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# High Tide Reports 2019 Financial Results Featuring a 258% Increase in Revenue over the Previous Year

Calgary, AB, March 2, 2020 / CNW / − High Tide Inc. ("High Tide" or the "Company") (CSE:HITI) (OTCQB:HITIF) (FRA:2LY), an Alberta-based, retail-focused cannabis corporation enhanced by the manufacturing and wholesale distribution of smoking accessories and cannabis lifestyle products, filed its year-end 2019 financial results on February 28, 2020, the highlights of which are included in this news release. The full set of Consolidated Financial Statements and Management's Discussion and Analysis can be viewed by visiting High Tide's website at www.hightideinc.com, its profile page on SEDAR at www.sedar.com or the Company's CSE profile page at www.thecse.com.

"High Tide had a very busy fiscal year, in which we executed on our growth plans and made significant investments to expand our retail footprint and scale our operations across Alberta, Ontario, and Saskatchewan. We opened 26 retail cannabis stores, which primarily resulted in our 258% increase in revenue. Due to the developments in the 2019 fiscal year, together with High Tide's rapid expansion, the Company is now one of the largest retail-focused cannabis companies in Canada. Looking ahead, High Tide is excited about the 2020 fiscal year, in which it expects to report its first profitable quarter," said Raj Grover, President & Chief Executive Officer.

*2019 Fiscal Year – Financial Highlights (in thousands of Canadian Dollars, except where noted):*

- Revenue for the fiscal year ended October 31, 2019 increased significantly by 258%, to $31,294 from $8,749 in the previous year. The increase in sales was primarily driven by the operations of Canna Cabana, which began selling recreational cannabis products and smoking accessories on October 27, 2018, by the acquisition of Grasscity and by new customers acquired in the Company's Wholesale Segment.
- Gross profit for the 2019 fiscal year also increased significantly by 264%, to $11,316 from $3,110 in 2018, primarily due to an increase in sales volume.
- Loss from operations for the 2019 fiscal year was $19,874 (2018 – $3,734 loss), with negative operating cash flows of $14,833 (2018 – outflows of $8,779). The operating loss and cash outflows were primarily driven by costs incurred to incorporate and finance the High Tide parent entity and Canna Cabana subsidiary, neither of which were operational in the prior fiscal year, as well as to close the acquisition of Grasscity.
- For the quarter ended October 31, 2019, net loss was $15,428, an increase from a loss of $3,798 in the previous quarter, primarily due to non-cash or non-operational charges totaling $11,067 including a change in an estimate of a provision resulting in the reversal of a $5,308 tax recovery; an impairment loss of $4,820 as a result of changes in the timing of cost synergies related to acquisitions and the Company shifting its focus towards the Canna

Cabana retail cannabis business; and an increase in expected credit loss allowance related to Smoker's Corner franchise-based accounts receivable of $939.

- For the year ended October 31, 2018, the total assets of the Company increased to $40,743 from $25,922 in the prior fiscal year.
- High Tide had a working capital surplus of $1,939 (2018 – $14,919) for the year ended October 31, 2019. The change is mainly due to the growth in the Company's operations as it opened Canna Cabana stores and acquired Grasscity.
- During the 2019 fiscal year, Canna Cabana locations processed over 857,000 transactions, evidencing the Company's loyal customer base and attracting new customers to its top-rated consumer-focused retail experience.
- As of the date of this news release, approximately 37,000 members have joined Cabana Club, with the majority subscribing in-store upon completing purchase transactions.

*Subsequent to the end of the 2019 fiscal year, the Company:*

- Obtained a senior secured, non-revolving term credit facility of up to $10,000 from Windsor Capital, which it intends to use to fund the acquisition and build-out of retail cannabis stores in Alberta and Ontario, as well as for general working capital purposes.
- Entered into an agreement to sell the non-core assets of KushBar in consideration for a deemed value of $12,000 in common shares of Halo Labs.
- Launched its proprietary data analytics service named Cabanalytics™, started generating subscription-based revenue and is in ongoing discussions with several potential Cabanalytics™ clients at the time of writing. While Cabanalytics™ helps provide High Tide with an understanding of customer purchasing behaviours and insights into emerging consumer trends, it is also expected to deliver a high-margin stream of cash flows to the Company by providing privacy-protected information to a target group of licensed producers of cannabis and other companies supporting the cannabis sector; and
- Completed the acquisitions of its interest in the Canna Cabana retail cannabis stores in Hamilton and Sudbury. These stores have a strong operating history with unaudited gross sales as of the date of this news release exceeding $15,000 and $7,000, respectively, for the 10 months since opening April 20, 2019.

*Summary of Key Annual Financial Measures*

| **$ Millions (except where noted)** | | **2019** | | 2018 |
|---|---|---|---|---|
| Revenue | **$** | **31.3** | $ | 8.7 |
| Gross Profit | **$** | **11.3** | $ | 3.1 |
| Gross Profit Margin | | **36%** | | 36% |
| Total Operating Expenses | **$** | **(31.2)** | $ | (6.8) |
| Loss from Operations | **$** | **(19.9)** | $ | (3.7) |
| Net Loss | **$** | **(26.3)** | $ | (4.5) |
| Loss Per Share (Basic) | **$** | **(0.13)** | $ | (0.04) |
| Loss Per Share (Diluted) | **$** | **(0.13)** | $ | (0.04) |
| Total Assets | **$** | **40.7** | $ | 25.9 |
| Total Non-Current Liabilities | **$** | **20.5** | $ | - |
| Total Liabilities | **$** | **31.3** | $ | 2.6 |

| | | |
|---|---|---|
| Total Equity | **$ 9.4** | $ 23.3 |

*Summary of Key Quarterly Financial Measures*

| (C$ in millions, except per share amounts) | **Q4 2019** | Q3 2019 | Q2 2019 | Q1 2019 | Q4 2018 | Q3 2018 | Q2 2018 | Q1 2018 |
|---|---|---|---|---|---|---|---|---|
| Net Revenue | **11.4** | 8.3 | 6.6 | 5.0 | 2.1 | 2.2 | 1.7 | 2.7 |
| (Loss) Income from Operations | **(6.3)** | (4.0) | (4.6) | (5.0) | (2.7) | (0.7) | (0.7) | 0.4 |
| Net (Loss) Income | **(15.4)** | (3.8) | (3.3) | (3.8) | (3.8) | (0.6) | (0.4) | 0.3 |

*2019 Fiscal Year – Corporate Highlights:*

- On November 13, 2018, High Tide announced that its wholly owned subsidiary, RGR Canada Inc. had received from Aurora Cannabis Inc. its largest ever wholesale purchase order for smoking accessories.
- On December 13, 2018, High Tide closed the sale of senior unsecured convertible debentures of the Company under a brokered private placement, pursuant to which it issued 10,000 debentures at a price of $1,000 per Debenture to Aurora Cannabis Inc. as well as 1,330 debentures to other participants for gross proceeds of $11,330.
- On December 17, 2018, the Company's common shares commenced trading publicly on the Canadian Securities Exchange under the stock symbol "HITI".
- On December 19, 2018, High Tide announced the successful closing its Grasscity acquisition.
- In January, the Company opened multiple Canna Cabana retail cannabis stores in Edmonton and Grand Prairie, Alberta.
- On February 4, 2019, High Tide was selected by a winner of one of the 25 opportunities to apply for an operator's licence as a result of the Alcohol and Gaming Commission of Ontario's (the "AGCO") Expression of Interest Application Lottery (the "Lottery").
- On February 12, 2019, High Tide was selected to assist with the establishment and operation of a retail cannabis store by a second winner of one of the 25 opportunities to apply for an operator's licence as a result of the Lottery.
- In February, High Tide also opened its 8th, 9th and 10th Canna Cabana retail stores in Alberta.
- On March 21, 2019, High Tide was selected to assist with establishing and operating a retail cannabis store by a third winner of one of only 25 opportunities to apply for an operator's licence as a result of the Lottery.
- On March 28, 2019, High Tide opened its 11th Canna Cabana retail store located in Okotoks, Alberta.
- On April 10, 2019, High Tide closed a brokered private placement of unsecured convertible debentures of the Company, pursuant to which it issued 8,360 debentures at a price of $1,000 per debenture for gross proceeds of $8,360. Of the offering, Aphria Inc. subscribed for 4,500 debentures, accounting for $4,500 of the total gross proceeds.
- On May 9, 2019, High Tide opened its 14th and 15th Canna Cabana retail store locations in Fort Saskatchewan and Lacombe, Alberta, respectively.
- On May 24, 2019, High Tide announced that it had acquired Dreamweavers Cannabis Products Ltd., a retail cannabis store and e-commerce business currently operating in Swift Current, Saskatchewan.
- On June 13, 2019, High Tide announced the receipt of AGCO Authorization to open the Canna Cabana Toronto retail cannabis store on Yonge Street, which opened on June 15, 2019

- On June 17, 2019, High Tide closed the final tranche of its oversubscribed convertible debenture offering, with gross proceeds raised of $11,560.
- In July, the Company also opened Canna Cabana locations in Edmonton, Grand Prairie and Okotoks, Alberta.
- On July 23, 2019, High Tide announced the establishment of a 25,000 square-foot warehouse in Nevada to facilitate the expansion of its Wholesale Segment by reducing lead-times on order fulfilment to High Tide's growing customer base in the United States.
- On July 25, 2019, the Company announced the opening of three new Canna Cabana stores selling recreational cannabis in Alberta.
- On July 29, 2019, the Company announced its 9th celebrity licenses secured by Famous Brandz and the renewal of a key existing license.
- On July 31, 2019, High Tide announced the opening of a Canna Cabana in Fort Saskatchewan as its 11th location selling recreational cannabis in Alberta.
- In August, High Tide announced the opening of Canna Cabana locations in Bonnyville, Calgary, Edmonton, Lloydminster, Olds and Red Deer.
- On September 4, 2019, High Tide announced the acquisition of the Smoker's Corner franchise on Jasper Avenue in Edmonton for conversion into a Canna Cabana location.
- In September, the Company announced the opening of Canna Cabana stores in Calgary, St. Albert and Vegreville.
- In September and October, the Company announced the opening of its first and second KushBar retail cannabis store locations in Camrose and Morinville, Alberta, respectively.
- On October 31, High Tide announced the opening of a new Canna Cabana location in Calgary, its 27th branded retail cannabis store in Canada.

*Outlook for the 2020 Fiscal Year*

The Company believes that the senior secured credit facility advanced by Windsor Capital, together with the proceeds from the eventual sale of the common shares of Halo Labs, leave the Company well funded to execute on its strategic objectives in 2020. In addition, High Tide projects, based on management's current views, strategies, expectations, assumptions and forecasts, that it will report its first profitable quarter by the end of the 2020 fiscal year. This estimate is considered a financial outlook under applicable securities laws. The estimate and any other financial outlooks or future-oriented financial information included herein has been approved by management of High Tide as of the date hereof. Such financial outlooks or future-oriented financial information are provided for the purpose of presenting information about management's current expectations and goals relating to the future business of High Tide. Readers are cautioned that actual results may vary materially as a result of a number of risks, uncertainties and other factors, many of which are beyond High Tide's control. See "*Cautionary Note Regarding Forward-Looking Statements*".

At present, High Tide has 23 Canna Cabana locations (including one franchise) in Alberta, 2 stores in Saskatchewan, 2 stores in Ontario, 1 branded location in Ontario as well as 2 KushBar locations in Alberta. The Company also has 18 development permits on hand to continue expanding across Alberta. As previously announced, the 2 operating KushBar locations and 5 of the development permits have been conditionally sold to US-based Halo Labs. High Tide is currently developing 7 retail sites in Alberta, with 3 currently under construction including a premium location in Banff. In due course, the Company will develop all permits, among other, to achieve the maximum allowable number of stores per operator in Alberta, which is currently capped at 42 by AGLC.

Going forward, Ontario is the largest and most important market for the Company. High Tide expects to acquire the Canna Cabana location in Toronto shortly, while also submitting applications to the AGCO to receive up to 7 more retail licenses throughout 2020 to achieve the current maximum of 10 stores per operator. In Manitoba, High Tide was selected via an MBLL lottery to build a retail store in Niverville as well as commence online sales throughout the province. The Company is also in the final stages of clearing due diligence with the LCRB in British Columbia and intends to open the maximum of 8 allowable stores per operator. High Tide is also currently evaluating entering the Yukon and Northwest Territories to open cannabis retail stores.

As for the Company's e-commerce business, it is looking forward to launching CBDcity.com for US and EU-based customers. High Tide continues to expand the Grasscity accessories portfolio and its domestic order fulfillment capabilities from the Las Vegas warehouse. Lastly, management has decided to exit the mature and declining Smoker's Corner business so it can focus on the Company's core business lines of retail cannabis, e-commerce and the manufacturing and wholesale distribution of smoking accessories.

Management continues to review its operations and streamline processes to reduce operating expenses including changes to staffing levels, reduction in general and administrative expenses and reduction in professional fees.

**About High Tide Inc.**

High Tide is an Alberta-based, retail-focused cannabis company enhanced by the manufacturing and wholesale distribution of smoking accessories and cannabis lifestyle products. It is a vertically-integrated company in the Canadian cannabis market, with portfolio subsidiaries including Canna Cabana Inc., KushBar Inc., Grasscity.com, Smoker's Corner Ltd., RGR Canada Inc. and Famous Brandz Inc. High Tide's strategy as a parent company is to extend and strengthen its integrated value chain, while providing a complete customer experience and maximizing shareholder value. Key industry investors in High Tide include Aphria Inc. (TSX:APHA) (NYSE:APHA) and Aurora Cannabis Inc. (NYSE:ACB) (TSX:ACB).

With the deregulation of recreational cannabis for adult use across Canada, Canna Cabana Inc. and its 28 branded stores, is a sizeable retail business with a sophisticated yet playful customer experience. KushBar Inc. is a second retail cannabis business with 2 operating stores in Alberta, offering a modern experience aimed at the growing customer bases in Alberta. Based in Amsterdam since 2000, Grasscity.com is the world's preeminent and most searchable online retailer of smoking accessories and cannabis lifestyle products with approximately 5.8 million site visits annually. Founded in 2009 and approved by the Canadian Franchise Association, Smoker's Corner Ltd. has 5 locations. Representing the core of High Tide's wholesale segment, RGR Canada Inc. is a high-quality and innovative designer, manufacturer and distributor of cannabis accessories. Famous Brandz Inc. is a dominant manufacturer of licensed lifestyle accessories, through partnerships with celebrities and entertainment companies including Snoop Dogg and Paramount Pictures. Famous Brandz' products are sold to wholesalers and retailers around the world.

For more information about High Tide Inc., please visit [www.hightideinc.com](http://www.hightideinc.com) and its profile page on SEDAR at [www.sedar.com](http://www.sedar.com).

**Cautionary Note Regarding Forward-Looking Statements**

Certain statements in this news release are forward-looking information or forward-looking statements, including, but not limited to (i) the expected ability of the Company to receive funds from the Windsor Capital credit facility and the sale of the Halo Labs shares; (ii) the Company's intention to develop all permits that it holds in Alberta; (iii) the Company's expected future acquisition of the Canna Cabana location in Toronto; (iv) the Company's expectation that it will open retail cannabis stores in British Columbia; and (v) High Tide's financial outlook for estimated profitability from the sale of cannabis in Canada in the 2020 fiscal year. Such information and statements, referred to herein as "forward-looking statements" are made as of the date of this news release or as of the date of the effective date of information described in this news release, as applicable. Forward-looking statements relate to future events or future performance and reflect current estimates, predictions, expectations or beliefs regarding future events. Any statements that express or involve discussions with respect to predictions, expectations, beliefs, plans, projections, objectives, assumptions or future events or performance (generally, forward-looking statements can be identified by use of words such as "outlook", "expects", "intend", "forecasts", "anticipates", "plans", "projects", "estimates", "envisages, "assumes", "needs", "strategy", "goals", "objectives", or variations thereof, or stating that certain actions, events or results "may", "can", "could", "would", "might", or "will" be taken, occur or be achieved, or the negative of any of these terms or similar expressions, and other similar terminology) are not statements of historical fact and may be forward-looking statements.

High Tide's financial outlook for profitability in the 2020 fiscal year is based on the following assumptions of High Tide, amongst others: (i) obtaining entry into additional Canadian markets through public and private retail channels; (ii) current capital projects to meet expected completion and licensing milestones; (iii) that the sale edible products, cannabis concentrates and topicals will cause revenue to increase; and (iv) that High Tide will open additional retail cannabis stores in Ontario, Alberta and British Columbia.

Such forward-looking statements are based on assumptions that may prove to be incorrect, including but not limited to the ability of the Company to execute on its business plan and that the Company will receive one or multiple licenses from Alberta Gaming, Liquor & Cannabis, British Columbia's Liquor Distribution Branch, Liquor, Gaming and Cannabis Authority of Manitoba, Alcohol and Gaming Commission of Ontario or the Saskatchewan Liquor and Gaming Authority permitting it to carry on its Canna Cabana Inc. business. The Company considers these assumptions to be reasonable in the circumstances. However, there can be no assurance that any one or more of the government, industry, market, operational or financial targets as set out herein will be achieved. Inherent in the forward-looking statements are known and unknown risks, uncertainties and other factors that could cause actual results, performance or achievements, or industry results, to differ materially from any results, performance or achievements expressed or implied by such forward-looking statements.

The forward-looking statements contained herein are current as of the date of this news release. Except as required by law, High Tide does not have any obligation to advise any person if it becomes aware of any inaccuracy in or omission from any forward-looking statement, nor does it intend, or assume any obligation, to update or revise these forward-looking statements to reflect new events or circumstances. Any and all forward-looking statements included in this news release are expressly qualified by this cautionary statement, and except as otherwise indicated, are made as of the date of this news release.

SOURCE High Tide Inc.

For further information, please contact Raj Grover, President & Chief Executive Officer of High Tide Inc.; Tel: (403) 770-9435; Email: Raj@HighTideInc.com; Web: www.HighTideInc.com.

HIGH TIDE

# Consolidated Financial Statements

**For the years ended October 31, 2019 and 2018**

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

# Independent Auditor's Report

To the Shareholders of High Tide Inc.:

**Opinion**

We have audited the consolidated financial statements of High Tide Inc. and its subsidiaries (the "Company"), which comprise the consolidated statements of financial position as at October 31, 2019 and October 31, 2018, and the consolidated statements of loss and other comprehensive loss, changes in shareholders' equity (deficiency) and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at October 31, 2019 and October 31, 2018, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

**Basis for Opinion**

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

**Other Information**

Management is responsible for the other information. The other information comprises Management's Discussion and Analysis.

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

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

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

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for oneresulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

The engagement partner on the audit resulting in this independent auditor's report is Stephen Bonnell.

Calgary, Alberta

February 28, 2020

MNP LLP

Chartered Professional Accountants

## High Tide Inc.
## Consolidated Statements of Financial Position
As at October 31, 2019 and 2018
(Stated – In thousands of Canadian dollars)

| | Notes | 2019 | 2018 |
|---|---|---|---|
| | | **$** | $ |
| **Assets** | | | |
| **Current assets** | | | |
| Cash and cash equivalents | | **806** | 8,198 |
| Restricted marketable securities | | **50** | - |
| Accounts receivable | *22* | **2,385** | 855 |
| Inventory | *9* | **6,719** | 3,463 |
| Prepaid expenses, deposits and other receivables | *8* | **2,518** | 4,931 |
| Current portion of loans receivable | *10* | **261** | 62 |
| Total current assets | | **12,739** | 17,509 |
| **Non-current assets** | | | |
| Loans receivable | *10* | **878** | - |
| Property and equipment | *6* | **12,382** | 3,598 |
| Long term prepaid expenses, deposits and other receivables | *8* | **1,380** | 1,200 |
| Long term accounts receivable | | - | 706 |
| Deferred tax asset | *16* | **1,190** | 1,975 |
| Intangible assets and goodwill | *7* | **12,174** | 934 |
| Total non-current assets | | **28,004** | 8,413 |
| **Total assets** | | **40,743** | 25,922 |
| **Liabilities** | | | |
| **Current liabilities** | | | |
| Accounts payable and accrued liabilities | *22* | **4,402** | 2,515 |
| Notes payable current | *13* | **3,570** | - |
| Income taxes payable | | **-** | 33 |
| Current portion of finance lease obligation | *12* | **6** | 6 |
| Shareholder loans | *26* | **701** | 36 |
| Derivative liability | *11* | **2,121** | - |
| Total current liabilities | | **10,800** | 2,590 |
| **Non-current liabilities** | | | |
| Notes payable | *13* | **62** | - |
| Convertible debentures | *15* | **19,664** | - |
| Long term contract liability | | **89** | - |
| Finance lease obligations | *12* | **11** | 17 |
| Deferred tax liability | *16* | **710** | - |
| Total non-current liabilities | | **20,536** | 17 |
| **Total liabilities** | | **31,336** | 2,607 |
| **Shareholders' equity** | | | |
| Share capital | *17* | **26,283** | 35,695 |
| Contributed surplus | *18* | **2,119** | - |
| Convertible debentures – equity | | **1,637** | - |
| Warrants | *20* | **6,609** | 905 |
| Special warrants | *19* | **-** | 16,904 |
| Accumulated other comprehensive income | | **(366)** | - |
| Accumulated deficit | | **(26,696)** | (30,176) |
| **Equity attributable to owners of the Company** | | **9,586** | 23,328 |
| Non-controlling interest | 26 | **(179)** | (13) |
| **Total shareholders' equity** | | **9,407** | 23,315 |
| **Total liabilities and shareholders' equity** | | **40,743** | 25,922 |

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

*Signed) "Harkirat (Raj) Grover"*
**President and Chairman of the Board**

*(Signed) "Nitin Kaushal"*
**Director and Chairman of the Audit Committee**

(Stated – In thousands of Canadian dollars)

| | Notes | 2019 | 2018 |
|---|---|---|---|
| | | **$** | $ |
| **Revenue** | | | |
| Merchandise sales | | **29,445** | 7,676 |
| Royalty revenue | | **1,516** | 835 |
| Interest and other revenue | | **333** | 238 |
| **Net revenue** | 5 | **31,294** | 8,749 |
| **Cost of sales** | | **(19,978)** | (5,639) |
| **Gross profit** | | **11,316** | 3,110 |
| **Expenses** | | | |
| Salaries, wages and benefits | | **(10,447)** | (2,938) |
| Share-based compensation | *18, 24* | **(2,209)** | - |
| General and administration | | **(8,094)** | (2,012) |
| Professional fees | | **(6,463)** | (970) |
| Advertising and promotion | | **(2,252)** | (698) |
| Depreciation and amortization | *6, 7* | **(1,401)** | (86) |
| Interest and bank charges | | **(324)** | (140) |
| **Total expenses** | | **(31,190)** | (6,844) |
| **Loss from operations** | | **(19,874)** | (3,734) |
| **Other income (expenses)** | | | |
| Fair value change in conversion feature and warrants liability | | - | 28 |
| Revaluation of derivative liability | *11* | **732** | - |
| Impairment loss | *6, 7* | **(4,820)** | - |
| Reclassification of available for sale reserve upon settlement of marketable securities | | - | 29 |
| Related party balances written off | 24 | **(34)** | (1,419) |
| Discount on accounts receivable | | - | (475) |
| Finance and other costs | 14 | **(3,089)** | (499) |
| Foreign exchange gain (loss) | | **(44)** | 42 |
| Gain on extinguishment of financial liability | 17(x), 24 | **129** | - |
| **Total other income (expenses)** | | **(7,126)** | **(2,294)** |
| **Loss before taxes** | | **(27,000)** | (6,029) |
| Deferred tax recovery | 16 | **708** | 1,496 |
| **Net Loss** | | **(26,292)** | (4,533) |
| **Other comprehensive loss** | | | |
| Translation difference on re-valuation of foreign subsidary | | (366) | - |
| Unrealized loss on available for sale marketable securities | | - | (22) |
| Reclassification of available for sale reserve upon settlement of marketable securities | | - | (29) |
| **Total comprehensive loss** | | **(26,658)** | **(4,584)** |
| **Net loss and comprehensive loss attributable to:** | | | |
| Owners of the Company | | **(26,492)** | (4,571) |
| Non-controlling interest | 26 | **(166)** | (13) |
| | | **(26,658)** | (4,584) |
| **Loss per share** | | | |
| Basic | *21* | **(0.13)** | **(0.04)** |
| Diluted | *21* | **(0.13)** | **(0.04)** |

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

Commitments and Contingencies (Note 25)

Subsequent Events (Note 27)

