Consolidated Financial Statements

For the three and nine month periods ended September 30, 2021 and 2020

(in thousands of Canadian dollars)

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As at September 30, 2021 and December 31, 2020

(unaudited, in thousands of Canadian dollars)

	Notes	September 30, 2021	December 31, 2020
ASSETS			
Current Assets			
Cash and cash equivalents		7,945	20,774
Amounts receivable	*4, 13*	4,019	2,516
Prepaids and other receivables		1,267	2,328
Inventory	*5*	6,166	5,153
Biological assets	*6*	1,063	846
Assets held for sale	*8*	4,699	1,000
		25,159	32,617
Non-Current Assets			
Investments at fair value	*7*	29	29
Property, plant and equipment	*8, 24*	83,339	97,129
Intangible assets	*9, 3*	24,119	26,364
Goodwill	*9, 3*	24,552	24,552
Other long-term assets		728	308
		132,767	148,382
TOTAL ASSETS		157,926	180,999
LIABILITIES			
Current Liabilities			
Accounts payable and accrued liabilities	*10, 13*	6,817	11,919
Due to related parties	*13*	—	97
Short-term lease obligations	*24*	889	994
Current portion of long-term debt	*11*	6,190	6,813
		13,896	19,823
Non-Current Liabilities			
Long-term debt	*11*	21,594	31,654
Convertible debentures	*12*	4,412	3,834
Lease obligations	*24*	5,416	6,678
Other long-term liabilities		—	147
Deferred tax liabilities		2,423	3,109
		33,845	45,422
TOTAL LIABILITIES		47,741	65,245
SHAREHOLDERS' EQUITY			
Share capital	*20*	282,144	264,584
Other reserves	*21*	6,651	529
Deficit		(203,821)	(178,618)
Accumulated other comprehensive loss		3,820	4,912
Equity attributable to common shareholders of the Company		88,794	91,407
Non-controlling interests	*26*	21,391	24,347
TOTAL EQUITY		110,185	115,754
TOTAL LIABILITIES AND EQUITY		157,926	180,999

Commitments and contingencies (*note 25*)
Subsequent events (*note 30*)

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

Approved by the Board of Directors

Don Duet (signed) Director   *Maurice Levesque (signed)* Director

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS

For the three and nine months ended September 30, 2021 and 2020
(unaudited, in thousands of Canadian dollars)

		Three months ended September 30,		Nine months ended September 30,	
		2021	2020	2021	2020
	Notes				
Revenue	*15*	2,541	2,823	8,547	5,913
Cost of sales	*28*	7,276	3,935	16,802	8,564
Impairment of inventory	*5*	1	1,548	879	2,675
Gross loss before fair value adjustments		(4,736)	(2,660)	(9,134)	(5,326)
Fair value adjustments on inventory sold		(1,808)	(196)	(5,329)	(907)
Unrealized loss on changes in fair value of biological assets	*5*	285	2,733	2,809	6,578
Gross loss		(3,213)	(5,197)	(6,614)	(10,997)
Selling and marketing	28	902	672	3,483	2,098
General and administrative	*28*	2,730	2,891	8,944	11,902
Research and development		481	157	1,330	556
Share-based compensation	*17*	418	1,022	(714)	2,624
Restructuring costs	*16*	—	—	—	726
Management fee income	*11*	(341)	(113)	(1,027)	(224)
Depreciation and amortization		777	376	2,431	1,034
Finance costs	*18*	887	1,384	2,474	2,885
Loss from disposal of subsidiary		91	—	1,150	—
Other expense (income)	*13, 19*	216	(1,160)	1,222	(2,485)
Loss before income taxes		(9,374)	(10,426)	(25,907)	(30,113)
Deferred income tax recovery		(185)	(252)	(532)	(2,008)
Net loss		(9,189)	(10,174)	(25,375)	(28,105)
Currency translation adjustments		133	2,128	(1,092)	6,694
Total comprehensive loss		(9,056)	(8,046)	(26,467)	(21,411)
Net loss attributable to:					
Common and preferred shareholders of the Company		(8,774)	(9,717)	(24,255)	(25,167)
Non-controlling interests		(415)	(457)	(1,120)	(2,938)
Net loss		(9,189)	(10,174)	(25,375)	(28,105)
Total comprehensive loss attributable to:					
Common and preferred shareholders of the Company		(8,641)	(7,589)	(25,347)	(18,473)
Non-controlling interests		(415)	(457)	(1,120)	(2,938)
Total comprehensive loss		(9,056)	(8,046)	(26,467)	(21,411)
Basic and diluted loss per share attributable to common shareholders of the Company	*22*	(0.02)	(0.07)	(0.07)	(0.20)
Basic and diluted loss per share attributable to common and preferred shareholders of the Company	*22*	(0.02)	(0.07)	(0.07)	(0.20)

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

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

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

(unaudited, in thousands of Canadian dollars)

	Notes	Three months ended September 30, 2021	Three months ended September 30, 2020	Nine months ended September 30, 2021	Nine months ended September 30, 2020
OPERATING ACTIVITIES					
Loss before income taxes		(9,374)	(10,426)	(25,907)	(30,113)
Items not affecting cash and other adjustments	*23(a)*	2,471	8,305	8,758	18,314
Changes in non-cash working capital	*23(b)*	1,276	(3,364)	(5,068)	(8,183)
Cash used in operating activities		(5,627)	(5,485)	(22,217)	(19,982)
INVESTING ACTIVITIES					
Proceeds on sale of subsidiaries		—	—	461	—
Proceeds on sale of plant, property and equipment		539	—	539	—
Expenditures on property, plant and equipment		(142)	(4,247)	(460)	(14,272)
Expenditures on intangible assets		—	—	(2)	(11)
Cash provided by (used in) investing activities		397	(4,247)	538	(14,283)
FINANCING ACTIVITIES					
Proceeds from shares issued	*20*	7,565	1,553	23,501	2,365
Share issuance costs	*20*	(716)	(3)	(2,394)	(506)
Proceeds from exercise of stock options	*17*	—	—	31	—
Proceeds from convertible debt	*13*	—	—	—	21,579
Net loan proceeds	*11*	—	748	—	734
Loan repayments	*11*	(8,345)	—	(10,282)	—
Finance lease obligations	*24*	(272)	(346)	(897)	(1,004)
Decrease in restricted cash		—	1,139	—	4,889
Finance lease income		—	30	—	100
Interest paid		(328)	(327)	(1,109)	(906)
Cash (used in) provided by financing activities		(2,096)	2,794	8,850	27,251
Decrease in cash and cash equivalents		(7,326)	(6,938)	(12,829)	(7,014)
Cash and cash equivalents, beginning of period		15,271	10,395	20,774	10,471
Cash and cash equivalents, end of period		7,945	3,457	7,945	3,457

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

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
For the three and nine months ended September 30, 2021 and 2020
(unaudited, in thousands of Canadian dollars, expect for number of shares)

	Notes	Share Capital		Share Capital		Other reserves							
		Number of Common shares	Common share Capital	Number of Preferred shares	Preferred share Capital	Warrants (note 21)	Contributed Surplus (note 17)	Equity portion of convertible debenture	Flowr ULC share issuances	Accumulated other Comprehensive loss	Non-controlling Interest	Deficit	Total
Balance at January 1, 2020		107,077,830	130,666	26,106,036	48,770	6,468	18,431	-	(37,244)	(1,266)	30,741	(47,646)	148,920
Share-based compensation	*17*	-	-	-	-	-	2,982	-	-	-	-	-	2,982
Shares issued from exercise of options		918,750	297	-	-	-	(257)	-	-	-	-	-	40
RSU redeemed	*18(b)*	406,168	1,490	-	-	-	(1,490)	-	-	-	-	-	-
Expiry of Warrants		-	-	-	-	(258)	258	-	-	-	-	-	-
ULC class A preferred share conversion		800,000	136	-	-	-	-	-	-	-	(135)	-	1
Other changes in non-controlling interest	*26*	-	-	-	-	-	-	-	(135)	-	1,849	(1,714)	-
Issuance of convertible debentures net of issuance cost of $122		-	-	-	-	1,674	-	2,089	-	-	-	-	3,763
Cumulative translation adjustments		-	-	-	-	-	-	-	-	6,694	-	-	6,694
Terrace funding		4,458,846	1,670	-	-	649	-	-	-	-	-	-	2,319
Holigen - Series I voting convertible redeemable preferred shares conversion	*20*	26,106,036	48,770	(26,106,036)	(48,770)	-	-	-	-	-	-	-	-
Net loss for the period ended September 30, 2020		-	-	-	-	-	-	-	-	-	(2,938)	(25,167)	(28,105)
Balance at September 30, 2020		139,767,630	183,029	—	—	8,533	19,924	2,089	(37,379)	5,428	29,517	(74,527)	136,614
Balance at January 1, 2021		329,343,621	264,584	—	—	7,890	19,892	480	(27,733)	4,912	24,347	(178,618)	115,754
Share-based compensation	*17*	—	—	—	—	—	(852)	—	—	—	—	—	(852)
Shares issued from exercise of options	*17(a)*	618,750	204	—	—	—	(173)	—	—	—	—	—	31
RSU redeemed	*17(b)*	1,167,303	1,922	—	—	—	(1,922)	—	—	—	—	—	—
ULC class A preferred share conversion		402,000	68	—	—	—	—	—	—	—	(68)	—	—
Expiry of warrants		—	—	—	—	(6,215)	6,215	—	—	—	—	—	—
Other changes in non-controlling interest	*26*	—	—	—	—	—	—	—	2,785	—	(1,768)	(948)	69
Cumulative translation adjustments		—	—	—	—	—	—	—	—	(1,092)	—	—	(1,092)
Shares issued to settle liabilities		1,780,759	543	—	—	—	—	—	—	—	—	—	543
Shares issued in financing	*20*	67,385,000	14,823			6,284	—	—	—	—	—	—	21,107
Net loss for the period ended September 30, 2021		—	—	—	—	—	—	—	—	—	(1,120)	(24,255)	(25,375)
Balance at September 30, 2021		400,697,433	282,144	—	—	7,959	23,160	480	(24,948)	3,820	21,391	(203,821)	110,185

