The Green Organic Dutchman Holdings Ltd.

Unaudited Interim Condensed Consolidated Financial Statements

For the three and nine months ended September 30, 2021 and September 30, 2020

The Green Organic Dutchman Holdings Ltd.
INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(Unaudited)
(expressed in thousands of Canadian dollars, except common shares outstanding)

	Notes		As at September 30, 2021		As at December 31, 2020
ASSETS					
Current assets					
Cash and cash equivalents		**$**	**3,935**	$	11,212
Restricted cash	17		**331**		622
Refundable sales taxes receivable			**187**		160
Trade receivables	17		**7,353**		10,023
Biological assets	9		**2,366**		1,984
Inventories	10		**18,752**		17,135
Prepaid expenses and deposits			**1,755**		1,641
Other current assets	11		**1,939**		853
Deferred financing costs			**68**		750
Assets held for sale	4		**16,196**		—
		$	**52,882**	$	44,380
Non-current assets					
Property, plant and equipment	7		**106,812**		147,263
Intangible assets	8		**5,982**		8,933
Other assets	11, 16		**1,739**		10,999
Total assets		**$**	**167,415**	$	211,575
LIABILITIES AND SHAREHOLDERS' EQUITY					
Current liabilities					
Accounts payable and accrued liabilities		**$**	**15,341**	$	24,453
Sales taxes payable			**148**		—
Deferred revenue			**—**		150
Current portion of loans	6		**1,241**		40,755
Current portion of lease liabilities	12		**570**		1,019
Loan payable to disposal group	4		**5,459**		—
Liabilities held for sale	4		**2,437**		—
			25,196		66,377
Non-current liabilities					
Lease liabilities	12		**3,395**		4,551
Loans	6		**13,886**		—
Contingent consideration			**—**		39
Deferred tax liability			**—**		804
			17,281		5,394
Total liabilities		**$**	**42,477**	$	71,771
Shareholders' equity					
Share capital	13		**487,714**		468,379
Contributed surplus	14		**109,654**		108,874
Deficit			**(471,010)**		(436,559)
Reserve for foreign currency translations			**(606)**		255
Total Shareholders' Equity attributed to The Green Organic Dutchman Holdings Ltd.		**$**	**125,752**	$	140,949
Non-controlling interests			**(814)**		(1,145)
Total Shareholders' Equity			**124,938**		139,804
Total Liabilities and Shareholders' Equity		**$**	**167,415**	$	211,575
Total number of common shares outstanding			**536,677,598**		486,675,760
Going concern	2				
Commitments and contingencies	16				
Events after the reporting period	20				

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

The Green Organic Dutchman Holdings Ltd.
INTERIM CONDENSED CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS
(Unaudited) (expressed in thousands of Canadian Dollars, except per share amounts)

	Notes	For the three months ended September 30, 2021	For the three months ended September 30, 2020 Restated*	For the nine months ended September 30, 2021	For the nine months ended September 30, 2020 Restated*
Continuing operations					
Revenue		$ **9,745**	$ 3,835	$ **26,813**	$ 7,212
Excise duties		**(2,465)**	(832)	**(6,038)**	(1,363)
Net revenue		**7,280**	3,003	**20,775**	5,849
Cost of sales		**5,154**	2,449	**16,033**	6,460
Gross profit before change in fair value of biological assets		**2,126**	554	**4,742**	(611)
Realized fair value adjustment on sale of inventories		**(1,765)**	(1,178)	**(5,626)**	(3,544)
Unrealized gain on changes in fair value of biological assets	9	**2,185**	3,547	**7,750**	7,536
Gross profit		$ **2,546**	$ 2,923	$ **6,866**	$ 3,381
Operating expenses					
Sales and marketing expenses		$ **890**	$ 1,770	$ **2,764**	$ 5,245
Research and development expenses		**60**	183	**471**	766
General and administrative expenses	11[c]	**6,369**	4,864	**15,643**	18,711
Share based compensation	14	**884**	451	**2,516**	4,578
Depreciation and amortization	7, 8	**3,494**	1,869	**8,543**	3,978
Total operating expenses		$ **11,697**	$ 9,137	$ **29,937**	$ 33,278
Loss from operations		**(9,151)**	(6,214)	**(23,071)**	(29,897)
Foreign exchange gain (loss)	17[c]	**(803)**	230	**(578)**	(1,099)
Finance costs		**(1,002)**	(851)	**(5,323)**	(1,847)
Accretion expense	6	**(295)**	(405)	**(5,148)**	(655)
Finance income		**8**	38	**55**	200
Share of loss on investments in associates		**—**	—	**—**	(148)
Revaluation of contingent consideration		**—**	30	**39**	391
Loss on disposal of assets	7	**(159)**	(458)	**(63)**	(458)
Impairment of investment in associates		**—**	—	**—**	(3,082)
Reversal of impairment / (impairment) charge for non-financial assets	7, 8	**—**	(67,837)	**21,811**	(120,602)
Loss on derecognition on investment in joint venture		**—**	—	**(761)**	—
Impairment loss on remeasurement of disposal group	4	**(4,442)**	—	**(4,442)**	—
Loss on assets held for sale	5	**—**	—	**(17,688)**	—
Debt modification	6	**1,275**	71	**1,275**	38
Loss before income taxes		**(14,569)**	(75,396)	**(33,894)**	(157,159)
Deferred income tax recovery		**628**	—	**628**	—
Net loss from continuing operations		$ **(13,941)**	$ (75,396)	$ **(33,266)**	$ (157,159)
Discontinued operations					
Loss from discontinued operation	4	**(603)**	(848)	**(1,295)**	(2,296)
Net loss from operations		**(14,544)**	(76,244)	**(34,561)**	(159,455)

** Comparative information has been re-presented due to a discontinued operation and change in classification. See Note 4.*

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

The Green Organic Dutchman Holdings Ltd.
INTERIM CONDENSED CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS (CONTINUED)
(Unaudited) (expressed in thousands of Canadian Dollars, except per share amounts)

		For the three months ended		For the nine months ended	
	Notes	September 30, 2021	September 30, 2020 Restated*	September 30, 2021	September 30, 2020 Restated*
Other comprehensive (income)/loss					
Foreign currency translation (income)/loss		**(483)**	(617)	**866**	(1,986)
Foreign currency translation income on equity method investment		**—**	—	**—**	(708)
Comprehensive loss		**$ (14,061)**	$ (75,627)	**$ (35,427)**	$ (156,761)
Net loss attributable to:					
The Green Organic Dutchman Holdings Ltd.		**(14,509)**	(76,129)	**(34,451)**	(158,935)
Non-controlling interests		**(35)**	(115)	**(110)**	(520)
Comprehensive loss attributable to:					
The Green Organic Dutchman Holdings Ltd.		**(14,026)**	(75,512)	**(35,317)**	(156,241)
Non-controlling interests		**(35)**	(115)	**(110)**	(520)
Basic and diluted loss per share		**$ (0.03)**	$ (0.20)	**$ (0.07)**	$ (0.46)
Basic and diluted loss per share - Continuing operations		**$ (0.03)**	$ (0.20)	**$ (0.06)**	$ (0.45)
Weighted average number of outstanding common shares		**530,900,216**	384,704,680	**522,625,638**	347,274,528

** Comparative information has been re-presented due to discontinued operations.*
The accompanying notes are an integral part of these interim condensed consolidated financial statements.

