AYURCANN

Ayurcann Holdings Corp.

Condensed Interim Consolidated Financial Statements

For the Three Months
Ended September 30, 2021

(Expressed in Canadian Dollars)

(Unaudited)

NOTICE OF NO AUDITOR REVIEW OF CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

These unaudited condensed interim consolidated financial statements, including comparatives, have been prepared in accordance with International Accounting Standards ("IAS") 34 'Interim Financial Reporting' ("IAS 34") using accounting policies consistent with the International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and Interpretations of the International Financial Reporting Interpretations Committee ("IFRIC").

Under National Instrument 51-102, Part 4, subsection 4.3(3) (a), if an auditor has not performed a review of the condensed interim consolidated 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 interim consolidated financial statements of Ayurcann Holdings Corp. ("Company") have been prepared by and are the responsibility of the Company's management. The unaudited condensed interim consolidated financial statements are prepared in accordance with accounting principles generally accepted in Canada (these statements are prepared under International Financial Reporting Standards (IFRS)) and reflect management's best estimates and judgment based on information currently available. The Company's independent auditor has not performed a review of these condensed interim consolidated financial statements in accordance with standards established by the Chartered Professional Accountants of Canada for a review of interim financial statements by an entity's auditor.

Ayurcann Holdings Corp.

Condensed Interim Consolidated Statements of Financial Position
(Unaudited)
(Expressed in Canadian dollars)

As at	Notes	September 30, 2021	June 30, 2021
		$	$
Assets			
Current assets			
Cash		**976,194**	725,016
Trade and other receivables	5	**1,397,291**	2,059,491
Prepaid expenses and deposits		**397,380**	308,467
Harmonized sales tax recoverable		**-**	20,880
Inventories	6	**2,924,896**	2,316,979
		5,695,761	5,430,833
Non-current assets			
Property and equipment	7	**908,073**	884,052
Right-of-use assets	8	**333,773**	362,121
Total assets		**6,937,607**	6,677,006
Liabilities			
Current liabilities			
Trade and other payables	9	**1,252,903**	1,083,938
Harmonized sales tax payable		**13,956**	-
Income tax payable		**331,417**	335,447
Current portion of lease liability	10	**115,469**	118,957
Due to related parties	13	**18,900**	33,359
Convertible promissory note		**-**	161,357
		1,732,645	1,571,701
Non-current liabilities			
Lease liability	10	**291,038**	316,083
Long term debt	11	**40,000**	40,000
Total liabilities		**2,063,683**	1,927,784
Shareholders' equity			
Common share capital	14b	**5,787,534**	5,787,534
Warrants issued		**126,488**	126,488
Contributed surplus	14c, 14d	**851,454**	851,454
Equity component of convertible promissory note		**-**	-
Deficit		**(1,891,552)**	(2,016,253)
Total shareholders' equity		**4,873,924**	4,749,222
Total liabilities and shareholders' equity		**6,937,607**	6,677,006

Nature of operations and going concern	**1**
Other events	**16**
Subsequent events	**18**

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

Approved on behalf of the Board of Directors:

/s/. Igal Sudman Director

/s/ Roman Buzaker Director

Ayurcann Holdings Corp.

Condensed Interim Consolidated Statements of Comprehensive Income (Loss)
(Unaudited)
(Expressed in Canadian dollars)

		Three months ended September 30	
	Notes	**2021**	2020
		$	$
Revenues			
Trade sales - cannabis distillate		**1,040,186**	386,350
Processing fees		**825,692.00**	401,630
		1,865,878	787,980
Cost of goods sold	**15**	**(934,884)**	(619,454)
Gross margin		**930,994**	168,526
Expenses			
Salaries and wages		**229,264**	90,419
Office and general		**279,476**	44,958
Share based payments		**-**	38,942
Professional fees		**78,585**	14,636
Business development		**-**	12,116
Consulting fees	**14b, 14c**	**19,196**	9,865
Marketing		**152,941**	-
Travel		**3,406**	3,427
Depreciation of property and equipment	**7**	**1,700**	2,898
Right-of-use assets amortization	**8**	**-**	-
		764,568	217,261
Operating income (loss)		**166,426**	(48,735)
Investment/Interest		**(25,975)**	-
Other income		**8,520**	-
Income Tax Recovery		**(4,030)**	-
Bad Debt		**37,350**	-
Debenture Settlement		**-**	-
Finance costs	**14b, 14c**	**25,678**	165,614
Comprehensive Income (loss)	**17**	**124,703**	(214,349)
Comprehensive Income (loss) per share – basic and diluted		**0.001**	**(0.003)**
Weighted average number of common shares outstanding *		**104,597,633**	**79,027,473**

* All share and per share numbers have been adjusted to reflect the share exchange ratio as if it had occurred at the beginning of all reported periods.

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

Ayurcann Holdings Corp.