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

1. CORPORATE INFORMATION

The Flowr Corporation ("Flowr" or the "Company"), is a publicly traded, cannabis company that was incorporated under the *Business Corporations Act* (Alberta) ("ABCA") on June 1, 2016. The Head Office of the Company is located at 9590 McCarthy Road, Kelowna, British Columbia, V4V 1R2. The principal activity of the Company is the production and sale of premium cannabis in Canada, and medical cannabis products in other legal global markets, primarily Portugal and the European Union. In December 2017, through its subsidiary, The Flowr Group (Okanagan) Inc. ("Flowr Okanagan"), the Company received its license from Health Canada to operate as a licensed producer, under the provisions of the *Access to Cannabis for Medical Purposes Regulations*. On August 10, 2018, Flowr Okanagan received its sales license from Health Canada, allowing the Company to sell to the Canadian medical market and to the adult-use recreational market post legalization on October 17, 2018. Internationally, through its wholly owned subsidiary RPK Biopharma Unipessoal Lda ("RPK"), the Company is licensed to cultivate medicinal cannabis in Portugal, where it operates a GMP licensed cultivation facility. The Company's common shares are listed on the TSX Venture Exchange (the "Exchange"), under the trading symbol "FLWR".

2.1 BASIS OF PRESENTATION

(a) Statement of compliance

The Company's condensed interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board and Interpretations of the International Financial Reporting Interpretations Committee ("IFRIC") which the Canadian Accounting Standards Board has approved for incorporation into Part I of the Chartered Professional Accountants of Canada Handbook – Accounting applicable to the preparation of interim financial statements, including International Accounting Standard ("IAS") 34, Interim Financial Reporting.

These condensed interim consolidated financial statements do not include all of the information required for full financial statements and should be read in conjunction with the Company's annual consolidated financial statements for the year ended December 31, 2020, which have been prepared in accordance with IFRS. The accounting policies applied in these condensed interim consolidated financial statements are consistent with those applied in the preparation of the Company's annual consolidated financial statements for the year ended December 31, 2020. These condensed interim consolidated financial statements were approved by the Board of Directors on November 26, 2021.

(b) Basis of measurement

These condensed interim consolidated financial statements have been prepared on a going concern basis, under historical cost convention except for certain financial instruments (*note 7*), warrants (*note 21)* and stock options (*note 17)* and the initial measurement of assets and liabilities acquired through business combinations *(notes 3)* that are measured at fair value and biological assets that are measured at fair value less cost to sell *(note 6)*.

(c) Basis of consolidation

As at September 30, 2021, Flowr's condensed interim consolidated financial statements include Flowr and its primary subsidiary companies (collectively, the "Company").

(in thousands of Canadian dollars, unless otherwise indicated)

		Holdings as at (%)		
Name of Subsidiaries	Country	September 30, 2021	December 31, 2020	Parent Entity
The Flowr Canada Holdings ULC (“Flowr ULC”)	Canada	90.5	88.7	The Flowr Corporation
Holigen Holdings Limited ("Holigen")	Malta	100.0	100.0	The Flowr Corporation
The Flowr Group (Okanagan) Inc. (“Flowr Okanagan”)	Canada	100.0	100.0	Flowr ULC
Holigen Limited ("HL")	Malta	100.0	100.0	Holigen
RPK Biopharma Unipessoal Lda (“RPK”)	Portugal	100.0	100.0	HL
TCann Pty Ltd ("TCann")	Australia	—	100.0	GreyCan
GreyCan Pty Ltd ("GreyCan")[(1)]	Australia	100.0	100.0	HL
Terrace Global Inc. ("Terrace")	Canada	100.0	100.0	The Flowr Corporation
Oransur, S.A ("Oransur")	Uruguay	—	100.0	Terrace
Terra Nova Business Holdings Inc. ("TNBH")	BVI	—	100.0	Terrace
Pharma Binoide S.L. Unipersonal ("Pharma Binoide")	Spain	100.0	100.0	Terrace
Productos Natrurais e Farmaceuticos, LDA ("Terra Nova")	Portugal	—	100.0	TNBH

(1) In the process of being wound up

Subsidiaries are fully consolidated from the date on which control is acquired by the Company and they are deconsolidated from the date that control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the parent company using consistent accounting policies. The financial statements of the subsidiaries and parent are consolidated on a line-by-line basis and all inter-company balances, revenues and expenses and earnings and losses resulting from inter-company transactions are eliminated on consolidation.

(d) Critical accounting estimates and judgments

The preparation of the Company’s condensed interim consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities and contingent liabilities on the date of the condensed interim consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Estimates and assumptions are evaluated and are based on management’s experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. However, actual outcomes can differ from these estimates.

Accounting estimates and judgments applied in these condensed interim consolidated financial statements are consistent with those applied in the preparation of the Company’s annual consolidated financial statements for the year ended December 31, 2020.

(e) Presentation and functional currency

These condensed interim consolidated financial statements are presented in Canadian dollars, which is also the functional currency of the Company and its Canadian subsidiaries. International operations are comprised of subsidiaries that have a functional currency other than the Canadian dollar. The assets and liabilities of international operations, including fair value adjustments arising on acquisition, are translated into Canadian dollars at exchange rates on the reporting date. The income and expenses of international operations are translated into Canadian dollars at the average exchange rates of the reporting period incurred. Foreign currency differences are recognized as currency translation adjustments in other comprehensive income or loss. As at September 30, 2021, the Company’s foreign subsidiaries with (i) Euro functional currency include Holigen, HL, RPK, Pharma Binoide and THNBH and (ii) Australian dollar functional currency include GreyCan.

2.2 RECENT ACCOUNTING PRONOUNCEMENTS

As at the date of authorization of these condensed interim consolidated financial statements, the IASB and the IFRS Interpretations Committee had issued certain pronouncements that are mandatory for the Company's accounting periods commencing on or after January 1, 2021. Many are not applicable or do not have a significant impact to the Company, have been excluded. The Company had assessed that no material impact is expected upon the adoption of the following amendments on its condensed interim consolidated financial statements:

Amendments to IAS 1

In January 2020, the IASB issued amendments to IAS 1 which clarify the requirements for classifying liabilities as either current or non-current by: (i) specifying that the conditions which exist at the end of the reporting period determine if a right to defer settlement of a liability exists; (ii) clarifying that settlement of a liability refers to the transfer to the counterparty of cash, equity instruments, other assets or services; (iii) clarifying that classification is unaffected by management's expectation about events after the date of the statement of financial position; and (iv) clarifying the classification requirements for debt an entity may settle by converting it into equity.

The amendments clarify existing requirements, rather than make changes to the requirements, and so are not expected to have a significant impact on the Company's financial statements. However, the clarifications may result in reclassification of some liabilities from current to non-current or vice-versa, which could impact an entity's loan covenants. Because of this impact, the IASB has provided a longer effective date to allow entities to prepare for these amendments. In July 2020, the IASB issued an amendment to defer the effective date of the amendments by one year from its originally planned effective date to annual periods beginning on or after January 1, 2023 due to the impact of COVID-19. Early application is permitted.

Amendments to IAS 37 – Provisions, Contingent Liabilities and Contingent Assets ("IAS 37")

In May 2020, the IASB issued amendments to update IAS 37. The amendments specify that in assessing whether a contract is onerous under IAS 37, the cost of fulfilling a contract includes both the incremental costs and an allocation of costs that relate directly to contract activities. The amendments also include examples of costs that do, and do not, relate directly to a contract. These amendments are effective for annual periods beginning on or after January 1, 2022. Earlier application is permitted.

3. BUSINESS COMBINATIONS

Acquisition of Terrace Global Inc.

On December 22, 2020, Flowr completed the acquisition of 100% of the equity interest in Terrace Global Inc. ("Terrace") (the "Terrace Acquisition") pursuant to the Arrangement Agreement entered into between the Company and Terrace on October 19, 2020. The Terrace Acquisition was completed by way of a court approved plan of arrangement under the *Business Corporations Act* (Ontario) (the "Arrangement"). Pursuant to the terms of the Arrangement, each shareholder of Terrace received 0.4973 of a newly issued common share in Flowr (each a "Flowr Share" and collectively the "Flowr Shares") per Terrace common share, resulting in the issuance of 144,558,919 Flowr Shares. In addition, 236,712 stock options and 375,063 share purchase warrants of Flowr were issued to former holders of Terrace stock options and warrants, at the same exchange ratio as the common shares. Following the acquisition, the shares of Terrace ("TRCE") were delisted from the Exchange.

(in thousands of Canadian dollars, unless otherwise indicated)

Terrace is a holding company which operated through the following subsidiaries: (i) Terra Nova Produção e Comercialização de Produtos Natuis e Farmacêuticos, Lda ("Terra Nova"), a Portuguese company with a pre-license issued by the government regulatory body for the cultivation, importation, and exportation of medical cannabis in Portugal; (ii) Oransur, S.A. ("Oransur"), a Uruguayan company previously engaged in the production of hemp in Uruguay; and (iii) Pharmabinoide S.L. ("Pharmabinoide"), which previously produced hemp in Spain. Prior to the acquisition by Flowr, Terrace had also entered into a subscription receipts financing for gross proceeds of $17 million, with the Terrace Acquisition being one of the conditions precedent to the release of the funds from escrow. As a result of the successful closing of the Terrace Acquisition, the proceeds net of transaction costs were released to Terrace. The Company considers the Terrace Acquisition to be strategic as it improves the Company's consolidated statements of financial position significantly and adds a number of directors and officers with extensive experience in the cannabis sector and capital markets.