# High Tide Inc.

## Consolidated Statements of Changes in Shareholders' Equity (Deficiency)

(Stated– In thousands of Canadian dollars)

| | Note | Share capital | Special warrants | Warrants | Contributed surplus | Equity portion of convertible debt | Accumulated other comprehensive income (loss) | Accumulated deficit | Attributable to owners of the Company | NCI | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | $ | $ | $ | $ | $ | $ | $ | $ | $ | $ |
| **Balance, October 31, 2017** | | **667** | - | - | - | - | **51** | **(10,375)** | **(9,657)** | - | **(9,657)** |
| Shares issued for cash | *17(i)* | 445 | - | - | - | - | - | - | 445 | - | 445 |
| Shares issued on debt conversion | *17(ii)* | 852 | - | - | - | - | - | - | 852 | - | 852 |
| Shares issued for services rendered | *17(iii)* | 146 | - | - | - | - | - | - | 146 | - | 146 |
| Shares issued - convertible debentures | *20(i)* | 669 | - | - | - | - | - | - | 669 | - | 669 |
| Shares and warrants issued on reorganization | *17(v)* | 31,987 | - | 241 | - | - | - | (10,789) | 21,439 | - | 21,439 |
| Eliminated on corporate reorganization | *17(v)* | (2,779) | - | - | - | - | - | - | (2,779) | - | (2,779) |
| Dividends on corporate reorganization | | - | - | - | - | - | - | (4,492) | (4,492) | - | (4,492) |
| Shares issued on High Tide incorporation | *17(iv)* | 20 | - | - | - | - | - | - | 20 | - | 20 |
| Private placement | *17(vi)* | 3,705 | - | - | - | - | - | - | 3,705 | - | 3,705 |
| Share issue costs – cash | *17(vii)* | (263) | - | - | - | - | - | - | (263) | - | (263) |
| Broker warrants | *17(vi)* | (158) | - | 158 | - | - | - | - | - | - | - |
| Unrealized (loss) gain on marketable securities | | - | - | - | - | - | (22) | 22 | - | - | - |
| Marketable securities upon settlement | | - | - | - | - | - | (29) | 29 | - | - | - |
| Intangible assets acquisition | *17(vii)* | 290 | - | - | - | - | - | - | 290 | - | 290 |
| Special warrants | *19* | - | 18,364 | - | - | - | - | - | 18,364 | - | 18,364 |
| Warrant issue costs | | - | (2,000) | 506 | - | - | - | - | (1,494) | - | (1,494) |
| Tax effect of share issue costs | | 114 | 540 | - | - | - | - | - | 654 | - | 654 |
| Net loss | | - | - | - | - | - | - | (4,571) | (4,571) | (13) | (4,584) |
| **Balance, October 31, 2018** | | **35,695** | **16,904** | **905** | **-** | **-** | **-** | **(30,176)** | **23,328** | **(13)** | **23,315** |
| Transition adjustment – IFRS 9 | *3d* | - | - | - | - | - | - | (26) | (26) | - | (26) |
| Transition adjustment – IFRS 15 | *3d* | - | - | - | - | - | - | (67) | (67) | - | (67) |
| Conversion of special warrants | *19* | 13,051 | (16,904) | 3,853 | - | - | - | - | - | - | - |
| Warrants issued December, 2018 | *15(i)* | - | - | 93 | - | - | - | - | 93 | - | 93 |
| Acquisition - Grasscity | *4a* | 3,047 | - | - | - | - | - | - | 3,047 | - | 3,047 |
| Share-based compensation | *18, 24* | 71 | - | - | 2,119 | - | - | - | 2,190 | - | 2,190 |
| Equity portion of convertible debentures | *15* | - | - | - | - | 1,637 | - | - | 1,637 | - | 1,637 |
| Cumulative translation adjustment | | - | - | - | - | - | (366) | | (366) | - | (366) |
| Interest payment paid in shares | *15* | 1,156 | - | - | - | - | - | - | 1,156 | - | 1,156 |
| Warrants issued April, 2019 | *15(ii)* | - | - | 883 | - | - | - | - | 883 | - | 883 |
| Acquisition - Dreamweavers | *4b* | 1,147 | - | 295 | - | - | - | - | 1,442 | - | 1,442 |
| Acquisition - Jasper Ave. | *4d* | 205 | - | - | - | - | - | - | 205 | | 205 |
| Warrants issued June, 2019 | *15(iii)* | - | - | 342 | - | - | - | - | 342 | - | 342 |
| Reduction is share capital | *17(ix)* | (29,699) | - | - | - | - | - | 29,699 | - | - | - |
| Fee paid in shares & warrants | *17(x), 20(ii)* | 1,607 | - | 132 | - | - | - | - | 1,739 | - | 1,739 |
| Warrants issued September, 2019 | *13* | - | - | 105 | - | - | - | - | 105 | - | 105 |
| Warrant exercise | | 3 | - | - | - | - | - | - | 3 | - | 3 |
| Comprehensive loss for the year | | - | - | - | - | - | - | (26,126) | (26,126) | (166) | (26,292) |
| **Balance, October 31, 2019** | | **26,283** | **-** | **6,609** | **2,119** | **1,637** | **(366)** | **(26,696)** | **9,586** | **(179)** | **9,407** |

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

## Consolidated Statements of Cash Flows

For the year ended October 31, 2019 and 2018
(Stated – In thousands of Canadian dollars)

| | Notes | 2019 | 2018 |
|---|---|---|---|
| | | **$** | $ |
| **Operating activities** | | | |
| Net loss | | **(26,292)** | (4,533) |
| Income tax recovery | *16* | **(708)** | (1,495) |
| Accretion | *14* | **1,476** | 8 |
| Depreciation and amortization | *6,7* | **1,401** | 86 |
| Impairment loss on goodwill | *7* | **4,600** | - |
| Impairment loss on fixed assets | *6* | **220** | |
| Revaluation of derivative liability | *11* | **(732)** | (28) |
| Gain on financial liability | | **-** | - |
| Share-based compensation | *18, 24* | **2,209** | 146 |
| Inventory Obsolesence | | **-** | 182 |
| Related party balances written-off | | **-** | 1,419 |
| Provision for impairment on accounts receivable | | **-** | 19 |
| Expected credit loss allowance | 22 | **1,142** | 475 |
| | | **(16,684)** | (3,721) |
| Changes in non-cash working capital | | | |
| Accounts receivable | | **(1,920)** | (673) |
| Inventory | | **(1,811)** | (102) |
| Loans receivable | *10* | **(1,077)** | 313 |
| Prepaid expenses and deposits | | **3,536** | (5,898) |
| Accounts payable and accrued liabilities | | **2,461** | 1,715 |
| Income tax payable | | **(33)** | - |
| Contract liability | | **30** | - |
| Shareholder loans | 26 | **665** | (413) |
| **Net cash used in operating activities** | | **(14,833)** | (8,779) |
| **Investing activities** | | | |
| Purchase of property and equipment | *6* | **(8,074)** | (3,581) |
| Purchase of intangible assets | *7* | **(2,333)** | (646) |
| Loans receivable | | **-** | - |
| Cash paid for business combination, net of cash acquired | *4* | **(6,515)** | - |
| **Net cash used in investing activities** | | **(16,922)** | (4,227) |
| **Financing activities** | | | |
| Repayment of finance lease obligations | | **(6)** | (31) |
| Proceeds from convertible debentures net of issue costs | *15* | **22,419** | 566 |
| Notes Payable | *13* | **2,000** | - |
| Net proceeds from share issuance | | **-** | 3,887 |
| Net proceeds special warrant issuance | | **-** | 16,870 |
| Restricted marketable securities | | **(50)** | - |
| Payment of dividends | | **-** | (1,155) |
| **Net cash provided by financing activities** | | **24,363** | 20,137 |
| **Net (decrease) increase in cash and cash equivalents** | | **(7,392)** | 7,131 |
| **Cash and cash equivalents, beginning of the year** | | **8,198** | 1,067 |
| **Cash and cash equivalents, end of the year** | | **806** | 8,198 |

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

## 1. Nature of Operations

High Tide Inc. (the "Company" or "High Tide") is a downstream focused retailer of cannabis products, distributor, and a seller of smoking accessories. The Company's shares are listed on the Canadian Stock Exchange ("CSE") under the symbol "HITI", the Frankfurt Stock Exchange ("FSE") under the securities identification code 'WKN: A2PBPS' and the ticker symbol "2LY", and on the OTCQB Market ("OTCQB") under the symbol "HITIF". The address of the Company's corporate and registered office is # 120 – 4954 Richard Road SW, Calgary, Alberta T3E 6L1.

High Tide does not engage in any U.S. cannabis-related activities as defined by the Canadian Securities Administrators Staff Notice 51-352.

## 2. Basis of Preparation

### 2.1 Statement of Compliance

The consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations of the IFRS Interpretations Committee ("IFRIC"). These consolidated financial Statements were approved and authorized for issue by the Board of Directors on February 28, 2020.

### 2.1 Basis of measurement

The consolidated financial statements, presented in thousands of Canadian Dollars, have been prepared on a historical cost basis, except for stock options, warrants and certain financial instruments which are measured at fair value. The accounting policies set out below have been applied consistently by the Company and its wholly owned subsidiaries for the periods presented. For comparative purposes, the Company has reclassified certain immaterial items on the comparative consolidated statement of financial position and the consolidated statements of loss and other comprehensive loss to conform with current period's presentation.

### 2.2 Functional and presentation currency

The consolidated financial statements are presented in Canadian dollars, which is the Company's presentation currency.

The functional currency of the Company's Canadian subsidiaries is the Canadian dollar ("CAD"), and of the Company's United States ("U.S.") subsidiaries is the USD, and of the Company's European subsidiaries is the Euro ("EUR"). Translation gains and losses resulting from the consolidation of operations in Canada, USA and Europe, are recognized in other comprehensive income in the statement of loss and other comprehensive loss and as a separate component of shareholders' equity on the consolidated statement of changes in equity.

### 2.3 Basis of consolidation

#### Subsidiaries

| Subsidiaries | Percentage Ownership | Functional Currency |
|---|---|---|
| Canna Cabana Inc. | 100.00% | Canadian Dollar |
| RGR Canada Inc. | 100.00% | Canadian Dollar |
| Famous Brandz Inc. | 100.00% | Canadian Dollar |
| Canna Cabana (SK) Inc. | 100.00% | Canadian Dollar |
| Smoker's Corner Ltd. | 100.00% | Canadian Dollar |
| KushBar Inc. | 50.10% | Canadian Dollar |
| Kush West Distribution Inc. | 100.00% | Canadian Dollar |
| HT Global Imports Inc. | 100.00% | Canadian Dollar |
| High Tide BV (Grasscity) | 100.00% | European Euro |
| Valiant Distrbutions Inc. | 100.00% | U.S. Dollar |

Subsidiaries are entities controlled by High Tide. Control is achieved where the entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The results of subsidiaries acquired or disposed of during the year are included in the consolidated statements of loss and other comprehensive loss from the effective date of acquisition and up to the effective date of disposal, as appropriate. Where necessary, adjustments are made to the consolidated financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Company. Intra-group balances and transactions, and any unrealized gains or losses or income and expenses arising from intra-group transactions are eliminated in preparing the consolidated financial statements.

## 3. Accounting Policies

The accounting policies set out below have been applied consistently to all years presented in these consolidated financial statements, and have been applied consistently by the Company and its subsidiaries.

### Use of estimates & accounting judgements

The preparation of these consolidated financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the reported amounts of assets, liabilities and shareholders' equity at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the year. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results ultimately may differ from those estimates.

The estimates and assumptions are reviewed on an ongoing basis. Revisions in accounting estimates are recognized in the year in which the estimate is revised if the revision affects only that year, or in the year of the revision and future years if the revision affects both current and future years.

### A. Use of estimates

Critical accounting estimates are those that require management to make assumptions about matters that are highly uncertain at the time the estimate or assumption is made. Critical accounting estimates are also those that could potentially have a material impact on the Company's financial results where a different estimate or assumption is used. The significant areas of estimation uncertainty are:

**Expected credit losses**

The Company's accounts receivables are typically short-term in nature and the Company recognizes an amount equal to the lifetime expected credit losses ("ECL"). The Company measures lifetime ECLs based on historical experience and including forecasted economic conditions. The amount of ECLs is sensitive to changes in circumstances of forecast economic conditions.

**Inventory valuation**

Inventory is carried at the lower of cost and net realizable value; in estimating net realizable value, the Company makes estimates related to obsolescence, future selling prices, seasonality, customer behaviour, and fluctuations in inventory levels.

**Estimated useful lives, residual values and depreciation of property and equipment**

Depreciation of property and equipment is dependent upon estimates of useful lives and residual values, which are determined through the exercise of judgement.

**Estimated useful lives of Intangibles**

Amortization of intangible assets is dependent upon estimates of useful lives, lease terms and residual values which are determined through the exercise of judgement.

**Fair value of financial instruments**

The individual fair values attributed to different components of a financing transaction are determined using valuation techniques. The Company uses judgement to select the methods used to make certain assumptions and in performing the fair value calculations in order to determine; (a) the values attributable to each component of a transaction at the time of their issuance; (b) the fair value measurement for certain instruments that require subsequent measurement at fair value on a recurring basis; and (c) for disclosing the fair value of financial instruments subsequently carried at amortized cost. These valuation estimates could be significantly different because of the use of judgement and the inherent uncertainty in estimating the fair value of these instruments that are not quoted in an active market.

**Impairment of non-financial assets**

Impairment exists when the carrying value of an asset or cash generating unit ("CGU") exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use ("VIU"). The fair value less costs of disposal calculation is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a discounted cash flow model. The estimated future cash flows are derived from management estimates, budgets and past performance and do not include activities that the Company is not yet committed to or significant future investments that will enhance the asset's performance of the cash generating unit being tested. The recoverable amount is sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash flows and the growth rate used for extrapolation purposes.

### A. Use of estimates (continued)

**Business combinations**

In a business combination, all identifiable assets, liabilities and contingent liabilities acquired are recorded at their fair values. One of the most significant estimates relates to the determination of the fair value of these assets and liabilities. For any intangible asset identified, depending on the type of intangible asset and the complexity of determining its fair value, an independent valuation expert or management develop the fair value, using approximate valuation techniques, which are generally based on a forecast of the total expected future cash flows. The evaluations are linked closely to the assumptions made by management regarding the future performance of the assets concerned and the discount rate applied. Certain fair values may be estimated at the acquisition date pending confirmation or completion of the valuation process. When provisional values are used in accounting for a business combination, they may be adjusted retrospectively in subsequent periods. However, the measurement period will last for up to one year from the acquisition date.

**Taxation**

The calculations for current and deferred taxes require management's interpretation of tax regulations and legislation in the various tax jurisdictions in which the Company operates, which are subject to change. The measurement of deferred tax assets and liabilities requires estimates of the timing of the reversal of temporary differences identified and management's assessment of the Company's ability to utilize the underlying future tax deductions against future taxable income before they expire, which involves estimating future taxable income.

The Company is subject to assessments by various taxation authorities in the tax jurisdictions in which it operates, and these taxation authorities may interpret the tax legislation and regulations differently. In addition, the calculation of income taxes involves many complex factors. As such, income taxes are subject to measurement uncertainty and actual amounts of taxes may vary from the estimates made by management.

**Deferred tax assets**

Deferred tax assets, including those arising from tax loss carry-forwards, require management to assess the likelihood that the Company will generate sufficient taxable income in future periods in order to utilize recognized deferred tax assets. Assumptions about the generation of future taxable profits depend on management's estimates of future cash flows. In addition, future changes in tax laws could limit the ability of the Company to obtain tax deductions in future periods. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the Company to realize the net deferred tax assets recorded at the reporting date could be impacted.

**Measurement of share-based payments, warrants and stock options**

In calculating the value of share-based payments, warrants and stock options, key estimates such as the value of the common shares, the rate of forfeiture, the expected life, the volatility of the value of the Company's common shares and the risk-free interest rate are used.

### B. Judgements

Judgement is used in situations when there is a choice and/or assessment required by management. The following are critical judgements apart from those involving estimations, that management has made in the process of applying the Company's accounting policies and that have a significant effect on the amounts recognized in the consolidated financial statements.

**Going concern**

Determining if the Company has the ability to continue as a going concern is dependent on its ability to achieve to raise additional financing and/achieve profitable operations. Certain judgements are made when determining if the Company will achieve profitable operations. At each reporting period, management assesses the basis of preparation of the consolidated financial statements. The assumption that the Company will be able to continue as a going concern is subject to critical judgements of management with respect to assumptions surrounding the short and long-term operating budget, expected profitability, investment and financing activities and management's strategic planning.

**Determination of CGUs**

For the purposes of assessing impairment of non-financial assets, the Company must determine CGUs. Assets are allocated to CGUs based on the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGUs. Determination of what constitutes a CGU is subject to management judgement. The asset composition of a CGU can directly impact the recoverability of assets included within the CGU. The determination of the Company's CGUs was based on management's judgement in regard to shared infrastructure, geographical proximity and similar exposure to market risk and materiality.

## B. Judgements (continued)

**Business combinations and asset acquisitions**

Classification of an acquisition as a business combination or an asset acquisition depends on whether the assets acquired constitute a business, which can be a complex judgement. Where an acquisition is classified as a business combination or an asset acquisition can have a significant impact on the entries made on and after the acquisition. For any intangible asset identified, depending on the type of intangible asset and the complexity of determining its fair value, an independent valuation expert or management may develop the fair value, using approximate valuation techniques, which are generally based on a forecast of the total expected future cash flows. The evaluations are linked closely to the assumptions made by management regarding the future performance of the assets concerned and any changes in the discount rate applied. Certain fair values may be estimated at the acquisition date pending confirmation or completion of the valuation process.

**Consolidation**

The determination of which entities require consolidation is subject to management judgement regarding levels of control, assumptions of risk and other factors that may ultimately include or exclude an entity from the classification of a subsidiary or other entity requiring consolidation.

**Segmented information**

Operating segments are determined based on internal reports used in making strategic decisions that are reviewed by the Chief Operating Decision Makers (CODMs). The Company's CODMs are the Chief Financial Officer, Chief Executive Officer and Chief Operating Officer.

**Contingencies**

Management uses judgement to assess the existence of contingencies. By their nature, contingencies will only be resolved when one or more future events occur or fail to occur. Management also uses judgement to assess the likelihood of the occurrence of one or more future events.

**Derivative liability**

Management applies judgement in determining the fair value of the derivative liability of its put option on Grasscity acqusition by applying assumptions and estimates using the Black-Scholes valuation model. These assumptions and estimates require a high degree of judgement and a change in these estimates may result in a material effect to the consolidated financial results.

## C. Summary of significant accounting policies

**Cash and cash equivalents**

Cash and cash equivalents consist of bank balances and highly liquid short-term investments with a maturity date of 90 days or less which are convertible to known amounts of cash at any time by the Company without penalties.

**Marketable securities**

Marketable securities comprise of the Company's investments in money market mutual funds held through a large commercial bank in Canada and are disclosed as restricted marketable securities. Such securities are measured at fair market value in the consolidated financial statements with unrealized gains or losses recorded in other comprehensive income. Fair values for marketable securities are estimated using quoted market prices in active markets, obtained from securities exchanges. At the time securities are sold or otherwise disposed of, gains or losses are included in consolidated statement of loss and other comprehensive loss.

**Inventory**

Inventories are measured at the lower of cost and net realizable value. The cost of inventories is calculated on a weighted average cost basis and includes expenditures incurred in acquiring the inventories and other costs incurred in bringing them to their existing location and condition.

Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. The Company reviews inventory for obsolete, redundant and slow-moving goods and any such inventory are written down to net realizable value. Any write-downs of inventory to net realizable value are recorded in consolidated statement of loss and other comprehensive loss of the related year.

## C. Summary of significant accounting policies (continued)

**Property and equipment**

Property and equipment are measured at cost less accumulated depreciation and impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. During the construction of leasehold improvements, items are classified as construction in progress. When the asset is available for use, it is transferred from construction in progress to the appropriate category of property and equipment and depreciation on the item commences.

Depreciation is provided using the following methods at rates intended to depreciate the costs of the assets over their estimated use lives:

| Asset | Method | Useful life |
|---|---|---|
| Office equipment and computers | Straight-line | 3 to 5 years |
| Leasehold improvements | Straight-line | Term of lease |
| Vehicles | Straight-line | 5 years |
| Buildings | Straight-line | 25 years |

When a property and equipment asset includes significant components with different useful lives, each significant component is depreciated separately.

The estimated useful lives and depreciation methods are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in consolidated statement of loss and other comprehensive loss of the related year.

Assets under construction are not ready for use and are not depreciated.

Repairs and maintenance costs that do not improve or extend productive life are recognized in the consolidated statement of loss and other comprehensive loss in the year in which the costs are incurred.

**Intangible assets**

Intangible assets acquired separately are measured initially at cost and consists of software and lease buy-outs. Following initial recognition, intangible assets are recorded at cost less accumulated amortization and impairment losses, if any. The cost of intangible assets acquired in an asset acquisition are initially measured using an allocation of the purchase consideration using a relative fair value approach.

The useful lives of intangible assets are assessed as either finite or indefinite. The Company does not have any indefinite life intangible assets. Amortization of finite life intangible assets is provided, when the intangible asset is available for use, on a straight-line basis over their estimated useful lives, which for leases is the lower of the useful life of the asset, or the primary lease term, including renewals at the Company's option, if any, as follows:

| Intangible asset | Method | Useful life |
|---|---|---|
| Software | Straight-line | 5 years |
| Lease buy-outs | Straight-line | Remaining term of the lease |
| Licenses | Straight-line | Remaining term of the lease |
| Brand names | - | Indefinite life |

The estimated useful lives and amortization methods are reviewed at each year-end, and any changes in estimates are accounted for prospectively. Intangible assets not yet available for use are not subject to amortization.

**Goodwill**

Goodwill arises on business combinations and is tested for impairment annually or more frequently if events or circumstances indicate that the carrying amount may not be recoverable. Goodwill is initially recognized as the excess of the purchase price over the fair value of the net assets acquired in a business combination. Subsequently, goodwill is measured at cost less accumulated impairment losses.

## C. Summary of significant accounting policies (continued)

**Provisions**

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that the Company will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

**Foreign currencies**

The Company's functional currency is the Canadian dollar. Transactions undertaken in foreign currencies are translated into Canadian dollars at daily exchange rates prevailing when the transactions occur. Monetary assets and liabilities denominated in foreign currencies are translated at period-end exchange rates and non-monetary items are translated at historical exchange rates. Realized and unrealized exchange gains or losses are recognized in consolidated statement of loss and other comprehensive loss in the period in which they arise.

The assets and liabilities of foreign operations are translated into Canadian dollars using the period-end exchange rates. Income, expenses, and cash flows of foreign operations are translated into Canadian dollars using average exchange rates. Exchange differences resulting from the translation of foreign operations into Canadian dollars are recognized in other comprehensive (loss) income and accumulated in equity.

**Revenue recognition**

The Company has adopted IFRS 15 on November 1, 2018. Revenue recognition is based on a 5-step approach which includes identifying the contract with the customer, identifying the performance obligations, determining the individual transaction price, allocating the transaction price to the performance obligations in the contract and recognizing revenue when the relevant performance obligations are satisfied. Revenue is recognized when the entity satisfies the performance obligation upon delivery and acceptance by the customer. Revenue in the consolidated financial statements is disaggregated into retail, wholesale and royalty revenue.

<u>Recognition</u>

The nature, timing of recognition of satisfied performance obligations, and payment terms for the Company's goods and services are described below:

For performance obligations related to retail and wholesale contracts, the Company typically transfers control, completes the performance obligation, and recognizes revenue at the point in time when delivery of the items to the customer occurs, with the exception of bill and hold arrangements as noted below. Upon delivery the customer can obtain substantially all of the benefits from the items purchased.

For performance obligations related to franchise contracts, the Company typically satisfies its performance obligations at a point in time, or over time as services are rendered, depending on the obligation and the specifics of the contract.

The Company recognizes a contract asset or contract liability for contracts where only one party has satisfied its performance obligations. A contract liability is recorded when the Company receives consideration before the performance obligations have been satisfied. A contract asset is recorded when the Company has rights to consideration for the completion of a performance obligation before it has invoiced the customer. The Company recognizes unconditional rights to consideration separately as a receivable. Contract assets and receivables are evaluated at each reporting period to determine whether there is any objective evidence that they are impaired.

## C. Summary of significant accounting policies (continued)

**Revenue recognition (continued)**

The Company recognizes a significant financing component where the timing of payment from the customer differs from the Company's performance under the contract and where that difference is the result of the Company financing the transfer of goods and services. For the majority of the contracts, revenue excludes the impact of a significant financing component since, the Company expects at contract inception, that the period between when the entity transfers a promised good or service to a customer and when the customer pays for that good or service will be one year or less.

Identification of performance obligations

Where contracts contain multiple promises for goods or services, management exercises judgement in determining whether goods or services constitute distinct goods or services or a series of distinct goods that are substantially the same and that have the same pattern of transfer to the customer. The determination of a performance obligation affects whether the transaction price is recognized at a point in time or over time. Management considers both the mechanics of the contract and the economic and operating environment of the contract in determining whether the goods or services in a contract are distinct.

Transaction price

In determining the transaction price and estimates of variable consideration, management considers the history of the customer in estimating the goods and services to be provided to the customer as well as other variability in the contract.

