvest, all direct and overhead costs are initially capitalized to biological assets, as discussed in Note 8 – Biological Assets. Direct and overhead costs include wages and benefits, facility costs, amortization and other costs incurred in bringing the inventory to the present location and condition. Net realizable value is determined as the estimated selling price less the estimated costs of completion and estimated selling costs. Cost is determined on a weighted average basis for each individual harvest.

Inventories are written down to net realizable value when the cost of inventories is determined not to be recoverable. When the circumstances that previously caused inventories to be written down no longer exist, the amount of the write-down is reversed.

Explanatory Information:

Carrying amount as at		**June 30, 2020**		**June 30, 2019**
Supplies	$	3,397	$	800
Seeds		227		224
Work in progress		3,626		5,777
Finished goods		30,473		9,184
Distillate oil		2,482		3,041
Total inventory	**$**	**40,205**	**$**	**19,026**

7. Inventory (continued)

Explanatory Information (continued):

During the year ended June 30, 2020, inventory recognized as expense was $80,362 (June 30, 2019: $36,409). For the year ended June 30, 2020, a total of $37,563 (June 30, 2019: $16,799) has been recorded as production costs on the consolidated statement of comprehensive loss related to production costs and purchased inventory that were capitalized to inventory and sold during period. For the year ended June 30, 2020 a total of $42,799 (June 30, 2019: $19,605) has been recognized as realized fair value changes on inventory sold or impaired. The realized fair value changes on inventory sold or impaired represents the change in fair value previously capitalized as a result of the biological asset transformation process prior to being transferred to inventory.

The Company recognized impairment charges related to inventory for the year ended June 30, 2020 of $41,363 (June 30, 2019: $377) driven by changes in market conditions. For the year ended June 30, 2020, $19,284 (June 30, 2019: $nil) of impairment charges were recognized in production costs related to inventory for which capitalized costs exceeded net realizable value. For the year ended June 30, 2020, $22,079 (June 30, 2019: $377) of impairment charges were recognized in realized fair value changes on inventory sold or impaired, for inventory of which fair value exceeded net realizable value as part of biological asset adjustments.

8. Biological Assets

Accounting Policy:

Biological assets, consisting of cannabis plants, are measured at fair value up to the point of harvest less costs to complete and sell.

The Company initially values its cannabis plants as biological assets approximately 30 days into the growing stage; cannabis plants that are approximately between day 1 and day 30 in the growth cycle are not considered to have significant fair value and consequently are carried at a fair value of nil. During day 1 to day 15 of growth, the cannabis plants are considered clones and housed in the nursery room. During day 16 to day 30, the cannabis plants are considered to be in the pre-vegetation stage and housed in the vegetation rooms. During this time the survival rates of the clones and pre-vegetation plants are inconsistent. Consequently, the Company has concluded that probable future economic benefits associated with the cannabis plants in the first 30 days of growth will not flow to the Company resulting in a carrying value of nil.

Approximately 30 days in the growth cycle, cannabis plants are moved in the flowering room where they will grow for approximately 70 days until harvest. When the cannabis plants are transferred in the flowering rooms they are sufficiently mature and do not experience significant plant loss. Growing time for a full harvest approximates 98 days.

The company values biological assets by multiplying the expected yield, in grams, from each harvest by the estimated selling price expected to be achieved by the Company. The value of biological assets is then reduced by the percentage of completion of the harvest and the estimated post-harvest costs and cost to complete. The Company estimates that fair value of the cannabis plants approximates the stage of completion of the cannabis plants based on approximately linear costs incurred during the growth stage.

The Company capitalizes all direct and overhead costs incurred during the biological transformation process and up to the point of harvest to biological assets on the consolidated statement of financial position, consistent with the capitalization criteria under IAS 2, *Inventories.*

(Expressed in thousands of Canadian Dollars, unless otherwise noted)

8. Biological Assets (continued)

Use of Estimates:

Determination of the fair values of the biological assets requires the Company to make various estimates and assumptions. 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 as at June 30, 2020:

a) Selling prices – selling prices are based on the Company's historical average selling price per gram adjusted for current market conditions. Adjusted selling prices averaged $4.08 per gram (June 30, 2019: $6.13 per gram) for cannabis flower and $nil per gram (June 30, 2019: $2.44 per gram) for cannabis trim. Subsequent to December 31, 2019, the Company has not recognized fair value of biological assets related to cannabis trim grown to reflect the current market conditions.

b) Post-harvest costs – the costs are based on actual processing costs incurred by drying, trimming, testing, packaging and manufacturing activities incurred in the period, including overhead allocations for these activities. Post-harvest processing costs averaged $0.36 per gram (June 30, 2019: $0.42 per gram). Subsequent to December 31, 2019, the Company did not allocate any post-harvest costs to cannabis trim to reflect the current market conditions.

c) The stage of plant growth – the stage of plant growth is estimated by the number of days into the growing stage as compared to the estimated growing time for a full harvest. The estimated stage of growth of the cannabis plants as at June 30, 2020 averaged 64% (June 30, 2019: averaged 69%).

d) Expected yield – the expected yield per plant is based on the Company's historical adjusted average yield per plant. Expected total yield per plant is 81.23 grams (June 30, 2019: 70.96 grams) of cannabis flower.

Explanatory Information:

As at June 30, 2020, the Company's biological assets consist of cannabis plants. The changes in the fair value of biological assets are as follows:

Carrying amount, June 30, 2018	**$**	**3,283**
Changes in fair value less costs to sell due to biological transformation		31,424
Capitalized costs incurred during the biological transformation process		14,260
Transferred to inventory upon harvest		(40,205)
Carrying amount, June 30, 2019		**8,762**
Changes in fair value less costs to sell due to biological transformation		48,300
Capitalized costs incurred during the biological transformation process		24,948
Impairment of capitalized costs incurred during the biological transformation process		(426)
Transferred to inventory upon harvest		(76,981)
Carrying amount, June 30, 2020	**$**	**4,603**

The Company expects that a $1 increase or decrease in the wholesale market price per gram of cannabis flower would increase or decrease the fair value of biological assets by $1,354. A 5% increase or decrease in the estimated yield per cannabis plant would result in an increase or decrease in the fair value of biological assets by $198. Additionally, an increase or decrease of 10% in the post-harvest costs would decrease or increase the fair value of biological assets by $49.

Net effect of changes in fair value of biological assets and inventory include:

Unrealized change in fair value of biological assets	$	5,501
Realized fair value increments on inventory sold or impaired		42,799

(Expressed in thousands of Canadian Dollars, unless otherwise noted)

8. Biological Assets (continued)

Explanatory Information (continued):

Unrealized change in fair value of biological assets is the net amount of changes in fair value due to biological transformation charges that have been added to biological assets and inventory during the year ended June 30, 2020. As at June 30, 2020, biological assets and inventory include a total of $21,584 (June 30, 2019: $25,252) of unrealized fair value of biological assets charges which are yet to be expensed as the related biological assets and cannabis inventory is not yet sold.

9. Impairment of Assets

Accounting Policy:

Long-lived assets:

Long-lived assets, such as property, plant and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset exceeds its recoverable amount. The recoverable amount of an asset is the higher of its fair value, less costs of disposal, and its value in use.

If the carrying amount of an asset exceeds its recoverable amount, an impairment charge is recognized immediately in the consolidated statement of comprehensive loss, by the amount by which the carrying amount of the asset exceeds the recoverable amount. Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the lesser of the revised estimate of recoverable amount, and the carrying amount that would have been recorded had no impairment loss been recognized previously.

Intangible assets and goodwill:

An intangible asset or goodwill is impaired if the recoverable amount of the asset is less than its carrying amount. The recoverable amount of an intangible asset or the cash-generating unit ("**CGU**") to which the goodwill has been allocated, is the higher of its fair value less costs to sell and value in use.

The Company tests intangible assets with finite useful lives for impairment whenever an event or change in circumstances indicates that the assets' carrying amount may not be recoverable. For indefinite life intangible assets and goodwill, the Company conducts impairment tests on every annual reporting period end, or more frequently if any event or change in circumstances indicate that the assets' carrying amount may not be recoverable.

If an asset is considered impaired, the Company immediately recognizes the impairment loss in the consolidated statement of comprehensive loss. Subsequently, if estimates used to determine an asset or a CGUs recoverable amount have improved since impairment was recognised, the impairment related to the asset or CGUs, other than goodwill, may be reversed.

