FLOWER ONE HOLDINGS, INC.

Unaudited Condensed Interim Consolidated Financial Statements
As at and for the Three-Month Period Ended
March 31, 2022 and 2021

(Expressed in United States Dollars Unless Otherwise Stated)

Notice of No Auditor Review of Condensed Consolidated Interim Financial Statements

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the unaudited condensed consolidated interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor. The accompanying unaudited condensed consolidated interim financial statements of the Company have been prepared by and are the responsibility of the Company's management. The Company's independent auditor has not performed a review of these unaudited condensed consolidated interim financial statements. These unaudited interim consolidated 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")

FLOWER ONE HOLDINGS INC.

Consolidate Interim Statements of Financial Position (Unaudited)
(Expressed in United States Dollars)

	March 31, 2022	December 31, 2021
Assets	*Unaudited*	*Audited*
Current assets		
Cash and cash equivalents	$ 4,736,461	$ 867,981
Accounts receivable	4,213,436	4,541,315
Prepaids and Deposits	629,696	1,290,175
Inventory (note 4)	8,127,630	9,664,828
Biological assets (note 5)	3,001,700	1,541,410
Total current assets	20,708,923	17,905,709
Non-current assets		
Prepaids and deposits	1,506,625	2,486,801
Property, plant and equipment (note 6)	95,612,839	97,420,251
Total assets	**$ 117,828,387**	**$ 117,812,761**
Liabilities		
Current liabilities		
Trade accounts payable and accrued liabilities	$ 18,940,931	$ 20,145,861
Construction payables	4,359,228	4,359,228
Equipment financing (note 10)	5,591,653	5,440,490
Term debt (note 11)	29,433,630	-
Short-term financing (note 12)	6,000,000	6,192,644
Total current liabilities	64,325,442	36,138,223
Non-current liabilities		
Convertible debentures (note 7)	10,619,843	9,885,952
Convertible note units (note 8)	10,251,441	9,460,534
Derivative liabilities (notes 7, 8, 11, 12, and 13)	4,054,591	2,995,255
Lease liabilities (note 9)	20,804,234	20,718,048
Equipment financing (note 10)	6,738,666	8,194,537
Term debt (note 11)	10,082,884	29,563,534
Total liabilities	**126,877,101**	**116,956,083**
Shareholders' equity		
Share capital (note 13)	141,675,272	141,675,272
Contributed surplus (note 14)	13,497,836	13,228,953
Accumulated deficit	(164,221,822)	(154,047,547)
Total shareholders' equity	(9,048,714)	856,678
Total liabilities and shareholders' equity	**$ 117,828,387**	**$ 117,812,761**

Nature of operations (Note 1)
Commitments and Contingencies (Note 25)
Subsequent events (Note 26)

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

Approved and authorized on behalf of the Board:

"Kellen O'Keefe" — Kellen O'Keefe, President & CEO

"Araxie Grant" — Araxie Grant, CFO

FLOWER ONE HOLDINGS INC.

Consolidated Interim Statements of Loss and Comprehensive Loss (Unaudited)
(Expressed in United States Dollars)

	Three months ended March 31,	
	2022	2021
		(As Restated)
Revenue	$ 8,949,249	$ 13,877,853
Cost of sales	5,031,423	4,969,319
Gross profit before fair value adjustments	**3,917,826**	**8,908,534**
Realized fair value adjustment on sale and disposal of inventory (note 4)	3,268,593	2,542,502
Unrealized gain on fair value adjustment on growth of biological assets (note 5)	(1,623,710)	(6,809,245)
Write-down and provision for inventory and biological assets (notes 4 and 5)	741,738	1,008,698
Gross profit	1,531,205	12,166,579
Operating expenses		
General and administrative (note 16)	6,440,276	6,247,780
Share-based compensation (note 14)	268,883	3,735,265
Depreciation and amortization (note 6)	126,092	136,934
Total operating expenses	6,835,251	10,119,979
Gain (loss) from operations	(5,304,046)	2,046,600
Other income (expense)		
Other income	1,439,341	-
Finance expenses (note 17)	(4,935,992)	(8,190,000)
Fair value loss on derivatives (notes 7, 8, 11, 12, and 13)	(1,015,712)	(2,959,863)
Loss on debt extinguishment (notes 7, 10, 11, 12 and 13)	-	(6,106,088)
Loss on debt modification (note 7)	(7,566)	-
Foreign exchange loss	(350,300)	(562,315)
Total other income (expense)	(4,870,229)	(17,818,266)
Net loss before income taxes	(10,174,275)	(15,771,666)
Income tax recovery (expense) (note 18)	-	-
Net loss and comprehensive loss for the year	**$ (10,174,275)**	**$ (15,771,666)**
Basic loss per share (note 19)	$ (0.02)	$ (0.05)
Diluted loss per share (note 19)	$ (0.02)	$ (0.05)

The accompanying Notes are an integral part of these condensed consolidated interim Financial Statements.

FLOWER ONE HOLDINGS INC.

Consolidated Interim Statements of Cash Flows (Unaudited)
(Expressed in United States Dollars)

	Three months ended March 31,	
	2022	2021
Operating activities:		*(As Restated)*
Loss for the year	$ (10,174,275)	$ (15,771,666)
Items not affecting cash		
Unrealized foreign exchange loss	341,695	565,451
Realized fair value adjustment on sale of inventory (note 4)	3,268,593	2,542,502
Unrealized gain on fair value adjustment on growth of biological asset (note 5)	(1,623,710)	(6,809,245)
Write-down and provision for inventory and biological assets (note 4)	741,738	1,008,698
Bad debt expense	378,478	-
Loss on debt modification or extinguishment (notes 10, 11, and 12)	-	6,106,088
Adjustment on term debt modification (note 11)	(433,530)	-
Unrealized fair value gain on derivatives (notes 7, 8, 11, 12, and 13)	1,015,712	2,959,808
Accretion expense and lease finance expense	3,953,004	3,447,075
Share-based compensation (note 15)	268,883	3,735,265
Depreciation and amortization of property, plant and equipment and right of use asset (note 6)	126,092	136,934
Depreciation of property, plant and equipment in cost of sales (note 6)	1,637,901	683,210
Changes in non-cash operating working capital (note 24)	(3,681,907)	(11,954,153)
Net cash used in operating activities	(4,181,326)	(13,350,033)
Financing activities:		
Proceeds on convertible debt financing, net of transaction costs (note 8)	-	18,656,043
Proceeds on term debt financing, net of transaction costs (note 11)	10,079,754	-
Lease payments (note 9)	(421,943)	(835,127)
Repayment of equipment financing principal (note 10)	(1,330,332)	(579,283)
Repayment of short-term financing (note 12)	(192,644)	-
Proceeds on warrant exercise (note 14)	-	284
Net cash provided by financing activities	8,134,835	17,241,917
Investing activities:		
Purchase of property, plant and equipment (note 6)	(85,029)	(45,227)
Net cash used in investing activities	(85,029)	(45,227)
Increase in cash	3,868,480	3,846,657
Cash and cash equivalents, beginning of the year	867,981	1,055,861
Cash and cash equivalents, end of the year	**$ 4,736,461**	**$ 4,902,518**

The accompanying Notes are an integral part of these condensed consolidated interim Financial Statements.

FLOWER ONE HOLDINGS INC.

Consolidated Interim Statements of Shareholders' Equity (Unaudited)
(Expressed in United States Dollars)

	Shares	Amount	Contributed surplus	Retained earnings (deficit)	Total
Balance as at December 31, 2020	**275,351,599**	**$ 109,836,755**	**$ 7,896,195**	**$ (129,599,632)**	**$ (11,866,682)**
Shares issued on conversion of private loans to equity (notes 11, 12)	36,523,666	7,210,411	-	-	7,210,411
Shares issued on conversion of convertible debentures	484,651	100,176	-	-	100,176
Shares issued as finder's fee on financing (note 8)	1,494,230	305,068	-	-	305,068
Shares issued for provision of services (note 13)	3,601,310	737,323	-	-	737,323
Shares issued as modification fee on debt modifications (notes 11, 12)	7,378,523	1,510,326	-	-	1,510,326
Shares issued on redemption of RSUs (note 14)	2,173,850	443,713			443,713
Warrants exercised (note 14)	1,000	352	-	-	352
Shares returned to treasury (note 13)	(20,000,000)	-	-	-	-
Share-based compensation	-	-	3,735,265	-	3,735,265
Net income (loss)	-	-	-	(16,215,161)	(16,215,161)
Balance as at March 31, 2021 (As Restated)	**307,008,829**	**$ 120,144,124**	**$ 11,631,460**	**$ (145,814,793)**	**$ (14,039,209)**
Balance as at December 31, 2021	**460,679,630**	**141,675,272**	**13,228,953**	**(154,047,547)**	**856,678**
Share-based compensation	-	-	268,883	-	268,883
Net income (loss)	-	-	-	(10,174,275)	(10,174,275)
Balance as at March 31, 2022	**460,679,630**	**$ 141,675,272**	**$ 13,497,836**	**$ (164,221,822)**	**$ (9,048,714)**

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

1) NATURE OF OPERATIONS

Flower One Holdings Inc. ("Flower One" or, the "Company") is a Canadian company incorporated on January 9, 2007 under the Business Corporations Act (British Columbia). The Company is listed on the Canadian Securities Exchange ("CSE") under the symbol "FONE", the OTCQX Best Market in the United States under the symbol "FLOOF" and under the Frankfurt Stock Exchange ("FSE") under the symbol "F11". The Company's convertible debentures and warrants issued as part of the March 2019 convertible debenture unit financing are listed on the CSE under the symbols "FONE.DB.B" and "FONE.WT", respectively, and the convertible debentures and warrants issued as part of the November 2019 convertible debenture unit financing are listed on the CSE under the symbols "FONE.DB.C" and "FONE.WT.A", respectively, and the warrants issued as part of the September 2020 equity financing are listed on the CSE under the symbol "FONE.WT.B". The registered office of the Company is located at 1055 West Hastings Street; Suite 1700, The Guinness Tower; Vancouver, BC V6E 2E9.

The Company, through its wholly-owned subsidiaries, is a cannabis cultivator and producer, and is licensed for medical and recreational cannabis cultivation and production in the State of Nevada. The Company's facilities are used for cannabis cultivation as well as the processing, production and packaging of dry flower, cannabis oils, concentrates and infused products.

The Company operates in Nevada as a cannabis cultivation, production, licensing and wholesale company and, through its subsidiaries, holds a variety of investments including (i) a commercial-scale cannabis greenhouse (the "NLV Greenhouse") and a cannabis production facility (the "NLV Production", and collectively with the NLV Greenhouse, the "Bruce Street Facility"), and (ii) the Company's indoor cultivation facility and a fully licensed commercial kitchen space (known as the "Neeham Facility"), both located in North Las Vegas, Nevada.

COVID-19

The Company has continued to closely monitor the impact of the COVID-19 global pandemic with a focus on the health and safety of employees, business continuity and supporting its communities. Due to impacts from the COVID-19 pandemic and the uncertain pace of recovery, including the impact of the Delta and Omicron variants, the Company's business operations may be materially and adversely affected if a significant number of the Company's employees are impacted by the virus, including any future variants. The Company has implemented various preventative measures to reduce the spread of the virus. As of the date hereof, all of the Company's operating subsidiaries are operational. Given the uncertainties associated with the COVID-19 pandemic, including those related to the distribution of vaccines and therapeutics and their effectiveness with respect to new variants of the virus, the use of the Company's products by consumers, future quarantine policies and restrictions on travel, trade and business operations and a reduction in discretionary consumer spending, we are unable to estimate the future impact of the COVID-19 pandemic on our business, financial condition, results of operations, and/or cash flows. The uncertain nature of the impacts of the COVID-19 pandemic may continue to affect our results of operations into the foreseeable future.

(Expressed in United States Dollars)

Going concern uncertainty

These condensed consolidated interim financial statements of the Company for the three-month periods ended March 31, 2022 and 2021 (the "Financial Statements"), have been prepared on a going concern basis that presumes the realization of assets and discharge of liabilities in the normal course of business. The Financial Statements do not include any adjustments to the amounts and classification of assets and liabilities that would be necessary, should the Company be unable to continue as a going concern. Such adjustments could be material.

As at March 31, 2022 and December 31, 2021, the Company had an accumulated deficit of $164,221,822 and $154,047,547, respectively. For the three-month period ended March 31, 2022 and 2021, the Company had a net loss of $10,174,275 and $16,215,161, respectively, and negative cash flows from operations of $4,181,326 and $13,350,033, respectively. As at March 31, 2022 and December 31, 2021, the Company had a working capital deficit of $43,616,519 and $18,232,514, respectively. Whether, and when, the Company can attain profitability and positive cash flows from operations is subject to material uncertainty. The application of the going concern assumption is dependent upon the Company's ability to generate future profitable operations and obtain necessary financing to do so. The Company will need to raise additional capital in order to fund its planned operations and meet its obligations. While successful in obtaining financing to date, the Company believes it will be able to obtain sufficient funds in the future and ultimately achieve profitability and positive cash flows from operations, there can be no assurance that the Company will achieve profitability and be able to do so on terms favorable for the Company. The above events and conditions indicate there is a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

Subsidiaries

These financial statements are comprised of the financial results of the Company and its subsidiaries, all of which are the entities over which the Company has control. An investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and can affect those returns through its power over the investee.

The Company has the following subsidiaries:

Entity Name	Country	Functional	Ownership Percentage	Ownership Percentage
Flower One Corp.	Canada	USD	100%	100%
FO Labour Management Ltd.	Canada	USD	100%	100%
Cana Nevada Corp.	USA	USD	100%	100%
CN Labor Management, Inc.	USA	USD	100%	100%
CN License Co I, Inc.	USA	USD	100%	100%
CN License Co III, Inc.	USA	USD	100%	100%
CN Landco LLC	USA	USD	100%	100%
CN Landco II, LLC	USA	USD	100%	100%
CN Landco III, LLC	USA	USD	100%	100%
North Las Vegas Equipment Co., Inc.	USA	USD	100%	100%
North Las Vegas Equipment Co. III, Inc.	USA	USD	100%	100%
North Las Vegas Services, Inc.	USA	USD	100%	100%

2) BASIS OF PRESENTATION

Statement of Compliance

These 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"). These financial statements should be read in conjunction with the Company's last annual consolidated financial statements as at and for the year ended December 31, 2021 (the "last annual financial statements"). The accounting policies applied by the Company in these financial statements are the same as those applied in the last annual financial statements. These financial statements do not include all the information required for full annual financial statements. However, selected explanatory notes are included to explain events and transactions that are significant to an understanding of changes in the Company's financial position and performance since the last annual financial statements.

On July 22, 2022, the Company's Board of Directors approved and authorized these financial statements for issuance.

Basis of Measurement

These financial statements have been prepared on a historical cost basis except for certain financial instruments and biological assets that are measured at fair values at the end of each reporting period and certain equity instruments and warrants that are within the scope of IFRS 2 – *Share-based Payment* ("IFRS 2"), as explained in the accounting policies below.

Changes in presentation

Certain reclassifications have been made to the prior year financial statements to conform with the current year basis of presentation.

The *International Accounting Standard 1 - Presentation of Financial Statements*, requires an entity to present a statement of financial position at the beginning of the earliest comparative period ("opening statement of financial position") when such entity applies an accounting policy retrospectively or makes a retrospective restatement or when it reclassifies items in its financial statements. The requirement to present the additional opening statement of financial position, when the Company has made a restatement or reclassification, extends to the information in the related notes.

During the three-month period ending December 31, 2021, the Company had a changeover in finance management and staff, who while preparing the unaudited condensed consolidated interim financial statements for the three-month period ending September 30, 2021, discovered several accounting errors, both of omission and commission, in the first and second quarters of 2021. As a result, adjustments were booked in the three-month period ending September 30, 2021 to rectify the accounting errors. Subsequent to filing the unaudited condensed consolidated interim financial statements for the three-month period ending September 30, 2021, accounting errors continued to be discovered by both by the Company's finance department and MNP LLP, the Company's independent registered public accounting firm during their audit of the Company's 2021 financial statements. Therefore, adjustments were also made in the three-month period ending December 31, 2021. As a result of these out-of-period adjustments it was determined that, on the recommendation of the Audit Committee of the Company's Board of Directors and after consultation with MNP LLP, that Flower One's previously issued unaudited condensed consolidated interim financial statements for each of the first, second and third quarters of 2021 prepared in accordance with International Financial Reporting Standards as filed on SEDAR, would be restated and should no longer be relied upon.

The Company has made both material and immaterial retrospective restatements to (1) cash and cash equivalents, (2) current and long term prepaids and deposits, (3) the carrying value of cannabis inventory, oil-based cannabis inventory, and related cost of sales; see Note 4 - Inventory, (4) the valuation of biological assets and related fair value adjustments; see Note 5 – Biological Assets, (5) property, plant and equipment and related depreciation; see Note 6 – Property, Plant and Equipment, (6) trade payables, accrued liabilities and construction payables, (7) valuation methodology for convertible debentures and warrants, and related derivative liability and fair value loss on derivatives; see Note 7 – Convertible Debentures, Note 8 – Convertible Note Units, and Note 13 – Share Capital, (8) the classification of current and non-current equipment financing and term debt balances; see Note 10 – Equipment Financing and Note 11 – Term Debt, (9) general and administrative expenses; see Note 16 – General and Administrative Expenses, (10) stock based compensation expense for Restricted Share Units ("RSUs") granted in 2021; see Note 14 – Stock Options and Warrants, (11) loss on debt modification or extinguishment related to debt modifications; see Note 10 – Equipment Financing, Note 11 – Term Debt and Note 12 – Short-term Financing, (12) related party transaction disclosures; see Note 15 – Related Party Transactions, and (13) finance expenses, including interest, accretion and transaction costs; see Note 17 – Finance Costs. See further details in Note 26 – Reclassification of Certain Prior Period Items.

Adjustments for these errors have been made retrospectively to the comparative period as at and for the three-month period ended March 31, 2021. The condensed consolidated interim financial statements for the periods as at and ended between March 31, 2021 and September 30, 2021 were not adjusted and refiled at the time of discovery of the errors, rather the comparative period as at and for the three-month period ended March 31, 2021, has been corrected herein. The periods as at and ending June 31, 2021 and September 30, 2021, will be corrected within the filing of the condensed consolidated interim financial statement as at and for the three-month period ended June 31, 2022.

Basis of Consolidation

The accompanying financial statements include the accounts of the Company and its subsidiaries. The financial statements incorporate: (i) the assets and liabilities of the Company and its subsidiaries as at March 31, 2022 and December 31, 2021, and (ii) the results of these subsidiaries for the three-month periods ended March 31, 2022 and March 31, 2021.

Subsidiaries are all those entities over which the Company has control. The Company controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Company. All intra-entity assets and liabilities, revenue, expenses and cash flows relating to transactions between subsidiaries of the Company are eliminated in full on consolidation.

Functional and Presentation Currency

These financial statements have been presented in United States dollars, which is the Company's functional and presentation currency as well as the functional currency of all subsidiaries.

Critical Accounting Estimates and Use of Judgments

The preparation of these financial statements in conformity with IFRS requires management to make estimates, judgments and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities as at the date of the financial statements and the reported amounts of revenues and expenses during the reported periods. Actual results could differ from these estimates.

Estimates are based on management's best knowledge of current events and actions 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 year in which the estimates are revised and in any future years affected.

The following are the critical judgments and estimates that management has made in the process of applying the Company's accounting policies and that have the most significant effect on the amounts recognized in the financial statements:

Going Concern

The Company's assessment of its ability to continue as a going concern requires judgments about the Company's ability to execute its strategy by funding future working capital requirements. The Company's objectives are to ensure that there are adequate capital resources to safeguard the Company's ability to continue as a going concern and maintain adequate levels of funding to support its ongoing operations and development such that it can continue to provide returns to shareholders and benefits for other stakeholders.

Functional Currency

The determination of an entity's functional currency is a matter of judgment based on an assessment of the specific facts and circumstances relevant to determining the primary economic environment of each individual entity within the group. The Company reconsiders the functional currencies used when there is a change in events or conditions considered in determining the primary economic environment of each entity.

Convertible Debentures

The identification of convertible note components is based on interpretations of the substance of the contractual arrangement and therefore requires judgment from management. The separation of the components affects the initial recognition of the convertible debenture at issuance and the subsequent recognition of interest on the liability component. The determination of the fair value of the liability is also based on a number of assumptions, including contractual future cash flows, discount rates and the presence of any derivative financial instruments.

Biological Assets and Inventory

In calculating the 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. In calculating final inventory values, management compares the inventory cost to estimated net realizable value.

Estimated Useful Lives of Property, Plant and Equipment and Intangible Assets

Depreciation of property, plant and equipment and the amortization of intangible assets is dependent upon estimates of useful lives based on management's judgment.

Impairment of Goodwill and Indefinite Life Intangible Assets

Goodwill and indefinite life intangible asset impairment testing require management to make estimates in the impairment testing model. On an annual basis, the Company tests whether goodwill and indefinite life intangible assets are impaired. The recoverable value of the CGU which goodwill or indefinite intangible assets are allocated is determined using discounted future cash flow models, which incorporate assumptions regarding future events, specifically future cash flows, growth rates and discount rates.

