Ikänik Farms, Inc. and Subsidiaries

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2021 AND 2020
AND AS OF DECEMBER 31, 2020
(unaudited)

(Expressed in US Dollars)

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CONSOLIDATED FINANCIAL STATEMENTS
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AND AS OF DECEMBER 31, 2020

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Ikänik Farms, Inc. and Subsidiaries

UNAUDITED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AS OF JUNE 30, 2021 AND DECEMBER 31, 2020
(Expressed in US dollars)

	June 30, 2021	December 31, 2020
Assets		
Current assets:		
Cash and cash equivalents	406,655	3,893,997
Accounts receivable, net (Note 2)	62,526	432,992
Inventories (Note 2)	257,310	608,898
Related party receivable (Note 13)	32,951	32,951
Prepaid expenses and other current assets	935,951	249,827
Total current assets	1,695,393	5,218,665
Property & equipment, net (Note 4)	10,845,471	8,168,581
Right-of-use assets, net (Note 4 and 5)	6,986,697	7,401,271
Deposits on property and equipment	2,423,053	258,926
Intangible assets, net (Note 6)	9,901,667	10,061,667
Goodwill (Note 6)	10,766,667	10,766,667
Other Assets	134,086	134,086
Total assets	42,753,034	42,009,863
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued expenses	5,178,343	4,645,804
Due to shareholder (Note 13)	100	100
Due to sellers (Note 3 and 7)	740,000	740,000
Current portion of lease liabilities (Note 5)	3,545,944	2,895,879
Current portion of note payable (Note 7)	47,262	45,410
Warrant liability (Note 11)	740,370	808,338
Total current liabilities	10,252,019	9,135,531
Lease liabilities (Note 5)	1,035,288	2,218,989
Notes payable (Note 7)	121,145	145,266
Convertible debenture, net of debt issuance costs (Note 7)	5,983,752	14,041,033
Total liabilities	17,392,204	25,540,819
Shareholders' equity		
Series A Compressed Shares (unlimited shares authorized, 568,695 and 543,861 shares issued and outstanding as of June 30, 2021 and December 31, 2020, respectively)	2,706,786	1,282,926
Common Shares (unlimited shares authorized, 99,659,828 and 67,628,119 shares issued and outstanding as of June 30, 2021 and December 31, 2020, respectively)	50,291,381	33,133,555
Shares to be issued (Note 3)	921,864	-
Contributed surplus	5,651,070	5,651,070
Accumulated other comprehensive income	1,929,337	48,478
Accumulated deficit	(36,139,608)	(23,646,985)
Total shareholders' equity	25,360,830	16,469,044
Total liabilities and shareholders' equity	42,753,034	42,009,863

Going Concern (Note 2)
Commitments and Contingencies (Note 13)
Subsequent Events (Note 14)

Approved and authorized for issue on behalf of the Shareholders on August 27, 2021:

SIGNATURE ____________________ SIGNATURE ____________________

CEO CFO

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

Ikänik Farms, Inc. and Subsidiaries

UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS) FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2021 AND 2020

(Expressed in US dollars)

	Three months ended June 30, 2021	Six months ended June 30, 2021	Three months ended June 30, 2020	Six months ended June 30, 2020
Revenue	$ 218,099	$ 547,887	$ 981,392	$ 1,745,298
Cost of Goods Sold	330,711	692,723	834,248	1,470,997
Gross Profit	(112,612)	(144,836)	147,144	274,301
Operating Expenses				
General and Administrative Expenses	3,676,164	5,206,294	1,601,411	3,795,130
Marketing and Advertising Expenses	314,529	439,959	16,675	118,803
Depreciation and Amortization Expenses	841,032	1,198,815	800,647	1,600,704
Total Operating Expenses	4,831,725	6,845,068	2,418,733	5,514,637
Other (Income) Expenses				
Interest Expense, net	596,069	1,428,302	907,209	1,724,122
Foreign Currency Loss (Gain)	62,817	157,936	(30,293)	38,036
Loss on extinguishment of debt	4,034,794	4,034,794	-	-
Change in Fair Value of Warrant and Derivative Liabilities (Note 11)	(61,883)	(67,968)	(870,044)	(895,739)
Other (Income) Expenses	(73,190)	(50,345)	19,628	4,280
Total Other (Income) Expenses	4,558,607	5,502,719	26,500	870,699
Net Loss Before Provision For Income Taxes	(9,502,944)	(12,492,623)	(2,298,089)	(6,111,035)
Provision for Income Taxes	-	-	-	-
Loss for the Period	(9,502,944)	(12,492,623)	(2,298,089)	(6,111,035)
Other Comprehensive Income (Loss)	1,857,681	1,880,859	(6,634)	(2,550)
Total Comprehensive Loss for the Period	$ (7,645,263)	$ (10,611,764)	$ (2,304,723)	$ (6,113,585)
Weighted average number of common shares, basic and diluted	146,438,091	137,150,309	82,213,365	91,076,598
Basic and diluted net loss per common share	$ (0.05)	$ (0.08)	$ (0.03)	$ (0.07)

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

Ikänik Farms, Inc. and Subsidiaries

UNAUDITED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE SIX MONTHS ENDED JUNE 30, 2021 AND 2020
(Expressed in US dollars)

	Common Shares		Shares to be	Series A Compressed Shares		Contributed	Accumulated Other Comprehensive	Accumulated	
	Shares	Amount	Issued	Shares	Amount	Surplus	Income (Loss)	Deficit	Total
Balance as of January 1, 2020	12,281,269	$ 2,840,066	$ 19,664,020	532,611	$ 832,926	$ 4,787,478	$ 48,934	$ (12,136,975)	$ 16,036,449
Issuance of shares in exchange for acquisition of subsidiary (Note 3)	33,333,333	19,664,020	(19,664,020)	-	-	-	-	-	-
Issuance of common shares and Series A Compressed shares with warrants (Note 8)	1,064,095	1,276,959	999,910	11,250	450,000	-	-	-	2,726,869
Stock based compensation (Note 8)	-	-	-	-	-	243,955	-	-	243,955
Comprehensive loss	-	-	-	-	-	-	(2,550)	(6,111,035)	(6,113,585)
Balance as of June 30, 2020	46,678,697	$ 23,781,045	$ 999,910	543,861	$ 1,282,926	$ 5,031,433	$ 46,384	$ (18,248,010)	$ 12,893,688
Balance as of January 1, 2021	67,628,119	$ 33,133,555	$ -	543,861	$ 1,282,926	$ 5,651,070	$ 48,478	$ (23,646,985)	$ 16,469,044
Issuance of shares in exchange for acquisition of D9C (Note 3 & 8)	6,000,000	2,400,000	-	-	-	-	-	-	2,400,000
Issuance of shares related to share exchange for CIVC reverse takeover (Note 3 & 8)	9,499,877	-	-	-	-	-	-	-	-
Issuance of common shares and Series A for conversion of debentures (Note 8)	12,997,840	12,864,890	-	3,258	325,800	-	-	-	13,190,690
Issuance of common shares and Series A Compressed shares with warrants (Note 8)	3,408,992	1,842,936	921,864	15,668	861,740	-	-	-	3,626,540
Stock based compensation (Note 8)	125,000	50,000	-	5,908	236,320	-	-	-	286,320
Comprehensive income	-	-	-	-	-	-	1,880,859	(12,492,623)	(10,611,764)
Balance as of June 30, 2021	99,659,828	$ 50,291,381	$ 921,864	568,695	$ 2,706,786	$ 5,651,070	$ 1,929,337	$ (36,139,608)	$ 25,360,830

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

Ikänik Farms, Inc. and Subsidiaries

UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE SIX MONTHS ENDED JUNE 30, 2021 AND 2020
(Expressed in US dollars)

	Six months ended June 30, 2021	Six months ended June 30, 2020
Cash flows from operating activities:		
Net loss	$ (12,492,623)	$ (6,111,035)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation & amortization	739,085	1,622,532
Decrease in reserve for inventory obsolescence	(20,566)	-
Stock compensation expense	286,320	243,955
Loss on conversion of debentures	4,034,794	-
Loss on issuance of debenture penalty	-	(1,105,671)
Change in fair value of warrant liability	(67,968)	(1,103,968)
Changes in operating assets and liabilities:		
Accounts receivable	370,466	(564,540)
Related party receivbables	-	112,332
Inventories	372,154	29,907
Prepaid expenses and other current assets	(686,124)	62,441
Accounts payable and accrued expenses	532,539	1,339,297
Accrued interest	1,098,615	2,988,629
Net cash used in operating activities	(5,833,308)	(2,486,121)
Cash flows from investing activities:		
Purchase of property & equipment	(2,605,528)	(277,698)
Net cash used in investing activities:	(2,605,528)	(277,698)
Cash flows from financing activities:		
Repayment of lease liabilities	(533,636)	(420,767)
Repayment on notes payable	(22,269)	52,407
Repayment on balances due to sellers and shareholder loans	-	(35,643)
Deposit from shareholder for shares to be issued	921,864	999,910
Issuance of Series A Compressed shares and warrants	861,740	450,000
Issuance of common shares and warrants	1,842,936	1,276,959
Net cash provided by financing activities:	3,070,635	2,322,866
Effect of currency translation on cash and cash equivalents	1,880,859	(2,550)
Change in cash and cash equivalents	(3,487,342)	(443,503)
Beginning cash and cash equivalents balance	3,893,997	1,678,800
Ending cash and cash equivalents balance	406,655	1,235,297

Supplemental Disclosures of Non-Cash Investing and Financing Activities

Shares issued in connection with conversion of debentures	$ 13,190,690	$ -
Shares issued as deposit in connection with acquisition of D9C	$ 2,400,000	$ -
Accounts payable accrued for construction in progress	$ -	$ 2,440,216
Elimination of shares to be issued through issuance of shares	$ -	$ 19,664,020

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

NOTE 1. NATURE OF OPERATIONS

Ikanik Farms, Inc. ("Ikanik" or the "Company") was incorporated under the Business Corporations Act (Canada) on April 25, 2018. The head office and principal address of the Company is 2211 Hunts Lane, Suite L, San Bernardino, CA USA 92408. The Company's registered and records office address is 2100 Scotia Plaza, 40 King Street West, Toronto, Ontario, MSH3C2. The Company operates through its wholly-owned subsidiaries Cannus, Inc., a California corporation, Blunt Brothers, Inc., a California Corporation, Ikanik Farms, Inc., a California Corporation, THCA, Inc., a California Corporation, PIDEKA S.A.S., a Colombian Corporation, Ikanik Life, Inc., a California Corporation, Ikanik Designs, LLC, a Neveda Limited Liability Company, Ikanik Farms International, Inc., a Canadian Corporation, and Firehouse Holdings, Inc., a California Corporation. The Company also owns 90% of High End, LLC, a California Limited Liability Company.

