

WESTLEAF INC.

**Condensed Consolidated Interim Financial Statements
(Unaudited)**

**For the three and nine months ended September 30, 2019 and September 30, 2018
(In Canadian Dollars)**

WESTLEAF INC.**Condensed Consolidated Interim Statements of Financial Position**

As at September 30, 2019 and December 31, 2018

(Unaudited - In thousands of Canadian dollars)

	Notes	September 30, 2019	December 31, 2018
		\$	\$
Assets			
Current assets			
Cash and cash equivalents		6,013	27,844
Restricted cash	11	4,033	766
Accounts receivable		436	529
Inventory	6	757	-
Other current assets		1,645	1,222
		12,884	30,361
Restricted cash	11	-	1,500
Property, plant and equipment	4, 7	44,770	15,399
Right-of-use assets	10(b)	5,850	52
Intangible assets	4, 8	26,229	24,546
Goodwill	4	35,086	35,181
Long-term notes receivable	4, 9	-	295
		124,819	107,334
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities		11,125	3,610
Short-term loans	11	-	10
Current portion of lease liabilities	10(c)	480	34
Current portion of long-term debt	11	6,284	311
		17,889	3,965
Long-term lease liabilities	10(c)	5,509	14
Long-term debt	11	-	3,739
Convertible debentures	12	8,649	-
Deferred tax liability		4,914	6,589
		36,961	14,307
Shareholders' equity			
Share capital	13(a)	123,201	46,299
Reserves	12, 13(b)	13,207	7,183
Deficit		(48,550)	(7,149)
Equity attributable to shareholders of the Company		87,858	46,333
Non-controlling interest	4, 14	-	46,694
Total equity		87,858	93,027
		124,819	107,334
Nature of operations (Note 1)			
Commitments and contingencies (Note 21)			
Subsequent events (Note 22)			
Approved on behalf of the board:		"Scott Hurd"	"Stephen Mason"
		Signed: Director	Signed: Chairman

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

WESTLEAF INC.**Condensed Consolidated Interim Statements of Comprehensive Loss**

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

(Unaudited - In thousands of Canadian dollars, except share and per share amounts)

	Notes	Three months ended September 30, 2019	Three months ended September 30, 2018	Nine months ended September 30, 2019	Nine months ended September 30, 2018
		\$	\$	\$	\$
Revenue		1,661	-	2,647	-
Cost of goods sold		1,019	-	1,620	-
Gross profit		642	-	1,027	-
Operating expenses					
Selling, general and administration		3,079	1,488	10,293	2,738
Depreciation and amortization	7, 8, 10	343	13	579	19
Share-based compensation	13	1,533	-	7,205	-
		4,955	1,501	18,077	2,757
Loss from operations		(4,313)	(1,501)	(17,050)	(2,757)
Non-operating items:					
Interest revenue		(33)	(27)	(199)	(27)
Finance costs	15	608	1	957	1
Foreign exchange loss		14	1	31	2
Loss on disposal of property, plant and equipment		224	-	259	-
Listing expense		6	-	81	-
Loss on step acquisition	4	-	-	95	-
Transaction costs	16	44	8	2,680	124
		863	(17)	3,904	100
Loss before income taxes		(5,176)	(1,484)	(20,954)	(2,857)
Income tax expense (recovery)					
Current		1	-	17	-
Deferred, net	17	(208)	-	(2,750)	-
		(207)	-	(2,733)	-
Loss and comprehensive loss		(4,969)	(1,484)	(18,221)	(2,857)
Loss and comprehensive loss attributable to:					
Westleaf Inc.		(4,969)	(1,396)	(18,097)	(2,687)
Non-controlling interests	14	-	(88)	(124)	(170)
		(4,969)	(1,484)	(18,221)	(2,857)
Loss per share					
Basic and diluted		(0.03)	(0.02)	(0.13)	(0.06)
Weighted average number of shares outstanding					
Basic and diluted		142,840,852	67,082,239	138,813,453	45,121,593

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

WESTLEAF INC.**Condensed Consolidated Interim Statements of Changes in Equity**

For the nine months ended September 30, 2019 and 2018

(Unaudited - In thousands of Canadian dollars, except share amounts)

	Number of shares (Note 13)	Share capital (Note 13)	Reserves		Share- based payments (Note 13)	Non- controlling interest (Note 14)	Deficit attributable to shareholders	Total
			Warrants (Note 13)	Convertible debentures (Note 12)				
	#	\$	\$	\$	\$	\$	\$	\$
Balance, January 1, 2019	110,386,055	46,299	5,773	-	1,410	46,694	(7,149)	93,027
Exercise of warrants	2,743,235	2,331	(1,530)	-	3	-	-	804
Exercise of restricted stock units	651,665	1,025	-	-	(1,025)	-	-	-
Shared-based payment (Note 20)	909,090	400	-	-	(400)	-	-	-
Share purchase business combination (Note 4)	23,357,069	53,062	-	-	-	(43,839)	(5,875)	3,348
Purchase of partner non-controlling interest (Note 5)	5,600,000	20,160	-	-	-	(2,731)	(17,429)	-
Convertible debentures equity conversion feature	-	-	-	1,214	-	-	-	1,214
Convertible debentures equity conversion issuance costs	-	-	-	(144)	-	-	-	(144)
Convertible debentures warrants issuance	-	-	779	-	-	-	-	779
Convertible debentures warrants issuance costs	-	-	(78)	-	-	-	-	(78)
Share compensation expense	-	-	570	-	6,635	-	-	7,205
Share issuance costs, net of tax	-	(76)	-	-	-	-	-	(76)
Loss for the period	-	-	-	-	-	(124)	(18,097)	(18,221)
Balance, September 30, 2019	143,647,114	123,201	5,514	1,070	6,623	-	(48,550)	87,858

	Number of shares (Note 13)	Share capital (Note 13)	Reserves		Share- based payments (Note 13)	Non- controlling interest (Note 14)	Deficit attributable to shareholders	Total
			Warrants (Note 13)	Convertible debentures (Note 12)				
	#	\$	\$	\$	\$	\$	\$	
Balance, January 1, 2018	200,000	10	-	-	-	-	(216)	(206)
Share exchange - cancellation class A common	(200,000)	-	-	-	-	-	-	-
Share exchange - common shares	30,000,000	-	-	-	-	-	-	-
Share issuance - private placements	46,448,000	23,225	-	-	-	-	-	23,225
Share issuance costs	-	(339)	-	-	-	-	-	(339)
Warrant issuance costs	-	(13)	13	-	-	-	-	-
Non-controlling interest arising from Westleaf Labs LP (Note 1(b))	-	-	-	-	-	3,000	-	3,000
Loss for the period	-	-	-	-	-	(170)	(2,687)	(2,857)
Balance, September 30, 2018	76,448,000	22,883	13	-	-	2,830	(2,903)	22,823

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

WESTLEAF INC.**Condensed Consolidated Interim Statements of Cash Flows**

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

(Unaudited - In thousands of Canadian dollars)