The Company has accounted for the Terrace Acquisition as a business combination, as the operations of Terrace meets the definition of a business. The following table summarizes the consideration paid in connection with the acquisition of Terrace and the fair value of the assets acquired, liabilities assumed at the date of acquisition.

Issuance of common shares (144,558,919)	$59,269
Cancellation of common shares previously issued to Terrace (9,266,538)	(3,799)
Stock options and warrants issued to replace Terrace stock options and warrants	77
Cancellation of warrants previously issued to Terrace	(1,641)
Note payable to Terrace	(1,500)
Total consideration transferred	$ 52,406
Recognized amounts of identifiable assets acquired and liabilities assumed	
Cash and cash equivalents	$ 19,782
Amounts receivable	826
Prepaids and other receivables	11
Other current assets	2
Property, plant and equipment	341
Accounts payable and accrued liabilities	(3,207)
Current liabilities	(1,039)
Lease obligations	(94)
Total identifiable net assets	16,622
Goodwill	35,784
Total net assets acquired	$ 52,406

Fair value of the consideration paid in common shares was determined based on the last traded price on the date of the acquisition. Fair value of the stock options and warrants issued were determined using the Black-Scholes option pricing model based on the following key assumptions and inputs:

	Warrants	Options
Share price	$0.39	$0.39
Exercise price	$1.01	$0.50
Five year risk free interest rate	0.27 %	0.48 %
Expected life in years	0.57	7.2
Expected volatility	95 %	95 %
Dividends per share	—	— —

As part of the Arrangement, the Company acquired 9,266,538 Flowr common shares and an equal number of Flowr warrants held by Terrace with a fair value on the date of the acquisition of $3,799 and $1,641, respectively. These shares and warrants were previously issued as consideration for funding by Terrace. These Flowr shares and warrants with carrying values of $3,470 and $1,348, respectively, are to be cancelled pursuant to the Arrangement.

(in thousands of Canadian dollars, unless otherwise indicated)

The goodwill recognized upon the acquisition of Terrace is attributable to a number of factors that cannot specifically be allocated to an identifiable asset, including the unique skills and experience of Terrace's officers and directors who are joining Flowr's management and board of directors, and the improved access to capital provided by the new shareholders. As a result, the goodwill has been allocated to the Company's CGUs that would benefit from acquisition, based the CGU's proportionate fair value. The fair value of the CGUs were determined based on the value in use approach. The following table summarizes the CGUs fair value on the acquisition date, and the related allocation of goodwill:

	Allocation of goodwill
Flowr Canada	24,834
Holigen	10,950
Total	35,784

Goodwill is not deductible for tax purposes.

The Company incurred and expensed $917 in transaction costs, of which $nil are included in accounts payable as at September 30, 2021 (December 31, 2020 - $172).

Professional fees	684
Office and general	98
Investor relations	24
Non-cash costs	
Loss on debt modification (note 11)	111
Total transactions costs	917

At the time of acquisition, the Company also early converted certain convertible debentures resulting in a loss of $7,966 recorded in the consolidated statements of loss and comprehensive loss. *See note 12.*

4. AMOUNTS RECEIVABLE

	September 30, 2021	December 31, 2020
Accounts receivable	3,028	1,277
Taxes receivable	991	1,239
Total	4,019	2,516

As at September 30, 2021, 80% of accounts receivable (December 31, 2020 – 92%) are due within 30 days. A provision has been made for any amounts outstanding above 90 days. At September 30, 2021, $58 (December 31, 2020 - $58) has been included in allowance for doubtful accounts.

(in thousands of Canadian dollars, unless otherwise indicated)

5. INVENTORY

	Capitalized costs	Fair valuation adjustment	Impairment	Carrying value
Harvested cannabis				
Work in process	6,433	(1,325)	(468)	4,640
Finished goods	155	(8)	—	147
	6,588	(1,333)	(468)	4,787
Supplies and consumables	1,379	—	—	1,379
Balance at September 30, 2021	7,967	(1,333)	(468)	6,166

	Capitalized costs	Fair valuation adjustment	Impairment	Carrying value
Harvested cannabis				
Work in process	12,991	(4,961)	(3,749)	4,281
Finished goods	483	11	(60)	434
	13,474	(4,950)	(3,809)	4,715
Supplies and consumables	438	—	—	438
Balance at December 31, 2020	13,912	(4,950)	(3,809)	5,153

$1,124 (2020 - $1,647) of depreciation and amortization recognized during the nine month period ended September 30, 2021 is included in the capitalized costs of inventory held as at September 30, 2021. Capitalized depreciation of $318 (2020 – $32) and $1,640 (2020 - $905) was expensed to cost of sales in the three and nine month periods ended September 30, 2021.

For the three and nine months ended September 30, 2021, $9,319 (2020 - $2,925) and $4,842 (2020 – $5,011) have been recorded as cost of sales related to the cost of inventory produced and purchased during the period.

During the three and nine months ended September 30, 2021, the Company recognized an inventory impairment of $175 (2020 - $1,548) and $1,053 (2020 - $2,675) due to the capitalized costs of inventory being higher than the net realizable value.

6. BIOLOGICAL ASSETS

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

Balance at January 1, 2020	784
Production costs capitalized	13,099
Changes in fair value less cost to sell due to biological transformation	(7,369)
Transferred to inventory upon harvest	(5,668)
Balance at December 31, 2020	846
Production costs capitalized	7,038
Changes in fair value less cost to sell due to biological transformation	(2,809)
Transferred to inventory upon harvest	(4,012)
Balance at September 30, 2021	1,063

(in thousands of Canadian dollars, unless otherwise indicated)

The Company measures its biological assets at their fair value less costs to sell. This is determined using a model which estimates the expected harvest yield in grams for plants currently being cultivated, and then adjusts that amount for the expected selling price less costs to sell per gram. During the period ended September 30, 2021, the fair value of biological assets less costs to sell was lower than capitalized production costs.

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

Biological assets as at September 30, 2021 includes $457(2020 - $335) of depreciation and amortization expense incurred in the period.

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

	Assumptions:	As at September 30, 2021		As at December 31, 2020	
		Input	Impact from 10% change	Input	Impact from 10% change
(i)	Weighted average of expected loss of plants until harvest *(a)*	5 %	$ 6	6 %	$ 4
(ii)	Expected yields for cannabis plants (average grams per plant) *(b)*				
	Indoor	30 grams dry flower	$ 107	28.50 grams dry flower	$ 85
(iii)	Weighted average number of growing weeks completed as a percentage of total growing weeks as at period end	48 %	$ 107	56 %	$ 85
(iv)	Estimated bulk selling price (per gram) *(c)*	$ 2.96		$ 3.50	
	Indoor	for dry flower	$ 191	for dry flower	$ 131
(v)	Average post harvest cost to complete and sell (per gram)	$ 1.29	$ 83	$ 1.24	$ 47
(vi)	Reasonable margin on average after harvest costs to complete and sell (per gram)	$ 0.30	$ 19	$ 0.35	$ 13

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

(b) Expected average yields for cannabis plants vary based on the mix of strains existing at each reporting date. The expected average grams of dry flower from plants as of September 30, 2021 is 30 grams (December 31, 2020 – 28.50 grams). The expected average grams of trim from plants as of September 30, 2021 is nil (December 31, 2020 – nil grams).

(c) The estimated selling price (per gram) represents the actual contractual sales price for the Company's various strains sold as bulk products or expected bulk selling price for strains with no contractual sales price. The selling price is impacted by the mix of expected THC levels from the plants.

As of September 30, 2021, there were no material biological assets in Portugal.

(in thousands of Canadian dollars, unless otherwise indicated)

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 of September 30, 2021, it is expected that the Company's biological assets in Canada will yield approximately 1,097,997 grams of dry cannabis 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.

7. FINANCIAL INSTRUMENTS

Set out below is a comparison, by category, of the carrying amounts of the Company's financial instruments that are recognized in the condensed interim consolidated statements of financial position.

Other than convertible debentures (*note 12*) and lease obligations (*note 24)*, the carrying values of all the financial assets and liabilities measured at amortized cost approximate their fair values as at September 30, 2021 and December 31, 2020.

	Financial Instrument Classification	Carrying Amount September 30, 2021	December 31, 2020
Financial assets			
Cash and cash equivalents	Amortized cost	7,945	20,774
Accounts receivable	Amortized cost	3,028	1,277
Other receivables	Amortized cost	353	116
Investment in private securities - shares	FVPL	29	29
Financial liabilities			
Accounts payable and accrued liabilities	Amortized cost	6,668	11,704
Due to related parties	Amortized cost	—	97
Lease obligations	Amortized cost	6,305	7,672
Debt	Amortized cost	27,782	38,467
Convertible debentures	Amortized cost	4,412	3,834

Fair value hierarchy

The fair value of investments may be adjusted for:

- Equity financings provided by outside investors at a valuation different than the current value of the investee company in which case the fair value of investment is adjusted to the value at which that financing took place.
- Significant events that in management's opinion will have a material impact on the investee company's valuation, in which case the fair value adjustment is subject to management assumptions and judgment.

The Company uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- Level 1: based on quoted (unadjusted) prices in active markets for identical assets or liabilities;
- Level 2: based on inputs which have a significant effect on fair value that are observable, either directly or indirectly from market data; and

(in thousands of Canadian dollars, unless otherwise indicated)

- Level 3: based on inputs which have a significant effect on fair value that are not observable from market data.

The investments in privately held securities have been classified as Level 3 in the fair value hierarchy as at September 30, 2021 and December 31, 2020.

During the period ended September 30, 2021 and the year ended December 31, 2020, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into or out of Level 3 fair value measurements.

