

CONSOLIDATED FINANCIAL STATEMENTS

SWEET EARTH HOLDINGS CORPORATION



**SWEET
EARTH**

YEAR ENDED JUNE 30, 2021

(Expressed in Canadian dollars)

SWEET EARTH HOLDINGS CORPORATION

CONSOLIDATED FINANCIAL STATEMENTS

PAGE (S)

INDEPENDENT AUDITOR'S REPORT

Consolidated Statements of Financial Position	1
Consolidated Statements of Loss and Comprehensive Loss	2
Consolidated Statements of Changes in Shareholders' Equity	3
Consolidated Statements of Cash Flows	4
Notes to the Consolidated Statements	5 - 24

K. R. MARGETSON LTD.

331 East 5th Street
North Vancouver BC V7L 1M1
Canada

Chartered Professional Accountant

Tel: 604.220.7704
Fax: 1.855.603.3228

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of
Sweet Earth Holdings Corporation:

Opinion

I have audited the accompanying consolidated financial statements of Sweet Earth Holdings Corporation, which comprise the consolidated statements of financial position as at June 30, 2021 and 2020 and the consolidated statements of loss and comprehensive loss, changes in shareholders' deficiency and cash flows for the years ended June 30, 2021 and 2020 and a summary of significant accounting policies and other explanatory information.

In my opinion, these consolidated financial statements present fairly, in all material respects, the consolidated financial position of Sweet Earth Holdings Corporation as at June 30, 2021 and 2020 and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

Basis for opinion

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

Material Uncertainty Related to Going Concern

I draw attention to Note 1 in the consolidated financial statements, which indicates that the Company incurred a net loss of \$5,047,773 during the year ended June 30, 2021, and as of that date, the Company's accumulated deficit was \$11,990,739. As stated in Note 1, these events or conditions, along with other matters set forth in Note 1, indicated that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. My opinion is not modified in respect of this matter.

Other information

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

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

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

Responsibility of Management and Those Charged with Governance for the Consolidated Financial Statements.

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

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

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

Auditors' Responsibility

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

As part of an audit in accordance with Canadian GAAS I exercise professional judgement and maintain professional scepticism throughout the audit. I also:

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

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

Chartered Professional Accountant

Vancouver, Canada
October 28, 2021

SWEET EARTH HOLDINGS CORPORATION

Consolidated Statements of Financial Position

(Expressed in Canadian dollars)

As at June 30, 2021 and 2020

		June 30, 2021	June 30, 2020 Restated (Note 19)
		\$	\$
ASSETS			
Cash		84,830	21,215
Miscellaneous taxes receivable		42,505	4,463
Inventory	5, 19	53,935	812,538
Prepaid expenses and deposits		20,108	455,365
Total current assets		201,378	1,293,581
Non-current assets			
Plant and equipment	7	2,797,895	3,262,728
Goodwill	6	185,133	204,151
Total non-current assets		2,983,028	3,466,879
TOTAL ASSETS		3,184,406	4,760,460
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities	8	966,561	1,448,858
Due to related parties	9	135,875	159,166
Bank loan payable	10	27,887	30,751
Convertible debentures payable	9, 11	-	414,322
Current portion of lease liability	12	108,568	147,324
Total current liabilities		1,238,891	2,200,421
Non-Current liabilities			
Lease liability	12	1,064,553	1,253,966
Total non-current liabilities		1,064,553	1,253,966
TOTAL LIABILITIES		2,303,444	3,454,387
SHAREHOLDERS' EQUITY			
Share capital	13	12,291,184	7,747,603
Contributed surplus		639,254	615,173
Subscriptions received		55,000	-
Accumulated other comprehensive income (loss)		(113,737)	16,279
Accumulated deficit		(11,990,739)	(7,072,982)
TOTAL SHAREHOLDERS' EQUITY		880,962	1,306,073
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		3,184,406	4,760,460

Nature and continuance of operations (Note 1)

Commitments (Note 14)

Changes in accounting policy and correction of error (Note 19)

Subsequent events (Note 20)

On behalf of the Board:

"Peter Espig"

"Chris Cooper"

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

SWEET EARTH HOLDINGS CORPORATION

Consolidated Statements of Loss and Comprehensive Loss

(Expressed in Canadian dollars)

For the years ended June 30, 2021 and 2020

	June 30, 2021	June 30, 2020 Restated (Note 19)
	\$	\$
Sales	200,725	-
Cost of sales	93,167	-
Gross Profit	107,558	-
Operating Expenses		
Depreciation	248,366	231,812
Interest on lease	61,685	66,606
Management supervision	9	80,556
Rent and operating leases	33,479	86,650
Expense recovery	(10,458)	-
Repairs and maintenance	11,529	100,853
Seeds, fertilizers and nutrients	13,116	335,663
Utilities	46,072	154,748
Wages, salaries and contract labour	10,488	695,640
	(414,277)	1,752,528
Amounts charged to inventory	5, 19	800,982
Operating costs	(414,277)	951,546
Administrative Expenses		
Advertising and promotion	135,883	126,366
Consulting fees	9	422,559
Interest on debentures and loans	26,386	73,398
Management fees	9	523,570
Marketing and investor relations	2,518,963	229,700
Office and general	81,633	105,083
Professional fees	107,384	305,177
Rent	9,358	49,423
Share-based compensation	393,332	884,436
Travel	1,314	60,956
	(3,859,531)	2,780,668
Loss before other items	(4,166,250)	(3,732,214)
Other income (expense)		
Miscellaneous revenue	-	9,262
Write down of existing hemp inventory	(751,507)	-
Listing costs from reverse takeover transaction	4	(1,151,722)
Net loss for the year	(4,917,757)	(4,874,674)
Other comprehensive income (loss)		
Currency translation gain (loss)	(130,016)	39,663
Comprehensive loss for the year	(5,047,773)	(4,835,011)
Basic and diluted loss per share	(\$0.06)	(\$0.08)
Weighted average number of shares outstanding	78,499,752	64,973,824

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

SWEET EARTH HOLDINGS CORPORATION
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
(Expressed in Canadian dollars)
For the years ended June 30, 2021 and 2020