Condensed Interim Consolidated Statements of Changes in Equity

(Unaudited)

(Expressed in Canadian dollars)

Notes	Common share capital		Contributed surplus	Equity component of convertible promissory note	Warrant Issuance	Deficit	Total equity
	#	$	$	$	$	$	
Balance June 30, 2020	**77,253,073**	**1,544,635**	**821,771**	**36,454**		**(1,737,893)**	**664,967**
Stock Option Issuance			44,683				44,683
Net loss for the period						(214,349)	(214,349)
Balance September 30, 2020	**77,253,073**	**1,544,635**	**866,454**	**36,454**	**-**	**(1,952,242)**	**495,301**
Founder share adjustment	-	172,041	-	-	-	-	172,041
Subscription proceeds for cash	3,189,585	476,344	-	-	126,488	-	602,832
RSUs vested for common shares	434,215	89,013	-	-	-	-	89,013
Common shares issued – RTO transaction & severance	16,097,729	3,000,000	-	-	-	-	3,000,000
Convertible debt exchanged for shares	7,347,500	453,000	-	(36,454)	-	-	416,546
Exercise of warrants	275,531	52,500	(15,000)	-	-	-	37,500
Stock option issuance	-	-	-	-	-	-	-
Net loss for the period	-	-	-	-	-	(64,011)	(64,011)
Balance June 30, 2021	**104,597,633**	**5,787,533**	**851,454**	**-**	**126,488**	**(2,016,253)**	**4,749,222**
Net income for the period						124,703	124,703
Balance September 30, 2021	**104,597,633**	**5,787,533**	**851,454**	**-**	**126,488**	**(1,891,552)**	**4,873,924**

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

Ayurcann Holdings Corp.

Condensed Interim Consolidated Statements of Cash Flows
(Unaudited)
(Expressed in Canadian dollars)

For the three months ended September 30,	**Notes**	**2021**	2020
		$	$
Operating activities			
Net Income (loss).		**124,703**	(214,349)
Items not affecting cash:			
Depreciation of property and equipment		**74,949**	36,207
Amortization of right-of-use assets		**-**	20,406
Accretion of finance costs		**-**	151,490
Interest on right-of-use assets		**-**	9,775
Amortization of deferred lease inducement		**-**	(2,070)
Share based payments		**-**	38,942
		199,652	(40,401)
Changes in non-cash working capital balances			
Trade and other receivables		**662,200**	(70,115)
Prepaids		**(88,913)**	-
Harmonized sales tax recoverable		**34,836**	(26,598)
Inventories		**(607,917)**	(114,463)
Trade and other payables		**164,936**	219,013
		165,142	7,837
Net cash used in operating activities		**364,794**	48,238
Investing activities			
Property and equipment additions		**(70,624)**	(20,190)
Net cash used in investing activities		**(70,624)**	(20,190)
Financing activities			
Finance lease payments		**(28,533)**	(26,544)
Advances from related parties		**(14,459)**	-
Net cash provided by financing activities		**(42,992)**	(26,544)
(Decrease) increase in cash flow		**251,178**	(1,504)
Cash, beginning of period		**725,016**	22,444
Cash, end of period		**976,194**	23,948

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

1. Nature of Operations and Going Concern

Ayurcann Inc. was incorporated under the Canada Business Corporations Act ("CBCA") on June 22, 2018. Pacific Coal Corp. (the "Company") was incorporated on August 26, 2010 under the Business Corporation Act (Ontario). On April 12, 2011, the Company changed its name to Canada Coal Inc.

On March 26, 2021, the Company was renamed to Ayurcann Holdings Corp., following the reverse takeover transaction (RTO) with Ayurcann Inc., which became a wholly-owned subsidiary of Ayurcann Holdings Corp. Pursuant to RTO accounting standards, these consolidated financial statements reflect the continuation of the financial position, operating results and cash flows of the Company's legal subsidiary, Ayurcann Inc. (see Note 16). The Company's principal business activity consists of providing post-harvest outsourcing solutions to licensed cannabis producers.

On April 8, 2021, the Company commenced trading on the Canadian Securities Exchange under the symbol "Ayur." Following the Company's public listing, on August 19, 2021, the Company inter-listed on the Frankfurt Stock Exchange under the symbol "3ZQ0."

The Company's registered head office is 1080 Brock Road, Unit 6, Pickering, L1W 3X4.

The Company's website is https://ayurcann.com/.

These condensed interim consolidated financial statements have been prepared based on the basis of accounting principles applicable to a going concern, which assumes that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations.

The Company incurred a comprehensive income of $124,703 during the three month period ending September 30, 2021, and as at September 30, 2021, the Company's accumulated deficit was $1,891,552. A large portion of the deficit is related to the one-time transaction costs related to the reverse-takeover transaction. Ayurcann Inc., the operating entity comprising the consolidated financial statements, reported operating net income of $198,371 during the same period, see segmented information note 17.

The Company's ability to continue as a going concern is dependent upon its ability to obtain additional financing and or achieve profitable operations in the future. Management is aware, in making its assessment, of material uncertainties related to events or conditions that cast significant doubt upon the Company's ability to continue as a going concern.

The consolidated financial statements do not reflect adjustments that would be necessary is the going concern assumptions were not appropriate. These adjustments could be material. Management is actively pursuing funding options required to meet the Company's requirements on an ongoing basis. If the going concern assumption was not appropriate for these financial statements, adjustments would be necessary to the carrying values of assets and liabilities, net and comprehensive loss, and statements of financial position classifications used. Such adjustments could be material.