	Notes	Nine months ended September 30, 2019	Nine months ended September 30, 2018
Cash provided by (used in)			
Operating activities			
Net loss for the period		(18,221)	(2,857)
Depreciation and amortization	7, 8, 10	579	-
Non-cash finance costs	15	517	-
Deferred tax recovery	17	(2,750)	-
Share-based compensation	13	7,205	-
Transaction costs	16	2,486	-
Loss on disposal of property, plant and equipment		259	-
Fair value loss on step acquisition		95	19
Other non-cash items		(9)	-
Changes in non-cash working capital	19	(1,290)	1,112
Cash used in operating activities		(11,129)	(1,726)
Investing activities			
Purchase of property, plant and equipment assets	7	(28,639)	(11,405)
Proceeds from disposal of property, plant and equipment		14	-
Purchase of intangible assets	8	(117)	(150)
Increase in long-term notes receivable	4	(778)	-
Business acquisitions		(300)	-
Changes in non-cash working capital	19	7,554	-
Cash used in investing activities		(22,266)	(11,555)
Financing activities			
Change in restricted cash	11	(1,767)	(2,410)
Proceeds from issuance of common shares	13	-	20,875
Proceeds from exercise of warrants	13	801	-
Share issuance costs	13	(76)	(339)
Proceeds from issuance of limited partnership units by Delta West Limited Partnership	14	-	3,000
Repayment of short-term loans	11	(10)	(662)
Repayment of lease liabilities	10(c)	(316)	(12)
Increase in long-term debt	11	2,234	4,124
Proceeds from issuance of convertible debentures, net		10,698	-
Cash provided by financing activities		11,564	24,576
(Decrease) increase in cash		(21,831)	11,295
Cash and cash equivalents, beginning of period		27,844	445
Cash and cash equivalents, end of period		6,013	11,740

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WESTLEAF INC.

Notes to the Condensed Consolidated Interim Financial Statements

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

(Unaudited - In thousands of Canadian dollars, except share and per share amounts)

1. Nature of operations and general information

(a) Nature of operations

Westleaf Inc., formerly IGC Resources Inc., was incorporated as 433034 BC Ltd. under the laws of British Columbia in 1992 and continued into the Yukon Territory under the Business Corporations Act (Yukon) on March 3, 2000. Effective July 21, 2004, International Green Ice Inc. was continued out of the Yukon Territory back into British Columbia and changed its name to IGC Resources Inc. (“IGC”). IGC initially traded on the TSX Venture Exchange (“TSX-V”) but was moved to the NEX board on July 10, 2014 as IGC had ceased to carry on an active business. On December 28, 2018, IGC completed a reverse takeover transaction (the “Transaction”) and concurrently continued into the province of Alberta and changed its name to Westleaf Inc. In accordance with this transaction, IGC amended its articles to complete a share consolidation on the basis of one post-consolidation IGC share for every 2.9233 pre-consolidation IGC share.

On January 9, 2019, Westleaf Inc. began trading again on the TSX-V under the ticker symbol “WL”. In addition, on February 27, 2019, Westleaf Inc. began trading on the OTCQB Venture Market under the symbol “WSLFF”. The Company’s convertible debentures trade on the TSX-V under the trading symbol “WL.DB”.

The condensed consolidated interim financial statements for the nine months ended September 30, 2019, include Westleaf Inc. and its subsidiaries (together referred to as the “Company” or “Westleaf”). The Company is undertaking the licensing and infrastructure to produce and sell cannabis pursuant to the Cannabis Act and the related Cannabis Tracking and Licensing System (“CTLS”). The Company currently operates four retail cannabis locations, has recently completed construction and licensing of an extraction facility and is in the process of constructing a cultivation facility and additional retail stores.

(b) General information

The head office and principal address of the Company is Suite 710, 530 – 8th Avenue SW, Calgary, AB, Canada. The Company’s registered and records office address is Suite 1900, 520 – 3rd Avenue SW, Calgary, AB, Canada.

In January 2019, Westleaf Labs Inc. (“WLAB”) and Westleaf Labs LP (“WLABLP”) were renamed from the former Delta West Inc. and Delta West Limited Partnership respectively. Concurrent with the name changes, the ownership in these subsidiaries was increased to 100%.

The Company’s ownership interest in Canndara Canada Inc., and its subsidiaries (“Canndara”) was 21.4% until January 24, 2019, at which time a step acquisition was completed and 100% ownership occurred. Prior to the completion of the acquisition, there was the existence of defacto control and these entities were included in Westleaf’s consolidated financial statements for the year ended December 31, 2018, with the remaining ownership interest being presented as non-controlling interest. Refer to Note 4 for more information.

The non-controlling interests in these subsidiaries prior to the purchases described above, are identified separately in these condensed consolidated interim financial statements (refer to Note 14).

(c) Going concern

These condensed consolidated interim financial statements have been prepared based on accounting policies applicable to a going concern, which assumes that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations. During the nine-month period ending September 30, 2019, the Company incurred a loss of \$18.2 million, utilized funds amounting to \$11.1 million in its operations and had net current liabilities of \$5.0 million.

WESTLEAF INC.

Notes to the Condensed Consolidated Interim Financial Statements

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

(Unaudited - In thousands of Canadian dollars, except share and per share amounts)

1. Nature of operations and general information (continued)

(c) Going concern (continued)

In addition, the Company had \$18.9M of undrawn available debt capital as well as an additional borrowing amount of \$14.5M pending lender approval for additional construction phases. Refer to Note 11 for further details of the borrowings. In order to continue as a going concern, the Company must generate sufficient income and cash flows to repay its obligations, finance working capital and fund capital investments. The future of the Company is dependent on its ability to attain profitable operations and maintain compliance with covenants relating to its lending agreements, generate sufficient funds from operations, continue receiving financial support from its shareholders and lenders and obtain new financing. There is no certainty that the Company will raise these necessary funds from financing or operations. As a result of these factors, there is a material uncertainty that may result in significant doubt as to the ability of the Company to meet its obligations as they come due and continue as a going concern.

These condensed consolidated interim financial statements do not reflect adjustments that may be necessary if the going concern assumption was not appropriate. If the going concern basis was not appropriate for these condensed consolidated interim financial statements, adjustments would be necessary to the carrying value of assets and liabilities, the reported revenues and expenses and the statement of financial position classification used.

2. Basis of presentation

(a) Statement of compliance

The condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standards 34, *Interim Financial Reporting* ("IAS 34"), using accounting policies consistent with International Financial Reporting Standards ("IFRS").

The condensed consolidated interim financial statements do not include all of the information required for full annual financial statements. The accounting policies and critical estimates applied by the Company in the condensed consolidated interim financial statements are the same as those applied in the Company's annual consolidated financial statements as at and for the year ended December 31, 2018. Accordingly, these financial statements should be read in conjunction with the annual financial statements for the year ended December 31, 2018.

The condensed consolidated interim financial statements were approved and authorized for issue by the Board of Directors of the Company on November 27, 2019.

(b) Basis of measurement

The condensed consolidated interim financial statements have been prepared on a historical cost basis.

(c) Functional and presentation of foreign currency

The functional currency of the Company and all of its subsidiaries is Canadian dollars. These condensed consolidated interim financial statements are presented in Canadian dollars unless otherwise noted.

(d) Basis of consolidation

Directly and indirectly controlled entities are treated as subsidiaries of the Company and are included in the condensed consolidated interim financial statements. Control exists when the Company has the power to govern the financial and operating policies of an entity and be exposed to the variable returns achieved by the entity. All significant intercompany balances and transactions were eliminated on consolidation.