	Number of shares	Share capital	Reserves	Obligation to issue shares/ Subscriptions Received	Accumulated Deficit	Other Accumulated Comprehensive Income (Loss)	Shareholders' Equity (Deficiency)
Balance, June 30, 2019	56,815,746	3,592,477	10,870	15	(2,198,308)	(23,384)	1,381,670
Shares issue at \$0.20/share	7,299,103	1,459,821	-	-	-	-	1,459,821
Shares issue at \$0.40/share	200,000	80,000	-	-	-	-	80,000
Share issuing cost paid in cash	-	(52,235)	-	-	-	-	(52,235)
Share issuing costs paid in warrants	-	(2,887)	2,887	-	-	-	-
Shares issued on reverse takeover transaction	11,137,033	2,227,407	-	(15)	-	-	2,227,392
Issuing cost in shares	4,000,000	-	-	-	-	-	-
Share-based compensation	-	-	884,436	-	-	-	884,436
Shares issued on exercise of options	800,000	443,020	(283,020)	-	-	-	160,000
Net loss and comprehensive loss for the year – restated (Note 19)	-	-	-	-	(4,874,674)	39,663	(4,835,011)
Balance, June 30, 2020 Restated (Note 19)	80,251,882	7,747,603	615,173	-	(7,072,982)	16,279	1,306,073
Shares issue at \$0.20/share	13,409,999	2,682,000	-	-	-	-	2,682,000
Share issuing costs paid in warrants	-	(1,484)	1,484	-	-	-	-
Share issuing cost paid in cash	-	(4,200)	-	-	-	-	(4,200)
Shares issued on exercise of options	1,655,000	701,735	(370,735)	-	-	-	331,000
Shares issued on exercise of warrants	4,681,400	1,165,530	-	-	-	-	1,165,530
Unissued shares issue at \$0.005/share	-	-	-	55,000	-	-	55,000
Share-based compensation	-	-	393,332	-	-	-	393,332
Net loss and comprehensive loss for the year	-	-	-	-	(4,917,757)	(130,016)	(5,047,773)
Balance, June 30, 2021	99,998,281	12,291,184	639,254	55,000	(11,990,739)	(113,737)	890,962

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

SWEET EARTH HOLDINGS CORPORATION
CONSOLIDATED STATEMENT OF CASH FLOWS
For the years ended June 30, 2021 and 2020
(Expressed in Canadian dollars)

	June 30, 2021	June 30, 2020 Restated (Note 19)
	\$	\$
Cash flows from (to) operating activities		
Net loss for the year	(4,917,757)	(4,874,674)
Items not affecting cash		
Depreciation	248,366	231,812
Interest on lease	71,905	66,606
Share-based compensation	13 393,332	884,436
Loss on write-off of inventory	751,507	-
Listing costs on reverse take over	4 -	1,151,722
Changes in non-cash working capital items		
Miscellaneous taxes receivable	(38,042)	(4,463)
Due from or to related parties	(23,291)	220,003
Inventory	(42,378)	(597,785)
Prepaid expenses and deposits	435,257	(421,847)
Accounts payable and accrued liabilities	(448,542)	853,729
Bank loan	-	30,751
Debentures	-	414,322
	(3,569,643)	(2,045,388)
Cash flows to investing activities		
Equipment purchases	-	(851,170)
	-	(851,170)
Cash flows from (to) financing activities		
Common shares issued for cash, net of cash issuing costs	2,263,800	1,647,586
Cash received on reverse takeover transaction, net of accounts payable and accrued liabilities	-	1,075,685
Cash received on warrants exercised	1,165,530	
Cash received on options exercised	331,000	
Cash received on shares not issued	55,000	
Lease payments	(170,542)	(164,672)
	3,644,788	2,558,599
Effect of foreign exchange rate changes on cash	(11,530)	7,170
Change in cash for the year	63,615	(330,789)
Cash, beginning of year	21,215	352,004
Cash, end of year	84,830	21,215

Supplemental disclosure with respect to cash flows (Note 17)

SWEET EARTH HOLDINGS CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in Canadian dollars)
For the years ended June 30, 2021 and 2020

1. NATURE AND CONTINUANCE OF OPERATIONS

Sweet Earth Holdings Corporation (the “Company”) was incorporated as 1168061 B.C. Ltd. under the Province of British Columbia Business Company Act on June 13, 2018. The name was changed to Sweet Earth Holdings Corporation on July 26, 2018 to reflect the Company’s strategic decision to focus the business on becoming a major hemp cannabidiol (“CBD”) cultivator and processor.

The Company’s registered office is located at Suite 1300 – 1030 West Georgia Street, Vancouver BC V6E 2Y3.

The Company incorporated a company in Spain – Sweet Earth Holdings Corp, L.S. (“SE Spain”) on December 26, 2018 but it didn’t have any active operations until December 31, 2019 when a lease of 9 hectares became effective.

On November 18, 2018, the Company completed a share swap with TSN Agricorp Ltd. (“TSN”), the effect of which was to make TSN a wholly owned subsidiary of the Company. Earlier, on August 10, 2018, TSN had purchased 100% of membership interest of Sweet Earth, LLC (“LLC”). Both TSN and LLC are companies organized and existing in the state of Oregon, USA.

On May 19, 2020, the Company completed a reverse takeover transaction (“RTO”) of Seaway Energy Services Inc., and the effective as that date became a listed entity on the Canadian Securities Exchange (“CSE”) under the ticker symbol SE.

These financial statements have been prepared on the assumption that the Company will continue as a going concern, meaning it will continue in operation for the foreseeable future and will be able to realize assets and discharge liabilities in the ordinary course of operations. For the year ended June 30, 2021, the Company incurred a loss of \$4,917,757 (2020 - \$4,874,674) and had an accumulated deficit of \$11,990,739 (2020 - \$7,072,982) These financial statements do not give effect to any adjustments which would be necessary should the Company be unable to continue as a going concern and thus be required to realize its assets and discharge its liabilities in other than the normal course of business and at amounts different from those reflected in these financial statements.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

These financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board effective as of June 30, 2021.

The financial statements have been prepared on a historical cost basis, except for financial instruments classified at fair value through profit and loss, which are stated at their fair value. In addition, these financial statements have been prepared using the accrual basis of accounting except for cash flow information.

These consolidated financial statements were approved for issue by the Board of Directors on October 28, 2021.

The functional currency of an entity is the currency of the primary economic environment in which the entity operates. The functional currency of the Company is the Canadian dollar, which is also the reporting currency of the Company. The functional currency determinations were conducted through an analysis of the consideration factors identified in International Accounting Standards (“IAS”) 21

SWEET EARTH HOLDINGS CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in Canadian dollars)
For the years ended June 30, 2021 and 2020

2. SIGNIFICANT ACCOUNTING POLICIES – (CONT'D)

Basis of consolidation

These consolidated financial statements are comprised of the financial results of the Company and its subsidiaries, (noted above) which are the entities over which Sweet Earth Holdings Ltd. has control. The Company consolidates an entity when it has power over that entity, is exposed, or has rights, to variable returns from its involvement with that entity and has the ability to affect those returns through its power over that entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. All significant intercompany balances and transactions were eliminated on consolidation. As noted above, the Company has three wholly owned subsidiaries - TSN and LLC., both domiciled in Oregon, USA and SE Spain, domiciled in Los Barrios Spain. During the year, a fourth subsidiary company, Sweet Earth Colombia S.A.S was incorporated in Colombia, but to date, has had no operations.

Use of estimates and judgments

The preparation of the Company's financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities and contingent liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Estimates and assumptions are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. However, actual outcomes can differ from these estimates.

