

GTEC

— CANNABIS CO. —

April 28, 2020

Interim Consolidated Financial Statements

(Unaudited - Expressed
in Canadian dollars)

First Quarter – February 29, 2020



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MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying condensed interim consolidated financial statements of GTEC Holdings Ltd. ("GTEC" or the "Company") have been prepared by the Company's management in accordance with International Financial Reporting Standards and contain estimates based on management's judgement. Internal control systems are maintained by management to provide reasonable assurance that assets are safe-guarded and financial information is reliable.

The Board of Directors of the Company is responsible for ensuring that management fulfills its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the financial statements and the accompanying management discussion and analysis.

The Company's independent auditor has not performed a review of these condensed interim consolidated financial statements in accordance with standards established by the Canadian Institute of Chartered Professional Accountants for a review of interim financial statements by a company's auditor.

GTEC HOLDINGS LTD.

Condensed Interim Consolidated Statements of Comprehensive Loss

For the three months ended February 29, 2020 and February 28, 2019

(Unaudited, Tabular Amounts Expressed in Thousands of Canadian Dollars Except Share Amounts)

	Note	February 29, 2020	February 28, 2019
Revenue		\$ 2,354	\$ 93
Excise taxes		(23)	-
Net revenue		2,331	93
Cost of sales		1,366	68
Gross margin before fair value changes		965	25
Changes in fair value of biological assets		(122)	520
Gross margin		843	545
Operating expenses			
Administration and general		149	485
Business fees and licenses		122	48
Consulting fees		-	98
Depreciation and amortization		216	183
Depreciation, right-of-use asset		106	-
Investor relations		-	43
Management fees		57	123
Marketing and advertising		111	175
Professional fees		110	404
Salaries and wages		472	477
Share based payments		275	762
Travel		40	104
		1,658	2,902
Net loss from operations		(815)	(2,357)
Other income (expenses)			
Equity loss on investment in associate	11	(88)	(34)
Financing costs	14	(70)	-
Interest and accretion	15	(325)	(312)
Loss on sale of asset		-	(108)
Gain on investments		261	-
Net loss before income tax		(1,037)	(2,811)
Deferred income tax recovery		-	(54)
Net loss from continuing operations		(1,037)	(2,865)
Net loss from discontinued operations		(144)	-
Net loss and comprehensive loss		(1,181)	(2,865)
Net loss and comprehensive loss attributed:			
Shareholders of the company		(1,181)	(2,856)
Non-controlling interest		-	(9)
		\$ (1,181)	\$ (2,865)
Net loss per common share			
Basic and fully diluted		(0.01)	(0.03)
Weighted average shares outstanding			
Basic and fully diluted		100,757,197	90,246,127
Total shares issued and outstanding		136,234,777	102,128,058

The accompanying notes are an integral part of these Condensed Interim Consolidated Financial Statements.

GTEC HOLDINGS LTD.**Condensed Interim Consolidated Statements of Financial Position**

As at February 29, 2020 and November 30, 2019

(Unaudited, Tabular Amounts Expressed in Thousands of Canadian Dollars Except Share Amounts)

	Note	February 29, 2020	November 30, 2019
Assets			
Current assets			
Cash and cash equivalents		\$ 498	\$ 1,969
Accounts receivables	4	2,857	1,573
Prepaid expenses	5	215	292
Biological assets	6	970	809
Inventory	7	631	1,006
Investments	12	-	538
Assets held for sale	8	1,391	-
Promissory note receivable	13	298	298
		6,860	6,485
Property, plant and equipment	9	18,057	19,191
Deposits	5	111	104
Goodwill	10	7,678	7,678
Intangible assets	10	9,900	9,900
Investment in associate	11	1,659	1,747
Promissory note receivable	13	210	210
Right-of-use asset	14	966	-
Total assets		\$ 45,441	\$ 45,315
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities		\$ 1,991	\$ 1,739
Lease liabilities	14	201	-
Lease liabilities, assets held for sale	14	514	-
Short-term interest and convertible debentures	15	6,447	7,168
		9,153	8,907
Lease liabilities	14	778	-
Total liabilities		9,931	8,907
Shareholders' equity			
Share capital	16	\$ 61,352	\$ 59,912
Subscriptions		85	85
Contributed surplus	16	7,489	6,096
Accumulated deficit		(33,416)	(29,685)
Total shareholders' equity		35,510	36,408
Total liabilities and shareholders' equity		\$ 45,441	\$ 45,315

Nature and continuance of operations (Note 1)

Commitments and contingencies (Note 22)

Subsequent events (Note 23)

The accompanying notes are an integral part of these Condensed Interim Consolidated Financial Statements.

GTEC HOLDINGS LTD.**Condensed Interim Consolidated Statements of Changes in Equity**

For the periods ended February 29, 2020 and February 28, 2019

(Unaudited, Tabular Amounts Expressed in Thousands of Canadian Dollars)

	Attributable to equity holders of the Company					
	Shares (000's)	Share capital	Subscriptions received	Contributed surplus	Deficit	Total
Balance at November 30, 2019	126,686	\$ 59,912	\$ 85	\$ 6,096	\$ (29,685)	\$ 36,408
Net loss for the year	-	-	-	-	(1,181)	(1,181)
Share issuance costs	-	(12)	-	-	-	(12)
Shares issued and issuable for contingent consideration	7,500	1,350	-	1,200	(2,550)	-
Exercise of stock options	150	45	-	-	-	45
Share based payments	1,900	57	-	193	-	250
Balance at February 29, 2020	136,236	\$ 61,352	\$ 85	\$ 7,489	\$ (33,416)	\$ 35,510
Balance at November 30, 2018	90,165	\$ 41,738	\$ 224	\$ 5,094	\$ (14,463)	\$ 32,593
Net loss for the year	-	-	-	-	(2,865)	(2,865)
Shares issued for cash	11,127	6,125	(224)	-	-	5,901
Share issuance costs	-	(624)	-	235	-	(389)
Share subscriptions received	20	(50)	50	-	-	-
Convertible debentures	-	-	-	(147)	-	(147)
Exercise of stock options	617	304	-	-	-	304
Share based payments	200	-	-	643	-	643
Balance at February 28, 2019	102,129	\$ 47,493	\$ 50	\$ 5,825	\$ (17,328)	\$ 36,040

The accompanying notes are an integral part of these Condensed Interim Consolidated Financial Statements.