Use of Estimates:

The Company uses estimates in determining the recoverable amount of its CGUs. The determination of the recoverable amount for impairment testing requires the use of significant estimates, such as future cash flows, discount rates, terminal value and growth rates. Future cash flows are based on the Company's estimates and expected future operating results of the CGU after considering economic conditions impacting the CGU. The following inputs have been used to determine the recoverable amount of CGUs based on the value in use approach:

Discount rates	21% - 28%
Forecast period	5 years
Growth rate for forecast period	2% - 45%
Terminal value growth rate	3%

(Expressed in thousands of Canadian Dollars, unless otherwise noted)

9. Impairment of Assets (continued)

Explanatory Information:

Year ended June 30, 2020	BlissCo CGU	Truverra CGU	Product License	Asset-specific	Total
Goodwill	$ 13,686	$ 11,820	$ -	$ -	$ 25,506
Health Canada licences	9,377	7,553	-	-	16,930
Other Intangibles	543	12	12,630	-	13,185
Property, plant and equipment	-	1,898	-	1,351	3,249
Other	-	-	-	2,063	2,063
Impairment of assets	**$ 23,606**	**$ 21,283**	**$ 12,630**	**$ 3,414**	**$ 60,933**

BlissCo and Truverra Cash-Generating Units (CGUs)

As at March 31, 2020, the Company assessed that there were indicators of impairment primarily due to the prolonged decline in the Company’s market capitalization. As a result, the Company’s management performed an impairment test as at March 31, 2020.

The recoverable amount of the BlissCo and Truverra CGUs were lower than their carrying values. For the BlissCo CGU, the carrying value exceeded the recoverable amount by $23,606 and an impairment loss of $23,606 was allocated to goodwill and intangible assets. For the Truverra CGU, the carrying value exceeded the recoverable amount by $21,283 and an impairment loss of $21,283 was allocated to goodwill, intangible assets and property, plant and equipment.

The Company determined the recoverable amount of its CGUs using a value in use approach, except for the Truverra CGU, which was based on a fair value less costs of disposal ("**FVLCD**") approach. The FVLCD for the Truverra CGU was based on a third-party assessment of the physical assets in the CGU, which utilized comparable companies of similar size in determining the recoverable amount.

Product License

The Company had previously recognized a product license intangible related to its agreement with Khalifa Kush Enterprises Canada ULC ("**KKE**"), further discussed in Note 12C. As at March 31, 2020, the Company recorded an impairment of $12,630, resulting in a revised carrying value of $nil. The Company determined that the future cash flows and benefits from the asset were negatively impacted by current Health Canada direction and market conditions.

Asset-specific Impairment

During the year ended June 30, 2020, the Company also identified certain specific assets where the carrying value exceeded their recoverable amount. As a result, the Company recognized $3,414 asset-specific impairment. These primarily include certain deposits related to property, plant and equipment and other prepaid assets that the Company decided not to convert or to utilize their benefits.

10. Property, Plant and Equipment

Accounting Policy:

Initial recognition and amortization:

The Company measures property, plant and equipment upon initial recognition at cost and begins recognizing depreciation when the asset is ready for its intended use, and when applicable, all Health Canada licensing has been received. Subsequently, property, plant and equipment is carried at cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes:

(a) Cost of materials and direct labour;

(b) Costs directly associated with bringing the assets to a working condition for intended use; and

(c) Borrowing costs on qualifying assets.

The Company depreciates property, plant and equipment over its estimated useful life by expensing depreciation in the consolidated statement of comprehensive loss.

The Company calculates gains and losses on the disposal of property, plant and equipment by comparing the proceeds from the disposal with the item's carrying amount and recognizes the gains or losses in the consolidated statement of comprehensive loss.

The Company capitalizes development expenditures if they meet the criteria for recognition as an asset and amortize them over their expected useful lives once the assets to which they relate are available for use. The Company calculates depreciation based on the estimated useful lives and pattern of consumption of assets based on the following:

Asset Class	Basis	Estimated useful life
Assets under development	Not amortized	N/A
Land	Not amortized	N/A
Furniture & Equipment	Straight-line	3-5 years
Computer software & equipment	Straight-line	1-3 years
Building (Facility)	Straight-line	5-30 years
Grow Rooms (Facility)	Straight-line	6-20 years
Mechanical & Electrical Equipment (Facility)	Straight-line	15-30 years
Leasehold improvements	Straight-line	Over the shorter of useful life or lease terms

Borrowing costs capitalization policy:

Borrowing costs, including non-cash accretion, attributable to the acquisition, construction or production of qualifying assets are capitalized as part of those assets, until such time as the assets are substantially ready for their intended use.

(Expressed in thousands of Canadian Dollars, unless otherwise noted)

10. Property, Plant and Equipment (continued)

Accounting Policy (continued):

Use of Estimates:

Initial recognition of costs – The Company uses estimates to determine certain costs that are directly attributable to self-constructed assets. These estimates primarily include certain internal and external direct labor, overhead, and borrowing costs associated with the acquisition, construction, development, or betterment of its facilities.

Useful lives of property, plant and equipment – Components of an item of property, plant and equipment may have different useful lives. The Company makes significant estimates when determining depreciation rates and asset useful lives, which require considering company specific factors, such as past experience and expected use, and industry trends. The Company monitors and reviews residual values, depreciation rates, and asset useful lives at least once per year and changes them if they are different from previous estimates.

Use of Judgments:

The Company makes significant judgments in choosing methods for depreciating property, plant and equipment that the Company believes most accurately represent the consumption of benefits derived from those assets and are most representative of the economic substance of the intended use of the underlying assets.

Explanatory Information:

	Facility	Land	Furniture, equipment and leaseholds	Total Property, Plant and Equipment
Cost				
Balance, June 30, 2018	$ 102,703	$ 3,435	$ 2,152	$ 108,290
Additions	77,309	2,462	4,728	84,499
Disposals	(4,416)	-	-	(4,416)
Balance, June 30, 2019	175,596	5,897	6,880	188,373
Additions	30,612	-	1,004	31,616
Acquired assets	4,762	1,656	2,543	8,961
Disposals	(1,653)	(1,419)	-	(3,072)
Balance, June 30, 2020	**$ 209,317**	**$ 6,134**	**$ 10,427**	**$ 225,878**
Accumulated Amortization and Impairment				
Balance, June 30, 2018	$ 1,576	$ -	$ 339	$ 1,915
Amortization	3,942	-	1,314	5,256
Disposals	(524)	-	-	(524)
Balance, June 30, 2019	4,994	-	1,653	6,647
Amortization	9,934	-	1,370	11,304
Impairment and disposals	1,351	-	1,899	3,250
Balance, June 30, 2020	**$ 16,279**	**$ -**	**$ 4,922**	**$ 21,201**
Net carrying cost, June 30, 2019	$ 170,602	$ 5,897	$ 5,227	$ 181,726
Net carrying cost, June 30, 2020	**$ 193,038**	**$ 6,134**	**$ 5,505**	**$ 204,677**

As at June 30, 2020, the Company had $nil (June 30, 2019: $52,554) of property, plant and equipment under development. Each phase of construction is considered under development until such time that it has been approved by Health Canada. Once Health Canada approval is granted the asset is amortized as it is available for use. During the year ended June 30, 2020 a total of $75,414 (June 30, 2019: $88,205) of facility additions became available for use.

(Expressed in thousands of Canadian Dollars, unless otherwise noted)

10. Property, Plant and Equipment (continued)

Explanatory Information (continued):

During the year ended June 30, 2020 a total of $1,359 (June 30, 2019: $5,367) of borrowing costs were capitalized. For the year ended June 30, 2020, borrowing costs include non-cash accretion expense of $796 (June 30, 2019: $3,039).

During the year ended June 30, 2020, amortization expense of $7,320 (June 30, 2019: $2,501) has been capitalized to inventory and biological assets. During the year ended June 30, 2020 $4,808 (June 30, 2019: $2,527) of amortization expense has been expensed as production costs as inventory is sold or impaired during the period.

During the year ended June 30, 2020, the Company recorded an impairment of certain property, plant and equipment in its Truverra and Kitchener CGUs, further discussed in Note 9 – Impairment of Assets.

Asset Sale:

During the year ended June 30, 2020, the Company sold its 34,000 square foot facility located in Goderich, ON. This resulted in the Company recognizing a $1,870 loss during the year ended June 30, 2020, representing the amount by which the carrying value of the facility exceeds its selling price.

11. Leases

The accounting policy, estimates and judgments pertaining to leases is described in Note 2(e) – Significant Accounting Policies: New Accounting Standards effective July 1, 2019.

a) Right-of-use assets

The Company's leases primarily consist of leased facilities and equipment as shown below.

	Facilities	Equipment	Total
Cost			
Balance, July 1, 2019	$ 6,092	$ 30	$ 6,122
Additions	986	-	986
Derocognition	(3,352)	-	(3,352)
Balance, June 30, 2020	**3,726**	**30**	**3,756**
Accumulated Amortization			
Balance, June 30, 2019	$ -	$ -	$ -
Amortization	829	30	859
Derocognition	(383)	-	(383)
Balance, June 30, 2020	**446**	**30**	**476**
Net carrying cost, June 30, 2020	**$ 3,280**	**$ -**	**$ 3,280**

(Expressed in thousands of Canadian Dollars, unless otherwise noted)

11. Leases (continued)

b) Lease liabilities

Balance, July 1, 2019	$	6,887
Additions		710
Interest expense on lease liabilities		904
Principal repayment		(1,289)
Derecognition		(3,540)
Balance, June 30, 2020	**$**	**3,672**
Current portion	**$**	**342**
Long-term lease liabilities		**3,330**

c)

The following represents the undiscounted lease payments that the Company expects to incur:

Less than one year	$	780
One to five years		2,787
More than five years		2,721
Total undiscounted lease payments	**$**	**6,288**

During the twelve months ended June 30, 2020, the Company terminated the lease of a facility, which resulted in a $900 loss, primarily comprised of one-time lease termination costs and the impact of derecognizing the related right-of-use asset and lease liability.