These consolidated financial statements were approved by the Board of Directors on August 27, 2021.

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES

<u>Statement of Compliance</u>

These consolidated financial statements have been prepared in compliance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"), and Interpretations of the International Reporting Interpretations Committee ("IFRIC"). The accounting policies set out below have been applied consistently to all periods presented, unless otherwise noted. The unaudited consolidated financial statements should be read in conjunction with the Company's annual consolidated financial statements for the three and six months ended June 30, 2021 and for the year ended December 31, 2020.

<u>Basis of Measurement</u>

These consolidated financial statements have been prepared on a historical cost basis except for financial instruments classified as financial instruments that are measured at fair value through profit or loss, as detailed in the Company's accounting policies.

<u>Notice of No Auditor Review</u>

The accompanying unaudited consolidated financial statements for the Company have been prepared by management. Pursuant to subsection 4.3(3)(a) of National Instrument 51-102 Continuous Disclosure Requirements, the Company advises that the accompanying unaudited consolidated financial statements, which are the responsibility of management, are unaudited and have not been reviewed by the Company's auditor. The Company's auditor has not performed a review of the accompanying unaudited 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.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Going Concern

As reflected in the consolidated financial statements, the Company had an accumulated deficit of $36,139,608 and a negative net working capital of $8,556,626 (current liabilities greater than current assets) as of June 30, 2021, as well as a net loss of $12,492,623 and negative cash flow from operating activities of $5,833,308 for the six months then ended. Prior to the year ended December 31, 2020, the Company had not generated significant revenues and has incurred net losses since inception. In 2020, and continuing into the first six months of 2021, the Company commenced their sales efforts and began recognizing revenues and will continue to scale as their products become established in the market. These factors raised significant doubt about the Company's ability to continue as a going concern for at least one year from the issuance of these consolidated financial statements.

The Company's primary source of operating funds since inception has been cash proceeds from sales of the Company's stock and from the issuance of convertible debentures. The Company intends to raise additional capital through additional sales of stock and through increasing revenues. There can be no assurance that these funds will be available on terms acceptable to the Company or that they will be sufficient to enable the Company to fully complete its development activities or sustain operations.

In March 2020, the World Health Organization declared the outbreak of a novel coronavirus (COVID-19) as a pandemic, which continues to spread throughout the United States. As a result, significant volatility has occurred in both the United States and International markets. While the disruption is currently expected to be temporary, there is uncertainty around the duration. To date, the Company has experienced declining revenues, difficulty staffing interpreters, difficulty meeting debt covenants, maintaining consistent service quality with reduced revenue, and a loss of customers. Management expects this matter to continue to impact our business, results of operations, and financial position, but the ultimate financial impact of the pandemic on the Company's business, results of operations, financial position, liquidity or capital resources cannot be reasonably estimated at this time.

If the Company is unable to raise sufficient additional funds, it will have to develop and implement a plan to further reduce expenses, scale back its business plan, or curtain operations until sufficient additional capital is raised to support further operations.

Functional and Presentation Currency

These consolidated financial statements are presented in US dollars, which is also the Company's functional currency. The Company maintains certain accounts in Canadian dollars for which the effects of the translation are recorded in foreign currency loss and other comprehensive income in the consolidated statements of operations and comprehensive loss.

(Expressed in US dollars)

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Consolidation

These consolidated financial statements as of June 30, 2021 and December 31, 2020 and for the three and six months ended June 30, 2021 and 2020, include the accounts of the Company and its subsidiaries. All intercompany balances and transactions are eliminated on consolidation. Subsidiaries are those entities over which the Company has the power over the investee, is exposed, or has rights, to variable returns from its involvement with the investee, and has the ability to sue its power to affect its returns. The following are Ikanik's wholly-owned subsidiaries over which the Company has control as of June 30, 2021 and December 31, 2020:

Entity	Location	Purpose	Percentage Held - June 30, 2021	Percentage Held - December 31, 2020
Ikanik Farms, Inc.	Ontario, Canada	Parent Company		
Cannus, Inc.	California	Holding Company	100%	100%
Blunt Brothers, Inc.	California	Operating Entity	100%	100%
Ikanik Farms, Inc.	California	Cultivation, Production, and Dispensary Facil	100%	100%
Firehouse Holdings, Inc.	California	Holding Company	100%	100%
THCA, Inc.	California	Cultivation and Production Facility	100%	100%
PIDEKA, S.A.S.	Colombia	Cultivation and Production Facility	100%	100%
High End, Inc.	California	Dispensary	100%	100%
Ikanik Life, Inc	California	Operating Entity	100%	100%
Ikanik Designs, LLC	Nevada	Non-Operating Entity	100%	100%
Ikanik Farmns International, Inc.	Ontario, Canada	Non-Operating Entity	100%	100%

Cash and Cash Equivalents

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Accounts Receivable

Accounts receivable are classified as financial assets initially recognized at fair value and subsequently measured at amortized cost, less any provisions for impairment. When an account receivable is uncollectible, it is written off against the provision.

Inventories

Inventories of purchased finished goods and packaging materials are initially valued at cost and subsequently at the lower of cost and net realizable value. Net realizable value is determined as the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. The Company reviews inventory for obsolete, redundant, and slow-moving goods and any such inventory is written down to net realizable value.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property and Equipment

Property and equipment are stated at cost, less accumulated depreciation and amortization. Depreciation of property and equipment is computed using the straight-line method over the estimated useful lives of the assets. As of June 30, 2021 and December 31, 2020, the Company's property and equipment consists of computer software & hardware, furniture & equipment, leasehold improvements, and vehicles, each with the estimated useful lives shown below. The Company's right-of-use assets for property and equipment leases are depreciated over the lease terms. The assets' useful lives are reviewed at each financial year end and adjusted prospectively if appropriate.

	Estimated Useful Life
Computer software & hardware	3-6 years
Furniture & equipment	3-10 years
Leasehold improvements	3-6 years
Vehicles	5-6 years
Right-of-use assets	3-30 years

Intangible Assets

Intangible assets are recorded at cost, less accumulated amortization and impairment losses, if any. Intangible assets acquired in a business combination are measured at fair value at the acquisition date or date of consolidation/control. Amortization of definite-lived intangible assets is recorded on a straight-line basis over their estimated useful lives, which do not exceed the contractual period, if any, over the following terms:

Market related intangible assets	5 years

The estimated useful lives and residual values are reviewed at each year end, and any changes in estimates are accounted for prospectively. Intangible assets that have an indefinite useful life are not subject to amortization. The Company's indefinite-lived intangible assets consist of licenses, which, for valuation purposes, represent the future benefits associated with the Company's cultivation, processing, and dispensary licenses. Absent such license intangibles, the Company cannot continue as a going concern and as such, there is no foreseeable limit to the period over which these assets are expected to generate future cash inflows to the Company.

Definite-lived intangible assets are tested for impairment when there is an indication of impairment. Indefinite-lived intangible assets are tested for impairment annually or more frequently as warranted if events or changes in circumstances indicate impairment (refer to Note 6 for additional detail on impairment tests). There were no impairments of intangible assets during the three and six months ended June 30, 2021 and 2020.

Goodwill

Goodwill represents the excess of the purchase price paid for the acquisition of a business over the fair value of the net tangible and intangible assets acquired. Goodwill is allocated to the cash-generating unit ("CGU") or CGUs which are expected to benefit from the synergies of the combination.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Goodwill is tested for impairment annually or more frequently as warranted if events or changes in circumstances indicate impairment. For the purpose of impairment testing, goodwill and indefinite-lived intangible assets have been allocated to CGUs or groups of CGUs representing the lowest level that the assets are monitored for internal reporting purposes. Goodwill and indefinite-lived intangible assets are tested for impairment by comparing the carrying value of each CGU containing the assets to its recoverable amount (the higher of the asset's fair value less costs of disposal and value-in-use); an impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. Impairment losses recognized in respect of a CGU are first allocated to the carrying value of goodwill and any excess is allocated to the carrying amount of assets in the CGU. Any goodwill impairment loss is recognized in the Consolidated Statements of Operations and Comprehensive Loss in the period in which the impairment is identified. Impairment losses on goodwill are not subsequently reversed. The Company's most recent goodwill impairment test during the fourth quarter of 2020 did not result in the recognition of any impairment losses. The Company has not recorded any goodwill impairment for the three and six months ended June 30, 2021 and 2020.

Business Combinations and Asset Acquisitions

The Company assesses whether an acquisition should be accounted for as an asset acquisition or a business combination under IFRS 3. This assessment requires management to make judgements on whether the assets acquired and liabilities assumed constitute a business as defined in IFRS 3 and if the integrated set of activities, including inputs and processes acquired, is capable of being conducted and managed as a business and the Company obtains control of the business inputs and processes.