Share-based Compensation and Warrants

The fair value of share-based compensation and warrants are estimated using the Black-Scholes option pricing model (or such other relevant valuation models) and rely on a number of estimates, such as the expected term, expected dividend yield, the volatility of the underlying share price, the risk-free rate of return, and the estimated rate of forfeiture. Such estimates and assumptions are inherently uncertain. Changes in these assumptions affect the fair value estimates of share-based compensation and warrants.

Income Taxes

In assessing the probability of realizing income tax assets, management makes estimates related to expectations of future taxable income, applicable tax planning opportunities, expected timing of reversals of existing temporary differences and the likelihood that tax positions taken will be sustained upon examination by applicable tax authorities. In making its assessments, management gives additional weight to positive and negative evidence that can be objectively verified. Estimates of future taxable income are based on forecasted cash flows from operations and the application of existing tax laws in each jurisdiction. The Company considers whether relevant tax planning opportunities are within the Company's control, are feasible, and are within management's ability to implement. Examination by applicable tax authorities is supported based on individual facts and circumstances of the relevant tax position examined in light of all available evidence. Where applicable tax laws and regulations are either unclear or subject to ongoing varying interpretations, it is reasonably possible that changes in these estimates can occur that materially affect the amounts of income tax assets recognized. Also, future changes in tax laws could limit the Company from realizing the tax benefits from the deferred tax assets. The Company reassesses unrecognized income tax assets at each reporting period.

Fair Value of Financial Instruments

Certain of the Company's assets and liabilities are measured at fair value. In estimating fair value, the Company uses market-observable data to the extent it is available. In certain cases where Level 1 inputs are not available the Company will engage third-party qualified specialists to perform the valuation.

Information about the valuation techniques and inputs used in determining the fair value of biological assets is disclosed in the respective notes.

Leases
The application of IFRS 16 Leases requires assumptions and estimates in order to determine the value of the right-of-use assets and the lease liabilities. Judgment must be applied when determining the implicit and incremental rates of borrowing, as applicable. Judgment must also be applied as to whether renewal options are reasonably certain of being exercised and whether periods covered by an option to terminate are reasonably certain of not being exercised.

Impairment of Financial Assets
An expected credit loss ("ECL") model applies to financial assets measured at amortized cost. The Company's financial assets measured at amortized cost and subject to the ECL model consist primarily of accounts receivable. In determining the ECLs management makes estimates related to the probability-weighted amount of ECLs based on a range of outcomes, the discount rate that reflects the effective interest rate of the asset and other information available as of the reporting date relating to past events, current conditions and forecasts regarding future economic conditions.

3) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Foreign Currency
The functional currency is the currency of the primary economic environment in which an entity operates. The functional currency of the Company and its subsidiaries was determined by conducting an analysis of the consideration factors identified in IAS 21, *The Effects of Changes in Foreign Exchange Rates*. The functional currency of the Company and all of its subsidiaries is the United States dollar.

Foreign currency transactions are translated into the functional currency of the Company at rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities of the Company that are denominated in foreign currencies are translated into USD at the year-end exchange rate. Revenue and expenses are translated at the average exchange rate during the year. Realized and unrealized foreign exchange gain or losses resulting from the settlement or translation of foreign currency transactions are included in the condensed consolidated interim statements of loss and comprehensive loss. All foreign subsidiaries have a USD functional currency.

Cash and Cash Equivalents
Cash and cash equivalents include cash on hand and deposits with maturities from the date of acquisition of 90 days or less, which are readily convertible to known amounts of cash and are subject to insignificant changes in value. The Company does not currently have any cash equivalents.

Inventory
The direct and indirect costs of inventory initially include the fair value of biological assets at their fair value at the point of harvest, which becomes the initial deemed cost. Subsequent post-harvest costs are capitalized to inventory to the extent that cost is less than net realizable value. All direct and indirect costs related to inventory are capitalized as they are incurred and they are subsequently recorded within "Cost of Sales" on the condensed consolidated interim statements of loss and comprehensive loss at the time

that the related product is sold, except for realized fair value amounts included in inventory sold which are recorded as a separate line on the face of the condensed consolidated interim statements of loss and comprehensive loss. Inventory is valued at the lower of cost and net realizable value on the condensed consolidated interim statements of financial position and is determined using the weighted average costing method. Net realizable value is determined as the estimated selling price less estimated costs to complete and sell. Inventory for supplies and consumables are valued at the lower of cost and net realizable value, with cost determined using the average cost basis.

Biological Assets

The Company's biological assets consist of cannabis plants. In accordance with IAS 41, *Agriculture*, the Company capitalizes the direct and indirect costs incurred related to the biological transformation of the biological assets between the point of initial recognition and the point of harvest. The Company then measures the biological assets at fair value less cost to sell up to the point of harvest, which becomes the basis for the cost of inventory after harvest. This is determined using a model that estimates the expected harvest yield in grams for plants currently being cultivated, and then adjusts that amount by the expected selling price less costs to sell per gram. The net unrealized gains or losses arising from changes in fair value less cost to sell during the period are included in the condensed consolidated interim statements of loss and comprehensive loss of the related year.

Property, Plant and Equipment

Property, plant and equipment is measured at cost, including all expenditures incurred to prepare an asset for its intended use, less accumulated depreciation and impairment losses, if any.

Repairs and maintenance costs are charged to the condensed consolidated interim statements of loss and comprehensive loss as incurred, except when these repairs significantly extend the life of an asset or result in an operating improvement. In these instances, the portion of these repairs relating to the betterment of the asset is capitalized as part of property, plant and equipment.

Depreciation is based on the useful life and the cost of the asset less residual value. Where an item of property, plant and equipment is comprised of major components with different useful lives, the components are accounted for as separate items and depreciated separately. Depreciation commences when an asset is available for use. Estimates of remaining useful lives and residual values are reviewed annually. Changes in estimates are accounted for prospectively.

Construction in progress includes the purchase price and any costs directly attributable to bringing the asset to the location and condition necessary for its intended use. Construction in progress includes advances on long lead items. Construction in progress is not depreciated. Once the asset is complete and available for use, the costs of construction are transferred to the appropriate category of property, plant and equipment, and depreciation commences. Depreciation is based on the estimated useful lives of the assets provided as follows:

Asset Type	Depreciation Method	Depreciation Term
Land	Not depreciated	No term
Building	Straight-line	20 years
Equipment	Straight-line	3-15 years
Construction in progress	Not depreciated	No term

An item of property, plant and equipment and any significant part initially recognized are derecognized upon disposal or when no future economic benefits are expected from their use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the condensed consolidated interim statements of loss and comprehensive loss when the asset is derecognized.

Impairment of Non-Financial Assets
The Company tests non-financial assets for impairment at each financial reporting date when there are indicators of impairment or whenever events or changes in circumstances indicate that the carrying amount of an asset exceeds its recoverable amount. If such indication exists, the recoverable amount of the asset is estimated in order to determine the extent, if any, of the impairment loss. An impairment loss is recognized when the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognized in the condensed consolidated interim statements of loss and comprehensive loss for the year.

For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the cash-generating unit, or "CGU"). The recoverable amount of an asset or a CGU is the higher of its fair value, less costs to sell, and its value-in-use. Fair value is determined in accordance with IFRS 13 – *Fair Value Measurement.* Costs of disposal are the direct added costs only. Value-in-use is assessed based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects applicable market and economic conditions, the time value of money and the risks specific to the asset. If the carrying amount of an asset exceeds its recoverable amount, an impairment charge is recognized immediately in net loss equal to the amount by which the carrying amount exceeds the recoverable amount. Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the lesser of the revised estimate of recoverable amount, and the carrying amount that would have been recorded had no impairment loss been recognized previously.

Revenue
The Company's accounting policy for revenue recognition under IFRS 15, *Revenue from Contracts with Customers* ("IFRS 15") is to follow a five-step model to determine the amount and timing of revenue to be recognized (i) identify the contract with a customer, (ii) identify the performance obligations in the contract, (iii) determine the transaction price, (iv) allocate the transaction price to the performance obligations in the contract, and (v) recognize revenue when (or as) the Company satisfies a performance obligation. Revenue from the sale of cannabis is recognized when the Company transfers control of the good to the customer. This is generally considered to have occurred when products have been delivered to the location specified in the sales contract and accepted by the customer.

The Company recognizes revenue in an amount that reflects the consideration the Company expects to receive taking into account any variation that may result from rights of return.

Leases
A contract is or contains a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. The Company recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, and subsequently at cost less any accumulated depreciation and impairment losses and is adjusted for certain re-measurements of the lease liability. The cost of the right-of-use asset includes the amount of the initial measurement of the lease liability, any lease payments made at or before the commencement date, less any lease incentives received, any initial direct costs, and if applicable, an estimate of costs to be incurred by the Company in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

The right-of-use assets are depreciated using the straight-line method from the commencement date to the end of the lease term or the end of the useful life of the right-of-use asset. The estimated useful life of the right-of-use assets are determined on the same basis as those of property, plant and equipment. The determination of the depreciation period is dependent on whether the Company expects that the ownership of the underlying asset will transfer to the Company by the end of the lease term or if the cost of the right-of-use asset reflects that the Company will exercise a purchase option.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. The incremental borrowing rate reflects the rate of interest that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

The lease liability is subsequently increased by the interest cost on the lease liability and decreased by lease payments made. It is re-measured when there is a change in future lease payments arising from a change in an index or rate, a change in the estimate of the amount expected to be payable under a residual value guarantee, or as appropriate, changes in the assessment of whether a purchase or extension option is reasonably certain to be exercised or a termination option is reasonably certain not to be exercised. The Company applies judgment to determine the lease term for some lease contracts which contain renewal options.

The Company does not recognize right-of-use assets and lease liabilities for leases of low-value assets and leases with lease terms that are less than 12 months. Lease payments associated with these arrangements are instead recognized as an expense over the term on either a straight-line basis, or another systematic basis if more representative of the pattern of benefit.

Share-Based Compensation
The Company applies the fair value method of accounting for stock options and warrants using the Black-Scholes option pricing model (or such other relevant valuation models). Under this method, the Company recognizes compensation expense for awards, based on the grant date fair value, for each vesting installment, over the vesting period of the options. Each installment is valued separately, based on assumptions applicable at the date of grant, and recognized as compensation expense over each installment's individual tranche vesting period, with a corresponding increase in equity (contributed

surplus). Forfeiture estimates are recognized in the period they are estimated and are revised for actual forfeitures in subsequent periods.

Stock options and warrants issued to non-employees are measured at the fair value of the goods or services received, unless the fair value cannot be estimated reliably. If the fair value cannot be estimated reliably then the Company recognizes the goods or services received and a corresponding increase in equity, by reference to the fair value of the instruments granted.

Restricted Share Units ("RSUs")

RSUs are equity settled share-based payments granted to certain employees, directors and executives within the Company and are measured at their initial fair value on the date of the grant. The fair value of equity-settled RSUs are recognized as a compensation expense over the vesting period with a corresponding increase in equity (contributed surplus). Upon the settlement of equity-based payments, RSUs are settled in the form of common shares and the related contributed surplus is transferred to share capital.

Net Loss per Share

The Company presents basic and diluted net loss per share data for its common shares, calculated by dividing the net loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted net loss per share is calculated using the loss for the financial year adjusted for the effect of dilutive instruments and the weighted average diluted number of shares (ignoring any potential issue of common shares that would be anti-dilutive) during the year.

Financial Instruments

Financial assets and financial liabilities are recognized when the Company becomes a party to the contractual provisions of the instruments.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in the condensed consolidated interim statements of loss and comprehensive loss.

Financial Assets

On initial recognition, a financial asset is classified as measured at amortized cost, fair value through other comprehensive income (''FVOCI''), or fair value through profit and loss ("FVTPL"). The classification of financial assets is based on the business model in which a financial asset is managed and its contractual cash flow characteristics.

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at FVTPL:

- It is held within a business model whose objective is to hold assets to collect contractual cash flows; and

- Its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A financial asset (unless it is a trade receivable without a significant financing component that is initially measured at the transaction price) is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition.

The following accounting policies apply to the subsequent measurement of financial assets.

- Financial assets at FVTPL
    - Subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognized in the condensed consolidated interim statements of loss and comprehensive loss.
- Financial assets at amortized cost
    - Subsequently measured at amortized cost using the effective interest method, less any impairment losses. Interest income, foreign exchange gains and losses and impairment losses are recognized in profit or loss. Any gain or loss on derecognition is recognized in the condensed consolidated interim statements of loss and comprehensive loss.

Financial Liabilities
The Company initially recognizes financial liabilities at fair value on the date at which the Company becomes a party to the contractual provisions of the instrument. The Company classifies its financial liabilities as either financial liabilities at FVTPL or amortized cost.

Subsequent to initial recognition, other liabilities are measured at amortized cost using the effective interest method. Financial liabilities at FVTPL are stated at fair value with changes being recognized in the condensed consolidated interim statements of loss and comprehensive loss. The Company derecognizes a financial liability when its contractual obligations are discharged or cancelled or expire.

Financial liabilities and equity instruments
Debt and equity instruments issued by the Company are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument. An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by a group entity are recognized at the proceeds received, net of direct issue costs.

Repurchase of the Company’s own equity instruments is recognized and deducted directly in equity. No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancellation of the Company’s own equity instruments.

Expected Credit Loss ("ECL")

The ECL model requires considerable judgment, including consideration of how changes in economic factors affect ECL's, which are determined on a probability-weighted basis. The historical results were used to calculate the run rates of defaults, which then were applied over the expected life of the

Company's trade receivables, adjusted for forward-looking estimates. When applicable, the Company monitors and manages credit losses/default rates of comparable debt instruments with data from utilizing rating agencies for the assessment of significant notes receivable.

Classification of Financial Instruments

The Company classifies its financial assets and liabilities depending on the purpose for which the financial instruments were acquired, their characteristics and management intent as outlined below:

	As at March 31, 2022
Cash and cash equivalents	FVTPL
Accounts receivable	Amortized cost
Trade and other payables	Amortized cost
Construction payables	Amortized cost
Notes payable	Amortized cost
Convertible debentures	Amortized cost
Derivative liabilities	FVTPL
Equipment financing	Amortized cost
Term debt	Amortized cost
Short-term financing	Amortized cost

Income Taxes

Income tax expense on the condensed consolidated interim statements of loss and comprehensive loss for the periods presented comprises current and deferred tax. Income tax is recognized in the statements of loss and comprehensive loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at period end, adjusted for amendments to tax payable with regards to previous years.

Deferred tax is provided using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for goodwill not deductible for tax purposes and the initial recognition of assets or liabilities that affect neither accounting nor taxable profit. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the financial position reporting date.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. To the extent that the Company does not consider it probable that a deferred tax asset will be recovered, it does not record a deferred tax asset.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities, when they relate to income taxes levied by the same taxation authority and when the Company intends to settle its current tax assets and liabilities on a net basis.

As the Company operates in the legal cannabis industry, the Company is subject to the limits of the Internal Revenue Service – IRS section 280E for under which the Company is only allowed to deduct expenses directly related to the cost of producing the products or cost of production. This results in permanent differences between ordinary and necessary business expenses deemed unallowable under IRC Section 280E.

Future Accounting Pronouncements Not Yet Adopted in 2022
The Company has not adopted any new accounting policies in the current year. The new and amended standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Company's consolidated financial statements are disclosed below. The Company intends to adopt these new and amended standards and interpretations, if applicable, when they become effective.

Amendments to IAS 1: Classification of Liabilities as Current or Non-current
In January 2020, the International Accounting Standards Board issued Classification of Liabilities as Current or Non-current, which amended IAS 1 Presentation of Financial statements. The amendments clarified how an entity classifies debt and other financial liabilities as current or non-current in particular circumstances. The amendments are effective for annual reporting periods beginning on or after January 1, 2023, with earlier application permitted. The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and must be applied retrospectively. The amendments are not expected to have a material impact on the Company.

IFRS 9 Financial Instruments – Fees in the '10 per cent' test for derecognition of financial liabilities
As part of its 2018-2020 annual improvements to IFRS standards process the IASB issued amendment to IFRS 9. The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment.

The amendment is effective for annual reporting periods beginning on or after January 1, 2022 with earlier adoption permitted. The Company will apply the amendments to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment. The amendments are not expected to have a material impact on the Company.

IAS 12 Income Taxes (Amendment)
In May 2021, the International Accounting Standards Board issued Deferred Tax related to Assets and Liabilities arising from a Single Transaction, which amended IAS 12 Income Taxes. The amendments require companies to recognize deferred tax on particular transactions that, on initial recognition, give rise to equal amounts of taxable and deductible temporary differences. The amendments are effective for

(Expressed in United States Dollars)

annual reporting periods beginning on or after January 1, 2023. The amendments are not expected to have a material impact on the Company.

4) INVENTORY

The following is a breakdown of inventory as at March 31, 2022:

	Capitalized Cost	Fair Value Adjustment	Write-down of Inventory	March 31, 2022
Harvested cannabis	$ 3,778,185	$ 676,390	$ (282,174)	$ 4,172,401
Cannabis oils	2,825,261	475,088	(599,820)	2,700,529
Packaging and supplies	1,254,700	-	-	1,254,700
	$ 7,858,146	**$ 1,151,478**	**$ (881,994)**	**$ 8,127,630**

The following is a breakdown of inventory as at December 31, 2021:

	Capitalized Cost	Fair Value Adjustment	Write-down of Inventory	December 31, 2021
Harvested cannabis	$ 3,821,598	$ 2,237,330	$ (1,493,889)	$ 4,565,039
Cannabis oils	4,309,971	1,417,756	(2,187,352)	3,540,375
Packaging and supplies	1,559,414	-	-	1,559,414
	$ 9,690,983	**$ 3,655,086**	**$ (3,681,241)**	**$ 9,664,828**

Capitalized costs relating to inventory expensed and included in cost of sales amounted to $5,031,423 for the three-month period ended March 31, 2022 (2021: $4,969,319). Total depreciation capitalized in inventory for the three-month period ended March 31, 2022 was $1,766,350 (2021: $1,503,418). During the three-month period ended March 31, 2022, the Company recognized $3,268,593 (2021: $1,802,873) of non-cash expense relating to the changes in fair value of inventory sold.

Impairment charges resulting from the write-off of cannabis and oil-based cannabis inventory of $881,994 were recognized in the three-month period ended March 31, 2022 (2021: $2,781,377). The write-offs during the three-month period ended March 31, 2022 were primarily due to a decrease in the wholesale price of cannabis; the write-offs in 2021 were due to low grade and product age of certain inventory items. $140,256 of the write-off recognized during the three-month period ended March 31, 2022 is included in the realized fair value adjustment (2021: $1,033,050) and $741,738 of the write-off recognized in the three-month period ended March 31, 2022 is included in the write-down and provision for inventory on the condensed consolidated interim statements of loss and comprehensive loss (2021: $1,748,327).

During the three-month periods ended September 30, 2021 and December 31, 2021, finance management discovered errors of commission made during the period ended March 31, 2021, which resulted in a change in the capitalized cost, fair value adjustment, write-down of inventory and the period end carrying value of harvested cannabis and cannabis oils as at and for the three-month period ended March 31, 2021. See further details regarding such restatement at Note 26 – Reclassification and Restatements of Certain Prior Period Items.

(Expressed in United States Dollars)

5) BIOLOGICAL ASSETS

The Company's biological assets consist of cannabis plants. The changes in the carrying value of biological assets are as follows:

Balance as at December 31, 2020	$	**2,242,196**
Change in fair value less costs to sell due to biological transformation		15,740,123
Production costs capitalized		17,022,351
Transferred to inventory upon harvest		(33,463,260)
Balance as at December 31, 2021		**1,541,410**
Change in fair value less costs to sell due to biological transformation		1,623,710
Production costs capitalized		3,786,082
Transferred to inventory upon harvest		(3,949,502)
Balance as at March 31, 2022	$	**3,001,700**

The Company measures its biological assets in accordance with IAS 41, *Agriculture*, and are presented at their fair value less costs to sell up to the point of harvest. This is determined using a model which estimates the expected harvest yield in grams for plants currently being cultivated, and then adjusts that amount for the expected selling price less and costs to complete and sell per gram.

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

- **Selling price** – calculated as the expected future average selling price per gram of wholesale dried cannabis.

- **Stage of growth** – represents the weighted average number of growing weeks completed as a percentage of total growing weeks as at period end.

- **Yield by plant** – represents the weighted average number of expected grams of finished cannabis inventory which are to be obtained from each harvested cannabis plant.

- **Attrition** – the weighted average of expected loss of plants from the valuation date until the expected date of harvest.

- **After harvest costs to complete and sell** – calculated as the post-harvest costs per gram expected to be incurred up to the point of sale, as well as the incremental selling costs to be incurred in order to complete the sale.

- **Allocation of trim** – represents the average amount of trim derived from the harvest of the cannabis plant once the drying and curing process is complete.