GTEC HOLDINGS LTD.**Condensed Interim Consolidated Statements of Cash Flows**

For the three months ended February 29, 2020 and February 28, 2019

(Unaudited, Tabular Amounts Expressed in Thousands of Canadian Dollars Except Share Amounts)

	February 29, 2020	February 28, 2019
Cash flows from operating activities		
Net loss	\$ (1,181)	\$ (2,865)
Items not affecting cash:		
Accretion expense	325	312
Depreciation and amortization	317	183
Depreciation, right-of-use asset	106	-
Deferred income tax expense	-	54
Equity loss on investment in associate	88	34
Financing costs	70	-
Investment loss	-	-
Loss on discontinued assets	144	-
Loss on sale of assets and investments	-	18
Share based payments	193	643
Shares issued for services	57	119
Unrealized loss (gain) on biological assets	122	(520)
Gain on investment	(261)	-
	(20)	(2,022)
Change in non-cash operating working capital:		
Accounts and advances receivable	(1,285)	(360)
Prepaid expenses	77	152
Biological assets	(283)	108
Inventory	375	(52)
Accounts payable and accrued liabilities	256	(31)
Interest payable	(249)	(290)
Net cash flows used in operating activities	(1,129)	(2,495)
Cash flows from investing activities		
Net cash paid for acquisitions		
Deposits paid	(8)	(14)
Promissory notes received, net advanced	-	(280)
Purchase of property and equipment	(210)	(2,617)
Proceeds from sale of assets held for sale	-	2,543
	(218)	(368)
Cash flows from financing activities		
Lease liability payments	(157)	-
Options and warrants exercised for cash	45	304
Proceeds from issuance of common shares	-	5,901
Proceeds from issuance of convertible debentures	-	500
Share issuance cost	(12)	(388)
	(124)	6,317
(Decrease) increase in cash and cash equivalents	(1,471)	3,454
Cash and cash equivalents – beginning of period	1,969	918
Cash and cash equivalents – end of period	\$ 498	\$ 4,372

The accompanying notes are an integral part of these Condensed Interim Consolidated Financial Statements.

GTEC HOLDINGS LTD.

Notes to the Condensed Interim Consolidated Financial Statements

For the three months ended February 29, 2020 and February 28, 2019

(Unaudited, Tabular Amounts Expressed in Thousands of Canadian Dollars Except Share Amounts)

1 Nature and continuance of operations

GTEC Holdings Ltd. (formerly Black Birch Capital Acquisition III Corp.) (the “Company”) was originally incorporated under the Canada Business Corporations Act and continued under the British Columbia Business Corporations Act effective as of July 28, 2017 as a Capital Pool Company (“CPC”). On June 12, 2018, the Company completed its Qualifying Transaction and Business Combination with GreenTec Holdings Ltd. (the “Transaction”) and changed its name from Black Birch Capital Acquisition III Corp. to GTEC Holdings Ltd.

The Company’s principal business activity is pursuing opportunities in the cannabis industry and has the goal to identify and consolidate licensed producers of ultra premium cannabis under Health Canada’s Cannabis Act & Regulations (“CA&R”). The Company is a publicly traded company listed on the TSX Venture Exchange (“TSXV”) under the symbol “GTEC”. The Company’s head office is located at Suite 335 – 1632 Dickson Avenue, Kelowna, British Columbia, V1Y 7T2.

These condensed interim consolidated financial statements have been prepared on the basis of accounting principles applicable to a going concern which assumes that the Company will be able to continue for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of business.

The Company has incurred losses since its inception and has an accumulated deficit of \$33,416,464 as at February 29, 2020, that has been funded primarily by issuance of equity, convertible debentures and advances from related parties. There is a material uncertainty related to these conditions that casts significant doubt about the Company’s ability to continue as a going concern and therefore it may be unable to realize its assets and discharge its liabilities in the normal course of business. The Company’s ability to continue as a going concern depends upon its ability to raise adequate financing and to generate profitable operations in the future.

2 Basis of presentation

The Company prepares its condensed interim consolidated financial statements in accordance with International Accounting Standards 34, Interim Financial Reporting (“IAS 34”), under International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and interpretation of the International Reporting Interpretations Committee (“IFRIC”). These should be read in conjunction with the Company’s annual audited consolidated financial statements as at and for the year ended November 30, 2019 (“annual financial statements”). The accounting policies and critical estimates applied by the Company in these condensed interim consolidated financial statements are the same as those applied in the Company’s annual financial statements, unless otherwise stated.

These condensed interim consolidated financial statements of the Company were approved by the Audit Committee of the Board of Directors and authorized for issue on April 28, 2020.

3 Application of new accounting standards

IFRS 16 Leases (“IFRS 16”)

Effective January 1, 2019 IFRS 16 specifies how an IFRS reporter will recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is twelve months or less or the underlying asset has a low value. For leases where the Company is the lessee, it recognizes a right-of-use asset and a lease liability for its office premises leases previously classified as operating leases.

The Company chose to adopt the modified retrospective approach on transition to IFRS 16 on January 1, 2019 and has chosen not to restate comparative information in accordance with the transitional provisions in IFRS16. As a result, the comparative information continues to be presented in accordance with the Company’s previous accounting policies.

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The adoption of IFRS 16 resulted in the recognition of a right-of-use asset and a lease liability measured at the present value of the future lease payments on the condensed interim consolidated statements of financial position. An amortization expense on the right-of-use asset and an interest expense on the lease liability has replaced the operating lease expense. IFRS 16 has changed the presentation of cash flows relating to leases in the Company's condensed interim consolidated statements of cash flows, however, it does not cause a difference in the amount of cash transferred between the parties of the lease. In accordance with the transition of IFRS 16, as at December 1, 2019 the Company recognized the right-of-use asset of \$1,579,737 and lease liabilities of \$1,579,737. When measuring lease liabilities, the Company incremental borrowing rate applied was 18% per annum.

