# Columbia Care Inc.

## Financial Statements

For the three and nine months ended September 30, 2019 and September 29, 2018

(Expressed in U.S. dollars)

**COLUMBIA CARE INC.**
CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(in thousands)
(expressed in U.S. dollars)

| | Note | September 30, 2019 | December 29, 2018 |
|---|---|---|---|
| **Assets** | | | |
| Current assets: | | | |
| Cash | | $ 84,506 | $ 46,241 |
| Accounts receivable | | 880 | 904 |
| Subscription receivable | | - | 42,764 |
| Inventory | *6* | 70,479 | 62,157 |
| Biological assets | *7* | 7,754 | 4,698 |
| Prepaid expenses and other current assets | | 8,667 | 3,358 |
| Total current assets | | 172,286 | 160,122 |
| Property and equipment | *11* | 95,274 | 39,794 |
| Right of use assets | *17* | 42,156 | - |
| Restricted cash | *9* | 11,483 | 11,026 |
| Long-term deposits | *9* | 5,871 | 4,259 |
| Intangible assets | *19* | 15,965 | 16,235 |
| Other non-current assets | *9* | 13,939 | 2,491 |
| Total assets | | $ 356,974 | $ 233,927 |
| | | | |
| **Liabilities and Shareholders' Equity** | | | |
| Current liabilities: | | | |
| Accounts payable | | $ 12,290 | $ 4,028 |
| Accrued expenses | | 6,617 | 3,256 |
| Interest payable | | - | 47 |
| Payroll liabilities | | 3,848 | 2,722 |
| Current portion of lease liability | *17* | 5,804 | - |
| Current portion of long-term debt | *8* | - | 4,277 |
| Other current liabilities | | 570 | 979 |
| Total current liabilities | | 29,129 | 15,309 |
| | | | |
| Deferred taxes | | 4,074 | 4,362 |
| Deferred compensation | *15* | - | 9,805 |
| Long-term lease liability | *17* | 38,029 | - |
| Other long-term liabilities | | 150 | 762 |
| Total liabilities | | 71,382 | 30,238 |
| | | | |
| Shareholders' equity: | | | |
| Equity attributable to Columbia Care Inc. | | 284,742 | 202,752 |
| Non-controlling interest | | 850 | 937 |
| Total shareholders' equity | | 285,592 | 203,689 |
| Total liabilities and shareholders' equity | | $ 356,974 | $ 233,927 |

Operations of the Company and going concern (Note 1)
Commitments and contingencies (Note 17)

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

**COLUMBIA CARE INC.**
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS
(in thousands, except for share and per share amounts)
(expressed in U.S. dollars)

| | Note | Three Months Ended | | Nine Months Ended | |
|---|---|---|---|---|---|
| | | September 30, 2019 | September 29, 2018 | September 30, 2019 | September 29, 2018 |
| Revenues, net | | $ 22,120 | $ 9,925 | $ 54,287 | $ 28,345 |
| Production costs | | (16,830) | (6,189) | (39,167) | (15,821) |
| Gross profit before fair value adjustments | | 5,290 | 3,736 | 15,120 | 12,524 |
| Fair value adjustments: | | | | | |
| Change in fair value of biological assets included in inventory sold | *7* | (21,992) | (5,215) | (45,221) | (31,454) |
| Unrealized gain on changes in fair value of biological assets and inventory | *7* | 32,381 | 12,790 | 48,811 | 36,648 |
| Total fair value adjustments | | 10,389 | 7,575 | 3,590 | 5,194 |
| Gross margin | | 15,679 | 11,311 | 18,710 | 17,718 |
| Operating expenses: | | | | | |
| Selling, general and administrative | | 20,669 | 9,146 | 59,403 | 23,715 |
| Share-based compensation | *15* | 13,150 | 5,910 | 24,539 | 8,518 |
| Listing fee expense | *5* | - | - | 11,071 | - |
| Total operating expenses | | (33,819) | (15,056) | (95,013) | (32,233) |
| Loss from operations | | (18,140) | (3,745) | (76,303) | (14,515) |
| Other expense: | | | | | |
| Interest expense, net | | (350) | (1,662) | (1,175) | (3,227) |
| Other (expense) income, net | | (108) | (2) | 999 | (358) |
| Total other expense | | (458) | (1,664) | (176) | (3,585) |
| Loss before provision for income taxes | | (18,598) | (5,409) | (76,479) | (18,100) |
| Income tax (expense) benefit | | (1,264) | 95 | (2,233) | (1,141) |
| Net loss and comprehensive loss | | (19,862) | (5,314) | (78,712) | (19,241) |
| Net loss attributable to non-controlling interests | | (1,599) | (368) | (1,947) | (835) |
| Net loss attributable to shareholders | | $ (18,263) | $ (4,946) | $ (76,765) | $ (18,406) |
| | | | | | |
| Weighted-average number of shares used in earnings per share - basic and diluted | | 216,269,530 | 163,352,801 | 207,729,060 | 161,564,898 |
| Earnings attributable to shares (basic and diluted) | | $ (0.08) | $ (0.03) | $ (0.37) | $ (0.11) |

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

**COLUMBIA CARE INC.**
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(in thousands)
(expressed in U.S. dollars)

| | Share Capital | | | Treasury Shares | | | | Total Columbia Care Inc. | | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| | Units | Shares | Amount | Shares | Amount | Reserves | Deficit | Shareholders' Equity | Non-Controlling Interest | Shareholders' Equity |
| **Balance as of December 30, 2017** | **12,230,853** | **-** | **$ 81,954** | **-** | **$ -** | **$ 13,643** | **$ (27,645)** | **$ 67,952** | **$ (3,431)** | **$ 64,521** |
| Private placements | 489,155 | - | 39,465 | - | - | - | - | 39,465 | - | 39,465 |
| Debt conversion and settlement | 83,345 | - | 5,807 | - | - | - | - | 5,807 | - | 5,807 |
| Warrants issued with debt | - | - | - | - | - | 4,269 | - | 4,269 | - | 4,269 |
| Warrants exercised | 12,820 | - | 541 | - | - | (541) | - | - | - | - |
| Unit issuance costs | 1,868 | - | (894) | - | - | - | - | (894) | - | (894) |
| Acquisition of Mission Bay | - | - | - | - | - | - | (2,361) | (2,361) | 361 | (2,000) |
| Equity-based compensation | - | - | - | - | - | 4,826 | - | 4,826 | - | 4,826 |
| Equity component of convertible debt | - | - | 391 | - | - | - | - | 391 | - | 391 |
| Units issued for intangible asset | 12,413 | - | 1,000 | - | - | - | - | 1,000 | 4,870 | 5,870 |
| Net loss | - | - | - | - | - | - | (18,406) | (18,406) | (835) | (19,241) |
| **Balance as of September 29, 2018** | **12,830,454** | **-** | **$ 128,264** | **-** | **$ -** | **$ 22,197** | **$ (48,412)** | **$ 102,049** | **$ 965** | **$ 103,014** |
| | | | | | | | | | | |
| **Balance as of December 29, 2018** | **14,449,736** | **-** | **$ 245,658** | **-** | **$ -** | **$ 25,897** | **$ (68,803)** | **$ 202,752** | **$ 937** | **$ 203,689** |
| Debt conversion and settlement | 27,561 | - | 2,537 | - | - | - | - | 2,537 | - | 2,537 |
| Warrants exercised | 159,325 | - | - | - | - | 2 | - | 2 | - | 2 |
| Unit issuance costs | 2,490 | - | - | - | - | - | - | - | - | - |
| Equity-based compensation | - | - | - | - | - | 19,036 | - | 19,036 | - | 19,036 |
| Conversion of units and profit interests | (14,639,112) | 196,901,118 | - | - | - | - | - | - | - | - |
| Issuance of shares in connection with private placement | - | 19,077,096 | 111,339 | - | - | 19,925 | - | 131,264 | - | 131,264 |
| Share issuance costs | - | - | (5,598) | - | - | - | - | (5,598) | - | (5,598) |
| Issuance of shares | - | 85,354 | - | - | - | - | - | - | - | - |
| Reclass of deferred compensation to equity | - | - | - | - | - | 15,308 | - | 15,308 | - | 15,308 |
| Minority buyouts | - | 621,239 | - | - | - | - | (1,860) | (1,860) | 1,860 | - |
| Cancellation of restricted stock awards | - | (108,245) | - | - | - | - | - | - | - | - |
| Repurchase of shares | - | (236,900) | (1,015) | 140,952 | (919) | - | - | (1,934) | - | (1,934) |
| Net loss | - | - | - | - | - | - | (76,765) | (76,765) | (1,947) | (78,712) |
| **Balance as of September 30, 2019** | **-** | **216,339,662** | **$ 352,921** | **140,952** | **$ (919)** | **$ 80,168** | **$ (147,428)** | **$ 284,742** | **$ 850** | **$ 285,592** |

