



**GREEN
SPACE
BRANDS**

**Condensed Consolidated Interim Financial Statements of
GREENSPACE BRANDS INC.**

For the three-month periods ended June 30, 2020 and 2019

*These condensed consolidated interim financial statements and the notes thereto have not been reviewed
by the Company's external auditors.*

GreenSpace Brands Inc
Condensed Consolidated Interim Financial Statements

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For the three-month periods ended June 30, 2020 and 2019

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GreenSpace Brands Inc

Condensed Consolidated Interim Financial Statements

For the three-month periods ended June 30, 2020 and 2019

(unaudited and expressed in thousands of Canadian dollars, except per share amounts and number of shares)

Condensed Consolidated Interim Statements of Financial Position

	as at June 30 2020 \$	as at March 31 2020 \$
Assets		
Current assets		
Accounts receivable, net (note 15)	5,186	4,621
HST receivable	414	339
Prepaid expenses	1,955	2,620
Inventory, net (note 5)	4,368	4,353
Total current assets	11,923	11,933
Property, plant and equipment, net (note 6)	345	424
Right-of-use assets (note 8)	497	532
Intangible assets, net (note 7)	8,751	8,920
Goodwill (note 7)	9,286	9,286
Total assets	30,802	31,095
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	6,386	6,862
HST payable	50	6
Lease liability - current (note 8)	159	172
Loans payable (note 9)	14,549	13,801
Total current liabilities	21,144	20,841
Lease liability - non-current (note 8)	1,265	1,302
Loans payable - non-current (note 9)	1,204	892
Total liabilities	23,613	23,035
Shareholders' equity		
Share capital (note 10)	78,845	78,845
Contributed surplus	1,994	1,988
Accumulated deficit	(73,889)	(72,946)
Accumulated other comprehensive income	239	173
	7,189	8,060
Total liabilities and shareholders' equity	30,802	31,095

Commitments and contingencies (note 12)

Subsequent events (note 20)

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

Approved by the Board:

Paul Henderson
Chairman

Michael LeClair
Director

GreenSpace Brands Inc

Condensed Consolidated Interim Financial Statements

For the three-month periods ended June 30, 2020 and 2019

(unaudited and expressed in thousands of Canadian dollars, except per share amounts and number of shares)

Condensed Consolidated Interim Statements of Operations and Comprehensive Loss

	Three months ended	
	June 30 2020	June 30 2019 Reclassified (note 19)
	\$	\$
Gross revenue	10,346	15,123
Less: rebates and discounts	(1,375)	(2,104)
Less: listing fees	(140)	(50)
Net revenue	8,831	12,969
Cost of goods sold	6,978	10,207
Gross profit	1,853	2,762
Expenses		
General and administrative (note 6)	258	312
Storage and delivery	798	1,061
Salaries and benefits (note 11)	1,514	1,313
Advertising and promotion	221	420
Professional fees	121	444
Stock-based compensation	6	15
Amortization of intangible assets (note 7)	169	639
Total expenses	3,087	4,204
Loss from operations	(1,234)	(1,442)
Interest expense	650	602
Accretion expense (note 9)	9	14
Foreign exchange (gain) loss	(928)	44
Restructuring expense (note 18)	-	195
Other income	(22)	(15)
Loss from operations before income taxes	(943)	(2,282)
Deferred income tax recovery	-	(195)
Net loss from continuing operations	(943)	(2,087)
Net loss from discontinued operations (note 19)	-	(212)
Net loss	(943)	(2,299)
Other comprehensive income		
Cummulative translation adjustment presentation	66	(161)
Total net loss and comprehensive loss	(877)	(2,460)
Net loss per share		
Net loss per share - basic and diluted - continuing operations	\$ (0.00)	\$ (0.03)
Net loss per share - basic and diluted - Total	\$ (0.00)	\$ (0.03)
Weighted average number of shares - basic and diluted	231,333,134	75,474,983

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

GreenSpace Brands Inc

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Condensed Consolidated Interim Statements of Changes in Shareholders' Equity

	Share Capital			Accumulated Deficit	Accumulated Other Comprehensive Income	Total Shareholders' Equity
	Number	Amount \$	Contributed Surplus \$			
Balance, March 31, 2019	75,358,939	69,261	1,983	(39,244)	86	32,086
Stock-based compensation	-	-	15	-	-	15
Share issuance to settle liabilities	160,000	-	-	-	-	-
Net loss for the three month period	-	-	-	(2,299)	-	(2,299)
Cumulative translation adjustment	-	-	-	-	(161)	(161)
Balance, June 30, 2019	75,518,939	69,261	1,998	(41,543)	(9)	29,707
Balance, March 31, 2020	231,333,134	78,845	1,988	(72,946)	173	8,060
Stock-based compensation	-	-	6	-	-	6
Net loss for the three month period	-	-	-	(943)	-	(943)
Cumulative translation adjustment	-	-	-	-	66	66
Balance, June 30, 2020	231,333,134	78,845	1,994	(73,889)	239	7,189

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

GreenSpace Brands Inc

Condensed Consolidated Interim Financial Statements

For the three-month periods ended June 30, 2020 and 2019

(unaudited and expressed in thousands of Canadian dollars, except per share amounts and number of shares)

