Avicanna Inc.
Condensed Consolidated Interim Financial Statements
(Unaudited)
For the Three and Nine Months Ended September 30, 2021 and 2020
(Expressed in Canadian dollars, except share and per share amounts)

Avicanna Inc.
Condensed Consolidated Interim Statements of Financial Position
Unaudited (Expressed in Canadian Dollars)

	Note		September 30, 2021		December 31, 2020
ASSETS					
Current assets					
Cash		$	523,448	$	1,266,732
Short-term investments	4		-		1,250,000
Amounts receivable	5		2,000,341		1,005,290
Prepaid assets			531,739		1,321,586
Biological assets	6		684,740		650,780
Inventory	7		2,568,807		1,276,078
Total current assets			**6,309,075**		**6,770,466**
Right of use asset	10		196,258		343,452
Property and equipment	8		19,435,421		21,465,199
Intangible assets	9		341,424		497,468
Deferred tax asset			34,451		34,451
Derivative asset	11		526,312		526,312
Investment	21		518,213		518,213
Total assets		**$**	**27,361,154**	**$**	**30,155,561**
LIABILITIES AND SHAREHOLDERS' EQUITY					
Current liabilities					
Trade payables and accrued liabilities		$	7,470,234	$	6,562,339
Lease liability – current portion	13		208,659		203,155
Income tax payable			20,684		20,684
Customer deposits			191,696		-
Term loan	15		1,288,604		-
Convertible debentures	14		289,807		1,573,695
Derivative liability	16		1,690		145,151
Due to related party	17		4,175,074		4,319,545
Total current liabilities			**13,646,448**		**12,824,569**
Lease liability	13		-		161,061
Deferred revenue	12		2,882,851		3,260,101
Total liabilities			**16,529,299**		**16,245,731**
Shareholders' Equity					
Share capital	18		63,087,963		57,468,839
Warrants	18		9,067,897		6,780,037
Share-based payment reserve	19		6,020,675		5,916,475
Accumulated other comprehensive loss			(4,037,417)		(2,112,995)
Deficit			(70,303,831)		(62,036,238)
Equity attributable to owners of the parent			3,835,287		6,016,118
Non-controlling interest	20		6,996,568		7,893,712
Total equity			**10,831,855**		**13,909,830**
Total liabilities and shareholders' equity		**$**	**27,361,154**	**$**	**30,155,561**

Nature of operations and going concern uncertainty – Note 1
Subsequent events – Note 26

Approved by the Board
/s/ Dr. Chandra Panchal, Chairman of the Board of Directors
/s/ John McVicar, Audit Committee Chair, Director

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

Avicanna Inc.
Condensed Consolidated Interim Statements of Operations and Comprehensive Loss
For the Three and Nine Months Ended September 30, 2021 and 2020
Unaudited
(Expressed in Canadian Dollars)

		Three months ended September 30,		Nine months ended September 30,	
	Note	**2021**	**2020**	**2021**	**2020**
Revenue					
Service Revenue	12	$ 82,372	$ 6,579	$ 87,945	$ 13,471
License Revenue	12	100,750	316,847	302,250	565,613
Product Sales		804,845	558,530	1,660,900	1,273,243
Total Revenue		**987,967**	**881,956**	**2,051,095**	**1,852,327**
Cost of goods sold		(851,641)	(1,051,204)	(1,339,228)	(1,285,492)
Gross margin before the undernoted		**136,326**	**(169,248)**	**711,867**	**566,835**
Fair value changes in biological assets included in inventory sold		(66,835)	(37,818)	(101,481)	(607,370)
Unrealized gain on changes in fair value of biological assets		437,679	(1,103,910)	533,498	723,361
Gross margin		**507,170**	**(1,310,976)**	**1,143,884**	**682,826**
Expenses					
General and administrative	23	2,762,910	2,954,438	8,122,602	9,064,843
Share-based compensation	19	155,025	839,954	556,036	2,455,916
Depreciation and amortization	8,9,10	210,532	419,914	665,442	1,259,742
Expected credit loss (recovery)	5	(46,802)	145,955	(5,163)	145,955
Loss (Gain) on revaluation of derivative liability	16	(60,025)	(1,285)	80,543	(23,894)
Impairment of goodwill		-	2,520,382	-	3,207,227
Total Expenses		**(3,021,640)**	**(6,879,358)**	**(9,419,460)**	**(16,109,789)**
Other income (expenses)					
Foreign exchange gain (loss)		(6,186)	25,441	(31,309)	(48,860)
Gain on disposal of capital assets	8	-	-	51,975	-
Loss on revaluation of derivative asset	11	-	-	-	(2,279,426)
Other income		55,427	545,023	81,487	473,589
Interest expense	14,15	(205,612)	(47,282)	(369,691)	(141,210)
Net loss		**$ (2,670,841)**	**$ (7,667,152)**	**$ (8,543,114)**	**$ (17,422,870)**
Exchange differences on translation of foreign operations		(273,906)	(1,576,564)	(2,615,838)	(3,446,669)
Net comprehensive loss		**$ (2,944,747)**	**$ (9,243,716)**	**$ (11,158,952)**	**$ (20,869,539)**
Net comprehensive loss attributable to non – controlling interest	20	73,505	(1,508,219)	(897,144)	(2,805,724)
Net comprehensive loss attributable to Shareholders of the Company	20	(3,018,252)	(7,735,497)	(10,261,808)	(18,063,815)
		$ (2,944,747)	**$ (9,243,716)**	**$ (11,158,952)**	**$ (20,869,539)**
Weighted average number of common shares – basic and diluted		41,271,574	26,566,915	38,957,977	25,348,330
Net loss per share – basic and diluted		$ (0.07)	$ (0.35)	$ (0.29)	$ (0.82)

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

Avicanna Inc.
Condensed Consolidated Interim Statements of Changes in Shareholders' Equity
For the Nine Months Ended September 30, 2021 and 2020
(Expressed in Canadian Dollars)

		Common shares		Common shares to be Issued		Warrants	Share-based payment Reserve	Deficit	Accumulated other comprehensive loss	Non-controlling interest	Total
	Note	#	$	#	$	$	$	$	$	$	$
December 31, 2020		**35,871,941**	**57,355,313**	**101,722**	**113,526**	**6,780,037**	**5,916,475**	**(62,036,238)**	**(2,112,995)**	**7,893,712**	**13,909,830**
Settlement of shares to be issued	18[i]	101,722	113,526	(101,722)	(113,526)	-	-	-	-	-	-
Share-based compensation	19	-	-	-	-	-	556,036	-	-	-	556,036
Exercise of RSUs	19	104,781	136,130	40,389	245,913	-	(382,043)	-	-	-	-
Conversion of debentures	14	613,535	1,513,175	-	-	-	-	-	-	-	1,513,175
Exercise of warrants	18[ii]	99,595	124,883	-	-	(40,227)	-	-	-	-	84,656
Issuance of units	18[iii]	4,480,000	3,599,023	-	-	1,751,027	-	-	-	-	5,350,050
Warrants issued with term loan	15, 18	-	-	-	-	577,060	-	-	-	-	577,060
Forfeiture of RSUs and options	19	-	-	-	-	-	(69,793)	69,793	-	-	-
Foreign exchange translation		-	-	-	-	-	-	-	(1,924,422)	(691,416)	(2,615,838)
Net loss		-	-	-	-	-	-	(8,337,386)	-	(205,728)	(8,543,114)
September 30, 2021		**41,271,574**	**62,842,050**	**40,389**	**245,913**	**9,067,897**	**6,020,675**	**(70,303,831)**	**(4,037,417)**	**6,996,568**	**10,831,855**
December 31, 2019		**22,364,723**	**46,033,465**	**-**	**-**	**4,267,996**	**4,010,824**	**(30,800,436)**	**(1,124,524)**	**7,488,456**	**29,875,781**
Exercise of options		100,000	-	-	-	-	-	-	-	-	-
Warrants expired		-	6,531	-	-	(6,531)	-	-	-	-	-
Issuance of shares		5,975,131	6,141,307	-	-	1,208,868	-	-	-	-	7,350,175
Share-based compensation		-	-	-	-	-	2,455,916	-	-	-	2,455,916
Exercise of RSUs		141,528	98,685	-	-	-	(98,685)	-	-	-	-
SMGH Recapitalization		-	-	-	-	-	-	-	-	2,859,440	2,859,440
Foreign exchange translation		-	-	-	-	-	-	-	(1,776,294)	(1,670,375)	(3,446,669)
Net loss		-	-	-	-	-	-	(16,287,521)	-	(1,135,349)	(17,422,870)
September 30, 2020		**28,581,382**	**52,279,988**	**-**	**-**	**5,470,333**	**6,368,055**	**(47,087,957)**	**(2,900,818)**	**7,542,172**	**21,671,773**