Since December 31, 2019, the outbreak of the novel strain of coronavirus, specifically identified as "COVID-19", has resulted in governments worldwide enacting emergency measures to combat the spread of the virus. These measures, which include the implementation of travel bans, self-imposed quarantine periods and social distancing, have caused material disruption to businesses globally resulting in an economic slowdown. Global equity markets have experienced significant volatility and weakness. Governments and central banks have reacted with significant monetary and fiscal interventions designed to stabilize economic conditions. The duration and impact of the COVID-19 outbreak is unknown at this time, as is the efficacy of the government and central bank interventions. It is not possible to reliably estimate the length and severity of these developments and the impact on the financial results and condition of the Company in future periods.

2. Basis of Preparation

Statement of compliance
The Company applies International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC").

The policies applied in these condensed interim consolidated financial statements are based on IFRSs issued and outstanding as of November 26, 2021, the date the Board of Directors approved the statements.

Basis of measurement
These condensed interim consolidated financial statements have been prepared on an accrual basis and are based on historical costs, except for certain financial instruments, which are measured at fair value, as explained in the accounting policies set out in Note 3.

Functional and presentation currency
The financial statements are presented in Canadian dollars, the Company's functional currency.

3. Significant Accounting Policies

Significant accounting estimates and judgments
The preparation of financial statements in conformity with IFRS requires management to make significant judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses and related footnote disclosures. Use of available information and the application of judgment are inherent in the formation of estimates. Actual results in the future can differ from these estimates, which may be material to future financial statements.

Significant estimates and underlying assumptions are reviewed on a periodic basis. Management uses historical experience and various other factors it believes to be reasonable under the circumstances as the basis for its judgments and estimates. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements, are outlined below:

- Recovery of accounts receivable - the Company estimates the collectability and timing of collection of its receivables, classifying them as current assets or long-term assets, and applies provisions for collectability when necessary;
- Valuation of inventory – the provision for obsolescence and the estimated net realizable value;
- Convertible promissory note is separated into its liability and equity components using the effective interest rate method. The fair value of the liability component at the time of issue is calculated as the discounted cash flows for the convertible debenture using the effective interest rate which was the estimated rate for a promissory note without a conversion feature. The fair value of the equity component was determined at the time of issue as the difference between the face value of the convertible promissory note and the fair value of the liability component. Changes in the input assumptions can materially affect the fair value estimates and the Company's classification between debt and equity components;
- Property and equipment and right-of-use assets - management is required to estimate the useful lives and residual value of property and equipment and right-of-use assets which are included in the statements of financial position and the related depreciation included in the statements of loss;
- Share-based payments – management is required to make a number of estimates when determining the compensation expense resulting from share-based transactions, including the forfeiture rate and expected life of the instruments;

3. Significant Accounting Policies (continued)

- Recoverability of deferred income tax assets – assessing whether the realization of tax losses against future taxable income for income tax purposes if probable;
- Impairment of property, plant and equipment and right-of-use assets - assessing whether indicators of impairment exist at reporting period ends and, if required, determining recoverable amounts including assumptions and inputs thereto; and
- Going concern assumption – Going concern presentation of the financial statements which assumes that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations as they come due.

Revenue recognition
The Company earns revenue from the extraction and processing of cannabis oil-based products - both through processing its own biomass cannabis and providing same services to its customers.

Revenue is measured at the fair value of the consideration received or receivable, net of estimated returns and discounts. The Company considers the terms of the sales contracts as well as industry practices, taking into consideration the type of customer, the nature of the transaction and the specific circumstances of each arrangement.

The Company accounts for revenue from a contract with a customer only when the following criteria are met:

- the contract has been approved by the parties to the contract;
- each party's rights in relation to the goods or services to be transferred can be identified;
- the payment terms for the goods or services to be transferred can be identified;
- the contract has commercial substance; and
- it is probable that the consideration to which the entity is entitled to in exchange for the goods or services will be collected.

Revenue from product sales and the related cost of goods sold are recognized on delivery of goods to the customer. Processing fee revenue is recognized on completion of services.

Cash and cash equivalents
Cash and cash equivalents comprise cash at banks and on hand, and short-term deposits with an original maturity of three months or less or cashable without penalty which are readily convertible into a known amount of cash.

Property and equipment
Property and equipment are recorded at cost, net of accumulated depreciation, and impairment charges, if any. Depreciation is provided for over the assets' useful lives at the following annual rates and methods:

Furniture and fixtures	Declining balance method	20%
Leasehold improvements	Straight-line method	Lease term
Machinery and equipment	Declining balance method	20%
Computer	Declining balance method	55%
Signs	Declining balance method	20%

Impairment of non-current assets
Property and equipment are assessed for indications of impairment at the end of each reporting period. If such indications exist, then the recoverable amount of the asset is estimated.

3. Significant Accounting Policies (continued)

An impairment loss is recognized when the carrying amount of the asset exceeds its recoverable amount. The recoverable amount of an asset is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and risks specific to the asset. Impairment losses are recognized in operations for the year in which they are identified.

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

Current income tax
Current income tax expense represents the sum of income tax currently payable. Current income tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the date of the statement of financial position.

Deferred income tax
Deferred income tax is provided using the asset and liability method on temporary differences at the date of the statement of financial position between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax assets are recognized for all deductible temporary differences, and the carry forward of unused tax losses, to the extent that it is probable that taxable Income will be available against which the deductible temporary differences and the carry forward of unused tax losses can be utilized.

The carrying amount of deferred income tax assets is reviewed at each date of the statement of financial position and reduced to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the deferred income tax asset to be utilized. Unrecognized deferred income tax assets are reassessed at each date of the statement of financial position and are recognized to the extent that it has become probable that future taxable income will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized, or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the date of the statement of financial position.

