

CONSOLIDATED FINANCIAL STATEMENTS

SWEET EARTH HOLDINGS CORPORATION



**SWEET
EARTH**

THREE MONTHS ENDED SEPTEMBER 30, 2021

(Expressed in Canadian dollars)

NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the interim condensed consolidated 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 consolidated financial statements have been prepared by and are the responsibility of the management.

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

SWEET EARTH HOLDINGS CORPORATION**CONDENSED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

(Unaudited – Prepared by Management)

(Expressed in Canadian dollars)

		September 30, 2021	June 30, 2021
		\$	\$
ASSETS			
Cash		12,905	84,830
Miscellaneous taxes receivable		7,939	42,505
Inventories	4	55,212	53,935
Prepaid expenses and deposits		30,218	20,108
Total current assets		106,274	201,378
Non-current assets			
Plant and equipment		2,823,657	2,797,895
Goodwill		190,316	185,133
Total non-current assets		3,013,973	2,983,028
TOTAL ASSETS		3,120,247	3,184,406
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities	7	970,238	966,561
Due to related parties	11	194,140	135,875
Bank loan payable	7	-	27,887
Current portion of lease liability	8	120,888	108,568
Total current liabilities		1,285,266	1,238,891
Non-Current liabilities			
Lease liability	8	1,076,451	1,064,553
Total non-current liabilities		1,076,451	1,064,553
TOTAL LIABILITIES		2,361,717	2,303,444
SHAREHOLDERS' EQUITY			
Share capital	9	12,291,184	12,291,184
Contributed surplus		639,254	639,254
Subscriptions received		135,000	55,000
Accumulated other comprehensive income (loss)		(91,504)	(113,737)
Accumulated deficit		(12,215,404)	(11,990,739)
TOTAL SHAREHOLDERS' EQUITY		758,530	880,962
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		3,120,247	3,184,406

Nature and continuance of operations (Note 1)

Commitments (Note 10)

Changes in accounting policy and correction of error (Note 15)

Subsequent events (Note 16)

On behalf of the Board:

“Peter Espig”“Chris Cooper”**SWEET EARTH HOLDINGS CORPORATION**

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

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS
(Unaudited – Prepared by Management)
(Expressed in Canadian dollars)

	September 30, 2021	September 30, 2020
	\$	\$
Sales	21,861	-
Cost of sales	(8,978)	-
Gross Profit	12,883	-
Operating Expenses		
Depreciation	35,541	40,701
Interest on lease	14,835	16,140
Management supervision	-	29,972
Rent and operating leases	-	3,997
Seeds, fertilizers and nutrients	-	4,089
Utilities	7,216	7,402
Wages, salaries and contract labour	-	33,962
	57,592	136,263
Operating costs	44,709	136,263
Administrative Expenses		
Advertising and promotion	5,923	53,442
Consulting fees	19,552	133,802
Management fees	10 55,125	55,125
Marketing and investor relations	54,424	135,505
Office and general	61,805	57,262
Professional fees	5,403	38,064
Travel	6,076	120
	208,308	473,320
Loss before other items	(253,015)	(609,583)
Other income (expense)		
Bank loan forgiven	7 28,350	-
Net loss for the period	(224,665)	(609,583)
Other comprehensive income (loss)		
Currency translation gain (loss)	91,503	(74,344)
Comprehensive loss for the period	(316,169)	(683,927)
Basic and diluted loss per share	(\$0.00)	(\$0.01)
Weighted average number of shares outstanding	99,998,281	86,047,208

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

SWEET EARTH HOLDINGS CORPORATION

CONDENSED INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(Unaudited – Prepared by Management)

(Expressed in Canadian dollars)

	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, 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)
Net loss and comprehensive loss for the period					(609,583)	(74,344)	(683,927)
Balance, September 30, 2020	93,661,881	10,423,920	616,656	-	(7,682,565)	(58,065)	3,299,946
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
Share subscriptions received	-	-		55,000	-	-	55,000
Share-based compensation	-	-	393,332	-	-	-	393,332
Net loss and comprehensive loss for the period	-	-	-	-	(4,308,174)	(55,672)	(4,363,846)
Balance, June 30, 2021	99,998,281	12,291,184	639,254	55,000	(11,990,739)	(113,737)	880,962
Share subscriptions received	-	-	-	80,000			80,000
Net loss and comprehensive loss for the period	-	-	-	-	(224,665)	22,233	(202,432)
Balance, September 30, 2021	99,998,281	12,291,184	639,254	135,000	(12,215,404)	(91,504)	758,530