The following table reconciles the operating lease commitments as at November 30, 2019 to the opening balance of lease liability at December 1, 2019:

Operating lease commitments as at November 30, 2019	\$	2,592
Discount of future commitments as at December 1, 2019		(1,012)
Lease liabilities recognized as at December 1, 2019	\$	1,580

4 Accounts receivable

As of February 29, 2020 and November 30, 2019, accounts receivable consisted of:

	2020	2019
Trade accounts receivable	\$ 2,195	\$ 742
GST receivable	613	783
Other receivables	49	48
	\$ 2,857	\$ 1,573

5 Prepaid expense

As of February 29, 2020 and November 30, 2019, prepaid expenses consisted of:

	2020	2019
Consulting fees	\$ 9	\$ 34
Insurance and other	206	258
	\$ 215	\$ 292

As of February 29, 2020 and November 30, 2019, deposits consisted of:

	2020	2019
Other	\$ 111	\$ 104

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For the three months ended February 29, 2020 and February 28, 2019

(Unaudited, Tabular Amounts Expressed in Thousands of Canadian Dollars Except Share Amounts)

6 Biological assets

The Company measures biological assets consisting of cannabis plants at fair value less costs to sell up to the point of harvest, which becomes the basis for the cost of finished goods inventories after harvest.

The changes in the carrying value of biological assets as of February 29, 2020 and November 30, 2019 were as follows:

	2020	2019
Carrying amount, Opening	\$ 809	\$ 56
Production costs	1,448	2,479
Changes in fair value less costs to sell due to biological transformation	1,122	1,481
Transferred to inventory upon harvest	(2,409)	(3,207)
	\$ 970	\$ 809

The significant assumptions used to determine the fair value of the cannabis plants include:

- Expected yield by strain of plant;
- Wastage of plants;
- Duration of the production cycle;
- Percentage of costs incurred to date compared to the total costs expected to be incurred;
- Percentage of costs incurred for each stage of plant growth; and
- Market value less selling costs.

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

On average, the growth cycle is 15.4 weeks and the Company expects average yield per plant to be between 69 and 100 grams. As at February 29, 2020 it is estimated that the Company's biological assets will yield approximately 442,538 grams of cannabis when harvested.

As of February 29, 2020, the Company has estimated a fair value less cost to sell of \$2.40 to \$5.00. As of February 29, 2020, a change of 10% or less in the estimated yield per plant, growth cycle and selling price of dry cannabis would not result in a significant variance in the fair value of biological assets or inventory.

7 Inventory

The Company's inventories are comprised of the following balances as at February 29, 2020:

	Quantity	Cost	Fair Value Adjustment	Carrying Value
Dry cannabis	131,552 grams	\$ 394	\$ 237	\$ 631

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For the three months ended February 29, 2020 and February 28, 2019

(Unaudited, Tabular Amounts Expressed in Thousands of Canadian Dollars Except Share Amounts)

The Company's inventories are comprised of the following balances as at November 30, 2019:

	Quantity	Cost	Fair Value Adjustment	Carrying Value
Dry cannabis	208,854 grams	\$ 596	\$ 410	\$ 1,006

8 Assets held for sale

As at February 29, 2020, assets classified as held for sale are comprised of the following:

	2020	2019
Land	\$ 478	\$ -
Building	405	-
Right-of-use asset	508	-
	\$ 1,391	\$ -

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For the three months ended February 29, 2020 and February 28, 2019

(Unaudited, Tabular Amounts Expressed in Thousands of Canadian Dollars Except Share Amounts)

9 Property, plant and equipment

	Land	Buildings	Construction in-process	Growing & processing equipment	Other	Total
Cost						
Balance, November 30, 2018	\$ 1,826	\$ 6,885	\$ 894	\$ 3,144	\$ 970	\$ 13,719
Additions	-	3,050	1,642	1,703	530	6,925
Disposals	-	-	-	-	(24)	(24)
Balance, November 30, 2019	1,826	9,935	2,537	4,847	1,476	20,620
Additions	-	28	120	13	49	210
Disposals	-	-	-	-	(144)	(144)
Reclassification to assets held for sale	(478)	(405)	-	-	-	(883)
Balance, February 29, 2020	\$ 1,348	\$ 9,558	\$ 2,656	\$ 4,860	\$ 1,381	\$ 19,803
Accumulated Amortization						
Balance, November 30, 2018	\$ -	\$ -	\$ -	\$ (98)	\$ (97)	\$ (195)
Additions	-	(491)	-	(429)	(315)	(1,234)
Balance, November 30, 2019	-	(491)	-	(527)	(412)	(1,429)
Additions	-	(121)	-	(124)	(72)	(317)
Balance, February 29, 2020	-	(612)	-	(651)	(484)	(1,746)
Net book Value, Balance, November 30, 2019	\$ 1,826	\$ 9,444	\$ 2,537	\$ 4,320	\$ 1,064	\$ 19,191
Net book Value, Balance, February 29, 2020	\$ 1,348	\$ 8,946	\$ 2,657	\$ 4,209	\$ 897	\$ 18,057

During the period-ended February 29, 2020, the Company allocated \$100,900 (February 28, 2019: \$NIL) of amortization expense to cost of inventory.

