Interim Condensed Consolidated Financial Statements of

CHALICE BRANDS LTD.

(Formerly Golden Leaf Holdings Ltd.)

As at and for the three and nine months ended September 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 nine months ended September 30, 2021

CHALICE BRANDS LTD.

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

			September 30, 2021		December 31, 2020
CURRENT					
Cash		$	491,170	$	905,149
Accounts receivable	Note 5		323,793		108,308
Other receivables	Note 5		414,970		737,185
Notes receivable			1,576,206		1,576,206
Sales tax recoverable			32,813		89,033
Biological assets	Note 6		566,655		455,045
Inventory	Note 6		4,603,057		2,304,501
Prepaid expenses and deposits			618,213		376,080
Total current assets			8,626,877		6,551,507
Property, plant and equipment	Note 7		2,621,088		2,361,357
Other receivables	Note 5		842,440		179,517
Right-of-use assets, net	Note 8		5,307,935		4,132,035
Intangible assets, net	Note 9		13,568,738		10,737,423
Goodw ill	Note 9		13,398,793		4,056,172
Total assets		$	44,365,871	$	28,018,011
LIABILITIES					
CURRENT					
Accounts payable and accrued liabilities		$	4,070,488	$	3,432,525
Interest payable			43,619		-
Income taxes payable			2,046,841		1,003,604
Deferred income tax payable			510,007		55,039
Sales tax payable			652,796		217,789
Current portion of long-term debt	Note 12		25,846		22,171
Current portion of notes payable	Note 12		417,338		119,533
Convertible debentures carried at fair value	Note 10		-		5,575,273
Consideration payable - cash portion	Note 12		713,280		-
Consideration payable - equity portion	Note 12		4,566,390		-
Lease liability	Note 11		1,054,621		949,496
Total current liabilities			14,101,226		11,375,430
Notes payable	Note 12		1,706,243		-
Long-term debt	Note 12		119,683		134,675
Long-term lease liability	Note 11		5,408,452		4,372,395
Warrant liability	Note 13		1,627,495		-
Derivative liability	Note 10		170,742		-
Convertible debentures carried at amortized cost	Note 10		2,832,208		-
Consideration payable - cash portion	Note 12		1,569,758		1,824,533
Consideration payable - equity portion	Note 12		39,390		4,838,780
Total liabilities			27,575,197		22,545,813
EQUITY					
Share capital	Note 14		164,336,386		149,754,502
Warrant reserve	Note 15		170,901		1,079
Share option reserve	Note 16		3,944,102		4,070,474
Contributed surplus			2,329,997		2,329,997
Deficit			(154,347,596)		(150,683,854)
Equity attributable to shareholder of the Company			16,433,790		5,472,198
Equity attributable to noncontrolling interests			356,884		-
Total equity			16,790,674		5,472,198
Total liabilities and equity		$	44,365,871	$	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 nine months ended September 30, 2021 and 2020
(Expressed in U.S. dollars)