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

(Expressed in United States Dollars)

	March 31, 2022		10% Change as at March 31, 2022	December 31, 2021		10% Change as at December 31, 2021
Average selling price per gram	$0.29 - $2.00	$	792,832	$0.31 - $2.19	$	489,232
Stage of growth	59%	$	300,023	52%	$	152,427
Yield by plant (average)	103 grams	$	300,023	78 grams	$	152,427
Attrition	12%	$	42,650	7%	$	11,096
After harvest costs to complete and sell	$0.19 - $1.25	$	492,809	$0.31 - $1.75	$	336,805
Allocation of trim	13-43%	$	174,309	14-48%	$	139,882

These estimates are subject to volatility in market prices and a number of 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 at March 31, 2022, it is expected that the Company's biological assets will yield approximately 6,120,888 grams of dry cannabis and 4,287,803 grams of dry trim when 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.

During the three-month periods ended September 30, 2021 and December 31, 2021, finance management discovered errors of commission made during the period ended March 31, 2021, which resulted in a change of biological assets as at March 31, 2021 as well as in the realized fair value loss on sale and disposal of inventory, the unrealized gain on fair value adjustment on growth of biological assets, and write-down and provision for inventory for the three-month period ended March 31, 2021. See further details regarding such restatement at Note 26 – Reclassification and Restatements of Certain Prior Period Items.

6) PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment as at March 31, 2022 and December 31, 2021 is as follows:

	Land	Building	Equipment	Right-of-use asset	Construction in process	Total
Cost						
As at December 31, 2020	**$ 2,400,000**	**$ 74,591,218**	**$ 30,098,086**	**$ 12,413,111**	**$ -**	**$ 119,502,415**
Additions	-	-	1,074,397	-	-	1,074,397
Disposals	-	-	(5,253,260)	(1,010,002)	-	(6,263,262)
As at December 31, 2021	**2,400,000**	**74,591,218**	**25,919,223**	**11,403,109**	**-**	**114,313,550**
Additions	-	-	56,079	-	28,950	85,029
As at March 31, 2022	**$ 2,400,000**	**$ 74,591,218**	**$ 25,975,302**	**$ 11,403,109**	**$ 28,950**	**$ 114,398,579**

	Land	Building	Equipment	Right-of-use asset	Construction in process	Total
Accumulated depreciation						
As at December 31, 2020	**$ -**	**$ 5,560,242**	**$ 4,552,474**	**$ 874,913**	**$ -**	**$ 10,987,629**
Depreciation	-	3,729,561	2,736,803	1,112,636	-	7,579,000
Disposals	-	-	(1,305,807)	(367,523)	-	(1,673,330)
As at December 31, 2021	**-**	**9,289,803**	**5,983,470**	**1,620,026**	**-**	**16,893,299**

	Land	Building	Equipment	Right-of-use asset	Construction in process	Total
Depreciation	-	932,390	833,959	126,092	-	1,892,441
As at March 31, 2022	**$ -**	**$ 10,222,193**	**$ 6,817,429**	**$ 1,746,118**	**$ -**	**$ 18,785,740**

	Land	Building	Equipment	Right-of-use asset	Construction in process	Total
Net book value						
As at December 31, 2021	**$ 2,400,000**	**$ 65,301,415**	**$ 19,935,753**	**$ 9,783,083**	**$ -**	**$ 97,420,251**
As at March 31, 2022	**$ 2,400,000**	**$ 64,369,025**	**$ 19,157,873**	**$ 9,656,991**	**$ 28,950**	**$ 95,612,839**

The right of use asset balance consists of the Neeham Road Lease as of March 31, 2022 (see note 9).

Assets included in construction in progress represent projects related to both cultivation and production facilities not yet completed or otherwise not ready for use.

Depreciation expense totaled $1,892,442 for the three-month period ended March 31, 2022 (2021: $1,791,732), which includes $1,766,350 (2021: $1,654,798) recognized as cost of goods sold and $126,092 (2021: $136,934) recognized as a part of operating expenses.

During the three-month periods ended September 30, 2021 and December 31, 2021, finance management discovered errors of commission made during the period ended March 31, 2021, which resulted in a change in the net balance of ROU assets which was under-depreciated as at March 31, 2021, and depreciation expense of leasehold improvements for three-month period ended March 31, 2021. See further details regarding such restatement at Note 26 – Reclassification and Restatements of Certain Prior Period Items.

7) CONVERTIBLE DEBENTURES

On March 28, 2019, the Company closed a short-form prospectus financing of 9.5% unsecured convertible debenture units for gross proceeds of $37,232,854; and, on April 1, 2019, closed an over-allotment option for additional gross proceeds of $5,623,454 (see the section below titled "March 2019 Convertible Debenture Units" for details). On November 15, 2019, the Company closed a short-form prospectus financing of 9.5% unsecured convertible debenture units for gross proceeds of $15,758,446 (see the section below titled "November 2019 Convertible Debenture Units" for details). On April 19, 2021, the Company announced the completion of the restructure whereby they exercised their previously-approved rights to convert 60% of these two issuances of convertible debentures into common shares and warrants and adjusted the terms for the remaining 40% (see the section below titled "April 2021 Debenture Restructure" for details).

The Company accounts for its Convertible Debentures (the March 2019 and November 2019 Convertible Debentures) by assessing each component separately: debt component, conversion feature and warrants (if applicable). The conversion feature and warrants (if applicable) are denominated in Canadian dollars with the functional currency of the Company being the United States dollar. As such, when the conversion feature or warrants are exercised, they do not exchange a fixed amount of cash for a fixed number of shares and are therefore considered embedded derivatives. The Company determines the fair value of the conversion feature and warrants (if applicable) with the residual amount of the proceeds allocated to the debt component.

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Derivative Reconciliation		
Opening balance as at January 1, 2021	$	200,941
Fair value adjustment on date of restructure		10,627,869
Conversion feature extinguished on restructure		(6,435,939)
Amount allocated to restructure warrants		2,964,057
Fair value gain on conversion feature		(3,712,048)
Fair value gain on warrant feature		(2,549,583)
Foreign exchange gain		(89,070)
As at December 31, 2021		**1,006,227**
Fair value loss on conversion feature		225,883
Fair value gain on warrant feature		(20,692)
Foreign exchange loss		14,655
As at March 31, 2022	**$**	**1,226,073**

Debt Component Reconciliation		
Opening balance as at January 1, 2021	$	30,898,191
Fair value adjustment on date of restructure		(11,813,580)
Amount extinguished on restructure		(12,860,583)
Foreign exchange loss		414,198
Accretion		3,247,726
As at December 31, 2021		**9,885,952**
Foreign exchange loss		151,718
Accretion		582,173
As at March 31, 2022	**$**	**10,619,843**

April 2021 Debenture Restructure

On April 14, 2021, the Company announced the approval by the debenture holders of a debenture restructuring for the March 2019 Convertible Debentures and the November 2019 Convertible Debentures (collectively, the "Convertible Debentures"). In accordance with the approvals, the terms of the Convertible Debentures were amended as follows:

A) the Company was granted the right (the "New Conversion Right") to convert 60% of the principal amount of the Convertible Debentures, plus accrued interest thereon, for units of the Company (each, a "Unit") at a conversion price of CAD$0.35 per Unit. Each Unit is comprised of one common share and 5/6 of a warrant. Each whole warrant will be exercisable for one common share in the capital of the Company at an exercise price of CAD$0.70 per common share for a period of 36 months, provided that if, at any time prior to the expiry date of the warrants, the volume weighted average trading price of the common shares on the Canadian Securities Exchange ("CSE"), or other principal exchange on which the common shares are listed, is greater than CAD$1.05 for 20 consecutive trading days, the Company will be entitled to, within 10 business days of the occurrence of such event, deliver a notice to the holders of warrants accelerating the expiry date of the warrants to the date that is 30 days following the date of such notice. The New Conversion Right shall be exercisable by the Company upon notice to holders of the Convertible Debentures and such conversion will be effective on the date specified by the Company in the notice, which date will be not more than 60 days and not less than 20 days after the date of such notice;

B) the maturity date of the Convertible Debentures was extended to January 31, 2024;

C) the interest from the effective date is at the rate of: (i) if paid in Canadian dollars, 4.0% per annum, and (ii) if paid in common shares, 6.0% per annum, with the applicable method of payment at the sole discretion of the Company;

D) the conversion price for which each common share may be issued upon conversion of the Convertible Debentures is CAD$0.385, and

E) the current market price (i.e. volume weighted average price of the common shares on the CSE for the 20 consecutive trading days preceding the applicable date) for which the Company will have the right to force the conversion of Convertible Debentures was reduced to equal to or greater than CAD$1.05.

As a result of the Company amending the terms of the Convertible Debentures, on April 19, 2021, the debt component was fair valued at $21,434,305 and the conversion feature was fair valued at $10,726,564. The New Conversion Right was determined to be a call option as the Company had the right to exercise and as such, was fair valued as a derivative asset of $1,669,971. As a result of these fair value adjustments, the Company recorded a gain on debt restructure of $2,855,682 in the condensed consolidated interim statements of loss and comprehensive loss for the year ended December 31, 2021.

On April 19, 2021, the Company announced the completion of the restructure whereby they exercised their New Conversion Right and converted 60% of the Convertible Debentures and adjusted the terms (per above) for the remaining 40%. As a result, the Company issued 91,260,761 common shares and 76,050,635 warrants to convert 60% of the Convertible Debentures and related accrued interest. Correspondingly, the total principal amount of March 2019 Convertible Debentures outstanding was reduced from CAD$42,471,000 to CAD$16,988,400, and the total principal amount of the November 2019 Convertible Debentures outstanding was reduced from CAD$9,276,000 to CAD$3,710,400. As a result of the restructure, the Company extinguished: $11,140,729 in carrying value of the March 2019 Convertible Debentures (including accrued interest); $2,433,223 in carrying value of the November 2019 Convertible Debentures (including accrued interest); $5,282,253 of the associated conversion feature liability for the March 2019 Convertible Debentures; and $1,153,686 of the associated conversion feature liability for the November 2019 Convertible Debentures; $1,669,971 in derivative asset associated with the call option. Upon the Company's exercise of the New Conversion Right the warrants issued were recognized at their fair value on initial recognition of $2,964,058, the Company recognized the residual carrying value of the Convertible Debenture components (including accrued interest) amounting to $15,375,862 as an increase to share capital.

Transaction costs associated with the restructure of $2,825,881 were also recorded as a loss on debt restructure in the condensed consolidated interim statements of loss and comprehensive loss for the year ended December 31, 2021. Included in the above transaction costs is $87,954 in fair value of warrants issued as finders fees.

As at March 31, 2022, $16,564,341 (CAD$20,698,800) of principal of the Convertible Debentures remained outstanding, consisting of: (i) $13,595,070 (CAD$16,988,400) of the March 2019 Convertible Debentures and (ii) $2,969,270 (CAD$3,710,400) of the November 2019 Convertible Debentures.

Restructure Warrants

As noted above, the Company issued 76,050,365 warrants as part of the consideration to extinguish 60% of the outstanding Convertible Debentures. On April 19, 2021, the Company determined the fair value of the warrants issued on the April 19, 2021 restructure to be $2,964,057 using a Monte Carlo option pricing model, which includes a knock-out based on the following assumptions:

(Expressed in United States Dollars)

Expected life – years	2.78
Interest rate	0.46%
Volatility	66.80%
Barrier price	CAD$1.05
Exercise price	CAD$0.70
Share price	CAD$0.27

As at December 31, 2021, the Company determined the fair value of the warrants issued on the April 19, 2021 restructure to be $432,006 using a Monte Carlo option pricing model, which includes a knock-out based on the following assumptions:

Expected life – years	2.08
Interest rate	0.96%
Volatility	133.00%
Barrier price	CAD$1.05
Exercise price	CAD$0.70
Share price	CAD$0.04

As at March 31, 2022, the Company determined the fair value of the warrants issued on the April 19, 2021 restructure to be $461,841 using a Monte Carlo option pricing model, which includes a knock-out based on the following assumptions:

Expected life – years	1.83
Interest rate	2.27%
Volatility	134.58%
Barrier price	CAD$1.05
Exercise price	CAD$0.70
Share price	CAD$0.06

For three-month period ended March 31, 2022, relating to these warrants, a fair value loss on derivatives of $23,483 is recorded on the condensed consolidated interim statements of loss and comprehensive loss (March 31, 2021: $nil). For the three-month period ended March 31, 2022, a foreign exchange loss relating to these warrants of $6,293 is recorded on the condensed consolidated interim statements of loss and comprehensive loss (March 21, 2021: $nil).

<u>March 2019 Convertible Debenture Units</u>
On March 28, 2019, the Company closed a short-form prospectus financing of 9.5% unsecured Convertible Debenture units for gross proceeds of $37,232,854 and on April 1, 2019, closed an over-allotment option for additional gross proceeds of $5,623,454. Each Debenture was to mature three years from the date of issuance, was convertible into 384 common shares of the Company and included 192 common share purchase warrants. Each warrant entitles the holder thereof to purchase one share at the exercise price of CAD$2.60 per share for a period of 36 months after the closing of the financing. Each Debenture is also subject to a forced conversion if the volume weighted average price of the Company's common shares exceeds CAD$3.51 per share for 20 consecutive trading days. The Company paid a cash commission to the

(Expressed in United States Dollars)

agents of $2,571,378, agent expenses of $109,978 and legal and regulatory fees of $275,090. Additionally, the Company issued the agents 1,151,136 broker warrants with the same terms as the warrants issued on the Convertible Debenture units.

These Convertible Debentures were restructured on April 19, 2021 and replaced with CAD$16,988,400 face value Convertible Debentures. Each Debenture matures January 31, 2024 and is convertible into common shares of the Company at a conversion price of CAD$0.385. The Convertible Debentures bear interest at 4% per annum if paid in cash and 6% per annum if paid in shares at the option of the Company. Each debenture is also subject to a forced conversion if the volume weighted average price of the Company's common shares exceeds CAD$1.05 per share for 20 consecutive trading days.

Conversion and Warrant Features
The Company determined the fair value of the conversion feature on the April 19, 2021 issuance to be $3,521,502. The fair value of the Conversion Feature was calculated using a set of partial differential equations solved numerically using finite difference methods, which includes a knock-out based on the following assumptions:

Expected life – years	2.78
Interest rate	0.46%
Volatility	66.80%
Barrier price	CAD$1.05
Conversion price	CAD$0.385
Share price	CAD$0.27

The fair value of the conversion feature as at December 31, 2021 for the remaining CAD$16,988,400 in principal of Convertible Debentures was determined to be $390,558 (CAD$495,149). The fair value of the Conversion Feature was calculated using a set of partial differential equations solved numerically using finite difference methods, which includes the following assumptions:

Expected life – years	2.08
Interest rate	0.96%
Volatility	133.00%
Barrier price	CAD$1.05
Conversion price	CAD$0.385
Share price	CAD$0.04

The fair value of the conversion feature as at March 31, 2022 for the remaining CAD$16,988,400 in principal of Convertible Debentures was determined to be $581,639 (CAD$726,816). The fair value of the Conversion Feature was calculated using a set of partial differential equations solved numerically using finite difference methods, which includes the following assumptions:

Expected life – years	1.83
Interest rate	2.27%
Volatility	134.58%
Barrier price	CAD$1.05

(Expressed in United States Dollars)

Conversion price	CAD$0.385
Share price	CAD$0.06

For the three-month period ended March 31, 2022, relating to the conversion feature, a fair value loss on derivatives of $185,392 is recorded on the condensed consolidated interim statements of loss and comprehensive loss (March 31, 2021: $nil), which included $nil related to the conversion feature of the old Convertible Debentures.

For the three-month period ended March 31, 2022, relating to the conversion feature, a foreign exchange loss of $5,688 is recorded on the condensed consolidated interim statements of loss and comprehensive loss (March 31, 2021: $nil), which included $nil related to the conversion feature of the old Convertible Debentures.

The Company determined the fair value of the warrants on the March 28, 2019 issuance at March 31, 2022 to be $nil (December 31, 2021: $43,540) as they expired on March 28, 2022. The expiry resulted in a fair value gain (loss) on derivatives for the three-month period ended March 31, 2022 of $44,174 recorded on the condensed consolidated interim statements of loss and comprehensive income loss (March 31, 2021: ($307,274)). For the three-month period ended March 31, 2022, a foreign exchange loss of $634 was recorded on the condensed consolidated interim statements of loss and comprehensive income loss (March 31, 2021: $541).

Debt Component
The debt component as at March 31, 2022, is $8,716,165 (December 31, 2021: $8,113,828) and is calculated using the amortized cost method at an effective interest rate of 29.6%. For the three-month period ended March 31, 2022, interest expense of $134,168 is recorded on the condensed consolidated interim statements of loss and comprehensive loss (March 31, 2021: $796,751). For the three-month period ended March 31, 2022, accretion expense of $477,815 was recorded on the condensed consolidated interim statements of loss and comprehensive loss (March 31, 2021: $1,221,649). For the three-month period ended March 31, 2022, foreign exchange loss of $124,522 was recorded on the condensed consolidated interim statements of loss and comprehensive loss (March 31, 2021: $336,260).

<u>November 2019 Convertible Debenture Units</u>
On November 15, 2019, the Company closed a short-form prospectus financing of 9.5% unsecured convertible debenture units for gross proceeds of $15,758,446. Each debenture matures three years from the date of issuance, is convertible into 666 common shares of the Company and includes 666 common share purchase warrants. Each warrant entitles the holder thereof to purchase one share at the exercise price of CAD$1.55 per share for a period of 36 months after the closing of the financing. Each debenture is also subject to a forced conversion if the volume weighted average price of the Company's common shares exceeds CAD$2.25 per share for 20 consecutive trading days. The Company paid a cash commission to the agents of $945,507, agent expenses of $99,411 and legal and regulatory fees of $103,084. Additionally, the Company issued the agents 972,027 broker warrants with primarily the same terms as the warrants issued on the convertible debenture units except that the exercise price is CAD$1.50.

These Convertible Debentures were restructured on April 19, 2021 and replaced with CAD$3,710,400 face value Convertible Debentures. Each debenture matures January 31, 2024 and is convertible into common shares of the Company at a conversion price of CAD$0.385. The Convertible Debentures bear interest at

(Expressed in United States Dollars)

4% per annum if paid in cash and 6% per annum if paid in shares at the option of the Company. Each debenture is also subject to a forced conversion if the volume weighted average price of the Company's common shares exceeds CAD$1.05 per share for 20 consecutive trading days.

Conversion and Warrant Features

The Company determined the fair value of the conversion feature on the April 19, 2021 issuance to be $769,124. The fair value of the Conversion Feature was calculated using a set of partial differential equations solved numerically using finite difference methods, which includes a knock-out based on the following assumptions:

Expected life – years	2.78
Interest rate	0.46%
Volatility	66.80%
Barrier price	CAD$1.05
Conversion price	CAD$0.385
Share price	CAD$0.27

The fair value of the conversion feature as at December 31, 2021 for the remaining CAD$3,710,400 in principal of Convertible Debentures was determined to be $85,301 (CAD$108,145). The fair value of the Conversion Feature was calculated using a set of partial differential equations solved numerically using finite difference methods, which includes a knock-out based on the following assumptions:

Expected life – years	2.08
Interest rate	0.96%
Volatility	133.00%
Barrier price	CAD $1.05
Conversion price	CAD$0.385
Share price	CAD$0.04

The fair value of the conversion feature as at March 31, 2022 for the remaining $3,710,400 in principal of Convertible Debentures was determined to be $127,034 (CAD$158,742). The fair value of the Conversion Feature was calculated using a set of partial differential equations solved numerically using finite difference methods, which includes a knock-out based on the following assumptions:

Expected life – years	1.83
Interest rate	2.27%
Volatility	134.58%
Barrier price	CAD $1.05
Conversion price	CAD$0.385
Share price	CAD$0.06

For the three-month period ended March 31, 2022, relating to the conversion feature, a fair value loss on derivatives of $40,491 is recorded on the condensed consolidated interim statements of loss and comprehensive loss (March 31, 2021: $98,256).

For the three-month period ended March 31, 2022, a foreign exchange loss related to the conversion feature of $1,242 is recorded on the condensed consolidated interim statements of loss and comprehensive loss (March 31, 2021: $606).

The Company determined the fair value of the warrants on the November 15, 2019 issuance at March 31, 2022 to be $55,562 (December 31, 2021: $54,765), based on the trading price at that date of CAD$0.005, which resulted in a fair value loss on derivatives for three-month period ended March 31, 2022 of $nil recorded on the condensed consolidated interim statements of loss and comprehensive loss (March 31, 2021: $171,725). For the three-month period ended March 31, 2022, a foreign exchange loss of $798 was recorded on the condensed consolidated interim statements of loss and comprehensive loss (March 31, 2021: $606).

Debt Component
The debt component as at March 31, 2022, is $1,903,679 (December 31, 2021: $1,772,124) and is calculated using the amortized cost method at an effective interest rate of 29.6%. For the three-month period ended March 31, 2022, interest expense of $29,303 is recorded on the condensed consolidated interim statements of loss and comprehensive loss (March 31, 2021: $174,017). For the three-month period ended March 31, 2022, accretion expense of $104,358 was recorded on the condensed consolidated interim statements of loss and comprehensive loss (March 31, 2021: $254,284). For the three-month period ended March 31, 2022, foreign exchange loss of $27,196 was recorded on the condensed consolidated interim statements of loss and comprehensive loss (March 31, 2021: $59,483).

