Adastra Holdings Ltd.
(formerly Phyto Extractions Inc.)

Condensed Interim Consolidated Financial Statements

For the Three and Nine months ended
September 30, 2021 and 2020

(Expressed in Canadian dollars – Unaudited)

Notice of Disclosure of Non-Auditor Review of the Condensed Interim Consolidated Financial Statements for the Three and Nine Months ended September 30, 2021 and 2020.

Pursuant to subsection 4.3(3)(a) of National Instrument 51-102 - Continuous Disclosure Obligations, issued by the Canadian Securities Administrators, if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited condensed interim consolidated financial statements of Adastra Holdings Ltd. (the "Company") for the interim period ended September 30, 2021 and 2020, have been prepared in accordance with the International Accounting Standard 34 - *Interim Financial Reporting* as issued by the International Accounting Standards Board, and are the responsibility of the Company's management.

The Company's independent auditors, Davidson and Company LLP, have not performed a review of these condensed interim consolidated financial statements.

November 29, 2021

ADASTRA HOLDINGS LTD. (formerly Phyto Extractions Inc.)
Condensed Interim Consolidated Statements of Financial Position
As at September 30, 2021 and 2020
(Expressed in Canadian dollars – Unaudited)

	Note	**September 30, 2021**	December 31, 2020
		$	$
ASSETS			
Current assets			
Cash		**1,207,688**	1,145,461
Receivables and prepayments	6	**1,517,799**	1,129,189
Income tax receivable		**30,000**	-
Inventory	7	**2,077,355**	1,421,237
Deposits		**34,756**	-
		4,867,598	3,695,887
Long-term deposits		**116,000**	4,000
Goodwill and intangible assets	4,5	**25,781,422**	-
Property, plant, and equipment	8	**9,873,008**	10,037,063
Total assets		**40,638,028**	13,736,950
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities	10	**1,874,313**	1,147,964
Current portion of lease liability	12	**10,425**	-
Mortgage payable	11	**3,498,728**	2,442,830
		5,383,466	3,590,794
Lease liability	12	**24,240**	-
Government loan		**60,000**	60,000
Total liabilities		**5,467,706**	3,650,794
EQUITY			
Share capital	9	**41,833,128**	15,822,152
Reserves	9	**5,461,270**	5,441,814
Subscriptions received	9	**135,000**	-
Deficit		**(12,259,076)**	(11,177,810)
Total equity		**35,170,322**	10,086,156
Total liabilities and equity		**40,638,028**	13,736,950

Nature of operations and going concern (Note 1)
Subsequent events (Note 16)

Approved on behalf of the Board of Directors on November 29, 2021:

"Michael Forbes" — **Director**

"Donald Dinsmore" — **Director**

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

ADASTRA HOLDINGS LTD. (formerly Phyto Extractions Inc.)
Condensed Interim Consolidated Statements of Loss and Comprehensive Loss
For the three and nine months ended September 30, 2021 and 2020
(Expressed in Canadian dollars, except number of shares – Unaudited)

	Note	Three months ended September 30, 2021	Three months ended September 30, 2020	Nine months ended September 30, 2021	Nine months ended September 30, 2020
		$	$	**$**	$
Revenue		**1,808,111**	825,903	**3,639,012**	1,254,258
Cost of sales	7,8	**(874,433)**	(875,485)	**(1,972,771)**	(1,088,721)
Gross profit (loss)		**933,678**	(49,582)	**1,666,241**	165,537
Operating expenses					
Advertising and promotion		**193,132**	433,859	**328,484**	694,380
Accretion		**-**	14,768	**-**	58,405
Depreciation	8	**61,583**	21,750	**103,695**	70,261
Insurance		**25,142**	21,442	**62,246**	51,843
Automobile expenses		**5,761**	-	**5,761**	-
Office expenses		**132,577**	150,854	**282,686**	390,335
Professional fees and consulting	10	**196,519**	174,913	**404,169**	570,814
Research expenses		**13,535**	-	**60,199**	-
Share-based payments	9	**19,456**	2,795,200	**19,456**	5,332,500
Travel		**31,759**	1,192	**34,132**	2,827
Wages and salaries	10	**248,511**	154,063	**742,346**	353,050
Total operating expenses		**927,975**	3,768,041	**2,043,174**	7,524,415
Income (loss) from operations		**5,703**	(3,817,623)	**(376,933)**	(7,358,878)
Other income (expense)					
Finance expense	11,14	**(98,767)**	(78,096)	**(206,121)**	(350,378)
Interest income		**-**	-	**600**	4,419
Gain on settlement of accounts payable		**-**	-	**57,500**	-
Impairment of property, plant and equipment	8	**-**	-	**(150,000)**	-
Realized loss on marketable securities		**-**	-	**-**	(1,500)
Write-down of inventory	7	**(114,800)**	-	**(406,312)**	-
Net loss and comprehensive loss for the period		**(207,864)**	(3,895,719)	**(1,081,266)**	(7,706,337)
Net loss per share					
Basic and diluted		**(0.00)**	(0.10)	**(0.02)**	(0.20)
Weighted average number of common shares outstanding					
Basic and diluted		**44,908,364**	38,511,533	**48,039,591**	38,473,462

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

ADASTRA HOLDINGS LTD. (formerly Phyto Extractions Inc.)
Condensed Interim Consolidated Statements of Changes in Equity
For the nine months ended September 30, 2021 and 2020
(Expressed in Canadian dollars, except number of shares – Unaudited)

	Common shares	Share capital	Debenture reserves	Reserves	Subscriptions received	Deficit	Total equity
	#	$	$	$	$	$	$
December 31, 2019	**36,228,941**	**8,348,407**	**298,461**	**-**	**-**	**(3,561,946)**	**5,084,922**
Convertible debentures - settlement	2,532,140	3,418,390	(298,461)	70,814	-	-	3,190,743
Units issued for cash	3,882,667	3,494,400	-	-	-	-	3,494,400
Share issue cost	-	(60,100)	-	38,500	-	-	(21,600)
Shares issued for cash - warrants	42,967	77,340	-	-	-	-	77,340
Shares issued - services	156,894	131,791	-	-	-	-	131,791
Shares issued - debt settlement	490,491	411,924	-	-	-	-	411,924
Share-based payment	-	-	-	5,332,500	-	-	5,332,500
Loss for the period	-	-	-	-	-	(7,706,337)	(7,706,337)
September 30, 2020	**43,334,100**	**15,822,152**	**-**	**5,441,814**	**-**	**(11,268,283)**	**9,995,683**
Income for the period	-	-	-	-	-	90,473	90,473
December 31, 2020	**43,334,100**	**15,822,152**	**-**	**5,441,814**	**-**	**(11,177,810)**	**10,086,156**
Subscriptions received	-	-	-	-	135,000	-	135,000
Shares issued on acquisition of Perceive MD	2,513,720	2,010,976	-	-	-	-	2,010,976
Shares issued on acquisition of Phyto BrandCo	20,000,000	24,000,000	-	-	-	-	24,000,000
Share based payments	-	-	-	19,456	-	-	19,456
Loss for the period	-	-	-	-	-	(1,081,266)	(1,081,266)
September 30, 2021	**65,847,820**	**41,833,128**	**-**	**5,461,270**	**135,000**	**(12,259,076)**	**35,170,322**