12. Intangible Assets and Goodwill

Accounting Policy:

Initial recognition – Intangible assets:

Upon initial recognition, the Company measures intangible assets at cost unless they are acquired through a business combination, in which case they are measured at fair value. For internally generated intangible assets, research costs are expensed as incurred. Development expenditures are capitalized only if development costs can be measured reliably, the product or process is technically, and commercially feasible, future economic benefits are probable, and the Company intends to and has sufficient resources to complete development to use or sell the asset.

The Company begins recognizing amortization of intangible assets with finite useful lives when the asset is ready for its intended use. Subsequently, the asset is carried at cost less accumulated amortization and accumulated impairment losses. The estimated useful lives, residual values, and amortization methods are reviewed at each period end, and any changes in estimates are accounted for prospectively.

The Company does not amortize intangible assets with indefinite lives.

Initial recognition – Goodwill:

The Company initially recognizes goodwill when it arises from business combinations. The Company measures goodwill as the difference between the purchase consideration for the acquisition and the fair value of the separately identifiable assets acquired and liabilities assumed as part of the acquisition. If the fair value of the purchase consideration transferred is lower than the sum of the separately identifiable assets acquired and liabilities assumed, the Company immediately recognizes the difference as a gain in the statement of comprehensive loss. The Company allocates Goodwill to a cash-generating unit ("**CGU**") that is expected to benefit from the synergies of the business combination from which the goodwill arose.

12. Intangible Assets and Goodwill (continued)

Use of Estimates:

The Company uses estimates in determining the useful life and residual values of its definite life intangible assets. The definite life intangible assets that are not under development and are ready for use, are amortized on a straight-line basis, based on the estimated useful lives as described in the table below:

Asset Class	Basis	Estimated useful life
Assets under development	Not amortized	N/A
Database & system technologies	Straight-line	3-5 years
Product license	Straight-line	Expected term of agreement
Health Canada Licence	Not amortized / Straight-line	If amortized, over life of leased facility
Brands	Straight-line	5 years

Use of Judgements:

Intangible assets:

Judgment is applied when deciding to designate the Health Canada license as an asset with indefinite useful life since the Company believes the license is likely to be renewed for the foreseeable future such that there is no limit to the period over which the asset is expected to generate net cash inflows. The Company makes judgments to determine that this asset has indefinite life, analyzing all relevant factors, including the expected usage of the asset, the typical life cycle of the asset, and anticipated changes in the market demand for the products and services the asset helps generate. After review of the competitive, legal, regulatory, and other factors, it is the Company's view that these factors do not limit the useful life of the Company's Health Canada license. The Company's intangible asset of its Health Canada license has been allocated to the respective CGUs.

Goodwill:

The Company uses judgment in determining the allocation of goodwill to a CGU for the purpose of impairment testing. As at June 30, 2020 the Company did not have any goodwill recognized.

(Expressed in thousands of Canadian Dollars, unless otherwise noted)

12. Intangible Assets and Goodwill (continued)

Explanatory Information:

	Database, System Technologies	Brand and Trademark	Product License	Health Canada License	Related Party Intangible	Total Intangible Assets	Goodwill
	Note 12A	Note 12B	Note 12C	Note 12D	Note 12E		Note 12F
Cost							
Balance, June 30, 2018	$ -	$ -	$ -	$ 8,397	$ -	$ 8,397	$ -
Additions	1,179	-	15,722	-	-	16,901	680
Balance, June 30, 2019	1,179	-	15,722	8,397	-	25,298	680
Additions	143	-	-	-	1,150	1,293	-
Acquired assets	-	647	-	19,308	-	19,955	24,826
Disposals	-	-	-	-	(1,150)	(1,150)	-
Balance, June 30, 2020	**$ 1,322**	**$ 647**	**$ 15,722**	**$ 27,705**	**$ -**	**$ 45,396**	**$ 25,506**
Accumulated Amortization and Impairment							
Balance, June 30, 2018	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Amortization	118	-	734	-	-	852	-
Balance, June 30, 2019	118	-	734	-	-	852	-
Amortization	262	92	2,358	257	-	2,969	-
Impairment	-	555	12,630	16,930	-	30,115	25,506
Balance, June 30, 2020	**$ 380**	**$ 647**	**$ 15,722**	**$ 17,187**	**$ -**	**$ 33,936**	**$ 25,506**
Net carrying cost, June 30, 2019	$ 1,061	$ -	$ 14,988	$ 8,397	$ -	$ 24,446	$ 680
Net carrying cost, March 31, 2020	**$ 942**	**$ -**	**$ -**	**$ 10,518**	**$ -**	**$ 11,460**	**$ -**

Note 12A:

During the year ended June 30, 2020 the Company recognized amortization expense on the enterprise resource planning software in the amount of $193 (June 30, 2019: $65). During the same period, the Company also recognized amortization expense on the website and database intangible asset in the amounts of $69 (June 30, 2019: $53).

Note 12B:

The Company acquired certain brands and trademarks as part of the acquisitions completed during the year ended June 30, 2020 as discussed in further detail in Note 3 – Business Combinations. These brands and trademarks were classified as definite life intangibles with a useful life of five years. For the year ended June 30, 2020, the Company has recorded amortization expense of $92 (June 30, 2019: nil). During the year ended June 30, 2020, the Company recorded impairment of $555 (June 30, 2019: nil) related to the acquired brand and trademarks, see Note 9 – Impairment of Assets.

Note 12C:

On December 6, 2018 the Company entered into an agreement with KKE (an unrelated entity), which gives the Company an exclusive right to sell products under the KKE or KK brands across Canada, and international markets (other than the United States), in addition to certain product development services (the "**Agreement**").

This product license has been capitalized as a definite life intangible, as there is a defined useful life, in accordance with the terms of the Agreement. The Company issued 5,745,000 common shares, along with a cash consideration of $1,000 for a total consideration of $9,215. The Company incurred total transaction costs of $65 which have been capitalized. For the year ended June 30, 2020, the Company recorded amortization expense $1,381 (June 30, 2019: $434) related to this intangible asset.

In addition, the Company owes certain minimum royalty payments to KKE over the course of the Agreement. As further discussed in Note 13, the initial liability amount was determined to be $6,370 which has been capitalized to intangible assets. The Company started amortizing this intangible asset from April 5, 2019, which is when the asset became available for use. For the year ended June 30, 2020, the Company recorded amortization expense of $977 (June 30, 2019: $300) relating to the capitalized royalty payments that have been included in production costs.

12. Intangible Assets and Goodwill (continued)

Explanatory Information (continued):

During the year ended June 30, 2020, the Company recorded an impairment of $12,630 (June 30, 2019: $nil) related to the KKE intangible assets, see Note 9 – Impairment of Assets.

Note 12D:

During the year ended June 30, 2020 the Company acquired intangible assets related to Health Canada licenses in the amount of $19,308, as discussed in further detail in Note 3 – Business Combination. The useful life of all of these Licenses are considered indefinite, except the Truverra Health Canada Licence, whose useful life is equal to the term of the lease of the Truverra facility. As such, the Company has not recognized any amortization expense on the indefinite life Health Canada Licences. For the year ended June 30, 2020 the Company has recorded amortization expense of $257 (June 30, 2019: $nil) for the definite life Health Canada Licences. During the year ended June 30, 2020, the Company recorded an impairment of $16,930 (June 30, 2019: $nil) related to the Health Canada licenses, see Note 9 – Impairment of Assets.

Note 12E:

As part of the Company's investment in Supreme Heights a related party intangible asset of $1,150 had been recognized during the three months ended September 30, 2019. The intangible asset consisted of preferential rights to supply Target Companies with cannabis products, including dry cannabis, distillate cannabis oil and other products and preferential rights for Target Companies to provide manufacturing and other service to the Company. These rights were determined to be an indefinite life intangible asset. During the three months ended December 31, 2019, the Company exercised its retractable rights related to the Supreme Heights investments, which resulted in Supreme Heights no longer being a consolidated entity in Company's ownership structure as a result the intangible asset was derecognized.

Note 12F:

The Company has recorded goodwill arising from its acquisitions, as discussed in Note 3 – Business Combination. The Company has allocated the goodwill to two of its CGUs, BlissCo and Truverra. The CGUs are tested for impairment annually or if there are any events or change in circumstances that might indicate that the assets' carrying amount is not recoverable. During the year ended June 30, 2020, the Company recorded an impairment of $25,506 (June 30, 2019: $nil) related to goodwill, see Note 9 – Impairment of Assets.