Condensed Consolidated Interim Statements of Cash Flows

	Three months ended	
	June 30, 2020	June 30, 2019 Reclassified (note 19)
	\$	\$
Cash flow used in operating activities		
Net loss from continuing operations	(943)	(2,087)
Items not affecting cash:		
Estimated credit losses (note 15)	(488)	-
Depreciation and amortization (note 6 and 7)	284	750
Deferred income recovery	-	(195)
Unrealized foreign exchange (gain) loss	(361)	57
Stock-based compensation	6	15
Inventory provision (note 5)	275	40
Interest incurred on lease liability (note 8)	37	-
Interest accrued on loans payable	511	-
Accretion expense	9	14
Changes in non-cash working capital (note 14)	(209)	(4,638)
Total cash utilized in continuing operating activities	(879)	(6,044)
Total cash utilized in discontinued operating activities (note 19)	-	1,384
Total cash utilized in operating activities	(879)	(4,660)
Cash flow from (used in) investing activities		
Additions to property, plant and equipment (note 6)	(4)	(49)
Total cash from (utilized) in continuing investing activities	(4)	(49)
Total cash from discontinued investing activities (note 19)	-	6,577
Total cash from investing activities	(4)	6,528
Cash flow from financing activities		
Repayment of loans payable	(36)	(2,702)
Additions to loans payable	937	1,000
Lease payments (note 8)	(87)	-
Total cash provided by continuing financing activities	814	(1,702)
Total cash provided by discontinued financing activities (note 19)	-	-
Total cash provided by financing activities	814	(1,702)
Foreign exchange gain on foreign cash and cash equivalents	69	(166)
Increase in cash and cash equivalents	-	-
Cash and cash equivalents, beginning of the year	-	-
Cash and cash equivalents, end of the year	-	-

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

GreenSpace Brands Inc

Notes to the Condensed Consolidated Interim Financial Statements

For the three-month periods ended June 30, 2020 and 2019

(unaudited and expressed in thousands of Canadian dollars, except per share amounts and number of shares)

1. Nature of Operations and Going Concern

On April 13, 2015, Aumento Subco, a wholly-owned subsidiary of Aumento Capital IV Corporation (“Aumento” or the “Corporation”) and Life Choices Natural Foods Corp. (“Life Choices”) entered into a definitive agreement (the “Definitive Agreement”). Pursuant to the terms of the Definitive Agreement, on April 30, 2015, Life Choices, Aumento and Aumento Subco completed a three-cornered amalgamation (the “Amalgamation”) whereby Life Choices and Aumento Subco amalgamated to form a new entity named Life Choices Natural Food Corp. (referred to herein as “Amalco”). After the Amalgamation, the property of each of Life Choices and Aumento Subco became the property of Amalco, and Amalco became liable for the obligations of each of Life Choices and Aumento Subco. Amalco continues to carry on the business and operations of Life Choices as a wholly-owned subsidiary of the Corporation.

Prior to closing the Amalgamation, the Corporation’s name was changed to GreenSpace Brands Inc. (“GreenSpace” or the “Company”).

GreenSpace is an organic and natural food company whose principal business is to create natural food products and brands for sale into the North American natural food marketplace. The Company’s main brands as of March 31, 2020 include, Love Child Organics, Central Roast and Go Veggie.

The Corporation was incorporated under the Ontario Business Corporations Act and domiciled in Ontario, Canada on June 11, 2013.

The head office of the Company is 176 St. George Street, Toronto, Ontario, Canada M5R 2M7.

Going concern

These consolidated financial statements have been prepared on the going concern basis, which assumes that the Company will be able to continue to operate and realize its assets and discharge its liabilities in the normal course of business, and do not give effect to any adjustments which would be necessary should the Company be unable to continue as a going concern and therefore be required to realize its assets and discharge its liabilities in other than the normal course of business and at amounts different from those reflected in the accompanying consolidated financial statements.

The Company incurred a net loss and comprehensive loss of \$877 (2019 - \$2,460) for the quarter ended June 30, 2020, and, as of that date, had an accumulated deficit of \$73,889 (March 31, 2020 - \$72,946), and its current liabilities exceeded its current assets by \$9,221 (March 31, 2020 - \$8,908). One of the Company’s long-term strategic growth objectives has been a consolidator in the Canadian natural and organic marketplace, and further expand its US operations. In order to do so, the strategic decision was made by management to invest in infrastructure to support those objectives.

Management's current strategy is to grow revenue and at the same time exercise careful cost control to generate profitable operations. In the event that cash flow from operations, together with the proceeds from existing and any future financings are insufficient to cover planned expenditures, management will allocate available resources in such manner as deemed to be in the Company's best interest. This may result in a significant reduction in the scope of existing and planned operations. These factors may cast significant doubt about the Company's ability to continue as a going concern. If the going concern assumption is not appropriate, material adjustments to the consolidated financial statements could be required.

GreenSpace Brands Inc

Notes to the Condensed Consolidated Interim Financial Statements

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(unaudited and expressed in thousands of Canadian dollars, except per share amounts and number of shares)

2. Statement of Compliance and Basis of Presentation

Statement of Compliance

These condensed interim consolidated financial statements have been prepared in accordance with International Accounting Standard 34 Interim Financial Reporting (“IAS 34”), under International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”), following the same accounting policies and methods of computation as the audited consolidated financial statements for the fiscal year ended March 31, 2020. The condensed interim consolidated financial statements do not include all of the disclosures included in the annual audited consolidated financial statements and the notes thereto included in the Company’s audited consolidated financial statements for the year ended March 31, 2020.

Accounting policies have been applied consistently to all years presented in these consolidated financial statements.

These condensed consolidated interim financial statements were approved by the Board of Directors on October 15, 2020.

Basis of Presentation

These consolidated financial statements are prepared on the historical cost basis except for certain financial instruments, which have been measured at fair value. All amounts in these consolidated financial statements are expressed in thousands of Canadian dollars, unless otherwise noted.

Principles of Consolidation

These consolidated financial statements include the accounts of the Company and its wholly- owned subsidiaries, Life Choices Natural Food Corp., 1706817 Ontario Ltd., The Everyday Fundraising Group, Grandview Farms Sales Ltd., Love Child (Brands) Inc., GSB Investment Corp., Central Roast Inc., 2047480 Ontario Inc. (formerly known as Nothing But Nature Inc.), GSB Beverage Inc., The Cold Press Corp., Roam Eggs Ltd. (formerly known as Rolling Meadows Dairy Ltd.) and Galaxy Nutritional Foods, Inc. from their respective dates of acquisition. All inter-company balances and transactions have been eliminated.

3. Significant Accounting Judgments, Estimates and Assumptions

The preparation of consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. By their nature, these estimates are subject to measurement uncertainty. Actual results could differ from these estimates. The effect of changes in such estimates on the consolidated financial statements in future periods could be significant. Accounts specifically affected by estimates in these consolidated financial statements are:

Expected credit loss: Management assesses the credit worthiness and the financial position of all customers to arrive at and provide for an expected credit loss on receivables.