		For the three months ended September 30, 2021	For the three months ended September 30, 2020	For the nine months ended September 30, 2021	For the nine months ended September 30, 2020
Revenues					
Product sales	Note 21	$ 7,564,444	$ 5,765,970	$ 19,183,649	$ 15,318,207
Royalty and other revenue	Note 21	447,463	430,086	1,252,414	1,064,886
Total Revenue		8,011,907	6,196,056	20,436,063	16,383,093
Inventory expensed to cost of sales	Note 6, 21	4,608,488	4,033,002	11,960,838	11,038,401
Gross margin, excluding fair value items		3,403,419	2,163,054	8,475,225	5,344,692
Fair value changes in biological assets included in inventory sold	Note 6, 21	323,803	(14,125)	286,194	(48,483)
(Gain) loss on changes in fair value of biological assets	Note 6, 21	(551,401)	98,853	(1,037,581)	295,009
Gross profit		3,631,017	2,078,326	9,226,612	5,098,166
Expenses					
General and administration		3,197,464	2,215,291	8,165,255	6,714,321
Share-based compensation	Note 16	99,789	41,517	298,727	264,793
Sales and marketing		373,205	478,724	1,149,241	1,552,778
Depreciation and amortization	Note 7, 9	484,721	239,751	933,392	775,489
Total expenses		4,155,179	2,975,283	10,546,615	9,307,381
Loss before items noted below		(524,162)	(896,957)	(1,320,003)	(4,209,215)
Interest expense	Note 10,11,12	519,713	350,265	1,404,348	1,449,109
Transaction costs		248,349	127	334,889	41,178
Loss on disposal of assets	Note 7	-	(10,139)	6,233	307,700
Other losses		12,453	70,249	100,566	32,029
Gain on change in fair value of warrant liabilities	Note 13	(2,377,547)	-	(1,092,337)	-
Loss on change in fair value of convertible debentures	Note 10	-	565,328	172,956	565,328
(Gain) loss on change in fair value of derivative liablities	Note 10	(278,141)	-	96,118	-
Loss on debt extinguishment	Note 10	-	-	88,079	-
Income (loss) before income taxes		1,351,011	(1,872,787)	(2,430,855)	(6,604,559)
Current income tax expense		600,650	848,379	1,418,095	1,511,595
Net income (loss)		750,361	(2,721,166)	(3,848,950)	(8,116,154)
Other comprehensive loss					
Items that will be reclassified subsequently to profit or loss					
Comprehensive loss attributable to noncontrolling interests		$ (39,377)	$ -	$ (54,431)	$ -
Comprehensive income (loss)		$ 789,738	$ (2,721,166)	$ (3,794,519)	$ (8,116,154)
Basic and diluted income (loss) per share from continuing operations		$ 0.01	$ (0.07)	$ (0.07)	$ (0.22)
Weighted average number of common shares outstanding		59,237,024	38,322,636	55,300,678	37,427,844

CHALICE BRANDS LTD.

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

	Share Capital	Warrant Reserve	Stock compensation reserve	Contributed surplus	Deficit	Total equity
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)	459,349	-	-	-	-	459,349
Share-based compensation (Note 16)	-	-	264,793	-	-	264,793
Issuance of warrants (Note 15)	-	1,079	-	-	-	1,079
Expiry of warrants and stock options (Notes 15,16)	-	(426,367)	(716,702)	-	1,143,069	-
Net loss and comprehensive loss for the year	-	-	-	-	(8,116,154)	(8,116,154)
Balance at September 30, 2020	$ 148,222,848	$ 1,554,929	$ 3,729,441	$ 59,940	$ (150,356,891)	$ 3,210,267

	Share Capital	Warrant Reserve	Stock compensation reserve	Contributed surplus	Deficit	Non-controlling interest	Total equity
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)	-	-	298,727	-	-	-	298,727
Management compensation (Note 14, 17)	221,778	-	(327,905)	-	-	-	(106,127)
Expiry of warrants and stock options (Note 16)	-	(33,583)	(97,194)	-	130,777	-	-
Acquisition of a subsidiary with NCI (Note 22)	-	-	-	-	-	411,315	411,315
Net loss and comprehensive loss for the year	-	-	-	-	(3,794,519)	(54,431)	(3,848,950)
Balance at September 30, 2021	$ 164,336,386	$ 170,901	$ 3,944,102	$ 2,329,997	$ (154,347,596)	$ 356,884	$ 16,790,674

CHALICE BRANDS LTD.