13. Provisions

Accounting Policy:

The Company recognizes a provision when a past event creates a legal or constructive obligation that can be reasonably estimated and is likely to result in a future outflow of economic resources. The estimated cash outflows are discounted at a pre-tax rate that reflects the current market assessment of the time value of money and specific risks. The Company recognizes a provision even when the timing or amount of the obligation may be uncertain, which can require the Company to make significant estimates. The Company measures provisions for one-off events at the most likely amount and for large populations of events at a probability-weighted expected value.

Use of Estimates:

The Company's best estimate of the royalty payments owed to KKE is the future minimum fixed royalty payments owed to KKE over the expected term of the Agreement and the timing of the payments. The initial carrying amount of the provision was determined by discounting the stream of future minimum royalty payments at a market interest rate of 18.31%.

13. Provisions (continued)

Use of Judgements:

Significant judgment is required to determine when the Company is subject to unavoidable costs arising from contracts. These judgments may include, for example, whether a certain promise is legally binding or whether the Company may be successful in negotiations with the counterparty. The Company uses judgment in determining the timing of future outflows of economic resources.

Explanatory Information:

Royalty Payments for Product License:

As discussed in Note 12C, the Company owes certain minimum royalty payments to KKE over the course of the Agreement. The initial liability amount related to this future stream of payments was determined to be $6,370. The Company has also capitalized this amount to product license intangible asset as discussed in Note 12C. During the year ended June 30, 2020 the Company recorded $1,018 (June 30, 2019: $594) of accretion expense related to the initial liability recorded. As at June 30, 2020, the Company has an outstanding current and long-term liability of $3,237 (June 30, 2019: $1,318) and $3,741 (June 30, 2019: $4,646), respectively, related to the minimum royalty payments due. Subsequent to June 30, 2020, the Company and KKE mutually terminated the Agreement and settled the outstanding royalty payments due, see Note 22 – Subsequent Events.

Reorganization Activities and Restructuring Charges:

During the year ended June 30, 2020, the Company recognized an expense of $1,240 (June 30, 2019: $nil) related to reorganization activities included in wages and benefits on the consolidated statement of comprehensive loss. As at June 30, 2020, a liability of $594 (June 30, 2019: $nil) has been recorded in accounts payable and accrued liabilities on the statement of financial position, which represents remaining payments related to the reorganization activities.

During the year ended June 30, 2020, the Company announced strategic changes, including initiatives to reduce its cost structure by decreasing corporate and operational positions. As a result of this, the Company has recognized a $3,255 restructuring charge, included in restructuring charges on the consolidated statement of comprehensive loss, during the year ended June 30, 2020. The Company also recognized a $1,327 charge related to wind-up activities for certain operations, included in loss on modification of lease on the consolidated statement of comprehensive loss, during the year ended June 30, 2020. Of these amounts, $2,483 was paid during the year ended June 30, 2020. As at June 30, 2020, a liability of $2,099 (June 30, 2019: $nil) has been recorded in accounts payable and accrued liabilities on the statement of financial position, which represents remaining payments related to the restructuring charges and wind-up costs.

(Expressed in thousands of Canadian Dollars, unless otherwise noted)

14. Investments

Accounting Policy:

The Company classifies its investments in companies where it does not have control or significant influence as follows:

(i) Publicly-traded companies – at fair value through profit and loss ("**FVTPL**") based on publicly quoted prices; and

(ii) Private companies – at fair value through other comprehensive income ("**FVOCI**") using implied valuations from follow-on financing grounds, third-party sale negotiations, or market-based approaches.

Use of Estimates:

The Company uses the discounted cash flows valuation method to estimate the value of its FVOCI investments considered a Level 3 categorization on the IFRS fair value hierarchy.

The significant unobservable input into the valuation models of these investments is the discount rate, which has been estimated to be between 35%-45%. Changes in discount rates will result in changes in the fair values of these investments.

Explanatory Information:

The following table presents the carrying value of the Company's investments valued using the Level 1, Level 2 and Level 3 fair value hierarchies:

	Level 1 on fair value hierarchy	Level 2 on fair value hierarchy	Level 3 on fair value hierarchy		Carrying value
	BlissCo shares	BlissCo warrants	Trellis Solutions Inc.	MG Health	Total
	Note 14A	Note 14A	Note 14B	Note 14C	
Balance, June 30, 2018	$ 4,000	$ 1,096	$ 1,074	$ 10,162	$ 16,332
Unrealized (loss) gain	(450)	(678)	-	121	(1,007)
Balance, June 30, 2019	3,550	418	1,074	10,283	15,325
Unrealized loss	(262)	(418)	(1,074)	(10,070)	(11,824)
Deemed dispostion	(3,288)	-	-	-	(3,288)
Balance, June 30, 2020	**$ -**	**$ -**	**$ -**	**$ 213**	**$ 213**

Note 14A:

On February 26, 2018, Supreme purchased 10,000 units of BlissCo for $3,000. Each unit was comprised of one common share and one common share purchase warrant of BlissCo. The common share purchase warrant was exercisable until February 23, 2020 at $0.60 per common share. The Company had valued the common shares and common share purchase warrant separately. The investment had been classified as a fair value through profit and loss financial instrument. The Company revalued the investment as at June 30, 2019 and adjusted the carrying value of common shares and warrants to $3,550 and $418, respectively.

On July 11, 2019 the Company acquired all issued and outstanding shares of BlissCo, as explained in Note 3 – Business Combinations. As a result of the acquisition, the Company's investment in the shares and warrants of BlissCo was deemed to be disposed of with the resulting loss of $680 recorded in the consolidated statement of comprehensive loss.

14. Investments (continued)

Explanatory Information (continued):

Note 14B:

On April 22, 2016, Supreme closed an investment in Trellis Solutions Inc. (“Trellis"), a software company focused on providing enterprise resource planning solutions to the cannabis industry. The Company purchased 285,714 common shares for $100. The Company does not exercise significant influence or control.

The investment has been classified as a FVOCI financial instrument. The Company wrote-off the value of its investment during the year ended June 30, 2020, as Trellis underwent a transaction that resulted in the Company losing its equity interest. The Company adjusted the carrying value of its investment in Trellis to $nil, resulting in an unrealized loss of $977 (June 30, 2019: $nil) net of a tax impact of $97 (June 30, 2019: $nil), which has been recognized in OCI.

Note 14C:

On March 20, 2018, Supreme closed an investment in MG Health Lesotho (“**MG Health**”), a licensed producer of medical cannabis based in the Kingdom of Lesotho. MG Health is focused on medical cannabis oil production for export to federally legal medical cannabis markets globally.

The Company purchased 278,000 common shares for $10,074 and incurred $88 of transaction costs that have been capitalized. The Company does not exercise significant influence or control. The investment has been classified as a FVOCI financial instrument. The Company revalued the investment on June 30, 2020 based on free cash flow model analysis and adjusted the carrying value to $213 resulting in an unrealized loss of $10,020 (June 30, 2019: gain of $121) net of a tax impact of $50 (June 30, 2019: $16), which has been recognized in OCI.

15. Convertible Debentures

Accounting Policy:

Compound financial instruments issued by the Company are comprised of convertible debt that can be converted to share capital at the option of the holder. The liability component of a compound financial instrument is recognized initially at the fair value which is equal to the net present value of future cash flows applying an interest rate at the date of issue of a similar liability that does not have an equity convertible option. The equity component is recognized initially as the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts.

Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortized cost using the effective interest method. The equity component of a compound financial instrument is not remeasured subsequent to initial recognition. Interest, dividends, losses and gains relating to the financial liability are recognized in the consolidated statement of comprehensive loss.

Use of Estimates:

Market rate of interest – The market rate of interest is estimated by assessing market conditions and other internal and external factors. The market rate of interest used to calculate the fair value of the debt component of October 2018 Convertible Debenture is 18.31%. The market rate of interest used to calculate the fair value of the debt components of November 2017 and December 2016 Convertible Debentures is 19.9%.

15. Convertible Debentures (continued)

Explanatory Information:

October 2018 Convertible Debentures:

On October 19, 2018, the Company received gross proceeds of $100,000 from a bought deal offering issuance of 6% coupon, unsecured debentures, which are convertible into common shares at a rate of $2.45 per share at any time and mature on October 19, 2021 ("**October 2018 Convertible Debentures**"). The unsecured debentures are subject to accelerated expiry in some circumstances. The effective interest rate used to value the October 2018 Convertible Debentures is 18.61%.

The Company incurred expenses of $4,475 related to the bought deal offering. These transaction costs have been allocated to the liability and equity components based on their pro-rata values. As at June 30, 2020, the principal amount outstanding of October 2018 Convertible Debentures was $100,000 (June 30, 2019: $100,000).

As the debentures are convertible into common shares, the liability and equity components are presented separately on the consolidated statement of financial position. The initial carrying amount of the financial liability was determined by discounting the stream of future payments of interest and principal at a market interest rate of 18.31%. Using the residual method, the carrying amount of the conversion feature is the difference between the principal amount and the initial carrying value of the financial liability. The equity component is recorded in reserves on the consolidated statement of financial position. The debentures, net of the equity component and allocated transaction costs are accreted using the effective interest method over the term of the debentures, such that the carrying amount of the financial liability will equal the principal balance at maturity.