Management must make significant judgments or assessments as to how financial assets and liabilities are categorized. The following are the critical estimates and judgments that management has made in applying the Company's accounting policies and that have the most significant effect on the amounts recognized in the consolidated financial statements:

a) *Going concern*

The assessment of the Company's ability to execute its strategy by funding future working capital requirements involves judgment. Estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances (Note 1).

b) *Functional currency*

The functional currency of an entity is the currency of the primary economic environment in which the entity operates. The functional currency of the Company is the Canadian dollar, which is also the reporting currency of the Company. The functional currency determinations were conducted through an analysis of the consideration factors identified in International Accounting Standards ("IAS") 21. An entity considers the following factors in determining the functional currency of entities under its control:

- i) the currency that mainly influences sales prices for goods and services,
- ii) the currency of the country whose competitive forces and regulations mainly determine the sales prices of its goods and services, and
- iii) the currency that mainly influences labour, material and other costs of providing goods or services.

The Company has determined that the function currency of TSN and LLC is the US dollar and for SE Spain is the European dollar (the "Euro").

c) *Estimated useful life and residual value of equipment*

The calculation of depreciation involves estimates concerning the economic life and salvage value of equipment.

SWEET EARTH HOLDINGS CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in Canadian dollars)
For the years ended June 30, 2021 and 2020

2. SIGNIFICANT ACCOUNTING POLICIES – (CONT'D)

d) *Fair value of share-based payments*

The fair value of share-based payments is calculated using a Bloch Scholes option-pricing model. There are a number of estimates used in the calculation such as the future forfeiture rate, expected option life and the future price volatility of underlying security, which can vary from actual future events. The factors applied in the calculation are management's best estimate based on historical information and future forecasts.

e) *Leases*

The Company applies judgement to determine whether an arrangement contains a lease. The evaluation requires the Company to determine whether a contract conveys the right to direct the use of an identified asset, the supplier has a substantive substitution right, the Company has the right to obtain substantially all of the economic benefits from use of the asset throughout the period and whether renewal options are reasonably certain of being exercised. For those arrangements considered to be a lease, further judgement is required to determine the lease term and the rate implicit in the lease.

f) *Biological assets and inventory*

In calculating the value of the biological assets and inventory, management is required to make several estimates, including estimating the stage of growth of the cannabis up to the point of harvest, harvesting costs, selling costs, average or expected selling prices and list prices, expected yields for the cannabis plants, and oil conversion factors. The valuation of work-in-process and finished goods also requires the estimate of conversion costs incurred, which become part of the carrying amount for the inventory. The Company must also determine if the cost of any inventory exceeds its net realizable value, such as cases where prices have decreased, or inventory has spoiled or has otherwise been damaged.

g) *Convertible Debt*

The Company bifurcates proceeds from convertible debt into two components, a liability contract and a conversion feature that may or may not be equity. In the process of valuing the conversion feature, the Company must use judgment in estimating what the interest rate would be of a similar debenture, which is then used in calculating a present value calculation of future cash flows.

h) *Taxation*

The calculation of deferred taxes is based on a number of assumptions including estimating the future periods in which temporary differences, tax losses and other tax credits will reverse, the use of substantively enacted tax rates at the statements of financial position date and the likelihood of deferred tax assets being realized.

Foreign current translation

Transactions in foreign currencies are translated at the exchange rate in effect at the date of the transaction or at an average rate. Foreign denominated monetary assets and liabilities are translated to their Canadian dollar equivalents using foreign exchange rates prevailing at the financial position reporting date. Non-monetary items are translated using the historical rate on the date of the transaction. Exchange gains or losses arising on foreign currency translation are reflected in the statement of loss for the period.

The functional currency of the Company's wholly owned subsidiaries is noted above. The asset and liabilities arising from these operations are translated at the period end exchange rate and related revenues and expenses at the average

SWEET EARTH HOLDINGS CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in Canadian dollars)
For the years ended June 30, 2021 and 2020

2. SIGNIFICANT ACCOUNTING POLICIES – (CONT'D)

Foreign current translation – (cont'd)

exchange rate for the period. Resulting translation adjustments are accumulated as a separate component of accumulated other comprehensive income/loss in the statement of shareholders' equity.

Plant and Equipment

Equipment is initially recorded at cost. When the assets are put in use, they will be amortized over their estimated useful lives, using the methods and rates noted below. Once equipment has been amortized to a nominal net book value, the balances are written off. Plant and equipment is being depreciated on a straight-line basis at the following rates: Building – 20 years; Computer – 3 years, Equipment and Vehicle – 10 years. Right to use assets are being depreciated on a straight-line basis over the term of the lease.

Biological assets

While the Company's biological assets are within the scope of IAS 41, *Agriculture*, the direct and indirect cost of biological assets are determined using an approach similar to the capitalization criteria outlined in IAS 2, *Inventories*. They include the direct cost of seed and growing materials as well as other indirect costs such as utilities and supplies used in the growing process. Indirect labour for individuals involved in the growing and quality control process is also included, as well as depreciation on production equipment and overhead costs such as rent to the extent it is associated with the growing space. All direct and indirect costs of biological assets are capitalized as they are incurred. Except for instances as noted below, biological assets are measured at the end of each reporting period at its fair value less costs to sell. Unrealized fair value gains/losses on growth of biological assets are recorded in a separate line on the face the Statement of Operations.

Inventories

The direct and indirect costs of inventory initially include the fair value of the biological asset at the time of harvest. They also include subsequent costs such as materials, labour and depreciation expense on equipment involved in packaging, labeling and inspection. All direct and indirect costs related to inventory are capitalized as they are incurred and they are subsequently recorded within 'cost of goods sold' on the Statement of Operations at the time hemp is sold, except for realized fair value amounts included in inventory sold which is included as a separate line on the Statement of Operations. Inventory is measured at the lower of cost or net realizable value on the balance sheet.

Financial instruments

The Company follows IFRS 9, *Financial Instruments*, which applies uses a single approach to determine whether a financial asset is measured at amortized cost or fair value. The classification is based on two criteria: the Company's business objectives for managing the assets; and whether the financial instruments' contractual cash flows represent "solely payments of principal and interest" on the principal amount outstanding (the "SPPI test"). Financial assets are required to be reclassified only when the business model under which they are managed has changed. All reclassifications are to be applied prospectively from the reclassification date.

Financial liabilities under IFRS 9 are generally classified and measured at fair value at initial recognition and subsequently measured at amortized cost.

SWEET EARTH HOLDINGS CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in Canadian dollars)
For the years ended June 30, 2021 and 2020

2. SIGNIFICANT ACCOUNTING POLICIES – (CONT'D)

Financial assets

The Company initially recognizes financial assets at fair value on the date that the Company becomes a party to the contractual provisions of the instrument. The Company derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred.