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Notes to the Condensed Interim Consolidated Financial Statements

For the three months ended February 29, 2020 and February 28, 2019

(Unaudited, Tabular Amounts Expressed in Thousands of Canadian Dollars Except Share Amounts)

10 Intangible assets and goodwill

	Intangible asset	Goodwill
Cost		
Balance, November 30, 2018	\$ -	\$ -
Additions	9,900	7,678
Balance, November 30, 2019	9,900	7,678
Additions	-	-
Balance, February 29, 2020	9,900	7,678
Accumulated amortization		
Balance, November 30, 2018	-	-
Additions	-	-
Balance, November 30, 2019	-	-
Additions	-	-
Balance, February 29, 2020	-	-
Net book value	9,900	7,678
November 30, 2019	9,900	7,678
Balance, February 29, 2020	\$ 9,900	\$ 7,678

11 Investment in associate

	2020	2019
Opening balance	\$ 1,747	\$ 860
Cash paid	-	-
Fair value of common shares issued	-	1,250
Equity loss on investment	(88)	(363)
	\$ 1,659	\$ 1,747

During the year ended November 30, 2018, the Company acquired 49% of the issued and outstanding common shares of 3PL Ventures Inc. ("3PL"). The Company paid \$49 cash and issued 1,600,490 common shares of the Company pursuant to a series of agreements related to the acquisition of the Company's interest in 3PL (together, the "Purchase Agreement") with its one other shareholder. Pursuant to the Purchase Agreement, 3PL is in the process of constructing a production facility to meet Health Canada standards for a licensed cannabis cultivation facility in accordance with the CA&R. The other shareholder of 3PL shall provide a maximum of up to \$9,000,000 in funding for 3PL through shareholder loans to finance the build out and equipping of the facility being constructed. The Company has committed to advance a shareholder loan of up to a maximum of \$1,000,000 to fund the completion of the facility.

Pursuant to the Purchase Agreement, on April 23, 2019, the Company issued an additional 1,953,125 common shares to the other shareholder. The fair value of the common shares issued was determined to be \$1,250,000. In addition, the Company also has the option to purchase the remaining 51% interest from the other shareholder upon receipt of 3PL's sales license from Health Canada.

GTEC HOLDINGS LTD.

Notes to the Condensed Interim Consolidated Financial Statements

For the three months ended February 29, 2020 and February 28, 2019

(Unaudited, Tabular Amounts Expressed in Thousands of Canadian Dollars Except Share Amounts)

The following is a summary of the aggregate financial information for 3PL:

Statement of Financial Position	February 29, 2020	November 30, 2019
Cash and cash equivalents	\$ 22	\$ 11
Other current assets	29	13
Property, plant and equipment	7,918	6,507
Current liabilities	1,838	780
Non-current liabilities	6,812	6,705

Statement of loss and comprehensive loss	February 29, 2020	February 28, 2019
General and administrative expenses	\$ (180)	\$ (256)
Net loss and comprehensive loss	(180)	(256)

The Company records its investment in 3PL on the equity basis.

12 Investments

	2020	2019
Fire & Flower Holdings Corp.	\$ -	\$ 538

During the period ended February 29, 2020, the Company entered into an agreement to make an early payment towards its senior secured convertible debenture holder, in the amount of \$800,000. The Company transferred ownership of the investment in the amount of \$538,601 and recorded a gain in the fair value of investments in the amount of \$261,399. The investment was in an unrelated third party and recorded at fair value through profit or loss in accordance with IFRS 9.

13 Promissory notes receivable

	2020	2019
BATC Investments Ltd. (a)	\$ 298	\$ 298
Cannabis Cowboy Inc. (b)	210	210
	\$ 508	\$ 508

- (a) Subsequent to the period ended February 29, 2020, \$290,000 was received, whereby an adjustment was made to the final purchase price to account for working capital adjustments after the close of the sale.
- (b) During the year ended November 30, 2019, the Company sold its interest in Cannabis Cowboy Inc. for an aggregate price of \$1,010,000, of which \$800,000 was paid for through the transfer of 585,436 common shares of Fire & Flower Holdings Corp. (See Note 12) and \$210,000 was settled through a promissory note receivable due on October 4, 2021. The promissory note receivable is secured against the assets of Cannabis Cowboy Vernon Inc.

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For the three months ended February 29, 2020 and February 28, 2019

(Unaudited, Tabular Amounts Expressed in Thousands of Canadian Dollars Except Share Amounts)

14 Right-of-use asset and Lease liability

Right-of-use Asset

The following is the continuity of the cost and accumulated depreciation of right-of-use assets, for the period ended February 29, 2020:

		2020
Recognition upon adoption of IFRS 16	\$	1,580
Reclassification to assets held for sale		(508)
Depreciation expense for the period		(106)
	\$	966

Lease liability

The following is the continuity of lease liabilities, for the period ended February 29, 2020:

		2020
Recognition upon adoption of IFRS 16	\$	1,580
Reclassification to assets held for sale		(514)
Lease payments		(157)
Interest expense on lease liabilities		70
	\$	979
Current portion		201
Long-term portion		778

The Company recognized right-of-use asset and a corresponding lease liability upon the adoption of IFRS 16 related to its facility premises and corporate office (Note 2). Amortization on the right-of-use asset is calculated over the term of the lease. Interest expense of \$69,532 is included in financing costs and payments are applied against the lease liability.

Lease liability – Assets available for sale

		2020
Reclassification to assets held for sale	\$	514
Current portion		514

GTEC HOLDINGS LTD.**Notes to the Condensed Interim Consolidated Financial Statements**

For the three months ended February 29, 2020 and February 28, 2019

(Unaudited, Tabular Amounts Expressed in Thousands of Canadian Dollars Except Share Amounts)

As at February 29, 2020, the minimum lease payments for the lease liabilities are as follows:

Year ending:	
2020	\$ 316
2021	404
2022	421
2023	304
2024	30
	1,475
Less: Interest expense on lease liabilities	(496)
Total present value of minimum lease payments	\$ 979

As at February 29, 2020, the minimum lease payments for the lease liabilities, assets held for sale are as follows:

Year ending:	
2020	\$ 164
2021	225
2022	231
2023	238
2024	101
	959
Less: Interest expense on lease liabilities	(445)
Total present value of minimum lease payments	\$ 514

From time to time, the Company enters into contracts for services in the normal course of operations. The Company's current contractual commitments vary in terms and can be terminated upon sufficient notice.