WESTLEAF INC.

Notes to the Condensed Consolidated Interim Financial Statements

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

(Unaudited - In thousands of Canadian dollars, except share and per share amounts)

3. Significant accounting policies

Westleaf's accounting policies for the nine months ended September 30, 2019, were consistent with the accounting policies disclosed in its December 31, 2018, audited consolidated financial statements as filed on SEDAR at www.sedar.com with the exception of the addition of the following policies for revenue, inventory and cost of goods sold in relation to the financial results of Westleaf's first retail locations which began operations in the current period.

Inventory

Inventory is valued at the lower of cost and net realizable value. Cost is determined based on a first-in, first-out basis. Cost includes the acquisition cost at the date of the purchase and costs directly attributable to bringing the asset to the location and condition necessary for distribution to the customers. Net realizable value is the estimated selling price, in the ordinary course of business, less the estimated selling and distribution expenses.

When inventory is sold, the carrying amount of the inventory is recognized as an expense in cost of goods sold in the period in which the related revenue is recognized.

(b) Retail revenue

Nature of sales of goods

Retail revenue is comprised of cannabis, merchandise and accessory product sales to store location end-user customers, ecommerce end-user customers in the province of Saskatchewan as well as store location business-to-business cannabis product sales in the province of Saskatchewan.

Measurement and timing

To determine the amount and timing of revenue to be recognized, the Company follows a 5-step process:

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

Revenue from the sale of cannabis to customers is recognized when the Company transfers control of the good to the customer. In some cases, judgement is required in determining whether the customer is a business or the end consumer. This evaluation was made on the basis of whether the business obtains control of the product before transferring to the end consumer. Control of the product transfers at a point in time either upon shipment to or receipt by the customer, depending on the contractual terms.

Westleaf recognizes revenue in an amount that reflects the consideration that the Company expects to receive taking into account any variation that may result from rights of return.

(c) Cost of goods sold

Cost of goods sold includes the cost of inventory expensed.

WESTLEAF INC.

Notes to the Condensed Consolidated Interim Financial Statements

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

(Unaudited - In thousands of Canadian dollars, except share and per share amounts)

3. Significant accounting policies (continued)

(d) New and amended standards and interpretations not yet adopted

New standards or amendments to standards and interpretation not yet effective for the period ended September 30, 2019 and which have not been applied in preparing these condensed consolidated interim financial statements are outlined below. The Company is assessing the impact of any changes on future consolidated financial statements. Any pronouncements that are not applicable or where it has been determined do not have a significant impact to the Company have been excluded herein.

(e) IFRS 3 Business combinations

On October 22, 2018, the IASB issued amendments to IFRS 3 Business Combinations, that seek to clarify whether a transaction results in an asset or a business acquisition.

The amendments apply to businesses acquired in annual reporting periods beginning on or after January 1, 2020. Earlier application is permitted.

The amendments include an election to use a concentration test. This is a simplified assessment that results in an asset acquisition if substantially all of the fair value of the gross assets is concentrated in a single identifiable asset or a group of similar identifiable assets. If a preparer chooses not to apply the concentration test, or the test is failed, then the assessment focuses on the existence of a substantive process.

4. Business acquisitions

(a) Canndara acquisition

Pursuant to a share purchase agreement dated December 19, 2018, Westleaf acquired a 21.4% interest in the outstanding common shares of Canndara for a cash purchase price of \$7.5 million. The ownership interest in Canndara was accounted for using the equity method. The agreement also provided Westleaf an option (the "Option"), that was effective upon the completion of the December 28, 2018, reverse takeover transaction, that allowed Westleaf to purchase the remaining 78.6% interest at a later date.

On January 24, 2019, Westleaf exercised the Option to purchase the remaining 78.6% of outstanding shares of Canndara. Total consideration comprised 21.6 million shares at a share price of \$2.30 for total consideration of \$49.7 million. In addition to the 21.6 million shares, 1.1 million finder's shares were issued at a consideration value of \$2.5 million which is presented in the condensed consolidated interim statement of comprehensive loss within the transaction costs line item. Share issue costs amounted to \$22, net of tax.

For the year ended December 31, 2018, the ability to exercise the Option constituted defacto control in accordance with *IFRS 10 Consolidated Financial Statements* and, as a result, the effective acquisition date applied was December 28, 2018, which preceded the actual option exercise date of January 24, 2019. Obtaining defacto control on December 28, 2018, constituted a step acquisition of a subsidiary in accordance with *IFRS 3 Business Combinations*. The carrying value of the interest determined using the equity method immediately before the option exercise was remeasured to a fair value of \$11.4 million which was based on the fair value of the consideration paid to Canndara during this transaction. Following the remeasurement, a gain of \$4.5 million was recognized in the consolidated statement of comprehensive loss for the year ended December 31, 2018.

WESTLEAF INC.**Notes to the Condensed Consolidated Interim Financial Statements**

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

(Unaudited - In thousands of Canadian dollars, except share and per share amounts)

4. Business acquisitions (continued)

(a) Canndara acquisition (continued)

At December 28, 2018, the purchase price allocation for the acquisition was:

Fair value of consideration transferred:	\$
Fair value of previously held interest immediately before acquisition	7,500
Gain on fair value measurement at acquisition date	4,482
Non-controlling interest	43,934
Less: cash acquired	(2,373)
	<u>53,543</u>
Fair value of the assets and liabilities acquired:	\$
Capital assets	253
Intangible assets	24,400
Goodwill	35,181
Loans receivable	246
Working capital	52
Deferred tax liability	(6,589)
	<u>53,543</u>

Goodwill is comprised of the fair values attributed to future potential cash flows of undeveloped retail locations as well as the management and operating teams acquired.

On January 24, 2019, at the time of the final closing of the option exercise, the book value of the non-controlling interest value had changed to \$43.8 million after adjustment for the comprehensive loss for the period January 1, 2019 through January 24, 2019. The difference between the share consideration paid value of \$49.7 million and the non-controlling interest value that was eliminated upon the 78.6% purchase, amounted to \$5.9 million and was recognized as an adjustment to deficit. The non-controlling interest portion of the net loss for the period January 1 through January 24, 2019, was recognized as an adjustment to the goodwill value that was initially determined at December 31, 2018.

(b) Broadway acquisition

On April 17, 2019, Westleaf acquired 100% of the outstanding shares of a private numbered company which was the sole owner of a retail cannabis location on Broadway Avenue in Saskatoon, Saskatchewan.

Consideration paid includes:	\$
Cash	150
Share-based payment (i)	382
Settlement of notes receivable (ii)	568
Total consideration	<u>1,100</u>

(i) Consisted of 315,789 shares in Westleaf at a fair value price of \$1.21 per share.

(ii) Related to the settlement of a financing arrangement whereby Westleaf advanced \$568 by way of notes receivable. Refer to Note 9 for more information.

WESTLEAF INC.**Notes to the Condensed Consolidated Interim Financial Statements**

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

(Unaudited - In thousands of Canadian dollars, except share and per share amounts)

4. Business acquisitions (continued)

The purchase price allocation for the acquisition was:

Net assets acquired include:	\$
Other current assets	77
Property, plant and equipment	624
Right-of-use assets	900
Intangible assets	788
Accrued liabilities	(176)
Deferred income tax liability	(213)
Lease liabilities	(900)
Total net assets acquired	1,100

The company recognized \$55 in transaction costs related to this acquisition. The pro-forma results of operations of the acquired company have not been presented as it would be immaterial to do so given the limited operational history of the company.