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

**COLUMBIA CARE INC.**
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)
(expressed in U.S. dollars)

| | Nine Months Ended | |
|---|---|---|
| | **September 30, 2019** | **September 29, 2018** |
| **Cash flows from operating activities:** | | |
| Net loss | $ (78,712) | $ (19,241) |
| Adjustments to reconcile net loss to net cash provided by (used in) operating activities: | | |
| Depreciation and amortization | 10,260 | 3,386 |
| Equity-based compensation | 19,036 | 4,826 |
| Deferred compensation | 5,503 | 3,692 |
| Change in fair value of derivative liability | - | 26 |
| Debt amortization expense | 18 | 1,490 |
| Non-cash interest expense | - | 534 |
| Listing expense | 11,071 | - |
| Change in fair value of biological assets | (3,590) | (5,194) |
| Deferred taxes | (288) | - |
| Provision for obsolete inventory | 1,091 | - |
| Loss on disposal of property and equipment | 106 | 332 |
| Changes in operating assets and liabilities | | |
| Accounts receivable | 27 | (39) |
| Biological assets | 534 | 4,544 |
| Inventory | (9,413) | (9,221) |
| Prepaid expenses and other current assets | (3,597) | (728) |
| Other assets | (55,594) | (127) |
| Accounts payable, accrued expenses and other current liabilities | 8,887 | (755) |
| Other long-term liabilities | 41,035 | (532) |
| Net cash used in operating activities | (53,626) | (17,007) |
| **Cash flows from investing activities:** | | |
| Purchases of property and equipment | (51,806) | (10,423) |
| Cash paid in escrow under Corsa Verde agreement | (1,122) | - |
| Cash paid for option deposit under Corsa Verde agreement | (125) | - |
| Issuance of note receivable | (2,420) | - |
| Purchase of Mission Bay | - | (2,000) |
| Purchase of investments | (446) | - |
| Cash received from sale of property and equipment | - | 129 |
| Cash paid for deposits | (5,240) | - |
| Cash received from deposits | 3,040 | 5,000 |
| Net cash used in investing activities | (58,119) | (7,294) |
| **Cash flows from financing activities:** | | |
| Issuance of common shares, net of issuance costs | 114,595 | - |
| Net proceeds from issuance of common units and warrants | 42,764 | 26,307 |
| Net proceeds from issuance of debt | - | 7,760 |
| Repurchase of common shares | (1,934) | - |
| Payment of lease liabilities | (3,622) | - |
| Exercise of warrants | 2 | - |
| Repayment of debt | (1,795) | (150) |
| Net cash provided by financing activities | 150,010 | 33,917 |
| **Net increase in cash** | 38,265 | 9,616 |
| Cash at beginning of the period | 46,241 | 13,297 |
| Cash at end of period | $ 84,506 | $ 22,913 |
| **Supplemental disclosure of cash flow information:** | | |
| Cash paid for interest on other obligations | $ 115 | $ 1,283 |
| Cash paid for interest on lease obligations | $ 1,784 | $ - |
| Cash paid for income taxes | $ 2,391 | $ 3,802 |
| **Supplemental disclosure of non-cash investing and financing activities:** | | |
| Non-cash fixed asset additions within accounts payable and accrued expenses | $ 11,638 | $ 2,015 |
| Conversion of convertible debt and accrued interest to equity | $ 2,537 | $ 5,807 |
| Equity component of convertible debt | $ - | $ 391 |

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

## 1. OPERATIONS OF THE COMPANY

Columbia Care Inc. ("the Company" or "the Parent"), formerly known as Canaccord Genuity Growth Corp. ("CGGC"), was incorporated under the laws of the Province of Ontario on August 13, 2018. The Company's principal mission is to improve lives by providing cannabis-based health and wellness solutions and derivative products to qualified patients and consumers. The Company's head office and principal address is 745 Fifth Ave. Suite 1701, New York, New York 10151. The Company's registered and records office address is 666 Burrard St #1700, Vancouver, British Columbia V6C 2X8.

On April 26, 2019, the Company completed a reverse takeover ("RTO") transaction and private placement further described in Note 5. Following the transaction, the Company's common shares were listed on the Aequitas NEO exchange under the symbol "CCHW". As of the time of this report, the Company's common shares are also listed on the OTCQX Best Market under the symbol "CCHWF" and on the Frankfurt Stock Exchange under the symbol "3LP".

The Company is currently licensed to operate in 15 jurisdictions in the United States and the European Union.

## 2. BASIS OF ACCOUNTING

These condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standards ("IAS") 34, *Interim Financial Reporting*, as issued by the International Accounting Standards Board ("IASB") and should be read in conjunction with the Company's audited consolidated financial statements as of and for the year ended December 29, 2018. They do not include all the information required for a complete set of International Financial Reporting Standards ("IFRS") financial statements. However, selected explanatory notes are included to explain events and transactions deemed significant to provide an understanding of the changes in the Company's financial position and performance since its most recent annual financial statements. These financial statements are presented in U.S. dollars. The Canadian dollar serves as the functional currency of the Parent. The Company's subsidiaries all have the U.S. dollar as their functional currency.

Subsequent to the issuance of its annual consolidated financial statements as of and for the year ended December 29, 2018, the Company adopted IFRS 16 and IFRIC 23. Changes to significant accounting policies are described in Note 4.

These condensed consolidated interim financial statements were authorized for issue by the Company's board of directors on November 4, 2019.

## 3. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

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

The significant judgements made by management in applying the Company's accounting policies and the key sources of estimation uncertainty were the same as those described in the last annual consolidated financial statements, except for new significant judgements and key sources of estimation uncertainty related to the application of IFRS 16 and IFRIC 23, which are described in Note 4.

## 4. CHANGES IN SIGNIFICANT ACCOUNTING POLICIES

Except as described below, the accounting policies applied in these interim financial statements are the same as those applied in the Company's consolidated financial statements as of and for the year ended December 29, 2018.

The changes in accounting policies described below are expected to be reflected in the Company's consolidated financial statements as of and for the year ending December 31, 2019.

*IFRS 16, Leases*

IFRS 16, *Leases*, was issued by the IASB in January 2016. It replaced IAS 17, *Leases*, for reporting periods beginning on or after January 1, 2019. The Company adopted IFRS 16 retrospectively with the cumulative effect of initially applying the standard recognized at the date of initial application. Accordingly, the Company did not restate comparative information and instead recognized the cumulative effect of applying IFRS 16 as an adjustment to the opening balance sheet at the date of initial application. The Company applies the standard only to leases which were previously identified as leases under IAS 17 and IFRIC 4 in accordance with the practical expedient allowed under the standard. The Company's lease arrangements are comprised primarily of building and office leases. The adoption of this standard resulted in almost all current leases being recognized on the balance sheet, except for short-term and low-value leases. As at January 1, 2019, the Company recognized lease assets of $35,070, a corresponding lease liability of $35,737, and derecognized deferred rent of $713 and prepaid expenses of $46.

At inception of a contract, the Company assesses whether a contract conveys the right to control the use of an identified asset for a period in exchange for consideration, in which case it is classified as a lease. The Company recognizes a right-of-use asset (lease asset) and a lease liability at the lease commencement date. The asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to restore the underlying asset, less any lease incentives received. The lease asset is subsequently depreciated using the straight-line method from the commencement date to the end of the useful life of the right-of-use asset, considered to be indicated by the lease term. The lease asset is periodically adjusted for certain remeasurements of the lease liability and impairment losses (if any). The lease liability is initially measured at the present value of outstanding lease payments, discounted 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 measured at amortized cost using the effective interest method and is remeasured when there is a change in future lease payments arising from a change in an index or rate or if the Company changes its assessment of whether it will exercise a purchase, extension or termination option. A corresponding adjustment is made to the carrying amount of the right-of-use asset with any excess over the carrying amount of the asset being recognized in profit or loss. The Company has elected not to recognize lease assets and lease liabilities for short-term leases (leases with a term of 12 months or less) and leases of low-value assets. The Company recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

*IFRIC 23, Taxes*

In June 2017, the IASB issued IFRIC 23, *Uncertainty over Income Tax Treatments*, which aims to reduce diversity in how companies recognize and measure a tax liability or tax asset when there is uncertainty over income tax treatments. The standard is to be applied to the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12. The Company adopted IFRIC 23 as of January 1, 2019, with no significant impact on its condensed consolidated interim financial statements.