Subsequent to June 30, 2020, the Company obtained approval for the partial conversion of the October 2018 Convertible Debentures, discussed further in Note 22 – Subsequent Events.

November 2017 Convertible Debentures:

On November 14, 2017, the Company received gross proceeds of $40,250 from a brokered private placement issuance of 8% coupon, unsecured debentures, which are convertible into common shares at a rate of $1.60 per share at any time and mature on November 14, 2019 ("**November 2017 Convertible Debentures**").

Concurrently, the lenders received 12,598,250 warrants exercisable at $1.80 until November 14, 2020. Both the unsecured debentures and the warrants were subject to accelerated expiry in some circumstances. The effective interest rate used to value the convertible debenture was 20.6%.

The Company incurred expenses of $1,811 related to the private placement. These transaction costs have been allocated to the liability and equity components based on their pro-rata values.

On November 6, 2018 the Company exercised its acceleration condition included in the indenture relating to the November 2017 Convertible Debenture resulting in all the outstanding convertible debentures being exercised and converted to common shares of the Company. As at June 30, 2020, the principal amount outstanding of November 2017 Convertible Debentures was $nil (June 30, 2019: $nil).

(Expressed in thousands of Canadian Dollars, unless otherwise noted)

15. Convertible Debentures (continued)

Explanatory Information (continued):

Convertible debentures consist of the following:		Debt component	Equity component conversion option
Balance June 30, 2018	**$**	**31,722 $**	**4,486**
Conversion (Nov 2017 Debentures)		(30,960)	(3,090)
Accretion and interest (Nov 2017 Debentures)		(762)	-
Issue of convertible debt, net (Oct 2018 Debentures)		70,674	24,850
Accretion and interest, net of payments (Oct 2018 Debentures)		8,380	-
Balance, June 30, 2019	**$**	**79,054 $**	**26,246**
Accretion and interest, net of payments (Oct 2018 Debentures)		6,183	-
Balance, June 30, 2020	**$**	**85,237 $**	**26,246**

16. Long-Term Debt

Accounting Policy:

The Company initially recognizes loans and borrowings at fair value on the date that it is originated, less any directly attributable transaction costs. After initial recognition, these liabilities are subsequently measured at amortized cost using the effective interest rate method. The Company de-recognizes a financial liability when its contractual obligations are discharged, cancelled or expired.

Explanatory Information:

		June 30, 2020	June 30, 2019
Term loan	$	66,000 $	-
Less: Transaction costs		(734)	-
Less: Prepaid interest		-	-
		65,266	
Less: Current portion		(2,750)	
Long-term debt	**$**	**62,516 $**	**-**

On November 14, 2019, the Company entered into a credit agreement with a Tier 1 Canadian Bank acting as a lead arranger and agent on behalf of a group of lenders (the "**Credit Agreement**") for $90,000 of senior secured credit facilities consisting of a term loan of $70,000 and a revolving credit facility of $20,000 (the "**Credit Facility**"). Costs related to the Credit Facility of $924 were deferred and are being amortized to finance costs using the effective interest method. At June 30, 2020 the Company had drawn $66,000 under the Credit Facility.

The Credit Facility matures and is payable three years from the closing date of the Credit Facility, which is November 14, 2022, subject to certain accelerated repayment conditions as defined in the Credit Agreement.

The Credit Facility is secured by the assets of the Company, with $6,300 of cash currently being restricted for use by the lenders. Pricing is based on a set margin over the Tier 1 Canadian Bank's CAD Prime Rate or Bankers' Acceptance and a pricing grid linked to certain financial ratios. At June 30, 2020, the effective interest rate on the Credit Facility is 4.45%.

The Company is also subject to certain financial covenants under the Credit Facility, which include a total funded debt to tangible net worth ratio, a minimum fixed charge coverage ratio and a maximum total funded debt to earnings before interest, taxes, depreciation and amortization ratio, as these terms are defined in the Credit Agreement. The Company monitors these ratios and is required to report them to its lenders on a quarterly basis. As at June 30, 2020, the Company was in compliance with the financial covenants under the Credit Facility. Subsequent to June 30, 2020, the Company renegotiated the terms of the Credit Facility, as described in Note 22 – Subsequent Events.

17. Share Based Compensation

Accounting Policy:

Stock options:

The Company has an employee stock option plan. The Company measures equity settled share-based payments based on their fair value at the grant date using the Black-Scholes option pricing model and recognizes compensation expense over the vesting period based on the Company's estimate of equity instruments that will eventually vest. Expected forfeitures are estimated at the date of grant and subsequently adjusted if further information indicates actual forfeitures may vary from the original estimate. The impact of the revision of the original estimate is recognized in profit or loss such that the cumulative expense reflects the revised estimate.

Consideration paid by employees or non-employees on the exercise of stock options is recorded as share capital and the related share-based compensation is transferred from share-based reserve to share capital.

Restricted share units ("**RSUs**"):

The Company issued RSUs to employees under the RSU plan. The RSUs are equity-settled instruments and are measured at initial recognition at the fair value of the equity instruments granted at grant date. As these RSUs are equity-settled they are not subsequently remeasured after the grant date. The fair value on grant date is based on the closing trading price of the Company's shares listed on the TSX. The fair value of the RSUs at grant date is recognized as an expense over a two-year vesting period using the ratable vesting approach.

Preferred share units ("**PSUs**"):

The Company issued PSUs to select employees. The PSUs are cash-settled instruments and are accounted for as a financial liability in other long-term liabilities until the amount is due within twelve months of the reporting date at which time they are classified in accounts payable and accrued liabilities. The liability is remeasured at each reporting period using a Monte-Carlo simulation. The fair value of the PSUs is recognized as an expense over a three-year vesting period using the cliff vesting approach, with changes resulting from fair value remeasurements recognized at each reporting period in profit and loss. The PSUs are automatically settled upon the vesting date of the grant.

Preferred deferred share units ("**PDSUs**"):

The Company also issued PDSUs to select employees. The PDSUs are similar in nature to PSUs, except that they are settled upon the departure of the employees to whom the PDSUs are granted. As such, the accounting and measurement technique for PDSUs are the same as for the PSUs.

Deferred share units ("**DSUs**"):

The Company issued DSUs to its directors as remuneration. The DSUs are cash-settled instruments and are accounted for as a financial liability and recognized in accounts payable and accrued liabilities on the consolidated statements of financial position. The liability is remeasured at each reporting period based on the closing trading price of the Company's shares listing on the TSX. The DSUs vest on the grant date and are recognized as an expense in the period in which they are granted, with changes resulting from fair value remeasurements recognized at each reporting period in profit and loss. The DSUs are settled upon the departure of the directors.

(Expressed in thousands of Canadian Dollars, unless otherwise noted)

17. Share Based Compensation (continued)

Use of Estimates:

Significant estimates are used to determine the fair value of stock options issued to various employees of the Company, the table below shows the estimates and assumptions used in applying the Black-Scholes option pricing model for options granted during the year ending June 30:

	2020	2019
Share price	$ 0.30-1.41	$ 1.47 - 2.25
Expected dividend yield	0.00%	0.00%
Stock price volatility	70.63%-79.68%	54.73% - 84.70%
Expected life of options	5 years	5 years
Forfeiture rate	1%	0% - 1%
Risk free rate	0.41%-1.58%	1.58% - 2.41%

Significant estimates are used to determine the fair value of PSUs and PDSUs issued to certain employees of the Company, the table below shows the estimates and assumptions used in applying the Monte Carlo simulation method for PSUs and PDSUs outstanding as at June 30, 2020:

	June 30, 2020
Share price	$ 0.26
Expected dividend yield	0.00%
Stock price volatility	73.80%
Expected life of instruments	2 years
Forfeiture rate	0%
Risk free rate	0.30%

Significant estimates are used to determine the fair value of replacement stock options issued as part of the BlissCo acquisition, the table below shows the estimates and assumptions used in applying the Black-Scholes option pricing model for replacement options granted on BlissCo's acquisition date of July 11, 2019:

	June 30, 2020
Share price	$ 1.37
Expected dividend yield	0.00%
Stock price volatility	70.00%
Expected life of options	4.48 years
Forfeiture rate	1%
Risk free rate	1.60%

(Expressed in thousands of Canadian Dollars, unless otherwise noted)

17. Share Based Compensation (continued)

Explanatory Information:

a) Stock Option Issuances:

During the year ended June 30, 2020 the Company granted 3,260,000 incentive stock options to employees as follows:

Grant Date	# of options	Expiry Date	Share price at the time of grant	Exercise price	Vesting Period
July 22, 2019	810,000	July 22, 2024	$ 1.41	$ 1.50	3 years (1/3rd vesting each of the first 3 years)
August 9, 2019	650,000	August 9, 2024	$ 1.35	$ 1.35	3 years (1/3rd vesting each of the first 3 years)
October 11, 2019	100,000	October 11, 2024	$ 0.90	$ 0.95	3 years (1/3rd vesting each of the first 3 years)
January 20, 2020	850,000	January 20, 2025	$ 0.59	$ 0.60	3 years (1/3rd vesting each of the first 3 years)
April 29, 2020	850,000	April 29, 2025	$ 0.30	$ 0.30	3 years (1/3rd vesting each of the first 3 years)

Additionally, as part of the BlissCo acquisition, the Company issued a total of 1,244,476 replacement option agreements to various employees and directors of BlissCo, as follows:

Grant Date	# of options	Expiry Date	Share price at the time of grant	Exercise price	Vesting Period
February 23, 2018	692,800	February 22, 2023	$ 1.37	$ 1.25	3 years (1/3rd vesting each of the first 3 years)
June 8, 2018	88,800	June 7, 2023	$ 1.37	$ 1.38	Already vested pre-acquisition
July 6, 2018	68,400	July 5, 2023	$ 1.37	$ 1.58	3 years (1/3rd vesting each of the first 3 years)
September 18, 2018	19,200	September 17, 2023	$ 1.37	$ 1.69	3 years (1/3rd vesting each of the first 3 years)
October 22, 2018	19,200	October 21, 2023	$ 1.37	$ 1.31	3 years (1/3rd vesting each of the first 3 years)
October 24, 2018	33,600	October 23, 2023	$ 1.37	$ 1.31	3 years (1/3rd vesting each of the first 3 years)
October 24, 2018	192,000	October 23, 2028	$ 1.37	$ 1.31	3 years (1/3rd vesting each of the first 3 years)
November 5, 2018	30,876	November 4, 2023	$ 1.37	$ 1.54	Vested Immediately
February 19, 2019	37,200	February 18, 2024	$ 1.37	$ 1.67	1/6th vested immediately; rest semi-annually over 3 years
February 22, 2019	50,400	August 22, 2021	$ 1.37	$ 1.58	1/6th vested immediately; rest semi-annually over 3 years
March 5, 2019	12,000	March 4, 2024	$ 1.37	$ 1.46	1/6th vested immediately; rest semi-annually over 3 years

(Expressed in thousands of Canadian Dollars, unless otherwise noted)

17. Share Based Compensation (continued)

Explanatory Information (continued):

b) Stock Option exercises and cancellations:

During the year ended June 30, 2020, there were 501,068 (June 30, 2019: 361,666) common share issuances upon exercise of stock options generating proceeds of $231 (June 30, 2019: $284), and 9,061,660 (June 30, 2019: 1,206,300) stock options forfeited or cancelled in the period then ended. The weighted average share price at the date of exercise for stock options exercised during the year ending June 30, 2020 was $0.98 (June 30, 2019: $2.00).

As at June 30, 2020, the Company had 19,521,315 (June 30, 2019: 24,579,567) stock options outstanding as follows, of which 13,605,482 (June 30, 2019: 17,648,178) were exercisable at June 30, 2020:

	Options Outstanding	Weighted Average Exercise Price
Outstanding, June 30, 2018	24,107,533	$ 1.54
Granted	2,040,000	2.03
Exercised	(361,666)	(0.79)
Expired / Forfeited	(1,206,300)	(1.07)
Outstanding, June 30, 2019	24,579,567	$ 1.62
Granted	4,504,476	1.02
Exercised	(501,068)	(0.46)
Expired / Forfeited	(9,061,660)	(1.61)
Outstanding, June 30, 2020	**19,521,315**	**$ 1.51**

The stock options outstanding are as follows:

Exercise Price	Expiry Date	Number of Options	Weighted Average Remaining Life (years)
$0.50	January 10, 2021	555,000	0.53
$0.75	April 25, 2021	800,000	0.82
$0.75	August 29, 2021	1,992,415	1.16
$2.00	December 15, 2026	3,800,000	6.46
$1.45	September 25, 2022	1,785,000	2.24
$3.05	January 5, 2023	500,000	2.52
$1.80	March 29, 2028	4,157,500	7.75
$1.80	May 15, 2023	300,000	2.87
$1.70	June 25, 2023	400,000	2.99
$1.50	August 23, 2023	225,000	3.15
$2.05	October 17, 2023	20,000	3.30
$1.50	January 2, 2024	25,000	3.51
$1.80	February 14, 2024	75,000	3.63
$2.05	March 5, 2024	300,000	3.68
$2.30	April 1, 2024	910,000	3.76
$1.67	February 18, 2024	6,000	3.64
$1.38	June 7, 2023	45,600	2.94
$1.25	February 22, 2023	345,600	2.65
$1.31	October 21, 2023	19,200	3.31
$1.50	July 22, 2024	810,000	4.06
$1.35	August 9, 2024	650,000	4.11
$0.95	October 11, 2024	100,000	4.28
$0.60	January 20, 2025	850,000	4.56
$0.30	April 29, 2025	850,000	4.83
		19,521,315	**4.54**

(Expressed in thousands of Canadian Dollars, unless otherwise noted)

17. Share Based Compensation (continued)

Explanatory Information (continued):

c) RSU Issuances:

During the year ended June 30, 2020 the Company granted 8,897,007 (June 30, 2019: nil) RSU's to various employees as follows:

Grant Date	Fully Vesting Date	# of RSUs
July 22, 2019	July 22, 2021	2,523,183
August 9, 2019	August 9, 2021	386,120
October 11, 2019	October 11, 2021	522,340
November 19, 2019	November 19, 2021	796,590
January 20, 2020	January 20, 2022	1,003,202
February 18, 2020	May 18, 2020	46,053
February 18, 2020	June 30, 2020	1,629,605
February 18, 2020	March 31, 2021	131,579
April 20, 2020	July 1, 2020	125,000
April 29, 2020	July 29, 2020	1,066,667
June 30, 2020	June 30, 2020	666,667

The RSUs were valued at the stock price on the date of issuance, adjusted for a forfeiture rate of 10%. All RSUs vest quarterly over a period of two years, with the exception of the following: 46,053 RSUs granted on February 18, 2020 fully vest within 3 months of grant date; 1,629,605 RSUs granted on February 18, 2020 fully vest on June 30, 2020 and 131,579 RSUs granted on February 18, 2020 vest quarterly over twelve months, starting from April 1, 2020; 125,000 RSUs granted on April 20, 2020 fully vest on July 1, 2020; 666,667 RSUs granted on June 30, 2020 fully vested immediately. All RSUs are equity settled instruments. During the year ended June 30, 2020 the Company recognized an expense of $4,024 (June 30, 2019: $nil) related to the RSU issuances, net of cancellations.

d) PSU Issuances:

During the year ended June 30, 2020, the Company issued, net of cancellations, 1,200,275 PSUs to various employees of the Company. These PSUs are cash settled and vest over three years. During the year ended June 30, 2020, the Company recognized a share-based payment expense of $9 (June 30, 2019: $nil). As at June 30, 2020, the liability recognized related to PSUs is $10 (June 30, 2019: $nil), which is recorded in other long-term liabilities on the statement of financial position.

e) PDSU Issuances:

On July 22, 2019 the Company issued 837,930 PDSUs to a certain employee of the Company, which were subsequently canceled in the same period. These PDSUs are cash settled and vest over three years. During the year ended June 30, 2020, the Company recognized a share-based payment expense of $nil (June 30, 2019: $nil). As at June 30, 2020, the liability recognized related to PDSUs is $nil (June 30, 2019: $nil), which is recorded in other long-term liabilities on the statement of financial position.

f) DSU Issuances:

During year ended June 30, 2020, the Company issued 317,350 DSUs to directors of the Company. These DSUs are cash settled and they vest immediately upon issuance. During the year ended June 30, 2020, the Company recognized a share-based payment expense of $81 (June 30, 2019: $nil). As at June 30, 2020, the liability recognized related to DSUs is $81 (June 30, 2019: $nil), which is recorded in accounts payable and accrued liabilities on the statement of financial position.

(Expressed in thousands of Canadian Dollars, unless otherwise noted)

17. Share Based Compensation (continued)

Explanatory Information (continued):

g) RSU, PSU, PDSU, DSU exercice and cancellations:

During the year ended June 30, 2020, there were no PSU, PDSU, and DSU conversions. During the year ended June 30, 2020, there were 190,638 RSU conversions and 974,194 RSUs were forfeited or cancelled.

As at June 30, 2020, the Company had 7,732,175 RSUs outstanding as follows:

	RSUs Outstanding
Outstanding and exercisable, June 30, 2018	-
Granted	-
Exercised	-
Expired / Forfeited	-
Outstanding and exercisable, June 30, 2019	-
Granted	8,897,007
Exercised	(190,638)
Expired / Forfeited	(974,194)
Outstanding and exercisable, June 30, 2020	**7,732,175**

As at June 30, 2020 the Company also had 1,200,275, nil and 317,350 of PSU, PDSU and DSU units outstanding, respectively.