Determination of share-based payments

The estimation of share-based payments (including warrants and stock options) requires the selection of an appropriate valuation model and consideration as to the inputs necessary for the valuation model chosen. The model used by the Company is the Black-Scholes valuation model at the date of the grant. The Company makes estimates as to the volatility, the expected life, dividend yield and the time of exercise, as applicable. The expected volatility is based on the average volatility of the Company’s share price over the period of the expected life of the applicable

GreenSpace Brands Inc

Notes to the Condensed Consolidated Interim Financial Statements

For the three-month periods ended June 30, 2020 and 2019

(unaudited and expressed in thousands of Canadian dollars, except per share amounts and number of shares)

3. Significant Accounting Judgments, Estimates and Assumptions - Continued

warrants and stock options. The expected life is based on historical data. These estimates may not necessarily be indicative of future actual patterns.

Determination of useful lives and residual values of long-lived assets: Depreciation and amortization of property, plant and equipment, and definite lived intangible assets are dependent upon estimates of useful lives, residual values, and depreciation rates. The depreciation and amortization methods are judgments based on the Company's assessment of the pattern of use of the assets. The estimate of useful lives and residual values are based on the Company's intended use of the assets

Provisions for Inventory: Management makes estimates of the future customer demand for the Company's products when establishing appropriate provisions for inventory. In making these estimates, management considers the product life of inventory and the profitability of recent sales of inventory. In many cases, the products sold by the Company turns over quickly and inventory on-hand values are lower, thus reducing the risk of material misstatement. Management ensures that systems are in place to highlight and properly value inventory that may be approaching "best before" dates. To the extent that actual losses on inventory differ from those estimated, both inventory and net loss will be affected.

Intangible assets valuation: The values associated with intangible assets involve significant estimates and assumptions, including those with respect to future cash inflows and outflows, discount rates and asset lives. These estimates and assumptions could affect the Company's future results if the current estimates of future performance and fair values change. These determinations will affect the amount of amortization expense on definite life intangible assets recognized in future periods. The carrying value of the intangible asset is reviewed each reporting period to determine whether there is any indication of impairment. The Company assesses impairment by comparing the recoverable amount of an intangible asset with its carrying value. The recoverable amount is defined as the higher of value in use, or fair value less cost of disposal. The determination of recoverable amount involves management estimates and determination of cash generating units ("CGU"). The Company performed an impairment assessment as of March 31, 2020. (Note 7)

Goodwill impairment: Goodwill is tested for impairment annually or more frequently if there is any indication of impairment. If the carrying amount of a goodwill exceeds its recoverable amount, the goodwill is impaired, and an impairment loss is recognized in the consolidated statement of operations and comprehensive loss. The assessment of fair value requires the use of estimates and assumptions related to future operating performance and discount rates; differences in these estimates and assumptions could have a significant impact on the consolidated financial statements.

For the purpose of the annual impairment test, the Company applied the value in use method in completing its analysis. Using a five year (and related terminal value) discounted future cash flow model, the Company created a range of outcomes in determining the recoverable amount. The key assumptions used to calculate the value in use are those regarding discount rates, growth rates and expected changes in margins. See note 7 for additional details on impairment testing.

Adoption of IFRS 16 – Leases: Estimates and judgments related to the adoption of IFRS 16 – Leases, including measurement of lease liabilities, right-of-use assets, discount rates and lease term expectations used are outlined in note 8.

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4. Significant Accounting Policies

The Company's accounting policies are consistently applied to all the periods presented unless otherwise noted below.

The Galaxy VTB loan previously classified under Related Party loans has been reclassified to Loans Payable as the lender is now at arms-length.

5. Inventory

Inventory consists of:

	June 30	March 31
	2020	2020
	\$	\$
Raw materials	586	597
Packaging	973	1,283
Finished goods	2,809	2,473
Total	4,368	4,353

Included in cost of goods sold for the quarter ended June 30, 2020 is a provision for inventory in continuing operations amounting to \$275 (2019 - \$40).

The amount of inventory recognized as an expense in cost of goods sold for continuing operations was \$6,703 and in discontinued operations was \$nil for the quarter ended June 30, 2020 (2019 - \$10,167 and \$811 respectively)

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For the three-month periods ended June 30, 2020 and 2019

(unaudited and expressed in thousands of Canadian dollars, except per share amounts and number of shares)

6. Property, Plant and Equipment

	Furniture and Equipment	Leasehold Improvements	Computer Equipment	Software	Fixture at Customer Locations	Printing and Production Plates	Warehouse Equipment	Design	Total
Cost									
Balance, March 31, 2020	189	411	289	32	210	261	669	33	2,094
Additions	-	-	-	-	-	-	-	4	4
Balance, June 30, 2020	189	411	289	32	210	261	669	37	2,098
Accumulated Depreciation									
Balance, March 31, 2020	133	328	276	31	210	207	454	31	1,670
Additions	7	26	8	-	-	10	27	2	80
Foreign exchange difference	-	-	3	-	-	-	-	-	3
Balance, June 30, 2020	140	354	287	31	210	217	481	33	1,753
Net Book Value									
Balance, March 31, 2020	56	83	13	1	-	54	215	2	424
Balance, June 30, 2020	49	57	2	1	-	44	188	4	345

Depreciation expense charged to the condensed consolidated interim statements of operations and comprehensive loss for the quarter ended June 30, 2020 was \$80 in continuing operations and \$nil from discontinued operations (2019 - \$111 and \$2), included in general and administrative expenses.