(c) Stonebridge acquisition

On April 18, 2019, Westleaf acquired 100% of the outstanding shares of a private numbered company which was the sole owner of a retail cannabis location in the Stonebridge area of Saskatoon, Saskatchewan. Total cash and non-cash consideration consisted of:

Consideration paid includes:	\$
Cash	150
Share-based payment (i)	481
Settlement of notes receivable (ii)	505
Total consideration	1,136

(i) Consisted of 346,153 shares in Westleaf at a fair value price of \$1.39 per share.

(ii) Related to the settlement of a financing arrangement whereby Westleaf advanced \$505 by way of notes receivable. Refer to Note 9 for more information.

WESTLEAF INC.**Notes to the Condensed Consolidated Interim Financial Statements**

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

(Unaudited - In thousands of Canadian dollars, except share and per share amounts)

4. Business acquisitions (continued)

The purchase price allocation for the acquisition was:

Net assets acquired include:	\$
Other current assets	96
Property, plant and equipment	513
Right-of-use assets	566
Intangible assets	941
Accrued liabilities	(160)
Deferred income tax liability	(254)
Lease liabilities	(566)
Total net assets acquired	1,136

The company recognized \$53 in transaction costs related to this acquisition. The pro-forma results of operations of the acquired company have not been presented as it would be immaterial to do so given the limited operational history of the company.

5. Purchase of partnership interest

On January 31, 2019, the Company purchased its partner's 50% interest in the joint development project of its Calgary, Alberta, Canada, processing and extraction facility in an all-share transaction. A total of 5.6 million shares were issued at a closing market value of \$3.60 per share for total consideration value of \$20.1 million. Share issue costs amounted to \$22, net of tax.

The book value of the non-controlling interest at the time of the purchase was \$2.7 million. The incremental amount of the fair value of the consideration paid over the book value of the non-controlling interest at January 31, 2019, of \$17.4 million was recognized as an adjustment to deficit.

6. Inventory

	September 30, 2019	December 31, 2018
	\$	\$
Cannabis inventory	635	-
Merchandise and accessories inventory	122	-
Balance	757	-

WESTLEAF INC.**Notes to the Condensed Consolidated Interim Financial Statements**

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

(Unaudited - In thousands of Canadian dollars, except share and per share amounts)

7. Property, plant and equipment

	Land	Construction in progress	Leasehold improvements	Furniture & fixtures	Computer software & hardware	Total
	\$	\$	\$	\$	\$	\$
Cost						
Balance, January 1, 2018	-	-	-	-	-	-
Additions	4,300	9,965	700	11	186	15,162
Acquired in business acquisition	-	-	227	15	11	253
Balance, December 31, 2018	4,300	9,965	927	26	197	15,415
Additions	-	26,861	870	197	711	28,639
Acquired in business acquisition	-	-	1,114	4	19	1,137
Dispositions	-	-	(100)	(56)	(7)	(163)
Balance, September 30, 2019	4,300	36,826	2,811	171	920	45,028
Accumulated Depreciation						
Balance, January 1, 2018	-	-	-	-	-	-
Depreciation	-	-	-	1	15	16
Balance, December 31, 2018	-	-	-	1	15	16
Depreciation	-	-	125	11	106	242
Balance, September 30, 2019	-	-	125	12	121	258
Net Book Value						
Balance, December 31, 2018	4,300	9,965	927	25	182	15,399
Balance, September 30, 2019	4,300	36,826	2,686	159	799	44,770

WESTLEAF INC.**Notes to the Condensed Consolidated Interim Financial Statements**

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

(Unaudited - In thousands of Canadian dollars, except share and per share amounts)

8. Intangible assets

	Trademarks	Website	Licensing	Total
	\$	\$	\$	\$
Cost				
Balance, January 1, 2018	-	-	-	-
Additions	23	129	-	152
Acquired in business acquisition	-	-	24,400	24,400
Balance, December 31, 2018	23	129	24,400	24,552
Additions	42	75	-	117
Acquired in business acquisition	-	-	1,729	1,729
Dispositions	-	-	(100)	(100)
Balance, September 30, 2019	65	204	26,029	26,298
Accumulated Amortization				
Balance, January 1, 2018	-	-	-	-
Amortization	-	6	-	6
Balance, December 31, 2018	-	6	-	6
Amortization	-	28	35	63
Balance, September 30, 2019	-	34	35	69
Net Book Value				
Balance, December 31, 2018	23	123	24,400	24,546
Balance, September 30, 2019	65	170	25,994	26,229

9. Long-term notes receivable

Long-term notes receivable amounts were acquired in the Canndara acquisition discussed in Note 4. The Company was a party to financing arrangements for the build out of two third-party retail locations between its subsidiary, Canndara Canada Inc., and their respective counterparties. The arrangements were interest bearing at a rate of prime plus 4% and each of these facilities were made by way of demand notes. As a result of the acquisitions of the two numbered companies referred to in Note 4, the parties from whom the notes were receivable, the notes receivable outstanding balances were settled in full.

WESTLEAF INC.**Notes to the Condensed Consolidated Interim Financial Statements**

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

(Unaudited - In thousands of Canadian dollars, except share and per share amounts)

10. Leases

(a) Nature of leasing activities

Computer software and hardware

This leased asset category is comprised of a two-year lease for an annual subscription to a software program. The lease is a fixed US dollar denomination and as such can be subject to variations in valuation due to foreign exchange.

Real property leases

This leased asset category is comprised of leases for commercial sites whereby the average lease term includes an initial five-year and one additional option for a five-year renewal term. There are currently no leases in this category subject to variable payments based on a non-indexed measure.

(b) Right-of-use assets

	Computer software & hardware	Real property	Total
	\$	\$	\$
Cost			
Balance, January 1, 2018	-	-	-
Additions	67	-	67
Balance, December 31, 2018	67	-	67
Additions	-	4,606	4,606
Acquired in business acquisition	-	1,466	1,466
Balance, September 30, 2019	67	6,072	6,139
Accumulated Depreciation			
Balance, January 1, 2018	-	-	-
Depreciation	15	-	15
Balance, December 31, 2018	15	-	15
Depreciation	17	257	274
Balance, September 30, 2019	32	257	289

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(Unaudited - In thousands of Canadian dollars, except share and per share amounts)

10. Leases (continued)

(b) Right-of-use assets (continued)

	\$	\$	\$
Net Book Value			
Balance, December 31, 2018	52	-	52
Balance, September 30, 2019	35	5,815	5,850

(c) Lease liabilities

	September 30, 2019	December 31, 2018
	\$	\$
Maturity - contractual undiscounted cash flows		
Less than one year	775	35
One to five years	4,408	13
Greater than five years	3,646	-
Total undiscounted lease liabilities	8,829	48
Lease liabilities included in the statement of financial position		
Current	480	34
Long-term	5,509	14
	5,989	48

The leases have applied annual discount rates of 5.45% and 6.95% for the computer software and hardware and real property leases categories respectively.