Deferred income tax relating to items recognized directly in equity is recognized in equity and not in the statement of income and comprehensive (loss) income.

Deferred income tax assets and deferred income tax liabilities are offset if, and only if, a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority or to realize the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax assets or liabilities are expected to be settled or recovered.

Foreign currency transactions
Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the closing exchange rate being the rate prevailing on the statement of financial position date. Non-

monetary assets and liabilities are translated at historical rates of exchange at the time of the acquisition of assets or obligations incurred. Revenues and expenses are translated at the rate of exchange in effect

3. Significant Accounting Policies (continued)

at the date of the transactions. Foreign exchange translation gains and losses are recorded in operations in the period in which they occur.

Financial instruments

Recognition
The Company recognizes a financial asset or financial liability on the statement of financial position when it becomes party to the contractual provisions of the financial instrument. Financial assets are initially measured at fair value and are derecognized either when the Company has transferred substantially all the risks and rewards of ownership of the financial asset, or when cash flows expire. Financial liabilities are initially measured at fair value and are derecognized when the obligation specified in the contract is discharged, cancelled, or expired.

A write-off of a financial asset (or a portion thereof) constitutes a derecognition event. Write-off occurs when the Company has no reasonable expectations of recovering the contractual cash flows on a financial asset.

Classification and measurement
The Company determines the classification of its financial instruments at initial recognition. Financial assets and financial liabilities are classified according to the following measurement categories:

- those to be measured subsequently at fair value, either through profit or loss (“FVTPL”) or through other comprehensive income (“FVTOCI”); and
- those to be measured subsequently at amortized cost.

The classification and measurement of financial assets after initial recognition at fair value depends on the business model for managing the financial asset and the contractual terms of the cash flows. Financial assets that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding, are generally measured at amortized cost at each subsequent reporting period. All other financial assets are measured at their fair values at each subsequent reporting period, with any changes recorded through profit or loss or through other comprehensive income (which designation is made as an irrevocable election at the time of recognition). After initial recognition at fair value, financial liabilities are classified and measured at either:

- amortized cost;
- FVTPL, if the Company has made an irrevocable election at the time of recognition, or when required (for items such as instruments held for trading or derivatives); or
- FVTOCI, when the change in fair value is attributable to changes in the Company’s credit risk.

The Company reclassifies financial assets when and only when its business model for managing those assets changes. Financial liabilities are not reclassified.

Transaction costs that are directly attributable to the acquisition or issuance of a financial asset or financial liability classified as subsequently measured at amortized cost are included in the fair value of the instrument on initial recognition. Transaction costs for financial assets and financial liabilities classified at fair value through profit or loss are expensed in profit or loss.

Fair value of financial instruments
The determination of the fair value of financial assets and liabilities, for which there is no observable

market price, requires the use of valuation techniques. For financial instruments that trade infrequently

3. Significant Accounting Policies (continued)

and have little price transparency, fair value is less objective as such it requires varying degrees of judgment. The use of judgment in valuing financial instruments includes assessing qualitative factors such on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the particular instrument.

The Company measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:
Level 1: Quoted market price in an active market for an identical instrument.

Level 2: Valuation techniques based on observable inputs derived either directly or indirectly from market prices. This category includes instruments valued using quoted market prices in active markets for similar instruments, quoted market prices for identical or similar instruments in markets that are considered less than active or other valuation techniques where all significant inputs are directly or indirectly observable from market data.

Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted market prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

As of September 30, 2021, except for cash, none of the Company's financial instruments are recorded at fair value in the statements of financial position. Cash is classified as Level 1.

Compound Instruments
The components of compound instruments (convertible promissory note) issued by the Company are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument. A conversion option that will be settled by the exchange of a fixed amount of cash of another financial asset for a fixed number of the Company's own equity instruments is an equity instrument.

At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for similar non-convertible instruments. This amount is recorded as a liability on an amortized cost basis using the effective interest rate method until extinguished upon conversion or at the instrument's maturity date.

The conversion option classified as equity is determined by deducting the amount of the liability component from the fair value of the compound instrument as a whole. This is recognized and included in equity and is not subsequently remeasured. In addition, the conversion option classified as equity will remain in equity. No gain or loss is recognized in profit or loss upon conversion or expiration of the conversion option.

Transaction costs that relate to the issue of the convertible debenture are allocated to the liability and equity components in proportion to the allocation of the gross proceeds. Transaction costs relating to the equity component are recognized directly in equity. Transaction costs relating to the liability component are included in the carrying amount of the liability component and are amortized over the term of the convertible debentures using the effective interest method.

Impairment of financial assets
The Company assesses all information available, including on a forward-looking basis the expected credit

losses associated with any financial assets carried at amortized cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk. To assess whether there is a significant increase in credit risk, the Company compares the risk of a default occurring on the asset

as at the reporting date with the risk of default as at the date of initial recognition based on all information available, and reasonable and supportive forward-looking information.