The following table reconciles Level 3 fair value measurements from January 1, 2020 to September 30, 2021:

Balance as at January 1, 2020	650
Sale of Ace Hill shares	(479)
Realized loss on sale of Ace Hill shares	(271)
Unrealized gain on share investments	168
Unrealized loss on warrant investments	(39)
Balance as at December 31, 2020 and September 30, 2021	29

8. PROPERTY, PLANT AND EQUIPMENT

	Balance as at January 1, 2021	Additions	Disposals	Transfers	Currency translation	Balance as at September 30, 2021
Cost:						
Land	10,990	126	—	(4,531)	(67)	6,518
Building and building improvements	28,825	27	—	194	(487)	28,559
Right-of-use assets (Note 24)	8,544	—	(1,629)	—	(99)	6,816
Leasehold improvements	15,054	—	(799)	8	(4)	14,259
Construction in progress	1,022	432	(6)	(859)	(42)	547
Facilities equipment	41,132	90	—	522	(454)	41,290
Furniture, equipment and others	2,018	6	(48)	(23)	(31)	1,922
Total cost	107,585	681	(2,482)	(4,689)	(1,184)	99,911
Accumulated depreciation:						
Building and building improvements	1,176	1,340	—	—	(45)	2,471
Right-of-use assets (Note 24)	1,133	739	(587)	—	(17)	1,268
Leasehold improvements	889	405	(58)	—	—	1,236
Facilities equipment	6,683	4,253	(138)	—	(39)	10,759
Furniture, equipment and others	575	293	(18)	—	(12)	838
Total accumulated depreciation	10,456	7,030	(801)	—	(113)	16,572
Net book value	97,129					83,339

As of September 30, 2021, right-of-use assets included in property, plant and equipment consists of the Flowr Okanagan facility lease, the Company's office lease and furniture lease in Toronto, Holigen's land, vehicle and building leases in Portugal. Refer to *note 24*.

(in thousands of Canadian dollars, unless otherwise indicated)

	Balance as at January 1, 2020	Additions	Disposals	Transfers	Impairment	Currency translation	Balance as at December 31, 2020
Cost:							
Land	10,905	—	—	—	—	85	10,990
Building and building improvements	7,260	262	—	20,867	—	436	28,825
Right-of-use Assets	8,909	127	(651)	—	—	159	8,544
Leasehold improvements	9,810	—	—	5,408	(166)	2	15,054
Construction in progress	38,611	11,174	(1,131)	(46,742)	(1,583)	693	1,022
Facilities equipment	20,814	1,022	(80)	19,112	—	264	41,132
Furniture, equipment and others	1,846	197	(429)	355	—	49	2,018
Total cost	98,155	12,782	(2,291)	(1,000)	(1,749)	1,688	107,585
Accumulated depreciation:							
Building and building improvements	271	885	—	—	—	20	1,176
Right-of-use Assets	594	1,150	(651)	—	—	40	1,133
Leasehold improvements	320	569	—	—	—	—	889
Facilities equipment	2,378	4,295	(2)	—	—	12	6,683
Furniture, equipment and others	316	470	(180)	—	—	(31)	575
Total accumulated depreciation	3,879	7,369	(833)	—	—	41	10,456
Net book value	94,276						97,129

Included in additions for the year ended December 31, 2020 is $341 related to property, plant and equipment acquired from the acquisition of Terrace and $4 of translation difference pertaining to Terrace.

Assets held for sale

In the fourth quarter of 2020, the Company initiated the process of selling certain extraction equipment. Upon reclassification of the equipment as available for sale in the consolidated statements of financial position, the assets were revalued to its estimated recoverable amount. This has been reflected as a transfer in the table above. The recoverable amount of $1.0 million is based on purchase offers received by the Company. In 2021, $674 of these assets were disposed of an impairment of $201 was recorded in the condensed interim consolidated statement of loss and comprehensive loss. During 2021, the Company transferred $158 of previously identified assets held for sale back to property, plant and equipment.

In 2021, the Company initiated the process of selling the surplus land adjacent to its operating facility located in Kelowna, British Columbia. An amount of $4,531 was transferred to assets held for sale representing the cost of the land as the purchase offers received by the Company to date exceed the cost.

(in thousands of Canadian dollars, unless otherwise indicated)

9. INTANGIBLE ASSETS AND GOODWILL

	Balance as at January 1, 2021	Additions	Disposals	Currency translation	Balance as at September 30, 2021
Cost:					
Software	141	2	—	(4)	139
License	29,726	—	—	(3)	29,723
Total cost	29,867	2	—	(7)	29,862
Accumulated amortization:					
Software	43	24	—	—	67
License	3,460	2,233	—	(17)	5,676
Total accumulated amortization	3,503	2,257	—	(17)	5,743
Net book value	26,364				24,119

Capitalized license costs relates to costs incurred by the Company to acquire its cannabis licenses in Canada and Portugal.

	Balance as at January 1, 2020	Additions	Disposals	Impairment	Currency translation	Balance as at December 31, 2020
Cost:						
Software	98	57	—	—	(14)	141
Website development	294	—	(294)	—	—	—
License	44,053	—	—	(17,201)	2,874	29,726
Total cost	44,445	57	(294)	(17,201)	2,860	29,867
Accumulated amortization:						
Software	16	27	—	—	—	43
Website development	241	9	(250)	—	—	—
License	1,070	2,293	—	—	97	3,460
Total accumulated amortization	1,327	2,329	(250)	—	97	3,503
Net book value	43,118					26,364

Goodwill

The following is a goodwill continuity for the periods indicated:

Balance as at January 1, 2020	50,264
Goodwill on Terrace acquisition - Flowr Canada (note 3)	24,834
Goodwill on Terrace acquisition - Holigen (note 3)	10,950
Impairment of goodwill - Flowr Canada	(282)
Impairment of goodwill - Holigen	(64,747)
Translation differences	3,533
Balance as at December 31, 2020 and September 30, 2021	24,552

As at September 30, 2021, all remaining goodwill is allocated to Flowr Canada.

(in thousands of Canadian dollars, unless otherwise indicated)

10. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	September 30, 2021	December 31, 2020
Accounts payable (note 13)	**4,467**	8,739
Accrued liabilities	**2,200**	2,965
Refund liabilities	**—**	200
Excise and other taxes payable	**151**	15
Total	**6,818**	11,919

11. DEBT

The following is a loan continuity for the periods indicated:

	ATB Loan	Holigen Loan	Hawthorne loan	Total
Balance as of January 1, 2020	19,427	5,850	11,500	36,777
Add: Additions	3,731	2,127	1,172	7,030
Add: Loss on modification of debt	113	—	—	113
Add: Interest and accretion expense	238	52	648	938
Less: Fees on modification on debt	(327)	—	—	(327)
Less: Payments	(5,246)	(985)	(258)	(6,489)
Add: Translation difference	—	425	—	425
Balance as at December 31, 2020	17,936	7,469	13,062	38,467
Add: Interest and accretion expense	1,061	148	330	1,539
Less: Payments	(9,882)	(1,184)	(765)	(11,831)
Add: Translation difference	—	(391)	—	(391)
Balance as of September 30, 2021	9,115	6,042	12,627	27,784
Current portion of debt	2,172	3,166	852	6,190
Non-current portion of debt	6,943	2,876	11,775	21,594

ATB Credit Agreement

On November 18, 2019, the Company entered into a credit agreement with a syndicate of lenders led by ATB Financial ("ATB") and including Farm Credit Canada (the “ATB Credit Agreement”). On the closing date of the ATB Credit Agreement, the credit facility available consisted of a $24.5 million recapitalization term facility and a $0.5 million revolving operating credit facility (together the "Term Facilities"). Pursuant to the conditions of the Term Facilities, Flowr received a first tranche of funding of $20.05 million on November 18, 2019, the final tranche of funding of $3.2 million on February 27, 2020 and accessed the $0.5 million on the revolving operating credit facility on February 27, 2020.

As of March 31, 2020, the Company was in breach of the current ratio covenant and total assets covenant. On June 17, 2020, the Company obtained a waiver under the ATB Credit Facilities with respect to the covenant breaches. Under the terms of the waiver the Company had 120 days to partner with ATB on an amendment to the ATB Credit Facilities to include Holigen and its subsidiaries, as applicable, as loan parties under the ATB Credit Facilities. The Company and certain of its subsidiaries entered into an amending agreement (the “Sixth Amending Agreement”) with respect to the ATB Credit Facilities pursuant to which each of Holigen, Holigen Limited and RPK Biopharma became a Material Subsidiary, a Guarantor and a Loan Party (for being Guarantors) under the ATB Credit Facilities. As a result of the Sixth Amending Agreement, the default relating to the Total Assets and EBITDA covenant was remedied.

On July 31, 2020, the $1.1 million holdback with respect to builder’s liens has been released by ATB upon completion of construction of the Company’s production facility in Kelowna, BC and is no longer classified as restricted cash in the consolidated statement of financial position as at December 31, 2020.

(in thousands of Canadian dollars, unless otherwise indicated)

In connection with the Terrace Acquisition, on December 18, 2020, the Company entered into an Amended and Restated Credit Agreement ("ARCA") with ATB. Under the terms of the ARCA, the original financial covenants were removed and replaced with the following financial covenants (i) to maintain a senior debt to tangible net worth ratio of no greater than 1.3:1 (ii) a minimum cash holding of $3.5 million and (iii) commencing on the fourth quarter of 2021, the Company must maintain certain quarterly minimum EBITDA balances. In addition, the ARCA allows for the Company to prepay the Term Facilities by $5 million, at which point the EBITDA covenant would be deferred for an additional year. As of September 30, 2021, the Company is in compliance with all covenants.

Under the ARCA, the outstanding balance of the loan proceeds bear interest at prime plus 2.75 basis points. The principal repayments under the Term Facilities are quarterly and the remaining principal amount of all loans and all other obligations in connection with the Term Facilities being repayable on the maturity date being November 18, 2022, with a one-year extension at the discretion of the Company. Interest payments are made on a monthly basis.