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

		For the nine months ended September 30,	
		2021	2020
Cash (used in) provided by:			
OPERATING ACTIVITIES			
Net loss		$ (3,848,950)	$ (8,116,154)
Depreciation of property, plant and equipment	Note 7	743,271	984,687
Amortization of intangible assets	Note 9	232,985	-
Lease amortization	Note 8	686,540	563,433
Loss on disposal of assets		-	307,700
Reserve for obsolete inventory		-	52,732
Non-cash interest and accretion expense		1,404,348	1,449,109
Income tax expense		1,418,095	-
Share-based compensation	Note 16	298,727	264,793
Transaction costs		334,889	41,178
Loss on debt extinguishment	Note 10	88,079	-
Gain on fair value adjustment to w arrant liabilities	Note 13	(1,092,337)	-
Loss on fair value adjustment to derivative liabilities	Note 10	96,118	-
Loss on fair value adjustment to convertible debentures		172,956	565,328
Gain on fair value of biological assets	Note 6	(751,387)	246,526
Other non-cash transactions		(21,790)	(153,713)
Changes in working capital items			
Accounts receivable	Note 5	(215,485)	(51,826)
Other receivables	Note 5	(340,708)	(728,528)
Sales tax recoverable		56,220	143,792
Biological assets	Note 6	(1,245,513)	(375,833)
Inventory	Note 6	205,520	73,684
Prepaid expenses and deposits		(262,633)	(50,746)
Accounts payable and accrued liabilities		(747,073)	1,523,557
Income tax payable	Note 23	(385,639)	1,539,387
Sales tax payable		435,007	262,358
Cash used in operating activities		(2,738,760)	(1,458,536)
INVESTING ACTITIVES			
Purchase of property, plant and equipment	Note 7	(627,033)	(121,699)
Purchase of intangible assets	Note 9	(41,300)	-
Acquisitions, net of cash acquired	Note 22	(6,016,780)	-
Cash used in investing activities		(6,685,113)	(121,699)
FINANCING ACTIVITIES			
Issuance of common shares	Note 14	10,700,120	-
Payment of share issuance costs	Note 14	(339,408)	-
Payment of lease liabilities	Note 11	(1,043,142)	(489,843)
Issuance of notes payable		85,999	-
Repayment of long-term debt	Note 12	(213,675)	(40,170)
Payments of interest portion of consideration payable		(180,000)	(120,000)
Cash provided by (used) in financing activities		9,009,894	(650,013)
Decrease in cash during the period		(413,979)	(2,230,248)
Cash, beginning of period		905,149	3,531,202
Cash, end of period		**$ 491,170**	**$ 1,300,954**

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, and California 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 "CHALF". The Company is in the business of producing and distributing cannabis oil and flower products within Oregon and California adult-use regulated markets, primarily through its main operating subsidiaries, Greenpoint Oregon, Inc., and CFA Retail, LLC.

2. Going Concern and 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 material uncertainty regarding the appropriateness of the use of the accounting principles applicable to a going concern. The accompanying interim condensed consolidated 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 November 18, 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 and other receivables

	September 30, 2021	December 31, 2020
Accounts Receivable	$ 406,457	$ 293,805
Allowance for doubtful accounts	(82,664)	(185,497)
	$ 323,793	$ 108,308

Continuity of allowance for doubtful accounts

	September 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	(102,833)	(215,461)
	$ 82,664	$ 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 $123,826 as at September 30, 2021 (December 31, 2020 - $165,764). Amounts at risk of collection have been provided for in the allowance for doubtful accounts.

5. Accounts receivable and other receivables (continued)

Other receivables as at September 30, 2021 were $1,257,410 (December 31, 2020 - $1,573,420). Included in this balance were long-term receivables of $842,440 as at September 30, 2021 (December 31, 2020 - $836,235), primarily 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 September 30, 2021.