The Green Organic Dutchman Holdings Ltd.
INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(Unaudited)
(expressed in thousands of Canadian Dollars, except number of shares)

		Share Capital		Contributed Surplus									
	Notes	Common Shares	Amount	Reserve for share based payments	Reserve for warrants	Other contributed surplus	Escrowed share units	Shares to be issued	Total Contributed surplus	Reserve for foreign currency translations	Accumulated deficit	Non-Controlling Interests	Total
		#	$	$	$	$	$	$	$	$	$	$	$
Balance at December 31, 2020		**486,675,760**	**468,379**	23,258	66,111	11,129	7,972	404	**108,874**	**255**	**(436,559)**	**(1,145)**	**139,804**
Issuance of common shares	13[i]	**14,341,958**	**7,655**	—	—	—	—	—	-	—	—	—	**7,655**
Share based compensation	14[a,c]	—	—	613	—	—	—	—	**613**	—	—	—	**613**
Exercise of warrants	13[ii]	**24,198,600**	**8,684**	—	(1,124)	—	—	—	**(1,124)**	—	—	—	**7,560**
Expiry of stock options	14[a]	—	—	(4,102)	—	4,102	—	—	-	—	—	—	-
Expiry of warrants	14[b]	—	—	—	(37,638)	37,638	—	—	-	—	—	—	-
Restricted share units exercised during period	13[iii]	**390,810**	**175**	(175)	—	—	—	—	**(175)**	—	—	—	-
Shares issued in connection with accounts payable	13[iv]	**1,591,535**	**404**	—	—	—	—	(104)	**(104)**	—	—	—	**300**
Comprehensive income (loss)		—	—	—	—	—	—	—	-	**(1,304)**	**12,518**	**(55)**	**11,159**
Elimination of non-controlling interest on disposal of Denmark		—	—	—	—	—	—	—	-	**5**	—	**441**	**446**
Balance at March 31, 2021		**527,198,663**	**485,297**	19,594	27,349	52,869	7,972	300	**108,084**	**(1,044)**	**(424,041)**	**(759)**	**167,537**
Issuance of common shares	13[i]	**1,073,000**	**377**	—	—	—	—	—	-	—	—	—	**377**
Share based compensation	14[a,c]	—	—	1,019	—	—	—	—	**1,019**	—	—	—	**1,019**
Expiry of warrants	14[b]	—	—	—	(17,243)	17,243	—	—	-	—	—	—	-
Shares issued in connection with accounts payable	13[iii]	**872,093**	**300**	—	—	—	—	(300)	**(300)**	—	—	—	-
Comprehensive loss		—	—	—	—	—	—	—	-	**(45)**	**(32,460)**	**(20)**	**(32,525)**
Balance at June 30, 2021		**529,143,756**	**485,974**	20,613	10,106	70,112	7,972	-	**108,803**	**(1,089)**	**(456,501)**	**(779)**	**136,408**
Issuance of common shares	13[i]	**4,677,000**	**1,187**	—	—	—	—	—	-	—	—	—	**1,187**
Share based compensation	14[a,c]	—	—	884	—	—	—	—	**884**	—	—	—	**884**
Restricted share units exercised during period	13[iii]	**120,000**	**33**	(33)					**(33)**	—			
Shares issued in connection with debt modification	13[v]	**2,736,842**	**520**	—	—	—	—	—	-	—	—	—	**520**
Comprehensive income (loss)		—	—	—	—	—	—	—	-	**483**	**(14,509)**	**(35)**	**(14,061)**
Balance at September 30, 2021		**536,677,598**	**487,714**	21,464	10,106	70,112	7,972	-	**109,654**	**(606)**	**(471,010)**	**(814)**	**124,938**

The Green Organic Dutchman Holdings Ltd.
INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (CONTINUED)
(Unaudited)
(expressed in thousands of Canadian Dollars, except number of shares)

		Share Capital		Contributed Surplus									
	Notes	Common Shares	Amount	Reserve for share based payments	Reserve for warrants	Other contributed surplus	Escrowed share units	Shares to be issued	Total Contributed surplus	Reserve for foreign currency translations	Accumulated deficit	Non-Controlling Interests	Total
		#	$	$	$	$	$	$	$	$	$	$	$
Balance at December 31, 2019		312,733,244	428,651	22,247	64,415	1,129	7,972	—	95,763	(2,241)	(254,018)	(555)	267,600
Share based compensation		—	15	2,205	—	—	—	—	2,205	—	—	—	2,220
Exercise of stock options		847,600	763	(339)	—	—	—	—	(339)	—	—	—	424
Exercise of warrants		500	1	—	—	—	—	—	—	—	—	—	1
Expiry of options		—	—	(272)	—	272	—	—	—	—	—	—	-
Restricted share units exercised during period		27,174	75	(75)	—	—	—	—	(75)	—	—	—	-
Shares to be issued		—	—	—	—	—	—	1,876	1,876	—	—	—	1,876
Comprehensive loss		—	—	—	—	—	—	—	—	2,346	(73,151)	(285)	(71,090)
Balance at March 31, 2020		313,608,518	429,505	23,766	64,415	1,401	7,972	1,876	99,430	105	(327,169)	(840)	201,031
Bought deal offerings		63,661,700	16,220	—	4,533	—	—	—	4,533	—	—	—	20,753
Share based compensation		—	8	1,649	—	—	—	—	1,649	—	—	—	1,657
Warrants issued in connection with debt		—	—	—	621	—	—	—	621	—	—	—	621
Exercise of warrants		500,000	221	—	(31)	—	—	—	(31)	—	—	—	190
Expiry of warrants		—	—	—	(8,150)	8,150	—	—	—	—	—	—	-
Expiry of options		—	—	(648)	—	648	—	—	—	—	—	—	-
Convertible shares issued		24,691	—	—	—	—	—	—	—	—	—	—	-
Shares issued in connection with accounts payable		6,858,375	1,876	—	—	—	—	(1,876)	(1,876)	—	—	—	-
Comprehensive loss		—	—	—	—	—	—	—	—	(269)	(9,655)	(120)	(10,044)
Balance at June 30, 2020		384,653,284	447,830	24,767	61,388	10,199	7,972	-	104,326	(164)	(336,824)	(960)	214,208
Share based compensation		—	8	408	—	—	—	—	408	—	—	—	416
Exercise of warrants		62,500	27	—	(3)	—	—	—	(3)	—	—	—	24
Shares issued in connection with accounts payable		136,488	60	—	—	—	—	—	—	—	—	—	60
Shares to be issued		—	—	—	—	—	—	35	35	—	—	—	35
Comprehensive loss		—	—	—	—	—	—	—	—	617	(76,129)	(115)	(75,627)
Balance at September 30, 2020		384,852,272	447,925	25,175	61,385	10,199	7,972	35	104,766	453	(412,953)	(1,075)	139,116

An unlimited number of common shares are authorized for issue.

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

The Green Organic Dutchman Holdings Ltd.
INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
(expressed in thousands of Canadian dollars)

	Notes	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
OPERATING ACTIVITIES					
Net loss from operations		**$ (14,544)**	$ (76,244)	**$ (34,561)**	$ (159,455)
Items not affecting cash:					
(Reversal of impairment) / Impairment of property, plant and equipment	7	**—**	66,591	**(17,765)**	118,316
(Reversal of impairment) / Impairment of intangible assets	8	**—**	1,246	**(4,046)**	2,286
Loss on assets held for sale	5	**—**	—	**17,688**	—
Impairment loss on remeasurement of disposal group	4	**4,442**	—	**4,442**	—
Impairment of investment in associates		**—**	—	**—**	3,082
Share based compensation	14	**884**	451	**2,516**	4,578
Depreciation of property, plant and equipment	7	**3,503**	1,921	**8,679**	4,142
Amortization of intangible assets	8	**450**	349	**1,240**	1,128
Realized fair value adjustment on sale of inventories		**1,765**	1,178	**5,626**	3,544
Unrealized gain on change in fair value of biological assets	9	**(2,185)**	(3,547)	**(7,750)**	(7,536)
Accretion	6	**295**	405	**5,148**	655
Share of loss on investments in associates		**—**	—	**—**	148
Revaluation of contingent consideration		**—**	(30)	**(39)**	(391)
Loss (gain) on disposal of assets	7	**173**	510	**63**	466
Loss on derecognition on investment in joint venture		**—**	—	**761**	—
Deferred financing costs expensed		**230**	230	**682**	506
Deferred income tax recovery		**(661)**	146	**(804)**	(131)
Write-down of deposit	11[c]	**1,564**	—	**1,564**	—
Debt modification	6	**(1,275)**	(71)	**(1,275)**	(38)
Income taxes paid		**—**	—	**—**	(14)
Changes in non-cash operating working capital items	15	**(179)**	161	**957**	628
Net cash used in operating activities		**$ (5,538)**	$ (6,704)	**$ (16,874)**	$ (28,086)
INVESTING ACTIVITIES					
Additions to property, plant and equipment	7	**(786)**	(9,283)	**(6,804)**	(45,392)
Net proceeds from the disposition of the Valleyfield Assets	5	**—**	—	**25,512**	—
Net cash inflow on deposits	11[a]	**—**	—	**5,761**	—
Proceeds on disposal of assets	7	**609**	975	**1,698**	975
Transfer (to) from restricted cash		**386**	—	**291**	8,359
Advances to related parties, net of repayments		**—**	(467)	**—**	511
Net cash inflow on sale of investment	11[b]	**—**	—	**1,242**	—
Additions to intangible assets	8	**—**	(39)	**(6)**	(264)
Net cash proceeds from (used in) investing activities		**$ 209**	$ (8,814)	**$ 27,694**	$ (35,811)
FINANCING ACTIVITIES					
Proceeds from issuance of shares and warrants, net of share issue costs	13	**1,187**	—	**9,219**	20,753
Proceeds from issuance of debt, net of issue costs	6	**2,940**	3,000	**2,940**	22,009
Proceeds from the exercise of stock options and warrants	13, 14	**—**	24	**7,560**	639
Interest received		**15**	29	**55**	173
Interest paid on lease liabilities	12	**(161)**	(123)	**(415)**	(371)
Interest paid on debt	6	**(576)**	(1,424)	**(3,905)**	(3,045)
Principal payments of lease liabilities	12	**(342)**	(131)	**(640)**	(300)
Principal payments of debt	6	**—**	(500)	**(32,200)**	(500)
Change in balance of revolver facility	6	**(1,561)**	—	**785**	—
Net cash provided by (used in) financing activities		**$ 1,502**	$ 875	**$ (16,601)**	$ 39,358
Net cash outflow		**$ (3,827)**	$ (14,643)	**$ (5,781)**	$ (24,539)
Net effects of foreign exchange		**578**	(34)	**(405)**	1,070
Cash, beginning of period		**8,275**	18,777	**11,212**	27,569
Cash related to asset held for sale		**(1,091)**	—	**(1,091)**	—
Cash and cash equivalents, end of period		**$ 3,935**	$ 4,100	**$ 3,935**	$ 4,100