During the three-month periods ended September 30, 2021 and December 31, 2021, finance management discovered errors of commission made during the period ended March 31, 2021, which resulted in a change in the convertible debenture balance as at March 31, 2021. This was the result of the incorrect inclusion of the issuance of the convertible note units in the convertible debenture balance as at March 31, 2021. See further details regarding such restatement at Note 26 – Reclassification and Restatements of Certain Prior Period Items.

8) CONVERTIBLE NOTE UNITS

Between January 25, 2021 and March 17, 2021, the Company closed three identical tranches of a private placement financing of 9.0% unsecured convertible debenture units (the “Convertible Unit Offering”) from which the Company received gross proceeds of $19,004,520 (CAD $24,134,220). Each “Convertible Note” matures three years from the date of issuance, is convertible into 3,846 common shares of the Company, and includes 1,923 common share purchase warrants. Each such warrant entitles the holder thereof to purchase one share at the exercise price of CAD$0.39 per share for a period of 36 months after the closing of the financing. The Company may accelerate the expiry of the warrants should the share price of the Company’s common shares be equal to or greater than CAD$0.90 for a period of 90 consecutive days. Each debenture is also subject to a forced conversion if the share price of the Company’s common shares exceeds CAD$0.50 per share for 20 consecutive trading days. The Company may also force the conversion of the principal amount of the then outstanding Convertible Note should the trading price of the common shares exceeds $0.50 for a period of 10 consecutive trading days; however, the interest accrued thereon will have a default interest rate of 3% on top of the 9%.

The Company accounts for its Convertible Note Units by assessing each component separately: debt component, conversion feature and warrants. The conversion feature and warrants are denominated in Canadian dollars with the functional currency of the Company being the United States dollar. As such, when the conversion feature or warrants are exercised, they do not exchange a fixed amount of cash for a fixed number of shares and are therefore considered embedded derivatives. The Company determines the fair value of the conversion feature and warrants with the residual amount of the proceeds allocated to the debt component.

As at March 31, 2022, $19,029,289 (CAD$23,779,000) of principal of the Convertible Notes remained outstanding.

Derivative Reconciliation		
Opening Balance as at January 1, 2021	$	-
Amount allocated to conversion feature of 2021 issuances		9,118,464
Amount allocated to warrant feature of 2021 issuances		1,878,707
Fair value gain on conversion feature		(7,972,434)
Fair value gain on warrant feature		(1,568,972)
Foreign exchange gain		(46,983)
Conversions		(76,448)
As at December 31, 2021	**$**	**1,332,334**
Fair value gain on conversion feature		506,263
Fair value gain on warrant feature		79,583
Foreign exchange loss		19,405
As at March 31, 2022	**$**	**1,937,585**

Debt Component Reconciliation		
Opening balance as at January 1, 2021	$	-
Issuance of convertible notes – 2021 issuances		8,077,275
Transaction costs – 2021 issuances		(418,404)
Foreign exchange gain		(9,774)
Accretion		1,943,791
Conversions		(132,354)
As at December 31, 2021	**$**	**9,460,534**
Foreign exchange loss		146,353
Accretion		644,554
As at March 31, 2022	**$**	**10,251,441**

First Tranche

On January 25, 2021, the Company closed the first tranche the Convertible Unit Offering for gross proceeds of $10,100,000 (CAD $12,824,000). The Company paid cash finder's fees of $101,975 and legal expenses of $63,229. Additionally, the Company issued to the finder's 1,494,230 common shares and 747,115 common share purchase warrants under the same terms and conditions as the warrants issued on the convertible debenture units. In connection with the Initial Closing under the Offering, the Company issued a total of 12,824 Debenture Units at a price of CAD$1,000 per Debenture Unit.

(Expressed in United States Dollars)

During the three-month period ended March 31, 2022, nil Convertible Notes were converted. During the year ended December 31, 2021, 126 Convertible Notes were converted by certain debenture holders in exchange for 484,615 common shares of the Company. These conversions resulted in a reduction of the carrying amount of the convertible debenture liability of $53,298; a reduction of the derivative liability of $50,101, and the recording of the common shares issued of $103,399. Additionally, in connection with that exercise, the Company also issued 36 common shares as payment for the interest on these conversions with a deemed value of $176.

Conversion and Warrant Features

The Company determined the fair value of the conversion feature on January 25, 2021 issuance to be $3,874,655. The fair value of the Conversion Feature was calculated using a set of partial differential equations solved numerically using finite difference methods, which includes a knock-out based on the following assumptions:

Expected life – years	3.00
Interest rate	0.20%
Volatility	46.70%
Barrier price	$0.50
Conversion price	CAD$0.26
Share price	CAD$0.26

The fair value of the conversion feature as at December 31, 2021 for the remaining 12,698 Convertible Notes was determined to be $517,789. The fair value of the Conversion Feature was calculated using a set of partial differential equations solved numerically using finite difference methods, which includes a knock-out based on the following assumptions:

Expected life – year	2.07
Interest rate	0.95%
Volatility	133.00%
Barrier price	$0.50
Conversion price	CAD$0.26
Share price	CAD$0.04

The fair value of the conversion feature as at March 31, 2022 for the remaining 12,698 Convertible Notes was determined to be $777,044. The fair value of the Conversion Feature was calculated using a set of partial differential equations solved numerically using finite difference methods, which includes a knock-out based on the following assumptions:

Expected life – year	1.82
Interest rate	2.27%
Volatility	134.58%
Barrier price	CAD$0.50
Conversion price	CAD$0.26
Share price	CAD$0.06

(Expressed in United States Dollars)

For the conversion feature, a fair value loss on derivatives of $251,713 is recorded on the condensed consolidated interim statements of loss and comprehensive loss for the three-month period ended March 31, 2022 (March 31, 2021: $1,381,278). A foreign exchange loss of $7,541 is also recorded on the condensed consolidated interim statements of loss and comprehensive loss for the three-month period ended March 31, 2022 (March 31, 2021: $55,212) related to the conversion feature.

The Company determined the initial fair value of the warrants on the January 25, 2021 issuance to be $782,410 using a Monte Carlo option pricing model which includes a knock-out based on the following assumptions:

Expected life – years	3.00
Interest rate	0.20%
Volatility	46.70%
Barrier price	$0.90
Exercise price	CAD$0.39
Share price	CAD$0.26

The fair value of the warrant feature as at December 31, 2021 for the remaining 24,661,537 warrants was determined to be $158,179 using a Monte Carlo option pricing model which includes a knock-out based on the following assumptions:

Expected life – year	2.07
Interest rate	0.95%
Volatility	133.00%
Barrier price	$0.90
Exercise price	CAD$0.39
Share price	CAD$0.04

The fair value of the warrant feature as at March 31, 2022 for the remaining 24,661,537 warrants was determined to be $197,239 using a Monte Carlo option pricing model which includes a knock-out based on the following assumptions:

Expected life – year	1.82
Interest rate	2.27%
Volatility	134.58%
Barrier price	CAD$0.90
Exercise price	CAD$0.39
Share price	CAD$0.06

For the warrant feature, a fair value gain (loss) on derivatives of (36,757) is recorded on the condensed consolidated interim statements of loss and comprehensive loss for the three-month period ended March 31, 2022 (March 31, 2021: $670,429). A foreign exchange loss of $2,304 is also recorded on the condensed consolidated interim statements of loss and comprehensive loss for the three-month period ended March 31, 2022 (March 31, 2021: $27,605) related to these warrants.

Debt Component
The debt component on the January 25, 2021 issuance, net of transaction costs allocated to the debt component, was initially determined to be $5,145,013, which is the residual amount of the proceeds. The debt component as at March 31, 2022 is $6,660,665 (December 31, 2021: $6,237,414) and is calculated using the amortized cost method. Interest expense of $225,640 is recorded on the condensed consolidated interim statements of loss and comprehensive loss for the three-month period ended March 31, 2022 (March 31, 2021: $169,885). Accretion expense of $328,047 is recorded on the condensed consolidated interim statements of loss and comprehensive loss for the three-month period ended March 31, 2022 (March 31, 2021: $217,223). Foreign exchange loss of 95,204 is recorded on the condensed consolidated interim statements of loss and comprehensive loss for the three-month period ended March 31, 2022 (March 31, 2021: $46,346).

Transaction Costs
The Company has allocated transaction costs associated with the convertible debenture in proportion to the value assigned to each component. The Company has recorded the transaction costs associated with the debt component of $265,436 as a debt discount that is included in the amortization of the financial instrument using an effective interest rate of 34.9%. The amount allocated to the conversion and warrants features of $228,475 was expensed immediately as these components are recorded at fair value.

Second Tranche
On March 11, 2021, the Company closed the second tranche of the Convertible Unit Offering, under the same terms as the first tranche, for gross proceeds of $6,896,217 (CAD$8,748,000). The Company paid cash finder's fees of $98,226 and legal fees of $45,892. Additionally, the Company issued to the finder's 1,056,317 common shares and 645,084 common share purchase warrants under the same terms and conditions as the warrants issued on the convertible debenture units. In connection with the Initial Closing under the Offering, the Company issued a total of 8,748 Debenture Units at a price of CAD$1,000 per Debenture Unit.

During the year three-month period ended March 31, 2022, nil Convertible Notes were converted. During the year ended December 31, 2021, 213 Convertible Notes were converted by certain debenture holders in exchange for 819,231 common shares of the Company. These conversions resulted in a reduction of the carrying amount of the convertible debenture liability of $79,056; a reduction of the derivative liability of $26,347, and the recording of the common shares issued of $105,403. Additionally, in connection with that exercise, the Company also issued 43,214 common shares as payment for the effective interest on these conversions with a deemed value of $8,862.

Conversion and Warrant Features
The Company determined the fair value of the conversion feature on March 11, 2021 issuance to be $3,857,948. The fair value of the Conversion Feature was calculated using a set of partial differential equations solved numerically using finite difference methods, which includes a knock-out based on the following assumptions:

(Expressed in United States Dollars)

Expected life – years	3.00
Interest rate	0.46%
Volatility	53.00%
Barrier price	$0.50
Conversion price	CAD$0.26
Share price	CAD$0.29

The fair value of the conversion feature as at December 31, 2021 for the remaining 8,535 Convertible Notes was determined to be $387,963. The fair value of the Conversion Feature was calculated using a set of partial differential equations solved numerically using finite difference methods, which includes a knock-out based on the following assumptions:

Expected life – year	2.20
Interest rate	0.96%
Volatility	133.00%
Barrier price	$0.50
Conversion price	CAD$0.26
Share price	CAD$0.04

The fair value of the conversion feature as at March 31, 2022 for the remaining 8,535 Convertible Notes was determined to be $590,042. The fair value of the Conversion Feature was calculated using a set of partial differential equations solved numerically using finite difference methods, which includes a knock-out based on the following assumptions:

Expected life – year	1.95
Interest rate	2.27%
Volatility	134.58%
Barrier price	CAD$0.50
Conversion price	CAD$0.26
Share price	CAD$0.06

For the conversion feature, a fair value loss on derivatives of $196,428 is recorded on the condensed consolidated interim statements of loss and comprehensive loss for the three-month period ended March 31, 2022 (March 31, 2021: $897,088). A foreign exchange gain (loss) of ($5,651) is also recorded on the condensed consolidated interim statements of loss and comprehensive loss for the three-month period ended March 31, 2022 (March 31, 2021: $3,877) related to the conversion feature.

The Company determined the initial fair value of the warrants on the March 11, 2021 issuance to be $813,958 using a Monte Carlo option pricing model, which includes a knock-out based on the following assumptions:

Expected life – years	3.00
Interest rate	0.46%
Volatility	53.00%
Barrier price	$0.90
Exercise price	CAD$0.39
Share price	CAD$0.29

(Expressed in United States Dollars)

The fair value of the warrant feature as at December 31, 2021 for the remaining 16,827,077 warrants was determined to be $111,432 using a Monte Carlo option pricing model which includes a knock-out based on the following assumptions:

Expected life – year	2.20
Interest rate	0.96%
Volatility	133.00%
Barrier price	$0.90
Exercise price	CAD$0.39
Share price	CAD$0.04

The fair value of the warrant feature as at March 31, 2022 for the remaining 16,827,077 warrants was determined to be $145,251 using a Monte Carlo option pricing model which includes a knock-out based on the following assumptions:

Expected life – year	1.95
Interest rate	2.27%
Volatility	134.58%
Barrier price	CAD$0.90
Exercise price	CAD$0.39
Share price	CAD$0.06

For the warrant feature, a fair value gain (loss) on derivatives of ($32,196) is recorded on the condensed consolidated interim statements of loss and comprehensive loss for the three-month period ended March 31, 2022 (March 31, 2021: $701,195). A foreign exchange gain (loss) of ($1,624) is also recorded on the condensed consolidated interim statements of loss and comprehensive loss for the three-month period ended March 31, 2022 (March 31, 2021: $1,938) related to these warrants.

Debt Component
The debt component on the March 11, 2021 issuance, net of transaction costs allocated to the debt component, was initially determined to be $2,153,892, which is the residual amount of the proceeds. The debt component as at March 31, 2022 is $3,009,911 (December 31, 2021: $2,717,207) and is calculated using the amortized cost method. Interest expense of $151,664 is recorded on the condensed consolidated interim statements of loss and comprehensive loss for the three-month period ended March 31, 2022 (March 31, 2021: $36,636). Accretion expense of $249,810 is recorded on the condensed consolidated interim statements of loss and comprehensive loss for the three-month period ended March 31, 2022 (March 31, 2021: $23,709). Foreign exchange gain (loss) of ($42,894) is recorded on the condensed consolidated interim statements of loss and comprehensive loss for the three-month period ended March 31, 2022 (March 31, 2021: $1,886).

(Expressed in United States Dollars)

Transaction Costs
The Company has allocated transaction costs associated with the convertible debenture in proportion to the value assigned to each component. The Company has recorded the transaction costs associated with the debt component of $138,615 as a debt discount that is included in the amortization of the financial instrument using an effective interest rate of 57.3%. The amount allocated to the conversion and warrants features of $282,484 is expensed immediately as these components are recorded at fair value.

Third Tranche
On March 17, 2021, the Company closed the third tranche of the Convertible Unit Offering, under the same terms as the first and second tranches, for gross proceeds of $2,042,519 (CAD $2,546,000). The Company paid cash finder's fees of $24,182 and legal fees of $13,356. Additionally, the Company issued to the finder's 119,419 common shares and 138,018 common share purchase warrants under the same terms and conditions as the warrants issued on the convertible debenture units. In connection with the Initial Closing under the Offering, the Company issued a total of 2,546 Debenture Units at a price of CAD$1,000 per Debenture Unit.

During the year three-month period ended March 31, 2022 and the year ended December 31, 2021, nil Convertible Notes were converted.

Conversion and Warrant Features
The Company determined the fair value of the conversion feature on March 17, 2021 issuance to be $1,385,861. The fair value of the Conversion Feature was calculated using a set of partial differential equations solved numerically using finite difference methods, which includes a knock-out based on the following assumptions:

Expected life – years	3.00
Interest rate	0.51%
Volatility	54.80%
Barrier price	$0.50
Conversion price	CAD$0.26
Share price	CAD$0.31

The fair value of the conversion feature as at December 31, 2021 for the remaining 2,546 Convertible Notes was determined to be $125,400. The fair value of the Conversion Feature was calculated using a set of partial differential equations solved numerically using finite difference methods, which includes a knock-out based on the following assumptions:

Expected life – year	2.20
Interest rate	0.96%
Volatility	133.00%
Barrier price	$0.50
Conversion price	CAD$0.26
Share price	CAD$0.04

(Expressed in United States Dollars)

The fair value of the conversion feature as at March 31, 2022 for the remaining 2,546 Convertible Notes was determined to be $185,348. The fair value of the Conversion Feature was calculated using a set of partial differential equations solved numerically using finite difference methods, which includes a knock-out based on the following assumptions:

Expected life – year	1.96
Interest rate	2.27%
Volatility	134.58%
Barrier price	CAD$0.50
Conversion price	CAD$0.26
Share price	CAD$0.06

For the conversion feature, a fair value loss on derivatives of $58,122 is recorded on the condensed consolidated interim statements of loss and comprehensive loss for the three-month period ended March 31, 2022 (March 31, 2021: $304,210). A foreign exchange gain (loss) of ($1,826) is also recorded on the condensed consolidated interim statements of loss and comprehensive loss for the three-month period ended March 31, 2022 (March 31, 2021: $9,620) related to the conversion feature.

The Company determined the initial fair value of the warrants on the March 17, 2021 issuance to be $282,339 using a Monte Carlo option pricing model which includes a knock-out based on the following assumptions:

Expected life – years	3.00
Interest rate	0.51%
Volatility	54.80%
Barrier price	$0.90
Exercise price	CAD$0.39
Share price	CAD$0.31

The fair value of the warrant feature as at December 31, 2021 for the remaining 4,896,154 warrants was determined to be $31,571 using a Monte Carlo option pricing model, which includes a knock-out based on the following assumptions:

Expected life – year	2.20
Interest rate	0.96%
Volatility	133.00%
Barrier price	$0.90
Exercise price	CAD$0.39
Share price	CAD$0.04

The fair value of the warrant feature as at March 31, 2022 for the remaining 4,896,154 warrants was determined to be $42,661 using a Monte Carlo option pricing model, which includes a knock-out based on the following assumptions:

(Expressed in United States Dollars)

Expected life – year	1.96
Interest rate	2.27%
Volatility	134.58%
Barrier price	CAD$0.90
Exercise price	CAD$0.39
Share price	CAD$0.06

For the warrant feature, a fair value gain (loss) on derivatives of ($10,630) is recorded on the condensed consolidated interim statements of loss and comprehensive loss for the three-month period ended March 31, 2022 (March 31, 2021: $242,022). A foreign exchange gain (loss) of ($460) is also recorded on the condensed consolidated interim statements of loss and comprehensive loss for the three-month period ended March 31, 2022 (March 31, 2021: $4,810) related to these warrants.

Debt Component

The debt component on the March 17, 2021 issuance, net of transaction costs allocated to the debt component, was initially determined to be $359,966, which is the residual amount of the proceeds. The debt component as at March 31, 2022 is $580,865 (December 31, 2021; $505,913) and is calculated using the amortized cost method. Interest expense of $45,242 is recorded on the condensed consolidated interim statements of loss and comprehensive loss for the three-month period ended March 31, 2022 (March 31, 2021: $7,608). Accretion expense of $66,697 is recorded on the condensed consolidated interim statements of loss and comprehensive loss for the three-month period ended March 31, 2022 (March 31, 2021: $4,281). Foreign exchange gain (loss) of ($8,255) is recorded on the condensed consolidated interim statements of loss and comprehensive loss for the three-month period ended March 31, 2022 (March 31, 2021: $3,306).

Transaction Costs

The Company has allocated transaction costs associated with the convertible debenture in proportion to the value assigned to each component. The Company has recorded the transaction costs associated with the debt component of $14,353 as a debt discount that is included in the amortization of the financial instrument using an effective interest rate of 84.8%. The amount allocated to the conversion and warrants features of $63,964 is expensed immediately as these components are recorded at fair value.

During the three-month periods ended September 30, 2021 and December 31, 2021, finance management discovered errors of commission made during the period ended March 31, 2021, which resulted in a change in the convertible note unit balance as at March 31, 2021. This was primarily the result of the convertible note unit balance being incorrectly included in the convertible debenture balance as at March 31, 2021. Additionally, the fair value of conversion options and associated warrants at issuance of the note units was over-valued as at March 31, 2021, due to the use of the barrier option pricing model versus the Monte Carlo option pricing model method of valuation. See further details regarding such restatement at Note 26 – Reclassification and Restatements of Certain Prior Period Items.

(Expressed in United States Dollars)

9) LEASE OBLIGATIONS

The Company is or was party to leases at two facilities: its former Pecos Warehouse Lease (see the section below titled "Pecos Warehouse Lease") and its Neeham indoor cultivation and production facility (see the section below titled "Neeham Sale and Leaseback").

The lease obligations as at March 31, 2022 and December 31, 2021 are as follows:

Opening balance as at January 1, 2021	**$**	**21,505,140**
Interest expense		3,555,483
Lease payments		(3,468,455)
Increase from variable lease payment adjustment		623,432
Pecos lease termination		(1,497,552)
As at December 31, 2021		**20,718,048**
Interest expense		900,897
Lease payments		(814,711)
As at March 31, 2022	**$**	**20,804,234**

Pecos Warehouse Lease
On March 18, 2019, the Company entered into a commercial lease on a warehouse (the "Pecos Facility"). The lease was for a term of 5 years plus 1 month and contains a 5-year extension. The Company's incremental borrowing rate at the inception of the lease of 13.5% has been used to determine the present value of the minimum lease payments which was determined to be $1,633,433 as at March 18, 2019. A right-of-use asset was determined to be $1,633,433 on March 18, 2019 with a corresponding lease obligation recognized for the same amount. Total payments over the initial 5-year term are $1,423,612. On July 1, 2021, the Company's subsidiary North Las Vegas Services, Inc. ("Tenant") vacated the property and abandoned this lease. Subsequent to March 31, 2022 the Tenant and landlord resolved the issue via a settlement, wherein the Company is to pay the landlord an amount of $120,000 in cash and stock. As a result of the settlement, during the year ended December 31, 2021, the Company extinguished $1,497,552 in carrying value of the lease obligation, $1,265,910 in carrying value of the right-of-use asset, which included $367,523 in accumulated depreciation, accrued the settlement amount of $120,000 and recorded a gain on settlement of $111,640. Interest expense for the three-month period ended March 31, 2022 was $nil (March 31, 2021: $53,908).