Inventories

Inventories consist of finished goods, work-in-process and raw materials and is valued at the lower of cost and net realizable value. Cost is determined using the standard cost method, which is updated regularly to reflect current conditions and approximate cost based on the weighted average formula. Cost of inventories includes cost of purchase (purchase price, transport, handling, and other costs directly attributable to the acquisition of inventories), cost of conversion, and other costs incurred in bringing the inventories to their present location and condition. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

All inventories are reviewed for impairment due to slow moving and obsolete inventory. The provision for obsolete, slow moving and defective inventories are recognized in profit or loss. Previous write downs to net realizable value are reversed to the extend there is a subsequent increase in the net realizable value of the inventory.

Related party transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Related parties, which may be individuals or corporate entities, are also considered to be related if they are subject to common control or common significant influence. A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties. Related party transactions that are in the normal course of business and have commercial substance are measured at the exchange amount.

Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) that has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risk specific to the obligation. The increase in the provision due to the passage of time is recognized as interest expense.

Comprehensive loss per share

The basic comprehensive income (loss) per share is computed by dividing comprehensive income (loss) by the weighted average number of common shares outstanding during the current period. The diluted comprehensive income (loss) per share reflect the potential dilution of common share equivalents, such as outstanding stock options and share purchase warrants, in the weighted average number of common shares outstanding during the period, if dilutive. The “treasury stock method” is used for the assumed proceeds upon the exercise of the options and warrants that are used to purchase common shares at the average market price during the period.

Equity-based payments

Equity-based share-based payment transactions with parties other than employees are measured at the fair value of goods or services received, except where that fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments granted, measured at the date the entity obtains the goods or the counterparty renders the service.

The fair value of stock options, warrants and restricted share units ("RSU's") granted is measured using the black-scholes option-pricing model, considering the terms and conditions upon which the instruments were granted.

3. Significant Accounting Policies (continued)

Repurchase of Shares

Repurchase of shares is recorded using the constructive retirement method which is used under the assumption that the repurchased shares will not be reissued in the future. Under this approach, the amount by which the repurchased amount was less that the stated capital of the shares, if any, is credited to contributed surplus. The stated capital of the repurchased shares is determined based on the original cost of the particular shares at the time of the repurchase.

Government grants and assistance

Grants and subsidies are recognized at their fair value where there is reasonable assurance that the grant will be received and the Company will comply with all the attached conditions. Fair value signifies the amount received in cash. The grants and subsidies are presented as 'other fees in operations.

Leases ("IFRS 16")

IFRS 16 introduced a single, on-balance sheet accounting model for leases. The Company, as a lessee, has recognized right-of use assets representing its rights to use the underlying assets and lease liabilities representing its obligation to make lease payments.

A right-of-use asset is initially measured at cost, and subsequently at cost less any accumulated depreciation or impairment losses and adjusted for certain re-measurements of the lease liability. 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 Company primarily uses its incremental borrowing rate as the discount rate.

The lease liability is subsequently increased by the interest cost on the lease liability and decreased by lease payments made. It is remeasured 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 has furthermore applied judgment to determine the applicable discount rate. The discount rate is based on the Company's incremental borrowing rate and reflects the current market assessments of the time value of money and the associated risks for which the estimates of future cash flows have not been adjusted for.

Basis of consolidation

These consolidated financial statements incorporate the financial statements of the Company and its subsidiary. The subsidiary is consolidated from the date of acquisition, being the date on which the Company obtains control, and continues to be consolidated until the date that such control ceases. Control is achieved when an investor has power over an investee to direct its activities, exposure to variable returns from an investee, and the ability to use the power to affect the investor's returns.

The results of subsidiary acquired or disposed of during the period presented are included in the consolidated statements of comprehensive loss from the effective date of control and up to the effective date of disposal or loss of control, as appropriate. All intercompany transactions, balances, income and expenses are eliminated upon consolidation.

Adoption of new accounting standards

(Expressed in Canadian Dollars)

(a) IFRS 3. In October 2018, the IASB issued amendments to IFRS 3 “Definition of a Business” The amendments clarify the definition of a business, with the objective of assisting entities to determine whether a transaction should be accounted for as a business combination or as an asset acquisition. The amendment provides an assessment framework to determine when a series of integrated activities is not a business. The Company adopted this standard effective July 1, 2020 and the adoption of this new standard does not have a material impact on these consolidated financial statements.

(b) IAS 1 “Presentation of Financial Statements” and IAS 8 “Accounting Policies, Changes in Accounting Estimates and Errors” were amended in October 2018 to refine the definition of materiality and clarify its characteristics. The revised definition focuses on the idea that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general-purpose financial statements make on the basis of those financial statements. The Company adopted this standard effective July 1, 2020 and the adoption of this new standard does not have a material impact on these consolidated financial statements.

4. Capital Management

The Company defines capital as total shareholders’ equity. The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company, in order to support the growth and development of its operations and bring new products to market and to ensure it continues as a going concern. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company’s management to sustain future development of the business. The Company will continue to assess new opportunities and seek to acquire an interest in growth situations if it feels there is sufficient economic potential and if it has adequate financial resourcesto do so.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable. There were no changes in the Company’s approach to capital management during the period ending September 30, 2021.

The Company is not subject to externally imposed capital requirements.