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

ADASTRA HOLDINGS LTD. (formerly Phyto Extractions Inc.)
Condensed Interim Consolidated Statements of Cash Flows
For the nine months ended September 30, 2021 and 2020
(Expressed in Canadian dollars – Unaudited)

	Nine months ended September 30,	
	2021	2020
	$	$
Operating activities		
Loss for the period	**(1,081,266)**	(7,706,337)
Adjustments for non-cash items:		
Accretion	**-**	58,405
Depreciation	**103,695**	70,261
Depreciation – cost of sales	**618,451**	318,060
Finance expense	**206,121**	343,942
Interest income	**(600)**	(4,419)
Share-based payments	**19,456**	5,332,500
Services paid in shares	**-**	131,791
Realized loss on marketable securities	**-**	1,500
Write-down of inventory	**406,312**	-
Impairment of property, plant and equipment	**150,000**	-
Net change in non-cash working capital items:		
Receivables and prepayments	**34,691**	271,157
Income tax receivable	**(4,000)**	-
Inventory	**(1,062,430)**	(1,155,172)
Deposits	**(146,756)**	-
Accounts payable and accrued liabilities	**81,091**	80,392
Cash used in operating activities	**(675,235)**	(2,257,920)
Financing activities		
Proceeds on private placement of units, net of share issue costs	**-**	3,472,800
Proceeds received on warrant exercises	**-**	77,340
Proceeds received on mortgage renewal	**1,002,877**	-
Borrowing costs on mortgage	**-**	(18,345)
Interest paid on mortgage	**(151,662)**	(147,781)
Proceeds on loan	**-**	40,000
Cash provided by financing activities	**851,215**	3,424,014
Investing activities		
Consideration paid on acquisition of Perceive MD	**(10,000)**	-
Cash received from the acquisition of PerceiveMD	**26,302**	-
Cash received from the acquisition of Phyto BrandCo	**301,966**	-
Acquisition of property, plant and equipment	**(432,621)**	(1,238,249)
Interest income	**600**	4,419
Cash used in investing activities	**(113,753)**	**(1,233,830)**
Net increase (decrease) in cash	**62,227**	(67,736)
Cash, beginning of period	**1,145,461**	2,376,826
Cash, end of period	**1,207,688**	2,309,090

Supplemental cash flow information (Note 13)

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

NOTE 1 – NATURE OF OPERATIONS AND GOING CONCERN

Adastra Holdings Ltd. (formerly Phyto Extractions Inc.) (the "Company") was incorporated under the laws of the province of British Columbia on October 14, 1987. The Company is an extraction and processing solutions company. The Company's mission is to develop and deploy large-scale cannabis and hemp extraction technologies and provide turn-key processing solutions to help licensed standard and micro-cultivators maximize the value of every harvest. The Company is listed on the Canadian Securities Exchange ("CSE") under the symbol "XTRX". The Company's registered and records office is 5451 275th Street, Langley City, British Columbia, V4W 3X8.

On October 19, 2019, Health Canada issued an Analytical testing license on the Company's facility to Chemia Analytics Inc., ("Chemia"). Chemia is a wholly owned subsidiary of the Company. On March 13, 2020, Health Canada issued a Standard Processing License to the Company's facility to Adastra labs Inc., ("Labs"). Labs is a wholly owned subsidiary of the Company.

On December 20, 2019, Arrowstar Resources Ltd. ("Arrowstar") acquired all of the issued and outstanding common shares of Adastra Labs Holdings (2019) Ltd. ("Adastra") a private British Columbia cannabis extraction and processing solutions company incorporated on June 18, 2018. The acquisition was completed by entering into a share exchange agreement whereby the parties completed a business combination by way of a transaction that constituted a reverse takeover ("RTO") of the Company by Adastra (the "Transaction"). The Transaction was accounted for as an RTO of Arrowstar by Adastra for accounting purposes, with Adastra being identified as the accounting acquirer, and accordingly, these financial statements are a continuation of Adastra. The net assets of Arrowstar at the date of the RTO are deemed to have been acquired by Adastra (Note 3). These unaudited condensed interim consolidated financial statements (the "financial statements") include the results of operations of Arrowstar since December 20, 2019. The comparative figures are those of Adastra prior to the RTO. At the time of the transaction the Company changed its fiscal year end from April 30 to December 31.

On August 10, 2021, the Company completed the acquisition, indirectly through its wholly-owned subsidiary Adastra Labs Inc. ("Adastra") of all of the issued and outstanding shares of 1225140 B.C. Ltd., doing business as PerceiveMD ("PerceiveMD") from the shareholders of PerceiveMD, pursuant to the terms of a share purchase agreement dated August 10, 2021. In consideration for the acquisition of PerceiveMD, the Company paid to the vendors an aggregate purchase price of $2,020,976 consisting of $10,000 in cash and $2,010,976 by way of the issuance of 2,513,720 common shares in the capital of the Company (see Note 4).

On September 1, 2021, the Company changed its name to Adastra Holdings Ltd. (formerly Phyto Extractions Inc.). Trading of the Company's common shares resumed under the new name and under the same ticker symbol "XTRX" on the Canadian Securities Exchange as of market opened on September 1, 2021. Prior to this on April 9, 2021 the Company changed its name from Adastra Labs Holdings Ltd. to Phyto Extractions Inc. and on December 19, 2019 from Arrowstar Resources Ltd to Adastra Labs Holdings Ltd.

On September 15, 2021, the Company completed its previously-announced acquisition of privately held 1204581 B.C. Ltd., doing business as Phyto Extractions ("Phyto BrandCo"), the owner of the intellectual property rights for the Phyto Extractions brand. At closing, the Company issued 20 million common shares to the former shareholders of Phyto BrandCo based on a deemed share price of $0.96 per share, which resulted in total consideration of $24 million based on the market price of $1.20 on closing (see Note 5). The acquisition is an arm's length transaction, and there is no finder's fee payable on closing.

On April 9, 2021, the Company consolidated its issued share capital on a ratio of three (3) old common shares for every one (1) new post-consolidated common share. All current and comparative references to the number of common shares, weighted average number of common shares, loss per share, stock options and warrants have been restated to give effect to this Share Consolidation.