Allocation of transaction price to performance obligations

The Company's contracts generally outline a specific amount to be invoiced to a customer associated with each performance obligation in the contract. Where contracts do not specify amounts for individual performance obligations, the Company estimates the amount of the transaction price to allocate to individual performance obligations based on their standalone selling price, which is primarily estimated based on the amounts that would be charged to customers under similar market conditions.

Satisfaction of performance obligations

The satisfaction of performance obligations requires management to make judgement as to when control of the underlying good or service transfers to the customer. Determining when a performance obligation is satisfied affects the timing of revenue recognition. Management considers both customer acceptance of the good or service, and the impact of laws and regulations such as standard shipping practices, in determining when this transfer occurs.

Wholesale revenue
Revenue from sales to customers through the Company's wholesale distribution arm are recognized when control of the goods has transferred to the customer. Where the Company arranges the shipping of goods, revenue is recognized on the date of delivery of goods to the customer's location (FOB destination). Where the customer arranges for the pickup of goods, revenue is recognized at the time the goods are transferred to the customers carrier (FOB shipping point). Costs to ship orders to customers are included as an expense in cost of goods sold.

Retail revenue
Revenue consists of sales through the Company's network of retail stores and includes sales through the Company's ecommerce platform. Merchandise sales through retail stores are recognized at the time of delivery to the customer which is generally at the point of sale. Merchandise sales through the Company's e-commerce operations are recognized upon date of receipt by the customer.

Royalty revenue
The Company earns fixed and variable royalty income from its franchisees. The fixed royalty income is earned based on an agreed fixed amount per month whereas the variable royalty income is calculated at an agreed rate on the revenue earned by franchisees. Royalty revenue is recognized in consolidated statement of loss and other comprehensive loss when earned.

Sales returns
The Company does allow returns. Defective products or products that get damaged upon shipping by the Company are considered for exchanges. Due to negligible amount of returns the Company does not record any provision for returns.

## C. Summary of significant accounting policies (continued)

**Taxes**

Tax expense is comprised of current and deferred tax. Tax is recognized in the consolidated statement of loss and other comprehensive loss except to the extent that it relates to items recognized in other comprehensive income (loss) or equity on the statement of financial position.

Current tax

Current tax is calculated using tax rates which are enacted or substantively enacted at the end of the reporting period. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulations are subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to taxation authorities.

Deferred tax

Deferred tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred tax is determined using tax rates which are enacted or substantively enacted at the end of the reporting period and are expected to apply when the related deferred tax asset is realized or the deferred tax liability is settled.

Deferred tax liabilities are generally recognized for all taxable temporary differences, except for temporary differences that arise from goodwill, which is not deductible for tax purposes. Deferred tax liabilities are also recognized for taxable temporary differences arising on investments in subsidiaries except where the reversal of the temporary difference can be controlled and it is probable that the difference will not reverse in the foreseeable future.

Deferred tax assets are recognized to the extent it is probable that taxable profits will be available against which the deductible balances can be utilized. All deferred tax assets are analyzed at each reporting period and reduced to the extent that it is no longer probable that the asset will be recovered. Deferred tax assets and liabilities are not recognized with respect to temporary differences that arise on initial recognition of assets and liabilities acquired other than in a business combination.

**Share-based payments**

The fair value of stock options issued to directors, officers and consultants under the Company's stock option plan is estimated at the date of issue using the Black-Scholes option pricing model, and charged to consolidated statement of loss and other comprehensive loss and contributed surplus over their relevant vesting period. Each tranche in an award is considered a separate award with its own vesting period and grant date fair value. On the exercise of options, the cash consideration received and the fair value of the option previously credited to contributed surplus are credited to share capital.

The fair value of options issued to advisors in conjunction with financing transactions is estimated at the date of issue using the fair value of the goods and services received first, if determinable, then by the Black-Scholes option pricing model, and charged to share capital and contributed surplus over the vesting period. On the exercise of agent options, the cash consideration received and the fair value of the option previously credited to contributed surplus are credited to share capital.

Where stock options are cancelled, it is treated as if the stock options had vested on the date of cancellation and any expense not yet recognized for the award is recognized immediately. However, if a new option is substituted for the cancelled option and is designated as a replacement option on the date that it is granted, the cancelled and the new options are treated as if they were a modification of the original option.

Option pricing models require the input of highly subjective assumptions, including the expected price volatility. Changes in these assumptions can materially affect the fair value estimate and, therefore, the existing models do not necessarily provide a reliable single measure of the fair value of the Company's share purchase options. Forfeitures are estimated for each reporting period and adjusted as required to reflect actual forfeitures that have occurred in the period.

**Earnings (loss) per share**

Basic earnings (loss) per share is calculated by dividing the profit or loss attributable to owners of the Company by the weighted average number of common shares outstanding during the year.

Diluted earninsgs (loss) per share is calculated by dividing the losses of the Company by the weighted average number of common shares outstanding, adjusted for the effects of all dilutive potential common shares. The weighted average number of common shares outstanding is increased by the total number of additional common shares that would have been issued by the Company assuming exercise of all convertible equity instruments with exercise prices below the average market price for the year.

**Segment reporting**

An operating segment is a component of the Company that engages in business activities from which it may earn revenues and incur expenses. The operating results of all operating segments for which discrete financial information is available are reviewed regularly by executive management to make decisions about resources to be allocated to the segments and assess their performance. Segment results that are important to executive management generally include items directly attributable to a segment.

## C. Summary of significant accounting policies (continued)

**Leases**

Payments made under operating leases are recognized in the consolidated statement of loss and other comprehensive loss on a straight-line basis over the term of the lease. Lease incentives/inducements received are deferred and amortized over the primary term of the lease, or the contractual term if the lease provides for renewals at the option of the Company which management intends to utilize. Operating lease payments are recognized as an operating expense in the consolidated financial statements of loss and comprehensive loss on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which the economic benefits are consumed.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

**Impairment of non-financial assets**

At each reporting date, the Company reviews the carrying amounts of its non-financial assets (other than inventories and deferred tax assets) to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Goodwill and indefinite life intangible assets are tested annually for impairment by comparing the carrying value of each CGU to which goodwill has been allocated to its recoverable amount.

For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGUs.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs of disposal. Value in use is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. The fair value less costs of disposal is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset.

An impairment loss is recognised if the carrying amount of an asset or CGU exceeds its recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

**Asset acquisitions**

Acquisitions that do not meet the definition of a business combination are accounted for as an asset acquisition. Consideration paid for an asset acquisition is allocated to the individual identifiable assets acquired and liabilities assumed based on their relative fair values. Asset acquisitions do not give rise to goodwill.

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

## D. Current Accounting Policy Changes

**IFRS 9 Financial Instruments:**

Effective November 1, 2018, the Company adopted IFRS 9, which introduces new requirements for:

i) The classification and measurement of financial assets and liabilities,
ii) The recognition and measurement of impairment of financial assets, and
iii) General hedge accounting

In accordance with the transition provisions of the standard, the Company has elected to not restate prior periods. The impact of adopting IFRS 9 was recognized in Accumulated Deficit at November 1, 2018 and related to the recognition of additional expected credit losses. The net impact resulted in an increase in the expected credit losses allowance of $36, an increase in deferred income tax assets of $10, and a $26 increase in Accumulated Deficit.

The Company's accounting policies under IFRS 9 are outlined below. For more information on the Company's accounting policies under IAS 39, refer to Note 4 of the Company's consolidated financial statements for the annual period ended October 31, 2018.

**a. Classification and Measurement**

IFRS 9 introduces the requirement to classify and measure financial assets based on their contractual cash flow characteristics and the Company's business model for the financial asset. All financial assets and financial liabilities, including derivatives, are recognized at fair value on the consolidated statements of financial position when the Company becomes party to the contractual provisions of a financial instrument or non-financial derivative contract. Financial assets must be classified and measured at either amortized cost, at fair value through profit or loss (“FVTPL”), or at fair value through other comprehensive income (“FVTOCI”).

Financial assets with contractual cash flows arising on specified dates, consisting solely of principal and interest, and that are held within a business model whose objective is to collect the contractual cash flows are subsequently measured at amortized cost. Financial assets measured at FVTOCI are those which have contractual cash flows arising on specific dates, consisting solely of principal and interest, and that are held within a business model whose objective is to both to collect the contractual cash flows and to sell the financial asset. All other financial assets are subsequently measured at FVTPL.

Derivative instruments, when utilized, would initially be recognized at the fair value at the date the derivative contracts were entered into, and would be subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss would be recognized in net loss immediately, unless the derivative was designated and effective as a hedging instrument, in which case the timing of the recognition in net earnings would be dependent on the nature of the hedging relationship.

Derivatives embedded in non-derivative host contracts that are not financial assets within the scope of IFRS 9 (i.e. financial liabilities) are treated as separate derivatives when they meet the definition of a derivative, their risks and characteristics are not closely related to those of the host contracts, and the host contracts are not measured at FVTPL. Derivatives embedded in hybrid financial asset host contracts that are within the scope of IFRS 9 are not separated and the entire contract is measured at either FVTPL or amortized cost, as appropriate. The Company's management reviewed and assessed the classifications of its existing financial instruments as at November 1, 2018, based on the facts and circumstances that existed at that date, as shown below.

| ***Financial Instrument*** | **IFRS 9 Classification** | **IAS 39 Category** |
|---|---|---|
| *Cash and cash equivalents* | Amortized cost | FVTPL |
| *Loans receivable* | Amortized cost | Loans and receivables |
| *Marketable securities* | FVTPL | Available for sale |
| *Loans payable and other liability* | Amortized cost | Other financial liabilities |
| *Shareholder loans* | Amortized cost | Other financial liabilities |
| *Convertible debt* | Amortized cost | Other financial liabilities |
| *Accounts receivable* | Amortized cost | Loans and receivables |
| *Accounts payable and accrued liabilities* | Amortized cost | Other financial liabilities |
| *Notes payable* | Amortized cost | Other financial liabilities |
| *Derivative liability* | FVTPL | FVTPL |

**D. Current Accounting Policy Changes (continued)**

**b. Impairment of Financial Assets**

IFRS 9 introduces a new impairment model for financial assets measured at amortized cost as well as certain other instruments. The expected credit loss model requires entities to account for expected credit losses on financial assets at the date of initial recognition, and to account for changes in expected credit losses at each reporting date to reflect changes in credit risk. IFRS 9 introduces a new impairment model for financial assets measured at amortized cost as well as certain other instruments. The expected credit loss model requires entities to account for expected credit losses on financial assets at the date of initial recognition, and to account for changes in expected credit losses at each reporting date to reflect changes in credit risk.

The loss allowance for a financial asset is measured at an amount equal to the lifetime expected credit loss if its credit risk has increased significantly since initial recognition, or if the financial asset is a purchased or originated credit-impaired financial asset. If the credit risk on a financial asset has not increased significantly since initial recognition, its loss allowance is measured at an amount equal to the 12-month expected credit loss.

IFRS 9 states that an entity must measure trade receivables at their transaction price (as defined in IFRS 15 Revenue from Contracts with Customers) if the trade receivables do not contain a significant financing component (or when the entity applies the available practical expedient). This 'simplified approach' permits the use of a provision matrix model for measuring the loss allowance for trade receivables, contract assets and lease receivables at an amount equal to lifetime expected credit losses under certain circumstances. The Company measures its trade receivables using the simplified approach. Expected credit losses measurement takes into consideration historical customer default rates, adjusted by forward-looking information including household consumption and consumer price indices, as well as real gross domestic product. The Company also contemplates the grouping of receivables into various customer segments that have similar loss patterns (e.g. by geography). The Company uses the general approach to measure the expected credit loss for certain loans receivable and lease receivables.

The Company's management reviewed and assessed its existing financial assets for impairment using reasonable and supportable information in accordance with the requirements of IFRS 9 to determine the credit risk of the respective items at the date they were initially recognized and compared that to the credit risk as at November 1, 2018. There was an increase in credit risk determined upon application of IFRS 9 and therefore an additional loss allowance of $26 was recognized.

**c. General Hedge Accounting**

IFRS 9 retains the three types of hedges from IAS 39 (fair value hedges, cash flow hedges and hedges of a net investment in a foreign operation) but increases flexibility as to the types of transactions that are eligible for hedge accounting. The effectiveness test of IAS 39 is replaced by the principle of an "economic relationship", which requires that the hedging instrument and the hedged item have values that generally move in opposite directions because of the hedged risk. Additionally, retrospective hedge effectiveness testing is no longer required under IFRS 9. As the Company does not engage in hedge accounting, the application of IFRS 9 hedge accounting requirements has had no impact on the results and financial position of the Company.

**IFRS 15 Revenue from Contracts with Customers**

The Company has adopted IFRS 15 Revenue from Contracts with Customers ("IFRS 15") with an initial adoption date of November 1, 2018. As a result, the Company has changed its accounting policy for revenue recognition, which is outlined below. The Company has elected to adopt IFRS 15 retrospectively with the modified retrospective method of transition practical expedient and has elected to apply IFRS 15 only to contracts that are not completed contracts at the date of initial application. Comparative information has not been restated and is reported under IAS 18 Revenue ("IAS 18"). For more information on the Company's accounting policies under IAS 18, refer to Note 4 of the Company's consolidated financial statements for the annual period ended October 31, 2018.

The Company recognized the cumulative impact of the initial application of the standard as a reclassification on the consolidated statement of financial position as well as an increase in Accumulated Deficit as at November 1, 2018. Applying the significant performance obligation requirements to specific contracts resulted in an increase in Accumulated Deficit of $67.

The impact to Accumulated Deficit related to franchise arrangements. IFRS 15 requires that, in determining the timing of revenue recognition, that if there is a reasonable expectation that the franchisor will undertake activities that will significantly affect the brand name to which the franchisee has rights, and the franchisee is directly exposed to any positive or negative effects of that brand and image throughout the franchise period, that the performance obligation is satisfied over the period of the franchise agreement, or in the case of specific brand development activities, deferred as a contract liability until such time as the related activity and associated costs are incurred. There were no impacts to the consolidate statement of cash flows as a result of adopting IFRS 15.

### D. Current Accounting Policy Changes (continued)

**IFRS 15 Revenue from contracts with customers**

The majority of the Company's revenues from contracts with customers are derived from the wholesale and retail sale of smoking accessories and cannabis products, and from franchise arrangements.

The Company evaluates whether the contracts it enters into meet the definition of a contract with a customer at the inception of the contract and on an ongoing basis if there is an indication of significant changes in facts and circumstances. Revenue is measured based on the transaction price specified in a contract with a customer. Revenue is recognized when control of the goods or services is transferred to the customer. For certain contracts, revenue may be recognized at the invoiced amount, as permitted using the invoice, if such amount corresponds directly with the Company's performance to date. The Company excludes amounts collected on behalf of third parties from revenue.

Performance Obligations

Each promised good or service is accounted for separately as a performance obligation if it is distinct. The Company's contracts may contain more than one performance obligation.

Transaction Price

The Company allocates the transaction price in the contract to each performance obligation. Transaction price allocated to performance obligations may include variable consideration. Variable consideration is included in the transaction price for each performance obligation when it is highly probable that a significant reversal of the cumulative variable revenue will not occur. Variable consideration includes variability in quantity and pricing as well as the right of return in certain distribution agreements. The consideration contained in the majority of the Company's contracts with customers is primarily non-variable.

When multiple performance obligations are present in a contract, transaction price is allocated to each performance obligation in an amount that depicts the consideration the Company expects to be entitled to in exchange for transferring the good or service. The Company estimates the amount of the transaction price to allocate to individual performance obligations based on their relative standalone selling prices, which is primarily estimated based on the amounts that would be charged to customers under similar market conditions or is based on details of the respective agreements.

**Other Items**

Contract acquisition costs (including commissions)

Contract acquisition costs related to sales order and service type contracts are expensed immediately. The Company elects to use the practical expedient that permits immediate expensing of all contract acquisition costs where that contract is anticipated to be complete within one year.

Warranties

The Company does not offer an option to purchase additional warranties and does not provide any additional services as part of any warranty. The warranties provided relate to product compliance to agreed-upon specifications and are considered an assurance type warranty. Warranties will continue to be accounted for under previous IFRS guidance.

Consignment and principal verse agent considerations

The new revenue standard focuses on recognizing revenue as an entity transfers control of a good or service to a customer. This could affect how an entity evaluates its position in a transaction as either a principal or an agent. The new revenue standard provides that an entity is a principal in a transaction if it controls the specified goods or services before they are transferred to the customer. The Company has entered into an arrangement whereby assets are transferred by the Company to another party (a "Consignee") for storage. The Company continues to act in the capacity of the principal as evidenced by the Company's ability to control the assets until the sale of the product to an external customer.

### D. Current Accounting Policy Changes (continued)

Right of return

The Company has entered into distribution agreements whereby the Company provides for a right of return to the distributor (reseller) of the Company's products. The Company recognizes revenue based on the amount to which it expects to be 'entitled' through to the end of the return period (considering expected product returns). The Company recognizes the portion of the revenue subject to the right of return constraint once the amount is no longer constrained. The Company continually assesses the position that it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration related to the right to return has been resolved.

Bill and hold arrangements

In some sales transactions, the Company fulfils its obligations and bills the customer for the work performed but does not ship the goods until a later date. These transactions are designed this way at the request of the customer and are typically due to the customer's lack of available storage space for the product, or due to delays in the customer's retail location construction schedules.

### E. New Accounting Pronouncements

**IFRS 16 Leases**

In January 2016, the IASB issued IFRS 16 Leases, which will replace IAS 17 Leases. This standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term greater than twelve months, unless the underlying asset's value is insignificant. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. Lessors will continue to classify leases as operating or finance, with lessor accounting remaining substantially unchanged from the preceding guidance under IAS 17, Leases.

Management is currently executing its implementation plan. The most significant impact of IFRS 16 will be our initial recognition of the present value of unavoidable future lease payments as right-of-use assets under property, plant and equipment and the concurrent recognition of a lease liability on the consolidated statement of financial position. Majority of our property leases, which are currently treated as operating leases, are expected to be impacted by the new standard which will result in lower rent expense, higher depreciation expense and higher finance costs related to accretion and interest expense of the lease liability. IFRS 16 will also impact the presentation of the consolidated statement of cash flows by decreasing operating cash flows and increasing financing cash flows.

The standard will be effective for the Company for the fiscal year commencing November 1, 2019. The Company will measure the right-of-use asset at an amount equal to the lease liability on November 1, 2019, apply a single discount rate to leases with similar remaining lease terms for similar classes of underlying assets and will not separate non-lease components from lease components for certain classes of underlying assets.

**Definition of a Business**

In October 2018, the IASB issued "Definition of a Business (Amendments to IFRS 3)". The amendments clarify the definition of a business, with the objective of assisting entities to determine whether a transaction should be accounted for as a business combination or as an asset acquisition. The amendment provides an assessment framework to determine when a series of integrated activities is not a business. The amendments are effective for business combinations occurring on or after the beginning of the first annual reporting period beginning on or after January 1, 2020. The Company is currently evaluating the potential impact of these amendments on the Company's consolidated financial statements.

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

## 4. Business Combinations

In accordance with IFRS 3, Business Combinations, these transactions meet the definition of a business combination and, accordingly, the assets acquired, and the liabilities assumed have been recorded at their respective estimated fair values as of the acquisition date.

### A. Grasscity Acquisition

| | |
|---|---|
| **Total consideration** | $ |
| Cash paid | 4,732 |
| Share consideration | 3,047 |
| Put option (Note 11) | 2,853 |
| | 10,632 |
| **Net identifiable assets acquired (liabilities assumed)** | |
| Cash | 44 |
| Accounts receivable | 80 |
| Prepaid expenses and deposits | 125 |
| Inventory | 1,274 |
| Property and equipment | 63 |
| Intangible assets | |
| Software - Webstore | 742 |
| Software - Forums | 82 |
| Brand name | 1,539 |
| Grasscity Forums | 312 |
| | **4,261** |
| Accounts payable and accrued liabilities | (704) |
| Deferred tax liability | (498) |
| | **3,059** |
| **Purchase price allocation** | |
| Net identifiable assets acquired | 3,059 |
| Goodwill | 7,573 |
| | **10,632** |

On December 6, 2018, the Company entered into a share purchase agreement to acquire all of the issued and outstanding shares of three entities, SJV B.V., SJV2 B.V. and SJV USA Inc. that together operate under the name Grasscity. The transaction closed on December 19, 2018. Based in Amsterdam, Netherlands, Grasscity is an online retailer of smoking accessories and cannabis lifestyle products that has been operating for over 20 years. The Company acquired Grasscity to increase its customer base, establish an international presence, and to leverage synergies to further enhance High Tide's vertically integrated supply chain and distribution networks. These synergies resulted in goodwill being recognized. Grasscity's existing e-commerce channel will allow the Company to quickly establish an online presence and to expand its retail platform beyond the exisitng bricks-and-mortar locations. For the year ended October 31, 2019, Grasscity accounted for $4,349 in revenues and $1,285 in net loss since December 19, 2018. If the acquisition had been completed on November 1, 2018, the Company estimates it would have recorded an increase of $621 in revenues and an increase of $183 in net loss for the year ended October 31, 2019.

The Company acquired all of the issued and outstanding shares of Grasscity for aggregate consideration of $10,632 which included 8,410,470 common shares with a fair value of $3,047.

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

## 4. Business Combinations (continued)

### B. Dreamweavers Acquisition

| | |
|---|---|
| **Total consideration** | $ |
| Cash paid | 1,550 |
| Notes Payable | 102 |
| Share consideration | 1,147 |
| Warrants | 295 |
| **Total** | **3,094** |
| **Net identifiable assets acquired** | |
| Prepaid expenses and deposits | 4 |
| Inventory | 131 |
| Property and equipment | 272 |
| Intangible assets - licenses | 2,594 |
| Deferred tax liability | (700) |
| **Total** | **2,301** |
| **Purchase price allocation** | |
| Net identifiable assets acquired | 2,301 |
| Goodwill | 793 |
| **Total** | **3,094** |

On May 23, 2019, the Company, entered into a share purchase agreement to acquire all of the issued and outstanding shares of Dreamweavers Cannabis Products Ltd. ("Dreamweavers"). Based in Swift Current, Saskatchewan, Dreamweavers is a retailer for cannabis products and smoking accessories. The Company acquired Dreamweavers to increase its retail footprint, and to establish a presence in the province of Saskatchewan, it also allows the Company to sell cannabis through e-commerce and provides an opportunity to operate a wholesale cannabis operation. The Company acquired all of the issued and outstanding shares of Dreamweavers for aggregate consideration of $3,094 which included 3,100,000 common shares with a fair value of $1,147, 1,550,000 purchase warrants exercisable at $0.75 per common share of High Tide and notes payables of $300 repayable over five years with zero interest rate due at each aniversary date. The fair value of warrants were calculated as $295 using Black-Scholes model with the following assumptions: stock price of $0.37; expected life of 2 years; $Nil dividends; 130% volatility; and riskfree interest rate of 1.60%. The note payable has been recorded at its fair value of $102 by discounting it over five years at a market interest rate of 22%. The Company incurred various legal and due diligence related fees totalling $38; these costs have been included as professional fees in the consolidated financial statements. For the year ended October 31, 2019, Dreamweavers accounted for $841 in revenues and $7 in net loss since May 24, 2019. If the acquisition had been completed on November 1, 2018, the Company estimates it would have recorded an increase of $572 in revenues and an increase of $89 in net loss for the year ended October 31, 2019. Goodwill has been recognized as a result of the synergies between Dreamweavers and the Company's retail business.

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

## 4. Business Combinations (continued)

### C. MK Light Acquisition

| | |
|---|---|
| **Total consideration** | $ |
| Cash paid | 202 |
| Settlement of debt | 48 |
| **Total** | **250** |
| **Net identifiable assets acquired** | |
| Leasehold improvements | 21 |
| Inventory | 4 |
| **Total** | **25** |
| **Purchase price allocation** | |
| Net identifiable assets acquired | 25 |
| Goodwill | 225 |
| **Total** | **250** |

On November 1, 2018, the Company purchased all the assets of 2107746 Alberta Ltd. and MK Light It Up Inc.(“MK Light”) which had been operating a Smoker’s Corner franchise on Edmonton Trail in Calgary Alberta. The assets which included the leaseholds and inventory were purchased for $250 with $202 being settled in cash and the balance being used to settle all outstanding debts between MK Light, Smoker’s Corner Ltd. and RGR Canada Inc. The Company is currently using this location as a Canna Cabana retail store; which became operational on October 31, 2019. Goodwill has been recognized as a result of the synergies between MK Light and the Company’s retail business.

### D. Jasper Ave. Acquisition

| | |
|---|---|
| **Total consideration** | $ |
| Cash paid | 75 |
| Settlement of debt | 195 |
| Share consideration | 205 |
| **Total** | **475** |
| **Net identifiable assets acquired** | - |
| **Total** | **-** |
| **Purchase price allocation** | |
| Net identifiable assets acquired | - |
| Goodwill | 475 |
| **Total** | **475** |

On September 4, 2019, the Company acquired a Smoker's Corner franchise located at 10275 Jasper Avenue in Edmonton, Alberta (“Jasper Ave.”). The total consideration paid to acquire the franchise was $475, of which $75 was paid in cash, issuance of 559,742 common shares of High Tide with a fair value of $205 and and the remaining balance being used to settle all outstanding debts between Jasper Ave., Smoker’s Corner Ltd. and RGR Canada Inc.. The Company has begun the process of converting the Jasper Avenue Store to a Canna Cabana retail location for the sale of recreational cannabis, subject to inspection and licensing by Alberta Gaming, Liquor and Cannabis. Goodwill has been recognized as a result of the synergies between Jasper Ave. and the Company’s retail business.