5. Trade and Other Receivables

Trade and other receivables are collectible from customer sales. The following is an aging analysis of the Company’s trade and other receivables:

		Aging in Days			
	Total Receivable	**Current**	**31 to 60**	**61 to 90**	**91+**
Sep 30, 2020	$ 420,480	$ 283,308	$ 137,172	$ -	$ -
Sep 30, 2021	**$ 1,397,291**	**$ 949,829**	**$ 393,353**	**$ 11,700**	**$ 42,409**

As at September 30 2021 the Company recorded a bad debt expense of $42,409 as settlement with a customer during the period. As at September 30, 2020, no additional impairment was recorded for any portion of the accounts receivable. The company held no collateral for any receivable amounts outstanding as at September 30, 2021 and September 30, 2020.

(Expressed in Canadian Dollars)

6. Inventories

As at,	**September 30, 2021**	September 30 2020
	$	$
Work-in-progress	**954,297**	-
Finished goods	**1,667,799**	396,412
Packaging	**153,950**	-
Biomass	**148,850**	-
	2,924,896	396,412

Write-downs to net realizable value for obsolete and slow-moving inventories of $nil during the period ending September 30, 2021 (September 30, 2020 - $nil) were included in cost of goods sold for the period. Inventories recognized as an expense in the period ending September 30,2021, and 2020 is equal to cost of goods sold presented in the statements of comprehensive income (loss)

7. Property and Equipment

	Furniture and Fixtures	**Leasehold Improvements**	**Machinery and Equipment**	**Computer**	**Signs**	**Total**
Cost	$	$	$	$	$	$
June 30, 2020	7,143	586,198	61,561	27,997	825	683,724
Additions	8,856	327,624	170,632	1,874	-	508,986
June 30, 2021	**15,999**	**913,822**	**232,193**	**29,871**	**825**	**1,192,710**
Accumulated Depreciation	$	$	$	$	$	$
June 30, 2020	1,077	114,731	6,156	7,699	83	129,746
Depreciation	2,402	136,123	30,225	10,023	139	178,912
June 30, 2021	**3,479**	**250,854**	**36,381**	**17,722**	**222**	**308,658**
Carrying Value	$	$	$	$	$	$
June 30, 2021	**12,520**	**662,968**	**195,812**	**12,149**	**603**	**884,052**

(Expressed in Canadian Dollars)

	Furniture and Fixtures	Leasehold Improvements	Machinery and Equipment	Computer	Signs	Total
Cost	$	$	$	$	$	$
June 30, 2021	15,999	913,822	232,193	29,871	825	1,192,710
Additions	4,731	36,469	29,424	-	-	70,624
Sep 30, 2021	**20,730**	**950,290**	**261,617**	**29,871**	**825**	**1,263,333**
Accumulated Depreciation	$	$	$	$	$	$
June 30, 2021	3,479	250,854	36,381	17,722	222	308,658
Depreciation	673	33,968	10,260	1,670	30	46,601
Sep 30, 2021	**4,152**	**284,822**	**46,641**	**19,392**	**252**	**355,260**
Carrying Value	$	$	$	$	$	$
Sep 30, 2021	**16,578**	**665,468**	**214,976**	**10,479**	**573**	**908,073**

8. Right-of-Use-Assets

	Production facility
	$
Cost	
June 30, 2020	387,720
Additions	158,830
Balance, June 30, 2021	**546,550**
Additions	-
Balance, September 30, 2021	**546,550**
Accumulated amortization	
Balance, June 30, 2020	**81,626**
Amortization for the year	102,803
Balance, June 30, 2021	**184,429**
Additions – other	28,348
Balance, September 30, 2021	**212,777**
Carrying value	
Balance, June 30, 2021	362,121
Balance, September 30, 2021	**333,773**

Right-of-use assets comprise of production facility lease and are amortized over 60 months.

(Expressed in Canadian Dollars)

9. Trade and Other Payables

Trade and other payables are principally comprised of amounts outstanding for trade purchases on operating activities. The following comprises trade and other payables:

As at,	**September 30, 2021**	June 30, 2021
	$	$
Trade payables	**1,203,999**	996,318
Accrued & other current liabilities	**48,904**	87,620
	1,252,903	1,083,938

The standard maturity terms of the Company's trade and other payables are 30 to 60 days.

10. Lease Liability

	Production facility
Balance, June 30, 2020	373,495
Additions – IFRS 16	158,829
Lease inducement	(8,277)
Interest expense	35,714
Amortization of rent inducement	10,070
Lease payments	(134,791)
Balance, June 30, 2021	**435,040**
Interest expense	11,855
Lease payments	(37,832)
Other adjustments	(5,114)
Amortization of rent inducement	2,558
Balance, September 30, 2021	**406,507**

Allocated as:	$
Current	115,469
Non-current	291,038
Balance, September 30, 2021	**406,507**

The lease payments are discounted using an interest rate of 12%, which is the Company's incremental borrowing rate. The first lease has an initial expiry date of March 24, 2024 with the Company holding two five-year renewal options. The second lease began November 1, 2020 and has an expiry date ofOctober 31, 2025.

(Expressed in Canadian Dollars)

11. Long-Term Debt

On April 17, 2020, the Company received a $40,000 loan through the Canada Emergency Response Account (“CEBA”). In December 2020, the Company received an additional $20,000 through the CEBA program. The loan is non-interest bearing until December 31, 2022, at which time if paid back in full, $20,000 is forgivable, and if not, the loan becomes a three-year interest-bearing term loan.

12. Key Management Compensation

The Company defines key management personnel as its President, Chief Executive Officer and Directors. Key management compensation for the three month period ending September 30, 2021 comprised executive fees of $82,500 (September 30, 2020 - $55,385) and share based payments of $nil (September 30 2020 - $nil).