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

Avicanna Inc.
Condensed Consolidated Interim Statements of Cash Flows
For the Nine months Ended September 30, 2021 and 2020
Unaudited
(Expressed in Canadian Dollars)

	Note	For the Nine Months Ended September 30, 2021	For the Nine Months Ended September 30, 2020
Cash flows from operating activities			
Net loss		$ (11,158,952)	$ (17,422,870)
Depreciation and amortization	8,9,10	665,442	1,259,742
Interest on lease liability	13	17,660	29,549
Accretion	14,15	301,310	41,774
Share-based compensation	19	556,036	2,455,916
Expected credit losses	5	(5,163)	145,955
Impairment of goodwill		-	3,207,227
Loss on derivative asset	11	-	2,279,426
Loss (gain) on fair value of derivative liability	16	80,543	(23,894)
Recognition of deferred revenue	12	(377,250)	(248,766)
Changes in non-cash operating elements of working capital	25	(257,502)	(2,411,997)
Cash used in operating activities		**(10,177,876)**	**(10,687,938)**
Cash flows from investing activities			
Purchase of capital assets	8	(784,452)	(1,092,855)
Proceeds from disposal of capital assets	8	261,703	-
Purchase of intangible assets	9	(19,293)	-
Sale of short-term investments	4	1,250,000	-
Cash used in investing activities		**707,958**	**(1,092,855)**
Cash flows from financing activities			
Payment of lease liability	13	(173,217)	(166,913)
Increase in balance due to related parties	17	315,987	4,291,566
Issuance of term loan, net of issuance costs	15	1,700,000	-
Repayment of debentures	14	(300,000)	-
Exercise of warrants	18	84,656	-
Proceeds from issuance of common shares	18	5,350,050	7,350,175
Cash provided by financing activities		**6,977,476**	**11,474,828**
Net decrease in cash		**(2,492,442)**	**(305,965)**
Effect of foreign exchange differences		1,749,158	(34,704)
Cash, beginning of year		1,266,732	441,757
Cash, end of year		**$ 523,448**	**$ 101,088**

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

1. NATURE OF OPERATIONS AND GOING CONCERN UNCERTAINTY

Avicanna Inc. ("Avicanna" or the "Company") was incorporated in Ontario, Canada. Avicanna is a Canadian vertically integrated biopharmaceutical company developing and driving biopharmaceutical advancements of plant-derived cannabinoid-based products with operations in both North and South America. To date, the Company has commercialized several product lines in both North and South America.

The registered office of the Company is located at 480 University Avenue, Suite 1502, Toronto, Ontario. The Company's common shares are listed under the symbol "AVCN" on the Toronto Stock Exchange ("TSX"); the OTC US exchange under the symbol "AVCNF"; and the Frankfurt Stock Exchange under the symbol "0NN".

These condensed consolidated interim financial statements have been prepared on a going concern basis which contemplates that the Company will continue operations for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of business. These condensed consolidated interim financial statements do not give effect to adjustments that would be necessary to the carrying values and classification of assets and liabilities should the Company be unable to continue as a going concern.

As of September 30, 2021, the Company has an accumulated deficit of $70,303,831 (December 31, 2020 - $62,036,238), cash of $523,448 (December 31, 2020 – $1,266,732), and a working capital deficit of $7,337,373 (December 31, 2020 – deficit of $6,054,103). Additionally, the Company incurred a net loss after taxes of $8,543,114 and used $10,177,876 of cash from operating activities during the nine months ended on September 30, 2021. When compared to the same period in prior year, the Company incurred a net loss of $7,667,152 and used $10,687,938 of cash from operating activities. The Company will need to raise additional financing to continue operations, product development and clinical research. Although the Company has been successful in the past in obtaining financing and it believes that it will continue to be successful, there is no assurance that it will be able to obtain adequate financing in the future or that such financing will be available on terms that are advantageous to the Company. These material uncertainties may cast significant doubt as to the Company's ability to continue as a going concern.

2. BASIS OF PRESENTATION

Statement of compliance

These condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard 34 – *Interim Financial Reporting* ("IAS 34") using accounting policies consistent with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). Accordingly, certain disclosures normally included in annual financial statements prepared in accordance with IFRS have been omitted or condensed. These condensed consolidated interim financial statements should be read in conjunction with the Company's audited consolidated financial statements for the year ended December 31, 2020.

These condensed consolidated interim financial statements were approved and authorized for issuance by the Company's Board of Directors on November 11, 2021.

Basis of presentation

These condensed consolidated interim financial statements have been prepared on a historical cost basis except for biological assets and derivative financial instruments, which are measured at fair value through profit and loss, as explained in the accounting policies below. These condensed consolidated interim financial statements are presented in Canadian dollars, which is the Company's functional currency. The Company currently views the business as one operating segment but expects this to change in future periods.

Functional and presentation currency

These condensed consolidated interim financial statements are presented in Canadian dollars, which is the functional currency of the Company. The functional currency of each subsidiary is presented in the table below.

2. BASIS OF PRESENTATION (CONTINUED)

Basis of consolidation

Subsidiaries are entities controlled by the Company. Control exists when the Company has power, directly or indirectly, over an entity and is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through the power it has. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The following is a list of the Company's operating subsidiaries.

Subsidiaries	Jurisdiction of Incorporation	Ownership Interest	Functional currency
Avicanna UK	England	100%	British Pound Sterling
Avicanna USA	United States of America	100%	United States Dollar
2516167 Ontario Inc. ("My Cannabis")	Ontario, Canada	100%	Canadian Dollar
Sigma Magdalena Canada Inc.	Ontario, Canada	60%	Canadian Dollar
Sigma Analytical Magdalena S.A.S. ("Sigma Colombia")	Republic of Colombia	60%	Colombian Peso
Santa Marta Golden Hemp S.A.S. ("SMGH")	Republic of Colombia	60%	Colombian Peso
Avicanna LATAM S.A.S.	Republic of Colombia	100%	Colombian Peso
Sativa Nativa S.A.S. ("SN")	Republic of Colombia	63%	Colombian Peso

Intragroup balances, and any unrealized gains and losses or income and expenses arising from transactions with jointly controlled entities are eliminated to the extent of the Company's interest in the entity.

Subsequent to acquisition, the carrying amount of non-controlling interests is the amount recognized initially, plus the non-controlling interests' share of changes in the capital of the company in addition to changes in ownership interests. Total comprehensive income or loss is attributed to non-controlling interests, even if this results in the non-controlling interests having a deficit balance.

Foreign currency transactions

Foreign currency transactions are translated into Canadian dollars at exchange rates in effect on the date of the transactions. At the end of each reporting period, monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the foreign exchange rate applicable at that period-end date. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Foreign currency differences are generally recognized in profit or loss and presented within gain (loss) on foreign exchange.

Foreign currency translation

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated into Canadian dollars at the exchange rates at the reporting date. The income and expenses of foreign operation are translated into Canadian dollars at the dates of the transactions. Foreign currency differences due to translation are recognized in other comprehensive income ("OCI") and accumulated in the translation reserve, except to the extent that the translation difference is allocated to non-controlling interests ("NCI").

Use of judgments, estimates and assumptions

The preparation of the condensed consolidated interim financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates are based on management's best knowledge of current events and actions that the Company may undertake in the future. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the critical judgments, apart from those involving estimations, that management have made in the process of applying the Company's accounting policies and that have the most significant effect on the amounts recognized in the condensed consolidated interim financial statements:

2. BASIS OF PRESENTATION (CONTINUED)

Business combinations
Determining whether an acquisition meets the definition of a business combination or represents an asset purchase requires judgment on a case-by-case basis. As outlined in IFRS 3, the components of a business must include inputs, processes and outputs.