Neeham Sale Leaseback
On September 16, 2019, the Company and Aventine Property Group, Inc. ("Aventine"), formerly named Treehouse Real Estate Investment Trust Inc. ("Treehouse"), entered into a sale and leaseback agreement for the Company's indoor cultivation property in North Las Vegas for a purchase price of $20,000,000 (the "Aventine Agreement"). The Company will lease such property from Aventine for a term of 20 years with two 10-year extension options. As part of the Aventine Agreement, Treehouse will have a five-year right of first offer on future sale-leasebacks by the Company. On September 16, 2019, the Company was advanced the purchase price under the Aventine Agreement as a loan, which bore interest at 15% annually. On September 16, 2019, the debt component, net of transaction costs allocated to the debt component, was determined to be $19,621,860 which is the residual amount of the proceeds.

On November 18, 2019, the Company completed Aventine Agreement whereby the loan was repaid through Aventine's purchase of the Company's indoor cultivation facility and the Company began leasing the same property. Upon closing of the Aventine Agreement on November 18, 2019, the Company determined that the sale and leaseback transaction resulted in a finance lease as defined under IFRS 16 and IFRS 15. The fair value of the assets sold was determined to be $11,536,253 and the remainder of the unallocated consideration of $8,463,747 was additional financing deemed to be provided. The Company used an incremental borrowing rate at the inception of the lease of 17.6% as the rate implicit in the lease was not readily available. Accordingly, the Company recorded a lease obligation at the present value of the minimum lease payments which was $18,605,867. Pursuant to the rent adjustment clause in the Aventine Agreement, the monthly base rent increases in December of each year, by the greater of 3% and the increase, if any in the Consumer Price Index (CPI-U). This resulted in an increase of 6.2% in base rent, effective December 1, 2021. Accordingly, on December 1, 2021, the Company recognized an increase of $623,432 in both the right-of-use asset and corresponding lease liability balances

(Expressed in United States Dollars)

During the year ended December 31, 2020, the Company drew additional funds from the lease facility of $546,294, which created an increase in the lease obligation of $637,557.

As at March 31, 2022, the Company has recorded $20,804,234 related to this lease liability (December 31, 2021: $20,718,048). Interest expense for three-month period ended March 31, 2022 totaled $900,897 (March 31, 2021: $767,147). The Company is currently negotiating a restructure with the leaseholder and has been able to defer payment of $392,767 as at March 31, 2022. This deferral is recorded in the liability account for this lease.

During the three-month periods ended September 30, 2021 and December 31, 2021, finance management discovered errors of commission made during the period ended March 31, 2021, which resulted in a change in the lease obligation balance as at March 31, 2021. This was primarily the result of the under-depreciation of ROU assets as at March 31, 2021. See further details regarding such restatement at Note 26 – Reclassification and Restatements of Certain Prior Period Items.

10) EQUIPMENT FINANCING

Bruce Equipment Sale Leaseback

On February 1, 2019, the Company entered into a Master Lease Agreement (the “Master Lease Agreement”) with RB Loan Portfolio I, LP (“RB I”), for equipment financing on certain equipment at its 455,000 square-foot greenhouse and production facility in North Las Vegas, Nevada (the “Equipment Financing”). The Master Lease Agreement has a five-year term and includes: a buyout right upon expiration of the term and early buyout options at months 13, 25 and 37, at the Company’s discretion. The Company has completed two draws totaling $20,000,000 as at March 31, 2022 and paid fees totaling $433,100.

As at March 31, 2022, the balance owed in connection with this Lease was $12,330,319.

Opening balance as at January 1, 2021	**$**	**16,483,120**
Modification fee		(53,939)
Loss on debt modification or extinguishment		1,466,873
Accretion		101,077
Principal repayments		(4,362,104)
As at December 31, 2021	**$**	**13,635,027**
Accretion		25,624

(Expressed in United States Dollars)

Principal repayments		(1,330,332)
As at March 31, 2022	**$**	**12,330,319**
Current		5,440,490
Non-current		8,194,537
As at December 31, 2021	**$**	**13,635,027**
Current		5,591,653
Non-current		6,738,666
As at March 31, 2022	**$**	**12,330,319**

As a result of cross default provisions between the Term Debt (defined in Note 11 below) and the Equipment Financing, the Company was considered to be in default of its obligations in the year ended December 31, 2020. Concurrently with the execution of the payoff letter in respect of the Term Debt (Note 11), the Company and RB I, in late 2020, entered into a forbearance agreement under which: (i) the Company agreed to pay RB I incremental interest of 6% and (ii) RB I agreed to forbear its rights under the Master Lease Agreement until November 18, 2020. The Company entered into a Lease Modification Agreement dated January 26, 2021, with RB I in regard to that certain Master Lease Agreement pursuant to which the lessor agreed to forbear existing events of default and make certain modifications to the Master Lease Agreement, including: an amended payment schedule allowing for reduced monthly lease payments for three months ($347,143 for January 2021, $345,347 for February 2021 and $343,534 for March 2021), with monthly payments thereafter at the rate of $555,677/month; an "Exit Fee" of $500,000 due at the end of the term of the Master Lease Agreement; the release of a current third party guarantor, and grant of a new parent company guarantee by the Company. Among the conditions precedent to the Lease Modification Agreement was the same New Equity Condition as set forth in the Term Loan Modification Agreement. Additional consideration for the Lease Modification Agreement included: an initial lease modification fee of 6% of the outstanding principal of the Master Lease calculated from May 19, 2020 through the Effective Date of the Lease Modification Agreement, and an additional one-time fee of $500,000 payable in monthly installments (which amount is reflected in the aforementioned adjusted monthly payment amounts), and reimbursement of lessor expenses.

As a result of the change in terms for the Master Lease Agreement, the Company has determined that these terms are not substantially different from the original terms and have applied modification accounting. The Company restated the liability to the net present value of the revised cash flows discounted at the old effective interest rate, which resulted in a loss on debt modification or extinguishment of $1,466,873, recorded in the condensed consolidated interim statements of loss and comprehensive loss for the year ended December 31, 2021. Transaction costs associated with the restructure of $53,939 were recorded as a reduction in the carrying amount of the liability.

The balance as at March 31, 2022 was $12,330,319 (December 31, 2021: $13,635,027). Accretion expense for the three-month period ended March 31, 2022 was $25,624 (March 31, 2021: $24,205) and is recorded on the condensed consolidated interim statements of loss and comprehensive loss Interest expense for the three-month period ended March 31, 2022 was $336,699 (March 31, 2021: $456,741) and is recorded on the consolidated statements of loss and comprehensive loss.

During the three-month periods ended September 30, 2021 and December 31, 2021, finance management discovered errors of commission made during the period ended March 31, 2021, which resulted in a change in the equipment financing liability balance as at March 31, 2021. The primary reason for the understatement is that equipment financing payments were incorrectly recorded as a reduction to accounts payable and accrued liabilities as at March 31, 2021. See further details regarding such restatement at Note 26 – Reclassification and Restatements of Certain Prior Period Items.

(Expressed in United States Dollars)

11) TERM DEBT

The Company currently has two obligations reflected as Term Debt: (1) a $30,557,260 obligation secured by the land and building of the Company's Bruce Street Facility and (see the section below titled "Term Debt 1") (2) a $10,100,000 obligation secured by the land and building of the Company's Bruce Street Facility and (see the section below titled "Term Debt 2")

Derivative reconciliation		
Opening balance as at January 1, 2021	$	-
Fair value gain		(13)
Foreign exchange loss		13
As at December 31, 2021	$	-
Fair value gain		-
Foreign exchange gain		-
As at March 31, 2022	**$**	-

Debt Component reconciliation		
Opening balance January 1, 2021	$	28,999,594
Modification fee		(53,939)
Gain on debt modification or extinguishment		(564,081)
Accretion		1,181,961
As at December 31, 2021	**$**	**29,563,535**
Borrowings		10,100,000
Transaction costs		(20,246)
Adjustments on debt modification		(433,530)
Accretion		306,755
As at March 31, 2022	**$**	**39,516,514**

Current		-
Non-current		29,563,535
As at December 31, 2021	**$**	**29,563,535**
Current		29,433,630
Non-current		10,082,884
As at March 31, 2022	**$**	**39,516,514**

On June 27, 2019, the Company entered into a loan agreement (the "Term Loan Agreement") with RB Loan Portfolio II, LLC ("RB II") in the principal amount of up to $30,000,000 (the "Term Debt"). The Term Debt was for a two-year term at a rate of LIBOR plus 8% (minimum LIBOR of 2.5%) with interest only payments for the term of the agreement and is secured by the Company's North Las Vegas greenhouse. The Company had the ability to extend the term for 6 months upon payment of a fee of 2% of the principal and the ability to pre-pay the outstanding debt with a pre-payment penalty of 3% of the principal during the first 12 months and 1% of the principal after the first 12 months. No value has been attributed to the pre-payment or extension options. As part of the Term Debt, RB II and certain assignees received, with respect to each advance, a 25%-warrant coverage with the warrants having a term of 30 months. With respect to each advance, the Company issued warrants at an exercise price equal to the greater of: (A) the 20-day volume weighted average price ("VWAP") of the common shares of the Company on the CSE from the date of such advance, multiplied by 1.2 with respect to half of such warrants and 1.4 with respect to the other half; and (B) the closing market price of the common shares on the trading day immediately prior to the announcement of such advance. As at March 31, 2022, the Company has completed draws totaling $30,000,000 and issued 1,139,757 warrants with a strike price of CAD$3.46, 1,139,757 warrants with a strike price of CAD$4.03, 589,964 warrants with a strike price of CAD$3.35 and 589,964 warrants with a strike price of CAD$3.91. The Term Loan Agreement contains no financial covenants. As of March 31, 2022, all warrants have expired with $nil in fair value loss and $nil foreign exchange loss being recorded in the condensed consolidated interim statements of loss and comprehensive loss for the three-month period ended March 31, 2022, respectively (March 31, 2021: $nil and $nil, respectively).

The Company has accounted for the Term Debt by assessing each component separately: debt component and warrants. The warrants are denominated in Canadian dollars with the functional currency of the Company being the United States dollar. As such, when the warrants are exercised, they do not exchange a fixed amount of cash for a fixed number of shares and are therefore considered derivative liability. The Company has determined the fair value of the warrants with the residual amount of the proceeds allocated to the debt component. The term debt also consists of an interest rate floor component, which is closely related to the host debt contract. Given that the floor interest rate is not in the money upon issuance, the floor is not leveraged in relation to the host contact, and as a result, the instrument is not bifurcated for measurement or presentation purposes.

The Company determined the fair value of the warrants on the June 27, 2019 issuance to be $1,500,435 using the Black-Scholes option pricing model based on the following assumptions:

Expected life – years	2.5
Interest rate	1.40%
Volatility	60.00%
Exercise price	CAD$3.46 and CAD$4.03
Share price	CAD$2.90

The Company determined the fair value of the warrants on the July 31, 2019 issuance to be $608,002 using the Black-Scholes option pricing model based on the following assumptions:

Expected life – years	2.5
Interest rate	1.52%
Volatility	60.00%
Exercise price	CAD$3.35 and CAD$3.91
Share price	CAD$2.53

On the June 27, 2019 draw of $20,000,000, the debt component, net of transaction costs allocated to the debt component, was determined to be $17,592,202 which is the residual amount of the proceeds. On the July 31, 2019 draw of $5,189,884, the debt component, net of transaction costs allocated to the debt component, was determined to be $4,222,103, which is the residual amount of the proceeds. Additional draws of $4,810,116 were issued with no transaction costs or warrants. LIBOR on the date of issuance was below the 2.5% minimum and therefore an interest rate of 10.5% was used.

The Company has allocated transaction costs associated with the Term Debt in proportion to the value assigned to each component. The Company has recorded the transaction costs associated with the debt component of $1,267,142 as a debt discount, which is included in the amortization of the financial instrument using an effective interest rate of 17.4%. The amount allocated to the warrants of $121,335 was expensed immediately as this component is recorded at fair value.

Q1 2021 Modification
As also noted under Note 10 above, as a result of cross default provisions between the Term Debt and the Equipment Financing related to the previously announced and then cancelled Bruce sale leaseback financing, RB II considered the Company to be in default of its obligations under this loan as at December 31, 2020 and through late January of 2021. On January 26, 2021, the Company reached a loan modification agreement (the "Term Loan Modification Agreement") with RB II in respect of this debt. The Term Loan Modification Agreement provided that the lender thereunder will forbear from exercising any of its respective rights and remedies for certain considerations and on certain terms and conditions. RB II agreed to forbear existing events of default under, and to make certain modifications to, the existing Term Loan documents, including: extension of the maturity date from June 27, 2021 to December 21, 2021; modification of the interest rate to 14%, with 12% paid monthly and 2% paid at maturity, and the addition of an "Exit Fee" of $1,000,000 payable upon payment in full of the Term Loan on the Maturity Date. The Term Loan Modification Agreement also provided for establishment of an interest reserve payable when the Company completes at least $10,000,000 in convertible debt financing and additional convertible debt financing by March 5, 2021 (the "Subsequent New Equity") in an amount sufficient to make the total of the Initial New Equity and Subsequent New Equity equal to or greater than $15,000,000 (collectively, the "New Equity Condition"). The conditions precedent to the Term Loan Modification Agreement included: the requirement that the Company pay certain previously defaulted obligations, and that the Company complete at least the Initial New Equity and the Subsequent New Equity by March 5, 2021. These conditions were satisfied during the three-month period ended March 31, 2021. Additional consideration for the Term Loan Modification Agreement included: a Loan Modification Fee equal to 3% per annum on the outstanding principal of the Term Loan from May 19, 2020 until the "Effective Date" of the Term Loan Modification being January 26, 2021; Flower One common shares in an amount equal to $1,200,000 (with such common shares is subject to a six month lock-up agreement); the grant of one half warrant for each share granted, such warrants being exercisable for three years at a price of CAD$0.30975, and reimbursement of lender expenses.

As a result of the change in terms under the Term Loan Modification Agreement, the Company has determined that these terms are not substantially different from the original terms and have applied modification accounting. The Company restated the liability to the net present value of the revised cash flows discounted at the old effective interest rate, which resulted in a loss on debt modification of $703,580 recorded in the consolidated statements of loss and comprehensive loss for the year ended December 31, 2021. Transaction costs associated with the restructure of $53,939 were recorded as a reduction in the carrying amount of the liability.

In connection with the Term Loan Modification Agreement, the Company issued 7,378,523 common shares and 3,689,261 common share purchase warrants ("Modification Warrants") as satisfaction of the $1,200,000 worth of equity units required. The number of equity units issued was based on the 20-day VWAP of the common shares trading on the CSE at the time of issuance being CAD$0.2065. The fair value of the common shares issued was calculated to be $1,510,326 based on the trading price on the date of issuance and the fair value of the Modification Warrants issued was determined to be $216,210 using a Monte Carlo option pricing model which includes a knock-out based on the following assumptions:

(Expressed in United States Dollars)

Expected life – year	3.00
Interest rate	0.20%
Volatility	46.7%
Barrier price	$0.90
Exercise price	CAD$0.30975
Share price	CAD$0.26

The total fair value of the common shares and Modification Warrants issued of $1,726,536 was recorded as a loss on debt modification or extinguishment in the consolidated statements of loss and comprehensive loss for the year ended December 31, 2021.

Q2 2021 Modification

On April 19, 2021, the Company entered into a second loan modification agreement with RB II ("Second Term Loan Modification Agreement") pursuant to which RB II has agreed to forbear certain existing events of default under, and to make certain modifications to, the existing term loan and financing documents which included, among other things, (i) the extension of the maturity date from December 21, 2021 to January 26, 2023, (ii) the obligation of the Company, starting on January 1, 2022, to pay monthly installments of interest at 14% per annum in cash, (iii) the payment of the exit fee of $1,000,000 by December 21, 2021 and the ability of RB II to refuse a loan payoff until such exit fee is received. In accordance with the terms, the Company is to issue 300,000 common share purchase warrants to RB II in satisfaction of a modification fee payable. Each warrant is exercisable for one common share at an exercise price of CAD$0.39 per common share for a period of 36 months following the effective date of the Second Loan Modification Agreement being April 19, 2021.

As a result of the change in terms for the Second Term Loan Modification Agreement, the Company has determined that these terms are not substantially different from the original terms and have applied modification accounting. The Company restated the liability to the net present value of the revised cash flows discounted at the old effective interest rate which resulted in a gain on debt modification of $1,267,661 recorded in the consolidated statements of loss and comprehensive loss for the year ended December 31, 2021. There were no transaction costs associated with this modification.

In connection with the Second Loan Modification Agreement, the Company issued 300,000 common share purchase warrants ("Second Modification Warrants") with the fair value determined to be $34,747 using the Black-Scholes option pricing model based on the following assumptions:

Expected life – year	3.00
Interest rate	0.50%
Volatility	99.00%
Exercise price	CAD$0.39
Share price	CAD$0.27

The fair value of the Second Modification Warrants issued of $34,747 was recorded as a loss on debt modification in the consolidated statements of loss and comprehensive loss for the year ended December 31, 2021.

Q1 2022 Modification
On January 1, 2022, the Company entered into a third loan modification agreement with RB II ("Third Term Loan Modification Agreement") pursuant to which RB II has agreed to forbear certain existing events of default under, and to make certain modifications to, the existing term loan and financing documents which included, among other things, (i) extend an additional loan to the Company in the amount of $10,100,000 (see "Term Debt 2" below), (ii) use the interest reserve of $1,050,000 (already paid to RB II by the Company in 2021) to pay the $1,000,000 exit fee that was due December 31, 2021 per the Second Term Loan Modification Agreement, (iii) capitalize the paid-in-kind interest amount of $557,260 through December 31, 2021 (2% that was accruing per the Term Loan Modification Agreement), and (iv) reduce the monthly interest payment from 14% to 10% with the balance (4%) paid at maturity (January 26, 2023).

As a result of the change in terms for the Third Term Loan Modification Agreement, the Company has determined that these terms are not substantially different from the original terms and have applied modification accounting. The Company restated the liability to the net present value of the revised cash flows discounted at the old effective interest rate which resulted in an adjustment to the carrying value of the liability of $433,530 due to the repayment of the $1,000,000 exit fee and the capitalization of the $557,260 in paid-in-kind interest. There were no transaction costs associated with this modification.

The debt component as at March 31, 2022 was $29,433,630 (December 31, 2021: $29,563,535) and is calculated using the amortized cost method. Accretion expense of $303,625 was recorded on the condensed consolidated interim statements of loss and comprehensive loss for the three-month period ended March 31, 2022 (March 31, 2021: $357,198). Interest expense of $1,054,853 was recorded on the condensed consolidated interim statements of loss and comprehensive loss for the three-month period ended March 31, 2022 (March 31, 2021: $963,699).

As at March 31, 2022, the principal balance owed in connection with this obligation was $30,557,260.

Term Debt 2
On January 1, 2022, the Company entered into a loan agreement (the "Second Term Loan Agreement") with RB II in the principal amount of $10,100,000 (the "Second Term Debt"). The Second Term Debt is for an eighteen-month term at a rate of 10% with interest and principal due at the maturity date of June 30, 2023 and is secured by the Company's North Las Vegas greenhouse. The Term Loan Agreement contains no financial covenants. In connection with the Second Term Loan Agreement, the Company paid transaction costs of $20,246 which are recorded as a debt discount and included in the amortization of the financial instrument using an effective interest rate of 10.2%.

The debt component as at March 31, 2022 was $10,082,884 (December 31, 2021: $nil) and is calculated using the amortized cost method. Accretion expense of $3,130 was recorded on the condensed consolidated interim statements of loss and comprehensive loss for the three-month period ended March 31, 2022 (March 31, 2021: $nil). Interest expense of $249,041 was recorded on the condensed consolidated interim statements of loss and comprehensive loss for the three-month period ended March 31, 2022 (March 31, 2021: $nil).

(Expressed in United States Dollars)

As at March 31, 2022, the principal balance owed in connection with this obligation was $10,100,000.

During the three-month periods ended September 30, 2021 and December 31, 2021, finance management discovered errors of commission made during the period ended March 31, 2021, which resulted in a change in the term debt liability balance as at March 31, 2021. The primary reason for the overstatement was that short-term financing was misclassified as term debt as at March 31, 2021. See further details regarding such restatement at Note 26 – Reclassification and Restatements of Certain Prior Period Items.