(d) Short-term and low-value leases

Amounts recognized in the selling, general and administration expenses line item in the condensed interim consolidated statements of comprehensive loss are as follows:

	Three months ended September 30, 2019	Three months ended September 30, 2018	Nine months ended September 30, 2019	Nine months ended September 30, 2018
	\$	\$	\$	\$
Expenses relating to short-term and low-value leases	41	22	194	42

The short-term leases are comprised of premise rent amounts paid on month-to-month contracts which are not intended to be utilized for greater than twelve months as well as low-value lease amounts paid for office equipment.

WESTLEAF INC.**Notes to the Condensed Consolidated Interim Financial Statements**

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11. Borrowings

Short-term

Type of loan	Maturity date	September 30, 2019	December 31, 2018
		\$	\$
Unsecured loans from related parties (b)	On demand	-	10
Term loan debt - current portion (a)	May 1, 2020	3,818	-
Term loan debt - current portion (a)	September 7, 2020	2,466	-
Balance		6,284	10

Long-term

Type of loan	Maturity date	September 30, 2019	December 31, 2018
		\$	\$
Term loan debt - long-term portion (a)	May 1, 2020	-	3,739
Balance		-	3,739

(a) Term loan debt

The Plant Facility

On April 19, 2018, WLAB and WLABLP entered into a two-year term loan facility arrangement with ATB Financial (“ATB”). The loan facility (the “loan”) is based on a ten-year amortization time period with the first renewal occurring at the end of the initial two-year term on May 1, 2020.

The loan provided for an initial financing in the amount of a non-revolving \$4.3 million committed term facility for which the funds were available by way of one draw and which were used towards the purchase of the Calgary, Alberta, Canada, extraction facility property (“The Plant”). The loan is secured through a first fixed charge mortgage on the property.

The full amount of \$4.3 million was drawn on May 1, 2018, with interest at a prime plus 3% annual rate. The loan contains a restricted cash component (“pledged cash”) which holds a portion of the loan draw in trust to be applied against the quarterly payment requirements. At the time of the draw, an amount of \$1.2 million was pledged and subsequent payments have reduced this amount to \$334 as at September 30, 2019 (December 31, 2018 - \$766).

Payments of blended principal and interest amounting to approximately \$145 are due each of the eight quarters commencing June 30, 2018. The Company paid interest amounts of \$68 and \$207 for the three and nine months ended September 30, 2019, respectively (2018 - \$71 and \$116) and these amounts have been capitalized to construction in progress assets. The loan is secured by a first fixed charge on The Plant’s property and land, as well as a first position on a site-specific general security agreement. The initial term has a maturity date of May 1, 2020 and the loan may be paid in whole or in part at any time without penalty. A non-refundable commitment fee of \$17 was paid by the Company upon drawdown of the loan.

WESTLEAF INC.

Notes to the Condensed Consolidated Interim Financial Statements

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

(Unaudited - In thousands of Canadian dollars, except share and per share amounts)

11. Borrowings (continued)

The Plant Facility (continued)

On April 15, 2019, the Company amended the arrangement to provide for an additional equipment finance term loan in the amount of \$2.2 million (“the equipment loan”) with interest at a prime plus 2% annual rate. The equipment loan has a four-year amortization period with the first renewal occurring at the end of the original term date of May 1, 2020. Amounts are repayable as monthly payments of blended principal and interest and there are no amounts yet drawn at September 30, 2019. Additional pledged cash will be required at the time of the draw in the amount of \$216.

On September 27, 2019, additional amendments were made to the loan facility which added a \$2.7 million leasehold improvement facility (the “leasehold facility”) available as a single draw with interest at a prime plus 3% annual rate. In addition, a \$1.0 million revolving operating facility (the “operating facility”) was added with interest at a prime plus 3.25% annual rate. The leasehold facility has a seven-year term amortization time period with the first renewal occurring at the end of the original facility term of May 1, 2020. This facility is repayable as monthly payments of blended principal and interest and there are no amounts yet drawn. The operating facility matures on the initial May 1, 2020, term expiry date and is repayable in monthly interest installments until maturity date.

No amounts are yet drawn on either of these two additional facilities as September 30, 2019. Additional pledged cash will be required at the time of the draw on the leasehold improvement facility in the amount of \$216.

In addition to the original facility arrangement which included a fixed charge coverage ratio covenant that is effective for the quarter ending March 31, 2020, the September 27, 2019, amendment included an additional current ratio covenant. The covenant requires a ratio of no less than 1.25:1.00 and is effective for each calendar quarter commencing September 30, 2019. The Company has met its covenant requirements for the three months ended September 30, 2019.

The loan also provides for an additional borrowing amount up to \$3.2 million to be used towards Phase II of The Plant facility upon obtainment of the standard processing licence and additional lender approval.

Thunderchild Cultivation Facility

On September 7, 2018, the Company executed a credit facility commitment letter with ATB through its wholly-owned subsidiary Westleaf Cultivation Management I Inc. (“WCMI”). The commitment letter provided for a combination of four credit facilities (collectively, the “Facilities” and each, a “Facility”) totalling up to approximately \$24.0 million. The Facilities are secured through a general security agreement with first-ranking interest over personal property as well as a floating charge on all lands.

Facility #1 comprised of a revolving operating loan facility in the amount of \$250, by way of prime-based loans and a corporate credit card for use for general operating purposes.

Facility #2 provides a non-revolving development loan facility in the amount of up to \$15.5 million, by way of prime-based loans and guaranteed notes, to be used to finance the development of Phase I of the greenfield build of WCMI’s cannabis production facility (“Thunderchild Cultivation”). Facility #2 is available by way of multiple draws once the Company has incurred and paid for 50% of approved budgeted costs of the Thunderchild Cultivation facility. Facility #2 is to be repaid using the funds from Facility #4 below once the Thunderchild Cultivation facility is substantially complete.

Facility #3 provides for \$500 in stand-alone credit, by way of letters of credit, to be issued to municipalities in Battleford, Saskatchewan, to support development of the cannabis production facility.

WESTLEAF INC.

Notes to the Condensed Consolidated Interim Financial Statements

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

(Unaudited - In thousands of Canadian dollars, except share and per share amounts)

11. Borrowings (continued)

Thunderchild Cultivation Facility (continued)

Facility #4 provides for a non-revolving reducing term loan facility in the amount of up to \$15.5 million, by way of prime-based loans and guaranteed notes, to be used to repay Facility #2 upon its maturity. Facility #4 will be available by way of a single draw.

On April 15, 2019, the Company amended its original agreement by removing both the Facility #1 \$250 operating loan and the Facility #3 \$500 stand-alone letters of credit and increasing the Facility #2 from its original \$12.0 million to \$15.5 million. In addition, the minimum liquidity requirements increased the minimum bank balance amount from \$1.5 million to \$2.0 million. A restricted cash component ("pledged cash") was also included which requires that funds in the amount of \$3.7 million are placed in trust at the time of an initial draw. Future payments on the facility would be drawn from the pledged cash. At September 30, 2019, the full \$3.7 million restricted cash amount is now held in trust (December 31, 2018 - \$nil) commensurate with the Company's first draw on the facility.

On September 11, 2019, additional amendments were made to the Facilities which removed the \$2.0 million minimum liquidity bank balance requirement.