In a business combination, substantially all identifiable assets, liabilities and contingent liabilities acquired are recorded at the date of acquisition at their respective fair values. One of the most significant areas of judgment and estimation relates to the determination of the fair value of these assets and liabilities, including the fair value of contingent consideration, if applicable. If any intangible assets are identified, depending on the type of intangible asset and the complexity of determining its fair value, the Company may utilize an independent external valuation expert to develop the fair value, using appropriate valuation techniques, which are generally based on a forecast of the total expected future net cash flows. These valuations are linked closely to the assumptions made by management regarding the future performance of the assets concerned and any changes in the discount rate applied.

Biological assets and inventory
In calculating the fair value of the biological assets and inventory, management is required to make a number of estimates, including estimating the stage of growth of the cannabis up to the point of harvest, harvesting costs, selling costs, average or expected selling prices and list prices, expected yields for the cannabis plants, and oil conversion factors. Inventories of harvested cannabis are valued at the lower of cost or net realizable value. The Company estimates the net realizable value of inventories, considering the most reliable evidence available at the reporting date. The future realization of these inventories may be affected by market-driven changes that may reduce future selling prices. A change to these assumptions could impact the Company's inventory valuation and gross profit.

Estimated useful life of long-lived assets
Judgment is used to estimate each component of a long-lived asset's useful life and is based on an analysis of all pertinent factors including, but not limited to, the expected use of the asset and in the case of an intangible asset, contractual provisions that enable renewal or extension of the asset's legal or contractual life without substantial cost, and renewal history. If the estimated useful lives were incorrect, it could result in an increase or decrease in the annual amortization expense, and future impairment charges or recoveries.

Impairment of long-lived assets
When there are indications that an asset may be impaired, the Company is required to estimate the asset's recoverable amount. The recoverable amount is the greater of value in use and fair value less costs to sell. Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. Determining the value in use requires the Company to estimate expected future cash flows associated with the assets and a suitable discount rate to calculate present value.

In addition to assessing evidence of possible impairment, the Company also determines whether there is any indication that a previously recognized impairment loss for an asset other than goodwill no longer exists or may have decreased. The Company determines whether there has been a change in the estimate used to determine the asset's recoverable amount since the last impairment loss is recognized.

Long-term investment
The fair value of the Company's long-term investments is subject to limitation as the financial information for private companies in which the Company holds investments may not be readily available. Adjustment to the fair value of a long-term investment is based on management's judgement and may be a result of subsequent equity financing provided by third-party investors resulting in a valuation different than the current value of the investee company, significant events and restructuring of the investment company that may result in a material impact on the company's fair value, and financial information received from the investor company.

Fair value measurements
Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Company takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date.

2. BASIS OF PRESENTATION (CONTINUED)

Functional currency
The functional currency for each of the Company's subsidiaries is the currency of the primary economic environment in which the respective entity operates. Such determination involves certain judgements to identify the primary economic environment. The Company reconsiders the functional currency of its subsidiaries if there is a change in events and/or conditions which determine the primary economic environment.

Provisions
Provisions are accrued for liabilities with uncertain timing or amounts, if, in the opinion of management, it is both likely that a future event will confirm that a liability had been incurred at the date of the condensed consolidated interim financial statements and the amount can be reasonably estimated. In cases where it is not possible to determine whether such a liability has occurred, or to reasonably estimate the amount of loss until the performance of some future event, no accrual is made until that time. In the ordinary course of business, the Company may be party to legal proceedings which include claims for monetary damages asserted against the Company. The adequacy of provisions is regularly assessed as new information becomes available.

Leases
The Company exercises judgment when contracts are entered into that may give rise to a right-of-use asset that would be accounted for as a lease. Judgment is required in determining the appropriate lease term on a lease-by-lease basis. The Company considers all facts and circumstances that create an economic incentive to exercise a renewal option or to not exercise a termination option at inception and over the term of the lease, including investments in major leaseholds, operating performance, and changed circumstances. The periods covered by renewal or termination options are only included in the lease term if the Company is reasonably certain to exercise that option.

Income tax provisions
Provisions for taxes are made using the best estimate of the amount expected to be paid based on a qualitative assessment of all relevant factors. Judgment is required in determining whether deferred income tax assets and liabilities are recognized on the condensed consolidated interim statement of financial position. Deferred income tax assets, including those arising from unutilized tax losses, require management to assess the likelihood that the Company will generate future taxable income in order to utilize the deferred income tax assets. Estimates of future taxable income are based on forecasted cash flows from operations or other activities. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the Company to realize the net deferred income tax assets recorded on the reporting date could be impacted.

The Company reviews the adequacy of these provisions at the end of the reporting period. However, it is possible that at some future date an additional liability could result from audits by taxing authorities. Where the final outcome of these tax-related matters is different from the amounts that were initially recorded, such differences will affect the tax provisions in the period in which such determination is made.

Determination of share-based payments
The estimation of share-based payments (including warrants and stock options) requires the selection of an appropriate valuation model and consideration as to the inputs necessary for the valuation model chosen. The model used by the Company is the Black-Scholes valuation model at the date of the grant. The Company makes estimates as to the volatility, the expected life, dividend yield and the time of exercise, as applicable. The expected volatility is based on the average volatility of share prices of similar companies over the period of the expected life of the applicable warrants and stock options. The expected life is based on historical data. These estimates may not necessarily be indicative of future actual patterns.

3. SIGNIFICANT ACCOUNTING POLICIES

These interim condensed consolidation financial statements have been prepared in accordance with the accounting policies adopted in the Company's most recent annual consolidated financial statements for the year ended December 31, 2020.

4. SHORT-TERM INVESTMENTS

As of December 31, 2020, the Company held short-term investments which was comprised of guaranteed investment certificates for $1,250,000 maturing in one year, bearing an annual interest of 0.25%. During the nine months ended September 30, 2021, the short-term investment matured.

(Expressed in Canadian dollars, except share and per share amounts)

5. AMOUNTS RECEIVABLE

		September 30, 2021		December 31, 2020
Trade and other receivables	$	1,130,185	$	708,673
Sales tax receivable		1,578,575		1,010,199
Expected credit loss provision		(708,419)		(713,582)
Total amounts receivable	**$**	**2,000,341**	**$**	**1,005,290**

6. BIOLOGICAL ASSETS

Biological assets consist of cannabis on plants. The changes in the carrying value of biological assets are as follows:

		September 30, 2021		December 31, 2020
Opening balance	$	650,780	$	108,995
Production costs capitalized		282,159		848,931
Gain in fair value less costs to sell due to biological transformation		524,292		1,340,996
Transferred to inventory upon harvest		(706,039)		(1,648,142)
Foreign exchange translation		(66,452)		-
Ending balance	**$**	**684,740**	**$**	**650,780**

The Company measures its biological assets at their fair value less costs to sell. This is determined using a model which estimates the expected harvest yield in grams for plants and seeds currently being cultivated, and then adjusts that amount for the expected selling price less costs to sell per gram. During the period, the Company also cultivated seeds which have been transferred into inventory.

The fair value measurements for biological assets have been categorized as Level 3 fair values based on the inputs to the valuation technique used. The Company's method of accounting for biological assets attributes value accretion on a straight-line basis throughout the life of the biological asset from initial cloning to the point of harvest.