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

1. NATURE OF ACTIVITIES

The Green Organic Dutchman Holdings Ltd. ("Company") was incorporated on November 16, 2016, under the *Canada Business Corporations Act* ("CBCA"). The Company is a reporting issuer domiciled in Canada whose common shares ("the Common Shares") are publicly traded on the Canadian Securities Exchange ("CSE") under the symbol "TGOD" and on the OTCQX under the symbol "TGODF". The Company also has four classes of warrants listed on the CSE under the symbols "TGOD.WS", "TGOD.WR", "TGOD.WA" and "TGOD.WB". The Company's registered and head office is located at 6205 Airport Road, Building A – Suite 200, Mississauga, ON, L4V 1E3. These unaudited interim condensed consolidated financial statements for the three and nine months ended September 30, 2021 and September 30, 2020 ("Interim Consolidated Financial Statements") include the financial statements of The Green Organic Dutchman Holdings Ltd. and its subsidiaries from the date the Company gained control of each subsidiary.

The Company's wholly-owned Canadian subsidiary, The Green Organic Dutchman Ltd. ("TGOD") is a licensed producer under the *Cannabis Act* (Canada) and holds a licence to produce cannabis plants, cannabis plant seeds, dried cannabis, fresh cannabis, cannabis oils, cannabis topicals, cannabis extracts and edible cannabis and sell such cannabis products within Canada to provincially authorized retailers or distributors and federally licensed entities. The Company owns a cannabis cultivation facility near Hamilton, Ontario (the "**Hamilton Facility**"). The Company also has a presence in Québec with certain continuing operations out of its previous facility located in Valleyfield, Québec (the "**Quebec Facility**"). In addition, as described in the 'Events After the Reporting Period' section below, the Company acquired Galaxie Brands Corporation ("Galaxie") on November 17, 2021, which leases a facility in Puslinch, Ontario (the "**Galaxie Facility**").

In addition to its Canadian operations, the Company, through its subsidiaries and strategic investments, is pursuing an international growth strategy, and has established strategic partnerships for the distribution of cannabis and hemp-derived medical products in Mexico, Germany, Australia, South Africa and other countries as regulations allow.

The outbreak of the novel strain of the coronavirus, SARS-COV-2 ("COVID-19"), and its eventual declaration as a pandemic by the World Health Organization ("WHO") on March 11, 2020, has resulted in governments worldwide enacting emergency measures to combat the spread of the virus. These measures have caused material disruption to businesses globally resulting in an economic slowdown. The Company implemented measures to protect its global workforce from COVID-19 and endeavouring to mitigate any long-term impact of the pandemic on its business which remain unknown. While it is difficult to predict the impact of COVID-19 on the Company's business, the Company continues to seek to mitigate these impacts through various means including engagement with its retailers, transition of its staff to working remotely where possible, increasing safety protocols and sanitation measures within the workplace, and monitoring developments in order to adapt and respond in order to protect the health and safety of the Company's employees and the best interests of the Company.

2. BASIS OF PRESENTATION

[i] Going concern

These Interim Consolidated Financial Statements have been prepared on a going concern basis which presumes that the Company will continue in operation for the foreseeable future and will be able to realize assets and discharge liabilities in the normal course of its operations.

As of September 30, 2021, the Company had working capital of $27,686 (negative working capital December 31, 2020 – $21,997) and an accumulated deficit of $471,010 (December 31, 2020 - $436,559). During the nine months ended September 30, 2021, the Company used cash in operating activities of $16,874 (nine months ended September 30, 2020 - $28,086) resulting primarily from the loss from operations $23,071 (nine months ended September 30, 2020 - $29,897) offset by items not affecting cash such as depreciation, amortization and stock based compensation. The Company has insufficient cash on hand to fund its planned operations. The Company's ability to continue as a going concern is dependent upon its ability to generate sufficient revenues and positive cash flows from its operating activities and/or obtain sufficient funding to meet its obligations.

The Company may need to obtain further funding in the form of asset sales, debt, equity or a combination thereof to continue operations for the next twelve months. There can be no assurance that additional funding will be available to the Company, or, if available, that this funding will be on acceptable terms. If positive operating cash flows are not achieved, debt obligations are not repaid, or adequate funding is not available, the Company may be required to delay or reduce the scope of any or all of its projects. In addition, the terms of the renewed secured revolving credit facility (the "Revolver Loan") require the Company to satisfy various affirmative and negative covenants and to meet certain future financial tests. A failure to comply with these covenants, including a failure to meet the financial tests, would result in an event of default under the Revolver Loan and if not cured would allow the Lender to accelerate the debt, which could materially and adversely affect the business, results of operations and financial condition of the Company. These conditions indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

These Interim Consolidated Financial Statements do not reflect adjustments that would be necessary if the going concern assumption were not appropriate. Should the Company be unable to generate sufficient cash flow from operating and/or financing activities, the carrying value of the Company's assets could be subject to material adjustments and other adjustments may be necessary to these financial statements should such events impair the Company's ability to continue as a going concern.

[ii] Interim Financial Reporting

These Interim Consolidated Financial Statements have been prepared by management in accordance with International Accounting Standard ("IAS") 34, "Interim Financial Reporting" as issued by the International Accounting Standards Board ("IASB"). The same accounting policies and methods of computation were followed in the preparation of these Interim Consolidated Financial Statements as those disclosed in the Company's annual audited consolidated financial statements for the year ended December 31, 2020, with the exception of the new accounting policy adopted by the Company (see note 3(i)).

These Interim Consolidated Financial Statements do not include all of the information required for full annual consolidated financial statements and accordingly should be read in conjunction with the annual audited consolidated financial statements for the year ended December 31, 2020 which are made available on SEDAR at www.sedar.com.

These Interim Consolidated Financial Statements were approved by the Board of Directors of the Company and authorized for issue by the Board of Directors of the Company on November 24, 2021.

3. SIGNIFICANT ACCOUNTING POLICIES

The preparation of these Interim Consolidated Financial Statements requires the use of certain critical accounting estimates. It also requires management to exercise judgement in applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the Interim Consolidated Financial Statements are consistent with those disclosed in the notes to the annual consolidated financial statements for the year ended December 31, 2020, except as noted below.

[i] New accounting policies adopted by the Company

Non-current assets (or disposal groups) held for sale

Non-current assets (or disposal groups) are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. Assets held for sale are measured at each reporting period at the lower of their carrying amount and fair value less costs to sell ("FVLCS"), except for inventories, biological assets, deferred tax assets, assets arising from employee benefits, financial assets and investment property that are carried at fair value and contractual rights under insurance contracts, which are measured in accordance with the Company's other accounting policies, as applicable.