18. Share Capital

Accounting Policy:

Loss per share – The Company presents basic and diluted loss per share data for its common shares. Basic earnings per share is calculated by dividing the profit or loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted earnings per share is determined by adjusting the profit or loss attributable to common shareholders and the weighted average number of common shares outstanding, for the effects of all dilutive potential common shares, which comprise warrants and share options issued. Items with an anti-dilutive impact are excluded from the calculation.

Explanatory Information:

Authorized share capital:

Unlimited number of voting common shares

10,000,000 Class “A” preference shares

10,000,000 Class “B” preference shares

Share Capital: Common shares issued and outstanding

On June 30, 2020 the Company had 359,993,342 common shares issued and outstanding.

During the year ended June 30, 2020 the Company issued 14,346,089 (June 30, 2019: 16,148,712) common shares as a result of warrant exercises, 501,068 (June 30, 2019: 361,666) as a result of option exercises, and 190,638 (June 30, 2019: nil) as a result of restricted share unit conversions. The Company also issued 38,134,117 (June 30, 2019: 1,075,269) shares in connection with business acquisitions completed in the year ended June 30, 2020, as described in Note 3.

(Expressed in thousands of Canadian Dollars, unless otherwise noted)

18. Share Capital (continued)

Explanatory Information (continued):

On April 24, 2020, the Company established an at-the-market ("ATM") Program that allows the Company to issue and sell up to $9,750 of common shares in the capital of the Company from treasury to the public, from time to time, at the Company's discretion. During the year ended June 30, 2020, the Company issued 5,270,000 shares under the ATM program for net proceeds of $1,680.

During the year ended June 30, 2019, the Company had issued 5,745,000 shares in connection to its Agreement with KKE, as described in Note 12C.

Share Capital: Share purchase warrants

During the year ended June 30, 2020, various warrant holders exercised 14,346,089 (June 30, 2019: 16,148,712) warrants generating proceeds of $7,199 (June 30, 2019: $13,028), of which $250 was received prior to July 1, 2019 as 500,000 warrants had been exercised but the related shares were not issued until after July 1, 2019. Additionally, during the year ended June 30, 2020, 24,567,183 (June 30, 2019: 105,732) warrants expired.

Additionally, as part of the BlissCo acquisition, the Company issued a total of 4,516,701 replacement warrants, as follows:

Exercise Price		Expiry Date	Number of Warrants
$	2.50	February 23, 2020	2,084,171
$	2.50	February 25, 2020	15,964
$	1.04	July 21, 2020	2,416,566
			4,516,701

On June 30, 2020, the Company had 14,700,766 share purchase warrants outstanding as follows:

	Warrants Outstanding		Weighted Average Exercise Price
Outstanding, June 30, 2018	65,351,781	$	1.12
Exercised	(16,148,712)		(0.80)
Exercised, pending share issuance	(500,000)		(0.50)
Expired	(105,732)		(0.50)
Outstanding, June 30, 2019	48,597,337	$	1.24
Issued as part of business combination	4,516,701		1.72
Exercised	(13,846,089)		(0.50)
Expired	(24,567,183)		(1.47)
Outstanding, June 30, 2020	**14,700,766**	**$**	**1.68**

The warrants outstanding are exercisable as follows:

Exercise Price		Expiry Date	Number of Warrants	Weighted Average Remaining Life (years)
$	1.80	November 14, 2020	12,332,200	0.31
$	1.04	July 21, 2020	2,368,566	0.01
			14,700,766	**0.32**

Reserves:

Reserves are comprised of share-based payments, the equity component of convertible debt, RSUs and initial fair value of warrants, offset by the exercise of these instruments.

(Expressed in thousands of Canadian Dollars, unless otherwise noted)

19. Related Party Transactions

The remuneration awarded to directors and executives for the year ended June 30, 2020, includes the following:

For the year ended		June 30, 2020		June 30, 2019
Share based payments	$	5,090	$	6,151
Salaries and wages		3,974		3,772
	$	**9,064**	**$**	**9,923**

Note 4 discusses additional related party transactions related to the Company's investment in Supreme Heights.

20. Income Taxes

Accounting Policy:

Income tax expense consists of current and deferred tax expense. Current and deferred tax are recognized in profit or loss except to the extent that it relates to items recognized directly in equity or other comprehensive income.

Current tax is recognized and measured at the amount expected to be recovered from or payable to the taxation authorities based on the income tax rates enacted or substantively enacted at the end of the reporting period and includes any adjustment to taxes payable in respect of previous years.

Deferred tax is recognized on any temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable earnings. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the asset is realized, and the liability is settled. The effect of a change in the enacted or substantively enacted tax rates is recognized in net earnings, comprehensive income or in equity depending on the item to which the adjustment relates.

Deferred tax assets are recognized to the extent future recovery is probable. At each reporting period end, deferred tax assets are reduced to the extent that it is no longer probable that sufficient taxable earnings will be available to allow all or part of the asset to be recovered.

Use of Estimates:

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.

Explanatory Information:

The reconciliation of the combined Canadian federal and provincial statutory income tax rate of 26.5% (2019 – 26.5%) to the effective tax rate is as follows:

(Expressed in thousands of Canadian Dollars, unless otherwise noted)

20. Income Taxes (continued)

Explanatory Information (continued):

	2020	2019
Net loss before recovery of income taxes	**$ (147,710)**	$ (12,065)
Expected income tax (recovery) expense	**$ (39,143)**	$ (3,183)
Share based compensation and non-deductible expenses	**11,376**	2,134
Tax rate difference	**(61)**	-
Change in tax benefits not recognized	**19,538**	3,481
Income tax (recovery) expense	**$ (8,290)**	$ 2,432
The Company's income tax (recovery) is allocated as follows:		
Deferred tax (recovery) expense	**(8,290)**	2,432
	$ (8,290)	$ 2,432

Deferred tax:

The following table summarizes the components of deferred tax:

Deferred tax assets	2020	2019
Non-capital losses and farm losses carried forward	**$ 35,252**	$ **4,952**
Property, plant and equipment	**3,195**	**92**
Intangibles	**1,448**	**284**
General Reserves	**6**	**21**
Deferred Financing Costs	**1,093**	**1,610**
Capital lease	**122**	**-**
Unpaid severance	**212**	**-**
Short term investments	**1,331**	**(273)**
Capital loss carried forward	**33**	**-**
Prepaid expenses	**302**	**-**
Deferred tax liabilities		
Property, plant and equipment	**(7,209)**	**(2,159)**
Biological assets	**(8,198)**	**(5,991)**
Convertible debt	**(3,908)**	**(6,341)**
Tax benefits not recognized	**(28,413)**	**-**
Net deferred tax liability	**$ (4,734)**	$ **(7,805)**

Deferred tax assets and liabilities have been offset where they relate to income taxes levied by the same taxation authority and the Company has the legal right and intent to offset.

(Expressed in thousands of Canadian Dollars, unless otherwise noted)

20. Income Taxes (continued)

Explanatory Information (continued):

	2020	2019
Balance at the beginning of the year	$ 7,805	$ -
Acquisition - purchase accounting	5,227	-
Recognized in profit/loss	(8,290)	2,432
Recognized in OCI	-	16
Recognized in equity	(8)	5,357
Balance at the end of the year	$ 4,734	$ 7,805

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

	2020	2019
Capital losses carried forward	$ 250	$ 250
Non-capital losses carried forward - Canada	91,720	24,402
Other deductible temporary difference	20,191	852

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

For the fiscal year ending June 30, 2020	2020	2019
2027	$ 204	$ 204
2028	27	27
2029	110	110
2030	160	160
2031	323	323
2032	195	195
2033	192	192
2034	1,324	1,324
2035	3,412	3,412
2036	2,784	2,784
2037	9,973	9,973
2038	11,310	11,310
2039	29,366	29,366
2040	73,427	-
	$ 132,807	$ 59,380

21. Financial Risk Management and Financial Instruments

Accounting Policy:

Recognition and derecognition:

The Company initially recognizes cash, bank advances, accounts receivable, debt securities, and accounts payable and accrued liabilities on the date they originate. All other financial assets and financial liabilities are initially recognized on the trade date when we become a party to the contractual provisions of the instrument.

The Company derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Company is recognized as a separate asset or liability. The Company derecognizes a financial liability when its contractual obligations are discharged or cancelled or expire.

Classification and measurement:

The Company measures financial instruments by grouping them into classes upon initial recognition, based on the purpose of the individual instruments. The Company initially measures all financial instruments at fair value plus, in the case of financial instruments not classified as FVTPL, transaction costs that are directly attributable to the acquisition or issuance of the financial instruments.

The classifications and methods of measurement subsequent to initial recognition of the Company's financial assets and financial liabilities are as follows:

The Company classifies its financial assets as amortized cost, FVTPL or FVOCI. The Company classifies its financial liabilities as amortized cost. Cash is classified as FVTPL, accounts receivables as amortized cost, investments as FVTPL or FVOCI. Accounts payable, accrued liabilities, current portion of long-term debt, long-term debt and convertible debt are classified as amortized cost.