NOTE 1 – NATURE OF OPERATIONS AND GOING CONCERN (continued)

These condensed interim consolidated financial statements ("interim financial statements) are prepared on the basis that the Company will continue as a going concern, which assumes that the Company will be able to continue its operation for the foreseeable future and will be able to realize its assets and discharge its liabilities and commitments in the normal course of operations. These interim financial statements do not include any adjustments relating to the recoverability and classification of assets and liabilities that might be necessary should the Company be unable to continue in existence.

The Company's ability to continue as a going concern is dependent on its ability to generate positive cash flows from operations, complete additional financings, and/or extend or modify its mortgage payable (Note 11).

As at September 30, 2021, the Company had a working capital deficiency of $515,868 (December 31, 2020 – working capital surplus of $105,093), incurred a net loss of $207,864 for the three months ended September 30, 2021 (2020 – net loss of $3,895,719) and net loss of $1,081,266 for the nine months ended September 30, 2021 (2020 - $7,706,337). These events and conditions indicate a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. If the going concern assumption were not appropriate for these financial statements it could be necessary to restate the Company's assets and liabilities on a liquidation basis.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of presentation

These interim financial statements have been prepared in conformity with International Accounting Standard 34 – *Interim Financial Reporting*, using the same accounting policies as detailed in the Company's annual audited financial statements for the year ended December 31, 2020, and do not include all the information required for full annual financial statements in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC"). It is suggested that these financial statements be read in conjunction with the annual audited financial statements.

These interim financial statements have been prepared on an historical cost basis, except for financial instruments measured at fair value. In addition, these financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

All amounts on these financial statements are presented in Canadian dollars which is the functional currency of the Company and its subsidiaries.

(b) Reclassification of prior amounts

The Company has reclassified certain items on the condensed interim consolidated statements of cash flows to conform with current period presentation.

(Expressed in Canadian dollars – Unaudited)

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Principles of consolidation

These financial statements include the financial information of the Company and its subsidiaries. The financial statements include the accounts of the Company and the following subsidiaries:

	Functional currency	Ownership percentage
Adastra Labs Holdings (2019) Ltd. (formerly Adastra Labs Holdings Ltd.)	CAD	100%
Adastra Labs Inc.	CAD	100%
1178562 B.C. Ltd.	CAD	100%
Adastra Brands Inc.	CAD	100%
Chemia Analytics Inc.	CAD	100%
1125140 B.C. Ltd (PerceiveMD)	CAD	100%
1204581 B.C. Ltd. (Phyto BrandCo)	CAD	100%

Subsidiaries are entities controlled by the Company and are included in the financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries are changed where necessary to align them with the policies adopted by the Company.

The accounting policies, estimates and critical judgments, methods of computation and presentation applied in these financial statements are consistent with those of the most recent annual audited financial statements and are those the Company expects to adopt in its annual financial statements for the year ended December 31, 2021. Accordingly, these financial statements should be read in conjunction with the Company’s most recent annual audited financials.

(d) Standards issued but not yet effective

Certain pronouncements have been issued by the IASB or IFRIC that are effective for accounting periods beginning on or after January 1, 2021. The Company has reviewed these updates and determined that many of these updates are not applicable or consequential to the Company and have been excluded from discussion within these significant accounting policies.

(e) Significant accounting judgements and key sources of estimate uncertainty

The information about significant areas of estimation uncertainty considered by management in preparing these financial statements is as follows

COVID-19 estimation uncertainty

On March 11, 2020, the World Health Organization declared the outbreak of the novel coronavirus (COVID-19) a global pandemic. This has resulted in governments worldwide, including the Canadian government, enacting emergency measures to combat the spread of the virus. These measures, which include social distancing, the implementation of travel bans, and closures of non-essential businesses, have caused material disruption to businesses globally, resulting in an economic slowdown. The production and sale of cannabis have been recognized as essential services across Canada. As at September 30, 2021, the Company has not observed any material impairments of assets or a significant change in the fair value of assets, due to the COVID-19 pandemic.

The situation is dynamic and the ultimate duration and magnitude of the impact of COVID-19 on the economy and the financial effect on our business, financial position and operating results remain unknown at this time. In addition, it is possible that estimates in the Company’s financial statements will change in the near term as a result of COVID-19 and the effect of any such changes could be material, which could result in, among other things, impairment of long-lived assets. The Company is closely monitoring the impact of the pandemic on all aspects of its business.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value of stock options and finders' compensation options

Determining the fair value of stock options and compensatory options (finders' options) requires estimates related to the choice of a pricing model, the estimation of stock price volatility, the fair value of the Company's common shares, the expected forfeiture rate and the expected term of the underlying instruments. Any changes in the estimates or inputs utilized to determine fair value could have a significant impact on the Company's future operating results or on other components of shareholders' equity.

Acquisitions

Determination of whether a set of assets acquired and liabilities assumed constitute the acquisition of a business or asset requires the Company to make certain judgments as to whether or not the assets acquired and liabilities assumed include the inputs, processes and outputs necessary to constitute a business as defined in IFRS 3 - *Business Combinations*. If an acquired set of assets and liabilities includes goodwill, the set is presumed to be a business. Based on an assessment of relevant facts and circumstances, the Company concluded that the acquisition disclosed in Note 3 was acquisition of assets. The values assigned to common shares and the allocation of the purchase price to the net liabilities in the acquisition are based on numerous estimates and judgements of the relative fair values of net liabilities.

The information about significant areas of judgment considered by management in preparing these financial statements is as follows:

Going concern

The assessment of the Company's ability to continue as a going concern as discussed in Note 1 involves judgment regarding future funding available for its operations and working capital requirements.

NOTE 3 – REVERSE ACQUISITION

As described in Note 1, on December 20, 2019, Arrowstar and Adastra completed the Transaction which constituted a reverse acquisition.

The Transaction resulted in the shareholders of Adastra obtaining control of the combined entity by obtaining control of the voting rights, governance and management decision making processes, and the resulting power to govern the financial and operating policies of the combined entity.

The transaction constitutes an RTO of Arrowstar by Adastra and has been accounted for as a reverse acquisition transaction in accordance with the guidance provided in IFRS 2 - *Share-based payments*. As Arrowstar did not qualify as a business according to the definition in IFRS 3, the RTO does not constitute a business combination; rather it is treated as an issuance of common shares by Adastra for the net assets of Arrowstar and Arrowstar's public listing, with Adastra as the continuing entity. Accordingly, no goodwill was recorded with respect to the transaction as it does not constitute a business combination.