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

Assumptions: THC Resin	**As of September 30, 2021**		**As of December 31, 2020**	
	Input	**Effect on Fair Value**	**Input**	**Effect on Fair Value**
THC Resin Yield	12.7%	$75,459	12.0%	$65,324
THC Resin Price (USD/KG)	$5,189	$76,749	$4,400	$65,306
Weighted average of expected loss of plants until harvest [i]	17.7%	$11,405	28.9%	$173
Expected yields for cannabis plants (average grams per plant)	100	$68,776	134	$53,173
Weighted average number of growing weeks completed as a percentage of total growing weeks as at period end	55.0%	$68,776	88.0%	$53,173
Estimated fair value less costs to complete and sell (per gram) [ii]	$0.73	$73,092	$0.63	$63,271
After harvest cost to complete and sell (per gram)	$0.05	$4,316	$0.10	$10,097

(Expressed in Canadian dollars, except share and per share amounts)

6. BIOLOGICAL ASSETS (CONTINUED)

Assumptions: CBD Isolate	As of September 30, 2021 Input	As of September 30, 2021 Effect on Fair Value	As of December 31, 2020 Input	As of December 31, 2020 Effect on Fair Value
CBD Isolate Yield	-	-	6%	$2,465
CBD Isolate Price (USD/KG)	-	-	$1,100	$2,462
Weighted average of expected loss of plants until harvest [i]	-	-	3.0%	$58
Expected yields for cannabis plants (average grams per plant)	-	-	112	$1,893
Weighted average number of growing weeks completed as a percentage of total growing weeks as at period end	-	-	56.0%	$1,893
Estimated fair value less costs to complete and sell (per gram) [ii]	-	-	$0.04	$1,165
After harvest cost to complete and sell (per gram)	-	-	$0.10	$3,057

Assumptions: CBD Resin	As of September 30, 2021 Input	As of September 30, 2021 Effect on Fair Value	As of December 31, 2020 Input	As of December 31, 2020 Effect on Fair Value
CBD Resin Yield	8.8%	$1,734	-	-
CBD Resin Price (USD/KG)	$3,154	$1,783	-	-
Weighted average of expected loss of plants until harvest [i]	4.6%	$61	-	-
Expected yields for cannabis plants (average grams per plant)	100	$1,267	-	-
Weighted average number of growing weeks completed as a percentage of total growing weeks as at period end	18.0%	$1,267	-	-
Estimated fair value less costs to complete and sell (per gram) [ii]	$0.29	$1,602	-	-
After harvest cost to complete and sell (per gram)	$0.06	$336	-	-

Assumptions: CBD Seeds	As of September 30, 2021 Input	As of September 30, 2021 Effect on Fair Value	As of December 31, 2020 Input	As of December 31, 2020 Effect on Fair Value
CBD Seeds Price (USD/unit)	$0.50	$10,139	$0.50	$2,506
Weighted average of expected loss of plants until harvest [i]	0.0%	$-	11.1%	$311
Expected yields for cannabis plants (average units per plant)	3,000	$10,122	2,500	$2,491
Weighted average number of growing weeks completed as a percentage of total growing weeks as at period end	90.0%	$10,122	26.0%	$2,491
Estimated fair value less costs to complete and sell (per unit) [ii]	$0.58	$10,133	$0.62	$2,504
After harvest cost to complete and sell (per unit)	$0.00	$11	$0.00	$13

[i] Weighted average of expected loss of plants until harvest represents loss via plants that do not survive to the point of harvest. It does not include any financial loss on a surviving plant.

[ii] The estimated fair value less costs to complete and sell (per gram/unit) represents the expected sales price for the Company's active ingredients including isolate and resins less the remaining costs to complete and sell that product as finished product which is inclusive of all production activities.

(Expressed in Canadian dollars, except share and per share amounts)

6. BIOLOGICAL ASSETS (CONTINUED)

These estimates are subject to volatility in market prices and several uncontrollable factors, which could significantly affect the fair value of biological assets in future periods.

The Company estimates the harvest yields for cannabis at various stages of growth. As of September 30, 2021, it is expected that the Company's cannabis plant biological assets will yield approximately 2,067,600 grams of dry cannabis (September 30, 2020 – 1,997,342 grams) and 195,000 seeds (September 30, 2020 – nil) in Santa Marta Golden Hemp. As of September 30, 2021, Sativa Nativa is only growing R&D batches to enhance its genetic base.

The Company has decided not to value, at fair value, certain seeds batches given the novelty of the market in which it will trade once harvested.

The Company's estimates are, by their nature, subject to change and differences from the anticipated yield will be reflected in the gain or loss on biological assets in future periods.

An unrealized gain on biological assets of $533,498 was included in cost of goods sold for the nine months ended September 30, 2021 (September 30, 2020 – $723,361).

7. INVENTORY

		Capitalized Cost		Biological assets fair value adjustment		Impairment		Carrying Value
Harvested Cannabis								
Seeds	$	316,799	$	-	$	(326,249)	$	(9,450)
Wet Flower		81,591		(9,790)		716		72,517
Dried Flower		189,263		270,085		(189,224)		270,124
		587,653		**260,295**		**(514,757)**		**333,191**
Active Pharmaceutical Ingredients								
Work in process		474,444		309,387		(363,597)		420,234
Finished goods		87,503		(18,286)		(69,217)		-
		561,947		**291,101**		**(432,814)**		**420,234**
Supplies and consumables		**1,795,437**		**-**		**(575,303)**		**1,220,134**
Finished goods		**684,425**		**-**		**(89,177)**		**595,248**
September 30, 2021	**$**	**3,629,462**	**$**	**551,396**	**$**	**(1,612,051)**	**$**	**2,568,807**

		Capitalized Cost		Biological assets fair value adjustment		Impairment		Carrying Value
Harvested Cannabis								
Seeds	$	440,950	$	(3,266)	$	(437,598)	$	86
Wet Flower		72,550		103,751		(12,651)		163,650
Dried Flower		153,997		188,943		(276,501)		66,439
		667,497		**289,428**		**(726,750)**		**230,175**
Active Pharmaceutical Ingredients								
Work in process		891,575		(92,736)		(793,801)		5,038
Finished goods		870,622		50,347		(179,811)		741,158
		1,762,197		**(42,389)**		**(973,612)**		**746,196**
Supplies and consumables		**816,803**		**-**		**(596,560)**		**220,243**
Finished goods		**180,468**		**-**		**(101,004)**		**79,464**
December 31, 2020	**$**	**3,426,695**	**$**	**247,039**	**$**	**(2,397,926)**	**$**	**1,276,078**

(Expressed in Canadian dollars, except share and per share amounts)

7. INVENTORY (CONTINUED)

As of September 30, 2021, the Company had accumulated cost impairment of $1,612,051 (December 31, 2020 - $2,397,925), due to the costs capitalized exceeding the net realizable value of the inventory. The impairment recovery has been included in cost of goods sold.

The value of inventory transferred to cost of goods sold during the nine months ended September 30, 2021 was $1,942,478, (September 30, 2020 - $673,387).

8. PROPERTY AND EQUIPMENT

	Equipment $	Land $	Construction in Progress $	Infrastructure and Buildings $	Total $
Cost					
December 31, 2020	3,016,452	9,088,419	4,973,217	5,604,076	22,682,164
Additions	36,340	-	748,112	-	784,452
Disposals	(524,118)	-	-	-	(524,118)
Foreign exchange translation	(186,236)	(928,044)	(584,221)	(562,213)	(2,260,714)
September 30, 2021	**2,342,438**	**8,160,375**	**5,137,108**	**5,041,863**	**20,681,784**
Accumulated Depreciation					
December 31, 2020	992,635	-	-	224,330	1,216,965
Depreciation	250,031	-	-	102,214	352,245
Disposals	(262,415)	-	-	-	(262,415)
Foreign exchange translation	(40,644)	-	-	(19,788)	(60,432)
September 30, 2021	**939,607**	**-**	**-**	**306,756**	**1,246,363**
Net Book Value					
December 31, 2020	2,023,817	9,088,419	4,973,217	5,379,746	21,465,199
September 30, 2021	**1,402,831**	**8,160,375**	**5,137,108**	**4,735,107**	**19,435,421**

During the nine months ended September 30, 2021, the Company recognized depreciation expense on its property and equipment of $352,245 (September 30, 2020 - $583,852).

(Expressed in Canadian dollars, except share and per share amounts)

9. INTANGIBLE ASSETS

	Customer Relationships $	Ecommerce Platform $	Licenses and Permits $	Software Licenses $	Intellectual Property $	Total $
Cost						
December 31, 2020	141,327	455,994	50,177	83,321	100,551	831,370
Additions	-	-	-	16,404	2,889	19,293
Foreign exchange translation	-	-	(5,126)	(8,508)	(10,267)	(23,901)
September 30, 2021	**141,327**	**455,994**	**45,051**	**91,217**	**93,173**	**826,762**
Accumulated Amortization						
December 31, 2020	96,613	103,501	17,860	38,669	77,259	333,902
Amortization	21,199	68,399	16,976	24,830	34,599	166,003
Foreign exchange translation	-	-	(2,116)	(3,964)	(8,487)	(14,567)
September 30, 2021	**117,812**	**171,900**	**32,720**	**59,535**	**103,371**	**485,338**
Net Book Value						
December 31, 2020	44,714	352,493	32,317	44,652	23,292	497,468
September 30, 2021	**23,515**	**284,094**	**12,331**	**31,682**	**10,198**	**341,424**

During the nine months ended September 30, 2021, the Company recognized amortization on its intangible assets of $166,003 (September 30, 2020 - $528,696).