A business combination is a transaction or event in which an acquirer obtains control of one or more businesses and is accounted for using the acquisition method.

The total consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair value of the assets transferred by the acquirer, and the liabilities incurred by the acquirer to former owners of the acquiree, in exchange for control of the acquiree at the acquisition date. The acquisition date is the date where the Company obtains control of the acquiree. The identifiable assets acquired, and liabilities assumed are recognized at their acquisition date fair values, except for deferred taxes and share-based payment awards where IFRS provides exceptions to recording the amounts at fair value. The consideration transferred also includes the fair value of any asset or liability arising from a contingent consideration arrangement. Acquisition-related expenses are recognized separately from the business combination and are expensed as incurred.

Certain fair values may be estimated at the acquisition date pending confirmation or completion of the valuation process. Where provisional values are used in accounting for a business combination, they may be adjusted retrospectively in subsequent periods. The measurement period is the period from the acquisition date to the date complete information about facts and circumstances that existed as of the acquisition date is received. However, the measurement period does not exceed one year from the acquisition date.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. Non-controlling interests are initially measured at the non-controlling interests' proportionate share of the fair value of the acquiree's identifiable net assets.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Any contingent consideration payable is measured at fair value at the acquisition date. If the contingent consideration is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes in the fair value of contingent consideration are recognized in profit or loss.

Revenue Recognition

The Company's primary source of revenue is from wholesale of cannabis products to dispensary locations. The Company accounts for revenue recognition in accordance with IFRS 15, Revenue from Contracts with Customers, which includes a five-step model for contracts with customers as follows:

1. Identify the contract with a customer;
2. Identify the performance obligations in the contract;
3. Determine the transaction price, which is the total considerations provided by the customer;
4. Allocate the transaction price among the performance obligations in the contract based on their relative fair values; and
5. Recognize revenue when the relevant criteria are met for each unit (at a point in time or over a period of time).

The Company recognizes revenue upon satisfaction of the performance obligation, when control of the promised goods is transferred to the Company's customers in an amount that reflects the consideration the Company expects to be entitled to in exchange for those goods, upon delivery and acceptable by customers.

Income Taxes

Income tax expense consists of current and deferred tax expense. Current and deferred tax are recognized in profit or loss except to the extent they relate to items recognized directly in equity or other comprehensive income (loss).

Current tax is recognized and measured at the amount expected to be recovered from or payable to the taxation authorities based on the income tax rates enacted or substantially enacted at the end of the reporting period and includes any adjustment to taxes payable in respect of previous years.

Deferred tax is recognized on any temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable earnings. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the asset is realized, and the liability is settled. The effect of a change in the enacted or substantively enacted tax rates is recognized in net earnings and comprehensive income or equity depending on the item to which the adjustment relates.

Deferred tax assets are recognized to the extent future recovery is probable. At each reporting period end, deferred tax assets are reduced to the extent that it is no longer probable that sufficient taxable earnings will be available to allow all or part of the asset to be recovered.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Warrant Liability (Derivative Liabilities)

The Company evaluates all of its agreements to determine if such instruments have derivatives or contain features that qualify as embedded derivatives. For derivative financial instruments that are accounted for as liabilities, the derivative instrument is initially recorded at its fair value and is then revalued at each reporting date, with changes in the fair value reported in the Consolidated Statements of Operations and Comprehensive Loss. In calculating the fair value of derivative liabilities (specifically warrant liability), the Company uses a valuation model. The classification of derivative instruments, including whether such instruments should be recorded as liabilities or as equity, is evaluated at the end of each reporting period. Derivative instrument liabilities are classified in the Consolidated Statements of Financial Position as current or non-current based on whether or not net-cash settlement of the derivative instrument could be required within 12 months of the Consolidated Statements of Financial Position date.

For awards where the holder has the election of settling their award in either cash or equity, the fair value of stock-based compensation is remeasured at the end of each reporting period until the corresponding awards vest. The Company did not have any such awards outstanding at June 30, 2021 or December 31, 2020.

Financial Instruments

The Company accounts for its financial instruments in accordance with IFRS 9, *Financial Instruments*. IFRS 9 requires all recognized financial assets to be measured at amortized cost or fair value in subsequent accounting periods following initial recognition. It establishes two primary measurement categories for financial assets: (i) amortized cost and (ii) fair value either through profit or loss ("FVTPL") or through other comprehensive income ("FVOCI"); establishes criteria for the classification of financial assets within each measurement category based on business model and cash flow characteristics; and eliminates the existing held for trading, held to maturity, available for sale, loans and receivables and other financial liabilities categories. IFRS 9 also includes an expected credit loss model for the purpose of assessing the impairment of financial assets.

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

The Company derecognizes a financial asset when the contractual rights to the cash flows from the asset expires, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. The classification of financial instruments dictates how these assets and liabilities are measured subsequently in the Company's consolidated financial statements.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(i) Financial Instruments Measured at Fair Value Through Profit or Loss

Financial instruments are classified as FVTPL when they are held for trading. A financial instrument is held for trading if it was acquired for the purpose of sale in the near term. Derivative financial instruments that are not designated and effective as hedging instruments are also classified as FVTPL. Financial instruments classified as FVTPL are stated at fair value with any changes in fair value recognized in earnings for the period. Financial assets in this category include certain short-term investments, derivatives and contingent consideration.

(ii) Financial Assets Measured at Amortized Cost

Financial assets measured at amortized cost are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are initially recognized at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, these financial assets are measured at amortized cost using the effective interest method, less any impairment losses. Financial assets in this category include cash and cash equivalents, short-term investments, trade receivables, other receivables, and loans receivable.

(iii) Impairment of Financial Assets

The Company assesses at each statement of financial position date whether there is objective evidence that a financial asset or group of financial assets is impaired.

The Company recognizes expected credit losses (“ECL”) for trade receivables based on the simplified approach under IFRS 9. The simplified approach to the recognition of expected losses does not require the Company to track the changes in credit risk; rather, the Company recognizes a loss allowance based on lifetime ECLs at each reporting date from the date of the trade receivable.

Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicates that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults. Trade receivables are reviewed qualitatively on a case-by-case basis to determine whether they need to be written off.

For financial assets carried at amortized cost, the Company recognizes loss allowances for ECLs on its financial assets measured at amortized cost. ECLs are a probability-weighted estimate of credit losses. The Company applies a three-stage approach to measure ECLs. The Company measures loss allowance at an amount equal to 12 months of expected losses for performing loans receivable if the credit risk at the reporting date has not increased significantly since initial recognition (Stage 1) and at an amount equal to lifetime expected losses on loans receivable that have experienced a significant increase in credit risk since origination (Stage 2) and at an amount equal to lifetime expected losses which are credit impaired (Stage 3).

The Company considers a significant increase in credit risk to have occurred if contractual payments are more than 30 days past due and considers the loans receivable to be in default if they are 90 days past due. A significant increase in credit risk or default may have also occurred if there are other qualitative factors (including forward looking information) to consider; such as borrower specific information (i.e., change in credit assessment).

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Objective evidence of impairment of financial assets carried at amortized cost exists if the counterparty is experiencing significant financial difficulty, there is a breach of contract, concessions are granted to the counterparty that would not normally be granted, or it is probable the counterparty will enter into bankruptcy or a financial reorganization.

(iv) Financial Liabilities Measured at Amortized Cost

Financial liabilities measured at amortized cost are recognized initially at fair value net of any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortized cost using the effective interest method. Other financial liabilities are de-recognized when the obligations are discharged, cancelled or expired. Financial liabilities in this category include accounts payable and accrued liabilities and deferred consideration and other payables.

Summary of the Company's Classification and Measurements of Financial Assets and Liabilities

	IFRS 9	
	Classification	**Measurement**
Cash and cash equivalents	FVTPL	Fair value
Accounts receivable	Amortized cost	Amortized cost
Deposits on property and equipment	Amortized cost	Amortized cost
Other Assets	Amortized cost	Amortized cost
Accounts payable and accrued expenses	Amortized cost	Amortized cost
Due to shareholder	Amortized cost	Amortized cost
Due to seller	Amortized cost	Amortized cost
Notes payable	Amortized cost	Amortized cost
Derivative liability	FVTPL	Fair value
Warrant liability	FVTPL	Fair value
Convertible debentures	Amortized cost	Amortized cost

Critical Accounting Estimates and Judgements

The preparation of the consolidated financial statements requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Significant judgements, estimates, and assumptions that have the most significant effect on the amounts recognized in the accompanying consolidated financial statements are described below.

(i) ECL on Trade Receivables

The Company calculates ECLs for trade receivables based on the historical default rates over the expected life of the trade receivable and adjusts for forward-looking estimates, which is determined through the exercise of judgment.

(ii) Inventory

In calculating the value of inventory, management compares the inventory cost to estimated net realizable value to determine if the cost of any inventory exceeds its net realizable value, such as in cases where prices have decreased, or inventory has spoiled or has otherwise been damaged.

(iii) Estimated Useful Lives, Depreciation of Property and Equipment, and Amortization of Intangible Assets

Depreciation of property and equipment is dependent upon estimates of useful lives which are determined through the exercise of judgment.

Amortization of intangible assets is dependent upon estimates of useful lives which are determined through the exercise of judgment.

(iv) Property and Equipment Impairment

The Company evaluates the carrying value of long-lived assets at the end of each reporting period whenever there is any indication that a long-lived asset is impaired. Such indicators include evidence of physical damage, indicators that the economic performance of the asset is worse than expected, or that the decline in asset value is more than the passage of time or normal use, or significant changes occur with an adverse effect on the Company's business. If any such indication exists, the Company estimates the recoverable amount of the asset.