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

## 5. Revenue from Contracts with Customers

| For the year ended October 31, 2019 | | Retail | Wholesale | Corporate | Total |
|---|---|---|---|---|---|
| | | $ | $ | $ | $ |
| **Primary geographical markets** | | | | | |
| | Canada | 19,875 | 4,693 | 606 | 25,174 |
| | USA | 3,684 | 1,901 | - | 5,585 |
| | International | 443 | 92 | - | 535 |
| **Total revenue** | | **24,002** | **6,686** | **606** | **31,294** |
| **Major products and services** | | | | | |
| | Cannabis | 16,366 | - | - | 16,366 |
| | Smoking accessories | 6,603 | 6,478 | - | 13,081 |
| | Franchise royalties and fees | 953 | - | 562 | 1,515 |
| | Interest and other revenue | 80 | 208 | 44 | 332 |
| **Total revenue** | | **24,002** | **6,686** | **606** | **31,294** |
| **Timing of revenue recognition** | | | | | |
| | Transferred at a point in time | 23,949 | 6,686 | 606 | 31,241 |
| | Transferred over time | 53 | - | - | 53 |
| **Total revenue** | | **24,002** | **6,686** | **606** | **31,294** |

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

## 6. Property and Equipment

| | Office equipment and computers | Leasehold improvements | Vehicles | Buildings | Total |
|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ |
| **Cost** | | | | | |
| Balance, October 31, 2017 | 49 | 321 | 163 | - | 533 |
| Additions | 144 | 3,288 | 4 | 145 | 3,581 |
| Balance, October 31, 2018 | 193 | 3,609 | 167 | 145 | 4,114 |
| Additions [(i)] (Note 13) | 196 | 6,823 | - | 2,655 | 9,674 |
| Additions from business combinations (Note 4) | 63 | 293 | - | - | 356 |
| Impairment loss [(ii)] | - | (220) | - | - | (220) |
| **Balance, October 31, 2019** | **452** | **10,505** | **167** | **2,800** | **13,924** |
| **Accumulated depreciation** | | | | | |
| Balance, October 31, 2017 | 25 | 311 | 96 | - | 432 |
| Depreciation | 24 | 14 | 46 | - | 84 |
| Balance, October 31, 2018 | 49 | 325 | 142 | - | 516 |
| Depreciation | 78 | 940 | 6 | 2 | 1,026 |
| **Balance, October 31, 2019** | **127** | **1,265** | **148** | **2** | **1,542** |
| **Net book value** | | | | | |
| Balance, October 31, 2018 | 144 | 3,284 | 25 | 145 | 3,598 |
| **Balance, October 31, 2019** | **325** | **9,240** | **19** | **2,798** | **12,382** |

(i) Included in additions is $1,227 incurred for new buildout of leasehold improvements for the Company's head office and warehouse in November and December 2018. The new head office and warehouse was available for use on January 1, 2019. The Company purchased a building in Niagara, Ontario, for the purpose of opening a Canna Cabana retail location. The consideration for the building consisted of $754 in cash, a $1,600 vendor take back loan (see note 13), and $300 paid in shares (see note 14).

(ii) In fiscal year 2019, the Company undertook a strategic shift with regards to its Smoker's Corners operations, pivoting focus towards Canna Cabana. As a result of the strategic shift, an impairment test was performed on the CGU's related to Smoker's Corner. Negative cash flow projections indicated impairment as the carrying value exceeded the respective recoverable amount of the corresponding CGU. As a result, the assets were written down to their recoverable amount of nil.

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

## 7. Intangible Assets and Goodwill

| | Software | Licenses | Lease buy-out | Brand Name | Goodwill | Total |
|---|---|---|---|---|---|---|
| **Cost** | $ | $ | $ | $ | $ | **$** |
| Balance, October 31, 2017 | - | - | - | - | - | - |
| Additions | 159 | - | 777 | - | - | 936 |
| Balance, October 31, 2018 | 159 | - | 777 | - | - | 936 |
| Additions | 553 | - | 1,780 | - | - | 2,333 |
| Additions from business combinations (Note 4) | 1,136 | 2,594 | - | 1,539 | 9,066 | 14,335 |
| Impairment loss | - | - | - | - | (4,600) | (4,600) |
| **Balance, October 31, 2019** | **1,848** | **2,594** | **2,557** | **1,539** | **4,466** | **13,004** |
| **Accumulated depreciation** | | | | | | |
| Balance, October 31, 2017 | - | - | - | - | - | - |
| Amortization | 2 | - | - | - | - | 2 |
| Balance, October 31, 2018 | 2 | - | - | - | - | 2 |
| Amortization | 109 | 75 | 191 | - | - | 375 |
| **Balance, October 31, 2019** | **111** | **75** | **191** | **-** | **-** | **377** |
| **Foreign currency translation** | | | | | | |
| Balance, October 31, 2018 | - | - | - | - | - | - |
| Recorded in other comprehensive loss | 60 | - | - | 57 | 336 | 453 |
| **Balance, October 31, 2019** | **60** | **-** | **-** | **57** | **336** | **453** |
| **Net book value** | | | | | | |
| Balance at October 31, 2017 | - | - | - | - | - | - |
| Balance at October 31, 2018 | 157 | - | 777 | - | - | 934 |
| **Balance, October 31, 2019** | **1,677** | **2,519** | **2,366** | **1,482** | **4,130** | **12,174** |

The carrying values of goodwill and intangible assets with indefinite lives are tested for impairment annually. The Company completed its annual impairment tests as of October 31, 2019 and has included a summary of the key inputs below for each CGU to which goodwill and indefinite life intangibles have been allocated.

Grasscity:

All goodwill and indefinite life intangibles acquired in the Grasscity acquisition were allocated to the Grasscity CGU. The Company performed its annual impairment test at October 31, 2019 and the recoverable amount of the Grasscity CGU was determined based on fair value less cost of disposal, determined using an income approach with the following key assumptions:

i. 5-year cash flow projections expected to be generated based on historical performance, financial forecasts and growth expectations. Cash flows beyond 5 years used a terminal growth rate of 2%;
ii. Forecasted revenue at an average growth rate of 16%;
iii. Average forecasted earnings before interest, tax, depreciation and amortization ("EBITDA") of 14%; and,
iv. Cash flows were discounted at an after-tax discount rate of 20.50 % based on a market participant weighted average cost of capital.

As a result of the impairment test performed, the recoverable amount was determined to be approximately $5,483, which resulted in an impairment of $4,600. The most sensitive inputs to the fair value model are the forecasted EBITDA and discount rate.

All else being equal:

i. A 2% increase in the discount rate would have resulted in an impairment of approximately $5,211: and,
ii. A 2% decrease in the average forecasted EBITDA would have resulted in an impairment of approximately $6,165.

## Intangible Assets and Goodwill (continued)

Dreamweaver:

All goodwill acquired in the Dreamweavers acquisition was allocated to the Dreamweavers CGU. The Company performed its annual impairment test at October 31, 2019 and the recoverable amount of the Dreamweavers CGU was determined based on fair value less cost of disposal calculation determined an income approach with the following key assumptions:

i. 5 year cash flow projections expected to be generated based on historical performance, financial forecasts and growth expectations. Cash flows beyond 5 years used a terminal growth rate of 2%;
ii. Forecasted revenue at an average growth rate of 25%;
iii. Average forecasted EBITDA of 14%; and,
iv. Cash flows were discounted at an after-tax discount rate of 17% based on a market particpants weighted average cost of capital and risks specific to the particular CGU.

As a result of the impairment test performed, the recoverable amount was determined to be approximately $3,284, which exceeds the carrying amount by approximately $312, and therefore, did not result in an impairment. The most sensitive inputs to the fair value model are the forecasted EBITDA and discount rate.

All else being equal:

i. A 2% increase in the discount rate would have resulted in an impairment of approximately $127; and,
ii. A 2% decrease in the average forecasted EBITDA would not have resulted in an impairment.

MK Light:

All goodwill acquired in the MK Light acquisition was allocated to the MK Light CGU. The Company performed its annual impairment test at October 31, 2019 and the recoverable amount of the MK Light CGU was determined based on a VIU calculation using the following key assumptions:

i. 5 year cash flow projections expected to be generated based on, financial forecasts and growth expectations. Cash flows beyond 5 years used a terminal growth rate of 2%;
ii. Forecasted revenue of $1,745 for 2020 and an average annual growth rate of 2% thereafter;
iii. Average forecasted EBITDA of 12%; and,
iv. Cash flows were discounted at an after-tax discount rate of 23% based on the Company's post-tax weighted average cost of capital and risks specific to the particular CGU (pre-tax discount rate of 31%).

As a result of the impairment test performed, the recoverable amount was determined to be approximately $670 which exceeds the carrying amount by approximately $114, and therefore, did not result in an impairment. The most sensitive inputs to the VIU model are the forecasted EBITDA and discount rate.

All else being equal:

i. A 2% increase in the discount rate would have resulted in a recoverable amount of $610, which would not have resulted in an impairment; and,
ii. A 2% decrease in the average forecasted EBITDA would have resulted in an impairment of $36.

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

## Intangible Assets and Goodwill (continued)

Jasper Ave:

All goodwill acquired in the Jasper Ave. acquisition was allocated to the Jasper Ave. CGU. The Company performed its annual impairment test at October 31, 2019 and the recoverable amount of the Jasper Ave. CGU was determined based on a fair value less cost of disposal calculation, determined using an income approach with the following key assumptions:

i. 5 year cash flow projections expected to be generated based on financial forecasts and growth expectations. Cash flows beyond 5 years used a terminal growth rate of 2%;
ii. Forecasted revenue of $1,148 from May to October 2020 and an average annual growth rate of 2% thereafter;
iii. Average forecasted EBITDA of 12%; and,
iv. Cash flows were discounted at an after-tax discount rate of 23% based on a market participants weighted average cost of capital and risks specific to the particular CGU.

As a result of the impairment test performed, the recoverable amount was determined to be approximately $600, which exceeds the carrying amount by approximately $125, and therefore, did not result in an impairment. The most sensitive inputs to the fair value less costs to sell model are the forecasted EBITDA and discount rate.

All else being equal:

i. A 2% increase in the discount rate would not have resulted in an impairment,
ii. A 2% decrease in the average forecasted EBITDA would have resulted in an impairment of approximately $55.

## 8. Prepaid expenses and deposits

| | 2019 | 2018 |
|---|---|---|
| | $ | $ |
| Business acquisition deposit | 300 | 897 |
| Deposits on cannabis retail outlets and warehouse | 1,380 | 1,039 |
| Prepaid insurance, licenses and other | 1,833 | 405 |
| Prepaid marketing contract | - | 2,400 |
| Advances to related party for purchases of inventory | - | 863 |
| Advances to third party vendor for purchases of inventory | 385 | 504 |
| Other receivable from related parties | - | 23 |
| Total | 3,898 | 6,131 |
| Less current portion | (2,518) | (4,931) |
| Long term portion | 1,380 | 1,200 |

## 9. Inventory

| | 2019 | 2018 |
|---|---|---|
| | $ | $ |
| Finished goods | 7,092 | 4,054 |
| Provision for obsolescence | (373) | (591) |
| | 6,719 | 3,463 |

(i) Inventories recognized as an expense and included in cost of sales during the year ended October 31, 2019 totaled $17,728 (2018 – $3,960).

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

## 10. Loans Receivable

| | 2019 | 2018 |
|---|---|---|
| | $ | $ |
| Term loans (i) | 1,139 | 62 |
| Demand loan (ii) | - | 1,094 |
| Demand loan written-off (Note 23) | - | (1,094) |
| Total loans receivable | 1,139 | 62 |
| Less current portion | (261) | (62) |
| Long-term portion | 878 | - |

(i) Term loans are due from franchisees and relate to acquisitions of the sub-lease location from the Company and initial inventory. Term loans are secured by promissory notes, bear interest between 6.95% and 8.00 % (2018 - ranging between 5.00 % and 7.00 %) per annum and require blended payments of principal and interest between $4 and $10 monthly. (2018 - ranging between $0.8 and $4 monthly). The Company maintains the head lease to all franchisee locations.

(ii) Demand loans are unsecured, non-interest bearing and are due on demand.

## 11. Derivative Liability

The put option issued on the Grasscity acquistion on December 19, 2019 was initially measured at $2,853 using a monte-carlo simulation and the following assumptions: stock price: $0.3623; expected life of 1 year; $nil dividends; expected volatility of 126% based on comparable companies; exercise price of $0.50; and risk-free interest rate of 1.65%.

On October 31, 2019, the Company revalued the fair value of the derivative liability and recognized an unrealized gain of $732 in the consolidated statements of loss and other comprehensive loss. The derivative liability was revalued to $2,121 using monte-carlo simulation and the following assumptions: stock price: $0.25; expected life of 1 year; $nil dividends; expected volatility of 92% based on comparable companies; exercise price of $0.50; and risk-free interest rate of 1.65%.

## 12. Finance Lease Obligation

| | 2019 | 2018 |
|---|---|---|
| | $ | $ |
| 3.49% per annum vehicle loan, payable in monthly installments of $0.5 including principal and interest, maturing in June 2022. The vehicle has been pledged as security. | 17 | 23 |
| Less: current portion | (6) | (6) |
| | 11 | 17 |

## 13. Notes payable

On June 26, 2019, the Company purchased a building in Niagara, Ontario, for the purpose of opening a Canna Cabana retail location. The consideration for the building consisted of $754 in cash, out of which $54 was legal fees, a $1,600 vendor take back loan, and $300 paid in shares. The loan has a twelve-month term and bears an interest rate of 5.5% per annum payable monthly with a maturity date of June 30th, 2020.

On May 23, 2019, the Company acquired all of the issued and outstanding shares of Dreamweavers for aggregate consideration of $3,094 which included 3,100,000 common shares with a fair value of $1,147, 1,550,000 purchase warrants exercisable at $0.75 per common share of High Tide and notes payables of $300 repayable over five years with zero interest rate due at each anniversary date. Notes payable was valued at $102 by discounting it over five years at market interest rate of 22%. During, the year ended October 31, 2019, the Company incurred accretion of $11.

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

## 13. Notes payable (continued)

On September 4, 2019, the Company entered into a $2,000 loan agreement with a private lender. The loan had a twelve-month term and carried an interest rate of 12% per annum payable monthly. In connection with the advance of the loan, the Company issued 1,600,000 warrants to the lender. Each warrant is redeemable for one common share in the capital of the Company at a price of $0.85 per Common Share for a period of two years from the date of the loan agreement. Management calculated the fair value of the liability component as $1,895 using a discount rate of 22%, with the residual amount of $105 being allocated to warrants, recorded in equity. During, the year the Company incurred accretion of $15. The loan was personally guranteed by the CEO and Shareholder.

| | 2019 |
|---|---|
| | $ |
| Opening balance | - |
| Vendor loan | 1,600 |
| Term loan | 1,910 |
| Dreamweavers - notes payable | 122 |
| Total | 3,632 |
| Less current portion | (3,570) |
| Long-term | 62 |

| | 2019 |
|---|---|
| | $ |
| Notes payable, beginning of year | - |
| Cash advances from debt | 2,000 |
| Vendor loan advanced | 1,711 |
| Transfer of conversion and warrants component to equity | (105) |
| Accretion on notes payable | 26 |
| Notes payable, end of year | 3,632 |

## 14. Finance and other costs

Finance and other costs are comprised of the following:

| | 2019 | 2018 |
|---|---|---|
| | $ | $ |
| Accretion expense | 1,476 | - |
| Interest on convertible debenture | 1,423 | - |
| Interest on notes payable | 84 | - |
| Listing expenses | 106 | 499 |
| **Total** | 3,089 | 499 |

## 15. Convertible Debentures

(i) On November 28, 2018, the Company entered into an agreement for a brokered private placement for the sale of up to 20,000 unsecured convertible debentures of the Company, at a price of $1 per debenture for gross proceeds of up to $20,000. The debentures bear interest at a rate of 8.5% per annum, payable on the last business day of each calendar quarter. The debentures are convertible to common shares of the Company at a price of $0.75 per common share and mature two years from the closing of the offering. The first closing occurred on December 13, 2018 issuing 11,330 debentures at a price of $1 per debenture for gross proceeds of $11,330. The company incurred $618 in issue costs in relation to the first closing which included the 504,733 broker warrants valued at $93 using Black-Scholes model with the following assumptions: stock price of $0.36; expected life of 2 years; $Nil dividends; 130% volatility; and risk-free interest rate of 1.60%. Each broker warrant is exercisable for one common share of the Company at a price of $0.75 per share until December 11, 2020.

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

## 15. Convertible Debentures (continued)

Management calculated the fair value of the liability component as $8,907 using a discount rate of 22%, with the residual amount of $2,422 net of deferred tax of $654 being allocated to the conversion feature recorded in equity. The Company incurred $618 in debt issuance cost, $486 was allocated to debt component and the remaining $132 to the equity.

(ii) On April 10, 2019, the Company closed the first tranche of the sale of unsecured convertible debentures of the Company under a non-brokered private placement for gross proceeds of $8,360. The outstanding principal amount is convertible at any time before maturity at the option of the holder, into common shares of the Company at a conversion price of $0.75 per share and mature two years from the closing of the private placement. Under the private placement, the Company also issued common share purchase warrants such that each subscriber received one warrant for each $0.75 original principal amount of its debenture, resulting in 11,146,667 warrants being issued as part of the offering. Each warrant entitles the holder to acquire one share at an exercise price of $0.85 per share for two years from the date of issuance. The company incurred $50 in legal costs which was paid by the issuance of 100,000 shares with a fair value of $0.50 per share. The debentures bear interest at a rate of 10% per annum, payable annually upfront in common shares of High Tide based on the 10-day volume weighted average price of $0.48 prior to the closing date of the private placement. Concurrent with the issuance of the debentures, the Company paid the annual amount of interest due to holders upfront in the form of 1,752,621 Shares.

Management calculated the fair value of the liability component as $7,138 using a discount rate of 22%, with the residual amount of $1,222 net of deferred tax of $330 being allocated to warrants, recorded in equity. The Company incurred $58 in debt issuance cost, $50 being allocated to debt component and the remaining $8 to the warrants.

(iii) On June 17, 2019, the Company closed the final tranche of the sale of unsecured convertible debentures of the Company under the non-brokered private placement for gross proceeds of $3,200. The outstanding principal amount is convertible at any time before maturity at the option of the holder, into common shares of the Company at a conversion price of $0.75 per share and mature two years from the closing of the offering. Under the offering, the Company also issued common share purchase warrants such that each subscriber received one warrant for each $0.75 original principal amount of its debenture, resulting in 4,266,667 warrants being issued as part of the offering. Each warrant entitles the holder to acquire one share at an exercise price of $0.85 per share for two years from the date of issuance. The debentures will bear interest at a rate of 10% per annum, payable annually upfront in common shares of High Tide based on the 10-day volume weighted average price of $0.384 prior to the closing date of the offering. Concurrent with the final tranche issuance of the debentures, the Company paid the annual amount of interest due to holders upfront in the form of 855,615 Shares.

Management calculated the fair value of the liability component as $2,732 using a discount rate of 22%, with the residual amount of $468 net of deferred tax of $126 being allocated to warrants, recorded in equity.

| | 2019 |
|---|---|
| | $ |
| Convertible debentures, beginning of year | - |
| Cash advances from debt | 22,890 |
| Debt issuance costs paid in cash | (471) |
| Debt issuance costs paid in equity instruments | (93) |
| Transfer of warrants component to equity | (1,690) |
| Transfer of conversion component to equity | (2,422) |
| Repayment of debt | - |
| Accretion on convertible debentures | 1,450 |
| Convertible debentures, end of year | 19,664 |

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

## 16. Taxes

**Reconciliation of effective tax rate:**
The provision for income taxes differs from the result that would have been obtained by applying the consolidated federal and provincial tax rates to the income before taxes. The difference results from the following items:

| | 2019 | 2018 |
|---|---|---|
| | $ | $ |
| Current tax expense | - | - |
| Deferred tax expense (recovery) | (708) | (1,496) |
| | (708) | (1,496) |

| | | |
|---|---|---|
| **Reconciliation of effective tax rate** | | |
| Income (loss) before taxes | (27,000) | (6,029) |
| Statutory income tax rate | 27% | 27% |
| **Expected tax expense (recovery)** | (7,290) | (1,627) |
| | | |
| **Increase (decrease) in taxes resulting from:** | | |
| Rate differential | 535 | 382 |
| Permanent differences | 1,633 | 18 |
| Other items | 348 | (267) |
| Unrecognized deferred tax assets | 4,066 | - |
| **Tax expense (recovery)** | (708) | (1,495) |

| | | |
|---|---|---|
| **Deferred tax asset (liability) is comprised of the following:** | | |
| Opening | 1,974 | 479 |
| Recovery (expense) on income statement | 708 | 1,495 |
| Deferred tax effect in equity | (1,004) | - |
| Tax effect on business combination: | (1,198) | - |
| Ending | 480 | 1,974 |

| | | |
|---|---|---|
| **Deferred tax asset (liability) is comprised of the following:** | | |
| Non-capital loss carry forwards | 5,327 | 1,162 |
| PPE & Intangible | (1,386) | (76) |
| Others | 470 | 729 |
| Capital loss carry forwards | 135 | 158 |
| Unrecognized deductible temporary differences: | (4,066) | - |
| **Net deferred tax asset** | 480 | 1,974 |

| | | |
|---|---|---|
| **Net deferred tax asset (liability) reconciliatoin:** | | |
| Net deferred tax asset: | 1,190 | 1,974 |
| Net deferred tax liability: | (710) | - |
| **Total:** | 480 | 1,974 |

The following provides the details of gross unrecognized deductible temporary differences and unused losses for which no deferred tax asset has been recognized:

| | 2019 | 2018 |
|---|---|---|
| | $ | $ |
| Non-capital loss carry forwards | 14,612 | 1,162 |
| PPE & Intangibles | 313 | (76) |
| Others | 1,556 | 729 |
| Capital loss carry forwards | 1,173 | 158 |
| **Unrecognized deductible temporary differences** | 17,655 | 1,974 |

The Company's estimated non-capital loss carry forwards is approximately $22,305,326 which begins to expire in 2036.

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

## 17. Share Capital

### (a) Issued:

**Common shares:**

| | Number of shares | Amount |
|---|---|---|
| | # | $ |
| **Balance, October 31, 2017** | **18,400,200** | **667** |
| Issued for cash (i) | 11,113,817 | 445 |
| Issued on debt conversion (ii) | 20,486,183 | 852 |
| Issued for services rendered (iii) | 3,500,000 | 146 |
| Issued on conversion of convertible debentures (Note 20(i)) | 5,017,012 | 669 |
| Issued on incorporation of High Tide Inc. (iv) | 2,760,000 | 20 |
| Issued to acquire common shares of RGR ((v)(i)) | 6,128,304 | 1,196 |
| Issued to acquire preferred shares of RGR ((v)(i)) | 45,128,840 | 8,804 |
| Issued to acquire common shares of Smoker's ((v)(ii)) | 6,024,250 | 1,175 |
| Issued to acquire preferred shares of Smoker's ((v)(ii)) | 50,358,600 | 9,825 |
| Issued to acquire common shares of Famous Brandz ((v)(iii)) | 30,324,120 | 10,987 |
| Eliminated upon reorganization ((v)(iii)) | (58,517,212) | (2,779) |
| Issued for cash on private placement (vi) | 10,225,800 | 3,705 |
| Share issue costs – broker warrants (vi) | - | (158) |
| Share issue cost – cash (vii) | - | (263) |
| Tax effect on share issue costs | - | 114 |
| Issued upon asset acquisition (vii) | 800,000 | 290 |
| **Balance, October 31, 2018** | **151,749,914** | **35,695** |
| Issued upon listing of securities (viii), (Note 19) | 36,728,474 | 13,051 |
| Issued upon closing of Grasscity acquisition (Note 4a) | 8,410,470 | 3,047 |
| Issued to pay fees in shares (x) | 4,042,203 | 1,607 |
| Issued to pay interest via shares (Note 15) | 2,608,236 | 1,156 |
| Reduction in share capital (ix) | - | (29,699) |
| Issued upon closing of Dreamweavers acquisition (Note 4b) | 3,100,000 | 1,147 |
| Share-based compensation (Note 24) | 200,000 | 71 |
| Exercise - broker warrants (Note 20) | 7,590 | 3 |
| Issued upon closing of Jasper Ave. acquisition (Note 4d) | 559,742 | 205 |
| **Balance, October 31, 2019** | **207,406,629** | **26,283** |

(i) Famous Brandz issued 11,113,817 common shares to existing shareholders for cash totalling $445.