10. RIGHT OF USE ASSETS

As of September 30, 2021, the Company's right of use asset consisted of the following:

		September 30, 2021		December 31, 2020
Cost				
Opening balance	$	670,549	$	670,549
Additions		-		-
Ending balance	$	670,549	$	670,549
Accumulated Amortization				
Opening balance	$	327,097	$	130,839
Depreciation		147,194		196,258
Ending balance	$	474,291	$	327,097
Net Book Value	**$**	**196,258**	**$**	**343,452**

During the nine months ended September 30, 2021, the Company recognized depreciation on its right of use assets of $147,194 (September 30, 2020 - $147,194).

(Expressed in Canadian dollars, except share and per share amounts)

11. DERIVATIVE ASSET

		September 30, 2021		December 31, 2020
Opening balance	$	526,312	$	3,780,000
Change in fair value		-		(3,253,688)
Ending Balance	**$**	**526,312**	**$**	**526,312**

On November 26, 2019, the Company entered into a license agreement (the "License Agreement") with LC2019, Inc. ("LC2019") pursuant to which the Company has agreed to license certain proprietary formulations and brand elements to LC2019 for commercialization in the United States. As consideration for entering into the License Agreement, LC2019 and its shareholders have entered into a definitive option agreement (the "Option Agreement") that grants the Company the option (the "Option") to acquire 100 percent of the issued and outstanding shares of LC2019. The Option is exercisable in the event that cannabis cultivation, processing, distribution and possession becomes federally legal in the United States (the "Triggering Event"), within 10 years from the grant date. The Company may elect to exercise the Option prior to the occurrence of the Triggering Event in its sole discretion or to assign the Option at any time. As of September 30, 2021, the option has not been exercised.

Pursuant to the terms of the Option Agreement, upon the occurrence of the Triggering Event, the Company will exercise the Option and purchase all of the issued and outstanding shares of LC2019, as follows: (i) all of the issued and outstanding Class A shares at a nominal amount; (ii) all of the issued and outstanding Class B shares at the applicable subscription price; and (iii) all of the issued and outstanding Class C shares for up to 10% of the increase in the fair market value of LC2019 between the date of the Option Agreement and the date that the Company provides notice of exercise to LC2019, up to a maximum aggregate amount of $10,000,000. The Company is entitled to elect to satisfy the purchase price in cash or through the issuance of common shares of the Company, in its sole discretion, subject to the approval of, and in accordance with the policies of, the TSX.

The Option was classified as a derivative financial instrument and was initially recorded at its fair value of $3,780,000. As of September 30, 2021, the fair value of the Option was $526,312.

12. DEFERRED REVENUE

		September 30, 2021		December 31, 2020
Opening balance	$	3,260,101	$	3,323,518
Additions		-		400,000
Revenue recognized		(377,250)		(463,417)
Ending Balance	**$**	**2,882,851**	**$**	**3,260,101**

[i] Pursuant to the terms of the License Agreement with LC2019 (note 11), the Company transfers brand/ trademark as well as intellectual property related to product development. For LC2019 to benefit from the brand, there are activities that the Company would need to perform to support and maintain the value of the brand/ trademark. As ongoing activities are required to maintain the brand, the license to the brand/ trademark would be considered a right to access and therefore would be recognized over time. In addition, given the license is for cannabis related to product development, the company meets the criteria for right of use of intellectual property and recognize at a point time. However, IFRS 15 states that revenue cannot be recognized for a license that provides a right to use intellectual property before the period during which the customer is able to use and benefit from the license. As cannabis remains federally illegal in the US, there exists restrictions in the benefits that the Company can derive from this license. Consequently, the revenue derived from the above license has been recognized as deferred revenue to be recognized into revenue evenly over a period of ten years. In relation to this contract, the Company recognized $94,500 and $283,500 as license revenue for the three months and nine months ended September 30, 2021, (September 30, 2020 - $94,500 and $248,766, respectively).

(Expressed in Canadian dollars, except share and per share amounts)

12. DEFERRED REVENUE (CONTINUED)

[ii] On August 11, 2020, the Company entered into an exclusive Distribution Agreement with a third-party, granting them the exclusive right to promote, market and sell the Company's products. The Company received $250,000 as consideration of the exclusivity partnership for a period of five years plus an automatic renewal period of five years (the "Exclusivity Fee"). The Company determined that its performance obligation with regards to the contract occurs over a period of time and therefore, revenue is to be recognized straight-line over a ten-year period based on the term of the contract and the automatic term renewal. In relation to this contract, the Company recognized $6,250 and $18,750 into License Revenue for the three months and nine months ended September 30, 2021, respectively (September 30, 2020 - $nil).

[iii] On January 7, 2020, the Company entered a Development Project whereby the Company received $150,000 as consideration for formulation development. As of September 30, 2021, the Company has fulfilled its performance obligation with regards to the formulation development. The Company recognized $75,000 into license revenue during the year ended December 31, 2020, and $75,000 in the three and nine months ended September 30, 2021.

13. LEASE LIABILITY

As of September 30, 2021, the lease liability consisted of the following:

		September 30, 2021		December 31, 2020
Opening balance	$	**364,216**	$	**555,339**
Interest incurred on lease liability		17,660		37,552
Lease payments		(173,217)		(228,675)
Ending balance	$	**208,659**	$	**364,216**
Lease liability – current portion		208,659		203,155
Lease liability – noncurrent portion		-		161,061

The Company has lease liabilities for leases related to its corporate offices. The weighted average discount rate for the nine months ended September 30, 2021, was 8% percent.

The total future minimum rent payable under the Company's lease on September 30, 2021 was as follows:

Due in less than 1 year	$	224,950
Due between 1 and 2 years		-
Total lease payments		224,950
Amounts representing interest over the term of the lease		(16,291)
Present value of minimum lease payments	**$**	**208,659**

(Expressed in Canadian dollars, except share and per share amounts)

14. CONVERTIBLE DEBENTURES

The following table is a break down of the convertible debenture balance on initial recognition and subsequent accretion:

		September 30, 2021		December 31, 2020
Opening balance	$	1,573,695	$	715,626
Additions (ii)		-		754,923
Accretion expense		135,646		103,146
Conversion February 25, 2021 (ii)		(150,267)		-
Conversion March 1, 2021(i)		(783,000)		-
Conversion March 17, 2021 (ii)		(239,372)		-
Repayment April 5, 2021 (ii)		(246,895)		-
Ending Balance	**$**	**289,807**	**$**	**1,573,695**

(i) On March 1, 2019, the Company completed a convertible debenture offering and raised gross proceeds of $783,000. The debentures incur interest at 8.0% per annum and have a maturity date of March 1, 2021. Each debenture is convertible, at the option of the holder, at any time before the maturity date, into fully paid and non-assessable common shares at the conversion price, representing a conversion rate of 125 common shares per $1,000 of principal, subject to adjustment in accordance with the debenture certificates. On March 1, 2021, the principal of these debentures, and accrued interest of $125,280, were converted into 113,535 common shares.

(ii) On November 2, 2020, the Company completed a convertible debenture offering and raised gross proceeds of $1,100,000. The debentures bear interest at 8.0% per annum and have a maturity date one year from the date of the issuance of the debentures on November 2, 2021. The first year of interest payable will be capitalized into and added to the principal amount under the Debenture on the date of issuance. Each debenture is convertible in whole or in part, any time while any principal amount or interest remains outstanding, into common shares of the Corporation at $1.00 per Share.