(in thousands, except for gram, share and per share amounts)
(expressed in U.S. dollars)

## 5. REVERSE TAKEOVER TRANSACTION

On November 21, 2018, CGGC entered into a merger agreement with Columbia Care LLC (the "Merger Agreement"). On April 26, 2019, (the "Acquisition Date") the Company completed the merger. Under the terms of the Merger Agreement, CGGC acquired 100% of the issued and outstanding ownership interests of Columbia Care LLC, which was paid via an exchange of common shares or proportionate voting shares in the capital of CGGC. Prior to the merger CGGC consolidated its common shares on a one for three basis and changed its name to Columbia Care Inc. Following the merger, Columbia Care LLC became a single-member partnership, wholly owned by the Company.

While CGGC was the legal acquirer of Columbia Care LLC, the acquisition has been treated as a reverse asset acquisition and consequently Columbia Care LLC was identified as the acquirer for accounting purposes.

As CGGC did not meet the definition of a business under IFRS prior to the RTO, the acquisition was outside the scope of IFRS 3, *Business Combinations*, and was accounted for as a share-based payment transaction in accordance with IFRS 2, *Share-based Payments* ("IFRS 2"). Under IFRS 2, the transaction was measured at the fair value of the shares deemed to have been issued by Columbia Care LLC in order for the ownership interest in the combined entity to be the same as if the transaction had taken the legal form of Columbia Care LLC acquiring 100% of CGGC. Any difference between the fair value of the shares deemed to have been issued by Columbia Care LLC and the fair value of CGGC's identifiable net assets acquired and liabilities assumed represents the value of the public listing received by Columbia Care LLC. The identifiable assets acquired and liabilities of CGGC assumed by Columbia Care LLC were based on their respective fair values at the Acquisition Date and were paid as follows:

| | | |
|---|---|---|
| **Net assets acquired** | | |
| Cash | $ | 120,193 |
| | | |
| **Consideration paid** | | |
| 19,077,096 common shares held by CGGC shareholders | $ | 111,339 |
| 5,394,945 warrants held by CGGC shareholders | | 19,925 |
| | $ | 131,264 |
| | | |
| **Value attributable to obtaining a listing status** | $ | 11,071 |

The fair value of the common shares and warrants included in the consideration paid of $131,264 was determined based on an independent valuation of the Company's shares and the percentage ownership of CGGC shareholders, on a diluted basis, on the Acquisition Date. The fair value of the warrants included in the consideration paid of $19,925 were calculated using the Black-Scholes model with the following assumptions:

| | |
|---|---|
| Expected volatility | 70% |
| Expected term (years) | 5.00 |
| Expected dividends | 0.00% |
| Risk-free interest rate | 1.52% |

Volatility was estimated by using the average historical volatility of comparable companies from a representative peer group of publicly traded cannabis companies.

(in thousands, except for gram, share and per share amounts)
(expressed in U.S. dollars)

## 6. INVENTORY

Details of the Company's inventory are shown in the table below:

| | Capitalized cost | Biological asset fair value adjustment | Carrying amount |
|---|---|---|---|
| Work-in-process - cannabis in cures and final vault | $ 3,821 | $ 16,106 | $ 19,927 |
| Finished goods - dried cannabis, concentrate and edible products | 8,996 | 33,056 | 42,052 |
| Accessories and supplies | 178 | — | 178 |
| **Carrying amount, December 29, 2018** | **$ 12,995** | **$ 49,162** | **$ 62,157** |
| | | | |
| Work-in-process - cannabis in cures and final vault | $ 4,268 | $ 14,708 | $ 18,976 |
| Finished goods - dried cannabis, concentrate and edible products | 15,265 | 35,860 | 51,125 |
| Accessories and supplies | 378 | — | 378 |
| **Carrying amount, September 30, 2019** | **$ 19,911** | **$ 50,568** | **$ 70,479** |

Inventories consist of the capitalized inventory costs and the fair value adjustment on biological assets. The capitalized cost component of inventories represents the amount of cost before any fair value adjustments transferred to inventory through unrealized fair value gains recognized on the transformation of biological assets. The biological asset fair value adjustment is exclusive of any cash outlays and represents the non-cash fair value incremental adjustment arising from the transformation of biological assets transferred to inventory as deemed cost. Together, the capitalized cost and the incremental biological asset fair value adjustments comprise the total carrying amount of inventory.

## 7. BIOLOGICAL ASSETS

Biological assets consist of actively growing cannabis plants expected to be harvested as agricultural produce. The changes in the carrying amount of the biological assets are shown in the table below:

| | |
|---|---|
| **Carrying amount, December 30, 2017** | **$ 5,453** |
| Changes in fair value less costs to sell due to biological transformation | 71,100 |
| Production costs capitalized | 3,330 |
| Transferred to inventories upon harvest | (75,185) |
| **Carrying amount, December 29, 2018** | **$ 4,698** |
| Changes in fair value less costs to sell due to biological transformation | 38,063 |
| Production costs capitalized | 2,467 |
| Transferred to inventories upon harvest | (37,474) |
| **Carrying amount, September 30, 2019** | **$ 7,754** |

The Company's biological assets consist of unharvested cannabis plants and are presented at their fair values less costs to sell up to the point of harvest. The valuation of these biological assets is obtained using a specific valuation technique where the inputs are based upon unobservable market data (Level 3 in the fair value hierarchy).

(in thousands, except for gram, share and per share amounts)
(expressed in U.S. dollars)

The valuation of biological assets is based on a market approach where fair value at the point of harvest is estimated based on future selling prices less the costs to sell at harvest. For in-process biological assets, the estimated fair value at the point of harvest is adjusted based on the plants' stage of growth, which is determined by reference to days remaining to harvest over the average growth cycle.

The Company's estimates are subject to changes that could result from volatility of market prices, unanticipated regulatory changes, harvest yields, loss of crops, changes in estimates and other uncontrollable factors that could significantly affect the future fair value of biological assets.

These estimates include the following assumptions:

i. Selling prices per gram were determined by estimating the Company's average selling price for each respective period. The Company's average selling price for the nine months ended September 30, 2019 and the year ended December 29, 2018 was $12.69 and $13.85 per gram, respectively;

ii. The stage of plant growth at which point of harvest is determined. As of September 30, 2019, and December 29, 2018, the biological assets were on average 49% and 48% completed, respectively;

iii. Selling and other fulfillment costs were determined by estimating the Company's average cost per gram, which was $2.10 and $2.27 per gram and equivalent gram of cannabis sold as of September 30, 2019 and December 29, 2018, respectively;

iv. Expected yield per plant varies by strain and is estimated through historical growing results or grower estimate if historical results are not available. The Company's average dry yield per plant as of September 30, 2019 and December 29, 2018 was 181 grams per plant and 175 grams per plant, respectively.

Significant unobservable assumptions used in the valuation of biological assets, including the sensitivities on changes in these assumptions and their effect on the fair value of biological assets, are shown in the table below:

| | | | Effect on fair value | |
|---|---|---|---|---|
| **Significant assumptions** | **Range of inputs** | **Sensitivity** | **September 30, 2019** | **December 29, 2018** |
| Selling price per gram | $5.52 to $72.28 per gram* | Increase by $1.00 per gram | $ 650 | $ 399 |
| Stage of growth | 25% to 79% | Increase by 5% | $ 556 | $ 434 |
| Selling and other fulfillment costs | $0.90 to $5.10 per gram | Increase by $1.00 per gram | $ (669) | $ (399) |
| Expected dry yield per plant | 77.89 to 225.69 grams per plant | Increase by 5 grams per plant | $ 151 | $ 131 |
| Discount factor | 2% to 32% | Increase by 5% | $ (343) | $ (5,740) |

*New York State does not permit dispensaries to sell cannabis flower. Only edibles, tinctures, and solid and semisolid preparations are permitted. The average selling price per gram of $76.29 per gram, selling and other fulfillment costs of $6.95 per gram and expected yield per plant of 212.46 grams per plant reflect the conversion of cannabis plant into concentrated products and the associated selling price and selling and other fulfillment costs of concentrated products.

The Company's estimates are subject to change and differences from the anticipated yield will be reflected in the gain or loss on biological assets in future periods.

(in thousands, except for gram, share and per share amounts)
(expressed in U.S. dollars)

The Company's estimates and assumptions reflect differences in regulation restrictions applicable to the states in which the Company operates. For states other than New York, selling prices per gram are calculated using the Company's average selling price of dried cannabis that does not involve in any extraction or other processing activities, to reflect the value of such products up to the point of harvest. For New York, where only sales of concentrate and edible products are permitted, selling prices per gram and yield per plant are calculated based on the Company's average selling price of concentrate products and dry weight equivalent grams of such products in the fair value calculation.

The Company's biological assets produced 1,401,776 grams and 1,031,876 grams of dried cannabis for the three months ended September 30, 2019 and September 29, 2018, respectively, and 3,809,883 grams and 2,246,229 grams of dried cannabis for the nine months ended September 30, 2019 and September 29, 2018, respectively.