On August 6, 2021, the Company entered into an amendment to ARCA whereby the senior creditors agreed to certain amendments allowing Flowr to additional flexibility under the ARCA to issue equity and to enter into financings arrangements with respect to Holigen. The Company also repaid $7.5 million towards the credit facility on August 6, 2021, reducing the principal amount outstanding under the ATB Financial term and operating facilities to approximately $9.8 million.

The loan has an effective interest rate of 7% per annum. As at September 30, 2021, the loan had an outstanding principal balance of $9,287. The difference between the carrying value and outstanding balance of the loan relates to $173 of unamortized fees incurred on the loan and unaccreted loss on the modification of debt.

Flowr had the following outstanding undiscounted loan obligation as of September 30, 2021:

	up to 1 year	1 - 3 years	Total
Loan Commitments in CAD	2,328	6,959	**9,287**

Holigen Loans

In February 2019, RPK entered into a term loan (the "RPK Mortgage Loan") with Caixa pursuant to which up to €5,220 ($7,798) was made available to RPK. The RPK Mortgage Loan matures in February 2026 and bears interest at a variable rate of the 12-month EURIBOR rate plus 3% per annum with a floor of 3% per annum, interest only for the first 12 months and is secured by RPK's land and building assets in Sintra, Portugal. As at September 30, 2021, €2,311 ($3,420) (December 31, 2020, €2,578 ($4,024)) was drawn down under the RPK Mortgage Loan.

In June 2019, RPK entered into a secured loan (the "RPK Equipment Loan") with Caixa pursuant to which an amount up to a certain percentage of new equipment purchased was made available to RPK. The RPK Equipment Loan matures in June 2025 and bears interest at a variable rate of the 12-month EURIBOR rate plus 3% per annum with a floor of 3% per annum, interest only for the first 12 months and is secured by RPK's equipment. The RPK Equipment loan has the following covenants (i) loan to RPK value ratio of less than or equal to 70% (ii) financial autonomy ratio of 20% or more and (iii) net debt/EBITDA ratio in RPK of equal or less than four beginning from January 2020. As at September 30, 2021, €1,772 ($2,622) (2020 – €2,030 ($3,168) was drawn down under the RPK Equipment Loan. As at December 31, 2020, RPK was in breach of the net debt/ EBITDA ratio covenant, for which the Company obtained a waiver from Caixa on April 15, 2021. Under the terms of the wavier, Caixa waived the compliance by RPK with the net debt/EBITDA covenant until December 31, 2021, extended the deadline for financial autonomy ratio of less than 20% to September 2021 and extended a loan to RPK value ratio of less 70% to September 2021. As at September 30, 2021, the waiver provided by Caixa for the net debt/EBITDA covenant has a remaining term of less than 12 months, as such the RPK Equipment loan has been classified as a current loan payable in the interim condensed consolidated statements of financial position.

All of the RPK loans described above have an effective interest rate that is the same as their coupon rate.

(in thousands of Canadian dollars, unless otherwise indicated)

The Company had the following outstanding undiscounted loan obligations related to its Holigen operations as of September 30, 2021:

	up to 1 year	1 - 3 years	3 - 5 years	over 5 years	Total
Loan Commitments in EUR	717	1,778	1,766	—	4,261
Loan Commitments in CAD	1,053	2,613	2,597	—	6,263

Hawthorne Agreement

On January 25, 2018, and subsequently amended, Hawthorne Canada Limited ("Hawthorne") and Flowr Okanagan entered into an agreement (the "R&D Agreement") to construct a research and development ("R&D Facility") and for Flowr Okanagan to provide certain R&D services upon completion of the R&D Facility.

Pursuant to the R&D Agreement, the Company would own the R&D Facility and Hawthorne would finance all construction and development costs through a loan to the Company and in return have access to the R&D Facility over a 20 year period. The Company would provide management and operational services to the R&D Facility and retain ownership facility at the end of the 20-year period. In total, Hawthorne loaned the Company $11,500 in principal amounts for the construction and development of the R&D Facility (the "Hawthorne Loan"). Upon the completion of the first floor of the R&D Facility in October 2020, the Hawthorne Loan began amortizing through an agreed upon payment schedule over 20 years, including an annual interest rate of 4%. If the R&D Agreement is terminated under certain circumstances, the Company could be required to pay 100% of all amounts advanced by Hawthorne and $1,500 in liquidated damages.

The Hawthorne Loan as of September 30, 2021 has an outstanding balance of $10,926 (December 31, 2020 - $11,356). The loan is secured by the R&D Facility, which has a carrying value of $13,358 as at September 30, 2021.

Upon the official commissioning of R&D Facility in October 2020 Hawthorne began paying the Company a monthly management fee and a monthly SR&ED service fee for overseeing the operations of the R&D Facility, which will continue through the 20-year term. In accordance with the R&D Agreement, these fees will completely offset the monthly principal repayments and interest accruals on the Hawthorne Loan over the life of the loan.

In addition to the Hawthorne Loan, on September 30, 2020, the Company entered into an amendment to the R&D Agreement whereby Hawthorne agreed to lend up to $1,300 in additional funding to Flowr at an interest rate of 4% per annum. The funding will be used to fund approved budgeted expenses related to the development of the R&D Facility. As of September 30, 2021, this loan has an outstanding balance of $1,214 (December 31, 2020 - $1,180).

In addition to the R&D Facility, the Company has also granted Hawthorne security over a cash collateral account to a maximum of $2.5 million, which account is only required to be funded at such time that the appraised value of the R&D Facility is lower than the amount of the Hawthorne Loan. As at September 30, 2021 and December 31, 2020, the cash collateral account was $nil. The effective interest rate of the loan is 3.39%.

As at September 30, 2021, the loan had an outstanding balance of $12,141. The difference between the carrying value and outstanding balance of the loan relates to $487 unamortized discount on the loan.

The Company had the following outstanding loan obligations to Hawthorne as of September 30, 2021:

	up to 1 year	1 - 3 years	3 - 5 years	over 5 years	Total
Loan Commitments in CAD	809	2,194	2,194	6,900	12,097

(in thousands of Canadian dollars, unless otherwise indicated)

12. CONVERTIBLE DEBENTURES

Convertible debentures balance as September 30, 2021 is as follows:

	Liability component	Warrants component	Conversion option component
Balance as at January 1, 2020	—	—	—
Gross proceeds from issuance of convertible debentures units	21,579	—	—
Amount allocated to warrants	(2,331)	2,331	—
Amount allocated to conversion option	(2,911)	—	2,911
Accretion expense	2,119	—	—
Interest paid with issuance of shares	(1,436)	—	—
Transaction costs	(381)	(54)	(68)
Deferred tax recovery	—	(603)	(754)
Conversion of convertible debentures	(12,805)	—	(1,609)
Balance as at December 31, 2020	3,834	1,674	480
Accretion expense	578	—	—
Balance at September 30, 2021	**4,412**	**1,674**	**480**

The Company has $4,966 in principal amounts of convertible debentures (the "Debentures") outstanding as at September 30, 2021 (December 31, 2020 - $4,966). The Debentures bear interest at 10% per annum, calculated semi-annually in arrears on June 30 and December 31 of each year, with the last interest payment to be paid on the fourth anniversary of April 27, 2024 (the "Maturity Date"). The interest is paid annually through the issuance of common shares based on the market price of the common shares on the business day immediately prior to the issuance, subject to approval by the Exchange. In the event that the Exchange does not authorize any particular payment of interest in common shares, that interest payment will be paid in cash.

The Debentures are convertible into common shares of the Company at the option of the subscriber at any time prior to the Maturity Date at a fixed price of $0.58 per common share. The Debentures rank subordinate to any and all current secured indebtedness, including the security granted to the lenders under the ATB Credit Agreement, and senior to any and all current and future unsecured indebtedness of the Company and any and all future secured indebtedness of the Company.

During the three and nine month periods ended September 30, 2021, $201 and $578 (three and nine months ended September 30, 2020 - $844 and $1,350) of accretion and interest was recorded on the Debentures.

(in thousands of Canadian dollars, unless otherwise indicated)

13. RELATED PARTY TRANSACTIONS

As at September 30, 2021 and December 31, 2020, related party amounts included in (a) due to related parties (b) amounts receivable (c) property plant and equipment and (d) accounts payable and accrued liabilities were as follows:

		September 30, 2021	December 31, 2020
(a)	Reimbursable expenses due to a corporation with directors and officers in common with Flowr	—	97
(b)	Amounts receivable from a company with an officer in common with Holigen	—	122
(c)	Fees paid to a company for the construction of the Kelowna facility whose principal was an employee and is a shareholder of Flowr	—	358
(d)	Amounts due to a company that shares an officer in common with Holigen	27	134

Included in general and administrative expense are amounts paid to shareholders or to companies whose principals are either a shareholder, director or officer of the Company as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2021	2020	2021	2020
General and administrative				
Consulting and administration fees	83	51	317	141
Rental fees	—	227	87	428
Other income				
Packaging and labelling services	—	(92)	(91)	(110)
	83	186	313	459

All the above transactions are in the normal course of operations and are measured at the exchange amounts, being the amounts agreed to by the parties, which approximate their fair values.

14. KEY MANAGEMENT REMUNERATION

The Company's related parties include its key management. Key management includes directors, officers and managing partners reporting directly to the Chief Executive Officer.