Additionally, each subscriber received one common share purchase warrant per $2.00 of principal for a period of two years from the date of issuance of the warrants, subject to the Company's right to accelerate the expiry date of the warrants in the event that the daily volume weighted average trading price is equal to or exceeds $2.00 on the TSX for a minimum of 10 consecutive trading days. Each whole warrant entitles the holder to acquire one common share of the Company at a price of $1.50 per common share. Between the issuance date and the date that is 60 days from the issuance date, if the Company issues common shares or securities convertible into common shares at a price or exercise price below $0.80 then the conversion price would be reduced to match that price or exercise price.

The debentures and warrants issued pursuant to the Offering are subject to a statutory hold period in Canada of four months and one day following the closing of the Offering.

Additionally, the Company incurred $199,926 in issuance costs in connection with this offering of convertible debentures. These costs were capitalized with debt and will be accreted over the term of the debentures.

A portion of proceeds is allocated to the conversion option and warrants based on the respective fair values of each instrument. The company used the Black-Scholes option pricing model to determine the fair value using the following assumptions: risk-free rate of 0.24-0.26%, volatility of 40% based on comparative companies, a discount for lack of marketability due to the four-month restriction period from the issuance date, and the maturity and exercise prices of the respective options.

(Expressed in Canadian dollars, except share and per share amounts)

14. CONVERTIBLE DEBENTURES (CONTINUED)

As a result, the Company recognized the following:

Convertible debenture	$	754,923
Issuance Costs		199,926
Derivative liability (Note 16)		145,151
	$	**1,100,000**

During the nine months ended September 30, 2021, the Company recognized accretion expense of $135,646 (September 30, 2020 - $27,185) and interest expense of $43,243 (September 30, 2020 - $47,023) in relation to these convertible debentures.

On February 25, 2021, holders of the convertible debenture exercised $200,000 of principal into 200,000 Common Shares of the Company and on March 17, 2021, an additional $300,000 of principal into 300,000 common shares were issued on the exercise of convertible debentures. On April 5, 2021, the Company repaid $300,000 of the principal amount.

15. TERM LOAN

		September 30, 2021		December 31, 2020
Opening balance	$	-	$	-
Additions		1,122,940		-
Accretion		165,664		-
Ending Balance	**$**	**1,288,604**	**$**	**-**

On August 18, 2021, the Company entered into a term loan agreement for principal of $2,118,000, incurring 5% interest for a term of 13 months. The loan principal is to be repaid in 12 equal monthly payments, beginning 2 months after the issuance date. The balance was recognized net of the following discounts and issuance costs:

Principal	$	2,118,000
Discount		(318,000)
Issuance Costs		(100,000)
Warrants		(577,060)
	$	**1,122,940**

As part of the term loan agreement, the Company issued 1,636,364 common share purchase warrants to the lender, exercisable into common shares of the Company for 3 years from the date of issuance at a price of $1.10 per common share. The fair value of the warrants was determined using the Black-Scholes pricing model with the following assumptions: risk-free rate of 0.55%, volatility of 98%, expected life of 1.5 years, dividend yield 0% and share price of $1.08.

During the nine months ended September 30, 2021, the Company incurred accretion expense of $165,664 (September 30, 2020 - $nil) and interest expense of $12,476 (September 30, 2020 - $nil) in relation to this loan.

(Expressed in Canadian dollars, except share and per share amounts)

16. DERIVATIVE LIABILITIES

		September 30, 2021		December 31, 2020
Opening balance	$	145,151	$	23,434
Additions		-		145,151
Repayment on convertible debenture		(61,715)		-
Conversions		(162,289)		-
Loss on change in fair value		80,543		(23,434)
Ending Balance	**$**	**1,690**	**$**	**145,151**

On March 1, 2019, the Company completed a convertible debenture offering. The Conversion Option related to the convertible debentures was determined to represent a derivative liability. A portion of the proceeds was allocated to this financial instrument based on its respective fair value. During the nine months ended September 30, 2021, the debentures were fully converted.

On November 2, 2020, the Company completed a convertible debenture offering (note 18). The Conversion Option and the warrants issued in relation to the convertible debentures was determined to represent a derivative liability. A portion of the proceeds was allocated to this financial instrument based on its respective fair value. At inception, the Company used the Black-Scholes option pricing model to determine the fair value using the following assumptions: risk-free rate of 0.26%, volatility of 40% based on comparative companies, a discount for lack of marketability due to the four-month restriction period from the issuance date, and the maturity and exercise prices of the respective options. As a result, the Company recognized, a derivative liability of $145,151, representing the conversion option of $111,297 and warrants of $33,854. As of September 30, 2021, the fair value of the derivative liability was $1,690 and a loss of $80,543 was recognized for the nine months ended September 30, 2021 (September 30, 2020 - $nil).

On February 25, 2021, a fair value of $72,714 was transferred to share capital on the conversion of debentures into 200,000 common shares. On March 17,2021, a fair value of $89,575 was transferred to share capital on the conversion of debentures into 300,000 common shares.

17. RELATED PARTY TRANSACTIONS

The following outlines amounts that were paid to officers of the Company.

		Nine months ended September 30, 2021		Nine months ended September 30, 2020
Salaries	$	570,000	$	474,492
Share-based compensation		186,644		521,894
	$	**756,644**	**$**	**996,386**

Salaries and shared based compensation include compensation paid to key management personnel. The Company defines key management personnel as the Chief Executive Officer, President, Chief Financial Officer, and President of LATAM.

Additionally, as of September 30, 2021, the Company accumulated advances from certain related parties who represent the minority shareholders of SMGH and Sativa Nativa in the amount of $4,175,074 (December 31, 2020- $4,319,545). The advances relate to minority partners contributions towards the expansion of cultivation facilities. The balance owed to the related party is interest free. As these amounts become due, the outstanding balances are converted into common shares of SMGH, consistent with current ownership splits. During the nine months ended September 30, 2021, $nil was converted into equity in SMGH (December 31, 2020 - $2,859,440).

Changes in the balances are disclosed in the following table:

		September 30, 2021		December 31, 2020
Opening Balance	$	4,319,545	$	3,319,116
Additions		315,987		3,859,869
Foreign exchange		(460,458)		-
Balance recapitalized into shares in SMGH		-		(2,859,440)
Ending Balance	**$**	**4,175,074**	**$**	**4,319,545**

(Expressed in Canadian dollars, except share and per share amounts)

18. SHARE CAPITAL

Authorized and outstanding share capital:

The authorized share capital of the Company consists of an unlimited number of common shares and unlimited number of preferred shares with no par value. As of September 30, 2021, the Company had 41,271,574 common shares issued and outstanding (December 31, 2020 – 35,875,941).

[i] As of December 31, 2020, there were 101,722 Restricted Stock Units ("RSUs") that were exercised but not yet settled. These shares were subsequently issued in January 2021.

[ii] On February 25, 2021, 99,595 common shares were issued on the exercise of common share purchase warrants. A total of 99,595 warrants were exercised at a price of $0.85 per common share for gross proceeds of $84,656. The common share purchase warrants exercised held a fair value of $40,227.

[iii] On March 4, 2021, the Company issued an aggregate of 4,480,000 Units (the "Units") at a price of $1.25 per Unit for net proceeds of $5,350,050, comprised of aggregate gross proceeds of $5,600,000 less share issuance costs of $249,950. Each Unit was comprised of one (1) common share in the capital of the Company and one (1) common share purchase warrant ("Warrant"). Each Warrant is exercisable into one common share in the capital of the Company at a price of $1.75 until March 4, 2024.

The net proceeds of $5,350,050 were allocated between the common shares and the warrants by determining the fair value of the warrants, and allocating the residual to the common shares as follows:

Common shares	$	3,599,023
Warrants		1,751,027
	$	**5,350,050**

The fair value of the common share purchase warrants was determined using the Black-Scholes option pricing model with a market price per common share of $1.17, a risk-free interest rate of 1.62%, an expected annualized volatility of 90% and expected dividend yield of 0%.