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Notes to the Condensed Consolidated Interim Financial Statements

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(unaudited and expressed in thousands of Canadian dollars, except per share amounts and number of shares)

7. Intangible Assets and Goodwill

Intangibles by Asset	Customer Relationships	Brand	Product Recipes	Non-Compete Agreement	Total
	\$	\$	\$	\$	\$
Cost					
Balance, March 31, 2020	8,029	3,978	850	680	13,537
Balance, June 30, 2020	8,029	3,978	850	680	13,537
Accumulated Amortization					
Balance, March 31, 2020	3,937	-	-	680	4,617
Additions	169	-	-	-	169
Balance, June 30, 2020	4,106	-	-	680	4,786
Net Book Value					
Balance, March 31, 2020	4,092	3,978	850	-	8,920
Balance, June 30, 2020	3,923	3,978	850	-	8,751

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Notes to the Condensed Consolidated Interim Financial Statements

For the three-month periods ended June 30, 2020 and 2019

(unaudited and expressed in thousands of Canadian dollars, except per share amounts and number of shares)

7. Intangible Assets and Goodwill – Continued

Intangibles by CGU	Central Roast Inc.	Love Child (Brands) Inc.	Nothing But Nature Inc.	The Cold Press Corp.	Galaxy Natural Foods, Inc.	Life Choices Natural Food Corp.	Total
	\$	\$	\$	\$	\$	\$	\$
Cost							
Balance, March 31, 2020	6,306	3,290	-	-	3,941	-	13,537
Balance, March 31, 2020	6,306	3,290	-	-	3,941	-	13,537
Accumulated Amortization							
Balance, March 31, 2020	3,306	751	-	-	560	-	4,617
Amortization	61	43	-	-	65	-	169
Balance, March 31, 2020	3,367	794	-	-	625	-	4,786
Net Book Value							
Balance, March 31, 2020	3,000	2,539	-	-	3,381	-	8,920
Balance, June 30, 2020	2,939	2,496	-	-	3,316	-	8,751

Amortization expense charged to the consolidated statements of operations and comprehensive loss for the quarter ended June 30, 2020 was \$169 in continuing operations and \$nil from discontinued operations (2019 - \$266 and \$373).

GreenSpace Brands Inc

Notes to the Condensed Consolidated Interim Financial Statements

For the three-month periods ended June 30, 2020 and 2019

(unaudited and expressed in thousands of Canadian dollars, except per share amounts and number of shares)

7. Intangible Assets and Goodwill – Continued

Goodwill by Cash Generating Unit:

	June 30, 2020	March 31, 2020
	\$	\$
Love Child (Brands) Inc.	2,940	2,940
Central Roast Inc.	-	-
Nothing But Nature Inc.	-	-
The Cold Press Corp.	-	-
Galaxy Nutritional Foods, Inc.	6,346	6,346
Total goodwill	9,286	9,286

8. Leases

The Company leases various properties under non-cancellable leases. These leases have varying terms, escalation clauses, renewal options and bases on which rent is payable.

As of June 30, 2020, changes in the right-of-use assets are as follows:

	\$
Balance, March 31, 2020	532
Depreciation	(35)
Balance, June 30, 2020	497

The weighted average right-of-use amortization term remaining as at June 30, 2020 is 6 years.

As of June 30, 2020, changes in the lease liabilities are as follows:

	\$
Balance, March 31, 2020	1,474
Lease payments	(87)
Interest expense on lease payments	37
Balance, June 30, 2020	1,424
Current	159
Non-Current	1,265
Total	1,424

The weighted average incremental borrowing rate is 10.2% as at June 30, 2020. The weighted average lease term remaining as at June 30, 2020 is 6 years.

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Notes to the Condensed Consolidated Interim Financial Statements

For the three-month periods ended June 30, 2020 and 2019

(unaudited and expressed in thousands of Canadian dollars, except per share amounts and number of shares)

9. Loans Payable

		June 30 2020	March 31 2020 Reclassified (note 13)
		\$	\$
BDC loan payable, interest at BDC's floating base rate plus 3% per annum, repayable in payments of principal of \$1 monthly plus interest (payable monthly), maturing February 23, 2022	(a)	27	30
TD Equipment Finance	(b)	5	13
TD Term Loan	(c)	50	75
TD ABL Facility	(d)	4,559	3,927
Convertible debentures issued to Emblem Corp, maturing August 9, 2023	(e)	883	874
Primary Capital financing, maturing September 23, 2021	(f)	964	734
MW1 LLC - Galaxy VTB, maturing September 23, 2021	(g)	8,959	9,040
2020 Cares Act SBA - PPP	(h)	266	-
CEBA Term Loan	(i)	40	-
		15,753	14,693
Less amounts due within one year		14,549	13,801
Loans payable - non current		1,204	892

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Notes to the Condensed Consolidated Interim Financial Statements

For the three-month periods ended June 30, 2020 and 2019

(unaudited and expressed in thousands of Canadian dollars, except per share amounts and number of shares)

9. Loans Payable - Continued

a) **BDC Loans**

The BDC loan is for \$100 bearing interest at BDC's floating base rate plus 3% per annum, blended principal and interest payable monthly and the loan matures on February 23, 2022. At June 30, 2020 the BDC loan was secured by a personal guarantee from the Company's former Chief Executive Officer ("CEO"). (See notes 11(iii) and 20)

b) **TD Equipment Finance**

As part of the acquisition of Central Roast, the Company retained a leasing loan agreement with TD Equipment Finance. The machinery lease contract is repayable in monthly instalments of \$3, includes interest calculated at 3.85% and matures on August 15, 2020.

c) **TD Term Loan**

To finance the acquisition of an HVAC system at the Central Roast warehouse, the Company entered into a term loan with TD for \$300. The term loan is repayable in monthly principal instalments of \$8, plus interest calculated at prime plus 1%. The loan matures in December 2020. (See note 20)

d) **TD ABL Financing**

On October 7, 2016, the Company finalized the terms on a \$7,500 revolving senior secured asset-based lending facility with The Toronto-Dominion Bank ("ABL Facility"). The ABL Facility has a three-year term and bears interest at bank prime plus 3%.

The Company incurred a total of \$100 in transaction costs related to the ABL Facility. All transaction costs are being amortized to net loss as accretion expense over the three-year term. The maximum availability under the ABL facility is subject to a borrowing base calculation determined as a percentage of the Company's accounts receivable, inventory less priority payables and availability reserves.