The remuneration of the key management of the Company recognized in the condensed interim consolidated statements of loss and comprehensive loss for three and nine months ended September 30, 2021 and 2020 were as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2021	2020	2021	2020
Salaries and short-term benefits	427	781	1,320	2,866
Termination benefits	—	—	736	—
Share-based compensation	149	549	387	746
Total renumeration	576	1,330	2,443	3,612

(in thousands of Canadian dollars, unless otherwise indicated)

15. REVENUE

	Three months ended September 30,		Nine months ended September 30,	
	2021	2020	2021	2020
Revenue from cannabis sales				
Gross revenue	3,357	3,403	9,995	7,375
Excise tax	(354)	(542)	(1,143)	(1,200)
Returns and concessions	(669)	(38)	(895)	(262)
Total net revenue from cannabis sales	2,334	2,823	7,957	5,913
Tolling revenue	207	—	590	—
Total	2,541	2,823	8,547	5,913

16. RESTRUCTURING COSTS

On March 23, 2020, the Company announced a restructuring of approximately 25% of its global workforce. The changes were part of a comprehensive review of operations in order to focus on high value priorities and accelerate cash flow generation.

The following is a summary of total restructuring costs:

	Three months ended September 30, 2021			Nine months ended September 30, 2020		
	Flowr Canada	Holigen	Total	Flowr Canada	Holigen	Total
Severance costs	—	—	—	312	406	718
Professional fees	—	—	—	—	8	8
Total Restructuring costs	—	—	—	312	414	726

$190 of severance cost incurred in the nine months ended September 30, 2020 related to former officers of the Company who are also directors.

17. SHARE-BASED COMPENSATION

a) Stock options

The Company has established a stock option plan ("SOP") for directors, selected employees and consultants. Pursuant to the SOP, the exercise price of the option cannot be less than the closing price of Flowr's common shares on the trading date preceding the day the option is granted, subject to permitted discounts pursuant to the rules of the Exchange. The maximum number of common shares reserved for issuance under the SOP is 10% of the total issued and outstanding common shares of the Company including the 41,598,000 convertible Flowr ULC Class A Preferred Shares.

During the nine month period ended September 30, 2021, the Company granted 12,446,000 (September 30, 2020 – 395,000) stock options at a fair value of $2,830 (2020 - $156). The estimated value of the options granted will be recognized as an expense in the consolidated statements of loss and comprehensive loss and an addition to contributed surplus in the consolidated statements of changes in shareholders' equity over the vesting period. The options generally vest over 3 to 3.5 years from the grant date.

(in thousands of Canadian dollars, unless otherwise indicated)

As at September 30, 2021, there was $1,602 of share-based compensation cost remaining to be charged to the condensed interim consolidated statements loss and comprehensive loss in future periods relating to stock option grants. The fair value of options granted was estimated using the Black-Scholes option pricing model. Due to limited historical data, the expected volatility is estimated based on the volatility of Flowr and comparable publicly traded companies. The inputs used in the measurement of the fair values at the time the options were granted were as follows:

	2021	2020
Share price	$0.28 to $0.38	$0.52
Exercise price	$0.30 to $0.44	$0.52
Five year risk free interest rate	0.48 - 0.93 %	0.68 %
Expected life in years	5.00	5.00
Expected volatility	85 - 95 %	100 %
Dividends per share	—	—

The following is a stock option continuity for the periods indicated:

	Number of options	Weighted average exercise price per share $
Balance as at January 1, 2020	12,192,697	2.84
Options granted	631,712	0.54
Options exercised	(918,750)	0.05
Options forfeited	(1,805,728)	3.93
Options expired	(1,357,201)	3.29
Balance as at December 31, 2020	8,742,730	2.78
Options granted	12,446,000	0.38
Options exercised	(618,750)	0.05
Options forfeited	(2,942,569)	1.40
Options expired	(4,992,961)	2.96
Balance as at September 30, 2021	**12,634,450**	**0.80**

During the nine months ended September 30, 2021, 7,800,000 stock options were granted to officers of the Company with an average exercise price of $0.37, a vesting period of three years, and an aggregate fair value of $1,087.

The following lists the options outstanding and exercisable as at September 30, 2021:

Options outstanding				Options exercisable	
Range of exercise prices per share	Number of options outstanding	Weighted average remaining years	Weighted average exercise price per share $	Number of options exercisable	Weighted average exercise price per share $
$ 0.05 - 1.00	11,102,712	4.40	0.45	236,712	0.50
2.60 - 2.88	890,000	1.49	2.60	822,499	2.60
3.08 - 3.43	245,000	2.90	3.08	98,333	3.08
4.00 - 6.98	396,738	2.64	6.09	310,071	6.51
$ 0.05 - 6.98	**12,634,450**	**4.43**	**0.80**	**1,467,615**	**3.24**

(in thousands of Canadian dollars, unless otherwise indicated)

b) Long-term incentive plan ("LTIP")

On December 28, 2018, the shareholders of the Company approved the Company's LTIP, which was subsequently approved by the Exchange on January 16, 2019. The maximum number of common shares which may be reserved and set aside for issue under the LTIP in respect of Deferred share units ("DSU") to DSU participants and for payments in respect of awards of Restricted share units ("RSU") to RSU participants, shall not exceed 10% of the total issued and outstanding common shares of the Company, including 42,000,000 convertible Flowr ULC Class A Preferred Shares, at the time of approval of the LTIP (being 13,057,421 common shares of the Company). On May 9, 2019, the Board approved an amendment to the LTIP, which permits RSU participants to defer their settlement of an RSU award that has vested, within a period of 5 years from the vesting date.

The following is a RSUs continuity for the years indicated:

	Number of RSUs
Balance as at December 31, 2019	2,299,750
RSUs granted	573,500
RSU redeemed	(422,835)
RSUs forfeited	(717,749)
Balance as at December 31, 2020	1,732,666
RSUs granted	3,830,043
RSU redeemed	(1,157,301)
RSUs forfeited	(1,845,262)
Balance as at September 30, 2021	2,560,146

There are no DSUs issued and outstanding as of September 30, 2021. During the period ended September 30, 2021, the Company granted 3,830,043 RSUs which have varying vesting terms and performance conditions. The majority vest over a period of 3 years. The grant date fair value of the RSUs granted is $1,455 which will be recognized over the vesting period.

As the Company intends to settle vested RSUs with common shares, no mark-to-market adjustments have been made on the outstanding RSUs. As of September 30, 2021, there was $950 of share-based compensation expense remaining to be charged to the condensed interim consolidated statements of loss and comprehensive loss in future periods relating to RSU grants.

The following is a summary of share-based compensation expense recorded in the condensed interim consolidated statements of loss and comprehensive loss:

	Three months ended September 30,		Nine months ended September 30,	
	2021	2020	2021	2020
Stock Options	233	753	(548)	690
RSUs	73	353	18	2,144
	306	1,106	(530)	2,834

In the nine month period ended September 30, 2021, a reduction of $852 (2020 - $2,982 increase) of share based compensation was recorded to other reserves in the consolidated statements of equity of which ($231) in recoveries (2020 - $369 expense) was capitalized and $418 of expense and ($714) of recoveries (2020 - $1,022 and $2,624 expenses) were recorded in the three and nine month periods, respectively, through the condensed interim consolidated statements of loss and comprehensive loss.

The recoveries recorded in the three and nine month periods ended September 30, 2021 are related to the reversal of previously recognized share based compensation on unvested stock options and unvested RSUs that were forfeited during the period.

(in thousands of Canadian dollars, unless otherwise indicated)

18. FINANCE COSTS

	Three months ended September 30,		Nine months ended September 30,	
	2021	2020	2021	2020
Interest expense on lease liabilities	111	137	357	416
Accretion and interest on convertible debentures	201	844	578	1,350
Interest and accretion on borrowings	574	401	1,539	1,111
Other	1	2	—	8
	887	1,384	2,474	2,885

19. OTHER EXPENSE (INCOME)

	Three months ended September 30,		Nine months ended September 30,	
	2021	2020	2021	2020
Loss on warrants investment valuation	—	—	—	39
Unrealized (gain) loss on fair value of investments held in shares	—	106	—	103
Interest (income) expense, net	(1)	—	8	(15)
Government subsidies	—	(1,233)	(239)	(2,648)
Gain on sublease	—	—	(169)	—
Severance costs	—	—	1,181	—
Other expense	217	(33)	441	36
Total	216	(1,160)	1,222	(2,485)

20. SHARE CAPITAL

The authorized capital of the Company consists of an unlimited number of common shares and an unlimited number of preferred shares issuable in series. As of September 30, 2021, the Company had 400,697,433 common shares issued and outstanding of which 9,266,538 common shares are to be cancelled pursuant to the Terrace Acquisition. Preferred shares are held in an escrow account until such shares converts into common shares. All preferred shares issued in relation to the Holigen SPA have been converted as at September 30, 2021.

In December 2017, through a corporate reorganization, Flowr ULC issued 44,100,000 class A preferred shares which provide the shareholders thereof with a right to exchange these shares for common shares of the Company at any point in time. During 2020, 1,500,000 of the Flowr ULC class A preferred shares were converted into common shares of the Company. As of September 30, 2021, 41,598,000 Flowr ULC preferred class A shares are convertible into common shares of the Company on a one for one basis. In the event that the Company issues additional common shares, a corresponding amount of Flowr ULC common shares are required to be issued from Flowr ULC to the Company. See Note 26 for a summary of the non-controlling interest deriving from these Flowr ULC class A preferred shares.

(in thousands of Canadian dollars, unless otherwise indicated)

Equity financing

On March 16, 2021, the Company closed an equity financing of 31,127,453 units at a price of $0.51 per unit for aggregate gross proceeds of $15,875. Each unit consisted of one common share and one common share purchase warrant. Each whole warrant is exercisable to acquire one common share of the Company for a period of 24 months at an exercise price of $0.64. The total fair value of warrants was estimated to be $4,248 using the Black-Scholes valuation method. Total share issuance costs related to this financing were $1,791 which included 1,867,647 broker warrants with a fair value of $294 estimated using Black-Scholes. Each broker warrant is exercisable to acquire one common shares of the Company for a period of 24 months at an exercise price of $0.51. A total of $1,097 of share issues costs were allocated to share capital in relation to this financing.