13. Related Party Transactions and Balances

As at September 30, 2021, there are no longer related party loan balances payable to the CEO and the COO (September 30 2020 - $57,300, $57,500, and $58,456 to the President, CEO, and Corporation owned by the CEO, respectively). Interest incurred on related party balances payable to the CEO and COO are $9,450 and $9,450 respectively (Sep. 30, 2020 – Interest incurred on loans was $4,128).\

The Company recorded a management fee of $160,000 for services provided to its wholly-owned subsidiary, Ayurcann Inc. The same expense was recorded on the books of Ayurcann Inc. On the consolidation the balances were netted out to zero per IFRS.

14. Share Capital

a. Authorized Shares

An unlimited number of common shares

b. Issued Shares

During the three-month period ending September 30, 2021 and September 30, 2020 the Company did not issue common shares.

14. Share Capital (continued)

c. Warrants

A summary of the Company’s warrants for the three months ended September 30, 2021 and 2020 is presented below:

	Warrants	**Weighted average exercise price**
	#	$
Outstanding, June 30 and September 30, 2020	**10,000,000**	**0.20**
Exercised	(187,500)	0.20
Cancelled on RTO	(9,812,500)	0.20
Issued on RTO	14,419,461	0.14
Acquired from Canada Coal (iii)	1,087,500	0.40
Granted (ii)	1,602,556	0.38

(Expressed in Canadian Dollars)

Outstanding, June 30 and September 30, 2021	**17,109,517**	**0.18**

14. Share Capital (Continued)

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

Date of grant	Number of warrants	Exercise price	Expiry date
May 31, 2019	7,071,961	0.14	May 31, 2022
June 10, 2019	1,469,500	0.14	June 10, 2022
August 19, 2019	5,878,000	0.14	August 19, 2022
January 23, 2020	1,087,500	0.40	January 23, 2022
April 28, 2021	1,602,556	0.38	April 28, 2024

(i) On May 31, 2019 the Company issued 5,000,000 warrants to ExpoWorld Ltd., in connection with a private placement (see prior year adjustment note 19). Each warrant is exercisable into one common share at a price of $0.20 per share and expires on May 31, 2022. The fair value of $410,700 was assigned to the warrants and has been estimated using the Black-Scholes model for pricing warrants under the following assumptions: risk free interest rate - 1.39%; dividend yield 0%; expected stock volatility – 174.3% and an expected life of 3 years.

(ii) On April 28, 2021 the Company issued 1,594,795 warrants and 7,761 broker warrants in connection with a private placement. Each warrant is exercisable into one common share at a price of $0.38 per share and expires on April 28, 2024. The fair value of $126,487 was assigned to the warrants and has been estimated using the Black-Scholes model for pricing warrants under the following assumptions: risk free interest rate – 0.48%; dividend yield 0%; expected stock volatility – 100.87% and an expected life of 3 years.

(iii) Prior to the completion of the reverse take-over transaction, Canada Coal had 5,000,000 warrants outstanding. Majority of the warrants were due to expire prior to effecting the transaction. Canada Coal effected a share consolidation on the basis of 2:1 and the warrants and there were only 1,087,500 warrants accounted for.

d. Stock options

The Company has a Share Option Plan (the "Plan") under which it is authorized to grant options to purchase common shares of the Company to directors, senior officers, employees and/or consultants of the Company. The aggregate number of shares of the Company which may be issued and sold under the Plan will not exceed 10% of the total number of common shares issued and outstanding from time to time. Share options are granted with a maximum term of ten years with vesting requirements at the discretion of the Board of Directors.

	Exercise price $	Options #
Balance, June 30, 2020	**0.15**	**125,000**
Granted (ii)	0.15	333,334
Balance, September 30, 2020	**0.15**	**458,334**
Granted (iii)	0.15	783,735
Issued on RTO	0.15	75,000
Cancelled on RTO	0.15	(533,334)
Acquired from Canada Coal	0.10	625,000
Granted (iv) (v)	0.28	1,705,100

(Expressed in Canadian Dollars)

Balance, September 30, 2021	**0.17**	**3,113,835**

14. Share Capital (Continued)

d. Stock options

(i) On September 5, 2019, the Company granted 325,000 stock options to employees and consultants of the Company exercisable at $0.15 per common share until September 5, 2022. From the total, 125,000 options vest immediately and 200,000 options vests in thirds on each of the first, second and third anniversary dates. The grant date fair value of $26,228 was assigned to the stock options as estimated by using the Black-Scholes valuation model with the following assumptions: share price of $0.10, expected dividend yield of 0%, expected volatility of 161.5%, risk-free rate of return of 1.38% and an expected maturity of 3 years.

(ii) On September 16, 2020, the Company granted 333,334 stock options to a consultant of the Company exercisable at $0.15 per common share until September 16, 2023. The options vest immediately. The grant date fair value of $38,942 was assigned to the stock options as estimated by using the Black-Scholes valuation model with the following assumptions: share price of $0.10, expected dividend yield of 0%, expected volatility of 141%, risk-free rate of return of 0.27% and an expected maturity of 3 years.