An impairment loss is recognized for any initial or subsequent write-down of the assets held for sale (or disposal group) to FVLCS. A gain is recognized for any subsequent increases in FVLCS of assets held for sale (or disposal group), but not in excess of any cumulative impairment loss previously recognized. A gain or loss not previously recognized by the date of the sale of the non-current assets (or disposal group) is recognized at the date of derecognition.

Non-current assets (including those part of a disposal group) are not depreciated or amortized while they are classified as held for sale. Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale continue to be recognized.

Non-current assets classified as held for sale are presented separately from the other assets in the statement of financial position. The liabilities of a disposal group classified as held for sale are presented separately from other liabilities in the statement of financial position.

(expressed in thousands of Canadian Dollars except as otherwise indicated)

4. DISPOSAL GROUP HELD FOR SALE AND DISCONTINUED OPERATION

As at September 30 2021, management was committed to a plan to sell the Company's wholly owned hemp cultivation and extraction business based in Poland. Accordingly, the Company has presented the subsidiary as a disposal group held for sale. Efforts to sell the disposal group have started and a sale is expected within the next twelve months.

Results of discontinued operation

	For the three months ended		For the nine months ended	
	September 30, 2021	**September 30, 2020**	**September 30, 2021**	**September 30, 2020**
Revenue	$ **1,298**	$ 1,875	$ **5,028**	$ 6,382
Gross profit	$ **652**	$ 1,046	$ **2,641**	$ 3,620
Expenses	$ **1,251**	$ 1,748	$ **4,075**	$ 6,047
Loss from discontinued operations	$ **(599)**	$ (702)	$ **(1,434)**	$ (2,427)
Deferred tax recovery (expense)	$ **(4)**	$ (146)	$ **139**	$ 131
Loss from discontinued operations, net of tax	$ **(603)**	$ (848)	$ **(1,295)**	$ (2,296)
Basic and diluted loss per share	**$(0.00)**	$(0.00)	**$(0.01)**	$(0.01)

Cash flows from (used in) discontinued operation

	For the three months ended		For the nine months ended	
	September 30, 2021	**September 30, 2020**	**September 30, 2021**	**September 30, 2020**
Net cash (used in) provided by operating activities	$ **(451)**	$ (1,172)	$ **1,073**	$ (1,053)
Net cash used in investing activities	**(29)**	(110)	**(188)**	(551)
Net cash used in financing activities	**(126)**	(144)	**(393)**	(350)
Net cash (outflows) inflows for the year	**$ (606)**	**$** (1,426)	**$ 492**	**$** (1,954)

Impairment losses related to the disposal group

Impairment losses of $4,442 for write-downs of the disposal group to the lower if its carrying amount and its fair value less costs to sell have been recognized for the three and nine months ended September 30, 2021 (three and nine months ended September 30, 2020, $Nil and $Nil, respectively). The impairment losses have been applied to reduce the carrying amount of property, plant and equipment, intangible assets, and deferred tax liability.

Assets and liabilities of disposal group held for sale

As at September 30, 2021, the disposal group was stated at fair value less costs to sell and comprised of the following assets and liabilities.

(expressed in thousands of Canadian Dollars except as otherwise indicated)

	Disposal Group
Cash and cash equivalents	1,091
Refundable sales taxes receivable	64
Trade receivables	579
Prepaid expenses and deposits	417
Inventories	4,055
Property, plant and equipment	1,787
Intangible assets	2,744
Loan receivable from TGODH	5,459
Assets held for sale	**16,196**
Accounts payable and accrued liabilities	729
Lease liabilities	1,235
Loans	473
Liabilities held for sale	**2,437**

Measurement of fair values

The fair value of the disposal groups net assets was estimated to be $14,459 (before costs to sell of $700) using a market approach (level 2 on the fair value hierarchy). The Company has received a non-binding competitive bid from a prospective buyer arranged by advisors with varying conditions and options which also provide reliable information to determine the fair value of the disposal group.

5. SALE OF VALLEYFIELD ASSETS

On June 22, 2021, the Company completed the sale of the majority of its assets in Valleyfield, Quebec, including all of the industrial and agricultural land, main hybrid greenhouse, rooftop greenhouse, all support buildings and certain related equipment (the "Valleyfield Assets") for gross proceeds of $27,000 (net proceeds of $25,512) (the "Quebec Disposition")

The following is a continuity of the Company's Valleyfield Assets held for sale.

		Valleyfield Assets
Balance, December 31, 2020	**$**	—
Transferred from property, plant and equipment		43,200
Remeasurement of assets held for sale		(17,688)
Gross proceeds on sale		(27,000)
Transaction costs		1,488
Balance, September 30, 2021		—

The Company was also refunded the deposit that it had with Hydro-Quebec, including interest, of $5,761, see Note 11 – Other Assets. Concurrent with the Quebec Disposition, the Company repaid the remaining principal balance to its senior secured first lien credit facility (the "Senior Loan"), including a 2% prepayment penalty, to settle all of its outstanding obligations and terminated the loan agreement with such lender, see Note 6 – Loans.

As also agreed to with the purchaser of the Valleyfield Assets, the Company entered into a lease with such purchaser concurrent with the closing of the Quebec Disposition, for approximately 80,000 square feet of cultivation and processing space in the Quebec Facility, see Note 12 – Leases.

(expressed in thousands of Canadian Dollars except as otherwise indicated)

6. LOANS

The following tables illustrate the continuity schedule and presentation of the Company's loans:

		For the nine months ended September 30, 2021		For the year-ended December 31, 2020
Opening Balance	$	**40,755**	$	17,433
Additions		**3,000**		24,658
Deferred financing fee		**(580)**		(3,044)
Residual fair value of equity portion		**—**		(1,628)
Accretion		**5,148**		4,199
Debt modification		**(1,275)**		(799)
Principal payments		**(32,200)**		(500)
Effects of movements in foreign exchange		**(33)**		(19)
Reclassification to liabilities held for sale		**(473)**		
Change in balance of Revolver Loan		**785**		455
Ending Balance	$	**15,127**	$	40,755

		September 30, 2021		December 31, 2020
Loans	$	**15,127**	$	40,755
Current portion		**(1,241)**		(40,755)
Long term portion	$	**13,886**	$	—

Senior secured credit facility

On December 24, 2019, the Company closed a Senior Loan with a commercial lender with first security rights on the Company's assets, primarily its production facilities. Under the Senior Loan the Company received gross proceeds of $32,700 from the lender at a thirteen percent (13%) rate of interest. Per the Senior Loan agreement, there were no scheduled principal repayments required for the first twelve months of the term of the Senior Loan and after which the Company was required to make monthly repayments commencing on January 1, 2021 plus interest, with the remaining unpaid balance upon maturity which was expected on December 15, 2021. The Senior Loan carried a prepayment option at any time with a 2% prepayment premium on the outstanding principal of the Senior Loan.

On June 22, 2021, the Company repaid the remaining principal of $30,977 concurrent with the Quebec Disposition and a 2% prepayment premium of $620, recorded in finance costs. The Company settled all obligations as a result and terminated the loan agreement with such lender.

Revolver Loan

On April 22, 2020, the Company closed its Revolver Loan with a commercial lender for gross proceeds of up to $30,000 of which $10,000 was funded on April 22, 2020 and carries a conventional competitive rate. The Revolver Loan was secured by a second lien over the assets of the Company with a first lien over substantially all of the cannabis and cannabis derived inventories and Canadian trade receivables. As the accounts receivable balance eligible for collateral increases, additional credit is available to the Company up to a maximum of an additional $20,000. In connection with the Quebec Disposition, the lender for the Revolver Loan agreed to release its second lien security on the Valleyfield Assets and with the settlement of the Senior Loan described above, holds first security on the Company's Hamilton Facility with all other terms and conditions still in place.

On August 10, 2021, the lender provided a further $3,000 term portion advance to the Company under the current facility. The Company incurred $60 of costs related to the transaction.

On September 29, 2021, the Revolver Loan was amended and restated where they agreed to provide an additional advance of $1,000, extend the Revolver Loan maturity to June 30, 2023, and reduce the overall Revolver Loan from $30,000 to $25,000 total, in exchange for $520 worth of Common Shares of the Company. As part of the debt modification on September 29, 2021, the Company has agreed to a financial covenant requiring achievement of positive EBITDA monthly by March 31, 2021, as well as provide $6,000 from the net proceeds of sales from the disposal group.

