

**IKÄNIK FARMS INC.**

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL RESULTS**

For the three and six months ended June 30, 2021

Date: August 27, 2021

This Management's Discussion and Analysis ("MD&A") reports on the financial condition and results of operations of Ikänik Farms Inc. ("Ikänik Farms" or the "Corporation" or the "Company") for the three and six months ended June 30, 2021. This MD&A should be read in conjunction with the Corporation's financial statements as at June 30, 2021 for the three and six months ended June 30, 2021 (the "Financial Statements"), including the accompanying notes, which have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

Unless otherwise indicated, all financial information in this MD&A is reported in United States dollars ("\$" or "US\$"), except share amounts. This MD&A was prepared with reference to National Instrument 51-102 – *Continuous Disclosure Obligations* of the Canadian Securities Administrators.

This MD&A includes "forward-looking information" and "forward-looking statements" within the meaning of Canadian securities laws and United States securities laws, respectively. Please refer to the discussion of forward-looking information and statements set out under the heading "Cautionary Note Regarding Forward-Looking Information". As a result of many factors, the Corporation's actual results may differ materially from those anticipated in these forward-looking information and statements.

#### **CAUTIONARY NOTE REGARDING FORWARD-LOOKING INFORMATION**

This MD&A contains certain "forward-looking information" within the meaning of applicable Canadian securities laws and "forward-looking statements" within the meaning of applicable United States securities laws, concerning the business, operations and financial performance and condition of the Corporation. "Forward-looking information" and "forward-looking statements" include, but are not limited to, statements relating to:

- the Corporation's expectations regarding legislation, regulations and licensing related to the cannabis market and products;
- the expected number of users of medical cannabis or the size of the medical cannabis market in the U.S.;
- the expected number of users of adult-use cannabis or the size of the adult-use cannabis market in the U.S.;
- the potential size of the regulated medical and adult-use cannabis market in the U.S. and internationally;
- the ability to enter and participate in international market opportunities;
- the Corporation's expectations with respect to the Corporation's future financial and operating performance, including with respect to increases in consulting and professional fees and the anticipated cash profitability of the business;
- the Corporation's expectations with respect to future performance, results and terms of strategic initiatives, and strategic agreements;
- future corporate development;
- expectations with respect to future expenditures and capital activities; and
- statements about expected use of proceeds from fund raising activities.

Generally, this forward-looking information can be identified by the use of words such as "plans", "expects", "is expected", "budget", "scheduled", "estimates", "forecasts", "intends", "anticipates", or "believes" or variations (including negative variations) of such words and phrases, or statements that certain actions, events, or results "may", "could", "should", "would", "might", or "will" be "taken", "occur" or "be achieved". Forward-looking information is based on the reasonable assumptions, estimates, internal and external analysis and opinions of management made in light of its experience and perception of trends, current conditions and expected developments, as well as other factors that management believes to be relevant and reasonable at the date that such statements are made. Forward-looking information involves known and unknown risks, uncertainties, assumptions and other factors that may cause actual results, performance or achievements of the Corporation to be materially different from any future results, performance or achievements expressed or implied by the forward-looking information. Such factors include, but are not limited to, the factors discussed in the section entitled "Risks Factors" herein. Although the Corporation has attempted to identify important factors that could cause actions,

events or results to differ materially from those described in the forward-looking information, there may be other factors that cause actions, events, or results to differ from those anticipated, estimated or intended. There can be no assurance that forward-looking information will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on the forward-looking information. Forward-looking information contained herein is given as at the date of the MD&A. The Corporation does not undertake to update any forward-looking information, whether as a result of new information, future events or otherwise, except as required by applicable securities laws.

#### **CAUTIONARY NOTE REGARDING CERTAIN MEASURES OF PERFORMANCE**

This MD&A presents certain measures that are not recognized measures and do not have any standardized meaning under IFRS. This data may not be comparable to data presented by other entities. For a reconciliation of these measures to the most directly comparable financial information presented in the Financial Statements prepared in accordance with IFRS, see “Non-IFRS Financial Performance Measures” in this MD&A.