For accounting purposes, Adastra was treated as an accounting parent company (legal subsidiary) and Arrowstar has been treated as the accounting subsidiary (legal parent) in these financial statements. As Adastra was deemed to be the acquirer for accounting purposes, its assets, liabilities, and operations since incorporation are included in these financial statements at their historical carrying values. Arrowstar's results of operations have been included from December 20, 2019.

(Expressed in Canadian dollars – Unaudited)

NOTE 3 – REVERSE ACQUISITION (continued)

	December 20, 2019
Assets and (liabilities) of Arrowstar acquired	$
Cash	111,496
Receivables	10,802
Other assets	7,504
Accounts payable	(356,384)
Net liabilities acquired	**(226,582)**
Consideration paid in RTO of Arrowstar	
Common shares (7,218,678 common shares at $0.15 fair value per share)	1,082,802
Listing expense	**1,309,384**

The Transaction was measured at the fair value of the shares that Adastra would have to issue to the shareholders of Arrowstar, to give the shareholders of Arrowstar the same percentage of equity interest in the combined entity that results from the reverse acquisition had it taken the legal form of Adastra acquiring Arrowstar.

NOTE 4 – ACQUISITION OF PERCEIVEMD

On August 10, 2021, the Company acquired, indirectly through its wholly-owned subsidiary, Adastra Labs Inc, all of the issued and outstanding shares of PerceiveMD. At closing, the Company issued 2,513,720 million common shares to the former shareholders of PerceiveMD at a share price on the date of acquisition of $0.80 per share, for total consideration of $2.02 million.

PerceiveMD is a multidisciplinary, patient-focused center providing comprehensive assessments for medical cannabis and other therapies such as psychedelics. The acquisition will allow the Company to generate revenue from providing cannabis and psychedelic therapies which is a new business area for the Company. The Company expects to realize synergies by leveraging Adastra' s high capacity laboratory and PerceiveMD's digital care platform to become a leader in drug development and patient care.

The transaction has been accounted for as a business combination under IFRS 3 - *Business Combinations*. The preliminary allocation of the purchase consideration is as follows, noting that the Company intends to engage valuation experts to assist with the identification and measurement of intangible assets separate from goodwill:

Assets acquired:	**$**
Cash	26,302
Accounts receivable	13,647
Corporate taxes receivable	26,000
	65,949
Liabilities assumed:	
Accounts payable and other accrued liabilities	(19,206)
Fair value of net assets acquired	**46,743**
Purchase consideration	
Share consideration	2,010,976
Cash consideration	10,000
	2,020,976
Goodwill and intangible assets	**1,974,233**

The carrying value of the assets and liabilities acquired equates to fair value due to their short term nature.

(Expressed in Canadian dollars – Unaudited)

NOTE 4 – ACQUISITION OF PERCEIVEMD (continued)

Included in the consolidated statement of loss and comprehensive loss is $71,532 of revenue and $2,987 of income from PerceiveMD since the acquisition date of August 10, 2021. If the acquisition occurred on January 1, 2021, management estimates that revenue would have increased by $578,571 and net loss would have been decreased by approximately $62,625, respectively.

The Company's acquisition of PerceiveMD constitutes a related party transaction as Michael Forbes, Chief Executive Officer and a director of the Company is also a director and controlling shareholder of PerceiveMD.

NOTE 5 – ACQUISITION OF PHYTO BRANDCO

On September 15, 2021, the Company acquired, indirectly through its wholly-owned subsidiary, Adastra Labs Inc, all of the issued and outstanding shares of Phyto BrandCo., the owner of the intellectual property rights for the Phyto Extractions brand. At closing, the Company issued 20 million common shares to the former shareholders of Phyto BrandCo at a share price on the date of acquisition of $1.20 per share, for total consideration of $24 million.

Phyto BrandCo licenses its intellectual property to Canadian cannabis license holders and collects royalties by selling cannabis consumer packaged goods to provincial distributors and retailers. The Company expects to realize synergies by leveraging Phyto BrandCo's suite of branded products to drive revenue and develop integration efficiencies.

The transaction has been accounted for as a business combination under IFRS 3 - *Business Combinations*. The preliminary allocation of the purchase consideration is as follows, noting that the Company intends to engage valuation experts to assist with the identification and measurement of intangible assets separate from goodwill:

Assets acquired:	**$**
Cash	301,966
Accounts receivable	255,154
Prepayments	19,500
Property and equipment	85,108
Trademarks	35,930
	697,658
Liabilities assumed:	
Accounts payable and other accrued liabilities	(434,252)
Lease liability	(34,665)
	(468,917)
Fair value of net identifiable assets acquired	**228,741**
Purchase consideration	
Share consideration	24,000,000
	24,000,000
Goodwill and intangible assets	**23,771,259**

The carrying value of the assets and liabilities acquired equates to fair value due to their short term nature, other than property and equipment and trademarks which are depreciated over their estimated useful economic lives.

The trademarks of $35,930 represent 21 registered trademarks the Company has with the Canadian Intellectual Property Office ("CIPO"). These trademarks have finite lives and are measured at cost less accumulated amortization and impairment losses. These trademarks are amortized on a straight-line basis over their estimated useful lives. Useful lives, residual values, and amortization methods for intangible assets with finite useful lives are reviewed at least annually.

(Expressed in Canadian dollars – Unaudited)

NOTE 5 – ACQUISITION OF PHYTO BRANDCO (continued)

The lease liability represents one lease with a fair value of $34,665 on the date of acquisition, which is the net present value of the minimum future lease payments determined using the following assumptions: (1) remaining number of payments – 36; (2) monthly payment - $1,119; and (3) incremental borrowing rate – 10%.

Included in the consolidated statement of loss and comprehensive loss is $45,776 of revenue and $37,116 of losses from Phyto BrandCo since the acquisition date of September 15, 2021. If the acquisition occurred on January 1, 2020, management estimates that revenue would have increased by $1,325,872 and net loss would have been reduced by approximately $187,803, respectively.

NOTE 6 – RECEIVABLES AND PREPAYMENTS

Receivables and prepayments consisted of the following:

	September 30, 2021	December 31, 2020
	$	$
Trade accounts receivable	**1,325,644**	971,102
Sales tax recoverable	**-**	1,578
Prepaid expenses	**192,155**	156,509
	1,517,799	1,129,189

NOTE 7 – INVENTORY

Inventory consisted of the following:

	September 30, 2021	December 31, 2020
	$	$
Extracted cannabis and hemp oils (finished goods)	**1,199,671**	908,117
Production work in process – distillate	**339,210**	273,937
Dried cannabis and hemp biomass	**538,474**	239,183
	2,077,355	1,421,237

Inventory expensed to cost of sales in the three and nine months ended September 30, 2021 was $823,916 and $1,798,780, respectively (three and nine months ended September 30, 2020 - $875,485 and $1,088,721, respectively).