(iii) On November 16, 2020, the Company granted 75,000 stock options to a consultant for advisory services. The options are exercisable at $0.14 per common share until November 16, 2023. The options vest immediately. The grant date fair value of $5,741 was assigned to the stock options as estimated by using the Black-Scholes valuation model with the following assumptions: share price of $0.14, expected dividend yield of 0%, expected volatility of 93.57%, risk-free rate of return of 0.2% and an expected maturity of 3 years.

(iv) On April 13, 2021, the Company granted 1,000,100 stock options to employees. The options are exercisable at $0.16 per common share until April 13, 2024. The options vest after 6 months from date of grant. The grant date fair value of $103,800 was assigned to the stock options as estimated by using the Black-Scholes valuation model with the following assumptions: share price of $0.18, expected dividend yield of 0%, expected volatility of 107%, risk-free rate of return of 0.48% and an expected maturity of 3 years.

(v) On June 25, 2021, the Company granted 705,000 stock options to consultants. 400,000 options are exercisable at $0.28, 230,000 options are exercisable at $0.38 and 75,000 options exercisable at $0.205 until June 30, 2023. The options vest after 4 months from date of grant.

(Expressed in Canadian Dollars)

The following table reflects the stock options issued and outstanding as of September 30, 2021:

Expiry date	Exercise price	Options	Weighted average contractual life (years)	Number of options vested (exercisable)
	$	#		
September 5, 2022	0.1021	183,688	1.18	183,688
September 16, 2023	0.1021	489,834	2.21	489,834
November 24, 2023	0.0953	110,213	2.40	110,213
March 25, 2022	0.1000	625,000	0.73	625,000
April 13, 2024	0.1600	1,000,100	2.79	-
June 30, 2023	0.2050	75,000	2.00	-
June 30, 2023	0.3800	230,000	2.00	-
June 30, 2023	0.2800	400,000	2.00	-
	0.1659	**3,113,835**	**1.92**	**1,408,735**

15. Cost of Sales

For the three months ended September 30,	2021	2020
	$	**$**
Purchases and direct service costs	**1,279,447**	604,564
Direct labour	**(4,647)**	50,813
Depreciation of production equipment	**44,902**	33,310
Insurance	**48,431**	7,495
Utilities	**12,753**	9,622
Amortization of production facility right-of-use asset	**25,788**	20,407
Interest on production facility right-of -use asset	**11,856**	7.706
Facility rental	**26,800**	-
Quality Control	**1,968**	-
Change in inventory	**(512,414)**	(114,463)
	934,884	619,454

(Expressed in Canadian Dollars)

16. Other Events

On August 20, 2021, the Company entered into a customer debt settlement arrangement with Teal Valley Health Inc. The bad debt expense will be recorded at a value of $37,530.42. There is no further credit exposure with this customer.

17. Segmented Information

The table below summarizes the post-harvest cannabis activities of the operating entity in the consolidated financial statements, Ayurcann Inc., for the three months ended September 30, 2021. While the Cannabis segment operating arm of the Company incurred a $198,371 operating net income over the same period, the Company had non-operating expenses which contributed to the smaller consolidated comprehensive net income of 124,703. Results of the segment are below:

	Cannabis segment (three months ended Sep. 30, 2021)
Revenue	**1,865,634**
COGS	(934,884)
Gross margin	**930,994**
Operating expenses related to Cannabis Segment	(732,623)
Operating income – Cannabis Segment	**198,371**
Finance and other costs	(197,723)
Net income before income taxes – Cannabis Segment	**648**
Current income tax expense	-
Segmented net income	**648**

18. Subsequent events

On October 7, 2021, the Company announced that it has granted an aggregate of 1,253,125 Restricted Share Units to certain directors, officers, employees, and consultants of the Company, pursuant to the Company's Restricted Share Unit plan, dated April 1, 2021. The Restricted Share Units vest immediately but will be subject to a hold period of 4 months and a day.

On the same date, the Company also announced a closing of a non-brokered private placement of 7,710,354 units at a price of $0.18 per Unit for aggregate gross proceeds of $1,387,863.72. Each Unit consists of one common share in the capital of the Corporation and one Common Share purchase warrant. Each Warrant entitles the holder thereof to purchase one Common Share at an exercise price of $0.22 for a period of the earlier of: (a) thirty six (36) months from the date of the closing of the Private Placement; or (b) if, at any time after the Closing, the closing price of the Common Shares on the Canadian Securities Exchange is at least $0.70 for a minimum of ten consecutive trading days, the Corporation may, upon providing written notice to the holders of the Warrants, accelerate the expiry date of the Warrants to the date that is at least thirty days following the date of such written notice. In connection with the Private Placement, eligible finders received $17,747.28 in cash and 98,594 broker warrants. Broker warrants were issued on the same terms as investor warrants and are also subject to the acceleration clause.

On October 29, 2021, in connection with the completion of the Build-Out and further to the Company's press release dated November 25, 2020, the Company has provided Health Canada with notice that the

Build-Out has been completed, triggering the second and final earn-out entitlement to original Ayurcann Inc. shareholders of an aggregate of 5,159,958 common shares of the Company. The Earn-Out payment was equal to the quotient of $1,000,000 divided by the current market price. The market price, as originally agreed to, was determined as the greater of (i) $0.05 and (ii) the ten (10) day volume weighted average trading price of the Common Shares on the Canadian Securities Exchange prior to the date of the Earn-Out being met, which equates to $0.1938.