Interim Condensed Consolidated Financial Statements of

CHALICE BRANDS LTD.

(Formerly Golden Leaf Holdings Ltd.)

As at and for the three and six months ended June 30, 2021 (Unaudited)

(Expressed in US $)

CHALICE BRANDS LTD.

(Formerly Golden Leaf Holdings Ltd.)

Interim Condensed Consolidated Financial Statements
(Expressed in U.S. Dollars, unless otherwise stated)
As at and for the three and six months ended June 30, 2021

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CHALICE BRANDS LTD.

Interim Condensed Consolidated Statements of Financial Position (Unaudited)
As at June 30, 2021 and December 31, 2020
(Expressed in U.S. dollars)

		June 30, 2021	December 31, 2020
CURRENT			
Cash		$ 1,828,406	$ 905,149
Accounts receivable	Note 5	236,424	108,308
Other receivables	Note 5	829,307	737,185
Notes receivable		919,488	919,488
Sales tax recoverable		78,948	89,033
Biological assets	Note 6	501,737	455,045
Inventory	Note 6	4,549,053	2,304,501
Prepaid expenses and deposits		245,367	376,080
Total current assets		9,188,730	5,894,789
Property, plant and equipment	Note 7	2,533,751	2,361,357
Other receivables	Note 5	842,440	836,235
Right-of-use assets, net	Note 8	5,567,355	4,132,035
Intangible assets, net	Note 9	13,801,001	10,737,423
Goodw ill	Note 9	13,398,793	4,056,172
Total assets		$ 45,332,070	$ 28,018,011

LIABILITIES

		June 30, 2021	December 31, 2020
CURRENT			
Accounts payable and accrued liabilities		$ 4,170,011	$ 3,432,525
Income taxes payable		1,435,409	1,003,604
Deferred income tax payable		520,789	55,039
Sales tax payable		358,882	217,789
Current portion of long-term debt	Note 12	12,450	22,171
Notes payable - current portion	Note 12	214,677	119,533
Convertible debentures carried at fair value	Note 10	-	5,575,273
Consideration payable - cash portion	Note 12	72,712	-
Lease liability	Note 11	1,078,199	949,496
Total current liabilities		7,863,129	11,375,430
Notes payable	Note 12	1,829,906	-
Long-term debt	Note 12	50,764	134,675
Long-term lease liability	Note 11	5,582,873	4,372,395
Warrant liability	Note 13	4,005,041	-
Derivative liability	Note 10	448,883	-
Convertible debentures carried at amortized cost	Note 10	2,740,345	-
Consideration payable - cash portion	Note 12	2,239,056	1,824,533
Consideration payable - equity portion	Note 12	4,527,350	4,838,780
Total liabilities		29,287,347	22,545,813

EQUITY

		June 30, 2021	December 31, 2020
Share capital	Note 14	164,336,386	149,754,502
Warrant reserve	Note 15	204,484	1,079
Share option reserve	Note 16	3,874,825	4,070,474
Contributed surplus		2,329,997	2,329,997
Deficit		(155,097,230)	(150,683,854)
Equity attributable to shareholder of the Company		15,648,462	5,472,198
Equity attributable to noncontrolling interests		396,261	-
Total equity		$ 45,332,070	$ 28,018,011

See accompanying notes to these interim condensed consolidated financial statements.

Approved on behalf of the Board:
(Signed) “Scott Secord”, Director
(Signed) "Karl R. Miller, Jr.", Director

CHALICE BRANDS LTD.

Interim Condensed Consolidated Statements of Operations and Comprehensive Income (Loss) (Unaudited)
For the three and six months ended June 30, 2021 and 2020
(Expressed in U.S. dollars)

		For the three months ended June 30,		For the six months ended June 30,	
		2021	2020	2021	2020
Revenues					
Product sales	Note 21	$ 6,585,891	$ 5,312,655	$ 11,619,205	$ 9,552,237
Royalty and other revenue	Note 21	342,810	204,078	804,951	634,800
Total Revenue		6,928,701	5,516,733	12,424,156	10,187,037
Inventory expensed to cost of sales	Note 6, 21	4,157,031	4,041,207	7,337,956	7,005,399
Gross margin, excluding fair value items		2,771,670	1,475,526	5,086,200	3,181,638
Fair value changes in biological assets included in inventory sold	Note 6, 21	46,720	(34,358)	(37,609)	(34,358)
(Gain) loss on changes in fair value of biological assets	Note 6, 21	(404,417)	216,870	(486,180)	196,156
Gross profit		3,129,367	1,293,014	5,609,989	3,019,840
Expenses:					
General and administration		2,743,969	2,190,871	4,877,986	4,499,030
Share-based compensation	Note 16	129,888	93,697	198,938	223,276
Sales and marketing		459,913	539,028	776,036	1,074,054
Depreciation and amortization	Note 8, 9	223,740	230,278	448,671	535,738
Total expenses		3,557,510	3,053,874	6,301,631	6,332,098
Loss before items noted below		(428,143)	(1,760,860)	(691,642)	(3,312,258)
Interest expense	Note 10,11,12	455,414	547,743	884,635	1,098,844
Transaction costs		51,920	41,051	86,540	41,051
Loss on disposal of assets	Note 7	6,233	310,017	6,233	317,839
Other (income) loss		3,647	(9,781)	88,113	(38,220)
(Gain) loss on change in fair value of warrant liabilities	Note 11	(1,689,283)	-	1,285,210	-
Loss on change in fair value of convertible debentures	Note 10	-	-	172,956	-
(Gain) loss on change in fair value of derivative liablities	Note 10	(247,618)	-	374,259	-
Loss on debt extinguishment	Note 10	-	-	88,079	-
Income (loss) before income taxes		991,544	(2,649,890)	(3,677,667)	(4,731,772)
Current income tax expense		542,445	304,932	817,445	663,216
Net income (loss)		449,099	(2,954,822)	(4,495,112)	(5,394,988)
Other comprehensive loss					
Items that will be reclassified subsequently to profit or loss:					
Comprehensive loss attributable to noncontrolling interests		$ (15,054)	$ -	$ (15,054)	$ -
Comprehensive income (loss)		$ 464,153	$ (2,954,822)	$ (4,480,058)	$ (5,394,988)
Basic and diluted income (loss) per share from continuing operations		$ 0.01	$ (0.08)	$ (0.08)	$ (0.14)
Weighted average number of common shares outstanding		57,956,291	37,469,164	53,299,883	37,427,844

See accompanying notes to these interim condensed consolidated financial statements.

CHALICE BRANDS LTD.