After closing the ABL Facility, the Company refinanced the majority of its short-term loan obligations under a long-term, cost effective borrowing facility. The remaining initial proceeds from the new ABL Facility were used to finance working capital.

During the year ended March 31, 2018, the ABL Facility revolving commitment increased from \$7,500 to \$10,000 upon inclusion of assets from The Cold Press Corp., and from \$10,000 to \$12,000 upon inclusion of assets from Galaxy Nutritional Foods, Inc. In May 2018, the revolving commitment increased from \$12,000 to \$13,000. In August 2019, the revolving commitment decreased to \$8,000. In October 2019, the ABL Facility was extended until February 28, 2020. In February 2020, the ABL Facility was extended until June 30, 2020 and is presented as current as the bank has not formally extended the ABL facility beyond that date.

The ABL Facility is secured by substantially all of the assets of the Company and contains a standard fixed charge coverage financial covenant of 1.1:1. Effective March 31, 2017, the fixed charge coverage covenant was amended to allow the Company to add back unfinanced capital expenditures, debt repayments or listing fees that were financed with equity in calculating the covenant. On June 30, 2020, the Company was not in compliance with the fixed charge coverage ratio. The bank has not provided a waiver for the default as of June 30, 2020. (See note 20).

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9. Loans Payable - Continued

e) **Convertible Debentures**

On August 9, 2018, the Company issued \$1,000 in principal amount of unsecured convertible debentures in conjunction with its partnership with Emblem Corp. The debentures will mature on August 9, 2023, bears interest at 6% per annum which is due the earlier of conversion date or maturity and will automatically convert into common shares of the Company upon satisfaction of certain conditions (each, a "Milestone" assigned \$500 in principal) at a conversion price equal to the lesser of: (i) \$1.05 and (ii) the twenty (20) day volume-weighted average price of the common shares on the date the applicable Milestone is achieved, provided that the conversion price shall not be less than \$0.94 and that the automatic conversion will be deferred if the market price is less than \$0.752 on the day immediately prior to the date the Milestone is met. (see note 12(c))

f) **Primary Capital Financing**

On December 24, 2018, the Company entered into a loan agreement with Primary Capital Inc. as administrative and collateral agent for a syndicate of lenders, providing for a \$4,000 term debt facility. The Loan is comprised of an initial principal amount of \$2,000, before transaction costs, and an additional \$2,000 available on standby which may be drawn at any time within the first six months of the Loan at the option of the Company, in two tranches of \$1,000 each. In connection with the loan, the Company has agreed to issue common shares to the lenders. As of March 31, 2020, the Company has received the initial principal of \$2,000 and two additional draws of \$1,000 each.

The terms of the original loan allowed the Company to prepay at any time at the option of the Company without penalty or premium. The loan carries an initial coupon of 1% per month, increasing to 1.5% per month after six months or if the first \$1,000 on standby is advanced. If the second \$1,000 on standby is advanced, the loan will bear interest at a rate of 2% per month. The Loan carries an equity incentive of 346,667 shares to be issued to the lenders upon advance of the initial principal amount, an additional 160,000 shares to be issued to the lenders upon advance of each standby tranche, and 346,666 shares to be issued to the lenders six months after advance of the initial principal amount if any amounts remain outstanding under the loan. As at March 31, 2020, the Company has issued 1,013,333 (March 31, 2019 – 506,667) common shares to the lenders.

The loan matured on December 24, 2019 and was extended to December 23, 2020 on February 18, 2020. As part of this extension, the holder agreed and converted approximately \$3,563 of debt (\$3,266) and interest (\$297) into equity on March 12, 2020 with 54,821,832 shares issued, leaving approximately \$734 in debt at a 12% coupon rate at March 31, 2020. Under the terms of the extension, the Company may prepay any portion of the debt without notice, penalty or bonus at any time however 10% of the debt is due June 2020 but this prepayment was not made (see Note 20). Further to a review of the extensions, accrued interest recorded in accounts payable and accrued liabilities has been capitalized to the loan balance and the loan balance inclusive of capitalized interest was \$964 at June 30, 2020.

g) **MWI LLC – Galaxy Vendor Take Back ("Galaxy VTB")**

The Galaxy VTB of \$8,959 (March 31, 2020 - \$9,040) is with a remaining principal amount of USD \$5,291 (March 31, 2020 – USD \$5,246) bearing interest at a rate of 8.5% per annum until July 1, 2019 and 12% thereafter. The loan matured on January 24, 2020 and was extended to December 23, 2020. Under the terms of the extension, the Company may prepay any portion of the debt without notice, penalty or bonus, at any time however 10% of the debt was due in June 2020 but not paid (note 20).

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9. Loans Payable - Continued

h) Cares Act SBA US loan

On May 1, 2020, the Company applied for and received a US\$195 loan under the United States Paycheck Protection Program (“PPP”). Under the terms of agreement, the loan is subject to 1% per annum after the six months. The Company may apply for the loan to be fully forgiven any time after July 1, 2020 and up to ten months after the covered period where by 75% of the loan is used for qualifying expenses. The loan is repayable on May 1, 2022 if forgiveness is not granted.

i) Canadian Emergency Business Account (CEBA) Loan

In April 2020, the Company applied for and received a \$40 loan under the Canadian Emergency Business Account (“CEBA”). Under the terms of the agreement the loan is interest free during the initial term and 5% thereafter. The initial terms end December 31, 2022 and the extended terms ends December 31, 2025. If the Company repays the loan on or before December 31, 2022, 25% (\$10) will be forgiven.

10. Share Capital

(a) Authorized: Unlimited number of common shares

Common shares issued and fully paid:

	Number	Amount
		\$
Balance, March 31, 2020	231,333,134	78,845
Balance, June 30, 2020	231,333,134	78,845

(b) Stock options:

The Company has established a stock option plan for its directors, officers and technical consultants under which the Company may grant options from time to time to acquire a maximum of 10% of the issued and outstanding common shares. The exercise price of each option granted under the plan shall be determined by the Company’s Board of Directors.