An asset is impaired when its carrying amount exceeds its recoverable amount. The Company measures impairment based on the amount by which the carrying value exceeds the estimated fair value of the long-lived asset. The fair value is determined primarily by using the projected future cash flows discounted at a rate commensurate with the risk involved as well as market valuations. Losses on long-lived assets to be disposed of are determined in a similar manner, except that the fair values are reduced for an estimate of the cost to dispose or abandon.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(v) Goodwill and Indefinite-Lives Intangible Asset Impairment

Goodwill and indefinite-lived intangible assets are tested for impairment annually during the fourth quarter and whenever events or changes in circumstances indicate that the carrying amount of these assets has been impaired. In order to determine if the value of these assets has been impaired, the CGU to which the assets have been allocated must be valued using present value techniques. When applying this valuation technique, the Company relies on a number of factors, including historical results, business plans, forecasts, market data and discount rates. Changes in the conditions for these judgements and estimates can significantly affect the assessed value of goodwill and indefinite-lived intangibles. The Company has determined that the goodwill associated with all acquisitions belongs to each respective state as this is the lowest level at which management monitors goodwill and indefinite-lived intangibles. See Note 6 for additional detail.

(vi) Business Combinations and Asset Acquisitions

Determination of an acquisition as a business combination or an asset acquisition depends on whether the assets acquired constitute a business. The classification can have a significant impact on the accounting on and subsequent to the acquisition date.

a. Business Combinations

A business combination is a transaction or event in which an acquirer obtains control of one or more businesses and is accounted for by applying the acquisition method. The total consideration transferred in a business combination is the sum of the fair values of assets transferred, liabilities incurred or assumed, and equity interests issued by the acquirer in exchange for control of the acquiree. The acquisition date is the date where the Company obtains control of the acquiree. The identifiable assets acquired and liabilities assumed are recognized at their acquisition date fair values, except for deferred taxes and share-based payment awards where IFRS 3 Business Combinations provides exceptions to recording the amounts at fair value. Acquisition costs are expensed to profit or loss.

In determining the fair value of all identifiable assets, liabilities and contingent liabilities acquired, the most significant estimates relate to contingent consideration and intangible assets. Management exercises judgement in estimating the probability and timing of when contingent payments are expected to be made and at what amounts, which is used as the basis for estimating fair value. For any intangible asset identified, depending on the type of intangible asset and the complexity of determining its fair value, an independent valuation expert or management may develop the fair value, using appropriate valuation techniques, which are generally based on a forecast of the total expected future net cash flows. The evaluations are linked closely to the assumptions made by management regarding the future performance of these assets and any changes in the discount rate applied.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Non-controlling interest in the acquiree, if any, is recognized either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets, determined on an acquisition-by-acquisition basis. For each acquisition, the excess of total consideration over the fair value of previously held equity interest prior to obtaining control, and the non-controlling interest in the acquiree over the fair value of the identifiable net assets acquired, is recorded as goodwill.

b. Asset Acquisitions

Acquisitions that do not meet the definition of a business combination are accounted for as an asset acquisition. Consideration paid for an asset acquisition is allocated to the individual identifiable assets acquired and liabilities assumed based on their relative fair values. Goodwill is not recorded as a result of an asset acquisition.

(vii) Stock-Based Compensation, Compound Financial Instruments

In calculating the share-based compensation expense and the value of compound financial instruments, key estimates such as the rate of forfeiture of awards granted, the expected life of options, the volatility of the Company's stock price and the risk-free interest rate are used.

(viii) Income Tax

Provisions for taxes are made using the best estimate of the amount expected to be paid based on a qualitative assessment of all relevant factors. The Company reviews the adequacy of these provisions at the end of the reporting period. However, it is possible that at some future date an additional liability could result from audits by taxing authorities. Where the final outcome of these tax-related matters is different from the amounts that were initially recorded, such differences will affect the tax provisions in the period in which such determination is made.

Recently Issued Accounting Pronouncements

The Company does not believe any recently issued, but not yet effective IFRS standards that have been issued by the IASB will have a material impact on the Company's financial statements.

NOTE 3. ACQUISITIONS AND MERGERS

CIVC ACQUISITION

In April 2019, the Company entered into a Business Combination Agreement with Canadian Imperial Venture Corporation ("CIVC"), a Canadian corporation, under which all outstanding Common Shares and Series A Compressed Shares will be exchanged through a three-cornered amalgamation for shares of CIVC. No cash consideration will be exchanged in connection with the Business Combination Agreement. In April 2021, the transaction was finalized and the Company began publicly trading on the Canadian Stock Exchange under the ticker IKNK.

NOTE 3. ACQUISITIONS AND MERGERS (CONTINUED)

Once the transaction became effective to reflect the amalgamation, the share-exchange as described in the Business Combination Agreement resulted in an additional 9,499,877 post-exchange common shares issued to CIVC. Acquisition costs relating to legal and professional fees, and other related costs were incurred and are included in the statement of operations and comprehensive income (loss) for the three and six months ended June 30, 2021.

D9C MEXICO ACQUISITION

On June 23, 2020, the Company entered into a Stock Transfer Agreement with the prior shareholders of D9C Mexico S.A. De C.V. ("D9C") to transfer all of the issued and outstanding shares of D9C to Ikänik Farms in exchange for an aggregate of 10,000,000 Ikänik Farms Common Shares at a price of $0.40 USD. The 10,000,000 Ikänik Farms Common Shares are to be issued upon the completion of the D9C completing certain conditions but will be held in escrow.

On June 17, 2021, the Issuer announced the satisfaction of the first set of conditions in respect of the stock transfer agreement dated December 14, 2020 among the Company D9C and the shareholders of D9C (the "Transferring Shareholders") in which the Company is to purchase all issued and outstanding shares of D9C (the "Transaction"). Through D9C, the Company intends to contract-produce for domestic and international pharmaceutical cannabis and hemp-derived CBD clients.

Pursuant to the terms of the agreement, the Company issued 6,000,000 Shares to the Transferring Shareholders and the Transferring Shareholders transferred all of the issued and outstanding shares in the capital of D9C (the "D9C Shares") to the Issuer.

The Issuer is to issue an additional 4,000,000 Shares to the Transferring Shareholders in the amounts and subject to the completion of the conditions set out below:

- within 10 business days following the certain corporate documents, import registrations and certifications and receipt of seeds as deemed satisfactory by the Issuer, 2,000,000 Shares shall be delivered ratably to the Transferring Shareholders; and
- within 10 business days following the delivery to the Issuer of a copy of validly issued seed and genetic registration certificates and a cultivation permit satisfactory by the Issuer, 2,000,000 Shares shall be delivered ratably to the Transferring Shareholders.

If the satisfaction of each of the conditions above does not occur by December 23, 2021, each of the Transferring Shareholders will transfer the Shares back to the Issuer and the Issuer shall transfer the D9C Shares back to the Transferring Shareholders.

As of June 30, 2021 and as of the date these financial statements were available to be issued, only a portion of the equity share consideration has been issued as of the issuance of this report. Since this acquisition has not yet been finalized, the Company has not completed the acquisition accounting as of June 30, 2021 since there are still certain conditions to be met as noted above. The Company will record the consideration of 6,000,000 common shares issued to D9C as a deposit for the acquisition of the assets acquired in the amount of $2.4 million which is recorded in the accompanying balance sheet as deposits on property and equipment.

(Expressed in US dollars)

NOTE 4. PROPERTY & EQUIPMENT

As of June 30, 2021 and December 31, 2020, the Company's property & equipment were as follows:

	Software & Hardware	Furniture & Equipment	Improvements	Vehicles	Construction in Progress	Total
Cost						
Balance at December 31, 2019	$ 187,955	$ 218,884	$ 2,340,019	$ 308,466	$ -	$ 3,055,325
Additions	22,992	137,818	869,278	-	4,458,661	5,488,749
Balance at December 31, 2020	210,947	356,702	3,209,297	308,466	4,458,661	8,544,074
Additions/disposals	33,823	467,271	2,235,396	(2,897)	103,347	2,836,941
Transfers	-	-	422,446		(422,446)	-
Balance at June 30, 2021	244,770	823,973	5,867,139	305,569	4,139,562	11,381,015
Less: Accumulated depreciation & amortization						
Balance at December 31, 2019	20,528	16,070	19,839	36,057	-	92,494
Depreciation	39,211	79,258	108,604	55,925	-	282,998
Balance at December 31, 2020	59,739	95,328	128,443	91,982	-	375,492
Depreciation	23,686	42,513	63,501	30,351	-	160,051
Balance at June 30, 2021	83,425	137,841	191,944	122,333	-	535,543
Net book value						
Balance at December 31, 2020	$ 151,208	$ 261,374	$ 3,080,854	$ 216,484	$ 4,458,661	$ 8,168,581
Balance at June 30, 2021	$ 161,345	$ 686,132	$ 5,675,195	$ 183,236	$ 4,139,562	$ 10,845,471

As of June 30, 2021 and December 31, 2020, the Company's right-of-use assets were as follows:

	Right of use assets
Cost	
Balance at December 31, 2019	$ 8,270,854
Additions	-
Modifications	288,664
Balance at December 31, 2020	8,559,518
Additions	-
Balance at June 30, 2021	8,559,518
Less: Accumulated depreciation & amortization	
Balance at December 31, 2019	327,680
Depreciation	830,567
Balance at December 31, 2020	1,158,247
Depreciation	414,574
Balance at June 30, 2021	1,572,821
Net book value	
Balance at December 31, 2020	$ 7,401,271
Balance at June 30, 2021	$ 6,986,697

(Expressed in US dollars)

NOTE 5. LEASE LIABILITIES

A reconciliation of the beginning and ending balance of lease liabilities for the three months ended June 30, 2021 and 2020 is as follows:

Balance as of December 31, 2019	$ 6,124,009
Interest Expense	329,004
Modification of Leases	288,664
Payments of Principal and Interest	(1,626,809)
Balance as of December 31, 2020	5,114,868
Interest Expense	263,561
Payments of Principal and Interest	(797,197)
Balance as of June 30, 2021	4,581,232
Less: Current Portion of Lease Liabilities	(3,545,944)
Lease Liabilities, Net of Current Portion	$ 1,035,288

The Company has real estate leases for retail stores, cultivation facilities, corporate offices, and equipment leases. The Company's lease terms range from 12 months to 10 years. Certain leases permit renewal options ranging from 12 months to 5 years. Two of the Company's leases include purchase options which the Company intends to exercise. Certain lease agreements include monthly lease payments compounded annually at various rates up to 3.0%, which are included in the determination of the present value of total lease payments. Certain lease agreements are payable in a currency other than the Company's functional currency. The lease liability for these leases at June 30, 2021 and December 31, 2020 has been adjusted based on the prevailing currency exchange rate as of that date. None of the Company's leases include an inherent borrowing rate and, as such, the Company's incremental borrowing rate of 25% per year has been applied in discounting future lease payments to their present values.