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Notes to the Condensed Interim Consolidated Financial Statements

For the three months ended February 29, 2020 and February 28, 2019

(Unaudited, Tabular Amounts Expressed in Thousands of Canadian Dollars Except Share Amounts)

15 Convertible debentures

The Company's convertible debentures outstanding balance consists of:

	Maturity date			Total February 29, 2020	Total November 30, 2019
	June 10, 2020 (a)	October 17, 2020 (b)	October 17, 2020 (c)		
Principal amount	\$ 5,000	\$ 2,000	\$ 500	\$ 7,500	\$ 7,500
Liability portion	4,217	1,697	429	6,343	6,343
Principal repayment	(800)	-	-	(800)	-
Transaction costs	(298)	-	-	(298)	(298)
Accretion	960	199	43	1,202	1,123
Carrying value	4,079	1,896	472	6,447	7,168
Equity portion	783	303	71	1,157	1,157
Transaction costs	(55)	-	-	(55)	(55)
Deferred income tax liability	(292)	(82)	(19)	(393)	(393)
Allocated to contributed	436	221	52	709	709
Effective interest rate	22%	17%	17%		

(a) Convertible debenture – principal \$5,000,000 – Maturing June 10, 2020

On June 11, 2018, the Company issued 5,000 convertible debenture units at a price of \$1,000 per unit for gross proceeds of \$5,000,000 under the following terms:

- A maturity date of June 10, 2020;
- An interest rate of 8% per annum, payable semi-annually; and
- Convertible at \$1.50 per share, subject to adjustment in certain events, at the option of the holder.

Each unit consists of \$1,000 principal amount of convertible debentures and 222 warrants to purchase common shares of the Company at a price of \$2.50 for a period of two years from the closing of the offering. In connection with the transaction, the Company incurred share issuance costs of \$296,248 and issued 166,666 broker warrants exercisable for one common share of the Company at a price of \$1.50 for a period of two years from the earlier of: (a) the completion of the Qualifying Transaction and (b) the date that the shares become listed for trading on a recognized stock exchange. The fair value of the broker warrants was \$57,300, using the Black-Scholes option-pricing model.

During the period ended February 29, 2020, the Company entered into an agreement to make an early payment, in the amount of \$800,000 on December 11, 2019, to its \$5,000,000 senior secured convertible debenture holder. Subsequent to the period ended February 29, 2020, the Company entered into an agreement to make an additional early payment, in the amount of \$500,000 on March 6, 2020, to its \$5,000,000 senior secured convertible debenture holder. The principal and interest balance of the loan has been reduced by \$1,300,000. See Note 23 for further details.

(b) Convertible debenture – principal \$2,000,000 – Maturing October 17, 2020

On October 17, 2018, the Company issued convertible debentures for gross proceeds of \$2,000,000 under the following terms:

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- A maturity date of October 17, 2020;
- An interest rate of 8% per annum, payable monthly;
- Convertible at \$1.50 per share, subject to adjustment in certain events, at the option of the holder.

(c) Convertible debenture – principal \$500,000 – Maturing October 17, 2020

On December 3, 2018, the Company issued convertible debentures for gross proceeds of \$500,000 under the following terms:

- A maturity date of October 17, 2020;
- An interest rate of 8% per annum, payable monthly;
- Convertible at \$1.50 per share, subject to adjustment in certain events, at the option of the holder.

Accounting treatment

For accounting purposes, the above noted convertible debentures are separated into their liability and equity components using the residual method. The fair value of the liability component at the time of issue is determined based on an estimated rate of 18.50% for debentures without the conversion feature. The fair value of the equity component is determined as the difference between the face value of the convertible debentures and the fair value of the liability component. After initial recognition the liability component is carried on an amortized cost basis and will be accreted to its face value over the term to maturity of the convertible debentures at effective rates noted above. The Company also recorded a deferred income tax liability as noted below that was recognized in equity relating to the difference between the Company's accounting and tax basis. During the period ended February 29, 2020, a recovery on the deferred income tax liability of \$Nil (November 30, 2019: \$19,230) was recorded to recognize available deferred income tax assets.

During the period ended February 29, 2020, the Company incurred interest expense of \$148,493 (February 28, 2019: \$144,548) and accretion expense of \$176,562 (February 28, 2019: \$154,320) on the convertible debentures, which has been recorded within interest and accretion on the condensed interim consolidated statement of comprehensive loss.

16 Share capital

The Company has an unlimited number of voting and non-voting common shares without par value authorized for issuance. The Company also has an unlimited number of non-voting redeemable preference shares with varying par values authorized for issuance.

(a) Issued shares

During the three-month period ended February 29, 2020:

- i. The Company issued 7,500,000 common shares valued at \$1,350,000 pursuant to an amending agreement with the vendors of Tumbleweed amending certain terms and conditions of the definitive share purchase agreement dated August 12, 2017. See Note 22 for further details.
 - ii. The Company issued 1,900,000 common shares valued at \$399,000 pursuant to an agreement with a consulting firm to facilitate the acquisition and cultivation of cannabis genetics, of which 1,628,571 common shares are held in escrow and will be released contingent upon the occurrence of future events. As at February 29, 2020, 271,429 common shares had been released with a value at \$57,000.
 - iii. The Company issued 150,000 common shares pursuant to the exercise of stock options for gross proceeds of \$45,000. In connection with the exercise of the stock options, the Company has also reallocated \$192,888 from contributed surplus to equity representing the fair value of the stock options exercised.
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During the three-month period ended February 28, 2019:

- iv. The Company issued 11,126,753 units pursuant to private placements completed during the period at a price of \$0.55 per unit. Each unit consisted of one common share and one-half share purchase warrant with each warrant exercisable at \$0.90 for a period of two years from the date of grant. In connection with the private placement, issued 597,716 warrants to finders exercisable for one common shares of the Company at a price of \$0.90 for a period of two years.
- v. The Company paid finders fees of \$367,183 in cash in connection with the private placements completed during the period.
- vi. The company issued 616,667 common shares pursuant to the exercise of stock options for gross proceeds of \$304,000.
- vii. The company issued 20,000 common shares pursuant to the exercise of warrants for subscriptions receivable of \$50,000.
- viii. The Company issued 200,000 common shares with a fair value of \$120,000 as compensation for consulting services provided during the period.

(b) Escrow shares

As at February 29, 2020, there were 14,820,048 common shares held in escrow. The following is a summary of escrow shares to be released:

Escrow release date	Escrow shares released (000's)	Balance (000's)
June 18, 2020	2,668	12,152
December 18, 2020	2,628	9,524
June 18, 2021	6,176	3,348

Of the common shares held in escrow summarized in the table above, as at February 29, 2020 there were:

- i. 1,719,167 common shares held in escrow pursuant to the share purchase agreement described in Note 5 of the consolidated financial statements for the year ended November 30, 2019, which will be released contingent upon the occurrence of future events
- ii. 1,628,571 common shares held in escrow pursuant to an agreement with a consulting firm to facilitate the acquisition and cultivation of cannabis genetics, which will be released contingent upon the occurrence of future events.