Interim Condensed Consolidated Statements of Changes in Equity (Unaudited)
For the six months ended June 30, 2021 and 2020
(Expressed in U.S. dollars)

	Share Capital	Warrant Reserve	Stock compensation reserve	Contributed surplus	Deficit	Total
Balance, January 1, 2020	$ 147,763,499	$ 1,980,217	$ 4,181,350	$ 59,940	$ (143,383,806)	$ 10,601,200
Issuance of common shares (Note 14)	162,509	-	-	-	-	162,509
Share-based compensation (Note 16)	-	-	223,276	-	-	223,276
Issuance of warrants (Note 15)	-	1,079	-	-	-	1,079
Expiry of warrants and stock options (Notes 15,16)	-	(426,367)	(560,688)	-	987,055	-
Net loss and comprehensive loss for the year	-	-	-	-	(5,394,988)	(5,394,988)
Balance at June 30, 2020	$ 147,926,008	$ 1,554,929	$ 3,843,938	$ 59,940	$ (147,791,739)	$ 5,593,076

	Share Capital	Warrant Reserve	Stock compensation reserve	Contributed surplus	Deficit	Non-controlling interest	Total
Balance, January 1, 2021	$ 149,754,502	$ 1,079	$ 4,070,474	$ 2,329,997	$ (150,683,854)	$ -	$ 5,472,198
Issuance of common shares (Note 14)	11,130,497	-	-	-	-	-	11,130,497
Debenture conversions (Note 10)	3,132,657	-	-	-	-	-	3,132,657
Issuance of warrants (Note 15)	96,952	203,405	-	-	-	-	300,357
Share-based compensation (Note 16)	-	-	198,938	-	-	-	198,938
Management compensation (Note 14, 17)	221,778	-	(327,905)	-	-	-	(106,127)
Expiry of stock options (Note 16)	-	-	(66,682)	-	66,682	-	-
Acquisition of a subsidiary with NCI (Note 22)	-	-	-	-	-	411,315	411,315
Net loss and comprehensive loss for the year	-	-	-	-	(4,480,058)	(15,054)	(4,495,112)
Balance at June 30, 2021	$ 164,336,386	$ 204,484	$ 3,874,825	$ 2,329,997	$ (155,097,230)	$ 396,261	$ 16,044,723

See accompanying notes to these interim condensed consolidated financial statements.

CHALICE BRANDS LTD.

Interim Condensed Consolidated Statements of Cash Flows (Unaudited)
For the three and six months ended June 30, 2021 and 2020
(Expressed in U.S. dollars)

		For the six months ended June 30,	
		2021	2020
Cash (used in) provided by:			
OPERATING ACTIVITIES:			
Net loss		$ (4,495,112)	$ (5,394,988)
Depreciation of property, plant and equipment	Note 7	486,089	694,596
Amortization of intangible assets	Note 9	722	-
Lease amortization	Note 8	427,119	376,793
Loss on disposal of assets		-	317,839
Interest expense		884,635	1,098,844
Share-based compensation	Note 16	198,938	223,276
Transaction costs		86,540	-
Loss on debt extinguishment	Note 10	88,079	-
Loss on fair value adjustment to w arrant liabilities	Note 13	1,285,210	-
Loss on fair value adjustment to derivative liabilities	Note 10	374,259	
Loss on fair value adjustment to debt		172,956	-
Gain on fair value of biological assets	Note 6	(486,180)	161,798
Other non-cash transactions		48,932	(162,965)
Changes in working capital items			
Accounts receivable	Note 5	(128,116)	(44,858)
Other receivables	Note 5	(92,122)	(349,266)
Sales tax recoverable		10,085	(55,302)
Biological assets	Note 6	(673,743)	(307,228)
Inventory	Note 6	(474,926)	(23,728)
Prepaid expenses and deposits		110,213	(106,972)
Accounts payable and accrued liabilities		(399,201)	982,918
Income tax payable	Note 23	431,806	691,009
Sales tax payable		141,093	22,007
Cash used in operating activities		(2,002,724)	(1,876,227)
INVESTING ACTITIVES			
Purchase of property, plant and equipment	Note 7	(293,037)	(120,183)
Purchase of intangible assets	Note 9	(41,300)	-
Acquisitions, net of cash acquired	Note 22	(6,016,779)	-
Cash used in investing activities		(6,351,116)	(120,183)
FINANCING ACTIVITIES			
Issuance of common shares	Note 14	10,700,119	-
Payment of share issuance costs	Note 14	(339,408)	-
Payment of lease liabilities	Note 11	(649,060)	(238,543)
Repayment of long-term debt	Note 12	(314,554)	(12,462)
Interest paid		(120,000)	(140,000)
Cash provided by (used) in financing activities		9,277,097	(391,005)
Increase (decrease) in cash during the period		923,257	(2,387,415)
Cash, beginning of period		905,149	3,531,202
Cash, end of period		**$ 1,828,406**	**$ 1,143,787**

See accompanying notes to these interim condensed consolidated financial statements

1. Incorporation and operations

Chalice Brands Ltd.. ("Chalice” or the "Company") is a publicly traded corporation, incorporated in Canada, operating primarily in the Oregon, Nevada, California and Washington markets. The Company’s shares are listed on the Canadian Securities Exchange (“CSE”) under the trading symbol “CHAL” as well as the OTCQB under the trading symbol “GLDFF”. The Company is in the business of producing and distributing cannabis oil and flower products within Oregon, Nevada, California and Washington adult-use regulated markets, primarily through its main operating subsidiaries, Greenpoint Oregon, Inc., Greenpoint Nevada, Inc., and CFA Retail, LLC.

2. COVID-19

The 2020 outbreak of the coronavirus, also known as "COVID-19", has spread across the globe and has impacted worldwide economic activity. Conditions surrounding the coronavirus continue to rapidly evolve and government authorities have implemented emergency measures to mitigate the spread of the virus. As at the financial statement approval date, the outbreak and the related mitigation measures have had the following impacts on the Company’s operations, among others: required compliance with enhanced federal employee benefits regulations, intermittent supply chain disruptions and cash management challenges. The extent to which these events may impact the Company’s business activities will depend on future developments, such as the ultimate geographic spread of the disease, the duration of the outbreak, travel restrictions, business disruptions, and the effectiveness of actions taken in the U.S. and other countries to contain and treat the disease. These events are highly uncertain and as such, the Company cannot determine the ultimate financial impacts at this time.

The Company has been incurring operating losses and cash flow deficits since its inception. The Company’s revenues have risen to levels capable of covering the costs of the business however these revenues are subject to risk and may not continue at current levels. In addition, the Company continues to utilize cash for working capital needs and may need to raise additional funds to cover any shortfall if a revenues are not sustained. Although the Company has been successful in raising funds to date, there can be no assurance that adequate or sufficient funding will be available in the future or available under acceptable terms.

These circumstances indicate the existence of uncertainty regarding the appropriateness of the use of the accounting principles applicable to a going concern. The accompanying financial statements have been prepared on a going concern basis that assumed the Company will be able to realize its assets and discharge its liabilities in the normal course of business in the foreseeable future and does not reflect the adjustments to assets and liabilities that would be necessary if it were unable to obtain adequate financing.

3. Statement of compliance

These interim condensed consolidated financial statements have been prepared in accordance with IAS 34 *Interim Financial Reporting*, and should be read in conjunction with the Company’s last annual consolidated financial statements as at and for the year ended December 31, 2020 (“last annual financial statements), which were prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and interpretations of the IFRS Interpretations Committee (“IFRIC”). The interim condensed consolidated financial statements do not include all of the information required for a complete set of IFRS financial statements. However, selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in the Company’s financial position and performance since the last annual financial statements.

These interim financial statements were approved by the Company's Board of Directors on August 25, 2021.

4. Basis of presentation

Except where specified, the interim condensed consolidated financial statements have been prepared in U.S. dollars, which is the Company's presentation and functional currency, on a historical cost basis except for certain financial assets and financial liabilities measured at fair value. The accounting policies applied in these interim condensed consolidated financial statements are the same as those applied in the annual financial statements as of December 31, 2020. Certain prior period amounts have been revised to adjust the accounting for convertible debentures in Note 10. The effect of this revision on Q1 statements of operations and comprehensive loss was to increase net loss and comprehensive loss by $611,877.