Options may be granted for a maximum term of ten years from the date of the grant, are non-transferable and expire within 90 days of termination of employment or holding office as director or officer of the Company and, in the case of death, expire within one year thereafter.

Upon death, the options may be exercised by legal representation or designated beneficiaries of the holder of the option. Any shares issued upon exercise of the options prior to the Company entering into a Qualifying Transaction will be subject to escrow restrictions. Unless otherwise stated, the options fully vest when granted.

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11. Related Party Balances and Transactions

Transactions with Related Parties

- i. The Company has a lease arrangement for office space with a shareholder of the Company. The Company paid rent of \$30 during the quarter ended June 30, 2020 (2019 – \$39)
- ii. The Company has an outstanding balance of \$96 on June 30, 2020 (March 31, 2020 - \$96) due to the former CEO included in accounts payable and accrued liabilities. This amount was reflected in the settlement provisions (see point iv below). These amounts relate to unpaid compensation as at June 30, 2020.
- iii. The Company's former CEO has provided a personal guarantee to BDC (note 9). Subsequent to June 30, 2020, the BDC loan to which this guarantee related was repaid in full (note 20)), eliminating this personal guarantee.
- iv. On April 30, 2020, the Company announced that Matthew von Teichman was stepping down as the CEO effective July 17, 2020 and as well was stepping down from the Board of Directors effective immediately. Under the terms of the resignation agreement, Matthew von Teichman is entitled to \$413 to be paid over 22 months after the effective date of his separation. This amount was provided for in the first quarter ended June 30, 2020. Additionally, the separation agreement specified that the outstanding balance of \$96 (see (ii) above) was also to be paid out over these same 22 months.
- v. Under the terms of employment between the Company and the Executive Chairman and Interim CEO ("Interim CEO"), the Company has agreed to pay the Interim CEO the additional amount of \$77 for the period up to July 17, 2020. \$65 was expensed in the first quarter ended June 30, 2020 with the balance to be expensed in the second quarter. This amount shall be paid at such time as the Board of Directors deems it appropriate.
- vi. Key management includes the Company's directors and officers, which after last year's organisational redesign, include Brand Presidents and General Managers. Compensation awarded to key management includes salary, stock-based compensation and director fees. The following table presents key management compensation and includes the effect of the agreement in (iv) above:

	Three months ended	
	June 30, 2020	June 30, 2019
Salary and director fees	779	164

12. Commitments and Contingencies

Commitments

- a) In October 2016, under its new ABL Facility, the Company issued a stand-by letter of credit for \$200 to one of its Canadian suppliers for extended credit terms.
- b) In October 2018, under its new ABL Facility, the Company issued a stand-by letter of credit for US\$71 to the State of Rhode Island department of labour for its social benefits.

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12. Commitments and Contingencies

- c) During the year ended March 31, 2019, the Company issued convertible debentures and shares of \$1,000 and \$1,000, respectively. As a result, Emblem Corp. will earn a 4% royalty on all hemp-based product sales and a 7% royalty on all cannabidiol (“CBD”) based product sales. The Company has not made any hemp-based product sales or cannabis-based CBD product sales; therefore, no royalties have been paid or accrued as of June 30, 2020.

Contingencies

The Company may become involved in certain claims and litigation arising out of the ordinary course and conduct of business where certain claims are made against or by the Company. Management assesses such claims and, if they are considered likely to result in a loss and the amount of loss is quantifiable, provisions for loss are made, based on management’s assessment of the most likely outcome. Management does not provide for claims for which the outcome is not determinable or claims where the amount of the loss cannot be reasonably estimated or where the litigation may result in a contingent gain.

13. Expenses by Nature

The table below summarizes the expenses by nature for continuing operations:

	Three months ended	
	June 30,	June 30,
	2020	2019
		Reclassified
		(note 19)
		\$
Raw materials and consumables used	6,703	10,167
Storage and delivery	798	1,061
Salaries and benefits	1,514	1,313
Advertising and promotion	221	420
Professional fees	121	444
Stock-based compensation	6	15
Amortization of intangible assets	169	639
General and administrative	258	312
Inventory provision	275	40
	10,065	14,411

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13. Expenses by Nature - Continued

The table below summarizes the expenses by nature for discontinued operations:

	Three months ended	
	June 30, 2020	June 30, 2019
		Reclassified (note 19)
	\$	\$
Raw materials and consumables used	-	811
Storage and delivery	-	229
Advertising and promotion	-	22
General and administrative	-	173
Inventory provision (recovery)	-	(36)
	-	1,199

14. Changes in Non-Cash Working Capital

The table below summarizes the changes in non-cash working capital for continuing operations:

	Three months ended	
	June 30, 2020	June 30, 2019
		Reclassified (note 19)
	\$	\$
HST receivable	(75)	(162)
Accounts receivable, net	(77)	(2,123)
Prepaid expenses	665	(176)
Inventory	(290)	(604)
Accounts payable and accrued liabilities	(476)	(1,572)
HST payable	44	(1)
	(209)	(4,638)

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14. Changes in Non-Cash Working Capital - Continued

The table below summarizes the changes in non-cash working capital for discontinued operations (note 24):

	Three months ended	
	June 30, 2020	June 30, 2019
		Reclassified (note 19)
	\$	\$
HST receivable	-	21
Accounts receivable, net	-	846
Prepaid expenses	-	151
Inventory	-	310
Accounts payable and accrued liabilities	-	275
	-	1,603

15. Financial Risk Management

(a) Concentration Risk

The Company currently has a reliance on a small number of large customers for revenue. The Company continues to expand its customer base to reduce this reliance. Management will continue to monitor this reliance.

For the quarter ended June 30, 2020, the Company had 1 (2019 - 1) customer representing over 10% of total revenue for an aggregate of approximately 14% (2019 - 23%).

(b) Credit Risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The entity's main credit risk relates to its accounts receivable. The Company's credit risk is reduced by a broad customer base and a review of customer credit profiles. As of June 30, 2020, the Company had an expected credit loss provision of \$1,044 (March 31, 2020 - \$1,532).