(ii) Balances due to Smoker's and RGR by Famous Brandz totalling $852 were converted into 20,486,183 common shares at fair value determined upon conversion.

(iii) Famous Brandz issued 3,500,000 common shares to arms length parties for consulting services having a value of $146.

(iv) Upon incorporation of High Tide on February 8, 2018, 2,760,000 (pre-share split: 1,000,000) common shares at a price of $0.0073 per share (pre-share split: $0.02 per share), totalling $20 were issued.

## 17. Share Capital (continued)

(v) On February 28, 2018 and April 30, 2018 ("Reorganization Date"), both RGR Canada Inc. ("RGR"), Smoker's Corner Ltd. ("Smoker's"), and then Famous Brandz Inc. ("Famous Brandz"), respectively, became wholly owned subsidiaries of a newly created High Tide following a corporate reorganization whereby the shareholders of RGR, Smoker's and Famous Brandz transferred all of their ownership interests in exchange for fully-paid common shares of High Tide as follows:

(i) On February 28, 2018, High Tide issued 6,128,304 (pre-share split: 2,220,400) Class A common shares at a price of $0.1949 per share (pre-share split: $0.538 per share) totalling $1,196 to acquire 100 Class A common shares of RGR from its shareholders and issued 45,128,840 (pre-share split: 16,351,029) Class A common shares at a price of $0.1949 per share (pre-share split: $0.538 per share) totalling $8,804 to acquire 88,044 preferred shares of RGR from its holders;

(ii) On February 28, 2018, High Tide issued 6,024,250 (pre-share split: 2,182,700) Class A common shares at a price of $0.1949 per share (pre-share split: $0.538 per share) totalling $1,175 to acquire 100 Class A common shares of Smoker's from its shareholders and issued 50,358,600 (pre-share split: 18,245,871) Class A common shares at a price of $0.1949 per share (pre-share split: $0.538 per share) totalling $9,825 to acquire 98,247 preferred shares of Smoker's from its holders;

(iii) On April 30, 2018, High Tide issued 30,324,120 (pre-share split: 10,987,000) Class A common shares at a price of $0.3623 per share (pre-share split: $1.00 per share) totaling $10,987 to acquire 58,517,012 Class A common shares of Famous Brandz and issued 1,194,590 High Tide warrants with fair value of $243 to acquire Famous Brandz' warrants; and

(iv) Declared dividends totalling $4,492, which were settled as follows: cash of $1,155, assignment of marketable securities with carrying value at the date of dividend declaration totaling $675, assignment of common shares of Famous Brandz owned by RGR and Smoker's totaling $1,006 and assignment of net related party balance totaling $1,654 (comprised of advances to related companies, related through common shareholders, and shareholder loans).

The carrying values of the common shares, preferred shares and warrants acquired by High Tide totalled $2,779, $18,629, and $31, respectively in the accounting records of respective entities. Since the carrying values were lower than the fair value of High Tide common shares and warrants (totalling $32,228) issued, the additional value of $10,789 was recorded against accumulated deficit as this was a related party transaction.

(vi) On May 2, 2018, the Company closed a private brokered placement offering for 10,225,800 (pre-share split: 3,705,000) common shares at $0.3623 per share (pre-share split: $1.00 per share), for gross proceeds totalling $3,705. The Company paid brokers' fees consisting of a cash payment of $263 and 670,680 (pre-share split: 243,000) broker warrants, which are exercisable at $0.3623 each (pre-share split: $1.00 each). These warrants were valued at $158 using Black Scholes option pricing model using the following assumptions: - Rate free interest rate: 1.77% - Expected volatility: 130% - Expected life in years: 2 - Expected dividends: Nil

(vii) On October 17, 2018, the Company completed the acquisition of all the issued and outstanding shares of Smiley's Cannabis and Budz Ltd. in Okotoks, Alberta ("Smiley's"). The acquisition provides the Company with an additional retail location and development permit to operate a recreational cannabis store. Management determined that the acquisition of Smiley's did not meet the definition of a business in accordance with IFRS 3 Business Combinations, as it did not have the inputs, processes and outputs required to meet the definition of a business. Accordingly, the acquisition has been accounted for as an asset acquisition. As consideration, 800,000 common shares of the Company were issued having a value of $290, based on the share price of the Company on October 17, 2018 of $0.3623 per share. Smiley's assigned its assets, being a permitted lease, and a cash lease deposit totaling $12, to Canna Cabana and then Smiley's was dissolved on October 29, 2018. The deposit, representing the first two monthly lease payments, was expensed during the year. As a result of the transaction, $277, representing the value of the lease, was recorded as an intangible asset.

(viii) On November 20, 2018, the Company filed its final prospectus in connection with its proposed initial public offering. The final prospectus qualified, and the Company distributed, 36,728,474 common shares.

(ix) The Board of Directors received approval from the shareholders at the Company's Annual General Meeting, through a special resolution, to reduce its stated capital, in accordance with Part V, paragraph 37 of the Business Corporations Act, and reduce its retained deficit by $29,699.

(x) During, the year ended October 31, 2019, the Company settled payables of $1,717 through issuance of 4,042,203 common shares of the Company which were valued at $1,607. The difference of $110 was recognized as a gain on extinguishment of financial liability.

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

## 18. Stock Option Plan:

The Company's stock option plan limits the number of common shares reserved under the plan from exceeding a "rolling maximum" of ten (10%) percent of the Company's issued and outstanding common shares from time to time. The stock options vest at the discretion of the Board of Directors, upon grant to directors, officers, employees and consultants of the Company and its subsidiaries. All options that are outstanding will expire upon maturity, or earlier, if the optionee ceases to be a director, officer, employee or consultant or there is a merger, amalgamation or change in control of the Company. One-fourth vesting immediately, one-fourth twelve months after the option grant date, one-fourth eighteen months after the option grant date and one-fourth twenty-four months after the option grant date. The maximum exercise period of an option shall not exceed 10 years from the grant date. Changes in the number of stock options, with their weighted average exercise prices, are summarized below:

| | October 31, 2019 | | October 31, 2018 | |
|---|---|---|---|---|
| | Number of options | Weighted Average Exercise Price ($) | Number of options | Weighted Average Exercise Price ($) |
| Balance, beginning of year | - | - | - | - |
| Granted | 12,410,000 | 0.50 | - | - |
| Forfeited | (1,800,000) | 0.50 | - | - |
| Balance, end of year | 10,610,000 | 0.50 | - | - |
| Exercisable, end of year | 5,966,875 | 0.50 | - | - |

During, the year ended October 31, 2019, the Company granted 12,410,000 incentive stock options to various officers, directors, employees and consultants. Subsequent to the grant date, 1,800,000 options were forfeited. The options were valued using the Black-Scholes model utilizing the following, weighted average assumptions:

Risk Free Rate – 1.56%
Volatility – 130%
Option life – 2 years
Exercise price - $0.50
Forfeiture rate – 0%

| | Outstanding | | | Exercisable | |
|---|---|---|---|---|---|
| Issue date | Exercise price | Number of Options | Remaining contractual life | Number of Options | Remaining contractual life |
| | $ | # | (years) | # | (years) |
| November 21, 2018 | 0.50 | 7,862,500 | 2.06 | 4,342,500 | 2.06 |
| April 30, 2019 | 0.50 | 2,247,500 | 2.50 | 1,499,375 | 2.50 |
| June 20, 2019 | 0.50 | 500,000 | 2.64 | 125,000 | 2.64 |
| | 0.50 | 10,610,000 | 2.40 | 5,966,875 | 2.40 |

For the year ended October 31, 2019, the Company recorded share-based compensation of $2,119 (2018 -$0) related to stock options. The weighted average fair value of stock options granted during the year ended October 31, 2019 was $0.21 (2018 - nil) per option.

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

## 19. Special Warrants

| | Number of special warrants | Amount |
|---|---|---|
| | # | $ |
| **Balance, October 31, 2017** | **-** | **-** |
| Special warrants issued August 22, 2018 (i) | 17,911,459 | 8,956 |
| Issue costs – Cash | - | (582) |
| Issue costs – Broker warrants | - | (247) |
| Issue costs – Legal fees | - | (178) |
| Special warrants issued October 2, 2018 (ii) | 18,817,015 | 9,409 |
| Issue costs – Cash | - | (612) |
| Issue costs – Broker warrants | - | (259) |
| Issue costs – Legal fees | - | (123) |
| Tax effect on share issue costs | - | 540 |
| **Balance, October 31, 2018** | 36,728,474 | 16,904 |
| Special warrants converted into units* on November 27, 2018 | (36,728,474) | (16,904) |
| **Balance, October 31, 2019** | **-** | **-** |

* Each unit comprised of 1 share and ½ purchase warrant, with each full warrant exercisable to acquire one common share at $0.75.

(i) On August 22, 2018, the Company closed a private placement offering of special warrants (the "Special Warrants") for aggregate proceeds of $8,956. Pursuant to the Special Warrant offering, the Company issued 17,911,459 (preshare split 6,489,659) warrants at a price of $0.50 (pre-share split $1.38) per Special Warrant. Each Special Warrant is automatically exercisable, with no additional consideration, into units of the Company on the date the Company obtains receipt from the applicable securities' regulatory authorities for a final prospectus. Each Special Warrant entitles the holder thereof to 1 common share and ½ common share purchase warrant of the Company. Each full purchase warrant will be exercisable to acquire one common share at a price of $0.75 (pre-split $2.07) per purchase warrant until November 26, 2020, being two years from the initial day of trading of the Company's securities. On closing of the offering of Special Warrants, the Company paid agents' commissions of $582 and legal fees and expenses of $178. The Company also issued 1,164,245 (pre-split: 421,828) broker warrants, with each broker warrant convertible into units of the Company for $0.50 (pre-split - $1.38). Each unit will comprise 1 share and ½ purchase warrant, with each full warrant exercisable to acquire one common share at $0.75 (pre-split - $2.07). The broker warrants issued to the agents were fair valued at $247 calculated using Black Scholes option pricing model using the following assumptions: Risk free interest rate: 2.11%, Expected volatility: 130%, Expected life in years: 2, Expected dividends: $Nil

(ii) On October 2, 2018, the Company closed a private placement offering of special warrants (the "Special Warrants") for aggregate proceeds of $9,409. Pursuant to the Special Warrant offering, the Company issued 18,817,015 (preshare split 6,817,759) Special Warrants at a price of $0.50 (pre-share split $1.38) per Special Warrant. Each Special Warrant is automatically exercisable, with no additional consideration, into Units of the Company on the date that the Company obtains receipt from the applicable security's regulatory authorities for a final prospectus (the "Qualifying Prospectus"). Each Special Warrant entitles the holder thereof to 1 common share and ½ common share purchase warrant of the Company. Each full purchase warrant will be exercisable to acquire one common share at a price of $0.75 (pre-split $2.07) per purchase warrant until November 26, 2020, being two years from the initial day of trading of the Company's securities. On closing of the offering of the Special Warrants, the Company paid agents' commissions of $612 and legal fees and expenses of $123. The Company also issued 1,223,105 (pre-split: 443,154) broker warrants with each broker warrant convertible into units of the Company for $0.50 (pre-split - $1.38). Each unit will comprise 1 share and ½ purchase warrant, with each full warrant exercisable to acquire one common share at $0.75 (pre-split - $2.07). The broker warrants issued to the agents were fair valued at $259 calculated using the Black Scholes option pricing model using the following assumptions: Risk free interest rate: 2.27%, Expected volatility: 130%, Expected life in years: 2, Expected dividends: Nil

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

## 20. Warrants

Outstanding warrants at October 31, 2019 were as follows:

| | Number of warrants | Amount | Weighted average exercise price | Weighted average number of years to expiry | Expiry dates |
|---|---|---|---|---|---|
| | # | $ | $ | | |
| **Balance, October 31, 2017** | **-** | **-** | **-** | **-** | **-** |
| Issued in exchange for Famous Brandz's warrants (i) | 1,194,590 | 243 | 0.4975 | 0.14 | April 29, 2020 |
| Issued to brokers for private placement (Note 17(vi)) | 670,680 | 158 | 0.3623 | 0.08 | April 29, 2020 |
| Issued to brokers for special warrant financing (Note 19(i)) | 1,164,245 | 246 | 0.3246 | 0.22 | August 21, 2020 |
| Issued to brokers for special warrant financing (Note 19(ii)) | 1,223,105 | 259 | 0.3246 | 0.26 | October 1, 2020 |
| **Balance, October 31, 2018** | **4,252,620** | **906** | **0.3773** | **0.70** | |
| Special warrants converted into units November 27, 2018 (Note 19) | 18,364,236 | 3,853 | 0.7500 | 0.45 | November 26, 2020 |
| Issued to brokers for financing (Note 15(i)) | 504,733 | 93 | 0.7500 | 0.01 | December 10, 2020 |
| Issued warrants on Convertibile debt April 18, 2019 (Note 15(ii)) | 11,146,667 | 885 | 0.8500 | 0.37 | April 17, 2021 |
| Issued warrants for acquisition - Dreamweavers (Note 4b) | 1,550,000 | 295 | 0.7500 | 0.06 | May 22, 2021 |
| Issued warrants on convertibile debt June 17, 2019 (Note 14(iii)) | 4,266,667 | 340 | 0.8500 | 0.16 | June 16, 2021 |
| Issued warrants for services (ii) | 2,000,000 | 132 | 0.5000 | 0.01 | January 24, 2020 |
| Issued warrants on debt September 04, 2019 (Note 13) | 1,600,000 | 105 | 0.8500 | 0.07 | September 3, 2021 |
| Warrants exercised | (7,590) | - | - | - | - |
| **Balance, October 31, 2019** | **43,677,333** | **6,609** | **0.6083** | **1.13** | |

As at October 31, 2019 all 43,677,333 warrants were exercisable.

i) Prior to the corporate reorganization, Famous Brandz issued 721 units of unsecured convertible debentures with warrants at a price of $1,000 per unit for total proceeds of $721. The debentures were converted into common share of Famous Brandz prior to the corporate reorganization. Total shares issued on conversion was 5,017,012 for a value of $669. The change in the fair value of the conversion feature and accretion totaled $28,415 and $7,709, respectively during the period the convertible debentures were outstanding during the year. As part of the corporate reorganization, the Company issued 1,194,590 (pre-share split: 432,822) warrants with an exercise price of $0.4975 (pre-share split: $1.373) in exchange for 3,403,333 Famous Brandz warrants of which 2,403,333 warrants related to the convertible debentures and 1,000,000 were other warrants. The 1,194,590 warrants were valued at $243 using Black Scholes option pricing model using the following assumptions: - Risk free interest rate: 1.77% - Expected volatility: 130% - Expected life in years: 2 - Expected dividends: Nil

ii) On July 29, 2019, the Company issued 2,000,000 warrants for business development consultancy. Each warrant will allow the holder to acquire one common share at $0.50 for six months. The warrants were valued at $132 using the Black-Scholes model as, the fair value of the services provided cannot be measured reliably and the following assumptions were used: stock price of $0.42; expected life of six month; $nil dividends; expected volatility of 78% based on comparable companies; exercise price of $0.50; and a risk-free interest rate of 1.6%.

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

## 21. Loss Per Share

| | | Year ended October 31 |
|---|---|---|
| | **2019** | 2018 |
| | **$** | $ |
| Net Loss for the year | **(26,292)** | (4,533) |
| Non-controlling interest | **166** | 13 |
| Net Loss for the year attributable to owners of the Company | **(26,126)** | (4,520) |
| | **#** | # |
| Weighted average number of common shares - basic and diluted | **198,181,696** | 107,223,734 |
| Basic loss per share | **(0.13)** | (0.04) |
| Dilutive loss per share[(i)] | **(0.13)** | (0.04) |

(i) For the year ended October 31, 2019, the stock-options and warrants outstanding were excluded from the calculation of diluted loss per share as they were anti-dilutive.

## 22. Financial Instruments and Risk Management

The Company's activities expose it to a variety of financial risks. The Company is exposed to credit, liquidity, and market risk due to holding certain financial instruments. The Company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Company's financial performance.

Risk management is carried out by senior management in conjunction with the Board of Directors.

### Fair value

The Company's financial instruments consist of cash and cash equivalents, accounts receivable, restricted marketable securities, loans receivable, accounts payable and accrued liabilities, notes payable, convertible debentures, derivative liabilities and shareholders' loans.

IFRS 13 establishes a three-level hierarchy that prioritizes the inputs relative to the valuation techniques used to measure fair value. Fair values of assets and liabilities included in Level 1 of the hierarchy are determined by reference to quoted prices in active markets for identical assets and liabilities. Fair value of assets and liabilities in Level 2 are determined using inputs other than quoted prices for which all significant outputs are observable, either directly or indirectly. Fair value of assets and liabilities in Level 3 are determined based on inputs that are unobservable and significant to the overall fair value measurement. Accordingly, the Company has categorized its financial instruments carried at fair value into one of three different levels depending on the observability of the inputs employed in the measurement. The Company's cash and cash equivalents are subject to Level 1 valuation.

The marketable securities and derivative liability have been recorded at fair value based on level 2 inputs. The carrying values of accounts receivable, accounts payable and accrued liabilities and shareholder loans approximate their fair values due to the short-term maturities of these financial instruments. The carrying value of the notes payable and convertibile debentures approximate their fair value as they are discounted using a market rate of interest.

Loans receivable are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The fair values of loans receivable are not materially different to their carrying amounts, since the interest rate on those loans is either close to current market rates or the loans are of a short-term nature.

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

## 22.Financial Instruments and Risk Management (continued)

### Credit risk

Credit risk arises when a party to a financial instrument will cause a financial loss for the counter party by failing to fulfill its obligation. Financial instruments that subject the Company to credit risk consist primarily of cash, accounts receivable, marketable securities and loans receivable. The credit risk relating to cash and cash equivalents and restricted marketable securities balances is limited because the counterparties are large commercial banks. The amounts reported for accounts receivable in the statement of consolidated financial position is net of expected credit loss and the net carrying value represents the Company's maximum exposure to credit risk. Accounts receivable credit exposure is minimized by entering into transactions with creditworthy counterparties and monitoring the age and balances outstanding on an ongoing basis. Sales to retail customers are required to be settled in cash or using major credit cards, mitigating credit risk. The following table sets forth details of the aging profile of accounts receivable and the allowance for expected credit loss:

| As at | October 31, 2019 | October 31, 2018 |
|---|---|---|
| | $ | $ |
| Current (for less than 30 days) | 1,038 | 343 |
| 31 – 60 days | 336 | 233 |
| 61 – 90 days | 295 | 73 |
| Greater than 90 days | 2,355 | 334 |
| Loss allowance | (1,639) | (128) |
| | 2,385 | 855 |

During the year ended October 31, 2019, $100 in trade receivables were written off due to bad debts which is being included in general and adminstrative expense (year ended October 31, 2018 – $396). Individual receivables which are known to be uncollectible are written off by reducing the carrying amount directly.

The Company performs a regular assessment of collectability of accounts receivables. The Company monitors the financial performance and/or cash flows of its franchisees through observation of their point of sale system, receipt of cash from customers and maintains regular contact/discussions. In fiscal 2018, the Company reviewed the expected payment schedule and discounted it using an average franchisee credit adjusted rate of 11% resulting in the receivables being discounted by $475. For the year ended October 31, 2019, management reviewed the estimates and have created additional loss allowances for the Smokers Corner's franchisee receivable of $1,136 and transferred $475 from discounts on accounts receivable to loss allowance.

| | 2019 | 2018 |
|---|---|---|
| | $ | $ |
| Opening balance | 128 | 109 |
| Expeected credit loss allowance | 1,142 | 415 |
| Receivables written off during the year | (106) | (396) |
| Transfer from discounts on accounts receivables | 475 | - |
| | 1,639 | 128 |

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

## 22. Financial Instruments and Risk Management (continued)

### 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 generally relies on funds generated from operations and equity financings to provide sufficient liquidity to meet budgeted operating requirements and to supply capital to expand its operations. The Company continues to seek capital to meet current and future obligations as they come due. Maturities of the Company's financial liabilities are as follows:

| | Contractual cash flows | Less than one year | 1-5 years | Greater than 5 years |
|---|---|---|---|---|
| | $ | $ | $ | $ |
| **October 31, 2018** | | | | |
| Accounts payable and accrued liabilities | 2,515 | 2,515 | - | - |
| Shareholder loans | 36 | 36 | - | - |
| Convertible debentures | - | - | - | - |
| Total | 2,551 | 2,551 | - | - |
| **October 31, 2019** | | | | |
| Accounts payable and accrued liabilities | 4,402 | 4,402 | - | - |
| Notes Payable | 3,632 | 3,570 | 62 | - |
| Shareholder loans | 701 | 701 | - | - |
| Convertible debentures | 19,664 | - | 19,664 | - |
| **Total** | **28,399** | **8,673** | **19,726** | - |

### Interest rate risk

The Company is not exposed to significant interest rate risk as its interest-bearing financial instruments carry a fixed rate of interest.

### Foreign currency risk

Foreign currency risk is defined as the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company maintains cash balances and enters into transactions denominated in foreign currencies, which exposes the Company to fluctuating balances and cash flows due to variations in foreign exchange rates.

The Canadian dollar equivalent carrying amounts of the Company's foreign currency denominated monetary assets and monetary liabilities as at October 31, 2019 was as follows:

| ***(Canadian dollar equivalent amounts of USD dollar and Euro balances)*** | October 31, 2019 (Euro) | October 31, 2019 (USD) | **October 31, 2019 Total** | October 31, 2018 |
|---|---|---|---|---|
| | $ | $ | **$** | $ |
| Cash | 32 | 220 | **252** | 90 |
| Accounts receivable | 136 | 285 | **421** | 522 |
| Accounts payable and accrued liabilities | (506) | (492) | **(998)** | (218) |
| Net monetary assets | (338) | 13 | **(325)** | 394 |

Assuming all other variables remain constant, a fluctuation of +/- 5.0 percent in the exchange rate between the United States dollar and the Canadian dollar would impact the carrying value of the net monetary assets by approximately +/- $11 (October 31, 2018 - $20). Maintaining constant variables, a fluctuation of +/- 5.0 percent in the exchange rate between the Euro and the Canadian dollar would impact the carrying value of the net monetary assets by approximately +/- $17 (October 31, 2018 - $Nil). To date, the Company has not entered into financial derivative contracts to manage exposure to fluctuations in foreign exchange rates. The Company had no balances denominated in Euros as at October 31, 2018.

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

## 23. Segmented Information

Segments are identified by management based on the allocation of resources, which is done on a basis of selling channel rather than by legal entity. As such, the Company has established two main segments, being retail and wholesale, with a Corporate segment which includes oversight and start up operations of new entities until such time as revenue generation commences. The reportable segments are managed separately because of the unique characteristics and requirements of each business.

| For the year ended Oct 31, | **Retail 2019 ($)** | Retail 2018 ($) | **Wholesale 2019 ($)** | Wholesale 2018 ($) | **Corporate 2019 ($)** | Corporate 2018 ($) | **Total 2019 ($)** | Total 2018 ($) |
|---|---|---|---|---|---|---|---|---|
| **Net Revenue** | **24,002** | 3,757 | **6,686** | 4,992 | **606** | - | **31,294** | 8,749 |
| **Gross margin** | **8,074** | 3,280 | **2,642** | (171) | **600** | - | **11,316** | 3,109 |
| **Income (loss) from operations** | **(6,154)** | 126 | **(2,482)** | (2,802) | **(11,237)** | (1,058) | **(19,874)** | (3,734) |
| **Net (loss) Income** | **(10,275)** | 520 | **(3,432)** | (3,660) | **(12,586)** | (1,393) | **(26,292)** | (4,533) |
| **Total assets** | **32,350** | 9,323 | **4,819** | 6,225 | **3,574** | 10,375 | **40,743** | 25,922 |
| **Total liabilities** | **4,521** | 847 | **672** | 1,000 | **26,142** | 761 | **31,336** | 2,607 |

### Geographical segments

| For the year ended Oct 31, | **Canada 2019 ($)** | Canada 2018 ($) | **Europe 2019 ($)** | Europe 2018 ($) | **Total 2019 ($)** | Total 2018 ($) |
|---|---|---|---|---|---|---|
| **Net Revenue** | **26,945** | 8,749 | **4,349** | - | **31,294** | 8,749 |
| **Gross margin** | **9,724** | 3,109 | **1,591** | - | **11,316** | 3,109 |
| **Income (loss) from operations** | **(18,267)** | (3,734) | **(1,606)** | - | **(19,874)** | (3,734) |
| **Net (loss) Income** | **(20,080)** | (4,533) | **(6,213)** | - | **(26,292)** | (4,533) |
| **Total assets** | **33,894** | 25,922 | **6,849** | - | **40,743** | 25,922 |
| **Total liabilities** | **30,830** | 2,607 | **506** | - | **31,336** | 2,607 |

## 24. Related Party Transactions

As at October 31, 2019, the Company had the following transactions with related parties as defined in IAS 24 – *Related Party Disclosures*, except those pertaining to transactions with key management personnel in the ordinary course of their employment and/or directorship arrangements and transactions with the Company's shareholders in the form of various financing.