## 8. CURRENT AND LONG-TERM DEBT

Current and long-term obligations, net of original issuance discount, are shown in the table below:

| | September 30, 2019 | December 29, 2018 |
|---|---|---|
| Working capital line | $ - | $ 300 |
| | | |
| Term debt | | |
| Real estate debt at 7% interest | - | 3,777 |
| Note payable, non-interest bearing | - | 200 |
| Total term debt | - | 3,977 |
| | | |
| Total debt | $ - | $ 4,277 |
| Less current portion | - | (4,277) |
| Long-term portion | $ - | $ - |

*Working Capital Loan*

In July 2016, the Company obtained a working capital loan of $950 from various lenders (the "Working Capital Loan"). The Working Capital Loan had a stated interest rate of 10% and a maturity date of July 11, 2019. The Working Capital Loan was unsecured. Interest was paid in cash arrears commencing on July 31, 2018 and on each quarterly anniversary thereafter. The Company was permitted to prepay the loans, in whole or in part, upon not less than three business days prior with written notice.

The Company repaid $650 to various lenders in December 2018. The remaining $300 was paid in January 2019.

Interest expense for the three and nine months ended September 29, 2018, was $23 and $71, respectively.

***Term Debt***

*Real Estate Debt*

In January 2016, the Company entered into a loan and security agreement (the "Agreement") with various individuals for loans in the aggregate amount of $10,000. The Agreement had a stated interest rate of 7% with a maturity date of January 25, 2019. The aggregate principal amount of the loans per an amendment dated March 31, 2017 was increased from $10,000 to $12,000.

The loans could be prepaid prior to the second anniversary of the closing date with the consent of such lenders. At any time on and following the second anniversary of the closing date, the loans could be prepaid in whole or in part not less than three business days' prior written notice to the lenders. The loans were collateralized by various real estate holdings of the Company.

Interest expense for the three and nine months ended September 29, 2018 was $620 and $207, respectively. No interest expense was incurred during the nine months ended September 30, 2019.

Amortization expense for the three months ended September 30, 2019 and September 29, 2018, was $0 and $130, respectively, and for the nine months ended September 30, 2019 and September 29, 2018, was $18 and $378, respectively.

In the fourth quarter of 2018, principal in the amount of $2,755 was converted into 33,427 common units and principal totaling $5,250 was repaid.

In January 2019, principal in the amount of $2,500 and accrued interest in the amount of $37 was converted into 27,561 common units and principal of $1,295 was repaid.

*Note Payable - Former Member*

On July 6, 2016, Columbia Care Arizona Tempe, LLC, a Delaware limited liability company, purchased a 10% minority interest from a former member, for a $1,000 note, payable with $250 upon the execution of the respective agreement; $150 payable on or before January 1, 2017 (which was paid in 2016), and $600 payable in twelve equal quarterly payments commencing April 1, 2017 through January 1, 2020. The note was non-interest bearing was guaranteed by the Company and its managing members. In September 2019, the note was repaid in full.

## 9. PURCHASE AGREEMENTS

*CannAscend Agreement*

On October 25, 2018, the Company, CannAscend Alternative, LLC (“CAA”), and CannAscend Alternative Logan, LLC (“CAA Logan”) entered into a Membership Purchase Option Agreement (the “CannAscend Option Agreement”). CAA and CAA Logan are both Ohio-based limited liability companies that operate dispensaries (collectively the “Target Companies”). Under the terms of the CannAscend Option Agreement, the Company purchased an exclusive option to acquire all outstanding membership interests (the “CannAscend Option”) of the Target Companies during the period commencing on the first anniversary of the date upon which all four of the dispensaries operated by the Target Companies have been issued certificates of operation under Ohio’s Medical Marijuana Control Program, and expiring on the 30th day following said commencement date (“CannAscend Option Period”).

The price for the CannAscend Option Agreement was approximately $4,124 (“CannAscend Option Deposit”), of which the Company paid approximately $2,124 in October 2018, and an additional $1,000 (via a transfer of funds from an escrow deposit account) in November 2018, for a total of $3,124 as of December 29, 2018. For the nine months ended September 30, 2019, the Company paid an additional $1,000 for a total of $4,124 as of September 30, 2019.

If the Company exercises the CannAscend Option, the Company will pay a purchase price of $14,150, subject to reduction as provided in the CannAscend Option Agreement. The Company has recorded the $4,124 and $3,124 of the CannAscend Option Deposit paid as long-term deposits on the condensed consolidated statement of financial position at September 30, 2019 and December 29, 2018, respectively. In addition, the Company determined $600 of the $1,000 CannAscend Option Deposit met the definition of a provision and thus had recorded a provision and corresponding other non-current asset on the condensed consolidated statements of financial position as of December 29, 2018. This provision was paid during March 2019.

As part of the CannAscend Option Agreement, the Company entered into an escrow agreement with the Target Companies and deposited $12,026 into the escrow account. As of September 30, 2019, and December 29, 2018, the escrow deposit account had a balance of $10,026 and $11,026, respectively, and is recorded as restricted cash on the condensed consolidated statement of financial position. The CannAscend Option Deposit made by the Company is non-refundable.

As consideration for the CannAscend Option, the Company issued a revolving loan to the Target Companies (the "CannAscend Revolving Loan"), with a principal amount to not exceed $13,000 (the "CannAscend Loan Amount"). The CannAscend Revolving Loan is evidenced by a secured promissory note of the Target Companies (the "CannAscend Note Receivable"), which bears interest at the rate of 7% per annum and matures upon the occurrence of any of the following: a) providing notice to the borrower of an event of default; b) 36 months after the last advance made by the lender to borrower as provided in the CannAscend Revolving Loan Agreement, or c) 90 days after the termination of the CannAscend Option Agreement. As of September 30, 2019, and December 29, 2018, the Company recorded a balance of $9,861 and $1,758, respectively, in other non-current assets on the condensed consolidated statements of financial positions related to the balance outstanding from the Target Companies related to the CannAscend Revolving Loan.

To secure the obligations of the Target Companies to the Company under the CannAscend Revolving Loan Agreement and the CannAscend Note Receivable, the Company entered into a Security Agreement dated as of October 25, 2018 (the "CannAscend Security Agreement"), pursuant to which the Target Companies granted to the Company a first-priority lien on and security interest in all personal property of the Target Companies.

If the Company does not exercise the CannAscend Option on or prior to the date that is 30 days following the end of the CannAscend Option Period, the CannAscend Loan Amount will be payable to the Company in 90 days.

*Corsa Verde Agreement*

On April 2, 2019, the Company and Corsa Verde, LLC ("Corsa Verde") entered into a Membership Purchase Option Agreement (the "Corsa Verde Option Agreement"). Corsa Verde is an Ohio-based limited liability company that processes medical marijuana. Under the terms of the Corsa Verde Option Agreement, the Company purchased an exclusive option to acquire all outstanding membership interests (the "Corsa Verde Option") of Corsa Verde within ten days following the receipt of regulatory approval.

The price for the Corsa Verde Option Agreement was approximately $125 ("Corsa Verde Option Deposit"). If the Company exercises the Corsa Verde Option, the Company will pay a purchase price of $2,747, subject to reduction as provided in the Corsa Verde Option Agreement. The Company has recorded the $125 of the Corsa Verde Option Deposit paid as long-term deposits on the condensed consolidated statements of financial position as of September 30, 2019. As part of the Corsa Verde Option Agreement, the Company entered into an escrow agreement with Corsa Verde and deposited $1,123 into the escrow account. As of September 30, 2019, the escrow deposit account had a balance of $1,123 and is recorded as restricted cash on the condensed consolidated statement of financial position.

As consideration for the Corsa Verde Option, the Company provided a revolving loan to Corsa Verde (the "Revolving Loan"), with the principal amount to not exceed $2,000 (the "Loan Amount"). The Corsa Verde Revolving Loan is evidenced by a secured promissory note of Corsa Verde (the "Corsa Verde Note Receivable"), which bears interest at the rate of 7% per annum and matures upon the occurrence of any of the following: a) providing notice to the borrower of an event of default; b) 36 months after the last advance made by the lender to borrower as provided in the Corsa Verde Revolving Loan Agreement, or c) 90 days after the termination of the Corsa Verde Option Agreement. As of September 30, 2019, the Company had a balance of $523 in other non-current assets on the condensed consolidated statements of financial position related to the balance outstanding from Corsa Verde related to the Corsa Verde Revolving Loan.

(in thousands, except for gram, share and per share amounts)
(expressed in U.S. dollars)

To secure the obligations of Corsa Verde to the Company under the Corsa Verde Revolving Loan Agreement and the Corsa Verde Note Receivable, the Company entered into a Security Agreement dated as of April 2, 2019 (the "Corsa Verde Security Agreement"), pursuant to which Corsa Verde granted to the Company a first-priority lien on and security interest in all personal property of Corsa Verde.