12) SHORT-TERM FINANCING

Derivative reconciliation:		
Opening balance as at January 1, 2021	$	31,867
Fair value gain		(32,170)
Foreign exchange loss		303
As at December 31, 2021	$	-
Fair value gain		-
Foreign exchange loss		-
As at March 31, 2022	$	-

Debt component reconciliation:		
Opening balance as at January 1, 2021	$	**12,418,584**
Principal repayments		(936,536)
Principal and interest settled with shares and warrants		(5,850,706)
Loss on debt extinguishment		455,146
Amount extinguished on debt modification		(798,819)
Amount allocated on debt modification		710,545
Foreign exchange loss		52,739
Accretion		141,691
As at December 31, 2021	**$**	**6,192,644**
Principal repayments		(192,644)
As at March 31, 2022	**$**	**6,000,000**

<u>Short-term Loan #1</u>
On March 6, 2020, the Company entered into a debt financing agreement with a private lender for $10,000,000. The agreement was for a one-year term at a rate of 15% with interest only payments for the term of the agreement. On July 21, 2020, concurrent with borrowing an additional $1,000,000 the term was extended by another 6 months to September 2021. The Company had the ability to pre-pay the outstanding debt with no pre-payment penalty. On commencement of the loan on March 6, 2020, the debt component, net of transaction costs allocated to the debt component, was determined to be $9,000,000 which is the residual amount of the proceeds. On July 21, 2020, the debt component was increased $900,000 which was the additional draw net of transaction costs.

On January 25, 2021, the principal amount of $11,000,000 was reduced to $6,000,000 with the remaining amount of $5,000,000 converted into 30,748,668 common shares of the Company at CAD$0.2065 per common share, representing the 20-day VWAP of the common shares trading on the CSE at the time of the issuance. In addition, the interest on the remaining principal of $6,000,000 was reduced from 15% to

10% per annum, and the maturity date was extended from February 25, 2021 to July 24, 2022. The Company also retains the ability to pre-pay the outstanding debt with no prepayment penalty.

The fair value of the 30,748,668 common shares issued as extinguishment of $5,000,000 in principal was determined to be $6,276,224 which is the trading price of the common shares on January 25, 2021. As a result of the change in terms, the Company has determined that these terms are substantially different from the original terms and have applied extinguishment accounting. The Company extinguished the remaining $5,544,854 in carrying value of the debt and based on new carrying value of $6,000,000, the Company recorded a loss on debt extinguishment of $455,146 in the consolidated statements of loss and comprehensive loss for the year ended December 31, 2021. There were no transaction costs associated with the restructure.

Interest expense of $147,945 is recorded on the condensed consolidated interim statements of loss and comprehensive loss for the three-month period ended March 31, 2022 (March 31, 2021: $113,014). Accretion expense of $nil is recorded on the condensed consolidated interim statements of loss and comprehensive loss for the three-month period ended March 31, 2022 (March 31, 2021: $93,847).

As at March 31, 2022, the balance owed in connection with this obligation was $6,000,000, all of which is classified as short-term financing since it is due within 12 months.

Short-term Loan #2

On July 10, 2020, the Company entered into a debt financing agreement with a private lender for $1,000,000. The agreement is for a 60-day term at a rate of 18% with interest and principal due at maturity. On January 25, 2021, the total principal balance of this loan of $850,706 and accrued interest totaling $83,485 were converted to equity at CAD$0.2065 per common share for a total of 5,774,998 common shares. Based on the fair value of the shares issued to extinguish the debt of $1,178,756, the Company recorded a loss on debt extinguishment of $244,570 on the consolidated statements of loss and comprehensive loss for the year ended December 31, 2021. For the three-month period ended March 31, 2022, interest expense of $nil is recorded on the condensed consolidated interim statements of loss and comprehensive loss (March 31, 2021: $10,069).

Short-term Loan #3

On August 21, 2020, the Company entered into a debt financing arrangement with a private lender for CAD$1,500,000. The agreement is for a 9-month term at a rate of 11% with interest only payments for the term of the loan and principal due at maturity. As part of the loan, the Company granted 811,475 warrants to the lender at an exercise price of CAD$0.61 per warrant and a 36-month expiry date ("Original Warrants"). These warrants are denominated in Canadian dollars with the functional currency of the Company being the United States dollar. As such, when the warrants are exercised, they do not exchange a fixed amount of cash for a fixed number of shares and are therefore considered embedded derivatives. The Company determines the fair value of the warrants with the residual amount of the proceeds allocated to the debt component.

The Company determined the fair value of the Original Warrants on August 21, 2020 to be $92,178 using a barrier option pricing model which includes a knock-out based on the following assumptions:

(Expressed in United States Dollars)

Expected life – years	3.00
Interest rate	0.29%
Volatility	83%
Barrier price	$1.22
Exercise price	CAD$0.61
Share price	CAD$0.41

The debt component, net of transaction costs allocated to the debt component, was initially determined to be $1,026,359 which is the residual amount of the proceeds.

Transaction Costs
The Company has allocated transaction costs associated with the short-term debt in proportion to the value assigned to each component. The Company has recorded the transaction costs associated with the debt component of $17,396 as a debt discount that is included in the amortization of the financial instrument using an effective interest rate of 25.2%. The amount allocated to the warrant feature of $1,536 is expensed immediately as these components are recorded at fair value.

Q2 2021 Modification
On May 7, 2021, the Company announced the closing of a modification to the terms of the agreement ("Loan Modification and Amendment Agreement"). Pursuant to the Loan Modification and Amendment Agreement, the terms were amended as follows: (i) extend the maturity date from May 20, 2021 to November 21, 2021, (ii) convert the loan amount from Canadian Dollars to United States Dollars, (iii) reflect a new payment schedule of the current principal balance and outstanding accrued interest payable, and (iv) issue the lender additional warrant rights with respect to common shares of the Company. In accordance with the terms of the Loan Modification and Amendment Agreement, the Company has issued 397,873 common share purchase warrants (the "Lender Warrants"), entitling the Lender to one common share in the capital of the Company at an exercise price of CAD$0.315 per common share for 36 months provided, however, that in the event that the common shares trade on the CSE at a closing price equal to or greater than CAD$1.05 per common share for a period of twenty (20) consecutive trading days, the Company may implement an accelerated expiry date of the Lender Warrants by giving notice to the holders of the Lender Warrants of the accelerated expiry and, thereafter, the Lender Warrants will expire on the date that is ninety (90) days following the delivery of such notice.

The fair value of the Lender Warrants as at May 7, 2021 was determined to be $49,096 using a barrier option pricing model, which includes a knock-out based on the following assumptions:

Expected life – year	3.00
Interest rate	0.48%
Volatility	99.00%
Barrier price	$1.05
Rebate	$0.735
Exercise price	CAD$0.315
Share price	CAD$0.28

As a result of the change in terms, the Company has determined that these terms are substantially different from the original terms and have applied extinguishment accounting. The Company extinguished the remaining $798,819 in carrying value of the debt and based on new carrying value of $710,545, the Company recorded a gain on debt extinguishment of $88,274 in the consolidated statements of loss and comprehensive loss for the year ended December 31, 2021. The Lender Warrant fair value of $49,096 was recorded as a loss on debt extinguishment in the consolidated statements of loss and comprehensive loss for the year ended December 31, 2021.

(Expressed in United States Dollars)

A fair value loss on derivatives of $nil is recorded on the condensed consolidated interim statements of loss and comprehensive loss for three-month period ended March 31, 2022 (March 31, 2021: $32,265). A foreign loss of $nil is also recorded on the condensed consolidated interim statements of loss and comprehensive loss for three-month period ended March 31, 2022 (March 31, 2021: $398).

The debt component as at March 31, 2022 is $nil, and is calculated using the amortized cost method (December 31, 2021: $192,644). Interest expense of $1,626 is recorded on the condensed consolidated interim statements of loss and comprehensive loss for three-month period ended March 31, 2022 (March 31, 2021: $47,902). Accretion expense of $nil is recorded on the condensed consolidated interim statements of loss and comprehensive loss for three-month period ended March 31, 2022 (March 31, 2021: $38,896). Foreign exchange loss of $nil is recorded on the condensed consolidated interim statements of loss and comprehensive loss for three-month period ended March 31, 2022 (March 31, 2021: $14,207). During the three-month period ended March 31, 2022, the Company repaid the remaining $192,644 in principal (March 31, 2021: $nil).

During the three-month periods ended September 30, 2021 and December 31, 2021, finance management discovered errors of commission made during the period ended March 31, 2021, which resulted in a change in the short-term debt liability balance as at March 31, 2021. The reason for the understatement was that short-term financing was misclassified as term debt as at March 31, 2021. See further details regarding such restatement at Note 26 – Reclassification and Restatements of Certain Prior Period Items.

13) SHARE CAPITAL

Authorized

The Company's authorized share capital consists of an unlimited number of Class A Common Shares, voting, without nominal or par value.

Issued and Outstanding

Reconciliation of the Company's share capital is as follows:

	Number		Amount
Opening balance as at January 1, 2021	**275,351,599**	**$**	**109,836,755**
Conversion of private loans to equity	36,523,666		7,454,981
Shares issued on debenture restructure	91,260,761		15,375,862
Shares issued as payment for interest on convertible debentures	8,375,117		696,048
Shares issued on private placements, net of transaction costs	50,000,000		4,262,294
Shares issued for provision of services	3,601,310		960,089
Shares issued on conversions of convertible debentures	1,347,096		231,471

(Expressed in United States Dollars)

Shares issued as finder's fee on financing	2,669,966	578,642
Shares issued on redemption of RSUs	2,173,850	443,713
Shares issued as modification fee on term loan	9,375,265	1,835,065
Warrants exercised	1,000	352
Shares returned to treasury	(20,000,000)	-
Balance as at December 31, 2021 and March 31, 2022	**460,679,630**	**141,675,272**

2021 Equity Issuances

September 2021 Private Placement
On September 27, 2021, the Company completed a private placement of 50,000,000 units at a subscription price of CAD$0.13 ($0.10 USD) per unit for gross proceeds of $5,000,000. Each unit consisted of one common share and one share purchase warrant. Each warrant entitles the holder to purchase one common share at an exercise price of CAD$0.32 ($0.25 USD) per share for 36 months after issuance. The Company may accelerate the expiry if the volume weighted average price of the Company's common shares exceeds CAD$0.37 ($0.29 USD) per share for 20 consecutive trading days. As part of this private placement, the Company issued 50,000,000 common share purchase warrants (Note 14).

The Company determined the fair value of the warrants on September 27, 2021 to be $714,868 using a Monte Carlo option pricing model, which includes the following assumptions:

Expected life – years	3.00
Interest rate	0.64%
Volatility	97.00%
Barrier price	CAD$0.37
Rebate	CAD$0.05
Exercise price	CAD$0.32
Share price	CAD$0.115

The fair value of the warrants as at December 31, 2021 warrants was determined to be $330,290 using a Monte Carlo option pricing model, which includes the following assumptions:

Expected life – years	2.74
Interest rate	1.02%
Volatility	100.00%
Barrier price	CAD$0.37
Rebate	CAD$0.05
Exercise price	CAD$0.32
Share price	CAD$0.04

The fair value of the warrants as at March 31, 2022 was determined to be $551,581 using a Monte Carlo option pricing model, which includes the following assumptions:

Expected life – years	2.74
Interest rate	1.02%
Volatility	100.00%
Barrier price	CAD$0.37

(Expressed in United States Dollars)

Rebate	CAD$0.05
Exercise price	CAD$0.32
Share price	CAD$0.04

For the warrants, a fair value loss on derivatives of $216,480 was recorded on the condensed consolidated interim statements of loss and comprehensive loss for the three-month period ended March 31, 2022 (March 31, 2021: $nil). A foreign exchange loss of $4,811 was also recorded on the condensed consolidated interim statements of loss and comprehensive loss for the three-period ended March 31, 2022 related to these warrants (March 31, 2021: $nil).

2021 Shares Returned to Treasury
In connection with the Convertible Unit Offering (Note 8), and under request of certain investors, the Southlands Family Trust and the Yaletown Family Trust returned to treasury 20,000,000 common shares of the Company.

2020 Equity Issuances

May 2020 Private Placement
On May 1, 2020, the Company completed a private placement of 29,599,025 units at a subscription price of CAD$0.37 per unit for gross proceeds $7,785,895. Each unit consisted of one common share and one half of one share purchase warrant. Each warrant entitles the holder to purchase one common share at an exercise price of CAD$0.44 per share for 36 months after issuance. The Company may accelerate the expiry if the volume weighted average price of the Company's common shares exceeds CAD$0.88 per share for 20 consecutive trading days. As part of this private placement, the Company issued 14,799,509 common share purchase warrants (Note 14).

The Company determined the fair value of the warrants on May 1, 2020 to be $2,104,295 using a Monte Carlo option pricing model, which includes the following assumptions:

Expected life – years	3.00
Interest rate	0.28%
Volatility	80.00%
Barrier price	CAD$0.88
Exercise price	CAD$0.44
Share price	CAD$0.48

The fair value of the warrants as at December 31, 2021 warrants was determined to be $45,736 using a Monte Carlo option pricing model which includes the following assumptions:

Expected life – years	1.33
Interest rate	0.91%
Volatility	100.00%
Barrier price	CAD$0.88
Exercise price	CAD$0.44
Share price	CAD$0.04

(Expressed in United States Dollars)

The fair value of the warrants as at March 31, 2022 warrants was determined to be $54,060 using a Monte Carlo option pricing model which includes the following assumptions:

Expected life – years	1.33
Interest rate	0.91%
Volatility	100.00%
Barrier price	CAD$0.88
Exercise price	CAD$0.44
Share price	CAD$0.04

For the warrants, a fair value gain (loss) on derivatives of ($7,658) was recorded on the condensed consolidated interim statements of loss and comprehensive loss for the period ended March 31, 2022 (March 31, 2021: 121,587). A foreign exchange loss of $666 was also recorded on the condensed consolidated interim statements of loss and comprehensive loss for the period ended March 31, 2022 (March 31, 2021: $9,534) related to these warrants.

June 2020 Private Placement

On June 26, 2020, the Company completed a private placement of 16,102,018 units at a subscription price of CAD$0.51 per unit for gross proceeds of $6,004,701. Each unit consisted of one common share and one half of one share purchase warrant. Each warrant entitles the holder to purchase one common share at an exercise price of CAD$0.61 per share for 36 months after issuance. The Company may accelerate the expiry if the volume weighted average price of the Company's common shares exceeds CAD$1.22 per share for 20 consecutive trading days. As part of this private placement, the Company issued 8,051,005 common share purchase warrants (Note 14).

The Company determined the fair value of the warrants on June 26, 2020 to be $1,295,131 using a Monte Carlo option pricing model, which includes a knock-out based on the following assumptions:

Expected life – years	3.00
Interest rate	0.31%
Volatility	83.00%
Barrier price	CAD$1.22
Exercise price	CAD$0.61
Share price	CAD$0.55

The fair value of the warrants as at December 31, 2021 warrants was determined to be $24,348 (2020: $447,974) using a Monte Carlo option pricing model, which includes the following assumptions:

Expected life – years	1.48
Interest rate	0.91%
Volatility	100.00%
Barrier price	CAD$1.22
Rebate	CAD$0.61
Exercise price	CAD$0.61
Share price	CAD$0.04

(Expressed in United States Dollars)

The fair value of the warrants as at March 31, 2022 warrants was determined to be $22,072 using a Monte Carlo option pricing model, which includes the following assumptions:

Expected life – years	1.48
Interest rate	0.91%
Volatility	100.00%
Barrier price	CAD$1.22
Rebate	CAD$0.61
Exercise price	CAD$0.61
Share price	CAD$0.04

For the warrants, a fair value gain on derivatives of $2,630 was recorded on the condensed consolidated interim statements of loss and comprehensive loss for the period ended March 31, 2022 (March 31, 2021: $215,688). A foreign exchange loss of $355 was also recorded on the condensed consolidated interim statements of loss and comprehensive loss for the period ended March 31, 2022 (March 31, 2021: $5,993) related to these warrants.

<u>September 2020 Private Placement</u>
On September 18, 2020, the Company completed a private placement of 9,497,000 units at a subscription price of CAD$0.25 per unit for gross proceeds of $1,802,968. Each unit consisted of one common share and one share purchase warrant. Each warrant entitles the holder to purchase one common share at an exercise price of CAD$0.36 per share for 36 months after issuance. As part of this private placement, the Company issued 9,497,000 common share purchase warrants (Note 14). The Company determined the fair value of the warrants on September 18, 2020 to be $439,342.

The Company determined the fair value of these warrants as at March 31, 2022 to be $76,000 (December 31, 2021: $74,909) based on the trading price at that date of CAD$0.01. A fair value loss on derivatives of $nil was recorded on the condensed consolidated interim statements of loss and comprehensive loss for the period ended March 31, 2022 (March 31, 2021: $513,555). A foreign exchange gain loss of $1,091 was recorded on the condensed consolidated interim statements of loss and comprehensive loss for the period ended March 31, 2022 (March 31, 2021: $8,009 related to these warrants.

<u>September 2020 Public Offering</u>
On September 18, 2020, the Company completed a public offering of 23,000,000 units at a subscription price of CAD$0.25 per unit for gross proceeds of $4,355,165. Each unit consisted of one common share and one share purchase warrant. Each warrant entitles the holder to purchase one common share at an exercise price of CAD$0.36 per share for 36 months after issuance. As part of this public offering, the Company issued 23,000,000 common share purchase warrants (Note 14). The Company paid a cash commission to the agents of $261,310, agent expenses of $86,257 and legal, regulatory and other fees of $137,855. Additionally, the Company issued to the agents 1,380,000 broker warrants with the same terms as the warrants issued on the units. During the year ended December 31, 2021, 1,000 of these warrants were exercised for $284, which resulted in the removal of $68 in associated derivative and issuance of $352 worth of common shares. The Company determined the fair value of the warrants on September 18, 2020 to be $1,064,007.

(Expressed in United States Dollars)

The Company determined the fair value of these warrants as at March 31, 2022 to be $184,051 (December 31, 2021: $181,409), based on the trading price at that date of CAD$0.01. A fair value loss on derivatives of $nil was recorded on the condensed consolidated interim statements of loss and comprehensive loss for the period ended March 31, 2022 (March 31, 2021: $1,243,738). A foreign exchange loss of $2,642 was recorded on the condensed consolidated interim statements of loss and comprehensive loss for the period ended March 31, 2022 (March 31, 2021: $19,396) related to these warrants.

During the three-month periods ended September 30, 2021 and December 31, 2021, finance management discovered errors of commission made during the period ended March 31, 2021, which resulted in a change in the share capital balance as at March 31, 2021. The reason for the understatement was that a foreign exchange loss was recorded as a reduction in share capital as at March 31, 2021. See further details regarding such restatement at Note 26 – Reclassification and Restatements of Certain Prior Period Items.

14) STOCK OPTIONS AND WARRANTS

Stock Options

The Company has established a stock option plan (the "Plan"). Under the Plan, the maximum number of shares reserved for issuance may not exceed 10% of the total number of issued and outstanding common shares and the exercise term of any option granted under the Plan may not exceed ten years. Each option vesting period is determined on a grant-by-grant basis by the Board of Directors. Total share-based compensation for the three-month period ended March 31, 2022 was $268,883 (March 31, 2021: $3,735,265).

The following is a summary of outstanding options as at March 31, 2022 and December 31, 2021:

	Number of options	Weighted average exercise price (CAD)
Opening – January 1, 2021	11,957,500	1.59
Granted	405,000	0.25
Exercised	-	-
Forfeited	(3,782,500)	(1.50)
Balance – December 31, 2021	**8,580,000**	**1.66**
Granted	-	-
Exercised	-	-
Forfeited	(125,000)	(1.24)
Balance – March 31, 2022	**8,455,000**	**1.66**

During the three-month period ended March 31, 2022, the Company granted nil stock options.

During the year ended December 31, 2021, the Company granted 405,000 stock options with a total fair value of $74,015 to employees, directors and consultants. These stock options are exercisable at exercise prices of between CAD$0.18 and CAD$0.295 per share and may be exercised for ten years from the date of grant. 50,000 of these options are 100% vested immediately while the remainder are 25% will vest on the date that is twelve months from the date the options are granted, 25% will vest on the date that is twenty-four months from the date the options are granted, 25% will vest on the date that is thirty-six months from the date the options are granted and 25% will vest on the date that is forty-eight months from the date the options are granted. During the three-month period ended March 31, 2022, the Company expensed $8,160 related to these options (March 31, 2021: $10,457).

(Expressed in United States Dollars)

During the three-month period ended March 31, 2022, the Company expensed $40,355 relating to options granted prior to January 1, 2021 (March 31, 2021: $171,725).

During the three-month period ended March 31, 2022, the Company cancelled 125,000 stock options and reversed $21,193 in previously recognized expense for unvested options (March 31, 2021: $8,190).