The Corporation believes that these generally accepted industry measures are realistic indicators of operating performance and are useful in performing year over year comparisons. However, these non-IFRS financial measures should be viewed as a supplement to, and not a substitute for, the Corporation’s results of operations reported under IFRS.

#### **GENERAL**

##### **Overview**

Ikänik Farms is a private corporation, originally incorporated in Canada under the *Canada Business Corporations Act*, on April 25, 2018 as “Cannus Partners Inc.” On May 6, 2019, Ikänik Farms filed a certificate of amendment to effect the changing of its name to “Ikänik Farms Inc.” Ikänik Farms continued into the Province of British Columbia on March 30, 2020. The Corporation’s registered office is located at 2200 HSBC Building 885 West Georgia Street, Vancouver BC, V6C 3E8. The Corporation’s head office is located at Scotia Plaza, Suite 2100, 40 King St. W. Toronto, Ontario M5H 3C2.

Ikänik Farms and its subsidiaries (the “**Ikänik Group**”) is a vertically integrated cannabis cultivator, producer, distributor and dispensary operator that is building out its “seed to sale” business across California and the greater northeast of the United States. Ikänik Group’s operations are currently located in California and Colombia.

As used herein, “Ikänik Group,” “we,” “our,” and similar terms include Ikänik Farms and its subsidiaries, unless the context indicates otherwise.

##### **Recent Developments**

###### *Closing of Pideka Acquisition*

On August 2, 2019, Ikänik Farms entered into a Stock Transfer Agreement (the “**Pideka Agreement**”) with the prior shareholders of Pideka to transfer all of the issued and outstanding shares of Pideka (the “**Pideka Shares**”) to Ikänik Farms in exchange for an aggregate of 33,333,333 common shares of Ikänik Farms at an estimated price of \$1.20 (the “**Pideka Acquisition**”) to be transferred subsequent to the closing. The Company also set out to undertake the following objectives upon acquisition of Pideka (the “**Pideka Objectives**”) set out below:

1. the receipt of certain regulatory, corporate and tax documentation, each as deemed satisfactory by Ikänik Farms;
2. the construction, commencement of Pideka’s property at Tenjo ; and

3. the delivery to Ikänik Farms of a copy of a validly issued GMP certification.

On February 18, 2020, Ikänik Farms issued 33,333,333 common shares to the prior shareholders of Pideka on February 11, 2020.

#### Continuance into British Columbia

On March 30, 2020, Ikänik Farms continued into the Province of British Columbia. The Corporation's also changed its registered office to 2200 HSBC Building 885 West Georgia Street, Vancouver BC, V6C 3E8.

#### Issuance of Penalty Debentures

On May 3, 2019, pursuant to an agency agreement (the "**Agency Agreement**") between Ikänik Farms and Canaccord Genuity Corp. (the "**Agent**"), Ikänik Farms completed a private placement (the "**May 2019 Private Placement**") of 13,139 units at a price of USD\$1,000 per Unit for aggregate gross proceeds of approximately USD\$13,139,000.

Each unit was comprised of a USD\$1,000 convertible debenture of Ikänik Farms and 820 common share purchase warrants, for non-U.S. purchasers, and 8.2 series A share purchase warrants, for U.S. purchasers. Non-U.S. purchasers received Convertible Debentures which were convertible into common shares and common share purchase warrants. U.S. purchasers received Convertible Debentures which were convertible into series A shares and series A share purchase warrants. Immediately prior to the completion of the transactions contemplated under the Definitive Agreement, each Convertible Debenture converted into one common share (in the case of non-U.S. purchasers) or one series A share (in the case of U.S. purchasers) at a conversion price equal to \$0.61 or \$61.00, respectively. Each share purchase warrant issued upon conversion of the units entitled the holder to exercise it for one common share at a price of \$0.79 per common share (or, for U.S. purchasers, one series A share at a price of \$79.00) for a period of 24 months from the date the common shares of Ikänik Farms (or a resulting issuer) are listed on a recognized Canadian stock exchange.