Warrant Reserve

As of September 30, 2021, the following warrants were outstanding and exercisable:

	Warrants	**Weighted average exercise price**
	#	$
Outstanding as of December 31, 2019	**1,630,721**	**9.56**
Warrants issued	6,529,335	1.28
Warrants expired	(360,008)	9.91
Outstanding as of December 31, 2020	**7,800,048**	**2.62**
Warrants issued	6,116,364	0.77
Warrants exercised	(99,595)	0.01
Warrants expired	(1,245,713)	0.97
Outstanding as of September 30, 2021	**12,571,104**	**1.45**

(Expressed in Canadian dollars, except share and per share amounts)

18. SHARE CAPITAL (CONTINUED)

The following table is a summary of the Company's warrants outstanding as of September 30, 2021:

	Warrants Outstanding		Warrants Exercisable	
Exercise price range $	**Number outstanding** #	**Weighted average remaining life** (years)	**Weighted average exercise price** $	**Number exercisable** #
0.85	240,235	0.02	0.02	240,235
1.00	25,000	0.00	0.00	25,000
1.20	4,642,325	0.68	0.44	4,642,325
1.50	550,000	0.05	0.07	550,000
1.75	4,480,000	0.87	0.62	4,480,000
2.00	997,180	0.07	0.16	997,180
3.00	1,636,364	0.37	0.14	1,636,364
Balance September 30, 2021	**12,571,104**	**2.06**	**1.45**	**12,571,104**

19. SHARE BASED PAYMENT RESERVE AND STOCK OPTIONS

The Company has established a stock option plan (the "Option Plan") for directors, officers, employees, and consultants of the Company. The Company's Board of Directors determines, among other things, the eligibility of individuals to participate in the Option Plan and the term, vesting periods, and the exercise price of options granted to individuals under the Option Plan.

Each share option converts into one common share of the Company on exercise. No amounts are paid or payable by the individual on receipt of the option. The options carry neither the right to dividends nor voting rights. Options may be exercised at any time from the date of vesting to the date of their expiry.

The Company's Option Plan provides that the number of common shares reserved for issuance may not exceed 10% of the number of common shares outstanding. If any options terminate, expire, or are cancelled as contemplated by the Option Plan, the number of options so terminated, expired, or cancelled shall again be available under the Option Plan.

[i] Measurement of fair values

There were no options issued during the nine months ended September 30, 2021. The fair value of share options granted during the year ended December 31, 2020, was estimated at the date of grant using the Black Scholes option pricing model using the following inputs:

	2020
Grant date share price	$1.39 -$2.55
Exercise price	$1.39 - $5.00
Expected dividend yield	0%
Risk-free interest rate	0.44% - 1.62%
Expected option life	7 – 10 years
Expected volatility	90%

(Expressed in Canadian dollars, except share and per share amounts)

19. SHARE BASED PAYMENT RESERVE AND STOCK OPTIONS (CONTINUED)

Employee and non-employee options

Expected volatility was estimated by using the historical volatility of other actively traded public companies that the Company considers comparable that have trading and volatility history. The expected option life represents the period of time that options granted are expected to be outstanding. The risk-free interest rate is based on Canada government bonds with a remaining term equal to the expected life of the options.

	Options	Weighted average exercise price
	#	$
Outstanding on December 31, 2019	**1,627,915**	**8.00**
Options issued	1,030,251	2.06
Options cancelled and forfeited	(605,499)	5.72
Options exercised	(100,000)	0.10
Outstanding on December 31, 2020	**1,952,667**	**2.94**
Options forfeited [i]	(150,250)	6.87
Outstanding on September 30, 2021	**1,802,417**	**2.61**

[i] During the nine months ended September 30, 2021, 150,250 options were forfeited. The fair value of unvested units was removed from the share base reserve and reduced from retained earnings.

During the nine months ended September 30, 2021, the Company recognized a total share-based compensation expense relating to options of $386,493 (September 30, 2020 - $1,587,441).

The following table is a summary of the Company's share options outstanding as of September 30, 2021:

	Options Outstanding		Options Exercisable	
Exercise price range	Number outstanding	Weighted average remaining life	Weighted average exercise price	Number exercisable
$	#	(years)	$	#
1.00	623,000	1.40	0.35	406,250
1.24	7,500	0.02	0.01	7,500
1.39	38,000	0.09	0.03	22,167
2.00	367,500	0.71	0.41	367,500
2.50	171,372	0.74	0.24	57,624
2.75	350,950	0.84	0.54	116,983
5.00	14,595	0.00	0.04	13,562
7.30	32,000	0.07	0.13	32,000
8.00	197,500	0.46	0.88	195,833
September 30, 2021	**1,802,417**	**4.33**	**2.63**	**1,219,419**

(Expressed in Canadian dollars, except share and per share amounts)

19. SHARE BASED PAYMENT RESERVE AND STOCK OPTIONS (CONTINUED)

Restricted Stock Units

The following table summarized the continuity of the Company's RSUs:

	RSUs Issued	Weighted average issue price
	#	$
Outstanding on December 31, 2019	98,158	8.00
RSUs issued	946,797	1.33
RSUs exercised	(570,153)	1.73
RSUs forfeited	(34,166)	2.86
Outstanding on December 31, 2020	440,636	2.30
RSUs exercised [i]	(206,503)	1.21
RSUs exercised but not yet settled [i]	(40,390)	0.23
RSUs forfeited [ii]	(23,754)	3.18
Outstanding on September 30, 2021	**169,989**	**2.60**

[i] During the nine months ended September 30, 2021, 206,503 restricted stock units were vested. 40,390 units were yet to be settled as of September 30, 2021. The grant price of the exercised units ranged from $0.85 to $1.46.
[ii] During the nine months ended September 30, 2021, 23,754 restricted stock units were forfeited. Forfeited units were removed from the share base reserve and reduced from retained earnings.

During the nine months ended September 30, 2021, the Company recognized a total share-based compensation expense relating to restricted stock units of $169,543 (September 30, 2020 - $868,475).

Share based compensation is comprised of the following:

	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
Stock options	$ 105,520	$ 277,289	$ 386,493	$ 1,587,441
Restricted Stock Units	49,505	562,665	169,543	868,475
	$ 155,025	**$ 839,954**	**$ 556,036**	**$ 2,455,916**

20. NON-CONTROLLING INTEREST

	September 30, 2021	December 31, 2020
Opening Balance	$ 7,893,712	$ 7,488,456
SMGH Recapitalization	-	2,859,440
Foreign translation	(691,416)	(946,419)
Net loss attributed to non-controlling interest	(205,728)	(1,507,765)
Ending Balance	**$ 6,996,568**	**$ 7,893,712**

(Expressed in Canadian dollars, except share and per share amounts)

21. LONG-TERM INVESTMENT

		September 30, 2021		December 31, 2020
Opening Balance	$	518,213	$	72
Unrealized gain on change in fair value		-		518,141
Ending Balance	**$**	**518,213**	**$**	**518,213**

Long-term investment consists of 720,000 shares in Southern Sun Pharma ("Southern Sun") purchased for a total cost of $72. In 2020, Southern Sun completed a financing through the sale of units at $1.25 per unit. Each unit was comprised of one common share and one-half common share purchase warrant. Each whole warrant entitled the holder to purchase an additional share at $1.50 at any time up to 18 months following the closing date. Due to this financing, the Company recognized an unrealized gain from the change in fair value of $518,141 for the year ended December 31, 2020. As of September 30, 2021, there have been no events which would imply a change in the fair value of the investment.

22. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from deposits with banks and outstanding receivables. The Company does not hold any collateral as security but mitigates this risk by dealing only with what management believes to be financially sound counterparties and, accordingly, does not anticipate significant loss for non-performance.

As of September 30, 2021, $1,130,185 in trade and other receivables remained outstanding (December 31, 2020 - $708,673). The Company applies the simplified approach to providing for expected credit losses as prescribed by IFRS 9, which permits the use of lifetime expected loss provision for all trade receivables. The loss allowance is based on the Company's historical collection and loss experience and incorporates forward looking factors, where appropriate.

A summary of aged trade and other receivables is included below:

	Current	1 - 30	31 - 60	61 - 90	90 +	Total
	$	$	$	$	$	$
Trade and other receivables	360,675	82,799	285,970	54,793	345,948	1,130,185

During the nine months ended September 30, 2021, the Company has recognized a recovery on estimated credit losses of $5,163 (September 30, 2020 - $nil).

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's exposure to liquidity risk is dependent on the Company's ability to raise additional financing to meet its commitments and sustain operations. The Company mitigates liquidity risk by management of working capital, cash flows and the issuance of share capital.