(Expressed in Canadian dollars – Unaudited)

NOTE 8 – PROPERTY, PLANT AND EQUIPMENT

	Land	Building	Furniture and equipment	Computer software	Laboratory equipment	Extraction equipment	Building improvements	Total
	$	$	$	$	$	$	$	$
Cost								
December 31, 2019	1,592,232	1,999,328	59,442	12,105	62,295	1,048,502	3,863,759	8,637,663
Additions	-	-	25,407	-	149,100	1,862,707	64,522	2,101,736
December 31, 2020	1,592,232	1,999,328	84,849	12,105	211,395	2,911,209	3,928,281	10,739,399
Acquisition of Phyto BrandCo	-	-	85,108	-	-	-	-	85,108
Additions	-	-	25,201	150,000	179,004	268,778	-	622,983
Impairment	-	-	-	(150,000)	-	-	-	(150,000)
September 30, 2021	**1,592,232**	**1,999,328**	**195,158**	**12,105**	**390,399**	**3,179,987**	**3,928,281**	**11,297,490**
Accumulated depreciation								
December 31, 2019	-	122,679	7,467	-	-	-	-	130,146
Depreciation	-	93,832	12,936	1,816	20,527	296,978	146,101	572,190
December 31, 2020	-	216,511	20,403	1,816	20,527	296,978	146,101	702,336
Depreciation	-	70,374	16,635	1,542	55,228	429,069	149,298	722,146
September, 2021	**-**	**286,885**	**37,038**	**3,358**	**75,755**	**726,047**	**295,399**	**1,424,482**
Carrying value								
December 31, 2020	1,592,232	1,782,817	64,446	10,289	190,868	2,614,231	3,782,180	10,037,063
September 30, 2021	**1,592,232**	**1,712,443**	**158,120**	**8,747**	**314,644**	**2,453,940**	**3,632,882**	**9,873,008**

During the three and nine months ended September 30, 2021, the Company allocated $206,884 and $618,451, respectively (three and nine months ended September 30, 2020 - $185,710 and $318,060, respectively) of depreciation to cost of sales and $74,083 and $103,695, respectively (three and nine months ended September 30, 2020 - $21,750 and $70,261, respectively) to operating expense.

NOTE 9 – SHARE CAPITAL

(a) Authorized

Unlimited number of voting common shares without par value.

(b) Issued share capital

As at September 30, 2021, 65,847,820 common shares were issued and outstanding.

(c) Share issuances

During the nine months ended September 30, 2021, the Company had the following share transactions:

(i) During the nine months ended September 30, 2021, the Company recorded a subscription received for 122,727 units at $1.10 per unit for gross proceeds of $135,000. Each unit will consist of one common share and one transferable common share purchase warrant. These proceeds are included in as subscriptions received and will be applied against a future financing.

(ii) On August 10, 2021, the Company issued 2,513,720 common shares at $0.80 per share for a total consideration of approximately $2.01 million pursuant to the acquisition of PerceiveMD (Note 4).

(iii) On September 15, 2021, the Company issued 20,000,000 common shares at $1.20 per share for total consideration of approximately $24 million pursuant to the acquisition Phyto BrandCo (Note 5).

During the year ended December 31, 2020, the Company had the following share transactions:

(i) On January 17, 2020, the Company issued 189,934 units on conversion of $250,000 of principal and $6,411 of accrued interest of the convertible debenture. Each unit consists of one common share of the Company and one share purchase warrant exercisable at $2.25 for two years from the date of conversion. No value was attributed to the warrant component of the units issued.

(ii) On January 27, 2020, the Company issued 266,760 units on conversion of $350,000 of principal and $10,126 of accrued interest of the convertible debenture. Each unit consists of one common share of the Company and one share purchase warrant exercisable at $2.25 for two years from the date of conversion. No value was attributed to the warrant component of the units issued.

(iii) On July 10, 2020, the Company issued 200,589 units on conversion of $250,000 of principal and $20,795 of accrued interest of the convertible debenture. Each unit consists of one common share of the Company and one share purchase warrant exercisable at $2.25 for two years from the date of conversion. No value was attributed to the warrant component of the units issued.

(iv) On July 13, 2020, the Company completed a non-brokered private placement whereby 3,882,667 units were issued at a price of $0.90 per unit for gross proceeds of $3,494,400. Each unit consists of one common share and one common share purchase warrant with each warrant exercisable into one common share at an exercise price of $1.50 until July 13, 2022.

NOTE 9 – SHARE CAPITAL (continued)

In conjunction with the financing, finders' fees of $21,600 in cash were paid and 24,067 compensation options (each a "Compensation Option") were granted. Each Compensation Option entitles the holder to purchase a unit on the same terms as the offering for a period of two years from the date of issuance. Each underlying common share purchase warrant (a "Compensation Option Warrant") will be subject to the same terms as the warrants attached to the units sold in the financing. If the Compensation Option Warrants are accelerated prior to the exercise of the Compensation Option, each Compensation Option Warrant will expire 30 days after the date of exercise of the Compensation Option. The fair value of the Compensation Option was $38,500 ($1.59 per Compensation Option) and was recognized as a share issuance cost. The fair value of the Compensation Options was estimated using the Black-Scholes option pricing model using the following assumptions: risk-free interest rate of 0.28%, annualized volatility of 100%, expected dividend yield of nil%, and an expected life of 2 years.

Additionally, the Company settled services and outstanding indebtedness of $543,715 through the issuance of 647,385 common shares at a fair value price of $0.84 per common share. The common shares issued in connection with the services and debt settlement are subject to a hold period that expires four months and one day from the date of issuance.

(v) On July 16, 2020, the Company issued 759,605 units on conversion of $945,000 of principal and $80,467 of accrued interest of the convertible debenture. Each unit consists of one common share of the Company and one share purchase warrant exercisable at $2.25 for two years from the date of conversion. No value was attributed to the warrant component of the units issued.

(vi) On July 28, 2020, the Company issued 953,564 units on conversion of $1,182,000 of principal and $105,311 of accrued interest of the convertible debenture. Each unit consists of one common share of the Company and one share purchase warrant exercisable at $2.25 for two years from the date of conversion. No value was attributed to the warrant component of the units issued.

(vii) On August 5, 2020, the Company issued 161,688 units on conversion of $200,000 of principal and $18,279 of accrued interest of the convertible debenture. Each unit consists of one common share of the Company and one share purchase warrant exercisable at $2.25 for two years from the date of conversion. No value was attributed to the warrant component of the units issued.

(viii) During the year ended December 31, 2020, the Company issued 42,967 common shares related to the exercise of 42,967 warrants at an exercise price of $1.80 for proceeds of 77,340.