Pursuant to a penalty provision under the 2019 Agency Agreement, if the liquidity event had not taken place within 12 months of the Ikänik Farms 2019 Private Placement closing date, Ikänik Farms was to issue additional: (a) Convertible Debentures on the basis of 10% of an Ikänik Farms 2019 Convertible Debenture for each one (1) Convertible Debenture held, (b) additional common share purchase warrant on the basis of one (1) common share purchase warrant for each ten (10) common share purchase warrants held and (c) additional series A share purchase warrant on the basis of one (1) series A share purchase warrant for each ten (10) series A share purchase warrant held with no fractional securities to be issued. Accordingly, on May 3, 2020, Ikänik Farms issued an additional 1,300 Convertible Debentures, 1,050,748 common share purchase warrants and 266 series A share purchase warrants.

#### D9C Acquisition

On June 23, 2020 Ikänik Farms 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 (the "**D9C Shares**") to Ikänik Farms in exchange for an aggregate of 10,000,000 common shares of Ikänik Farms at a price of \$0.40 (the "**D9C Acquisition**"). The 10,000,000 common shares are to be issued upon the completion of the D9C Conditions (as defined below) but will be held in escrow. The delivery of the common shares to former shareholders of D9C as part of the D9C Acquisition is conditional upon the receipt of certain regulatory requirements by D9C and Ikänik Farms, including delivery to Ikänik Farms of the following items (the "**D9C Conditions**"):

1. Within 10 business days following the receipt of certain regulatory, assignment, corporate and tax documentation, each as deemed satisfactory by Ikänik Farms, 5,000,000 common shares (or Resulting Issuer Subordinate Voting Shares if the condition is met subsequent to the Reverse Take-Over) shall be delivered ratably to the former shareholders of D9C;

2. Within 10 business days following the receipt of certain corporate documents, import registrations and certifications and receipt of seeds as deemed satisfactory by Ikänik Farms, 3,000,000 common shares (or Resulting Issuer Subordinate Voting Shares if the condition is met subsequent to the Reverse Take-Over) shall be delivered ratably to the former shareholders of D9C; and
3. Within 10 business days following the delivery to Ikänik Farms of a copy of validly issued seed and genetic registration certificates and a cultivation permit satisfactory by Ikänik Farms, 2,000,000 common shares (or Resulting Issuer Subordinate Voting Shares if the condition is met subsequent to the Reverse Take-Over) shall be delivered ratably to the former shareholders of D9C.

Ikänik Farms has issued 6,000,000 of the total shares to be issued as a deposit on the assets to be acquired and expects that the D9C Conditions will be satisfied by the end of the third quarter of 2021 to complete the transaction.

If the satisfaction of each of the D9C Conditions above does not occur by December 23, 2021 Ikänik Farms will transfer the D9C Shares back to the former shareholders of D9C and each of the former shareholders of D9C will transfer any Ikänik Farms Common Shares received as part of the D9C Acquisition back to Ikänik Farms and any Ikänik Farms Common Shares held in escrow shall be cancelled.

#### Canadian Imperial Venture Corporation

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.

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.

#### **Overall Performance**

The Company’s overall strategy is to build sustainable, long-term shareholder value by reducing leverage, enhancing liquidity and cost of capital while improving the capacity and capabilities of its future production and facilities while creating quality brands and products that distinguish Ikanik from others in the industry. As part of this strategy, Ikanik will continue to concentrate on expanding its future operations to meet consumer preferences, maintaining discipline for future costs to acclimate to the industry, and focus on providing quality products that appeal to its consumers. As the Company continues to evolve, it will invest in technology platforms that will assist with analyzing information, including transactional and point of sale data. The data and information derived from investing in these platforms will guide future sales and distribution and help Ikanik fulfill its strategies and target future acquisitions.

## Selected Interim Financial Information

The following is selected financial data derived from the unaudited Financial Statements of the Corporation for the three and six months ended June 30, 2021 and 2020 and as at June 30, 2021 and December 31, 2020.