5. Accounts receivable

	June 30, 2021		December 31, 2020	
Accounts Receivable	$	366,540	$	293,805
Allowance for doubtful accounts		(130,116)		(185,497)
	$	236,424	$	108,308

Continuity of allowance for doubtful accounts

	June 30, 2021		December 31, 2020	
Beginning balance	$	185,497	$	378,094
Increase in provision for doubtful accounts		-		22,864
Provision used for write-off of receivables		(55,381)		(215,461)
	$	130,116	$	185,497

All of the Company's accounts receivable have been reviewed for indicators of impairment. Accounts receivable more than 90 days past due totaled $101,775 as at June 30, 2021 (December 31, 2020 - $165,764). Amounts at risk of collection have been provided for in the allowance for doubtful accounts.

Other receivables as at June 30, 2021 were $1,671,747 (December 31, 2020 - $1,573,420). Included in this balance were long-term receivables of $656,718 as at June 30, 2021 (December 31, 2020 - $656,718), related to funds advanced via short-term secured promissory notes to TozMoz, LLC ("TozMoz"), which the Company is in the final stages of acquiring. These notes carry interest rates ranging from 8-15% and are secured primarily by the production equipment owned by TozMoz and will offset the cash component of consideration payable upon the close of the transaction. The acquisition of Tozmoz has not closed as at June 30, 2021.

In addition, other receivables, net of allowance, include $785,772 (December 31, 2020 - $554,691) owed to the Company as a result of contract manufacturer arrangements in California. These receivables represent sales proceeds collected or collectable by the contract manufacturers related to sales of Chalice products to the Company's designated distributor, less amounts owed to the contract manufacturers for costs incurred in the production process. The Company estimated a reserve of $110,528 against these receivable balances as at June 30, 2021 (December 31, 2020 - $62,000).

6. Biological assets and inventory

The Company's biological assets consist of cannabis plants that are cultivated at the Company's own grow facilities. The valuation of biological assets is based on a market approach where fair value at the point of harvest is estimated based on the selling price less any costs to sell up to the point of harvest.

For biological assets that are still growing, the fair value ascribed to them is the fair value less cost to sell at point of harvest, where the cost to sell is estimated based on the percentage of completion for the growing plants.

In determining the fair value of biological assets, management is required to make several estimates with respect to significant unobservable inputs, including the expected yields for the cannabis plants, the selling price of dry cannabis, the stage of plant growth relative to the harvest date, wastage and costs to sell. Estimated yield per plant varies by strain and is obtained through historical growing results or grower estimate if historical results are not available. The Company used 122.4 grams per plant in the valuation of biological assets as of June 30, 2021 (December 31, 2020 – 136.0 grams). The listed selling price of dry cannabis varies by strain and is obtained through listed selling prices or estimated selling prices if historical results are not available. The Company used a price of $2.18 per gram of biological assets as at June 30, 2021 (December 31, 2020 - $2.07 per gram). Fair value at the point of harvest is estimated based on the selling price less any costs to sell at harvest.

(Expressed in U.S. dollars, unless otherwise stated)

6. Biological assets and inventory (continued)

The following significant unobservable inputs, all of which are classified as level 3 on the fair value hierarchy, were key inputs used by management in determining the fair value of biological assets:

- Selling price per gram – calculated as the weighted average selling price for all strains of cannabis sold by the Company, which is expected to approximate future selling prices. As at June 30, 2021 and December 31, 2020, these prices represented the ultimate selling prices to wholesale buyers.
- Stage of growth – represents the weighted average number of weeks out of the 15-week growing cycle that biological assets have reached as of the measurement date.
- Yield by plant – represents the expected number of grams of finished cannabis inventory which are expected to be obtained from each harvested cannabis plant.
- Wastage – represents the weighted average percentage of biological assets which are expected to be destroyed due to failure to mature into cannabis plants that can be harvested.

As at June 30, 2021, on average, the biological assets were 56.3% complete as to the next expected harvest date (December 31, 2021 – 45%).

The following table quantifies averages for each significant unobservable input and also provides the impact a 10% increase or decrease that each input would have on the fair value of biological assets:

		Effect on Fair Value as at June 30, 2021	
Significant Inputs and Assumptions	June 30, 2021	Decrease 10%	Increase 10%
Selling price per gram	$ 2.18	$ (50,174)	$ 50,174
Stage of growth	8.4 weeks	$ (39,824)	$ 39,671
Estimated yield per plant	122.39 grams	$ (50,174)	$ 50,174
Wastage	0.52%	$ (324)	$ 216

		Effect on Fair Value as at December 31, 2020	
Significant Inputs and Assumptions	December 31, 2020	Decrease 10%	Increase 10%
Selling price per gram	$ 2.07	$ (45,286)	$ 45,771
Stage of growth	6 weeks	$ (56,151)	$ 61,653
Estimated yield per plant	136 grams	$ (45,505)	$ 45,505
Wastage	1%	$ (471)	$ 228

During the three months ended June 30, 2021 and 2020, the Company recognized a gain of $404,417 and a loss of $216,870, respectively, on the change in fair market value of biological assets. During the six months ended June 30, 2021 and 2020, the Company recognized a gain of $486,180 and a loss of $196,156, respectively.

This gain or loss was calculated using a periodic change in value based on plant count and estimated value of the various products from the plants.

(Expressed in U.S. dollars, unless otherwise stated)

6. Biological assets and inventory (continued)

The Company's biological assets as at June 30, 2021 are comprised of:

Balance, January 1, 2021	$	455,045
Gain on fair value of biological assets		486,180
Increase in biological assets due to capitalized costs		673,743
Transfer to finished goods		(1,113,231)
Balance, June 30, 2021	$	501,737

Inventory consists of cannabis flower, concentrated products such as oils and edibles, packaging, trim, and paraphernalia. Inventory costs are costs incurred to bring inventory to the condition and location of sale and include labor, packaging, transportation, depreciation of equipment, and other related costs. During the three months ended June 30, 2021 and 2020, $227,842 and $262,885, respectively of depreciation and lease amortization was allocated to inventory. During the six months ended June 30, 2021 and 2020, $464,536 and $535,650, respectively of depreciation and lease amortization was allocated to inventory. Any costs incurred to bring inventory to the condition and location of sale are included in the cost of inventory. Inventory expensed to cost of sales for the three months ended June 30, 2021 and 2020 was $4,157,031 and $4,041,207, respectively. Inventory expensed to cost of sales for the six months ended June 30, 2021 and 2020 was $7,337,956 and $7,005,399, respectively.

The Company's inventory at June 30, 2021 and December 31, 2020 consisted of:

		Inventory
Raw materials	$	376,025
Work-in-process		656,459
Finished goods		1,272,017
Balance, December 31, 2020	$	2,304,501
Raw materials		553,546
Work-in-process		1,465,912
Finished goods		2,529,595
Balance, June 30, 2021	$	4,549,053

At June 30, 2021, the Company also recorded a general reserve for excess and obsolete inventory in the amount of $nil (December 31, 2020 - $164,347).