The fair values of share-based compensations were measured based on the Black-Scholes option pricing model. The inputs used in the measurement of the fair values during the following years were:

	Three months ended March, 31	
	2022	2021
Expected life	-	10 years
Interest rate	-	1.55%
Volatility	-	99%
Dividend and forfeiture	-	0%
Exercise price	-	CAD$0.295
Share price	-	CAD$0.295

The following table is a summary of the Company's share options outstanding and exercisable as at March 31, 2022:

Outstanding						Exercisable			
	Exercise price (CAD)	Number of options		Weighted average exercise price (CAD)	Weighted average remaining contractual life (years)	Number of options		Weighted average exercise price (CAD)	Weighted average remaining contractual life (years)
$	0.20	2,950,000	$	0.20	0.93	2,950,000	$	0.20	0.93
$	0.85	250,000	$	0.85	1.17	250,000	$	0.85	1.17
$	2.60	3,050,000	$	2.60	1.53	3,050,000	$	2.60	1.53
$	2.62	530,000	$	2.62	1.99	555,000	$	2.62	1.99
$	2.88	25,000	$	2.88	2.27	56,250	$	2.88	2.27
$	2.85	1,275,000	$	2.85	2.29	956,250	$	2.85	2.29
$	2.55	-	$	2.55	2.35	18,750	$	2.55	2.35
$	2.14	50,000	$	2.14	2.43	37,500	$	2.14	2.43
$	1.80	-	$	1.80	2.49	18,750	$	1.80	2.49
$	0.96	25,000	$	0.96	2.64	18,750	$	0.96	2.64
$	0.95	25,000	$	0.95	2.77	18,750	$	0.95	2.77
$	0.53	25,000	$	0.53	2.94	18,750	$	0.53	2.94
$	0.49	-	$	0.49	3.25	-	$	0.49	3.25
$	0.295	50,000	$	0.295	9.01	50,000	$	0.295	9.01
$	0.260	75,000	$	0.260	9.19	-	$	0.260	9.19
$	0.235	25,000	$	0.235	9.23	-	$	0.235	9.23
$	0.190	25,000	$	0.190	9.29	-	$	0.190	9.29
$	0.200	25,000	$	0.200	9.31	-	$	0.200	9.31
$	0.195	25,000	$	0.195	9.33	-	$	0.195	9.33
$	0.180	25,000	$	0.180	9.35	-	$	0.180	9.35
		8,455,000	**$**	**1.66**	**1.70**	**7,998,750**	**$**	**1.66**	**1.49**

(Expressed in United States Dollars)

The following table is a summary of the Company's share options outstanding and exercisable as at December 31, 2021:

Outstanding						Exercisable			
	Exercise price (CAD)	Number of options		Weighted average exercise price (CAD)	Weighted average remaining contractual life (years)	Number of options		Weighted average exercise price (CAD)	Weighted average remaining contractual life (years)
$	0.20	2,950,000	$	0.20	1.18	2,950,000	$	0.20	1.18
$	0.85	275,000	$	0.85	1.42	275,000	$	0.85	1.42
$	2.60	3,050,000	$	2.60	1.77	3,050,000	$	2.60	1.77
$	2.62	530,000	$	2.62	2.24	480,000	$	2.62	2.24
$	2.88	25,000	$	2.88	2.52	56,250	$	2.88	2.52
$	2.85	1,275,000	$	2.85	2.54	956,250	$	2.85	2.54
$	2.55	25,000	$	2.55	2.60	18,750	$	2.55	2.60
$	2.14	50,000	$	2.14	2.68	37,500	$	2.14	2.68
$	1.80	25,000	$	1.80	2.73	18,750	$	1.80	2.73
$	0.96	25,000	$	0.96	2.89	18,750	$	0.96	2.89
$	0.95	25,000	$	0.95	3.02	12,500	$	0.95	3.02
$	0.53	25,000	$	0.53	3.19	12,500	$	0.53	3.19
$	0.49	50,000	$	0.49	3.50	25,000	$	0.49	3.50
$	0.295	50,000	$	0.295	9.25	50,000	$	0.295	9.25
$	0.260	75,000	$	0.260	9.44	-	$	0.260	9.44
$	0.235	25,000	$	0.235	9.48	-	$	0.235	9.48
$	0.190	25,000	$	0.190	9.53	-	$	0.190	9.53
$	0.200	25,000	$	0.200	9.56	-	$	0.200	9.56
$	0.195	25,000	$	0.195	9.58	-	$	0.195	9.58
$	0.180	25,000	$	0.180	9.59	-	$	0.180	9.59
		8,580,000	**$**	**1.66**	**1.96**	**7,961,250**	**$**	**1.65**	**1.73**

Restricted Share Units

During the three-month period ended March 31, 2022, the Company granted 5,215,554 Restricted Share Units ("RSUs") with fair value $229,437. These RSUs vested immediately and the Company expensed $229,437 in the three-month period ended March 31, 2022 (March 31, 2021: $nil). During the year ended December 31, 2021, the Company granted 38,883,337 RSUs with fair value of $5,304,762. The Company expensed $12,125 in the three-month period ended March 31, 2022 related to these RSUs (March 31, 2021: $3,561,273). 38,501,168 of these RSUs vested immediately, 232,173 vest 33.3% after each 12 month period and 150,000 vest 50% after 6 month and 50% after 12 months from grant date. All RSUs may be exercised for a period of ten years. During the three-month period ended March 31, 2022, nil RSU's were exercised (March 31, 2021: 2,173,850).

Warrants

The Company granted nil warrants in the three-month period ended March 31, 2022. The Company granted a total of 178,348,754 of warrants during the year ended December 31, 2021 as part of certain financings and advisory agreements, specifically to:

	Granted warrants
Convertible note purchasers (note 8)	46,380,768
RB I loan modification fees (note 11)	3,989,261
Finder's fees (note 7 and 8)	1,530,217

(Expressed in United States Dollars)

Convertible debenture restructure (note 7)	76,050,635
Private loan modification fees (note 12)	397,873
Private placement (note 13)	50,000,000
	178,348,754

Nil warrants were exercised in the three-month period ended March 31, 2022. Warrants exercisable into 1,000 shares at CAD$0.36 were exercised during year ended December 31, 2021.

Warrants exercisable into 13,370,964 shares were cancelled during the three-month period ended March 31, 2022 (year ended December 31, 2021: 2,279,514).

The following is a summary of outstanding warrants as at each period end:

	Number of warrants	Weighted average exercise price (CAD)
As at January 1, 2021	88,647,594	$ 1.04
Granted	178,348,754	0.50
Exercised	(1,000)	0.36
Expired	(2,279,514)	3.75
As at December 31, 2021	**264,715,834**	**$ 0.65**
Granted	-	-
Exercised	-	-
Expired	(13,370,964)	2.69
As at March 31, 2022	**251,344,870**	**$ 0.54**

The following table is a summary of the Company's warrants outstanding (all exercisable) and weighted average remaining contractual life (years) as at March 31, 2022 and 2021:

Grant date	Number of warrants	Weighed average exercise price (CAD)	Weighed average remaining contractual life (years)	Expiry date
November 15, 2019	13,886,100	1.55	0.63	November 15, 2022
November 15, 2019	972,027	1.50	0.63	November 15, 2022
May 1, 2020	14,799,509	0.44	1.08	May 1, 2023
June 26, 2020	8,051,005	0.61	1.24	June 26, 2023
August 21, 2020	811,475	0.61	1.39	August 21, 2023
September 18, 2020	34,476,000	0.36	1.47	September 18, 2023
January 25, 2021	29,097,913	0.39	1.82	January 25, 2024
March 11, 2021	16,823,077	0.39	1.95	March 11, 2024
March 17, 2021	5,679,256	0.39	1.96	March 17, 2024
April 19, 2021	76,050,635	0.70	2.05	April 19, 2024
April 19, 2021	300,000	0.39	2.05	April 19, 2024
May 7, 2021	397,873	0.32	2.10	May 7, 2024
September 27, 2021	50,000,000	0.31	2.50	September 27, 2024
Outstanding as at March 31, 2022	**251,344,870**	**$ 0.54**	**1.86**	

During the three-month periods ended September 30, 2021 and December 31, 2021, finance management discovered errors of omission made during the period ended March 31, 2021, which resulted in a change in contributed surplus as at March 31, 2021 and share based compensation for the three-month period ended March 31, 2021. This was due to not recording RSUs awarded during the three-month period ended March 31, 2021. The RSUs were subsequently recorded out of period. See further details regarding such restatement at Note 26 – Reclassification and Restatements of Certain Prior Period Items.

(Expressed in United States Dollars)

15) RELATED PARTY TRANSACTIONS

The Company considers a person or entity as a related party if they are a member of key management personnel including their close relatives, an associate or joint venture, those having significant influence over the Company, as well as entities that are controlled by related parties. A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties.

Key Management Personnel includes the Company's Directors, President and Chief Executive Officer, Executive Vice President, Chief Financial Officer and Corporate Secretary. During the three-month period ended March 31, 2022, the Company incurred: (i) $647,006 (March 31, 2021: $679,103) in wages, salaries and consulting fees to those considered key management personnel; (ii) $65,000 (March 31, 2021: $82,500) in Director fees, and (iii) $268,883 (March 31, 2021: $4,103,610) in share-based compensation to key management personnel. The amounts owing as at March 31, 2022 to key management personnel of $2,609,352 (March 31, 2021: $1,785,591) are included in trade accounts payable and accrued liabilities.

During the three-month period ended March 31, 2022, the Company incurred $133,052 (2021: $4,295) in legal expenses for arm's-length services received from the law firm at which the Company's Corporate Secretary works. As at March 31, 2022, the Company owed a balance of $126,828 (2021: $nil) for the services received.

Due to disclosure errors during the three-month period ended March 31, 2021, related party transactions for the three-month period ended March 31, 2021 were misstated as follows: (1) amounts owing to key management personnel was under-disclosed by $53,701, (2) wages, salaries and consulting fees incurred were over-disclosed by $240,652, (3) fees paid to the law firm at which the Company's Corporate Secretary works were over-disclosed by $21,381, (4) board of director fees were over-disclosed by $36,917, and (5) share-based compensation to key management personnel was under-disclosed by $3,879,066. See further details regarding such restatement at Note 26 – Reclassification and Restatements of Certain Prior Period Items.

16) GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses for the three-month period ended March 31, 2022 and 2021 were as follows:

	Three months ended March 31, 2022	Three months ended March 31, 2021 (As Restated)
Cannabis taxes and selling costs	$ 2,124,503	$ 3,000,165
Wages and salaries	1,288,826	1,347,283
Accounting and legal	725,759	811,040
Insurance	795,433	575,574
Consulting	362,850	(241,195)
Security	14,985	361,569
Office, admin, and utilities	183,335	130,363

(Expressed in United States Dollars)

Advertising and promotion	156,492	173,664
Travel and related	49,133	76,411
Bad debt expense	378,478	-
Other	360,482	12,926
General and Administrative	**$ 6,440,276**	**$ 6,247,780**

During the three-month periods ended September 30, 2021 and December 31, 2021, finance management discovered errors of commission made during the period ended March 31, 2021, which resulted in a change in general and administrative expenses for the three-month period ended March 31, 2021. The net overstatement is comprised of: understatements of cannabis taxes and selling costs and advertising and promotion expenses; offset by overstatements of wages and salaries expenses, accounting and legal expenses, insurance expense, consulting expenses, security expenses, office, admin and utilities expenses and other expenses. These misstatements were the result of the incorrect classification of expenses between the categories of general and administrative expense, as well as cut-off errors as at March 31, 2021. See further details regarding such restatement at Note 26 – Reclassification and Restatements of Certain Prior Period Items.

17) FINANCE AND OTHER COSTS

Components of finance and other costs for three-month period ended March 31, 2022 and 2021 were as follows:

	Three months ended March 31,	
	2022	2021
		(As Restated)
Accretion expense (Notes 9,10,11,12,13)	$ 1,665,539	$ 2,461,502
Interest expense (Notes 9,10,11,12,13)	3,270,453	5,191,890
Transaction costs (Notes 11 and 14)	-	536,608
Finance Expense	**$ 4,935,992**	**$ 8,190,000**

During the three-month period ended March 31, 2022, the Company paid $3,203,675 (2021: $3,774,929) of interest relating to the convertible debentures, convertible notes, lease obligations, equipment financing, term debt and short-term financing.

During the three-month periods ended September 30, 2021 and December 31, 2021, finance management discovered errors of commission made during the period ended March 31, 2021, which resulted in a change in finance expenses for the three-month period ended March 31, 2021. This was primarily due to transaction costs being overstated due to interest expense being incorrectly recorded as transaction costs during the three-month period ending March 31,2021. See further details regarding such restatement at Note 26 – Reclassification and Restatements of Certain Prior Period Items.

(Expressed in United States Dollars)

18) INCOME TAXES

The Company's net loss before income taxes for the three-month period ended March 31, 2022 and March 31, 2021 was 10,174,275 and 15,771,666, respectively. The Company's effective tax rate for the three-month period ended March 31, 2022 and March 31, 2021 was 0% and 0%, respectively, and thus differed from the statutory rate of 26.5% primarily due to the impact of non-deductible 280E expenses. Changes in pretax income projections and the mix of income across jurisdictions could impact the effective tax rate in future quarters.

19) EARNINGS PER SHARE

Basic and Diluted loss (per share)

	Three months ended March 31,	
	2022	2021
		(As Restated)
Net loss	$ (10,174,275)	$ (15,771,666)
Weighted average number of common share outstanding	460,679,630	296,617,011
Basic and diluted net loss per share	**$ (0.02)**	**$ (0.05)**

20) FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair Value Hierarchy

Financial instruments recorded at fair value are classified using a fair value hierarchy that reflects the significance of the inputs to fair value measurements. The three levels of hierarchy are:

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;

Level 2 – Inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly, and

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

When applicable, further information about the assumptions made in determining fair values is disclosed in the Notes specific to that asset or liability. As at March 31, 2022, the fair values of cash and cash equivalents, accounts receivable, trade accounts payable and accrued liabilities, construction payables and notes payable are not materially different from their carrying values given the short term to maturity. The term debt and equipment financing are classified at amortized cost and accounted for using the effective interest rate method. Their carrying values approximate fair value as the interest rate used to discount the host debt contract and financing liability approximate market rates. The fair value of derivatives is disclosed in Notes 7, 8, 11, 12 and 13 and is determined with level 3 inputs (Monte Carlo option pricing models).

The carrying values of financial instruments as at March 31, 2022 are summarized in the following table:

(Expressed in United States Dollars)

	Amortized Cost	FVTPL	Total
Financial Assets			
Cash and cash equivalents	$ -	$ 4,736,461	$ 4,736,461
Accounts receivable	4,213,436	-	4,213,436
Financial Liabilities			
Trade accounts payable and accrued liabilities	18,940,931	-	18,940,931
Construction payables	4,359,228	-	4,359,228
Short-term financing	6,000,000	-	6,000,000
Convertible debentures	10,619,843	-	10,619,843
Convertible note units	10,251,441	-	10,251,441
Derivative liabilities	-	4,054,591	4,054,591
Equipment financing	12,330,319	-	12,330,319
Term debt	$ 39,516,514	$ -	$ 39,516,514

The carrying values of financial instruments as at December 31, 2021 are summarized in the following table:

	Amortized Cost	FVTPL	Total
Financial Assets			
Cash and cash equivalents	$ -	$ 867,981	$ 867,981
Accounts receivable	4,541,315	-	4,541,315
Financial Liabilities	-	-	-
Trade accounts payable and accrued liabilities	20,145,861	-	20,145,861
Construction payables	4,359,228	-	4,359,228
Short-term financing	6,192,644	-	6,192,644
Convertible debentures	9,885,952	-	9,885,952
Convertible note units	9,460,534		9,460,534
Derivative liabilities	-	2,995,255	2,995,255
Equipment financing	13,635,027	-	13,635,027
Term debt	$ 29,563,534	$ -	$ 29,563,534

As the restructured March and November 2019 convertible debentures are freely traded on the CSE (symbols “FONE.DB.B” and “FONE.DB.C”), the fair value of the combined debt component and conversion feature is determinable. The fair value of the Conversion Feature was calculated using a set of partial differential equations solved numerically using finite difference methods and was $708,673 on March 31, 2022. Based on the fair value of outstanding debentures on March 31, 2022 of $4,006,494, the fair value of the debt component was calculated as the residual being $3,297,821.

As the convertible debenture warrants and public offering warrants are freely traded on the CSE (symbols “FONE.WT”, “FONE.WT.A” and “FONE.WT.B”), the fair value of these outstanding warrants as at March 31, 2022 is $517,404.

There have been no transfers between fair value categories during the three-month period ended March 31, 2022.

21) FINANCIAL INSTRUMENTS RISK

The Company is exposed in varying degrees to a variety of financial instrument related risks. The Board mitigates these risks by assessing, monitoring and approving the Company’s risk management processes.

Credit risk

Credit risk is the risk of financial loss to the Company if a customer or third party to a financial instrument fails to meet its contractual obligations. The Company is moderately exposed to credit risk from its cash holdings and accounts receivables. The risk exposure is limited to their carrying amounts at the statement of financial position date. The risk for cash and cash equivalents is mitigated by holding these instruments with highly rated Canadian and United States financial institutions. Accounts receivables primarily consist of trade accounts receivable. The Company provides credit to its customers in the normal course of business and has established credit evaluation and monitoring processes to mitigate credit risk. As at March 31, 2022, the expected credit loss on all the Company's accounts receivable was nominal. Most customers are on terms of 30 days or less. As at March 31, 2022, $2,686,873 of the accounts receivable balance was over 30 days. As of the date of these financial statements, approximately 71% of the outstanding accounts receivable balance as at March 31, 2022 was collected. As at March 31, 2022, maximum credit exposure to cash is $8,949,897 (December 31, 2021: $5,409,296).

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Prior to the Term Debt (Note 11) being modified on January 25, 2021, the term debt bore interest at LIBOR plus 8%, and the Company was exposed to interest rate fluctuations in LIBOR. However, subsequent to the modification of that obligation, the interest rate is fixed and, thus, the Company is no longer subject to interest rate risk.

Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign currency rates. As at March 31, 2022, the Company had cash and cash equivalents of $238 (CAD$298) and trade accounts payable and accrued liabilities of $1,176,022 (CAD$1,469,557) denominated in CAD as the Company incurs expenses in both United States and Canadian dollars. Additionally, the convertible debentures are denominated in CAD. The Company has not hedged its exposure to currency fluctuations at this time. The impact on the Company's condensed consolidated interim statements of loss and comprehensive loss resulting from a 10% increase or decrease in foreign exchange rates for the three-month period ended March 31, 2022 would be approximately $217,776.

Liquidity risk

The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet financial obligations as they come due. As at March 31, 2022, the Company's financial liabilities consist of trade accounts payable and accrued liabilities, construction payables, convertible debentures, convertible notes, equipment financing, lease liability and term debt. The Company manages liquidity risk by reviewing its capital requirements on an ongoing basis. Liquidity risk is mitigated through management of working capital, cash flows, the issuance of shares and debt.

	Total	< 1 year	1-3 years	4-5 years	> 5 years
Trade accounts payable and accrued liabilities	$ 18,940,931	$ 18,940,931	$ -	$ -	$ -
Construction payables	4,359,228	4,359,228	-	-	-
Short-term financing	6,189,041	6,189,041	-	-	-
Convertible debentures, notes and interest	40,035,554	2,968,062	37,067,492	-	-
Leases	75,378,409	3,291,430	6,890,694	7,319,240	57,877,045

(Expressed in United States Dollars)

Equipment financing	13,336,245	6,668,122	6,668,122	-	-
Term debt	35,085,159	4,278,016	30,807,142	-	-

Other price risk
Other price risk is the risk the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (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. The Company is not exposed to other price risk as at March 31, 2022.

22) SEGMENTED INFORMATION

The Company reports segment information based on internal reports used by the chief operating decision maker ("CODM") to make operating and resource decisions and to assess performance. The CODM is the Chief Executive Officer of the Company. The CODM makes decisions and assesses performance of the Company on a consolidated basis such that the Company is a single reportable operating segment. For the three-month period ended March 31, 2022 and 2021 all revenues generated by the Company were earned through their operations based in the United States. For the three-month period ended March 31, 2022 and 2021 all property, plant and equipment were held by the Company's US domiciled subsidiaries.

23) CAPITAL MANAGEMENT

The Company's objectives when managing capital are to ensure that there are adequate capital resources to safeguard the Company's ability to continue as a going concern and maintain adequate levels of funding to support its ongoing operations and development such that it can continue to provide returns to shareholders and benefits for other stakeholders.

Total managed capital is as follows:

		March 31, 2022		December 31, 2021
Borrowings[1]	$	78,718,117	$	68,737,691
Share capital		141,675,272		141,675,272
Total	**$**	**220,393,389**	**$**	**210,412,963**

[1]Borrowings consist of convertible debentures (note 7), convertible note units (note 8), equipment financing (note 10), term debt (note 11), and short-term financing (note 12).

The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the Company's underlying assets. The Company plans to use funds from the future sale of products and, to the extend feasible, additional debt, equity and/or sale lease back funding to fund operations and expansion activities.