In addition, other receivables, net of allowance, include $736,200 (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 September 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 137.2 grams per plant in the valuation of biological assets as of September 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 $2.14 per gram of biological assets as at September 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 September 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 September 30, 2021, on average, the biological assets were 50.2% 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 September 30, 2021	
Significant Inputs and Assumptions	September 30, 2021	Decrease 10%	Increase 10%
Selling price per gram	$ 2.14	$ (85,711)	$ 85,711
Stage of growth	7.5 weeks	$ (4,187)	$ 4,187
Estimated yield per plant	137.2 grams	$ (50,999)	$ 50,999
Wastage	19%	$ (11,502)	$ 11,502

		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)	$ 45,286
Stage of growth	6 weeks	$ (56,151)	$ 56,151
Estimated yield per plant	136 grams	$ (45,505)	$ 45,505
Wastage	1%	$ (471)	$ 471

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 September 30, 2021 are comprised of:

Balance, January 1, 2021	$	455,045
Gain on fair value of biological assets		1,037,581
Increase in biological assets due to capitalized costs		959,319
Transfer to finished goods		(1,885,290)
Balance, September 30, 2021	$	566,655

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 September 30, 2021 and 2020, $240,089 and $236,981, respectively of depreciation and lease amortization was allocated to inventory. During the nine months ended September 30, 2021 and 2020, $704,625 and $772,631, 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 September 30, 2021 and 2020 was $4,608,488 and $4,033,022, respectively. Inventory expensed to cost of sales for the nine months ended September 30, 2021 and 2020 was $11,960,838 and $11,038,401, respectively.

The Company's inventory at September 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		573,894
Work-in-process		1,229,385
Finished goods		2,799,778
Balance, September 30, 2021	$	4,603,057

At September 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 September 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	712,880	49,003	58,125	65,320	131,906	1,017,234
Dispositions	(51,026)	-	(40,565)	(55,661)	-	(147,252)
Balance, September 30, 2021	$ 3,169,133	$ 4,223,457	$ 354,613	$ 1,004,951	$ 349,286	$ 9,101,440
Accumulated Depreciation						
Balance, January 1, 2021	$ (1,852,820)	$ (2,700,105)	$ (270,863)	$ (899,725)	$ (146,588)	$ (5,870,101)
Expense	(263,451)	(384,346)	(29,184)	(51,844)	(14,446)	(743,271)
Dispositions	46,556	-	38,675	47,789	-	133,020
Balance, September 30, 2021	$ (2,069,715)	$ (3,084,451)	$ (261,372)	$ (903,780)	$ (161,034)	$ (6,480,352)
Carrying amount						
At December 31, 2020	$ 654,459	$ 1,474,349	$ 66,190	$ 95,567	$ 70,792	$ 2,361,357
At September 30, 2021	$ 1,099,418	$ 1,139,006	$ 93,241	$ 101,171	$ 188,252	$ 2,621,088

Total depreciation expense for the nine months ended September 30, 2021 and 2020 was $743,271 and $984,687, respectively.

8. Right-of-Use Assets

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

	September 30, 2021
Right-of-use asset, beginning balance	$ 4,132,035
Additions	1,788,071
Lease adjustments	74,369
Amortization	(686,540)
Right-of-use asset, ending balance	$ 5,307,935

(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 September 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, September 30, 2021	$	2,720,977	$	105,000	$	10,975,746	$	13,801,723
Accumulated Amortization								
Balance, December 31, 2020	$	-	$	-	$	-	$	-
Additions		(50,000)		(10,500)		(172,485)		(232,985)
Balance, September 30, 2021	$	(50,000)	$	(10,500)	$	(172,485)	$	(232,985)
Carrying amount								
Balance, December 31, 2020	$	1,955,677	$	-	$	8,781,746	$	10,737,423
Balance, September 30, 2021	$	2,670,977	$	94,500	$	10,803,261	$	13,568,738

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). The Company has recorded 26,300 in capitalized costs for website creation.

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.