If the Company does not exercise the Corsa Verde Option on or prior to the date that is 30 days following the end of the Corsa Verde Option Period, the Corsa Verde Loan Amount will be payable to the Company in 90 days.

The Corsa Verde Option Deposit made by the Company is non-refundable.

## 10. RELATED PARTY TRANSACTIONS

*Key management personnel*

Key management personnel include those persons having authority and responsibility for planning, directing and controlling the activities of the Company as a whole. The Company has determined that key management personnel consist of executive and non-executive members of the Company's board of directors and corporate officers and/or companies controlled by those individuals.

Remuneration attributed to key management personnel during the three and nine months ended September 30, 2019 and September 29, 2018, are summarized in the table below:

| | Three Months Ended | | Nine Months Ended | |
|---|---|---|---|---|
| | **September 30, 2019** | **September 29, 2018** | **September 30, 2019** | **September 29, 2018** |
| Salaries and benefits | $ 836 | $ 357 | $ 2,327 | $ 1,017 |
| Payments to managing owners | 209 | 196 | 629 | 595 |
| Equity-based compensation | 14,758 | 2,579 | 17,114 | 1,593 |
| | **$ 15,803** | **$ 3,132** | **$ 20,070** | **$ 3,205** |

The Company also entered into notes payable with related parties as described in Note 8.

## 11. PROPERTY AND EQUIPMENT

Property and equipment and related depreciation are summarized in the table below:

| | **September 30, 2019** | **December 29, 2018** |
|---|---|---|
| Land and buildings | $ 9,098 | $ 8,000 |
| Furniture and fixtures | 1,231 | 995 |
| Equipment | 7,362 | 5,292 |
| Computers and software | 656 | 435 |
| Leasehold improvements | 36,100 | 23,371 |
| Construction in process | 57,176 | 12,650 |
| Total property and equipment, gross | 111,623 | 50,743 |
| Less: Accumulated depreciation | (16,349) | (10,949) |
| Total property and equipment, net | $ 95,274 | $ 39,794 |

(in thousands, except for gram, share and per share amounts)
(expressed in U.S. dollars)

A reconciliation of the beginning and ending balances of property and equipment are summarized in the tables below:

| | Land and buildings | Furniture and fixtures | Equipment | Computers and software | Leasehold improvements | Construction in process | Total |
|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | |
| As of December 29, 2018 | $ 8,000 | $ 995 | $ 5,292 | $ 435 | $ 23,371 | $ 12,650 | $ 50,743 |
| Additions | 1,098 | 290 | 1,768 | 188 | 3,617 | 54,093 | 61,054 |
| Disposals | — | (129) | — | (5) | (40) | — | (174) |
| Transfers | — | 75 | 302 | 38 | 9,152 | (9,567) | — |
| Balance of September 30, 2019 | $ 9,098 | $ 1,231 | $ 7,362 | $ 656 | $ 36,100 | $ 57,176 | $ 111,623 |

| | Land and buildings | Furniture and fixtures | Equipment | Computers and software | Leasehold improvements | Construction in process | Total |
|---|---|---|---|---|---|---|---|
| **Accumulated depreciation** | | | | | | | |
| As of December 29, 2018 | $ (427) | $ (521) | $ (1,798) | $ (164) | $ (8,039) | $ — | $ (10,949) |
| Depreciation | (115) | (159) | (1,026) | (102) | (4,066) | — | (5,468) |
| Disposals | — | 63 | — | 3 | 2 | — | 68 |
| Transfers | — | — | — | — | — | — | — |
| Balance of September 30, 2019 | $ (542) | $ (617) | $ (2,824) | $ (263) | $ (12,103) | $ — | $ (16,349) |

| | Land and buildings | Furniture and fixtures | Equipment | Computers and software | Leasehold improvements | Construction in process | Total |
|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | |
| As of December 30, 2017 | $ 7,996 | $ 858 | $ 2,631 | $ 254 | $ 15,611 | $ 7,691 | $ 35,041 |
| Additions | 4 | 259 | 1,555 | 164 | 4,418 | 10,519 | 16,919 |
| Disposals | - | (122) | (95) | (3) | (997) | - | (1,217) |
| Transfers | - | - | 1,201 | 20 | 4,339 | (5,560) | - |
| Balance of December 29, 2018 | $ 8,000 | $ 995 | $ 5,292 | $ 435 | $ 23,371 | $ 12,650 | $ 50,743 |

| | Land and buildings | Furniture and fixtures | Equipment | Computers and software | Leasehold improvements | Construction in process | Total |
|---|---|---|---|---|---|---|---|
| **Accumulated depreciation** | | | | | | | |
| As of December 30, 2017 | $ (274) | $ (415) | $ (942) | $ (76) | $ (5,209) | $ - | $ (6,916) |
| Depreciation | (153) | (216) | (940) | (90) | (3,278) | - | (4,677) |
| Disposals | - | 110 | 84 | 2 | 448 | - | 644 |
| Transfers | - | - | - | - | - | - | - |
| Balance of December 29, 2018 | $ (427) | $ (521) | $ (1,798) | $ (164) | $ (8,039) | $ - | $ (10,949) |

Total depreciation expense for the three months ended September 30, 2019 and September 29, 2018, was $2,326 and $1,238, respectively, which included $1,159 and $718 recognized as production costs, respectively, and $1,167 and $520 recognized as operating expenses in the condensed consolidated statements of operations, respectively. Total depreciation expense for the nine months ended September 30, 2019 and September 29, 2018, was $5,468 and $3,386, which included $3,099 and $1,924 recognized as production costs, respectively, and $2,369 and $1,462 recognized as operating expenses in the condensed consolidated statements of operations, respectively.

## 12. PROMISSORY NOTE RECEIVABLE

*9244 Balboa Blvd., LLC ("Balboa")*

During the nine months ended September 30, 2019, Focused Health LLC ("Focused Health"), a consolidated subsidiary of the Company, entered into a lease agreement with the owner of the property and simultaneously issued a secured promissory note ("Balboa Note") with a principal amount of $2,420. The Balboa Note is secured by the land and building of the leased premises and bears interest at a rate of 4.5%. The Company's principal and interest repayments are offset by the Company's rent payment obligations under the lease agreement with Balboa. The Balboa Note matures in April 2044. The balance outstanding as of September 30, 2019, is $2,398 of which $55 is recorded in prepaid expenses and other current assets and $2,343 is recorded in other non-current assets on the condensed consolidated statements of financial position.

## 13. SHAREHOLDERS' EQUITY

<u>Pre-RTO transactions</u>

*Common Units*

Prior to the Acquisition Date, Columbia Care LLC was authorized to issue an unlimited number of common units without par. On the Acquisition Date, Columbia Care LLC had 14,639,112 issued and outstanding common units and profit interests (15,482,850 on a fully-diluted basis). On the Acquisition Date common units and profit interests were converted into common shares and proportionate voting shares.

During the nine months ended September 29, 2018, the Company had the following activity:

- Issued 12,413 common units for a license to cultivate, process and sell cannabis in the state of Florida at a price of $80.56 per units for $1,000;
- Recorded $391 in equity in connection with the 2018 Convertible Debt arrangement;
- Issued 83,345 common units upon the conversion of principal and accrued interest on convertible debt of $5,807;
- Completed a private placement, issuing an aggregate of 489,155 common units at an average price of $80.68 per unit for aggregate proceeds of $39,465. In connection with the private placement, 92,186 warrants were issued with an average exercisable price of $43.40 over a weighted-average period of 4.6 years;
- Paid $894 in cash as unit issuance costs in connection with a private offering of 1,868 common units; and
- Warrants were exercised for 12,820 common units at an average per unit price of $0.01 for nominal gross proceeds.

From December 30, 2018 through the Acquisition Date, the Company had the following activity:

- Issued 27,561 common units upon the conversion of principal and accrued interest on convertible debt of $2,537. Issued 2,490 common units as unit issuance costs; and
- Warrants were exercised for 159,325 common units at an average per unit price of $0.01 for $2.

<u>Post-RTO transactions</u>

From the Acquisition Date through September 30, 2019, the Company had the following activity:

- On April 26, 2019, concurrent with the RTO transaction as described in Note 5, the Company completed a brokered private placement, which after issuance costs of $5,598, resulted in net proceeds of $114,595. The Company converted 14,639,112 outstanding common units and profit interests into 34,563,850 common shares and 1,623,373 proportionate voting shares. In connection with the brokered private placement the Company issued 19,077,096 common shares and the equivalent of 5,394,945 warrants with an exercise price of $10.35 Canadian Dollars exercisable for five years from the date of issuance. Total consideration for this issuance was $131,264 and resulted in a listing expense of $11,071.