(Expressed in Canadian dollars, except share and per share amounts)

22. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (CONTINUED)

In addition to the commitments disclosed, the Company is obligated to the following contractual maturities of undiscounted cash flows:

	Carrying amount	Contractual cash flows	Year 1
Amounts payable	$ 7,470,234	$ 7,470,234	$ 7,470,234
Customer deposits	191,696	191,696	191,696
Convertible Debentures	289,807	300,000	300,000
Term loan	1,288,604	2,118,000	2,118,000
Lease liability	208,659	224,950	224,950
	$ 9,449,000	**$ 10,304,880**	**$ 10,304,880**

The due to related party balance of $4,175,074 is not intended to be repaid. As these amounts become due, the outstanding balances can be converted into common shares of SMGH, consistent with current ownership splits.

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency rate risk, interest rate risk and other price risk.

Currency risk

Currency risk is the risk to the Company's earnings that arise from fluctuations of foreign exchange rates. The Company is exposed to foreign currency exchange risk as it has substantial operations based out of Colombia and record keeping is denominated in a foreign currency. As such the company has foreign currency risk associated with Colombian Pesos.

Interest 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 exposed to interest rate as it does not have any borrowings.

Other price risk
Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices of the Company's cannabis products (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

Fair values

The carrying values of cash, amounts receivable, prepaid assets, investments and amounts payable approximate the fair values due to the short-term nature of these items. The risk of material change in fair value is not considered to be significant due to a relatively short-term nature. The Company does not use derivative financial instruments to manage this risk.

Financial instruments recorded at fair value on the condensed consolidated interim statement of financial position are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The Company categorizes its fair value measurements according to a three-level hierarchy as disclosed in Note 3. The hierarchy prioritizes the inputs used by the Company's valuation techniques. A level is assigned to each fair value measurement based on the lowest-level input significant to the fair value measurement in its entirety.

(Expressed in Canadian dollars, except share and per share amounts)

22. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (CONTINUED)

The Company's finance team performs valuations of financial items for financial reporting purposes, 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 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. Warrants and derivative liability are classified as a level 2 financial instruments and the derivative asset is classified as a level 3 instrument. During the year, there were no transfers of amounts between Level 1, Level 2 and Level 3.

The value of the derivative instrument was determined using a discounted cash flow model, with assumptions on the discount rate and the probability of the triggering event. The following table provides information about the sensitivity of the fair value measurement to changes in the most significant inputs for the LC2019 derivative asset classified as Level 3. As of September 30, 2021, the assumptions used to determine the fair market value of the derivative instrument were consistent with those used at December 31, 2020.

23. GENERAL AND ADMINISTRATIVE EXPENSES

	For the three months ended September 30,		For the nine months ended September 30,	
	2021	**2020**	**2021**	**2020**
General and administrative	$ 417,602	$ 1,038,269	$ 1,690,842	$ 2,791,201
Selling marketing and promotion	162,454	160,300	367,721	282,922
Consulting fees	287,696	523,057	1,210,670	1,182,064
Professional fees	708,283	355,098	1,214,612	1,181,768
Salaries and wages	1,104,261	702,660	3,327,033	3,290,127
Research and development	28,871	175,054	142,981	279,761
Board fees	53,743	-	168,743	57,000
	$ 2,762,910	**$ 2,954,438**	**$ 8,122,602**	**$ 9,064,843**

During the nine months ended September 30, 2021, as part of its inventory costing process, the Company capitalized $255,816 of salaries to inventory and biological assets (September 30, 2020 - $357,423).

24. SEGMENT REPORTING

Operating segments are determined based on internal reporting that is regularly reviewed by the chief operating decision maker ("CODM") for the purpose of allocating resources to the segment and for assessing its performance. As of September 30, 2021, the Company determined that it has three operating segments, organized by geographical area: North America, South America, and rest of world.

North America includes sales of the Company's pharmaceutical and health products as well as revenue generated from the licensing of intellectual property and research and development services, all developed in North America and serving customers within Canada and the United States. South America includes sales of the Company's pharmaceutical and health products and sales of API to customers worldwide, all grown and developed in Colombia. Rest of world includes sales of products to customers in Europe and Central America. Corporate includes overhead and financing costs incurred by the Company to support its public company infrastructure and operating segments.

The Company has retrospectively reported segmented information for the comparative periods to conform to the disclosed segmented information structure.

(Expressed in Canadian dollars, except share and per share amounts)

24. SEGMENT REPORTING (CONTINUED)

	North America	South America	Rest of World	Corporate	Total
Nine months ended September 30, 2021					
Segment revenue from external sources					
Service revenue	$ 87,945	$ -	$ -	$ -	$ 87,945
License revenue	302,250	-	-	-	302,250
Product revenue	1,031,766	614,063	15,071	-	1,660,900
Total Revenue	**1,421,961**	**614,063**	**15,071**	**-**	**2,051,095**
Gross Profit	324,640	808,046	11,198	-	1,143,884
Net loss before taxes	**$ (2,857,216)**	**$ (2,279,197)**	**$ (174,832)**	**$ (3,231,869)**	**$ (8,543,114)**
Included in the measure of loss above are the following items					
Share-based compensation	$ -	$ -	$ -	$ 556,036	$ 556,036
Depreciation and amortization	347,774	317,668	-	-	665,442
	347,774	317,668	-	556,036	1,221,478
Material expenses					
General and administrative	738,359	894,338	58,145	-	1,690,842
Selling marketing and promotion	202,822	160,011	4,888	-	367,721
Consulting fees	-	127,296	111,611	971,763	1,210,670
Professional fees	2,558	124,333	2,628	1,085,093	1,214,612
Salaries and wages	1,768,794	1,558,239	-	-	3,327,033
Research and development	133,598	-	9,383	-	142,981
	$ 2,846,131	$ 2,864,217	$ 186,655	$ 2,056,856	$ 7,953,859

	North America	South America	Rest of World	Corporate	Total
Nine months ended September 30, 2020					
Segment revenue from external sources					
Service revenue	$ 13,471	$ -	$ -	$ -	$ 13,471
License revenue	565,613	-	-	-	565,613
Product revenue	725,197	548,046	-	-	1,273,243
Total revenue	**1,304,281**	**548,046**	**-**	**-**	**1,852,327**
Gross Profit	891,452	(208,626)	-	-	682,826
Net loss before taxes	**$ (5,220,348)**	**$ (8,687,198)**	**$ (70,250)**	**$ (3,445,074)**	**$ (17,422,870)**
Included in the measure of loss above are the following items					
Share-based compensation	$ -	$ -	$ -	$ 2,455,916	$ 2,455,916
Depreciation and amortization	838,283	421,459	-	-	1,259,742
Impairment of goodwill	-	3,207,227	-	-	3,207,227
	838,283	3,628,686	-	2,455,916	6,922,885
Material expenses					
General and administrative	1,912,460	2,146,293	70,250	-	4,129,003
Selling marketing and promotion	14,936	100,630	-	-	115,566
Consulting fees	-	68,618	-	-	68,618
Professional fees	-	192,609	-	989,158	1,181,767
Salaries and wages	279,762	-	-	-	279,762
Research and development	923,625	2,366,502	-	-	3,290,127
	$ 3,130,783	$ 4,874,652	$ 70,250	$ 989,158	$ 9,064,843

(Expressed in Canadian dollars, except share and per share amounts)

25. NON-CASH OPERATING ELEMENTS OF WORKING CAPITAL

	For the nine months end September 30,	
	2021	**2020**
Amounts receivable	$ (989,888)	$ (1,385,519)
Biological assets	(33,960)	(115,991)
Inventory	(1,292,729)	(600,330)
Prepaid assets	789,847	52,345
Accounts payable	1,077,532	(362,502)
Customer deposits	191,696	-
	$ (257,502)	**$ (2,411,997)**

26. SUBSEQUENT EVENTS

[i] On October 19, 2021, the Company closed a non-brokered private placement, issuing 4,587,022 common share units at a price of $0.85 per unit, for gross proceeds of $3,898,969. Each unit is comprised of one common share and one-half common share purchase warrant. Each whole common share purchase warrant is exercisable into one common share of the Company at a price of $1.10 per common share, for a period of three years from the closing date.

[ii] On October 18, 2021, the remaining $300,000 of principal on convertible debentures was paid in full.