24) SUPPLEMENTAL CASH FLOW INFORMATION

The changes in working capital are as follows:

(Expressed in United States Dollars)

		Three months ended March 31,		
		2022		2021
				(As Restated)
AR	$	(50,600)	$	(3,071,923)
Prepaids		1,640,655		(490,066)
Inventory		(2,473,133)		(7,635,918)
Biological assets		291,869		6,298,164
Trade accounts payable and accrued liabilities		(3,090,699)		(6,811,777)
Construction payables		-		(242,633)
Changes in non-cash working capital	**$**	**(3,681,907)**	**$**	**(11,954,153)**

Reconciliation of movements of liabilities to cash flows arising from financing activities:

	Convertible debentures	Convertible notes	Lease obligations	Term debt	Equipment financing	Short Term Financing	Total
December 31, 2020	**$ 30,898,191**	**$ -**	**$ 21,505,140**	**$ 28,999,594**	**$ 16,483,120**	**$ 12,418,584**	**$ 110,304,629**
Cash items:							
Proceeds on financing	-	18,656,043	-	-	-	-	18,656,043
Repayment of borrowings	-	-	(835,127)	-	(579,283)	-	(1,414,410)
Total cash flows	**-**	**18,656,043**	**(835,127)**	**-**	**(579,283)**	**-**	**17,241,633**
Non-cash items	1,871,676	(10,569,245)	652,380	1,006,838	1,437,138	(5,423,605)	(11,024,818)
March 31, 2021 (As Restated)	**$ 32,769,867**	**$ 8,086,798**	**$ 21,322,393**	**$ 30,006,432**	**$ 17,340,975**	**$ 6,994,979**	**$ 116,521,444**

	Convertible debentures	Convertible notes	Lease obligations	Term debt	Equipment financing	Short Term Financing	Total
December 31, 2021	**$ 9,885,952**	**$ 9,460,534**	**$ 20,718,048**	**$ 29,563,534**	**$ 13,635,027**	**$ 6,192,644**	**$ 89,455,739**
Cash items:							
Proceeds on financing	-	-	-	10,079,754	-	-	10,079,754
Restructure costs	-	-	-	-	-	-	-
Repayment of borrowings	-	-	(421,943)	-	(1,330,332)	(192,644)	(1,944,919)
Total cash flows	**-**	**-**	**(421,943)**	**10,079,754**	**(1,330,332)**	**(192,644)**	**8,134,835**
Non-cash items	733,891	790,907	508,129	(126,774)	25,624	-	1,931,777
March 31, 2022	**$ 10,619,843**	**$ 10,251,441**	**$ 20,804,234**	**$ 39,516,514**	**$ 12,330,319**	**$ 6,000,000**	**$ 99,522,351**

25) COMMITMENTS AND CONTINGENCIES

The Company does not have any material commitments or contingencies other than what is listed below.

The table in Note 21 Financial Instruments summarizes the amounts and maturity dates of the Company's contractual obligations as at March 31, 2022.

Possible Litigation

On April 5, 2021, Flower One received a demand letter seeking $4,062,973 in connection with a construction agreement with The Dennis Group Inc ("TDG"). Flower One objected to their claim; disputes the amount claimed by TDG and has responded to that letter seeking early mediation. That request for early mediation was initially rejected by TDG. As that time, Flower One engaged the outside law firm of

Snell & Wilmer to represent it in the dispute going forward. As of today's, date, outside counsel sent a mediation and arbitration demand to TDG. TDG filed a lawsuit in the Nevada State Court. Flower One filed a motion to enforce an early mediation clause agreed to between the disputing parties. TDG has now obtained new counsel and has filed a motion to seek leave to amend its claims against Flower One. The case is not yet at issue. The current maximum exposure of such claim is the $4,062,973 as set forth in the TDG demand letter, which amount is on the Company's Balance Sheet as of December 31, 2021 and December 31, 2020. In this regard, TDG also filed liens, recorded against certain of the Company's real estate that, in part, compromises the collateral secured by Flower One's senior secured lender. Such lien is a technical default under the terms of the loan. The senior secured lender is advised of the lien(s) and Flower One and the senior secured lender agreed to a temporary forbearance of the default to provide time to Flower One to exercise its rights in law and in equity to dispute the liens and the claims underlying the TDG dispute. Flower One is investigating the claims and believes it has adequate legal defenses to such claims and offsets.

26) RECLASSIFICATION AND RESTATEMENT OF CERTAIN PRIOR PERIOD ITEMS

Certain reclassifications have been made to the prior year financial statements to conform with the current year basis of presentation.

During the three-month period ended December 31, 2021, the Company had a change-over in finance management and staff. New finance management discovered accounting errors, both of omission and commission, throughout the first and second quarter of 2021. Adjustments were made to correct the errors and as a result it was determined that Flower One's previously issued unaudited, condensed consolidated interim financial statements for each of the first, second and third quarters of 2021 prepared in accordance with International Financial Reporting Standards as filed on SEDAR would be restated and should no longer be relied upon.

Adjustments for these errors have been made retrospectively to the comparative period as at and for the three-month period ended March 31, 2021. The condensed consolidated interim financial statements for the periods as at and ended between March 31, 2021 and September 30, 2021 were not adjusted and refiled at the time of discovery of the errors, rather the comparative period as at and for the three-month period ended March 31, 2021, has been corrected herein. The periods as at and ending June 31, 2021 and September 30, 2021, will be corrected within the filing of the condensed consolidated interim financial statement as at and for the three-month period ended June 30, 2022.

The Company has made both material and immaterial retrospective restatements to in order to properly reflect our financial position and results of operations as at and for the period ended March 31, 2021. The impact the restatements are summarized below:

Cash and Cash Equivalents

Due to accounting errors of omission made during the three-month period ended March 31, 2021, cash and cash equivalents were overstated by $995,226 as at March 31, 2021. The overstatement was the result of the failure to record $995,226 in cash payments made during the three-month period ended March 31, 2021. These payments were incorrectly recorded in the three-month period ended June 30, 2021.

Prepaids and Deposits

Due to accounting errors of commission made during the three-month period ended March 31, 2021, prepaids and deposits were understated by $622,639 as at March 31, 2021. The understatement was primarily attributed to incorrect amortization of prepaid insurance policies.

Inventory and Cost of Sales

Due to accounting errors of commission made during the three-month period ended March 31, 2021, inventory was understated by $637,335 as at March 31, 2021, and cost of sales was overstated by $2,692,375 for the three-month period ended March 31, 2021. These misstatements were the result of the incorrect valuation of the carrying value of both cannabis and oil-based cannabis inventory.

Biological Assets and Fair Value Adjustments

Due to accounting errors of commission during the three-month period ended March 31, 2021, biological assets were understated by $177,158 as at March 31, 2021. The realized fair value loss on sale and disposal of inventory was overstated by $7,231,763, the unrealized gain on fair value adjustment on growth of biological assets was overstated by $8,963,651, and the write-down and provision for inventory was understated by $145,995 for the three-month period ended March 31, 2021. These misstatements were the result of the incorrect valuation of biological assets and the related fair value adjustments.

Property Plant and Equipment and Depreciation Expense

Due to accounting errors of commission during the three-month period ended March 31, 2021, property, plant and equipment was overstated by $246,157 as at March 31, 2021. This was the result of the under-depreciation of ROU assets as at March 31, 2021. Depreciation expense was overstated by $43,248 for the three-month period ended March 31,2021.

Trade Accounts Payable, Accrued Liabilities and Construction Payables

Due to accounting errors of commission during the three-month period ended March 31, 2021, trade accounts payable and accrued liabilities was understated by $1,559,934 and construction payables were overstated by $242,633 as at March 31, 2021. The primary reason for the understatement is that equipment financing payments of $989,187 were incorrectly recorded as a reduction to accounts payable and accrued liabilities as at March 31, 2021.

Convertible Debentures

Due to accounting errors of commission during the three-month period ended March 31, 2021, convertible debentures were overstated by $5,474,295 as at March 31, 2021. This was the result of the incorrect inclusion of the issuance of the convertible note units in the convertible debenture balance as at March 31, 2021.

Convertible Note Units

Due to accounting errors of commission during the three-month period ended March 31, 2021, convertible note units were understated by $8,086,798 as at March 31, 2021. This was primarily the result of $5,474,295 of the convertible note units balance being incorrectly included in the convertible debenture balance as at March 31, 2021. Additionally, the fair value of conversion options and associated warrants at issuance of the note units was over-valued by $2,612,503 as at March 31, 2021, due to the use of the barrier option pricing model versus the Monte Carlo option pricing model method of valuation.

Derivative Liability and Fair Value Loss on Derivatives

Due to accounting errors of commission during the three-month period ended March 31, 2021, the derivative liability was overstated by $3,725,091 as at March 31, 2021, and the fair value loss on derivatives was overstated by $1,060,228 for the three-month period ended March 31, 2021. This was primarily the result of the fair value of conversion options and associated warrants of the convertible note units and private placement warrants being over-valued as at March 31, 2021, due to the use of the barrier option pricing model versus the Monte Carlo option pricing model method of valuation.

Lease Obligations

Due to accounting errors of commission during the three-month period ended March 31, 2021, the lease obligation balance was overstated by $289,406 as at March 31, 2021. This was primarily the result of the under-depreciation of ROU assets as at March 31, 2021.

Equipment Financing

Due to accounting errors of commission during the three-month period ended March 31, 2021, the equipment financing balance was understated by $989,187 as at March 31, 2021. The understatement is the result of equipment financing payments of $989,187 being incorrectly recorded as a reduction to accounts payable and accrued liabilities as at March 31, 2021.

Term Debt

Due to accounting errors of commission during the three-month period ended March 31, 2021, the term debt balance was overstated by $5,801,654 as at March 31, 2021. The primary reason for the overstatement was that $6,000,000 in short-term financing was misclassified as term debt as at March 31, 2021.

Short-term Financing

Due to accounting errors of commission during the three-month period ended March 31, 2021, the short-term financing liability balance was understated by $6,000,000 as at March 31, 2021. The reason for the understatement was that $6,000,000 in short-term financing was misclassified as term debt as at March 31, 2021.

Share Capital

Due to accounting errors of commission during the three-month period ended March 31, 2021, share capital was understated by $168,866 as at March 31, 2021. The understatement is the result of $168,866 in foreign exchange losses incorrectly recorded as a reduction in share capital during the three-month period ended March 31, 2021.

Contributed Surplus and Share Based Compensation

Due to accounting errors of omission during the three-month period ended March 31, 2021, the contributed surplus was understated by $3,088,237 as at March 31, 2021, and share based compensation was understated by the same amount for the three-month period ended March 31, 2021. This was due to not recording RSUs awarded during the three-month period ended March 31, 2021. The RSUs were subsequently recorded out of period.

General and administrative expenses

Due to accounting errors of commission during the three-month period ended March 31, 2021, general and administrative expenses were overstated by $1,236,402 for the three-month period ended March 31, 2021. The net overstatement is comprised of: understatements of cannabis taxes and selling costs ($895,923) and advertising and promotion expenses ($40,755); offset by overstatements of wages and salaries expenses ($809,234), accounting and legal expenses ($397,181), insurance expense ($27,237), consulting expenses ($489,464), security expenses ($255,716), office, admin and utilities expenses ($63,486), and other expenses ($130,678). These misstatements were the result of the incorrect classification of expenses between the categories of general and administrative expense, as well as cut-off errors as at March 31, 2021.

Finance Expenses

Due to accounting errors of commission during the three-month period ended March 31, 2021, finance expenses were overstated by $1,060,228 for the three-month period ended March 31, 2021. This was primarily due to transaction costs being overstated by $2,512,546 due to interest expense of $1,317,323 being incorrectly recorded as transaction costs during the three-month period ending March 31, 2021.

Loss on Debt Extinguishment
Due to accounting errors of omission during the three-month period ended March 31, 2021, loss on debt extinguishment was understated by $6,106,088 for the three-month period ended March 31, 2021. This was due to the failure to record the loss during three-month period ended March 31, 2021. The loss was incorrectly recorded in the three-month period ended June 30, 2021.

Foreign Exchange Loss
Due to accounting errors of commission during the three-month period ended March 31, 2021, foreign exchange loss was understated by $322,882 for the three-month period ended March 31, 2021. The

understatement is primarily due to $168,866 in foreign exchange losses incorrectly recorded as a reduction in share capital during the three-month period ended March 31, 2021.

Related Party Transactions

Due to disclosure errors during the three-month period ended March 31, 2021, related party transactions for the three-month period ended March 31, 2021 were misstated as follows: (1) amounts owing to key management personnel was under-disclosed by $53,701, (2) wages, salaries and consulting fees incurred were over-disclosed by $240,652, (3) fees paid to the law firm at which the Company's Corporate Secretary works were over-disclosed by $21,381, (4) board of director fees were over-disclosed by $36,917, and (5) share-based compensation to key management personnel was under-disclosed by $3,879,066.

The effects of the restatements on the condensed consolidated interim financial statements as at and for the three-month period ended March 31, 2021, are summarized below:

(Expressed in United States Dollars)

Consolidated Statement of Financial Position – 2021 Restatement

	Three months ended March 31,		
	2021	**Adjustments**	**2021** *(As Restated)*
Assets			
Current assets			
Cash and cash equivalents	$ 5,897,744	$ (995,226)	$ 4,902,518
Accounts receivable	6,129,467	-	6,129,467
Prepaids and Deposits	1,107,620	22,922	1,130,542
Inventory (note 4)	17,055,167	637,335	17,692,502
Biological assets (note 5)	3,842,112	177,158	4,019,270
Total current assets	34,032,110	(157,811)	33,874,299
Non-current assets			
Prepaids and deposits	483,333	599,717	1,083,050
Property, plant and equipment (note 6)	106,720,032	(246,157)	106,473,875
Total assets	**$ 141,235,475**	**$ 195,749**	**$ 141,431,224**
Liabilities			
Current liabilities			
Trade accounts payable and accrued liabilities	$ 14,926,123	$ 1,559,933	$ 16,486,056
Construction payables	4,601,861	(242,633)	4,359,228
Equipment financing (note 10)	4,705,479	305,177	5,010,656
Term debt (note 11)	35,808,086	(5,801,654)	30,006,432
Short-term financing (note 12)	994,979	6,000,000	6,994,979
Total current liabilities	61,036,528	1,820,823	62,857,351
Non-current liabilities			
Convertible debentures (note 7)	38,244,162	(5,474,295)	32,769,867
Convertible note units (note 8)	-	8,086,798	8,086,798
Derivative liabilities (notes 7, 8, 11, 12, and 13)	21,385,303	(3,725,091)	17,660,212
Lease liabilities (note 9)	21,611,799	(289,406)	21,322,393
Equipment financing (note 10)	11,341,132	989,187	12,330,319
Total liabilities	**153,618,924**	**1,408,016**	**155,026,940**
Shareholders' equity			
Share capital (note 13)	119,975,256	168,866	120,144,122
Contributed surplus (note 14)	8,543,223	3,088,237	11,631,460
Accumulated deficit	(140,901,928)	(4,469,370)	(145,371,298)
Total shareholders' equity	**(12,383,449)**	**(1,212,267)**	**(13,595,716)**
Total liabilities and shareholders' equity	**$ 141,235,475**	**$ 195,749**	**$ 141,431,224**

(Expressed in United States Dollars)

Consolidated Statement of Loss and Other Comprehensive Loss – 2021 Restatement

	Three months ended March 31,		
	2021	Adjustments	2021 *(As Restated)*
Revenue	$ 13,877,853	$ -	$ 13,877,853
Cost of sales	7,661,694	(2,692,375)	4,969,319
Gross profit before fair value adjustments	**6,216,159**	**2,692,375**	**8,908,534**
Realized fair value adjustment on sale and disposal of inventory (note 4)	9,774,265	(7,231,763)	2,542,502
Unrealized gain on fair value adjustment on growth of biological assets (note 5)	(15,772,896)	8,963,651	(6,809,245)
Write-down and provision for inventory and biological assets (note 4 and 5)	862,703	145,995	1,008,698
Gross profit	11,352,087	814,492	12,166,579
Operating expenses			
General and administrative (note 16)	7,484,182	(1,236,402)	6,247,780
Share-based compensation (note 14)	647,028	3,088,237	3,735,265
Depreciation and amortization (note 6)	180,182	(43,248)	136,934
Total operating expenses	8,311,392	1,808,587	10,119,979
Gain (loss) from operations	3,040,695	(994,095)	2,046,600
Other income (expense)			
Finance expenses (note 17)	(9,539,368)	1,349,368	(8,190,000)
Fair value loss on derivatives (notes 7, 8, 11, 12, and 13)	(4,020,091)	1,060,228	(2,959,863)
Loss on note payable modification	(544,098)	544,098	-
Loss on debt extinguishment (note 7, 10, 11, 12, and 13)	-	(6,106,088)	(6,106,088)
Foreign exchange loss	(239,433)	(322,882)	(562,315)
Total other income (expense)	(14,342,990)	(3,475,276)	(17,818,266)
Net loss before income taxes	(11,302,295)	(4,469,371)	(15,771,666)
Income tax recovery (expense) (note 18)	-	-	-
Net loss and comprehensive loss for the year	**$ (11,302,295)**	**$ (4,469,371)**	**$ (15,771,666)**
Basic loss per share (note 19)	$ (0.04)	$ (0.01)	$ (0.05)
Diluted loss per share (note 19)	$ (0.04)	$ (0.01)	$ (0.05)

(Expressed in United States Dollars)

Consolidated Statement of Cash Flows – 2021 Restatement

	Three months ended March 31,		
	2021	**Adjustments**	**2021** *(As Restated)*
Operating activities:			
Loss for the year	$ (11,302,296)	$ (4,469,370)	$ (15,771,666)
Items not affecting cash			
Unrealized foreign exchange loss	(382,267)	947,718	565,451
Realized fair value adjustment on sale of inventory (note 4)	9,774,265	(7,231,763)	2,542,502
Unrealized gain on fair value adjustment on growth of biological asset (note 5)	(15,772,896)	8,963,651	(6,809,245)
Write-down and provision for inventory and biological assets (note 4)	862,703	145,995	1,008,698
Loss on debt modification or extinguishment (notes 10, 11, and 12)	-	6,106,088	6,106,088
Unrealized fair value gain on derivatives (notes 7, 8, 11, 12, and 13)	9,900,405	(6,940,597)	2,959,808
Accretion expense and lease finance expense	4,176,119	(729,044)	3,447,075
Share-based compensation (note 15)	647,028	3,088,237	3,735,265
Depreciation and amortization of property, plant and equipment and right of use asset (note 6)	-	136,934	136,934
Depreciation of property, plant and equipment in cost of sales (note 6)	1,089,877	(406,667)	683,210
Changes in non-cash operating working capital (note 24)	(11,642,391)	(311,762)	(11,954,153)
Net cash used in operating activities	(12,649,453)	(700,580)	(13,350,033)
Financing activities:			
Proceeds on convertible debt financing, net of transaction costs (note 8)	18,837,511	(181,468)	18,656,043
Lease payments (note 9)	(924,377)	89,250	(835,127)
Repayment of equipment financing principal (note 10)	(462,025)	(117,258)	(579,283)
Proceeds on warrant exercise (note 14)	-	284	284
Net cash provided by financing activities	17,451,109	(209,192)	17,241,917
Investing activities:			
Purchase of property, plant and equipment (note 6)	40,227	(85,454)	(45,227)
Net cash used in investing activities	40,227	(85,454)	(45,227)
Increase in cash	4,841,883	(995,226)	3,846,657
Cash and cash equivalents, beginning of the year	1,055,861	-	1,055,861
Cash and cash equivalents, end of the year	**$ 5,897,744**	**$ (995,226)**	**$ 4,902,518**

27) SUBSEQUENT EVENTS

On June 6, 2022, the Company announced the receipt of a $5,000,000 loan (the "Loan") from RB Loan Portfolio II, LLC, (the "Term Lender"). The Company and certain of its subsidiaries are parties to an existing loan agreement with the Term Lender with respect to the Company's existing term debt (the "Term Debt"), secured by the facility at 3950 N. Bruce St., North Las Vegas, Nevada. The Company's receipt of the Loan was facilitated by the assignment to an insider of the Company, of a portion of the interest owing in the Term Debt from the Term Lender in the amount of $5,000,000. The Loan has made an additional $5,000,000 available to the Company with respect to the Term Debt. The maturity date of the Term Debt is June 30, 2023.

On June 30, 2022, the Company announced advancements with its ongoing restructuring, including the restructuring of its term debt (the "Term Debt" or "Term Debt Modification Agreement") and to its master lease (the "Master Lease" or "Master Lease Modification Agreement"). The Company and certain of its subsidiaries have entered into a Term Debt Modification Agreement with RB Loan Portfolio II, LLC, (the "Term Lender") with respect to the Company's existing $45.65M Term Debt, secured by the facility at 3950 N. Bruce St., North Las Vegas, Nevada (the "Bruce Facility"). Through the Term Debt Modification Agreement, the Company would: (i) defer interest payments through October 31, 2022, in order to provide additional liquidity to the business, (ii) reduce the cash interest payments by 30%, (iii) extend the maturity date of the Term Debt to January 31, 2026, and (iv) pay $9M to the Term Lender on September 30, 2023 (the "First Loan Paydown"), whereas the Company has the option to pay this First Loan Paydown on January 31, 2024 with a 2.5% penalty. The Company through its subsidiaries has also entered into a Master Lease Modification Agreement in connection with the agreement dated February 1, 2019 with RB Loan Portfolio I, LP, a Delaware limited partnership (the "Lessor"), regarding the equipment lease financing of certain equipment at the Bruce Facility, pursuant to which the Lessor has agreed to forbear existing events of default and make certain modifications to the Master Lease, including (i) the deferral of certain payments through October 31, 2022, in order to provide additional liquidity to the business, (ii) revising the amortization schedule to enable a reduction in monthly payments for the duration of the Master Lease and (iii) extend the maturity date of the Master Lease to March 3, 2025.