### Financing transactions

As at October 31, 2019, the Company owed the non-controlling interest shareholder of KushBar Inc. $701.The loan carries no interest and is due on demand. Included in the convertible debenture issued on December 12, 2018, was an investment by a related party, CannaIncome Fund Corporation, for a total subscription amount of $250.

### Operational transactions

The Company paid $2,176 (2018 - $2,618), to 1990299 Alberta Ltd. ("199"), a company controlled by the President and CEO of the Company, for inventory purchases. 199 primarily facilitates the import of goods and sells these imported goods to the Company at 199's purchasing and transportaion costs, without markup. High Tide has transitioned the process of facilitation of its imports from 199 to HT Global Imports. During the year, the Company paid for certain expenses on behalf of the President and CEO totalling $56 (2018 - $24). These items are included in accounts receivables. As well, the Company wrote-off related party balances totalling $34 (2018 - $1,419).

An office and warehouse unit has been developed by Grover Properties Inc., a company that is related through a common controlling shareholder and the President & CEO of the company. The office and warehouse space were leased to High Tide to accommodate the Company's operational expansion. The lease was established by an independent real estate valuations services company at prevailing market rates and has annual lease payments totalling $386 per annum. The primary lease term is 5 years with two additional 5-year term extensions exercisable at the option of the Company. To facilitate the mortgage granted to Grover Properties Inc. for the development of this unit, a loan guarantee of up to $1,500 has been provided by Smoker's Corner Ltd., a subsidary of High Tide Inc.

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

## 24. Related Party Transactions (continued)

### Key management personnel

Key management personnel is comprised of 9 members of Company's Executive Team and Board of Directors. Key management compensation for the years ended October 31 is as follows:

| | 2019 | 2018 |
|---|---|---|
| | $ | $ |
| Short-term compensation | 1,469 | 272 |
| Share-based compensation [(i)] | 71 | 25 |
| Total | 1,540 | 297 |

(i) During, the year ended October 31, 2019, the Company paid a bonus of $90 in the form of 200,000 common shares to the officers of the company which were valued at $71 and the difference of $19 was recognized as a gain on extinguishment of financial liability (2018- $25).

## 25. Commitments and Contingencies

The Company has commitments relating to operating leases for its office space and outlets under non-cancelable operating leases. The future minimal annual rental payments under these operating leases are as follows:

| As at | October 31, 2019 | October 31, 2018 |
|---|---|---|
| | $ | $ |
| Less than one year | 3,962 | 2,336 |
| Between one and five years | 13,830 | 10,103 |
| Greater than five years | 3,426 | 2,532 |
| | 21,218 | 14,971 |

Included in the commitments schedule above, is the office and warehouse unit leased by High Tide for $386 per annum (Note 24).

### Contingent liability

An action with the Court of Queen's Bench (Alberta) (the "QB Claim") and a complaint with the Human Rights Tribunal (Alberta) (the "HR Complaint") was filed by a former employee. The amount claimed by the former employee is approximately $200 plus interest and other costs. The Company has calculated a provision based on the amount claimed and the probability of the QB Claim being successful. The provision has been recorded in accounts payable and accrued liabilities.

A claim for 110 Euro was lodged against the Company in relation to non-payment under a service contract. The company has disclaimed liability and is defending the action. Management's opinion is that the likelihood of any cash outflow as a result of these matters is remote, therefore, no amounts have been provided for in these consolidated financial statements.

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

## 26. Non-Controlling Interests

The following table presents the summarized financial information for KushBar Inc., the Company's subsidiaries which have non-controlling interests. This information represents amounts before intercompany eliminations.

| | 2019 |
|---|---|
| | $ |
| Total current assets | 458 |
| Total non-current assets | 1,019 |
| Total current liabilities | (996) |
| Total non-current liabilities | - |
| Revenues for the year ended | 259 |
| Net loss for the year ended | (294) |

The net change in non-controlling interests is as follows:

| | |
|---|---|
| Balance, October 31, 2018 | (13) |
| Share of loss for the period | (166) |
| Balance, October 31, 2019 | (179) |

As of October 31, 2019, the Company held a 50.1% ownership interest in KushBar, with $179 NCI. As well, the Company owed the non-controlling interest shareholder $701 (2018 - $36). The loan carries no interest and is due on demand.

## 27. Subsequent Events

(i) On November 5, 2019, the Company issued unsecured convertible debentures under a non-brokered private placement with proceeds of $2,000. Subject to the need for further growth capital, the Company's Board of Directors has authorized the issuance of an optional second tranche of the offering for aggregate proceeds of up to $5,000. The outstanding principal amount is convertible at any time before maturity and at the holder's option, into common shares of the Company at a conversion price of $0.252 per share. The debentures are due 24 months from the date of issuance and carry an interest cost of 10% per annum, payable annually in advance in shares. The interest cost is payable in common shares at a price equal to the volume-weighted average price per common share for the 10-day period prior to the date upon which interest is due. Concurrent with the issuance of the debentures, the Company paid the annual amount of interest due up-front in the form of 784,314 shares. Under the offering, the Company also issued common share purchase warrants such that each subscriber received one warrant for each $0.252 original principal amount of its debenture, resulting in 7,936,507 warrants being issued as part of the offering. Each warrant entitles the holder to acquire one Share at an exercise price of $0.50 per common share for two years from the date of issuance.

(ii) On December 5, 2019, the Company closed the second tranche of the sale of unsecured convertible debentures of the Company under the private placement previously announced on November 5, 2019. Gross proceeds from the Second Tranche were $2,115. The outstanding principal amount is convertible at any time before maturity and at the holder's option, into common shares of the Company at a conversion price of $0.252 per share. The debentures are due 24 months from the date of issuance and carry an interest cost of 10% per annum, payable annually in advance in common shares. The interest rate is payable in common shares at a price equal to the volume-weighted average price per common share for the 10-day period prior to the date upon which interest is due. Concurrent with the issuance of the debentures, the Company paid the annual amount of interest due up-front in the form of 1,016,826 common shares. Under the second tranche of the offering, the Company also issued common share purchase warrants such that each subscriber received one warrant for each $0.252 original principal amount of its debenture, resulting in 8,392,857 warrants being issued as part of the offering. Each warrant entitles the holder to acquire one common share at an exercise price of $0.50 per common share for two years from the date of issuance.

## 27.Subsequent Events (continued)

(iii) On December 10, 2019, the Company entered into a definitive share purchase agreement with 2651576 Ontario Inc. (the "Minority Holder"), a private Ontario company, to acquire the remaining 49.9% interest (the "Minority Interest") in High Tide's majority-owned subsidiary, KushBar Inc. Pursuant to the definitive agreement, High Tide, which presently holds a controlling interest of 50.1% in KushBar, will acquire the Minority Interest in a transaction (the "Transaction") that will result in KushBar becoming a wholly owned subsidiary of High Tide. The consideration paid for the minority interest was by the issuance of a secured convertible debenture in the principal amount of approximately $700 and such number of common shares in the capital of High Tide ("Shares") having an aggregate value of $500, with each common share priced at the 10-day volume weighted average trading price of the shares on the CSE immediately prior to the closing date. The outstanding principal amount under the debenture is convertible, at the holder's option, before the maturity date into Shares at a price of $0.25 per common share. The debenture will be due 24 months from the issuance date and will not bear interest, provided however that any principal amount outstanding following the maturity date will bear interest at a rate of 10% per annum until repaid. If, following the expiry of all hold periods imposed by applicable Canadian securities laws, the volume-weighted average trading price of the common shares on the CSE exceeds $0.30 for a period of 30 consecutive days, High Tide will be entitled to, subject to certain other conditions being met, cause the holder to convert all or part of the outstanding principal amount of the debenture into common shares. In addition, if at any time during the term thereof, High Tide issues securities at a price deemed lower than the conversion price then in effect, then, subject to certain other conditions, such conversion price will be adjusted downward to such lower price.

(iv) On December 13, 2019, the Company issued $2,000 in convertible debt and 7,936,508 warrants to the sellers of GrassCity to settle the put option valued at $2,121 as of October 31, 2019.

(v) On January 1, 2020, the Company launched a new revenue stream in its proprietary data analytics platform, "Cabanalytics". Cabanalytics provides the Company a deep understanding of consumer behaviours and preferences and serves as a new net margin stream by providing consumer and product insights to licensed producers and other companies supporting the cannabis sector. The Company continues to develop the program with a number of licensed producers and other market participants.

(vi) On January 6, 2020, the Company entered into a loan agreement with Windsor Private Capital ("Windsor"), a Toronto-based merchant bank, to secure a senior secured, non-revolving term credit facility in the amount of up to $10,000. The Company will have immediate access to an initial $6,000, that can be drawn down at Company's discretion, and subject to satisfaction of certain conditions, will provide the Company with access to an additional $4,000. Amounts drawn down under the facility will bear interest at a rate of 11.5% per annum, payable monthly, in arrears, on the last day of each calendar month. Provided that certain conditions are satisfied, the facility will automatically extend for an additional one-year term. The principal amount advanced under the facility is convertible, during its term at any time after an initial 6 month hold period, and at Windsor's option, into common shares in the capital of the Company at a conversion price of $0.17. The conversion price is subject to downward adjustment if the Company, at any time during the term of the facility, issues securities at a price deemed lower than the conversion price then in effect. Pursuant to the loan agreement, Windsor is entitled to a one-time placement fee equal to 3.5% of the initial facility amount, which the Company intends to capitalize into the principal amount advanced under the facility. In addition, Company will issue to Windsor such number of share purchase warrants equal to the aggregate principal amount of the facility divided by the conversion price. The warrants will be subject to vesting as follows: (i) with respect to such number of warrants equal to the initial facility amount divided by the conversion price, such warrants will vest on the earlier of the date on which Windsor advances to the Company the total initial facility amount, and February 6, 2020, and (ii) with respect to the remaining warrants, such number of warrants equal to the quotient obtained by dividing the principal amount advanced to the Company (from the remaining Facility amount) by the conversion price, will vest on the date of each such advance. Each warrant will entitle the holder thereof, following the vesting date applicable to such warrant, to acquire one at an exercise price equal to 150% of the conversion price per common share for a period of two years from the date of issuance.

(vii) On January 24, 2020, the Company completed the acquisition of the Canna Cabana retail cannabis store in Hamilton, Ontario. As consideration for the acquisition, the Company paid to the vendor $2,097 in cash and issued to the vendor 4,761,904 common shares in the capital of the Company. In connection with the transaction, the Company acquired all the issued and outstanding shares of a numbered company that was wholly owned by the holder of a cannabis retail store. Under IFRS 3, if the acquisition date of a business combination is after the end of the reporting period, but prior the publication of the consolidated financial statements, the Company must provide the information required by IFRS 3 unless the initial accounting for the business combination is incomplete. Due to the short time period between the closing of the acquisition date and the publication of these consolidated financial statements, the allocation of the purchase price has not been provided because that information has not yet been finalized.

## 27.Subsequent Events (continued)

(viii) On January 27, 2020, the Company acquired a 50% interest in the Canna Cabana branded store in Sudbury, Ontario. As consideration for the transaction, the Company issued to a nominee of the partners of the partnership an aggregate of 5,319,149 common shares of the Company, which are subject to a four month and one day statutory hold period, as well as common share purchase warrants to purchase up to an aggregate of 2,500,000 shares of the Company. Each warrant entitles the holder to acquire one share at an exercise price of $0.40 per share for a period of two years from the date of issuance. In addition, for a period of 2 years following the closing date, one of the outgoing partners will be entitled to receive, from the Company, a royalty of 1% of the gross revenues of the Sudbury store.

(ix) On February 14, 2020, the Company entered into a binding asset purchase agreement with Halo Labs Inc. (“Halo”), under which High Tide will sell its KushBar retail cannabis assets and the rights to 5 permitted retail cannabis stores (the “Portfolio”) to Halo for $12,000, payable in the form of 46,153,846 common shares of Halo, of which $3,500 has been paid to the Company as a non-refundable deposit, subject to certain limited circumstances. In addition, Halo has agreed to engage the Company to substantially oversee all aspects of its retail cannabis operations with respect to the Portfolio and will pay the Company ongoing royalties for regulatory advisory services and retail management, and a fixed fee for managing the construction of the unopened stores.

(x) On February 21, 2020, the Company closed the acquisition of a retail cannabis store currently operating in Tisdale, Saskatchewan (the “Tisdale Store”) as licensed by the Saskatchewan Liquor and Gaming Authority. The consideration paid to acquire the Tisdale Store was $219 in cash, $500 in the form of a promissory note due six months from the time of closing of the transaction and 5,000,000 of common shares of the Company with a fair value of $975. Under IFRS 3, if the acquisition date of a business combination is after the end of the reporting period, but prior the publication of the consolidated financial statements, the Company must provide the information required by IFRS 3 unless the initial accounting for the business combination is incomplete. Due to the short time period between the closing of the acquisition date and the publication of these consolidated financial statements, the allocation of the purchase price has not been provided because that information has not yet been finalized.

# Management's Discussion & Analysis

**For the year ended October 31, 2019**

This Management's Discussion and Analysis ("MD&A") of High Tide Inc. ("High Tide" or the "Company") for the year ended October 31, 2019 is dated February 28, 2020. This MD&A should be read in conjunction with the audited Consolidated Financial Statements of the Company for the years ended October 31, 2019 and 2018 (hereafter the "Financial Statements"). The audited Consolidated Financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

In this document, the terms "we", "us", and "our" refer to High Tide. This document also refers to the Company's three reportable operating segments: (i) the "Retail" Segment represented by the businesses of the Company's subsidiaries, including Canna Cabana Inc. ("Canna Cabana"), KushBar Inc. ("KushBar"), SJV B.V. and SJV2 B.V. (collectively "Grasscity") and Smoker's Corner Ltd. ("Smoker's Corner"), (ii) the "Wholesale" Segment represented by the businesses of Company's subsidiaries, RGR Canada Inc. ("RGR") and Famous Brandz Inc. ("Famous Brandz"), and (iii) the "Corporate" Segment.

High Tide is an Alberta based, retail focused cannabis corporation enhanced by the manufacturing and wholesale distribution of smoking accessories and cannabis lifestyle products. The Company's shares are listed on the Canadian Securities Exchange ("CSE") under the symbol "HITI", the Frankfurt Stock Exchange ("FSE") under the securities identification code 'WKN: A2PBPS' and the symbol "2LY", and on the OTCQB Market ("OTCQB") under the symbol "HITIF". The address of the Company's corporate and registered office is # 120 – 4954 Richard Road SW, Calgary, Alberta T3E 6L1, while the address of the Company's headquarters is #112, 11127 15 Street NE, Calgary, Alberta, T3K 2M4.

Additional information relating to the Company, including financial statements, news releases and other disclosure items of the Company can be accessed at www.sedar.com under the Company's profile, and at www.hightideinc.com.

### Forward-Looking Information and Statements

Certain statements contained within this MD&A, and in certain documents incorporated by reference into this document, constitute forward-looking statements. These statements relate to future events or the Company's future performance. All statements other than statements of historical fact may be forward-looking statements. Forward-looking statements are often, but not always, identified by the use of words such as "seek", "anticipate", "budget", "plan", "continue", "estimate", "expect", "forecast", "may", "will", "project", "predict", "potential", "targeting", "intend", "could", "might", "should", "believe" and similar expressions. These statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking statements.

In particular, this MD&A contains forward-looking statements pertaining, without limitation, to the following: changes in general and administrative expenses; future business operations and activities and the timing thereof; the future tax liability of the Company; the estimated future contractual obligations of the Company; the future liquidity and financial capacity of the Company; and its ability to fund its working capital and forecasted capital expenditures.

We believe the expectations reflected in those forward-looking statements are reasonable, but no assurance can be given that these expectations will prove to be correct and such forward-looking statements included in, or incorporated by reference into, this MD&A should not be unduly relied upon.

These forward-looking statements speak only as of the date of this MD&A or as of the date specified in the documents incorporated by reference into this MD&A, as the case may be. The actual results could differ materially from those anticipated in these forward-looking statements as a result of the risk factors set forth below and elsewhere in this MD&A; counterparty credit risk; access to capital; limitations on insurance; changes in environmental or legislation applicable to our operations, and our ability to comply with current and future environmental and other laws; changes in income tax laws or changes in tax laws and incentive programs relating to the cannabis industry; and the other factors discussed under Section 10: "Financial Instruments and Risk Management" in this MD&A.

Readers are cautioned that the foregoing lists of factors are not exhaustive. The forward-looking statements contained in this MD&A and the documents incorporated by reference herein are expressly qualified by this cautionary statement. The forward-looking statements contained in this document speak only as of the date of this document and the Company does not assume any obligation to publicly update or revise them to reflect new events or circumstances, except as may be required pursuant to applicable securities laws.

## Corporate Overview

### Nature of Operations

The Company's vision is it to offer a full range of best-in-class products and services to cannabis consumers, while growing organically and through acquisitions, to become the world's premier retail-focused and vertically integrated enterprise.

The Company's retail operations are focused on business-to-consumer markets. The operations of Canna Cabana (which is one of Canada's largest premier cannabis retail networks) and KushBar are focused both on the retail sale of recreational cannabis products for adult use as well as smoking accessories. Smoker's Corner's business is focused solely on the retail sale of smoking accessories. Grasscity has been operating as a major e-commerce retailer of smoking accessories for over 20 years and has significant brand equity in the United States and around the world. Grasscity brings a recognizable name and an established online sales channel for High Tide to sell its proprietary products, and its acquisition by High Tide in late 2018 has been complementary to the Company, which is presently utilizing its manufacturing and distribution channels to enhance gross margins within the Grasscity business.

The wholesale operations of RGR are primarily focused on the manufacturing and distribution of smoking accessories and cannabis lifestyle products. RGR designs and distributes a proprietary suite of branded smoking accessories including overseeing their contract manufacturing by third parties. RGR also distributes a minority of products that are manufactured by third parties. RGR does not sell its products directly to consumers but operates an e-commerce platform for wholesale customers. Similar to RGR, the wholesale operations of Famous Brandz are primarily focused on the manufacturing and distribution of smoking accessories and cannabis lifestyle products. Famous Brandz differentiates itself from RGR by focusing on acquiring celebrity licences, designing and distributing branded products. Famous Brandz has developed an extensive network of wholesale clients across Canada, the United States and Europe.

### Established Consumer Brands:

## Competitive Landscape

As of the date of this MD&A, the Company operates 26 corporately owned retail Canna Cabana locations and 2 KushBar locations. Further, Canna Cabana is currently represented by one branded location selling cannabis products in Toronto as well as one franchise in Calgary. In total, the Company currently has a total of 30 branded retail cannabis stores operating across Canada.

Following the October 2018 legalization of cannabis for adult recreational use in Canada, High Tide established both Canna Cabana and KushBar retail concepts to rapidly service customers across Alberta, Ontario and Saskatchewan. Canna Cabana provides a unique customer experience focused on retention and loyalty through its Cabana Club customer membership platform. Members of Cabana Club receive SMS & email communications highlighting new and upcoming product arrivals, member-only events, and special deals. As of the date of this MD&A, approximately 37,000 members have joined Cabana Club, with the majority subscribing in-store, while completing purchase transactions. As a result, the database addresses highly relevant consumers segmented at the local level by delivering regular content specific to their local Canna Cabana location. Canna Cabana and Kushbar operate amidst a number of competitors, both consolidated and independent. Notable competitors include Choom, Fire & Flower, Meta Growth, Nova Cannabis, and Spiritleaf, as well as numerous independent retailers.

The Company anticipates substantial additional growth in revenue due to the legalization of cannabis edibles and concentrate products. Limited initial releases of vape and edible products by Canadian Licensed Producers have been well received by our current retail customers, while also attracting many new customers that were previously purchasing from legacy and black-market providers. As new formats of the highly popular concentrates category come online, we expect to gain even more traction with Canadian cannabis consumers.

The Company operates 4 corporately owned retail locations under the Smoker's Corner banner across Alberta. As of the date of this MD&A, the Company is currently represented by 1 franchised Smoker's Corner location. Smoker's Corner mainly competes with independent retailers of smoking accessories without significant market concentration. Prior to legalization of recreational cannabis for adult use across Canada, Smoker's Corner was established as a strong brand and a business through its network of stores, its emphasis on customer service, and the depth and breadth of its product offering (which is largely supplied by RGR).

Most of the Company's competitors applicable to its Wholesale Segment operate primarily as product distributors, while RGR and Famous Brandz both design, directly source, import and distribute their products. This creates advantages through vertical integration, enabling RGR and Famous Brandz to bring unique product designs to market, and offer wholesale customers favourable and flexible pricing.

In the future, the Company expects its Retail Segment to experience increased competition from the recreational cannabis industry as a greater number of third-party stores are established across Canada to offer both cannabis products and smoking accessories. However, the Company believes that its product knowledge, operational expertise and margin maximization achieved through its vertically integrated smoking accessories business will enable it to operate profitably over the long term. In addition, the Company expects opportunities to arise from the legalization of recreational cannabis for its Wholesale Segment to acquire new clients by supplying third-party retailers with smoking accessories on a wholesale basis, thereby offsetting some of the risks associated with increased competition affecting the Retail Segment.

While the Company is presently focused on its existing markets in the Provinces of Alberta, Saskatchewan and Ontario, the Company is waiting for a final approval from the British Columbia Liquor Distribution Branch ("BC LDB") to establish Canna Cabana locations in the Province of British Columbia. The Company also intends to enter other provinces and territories as regulations permit and anticipates being able to grow both organically as well as through acquisition in the future.

(In thousands of Canadian dollars, except share and per share amounts or otherwise stated)

## Select Financial Highlights and Operating Performance

| $ Millions (except where noted) | 2019 | 2018 | 2017 |
|---|---|---|---|
| | **$** | $ | $ |
| Revenue | **31.3** | 8.7 | 10.0 |
| Gross Profit | **11.3** | 3.1 | 4.7 |
| Gross Profit Margin | **36%** | 36% | 47% |
| Operating Expenses | **(31.2)** | (6.8) | (3.8) |
| (Loss) Income from Operations | **(19.9)** | (3.7) | 1.0 |
| Net (Loss) Income | **(26.3)** | (4.5) | 0.3 |
| Net (Loss) Income per Share (Basic) | **(0.13)** | (0.04) | 0.03 |
| Net (Loss) Income per Share (Diluted) | **(0.13)** | (0.04) | 0.03 |

Revenue increased by 258% to $31.3 million (2018: $8.7 million) and gross profit increased by 264% to $11.3 million (2018: $3.1 million) for the year ended October 31, 2019. Loss from operations increased to $19.9 million (2018: $3.7 million) for the year ended October 31, 2019.

The key factors affecting the results for the year ended October 31, 2019 were:

- **Merchandise Sales** – Merchandise sales increased by $21.8 million or 284% for the year ended October 31, 2019 as compared to 2018. Growth in merchandise sales was largely driven by increase in the number of Canna Cabana stores across Canada and merchandise sales from the acquired Grasscity and Dreamweavers Cannabis Products Ltd. ("Dreamweavers").

- **Operating Expenses** – Operating expense (excluding an increase in a provision for credit loss expense of $0.9 million related to Smoker's Corner franchisees) increased by $24.4 million or 442% for the year ended October 31, 2019, as compared to 2018. The increase was primarily driven by planned increase in personnel, rent expense, and operating costs to support the establishment of retail network across Canada, and further, rent expense for additional retail locations to support further expansion, transaction and compliance costs incurred to operate publicly, raise capital, and costs from the new business of Grasscity and Dreamweavers.

*Revenue*

Revenue increased by 258% or $22.6 million to $31.3 million in 2019 (2018: $8.7 million).

The increase in sales was driven primarily by the operations of Canna Cabana, which began selling recreational cannabis products and smoking accessories on October 27, 2018, the acquisition of Grasscity, the acquisition of Dreamweavers and by new customers acquired in the Company's Wholesale Segment.

Sales growth (excluding franchisee revenues) led to increases in revenues of $22.6 million between all segments. During the 2019 fiscal year, Canna Cabana locations processed over 857,000 transactions, fortifying our loyal Cabana Club customer base and connecting new shoppers to our strong consumer-focused retail experience.

Our industry leading Cabana Club program provides a strong loyalty incentive to over 37,000 transacting customers as of the date of this MD&A. Cabana Club members receive SMS & email communications highlighting new and upcoming product arrivals, member-only events, and special deals that connect them to their geographically local Canna Cabana location. Our program focuses on building long-term purchase habits and loyalty with our customers, and we're proud of the fact that over 60% of our daily business consists of regular Club Members. New customer growth is always a focus, and our database has been growing by 800+ new members weekly, suggesting a substantial referral and word-of-mouth component despite a modest, discerning and focused approach to external media buying.

In 2018, the Company entered into supply agreements for smoking accessories with the Ontario Cannabis Store ("OCS") and received a large purchase order for white-label smoking accessories from Aurora Cannabis Inc. that was fulfilled during the year which contributed to the increase in revenue in 2019.