Classification and measurement

Under IFRS 9, financial assets are initially measured at fair value. In the case of a financial asset not categorized as fair value through profit or loss (“FVTPL”), transaction costs are included. Transaction costs of financial assets carried at FVTPL are expensed in net income (loss). Subsequent classification and measurement of financial assets depends on the Company’s business objective for managing the asset and the cash flow characteristics of the asset:

- (i) Amortized cost – Financial assets held for collection of contractual cash flows that meet the SPPI test are measured at amortized cost. Interest income is recognized as Other income (expense) in the consolidated financial statements, and gains/losses are recognized in net income (loss) when the asset is derecognized or impaired.
- (ii) Fair value through other comprehensive income (“FVOCI”) – Financial assets held to achieve a particular business objective other than short-term trading are designated at FVOCI. IFRS 9 also provides the ability to make an irrevocable election at initial recognition of a financial asset, on an instrument-by-instrument basis, to designate an equity investment that would otherwise be classified as FVTPL and that is neither held for trading nor contingent consideration arising from a business combination to be classified as FVOCI. There is no recycling of gains or losses through net income (loss). Upon derecognition of the asset, accumulated gains or losses are transferred from other comprehensive income (“OCI”) directly to Deficit.
- (iii) FVTPL – Financial assets that do not meet the criteria for amortized cost or FVOCI are measured at FVTPL.

The Company measures cash and accounts receivable at amortized cost.

Financial liabilities

The Company initially recognizes financial liabilities at fair value on the date at which the Company becomes a party to the contractual provisions of the instrument. The Company derecognizes a financial liability when its contractual obligations are discharged or cancelled or expire. The subsequent measurement of financial liabilities is determined based on their classification as follows:

- (i) FVTPL – Derivative financial instruments entered into by the Company that do not meet hedge accounting criteria are classified as FVTPL. Gains or losses on these types of financial liabilities are recognized in net income (loss).
- (ii) Amortized cost – All other financial liabilities are classified as amortized cost using the effective interest method. Gains and losses are recognized in net income (loss) when the liabilities are derecognized as well as through the amortization process.

The company measures accounts payable and accrued liabilities, due to related parties, bank loan payable, convertible debentures payable and lease payable at amortized cost.

Goodwill

Acquisitions of subsidiaries are accounted for using the acquisition method. The Company measures goodwill as the fair value of the consideration transferred less the net recognized amount of the identifiable assets and liabilities assumed, all measured as of the acquisition date. Any excess of the fair value of the net assets acquired over the assumed consideration paid is recognized as a gain in the consolidated statements of operations. Goodwill is reviewed annually for impairment.

2. SIGNIFICANT ACCOUNTING POLICIES – (CONT'D)

Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) that has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation. Provisions for environmental restoration, legal claims, onerous leases and other onerous commitments are recognized at the best estimate of the expenditure required to settle the Company's liability.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risk specific to the obligation. An amount equivalent to the discounted provision is capitalized within tangible fixed assets and is depreciated over the useful lives of the related assets. The increase in the provision due to passage of time is recognized as interest expense.

Impairment of assets

At the end of each reporting period the carrying amounts of the Company's assets are reviewed to determine whether there is any indication that those assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment, if any. The recoverable amount is the higher of fair value less costs to sell and value in use. Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount and the impairment loss is recognized in profit or loss for the period. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash generating unit to which the asset belongs.

Where an impairment subsequently reverses, the carrying amount of the asset (or cash generating unit) is increased to the revised estimate and its recoverable amount, but to an amount that does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

Assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment.

Related party transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Related parties may be individuals or corporate entities. A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties.

Comprehensive income (loss)

Comprehensive income (loss) consists of net income (loss) and other comprehensive income (loss) and represents the change in shareholders' equity which results from transactions and events from sources other than the Company's shareholders.

SWEET EARTH HOLDINGS CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in Canadian dollars)
For the years ended June 30, 2021 and 2020

2. SIGNIFICANT ACCOUNTING POLICIES – (CONT'D)

Income taxes

Current tax is the expected tax payable or receivable on the local taxable income or loss for the year, using local tax rates enacted or substantively enacted at the balance sheet date, and includes any adjustments to tax payable or receivable in respect of previous years.

Deferred income taxes are recorded using the balance sheet liability method whereby deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax is not recognized for temporary differences which arise on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting, nor taxable profit or loss.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Loss per share

The Company presents basic loss per share for its common shares, calculated by dividing the loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted loss per share does not adjust the loss attributable to common shareholders or the weighted average number of common shares outstanding when the effect is anti-dilutive.

Prior period adjustments

When changes in accounting policies and correction of errors arise, the Company, where practical, restates previous year's results to reflect these changes. A revision to previous estimates is treated prospectively by including the adjustment in current operations. However, a change in the measurement basis applied in determining an estimate is treated as a change in accounting policy, not a change in accounting measurement.

3. NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS NOT YET ADOPTED OR EFFECTIVE

The Company has reviewed the impact of new and amended standards that are effective for annual periods beginning on or after July 1, 2021. It does not expect the impact on the financial statements to be material, although additional disclosure may be required.

4. REVERSE TAKEOVER TRANSACTION (“RT0”)

On May 19, 2020, the Company closed an agreement with Seaway Services Energy Inc. (Seaway”). Prior to the agreement, Seaway rolled back its shares on a 1 for 4 basis, reducing its outstanding shares to 11,137,033 shares. The Company and Seaway then exchanged their shares on a 1 for 1 basis with a subsidiary of Seaway. The resulting entity became the listed entity under the name of Sweet Earth Holdings Corporation wherein the original shareholders of the Company held 64,314,849 shares or 85.2% of the new entity and the Seaway shareholders received 11,137,033 shares or 14.8%.

The transaction was a reverse acquisition of Seaway. Since its operations did not meet the definition of a business under IFRS 3, the transaction did not qualify as a business combination and has been accounted for under IFRS 2. Accordingly, the transaction has been accounted for at the fair value of the consideration paid, being the equity

SWEET EARTH HOLDINGS CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in Canadian dollars)
For the years ended June 30, 2021 and 2020

4. REVERSE TAKEOVER TRANSACTION (“RT0”) – (CONT’D)

instruments held by the shareholders of Seaway on closing date of the transaction. In exchange, the Company acquired the net assets of Seaway, recognized and measured at their acquisition date fair values. The difference between the fair value of the consideration paid and the fair value of the assets acquired and liabilities assumed represents the cost of the Company obtaining a listing on the exchange, which does not qualify for recognition as an asset and has therefore been expensed and is included in reverse acquisition transaction costs in the consolidated statements of loss and comprehensive loss. The results of Seaway are included in the consolidated financial statements of the Company from the date of the reverse acquisition.

The following represents the fair value of the net assets acquired as a result of the reverse acquisition:

Fair value of 11,137,033 shares at a determined price of \$0.20 per share	\$2,227,407
Acquisition date fair value of assets acquired and liabilities assumed	1,075,685
Listing expense	\$1,151,722

5. INVENTORY

	June 30, 2021	June 30, 2020 Restated (Note 19)
Hemp biomass	\$ -	\$ 800,982
Hemp seeds	11,050	11,556
Finished goods inventory	42,885	-
	\$ 53,935	\$ 812,538

Hemp biomass represents the net realizable value for CBD hemp. The Company used the market approach in determining fair value. The Company used information generated by market transaction involving comparable assets.