As of June 30, 2021, maturities of lease liabilities were as follows:

Year Ended December 31,	
2021	$ 4,149,058
2022	2,382,504
2023	1,036,544
2024	800,508
2025	457,837
Total lease payments	8,826,451
Less: Interest	(4,245,219)
Present value of lease liabilities	4,581,232
Less: short-term lease liabilities	(3,545,944)
Present value of long-term lease liabilities	$ 1,035,288

(Expressed in US dollars)

NOTE 6. GOODWILL AND INTANGIBLES

As of June 30, 2021 and December 31, 2020, the Company's goodwill and intangible assets were as follows: ,

	Goodwill	Licenses	Market related	Total
Cost				
Balance as of December 31, 2019	$ 10,766,667	$ 9,383,000	$ 1,600,000	$ 21,749,667
Additions	-	-	-	-
Balance as of December 31, 2020	10,766,667	9,383,000	1,600,000	21,749,667
Additions	-	-	-	-
Balance as of June 30, 2021	10,766,667	9,383,000	1,600,000	21,749,667
Less: Accumulated Amortization				
Balance as of December 31, 2019	-	508,000	93,333	601,333
Amortization charge	-	-	320,000	320,000
Balance as of December 31, 2020	-	508,000	413,333	921,333
Amortization charge	-	-	160,000	160,000
Balance as of June 30, 2021	-	508,000	573,333	1,081,333
Net book value				
As of December 31, 2020	$ 10,766,667	$ 8,875,000	$ 1,186,667	$ 20,828,334
As of June 30, 2021	$ 10,766,667	$ 8,875,000	$ 1,026,667	$ 20,668,334

As of June 30, 2021 and December 31, 2020, the goodwill and intangible assets with indefinite useful lives are allocated to the specific CGU within Ikanik Farms, Inc. The Company tests its goodwill and the intangible assets with an indefinite useful life annually. An analysis and movement of the net book value of goodwill and indefinite life intangibles acquired through business combinations, was completed as of December 31, 2020. The company performs this analysis as of calendar year end and this will be completed on December 31, 2021.

Goodwill and intangible assets with indefinite useful life

As of June 30, 2021, the carrying amount of goodwill and intangible assets with an indefinite useful life (licenses) is recognized with a value of $10,766,667 and $8,875,000, respectively. Intangible assets with an indefinite useful life were recorded by the Company at the date of acquisition of THCA, PIDEKA, and High End.

(Expressed in US dollars)

NOTE 6. GOODWILL AND INTANGIBLES (CONTINUED)

Management performed their impairment analysis on goodwill estimating the recoverable amount as fair value less costs of disposal on the basis of the value of the Company's invested capital. The carrying value of the Company's CGU was less than the FVLTs and therefore, no impairment for goodwill was recognized. For the purpose of the impairment test of the intangible assets with an indefinite useful life, the Company estimated the recoverable amounts of the asset as fair value less costs of disposal on the basis of comparative method and cost approach. Under the valuation using the comparative method the Company considered identical third-party's transactions for acquisition of licenses identical to the Company's. Under the valuation using the cost approach the Company considered outflows required to meet the requirements for a minimum amount of equity to be held by the organization with licenses similar to the Company's. For the three and six months ended June 30, 2021 and 2020 the Company did not recognize any impairment loss on intangibles or goodwill as the Company assesses and records any impairment at the end of the calendar year.

NOTE 7. DEBT

Notes Payable

During the year ended December 31, 2019, the Company entered into seven loans for the purchase of vehicles. The loans have terms of either five or six years, incur annual interest ranging from 5.26% to 9.10%, and have monthly repayments ranging from $326 to $1,426. There were no additional notes payable outstanding as of June 30, 2021 and December 31, 2020.

Future annual maturities on the loans as of June 30, 2021 are as follows:

Year Ended December 31,		
2021	$	23,141
2022		49,193
2023		53,303
2024		29,414
2025		13,356
	$	168,407

Due to Sellers

In March 2019, the Company issued a $400,000 promissory note with a THCA shareholder that incurs interest at 2% per year. The note includes monthly payments of $10,000 beginning upon the delivery of THCA's conditional use permit to authorize cannabis cultivation, manufacturing, and distribution. Upon the sixth such monthly payment the outstanding balance and all accrued interest become immediately due and payable in full. As of June 30, 2021 and December 31, 2020, the outstanding balance remained at $400,000.

In connection with the acquisition of High End, LLC in September 2019, a portion of the amount due to the sellers of $1,190,000 remains outstanding as of June 30, 2021 and December 31, 2020. The Company made repayments totaling $850,000 through January 2020, leaving a remaining balance of $340,000 as of June 30, 2021 and December 31, 2020.

NOTE 7. DEBT (CONTINUED)

Convertible Debentures

In connection with the Subscription Agreement for Debenture Units (the "Debenture Agreement"), the Company closed a $13,139,000 round of convertible debenture funding (in May 2019. The Debenture Agreement states the debentures incur interest at 6% per year and mature two years from the date of issuance. Each $1,000 debenture unit includes a debenture convertible into either Common Shares or Series A Compressed Shares at the applicable conversion price ($0.61 for Common Shares and $61.00 for Series A Compressed Shares) and warrants for the purchase of 820 Common Shares at $0.79 per share or 8.2 Series A Compressed Shares at $79.00 per share. The warrants shall be exercisable for 24 months from the issuance date or, upon the completion of a Liquidation Event, the warrants will remain exercisable for another 24 months.

The debentures automatically convert upon the occurrence of a Liquidation Event and if no such event occurs within one year from the date of issuance, additional debenture units, including both debentures and warrants, representing 10% of the investors' initial investment will be issued for no additional consideration (the "Penalty"). If and when the Liquidation Event occurs, the warrants will immediately be subject to a Warrant Acceleration Right ("Acceleration Rights"). This right is exercisable by the Company at its option if the daily volume weighted average price of the Company's common stock is greater than $1.22 per share for the preceding ten consecutive trading days. If the Acceleration Right becomes available, the new expiration date of the warrants shall be 30 days following the notice of the Company's exercise.

There were four features across which the allocation of the debt proceeds was applied on initial recognition: the host debt, conversion feature, warrants, and the Penalty. The host debt was valued using the effective interest method with the Company's incremental borrowing rate for such debt instruments of 30% as the discount rate. This resulted in the allocation of proceeds of $8,791,025. The Company also incurred $994,345 in debt issuance costs, which have been apportioned based on the respective value of the features of the convertible debenture. Total debt acquisition costs apportioned to the host debt were $665,295, resulting in the initial carrying amount of the host debt of $8,125,730.

The conversion feature embedded in the host debt meets the fixed for fixed requirements to be classified as equity. The conversion feature was allocated proceeds at issuance totaling $3,437,116, which was valued using the Black-Scholes option pricing model. This feature was apportioned $260,117 in debt acquisition costs, resulting in an initial allocation for the conversion feature of $3,176,998. The warrants issued in connection with the debentures meet the fixed for fixed requirements and were classified as equity. The warrants were allocated proceeds at issuance totaling $8,365, which was valued using a barrier option pricing model. This feature was apportioned $633 in debt acquisition costs, resulting in an initial allocation for the warrant feature of $7,732. The conversion feature and warrants have been recorded in contributed surplus and debt discount as of the date of issuance.

NOTE 7. DEBT (CONTINUED)

The Company recorded a derivative liability of $902,494 at the issuance date for the Penalty. The derivative was recorded at fair value which was based on 10% of the value of the other three features. The collective value of these inputs was adjusted based on the expected probability that the Penalty consideration would be issued. This feature was apportioned $68,300 in debt acquisition costs, which were expensed immediately. As of December 31, 2019, the value of the Penalty using the same inputs with updated assumptions as of that date was determined to have increased to $1,105,671, an increase of $203,177 which has been recorded to other expense in the accompanying consolidated statement of operations. In May 2020, the Penalty debentures and warrants were issued as the Company was not yet publicly trading, resulting in a loss of $208,229. See Note 11 for additional information regarding the valuation of the identified features of the convertible debentures.

Interest recorded under the effective interest method through December 31, 2019, totaled $1,832,379, which includes the $68,300 of debt acquisition costs apportioned to the derivative liability that were expensed immediately. Interest expense of $642,103 and $1,344,731 was recorded during the three and six months ended June 30, 2021, respectively and $816,438 and $1,574,728 was recorded during the three and six months ended June 30, 2020, respectively. These were recorded as increases to the convertible debenture liability balance.