- On August 6, 2019, the Company completed its acquisition of the remaining minority interest in its Illinois operation. Total consideration consisted of $4,400 of which $2,950 was satisfied by the issuance of 621,239 common shares and the remaining $1,450 is expected to be satisfied during the fourth quarter of 2019 with the issuance of shares.
- Issued 62,124 common shares to consultants for services provided. Issued 23,230 common shares to employees as compensation.
- Repurchased and cancelled 236,900 common shares with the use of $1,015 proceeds under the Company's share repurchase program.

*Authorized*

Authorized share capital consists of (i) an unlimited number of common shares without par (ii) an unlimited number of proportionate voting shares without par, and (iii) an unlimited number of preferred shares.

The common shares and proportionate voting shares (together, the "Shares") have the same rights and are equal in all respects. The Company treats the Shares as if they were a single class.

*Conversion Rights and Transfers*

Issued and outstanding proportionate voting shares, including fractions thereof, may at any time, subject to certain conditions, at the option of the holder, be converted into common shares at a ratio of 100 common shares per proportionate voting share with fractional proportionate voting shares convertible into common shares at the same ratio. Further, the Company's board of directors may determine in the future that it is no longer advisable to maintain the proportionate voting shares as a separate class of shares and may cause all of the issued and outstanding proportionate voting shares to be converted into common shares at a ratio of 100 common shares per proportionate voting share with fractional proportionate voting shares convertible into common shares at the same ratio and the Company shall not be entitled to issue any additional proportionate voting shares thereafter.

The ability to convert proportionate voting shares into common shares is subject to certain conditions in order to maintain the Company's status as a foreign private issuer under U.S. securities laws. Unless otherwise waived by the Company, the right to convert the proportionate voting shares is subject to the condition that the aggregate number of Shares held of record, directly or indirectly, by residents of the United States (as determined in accordance with Rules 3b-4 and 12g3-2(a) under the Securities Exchange Act of 1934, as amended) may not exceed forty percent (40%) of the aggregate number of Shares issued and outstanding after giving effect to such conversions.

*Rights*

Holders of Shares are entitled to one vote on all matters submitted to a vote of the Company's shareholders. Holders of Shares are entitled to receive dividends, as may be declared by the Company's board of directors. As of September 30, 2019, and December 29, 2018, no cash dividends had been declared or paid.

*Treasury Shares*

In connection with the RTO and the issuance of Shares to employees, the Company withheld shares that were previously issued to satisfy certain shareholders' U.S. federal income tax requirements and made a payment on their behalf in the amount of $919.

(in thousands, except for gram, share and per share amounts)

The table below details the changes in Shares outstanding by class:

| | Common Shares | Proportionate Voting Shares (as converted) | Shares Held in Treasury | Preferred Shares |
|---|---|---|---|---|
| **Balance at December 29, 2018** | - | - | - | - |
| Existing unitholders transfer | 34,563,850 | 162,337,268 | - | - |
| Private placement | 19,077,096 | - | - | - |
| Issuance of shares | 85,354 | - | - | - |
| Minority buyouts | 621,239 | - | - | - |
| Share conversion | 10,645,123 | (10,645,123) | - | - |
| Cancellation of restricted stock awards | - | (108,245) | - | - |
| Repurchase of shares | (236,900) | - | 140,952 | - |
| **Balance at September 30, 2019** | **64,755,762** | **151,583,900** | **140,952** | **-** |

## 14. WARRANTS

As of September 30, 2019, outstanding equity-classified warrants to purchase common shares consisted of the following:

| Date Exercisable | Number of Shares Issued and Exercisable | Exercise Price (Canadian Dollars) | Expiration |
|---|---|---|---|
| December 6, 2016 | 3,845,023 | $ 2.22 | December 6, 2019 |
| July 1, 2017 | 1,152,191 | $ 5.71 | July 1, 2020 |
| May 8, 2018 | 921,753 | $ 5.71 | May 8, 2021 |
| October 1, 2018 | 648,783 | $ 8.12 | October 1, 2025 |
| October 1, 2018 | 4,855,639 | $ 8.12 | October 1, 2020 |
| October 17, 2018 | 809,272 | $ 8.12 | October 17, 2020 |
| November 7, 2018 | 2,427,818 | $ 8.12 | November 7, 2020 |
| June 30, 2019 | 5,394,945 | $ 10.35 | April 26, 2024 |
| | 20,055,424 | | |

Warrant activity for each reporting period is summarized in the table below:

| | Shares | | Units | |
|---|---|---|---|---|
| | Number of Warrants | Weighted average exercise price (Canadian Dollars) | Number of Warrants | Weighted average exercise price (U.S. Dollars) |
| **Balance as of December 30, 2017** | **-** | **$ -** | **664,644** | **$ 24.43** |
| Issued | - | - | 796,485 | 72.91 |
| Exercised | - | - | (122,416) | 0.01 |
| Expired | - | - | - | - |
| **Balance as of December 29, 2018** | **-** | **$ -** | **1,338,713** | **$ 55.50** |
| Issued | 5,394,945 | 10.35 | - | - |
| Exercised | - | - | (210,858) | 22.46 |
| Expired | - | - | - | - |
| Conversion from warrant units to warrant shares | 14,660,479 | 6.23 | (1,127,855) | 61.63 |
| **Balance as of September 30, 2019** | **20,055,424** | **$ 7.34** | **-** | **$ -** |

(in thousands, except for gram, share and per share amounts)
(expressed in U.S. dollars)

During the nine months ended September 30, 2019, and prior to the RTO, 51,140 unit warrants were exercised for 51,140 common units for proceeds of $2, and 159,718 warrants were converted to 108,185 common units in a cashless exercise.

## 15. SHARE-BASED PAYMENT ARRANGEMENTS

***Omnibus Long-Term Incentive Plan (equity settled)***

On April 26, 2019, the Company adopted a long-term incentive plan ("LTIP") to allow for a variety of equity-based awards that provide different types of incentives to be granted to the Company's executive officers, directors, employees and consultants (options, stock appreciation rights ("SARs"), performance share units ("PSUs"), restricted stock units ("RSUs") and deferred share units ("DSUs")). Options, SARs, PSUs, RSUs and DSUs are collectively referred to herein as "Awards". Each Award will represent the right to receive common shares and in the case of SARs, PSUs, RSUs and DSUs, common shares or cash, in each case in accordance with the terms of the LTIP.

Under the terms of the LTIP, the Company's board of directors may grant Awards to the Chief Executive Officer and Executive Chairman of the Company and will review and approve the grant of Awards recommended by the Chief Executive Officer to other eligible participants. Participation in the LTIP is voluntary and if an eligible participant agrees to participate, the grant of Awards will be evidenced by a grant agreement with each such participant. The interest of any participant in any Award is not assignable or transferable, whether voluntary, involuntary, by operation of law or otherwise, other than by will or the laws of descent and distribution.

The maximum number of common shares reserved for issuance, in the aggregate, under the LTIP is 10% of the aggregate number of common shares (assuming the conversion of all proportionate voting shares to common shares) issued and outstanding from time to time.

***Restricted stock units***

The Company estimates the fair value of each RSU award on its measurement date using the current market price of the Shares.

A summary of RSU activity for the nine months ended September 30, 2019 is presented below:

| | Shares | Weighted-Average Grant Date Fair Value |
|---|---|---|
| **Outstanding at beginning of period** | - | $ - |
| Granted | 5,035,182 | 6.80 |
| Deferred compensation units converted to RSUs | 3,488,244 | 4.10 |
| **Outstanding at end of period** | 8,523,426 | $ 5.70 |

Equity-based compensation related to RSUs issued was $7,552 and $10,213 for the three and nine months ended September 30, 2019, respectively.

***Performance share units***

On April 29, 2019, the Company granted total stockholder return awards ("TSR Awards") that include three-year and five-year market conditions, with corresponding performance measurement periods of three and five years. Vesting of the TSR Awards is based on the Company's level of attainment of specified TSR targets relative to the appreciation of the Company's common shares for the respective three-year and five-year periods and is also subject to the continued employment of the grantees.

(in thousands, except for gram, share and per share amounts)

The fair value of these awards was determined using a Monte Carlo Simulation valuation model with the following weighted average inputs:

| | |
|---|---|
| Expected volatility | 70.00% |
| Expected life | 4.15 |
| Expected dividends | 0.00% |
| Risk-free interest rate | 1.55% |

The Company also granted PSUs that will vest on the achievement of internal performance targets. The Company monitors the probability of achieving the performance targets on a quarterly basis and may adjust periodic compensation expense accordingly.

A summary of PSU activity for the nine months ended September 30, 2019 is presented below:

| | Shares | Weighted-Average Grant Date Fair Value |
|---|---|---|
| **Outstanding at beginning of period** | - | $ - |
| Granted | 5,489,794 | 5.48 |
| **Outstanding at end of period** | 5,489,794 | $ 5.48 |

Equity-based compensation related to PSUs issued was $1,918 and $3,210 for the three and nine months ended September 30, 2019, respectively.