(d) Escrow shares

The Company entered into an Escrow Agreement in connection with closing the RTO on December 20, 2019, in relation to certain of its common shares which were placed in escrow. Pursuant to the Escrow Agreement the escrowed common shares are subject to a timed-release schedule whereby a 10% portion of the escrow shares will be released beginning on listing date, and 15% every six months thereafter until January 6, 2023.

As at September 30, 2021, 3,900,000 common shares were held in escrow (December 31, 2020 – 6,500,000).

(e) Stock options

The Company has an incentive stock option plan (the "Plan") which provides for the granting of options. Under the Plan the maximum number of stock options issued cannot exceed 10% of the Company's currently issued and outstanding common shares. Options granted under the Plan may have a maximum term of ten years. A participant, who is not a consultant conducting investor relations activities, who is granted an option that is exercisable at the market price at the date of grant, will have their options vest immediately, unless otherwise determined by the Board of Directors. Options granted at below market prices will vest one-sixth every three months.

(Expressed in Canadian dollars – Unaudited)

NOTE 9 – SHARE CAPITAL (continued)

A participant who is a consultant conducting investor relations activities who is granted an option under the Plan will become vested with the right to exercise one-quarter of the option upon conclusion of every three months subsequent to the grant date. All options are to be settled by physical delivery of shares.

During the nine months ended September 30, 2021, the Company granted 33,333 stock options with exercise price of $1.35 to certain Directors, Officers, employees, and consultants. The options expire five years from the date of grant and vest immediately. The fair value of these options was $19,456 ($0.584 per option) and was recognized as a share-based payments.

During the year ended December 31, 2020, the Company had the following grants:

(i) On January 30, 2020, the Company granted 2,523,333 stock options with exercise price of $1.35 to certain Directors, Officers, employees, and consultants. The options expire five years from the date of grant and vest immediately. The fair value of these options was $2,537,300 ($1.02 per option) and was recognized as a share-based payments.

(ii) On June 1, 2020, the Company granted 66,667 stock options with exercise price of $1.35 to an employee. The options expire two years from the date of grant and vest immediately. The fair value of these options was $22,200 ($0.33 per option) and was recognized as share-based payments.

(iii) On August 5, 2020, the Company granted 1,616,667 stock options with exercise price of $2.34 to certain Directors, Officers, employees, and consultants. The options expire five years from the date of grant and vest immediately. The fair value of these options was $2,813,800 ($1.74 per option) and was recognized as a share-based payments.

The fair value of the stock options granted during the nine months ended September 30, 2021 and 2020 was estimated using the Black-Scholes option pricing model using the following assumptions:

	September 30, 2021	December 31, 2020
Risk-free interest rate	**0.71%**	0.34 – 1.29%
Annualized volatility	**100%**	100%
Expected dividend yield	**0.00%**	0.00%
Expected life	**5 years**	2 – 5 years

A summary of the changes in the Company's stock options outstanding and exercisable is as follows:

	Stock options	Weight average exercise price
	#	$
Outstanding, December 31, 2019	-	-
Granted	4,206,667	1.73
Cancelled	(40,000)	1.35
Outstanding, December 31, 2020	4,166,667	1.73
Granted	33,333	1.35
Cancelled	(1,599,999)	1.89
Outstanding, September 30, 2021	**2,600,001**	**1.64**
Exercisable, December 31, 2020	4,166,667	1.73
Exercisable, September 30, 2021	**2,600,001**	**1.64**

(Expressed in Canadian dollars – Unaudited)

NOTE 9 – SHARE CAPITAL (continued)

As at September 30, 2021, the Company had stock options outstanding and exercisable as follows:

Options outstanding and exercisable	Exercise price	Expiry date	Weighted average remaining life (years)
#	$		
66,667	1.35	June 1, 2022	0.67
1,750,001	1.35	January 30, 2025	3.34
750,000	2.34	August 5, 2025	3.85
33,333	1.35	August 5, 2026	4.85
2,600,001			**3.44**

(f) Compensation options

As at September 30, 2021, the Company has 24,067 compensation options outstanding and exercisable. These options have an exercise price of $0.50 and expire on July 13, 2022.

(g) Warrants

As an incentive to complete a private placement the Company may issue units which include common shares and common share purchase warrants. Using the residual value method, the Company determines whether a value should be allocated to the warrants attached to private placement units. Finders' warrants may be issued as a private placement share issue cost and are valued using the Black-Scholes option pricing model.

A summary of the changes in the Company's warrants outstanding and exercisable is as follows:

	Warrants	Weight average exercise price
	#	$
Outstanding, December 31, 2019	2,470,552	2.19
Issued	6,414,807	1.80
Exercised	(42,967)	1.80
Expired	(506,400)	2.76
Outstanding, December 31, 2020 and September 30, 2021	**8,335,992**	**1.80**

As at September 30, 2021, the Company had warrants outstanding and exercisable as follows:

Warrants outstanding and exercisable	Exercise price	Expiry date	Weighted average remaining life (years)
#	$		
189,934	2.25	January 17, 2022	0.30
266,760	2.25	January 27, 2022	0.33
200,589	2.25	July 10, 2022	0.78
3,882,667	1.50	July 13, 2022	0.78
759,605	2.25	July 16, 2022	0.79
953,564	2.25	July 28, 2022	0.82
161,688	2.25	August 5, 2022	0.84
1,921,185	1.80	December 19, 2022	1.22
8,335,992			**0.86**

(Expressed in Canadian dollars – Unaudited)

NOTE 10 – RELATED PARTY TRANSACTIONS

A number of key management personnel and Directors hold positions in other entities that result in them having control or significant influence over the financial or operating policies of these entities. There were no loans to key management personnel or Directors, or entities over which they have control or significant influence during the periods ended September 30, 2021 or September 30, 2020.

During the period ended September 30, 2021, 33,333 options were granted (2020 – 5,800,000) to Officers and Directors having a fair value on grant of $19,456 (2020 – $2,531,999).

The following related parties transacted with the Company or Company controlled entities during the periods:

(a) Andrew Hale was a Director and the Company's President and CEO. He resigned on March 1, 2021.
(b) Blaine Bailey was a Director and Chairman of the Company's Audit Committee. He resigned on March 26, 2021.
(c) Stephen Brohman was the Company's CFO. He is a principal of Donaldson Brohman Martin CPA Inc. ("DBM CPA") a firm in which he has significant influence. DBM CPA provided the Company with CFO, accounting and tax services. Stephen Brohman resigned on July 14, 2021.
(d) George Routhier is a Company Director. He is the owner of Pipedreemz Inc. ("Pipedreemz"), which provides advisory services to the Company.
(e) Michael Forbes is a Director and the Company's President and CEO. He was appointed on April 29, 2021 and is the owner of MDC Forbes, which provides CEO services to the Company.
(f) Donald Dinsmore is a Director and the Company's COO. He was appointed on April 29, 2021.
(g) Oliver Foeste is the Company's CFO. He was appointed on July 14, 2021 and is the Managing Partner of Invictus Accounting Group LLP which provides the Company with CFO, accounting and tax services.