As at September 30, 2021, the total principal balance outstanding related to the Revolver Loan was $17,240. The Revolver Loan has other non-financial covenants which the Company had met as at September 30, 2021.

On October 5, 2021, the Company received the $1,000 advance related to the amendment discussed above.

(expressed in thousands of Canadian Dollars except as otherwise indicated)

7. PROPERTY, PLANT AND EQUIPMENT

Cost:		Land	Buildings	Furniture and fixtures	Production equipment	Building improvements	Computer equipment	Automobiles	Construction in progress	Right-of-use assets	Total
Balance, December 31, 2020		$ 6,855	$ 61,205	$ 390	$ 65,714	$ 698	$ 1,352	$ 366	$ 250,019	$ 7,273	$ 393,872
Transfers		—	5,037	—	1,473	—	—	—	(6,510)	—	—
Additions		—	—	—	73	—	—	38	57	86	254
Disposals		—	—	—	—	—	—	(16)	(2,782)	(323)	(3,121)
Derecognition on investment in joint venture		—	—	—	(683)	—	—	—	—	—	(683)
Reclassification to assets held for sale	Note 5	(4,080)	(1,472)	(14)	(244)	(37)	—	—	(240,784)	—	(246,631)
Effects of movements in foreign exchange and other		—	(119)	(9)	(87)	—	(2)	(6)	—	(161)	(384)
Balance, March 31, 2021		$ 2,775	$ 64,651	$ 367	$ 66,246	$ 661	$ 1,350	$ 382	$ —	$ 6,875	$ 143,307
Additions		—	—	—	29	—	—	—	—	1,882	1,911
Disposals		—	—	—	(456)	—	—	(35)	—	(69)	(560)
Effects of movements in foreign exchange and other		—	49	4	36	—	1	2	—	64	156
Balance, June 30, 2021		$ 2,775	$ 64,700	$ 371	$ 65,855	$ 661	$ 1,351	$ 349	$ —	$ 8,752	$ 144,814
Additions		—	—	—	273	—	—	—	—	71	344
Disposals		—	—	—	(509)	—	—	—	—	(3,224)	(3,733)
Reclassification to assets held for sale	Note 4	—	(1,574)	(114)	(1,245)	—	(21)	(54)	—	(2,078)	(5,086)
Effects of movements in foreign exchange and other		—	(40)	(3)	(31)	—	(1)	(1)	—	(52)	(128)
Balance, September 30, 2021		$ 2,775	$ 63,086	$ 254	$ 64,343	$ 661	$ 1,329	$ 294	$ —	$ 3,469	$ 136,211
Accumulated depreciation and impairment:											
Balance, December 31, 2020		$ —	$ 40,061	$ 236	$ 42,479	$ 504	$ 1,097	$ 277	$ 160,484	$ 1,471	$ 246,609
Transfers		—	2,014	—	42	—	—	—	(2,056)	—	—
Depreciation		—	250	6	1,128	4	21	5	—	233	1,647
Disposals		—	—	—	—	—	—	—	(1,806)	(323)	(2,129)
Derecognition on investment in joint venture		—	—	—	(52)	—	—	—	—	—	(52)
Reversal of impairment		—	(34,632)	(79)	(27,771)	(109)	(401)	(56)	45,283	—	(17,765)
Reclassification to assets held for sale	Note 5	—	(1,274)	(13)	(207)	(33)	—	—	(201,904)	—	(203,431)
Effects of movements in foreign exchange and other		—	(7)	(2)	(28)	—	(1)	(1)	(1)	(61)	(101)
Balance, March 31, 2021		$ —	$ 6,412	$ 148	$ 15,591	$ 366	$ 716	$ 225	$ —	$ 1,320	$ 24,778
Depreciation		—	703	9	2,549	9	53	10	—	196	3,529
Disposals		—	—	—	(115)	—	—	(1)	—	(52)	(168)
Effects of movements in foreign exchange and other		—	3	1	12	—	2	—	—	24	42
Balance, June 30, 2021		$ —	$ 7,118	$ 158	$ 18,037	$ 375	$ 771	$ 234	$ —	$ 1,488	$ 28,181
Depreciation		—	695	9	2,332	8	20	7	—	432	3,503
Disposals		—	—	—	(147)	—	—	—	—	(551)	(698)
Reclassification to assets held for sale	Note 4	—	(125)	(34)	(467)	—	(20)	(20)	—	(882)	(1,548)
Effects of movements in foreign exchange and other		—	(3)	(1)	(11)	—	(2)	—	—	(22)	(39)
Balance, September 30, 2021		$ —	$ 7,685	$ 132	$ 19,744	$ 383	$ 769	$ 221	$ —	$ 465	$ 29,399
Net book value, September 30, 2021		$ 2,775	$ 55,401	$ 122	$ 44,599	$ 278	$ 560	$ 73	$ —	$ 3,004	$ 106,812

As a result of the reclassification of the Valleyfield Assets held for sale, the Company performed an impairment analysis as at March 31, 2021 on its cannabis related activities from production in Canada (the Canadian cash generating unit ("Canadian CGU")). As a result of this impairment assessment, the Company determined that the Valleyfield Assets met the criteria to be tested for impairment separately from the Canadian CGU. The Company tested the Valleyfield Assets for impairment first, then subsequently tested the Canadian CGU for an impairment reversal. The Company recognized a $46,475 impairment loss at March 31, 2021 associated with the Valleyfield Assets recognized in property, plant and equipment, and a $68,286 reversal of previously recognized impairment losses on the Canadian CGU of which $64,240 was allocated to property, plant and equipment and $4,046 allocated to intangible assets (note 8). The net impact to property, plant and equipment was a reversal of impairment of $17,765. As a result of the impairment analysis, the Canadian CGU yielded a higher recoverable amount in comparison to its applicable carrying value. The recoverable amount of the Canadian CGU was based on its value in use, which was determined to be greater than its fair value less costs of disposal, and resulted in a reversal of previously recognized impairment losses. The Canadian CGU's value in use was estimated by discounting the probability weighted future cash flows expected to be generated from the continuing use of the Canadian CGU using level 3 inputs. The significant assumptions applied in the determination of the recoverable amount were materiality consistent with the impairment analysis performed as at December 31, 2020, including a discount rate of 16.5%, with the exception of the inclusion of the expected proceeds from the assets held for sale, partially offset by certain newly expected operating costs to be incurred by the Canadian CGU over the period of the forecast (impairment charge for the three and nine months ended September 30, 2020 - $66,591 and $118,316, respectively).

(expressed in thousands of Canadian Dollars except as otherwise indicated)

8. INTANGIBLE ASSETS

A continuity of the intangible assets is as follows:

		Health Canada Licence	Technology Licences	Website	Distribution Channels	Brands	Other acquired rights	Total
Cost:								
Balance, December 31, 2020		$ 5,870	$ 3,065	$ 400	$ 5,869	$ 1,048	$ 1,388	$ 17,640
Transfers		—	61	—	—	—	(61)	—
Effect of movements in foreign exchange		—	(37)	—	(305)	(55)	(68)	(465)
Balance, March 31, 2021		$ 5,870	$ 3,089	$ 400	$ 5,564	$ 993	$ 1,259	$ 17,175
Additions		—	6	—	—	—	—	6
Effect of movements in foreign exchange		—	15	—	(5)	(1)	(1)	8
Balance, June 30, 2021		$ 5,870	$ 3,110	$ 400	$ 5,559	$ 992	$ 1,258	$ 17,189
Additions		—	—	—	—	—	—	—
Reclassification to assets held for sale	Note 4	—	(484)	—	(5,562)	(993)	(1,242)	(8,281)
Effect of movements in foreign exchange		—	(36)	—	3	1	(16)	(48)
Balance, September 30, 2021		$ 5,870	$ 2,590	$ 400	$ -	$ -	$ -	$ 8,860
Accumulated amortization and impairment:								
Balance, December 31, 2020		$ 4,262	$ 2,106	$ 297	$ 943	$ 169	$ 930	$ 8,707
Amortization for the period		25	84	6	105	19	101	340
Reversal of impairment		(2,770)	(1,105)	(171)	—	—	—	(4,046)
Effect of movements in foreign exchange		—	(15)	—	(55)	(10)	(53)	(133)
Balance, March 31, 2021		$ 1,517	$ 1,070	$ 132	$ 993	$ 178	$ 978	$ 4,868
Amortization for the period		70	150	16	100	18	96	450
Effect of movements in foreign exchange		—	6	—	(1)	—	(2)	3
Balance, June 30, 2021		$ 1,587	$ 1,226	$ 148	$ 1,092	$ 196	$ 1,072	$ 5,321
Amortization for the period		70	150	16	100	18	96	450
Reclassification to assets held for sale	Note 4	—	(287)	—	(1,192)	(213)	(1,153)	(2,845)
Effect of movements in foreign exchange		—	(32)	—	—	(1)	(15)	(48)
Balance, September 30, 2021		$ 1,657	$ 1,057	$ 164	$ -	$ -	$ -	$ 2,878
Net book value, September 30, 2021		$ 4,213	$ 1,533	$ 236	$ -	$ -	$ -	$ 5,982

As a result of the impairment assessment described in note 7, $4,046 impairment was reversed during the nine months ended September 30, 2021, (three and nine months ended September 30, 2020 – impairment loss of $1,246 and $2,286, respectively).