The following table reflects the continuity of goodwill as at September 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, September 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

	September 30, 2021	December 31, 2020
Convertible debentures carried at fair value	$ -	$ 5,575,273
Convertible debentures carried at amortized cost	2,832,208	-
Carrying amount at end of period	$ 2,832,208	$ 5,575,273

As at September 30, 2021, the Company has unsecured convertible debentures with a carrying value of $2,832,208 (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 September 30, 2021, these are classified as long-term debt with a maturity date of November 2022. Interest and accretion expense was $534,727 and $452,888 for the nine months ended September 30, 2021 and 2020, respectively. Accrued interest of C$205,609 was settled through the issuance of 155,764 shares during the nine months ended September 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).

During the nine months ended September 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 September 30, 2021 and December 31, 2020:

	September 30, 2021
Beginning balance	$ 5,575,273
Loss on change in fair value of convertible debentures	172,956
Gain on debt extinguishment	(116,183)
Recognition of derivative liabilty conversion feature	(703,311)
Conversion to common shares	(2,418,109)
Accretion expense	321,582
Total	$ 2,832,208

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 nine months ended September 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 (continued)

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

		September 30, 2021
Beginning balance	$	-
Recognition of derivative liabilty conversion feature		703,311
Loss on change in fair value		96,118
Conversion to common shares		(628,687)
Total	$	170,742

As discussed earlier in Note 4, the conversion feature was erroneously reported as equity as of March 31, 2021, and the Company retrospectively adjusted the opening balance for the 3-month period ending June 30, 2021 to reflect proper accounting of the conversion feature as derivative liability.

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

	September 30, 2021
Expected life	1.13 years
Risk-free interest rate	0.3%
Dividend yield	0.00%
Expected volatility	120.4%

(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 $6,463,073 as at September 30, 2021 (December 31, 2020 - $5,321,891). These balances include $1,054,621 of short-term lease liabilities as at September 30, 2021 (December 31, 2020 - $949,496). Interest expense on lease liabilities were $507,294 and $469,019 for the nine months ended September 30, 2021 and 2020, respectively.

		Lease obligations
Remainder of 2021	$	390,933
2022		1,569,053
2023		1,593,572
2024		1,527,404
2025		1,372,739
Thereafter		2,686,979
Total undiscounted lease obligations	$	9,140,680
Impact of discounting		(2,677,607)
Total lease obligations	$	6,463,073
Less: current portion of long-term leases		(1,054,621)
	$	5,408,452

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

12. Long-term debt and consideration payable

	September 30, 2021	December 31, 2020
Consideration payable	$ 6,888,818	$ 6,663,313
Notes payable	2,123,581	119,533
Long-term debt - vehicle loans	145,529	156,846
Less: current portion	(5,722,854)	(141,704)
Carrying amount of long-term debt	$ 3,435,074	$ 6,797,988

Consideration payable

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 nine months ended September 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 September 30, 2021, the equity portion of the debt was $4,527,350 and the cash portion was $2,283,038.

Consideration payable was $6,888,818 as at September 30, 2021 (December 31, 2020 - $6,663,313). The Company recognized $326,726 and $252,809 in interest and accretion expense for the nine months ended September 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 $145,529 as at September 30, 2021 (December 31, 2020 - $156,846). The current portion of these liabilities were $25,846 as at September 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 nine months ended September 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)	(16,969)
Change in fair market value	-	(1,092,337)
Balance, September 30, 2021	12,015,118	$ 1,627,495

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.

(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:

	September 30, 2021
Expected life	1.3 years
Risk-free interest rate	0.52%
Dividend yield	0.00%
Expected volatility	113.5%

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 September 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 - w arrant exercise (vi)	29,000		16,969
Shares issued - acquisition of Fifth and Root (vii)	1,200,000		1,316,480
Shares issued - acquisition of Homegrow n (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, September 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)

(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 nine months ended September 30, 2021 (Note 10).