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

SWEET EARTH HOLDINGS CORPORATION
CONDENSED INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS
(Unaudited – Prepared by Management)
(Expressed in Canadian dollars)

	For the Three Months Ended September 30, 2021	For the Three Months Ended September 30, 2020
	\$	\$
Cash flows from (to) operating activities		
Net loss for the period	(224,665)	(609,583)
Items not affecting cash		
Depreciation	60,953	63,516
Interest on lease	17,576	15,140
Loan forgiven	(27,887)	
Changes in non-cash working capital items		159,166
Receivables	34,567	-
Due from or to related parties	58,265	
Prepaid expenses and deposits	(10,110)	403,265
Accounts payable and accrued liabilities	54,332	350,536
	(36,969)	1,442,895
Cash flows from (to) financing activities		
Common shares issued for cash, net of cash issuing costs	-	2,263,476
Subscriptions received in advance	80,000	-
Lease payments	(47,751)	89,108
	32,249	2,174,368
Effect of foreign exchange rate changes on cash	(67,205)	(48,106)
Change in cash for the period	(71,925)	779,579
Cash, beginning of period	84,830	21,215
Cash, end of period	12,905	800,794

Supplemental disclosure with respect to cash flows (Note 13)

SWEET EARTH HOLDINGS CORPORATION

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Canadian dollars)

For the three months ended September 30, 2021

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.

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 three months ended September 30, 2021, the Company incurred a loss of \$224,665 (2020 - \$609,583) and had an accumulated deficit of \$12,215,404 (June 30, 2021 - \$11,990,739) 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 condensed interim financial statements have been prepared in accordance with Interim Financial Reporting 34 (“IAS 34”) as issued by the International Financial Accounting Standards Board (“IASB”) and interpretations of the International Financial Reporting Interpretations Committee (“IFRIC”). Accordingly, certain information and footnote disclosure normally included in annual financial statements prepared in accordance with International Financial Reporting Standards (“IFRS”), as issued by the IASB, have been omitted or condensed.

The condensed interim consolidated financial statements have been prepared using the same accounting policies and methods as those used in the audited financial statements for the year ended June 30, 2021. These condensed interim consolidated financial statements should be read in conjunction with the Company’s audited financial statements for the year ended June 30, 2021.

The condensed interim consolidated 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 condensed interim consolidated financial statements were approved for issue by the Board of Directors on November 29, 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 CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Canadian dollars)

For the three months ended September 30, 2021

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 ended June 30, 2021, 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").

SWEET EARTH HOLDINGS CORPORATION

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Canadian dollars)

For the three months ended September 30, 2021

2. SIGNIFICANT ACCOUNTING POLICIES – (CONT'D)

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 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.

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.

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.

SWEET EARTH HOLDINGS CORPORATION

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Canadian dollars)

For the three months ended September 30, 2021

2. SIGNIFICANT ACCOUNTING POLICIES – (CONT'D)

Financial assets (cont'd)

(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.

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. INVENTORY

	September 30, 2021	June 30, 2021
	\$	\$
Hemp seeds	11,127	11,050
Finished goods inventory	44,085	42,885
	55,212	53,935

5. 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 CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Canadian dollars)

For the three months ended September 30, 2021

6. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	September 30, 2021	June 30, 2021
	\$	\$
Accounts payable	710,748	716,485
Accrued liabilities	259,490	250,076
Payroll liabilities	-	-
Interest on debentures payable	-	-
	970,238	966,561

7. 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. 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.

8. 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.

	September 30, 2021	June 30, 2021
	\$	\$
Lease liability consists of		
Equipment leases	1,107,326	1,084,551
Agricultural property leases	90,014	88,570
	1,197,340	1,173,121
Less amounts due within one year	120,888	108,367
Long term portion	1,076,451	1,064,754
		\$
2022	146,836	
2023	85,268	
2024	132,181	
2025	111,675	
2026	95,484	
Thereafter,	1,147,059	
Total lease payments	1,818,505	
Less discount	1,197,340	
Principal balance of lease payments outstanding	621,165	

SWEET EARTH HOLDINGS CORPORATION

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Canadian dollars)

For the three months ended September 30, 2021

9. 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 September 30, 2021.