(expressed in thousands of Canadian Dollars except as otherwise indicated)

9. BIOLOGICAL ASSETS

As at September 30, 2021, the Company's biological assets consisted of cannabis seeds and cannabis plants. The continuity of the Company's biological assets is as follows:

	Capitalized cost	Biological asset fair value adjustment	Amount
Balance, December 31, 2020	$ 1,374	$ 610	$ 1,984
Unrealized gain on changes in fair value of biological assets	—	7,750	7,750
Production costs capitalized	5,502	—	5,502
Transfer to inventories upon harvest	(5,282)	(7,588)	(12,870)
Balance, September 30, 2021	$ 1,594	$ 772	$ 2,366

The Company measures its biological assets at their fair values less estimated costs to sell. This is determined using a model which estimates the expected harvest yields in grams for plants currently being cultivated, and then adjusts that amount for the expected selling price per gram, waste and also for any additional costs to be incurred, such as post-harvest cost.

The following significant unobservable inputs, all of which are classified as level 3 on the fair value hierarchy, were used by management as part of this model:

- Estimated selling price per gram – calculated as the expected approximate future per gram selling prices of the Company's cannabis products.
- Stage of growth – represents the weighted average number of weeks out of the estimated week growing cycle that biological assets have reached as of the measurement date based on historical experience. The Company accretes fair value on a straight-line basis according to the stage of growth and estimated costs to complete cultivation.
- Yield by plant – represents the expected number of grams of finished cannabis inventories which are expected to be obtained from each harvested cannabis plant based on historical experience.

The inter-relationship between these aforementioned unobservable inputs and the fair-value of the biological assets is such that the carrying value of the biological assets as at September 30, 2021 and December 31, 2020 would increase (decrease) if any of these inputs were to be higher (lower).

Other unobservable, level 3 inputs into the biological asset model include estimated post harvest costs, costs to complete and wastage. These additional level 3 inputs are not considered to be significant.

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

	As at September 30, 2021	As at December 31, 2020	Impact of 10% change as at September 30, 2021	Impact of 10% change as at December 31, 2020
Estimated net selling price per gram (1)	$2.19 to $6.06	$2.19 to $6.06	$ 576	$ 503
Estimated stage of growth	7 to 8 weeks	7 to 8 weeks	$ 305	$ 552
Estimated yield of agricultural produce by plant (2)	73 to 108 grams	52 to 100 grams	$ 276	$ 241

(1) The estimated net selling prices per gram is based on the negotiated distribution selling prices which exclude duties.

(2) The estimated yield varies based on the Company's different cannabis strains.

The Company's estimates are, by their nature, subject to change. Changes in the significant assumptions described will be reflected in future changes in the gain or loss on biological assets. There were no changes between fair value hierarchy levels during the three and nine months ended September 30, 2021.

(expressed in thousands of Canadian Dollars except as otherwise indicated)

10. INVENTORIES

The Company's inventory assets include the following as of September 30, 2021 and December 31, 2020:

		As at September 30, 2021
Raw Materials and Packaging	$	**2,617**
Work-in-progress		**14,756**
Finished Goods		**1,379**
Total Inventories	$	**18,752**

		Cannabis and cannabis derived products		Hemp and hemp derived products		As at December 31, 2020
Raw Materials and Packaging	$	2,614	$	1,589	$	4,203
Work-in-progress		7,561		2,152		9,713
Finished Goods		2,424		795		3,219
Total Inventories	$	12,599	$	4,536	$	17,135

During the three and nine months ended September 30, 2021, inventories expensed directly to cost of sales were $2,787 and $8,432, respectively (three and nine months ended September 30, 2020 - $2,145 and $5,601, respectively).

11. OTHER ASSETS

A summary of other assets is presented as follows:

	Additional Reference	As at September 30, 2021	As at December 31, 2020
Deposit per Hydro-Quebec contribution agreement	11 [a]	—	5,681
Investment in Califormulations	11 [b]	—	1,272
Term deposits held as letter of credit collateral	16,17	935	935
Term deposits not held as letter of credit collateral		100	100
Other	11 [c]	2,643	3,864
		3,678	11,852
Less: Current portion		**(1,939)**	(853)
		1,739	10,999

[a] Deposit per Hydro-Quebec Contribution Agreement

On June 22, 2021, in connection with the Quebec Disposition, the Company was refunded its deposit with Hydro Quebec of $5,761, including interest accrued of $80.

[b] Investment in Califormulations

On March 29th, 2021, the Company sold its investment in Califormulations, LLC for $1,242 (US$1 million).

[c] Packaging equipment deposit

The Company settled a dispute with a vendor in November 2021 whereby it received $150 from a deposit previously made in cash and a transferable credit of $850 for future work. The resulting loss of $1,564 related the original deposit of $2,564 was recorded in general and administrative expenses.

(expressed in thousands of Canadian Dollars except as otherwise indicated)

12. LEASES

Below is a summary of the activity related to the Company's lease liabilities:

	For the nine months ended September 30, 2021	For the year-ended December 31, 2020
Opening Balance	$ **5,570**	$ 3,545
Additions	**2,049**	2,889
Interest on lease liabilities	**415**	494
Interest payments on lease liabilities	**(415)**	(494)
Principal payments on lease liabilities	**(640)**	(525)
Extinguishment of lease liabilities	**(1,687)**	(315)
Reclassification to liabilities held for sale	**(1,235)**	—
Foreign exchange differences	**(92)**	(24)
Closing Balance	$ **3,965**	$ 5,570
Current portion lease liabilities	$ **570**	$ 1,019
Long-term portion lease liabilities	$ **3,395**	$ 4,551

Valleyfield Lease

In connection with the Quebec Disposition, the Company entered into a two-year lease for 80,000 square feet, representing cultivation, processing and manufacturing spaces in the Quebec Facility. On September 24, 2021, the lease was terminated in conjunction with the landlord obtaining its own Health Canada licence at the facility.

13. SHARE CAPITAL

Issued capital

i. During the nine months ended September 30, 2021, a total of 20,091,958 Common Shares of the Company were issued under the Company's registered direct at-the-market prospectus supplement dated December 2, 2020 for gross proceeds of $9,504 (net proceeds of $9,219).

ii. During the nine months ended September 30, 2021, a total of 24,198,600 Common Shares of the Company were issued as a result of 24,198,600 previously issued and outstanding warrants of the Company that were exercised at a weighted average exercise price of $0.31 per warrant, for aggregate gross proceeds of $7,560. During the nine months ended September 30, 2020, a total of 563,000 Common Shares of the Company were issued as a result of previously issued and outstanding warrants of the Company that were exercised at a weighted average exercise price of $0.38 per option, for aggregate gross proceeds of $214.

iii. During the nine months ended September 30, 2021, a total of 1,382,903 Common Shares of the Company were issued as a result of 1,382,903 previously issued and outstanding equity settled restricted share units ("RSUs") of the Company that were previously issued at a weighted average fair value of $0.37 per RSU. There are no proceeds related to the exercise of RSUs. During the nine months ended September 30, 2020, a total of 27,174 common shares of the Company were issued as a result of previously issued and outstanding RSU's of the Company that were exercised at a weighted average exercise price of $2.76 per option. There are no proceeds related to the exercise of RSU's.

iv. During the nine months ended September 30, 2021, a total of 1,591,535 Common Shares of the Company were issued to settle severance owing of $404 to a former employee.

v. During the nine months ended September 30, 2021, a total of 2,736,842 Common Shares of the Company were issued to the lender of the Revolver Loan related to the modification, including the extension of the maturity of the loan, and added covenants (see note 6).