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(c) Share purchase warrants

Warrant transactions are summarized as follows:

	Number of share purchase warrants (000's)	Weighted average exercise price
Balance – November 30, 2017	11,682	\$ 1.20
Granted	14,431	
Balance – November 30, 2018	26,113	1.41
Granted	12,459	
Exercised	(20)	1.50
Balance – November 30, 2019	38,552	1.24
Granted	-	-
Balance – February 29, 2020	38,552	\$ 1.24

The weighted average outstanding life of warrants outstanding as at February 29, 2020 is 0.76 years.

At February 29, 2020, the following share purchase warrants were outstanding:

Number of share purchase warrants (000's)	Exercise price per share	Expiry date
252	1.50	June 11, 2020
9,032	1.20	September 8, 2020
2,650	1.20	November 20, 2020
9,939	1.20	January 19, 2021
2,943	2.50	April 27, 2021
167	1.50	May 9, 2021
1,110	2.50	May 9, 2021
598	0.90	February 28, 2021
5,563	0.90	February 28, 2021
507	0.90	March 21, 2021
5,791	0.90	March 21, 2021
38,552	1.24	

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The weighted average assumptions used in calculating the fair values are as follows:

Share price	\$0.60 - \$0.74
Exercise price	\$0.90
Risk-free interest rate	1.99%
Dividend rate	0.00%
Expected life	2 years
Annualized volatility	150%

17 Stock-based compensation

The Company provides stock-based compensation to its directors, officers, employees, and consultants through grants of stock options.

(a) Stock options

The Company has adopted a stock option plan (the "Plan") to grant options to directors, officers, employees and consultants. Under the Plan, the Company may grant options that shall not exceed 10% of the total number of issued common shares of the Company (calculated on a non-diluted basis) at the time an option is granted. Options granted can have a term of up to ten years and an exercise price typically not less than the Company's closing stock price on the TSXV on the last trading day before the date of grant. Vesting is determined at the discretion of the Board of Directors.

Stock option transactions are summarized as follows:

	Number of shares (000's)	Weighted average exercise price
Balance – November 30, 2018	8,081	0.59
Granted	4,618	0.61
Exercised	(651)	0.31
Expired / Cancelled	-	-
Balance – November 30, 2019	12,048	0.55
Granted	500	0.45
Exercised	(150)	0.31
Expired / Cancelled	-	-
Balance – February 29, 2020	12,398	0.55

The weighted average outstanding life of stock options outstanding as at February 29, 2020 is 3.57 years.

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At February 29, 2020, the following stock options were outstanding:

Number of shares (000's)	Vested (000's)	Exercise price per share	Expiry date
1,825	1,825	0.20	Sept – Nov 2020
5,824	5,824	0.60 – 1.07	Jan-Nov 2021
350	200	0.30	Dec 2021
950	950	0.60	Jan 2022
423	403	0.57 – 0.70	Mar-Apr2022
2,226	680	0.34	Aug 2024
800	200	0.30	Oct 2024
12,398	10,082		

The Company entered into several agreements with consultants for provision of services. As part of the agreements, the Company agreed to issue stock options in accordance with these contracts. As the full terms of these contracts have not been fulfilled, \$9,291 (February 28, 2019: \$280,641) of the share-based compensation attributable to these consulting fees has been recorded as a prepaid expense (Note 5) on the condensed interim consolidated statement of financial position.

(b) Share based payments

During the period ended February 29, 2020, the Company recognized share based payment expense of \$274,897 (February 28, 2019: \$761,881) that was recorded in the condensed interim consolidated statement of comprehensive loss. The share based payments represents the fair value of stock options granted during the period ended February 29, 2020 and is estimated on the grant date using the Black-Scholes option pricing model. The share based payments also consist of common shares issued for services during the year. In addition, stock options granted to consultants for services to be provided over a period of time are recorded as prepaid expenses until the service period has been lapsed. The weighted average assumptions used in calculating the fair values of stock options granted are as follows:

	2020	2019
Share price	\$0.21 - \$0.22	\$0.34 – \$0.78
Exercise price	\$0.30	\$0.34 – \$0.78
Risk-free interest rate	2.16%	2.14% - 2.24%
Expected life	2 Years	3-5 Years
Volatility	120%	120% - 208%
Dividend rate	0%	0%
Forfeiture rate	0%	0%

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18 Related party transactions

Key management compensation

All transactions with related parties have occurred in the normal course of operations. Key management is comprised of directors and executive officers.

Key management compensation for the period ended February 29, 2020 consists of the following:

	February 29, 2020	February 28, 2019
Salaries and wages	\$ 151	\$ 33
Consulting fees	-	57
Share-based payments	-	120
	\$ 151	\$ 210

Related party balances

As at February 29, 2020, \$30,000 (November 30, 2019: \$30,000) was due to the Company's Vice President and Director, Mr. Michael Blady ("Mr. Blady") in connection with management services.

As at February 29, 2020, \$NIL (November 30, 2019: \$10,000) was due to the Company's Interim Chief Financial Officer, Ms. Kendra Blackford ("Ms. Blackford") in connection with management services.

Related party transactions

Refer to Note 22 of the condensed interim financial statements for a summary of related party transactions related to outstanding commitments. Refer to Note 20 of the consolidated financial statements for the year ended November 30, 2019 for a summary of related party transactions.

19 Financial instruments

a) Financial instruments

The Company's financial instruments consist of cash and cash equivalents, accounts receivable, investment, promissory notes receivable, deposits, accounts payable, interest payable and convertible debentures. The Company is exposed to certain financial risks, including credit risk, liquidity risk and market risk.

i) Credit risk

Credit risk is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations and arises principally from the Company's cash. At present, the Company holds its cash in Canadian rated financial institutions and will only consider investment of excess cash in highly rated government and corporate debt securities or guaranteed certificates from Canadian chartered banks. The Company has established guidelines, including diversification, credit ratings and maturities, to ensure safety and liquidity of its cash.