As at September 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
Warrants expired	115,942		(33,583)
Balance, September 30, 2021	550,728	$	170,901

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 nine months ended September 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:

	September 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

In March, 2021 the Company's Board of Directors adopted a new Stock Incentive Plan. The plan was approved at the Company's annual and special meeting of shareholders on May 10, 2021. The plan provides 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 1.1 years to 8.9 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		(1,020,516)
Total number of options at September 30, 2021		3,801,404
Number of exercisable options issued in Canadian dollars		2,182,857
Weighted average exercise price of options at September 30, 2021	$	2.08

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

	September 30, 2021
Expected life	3 years
Risk-free interest rate	0.23% - 0.25%
Dividend yield	0.00%
Expected volatility	83.1% - 106.9%
Expected forfeiture rate	0.00%

In the nine months ended September 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 nine months ended September 30, 2021 and 2020 includes the following expenses:

	For the three months ended September 30,		For the nine months ended September 30,	
	2021	2020	2021	2020
Salaries, commissions, bonuses and benefits	$ 143,095	$ 50,039	$ 301,172	$ 374,411
Consulting fees	61,500	98,116	254,412	452,950
Termination benefits	-	-	-	30,779
Stock compensation, including warrants and shares	41,410	45,941	182,196	265,930
	$ 246,005	$ 194,096	$ 737,780	$ 1,124,070

In addition, the Company issued the following stock options to executive management and directors in the nine months ended September 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 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. The arrangement was accounted for as stock-based compensation in accordance with IFRS 2 - Share-based payments.

Key Executive Retention Plan ("KERP")

As disclosed in the 2021 Management Information Circular, the Board of Directors approved a proposed plan as summarized below. As of the date of this report management is working to formalize a plan document outlining the full provisions of the KERP.

17. Related party transactions (continued)

In 2020, the Compensation Committee retained Global Governance Advisors Inc. ("**GGA**"), an internationally recognized independent executive compensation and governance advisory firm to review the executive compensation plan and design a special retention incentive for the Executive Chairman and CEO. GGA worked with the Compensation Committee to develop a peer group and compensation philosophy. This peer group consisted of Canada House Wellness Group Inc., Choom Holdings Inc., Delta 9 Cannabis Inc., Greenlane Holdings, Inc., Harborside Inc., Kushco Holdings Inc, Mjardin Group, Inc., Nextleaf Solutions Inc, and, Vireo Health International Inc. Health.

The compensation review also evaluated the impact of the voluntary salary reductions the Executive Chairman and CEO had taken since 2019. Due to the challenges that the Corporation faced, the Corporation's share price was trading at depressed levels, which exposed the Corporation to the risk of a hostile takeover at a discounted share price from the Corporation's true market value.

GGA's analysis identified that there was a material imbalance between Corporation performance and executive retention as well as an overall misalignment with compensation relative to the competitive market. For example, the voluntary salary rollbacks had been in effect since 2019 and no equity awards were granted to offset the foregone salary, which is often considered in similar situations as the Corporation. In addition, the executives in 2019 purchased shares at a 71% premium relative to fair market value (i.e., C$0.06 per share vs. market value of $0.035 per share), showing their commitment and belief in the long-term success of Chalice.

This share acquisition resulted in an opportunity cost of US$381,166 and the voluntary salary rollbacks relative to the median of similar roles in the cannabis sector resulted in a difference of $1,107,500 and $1,008,333 for the Executive Chairman and CEO respectively when compared to what a typical executive with their role and responsibilities would be expected to receive since 2019. The total foregone compensation of the Executive Chairman and CEO was equivalent to $1,488,666 and $1,389,499 respectively at the time of the GGA report. This share purchase premium was not acknowledged in any other form of performance-based incentive compensation.

As a result of the compensation misalignment, the Board approved implementing a Key Executive Retention Plan that created a stronger alignment with pay and performance at the Corporation moving forward over the remainder of 2021 and 2022. The KERP is described in greater detail below.