6. GOODWILL AND THE ACQUISITION OF TSN AGRICORP LTD. (“TSN”) AND SWEET EARTH, LLC. (“LLC”)

On August 10, 2018, TSN purchased 100% of the membership interest of LLC for \$1. On August 27, 2018, TSN and the Company signed a letter of intent, whereby each company would exchange 3,000 of its registered and issued common shares for the other company’s common shares. The 3,000 common shares of TSN represented 100% of their issued shares and, accordingly, the share exchange represented a purchase of TSN by the Company. The share exchange agreement was finalized on September 19, 2018 with an effective date of November 18, 2018.

The value of the goodwill represented the net liabilities of TSN and LLC at the November 18, 2018 plus the value of the consideration given of 3,000 common shares at \$0.005 per share or \$15.

The value at June 30, 2020 was the CDN equivalent of the net liabilities at an exchange rate of \$1US to \$1.336 CDN plus \$15 for the common shares not yet issued, shown as ‘Obligation to issue shares’ on the Statements of Financial Position. As the Company completed the reverse takeover transaction and the 3,000 common shares were never issued, the Goodwill and the Obligation to issue shares were both reduced by \$15.

SWEET EARTH HOLDINGS CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in Canadian dollars)
For the years ended June 30, 2021 and 2020

7. PLANT AND EQUIPMENT

	Building	Computer	Equipment	Vehicle	Right to Use Assets	Total
	\$	\$	\$	\$	\$	\$
Costs						
Balance, June 30, 2020	838,838	2,470	1,137,558	46,469	1,536,189	3,561,524
Additions	-	-	-	-	-	-
Translation	(78,144)	-	(21,189)	(4,329)	(137,243)	(240,905)
Balance June 30, 2021	760,694	2,470	1,116,369	42,140	1,398,946	3,320,619
Depreciation						
Balance, June 30, 2020	-	247	113,091	4,647	180,811	298,796
Additions	-	824	112,350	4,360	130,831	248,365
Translation	-	-	(3,099)	(579)	(20,759)	(24,437)
Balance June 30, 2021	-	1,071	222,342	8,428	290,883	522,724
Net Book Value June 30, 2021	760,694	1,399	894,027	33,712	1,108,063	2,797,895

	Building	Computer	Equipment	Vehicle	Right to Use Assets	Total
	\$	\$	\$	\$	\$	\$
As at June 30, 2019						
Costs						
Opening balances	104,094	2,470	860,137	44,496	956,514	1,967,711
Additions	717,249	-	269,216	-	523,483	1,509,948
Translation	17,495	-	8,205	1,973	56,192	83,865
June 30, 2020 Balance	838,838	2,470	1,137,558	46,469	1,536,189	3,561,524
Depreciation						
Opening balances	-	-	3,319	2,225	56,323	61,867
Additions	-	247	109,234	2,282	120,049	231,812
Translation	-	-	538	140	4,439	5,117
June 30, 2020 Balance	-	247	113,091	4,647	180,811	298,796
Net Book Value, June 30, 2020	838,838	2,223	1,024,467	41,822	1,355,378	3,262,728

8. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	June 30, 2021	June 30, 2020
Accounts payable	\$ 716,485	1,033,941
Accrued liabilities	250,076	331,619
Payroll liabilities	-	36,798
Interest on debentures payable	-	46,500
	\$ 966,561	\$ 1,448,858

SWEET EARTH HOLDINGS CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in Canadian dollars)
For the years ended June 30, 2021 and 2020

9. RELATED PARTY BALANCES AND TRANSACTIONS

The Company considers officers and members of the Board of Directors as related parties. Key Management costs for the year ended June 30, 2021 is \$255,773 (2020 - \$1,308,751). Payments and accruals were made to the following officers and directors, or to companies controlled by these officers and directors:

	For the Year Ended June 30, 2021			
	Management Fees	Consulting Fees	Share-based Compensation	Total
CEO and director	\$ 126,000	\$ -	-	\$ 126,000
CFO and director	94,500	-	-	94,500
Directors	-	15,050	20,223	35,273
Total	\$ 220,500	\$ 15,050	\$ 20,223	\$ 255,773

	For the Year Ended June 30, 2020			
	Management Fees	Consulting Fees	Share-based Compensation	Total
CEO and director	\$ 170,500	-	\$ 283,019	\$ 453,519
CFO and director	132,625	-	141,510	274,135
Former CEO and director	220,445	-	141,510	361,955
Directors	-	35,255	176,887	212,142
Total	\$ 523,570	35,255	\$ 599,416	\$ 1,158,381

Due to related parties represents fees due to officers and directors at June 30, 2021 of \$135,875 (2020 - \$159,166). The amounts are non-interest bearing, due on demand and bear no specific terms of repayment.

For the year ended June 30, 2020 included in Convertible Debentures Payable is \$179,322 owing to officers and directors.

10. BANK LOAN PAYABLE

The Company's US subsidiary, LLC., applied for and received a federal government small business administration bank loan under a program in support of relief from the Covid – 19 pandemic. The US government has indicated these loans will be forgiven if spent on qualified expenditures. The appropriate paperwork has been given to the authorities but as at June 30, 2021, the loan had not been forgiven by the government and is still recorded as a liability. See *Note 20, Subsequent events*.

11. CONVERTIBLE DEBENTURES PAYABLE

Effective March 31, 2020, the Company converted various loans totalling \$489,322 and bearing interest at 10% per annum into debentures bearing interest at 15% per annum, secured by a lien on the hemp inventory and any revenue arising from its sale. The debentures were due July 31, 2020, convertible into common shares at \$0.40 per share and interest of \$25,702 was recognized as an accrued liability at the time the debentures were issued. During the quarter subsequent to that time, management changed the term of the debentures so that interest was calculated at a flat 15% of the amount of the debenture. Furthermore, the investors were given the opportunity to roll the principal balance outstanding into a private placement offering at \$0.20 per share. \$75,000 of debentures was repaid in June 2020. Given that the terms of the debenture were significantly altered, the short-term nature of the loan, the effective interest rate of over 30% and the ultimate disposition of the debentures, no value was assigned to the conversion feature.

SWEET EARTH HOLDINGS CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in Canadian dollars)
For the years ended June 30, 2021 and 2020

11. CONVERTIBLE DEBENTURES PAYABLE (CONT'D)

On August 25, 2020, the notes were converted into shares and were part of the private placement completed that day. See *Share Capital, Note 13*

12. LEASE LIABILITY

The Company has entered into two contractual arrangements that include right-to-use assets that relate to equipment used in its operations. Both arrangements have a zero-interest rate. The Company has two other contractual arrangement described in *Note 14a) and (c) Commitments*, that relate to property leased for the cultivation of hemp. For the property in Oregon, USA, the Company utilized a discounted rate of 5.95% and a term of 20 years to determine the value of this asset. In August, the terms of the lease were amended and treated as a new lease as the terms and scope were both changed. For the property located in Cadiz, Spain, the Company utilized a discounted rate of 10% and a term of 5 years.