As at February 29, 2020, the Company's exposure is the carrying value of the financial instruments. The Company's maximum exposure to credit risk is the carrying value of its financial assets.

ii) Currency risk

The Company operates primarily in Canadian dollars and as such is not affected by the fluctuations of the Canadian dollar with other currencies.

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iii) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they come due. To the extent that the Company does not believe it has sufficient liquidity to meet its current obligations, the Board of Directors considers securing additional funds through issuances of equity and debt or partnering transactions. The Board of Directors approves any material transactions outside the ordinary course of business. Management regularly reviews the Company's operating and capital budgets and maintains short-term cash flow forecasts.

The Company monitors its risk of shortage of funds by monitoring the maturity dates of existing trade and other accounts payable.

iv) Maturity risk

The Company's cash and cash equivalents balance at February 29, 2020 was in the amount of \$497,660. At February 29, 2020, the Company had accounts receivable of \$2,857,179, accounts payable and accrued liabilities of \$1,990,942, current lease liabilities of \$200,762, current lease liabilities, assets held for sale \$513,790, interest and short-term debt payable of \$6,446,593 and long term lease liabilities of \$778,062. All accounts payable and accrued liabilities are current.

As at February 29, 2020, the Company did not have derivative financial liabilities with contractual maturities.

Management of liquidity risk: Typically, the Company ensures that it has sufficient cash on demand to meet expected operational expenses and commitments for a period of 90 days. To achieve this objective, the Company prepares annual capital expenditure budgets, which are regularly monitored and updated as considered necessary. Further, the Company utilizes authorizations for expenditures on exploration projects to further manage expenditure.

The following table summarizes the maturities of the Company's financial liabilities as at February 29, 2020 based on the undiscounted contractual cash flows:

	Carrying value	Principal amount	Less than 1 year	1 - 5 years
Accounts payable	\$ 1,991	\$ 1,991	\$ 1,991	\$ -
Lease liabilities	979	1,475	316	1,159
Lease liabilities, assets available for sale	514	959	164	795
Short-term payable	6,447	7,037	7,037	-
	\$ 9,931	\$ 11,462	\$ 9,508	\$ 1,954

b.) Interest rate risk

Current financial assets and financial liabilities are generally not exposed to interest rate risk because of their short-term nature and maturity. The Company's amounts due to related parties are non-interest bearing.

Sensitivity analysis has not been presented as the Company currently has no significant exposure in its operations to interest rate or currency exchange rate fluctuations as the Company's interest-bearing liabilities have fixed interest rate.

c.) Fair value classification of financial instruments

Fair value measurement is based on a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value which are:

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Level 1 — measurement based on quoted prices (unadjusted) observed in active markets for identical assets and liabilities.

Level 2 — measurement based on inputs other than quoted prices included in Level 1, that are observable for the asset and liability.

Level 3 — measurement based on inputs that are not observable (supported by little or no market activity) for the asset or liability.

At February 29, 2020, the Company had Level 1 financial instruments, consisting of cash and cash equivalents and investments, with a fair value of \$497,660 (November 30, 2019: \$2,507,176).

20 Capital management

The Company's capital structure consists of shareholders' equity. The Company's objective when managing capital is to maintain adequate levels of funding to support the development of its businesses and maintain the necessary corporate and administrative functions to facilitate these activities. This is done primarily through advances from related parties. Future financings are dependent on the willingness of the related parties to advance funds to the Company and market conditions and there can be no assurance the Company will be able to raise funds in the future. The Company is not subject to externally imposed capital requirements. The Company may raise additional debt or equity financing in the near future to meet its obligations.

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21 Supplemental cash flow information

	February 29, 2020	February 28, 2019
Interest paid	\$ 249	\$ 289

22 Commitments and contingencies

The Company has the following outstanding commitments based on achieving certain milestones.

Grey Bruce

In connection with the achievement of certain milestones, the Company paid \$250,000 to the vendors of Grey Bruce on May 6, 2019, and also issued 2,222,222 common shares valued \$1,000,000 on July 8, 2019.

As at February 29, 2020, the Company has committed to issue common shares valued at \$2,750,000 contingent on future events as follows:

Trigger event	
Grey Bruce obtaining a license to sell cannabis under the CA&R	\$ 1,250
Upon Grey Bruce's first harvest having passed quality assurance and quality control tests as set out by Health Canada	300
Upon Grey Bruce's second harvest having passed quality assurance and quality control tests as set out by Health Canada	300
Upon Grey Bruce's third harvest having passed quality assurance and quality control tests as set out by Health Canada	300
Upon Grey Bruce's fourth harvest having passed quality assurance and quality control tests as set out by Health Canada	300
Upon Grey Bruce's fifth harvest having passed quality assurance and quality control tests as set out by Health Canada	300
	\$ 2,750

As at February 29, 2020 Grey Bruce has completed five harvests that have passed quality assurance and quality control tests as set out by Health Canada, thereby triggering the contingent consideration which became payable at period end. The Company has recorded shares issuable of \$1,500,000 as part of contributed surplus on the condensed interim consolidated statement of changes in equity for the period ended February 29, 2020.

Subsequent to the period ended February 29, 2020, the Company entered into an amending agreement dated March 13, 2020, amending certain terms and conditions of the definitive share purchase agreement, dated September 15, 2017, which have been replaced by the following achievement of certain milestones. Subsequent to the period ended February 29, 2020, the Company issued 381,818 common shares valued at \$210,000, in satisfaction of the first and second harvests having passed quality assurance and quality control test. The Company intends to issue an additional 381,818 common shares valued at \$210,000, in satisfaction of the third and fourth harvests having passed quality assurance and quality control test. The Company intendeds to issue the remaining fifth harvest shares on June 30, 2020, in satisfaction with the above mentioned milestone.