(Expressed in U.S. dollars, unless otherwise stated)

7. Property, plant and equipment

The following table reflects the continuity of property, plant and equipment from January 1, 2021 to June 30, 2021:

	Production equipment	Leasehold improvements	Computer Equipment and Software	Furniture and Fixtures	Vehicles	Total
Cost						
Balance, January 1, 2021	$ 2,507,279	$ 4,174,454	$ 337,053	$ 995,292	$ 217,380	$ 8,231,458
Additions	580,663	46,651	7,488	43,286	5,150	683,238
Dispositions	(51,026)	-	(40,565)	(55,661)	-	(147,252)
Balance, June 30, 2021	$ 3,036,916	$ 4,221,105	$ 303,976	$ 982,917	$ 222,530	$ 8,767,444
Accumulated Amortization						
Balance, January 1, 2021	$ (1,852,820)	$ (2,700,105)	$ (270,863)	$ (899,725)	$ (146,588)	$ (5,870,101)
Expense	(175,807)	(266,757)	(20,185)	(14,615)	(8,725)	(486,089)
Dispositions	46,556	-	38,676	37,265	-	122,497
Balance, June 30, 2021	$ (1,982,071)	$ (2,966,862)	$ (252,373)	$ (877,075)	$ (155,313)	$ (6,233,693)
Carrying amount						
At December 31, 2020	$ 654,459	$ 1,474,349	$ 66,190	$ 95,567	$ 70,792	$ 2,361,357
At June 30, 2021	$ 1,054,845	$ 1,254,243	$ 51,603	$ 105,842	$ 67,217	$ 2,533,751

Total depreciation expense for the six months ended June 30, 2021 and 2020 was $486,089 and $694,596, respectively.

8. Right-of-Use Assets

The Company and its subsidiaries have entered into lease agreements for the Company's dispensaries, corporate offices, wholesale warehouses, grow facilities, and vehicles.

A continuity of the right-of-use asset for the six months ended June 30, 2021 is as follows:

	June 30, 2021
Right-of-use asset, beginning balance	$ 4,132,035
Additions	1,788,071
Lease adjustments	74,368
Amortization	(427,119)
Right-of-use asset, ending balance	$ 5,567,355

(Expressed in U.S. dollars, unless otherwise stated)

9. Intangible assets and goodwill

Intangible assets are recorded at cost less accumulated amortization and accumulated impairment losses, if any. Intangible assets acquired in a business combination are measured at fair value at the acquisition date.

The following table reflects the continuity of intangible assets as at June 30, 2021 and December 31, 2020:

		License		Distributor relationship		Brands		Total
Cost								
Balance, December 31, 2020	$	1,955,677	$	-	$	8,781,746	$	10,737,423
Additions		765,300		105,000		2,194,000		3,064,300
Balance, June 30, 2021	$	2,720,977	$	105,000	$	10,975,746	$	13,801,723
Accumulated Amortization								
Balance, December 31, 2020	$	-	$	-	$	-	$	-
Additions		-		-		(722)		(722)
Balance, June 30, 2021	$	-	$	-	$	(722)	$	(722)
Carrying amount								
Balance, December 31, 2020	$	1,955,677	$	-	$	8,781,746	$	10,737,423
Balance, June 30, 2021	$	2,720,977	$	105,000	$	10,975,024	$	13,801,001

The Company completed its acquisitions of Fifth & Root and Homegrown in the second quarter of 2021, each resulting in the identification of intangible assets. The purchase of Fifth & Root included brand name intangible asset valued at $735,500 and a distributor relationship valued at $105,000. The purchase of Homegrown included a brand name intangible asset valued at $1,432,500 and a license valued at $750,000 (Note 22).

Goodwill represents the excess of the purchase price paid for the acquisition of subsidiaries over the fair value of the net intangible and tangible assets acquired. Following the initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Goodwill has an indefinite useful life, is not subject to amortization and is tested annually for any impairment, or more frequently in the case that events or circumstances indicate that they may be impaired.

The following table reflects the continuity of goodwill as at June 30, 2021 and December 31, 2020:

		Chalice		Fifth & Root		Homegrown		Total
Cost								
Balance, December 31, 2020	$	4,056,172	$	-	$	-	$	4,056,172
Additions		-		1,728,725		7,613,896		9,342,621
Balance, June 30, 2021	$	4,056,172	$	1,728,725	$	7,613,896	$	13,398,793

(Expressed in U.S. dollars, unless otherwise stated)

10. Convertible debentures

	June 30, 2021	December 31, 2020
Convertible debentures carried at fair value	$ -	$ 5,575,273
Convertible debentures carried at amortized cost	2,740,345	-
Carrying amount at end of period	$ 2,740,345	$ 5,575,273

As at June 30, 2021, the Company has unsecured convertible debentures with a carrying value of $2,740,345 (December 31, 2020 - $5,575,273) and principal of C$4,115,000 (December 31, 2020 - C$8,039,000), bearing interest of 10%. As at June 30, 2021, these are classified as long-term debt with a maturity date of November 2022. Interest and accretion expense was $360,493 and $294,937 for the six months ended June 30, 2021 and 2020, respectively. Accrued interest of C$205,609 was settled through the issuance of 155,764 shares during the six months ended June 30, 2021 Note 14).

In January 2021, the Company received unanimous approval to amend certain terms of the convertible debentures. The amendments included extending the maturity date from November 16, 2021 to November 16, 2022 and the conversion price of the principal changed from C$0.30 to US$0.06 per common share ($1.38 post share consolidation). The debentureholders also received a one-time restructuring fee of 2% of the principal amount to be paid in common shares equal to US$1.38 per share (Note 14).

The Company concluded that this debenture modification was significant and accounted for it as an extinguishment and reissuance of the debentures, resulting in a loss on debt extinguishment of $88,079.

During the six months ended June 30, 2021, the Company converted debentures with a face value of C$3,924,000 into common shares.

The following table reflects the continuity of its convertible debentures for June 30, 2021 and December 31, 2020:

	June 30, 2021
Beginning balance	$ 5,575,272
Loss on change in fair value of convertible debentures	172,956
Gain on debt extinguishment	(116,182)
Recognition of derivative liabilty conversion feature	(703,311)
Conversion to common shares	(2,418,109)
Accretion expense	229,719
Total	$ 2,740,345

Prior to the modification in January 2021, the Company accounted for the convertible debentures at fair value through profit and loss from initial recognition to the date of extinguishment. A loss of $172,956 and $nil was recorded through a change in fair value of liabilities on the statement of operations for the six months ended June 30, 2021 and 2020, respectively.

Subsequent to modification, the conversion option represents an embedded derivative which meets the definition of a financial liability, as the Company's functional currency is different than the underlying currency of the debentures. Accordingly, the embedded derivative was bifurcated and recorded at fair value on initial recognition and at the end of each reporting period. The host contract is a financial liability that is stated at amortized cost using the effective interest method.