(expressed in thousands of Canadian Dollars except as otherwise indicated)

14. CONTRIBUTED SURPLUS

[a] Share based payments

For the three and nine months ended September 30, 2021, the Company recorded $699 and $2,095, respectively, in non-cash share-based compensation expense pursuant to the grant of stock options (three and nine months ended September 30, 2020 - $409 and $4,004, respectively).

The following is a summary of the changes in options issued pursuant to the Company's employee stock option plan:

	For the nine months ended September 30, 2021		For the year ended December 31, 2020	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Outstanding - beginning of period	**24,339,401**	**1.74**	17,897,599	3.24
Granted	**7,219,000**	**0.31**	15,021,000	0.31
Exercised	**-**	**-**	(847,600)	0.50
Cancelled/Expired	**(7,341,236)**	**2.54**	(7,731,598)	2.58
Outstanding, end of period	**24,217,165**	**1.07**	24,339,401	1.74
Exercisable, end of period	**5,623,988**	**2.52**	5,663,387	3.82

Grant date	Options Outstanding #	Options Exercisable #	Exercise Price $	Weighted Average remaining contractual life of outstanding options in years
June 25, 2018 - December 14, 2018	1,040,000	728,334	$3.08 - $6.91	1.74 - 2.21
January 8, 2019 - August 21, 2019	3,366,999	2,256,336	$2.67 - $5.13	2.27 - 2.89
November 18, 2019	683,333	227,994	$0.83	3.14
March 13, 2020 - December 21, 2020	12,275,833	2,327,991	$0.26 - $0.51	3.45 - 4.23
March 12, 2021 - August 13, 2021	6,851,000	83,333	$0.30 - $0.36	4.45 - 4.87
Balance, September 30, 2021	**24,217,165**	**5,623,988**		**3.88**

In determining the amount of share-based compensation, the Company uses the Black-Scholes option pricing model to establish the fair value as at the grant date of options granted. Stock options granted during the respective periods highlighted below were fair valued based on the following weighted average assumptions:

	Averages for the three months ended September 30, 2021	Averages for the year ended December 31, 2020
Risk-free interest rate	**0.57%**	0.36%
Expected dividend yield	**Nil**	Nil
Expected annualized volatility	**85.00%**	88.55%
Expected life of options (years)	**3.49**	3.70
Black-Scholes value of each option	**$0.19**	$0.15

Volatility was estimated by using the historical volatility of the Company and other companies that the Company considers comparable that have trading and volatility history. The expected life of the options is based on historical data and current expectations and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility over a period similar to the expected life of the options is indicative of future trends, which may also not necessarily be the actual outcome. The expected life in years represents the period of time that options granted are expected to be outstanding. The risk-free rate was based upon the Canada government bonds with a remaining term equal to the expected life of the options.

(expressed in thousands of Canadian Dollars except as otherwise indicated)

[b] Reserve for warrants

The following table reflects the continuity of warrants:

	Number of warrants	Weighted Average Exercise Price	Amount, net of warrant issue costs
	#	$	$
Balance, December 31, 2020	**230,815,055**	**1.37**	**66,111**
Warrants exercised in the period	**(24,198,600)**	**0.31**	**(1,124)**
Warrants expired in the period	**(49,025,015)**	**4.80**	**(54,881)**
Balance, September 30, 2021	**157,591,440**	**0.47**	**10,106**

As at September 30, 2021, the following warrants were outstanding:

Expiry Date	Exercise Price	Number of Warrants
	$	#
December 19, 2022	1.00	20,607,500
April 1, 2023	0.39	3,000,000
April 13, 2023	0.39	1,500,000
April 27, 2023	0.38	10,813,052
May 27, 2024	0.50	500,000
June 12, 2024	0.50	45,712,500
October 23, 2025	0.30	24,873,354
November 2, 2025	0.30	8,500,000
December 10, 2025	0.35	42,085,034
		157,591,440

[c] Restricted share units

Under the Company's, RSU plan (the "RSU Plan"), RSUs may be granted up to a fixed maximum of 10,000,000 Common Shares, which entitle the holder to receive one Common Share without payment of additional consideration at the end of the restricted period, as determined by the Board of Directors at the time of the grant. The RSUs vest in tranches based on certain performance conditions being met, with share-based compensation expense being recognized from grant date to the expected performance completion date.

At September 30, 2021, 4,986,040 (December 31, 2020 – 1,243,845) shares of the Company were reserved for issuance under the RSU Plan. For the three and nine months ended September 30, 2021, the Company recorded $185 and $421, respectively, in non-cash stock-based compensation related to RSU compensation (three and nine months ended September 30, 2020 – expense recovery of $1 and an expense of $258, respectively).

	For the nine months ended September 30, 2021		For the year-ended December 31, 2020	
	Number of Units	Weighted Fair Value	Number of Units	Weighted Fair Value
Outstanding - beginning of period	**1,243,845**	**0.33**	54,348	2.76
Granted	**5,590,098**	**0.32**	2,600,000	0.27
Exercised	**(1,382,903)**	**0.37**	(703,837)	0.37
Forfeited	**(465,000)**	**0.30**	(706,666)	0.27
Outstanding, end of period	**4,986,040**	**0.31**	1,243,845	0.33

The accounting fair value of the equity settled RSUs as at the grant date is calculated using the number of RSUs expected to be earned multiplied by the grant date fair market value of a share of the Company's stock. Each reporting period, the number of RSUs that are expected to be earned is re-determined and the "fair value" of these RSUs is amortized over the remaining requisite period less amounts previously recognized.

(expressed in thousands of Canadian Dollars except as otherwise indicated)

The estimated fair value of the equity settled RSUs granted during the three and nine months ended September 30, 2021 was $50 and $1,463, respectively, (three and nine months ended September 30, 2020 $Nil and $689, respectively) and will be recognized as an expense over the vesting period of the RSUs.

[d] Employee Stock Purchase Plan

The Company has established an employee stock purchase plan which created a reserve of 3,000,000 Common Shares that may be issued from treasury. As at September 30, 2021, no securities were issued from treasury under this plan.

15. SUPPLEMENTARY CASH FLOW INFORMATION

The changes in non-cash working capital items are as follows:

	For the three months ended		For the nine months ended	
	September 30, 2021	**September 30, 2020**	**September 30, 2021**	**September 30, 2020**
Prepaid expenses and deposits	**$ (422)**	$ 4,085	**$ (531)**	$ 3,894
Refundable sales taxes receivable	**(38)**	1,428	**(91)**	7,435
Trade receivables	**1,202**	722	**2,091**	(446)
Capitalized cost of biological assets	**1,817**	835	**5,062**	4,217
Inventories	**(3,191)**	(3,550)	**(8,992)**	(10,460)
Deferred financing costs	**—**	(98)	**—**	(98)
Other current assets	**(934)**	(1,037)	**(1,105)**	(1,274)
Other assets	**1,520**	(1,385)	**1,664**	(1,834)
Accounts payable and accrued liabilities	**13**	(839)	**2,861**	(941)
Sales taxes payable	**(146)**	—	**148**	—
Deferred revenue	**—**	—	**(150)**	135
Total	**$ (179)**	$ 161	**$ 957**	$ 628

16. COMMITMENTS AND CONTINGENCIES

The Company has the following gross contractual obligations as at September 30, 2021, which are expected to be payable in the following respective periods:

		Contractual cash flows - 12 months ending						
	Carrying amount	**Total**	**September 2022**	**September 2023**	**September 2024**	**September 2025**	**September 2026**	**Thereafter**
	$	**$**	**$**	**$**	**$**	**$**	**$**	**$**
Accounts payable and accrued liabilities	**15,341**	**15,341**	15,341	-	-	-	-	-
Loans	**15,127**	**22,345**	3,592	18,753	-	-	-	-
Lease liabilities	**3,965**	**7,375**	1,071	583	586	597	598	3,940
Total contractual obligations	**34,433**	**45,061**	**20,004**	**19,336**	**586**	**597**	**598**	**3,940**

[a] Construction agreements

The Company entered into contracts to facilitate the construction of the Hamilton Facility with various vendors. Pursuant to some of these agreements, as at September 30, 2021, the Company has letters of credit in the amount of $585 which may be drawn upon in the event of material breaches of the respective agreements. These letters of credit bear conventional rates of interest partially offset by the interest earned on guaranteed investment certificates ("GIC") securing the letters as collateral.