(c) Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's objective to managing liquidity risk is to ensure that it has sufficient liquidity available to meet its liabilities when due. The Company uses cash to settle its financial obligations as they fall due. The ability to do this relies on the Company collecting its accounts receivables in a timely manner and by maintaining sufficient cash on hand through equity financing, loans from related parties and loans payable. Significant commitments in years subsequent to June 30, 2020 are as follows:

	Carrying value	Contractual cash flows	Payable in 1 year	2-5 years	Thereafter
	\$	\$	\$	\$	\$
Accounts payable and accrued liabilities	6,386	6,386	6,386	-	-
Loans payable	15,753	15,870	14,549	1,321	-
Leases	1,424	1,944	296	1,544	104
	23,563	24,200	21,231	2,865	104

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15. Financial Risk Management - Continued

(d) Market Risk

i. Interest Rate Risk

Interest rate risk arises because the Company has loan payables with variable interest rates. The Company's objective in managing interest rate risk is to minimize the interest expense on liabilities and debt. The Company does not believe that its profit and loss or cash flows would be affected to any significant degree by a sudden change in market interest rates. The interest rates that it pays on the ABL facility and certain of its term loans can fluctuate with the prime rate.

ii. Foreign Currency Risk

The Company is exposed to some foreign currency risk as some of the product ingredients are denominated in U.S. dollars and Euros. Additionally, the Galaxy VTB loan and a portion of the TD ABL facility are USD denominated. Accordingly, the Company's results are affected, and may be affected in the future, by sudden exchange rate fluctuations of the U.S. dollar and Euro. Currently the Company manages foreign currency risk by forecasting its requirements and where possible and appropriate, incorporating the forecasted impact of the U.S. and Euro exchange rates fluctuations into customer prices.

(e) Emerging Risk

The recent outbreak of the coronavirus (COVID-19) may affect our business and operations. Since the outbreak of the pandemic in early 2020, management has been closely evaluating the potential impact on the Company's business and has been taking measures to mitigate its effects. As the Company has an elaborate international supply chain, including its own processing and packaging facility, focus has been placed on worker and staff safety and business continuity. However, as the pandemic continues and as official governmental guidelines evolve, the extent of disruption cannot be fully anticipated and its full impact on the business and its financial condition is uncertain.

16. Capital Management

Management defines capital as the Company's share capital and long-term debt. The Company manages its capital structure and makes adjustments to it, based on the funds available, in order to support its sales, expenses, working capital and any required capital expenditures. The Company is subject to externally imposed capital requirements through the TD ABL Facility (note 9d)

The Company monitors its capital structure and makes adjustments according to market conditions in an effort to meet its objectives given the current outlook of the business and industry in general. The Company may manage its capital structure by issuing new shares, taking on permitted debt, acquiring cash through acquisitions or disposing of assets. The capital structure is reviewed by Management and the Board of Directors on an ongoing basis.

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17. Segmented Information

The Company markets its services primarily in Canada and the United States.

Sales attributed to geographic location for the quarters ended June 30, 2020 and 2019 are as follows:

	Three months ended	
	June 30, 2020	June 30, 2019
		Reclassified
		(note 19)
	\$	\$
Canada	5,809	10,110
United States	4,537	5,013
	10,346	15,123

All of the Company's assets as of June 30, 2020 and March 31, 2020 are located in Canada and the United States, as detailed below:

Current Assets	June 30, 2020	March 31, 2020
	\$	\$
Canada	7,430	7,393
United States	4,493	4,540
	11,923	11,933

Long-Term Assets	June 30, 2020	March 31, 2020
	\$	\$
Canada	9,152	9,434
United States	9,727	9,728
	18,879	19,162

18. Restructuring

During the quarter ended June 30, 2019, the Company recorded a restructuring charge (including severance for affected employees) of \$195 in its Condensed Consolidated Interim Statement of Operations and Comprehensive Loss, of which \$nil remains in accounts payable and accrued liabilities as at June 30, 2020.

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For the three-month periods ended June 30, 2020 and 2019

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19. Discontinued Operations

On May 21, 2019, the Company completed the sale to Zurban Beverages, of assets within the Nothing But Nature business relating to the Kiju brand of Organic juice and iced tea, for up to \$8,000. The acquisition of the business was for gross initial consideration of \$7,500 which comprised of \$6,577 in cash paid to the Company, an additional \$500 of cash held in escrow (payable to the Company at the end of the escrow period), \$423 in accounts payable reduction of amounts owed by the Company to Zurban Beverage, and an additional revenue based earn-out of \$500. On August 1, 2019 the Company and Zurban Beverages agreed to release the \$500 held in escrow. Subsequent to March 31, 2020, the Company determined that there was no additional amount due on this earn-out. The Kiju branded business represented approximately 3% of the revenue of the Company for the year ended March 31, 2020 (2019 – 10%).

The Company recognized a gain on the sale as follows:

Gross Proceeds	7,500
Less:	
Inventory	(998)
Intangible assets	(4,552)
Goodwill	(1,381)
Reserve for escrow amount	(500)
Reserve for accounts receivable held by the Company related to the period before May 21, 2019	(69)
<u>Gain on sale of the assets of the Nothing But Nature Inc. business for the three-month period ended June 30, 2019</u>	<u>-</u>

As a result of this disposal, the Nothing But Nature business is classified as a discontinued operation in accordance with IFRS 5 for the years ended March 31, 2020 and 2019.