On July 15, 2021, the Company closed an equity financing of 33,400,000 units at a price of $0.21 per unit for aggregate gross proceeds of $7,014. Each unit consisted of one common share and one common share purchase warrant. Each whole warrant is exercisable to acquire one common share of the Company for a period of 42 months at an exercise price of $0.26. The total fair value of warrants was estimated to be $1,892 using the Black-Scholes valuation method. Total share issuance costs related to this financing were $945 which included 2,000,400 broker warrants with a fair value of $228 estimated using Black-Scholes. Each broker warrant is exercisable to acquire one common shares of the Company for a period of 36 months at an exercise price of $0.21. A total of $876 of share issues costs were allocated to share capital in relation to this financing.

On July 27, 2021, the Company closed an equity financing of 2,619,047 units at a price of $0.21 per unit for aggregate gross proceeds of $550. Each unit consisted of one common share and one common share purchase warrant. Each whole warrant is exercisable to acquire one common share of the Company for a period of 42 months at an exercise price of $0.26. The total fair value of warrants was estimated to be $171 using the Black-Scholes valuation method.

Other issuances

During the nine months ended September 30, 2021, the Company issued 2,162,116 common shares in addition to the above noted equity financing. Included in these issuances were 1,780,759 common shares to settle certain liabilities in the amount of $579. Included in the shares issued were 85,098 common shares issued to a director of the Company to settle liabilities of $85 in relation to the Terrace Acquistion and 585,714 common shares issued to a former officer of the Company for termination benefits.

21. WARRANTS

The following lists the warrants outstanding and exercisable as at September 30, 2021 and December 31, 2020:

	Number of warrants	Value $	Weighted average exercise price per share $
Balance as at January 1, 2020	5,519,098	6,468	4.91
Warrants granted	46,843,797	3,028	0.76
Warrants to be cancelled *(note 3)*	(9,266,538)	(1,348)	0.76
Warrants expired	(214,098)	(258)	2.56
Balance as at December 31, 2020	42,882,259	7,890	1.29
Warrants granted	71,014,547	6,285	0.43
Warrants expired	(5,680,063)	(6,216)	4.74
Balance as at September 30, 2021	108,216,743	7,959	0.54

(in thousands of Canadian dollars, unless otherwise indicated)

The fair value of warrants granted was estimated using the Black-Scholes option pricing model. Due to limited historical data, the expected volatility is estimated based on the volatility of comparable publicly traded companies. The inputs used in the measurement of the fair values at the time the warrants were granted were as follows:

	2021	2020
Share price	$0.13 to $0.38	$0.38 - $0.39
Exercise price	$0.21 to $0.64	$0.76 - $1.01
Risk free interest rate (one to three years)	0.31% to 0.57%	0.25% - 0.32%
Expected life in years	2 to 3.5	1 - 3
Expected volatility	85% - 95%	87% - 95%
Dividends per share	-	-

Refer to *notes 3, 12, 20 and 30.*

22. LOSS PER SHARE

	Three months ended September 30,		Nine months ended September 30,	
	2021	2020	2021	2020
Net loss attributable to common shareholders	(8,774)	(9,717)	(24,255)	(25,167)
Basic and diluted weighted average number of ordinary shares outstanding	392,332,652	132,834,716	363,368,530	123,420,320
Basic and diluted loss per ordinary share	(0.02)	(0.07)	(0.07)	(0.20)

**Comparative EPS was updated to reflect the revised calculation resulting from the finalized acquisition accounting for Holigen.*

23. SUPPLEMENTARY CASH FLOW INFORMATION

(a) Items not affecting cash and other adjustments:

	Three months ended September 30,		Nine months ended September 30,	
	2021	2020	2021	2020
Depreciation and amortization	4,267	1,812	9,054	4,583
Unrealized loss (gain) resulting from fair valuation of biological assets	(1,522)	2,537	(2,520)	5,671
Impairment of Inventory	1	1,548	879	2,675
Share-based compensation expense	319	1,106	(478)	2,834
Gain on investments	—	106	—	142
Amortization of deferred financing costs	361	—	754	—
Loss on disposal of property, plant & equipment	167	—	—	—
Loss on disposal of subsidiaries	82	—	1,141	—
Net interest expense	560	1,058	1,373	1,964
Other, net	(2,119)	138	(1,800)	445
Items not affecting cash and other adjustments	2,471	8,305	8,758	18,314

(in thousands of Canadian dollars, unless otherwise indicated)

(b) Changes in non-cash working capital:

	Three months ended September 30,		Nine months ended September 30,	
	2021	2020	2021	2020
Increase in amounts receivable	**(1,087)**	(1,040)	**(1,607)**	(453)
Decrease in other current assets	**376**	296	**751**	1,581
Decrease (increase) in inventories	**2,764**	968	**3,036**	(967)
Increase in biological assets	**(727)**	(2,914)	**(2,800)**	(5,772)
Decrease in accounts payable and accrued liabilities	**(50)**	(543)	**(4,351)**	(2,351)
Decrease in deferred revenue	**—**	(118)	**—**	(224)
(Decrease) increase in amounts due to related parties	**—**	(12)	**(97)**	3
Changes in non-cash working capital	**1,276**	(3,364)	**(5,068)**	(8,183)

24. LEASES

The following is a right-of-use assets continuity for the years indicated:

	Land	Building	Others	Total
Balance as at January 1, 2020	832	7,354	130	8,316
Additions	—	—	127	127
Depreciation	(150)	(956)	(44)	(1,150)
Currency translation	56	57	5	118
Balance at December 31, 2020	738	6,455	218	7,411
Additions	—	—	—	—
Disposal	—	(669)	(80)	(749)
Subleased during the period	—	(250)	—	(250)
Depreciation	(110)	(631)	(33)	(774)
Currency translation	(37)	(41)	(12)	(90)
Balance at September 30, 2021	591	4,864	93	5,548

The following is a lease liability continuity for the periods indicated:

	Land	Building	Others	Total
Balance at January 1, 2020	727	7,567	105	8,399
Additions	—	—	127	127
Interest	60	476	9	545
Repayments	(192)	(1,266)	(53)	(1,511)
Currency translation	52	53	7	112
Balance as at December 31, 2020	647	6,830	195	7,672
Disposals	—	(663)	(81)	(744)
Interest	38	309	7	354
Repayments	—	(852)	(45)	(897)
Currency translation	(34)	(39)	(7)	(80)
Balance at September 30, 2021	**651**	**5,585**	**69**	**6,305**

The Company had the following undiscounted lease commitments as at September 30, 2021:

	up to 1 year	1 - 3 years	3 - 5 years	over 5 years	Total
Undiscounted lease commitments	1,221	2,387	902	7,957	**12,467**

(in thousands of Canadian dollars, unless otherwise indicated)

Discounted lease commitments are shown as short-term lease obligations and lease obligations on the consolidated statement of financial position.

The Flowr Okanagan facility lease is payable to 0954717 B.C. LTD. whose principal owners are also shareholders of Flowr. The total remaining commitment for this lease is $8,831, of which $287 is due within one year.

Following are the amounts recognized in condensed interim consolidated statements of loss pertaining to leases for the periods indicated:

	Three months ended September 30,		Nine months ended September 30,	
	2021	2020	2021	2020
Depreciation expense on right-of-use assets	133	234	634	693
Interest expense on lease liabilities (note 18)	111	137	357	416
Interest income earned on sub-lease	5	-	9	2
Expenses related to short-term leases	45	40	132	110

Following are the amounts recognized in the consolidated statement of cash flows pertaining to leases for periods indicated:

	Three months ended September 30,		Nine months ended September 30,	
	2021	2020	2021	2020
Total cash inflow from net investment in lease	55	30	91	100
Total cash outflow for leases	272	346	897	1,004

25. COMMITMENTS AND CONTINGENCIES

The Company had contractual commitments related to purchase orders in the normal course of business of $188 as at September 30, 2021 due within a year.

The Company is subject to legal proceedings and claims, which have arisen in the ordinary course of business. The Company's management does not reasonably expect that these legal actions, when ultimately concluded and determined, will have a material and adverse effect on the Company's results of operations or financial condition. No contingent liabilities have been recorded as at September 30, 2021.

26. NON-CONTROLLING INTEREST

Set out below is summarized financial information reported by Flowr ULC and its subsidiaries that have been incorporated into these condensed interim consolidated financial statements. All of the financial information is presented before any intercompany eliminations with its parent company (Flowr).

(in thousands of Canadian dollars, unless otherwise indicated)

The following table summarizes the consolidated financial position for Flowr ULC as at September 30, 2021 and December 31, 2020:

	September 30, 2021	December 31, 2020
Current assets	15,821	9,031
Non-current assets	249,218	245,925
Current liabilities	(3,789)	(5,415)
Non-current liabilities	(34,007)	(34,272)
Consolidated net assets	227,243	215,269

The following tables summarizes Flowr ULC's consolidated net loss for the periods ended September 30, 2021 and 2020:

	Three months ended September 30,		Nine months ended September 30,	
	2021	2020	2021	2020
Revenue	2,334	2,823	7,957	5,913
Expenses	(7,451)	(5,753)	(19,875)	(18,465)
Consolidated net loss	(5,117)	(2,930)	(11,918)	(12,552)

Other changes in non-controlling interest as reported in the condensed interim consolidated statement of changes in shareholder's equity is primarily attributable to the shares issued by Flowr ULC to the Company as required whenever the Company issues common shares on a one for one basis.

27. FINANCIAL RISK MANAGEMENT

The Company's principal financial liabilities comprise of accounts payable and accrued liabilities, amounts due to related parties, capital lease obligations, convertible debenture and debt. The main purpose of these financial instruments is to assist with the management of the Company's short term and long-term cash flow requirements. The Company has various financial assets, such as cash and cash equivalents, and amounts receivable, which arise directly from its operations.