The aggregate value of transactions with key management personnel and Directors and entities over which they have control or significant influence were as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2021	2020	**2021**	2020
	$	$	**$**	$
DBM CPA	**-**	42,750	**61,091**	114,750
Andrew Hale	**-**	45,021	**47,479**	135,070
Donald Dinsmore	**31,250**	-	**52,083**	-
MDC Forbes	**15,000**	-	**25,000**	-
Pipedreemz	**-**	-	**-**	2,500
Invictus Accounting Group LLP	**31,263**	-	**31,263**	-
	77,513	87,771	**216,916**	252,320

In addition to the above, the Company's acquisition of PerceiveMD constitutes a related party transaction as Michael Forbes, was also a Director and controlling shareholder of PerceiveMD prior to the transaction (See Note 4 for more details).

As at September 30, 2021, the Company had an outstanding accounts payable balance with related parties as follows:

	2021	2020
	$	$
MDC Forbes	**15,750**	-
DBM CPA	**-**	12,600
Invictus Accounting Group LLP	**6,996**	-
	22,746	12,915

All related party balances are unsecured and are due within thirty days without interest and incurred in the normal course of business.

(Expressed in Canadian dollars – Unaudited)

NOTE 10 – RELATED PARTY TRANSACTIONS (continued)

The transactions with the key management personnel and Directors are included in operating expenses as follows:

(a) Consulting fees

Includes advisory services of George Routhier, charged to the Company via Pipedreemz, and CEO services by Michael Forbes, charged to the Company via MDC Forbes.

(b) Professional fees

Includes accounting and tax services of the Company's former CFO, Stephen Brohman, charged to the Company via DBM CPA and accounting services of the Company's new CFO, Oliver Foeste, charged to the Company via Invictus Accounting Group LLP.

(c) Wages and salaries

Includes services by Andrew Hale as the prior CEO, and Donald Dinsmore as COO.

NOTE 11 – MORTGAGE PAYABLE

	First Mortgage	Second Mortgage	Third Mortgage	Fourth Mortgage	Total
	$	$	$	$	$
December 31, 2019	2,437,175				2,437,175
New mortgage (refinancing)	(2,446,000)	2,446,000	-	-	-
Transaction costs		(18,345)	-	-	(18,345)
Finance expense	42,457	178,242	-	-	220,699
Repayments	(33,632)	(163,067)	-	-	(196,699)
December 31, 2020	-	2,442,830	-	-	2,442,830
New mortgage (refinancing)		(2,446,000)	-	3,500,000	1,054,000
Transaction costs		-	(18,345)	(32,778)	(51,123)
Finance expense		35,783	104,723	64,177	204,683
Repayments		(32,613)	(86,378)	(32,671)	(151,662)
September 30, 2021	**-**	**-**	**-**	**3,498,728**	**3,498,728**

a) On January 7, 2019, the Company entered into a mortgage for $2,446,000 (the "First Mortgage") which bore interest at the rate of 8.25% per annum, calculated monthly. The First Mortgage matured on February 1, 2020 and was renewed as discussed below.

The First Mortgage payable was recorded at amortized cost and bore an effective interest rate of 10.44%.

The carrying value of the First Mortgage at December 31, 2019 was $2,437,175. Included in mortgage payable on initial recognition were the related mortgage transaction costs of $50,755 which were amortized over the term of the First Mortgage using the effective interest rate method.

The Company maintained minimum interest-only payments of $16,816 per month in connection with the First Mortgage. Total interest expense of the First Mortgage during the nine months ended September 30, 2021 was $nil (2020 - $33,632).

(Expressed in Canadian dollars – Unaudited)

NOTE 11 – MORTGAGE PAYABLE (continued)

b) On February 1, 2020, the Company renewed the First Mortgage of $2,446,000 (the “Second Mortgage”) which bears interest at the rate of 8.00% per annum, calculated monthly. The Second Mortgage matured on February 1, 2021 and was renewed as discussed below.

The Second Mortgage payable was recorded at amortized cost and bore an effective interest rate of 8.79%.

The carrying value of the Second Mortgage payable as at December 31, 2020 was $2,442,830. Included in mortgage payable on initial recognition were the related mortgage transaction costs of $18,345 which were being amortized over the term of the Second Mortgage using the effective interest rate method.

The Company maintained minimum interest-only payments of $16,307 per month in connection with the Second Mortgage. Total finance expense of the Second Mortgage during the three and nine months ended September 30, 2021 was $nil and $35,783, respectively (2020 - $53,488 and $124,652, respectively).

c) On February 1, 2021, the Company renewed the Second Mortgage of $2,446,000 (the “Third Mortgage”) which bears interest at the rate of 8.00% per annum, calculated monthly. The Third Mortgage matures on February 1, 2022, can be repaid before maturity without penalty and is secured by the mortgage property and building improvements. The Third Mortgage payable was recorded at amortized cost (principal value less $18,345 transaction costs) and bares an effective interest rate of 8.79%.

On July 9, 2021, the Third Mortgage was refinanced (Note 10(d)). As a result, the carrying value of the Third Mortgage payable at September 30, 2021 was $nil.

Until refinancing, the Company maintained minimum interest-only payments of $16,307 per month. Total finance expense during the three and nine months ended September 30, 2021 was $33,559 and $104,723, respectively (three and nine months ended September 30, 2020 - $nil and $nil, respectively).

d) On July 9, 2021, the Company refinanced the Third Mortgage and increased the facility to $3,500,000 (the “Fourth Mortgage”) which bears interest at the rate of 6.50% per annum, calculated monthly for one year. The mortgage matures on July 1, 2022 and is secured by the mortgage property and building improvements. The Fourth Mortgage payable was recorded at amortized cost (principal value less $32,778 transaction costs) and bares an effective interest rate of 7.39%. The carrying value of the Fourth Mortgage payable at September 30, 2021 was $3,498,728.

The Company maintains minimum interest-only payments of $18,958 per month. As at September 30, 2021 the total non-discounted remaining scheduled payments related to the mortgage including interest payments totaled $3,692,183. Total finance expense during the three and nine months ended September 30, 2021 was $64,177 (three and nine months ended September 30, 2020 - $nil, respectively).