(Expressed in U.S. dollars, unless otherwise stated)

10. Convertible debentures

The following table reflects the continuity of its derivative liability for June 30, 2021:

		June 30, 2021
Beginning balance	$	-
Recognition of derivative liabilty conversion feature		703,311
Loss on change in fair value		374,259
Conversion to common shares		(628,687)
Total	$	448,883

The derivative liability from the conversion option was measured at fair market value using the following valuation assumptions:

	June 30, 2021
Expected life	1.7 - 1.4 years
Risk-free interest rate	0.2% - 0.3%
Dividend yield	0.00%
Expected volatility	92.2% - 104.9%

(Expressed in U.S. dollars, unless otherwise stated)

11. Leases

The Company and its subsidiaries have entered into lease agreements for the Company's dispensaries, corporate office, wholesale warehouses, grow facilities, and vehicles. Lease liabilities were $6,661,072 as at June 30, 2021 (December 31, 2020 - $5,321,891). These balances include $1,078,199 of short-term lease liabilities as at June 30, 2021 (December 31, 2020 - $949,496). Interest expense on lease liabilities were $311,213 and $376,793 for the six months ended June 30, 2021 and 2020, respectively.

		Lease obligations
Remainder of 2021	$	784,767
2022		1,569,053
2023		1,593,572
2024		1,527,404
2025		1,372,739
Thereafter		2,686,979
Total undiscounted lease obligations	$	9,534,514
Impact of discounting		(2,873,442)
Total lease obligations	$	6,661,072
Less: current portion of long-term leases		(1,078,199)
	$	5,582,873

(Expressed in U.S. dollars, unless otherwise stated)

12. Long-term debt and consideration payable

	June 30, 2021	December 31, 2020
Consideration payable	$ 6,839,118	$ 6,663,313
Notes payable	2,044,583	119,533
Long-term debt - vehicle loans	63,214	156,846
Less: current portion	(299,839)	(141,704)
Carrying amount of long-term debt	$ 8,647,076	$ 6,797,988

Consideration payable

In April 2021 the Company closed its purchase of an 80% ownership of Fifth & Root. The terms in the Stock Purchase Agreement established certain post-closing sales targets for the years ending December 31, 2021 and 2022. Contingent upon meeting these sales targets, the Company may be required to issue an additional 133,333 earn-out shares. This consideration payable was valued at $78,780 as at June 30, 2021.

In addition to the Fifth & Root earn-out, consideration payable represents earn-out payments to three former owners of Chalice, LLC (“Chalice”), as part of the consideration in the July 2017 acquisition of the assets of CFA Products, LLC and the membership interest of CFA Retail, LLC.

In November 2020, the Company reached an agreement with the former Chalice owners to restructure the consideration payable. Under the new terms, $2,500,000 of the cash consideration was immediately converted into 1,811,594 shares of the Company’s common stock. The remaining $2,500,000 of the cash obligation will be paid on an installment plan carrying 6% interest to be paid over 60 months in equal installments of $48,332 per month commencing May 2, 2022. The existing equity component remains unchanged and is due on the original maturity on May 2, 2022. Shares will be calculated based on a 30-day trailing volume weighted average price (“VWAP”) and held in escrow to be released over 60 months commencing May 2, 2022. As a condition of the restructuring, the Company agrees to either attain positive cash flow or raise $5,000,000 within 12 months from the execution of the agreement. If the Company fails to meet either the cashflow requirement or the minimum equity raise of $5,000,000, within 12 months of the agreement, it is required to issue an additional 2,717,391 shares. During the six months ended June 30, 2021, the Company closed non-brokered private placements, raising C$10,500,000 (Note 14), which is in excess of the requirement to raise $5,000,000 under the terms of the restructuring agreement related to the consideration payable. As at June 30, 2021, the liability portion of the debt was $4,527,350 and the cash portion was $2,232,988.

Consideration payable was $6,839,118 as at June 30, 2021 (December 31, 2020 - $6,663,313). The Company recognized $217,025 and $497,114 in interest and accretion expense for the six months ended June 30, 2021 and 2020, respectively.

The Company applied the guidance under *IFRS 9 - Financial Instruments* and made the determination that the November 2020 modification was a substantial change. As such, the carrying value of the old debt was derecognized and the present value of the new cash flows was recognized. The Company also noted that the three former Chalice owners involved in this debt restructuring are all existing equity holders, and transactions with equity holder lenders that benefit the borrower may be deemed capital transactions. As such, the Company determined that the extinguishment gain of $2,270,057 should be

(Expressed in U.S. dollars, unless otherwise stated)

12. Long-term debt and consideration payable (continued)

reflected as a contribution of capital in equity as at December 31, 2020, rather than a gain to consolidated statement of operations.

Notes payable

In conjunction with the acquisition of Homegrown on May 19, 2021, the Company recorded a secured promissory note in the amount of $1,750,000. The note carries interest of 8%, payable over 48 months with interest only the first year, with monthly principal payments to start upon the one-year anniversary of closing.

In May 2021, the Company executed a secured promissory note in the amount of $315,000 with a local manufacturer for the purchase of production equipment. The Company will make monthly payments over a period of 36 months. In lieu of interest the Company contemporaneously entered into a 36-month Product Procurement Agreement with the manufacturer.

Other long-term liabilities

Other long-term liabilities include vehicle loans of $63,214 as at June 30, 2021 (December 31, 2020 - $156,846). The current portion of these liabilities were $12,450 as at June 30, 2021 (December 31, 2020 - $22,171).

13. Warrant liability

The Company issued warrants in connection with its non-brokered private placement financings in the six months ended June 30, 2021.

	Number of warrants issued		Fair value
Balance, January 1, 2021	-	$	-
Warrants - fair value at issuance	12,044,118		2,736,801
Warrants exercised	(29,000)		(16,970)
Change in fair market value	-		1,285,210
Balance, June 30, 2021	12,015,118	$	4,005,041

In February 2021, the Company issued 4.8 million warrants in connection with its second non-brokered private placement for the quarter. Each warrant is exercisable to acquire one common share at an exercise price of C$2.30 per warrant share for a period of 24 months from the closing. The units have a hold period of four months and one day from the date of issuance.

In January 2021, the Company issued 5.1 million warrants in connection with its first non-brokered private placement for the quarter. Each warrant is exercisable to acquire one common share at an exercise price of C$1.38 per warrant share for a period of 24 months from the closing. The units have a hold period of four months and one day from the date of issuance.

(Expressed in U.S. dollars, unless otherwise stated)

13. Warrant liability (continued)

Per IAS 32, the warrants issued under the private placements meet the definition of a derivative, as the exercise price is denominated in a currency different than the functional currency of the Company, and must be measured at fair value at each reporting date. The Company bifurcated the warrant liability from the share capital using the fair value of warrants at the date of issuance (Note 14).

The January 2021 warrants were measured using the Black-Scholes option pricing model at the date of measurement with the following assumptions:

	June 30, 2021
Expected life	1.6 years
Risk-free interest rate	0.44%
Dividend yield	0.00%
Expected volatility	118.1%

The February 2021 warrants include an acceleration right where the Company may accelerate the expiry time of the warrants if at any time the volume weighted average price (“VWAP”) of its common shares is equal to or greater than 130% for a period of ten consecutive trading days on the Canadian Securities Exchange. These warrants were measured using the binomial pricing model that takes into account this provision.

Volatility was calculated by using the Company’s historical volatility. The expected life in years represents the period of time that the warrants granted are expected to be outstanding. The risk-free rate is based on zero coupon Canada government bonds with a remaining term equal to the expected life of the warrants.

(Expressed in U.S. dollars, unless otherwise stated)

14. Share capital

Share capital consists of one class of fully paid ordinary shares, with no par value. The Company is authorized to issue an unlimited number of ordinary shares. All shares are equally eligible to receive dividends and repayment of capital and represent one vote at the Company's shareholders' meetings.