The Facilities are subject to a fixed charge coverage ratio financial covenant effective for the second full fiscal quarter that occurs subsequent to substantial completion of the Thunderchild Cultivation facility project. The loan is also currently subject to a working capital ratio covenant of no less than 1.25:1.00. The Company has met its covenant requirements for the three months ended September 30, 2019, as well as each of its previous covenant reporting requirements.

Westleaf is required under the terms of Facility #2, to hedge its interest rate exposure for portions of future credit facility draw amounts. Facility #2 is subject to a standby fee at a rate of 0.65% per annum. The Company paid standby fees in the amount of \$24 and \$96 for the three and nine months ended September 30, 2019, respectively (2018 - \$nil and \$nil) and these amounts have been capitalized to construction in progress assets.

The Facilities are accompanied by an additional installment facility whereby the Company may request further financing up to \$11.3 million relating to Phase II of the Thunderchild Cultivation Facility. This additional facility will be dependent on the Company obtaining a cannabis production licence and lender approval.

Amounts drawn on Facility #2 total \$2.5 million as at September 30, 2019.

(b) Unsecured loan from related party

For the year ended December 31, 2018, an amount owed to the previous shareholders of Cannara totalling \$10 was outstanding at the time of acquisition. This amount was repaid in full to the previous shareholders during the nine months ended September 30, 2019.

WESTLEAF INC.**Notes to the Condensed Consolidated Interim Financial Statements**

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12. Convertible debentures

	Convertible debentures debt	Convertible debentures equity conversion	Convertible debentures warrants	Total
	\$	\$	\$	\$
Balance, December 31, 2018	-	-	-	-
Issued gross	9,441	1,663	896	12,000
Issued underwriters	-	-	125	125
Issuance costs	(1,123)	(144)	(78)	(1,345)
Deferred tax	-	(449)	(242)	(691)
Accretion	331	-	-	331
Balance, September 30, 2019	8,649	1,070	701	10,420

On May 10, 2019, the Company closed on a bought deal financing with a syndicate of underwriters for 12,000 convertible debenture units of Westleaf (the “Units”) at a price of \$1,000 dollars per Unit for aggregate gross proceeds to the Company of \$12.0 million. Issuance costs including underwriter fees totalled \$1.3 million for net proceeds of \$10.7 million. Each Unit consists of one 9.5% senior unsecured convertible debenture (each a “Convertible Debenture”) of the Company having a principal amount of \$1,000 dollars and 385 common share purchase warrants of the Company (each a “Warrant”). The Convertible Debentures will mature and be repayable May 10, 2022. Interest is computed on the basis of a 360-day year composed of twelve 30-day months. Interest accrues at the rate of 9.5% per annum payable in arrears on the last business day of June and December of each year commencing June 28, 2019. The Convertible Debentures are convertible into common shares at a conversion price of \$1.30 per share, subject to adjustment in certain events, and certain anti-dilution provisions. If the holder elects to convert the convertible debenture after a period that is eighteen months and one day following the closing date, the holder will also receive the elective interest, being an amount equal to the interest the holder would have received if the holder had held the convertible debentures until maturity payable at the Company’s option in cash and/or common shares. Each Warrant will be exercisable to acquire one common share for a period of thirty-six months at an exercise price of \$1.65 per Warrant.

The fair value of the liability component at the time of issue of \$9.4 million was calculated as the discounted cash flows assuming a market interest rate of 21.0%, which was the estimated rate for the convertible debentures without the equity conversion feature or the warrants.

The fair value of the warrants component at the time of issue was estimated with a Black-Scholes valuation model as follows:

Volatility	75%
Risk-free interest rate	1.62%
Expected life	3 years
Dividend yield	Nil
Forfeiture rate	Nil
Share price	\$0.69

WESTLEAF INC.

Notes to the Condensed Consolidated Interim Financial Statements

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12. Convertible debentures (continued)

The trifurcation of the conversion feature fair value of \$1.7 million was calculated as the difference between the \$12.0 million face value of the convertible debentures less the fair values allocated to the liability and warrants items.

The issuance costs include underwriter fees of \$840 as well as legal and other related costs.

13. Share capital and reserves

(a) Common shares issued and outstanding

		Number of shares	Share capital
		#	\$
Balance, December 31, 2018		110,386,055	46,299
Exercise of warrants	(i)	2,743,235	2,331
Exercise of restricted share units	(iv)	651,665	1,025
Shared-based payment	(v)	909,090	400
Share purchase business combinations	(ii)	22,276,349	50,576
Finder's shares	(ii)	1,080,720	2,486
Purchase of partner non-controlling interest	(iii)	5,600,000	20,160
Share issuance costs, net of tax	(ii), (iii)	-	(76)
Balance, September 30, 2019		143,647,114	123,201

(i) On January 4, 2019, and January 15, 2019, the 2.7 million IGC warrants were exercised. Refer to (b) below for further details.

On May 6, 2019, 6,600 financing warrants were exercised. Refer to (b) below for further details.

(ii) On January 24, 2019, the Canndara option (refer to Note 4) was exercised in an all-share consideration to purchase the remaining 78.6% interest comprising 21.6 million shares at a share price of \$2.30. In addition, there were 1.1 million finder's shares issued at the \$2.30 share price. Share issuance costs in the amount of \$22, net of tax, were incurred.

On April 17, 2019, Westleaf issued 315,789 shares at a \$1.21 share price as part of the consideration paid to acquire 100% of the outstanding shares of a private numbered company as discussed in Note 4.

On April 18, 2019, Westleaf issued 346,153 shares at a \$1.39 share price as part of the consideration paid to acquire 100% of the outstanding shares of a private numbered company as discussed in Note 4.

(iii) On January 31, 2019, the Company purchased the remaining 50% partnership interest in its joint development project (refer to Note 6) in an all-share transaction at \$3.60 per share. Share issuance costs in the amount of \$22, net of tax, were incurred.

(iv) Westleaf issued a total of 651,655 shares pertaining to exercises of restricted share units. Refer to (d) below for further details.

WESTLEAF INC.**Notes to the Condensed Consolidated Interim Financial Statements**

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13. Share capital and reserves (continued)

(a) Common shares issued and outstanding (continued)

(v) On September 17, 2019, Westleaf issued 909,090 shares as the first share-based payment outlined in the terms of a consulting services agreement with Xabis Inc. The quantity of shares to be issued was determined with the 5-day weighted average share price preceding the vesting date. Refer to Note 13(e) and Note 21 for further details.

Escrowed Shares

Founders' common shares and the common shares held by the largest shareholder, Thunder Developments Inc., totalling 23.1 million shares (December 31, 2018 – 41.6 million shares) are held in escrow under a staged release schedule which was initially over a thirty-six month period that commenced January 7, 2019 and which was decreased to an eighteen-month period from January 7, 2019, in connection with the Company's graduation from Tier 2 to Tier 1 issuer status on the TSX-V.

(b) Warrants issued and outstanding

	Liquidity warrants #	Financing warrants # (ii)	Performance warrants #	IGC warrants # (i)	Total #	Weighted average exercise price \$/share
January 1, 2018	-	-	-	-	-	-
Granted	25,000,000	16,958,315	1,230,000	2,736,633	45,924,948	0.481
Expired	(25,000,000)	-	-	-	(25,000,000)	0.000
December 31, 2018	-	16,958,315	1,230,000	2,736,633	20,924,948	1.055
Granted	-	5,266,154	-	-	5,266,154	1.709
Exercised	-	(6,600)	-	(2,736,633)	(2,743,233)	0.293
September 30, 2019	-	22,217,869	1,230,000	-	23,447,869	1.291
Weighted average exercise price \$/share	-	1.357	0.102	-	1.291	n/a

(i) On January 4, 2019, and January 15, 2019, the 2.7 million IGC warrants that were outstanding at December 31, 2018, held by the former shareholders of IGC at the time of the reverse takeover transaction, were exercised in full at an exercise price of \$0.292 per share for total proceeds of \$800.