The Company has pledged corresponding GICs as collateral, which has been recorded in other assets. As at September 30, 2021, there have been no material breaches as defined by the agreements and no amounts have been drawn on the letters of credit.

The Company entered into escrow agreements in prior years with its construction partners and as such $219 is included in the restricted cash balance as at September 30, 2021 related to a construction partner.

[b] Other contractual commitments

The lease for the office space of the Company's headquarters required the issuance of a letter of credit in the amount $350, which may be drawn upon by the landlord in the event of a material breach of the agreement. As at September 30, 2021, there have been no breaches and no amounts have been drawn upon this letter of credit.

[c] Claims and Litigation

From time to time, the Company and/or its subsidiaries may become defendants in legal actions and the Company intends to defend itself vigorously against all legal claims. The Company is subject to certain employment related claims by a former employee for which a provision in accounts payable and accrued liabilities has been recognized only to the extent that it is likely to result in future economic outflows. The Company has also been subject to a claim by former warrant holders for approximately $1,250. No provision in relation to this claims has been recognized as the Company estimates that it is more likely than not that a present obligation does not exist that will result in a payment to be made by the Company for these claims. On August 3, 2020 the Company was named as a defendant in a litigation matter commenced in the United States District Court for the Middle District of Georgia relating to its minority investment in a US based beverage incubation business, seeking, among other things, unquantified compensatory damages and injunctive relief. No provision in relation to this claim has been recognized as the Company estimates that it is more likely than not that a present obligation does not exist that will result in a payment to be made by the Company for this claim and the Company intends to vigorously defend the matter. Other than the claims previously described, the Company is not aware of any other material or significant claims against the Company.

17. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

[a] Fair values

The Company's financial instruments were comprised of the following as at September 30, 2021: cash and cash equivalents; restricted cash; refundable sales taxes receivable; trade receivables; certain other current assets; accounts payable and accrued liabilities; sales taxes payable; loans and contingent consideration.

The fair values of the financial assets and financial liabilities are determined at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The assumption for the instruments recorded at amortized costs that the instruments' fair values approximate their carrying amounts is largely due to the short-term maturities of these instruments.

[b] Fair value hierarchy

Financial instruments recorded at fair value on the consolidated statement of financial position are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- Level 1 - valuation based on quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 - valuation techniques based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and
- Level 3 - valuation techniques using inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The fair value hierarchy requires the use of observable market inputs whenever such inputs exist. A financial instrument is classified to the lowest level of the hierarchy for which a significant input has been considered in measuring fair value.

During the three and nine months ended September 30, 2021, there were no transfers of amounts between levels (year ended December 31, 2020 – none).

[c] Management of risks arising from financial instruments

[i] Market risk

All foreign currencies shown in this note are also presented in thousands.

Foreign currency risk

Foreign currency risk arises due to fluctuations in the fair value or cash flows of financial instruments due to changes in foreign exchange rates. As at September 30, 2021, a portion of the Company's financial assets and liabilities were held in US dollars ("USD") and European Euros ("EUR") which consisted of cash and cash equivalents. The Company has not used foreign exchange contracts to hedge its exposure to foreign currency cash flows for the three and nine months ended September 30, 2021 as management has determined that this risk is not significant at this time.

Interest rate risk

The Company's exposure to interest rate risk relates to any investments of surplus cash as the Company's debt is fixed at a prescribed rate. The Company may invest surplus cash in highly liquid investments with short terms to maturity that would accumulate interest at prevailing rates for such investments. As at September 30, 2021, the Company had term deposits of $585 bearing interest between 0.80% and 1.00% (December 31, 2020 - $585, bearing interest between 0.80% and 1.00%). The Company also has $219 in restricted cash held in trust related to the Quebec Facility construction projects and earning a conventional rate of interest from a reputable top tier Canadian bank as well as $112 of restricted cash in a separate account related to the Revolver Loan.

[ii] Credit risk

Credit risk is the risk of financial loss to the Company if a counterparty to a financial instrument fails to meet its contractual obligations. The Company is exposed to credit-related losses in the event of non-performance by the counterparties.

The carrying amount of cash and cash equivalents, trade receivables, refundable sales taxes receivable, prepaid expenses and deposits, and other assets represents the maximum exposure to credit risk as at September 30, 2021. The objective of managing counterparty credit risk is to prevent losses in financial assets. The Company assesses the credit quality of the counterparties, taking into account their financial position, past experience and other factors. Credit risk is mitigated by entering into sales contracts with stable, creditworthy parties and through frequent reviews of exposures to individual entities.

The Company assesses the credit risk of trade receivables by evaluating the aging of trade receivables based on the invoice date and credit worthiness. The carrying amount of trade receivables is reduced through the use of an allowance account and the amount of the loss is recognized in the interim consolidated statements of income (loss) and comprehensive income (loss). When a trade receivable balance is considered uncollectible, it is written off against the allowance for expected credit losses. Subsequent recoveries of amounts previously written off are credited against operating expenses in the interim consolidated statements of income (loss) and comprehensive income (loss). The Company had two customers whose balances individually were greater than 10% of total trade receivables as at September 30, 2021 (December 31, 2020 – two customers).

The following tables set forth details of trade receivables, including aging of trade receivables that are not overdue, as well as an analysis of overdue amounts and related allowance for doubtful accounts:

(expressed in thousands of Canadian Dollars except as otherwise indicated)

	September 30, 2021	December 31, 2020
	$	$
Total trade receivables	**7,353**	10,023
Less allowance for expected credit losses	**—**	—
Total trade receivables, net	**7,353**	10,023
Of which		
Current	**7,284**	6,182
31-90 days	**69**	3,784
Over 90 days	**—**	57
Less allowance for expected credit losses	**—**	—
Total trade receivables, net	**7,353**	10,023

[iii] Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company manages its liquidity risk by reviewing on an ongoing basis its capital requirements in relation to its current cash balances, maturity schedules and internal budgets. Refer to Note 16 – Commitments and Contingencies.

18. CAPITAL MANAGEMENT

The Company's objective is to maintain sufficient capital base to maintain investor, creditor and supplier confidence and to sustain future development of the business and provide the ability to continue as a going concern (See Note 2[i] – Going Concern). Management defines capital as the Company's shareholders' equity and loans. The Company's board of directors does not establish quantitative return on capital criteria for management but rather promotes year over year sustainable profitable growth. The Company currently has not paid any dividends to its shareholders. As at September 30, 2021, total managed capital was comprised of share capital and loans of $502,841 (December 31, 2020 - $509,134), contributed surplus of $109,654 (December 31, 2020 - $108,874), and reserve for foreign currency translations of $606 (December 31, 2020 – $255). There were no changes in the Company's approach to capital management during the three and nine months ended September 30, 2021 (three and nine months ended September 30, 2020 – no changes).

19. OPERATING EXPENSES

The following table presents share-based compensation, depreciation and amortization by function:

	For the three months ended		For the nine months ended	
	September 30, 2021	**September 30, 2020**	**September 30, 2021**	**September 30, 2020**
Cost of sales related to inventory production	$ **2,571**	$ 1,372	$ **6,343**	$ 3,497
Sales and marketing expenses	**289**	153	**733**	598
Research and development expenses	**129**	68	**336**	348
General and administrative expenses	**1,389**	727	**3,647**	4,113

20. EVENTS AFTER THE REPORTING PERIOD

On November 17, 2021, the Company completed the acquisition of all of the issued and outstanding shares of Galaxie (the "Galaxie Transaction"). The initial share consideration was valued at approximately $21 million. As part of the Galaxie Transaction, the Company also assumed $1.3 million of existing shareholder loans of Galaxie, which are non-interest bearing until at least January 31, 2022. Certain previous shareholders of Galaxie (the "Vendors") are also entitled to earn up to $15 million in additional shares of the Company, subject to achievement of certain financial milestones by December 31, 2022.