On June 23, 2020, the Company completed a private placement of an additional 100 Ikänik Farms 2020 Convertible Debentures at a price of $1,000 USD per unit for aggregate gross proceeds of $100,000. Immediately prior to the completion of the Reverse Take-Over, each Ikänik Farms 2020 Convertible Debenture converts into that number of units (the "Ikänik Farms Units") as is equal to the principal amount of the Ikänik Farms 2020 Convertible Debenture (plus any interest accrued thereon) divided by the Conversion Price. Each Ikänik Farms Unit consisted of one Ikänik Farms Common Share and one Ikänik Farms Common Share Warrant, with each such Ikänik Farms Common Share Warrant entitling the holder to exercise it for one Ikänik Farms Common Share at a price that is equal to 1.3 times the Conversion Price for a period of two years from the date of issuance.

On March 24, 2021, Ikänik Farms and Odyssey Trust Company, as debenture agent, executed a supplemental indenture to amend the Debenture Indenture governing the Ikänik Farms 2019 Convertible Debentures pursuant to an extraordinary resolution of debenture holders. Pursuant to the supplemental indenture:

NOTE 7. DEBT (CONTINUED)

- the maturity date of the Ikänik Farms 2019 Convertible Debentures was extended from May 3, 2021 to the earlier of: (a) the date that is eighteen months after the occurrence of a Liquidity Event and (b) August 28, 2022;

- the automatic conversion provisions of the Ikänik Farms 2019 Convertible Debentures were revised such that:

    - 50% of the principal amount of each Ikänik Farms 2019 Convertible Debenture, including all interest obligations that have accrued and been capitalized to the principal amount thereof shall automatically convert at the applicable conversion price immediately prior to the occurrence of a Liquidity Event, with the Ikänik Farms Common Shares or Ikänik Farms Series A Shares, as applicable, issuable upon conversion of the Ikänik Farms 2019 Convertible Debentures being subject to a lock-up period of 120 days following the date of the Liquidity Event; and

    - commencing upon the date that is 120 days after the occurrence of a Liquidity Event, debenture holders are entitled to convert the 50% of the principal amount of each Ikänik Farms 2019 Convertible Debenture remaining outstanding after the Liquidity Event, including all interest obligations that have accrued and been capitalized to the principal amount thereof, into Resulting Issuer Subordinate Voting Shares (in the case of non-U.S.-purchasers) or Resulting Issuer Series A Multiple Voting Shares (in the case of U.S. purchasers) at a conversation price equal to $0.61 or $61.00, provided that such outstanding Ikänik Farms 2019 Convertible Debentures shall automatically convert if, at any time following the date that is 120 days after the date of the Liquidity Event and prior to the maturity date, the 10-day volume weighted average price (VWAP) of the Common Shares is at or above USD $0.76.

As discussed above, as of the date the public listing became effective, the Company converted 50% of the debentures based on the terms previously discussed. As such, on that date the Company issued 12,997,840 common shares and 3,258 series A compressed shares in connection with the conversion of the debentures. As of June 30, 2021 and December 31, 2020, the balance of the debenture liability was $5,983,752 and $14,041,033, respectively, which was net of debt discount of $2,518,061 and $1,784,065, respectively.

NOTE 8. SHARE CAPITAL

<u>Authorized</u>

Share capital consists of an unlimited number of Common Shares and an unlimited number of Series A Compressed Shares, both with no par value. Issued shares are fully paid. Each Series A Compressed Share is convertible into 100 common shares. Also, the Series A Compressed Shares have the same liquidation and dividend rights as the Common Shares into which they can convert.

NOTE 8. SHARE CAPITAL (CONTINUED)

Issued

Between November 2019 and February 24, 2020, the Company completed a non-brokered private placement of 1,897,429 Ikänik Farms Common Shares at a price of $1.20 USD per Ikänik Farms Common Share for aggregate gross proceeds of $2,276,959.

On April 21, 2020, the Company completed a non-brokered private placement of 11,250 Ikänik Farms Series A Share units at a price of $40.00 USD per Ikänik Farms Series A Share unit for a gross proceeds of $450,000. Each Ikänik Farms Series A Share unit was comprised of one Ikänik Farms Series A Share and one Ikänik Farms Series A Share Warrant, with each whole warrant exercisable into one Ikänik Farms Series A Share at $60.00 expiring 24 months from the date of a reverse takeover. Upon issuance, the warrants were determined using the Black-Scholes option pricing model to have a fair value of $171,959 which was recorded as a component of Series A Compressed share equity.

On September 18, 2020 Ikänik Farms completed a non-brokered private placement of 14,464,482 common share units (consisting of one common share and one common share purchase warrant) at a price of $0.40 per common share unit for gross proceeds of $5,785,793. Upon issuance, the warrants were determined using the Black-Scholes option pricing model to have a fair value of $2,210,971 which was recorded as a component of common share equity.

On November 13, 2020, the Company completed a non-brokered private placement of 6,484,940 Ikänik Farms Common Share units at a price of $0.55 USD per Ikänik Farms Common Share unit for gross proceeds of $3,566,717. Each Ikänik Farms Common Share unit was comprised of one Ikänik Farms Common Share and a half Ikänik Farms Common Share Warrant, with each whole warrant exercisable into one Ikänik Farms Common Share at $0.75 per share expiring 24 months from the date of a liquidity event. Upon issuance, the warrants were determined using the Black-Scholes option pricing model to have a fair value of $1,427,557 which was recorded as a component of common share equity.

On January 8, 2021, Ikänik Farms issued a total of 125,000 Ikänik Farms Common Shares and 5,908 Ikänik Farms Series A Shares at a price of $0.40 and $40.00, per Ikänik Farms Common Share and Ikänik Farms Series A Share, respectively, representing a dollar amount of $286,320 in the aggregate, to employees and one supplier of Ikänik Farms in satisfaction of services previously rendered.

On March 26, 2021, the Company completed a non-brokered private placement of 3,408,992 Ikänik Farms Common Share units at a price of $0.55 USD per Ikänik Farms Common Share unit and 15,568 Ikänik Farms Series A Compressed units at a price of $55 per unit for gross proceeds of $2,699,176. Each unit was comprised of one Ikänik Farms Common Share or Series A Compressed Share and a half Ikänik Farms Common Share Warrant or Series A Compressed Share Warrant, with each whole warrant exercisable into one Ikänik Farms Common Share at $0.75 per share or one Series A Compressed Share at $75 per share, expiring 24 months from the date of a liquidity event. Upon issuance, the warrants were determined using the Black-Scholes option pricing model to have a fair value of $1,093,156 which was recorded as a component of common share equity.

As discussed in Note 3, on June 17, 2021 the Company issued 6,000,000 common shares for the satisfaction of the first set of conditions in respect of the stock transfer agreement dated December 14, 2020 among the Company D9C and the shareholders of D9C (the "Transferring Shareholders") in which the Company is to purchase all issued and outstanding shares of D9C (the "Transaction").

(Expressed in US dollars)

NOTE 8. SHARE CAPITAL (CONTINUED)

As discussed in Note 7, on March 30, 2021 and as of the date the public listing became effective, the Company converted 50% of the debentures based on the terms previously discussed. As such, on that date the Company issued 12,997,840 common shares and 3,258 series A compressed shares in connection with the conversion of the debentures. In connection with the share exchange with CIVC as discussed in Note 3, the Company issued an additional 9,499,877 common shares to CIVC for no consideration.

As discussed in Note 16, On May 6, 2021, the Company completed a non-brokered private placement of 3,192,848 shares of the Company's common stock in exchange for $2,500,000. Approximately 50% of the funds were received during the six months ended June 30, 2021. Since the transaction has not yet completed in full, the shares have not yet been issued as of June 30, 2021 and will be recorded in shares to be issued on the accompanying consolidated balance sheet.

Warrants

The following is a summary of the Company's warrant activity for the three months ended June 30, 2021 and the year ended December 31, 2020:

	Number of Warrants - Series A Compressed Shares	Number of Warrants - Common Shares	Number of Warrants - Total	Weighted-Average Exercise Price	Weighted Average Remaining Contractual	Aggregate Intrinsic Value
Balance, December 31, 2019	29,217	12,000,890	12,030,107	0.86	4.3	-
Granted	11,517	18,757,700	18,769,217	0.67	4.5	-
Exercised	-	-	-	-	-	-
Cancelled	-	-	-	-	-	-
Balance, December 31, 2020	40,734	30,758,590	30,799,324	$ 0.74	4.2	$ -
Granted	7,784	1,704,496	1,712,280	1.09	5.0	-
Exercised	-	-	-	-	-	-
Cancelled	-	-	-	-	-	-
Balance, June 30, 2021	48,518	32,463,086	32,511,604	$ 0.76	4.0	$ -
Exercisable and vested,						
June 30, 2021	26,552	-	26,552	$ 23.14	0.5	$ -
December 31, 2020	26,552	-	26,552	$ 23.14	0.7	$ -

There were no warrant exercises during the three and six months ended June 30, 2021 or during the year ended December 31, 2020. See Note 11 for information about valuation of warrants issued in 2018, resulting in a derivative liability, and warrants issued in 2019, resulting in a warrant liability.