There were no shares issued for the period ending September 30, 2021

At June 30, 2021-, 99,998,281 shares were issued and outstanding. The transactions giving rise to these shares during the period from inception July 1, 2020 to June 30, 2021 were as follows:

- 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
- 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 \$283,0120 and this amount was added to the value of the shares issued.

SWEET EARTH HOLDINGS CORPORATION

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Canadian dollars)

For the three months ended September 30, 2021

9. 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 September 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 2.65 years

SWEET EARTH HOLDINGS CORPORATION

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Canadian dollars)

For the three months ended September 30, 2021

9. SHARE CAPITAL (CONT'D)

The following is a summary of stock options transactions for the period ended September 30, 2021 and year ended June 30, 2021:

	Options Outstanding	Weighted Average Exercise Price
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, September 30, 2021 and 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 September 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
113,125	113,125		

** Expired subsequent to September 30, 2021.

The weighted average life of the warrants is 0.16 years.

The following is a summary of warrant transactions for the period ended September 30, 2021 and the year ended June 30, 2021:

	Warrants Outstanding	Weighted Average Exercise Price
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
Expired	(8,85,999)	
Balance, September 30, 2021,	113,125	\$0.25

10. 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 CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Canadian dollars)

For the three months ended September 30, 2021

10. 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.

11. RELATED PARTY

	For the Three Months Ended	
	September 30, 2021	September 30, 2020
	\$	\$
CEO and director	31,500	31,500
CFO and director	23,625	23,625
Total	55,125	55,125

The Company considers officers and members of the Board of Directors as related parties. Key Management costs for the period ended September 30, 2021 is \$55,125 (2020 - \$55,125). Payments and accruals were made to the following officers and directors, or to companies controlled by these officers and directors:

Due to related parties represents fees due to officers and directors at September 30, 2021 of \$194,140 (June 30, 2021 – \$135,875). The amounts are non-interest bearing, due on demand and bear no specific terms of repayment.

12. 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.

SWEET EARTH HOLDINGS CORPORATION

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Canadian dollars)

For the three months ended September 30, 2021

12. 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 September 30, 2021, management considers the Company's exposure to credit risk is minimal.

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 September 30, 2021, the Company had a cash balance of \$12,905 (June 30, 2021 - \$84,830) to settle current liabilities of \$1,285,266 (June 30, 2021 - \$1,238,891). 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.

SWEET EARTH HOLDINGS CORPORATION

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12. FINANCIAL RISK MANAGEMENT – (CONT'D)

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
September 30, 2021		
<i>Financial assets</i>	10,877	4,457
<i>Financial Liabilities</i>	1,458,115	24,329

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.

13. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

During the three months ended September 30, 2021, there were no significant non-cash transactions

During the three month period ended September 30, 2020, the significant non-cash transactions were as follows:

- The Company purchased equipment on an instalment basis. As at September 30, 2020, \$246,542 of the purchase price was unpaid and included in accounts payable (\$251,884 as at June 30, 2019).
- Financing expenses of \$1,484 were recognized on the issue of brokers' warrants.
- \$414,322 in debentures was converted to common shares.

SWEET EARTH HOLDINGS CORPORATION

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For the three months ended September 30, 2021

14. 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 period ended September 30, 2021 and year ended June 30, 2021 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>

September 30, 2021	Canada	USA	Spain
	\$	\$	\$
Building	-	781,992	-
Equipment	718,322	165,342	-
Vehicle	-	33,573	-
Right-to-use assets	20,173	1,019,920	74,336
Goodwill	-	27,476	162,840
	<u>738,495</u>	<u>2,038,303</u>	<u>237,176</u>

SWEET EARTH HOLDINGS CORPORATION

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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For the three months ended September 30, 2021

15. 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 year ending June 30, 2020 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 CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Canadian dollars)

For the three months ended September 30, 2021

15. 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)

16. SUBSEQUENT EVENTS

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.