<b>Statement of Operations Summary</b>				
	<b>For the three months ended June 30, 2021</b>	<b>For the six months ended June 30, 2021</b>	<b>For the three months ended June 30, 2020</b>	<b>For the six months ended June 30, 2020</b>
Revenue	\$ 218,099	\$ 547,887	\$ 981,392	\$ 1,745,298
Gross Profit (Loss)	\$ (112,612)	\$ (144,836)	\$ 147,144	\$ 274,301
Loss from Operations	\$ (4,944,337)	\$ (6,989,904)	\$ (2,271,589)	\$ (5,240,336)
Net Loss for the Period	\$ (9,502,944)	\$ (12,492,623)	\$ (2,298,089)	\$ (6,111,035)
Total Comprehensive Loss for the Period	\$ (7,645,263)	\$ (10,611,764)	\$ (2,304,723)	\$ (6,113,585)
Basic Loss Per Share	\$ (0.05)	\$ (0.08)	\$ (0.03)	\$ (0.07)
Diluted Loss Per Share	\$ (0.05)	\$ (0.08)	\$ (0.03)	\$ (0.07)

<b>Statement of Cash Flow Summary</b>		
	<b>For the six months ended June 30, 2021</b>	<b>For the six months ended June 30, 2020</b>
Cash (used in) operating activities	\$ (5,833,308)	\$ (2,486,121)
Cash (used in) investing activities	\$ (2,605,528)	\$ (277,698)
Cash provided by financing activities	\$ 3,070,635	\$ 2,322,866
Change in cash and cash equivalents	\$ (3,487,342)	\$ (443,503)

<b>Statement of Financial Position Summary</b>		
<b>As of</b>	<b>June 30, 2021</b>	<b>December 31, 2020</b>
Current Assets	\$ 1,695,393	\$ 5,218,665
Total Assets	\$ 42,753,034	\$ 42,009,863
Current Liabilities	\$ 10,252,019	\$ 9,135,531
Total Liabilities	\$ 17,392,204	\$ 25,540,819
Notes:		
As of June 30, 2021 and December 31, 2020, Ikänik Farms has not declared dividends.		

## Results of Operations

For the three and six months June 30, 2021, the Company had slight decrease in a portion of its operations recognizing a net loss of \$9,502,944 and \$12,492,623, respectively, compared to \$2,298,089 and \$6,111,035, respectively, for the three and months ended June 30, 2020. The Company continued recognizing revenues as it focus has been to scale its selling operations. As part of this planned growth, the Company plans to continue expansion with additional workforce and overhead related costs for marketing and administrative purposes. As the Company continues to expand through acquisition and organic growth, their operations have remained consistent, as the Company was still realizing the effects of the COVID-19 pandemic in the first and second quarters of 2021 as evidenced by certain decreases period over period. The Company continues to utilize its capital and future fundraising to position the

Company for strategic growth through a public offering and targeted acquisitions to execute its operating and strategic plans.

For the three months ended June 30, 2021, compared to three months ended June 30, 2020

#### *Revenues and gross loss*

Revenues for the three months ended June 30, 2021 were \$218,099 and included wholesale cannabis sales, compared to \$981,392 for the three months ended June 30, 2020. The initial year of existence for Ikanik began in April 2018 with the start-up phase of their operations commencing with mainly organizational related costs and no revenues. In 2020 Ikanik began continued progressing its sales process and larger scale marketing efforts as they started to recognize revenues and expand their workforce which remained consistent for 2021. The decrease in the 2021 period from the same period in 2020 of \$763,293, was related to slight reductions in operations as the Company was still experience the effects of COVID-19 with staff limitations and certain COVID-19 restrictions that has interfered with sales efforts. For the three months ended June 30, 2020, the pandemic was beginning to cause shutdowns in the final weeks of the first quarter and as such the Company's full scale sales and marketing efforts had not began to show effects from the pandemic in the first two quarters of 2020, as reflected in the financial statements.

Cost of goods sold and gross loss for the three months ended June 30, 2021 were \$330,711 and \$112,612, respectively. This was decrease period over period and is consistent with the variance in revenues discussed above. Cost of goods sold and gross profit for the same period in 2020 were \$834,248 and \$147,144, respectively, as the Company had just completed its first year of existing and beginning to scale its sales and marketing efforts. As the Company continued to acquire other cannabis businesses, they were able to multiply their operations and grow on a much larger scale in 2020. The Company plans to continue these efforts as restrictions loosen for all businesses and they can re-commence their operations to pre-COVID-19 levels.