The following assumptions were used in determining the fair value of the warrants issued in the three months ended June 30, 2021 and the year ended December 31, 2020:

Fair Value Assumptions	Common	Series A Compressed
Risk-free interest rate	0.16% & 0.17%	0.16% & 0.17%
Expected term (in years)	2.5	2.5
Expected volatility	90% & 143%	90% & 143%
Dividend yield	0%	0%
Fair value per share	$0.25 & $0.51	$0.25 & $0.51

NOTE 8. SHARE CAPITAL (CONTINUED)

Stock Options

During the six months ended June 30, 2021 and the year ended December 31, 2020, the Company issued stock options to purchase a total of 0 and 20,650, respectively, of the Company's Series A Compressed Shares and 0 and 1,240,000, respectively, of the Company's common shares. All of the stock options were classified as incentive stock options and granted to the Company's employees and vested immediately upon issuance.
The following table summarizes the Company's stock option activity for the six months ended June 30, 2021 and the year ended December 31, 2020:

	Number of Options - Series A Compressed	Number of Opotions - Common Shares	Number of Options - Total	Weighted-Average Exercise Price	Weighted Average Remaining Contractual Life	Aggregate Intrinsic Value
Balance, December 31, 2019	50,250	2,850,000	2,900,250	$ 0.42	9.2	$ 737,255
Granted	20,650	1,240,000	1,260,650	0.41	10.0	-
Exercised	-	-	-	-	-	-
Cancelled	-	-	-	-	-	-
Balance, December 31, 2020	70,900	4,090,000	4,160,900	$ 0.41	8.8	$ -
Granted	-	-	-	-	-	-
Exercised	-	-	-	-	-	-
Cancelled	-	-	-	-	-	-
Balance, June 30, 2021	70,900	4,090,000	4,160,900	$ 0.41	8.5	$ -
Exercisable and vested,						
December 31, 2020	70,900	4,090,000	4,160,900	$ 0.41	8.8	$ -
June 30, 2021	70,900	4,090,000	4,160,900	$ 0.41	8.5	$ -

The Company uses the fair value method in recognizing stock-based compensation expense. Under the fair value method, the fair value of each stock option award was estimated on the grant date using the Black-Scholes option pricing model utilizing the assumptions noted below for each issuance.

In February 2020, the options to purchase 500 of the Company's Series A Compressed Shares were issued. They are exercisable in US dollars for $80.00 per Series A Compressed Share. Upon issuance, the options were determined using the Black-Scholes option pricing model to have a fair value of $27,235 which was recorded as stock-based compensation. The following assumptions were used in determining the fair value of these options

Fair Value Assumptions	
Risk-free interest rate	0.20%
Expected term (in years)	5
Expected volatility	103%
Dividend yield	0%
Grant date fair value per share	$0.74

In July 2020, the options to purchase 16,750 of the Company's Series A Compressed Shares and 1,190,000 of the Company's common shares were issued. They are exercisable in US dollars for $40.00 per Series A Compressed Share and $0.40 per common share. Upon issuance, the options were determined using the Black-Scholes option pricing model to have a fair value of approximately $611,105 which was recorded as stock-based compensation. The following assumptions were used in determining the fair value of these options:

NOTE 8. SHARE CAPITAL (CONTINUED)

Fair Value Assumptions	
Risk-free interest rate	0.16%
Expected term (in years)	5
Expected volatility	143%
Dividend yield	0%
Grant date fair value per share	$0.25

In September 2020, the options to purchase 400 of the Company's Series A Compressed Shares were issued. They are exercisable in US dollars for $40.00 per Series A Compressed Share. Upon issuance, the options were determined using the Black-Scholes option pricing model to have a fair value of approximately $8,532 which was recorded as stock-based compensation. The following assumptions were used in determining the fair value of these options:

Fair Value Assumptions	
Risk-free interest rate	0.16%
Expected term (in years)	5
Expected volatility	143%
Dividend yield	0%
Grant date fair value per share	$0.25

Volatility was estimated by using the average historical volatility of comparable companies from a representative peer group of publicly traded cannabis companies. The expected life in years represents the period of time that options issued are expected to be outstanding. The risk-free rate was based on U.S. Treasury bills with a remaining term equal to the expected life of the warrants. The fair value per share was estimated based on recent equity transactions.

NOTE 9. LOSS PER SHARE

The following table sets out the computation for basic and diluted loss per share:

	For the three months ended June 30, 2021	For the six months ended June 30, 2021	For the three months ended June 30, 2020	For the six months ended June 30, 2020
Net loss attributable to common shareholders basic and diluted	$ (9,502,944)	$ (12,492,623)	$ (2,298,089)	$ (6,111,035)
Weighted average number of common shares outstanding, basic and diluted	146,438,091	137,150,309	82,213,365	91,076,598
Basic and diluted loss per share	$ (0.06)	$ (0.09)	$ (0.03)	$ (0.07)

Diluted loss per share is the same as basic loss per share as the issuance of shares on the exercise of convertible debentures, warrants and share options is anti-dilutive.

(Expressed in US dollars)

NOTE 10. CAPITAL MANAGEMENT

The Company's capital is composed of share capital, reserves and deficit. The Company manages its capital within the following objectives:

(a) to ensure that there is sufficient financial flexibility to achieve the ongoing business objectives; and
(b) to maximize shareholder return through enhancing shareholder value.

Management periodically reviews its capital management approach 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 for the six months ended June 30, 2021 or for the year ended December 31, 2020. The Company is not subject to externally imposed capital requirements.

NOTE 11. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

Financial Instruments

The Company's financial instruments are held at amortized cost (adjustment for impairments or expected credit losses, as applicable) or FVTPL. The carrying values of financial instruments held at amortized cost approximate their fair values as of June 30, 2021 and December 31, 2020 due to their nature and relatively short maturity date. Financial assets and liabilities with embedded derivative features are carried as FVTPL.

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

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;
Level 2 – Inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly; and
Level 3 – Inputs for the asset or liability that are not based on observable market data.

Unless otherwise noted, the Company considers all financial instruments classified as FVTPL to be level 1 investments.

There have been no transfers between fair value levels valuing these assets during the year.

The following table summarizes the Company's financial instruments as of June 30, 2021 and December 31, 2020:

	June 30, 2021	December 31, 2020
Financial Assets:		
Cash and cash equivalents	$ 406,655	$ 3,893,997
Accounts receivable	62,526	432,992
Related party receivable	32,951	32,951
Deposits on property and equipment	2,423,053	258,926
Other Assets	134,086	134,086

(Expressed in US dollars)

NOTE 11. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (CONTINUED)

	June 30, 2021	December 31, 2020
Financial Liabilities:		
Accounts payable and accrued expenses	$ 5,178,343	$ 4,645,804
Due to shareholder	100	100
Due to seller	740,000	740,000
Notes payable	168,407	190,676
Warrant liability	740,370	808,338
Convertible debentures	5,983,752	14,041,033

(a) Convertible Debentures and Derivative Liability

As noted above, in May 2019 the Company issued convertible debenture units for gross proceeds of $13,139,000, and incurred debt issuance costs of $994,345, resulting in net proceeds of $12,144,655. The debentures have a stated interest rate of 6% per year and mature two years from the date of issuance. Each $1,000 debenture unit includes a debenture convertible into either Common Shares or Series A Compressed Shares with a conversion price of $0.61 or $61.00, respectively, and warrants for the purchase of 820 Common Shares at $0.79 per share or 820 Series A Compressed Shares at $79.00 per share. The debentures automatically convert upon the occurrence of a liquidity event, defined as an initial public offering or a merger or reverse take-over resulting in the Company being listed on a recognized Canadian stock exchange. If no such event occurs within one year from the date of issuance, additional debenture units representing 10% of the investors' initial investment will be issued for no additional consideration. The warrants issued in connection with the debentures also include a vesting acceleration trigger in the event that, following a liquidity event, the Company's Common Shares have a 10-day volume-weighted average price on a recognized stock exchange that is greater than $1.22 per Common Share, which entitles the Company to accelerate the exercise period of the warrants to a minimum of 21 days from that date.

There were four features across which the allocation of the debt proceeds was applied on initial recognition: the host debt, conversion feature, warrants, and the Penalty. The host debt was valued using the effective interest method with the Company's incremental borrowing rate for such debt instruments of 26% as the discount rate. This resulted in the allocation of proceeds of $8,791,025. The conversion feature was allocated proceeds at issuance totaling $3,437,116, which was valued using the Black-Scholes option pricing model utilizing the following assumptions:

Fair Value Assumptions	Common	Series A Compressed
Risk-free interest rate	2.31%	2.31%
Expected term (in years)	2	2
Expected volatility	84%	84%
Dividend yield	0%	0%
Fair value per share	$0.58	$0.58

(Expressed in US dollars)

NOTE 11. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (CONTINUED)

The warrants issued in connection with the debentures were allocated proceeds at issuance totaling $26,174, which was valued using a barrier option pricing model utilizing the same assumptions as were used in valuing the conversion feature, plus the barrier price of $1.22 per Common Share.

In conjunction with the issuance of convertible debentures, the Company recorded a derivative liability of $902,494 at the issuance date for the Penalty. The derivative was valued at 10% of the value of the other three features. The collective value of these inputs was adjusted based on the expected probability that the Penalty consideration would be issued. As of December 31, 2019, the value of the Penalty using the same inputs with updated assumptions as of that date was determined to have increased to $1,105,671, an increase of $203,177 which has been recorded to other expense in the accompanying consolidated statement of operations. The following are the assumptions used at December 31, 2019:

Fair Value Assumptions	Common	Series A Compressed
Risk-free interest rate	1.60%	1.60%
Expected term (in years)	1.4	1.4
Expected volatility	82%	82%
Dividend yield	0%	0%
Fair value per share	$0.74	$74.00

Volatility was estimated by using the average historical volatility of comparable companies from a representative peer group of publicly traded cannabis companies. The expected life in years represents the period of time that warrants issued are expected to be outstanding. The risk-free rate was based on U.S. Treasury bills with a remaining term equal to the expected life of the warrants. The fair value per share was determined by an actuarial calculation of value performed by a third party.

In May 2020, the Penalty debentures and warrants were issued as the Company was not yet publicly trading, resulting in an addition to the debenture liability of $1,313,900 (10% of the gross proceeds) and resulting in a loss on issuance of $208,229.