The purpose of the KERP is to retain key executives and to provide a performance-based compensation opportunity for the Executive Chairman and CEO for historic, voluntary base salary reductions, the opportunity cost each executive voluntarily absorbed for purchasing shares at a premium to fair market value and to align potential future compensation with performance should the Corporation be acquired in 2021 or 2022. The KERP is designed to align compensation with shareholder returns. The two components of the KERP include:

1. Base Retention Award; and

2. Success Pool

The base retention pool would be awarded to the Executive Chairman and CEO equally if the Corporation was acquired. The base retention pool is calibrated to award a threshold cash payment

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

17. Related party transactions (continued)

reflective of the fair market value of the salary rollback and opportunity cost of purchasing shares at a premium to fair market value.

The Success Pool is intended to incentivize key executives and officers of the Company based on value added created for shareholders should the Corporation be acquired at C$0.04 per share or higher. The Success Pool reserves up to an approximate 7.5% of market capitalization on acquisition, payable in cash, to be distributed amongst the Officers of the Corporation as determined by the Compensation Committee, based on share price growth. This includes the Executive Chairman, CEO and other key officers. The Success Pool is only awarded under a successful takeover and would be in lieu of stock options to lessen the dilutive impact of any potential payout on existing Shareholders.

Golden Leaf Share Price	C$0.02	C$0.04	C$0.06 (1)
Total Base Retention Incentive Pool	C$3,000,000	C$4,000,000	C$6,000,000
Success Pool (% of Market Cap)	0%	2.2%	7.5%

As of the date of this report management is working to formalize a plan document outlining in detail the full provisions of the KERP and plans to finalize it before the end of the 2021 calendar year.

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

September 30, 2021	Category	Level 1 $	Level 2 $	Level 3 $	Total $
Financial Assets					
Biological assets	FVTPL	-	-	566,655	566,655
Financial Liabilities					
Convertible debentures	Amortized Cost	-	-	2,832,208	2,832,208
Warrant liability	FVTPL	-	-	1,627,495	1,627,495
Derivative liability	FVTPL	-	-	170,742	170,742

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.

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 120% at September 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 September 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 $82,664 as at September 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 September 30, 2021						
Trade and other payables	$ 4,070,488	$ 4,070,488	$ 4,070,488	$ -	$ -	$ -
Lease liabilities	6,463,073	6,338,326	1,538,437	1,778,127	1,567,353	1,454,409
Other loans and borrowings	2,269,110	2,269,110	443,184	1,825,926	-	-
Convertible debt	2,832,208	3,784,779	-	3,784,779	-	-
Consideration payable	2,283,038	3,048,638	713,280	2,335,358	-	-
Total	$ 17,917,917	$ 19,511,340	$ 6,765,389	$ 9,724,190	$ 1,567,353	$ 1,454,409

(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 September 30, 2021:

	September 30, 2021
Cash	$ 235,317
Notes receivable	919,488
Total assets	$ 1,154,805
Trade and other payables	248,623
Convertible debt	2,832,208
Total liabilities	$ 3,080,831

(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.

	Oregon		Other		Consolidated	
For the nine months ended September 30	**2021**	**2020**	**2021**	**2020**	**2021**	**2020**
Product sales	$ 18,675,520	$ 14,173,425	$ 508,129	$ 1,144,782	$ 19,183,649	$ 15,318,207
Royalty and other revenue	1,096,819	842,523	155,595	222,363	1,252,414	1,064,886
Total Revenue	19,772,339	15,015,948	663,724	1,367,145	20,436,063	16,383,093
Inventory expensed to cost of sales	11,635,469	9,498,073	325,369	1,540,328	11,960,838	11,038,401
Gross margin, excluding fair value items	8,136,870	5,517,875	338,355	(173,183)	8,475,225	5,344,692
Fair value changes in biological assets included in inventory sold	286,194	(48,483)	-	-	286,194	(48,483)
(Gain) loss on changes in fair value of biological assets	(1,037,581)	295,009	-	-	(1,037,581)	295,009
Gross profit (loss)	$ 8,888,257	$ 5,271,349	$ 338,355	$ (173,183)	$ 9,226,612	$ 5,098,166
As of September 30						
Assets	$ 21,674,143	$ 9,881,466	$ 22,691,728	$ 19,096,313	$ 44,365,871	$ 28,977,779
Liabilities	$ 3,562,618	$ 5,800,716	$ 24,012,579	$ 17,583,987	$ 27,575,197	$ 23,384,703