***Stock Options***

The fair value of each stock option is estimated using the Black-Scholes option pricing model. The weighted average of inputs used in the measurement of the grant date fair value of the stock options for the nine months ended September 30, 2019, are summarized in the table below:

| | |
|---|---|
| Fair value at grant date (Canadian Dollars) | $ 10.90 |
| Strike price at grant date (Canadian Dollars) | $ 10.90 |
| Expected volatility | 70.00% |
| Expected life | 6.25 |
| Expected dividends | 0.00% |
| Risk-free interest rate | 1.59% |

Stock option awards under the LTIP are granted with an exercise price equal to the fair value of the Company's common stock at the date of grant. All option awards have a ten-year contractual term and vest over four years.

A summary of option activity for the nine months ended September 30, 2019 is presented below:

| | Stock Options | Weighted-Average Exercise Price (Canadian Dollars) | Weighted-Average Remaining Contractual Term (Years) | Aggregate Intrinsic Value |
|---|---|---|---|---|
| **Outstanding at beginning of period** | - | $ - | | |
| Granted | 55,384 | 10.90 | | |
| **Outstanding at end of period** | 55,384 | $ 10.90 | 9.6 | - |

Equity-based compensation expense related to stock options issued was $40 and $66 for the three and nine months ended September 30, 2019, respectively.

(in thousands, except for gram, share and per share amounts)
(expressed in U.S. dollars)

***Common Shares***

During the three and nine months ended September 30, 2019, the Company granted 85,354 common shares to employees and consultants. Equity-based compensation related to common shares issued was $457 for the three and nine months ended September 30, 2019.

***Unit programs (equity settled)***

In May 2016, the Company adopted the Capital Accumulation Plan ("the CAP Plan"), which provided employees and operating partners with a mechanism to participate in increases in value of the Company.

Grants of CAP units contained a unit of equity which participates in proceeds from liquidation or sale of the Company beyond a "threshold amount", which is similar to a strike price for a stock option. The Company utilized a third-party expert to determine the equity value of the Company. The threshold amount stated in grants of CAP units was determined by estimating the liquidation value of the Company at the grant date. As a result, holders of vested CAP units could receive value equal to the difference between: (i) the future value of the Company; and (ii) the threshold amount.

The fair value of each CAP unit was estimated using the Black-Scholes option pricing model. The weighted average of inputs used in the measurement of the grant date fair value of the CAP Units for the nine months ended September 29, 2018 are summarized in the table below:

| | | |
|---|---|---|
| Fair value at grant date | $ | 85.59 |
| Strike price at grant date | $ | 77.31 |
| Expected volatility | | 70.00% |
| Expected life | | 6.25 |
| Expected dividends | | 0.00% |
| Risk-free interest rate | | 2.95% |

The Company did not grant any CAP units during the nine months ended September 30, 2019.

As of the Acquisition Date, holders of CAP units received replacement stock-based awards. The CAP units were converted into time-based restricted Shares ("RSAs") based on the intrinsic value of the Company if it was liquidated at the close of business. The value of the replacement stock-based awards was designed to generally preserve the intrinsic value of the replaced awards immediately prior to the merger. Such RSAs remain subject to the same continuing restrictions applicable to the original CAP units. The Company did not recognize any incremental expense in connection with the conversion of CAP units to RSAs.

The number of units outstanding under the CAP Plan were as follows:

| | **Nine Months Ended September 30, 2019** | | | **Year Ended December 29, 2018** | | |
|---|---|---|---|---|---|---|
| | **Units** | | **Weighted-Average Threshold Amount** | **Units** | | **Weighted-Average Threshold Amount** |
| **Outstanding at beginning of period** | 641,548 | $ | 51.05 | 467,668 | $ | 34.01 |
| Units granted | - | | - | 258,859 | | 77.92 |
| Units forfeited | (3,336) | | 67.49 | (84,979) | | 37.63 |
| Units converted to RSAs | (638,212) | | 51.50 | - | | - |
| **Outstanding at end of period** | - | $ | - | 641,548 | $ | 51.05 |

(in thousands, except for gram, share and per share amounts)
(expressed in U.S. dollars)

A summary of RSA activity for the nine months ended September 30, 2019 is presented below:

| | Shares | Weighted-Average Grant Date Fair Value |
|---|---|---|
| **Outstanding at beginning of period** | - | $ - |
| CAP units converted to RSAs | 4,541,835 | 7.63 |
| Forfeited | (108,245) | 12.21 |
| **Outstanding at end of period** | 4,433,590 | $ 7.52 |

Equity-based compensation expense related to the Company's CAP units and RSAs was $1,421 and $2,722 for the three months ended September 30, 2019 and September 29, 2018, respectively, and $5,090 and $4,826 for the nine months ended September 30, 2019 and September 29, 2018, respectively.

***Unit programs (liability settled)***

In May 2016, the Company adopted the Income Incentive Plan ("the IIP Plan"), which provides deferred compensation to designated employees and operating partners (the "IIP units").

IIP units represented a right to receive a payment, subject to dilutive effect of equity issuances, in the future equal to the lesser of the Company's liquidation value based on the lower of: (i) value on the date of a qualifying sale of the Company or (ii) value on the date that the IIP unit is granted (the "IIP Grant Date").

The initial recognition and measurement of the IIP units were based on the Company's liquidation value per outstanding common unit as of the IIP Grant Date. Until payment of the IIP units, adjustments would be made each reporting period for any changes in the Company's liquidation value, only if the Company's liquidation value was less than its liquidation value on the IIP Grant Date.

The Company generally relied on the analyses performed by third-party experts to determine the value of the Company, in order to determine the Company's liquidation values.

In September 2019, holders of IIP units received replacement stock-based units. The IIP units were converted into RSUs based on the intrinsic value of the Company if it was liquidated at the close of business. The value of the replacement share-based units was designed to generally preserve the intrinsic value of the replaced awards immediately prior to the conversion. Such RSUs remain subject to the same continuing restrictions applicable to the original IIP units. The Company did not recognize any incremental expense in connection with the conversion of IIP units to RSUs. Upon such conversion the Company reclassified deferred compensation of $15,308 into shareholders' equity.

The number of units outstanding under the IIP Plan are summarized in the table below:

| | Nine Months Ended September 30, 2019 | | Year Ended December 29, 2018 | |
|---|---|---|---|---|
| | Units | Weighted-Average Liquidation Value | Units | Weighted-Average Liquidation Value |
| **Outstanding at beginning of period** | 629,277 | $ 51.29 | 467,668 | $ 34.01 |
| Units granted | - | - | 246,588 | 79.89 |
| Units forfeited | (23,612) | 61.98 | (84,979) | 37.17 |
| Units converted to RSUs | (605,665) | 50.50 | - | - |
| **Outstanding at end of period** | - | $ - | 629,277 | $ 51.29 |

(in thousands, except for gram, share and per share amounts)
(expressed in U.S. dollars)

Deferred compensation expense related to the Company's IIP units was $1,761 and $1,588 for the three months ended September 30, 2019 and September 29, 2018, respectively, and $5,502 and $3,692 for the nine months ended September 30, 2019 and September 29, 2018, respectively.

At December 29, 2018, the Company recorded liabilities of $9,805 related to deferred compensation of IIP units.

## 16. EARNINGS PER SHARE

Basic and diluted net loss per share attributable to the Company was calculated as follows:

| | Three Months Ended | | Nine Months Ended | |
|---|---|---|---|---|
| | **September 30, 2019** | **September 29, 2018** | **September 30, 2019** | **September 29, 2018** |
| Numerator: | | | | |
| Net loss | $ (19,862) | $ (5,314) | $ (78,712) | $ (19,241) |
| Less: Net loss attributable to non-controlling interest | (1,599) | (368) | (1,947) | (835) |
| Net loss attributable to shareholders | $ (18,263) | $ (4,946) | $ (76,765) | $ (18,406) |
| | | | | |
| Denominator: | | | | |
| Weighted average shares outstanding - basic and diluted | 216,269,530 | 163,352,801 | 207,729,060 | 161,564,898 |
| Loss per share - basic and diluted | $ (0.08) | $ (0.03) | $ (0.37) | $ (0.11) |

The Company's potentially dilutive securities, which include warrants to purchase Shares, have been excluded from the computation of diluted net loss per share for the three and nine months ended September 30, 2019 and September 29, 2018, as the inclusion would have reduced the net loss per share and therefore would have an anti-dilutive effect. Prior periods have been converted into post-merger Shares for comparability.