Impairment of financial assets:

The Company considers the credit risk of a financial asset at initial recognition and at each reporting period thereafter until it is derecognized. Accounts receivable impairment is measured based on the lifetime expected credit losses.

Offsetting financial assets and financial liabilities:

The Company offsets financial assets and financial liabilities and presents the net amount on the consolidated statements of financial position when the Company has a legal right to offset them and intend to settle on a net basis or realize the asset and liability simultaneously.

Use of Estimates:

Financial instruments measured at fair value are classified into one of the levels in the fair value hierarchy according to the relative reliability of the inputs used to estimate the fair values. The three levels of the fair value hierarchy are:

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;

Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and

Level 3 – Inputs that are not based on observable market data.

Use of Judgments:

The Company makes judgements related to the classification of financial instruments and whether impairment indicators exist for financial instruments not carried at fair value. The judgements are based on the Company's expected use of the financial instrument and internal and external factors with respect to impairment indicators.

(Expressed in thousands of Canadian Dollars, unless otherwise noted)

21. Financial Risk Management and Financial Instruments (continued)

Explanatory Information:

For the year ended June 30, 2020, the Company has recognized a realized loss from investments classified as FVTPL of $680 (June 30, 2019: $nil) due to the deemed disposal of its investment in BlissCo. For the year ended June 30, 2020, the Company recognized unrealized loss on investments classified as FVTPL of $nil (June 30, 2019: $1,128). The unrealized gains / losses were determined using Level 1 and Level 2 inputs.

The Company has also recognized a loss from its investments classified as FVOCI of $10,997, net of tax (June 30, 2019: $105), which was determined using Level 3 inputs.

The Company's cash and restricted cash is based on Level 1 inputs.

The Company's risk exposures and the impact on the Company's financial instruments are summarized below:

Credit risk:

Credit risk is the risk of loss associated with a counterparty's inability to fulfill its payment obligations. Financial instruments that potentially subject the Company to concentrations of credit risks consist principally of cash, restricted cash and receivables. To minimize the credit risk the Company places cash and restricted cash with a high credit quality financial institution in Canada, for receivables, the Company evaluates the credit worthiness of the counterparty before credit is granted. As at June 30, 2020 a total of $725 (June 30, 2019: $2,385) of trade accounts receivable were considered overdue. As discussed in Note 16 – Long-term Debt, the Company is required to maintain a restricted cash balance of $6,300, as part of security for the Credit Facility.

At June 30, 2020, the Company has estimated the expected loss allowance using the lifetime credit loss approach to estimate bad debt expense to be $33 (June 30, 2019: $103) on its outstanding accounts receivable. In addition, during the year ended June 30, 2020, the Company recorded a specific provision of $2,182 related to an uncollectable accounts receivable balance from a specific customer. The Company's aging of its trade accounts receivable is as follows:

Trade Accounts Receivable Aging		Current	1-30 days	31-60 days	61-90 days	91-120+ days	Total
As at June 30, 2020	$	6,663	62	114	440	109	7,388
As at June 30, 2019	$	19,651	349	-	2,036	-	22,036

Liquidity risk:

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they come due. The Company typically settles its financial obligations out of cash and occasionally will settle liabilities with the issuance of common shares. The ability to settle obligations with cash relies on the Company raising funds in a timely manner and by maintaining sufficient cash in excess of anticipated needs. As at June 30, 2020, the Company had a cash balance of $28,419 (June 30, 2019: $54,822) and current liabilities of $19,939 (June 30, 2019: $31,947).

The Company estimates that its current resources are sufficient to settle its current liabilities. All the Company's liabilities are due within one year, other than the October 2018 Convertible Debenture, long-term portion of KKE royalty payments, long-term portion of lease liabilities, long-term portion of borrowings under the Credit Facility and deferred tax liability.

Interest rate risk:

The Company is subject to interest rate risk on future cash flows due to variability of interest rates of the Company's Credit Facility. An increase or decrease of interest rates by 50 basis points would result in an approximately $330 impact on the Company's borrowing costs on an annual basis.

21. Financial Risk Management and Financial Instruments (continued)

Explanatory Information (continued):

Capital management:

Capital is comprised of the Company's shareholders' equity and any debt it may issue, other than trade payables in the normal course of operations. As at June 30, 2020, the Company's shareholders' equity was $132,441 (June 30, 2019: $210,972) and liabilities other than trade payable and accruals were $165,897 (June 30, 2019: $93,200).

At June 30, 2020, the Company's Credit Facility comprised of a term loan of $70,000 and a revolving credit facility of $20,000. At June 30, 2020, the Company had $24,000 available under the Credit Facility. The Company has $6,300 of restricted cash which is held as security by the lenders of the Company's Credit Facility.

The Company's objective when managing capital is to safeguard its accumulated capital in order to provide adequate return to shareholders by maintaining a sufficient level of funds in order to support its ongoing activities. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business.

Management reviews its capital management approach on an ongoing basis and believes that this approach is reasonable. The Company is dependent on external financing to fund its activities. The Company will spend its existing working capital on operations, development of infrastructure and raise additional amounts as needed.

The Company is subject to certain covenants under the Credit Facility, discussed in Note 16 – Long-term debt and Note 22 – Subsequent Events. As at June 30, 2020, the Company was in compliance with the covenants under the Credit Agreement.

There have been no changes in the Company's approach to capital management during the year ended June 30, 2020.

22. Subsequent Events

Partial Conversion of October 2018 Convertible Debentures

On August 31, 2020, the Company obtained approval from the requisite majority holders (the "**Debenture Holders**") of the Company's outstanding October 2018 Convertible Debentures ("**Debentures**") to amend the terms of the Debentures.

The Company reduced the principal amount of the Debentures by $63,500 in exchange for the issuance of 116,600,000 common shares. Holders of the Debentures resident in eligible jurisdictions will receive half of the common shares as free-trading shares, and the other half of the common shares will be subject to a four-month restricted period. Holders of the Debentures resident in other jurisdictions will be entitled to receive shares subject to restricted periods, subject to applicable securities laws.

The total principal amount of convertible Debentures outstanding will be reduced from $100,000 to $36,500 and the maturity date will be extended from October 19, 2021 to September 1, 2025. The remaining Debentures will accrete at a rate of 11.06% per annum to $50,000, compounding on a semi-annual basis commencing on September 1, 2020, and ending on September 1, 2023. The accreted portion of the principal is payable in cash but does not bear cash interest and is not convertible into the Company's common shares. The accreted portion of the principal will be evidenced by a separate series of debentures, which will not be listed on the Toronto Stock Exchange.

22. Subsequent Events (continued)

The conversion price of the remaining convertible Debentures outstanding will be reduced from $2.45 per share to $0.285 per share ("**Conversion Price**") and annual interest payments will be reduced to $2,920 from $6,000. The Company will have the right to force the conversion of the remaining principal amount of the convertible Debentures outstanding at the Conversion Price on not less than 30 days' notice if the daily volume weighted average trading price of the Company's common shares is greater than $0.45 for any 10 consecutive trading days. The principal amount of the remaining Debentures will amortize at 1.0% per month over the 24 months prior to maturity.

Termination of KKE Agreement

Subsequent to June 30, 2020, the Company and KKE mutually agreed to terminate the Agreement entered on December 6, 2018. As part of the settlement, the Company settled the outstanding Royalty Payments for Product Licence, as described in Note 13 – Provisions, with a one-time payment of $150. As a result of the termination, the Company will recognize a gain of $6,828 from the derecognition of the outstanding liability.

Amendments to Credit Facility

On September 21, 2020, under the terms of the Credit Facility Amendment, the Company secured a deferral of its financial covenants related to fixed charge coverage ratio and funded debt to earnings before interest, taxes, depreciation and amortization ratio by 12 months to begin in the quarter ending March 31, 2022. New covenants regarding minimum liquidity and earnings before interest, taxes, depreciation and amortization will be tested in the interim. In addition, the Company has agreed to a 75 basis point increase in the applicable interest rate margin on the Credit Facility to reflect current industry dynamics. The requirement for a minimum restricted cash balance has been removed and that balance has been used to repay a portion of the term loan outstanding. With the Credit Facility Amendment, the Credit Facility remains with a three-year term and has an amended term loan of $57,200 and a revolving credit facility limit of $7,000.

Option Cancellations

Subsequent to June 30, 2020, the Company cancelled 10,581,657 stock options that had been issued to various employees and directors of the Company.

Warrants Expired

Subsequent to the year ended June 30, 2020, 2,368,566 warrants that were previously issued with an exercise price of $1.04 expired on July 21, 2020.

Restricted Share Unit Issuance

On July 23, 2020 the Company issued 10,714 restricted share units to an employee of the Company. The restricted share units will vest on a quarterly basis over two years.

Restricted Share Unit Conversions

Subsequent to June 30, 2020, restricted share unit holders exercised 1,335,660 restricted share units.

Restricted Share Unit Cancellations

Subsequent to June 30, 2020, the Company cancelled 100,000 restricted share units.

TSX : FIRE

The Supreme Cannabis Company, Inc.