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19. Discontinued Operations - Continued

Consolidated statements of operations and comprehensive loss from discontinued operations for the three-month periods ended June 30, 2020 and 2019 is comprised of the following:

	June 30, 2020	June 30, 2019
	\$	\$
Gross revenue	—	1,314
Less: rebates and discounts	—	(296)
Less: listing fees	—	(3)
Net revenue	—	1,015
Cost of goods sold	—	775
Gross profit	—	240
Expenses		
General and administrative	—	173
Storage and delivery	—	229
Advertising and promotion	—	22
Total expenses	—	424
Loss from discontinued operations	—	(184)
Interest expense	—	1
Loss on disposal of property, plant and equipment	—	27
Loss from discontinued operations before income taxes	—	(212)
Loss from discontinued operations	—	(212)

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19. Discontinued Operations - Continued

Cash flows from discontinued operations for the three-month periods ended June 30, 2020 and 2019 is comprised of the following:

	June 30, 2020	June 30, 2019
	\$	\$
Cash flow provided by discontinued operating activities		
Loss from discontinued operations	—	(212)
Items not affecting cash:		
Loss on disposal of property, plant and equipment	—	27
Depreciation and amortization	—	2
Inventory provision	—	(36)
Changes in non-cash working capital (note 14)	—	1,603
Total cash provided by discontinued operating activities	—	1,384
Cash flow provided by discontinued investing activities		
Proceeds from the sale of the assets of the Nothing But Nature Inc business	—	6,577
Total cash provided by discontinued investing activities	—	6,577
Cash flow provided by discontinued financing activities	—	—
Total cash provided by discontinued financing activities	—	—
Change in net cash from discontinued operations	—	7,961

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20. Subsequent Events

i. *Financing - TD Bank/Pivot Financial Inc*

On September 22, 2020, the Company refinanced its ABL debt facility, BDC loan, and TD term loan by entering into a credit facility with Pivot Financial Inc. As part of this refinancing, the stand-by letter of credit to the State of Rhode Island department of labour was repaid in full (note 12b). The structure of the new debt facility includes a \$3,500 term loan and up to a \$4,000 full recourse accounts receivable factoring for a total facility of \$7,500.

ii. *Financing – MW1 LLC - Galaxy VTB*

In June 2020, the Company was scheduled to pay the Galaxy VTB lender, MW1 LLC 10% of the indebtedness owing at that time. The payment was not made which put the Company in default of that loan. On September 22, 2020, the Company entered into an agreement with MW1 LLC (the “VTB Amending Agreement”) whereby the VTB Amending Agreement provides that the terms of the Galaxy VTB are amended to extend the maturity date to September 23, 2021 and requiring a 10% prepayment of the then outstanding indebtedness owing by January 4, 2021. The VTB Amending Agreement further provides that the consideration related to the purchase of Galaxy Nutritional Foods, Inc. shall be increased as follows: (i) the Company shall issue to MW1 LLC 8,333,334 Common Shares at C\$0.06 per Common Share; (ii) the Company shall issue to MW1 LLC 2,777,784 Common Shares at C\$0.06 per Common Share, such Common Shares to be issued only in the event that the Company fails to make a 10% prepayment of the then outstanding indebtedness owing by January 4, 2021; and (iii) at MW1 LLC’s option, the Company shall issue to MW1 LLC 5,555,550 Common Shares at C\$0.06 per Common Share, such Common Shares to be issued only in the event that the Company fails to repay the remaining principal and interest remaining on the Galaxy VTB, in full, by the amended maturity date. In the event that this final extension fee is paid, the maturity date of the Galaxy VTB shall be extended for an additional year on the same terms and conditions. The issuance of these shares is subject to the approval of the TSX Venture Exchange.

iii. *Financing – Primary Capital Inc.*

In June 2020, the Company was scheduled to pay the lender, Primary Capital Inc. (“Primary”) 10% of the indebtedness owing at that time. The payment was not made, which put the Company in default of that loan. On September 22, 2020, the Company entered into an agreement with Primary (the “Primary Amending Agreement”) whereby the terms of the Primary loan are amended to extend the maturity date to September 23, 2021 and requiring a 10% prepayment of the then outstanding indebtedness owing by January 4, 2021. The Primary Amending Agreement further provides that the consideration for these extension shall be as follows: (i) the Company shall pay to Primary an extension fee in the amount of \$56,572 (which shall be added to the total indebtedness of the Primary loan); (ii) the Company shall pay an additional extension fee in the amount of \$18,857 (which shall be added to the total indebtedness of the Primary loan) in the event that the Company fails to make a 10% prepayment of the outstanding amount of the Primary loan by January 4, 2021; and (iii) at Primary’s option, the Company shall pay to Primary an additional extension fee in the amount of \$37,715 (which shall be added to the total indebtedness of the Primary loan) to be paid only in the event that the Company fails to repay the remaining principal and interest remaining on the Primary loan, in full, by September 23, 2021. In the event that this final extension fee is paid, the maturity date of the Primary loan shall be extended for an additional year on the same terms and conditions.

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20. Subsequent Events - Continued

iv. Private Placement/Equity Raise – announcement

On August 20, 2020, the Company announced that it had entered into an agreement with a syndicate of agents led by PI Financial Corp., (collectively the “Agents”) in connection with a marketed best efforts private placement of units (the “Units”) of the Company (the “Offering”) to raise aggregate gross proceeds of up to C\$6 million. As at the date of the issuance of these consolidated financial statements, this Offering had not yet commenced. Management expects to launch the Offering shortly after the Cease Trading Order (see below) is lifted. A Unit will consist of one common share in the capital of the Company (“Common Shares”) and one common share purchase warrant (a “Warrant”). In addition, the Company has granted the Agents an option, exercisable in whole or in part at any time up to two days prior to closing of the Offering, to offer an additional number of Units representing up to 30% of the Offering, on the same terms as the Offering. The net proceeds of the Offering will be used for working capital and general corporate purposes. The closing of the Offering is subject to certain conditions including, but not limited to, the receipt of all necessary regulatory approvals, including the acceptance of the TSX Venture Exchange. All securities issued under the Offering will be subject to a statutory hold period in Canada expiring four months and one day from the Closing Date.

v. Cease Trade Order

On September 4, 2020, the Company announced that it had determined that it may not be able to file its annual audited consolidated financial statements for the year ended March 31, 2020 and its related Management's Discussion and Analysis and Chief Executive Officer and Chief Financial Officer certifications (the "Required Filings") by the prescribed filing deadline of September 14, 2020. On September 18, 2020, the Company was informed by the Ontario Securities Commission (the OSC), that a Cease Trade Order (“CTO”) would be imposed effective immediately following the Company’s failure to file its Required Filings. Management intends to file an application to lift the CTO upon filing the Required Filings.