#### *Operating expenses*

The total operating expenses for the three months ended June 30, 2021 totaled \$4,831,725 compared to \$2,418,733 for the three months ended June 30, 2020. The costs incurred during 2021 were primarily related to general and administrative expenses of \$3,676,164 compared to \$1,601,411 for the same period in 2020. The increase in costs period over period of \$2,074,753 or 129.6% were primarily related to an increase in compensation related expenses of \$615,829 or 76.5% period over period as there were large increases in the allocation of capital raised to grow the workforce in the second quarter of 2021 as restrictions in the pandemic began to subside and the Company put their efforts and resources into growing operations. Professional and consulting costs increased in 2021 to \$478,186 from \$385,673 in 2020. The increase of \$92,514 or 24% was related to additional efforts focused on raising capital as discussed in the financial statements, the effective public listing of the Company, and acquisitions of target companies such as D9C. In addition, the company had a large increase of costs related to licenses, permits, security, office related costs, insurance, and travel totaling \$1,777,285 compared to \$410,875 in 2020, an increase of \$1,366,410 or 332.6% that is consistent with the increase in operations for PIDEKA as the Company continued to increase their cost of operations at their facilities in Colombia.

The additional increase to operating expenses period over period was related to marketing and depreciation and amortization costs for the three months ended June 30, 2021 totaling \$314,529 and \$841,032, respectively, compared to \$16,675 and \$800,647, respectively, for the same period in 2020. The increase to marketing, advertising and promotional costs period over period was \$297,854 or 1786.2% and was related to efforts promoting Ikanik's brands and products and seasonality. The increase in depreciation and amortization of \$40,385 or 5.0% was related to the additional acquisition of fixed assets used in operations and intangible assets acquired in business combinations and asset acquisitions further explained within this MD&A.

#### *Other income and expenses*

The Company had increases to other net expenses that totaled \$4,558,607 for the three months ended June 30, 2021 compared to \$26,500 for the same period in 2020. The increase of \$4,532,107 or 17102.3% was primarily related to the loss on extinguishment of debt by \$4,034,794 or 100% that occurred based on the conversion of debentures into equity that occurred in the second quarter of 2021. Ikanik has also recognized a change in fair value of the warrant liability by \$(808,161) or (92.9)% that occurred based on the updated valuation of the Company's equity. Foreign Currency Unrealized Loss for the three months ended June 30, 2021 of \$62,817, compared to a gain of \$30,293 for the three months June 30, 2020 and a decrease to interest expense and other income of \$311,140 and \$92,818, respectively.

#### For the six months ended June 30, 2021, compared to six months ended June 30, 2020

#### *Revenues and gross loss*

Revenues for the six months ended June 30, 2021 were \$547,887 and included wholesale cannabis sales, compared to \$1,745,298 for the six months ended June 30, 2020. The initial year of existence for Ikanik began in April 2018 with the start-up phase of their operations commencing with mainly organizational related costs and no revenues. In 2020 Ikanik began continued progressing its sales process and larger scale marketing efforts as they started to recognize revenues and expand their workforce which remained consistent for 2021. The decrease in the 2021 period from the same period in 2020 of \$1,197,411, was related to slight reductions in operations as the Company was still experience the effects of COVID-19 with staff limitations and certain COVID-19 restrictions that has interfered with sales efforts. For the six months ended June 30, 2020, the pandemic was beginning to cause shutdowns in the first and second quarter of 2020 and as such the Company's full scale sales and marketing efforts had not began to show effects from the pandemic in the first two quarters of 2020 as opposed to the continuing and lingering effects in 2021 as the pandemic closures began to open up in the latter part of the second quarter of 2021.

Cost of goods sold and gross loss for the six months ended June 30, 2021 were \$692,723 and \$144,836, respectively. This was decrease period over period and is consistent with the variance in revenues discussed above. Cost of goods sold and gross profit for the same period in 2020 were \$1,470,997 and \$274,301, respectively, as the Company had just completed its first year of existing and beginning to scale its sales and marketing efforts. As the Company continued to acquire other cannabis businesses, they were able to multiply their operations and grow on a much larger scale in 2020. The Company plans to continue these efforts as restrictions loosen for all businesses and they can re-commence their operations to pre-COVID-19 levels.