*Gross Profit*

For the year ended October 31, 2019, gross profit increased by $8.2 million as compared to the same period during the prior year, which was driven by the increase in sales volume. The gross profit margin remained consistent at 36%.

*Operating Expenses*

Total operating expenses increased by $24.4 million to $31.2 million for the year ended October 31, 2019 (2018: $6.8 million) Operating expenses increased over the same period in 2018 due to Company's aggressive efforts to take advantage of significant market opportunities created due to the deregulation of recreational cannabis for adult use across Canada, which occurred on October 17, 2018. This increased effort resulted in the Company being represented by 30 branded stores across Canada as at the date of this MD&A in the Provinces of Alberta, Ontario, and Saskatchewan, and ready to expand its operations into British Columbia. The acquisition of Grasscity and Dreamweavers also contributed to the increase in the Company's operating expenses for the year ended October 31, 2019.

The increase in operating expenses was largely attributed to salaries, wages and benefits expenses, which increased by $7.5 million compared to the prior year with an additional $2.2 million being incurred for share-based compensation. The increase in planned staffing was due to the need for additional personnel, within both the Retail and the Corporate Segments. The increase in staffing was required to facilitate growth and to ensure the Company could take advantage of various market opportunities.

General and administrative expenses increased by $6.1 million compared to the same period in 2018 as a result of the expansion of cannabis retail stores. The company also incurred a provision for credit loss expense of $0.9 million during the year ended October 31, 2019, related to Smoker's Corner franchises. Additionally, there was an increase in professional fees of $5.5 million during the year ended October 31, 2019, compared to the same period in the prior year attributed to costs incurred for compliance reporting, the implementation of an enterprise resource planning software system to support the expanded operations as well as professional fees associated with raising capital and acquiring businesses.

*Impairment Loss*

Impairment loss of $4.8 million was recorded during 2019 (2018: nil). Impairment charges recognized during the period were primarily attributable to changes in the timing of cost synergies related to acquisitions and as a result of the Company undertaking a strategic shift with regards to its Smoker's Corner operations, pivoting focus towards its Canna Cabana operations.

*Financing Costs*

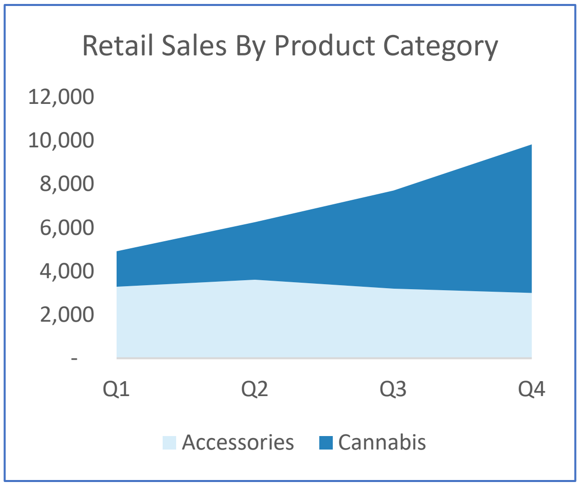
Financing costs of $3.1 million was recorded during 2019 (2018: $0.5 million), representing the expense associated with the initial public offering and issuance of convertible debentures including interest expense.

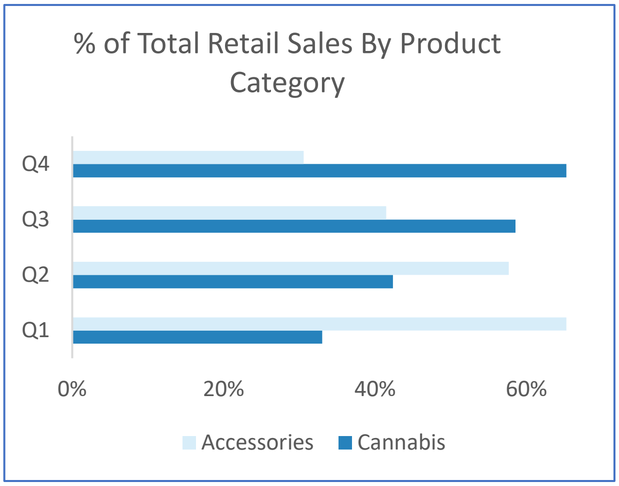
(In thousands of Canadian dollars, except share and per share amounts or otherwise stated)

## Segment Operations

| For the year ended Oct 31, | Retail 2019 ($) | Retail 2018 ($) | Wholesale 2019 ($) | Wholesale 2018 ($) | Corporate 2019 ($) | Corporate 2018 ($) | Total 2019 ($) | Total 2018 ($) |
|---|---|---|---|---|---|---|---|---|
| Net Revenue | 24,002 | 3,757 | 6,686 | 4,992 | 606 | - | 31,294 | 8,749 |
| Gross margin | 8,074 | 3,280 | 2,642 | (171) | 600 | - | 11,316 | 3,109 |
| Income (loss) from operations | (6,154) | 126 | (2,482) | (2,802) | (11,237) | (1,058) | (19,874) | (3,734) |
| Net (loss) Income | (10,275) | 520 | (3,432) | (3,660) | (12,586) | (1,393) | (26,292) | (4,533) |
| Total assets | 32,350 | 9,323 | 4,819 | 6,225 | 3,574 | 10,375 | 40,743 | 25,922 |
| Total liabilities | 4,521 | 847 | 672 | 1,000 | 26,142 | 761 | 31,336 | 2,607 |

### Retail Segment Performance




The Company's Retail Segment demonstrated significant sales and revenue growth year-over-year with an increase in revenue of $20.2 million compared to last year. Revenue growth is primarily attributable to Canna Cabana, which became operational and began selling recreational cannabis products for adult use in the period, along with the Grasscity acquisition that was closed in December of 2018. During the period, Canna Cabana experienced strong product demand and consistent retail margins being reported across in the industry.

Grasscity, an online retailer of smoking accessories and cannabis lifestyle products, primarily to customers in the USA and Europe, was acquired by High Tide on December 19, 2018 and contributed sales of $4.3 million during the year. Grasscity attracts approximately 5.8 million users to its online website each year and has had over 34 million unique users join its online forums since its inception. High Tide is investing in Grasscity to renew its online sales platform, increase its searchability and align its supply chain with RGR and Famous Brandz. Grasscity is a strong strategic fit with High Tide with its advantages in branding and online presence, while enabling the Company to leverage its vertical integration to improve order fulfillment, customer reach, product margins and the overall profitability of the business.

The Smoker's Corner business matured leading up to and after legalization of recreational cannabis for adult use. Therefore, sales declined in the period compared to last year due to the closure of corporate owned and franchisee stores. As of the date of this MD&A, five corporate stores and nine franchise stores have been closed. As of the date of this MD&A, four of the closed locations have converted into Canna Cabana locations and two are in the process of being converted into Canna Cabana. High Tide expects to recapture and expand upon lost revenues under Canna Cabana.

Gross profit for the year ended October 31, 2019 increased by $4.8 million while the gross profit margin rate declined to 34%. The decline in gross margin rate is due, in combination, to the product mix at Canna Cabana that earns a lower blended margin than purely from the sale of higher-margin smoking accessories, as well as due to a decline in financing and fixed royalty revenues. High Tide will continue to optimize its operations to improve margins as cannabis sales become an increasingly large portion of the product mix.

Expenses increased significantly in the period due to the operations of Canna Cabana and Grasscity. For the year ended October 31, 2019, the Retail Segment incurred a loss from operations of $6.2 million.

### Wholesale Segment Performance

Revenues in the Company's Wholesale Segment increased by $1.7 million to $6.7 million in the year ended October 31, 2019, from $5.0 million for the same period in 2018. The increase in revenue was driven by the attraction of new customers created by the deregulation of recreational cannabis for adult use and the resulting retail cannabis industry. High Tide's Wholesale Segment has positioned itself as a key supplier to many retail cannabis competitors that have entered the marketplace since October 17, 2018.

Gross profit increased by $2.8 million to $2.6 million in the year ended October 2019 (2018: gross margin loss $0.2 million).

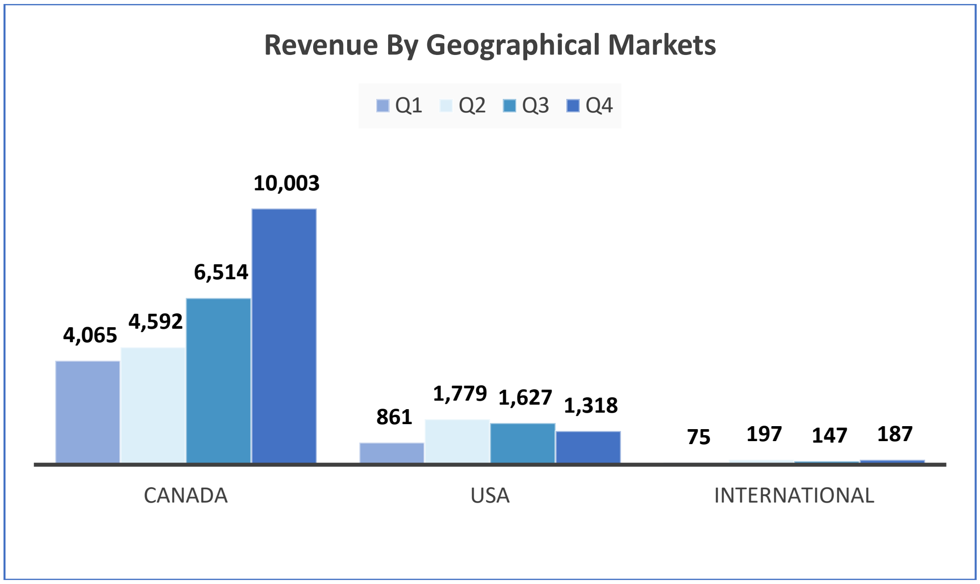
Expenses in the Wholesale Segment increased due to additional investments made to hire product developers, marketing professionals and digital marketing specialists. The additional staff were hired to expand product mix and further develop various proprietary brands.

The Wholesale Segment incurred a loss from operations of $2.5 million compared to a loss from operations of $2.8 million in the prior year.

### Corporate Segment Performance

The Corporate Segment's main function is to administer the other two Segments (Retail and Wholesale) and is responsible for the executive management and financing needs of the business. The Corporate Segment earned revenues of $0.6 million in the year ended October 31, 2019, compared to no revenue being earned in the same period in the prior year. The revenue was made up of royalty fees and interest revenues.

### Geographical Segments



The following presents information related to the Company's geographical Segments:

| For the year ended October 31, 2019 | | Retail | Wholesale | Corporate | Total |
|---|---|---|---|---|---|
| | | $ | $ | $ | $ |
| **Primary geographical markets** | | | | | |
| | Canada | 19,875 | 4,693 | 606 | 25,174 |
| | USA | 3,684 | 1,901 | - | 5,585 |
| | International | 443 | 92 | - | 535 |
| **Total revenue** | | **24,002** | **6,686** | **606** | **31,294** |
| **Major products and services** | | | | | |
| | Cannabis | 16,366 | - | - | 16,366 |
| | Smoking accessories | 6,603 | 6,478 | - | 13,081 |
| | Franchise royalties and fees | 953 | - | 562 | 1,515 |
| | Interest and other revenue | 80 | 208 | 44 | 332 |
| **Total revenue** | | **24,002** | **6,686** | **606** | **31,294** |
| **Timing of revenue recognition** | | | | | |
| | Transferred at a point in time | 23,949 | 6,686 | 606 | 31,241 |
| | Transferred over time | 53 | - | - | 53 |
| **Total revenue** | | **24,002** | **6,686** | **606** | **31,294** |

Sales performance increased significantly in all segments, with Canna Cabana leading Canadian sales and Grasscity contributing to US sales and International sales. Grasscity's operations are located in Amsterdam, The Netherlands, leading to the addition of an International geographical segment. Revenues in this segment are comprised of sales made to all countries outside of North America.

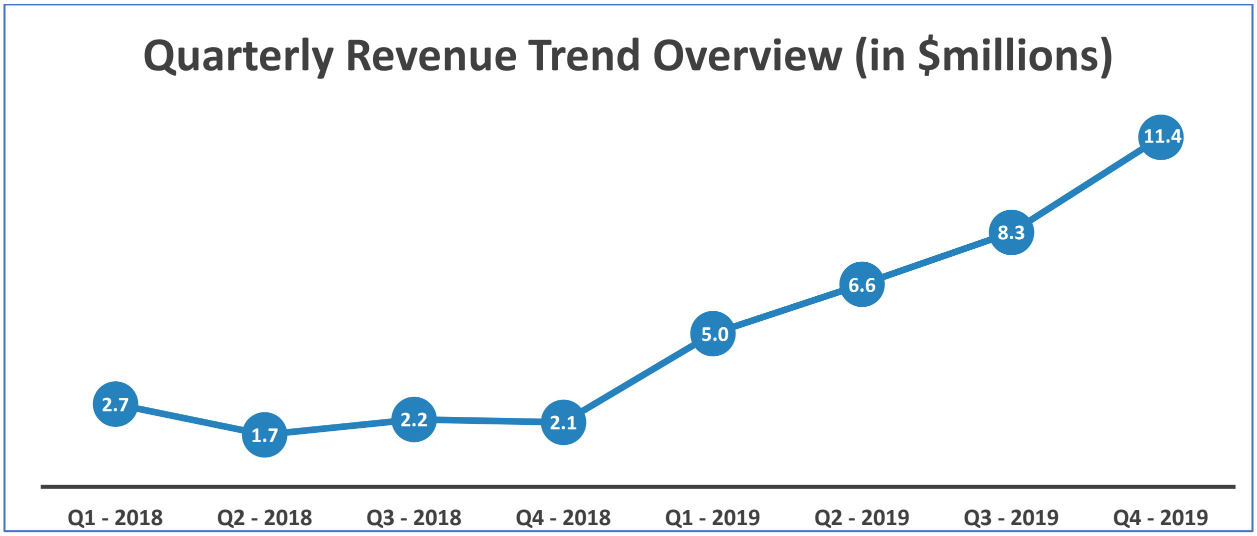
## Summary of Quarterly Results

| (C$ in millions, except per share amounts) | Q4 2019 | Q3 2019 | Q2 2019 | Q1 2019 | Q4 2018 | Q3 2018 | Q2 2018 | Q1 2018 |
|---|---|---|---|---|---|---|---|---|
| Revenue | 11.4 | 8.3 | 6.6 | 5.0 | 2.1 | 2.2 | 1.7 | 2.7 |
| (Loss) Income from Operations | (6.3) | (4.0) | (4.6) | (5.0) | (2.7) | (0.7) | (0.7) | 0.4 |
| Net (Loss) Income | (15.4) | (3.8) | (3.3) | (3.8) | (3.8) | (0.6) | (0.4) | 0.3 |
| Net (Loss) Income per Share (Basic) | (0.07) | (0.02) | (0.02) | (0.02) | (0.05) | - | - | 0.01 |
| Net (Loss) Income per Share (Diluted) | (0.07) | (0.02) | (0.02) | (0.02) | (0.05) | - | - | 0.01 |

Aside from the seasonal increase in consumer spending leading up to and slightly after the winter holiday period, which occurs in the first quarter of the Company's fiscal year, seasonality is becoming a decreasing factor in the Company's sales performance as the Retail Segment grows. In the first, second, third and fourth quarters of 2019, revenues increased as the Company began operating Canna Cabana stores and selling recreational cannabis products and integrating Grasscity into the Company's business. These two businesses have no prior comparisons in quarterly performance. In the second quarter of 2018, expenses increased as the Company began to expand its Canna Cabana business and initiate the Company listing process on the CSE, a process which continued through the third and fourth quarters of fiscal 2018.

The primary reason for increase in loss from operations in the fourth quarter of 2019 compared to third quarter of 2019 was due to an increase in expected credit loss allowance related to Smoker's Corner franchise-based accounts receivable of $939. The increase in net loss in the fourth quarter of 2019 compared to third quarter of 2019 was due to a change in an estimate of a tax provision resulting in reversal of $5,299 tax recovery and an impairment loss of $4,820 as a result of changes in timing of cost synergies related to acquisitions and the Company undertaking a strategic shift with regards to its Smoker's Corner operations, pivoting focus towards its Canna Cabana operations shift in strategic focus to cannabis retail business.

(In thousands of Canadian dollars, except share and per share amounts or otherwise stated)




## Financial Position, Liquidity and Capital Resources

| | 2019 | 2018 |
|---|---|---|
| Total current assets | 12,739 | 17,509 |
| Total non-current assets | 28,004 | 8,413 |
| Total current liabilities | 10,800 | 2,590 |
| Total non-current liabilities | 20,536 | 17 |
| Share capital | 26,283 | 35,695 |
| Contributed surplus | 2,119 | - |
| Convertible debentures – equity | 1,637 | - |
| Warrants | 6,609 | 905 |
| Special warrants | - | 16,904 |
| Accumulated other comprehensive loss | (366) | - |
| Non-controlling interest | (179) | (13) |
| Deficit, at end of the year | (26,696) | (30,176) |

### Assets

As at October 31, 2019, the Company had a working capital surplus of $1,939, compared to $14,919 on October 31, 2018. The change is mainly due to the growth in the Company's operations as it opened Canna Cabana stores and acquired Grasscity. As mentioned in the "Subsequent Events" section within this MD&A, the Company secured a credit facility of up to $10,000 from Windsor Capital and agreed to sell the assets of KushBar and the rights to 5 permitted retail cannabis stores to Halo Labs for $12,000. These transactions provide the Company enough liquidity for working capital and to pursue its expansion plan.

(In thousands of Canadian dollars, except share and per share amounts or otherwise stated)

Total assets of the Company were $40,743 on October 31, 2019 compared to $25,922 on October 31, 2018. The increase in total assets is primarily due to an increase in intangible assets as a result of the acquisition of the GrassCity and Dreamweavers. Assets also increased due to capital asset additions, inventory purchases, and prepaid lease deposits as a result of the expansion into the recreational retail sector during the period.

### Liabilities

Total liabilities increased to $31,336 at October 31, 2019 compared to $2,607 on October 31, 2018 primarily due to convertible debentures issued which were valued at 19,664. The proceeds from convertible debenture were used for expansion and working capital. Liabilities also increased due to $2,000 loan from a private lender and vendor loan for a building purchased in Niagara, Ontario for $1,600 which are due within next 12 months.

### Summary of Outstanding Share Data

The Company had the following securities issued and outstanding as at the date of this MD&A:

| Securities(1) | Units Outstanding |
|---|---:|
| Issued and outstanding common shares | 231,929,507 |
| Warrants | 121,330,226 |
| Stock options | 10,810,000 |
| Convertible debentures | 26,055 |

(1) Refer to the Company's Consolidated Financial Statements for a detailed description of these securities.

### Cash Flows

During the year ended October 31, 2019 the Company had an overall decrease in cash and cash equivalents of $7,392 (2018: increase $7,131).

Total cash used in operating activities was $14,833 for the year ended October 31, 2019 (2018 - $8,779). The increase in operating cash outflows are primarily driven by costs incurred to establish the new High Tide and Canna Cabana entities which were not operational in prior year ended October 31, 2018. Acquisition of Grasscity and Dreamweavers as well as hiring of new staff for expansion retail operations and administration added to the increase in cash used in operating activities. Cash used in investing activities was $16,922 (2018 - $4,227) as a result of Grasscity and Dreamweavers acquisition and expansion of Canna Cabana retail stores. Cash from financing activities was $24,363 (2018 - $20,137) as a result of issuing convertible debentures.

### Liquidity

In addition to cash and cash equivalents and non-cash working capital discussed above, the Company secured a credit facility of up to $10,000 from Windsor Capital and agreed to sell the assets of KushBar and the rights to 5 permitted retail cannabis stores to Halo Labs for $12,000. These transactions provide the Company enough liquidity for working capital and to pursue its expansion plan.

In the long term, to achieve the Company's growth plans, additional funding will be required to account for store capital buildout costs, the associated inventory and other start-up costs. The Company's growth plans are subject to additional financing, appropriate lease arrangements for each potential retail location and required approvals from the applicable regulatory authorities in each of the provinces (and municipalities) in which the Company plans to open retail cannabis locations. As well, certain provincial regulatory authorities have limited the number of retail cannabis licences available for issuance and this may prohibit the Company from achieving its expansion goals. These future funding requirements may be met in several ways including, but not limited to, a combination of equity financings, debt financings and other capital markets alternatives.

### Capital Management

The Company's objectives when managing capital resources are to:

I. Deploy capital to provide an appropriate return on investment to its shareholders.
II. Maintain financial flexibility to preserve the Company's ability to meet financial obligations; and
III. Maintain a capital structure that provides financial flexibility to execute on strategic opportunities.

The Company's strategy is formulated to maintain a flexible capital structure consistent with the objectives as stated above and to respond to changes in economic conditions and the risk characteristics of the underlying assets. The Board of Directors does not establish quantitative return on capital criteria for management, but rather promotes year over-year sustainable profitable growth. The Company is not subject to any externally imposed capital requirements or covenants. The Company's capital structure consists of equity and working capital. To maintain or alter the capital structure, the Company may adjust capital spending, raise new debt and issue share capital. The Company anticipates it will have adequate liquidity to fund future working capital, commitments, and forecasted capital expenditures through a combination of cash flow, cash on hand, and financings subsequent to the end of the year.

### Off Balance Sheet Transactions

The Company does not have any financial arrangements that are excluded from the Financial Statements as at October 31, 2019, nor are any such arrangements outstanding as of the date of this MD&A.

## Transactions Between Related Parties

### Financing Transactions

As at October 31, 2019, the Company owed the non-controlling interest shareholder of KushBar $701. The loan was incurred to expand KushBar operations. The loan carries no interest and is due on demand.

Included in the convertible debenture that closed on December 12, 2018, was an investment by related party, CannaIncome Fund Corporation, for a total subscription amount of $250. The President & CEO of CannaIncome Fund Corporation is Arthur H. Kwan who is also a board member of the Company.

### Operational Transactions

The Company paid $2,176 (2018 - $295), to 1990299 Alberta Ltd. ("199"), a company controlled by the President and CEO of the Company, for inventory purchases. 199 primarily facilitates the import of goods and sells these imported goods to the Company at 199's purchasing and transportation costs, without markup. High Tide incorporated HT Global Imports and has transitioned the process of facilitation of its imports from 199 to HT Global Imports instead. An office and warehouse unit has been developed by Grover Properties Inc., a company that is related through a common controlling shareholder and the President & CEO of the company. The office and warehouse space were leased to High Tide to accommodate the Company's operational expansion. The lease was established by an independent real estate valuations services company at prevailing market rates. The primary lease term is 5 years with two additional 5-year term extensions exercisable at the option of the Company. To facilitate the mortgage for the development of this unit, a loan guarantee of up to $1,500 has been provided by Smoker's Corner Ltd., a subsidiary of High Tide Inc.

## Subsequent Events

(i) On November 5, 2019, the Company issued unsecured convertible debentures under a non-brokered private placement with proceeds of $2,000. Subject to the need for further growth capital, the Company's Board of Directors has authorized the issuance of an optional second tranche of the offering for aggregate proceeds of up to $5,000. The outstanding principal amount under the Debentures is convertible at any time before maturity and at the holder's option, into common shares of the Company ("Common Shares") at a conversion price of $0.252 per share. The Debentures are due 24 months from the date of issuance and carry an interest cost of 10% per annum, payable annually in advance in shares. The interest cost is payable in Common Shares at a price equal to the volume-weighted average price per Common Share for the 10-day period prior to the date upon which interest is due. Concurrent with the issuance of the Debentures, the Company paid the annual amount of interest due up-front in the form of 784,314 shares. Under the offering, the Company also issued Common Share purchase warrants of the Company ("Warrants") such that each subscriber received one Warrant for each $0.252 original principal amount of its Debenture, resulting in 7,936,507 Warrants being issued as part of the offering. Each Warrant entitles the holder to acquire one Share at an exercise price of $0.50 per Common Share for two years from the date of issuance.

(ii) On December 5, 2019, the Company closed the second tranche of the sale of unsecured convertible debentures of the Company under the private placement previously announced on November 5, 2019. Gross proceeds from the Second Tranche were $2,115. The outstanding principal amount under the Debentures is convertible at any time before maturity and at the holder's option, into Common Shares at a conversion price of $0.252 per share. The debentures are due 24 months from the date of issuance and carry an interest cost of 10% per annum, payable annually in advance in Common Shares. The interest rate is payable in Common Shares at a price equal to the volume-weighted average price per Common Share for the 10-day period prior to the date upon which interest is due. Concurrent with the issuance of the debentures, the Company paid the annual amount of interest due up-front in the form of 1,016,826 Common Shares. Under the second tranche of the offering, the Company also issued Warrants such that each subscriber received one Warrant for each $0.252 original principal amount of its debenture, resulting in 8,392,857 Warrants being issued as part of the offering. Each Warrant entitles the holder to acquire one Common Share at an exercise price of $0.50 per Common Share for two years from the date of issuance.