(ii) On May 6, 2019, 6,600 financing warrants were exercised at an exercise price of \$0.75 per share for total proceeds of \$5.

On May 10, 2019, convertible debentures were issued which included 5.3 million common share purchase warrants, inclusive of 646,154 warrants issued to the underwriters. Each purchase and underwriter warrant is exercisable to acquire one common share for a period of thirty-six months at an exercise price of \$1.65 and \$2.13 per warrant respectively.

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13. Share capital and reserves (continued)

(b) Warrants issued and outstanding (continued)

Expiry date	Number of warrants	Number vested and exercisable	Exercise price \$/share
March 29, 2020	156,240	156,240	0.750
December 28, 2020	980,000	-	0.001
December 28, 2020	250,000	-	0.500
December 28, 2020	1,799,121	1,799,121	0.850
December 28, 2020	14,996,354	14,996,354	1.300
May 10, 2022	4,620,000	4,620,000	1.650
May 10, 2022	646,154	646,154	2.130
	23,447,869	22,217,869	1.291

Fair value

The fair value estimate associated with the warrants is expensed in the condensed consolidated interim statement of comprehensive loss over the vesting period with the offsetting entry to contributed surplus. Refer to Note 12 for further details on the warrant grants that have occurred in the nine months ended September 30, 2019, as well as the associated fair value.

For the three and nine months ended September 30, 2019, the Company recorded \$103 and \$570 respectively (2018 - \$nil and \$nil) in share compensation expense related to the warrants.

(c) Stock options issued and outstanding

On August 2, 2018, the Company adopted a stock option plan for directors, officers, employees, and consultants of Westleaf, its subsidiaries, and its affiliates (“Option Participants”) and has issued 3.0 million options as at September 30, 2019 (December 31, 2018 – 3.0 million). Each stock option entitles the Option Participant to one common share issuable at the exercise price with a straight-line vesting period over a one-year term for directors, and up to a three-year term for all other participants. The Company may issue up to 20.7 million common shares under its combined stock option and restricted share unit (“RSU”) plans.

	Outstanding	Weighted average exercise price \$/share
January 1, 2018	-	-
Granted	3,014,400	0.50
December 31, 2018 and September 30, 2019	3,014,400	0.50

WESTLEAF INC.**Notes to the Condensed Consolidated Interim Financial Statements**

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13. Share capital and reserves (continued)

(c) Stock options issued and outstanding (continued)

Expiry date	Number of options	Number vested and exercisable	Exercise price \$/share
November 1, 2028	3,014,400	1,256,467	0.50

For the three and nine months ended September 30, 2019, the Company recorded \$128 and \$699 respectively (2018 - \$nil and \$nil) in share compensation expense related to the stock option plan.

(d) Restricted share units

On August 2, 2018, the Company adopted a RSU plan for directors, officers, employees or affiliates of Westleaf ("RSU Participants"). Each RSU entitles the RSU Participant to one common share or cash payment at the option of the Company with a straight-line vesting period over a one-year term for directors and up to a three-year term for all other participants. The RSU is exercisable as the option of the holder. The Company may issue up to 20.7 million common shares under its combined stock option and RSU plans.

	Outstanding	Weighted average issue price
January 1, 2018	-	-
Granted	6,705,000	0.85
December 31, 2018	6,705,000	0.85
Granted	2,473,653	1.53
Exercised	(651,665)	0.57
Cancelled/forfeited	(81,000)	2.60
September 30, 2019	8,445,988	0.97

Expiry date	Number of units	Number vested and exercisable
October 3, 2021	400,000	300,000
May 16, 2022	960,000	-
January 1, 2022	241,500	-
July 3, 2022	175,654	-
January 1, 2023	5,100,000	1,650,000
April 3, 2023	900,002	16,669
May 6, 2023	298,333	5,000
January 1, 2024	252,499	-
April 1, 2024	118,000	-
	8,445,988	1,971,669

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13. Share capital and reserves (continued)

(d) Restricted share units (continued)

Fair value

The fair value estimate associated with the RSUs is expensed in the condensed consolidated interim statement of comprehensive loss over the vesting period with the offsetting entry to contributed surplus. RSUs are measured at their intrinsic fair value on the date of grant based on the closing price of the Company's shares on that date.

Key intrinsic valuation items were as follows:

	Three months ended September 30, 2019	Nine months ended September 30, 2019
Expected life	1 - 3 years	1 - 3 years
Share price	\$0.62 to \$0.63	\$0.49 to \$3.17

For the three and nine months ended September 30, 2019, the Company recorded \$1.2 million and \$5.4 million respectively (2018 - \$nil and \$nil) in share compensation expense related to the RSU plan.

(e) Other share-based compensation

For the three and nine months ended September 30, 2019, the Company recorded \$146 and \$536 respectively (2018 - \$nil and \$nil) related to share-based compensation amortized under the terms of a consulting services agreement with a third party vendor. The total fair value is fixed at \$1.0 million. Refer to Note 21 for further details on this commitment. For the three and nine months ended September 30, 2019, a total of 909,090 shares were issued in relation to this agreement.

Total share-based compensation expense presented in the condensed consolidated interim statement of comprehensive loss is as follows:

	Three months ended September 30, 2019	Three months ended September 30, 2018	Nine months ended September 30, 2019	Nine months ended September 30, 2018
	\$	\$	\$	\$
Warrants	103	-	570	-
Stock options	128	-	699	-
Restricted share units	1,156	-	5,400	-
Other	146	-	536	-
Total expenses	1,533	-	7,205	-

WESTLEAF INC.**Notes to the Condensed Consolidated Interim Financial Statements**

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

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14. Non-controlling interest

The non-controlling interests that existed at December 31, 2018, for the Canndara subsidiaries as well as the joint development project partnership subsidiaries, WLAB and WLABLP, were purchased by Westleaf at January 24, 2019 and January 31, 2019, respectively. Refer to Note 4 and Note 6 for further details.