	June 30, 2021	June 30, 2020
Lease liability consists of		
Equipment leases	\$ 1,084,551	\$ 168,976
Agricultural property leases	88,570	1,232,314
	<u>1,173,121</u>	<u>1,401,290</u>
Less amounts due within one year	108,367	147,324
Long term portion	<u>\$ 1,064,754</u>	<u>\$ 1,253,966</u>

Future lease payments at June 30, 2021 are as follows:

2022	\$ 173,897
2023	170,942
2024	124,278
2025	108,964
2026	92,884
Thereafter,	1,092,597
Total lease payments	<u>1,763,562</u>
Less discount	590,441
Principal balance of lease payments outstanding	<u>\$ 1,173,121</u>

	June 30, 2021	June 30, 2020
Interest charged on leases	\$ 71,905	\$ 66,06
Depreciation charged on right-to use assets	<u>\$ 180,811</u>	<u>\$ 120,049</u>

13. SHARE CAPITAL

Authorized share capital

Unlimited number of common shares without par value.

Issued share capital

There are 99,998,281 shares issued and outstanding as at June 30, 2021. The transactions giving rise to these shares during the year then ended were as follows:

SWEET EARTH HOLDINGS CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in Canadian dollars)
For the years ended June 30, 2021 and 2020

13. SHARE CAPITAL – (CONT'D)

- On August 24, 2020, 13,409,999 share units were issued at a price of \$0.20 each for total gross proceeds of \$2,682,000. Each unit comprised one common share and one common share purchase warrant with each whole warrant entitling the holder to purchase one additional share for a period of 12 months from the date of closing at a price of \$0.25 per share. The Company paid finder's fees of \$4,200 cash and issued 21,000 broker's warrants with each finder's warrant entitling the holder to purchase one common share of the Company under the same conditions as the warrants issued with the unit. The warrants were valued at \$1,484 using a Black Scholes option pricing model, as the value of the services performed was not readily verifiable. The assumptions used for the model were as follows: risk free interest rate – 0.25%, expected life – 1 years, dividend nil and annualized volatility – 111.22%.
- During the year ended June 30, 2021, the Company issued 1,655,000 shares for options exercised at a price of \$0.20 per share for cash proceeds of \$331,000. The options were originally valued at \$352,118 and this amount was added to the value of the shares issued.
- During the year ended June 30, 2021, the Company issued 96,400 shares for warrants exercised at a price of \$0.20 per share for cash proceeds of \$19,280.
- During the year ended June 30, 2021, the Company issued 866,250 shares for warrants exercised at a price of \$0.25 per share for cash proceeds of \$786,250

At June 30, 2020-, 80,251,882 shares were issued and outstanding. The transactions giving rise to these shares during the period from inception July 1, 2019 to June 30, 2020 were as follows:

- On August 15, 2019, 6,234,103 shares were issued at a price of \$0.20 each for total proceeds of \$1,246,820.
- On October 2, 2019, 865,000 shares were issued at a price of \$0.20 each for total proceeds of \$173,000.
- On October 15, 2019, 200,000 shares were issued at a price of \$0.20 each for total proceeds of \$40,000.
- On October 17, 2019, 137,500 share units were issued at a price of \$0.40 each for total gross proceeds of \$55,000. Each unit comprised one common share and one-half of one common share purchase warrant with each whole warrant entitling the holder to purchase one additional share for a period of 24 months from the date of closing at a price of \$0.60 per share. The Company paid finder's fees of \$3,500 cash and issued 8,750 broker's warrants with each finder's warrant entitling the holder to purchase one common share of the Company under the same conditions as the warrants issued with the unit. The warrants were valued at \$1,765 using a Black Scholes option pricing model, as the value of the services performed was not readily verifiable. The assumptions used for the model were as follows: risk free interest rate – 1.67%, expected life – 2 years, dividend nil and annualized volatility – 162.6%.
- On February 26, 2020, 62,500 share units were issued at a price of \$0.40 each for total gross proceeds of \$25,000. Each unit comprised one common share and one-half of one common share purchase warrant with each whole warrant entitling the holder to purchase one additional share for a period of 24 months from the date of closing at a price of \$0.60 per share. The Company paid finder's fees of \$1,750 cash and issued 4,375 broker's warrants with each finder's warrant entitling the holder to purchase one common share of the Company under the same conditions as the warrants issued with the unit. The warrants were valued at \$1,122 using a Black Scholes option pricing model, as the value of the services performed was not readily verifiable. The assumptions used for the model were as follows: risk free interest rate – 1.37%, expected life – 2 years, dividend nil and annualized volatility – 146.6%.
- On May 19, 2020, as a result of the RTO agreement, (see Note 4) the Company issued 11,137,033 shares valued at \$0.20 each, representing a gross value of \$2,227,392. The Company issued 4,000,000 shares for finder's fees with respect to this transaction.
- On June 9, 2020, as a result of an option being exercised, the Company issued 800,000 shares at a price of \$0.20 per share for cash proceeds of \$160,000. The options were originally valued at \$283,012 and this amount was added to the value of the shares issued.

SWEET EARTH HOLDINGS CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in Canadian dollars)
For the years ended June 30, 2021 and 2020

13. SHARE CAPITAL – (CONT'D)

Stock options

Upon approval of the Company's shareholders, the Company has adopted an incentive rolling stock option plan (the "Plan"). The essential elements of the Plan provide that the aggregate number of shares of the Company's capital stock issuable pursuant to options granted under the Plan up to a maximum of 20% of the un-issued and outstanding shares of the Company at any time, less shares required to be reserved with respect to options granted by the Company prior to the implementation of the Plan. Options granted under the Plan may have a maximum term of five (5) years. The exercise price of options granted under the Plan will not be less than the closing price of the Company's shares on the Exchange on the trading day immediately before the date of grant, less the discount permitted under the Exchange's policies.

The following stock options were granted in the past two years:

- 1,945,000 options were granted to directors and officers effective July 1, 2020. The option granted the recipient the right to purchase shares at a price of \$0.20 for a period of 5 years. The cost of this grant as recorded in the statement of operations was \$393,332 using the Black Scholes pricing model and inputs as follows: Expected life of options – 5 years; Annualized volatility – 135.13% Risk-free interest rate – .38%; and, Dividend rate – 0%. The options vested upon grant. 1,425,000 of these options were exercised during the year.
- 400,000 options were granted to a consultant effective February 19, 2020. The option granted the recipient the right to purchase shares at a price of \$0.40 for a period of 5 years. The cost of this grant as recorded in the statement of operations was \$130,628 using the Black Scholes pricing model and inputs as follows: Expected life of warrants – 2 years; Annualized volatility – 117.27%; Risk-free interest rate – 1.36%; and, Dividend rate – 0%. The options vested upon grant
- 2,100,000 options were granted to directors and officers effective February 7, 2020. The option granted the recipient the right to purchase shares at a price of \$0.20 for a period of 5 years. The cost of this grant as recorded in the statement of operations was \$753,808 using the Black Scholes pricing model and inputs as follows: Expected life of warrants – 2 years; Annualized volatility – 127.7%; Risk-free interest rate – 1.34%; and, Dividend rate – 0%. The options vested upon grant. 230,000 of these options were exercised during the year.