NOTE 12 – LEASE LIABILITY

	September 30, 2021	December 31, 2020
	$	$
Opening balance	**-**	-
Additions – Phyto BrandCo acquisition	**34,665**	-
Closing balance	**34,665**	-
Less: current portion	**10,425**	-
Long-term portion	**24,240**	-

On October 15, 2020, the prior to being acquired by the Company, Phyto BrandCo entered into a four-year lease agreement for a promotional vehicle. The base monthly payment is $1,118.55 with an initial payment of $9,732.26. The incremental borrowing rate used to determine discount the lease liability was 10%.

(Expressed in Canadian dollars – Unaudited)

NOTE 13 – SUPPLEMENTAL CASH FLOW INFORMATION

		Nine months ended September 30,
	2021	2020
	$	$
Non-cash operating activities		
Share subscription for prepaid expenses	**135,000**	-
Non-cash financing activities		
Conversion of convertible debentures - debenture reserves	**-**	298,461
Convertible debentures - settlement	**-**	(3,418,390)
Convertible debentures - reserves	**-**	(70,814)
Share issuance costs - Compensation Options	**-**	(38,500)
Non-cash investing activities		
Equipment purchases included in accounts payable and accrued liabilities	**190,362**	792,279
Shares issued for debt settlement	**-**	412,024

During the nine months ended September 30, 2021 and 2020 no amounts were paid for income tax expense.

NOTE 14 – CONVERTIBLE DEBENTURES

On October 31, 2019, the Company closed a 2,353,333 convertible debenture unit offering at a price of $1.35 per debenture unit for gross proceeds $3,177,000. Each debenture consisted of a 12% secured convertible debenture with a maturity of two years from the date of issuance. If the holder converted their debenture unit, they were entitled to one common share and one share purchase warrant exercisable at $2.25 per share two years from the date of the convertible debenture closing October 31, 2021 at the holder's discretion.

If the closing price of the Common Shares of the Company was higher than $3.00 for any 10 consecutive trading days, the expiry date of the Warrants may be accelerated to the 30th day after the date of a news release announcing such acceleration. The debentures were secured to the facility subordinate to the mortgage currently on the facility.

As the debentures were convertible into units, the liability and equity components were presented separately on the consolidated statement of financial position. The initial carrying amount of the financial liability was determined by discounting the stream of future payments of interest and principal at a market interest rate of 16% totaling $2,878,539. Using the residual method, the carrying amount of the conversion feature is the difference between the principal amount and the initial carrying value of the financial liability. The equity component was recorded in debenture reserves on the consolidated statement of financial position totaling $298,461. The debentures, net of the equity components were accreted using the effective interest method over the term of the debentures, such that the carrying amount of the financial liability was equal to the principal balance at maturity.

During the year ended December 31, 2020, the Company settled principal plus accrued interest of $3,418,390 relating to the debentures through the issuance of 2,532,140 units. The Company reversed $298,461 from debenture reserves in connection with the settlement.

During the three and nine months ended September 30, 2021, the Company recorded interest expense of $nil and $nil, respectively (2020 - $10,852 and $169,552, respectively) and accretion expense of $nil and $nil, respectively (2020 - $14,768 and $58,405, respectively).

NOTE 15 – FINANCIAL RISK MANAGEMENT

(a) Capital management

The Company defines capital as the components of shareholders' equity. The Company's objectives when managing capital are to support further advancement of the Company's business objectives, as well as to ensure that the Company is able to meet its financial obligations as they come due.

The Company manages its capital structure to maximize its financial flexibility making adjustments to it in response to changes in economic conditions and the risk characteristics of the underlying assets and business opportunities. The Company relies on the expertise of the Company's management to sustain the future development of the business. Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable. There were no changes in the Company's approach to capital management during the nine months ended September 30, 2021. The Company is not subject to externally imposed capital requirements.

(b) Financial instruments - fair value

The Company's financial instruments consist of cash, trade receivables, deposits, accounts payable and accrued liabilities, mortgage payable, lease liability and loan payable.

As at September 30, 2021, the carrying values of cash, receivables and prepayments, deposits, accounts payable and accrued liabilities, and loan payable approximated their fair value because of the short-term nature of these instruments. The mortgage payable and lease liability approximate fair value due to its market rates of interest charged.

Financial instruments measured at fair value on the condensed interim consolidated statements of financial position are summarized into the following fair value hierarchy levels:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices).

Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

(c) Financial instruments – risk

The Company's financial instruments are exposed to certain financial risks, including credit risk, liquidity risk and interest rate risk.

Credit risk

(a) The Company is exposed to credit risk by holding cash. This risk is minimized by holding the funds in Canadian banks and credit unions or with the Canadian government. The Company has minimal receivable exposure, and its various refundable credits are due from the Canadian government.

Liquidity risk

(b) Liquidity risk is the risk that the Company is unable to meet its financial obligations as they come due. The Company manages this risk by careful management of its working capital to ensure its expenditures will not exceed available resources.

NOTE 15 – FINANCIAL RISK MANAGEMENT (continued)

Interest rate risk

(c) Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Company's mortgage payable, lease liability, and convertible debentures carry fixed interest rates and as such, the Company is not exposed to interest rate risk.

Economic dependence

(d) Economic dependence risk is the risk of reliance upon a select number of customers which significantly impact the financial performance of the Company. During the three and nine months ended September 30, 2021, two customers represented approximately 98% and 99% of the Company's revenue (December 31, 2020 – one customer representing 100% of revenue).

NOTE 16 – SUBSEQUENT EVENTS

On October 18, 2021, the Company completed a non-brokered private placement whereby the Company issued 122,727 units at a price of $1.10 per unit for gross proceeds of $135,000. Each unit is comprised of one common share and one transferrable common share purchase warrant with each warrant entitling the holder thereof to acquire one common share at a price of $1.75 per share for two years from the date of the closing. The warrants are subject to an acceleration provision whereby if the daily closing price of the common shares closes at or above $2.00 per share for 50 consecutive trading days, then the Company may accelerate the expiration date of the warrants to the date that is 30 trading days from the date that notice of such acceleration is given via news release. From and after the new accelerated expiration date, no warrants may be exercised, and all unexercised warrants would be void.

On October 25, 2021, the Company granted an aggregate of 900,000 stock options to certain directors and officers for the purchase of up to 900,000 common shares at a price of $1.06 per share. Each stock option is exercisable for a period of five years.

On October 28, 2021, the Company granted an aggregate of 215,000 stock options to certain employees and a consultant for the purchase of up to 215,000 common shares at a price of $0.95 per share. Each stock option is exercisable for a period of five years.

On November 16, 2021, the Company announced a private placement financing to raise gross proceeds of $2,500,000 through the issuance of 2,631,578 units at a price of $0.95 per unit. Each unit will be comprised of one common share and one common share purchase warrant. Each warrant will entitle the holder to acquire one common share of the Company at a price of $1.00 per warrant for a period of three years from the closing of the financing.