The net change in the non-controlling interests for the three and nine months ended September 30, 2019, were as follows:

	Canndara	WLAB	WLABLP	Total
	\$	\$	\$	\$
As at January 1, 2019	43,934	(1)	2,761	46,694
Net income for the month ended January 31, 2019	(95)	-	(29)	(124)
January 31, 2019, purchase of non-controlling interest in partnership	-	1	(2,732)	(2,731)
January 31, 2019, purchase of non-controlling interest in step acquisition	(43,839)	-	-	(43,839)
As at September 30, 2019	-	-	-	-

The net change in the non-controlling interests for the year ended December 31, 2018, were as follows:

	Canndara	WLAB	WLABLP	Total
	\$	\$	\$	\$
As at January 1, 2018	-	-	-	-
Investment in partnership	-	-	3,000	3,000
Step acquisition	43,934	-	-	43,934
Net loss	-	(1)	(239)	(240)
As at December 31, 2018	43,934	(1)	2,761	46,694

15. Finance costs

	Three months ended September 30, 2019	Three months ended September 30, 2018	Nine months ended September 30, 2019	Nine months ended September 30, 2018
	\$	\$	\$	\$
Interest expense convertible debentures	285	-	440	-
Accretion expense leases	105	1	187	1
Accretion expense convertible debentures	218	-	330	-
Total expenses	608	1	957	1

WESTLEAF INC.**Notes to the Condensed Consolidated Interim Financial Statements**

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

(Unaudited - In thousands of Canadian dollars, except share and per share amounts)

16. Transaction costs

	Three months ended September 30, 2019	Three months ended September 30, 2018	Nine months ended September 30, 2019	Nine months ended September 30, 2018
	\$	\$	\$	\$
Tax portion of share issue costs	28	8	56	124
Acquisition costs	16	-	2,624	-
Total expenses	44	8	2,680	124

17. Deferred income tax

For the three and nine months ended September 30, 2019, the Company realized deferred income tax recoveries of \$208 and \$2.8 million respectively (2018 – \$nil and \$nil). These recoveries were primarily the result of Alberta corporate tax rate reductions that were substantively enacted in the second quarter of 2019, and impairment reversals of deferred tax assets in the Company's retail subsidiaries. The Alberta general corporate income tax rates decreased from 12% to 11% effective July 1, 2019 and will further decrease by one percent on January 1 of each subsequent year until it reaches 8% in 2022. The impairment reversals were primarily the result of operations commencing for four retail locations during the nine months ended September 30, 2019, which led to a change in estimate on the Company's ability to utilize deferred income tax assets on future income.

18. Related party transactions

Transactions with related parties are recorded at their fair value amounts.

(a) Goods and services

	Three months ended September 30, 2019	Three months ended September 30, 2018	Nine months ended September 30, 2019	Nine months ended September 30, 2018
	\$	\$	\$	\$
Rent fees paid to a company owned by a Director of the Company	30	-	81	-
Total	30	-	81	-

The Company leases one of its retail locations from a company owned by a Director of Westleaf. The lease includes an initial 5-year term as well as two optional 5-year terms.

WESTLEAF INC.**Notes to the Condensed Consolidated Interim Financial Statements**

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

(Unaudited - In thousands of Canadian dollars, except share and per share amounts)

18. Related party transactions (continued)

(b) Related party balances

	September 30, 2019	December 31, 2018
	\$	\$
Assets - Management and Directors of the Company	1,010	-
Liabilities - Management and Directors of the Company	1,026	30

As at September 30, 2019, the lease contract discussed in (a) above is recorded as a right-of-use asset in the amount of \$1.0 million and as a current lease liability and a long-term lease liability of \$39 and \$987 respectively.

As a December 31, 2018, an amount of \$20 was recorded in the accounts payable and accrued liabilities balance pertaining to Board and committee director fees not paid until subsequent to the year-end. An amount of \$10 was recorded as short-term loans related to an amount owed to the previous shareholders of Canndara that was outstanding at the time of the acquisition. This amount was repaid in full subsequent to the year-end.

19. Change in non-cash working capital

The change in non-cash working capital items is as follows:

	Nine months ended September 30, 2019	Nine months ended September 30, 2018
	\$	\$
Accounts receivable	93	(187)
Other current assets	(250)	(133)
Inventory	(757)	-
Accounts payable and accrued liabilities	7,178	1,432
Total	6,264	1,112
		\$
Working capital change operating activities	(1,290)	1,112
Working capital change investing activities	7,554	-
Total	6,264	1,112

WESTLEAF INC.

Notes to the Condensed Consolidated Interim Financial Statements

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

(Unaudited - In thousands of Canadian dollars, except share and per share amounts)

20. Financial instruments and risk management

(a) Fair value of financial instruments

As at September 30, 2019, the Company's financial instruments consist of cash, accounts receivable, accounts payable and accrued liabilities, term loan debt and convertible debentures. The carrying values of these financial instruments, excluding the term loan debt and convertible debentures, approximate their fair values as at September 30, 2019, given that their short-term nature. The carrying value of the term loan debt approximates its fair value as it bears a floating rate of interest. The fair value of the convertible debentures as at September 30, 2019, was \$7.8 million based on the TSX-V listed market price.

Financial instruments recorded at fair value are classified using a fair value hierarchy that reflects the significance of the inputs to fair value measurements. The three levels of hierarchy are:

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

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

Level 3 – Inputs for the asset or liability that are not based on observable market data.

There have been no transfers between fair value levels during the year.

(b) Financial instruments risk

The Company is exposed in varying degrees to a variety of financial instrument related risks. The Board mitigates these risks by assessing, monitoring and approving the Company's risk management processes.

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 Company is exposed to credit risk from its cash and accounts receivable. The risk exposure is limited to their carrying amounts at the statement of financial position date. The risk for cash is mitigated by holding these instruments with highly rated Canadian financial institutions.

Accounts receivable at September 30, 2019, and December 31, 2018, primarily consists of goods and services taxes recoverable.

Credit risk associated with these balances is minimal due to the nature of the amounts.

Liquidity risk

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

WESTLEAF INC.

Notes to the Condensed Consolidated Interim Financial Statements

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

(Unaudited - In thousands of Canadian dollars, except share and per share amounts)

20. Financial instruments and risk management (continued)

Liquidity risk (continued)

In the absence of any commitments as outlined in Note 21, the Company has the following contractual obligations related to its financial instruments:

	Total	<1 year	1-5 years	> 5 years
	\$	\$	\$	\$
Accounts payable and accrued liabilities	11,125	11,125	-	-
Term loan debt	6,578	6,578	-	-
Convertible debentures	15,262	1,140	14,122	-
Total	32,965	18,843	14,122	-

21. Commitments and contingencies

On June 3, 2019, Westleaf entered into an exclusive consulting services agreement with Xabis Inc. whereby they will provide various consultative services surrounding the design, buildout and operations of the extraction, processing and manufacturing facility. The consideration consists of six monthly fixed fee service-based cash payments estimated to amount to \$138 as well as share-based payments to occur over three tranche dates beginning July 3, 2019 and each of the subsequent two years thereafter.

For the three and nine months ended September 30, 2019, service-based cash payments of \$18 and \$24 respectively were paid.

The shares to be issued over the three tranches approximate \$1 million in total compensation and the quantity of shares to be issued will be determined by dividing the equivalent dollar amount to be received under the tranche by the 5-day weighted average calculation preceding each of the issuance dates. Refer to Notes 13(a) and 13(e) for details on shares issued and share-based compensation recorded for the three and nine months ended September 30, 2019.

The Company is committed to payments of \$194 pertaining to equipment purchases for The Plant currently in the process of being manufactured by the supplier.

22. Subsequent events

The following events occurred subsequently to the period ended September 30, 2019:

- a) On November 7, 2019, Westleaf announced it had entered into a definitive arrangement agreement to combine with We Grow BC Ltd. ("We Grow"), a cannabis cultivator located in Creston, BC. As part of this arrangement, Westleaf will issue shares from treasury in exchange for 100% of the outstanding shares of We Grow. The arrangement is expected to close in December of 2019 and it is anticipated that it will be accounted for as a reverse acquisition.