On June 23, 2020, the Company completed a private placement of an additional 100 units of Ikänik Farms 2020 Convertible Debentures at a price of $1,000 USD per unit for aggregate gross proceeds of $100,000. Immediately prior to the completion of the Reverse Take-Over, each Ikänik Farms 2020 Convertible Debenture converts into that number of units (the “Ikänik Farms Units”) as is equal to the principal amount of the Ikänik Farms 2020 Convertible Debenture (plus any interest accrued thereon) divided by the Conversion Price. Each Ikänik Farms Unit consisted of one Ikänik Farms Common Share and one Ikänik Farms Common Share Warrant, with each such Ikänik Farms Common Share Warrant entitling the holder to exercise it for one Ikänik Farms Common Share at a price that is equal to 1.3 times the Conversion Price for a period of two years from the date of issuance. As exercise of the warrants are contingent on the completion of a Reverse Take-Over, the timing of which remains uncertain, and due to the relatively small size of the funding, all of the proceeds have been allocated to the debenture liability.

NOTE 11. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Warrant Liability

In connection with a private placement, the Company issued warrants to purchase 26,551.59 Series A Compressed Shares, with a fair value of $11.97 per warrant upon issuance at August 31, 2018 and September 28, 2018. The warrants are exercisable for a period of 36 months from the date of issuance at an exercise price of $30.00 Canadian dollars per share ($23.86 and $22.52 USD per share at June 30, 2021 and December 31, 2020, respectively). As the warrants are exercisable in Canadian dollars and the Company's functional currency is US dollars, the fair value as stated in US dollars is subject to exchange rate fluctuations and has been classified as a liability. Upon issuance, the warrants were determined to have a fair value of $317,786. The warrants were determined to have a fair value of $740,370 ($27.88 per warrant) and $808,338 ($30.44 per warrant) at June 30, 2021 and December 31, 2020, respectively. The changes in fair value during the six months ended June 30, 2021 and 2020 were a decrease of $67,968 and an increase of $25,695, respectively, have been recorded in other expense in the accompanying consolidated statement of operations and comprehensive loss. The fair value of the warrants exercisable for the Company's Series A Compressed Shares was determined using the Black-Scholes option pricing model with the following assumptions:

Fair Value Assumptions	June 30, 2021	December 31, 2020
Risk-free interest rate	0.00%	0.00%
Expected term (in years)	0.2	0.7
Expected volatility	90%	90%
Dividend yield	0%	0%
Fair value per share	$51.00	$51.00

Volatility was estimated by using the average historical volatility of comparable companies from a representative peer group of publicly traded cannabis companies. The expected life in years represents the period of time that warrants issued are expected to be outstanding. The risk-free rate was based on U.S. Treasury bills with a remaining term equal to the expected life of the warrants. The fair value per share was determined by an actuarial calculation of value performed by a third party. As of June 30, 2021 and December 31, 2020, warrants outstanding have a weighted-average remaining contractual life of 0.2 and 0.7 years, respectively.

Financial Risk Management

The Company's financial risk exposures and the impact on the Company's financial instruments are as follows:

(a) Credit risk: Credit risk is the risk of potential loss to the Company if a customer or third party to a financial instrument fails to meets its contractual obligations. The maximum credit exposure at June 30, 2021 and December 31, 2020 is the carrying amount of cash and accounts receivable. The Company does not have significant credit risk with respect to its customer, based on the continued economic strength of the U.S., strength of the U.S. capital markets, and the low interest rate environment. Although all deposited cash is placed with U.S. financial institutions in good standing with regulatory authorities, changes in U.S. federal banking laws related to the deposit and holding of funds derived from activities related to the cannabis industry have passed the House of Representatives, but has not yet been voted on within the Senate. Given that the U.S. federal law provides that the production and possession of cannabis is illegal, there is a strong argument that banks cannot accept for deposit funds from businesses involved with the cannabis industry.

NOTE 11. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (CONTINUED)

As of June 30, 2021 and December 31, 2020, the Company's aging of accounts receivable was as follows:

	June 30, 2021	December 31, 2020
0 to 60 days	57,322	413,240
61 to 120 days	32,415	94,193
120 days +	-	-
Less: Allowance for doubtful accounts	(27,211)	(74,441)
Total accounts receivable	62,526	432,992

The Company has not recorded any bad debt expense during the six months ended June 30, 2021 and 2020.

(b) Asset forfeiture risk: Because the cannabis industry remains illegal under U.S. federal law, any property owned by participants in the cannabis industry which are either used in the course of conducting such business, or are the proceeds of such business, could be subject to seizure by law enforcement and subsequent civil asset forfeiture. Even if the owner of the property were never charged with a crime, the property in question could still be seized and subject to an administrative proceeding by which, with minimal due process, it could be subject to forfeiture.

(c) Liquidity risk: Liquidity risk is the risk that the Company will not be able to meets its financial obligations associated with financial liabilities. The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As of June 30, 2021 and December 31, 2020, the Company had working capital deficit of $8,556,626 and $3,916,866, respectively. At June 30, 2021 and December 31, 2020, the Company had a cash balance of $406,655 and $3,893,997, respectively, to settle current financial liabilities of $10,252,019 and $9,135,531, respectively. The Company will continue to raise capital as needed to fund operations and expansion. The maturity analysis for lease obligations is located in Note 5. The maturity analysis for notes payable and convertible debentures are located in Note 7. All other financial liabilities have contractual maturities of less than one year.

(d) Market risk

(i) Currency risk: The operating results and financial position of the Company are reported in U.S. dollars. As of June 30, 2021 and December 31, 2020, the Company's financial assets and liabilities are denominated primarily in U.S. dollars. However, from time to time, some of the Company's financial transactions are denominated in currencies other than the U.S. dollar. The Company also acquired PIDEKA during the year ended December 31, 2019, which transacts in the Colombia peso. Accordingly, the results of the Company's operations are subject to currency transaction and translation risks. As of June 30, 2021 and December 31, 2020, the Company had no hedging agreements in place with respect to foreign currency exchange rates. The Company has not entered into any agreements or purchased any instruments to hedge possible currency risks at this time.

(ii) Interest rate risk: Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company calculates an incremental borrowing rate to use in the valuation of its financial instruments.

(Expressed in US dollars)

NOTE 11. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (CONTINUED)

(e) International risk: The Company's operations in Columbia, as well as any additional countries in which the Company may begin operations in the future, exposes the Company to foreign laws, varying methods of legal enforcement, and potential political instability. The Company manages this risk by attempting to understand the operating environment in foreign countries.

NOTE 13. RELATED PARTIES

The Company's key management personnel have the authority and responsibility for planning, directing, and controlling the activities of the Company and consists of the Company's executive management team and management directors. Other than the transactions described below for the six months ended June 30, 2021 and the year ended December 31, 2020, there were no material transactions with or changes to other related party balances as of June 30, 2021 and December 31, 2020. Key management personnel compensation and other related party expenses for the six months ended June 30, 2021 and for the year ended December 31, 2020 are as follows:

	Six months ended June 30, 2021	December 31, 2020
Management compensation	$ 323,763	$ 285,708
Stock compensation expense	-	$ 412,830

The Company also acquired $3,236,425 and $23,292, respectively, in property and equipment during the six months ended June 30, 2021 and during the year ended December 31, 2020 and also incurred $167,994 and $536,839, respectively, in consulting fees from a related party owned by a shareholder during the same periods. As of June 30, 2021 and December 31, 2020 the Company had an outstanding balance due from this related party of $32,951 from advances from the Company. The advances are non-interest bearing and due on demand.

NOTE 14. COMMITMENTS AND CONTINGENCIES

<u>Commitments</u>

In connection with the Company's THCA and PIDEKA acquisitions in 2019, the Company agreed to certain capital expenditure commitments. For THCA, the Company agreed to a capital expenditure commitment of $800,000, of which all had been spent as of June 30, 2021 and December 31, 2020, respectively. For PIDEKA, the Company agreed to a capital expenditure commitment of $6,700,000, of which $4,139,562 and $4,458,430 has been spent as of June 30, 2021 and December 31, 2020, respectively, leaving a remaining commitment balance of $2,560,438 and $2,241,570, respectively.

NOTE 14. COMMITMENTS AND CONTINGENCIES (CONTINUED)

Contingencies

The Company's operations are subject to a variety of local and state regulation. Failure to comply with one or more of those regulations could result in fines, restrictions on its operations, or losses of permits that could result in the Company ceasing operations. While management believes that the Company is in compliance with applicable local and state regulations as of June 30, 2021 and December 31, 2020, medical and recreational marijuana regulations continue to evolve and are subject to differing interpretations. As a result, the Company may be subject to regulatory fines, penalties, or restrictions in the future.

Litigation

The Company is subject to certain claims and legal matters that arise in the normal course of business, though no such claims or legal matters are outstanding. Management does not expect any such claims and legal actions to have a material adverse effect on the Company's financial position, results of operations or liquidity.

NOTE 15. SEGMENT INFORMNATION

The Company operates in one segment, the cultivation, production, and sale of cannabis. While the majority of the Company's property and equipment and operations are located in the United States, the Company's operations from the PIDEKA acquisition are located in Columbia. As of June 30, 2021 and December 31, 2020, property and equipment of approximately $45,000 and $26,000, respectively, were located in Colombia. The Company's operations in Columbia generated approximately $3,368,000 and $1,450,000, respectively, of the Company's net loss for the six months ended June 30, 2021 and 2020.

NOTE 16. SUBSEQUENT EVENTS

Management has evaluated subsequent events that have occurred through the date that the financial statements were available to be issued and determined that there were no subsequent events that required recognition or disclosure in the financial statements as of and for the period ended June 30, 2021, except as disclosed below.

On March 5, 2021, the Company completed a non-brokered private placement of 29,394,474 shares of the Company's common stock in exchange for $30,000,000. However, the funds remain outstanding as of the filing date of these financial statements.

On May 6, 2021, the Company completed a non-brokered private placement of 3,192,848 shares of the Company's common stock in exchange for $2,500,000. However, the 50% of the funds remain outstanding as of the filing date of these financial statements.