The Black-Scholes valuation model was developed for use in estimating the fair value of traded options which are fully transferable and freely traded. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility. Because the Company's stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its stock options. A summary of the status of the Company's outstanding stock options as at June 30, 2021 is as follows:

Options	Number of shares	Exercise price	Expiry Date
1,070,000	1,070,000	\$0.20	February 7, 2025
400,000	400,000	\$0.40	February 19, 2025
520,000	520,000	\$0.20	July 1, 2025
1,990,000	1,990,000		

The average remaining life of the options is 3.17 years

SWEET EARTH HOLDINGS CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in Canadian dollars)
For the years ended June 30, 2021 and 2020

13. SHARE CAPITAL – (CONT'D)

The following is a summary of stock options transactions for the years ended June 30, 2021 and 2020:

	Options Outstanding	Weighted Average Exercise Price
Balance, June 30, 2019, exercisable and outstanding	-	-
Issued	2,500,000	\$ 0.23
Exercised	(800,000)	0.20
Balance, June 30, 2020, exercisable and outstanding	1,700,000	0.25
Issued	1,945,000	0.20
Exercised	(1,655,000)	0.20
Balance, June 30, 2021, exercisable and outstanding	1,990,000	\$ 0.20

Warrants

A summary of the status of the Company's outstanding warrants as at June 30, 2021 is as follows:

Warrants	Number of shares upon exercise	Exercise price	Expiry Date
77,500	77,500	\$0.60	October 17, 2021
35,625	35,625	\$0.60	February 26, 2022
8,845,999	8,845,999	\$0.25	August 24, 2021
8,959,124	8,959,124		

The weighted average life of the warrants is 0.15 years.

The following is a summary of warrant transactions for the years ended June 30, 2021 and 2020:

	Warrants Outstanding	Weighted Average Exercise Price
Balance, July 1, 2019	96,400	\$0.20
Issued with share units	100,000	\$0.60
Granted to brokers	13,125	\$0.60
Balance, June 30, 2020,	209,525	\$0.42
Issued with share units	13,409,999	\$0.25
Granted to brokers	21,000	\$0.25
Exercised	(96,400)	\$0.20
Exercised	(4,585,000)	\$0.25
Balance, June 30, 2021,	8,959,124	\$0.25

14. COMMITMENTS

- a) Upon the purchase of TSN, the Company took over a lease of 23 acres in Appleton Oregon at the rate of \$48,000 US per year, paid annually at the beginning of each renewal period. Starting July 1, 2019, the Company recognized the lease as a right-to-use asset as the lease was renewable at the Company's option. In August, 2019, the lease was amended to include the use of buildings on the premises. Lease payments are now \$6,242US per month.

SWEET EARTH HOLDINGS CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in Canadian dollars)
For the years ended June 30, 2021 and 2020

14. COMMITMENTS – (CONT'D)

- b) The Company leases property that includes 60 acres of farmable land that is leased on a monthly basis at \$6,250 US per month. The lease is renewable with both parties' approval required in order to so do. Accordingly, this lease has not been classified as a right-to-use asset.
- c) Effective December 31, 2019, the Company leased property in Los Barrios, Spain that includes 9 hectares of irrigable land. The lease is for 5 years at €18,000 per year, increasing by 5% every year. The lease has been recorded as a right-to-use asset.

15. MANAGEMENT OF CAPITAL

The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company, in order to pursue the Company's objectives. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business.

In the management of capital, the Company includes its cash balances and components of shareholders' equity. The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue new shares, issue debt, acquire or adjust the amount of cash and cash equivalents and investments.

At this stage of the Company's development, in order to maximize ongoing development efforts, the Company does not pay out dividends. Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable.

16. FINANCIAL RISK MANAGEMENT

International Financial Reporting Standards 7, Financial Instruments: Disclosures, establishes a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

Level 1 - quoted prices (unadjusted) in active markets for identical assets or liabilities;

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

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

Financial risks

The Company has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

Credit risk

The Company's credit risk is primarily attributable to cash and receivables. The Company has no significant concentration of credit risk arising from operations. Cash consists of chequing account at reputable financial institution, from which management believes the risk of loss to be remote. Federal deposit insurance covers balances up to \$100,000 in Canada. Financial instruments included in receivables consist of amounts due from government agencies. At June 30, 2021, management considers the Company's exposure to credit risk is minimal.

SWEET EARTH HOLDINGS CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in Canadian dollars)
For the years ended June 30, 2021 and 2020

16. FINANCIAL RISK MANAGEMENT – (CONT'D)

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company has a planning and budgeting process in place to help determine the funds required to support the Company's normal operating requirements on an ongoing basis. The Company ensures that there are sufficient funds to meet its short-term business requirements, considering its anticipated cash flows from operations and its holdings of cash.

As at June 30, 2020, the Company had a cash balance of \$84,830 (June 30, 2020 - \$21,215) to settle current liabilities of \$1,238,891 (June 30, 2020 - \$2,200,421). So far, the Company's sole source of funding has been the issuance of equity securities. The Company's access to financing is always uncertain. There can be no assurance of continued access to significant equity funding.

Market risk

Market risk is the risk of loss that may arise from changes in market factors such as interest rates, foreign exchange rates, and commodity and equity prices.

a) Interest and foreign exchange risk

The Company is subject to normal risks including fluctuations in foreign exchange rates and interest rates. While the Company manages its operations in order to minimize exposure to these risks, it has not entered into any derivatives or contracts to hedge or otherwise mitigate this exposure. The Canadian dollar equivalent of the amounts denominated in foreign currencies at June 30, 2021 and 2020 are as follows:

	USD	EUROS
June 30, 2021		
<i>Financial assets</i>	\$ 2,907	\$ 8,009
<i>Financial liabilities</i>	\$ 1,617,142	\$ 18,054
June 30, 2020		
<i>Financial assets</i>	\$ 1,288	\$ 3,837
<i>Financial Liabilities</i>	\$ 2,227,397	\$ 115,518

b) Price risk

The Company is exposed to price risk with respect to equity prices. Equity price risk is defined as the potential adverse impact on the Company's earnings due to movements in individual equity prices or general movements in the level of the stock market. The Company is not currently subject to price risk as it is not listed on a public stock exchange.

17. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

During the year ended June 30, 2021, the significant non-cash transactions were as follows:

- Financing expenses of \$1,484 were recognized on the issue of brokers' warrants.
- In connection with the exercise of options, \$370,735 was transferred from reserves to share capital.
- The Company settled convertible debentures of \$414,000 through issuance of shares.

During the year ended June 30, 2020, the significant non-cash transactions were as follows:

- The Company purchased equipment on an instalment basis. As at June 30, 2020, \$251,884 of the purchase price was unpaid and included in accounts payable.
- Included in accounts payable are \$202,493 of costs allocated to building.
- The obligation to issue 3,000 common shares was eliminated with a corresponding decrease in Goodwill.