Effective May 25, 2021 the Company's share consolidation became effective. The Company's common shares have been consolidated on a basis of 23 pre-consolidation shares to 1 post-consolidation share. At the beginning of trading on May 25, 2021 the Company had 59,081,260 common shares outstanding. All shares in these interim condensed consolidated financial statements reflect post-consolidation share amounts.

The following table reflects the continuity of share capital from January 1, 2021 to June 30, 2021:

	Number of Shares		Amount
Balance, January 1, 2021	41,814,839	$	149,754,502
Shares issued - consideration payable interest (i)	4,876		2,321
Shares issued - debenture restructuring fee (ii)	92,056		126,116
Shares issued - conversion of debentures (iii)	2,284,200		3,132,657
Shares issued - private placement financing (iv)	4,739,410		1,491,293
Shares issued - management participation (iv)	351,763		221,778
Shares issued - private placement financing (v)	6,952,943		6,544,416
Shares issued - warrant exercise (vi)	29,000		16,969
Shares issued - acquisition of Fifth and Root (vii)	1,200,000		1,316,480
Shares issued - acquisition of Homegrown (viii)	1,612,173		2,000,000
Shares issued - debenture interest paid-in-kind (ix)	155,764		166,214
Share issuance costs	-		(436,360)
Balance, June 30, 2021	59,237,024	$	164,336,386

(i) In January 2021, the Company issued 4,876 shares associated with accrued interest on its consideration payable (Note 12)

(ii) As part of its convertible debenture restructuring, the Company issued 92,056 shares as a 2% restructuring fee to its debentureholders (Note 10)

(iii) During the six months ended June 30, 2021 the Company issued 2,284,200 shares from the conversion of debentures (Note 10)

(iv) In January 2021, the Company closed on a non-brokered private placement financing and issued 4,739,410 units priced at C$0.69 per unit for gross proceeds of C$3.3 million. Each unit is comprised of one common share of the Company and one common share purchase warrant (Note 13). In connection with the private placement, the Company also issued 351,763 units at C$1.15 per share in lieu of unpaid compensation to certain officers and directors, for a total of $221,779 (Note 17).

(v) In March 2021, the Company closed on a second non-brokered private placement financing and issued 6,952,943 units priced at C$1.50 per unit for aggregate gross proceeds of C$7.2 million. Each unit is comprised of one common share of the Company and one full common share purchase warrant.

(vi) In March 2021, the Company issued 29,000 shares upon a warrant exercise (Note 13).

(vii) In April 2021, the Company issued 1,200,000 shares associated with its acquisition of Fifth and Root (Note 22).

(viii) In May 2021, the Company issued 1,612,173 shares associated with its acquisition of Homegrown (Note 22).

(Expressed in U.S. dollars, unless otherwise stated)

14. Share capital (continued)

(ix) The Company issued 155,764 shares for the settlement of accrued interest on its outstanding debentures for the six months ended June 30, 2021 (Note 10).

As at June 30, 2021 and December 31, 2020, there were 2,769,023 common shares held in escrow.

15. Warrant reserve

	Number of warrants issued		Amount
Balance, January 1, 2021	10,869	$	1,079
Warrants issued	423,917		203,405
Balance, June 30, 2021	434,786	$	204,484

The warrants were valued based on the fair value of services received unless the fair value of services received cannot be reliably measured, in which case the warrants are valued at fair value based on the Black-Scholes option pricing model at the date of measurement. For the six months ended June 30, 2021, the Company issued 115,942 warrants as a severance payment. The Company issued 5% or 164,287 warrants to certain eligible finders associated with its first non-brokered private placement in January 2021 (“Finder’s Warrants”). Each finder’s warrant entitles the holder to purchase one common share at an exercise price equal to C$1.38 per common share at any time up to 24 months following closing. In addition, the Company issued 143,688 finders warrants associated with its second non-brokered private placement that closed in March 2021. Each finder’s warrant entitles the holder to purchase one common share at an exercise price equal to C$2.30 per common share at any time up to 24 months following closing.

The warrants were valued using the following assumptions at the respective grant dates:

	June 30, 2021
Expected life	2 years
Risk-free interest rate	0.16% - 0.28%
Dividend yield	0.00%
Expected volatility	107% - 121%
Expected forfeiture rate	0%

16. Stock option plan

On January 1, 2015, the Company's Board of Directors approved a Directors, Management, Employees and Consultants Stock Option Plan, to provide an incentive to its directors, executives, employees, and consultants.

In accordance with terms of the employee share option plan, the exercise price of the granted options shall be determined at the time the option is granted provided that such price shall not be less than the market price of the ordinary shares. The maximum aggregate number of shares to be issued under the plan is not to exceed 10% of the total issued and outstanding shares at the time of the grant. Most options vest evenly over 3 years and have an expiry period of 5-10 years from the grant date. The remaining life of options outstanding ranges from 1.4 years to 9.2 years.

Total number of options at January 1, 2021		3,074,095
Options granted at $1.50 Canadian dollars		1,734,782
Options granted at $1.38 Canadian dollars		13,043
Options expired		(438,550)
Total number of options at June 30, 2021		4,383,370
Number of exercisable options issued in Canadian dollars		2,342,977
Weighted average exercise price of options at June 30, 2021	$	2.03

The options were valued based on the Black-Scholes optioning model at the date of measurement with the following assumptions:

	June 30, 2021
Expected life	3 years
Risk-free interest rate	0.23%
Dividend yield	0.00%
Expected volatility	95.3% - 106.9%
Expected forfeiture rate	0.00%

During the three months ended June 30, 2021 and 2020, $129,888 and $93,697, respectively, was included in share-based compensation expense in the consolidated statement of operations. During the six months ended June 30, 2021 and 2020, $198,938 and $223,276, respectively, was included in share-based compensation expense in the consolidated statement of operations.

In the six months ended June 30, 2021, the Company issued 1,734,782 stock options to employees and directors with an exercise of C$1.50 and 13,043 stock options to employees with an exercise of C$1.38.

(Expressed in U.S. dollars, unless otherwise stated)

17. Related party transactions

Key management of the Company are its Board of Directors and certain members of executive management. Key management personnel remuneration for the three and six months ended June 30, 2021 and 2020 includes the following expenses:

	For the three months ended June 30,		For the six months ended June 30,	
	2021	2020	2021	2020
Salaries, commissions, bonuses and benefits	$ 180,654	$ 95,000	$ 289,807	$ 324,372
Consulting fees	67,693	171,317	156,412	354,834
Termination benefits	-	-	-	30,779
Stock compensation, including warrants and share	77,562	95,805	128,319	219,989
	$ 325,909	$ 362,122	$ 574,538	$ 929,974

In addition, the Company issued the following stock options to executive management and directors in the six months ended June 30, 2021:

Date	Title	Shares	Exercise Price (C$)
February 2021	CFO	173,913	$ 1.50
February 2021	Directors	869,565	$ 1.50
March 2021	Directors	260,869	$ 1.50

In addition to the amounts above, the Company compensated certain directors and officers in conjunction with a non-brokered private placement offering in January 2021 (Note 13). The directors and officers were issued units comprised of one common share and one common share purchase warrant at a deemed issue price of C$1.15 in satisfaction of unpaid fiscal 2020 compensation totaling C$404,528. These amounts were accounted for in equity reserves as at December 31, 2020.