	Oregon		Other		Consolidated	
For the three months ended September 30	**2021**	**2020**	**2021**	**2020**	**2021**	**2020**
Product sales	$ 7,377,665	$ 5,255,237	$ 186,779	$ 510,733	$ 7,564,444	$ 5,765,970
Royalty and other revenue	447,463	298,086	-	132,000	447,463	430,086
Total Revenue	7,825,128	5,553,323	186,779	642,733	8,011,907	6,196,056
Inventory expensed to cost of sales	4,456,114	3,492,488	152,374	540,514	4,608,488	4,033,002
Gross margin, excluding fair value items	3,369,014	2,060,835	34,405	102,219	3,403,419	2,163,054
Fair value changes in biological assets included in inventory sold	323,803	(14,125)	-	-	323,803	(14,125)
(Gain) loss on changes in fair value of biological assets	(551,401)	98,853	-	-	(551,401)	98,853
Gross profit	$ 3,596,612	$ 1,976,107	$ 34,405	$ 102,219	$ 3,631,017	$ 2,078,326

22. Business combinations

Fifth & Root, Inc.

The net loss from Fifth & Root from the acquisition date to reporting date was $217,726 and included in the interim condensed consolidated statement of operations and comprehensive income (loss) for the nine months ended September 30, 2021.

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

22. Business combinations (continued)

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 $3,526,840 and $389,494, respectively. These results were included in the interim condensed consolidated statement of operations and comprehensive income (loss) for the nine months ended September 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.

Cannabliss Services Agreement

On September 16, 2021, the Company entered into Services Agreements with Acreage Holdings, Inc., to manage four retail stores located in Portland, Eugene, and Springfield, Oregon, branded as Cannabliss & Co ("Cannabliss").

22. Business combinations (continued)

The parties also entered into an asset purchase agreement (“APA”) on the same date with the intention of receiving OLCC approval for the transfer of retail licenses in order to close the transaction in the first quarter of 2022. In consideration for the assets of Cannabliss the Company will issue a 10-month secured promissory note in the amount of $6,250,000 carrying interest of 6% for the first 6 months and the 10% for the final 4 months of the note term.

Upon execution of the Services Agreements, the Company paid a cash deposit of $250,000, which is included in prepaid expenses and deposits as at September 30, 2021.

Transaction costs for all business combinations noted herein were immaterial.

23. Income Tax

For the three and nine months ended September 30, 2021, income tax expense was $600,650 and $1,418,095 respectively compared to $848,379 and $1,418,095 for the three and nine months ended September 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

On October 7, 2021, the Company announced that it has entered into an agreement with Canaccord Genuity Corp. as sole agent and bookrunner of a brokered private placement of unsecured convertible debenture units and equity units of the Company (the "**Offering**"). Pursuant to the Offering, the Company will issue, for gross proceeds of up to C$10 million: (a) Debenture Units, each Debenture Unit to be comprised of (i) one C$1,000 principal amount unsecured convertible debenture, and (ii) 500 warrants of the Company; and (b) Equity Units, at a price equal to C$0.75 per Equity Unit, with each Equity Unit to be comprised of (i) one common share of the Company and (ii) one-half of one (1/2) Warrant. On November 23, 2021 the Company announced the closing of the 4,025 debenture units and 2,285,933 equity units for total gross proceeds of C$5.7 million. The debentures mature on November 23, 2024 and bear interest at 10% and are convertible into common shares at C$1.00 per share.