SWEET EARTH HOLDINGS CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in Canadian dollars)
For the years ended June 30, 2021 and 2020

17. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS – (CONT'D)

- f) Financing expenses of \$2,887 were recognized on the issue of brokers' warrants.
- g) \$523,483 was recognized as a right-to-use asset and a lease obligation.

18. SEGMENT INFORMATION

The Company has one reportable segment, being the cultivation and processing of hemp cannabidiol ("CBD") in the state of Oregon, USA and in Cadiz, Spain. The Company's non-current assets by geographic location for the years ended June 30, 2021 and 2020 are as follows:

June 30, 2021	Canada	USA	Spain
Building	\$ -	\$ 760,694	\$ -
Equipment	733,014	162,412	-
Vehicle	-	33,712	-
Right-to-use assets	-	1,028,561	79,502
Goodwill	-	26,728	158,405
	<u>\$ 733,014</u>	<u>\$ 2,012,107</u>	<u>\$ 237,907</u>

June 30, 2020	Canada	USA	Spain
Building	\$ -	\$ 838,838	\$ -
Equipment	2,223	1,024,467	-
Vehicle	-	41,822	-
Right-to-use assets	-	1,248,481	106,897
Goodwill	-	204,151	-
	<u>\$ 2,223</u>	<u>\$ 3,357,759</u>	<u>\$ 106,897</u>

18. INCOME TAXES

Income tax reconciliation

The Company's income tax provision differs from that which would be expected from applying the combined effective Canadian federal and provincial income tax rates of 27% to the net loss before income taxes as follows:

	June 30, 2021	June 30, 2020 Restated (Note 19)
Net loss for the period	\$ (4,4917,757)	\$(4,874,674)
Expected income tax recovery	(1,328,000)	(1,316,000)
Impact of different foreign statutory rates on earnings of subsidiaries	(17,000)	35,000
Non-deductible expenditures	97,000	437,000
Share issue cost and other deductions	(61,000)	(69,000)
Increase in unrecognized tax benefits	1,309,000	913,000
<u>Income tax recovery</u>	<u>\$ -</u>	<u>\$ -</u>

SWEET EARTH HOLDINGS CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in Canadian dollars)
For the years ended June 30, 2021 and 2020

18. INCOME TAXES - (CONT'D)

The significant components of the Company's deferred tax assets and liabilities are as follows:

	2021	2020
Canada		
Share issue costs	\$ 169,000	\$ 275,000
Equipment	48,000	24,000
Non-capital losses	2,294,000	1,240,000
Valuation allowance	(2,511,000)	(1,539,000)
Deferred tax assets recognized	\$ -	\$ -

	2021	2020
USA		
Non-capital losses	\$580,000	\$ 283,000
Equipment	22,000	(4,000)
Valuation allowance	(602,000)	(279,000)
Deferred tax assets recognized	\$ -	\$ -

	2021	2020
Spain		
Non-capital losses	\$ 18,000	\$ 4,000
Valuation allowance	(18,000)	(4,000)
Deferred tax assets recognized	\$ -	\$ -

As at June 30, 2021, the Company has Canadian accumulated a non-capital loss for income tax purposes of approximately \$8,498,000 that may be applied to reduce future taxable income for Canadian income tax purposes.

The losses expire as follows:

Year	\$
2039	1,441,000
2040	3,447,000
2041	3,610,000

As at June 30, 202, the Company has a USA accumulated non-capital loss for income tax purposes of approximately \$2,761,000 that may be applied to reduce future taxable income for USA income tax purposes. The loss has no expiry date.

The Company's Spanish subsidiary has a tax loss of approximately \$85,000 that may be carried forward indefinitely.

SWEET EARTH HOLDINGS CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in Canadian dollars)
For the years ended June 30, 2021 and 2020

19. CHANGE IN ACCOUNTING POLICY AND CORRECTION OF ERROR

For the year ended June 30, 2021, management changed how it categorized its inventory of harvested hemp, eliminating certain high value categories as the differentiation no longer fit with the company's operation and resulting products. By retroactively applying this change to the previous year, inventory was reduced by \$1,356,373. Additionally, management determined that in estimating the fair value of hemp biomass, a sample of inventory must be weighted in order to calculate an acceptable outcome. Previously management relied on third party Level 3 inputs of similar agricultural products. The result was a further reduction to prior year's inventory of \$178,328. Management considers this to be a correction of an error, requiring retroactive treatment. The total retroactive adjustment to the 2020 consolidated financial statements was \$1,534,635.

The following changes reflect the adjustment of \$1,534,635 made retroactively to the prior year's consolidated financial statements:

Consolidated Statement of Changes in Financial Position		
Account	Previously Reported	Restated Balance
	\$	\$
Inventory	2,347,173	812,538
Current assets	2,828,216	1,293,581
Total assets	6,295,095	4,760,460
Accumulated deficit	(5,538,347)	(7,072,982)
Total equity	2,840,708	1,306,073

Consolidated Statement of Loss and Comprehensive Loss		
Account	Previously Reported	Restated Balance
	\$	\$
Unrealized gain on growth of biological assets during cultivation	583,089	-
Costs charged to inventory	1,752,528	800,982
Total operating expenses	-	951,546
Loss before other items	(2,197,579)	(3,732,214)
Net loss for the year	(3,340,039)	(4,874,674)
Comprehensive loss for the year	(3,300,376)	(4,835,011)

Consolidated Statement of Changes in Equity		
Account	Previously Reported	Restated Balance
	\$	\$
Net loss and comprehensive loss for the year allocated to accumulated deficit	(3,340,039)	(4,874,674)
Net loss and comprehensive loss for the year allocated to shareholders' equity	(3,300,376)	(4,835,011)
Balance of accumulated deficit as at June 30, 2020	\$5,538,347	(7,072,982)
Balance of shareholders' equity as at June 30, 2020	2,840,708	1,306,073

SWEET EARTH HOLDINGS CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in Canadian dollars)
For the years ended June 30, 2021 and 2020

19. CHANGE IN ACCOUNTING POLICY AND CORRECTION OF ERROR - (CONT'D)

Consolidated Statement of Cash Flows		
Account	Previously Reported	Restated Balance
	\$	\$
Net loss for the year	(3,340,039)	(4,874,674)
Unrealized gain on growth of biological assets during cultivation	(583,089)	-
Change in inventory	(1,549,331)	(597,785)

Basic and diluted loss per share previously disclosed as (\$0.05) has been corrected to (\$0.08)

20. SUBSEQUENT EVENTS

On July 21, 2021, the Company granted 2,875,000 options exercisable for five years at \$0.10 per share.

On July 29, 2021, LLC received notice from the US Small Business Association that the loan has been forgiven and that no amount is owing.

On October 15, 2021, the Company completed a non-brokered private placement of 12,120,000 units of the Company at a price of \$0.10 per unit for gross proceeds of \$1,212,000. Each unit comprised one common share and one common share purchase warrant entitling the holder to purchase one additional share for a period of 36 months from the date of closing at a price of \$0.125 per share.