(iii) On December 10, 2019, the Company entered into a definitive share purchase agreement with 2651576 Ontario Inc. (the "Minority Holder"), a private Ontario company, to acquire the remaining 49.9% interest (the "Minority Interest") in High Tide's majority-owned subsidiary, KushBar Inc. ("KushBar"). Pursuant to the Definitive Agreement, High Tide, which at the time held a controlling interest of 50.1% in KushBar, acquired the Minority Interest in a transaction (the "Transaction") that resulted in KushBar becoming a wholly owned subsidiary of High Tide. The consideration paid for the minority interest was comprised of a secured convertible debenture in the principal amount of approximately $700 and 2,645,503 Common Shares. The outstanding principal amount under the Debenture is convertible, at the holder's option, before the maturity date into Shares at a price of $0.25 per Common Share. The Debenture will be due 24 months from the issuance date and will not bear interest, provided however that any principal amount outstanding following the maturity date will bear interest at a rate of 10% per annum until repaid. If, following the expiry of all hold periods imposed by applicable Canadian securities laws, the volume-weighted average trading price of the Common Shares on the CSE exceeds $0.30 for a period of 30 consecutive days, High Tide will be entitled to, subject to certain other conditions being met, cause the holder to convert all or part of the outstanding principal amount of the debenture into Shares. In addition, if at any time during the term thereof, High Tide issues securities at a price deemed lower than the conversion price then in effect, then, subject to certain other conditions, such conversion price will be adjusted downward to such lower price.

(iv) On December 13, 2019, the Company issued to $2,000 in convertible debt and 7,936,508 Warrants to the sellers of GrassCity to settle the put option valued at $2,121 as of October 31, 2019.

(v) On January 1, 2020, the Company launched a new revenue stream in its proprietary data analytics platform, "Cabanalytics". Cabanalytics provides the Company a deep understanding of consumer behaviours and preferences and serves as a new net margin stream by providing consumer and product insights to licensed producers and other companies supporting the cannabis sector. The Company continues to develop the program with a number of licensed producers and other market participants.

(vi) On January 6, 2020, the Company entered into a loan agreement with Windsor Private Capital ("Windsor"), a Toronto-based merchant bank, to secure a senior secured, non-revolving term credit facility ("the facility") in the amount of up to $10,000. The facility provided the Company with immediate access to an initial $6,000 in working capital, that can be drawn down at Company's discretion, and subject to satisfaction of certain conditions, will provide the Company with access to an additional $4,000. Amounts drawn down under the Facility will bear interest at a rate of 11.5% per annum, payable monthly, in arrears, on the last day of each calendar month. Provided that certain conditions are satisfied, the Facility will automatically extend for an additional one-year term. The principal amount advanced under the facility is convertible, during its term at any time after an initial 6 month hold period, and at Windsor's option, into Common Shares at a conversion price of $0.17. The conversion price is subject to downward adjustment if the Company, at any time during the term of the Facility, issues securities at a price deemed lower than the conversion price then in effect. Pursuant to the loan agreement, the Company Windsor was entitled to a one-time placement fee equal to 3.5% of the initial Facility amount, which the Company elected to capitalize into the principal amount advanced under the Facility. In addition, Company issued to Windsor 58,823,529 Warrants. The Warrants are subject to vesting, with 35,294,117 Warrants having vested as at February 6, 2020. With respect to the remaining Warrants, such number of Warrants equal to the quotient obtained by dividing the principal amount advanced to the Company (from the additional $4,000 in the facility amount that may become available to the Company) by the conversion price, will vest on the date of each such advance. Each Warrant entitles the holder thereof, following the vesting date applicable to such Warrant, to acquire one Common Share at an exercise price equal to 150% of the conversion price per Common Share for a period of two years from the date of issuance.

(vii) On January 24, 2020, the Company completed the acquisition of the Canna Cabana retail cannabis store in Hamilton, Ontario. As consideration for the acquisition, the Company paid to the vendor $2,097 in cash and issued to the vendor 4,761,904 Common Shares. The Transaction, which was completed with the consent of the Alcohol and Gaming Commission of Ontario (the "AGCO") following the expiry of certain restrictions on change of control established under the rules applicable to the first cannabis retail lottery conducted by the AGCO on January 11, 2019. In connection with the Transaction, the Company acquired all the issued and outstanding shares of a numbered company that is the holder of a cannabis retail license. The Hamilton store has a strong operating history with unaudited gross sales exceeding $15 million for the 10 months since opening on April 20, 2019 and a daily customer count of approximately 1,600.

(viii) On January 27, 2020, the Company acquired a 50% interest in the Canna Cabana branded store in Sudbury, Ontario. As consideration for the transaction, the Company issued to a nominee of the partners of the partnership an aggregate of 5,319,149 Common Shares, as well as Warrants to purchase up to an aggregate of 2,500,000 shares of the Company. Each Warrant entitles the holder to acquire one share at an exercise price of $0.40 per share for a period of two years from the date of issuance. In addition, for a period of 2 years following the closing date, one of the outgoing partners will be entitled to receive, from the Company, a royalty of 1% of the gross revenues of the Sudbury store. The Sudbury store has a stable operating history with unaudited gross sales exceeding $7 million for the 10 months since opening on April 20, 2019 and daily customer count of approximately 600.

(ix) On February 14, 2020, the Company entered into a binding asset purchase agreement (the "Agreement") with Halo Labs Inc. ("Halo"), under which High Tide will sell its KushBar retail cannabis assets including two operating stores and one store to open in the next 60 days and the rights to 5 permitted retail cannabis stores (the "Portfolio") to Halo for $12,000, payable in the form of 46,153,846 common shares in the capital of Halo, of which $3,500 has been paid to the Company as a non-refundable deposit. In addition, Halo has agreed to engage the Company to substantially oversee all aspects of its retail cannabis operations with respect to the Portfolio and will pay the Company ongoing royalties for regulatory advisory services and retail management, and a fixed fee for managing the construction of the unopened stores.

(x) On February 21, 2020, the Company closed the acquisition of a retail cannabis store currently operating in Tisdale, Saskatchewan (the "Tisdale Store") as licensed by the Saskatchewan Liquor and Gaming Authority (the "SLGA"). The consideration paid to acquire the Tisdale Store was $219 in cash, $500 in the form of a promissory note due six months from the time of closing of the transaction and 5,000,000 of Common Shares.

## Financial Instruments

The Company's activities expose it to a variety of financial risks. The Company is exposed to credit, liquidity, and market risk because of holding certain financial instruments. The Company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Company's financial performance. Risk management is carried out by senior management in conjunction with the Board of Directors.

Financial instruments that subject the Company to credit risk consist primarily of cash, accounts receivable, marketable securities and loans receivable. The credit risk relating to cash and cash equivalents and marketable securities balances is limited because the counterparties are large commercial banks. The amounts reported for accounts receivable in the statement of financial position is net of allowances for doubtful accounts and bad debts and the net carrying value represents the Company's maximum exposure to credit risk. Accounts receivable credit exposure is minimized by entering into transactions with creditworthy counterparties and monitoring the age and balances outstanding on an ongoing basis. Sales to retail customers are required to be settled in cash or using major credit cards, mitigating credit risk.

During the year ended Oct 31, 2019, $100 in trade receivables were written off due to bad debts (year ended October 31, 2018 – $396). Individual receivables which are known to be uncollectible are written off by reducing the carrying amount directly. The remaining accounts receivable are assessed collectively to determine whether there is objective evidence that an impairment has been incurred but not yet been identified.

The Company performs a regular assessment of collectability of accounts receivables. The Company monitors the financial performance and/or cash flows of its franchisees through observation of their point of sale system, receipt of cash from customers and maintains regular contact/discussions. In fiscal 2018, the Company reviewed the expected payment schedule and discounted it using an average franchisee credit adjusted rate of 11% resulting in the receivables being discounted by $475. For the year ended October 31, 2019, management reviewed the estimates and have created loss allowances for the Smokers Corner's franchise receivable.

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company generally relies on funds generated from operations and equity financings to provide sufficient liquidity to meet budgeted operating requirements and to supply capital to expand its operations.

Foreign currency risk is defined as the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company maintains cash balances and enters into transactions denominated in foreign currencies, which exposes the Company to fluctuating balances and cash flows due to variations in foreign exchange rates.

## Accounting Framework

Financial data disclosed in this MD&A has been prepared in accordance with IFRS as issued by the IASB. The Financial Statements and MD&A have been prepared on a historical cost basis except for financial instruments which are measured at fair value. Accordingly, the financial information contained herein have been prepared on the basis of accounting policies applicable to a going concern, which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future.

These Financial Statements are presented in Canadian dollars ("$"), which is the Company's and its Canadian subsidiaries functional currency. The functional currency of its European subsidiaries is Euro ("€") and the functional currency of its USA subsidiaries is USD.

### Critical Accounting Estimates and Assumptions

The accounting policies set out below have been applied consistently to all years presented in these consolidated financial statements, and have been applied consistently by the Company and its subsidiaries.

## Use of estimates & accounting judgements

The preparation of these consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities and shareholders' equity at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the year. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results ultimately may differ from those estimates.

The estimates and assumptions are reviewed on an ongoing basis. Revisions in accounting estimates are recognized in the year in which the estimate is revised if the revision affects only that year, or in the year of the revision and future years if the revision affects both current and future years.

## Use of estimates

Critical accounting estimates are those that require management to make assumptions about matters that are highly uncertain at the time the estimate or assumption is made. Critical accounting estimates are also those that could potentially have a material impact on the Company's financial results where a different estimate or assumption is used. The significant areas of estimation uncertainty are:

**Expected credit losses**

The Company's accounts receivables are typically short-term in nature and the Company recognizes an amount equal to the lifetime expected credit losses ("ECL"). The Company measures loss allowances based on historical experience and including forecasted economic conditions. The amount of ECLs is sensitive to changes in circumstances of forecast economic conditions.

**Going concern**

Determining if the Company has the ability to continue as a going concern is dependent on its ability to achieve profitable operations. Certain judgments are made when determining if the Company will achieve profitable operations.

**Inventory valuation**

Inventory is carried and the lower of cost and net realizable value. In estimating net realizable value, the Company makes estimates related to obsolescence, future selling prices, seasonality, customer behaviour, and fluctuations in inventory levels.

**Estimated useful lives, residual values and depreciation of property and equipment**

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

**Intangible asset impairment**

Amortization of intangible assets is dependent upon estimates of useful lives, lease terms and residual values which are determined through the exercise of judgment.

**Fair value of financial instruments**

The individual fair values attributed to different components of a financing transaction are determined using valuation techniques. The Company uses judgment to select the methods used to make certain assumptions and in performing the fair value calculations in order to determine; (a) the values attributable to each component of a transaction at the time of their issuance; (b) the fair value measurement for certain instruments that require subsequent measurement at fair value on a recurring basis; and (c) for disclosing the fair value of financial instruments subsequently carried at amortized cost. These valuation estimates could be significantly different because of the use of judgment and the inherent uncertainty in estimating the fair value of these instruments that are not quoted in an active market.

**Impairment of non-financial assets**

Impairment exists when the carrying value of an asset or cash generating unit ("CGU") exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The fair value less costs of disposal calculation is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a discounted cash flow model. The estimated future cash flows are derived from management estimates, budgets and past performance and do not include activities that the Company is not yet committed to or significant future investments that will enhance the asset's performance of the cash generating unit being tested. The recoverable amount is sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash flows and the growth rate used for extrapolation purposes.

**Share-based compensation & Warrants**

In calculating share-based compensation & warrant expense, key estimates such as the value of the Common Shares, the rate of forfeiture of options granted, the expected life of the option, the volatility of the value of the comparable companies's Common Shares and risk-free interest rate are used.

**Taxation**

The calculations for current and deferred taxes require management's interpretation of tax regulations and legislation in the various tax jurisdictions in which the Company operates, which are subject to change. The measurement of deferred tax assets and liabilities requires estimates of the timing of the reversal of temporary differences identified and management's assessment of the Company's ability to utilize the underlying future tax deductions against future taxable income before they expire, which involves estimating future taxable income. The Company is subject to assessments by various taxation authorities in the tax jurisdictions in which it operates, and these taxation authorities may interpret the tax legislation and regulations differently. In addition, the calculation of income taxes involves many complex factors. As such, income taxes are subject to measurement uncertainty and actual amounts of taxes may vary from the estimates made by management.

**Deferred tax assets**

Deferred tax assets, including those arising from tax loss carry forwards, require management to assess the likelihood that the Company will generate sufficient taxable income in future periods in order to utilize recognized deferred tax assets. Assumptions about the generation of future taxable profits depend on management's estimates of future cash flows. In addition, future changes in tax laws could limit the ability of the Company to obtain tax deductions in future periods. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the Company to realize the net deferred tax assets recorded at the reporting date could be impacted.

## Judgments

Judgment is used in situations when there is a choice and/or assessment required by management. The following are critical judgments apart from those involving estimations, that management has made in the process of applying the Company's accounting policies and that have a significant effect on the amounts recognized in the consolidated financial statements.

**Determination of CGUs**

For the purposes of assessing impairment of non-financial assets, the Company must determine CGUs. Assets and liabilities are allocated into CGUs at the lowest level of separately identified cash flows. Determination of what constitutes a CGU is subject to management judgment. The asset composition of a CGU can directly impact the recoverability of assets included within the CGU. The determination of the Company's CGUs was based on management's judgment in regard to shared infrastructure, geographical proximity and similar exposure to market risk and materiality.

**Business combinations and asset acquisitions**

Classification of an acquisition as a business combination or an asset acquisition depends on whether the assets acquired constitute a business, which can be a complex judgment. Where an acquisition is classified as a business combination or an asset acquisition can have a significant impact on the entries made on and after the acquisition.

The initial measurement of assets acquired and liabilities assumed in an asset acquisition is determined based on an allocation of the purchase consideration, which can be comprised of cash or cash equivalents and the fair value of other consideration given to acquire the asset at the time of the acquisition. In the event that the consideration includes share-based consideration, the Company considers the specific requirements of IFRS 2, Share Based payments.

**Consolidation**

The determination of which entities require consolidation is subject to management judgment regarding levels of control, assumptions of risk and other factors that may ultimately include or exclude an entity from the classification of a subsidiary or other entity requiring consolidation.

**Segmented information**

Operating segments are determined based on internal reports used in making strategic decisions that are reviewed by the Chief Operating Decision Makers (CODMs). The Company's CODMs are the Chief Financial Officer, Chief Executive Officer and Chief Operating Officer.

**Going concern assessment**

At each reporting period, management assesses the basis of preparation of the consolidated financial statements. These consolidated financial statements have been prepared on a going concern basis in accordance with IFRS. The going concern basis of presentation assumes that the Company will continue its operations for the foreseeable future and be able to realize its assets and discharge its liabilities and commitments in the normal course of business.

**Contingencies**

Management uses judgment to assess the existence of contingencies. By their nature, contingencies will only be resolved when one or more future events occur or fail to occur. Management also uses judgment to assess the likelihood of the occurrence of one or more future events.

## Current Accounting Policy Changes

**IFRS 9 Financial Instruments:**

Effective November 1, 2018, the Company adopted IFRS 9, which introduces new requirements for:

i) The classification and measurement of financial assets and liabilities,
ii) The recognition and measurement of impairment of financial assets, and
iii) General hedge accounting

In accordance with the transition provisions of the standard, the Company has elected to not restate prior periods. The impact of adopting IFRS 9 was recognized in Accumulated Deficit at November 1, 2018 and related to the recognition of additional expected credit losses. The net impact resulted in an increase in the expected credit losses allowance of $36, an increase in deferred income tax assets of $10, and a $26 increase in Accumulated Deficit.

**IFRS 15 Revenue from Contracts with Customers**

The Company has adopted IFRS 15 Revenue from Contracts with Customers ("IFRS 15") with an initial adoption date of November 1, 2018. As a result, the Company has changed its accounting policy for revenue recognition, which is outlined below. The Company has elected to adopt IFRS 15 retrospectively with the modified retrospective method of transition practical expedient and has elected to apply IFRS 15 only to contracts that are not completed contracts at the date of initial application. Comparative information has not been restated and is reported under IAS 18 Revenue ("IAS 18"). Refer to the Company's most recent audited consolidated financial statements for information on its prior accounting policy.

The Company recognized the cumulative impact of the initial application of the standard as a reclassification on the Consolidated Statement of Financial Position as well as an increase in Accumulated Deficit as at November 1, 2018. Applying the significant performance obligation requirements to specific contracts resulted in a increase in accumulated deficit of $66.

The impact to Accumulated Deficit related to franchise arrangements. IFRS 15 requires that, in determining the timing of revenue recognition, that if there is a reasonable expectation that the franchisor will undertake activities that will significantly affect the brand name to which the franchisee has rights, and the franchisee is directly exposed to any positive or negative effects of that brand and image throughout the franchise period, that the performance obligation is satisfied over the period of the franchise agreement, or in the case of specific brand development activities, deferred as a contract liability until such time as the related activity and associated costs are incurred. There were no impacts to the statement of cash flows as a result of adopting IFRS 15.

## Changes in Accounting Standards Not Yet Adopted

### IFRS 16 Leases

In January 2016, the IASB issued IFRS 16 Leases, which will replace IAS 17 Leases. This standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term greater than twelve months, unless the underlying asset's value is insignificant. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. Lessors will continue to classify leases as operating or finance, with lessor accounting remaining substantially unchanged from the preceding guidance under IAS 17, Leases.

Management is currently executing its implementation plan and has completed the initial scoping phase to identify material lease contracts. However, the analysis of such contracts to quantify the transitional impact is still in progress. The most significant impact of IFRS 16 will be our initial recognition of the present value of unavoidable future lease payments as right-of-use assets under property, plant and equipment and the concurrent recognition of a lease liability on the consolidated statement of financial position. Majority of our property leases, which are currently treated as operating leases, are expected to be impacted by the new standard which will result in lower rent expense, higher depreciation expense and higher finance costs related to accretion and interest expense of the lease liability. IFRS 16 will also impact the presentation of the consolidated statement of cash flows by decreasing operating cash flows and increasing financing cash flows. The standard will be effective for the Company for the fiscal year commencing November 1, 2019. The Company will be adopting the standard retrospectively by recognizing the cumulative impact of initial adoption in opening retained earnings (i.e. the difference between the right-of-use asset and the lease liability). The Company will measure the right-of-use asset at an amount equal to the lease liability on November 1, 2019, apply a single discount rate to leases with similar remaining lease terms for similar classes of underlying assets and will not separate non-lease components from lease components for certain classes of underlying assets.

### Definition of a Business

In October 2018, the IASB issued "Definition of a Business (Amendments to IFRS 3)". The amendments clarify the definition of a business, with the objective of assisting entities to determine whether a transaction should be accounted for as a business combination or as an asset acquisition. The amendment provides an assessment framework to determine when a series of integrate activities is not a business. The amendments are effective for business combinations occurring on or after the beginning of the first annual reporting period beginning on or after January 1, 2020. The Company is currently evaluating the potential impact of these amendments on the Company's consolidated financial statements.

## Internal Control over Financial Reporting

The Chief Executive Officer and Chief Financial Officer, as the case may be, of the Company are responsible for designing internal controls over financial reporting or causing them to be designed under their supervision in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

Due to its inherent limitations, internal control over financial reporting may not prevent or detect misstatements on timely basis. Also, projections of any evaluation of the effectiveness of internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. No changes were made in the Company's internal control over financial reporting during the period covered by this MD&A that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

## Outlook

High Tide believes that the senior secured credit facility advanced by Windsor Capital, together with the proceeds from the eventual sale of the common shares of Halo Labs, leave the Company well funded to execute on its strategic objectives in 2020. In addition, High Tide projects, based on management's current views, strategies, expectations, assumptions and forecasts, that it will report its first profitable quarter by the end of the 2020 fiscal year.

This estimate is considered a financial outlook under applicable securities laws. The estimate and any other financial outlooks or future-oriented financial information included herein has been approved by management of High Tide as of the date hereof. Such financial outlooks or future-oriented financial information are provided for the purpose of presenting information about management's current expectations and goals relating to the future business of High Tide. Readers are cautioned that actual results may vary materially as a result of a number of risks, uncertainties and other factors, many of which are beyond High Tide's control. See "Cautionary Note Regarding Forward-Looking Statements".

At present, High Tide has 23 Canna Cabana locations (including one franchise) in Alberta, 2 stores in Saskatchewan, 2 stores in Ontario, 1 branded location in Ontario as well as 2 KushBar locations in Alberta. The Company also has 18 development permits on hand to continue expanding across Alberta. As previously announced, the 2 operating KushBar locations and 5 of the development permits have been conditionally sold to US-based Halo Labs. High Tide is currently developing 7 retail sites in Alberta, with 3 currently under construction including a premium location in Banff. In due course, the Company will develop all permits, among other, to achieve the maximum allowable number of stores per operator in Alberta, which is currently capped at 42 by AGLC until December 31, 2020.

Going forward, Ontario is the largest and most important market for the Company. High Tide expects to acquire the Canna Cabana location in Toronto shortly, while also submitting applications to the AGCO to receive up to 7 more retail licenses throughout 2020 to achieve the current maximum of 10 stores per operator. In Manitoba, High Tide was selected via an MBLL lottery to build a retail store in Niverville as well as commence online sales throughout the province. The Company is also in the final stages of clearing due diligence with the LCRB in British Columbia and intends to open the maximum of 8 allowable stores per operator. High Tide is also currently evaluating entering the Yukon and Northwest Territories to open cannabis retail stores.

As per of the Company's e-commerce business, it is looking forward to launching CBDcity.com for US and EU-based customers. High Tide continues to expand the Grasscity accessories portfolio and its domestic order fulfillment capabilities from the Las Vegas warehouse. Lastly, management has decided to exit the declining Smoker's Corner business due to increased competition from retail cannabis stores so it can focus on the Company's core business lines of retail cannabis, e-commerce and the manufacturing and wholesale distribution of smoking accessories.

Management continues to review its operations and streamline processes to reduce operating expenses including changes to staffing levels, reduction in general and administrative expenses and reduction in professional fees.

## Risk Assessment

Management of High Tide defines risk as the evaluation of probability that an event might happen in the future that could negatively affect the financial condition, results of operations, and/or reputation of the Company. The following section describes specific and general risks that could affect the Company. The following descriptions of risk do not include all possible risks as there may be other risks of which management is currently unaware.

### Changes in Laws and Regulations

The *Cannabis Act* became effective on October 17, 2018. The Company's success is contingent, in part, upon compliance with regulatory requirements enacted by governmental authorities and obtaining all regulatory approvals for the operation of its business. Further, the Company cannot predict the time required to secure all appropriate regulatory approvals for its business. The impact of cannabis regulatory compliance regime could have an adverse effect on the Company's business, results of operation and financial condition.

### Failure to Manage Growth Successfully

The Company's business has grown rapidly in the last year. The Company's growth places a strain on managerial, financial and human resources. The Company will need to provide adequate operational, financial and management controls and reporting procedures to manage the continued growth in the number of employees, scope of operating and financial systems and the geographic area of operations. Expanding the business into new geographic areas requires the Company to incur costs, which may be significant, before any associated revenues materialize. Future growth beyond the next 12 months will depend upon a number of factors, including the Company's ability to:

- raise further equity and/or debt financing to fund the completion of the Company's expansion plans, including the build-out of new recreational cannabis stores, and the expansion of its client base.
- hire, train and management additional employees to provide agreed upon services.
- execute on, and successfully integrate, acquisitions.
- expand the Company's internal management to maintain control over operations and provide support to other functional areas within High Tide.

High Tide's inability to achieve any of these objectives could harm the Company's business, financial condition, reputation and operating results.

### Dependence on Key Personnel

The success of High Tide is largely dependent on the performance of its key employees and directors. Failure to retain key employees and directors and to attract and retain additional key employees with necessary skills could have a material adverse impact on the Company's growth and profitability. The departure of any key personnel could have a material adverse effect on the Company's business, results of operations and financial condition.

### Competition

As more licenses are issued, the Company will experience intense competition from other organizations with more financial resources, market access, and marketing experience than the Company. Increased competition may cause price reductions, reduced gross margins and loss of market share, any of which could have a material adverse effect on the Company's business, results of operation and financial condition.

### Failure to Secure Retail Locations

One of the factors in the growth of the Company's Cannabis retail business depends on the Company's ability to secure attractive locations on terms acceptable to the Company. The Company faces competition for retail locations from its competitors and from operators of other businesses. There is no assurance that future locations will produce the same results as past locations.

### Cyber Risks

The Company and its third-party services provider's information systems are vulnerable to an increasing threat of continually evolving cybersecurity risks. These risks may take the form of malware, computer viruses, cyber threats, extortion, employee error, malfeasance, system errors or other types of risks, and may occur from inside or outside of the respective organizations. The operations of the Company depend, in part, on how well networks, equipment, information technology systems and software are protected against damage from a number of threats. The failure of information systems or a component of information system could, depending on the nature of any such failure, could have a material adverse effect on the Company's, business, its reputation, results of operation and financial condition.