Additionally, the Company intends to issue the Company's Chief Executive Officer and Director, Mr. Norton Singhavon ("Mr. Singhavon") such number of common shares equivalent to a value of \$1,000,000, upon the sale of 1,500 kg of dry cannabis, in lieu of the original entitlement of \$1,787,500. This reduces the amount owing as Mr. Singhavon was owed approximately 65% of the remaining contingent consideration.

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In addition to the above, the amending agreement raised the floor price of the common shares in the capital of the Company to be issued to the vendors of Grey Bruce Farms (excluding Mr. Singhavon).

The numbers of common shares issuable upon the occurrence of future events are to be based on the greater of (A) the then ten-day volume-weighted average trading price of the Company's common share and (B) the last commercial financing undertaken by the Company, currently \$0.55 per common share of the Company. Mr. Singhavon has also agreed to raise the floor price of the Common Shares to be issued in connection with the Cannabis Sales Milestone to a deemed price per share equal to the greater of (A) the 10-day volume-weighted average trading price of the Common Shares, and (B) \$1.00. In consideration for entering into the Amending agreement the Company has agreed to pay the vendors a one-time cash payment of \$25,010 of which Mr. Singhavon will receive \$10.

1118157 B.C. Ltd. ("1118 BC") and Tumbleweed Farms Corp. ("Tumbleweed")

In connection with the achievement of certain milestones, the Company issued 367,647 common shares valued at \$250,000 on April 23, 2019 to the vendors of 1118 BC.

As at February 29, 2020, the Company has committed to issue common shares valued at \$500,000 contingent on future events as follows:

Trigger event	
Tumbleweed obtaining a license to produce cannabis under CA&R	\$ 250
Tumbleweed obtaining a license to sell cannabis under the CA&R	250
	\$ 500

Subsequent to the period ended February 29, 2020, the Company entered into an amending agreement dated March 13, 2020, amending certain terms and conditions of the definitive share purchase agreement, dated November 22, 2017. As such, the Vendors of 1118157 B.C. Ltd. ("1118 BC"), Mr. Blady and Mr. Singhavon have agreed to waive all entitlement to the remaining milestone payments.

The Company also assumed certain commitments of 1118 BC through its acquisition of Tumbleweed.

On March 4, 2019, the Company entered into an agreement with the vendors (the "Amending Agreement"), amending certain terms and conditions of the definitive share purchase agreement, dated August 12, 2017, as amended. The Amending Agreement replaced, among other things, the previous cash milestone payments with the following:

- Upon the Company submitting an evidence package in connection with its application for a licence for cultivation from Health Canada, the Company is to issue \$2,250,000 worth of common shares of the Company at a deemed price equal to the 30-day VWAP.
- Upon the Company completing the construction of and receiving an occupancy permit for a Health Canada-approved cannabis production facility in compliance with the Regulations, the Company is to make a cash payment of \$250,000.

In connection with the Amending Agreement, on March 22, 2019 the Company issued an aggregate of 3,759,319 of common shares and paid \$250,000 in satisfaction of the above-mentioned milestone payment to the vendors of Tumbleweed.

On February 4, 2020, the Company entered into an amending agreement, amending certain terms and conditions of the definitive share purchase agreement, dated August 12, 2017. As such, the Company issued 7,500,000 common shares valued at \$1,350,000 in satisfaction of achieving certain milestones. As per the amended terms, the revised milestone payments for each of the first four harvests were valued at \$300,000 each and the milestone payment for the fifth harvest was valued at \$150,000. The issuance of these shares will be the final share issuance

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relating to milestone payments for the Tumbleweed acquisition and there will be no further payments, whether in cash or shares.

GreenTec Bio-Pharmaceuticals Inc. ("GBP")

As at February 29, 2020, the Company has committed to issue common shares valued at \$8,250,000 contingent on future events as follows:

Trigger event	
Completion of GBP construction of a Health Canada approved cannabis production facility in compliance with the CA&R	\$ 1,000
GBP obtaining a license to produce cannabis under the CA&R	1,500
GBP obtaining a license to sell cannabis under the CA&R	2,000
GBP obtaining approval from Health Canada to increase cannabis production by at least 8,500 kg and completing construction to accommodate such increased production (the "Expansion")	1,500
GBP obtaining an amendment to its cannabis sales license from Health Canada to reflect the Expansion	2,250
	\$ 8,250

Subsequent to the period ended February 29, 2020, on March 13, 2020, the Company entered into an amending agreement with the vendors of GBP amending certain terms and conditions of the definitive share purchase agreement, dated November 15, 2017. The vendors of GBP agreed to reduce their entitlement to a portion of the purchase price such that the remaining payment obligations of the Company in connection with the acquisition of GBP are reduced by \$5,750,000. In addition to reducing the milestone payments, the vendors of GBP agreed to restructure the remaining milestones and raise the floor price of the Common Shares to be issued in connection with the new milestones to a deemed price per share equal to the greater of (A) the 10-day volume-weighted average trading price of the Company's common shares, and (B) \$1.00. Of the \$5,750,000 reduction to the Company's payment obligations, \$5,615,000 of the remaining milestone payments was waived by Mr. Singhavon.

23 Subsequent Events

- On March 6, 2020, the Company received the final balance owing from the share purchase agreement entered into on November 29, 2019 with BATC Investments Ltd. in the amount of \$290,000.
- On March 6, 2020, the Company entered into an agreement to make an early payment of \$500,000 of principal and interest to its \$5,000,000 senior secured convertible debenture holder.
- On March 13, 2020, the Company entered into an amending agreement with the vendors of Grey Bruce, amending certain terms and conditions of the definitive share purchase agreement dated September 15, 2017. As such, the Company came to an agreement with the vendors and Mr. Singhavon which reduced the contingent share consideration owing from \$2,750,000 to \$1,787,500. In addition, the vendors agreed to raise the floor price of the common shares. See Note 22 for further details.
- On March 13, 2020, the Company entered into an amending agreement with the vendors of GBP, amending certain terms and conditions of the definitive share purchase agreement dated November 15, 2017. As such, the GBP vendors (including Mr. Singhavon) have agreed to reduce their entitlement to a portion of the purchase price such that the remaining contingent share consideration in connection with the GBP acquisition are reduced by \$5,750,000. See Note 22 for further details.