In September 2019, as part of their new roles, John Varghese and Jeff Yapp each subscribed to 1,167,896 restricted common shares at C$1.38 per share, on a non-brokered basis, for a total of 2,335,792 common shares. The issuance of these shares was assisted through an interest-bearing, five-year loan to the executives. Of the total shares, half were immediately vested and the other half vest based on meeting certain Company performance targets. As of June 30, 2021, these shares have not been issued. The arrangement was accounted for as stock-based compensation in accordance with IFRS 2 - Share-based payments,but are not included as stock options issued and outstanding in the tables above, nor have the shares been issued from treasury. Due the subsequent modification in May 2021 discussed below, all vesting conditions have been waived and all shares will be issued with restrictive legends upon execution of final agreements.

In May 2021 this arrangement was extended and modified. The Company has agreed to issue, on a non-brokered basis, an aggregate of 1,471,535 common shares, at C$1.38 per share, to certain executives and directors, being 211,358 to Executive Chairman John Varghese and 207,010 to CEO Jeff Yapp, and 1,053,167 to Lead Director Rick Miller. The loan to Mr. Varghese is subject to limited recourse. Each of Messrs. Varghese and Yapp had previously acquired common shares on an assisted basis will, upon issuance, hold 1,379,254 and 1,374,906 shares respectively through these arrangements. All common shares to be acquired do not have any vesting condition, and all shares previously acquired that had vesting conditions, will have such conditions waived. The purpose of the issuances is to provide the executives with a more significant financial stake in the success of the Company. The issuances have been approved by the disinterested directors of the Company. The Company has reserved these shares for issuance and will issue shares and record the loans receivable during the 3rd quarter of 2021.

18. Capital management

The Company defines capital that it manages as its shareholders' equity, long-term debt and warrant liability. The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to pursue the development of its business and to maintain a flexible capital structure that optimizes the costs of capital at an acceptable risk.

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 issue shares, acquire debt, or acquire or dispose of assets.

In order to facilitate the management of its capital requirements, the Company prepares annual expenditure budgets that are updated as necessary depending on various factors, including successful capital deployment and general industry conditions. These budgets are approved by the Company's Board of Directors.

19. Legal matters

Sparks, Nevada

On August 11, 2020, the Company received a demand letter from the attorneys for the landlord of the premises that the Company had been leasing in Sparks, Nevada (the "Premises").

On October 6, 2020, the Landlord filed a Summons and Complaint in the Second Judicial District Court for Nevada, Washoe County, alleging breach of contract, breach of covenant of good faith and fair dealing and unjust enrichment. The Landlord seeks damages in excess of $15,000 in an amount to be proved at trial and attorneys' fees. On April 8, 2021, a Discovery Planning Dispute Conference was filed with the Court. The Company and its Nevada counsel continue to attempt to settle this case.

20. Financial instruments and risk management

The Company, as part of its operations, carries a number of financial instruments. It is management's opinion that the Company is not exposed to significant interest, currency, credit, liquidity or other price risks arising from these financial instruments except as otherwise disclosed.

(a) Fair value

The carrying amounts of cash, accounts receivable, other receivables, notes receivable, accounts payable, accrued liabilities, notes payable, and interest payable approximate their fair values because of the short-term maturities of these financial instruments. Subsequent to their modification in February 2021, the convertible debentures are carried at amortized cost as it approximates fair value.

The following classifies financial assets and liabilities that are recognized on the balance sheet at fair value in a hierarchy that is based on significance of the inputs used in making the measurements. The levels in the hierarchy are as follows:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 – Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly;

Level 3 – Inputs for the asset or liability that are not based on observable market data.

(Expressed in U.S. dollars, unless otherwise stated)

20. Financial instruments and risk management (continued)

December 31, 2020	Category	Level 1 $	Level 2 $	Level 3 $	Total $
Financial Assets					
Biological assets	FVTPL	-	-	455,045	455,045
Financial Liabilities					
Convertible debentures	FVTPL	-	-	5,575,273	5,575,273

June 30, 2021	Category	Level 1 $	Level 2 $	Level 3 $	Total $
Financial Assets					
Biological assets	FVTPL	-	-	501,737	501,737
Financial Liabilities					
Convertible debentures	Amortized Cost	-	-	2,740,345	2,740,345
Warrant liability	FVTPL	-	-	4,005,041	4,005,041
Derivative liability	FVTPL	-	-	448,883	448,883

The Company’s finance team performs valuations of financial items for financial reporting, including Level 3 fair values, in consultation with third-party valuation specialists for complex valuations.

Valuation techniques are selected based on the characteristics of each instrument, with the overall objective of maximizing the use of market-based information.

Biological assets are carried at fair value based on the assumptions disclosed in Note 6.

The convertible debentures prior to modification in January 2021 were valued using a binominal option pricing model to estimate the value of the combined convertible instrument. The most significant assumption used in this valuation was the expected volatility of the Company’s shares which was estimated at approximately 106% at June 30, 2021.

20. Financial instruments and risk management (continued)

The Company's risk exposures and the impact on the Company's financial instruments are summarized below:

(b) Credit risk

The carrying amounts of cash, accounts receivable and notes receivable on the consolidated statement of financial position represent the Company's maximum credit exposure at June 30, 2021 and December 31, 2020.

The Company's principal financial assets are cash held at highly rated financial institutions and accounts receivable and notes receivable, which are subject to credit risk. The Company's credit risk is primarily attributable to its accounts receivable. The amounts disclosed in the consolidated statement of financial position are net of allowance for doubtful accounts, estimated by the management of the Company based on its assessment of the current economic environment.

The Company does not have significant exposure to any individual customer and has estimated bad debts of $130,116 as at June 30, 2021 (December 31, 2020 - $185,497).

(c) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company is not subject to any interest rate volatility as its long-term debt instruments and convertible notes are carried at a fixed interest rate throughout their term.

(d) Liquidity risk

The Company's objective is to have sufficient liquidity to meet its liabilities when due. The Company monitors its cash balances and cash flows generated from operations to meet its requirements. To ensure the Company has sufficient liquidity to meet its obligations, the Company intends to issue common shares and debt in the future. The following table summarizes the Company's contractual maturity for its financial liabilities, including both principal and interest payments:

	Carrying amount	Contractual cash flows	Under 1 year	1-3 years	3-5 years	More than 5 years
As at June 30, 2021						
Trade and other payables	$ 4,170,011	$ 4,170,011	$ 4,170,011	$ -	$ -	$ -
Lease liabilities	6,661,072	8,424,367	1,387,633	2,730,228	2,453,223	1,853,283
Other loans and borrowings	277,891	277,891	227,127	50,764	-	-
Convertible debt	2,740,345	3,784,779	-	3,784,779	-	-
Consideration payable	2,311,768	3,229,990	72,712	3,157,278	-	-
Total	$ 16,161,087	$ 19,887,038	$ 5,857,483	$ 9,723,049	$ 2,453,223	$ 1,853,283

(e) Foreign exchange risk

Foreign currency exchange risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because they are denominated in currencies that differ from the respective functional currencies. The Company has financial assets and liabilities denominated in Canadian dollars. The Company does not hedge its exposure to fluctuations in foreign exchange rates.