The main risks that could adversely affect the Company's financial assets, liabilities or future cash flows are market risk, liquidity risk and credit risk. Management reviews each of these risks and establishes policies for managing them as summarized below.

Market risk

Market risk is the risk that the future cash flows or the fair value of a financial instrument will fluctuate because of changes in market conditions. The Company operates in an industry regulated by Health Canada and other regulatory authorities in Portugal and Australia. Changes in legislation could have a significant impact on the Company's operations.

Interest rate risk

Interest rate risk primarily arises from floating rate borrowing, including various revolving and other lines of credit. A ten-percentage change in the floating interest rates does not have a material impact on the condensed interim consolidated statements of loss and comprehensive loss. Certain borrowings are also transacted at fixed interest rates. The Company has an agreement with ATB that requires the Company to enter into interest rate swap contracts on 25% of its outstanding loan with ATB. On September 30, 2021, the Company entered into an interest rate swap contract on a notional amount of $4,363 with ATB whereby the Company has a fixed interest rate of 1% per annum and ATB has a floating interest rate based on benchmark bankers' acceptance. The swap contract has a three-month term and is settled monthly. The termination date of the agreement is November 18, 2022.

Foreign currency risk

The operating results and financial position of the Company are reported in Canadian dollars. As the Company operates internationally, certain of the Company's financial instruments and transactions are denominated in currencies other than the Canadian dollar. The results of the Company's operations are, therefore, subject to currency transaction and translation risks.

The Company's main risk is associated with fluctuations in Euros, Australian and U.S. dollars. The Company holds cash in Canadian dollars, U.S. dollars and Euros. Assets and liabilities are translated based on the Company's foreign currency translation policy. The Company has determined that as at September 30, 2021, the effect of a 10% increase or decrease in Euros and U.S. dollars against the Canadian dollar on financial assets and liabilities would result in an increase or decrease of approximately $3,216 (December 31, 2020 – $10,190) to net loss and $553 (September 30, 2020 – $925) to comprehensive loss for the period ended September 30, 2021.

At September 30, 2021, the Company has not entered into any hedging agreements to mitigate currency risks, with respect to foreign exchange rates.

Other price risk

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market prices, other than those arising from interest rate risk. The Company is not significantly exposed to other price risk with respect to its financial instruments, as their fair values and future cash flows are not impacted materially by fluctuations in market prices.

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
For the three and nine months ended September 30, 2021 and 2020
(in thousands of Canadian dollars, unless otherwise indicated)

Credit risk

The exposure to credit risk arises through the potential failure of a customer or another third party to meet its contractual obligations to the Company. As at September 30, 2021, the Company had amounts receivable of $3,028 (December 31, 2020 - $1,277). 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. The Company is not significantly exposed to credit risk as the accounts receivables are primarily due from provincial government organizations and overall amounts receivable comprise 2.5% (December 31, 2020 – 1.4%) of the Company's total assets. All cash is held with highly rated financial institutions and associated risks are considered nominal. For maximum credit risk exposure on accounts receivable, see note 4.

Liquidity risk

The Company relies on the cash flows generated from its operations, retained cash balances, available lines of credit under its loan facilities and its ability to raise debt and equity from the capital markets to fund its operating, investment, commitments and other liquidity needs. To reduce these risks, the Company: (i) prepares regular cash flow forecasts to monitor its capital requirements and available liquidity (ii) strives to maintain a prudent capital structure that is comprised primarily of equity and debt financing; and (iii) targets a minimum level of liquidity comprised of surplus cash balances to avoid having to raise additional capital at times when the costs or terms would be regarded as unfavorable.

The table below summarizes the maturity profile of the Company's financial liabilities based on contractual undiscounted payments.

As at September 30, 2021	Total	Less than 1 year	1-3 years	3 - 5 years	over 5 years
Trade and other payables	6,819	6,819	—	—	—
Lease obligations	12,467	1,221	2,387	902	7,957
Debt	15,550	3,381	9,572	2,597	—
Hawthorne debt	12,097	809	2,194	2,194	6,900
Convertible debentures	4,412	—	—	4,412	—
Total contractual obligations	51,345	12,230	14,153	10,105	14,857

As at December 31, 2020	Total	Less than 1 year	1-3 years	3 - 5 years	over 5 years
Trade and other payables	11,919	11,919	—	—	—
Due to related parties	97	97	—	—	—
Lease obligations	12,993	1,184	2,680	1,549	7,580
Debt	26,001	6,333	17,645	2,023	—
Hawthorne debt	15,528	809	1,619	1,619	8,481
Convertible debentures	3,834	—	—	3,834	—
Total contractual obligations	70,372	20,342	21,944	9,025	16,061

(in thousands of Canadian dollars, unless otherwise indicated)

Capital management

The Company considers its capital to be its equity. The Company's objective for capital management is to: (i) maintain sufficient levels of liquidity to fund and support its capital projects and operating activities; and (ii) maintain a strong financial position to ensure it has ready access to debt and equity markets to supplement free cash flow being invested in its growth projects. The Company monitors its financial position and the potential impact of adverse market conditions on an ongoing basis. The Company manages its capital structure and makes adjustments to it based on prevailing market conditions and according to its business plan. The Company's funding strategy is to maintain a capital structure comprised primarily of cash sourced from equity and debt offerings and net earnings generated from its operations. In March 2020, the World Health Organization declared the outbreak of COVID-19 a global pandemic. Government measures to limit the spread of COVID-19, including the closure of non-essential businesses, did not materially disrupt the Company's operations during the period ended September 30, 2021. The production and sale of cannabis have been recognized as essential services across Canada. The Company is continuously monitoring the impact of the COVID-19 pandemic on market conditions and will adjust its capital structure strategy accordingly.

See Note 11.

28. EXPENSE BY NATURE

Cost of sales as reported in the condensed interim consolidated statements of loss and comprehensive loss, have been regrouped by the nature of the expenses as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2021	2020	2021	2020
Production costs	2,379	1,458	5,179	2,511
Salaries and benefits	2,463	957	5,577	2,294
Share-based compensation	(112)	84	184	210
Depreciation and amortization	2,546	1,436	5,862	3,549
Total	7,276	3,935	16,802	8,564

Selling and marketing and general and administrative expenses as reported in the condensed interim consolidated statements of loss, have been regrouped by the nature of the expenses as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2021	2020	2021	2020
Salaries and benefits	1,620	2,340	5,536	8,485
Professional fees	603	249	2,247	1,751
General and administrative	610	426	1,934	2,130
Travel	137	93	342	394
Selling and marketing	662	373	2,368	1,158
Total	3,632	3,563	12,427	14,000

Research and development costs, as reported in the condensed interim consolidated statements of loss, have been regrouped by the nature of the expenses as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2021	2020	2021	2020
Salaries and benefits	31	200	188	518
Research and development	193	(42)	381	38
Depreciation and amortization	257	—	761	—
Total	481	157	1,330	556

(in thousands of Canadian dollars, unless otherwise indicated)

29. OPERATING SEGMENT INFORMATION

Operating segments are components of an entity whose operating results are regularly reviewed by the chief operating decision maker in deciding how to allocate resources and in assessing performance and for which separate financial information is available.

The Company primarily operates in two reportable operating segments, (i) Flowr Canada being a licensed producer operating in Canada ("Flowr Canada") and (ii) Holigen being a licensed producer with operations primarily in Portugal. Prior to the acquisition of Holigen in August 2019, the Company operated in one reportable segment. The following table summarizes the net loss and other relevant information by segment for the period ended September 30, 2021:

	Three months ended September 30, 2021				Nine months ended September 30, 2021			
	Flowr Canada	Holigen	Other	Total	Flowr Canada	Holigen	Other	Total
Revenue	2,334	207	—	**2,541**	7,957	590	—	**8,547**
Cost of sales	6,543	733	—	**7,276**	14,587	2,215	—	**16,802**
Impairment of inventory	1	—	—	**1**	879	—	—	**879**
Gross loss before fair value adjustments	(4,210)	(526)	—	**(4,736)**	(7,509)	(1,625)	—	**(9,134)**
Loss before income taxes	(7,474)	(1,810)	(90)	**(9,374)**	(19,842)	(7,365)	1,300	**(25,907)**
Total Capital Expenditure*	34	248	—	**282**	122	594	—	**716**

* *Includes cash and non-cash expenditure related to property plant & equipment and intangible assets and excludes additions related to right-of-use assets.*

For the period ended September 30, 2021, 68% of the Company's cannabis revenue relates to sales made to provincial regulatory bodies in Canada and 32% to other licensed distributors, licensed producers and retailers in Canada.

The following table summarizes the total assets and liabilities by segment as at September 30, 2021 and December 31, 2020:

	September 30, 2021			
	Flowr Canada	Holigen	Other	Total
Assets				
Current Assets	22,581	1,746	832	25,159
Non-current Assets (*)	91,338	41,398	31	132,767
Total Assets	113,919	43,144	863	157,926
Current Liabilities	7,895	4,736	1,265	13,896
Non-current liabilities	28,015	5,830	—	33,845
Total Liabilities	35,910	10,566	1,265	47,741

	December 31, 2020			
	Flowr Canada	Holigen	Other	Total
Assets				
Current Assets	10,032	1,898	20,687	32,617
Non-current Assets (*)	100,809	45,831	1,742	148,382
Total Assets	110,841	47,729	22,429	180,999
Current Liabilities	9,512	5,899	4,412	19,823
Non-current liabilities	37,454	7,122	846	45,422
Total Liabilities	46,966	13,021	5,258	65,245

* *Holigen non-current assets include goodwill of $nil (December 31, 2020 - $nil) and intangibles of $21,638 (December 31, 2020 - $25,882) as at September 30, 2021.*