## 17. COMMITMENTS AND CONTINGENCIES

*Leases*

The Company leases its facilities under operating leases that provide for the payment of real estate taxes and other operating costs in addition to normal rent.

Key movements relating to lease balances are presented below:

| | |
|---|---|
| **Carrying amount, January 1, 2019** | **$ 35,070** |
| Additions to leased assets | 11,607 |
| Amortization charges | (4,521) |
| **Carrying amount, September 30, 2019** | **$ 42,156** |

The Company's real estate leases typically have terms of 1–10 years. Some leases for office space include extension options exercisable up to one year before the end of the cancellable lease term. Typically, the option to renew the lease is for an additional period of the same duration after the end of the contract term and are at the option of the Company as lessee. Lease payments are in substance fixed, and the Company had no leases which contained variable lease payments. Most real estate leases include annual escalation clauses with reference to an index or contractual rate.

The Company leases vehicles and equipment with a standard lease term of 4 years. The Company does not purchase or guarantee the value of leased vehicles. In some cases, the Company leases furniture and office equipment with terms of 1–3 years. The Company considers these assets to be of low-value or short-term in nature and therefore no right-of use assets and lease liabilities are recognized for these leases. Expenses recognized relating to short-term leases and leases of low value during the nine months ended September 30, 2019 was immaterial.

(in thousands, except for gram, share and per share amounts)
(expressed in U.S. dollars)

The following table summarizes the Company's future undiscounted lease payments as of September 30, 2019.

| **Period** | **Scheduled Payments** |
|---|---|
| Due in Year 1 | $ 8,613 |
| Due in Years 2-5 | 28,032 |
| Due in 5+ Years | 20,594 |
| Total undiscounted lease liability | 57,239 |
| Impact of discount | 13,406 |
| Lease liability at September 30, 2019 | 43,833 |
| Less current portion of lease liability | 5,804 |
| Long-term portion | $ 38,029 |

The above table excludes $5,207 of legally binding minimum lease payments for leases signed but not yet commenced as of September 30, 2019.

The total interest expense on lease liabilities and the total cash outflow for the three months ended September 30, 2019, was $716 and $1,470, respectively. The total interest expense on lease liabilities and the total cash outflow for the nine months ended September 30, 2019, was $1,784 and $3,622, respectively.

*Indemnification agreements*

In the ordinary course of business, the Company may provide indemnification of varying scope and terms to vendors, lessors, business partners, and other parties with respect to certain matters including, but not limited to, losses arising out of breach of such agreements or from intellectual property infringement claims made by third parties. In addition, the Company has entered into indemnification agreements with members of its board of directors and senior management that will require the Company, among other things, to indemnify them against certain liabilities that may arise by reason of their status or service as directors or officers. The maximum potential amount of future payments the Company could be required to make under these indemnification agreements is, in many cases, unlimited. To date, the Company has not incurred any material costs as a result of such indemnifications. The Company does not believe that the outcome of any claims under indemnification arrangements will have a material effect on its financial position, results of operations or cash flows, and it has not accrued any liabilities related to such obligations in its condensed consolidated financial statements.

*Legal*

The Company may be contingently liable with respect to claims incidental to the ordinary course of its operations. In the opinion of management, and based on management's consultation with legal counsel, the ultimate outcome of such matters will not have a materially adverse effect on the Company. Accordingly, no provision has been made in these condensed consolidated financial statements for losses, if any, which might result from the ultimate disposition of these matters should they arise.

## 18. FAIR VALUE MEASUREMENTS

***Financial Instruments***

The Company's financial instruments measured at fair value as of December 29, 2018 include deferred compensation.

The following table summarizes the valuation techniques and key inputs used in the fair value measurement of level 3 financial instruments:

| **Financial asset/financial liability** | **Valuation techniques** | **Significant unobservable inputs** | **Relationship of unobservable inputs to fair value** |
|---|---|---|---|
| Deferred compensation | Market approach | Common Unit value | Increase or decrease in common unit value will result in an increase or decrease in fair value |

During the periods included in these financial statements, there were no transfers of amounts between levels.

***Financial Risk Management***

The carrying value of the Company's financial instruments consisting of cash, accounts receivable, subscription receivable, accounts payable, accrued expenses, interest payable and payroll liabilities approximate fair value due to their short-term nature.

The Company's long-term debt approximates fair value due to the market rate of interest used on initial recognition and the derivative liability and deferred compensation is carried at fair value.

The Company is exposed in varying degrees to a variety of financial instrument related risks. A description of the Company's risk exposures and the impact on the Company's financial instruments is summarized below.

*Credit Risk*

Credit risk is the risk of a potential loss to the Company if a customer or third party to a financial instrument fails to meet its contractual obligations. The maximum credit exposure as of September 30, 2019 and December 29, 2018 is the carrying amount of cash, subscription receivable and accounts receivable. The Company provides credit to its customers in the normal course of business and has established credit evaluation and monitoring processes to mitigate credit risk but has limited risk as the majority of its sales are transacted with cash and as such, the Company does not have significant credit risk with respect to its customers. Through the Company's recently introduced Columbia Care National Credit program, the Company provides credit to customers in certain markets in which the Company operates.

The risk exposure is limited to the carrying amounts at the statement of financial position date. The risk to cash deposits is mitigated by holding these instruments with regulated financial institutions. The Company periodically assesses the quality of the credit rating of these financial institutions. Trade accounts receivable credit risk arises from the possibility that principal and/or interest due may become uncollectible. The Company mitigates this risk by managing and monitoring the underlying business relationships. Subscription receivables were collected in full during the nine months ended September 30, 2019.

*Liquidity Risk*

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

*Interest Rate Risk*

Interest rate risk is the risk that the fair value or future cash flows of the Company's financial instrument will fluctuate because of changes in market interest rates. The Company's cash deposits bear interest at market rates.

*Foreign Exchange Risk*

The Company does not have any financial instruments denominated in currencies other than the U.S. dollar and as such is not subject to foreign currency risk.

*Price Risk*

Price risk is the risk of variability in fair value due to movements in equity or market prices. The Company is not subject to significant price risk.

## 19. INTANGIBLE ASSET

During the year ended December 29, 2018, the Company acquired a 70% interest in a license to cultivate, process and sell cannabis in the state of Florida. The Company paid $11,365 for the sellers' ownership in this license, which consisted of $10,365 in cash and $1,000 of units in the Company. Subsequently, the entire license was contributed into Better-Gro Companies, LLC, a Florida limited liability company, in which the Company holds a 70% interest.

The gross value of the intangible asset as of September 30, 2019 was $16,235, consisting of the $11,365 purchase price and the non-controlling interest's portion of $4,870. During the three months ended September 30, 2019, the Company reclassified this asset from an indefinite-lived intangible asset to a definite-lived intangible asset with a useful life of 15 years. During the three and nine months ended September 30, 2019, the Company recorded amortization expense for its intangible assets of $270.

## 20. INCOME TAXES

The Company's statutory income tax rate is 21% effective January 1, 2018 as explained below. The Company's provision for income taxes will differ from applying the U.S. federal income tax rate to income before taxes primarily due to state income taxes, certain stock compensation, warrants accretion, tax credits and miscellaneous permanent differences.

Section 280E of the Internal Revenue Code ("IRC") prohibits businesses engaged in the trafficking of Schedule I or Schedule II controlled substances from deducting normal business expenses, such as payroll and rent, from gross income (revenue less cost of goods sold). Section 280E was originally intended to penalize criminal market operators, but because cannabis remains a Schedule I controlled substance for Federal purposes, the IRS has subsequently applied Section 280E to state-legal cannabis businesses. Cannabis businesses operating in states that align their tax codes with the IRC are generally unable to deduct normal business expenses from their state taxes. Whereas the Company's statutory rate is expected to be 21%, actual rates will differ as a result of the temporary and permanent differences, as well as the limitations placed with respect to Section 280E.

## 21. CAPITAL MANAGEMENT

The Company's objectives when managing capital are to ensure that there are adequate capital resources to ensure the Company's ability to continue as a going concern and maintain adequate levels of funding to support its ongoing operations and development such that it can continue to provide returns to shareholders and benefits for other stakeholders. The Company plans to use existing funds, as well as funds from the future sale of products to fund operations and expansion activities.

The capital structure of the Company consists of items included in shareholders' equity. The Company manages its capital structure in consideration of changes in economic conditions and the risk characteristics of the Company's underlying assets.

Capital is comprised of the Company's shareholders' equity. As of September 30, 2019, the Company's shareholders' equity was $284,742. The Company manages its capital structure to maximize its financial flexibility and adjusts it in response to changes in economic conditions and the risk characteristics of the underlying assets and business opportunities. The Company does not presently utilize any quantitative measures to monitor its capital. The Company currently is not subject to externally imposed capital requirements. There were no changes to the Company's capital management during the nine months ended September 30, 2019.