20. Financial instruments and risk management (continued)

The following is an analysis of U.S. dollar equivalent of financial assets and liabilities that are denominated in Canadian dollars at June 30, 2021:

		June 30, 2021		December 31, 2020
Current Assets	$	9,188,730	$	6,074,306
Non-current assets		36,143,340		21,943,705
Total assets	$	45,332,070	$	21,943,705
Current liabilities		7,863,129		11,375,430
Non-current liabilities		21,424,218		11,170,383
Total liabilities	$	29,287,347	$	22,545,813

(Expressed in U.S. dollars, unless otherwise stated)

21. Segment Information

The Company defines its reportable operating segments as Oregon and Other operations. The Oregon segment is comprised of wholesale and retail operations. The Other segment includes Corporate, Fifth and Root (CBD skincare subsidiary), and contract manufacturing arrangements in California and Washington.

	Oregon		Other		Consolidated	
For the six months ended June 30	**2021**	**2020**	**2021**	**2020**	**2021**	**2020**
Product sales	$ 11,297,855	$ 8,918,188	$ 321,350	$ 634,049	$ 11,619,205	$ 9,552,237
Royalty and other revenue	649,356	544,437	155,595	90,363	804,951	634,800
Total Revenue	11,947,211	9,462,625	476,945	724,412	12,424,156	10,187,037
Inventory expensed to cost of sales	7,164,961	6,005,585	172,995	999,814	7,337,956	7,005,399
Gross margin, excluding fair value items	4,782,250	3,457,040	303,950	(275,402)	5,086,200	3,181,638
Fair value changes in biological assets included in inventory sold	(37,609)	(34,358)	-	-	(37,609)	(34,358)
(Gain) loss on changes in fair value of biological assets	(486,180)	196,156	-	-	(486,180)	196,156
Gross profit	$ 5,306,039	$ 3,295,242	$ 303,950	$ (275,402)	$ 5,609,989	$ 3,019,840
As at June 30						
Assets	$ 10,395,016	$ 9,881,466	$ 34,937,054	$ 19,096,313	$ 45,332,070	$ 28,977,779
Liabilities	$ 5,791,964	$ 5,800,716	$ 23,495,383	$ 17,583,987	$ 29,287,347	$ 23,384,703

	Oregon		Other		Consolidated	
For the three months ended June 30	**2021**	**2020**	**2021**	**2020**	**2021**	**2020**
Product sales	$ 6,363,532	$ 4,978,078	$ 222,359	$ 334,577	$ 6,585,891	$ 5,312,655
Royalty and other revenue	218,914	113,715	123,896	90,363	342,810	204,078
Total Revenue	6,582,446	5,091,793	346,255	424,940	6,928,701	5,516,733
Inventory expensed to cost of sales	4,006,125	3,600,608	150,906	440,599	4,157,031	4,041,207
Gross margin, excluding fair value items	2,576,321	1,491,185	195,349	(15,659)	2,771,670	1,475,526
Fair value changes in biological assets included in inventory sold	46,720	(34,358)	-	-	46,720	(34,358)
(Gain) loss on changes in fair value of biological assets	(404,417)	216,870	-	-	(404,417)	216,870
Gross profit	$ 2,934,018	$ 1,308,673	$ 195,349	$ (15,659)	$ 3,129,367	$ 1,293,014

(Expressed in U.S. dollars, unless otherwise stated)

22. Business combinations

Fifth & Root, Inc.

On April 8, 2021, the Company acquired an 80% interest in Fifth & Root, Inc., a CBD skincare line based in California. Total consideration was $1,645,260, consisting of $250,000 cash, $1,316,480 in common shares of the Company, and up to 133,333 additional common shares as contingent consideration valued at $78,780 (Note 12). This acquisition is being accounted for using the acquisition method in accordance with *IFRS 3 – Business combinations*, with the assets and liabilities acquired recorded at their fair values at the acquisition date.

The net loss from Fifth & Root from the acquisition date to reporting date was $60,218 and included in the interim condensed consolidated statement of operations and comprehensive loss for the three months ended June 30, 2021.

The Company is required to allocate the purchase price to tangible and identifiable intangible assets acquired and liabilities assumed based on their fair values. The excess of the purchase price over those fair values of the net assets acquired is recorded as goodwill. The purchase price and the preliminary allocation of the purchase price is as follows:

Cash	$	260
Account receivables		1,416
Inventory		11,071
Intangible assets		840,500
Goodwill		1,728,725
Accounts payable and accrued liabilities		(59,647)
Deferred tax liability		(465,750)
Total net assets acquired	$	2,056,575
Consideration paid in cash	$	250,000
Consideration paid in shares		1,316,480
Contingent consideration		78,780
Total consideration		1,645,260
Fair value of non-controlling interest		411,315
	$	2,056,575

Goodwill was recognized from the acquisition of Fifth & Root Inc. because the consideration paid for the combination effectively included amounts in relation to the benefit of expected synergies, revenue growth and future market development in the CBD skincare product market, which is still nascent and growing. These benefits are not recognized separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

The purchase price allocation relating to this acquisition is not yet finalized and the allocation of the price to the various assets acquired is subject to change.

(Expressed in U.S. dollars, unless otherwise stated)

22. Business combinations (continued)

SMS Ventures, LLC, dba Homegrown Oregon ("Homegrown")

On May 19, 2021, the Company acquired 100% of the membership interest of Homegrown, a chain of five cannabis retail dispensaries in Oregon. Total consideration was $9,750,000, consisting of $6,000,000 cash, $2,000,000 in common shares of the Company, and a promissory note in the amount of $1,750,000. This acquisition is being accounted for using the acquisition method in accordance with *IFRS 3 – Business combinations*, with the assets and liabilities acquired recorded at their fair values at the acquisition date.

Total revenue and net income from Homegrown from the acquisition date to reporting date was $1,210,634 and $197,268, respectively. These results were included in the interim condensed consolidated statement of operations and comprehensive income (loss) for the three months ended June 30, 2021.

Cash	$	238,462
Inventory		618,786
Other current assets		15,713
Fixed assets		75,201
Security deposit		20,500
Intangible assets		2,182,500
Goodw ill		7,613,896
Accounts payable		(806,154)
Other current liabilities		(208,904)
Net assets acquired	$	9,750,000
Consideration paid in cash	$	6,000,000
Consideration paid in shares		2,000,000
Promissory note		1,750,000
Total consideration	$	9,750,000

Goodwill was recognized from the acquisition of Homegrown because the consideration paid for the combination effectively included amounts related to the benefit of expected synergies, revenue growth, and future market development in the growing Oregon adult-use cannabis market. These benefits are not recognized separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

The purchase price allocation relating to this acquisition is not yet finalized and the allocation of the price to the various assets acquired is subject to change.

Had this acquisition been in effect since the beginning of the annual reporting period, revenue would have been higher by approximately $4,100,000 and net income by approximately $400,000.

23. Income Tax

For the six months ended June 30, 2021, income tax expense was $817,286 compared to $663,216 for the six months ended June 30, 2020. The Company's estimated annual tax rate is impacted primarily by the amount of taxable income earned in each jurisdiction the Company operates in and permanent differences between financial statement carrying amounts and the tax basis.

24. Subsequent Events

The Company evaluated subsequent events through August 26, 2021, the date these financial statements were issued. There were no material subsequent events that required recognition or additional disclosure in these financial statements.