### *Operating expenses*

The total operating expenses for the six months ended June 30, 2021 totaled \$6,845,068 compared to \$5,514,637 for the six months ended June 30, 2020. The costs incurred during 2021 were primarily related to general and administrative expenses of \$5,206,294 compared to \$3,795,130 for the same period in 2020. The increase in costs period over period of \$1,411,164 or 37.2% were primarily related to an increase in compensation related expenses of \$546,348 or 28.3% period over period as there were large increases in the allocation of capital raised to grow the workforce in the second quarter of 2021 as restrictions in the pandemic began to subside and the Company put their efforts and resources into growing operations. Professional and consulting costs slightly increased in 2021 to \$831,024 from \$798,610 in 2020. The increase of \$32,415 or 4.1% was related to additional efforts focused on raising capital as discussed in the financial statements, the effective public listing of the Company, and acquisitions of target companies such as D9C. In addition, the company had a large increase of costs related to licenses, permits, security, office related costs, insurance, and travel totaling \$1,899,776 compared to \$1,067,375 in 2020, an increase of \$832,402 or 78.0% that is consistent with the increase in operations for PIDEKA as the Company continued to increase their cost of operations at their facilities in Colombia.

The additional increase to operating expenses period over period was related to an increase of marketing offset by a decrease in depreciation and amortization costs for the six months ended June 30, 2021 which each totaled \$439,959 and \$1,198,815, respectively, compared to \$118,803 and \$1,600,704, respectively, for the same period in 2020. The increase to marketing, advertising and promotional costs period over period was \$321,156 or 270.3% and was related to efforts promoting Ikanik's brands and products and seasonality. The decrease in depreciation and amortization of \$401,889 or 25.1% was related to the depreciation adjustment related to right of use assets used in operations in addition to a change in the deposits on property and equipment being depreciation period over period.

### *Other income and expenses*

The Company had increases to other net expenses that totaled \$5,502,719 for the six months ended June 30, 2021 compared to \$870,699 for the same period in 2020. The increase of \$4,632,020 or 532.1% was primarily related to the loss on extinguishment of debt by \$4,034,794 or 100% that occurred based on the conversion of debentures into equity that occurred in the second quarter of 2021. Ikanik has also recognized a change in fair value of the warrant liability by \$(827,771) or (92.4)% that occurred based on the updated valuation of the Company's equity. Foreign Currency Unrealized Loss for the six months ended June 30, 2021 of \$157,936, compared to \$38,036 for the six months June 30, 2020 and a decrease to interest expense and other income of \$295,820 and \$54,625, respectively.

### ***Non-IFRS Financial Results***

As at June 30, 2021, the Corporation distributed or sold product to over 30 retail dispensaries. The retail strategy focuses on gaining distribution in retail brands that align with the Corporation's corporate social mission, as well as with the target consumer. The Corporation targets accounts where the brand is most likely to succeed with retail shoppers.

Adjusted EBITDA loss was \$4,092,932 and \$5,898,680, respectively, for the three and six months ended June 30, 2021, with the loss primarily as a result of increasing platform costs to and supporting the Corporation's growth activities and corporate General and Administrative expenses. Adjusted EBITDA is defined by the Corporation as earnings before interest, taxes, depreciation and amortization, less certain non-cash equity compensation expenses, including impairments, one-time transaction fees and all other non-cash items. The Corporation considers Adjusted EBITDA an important operational measure for the business.

### Going Concern

The Corporation's Financial Statements have been prepared under the assumption that the Corporation will be able to realize its assets and discharge its liabilities in the normal course of business. The Corporation's ability to continue in the normal course of operations is dependent on its ability to raise financing sufficient to maintain operations and there are no assurances that the Corporation will be successful in achieving this goal. For the six months ended June 30, 2021, the Corporation reported a net loss of \$12,492,623, operating cash outflows of \$5,833,308 and, as of that date, an accumulated deficit of \$36,139,608. These material circumstances cast significant doubt on the Corporation's ability to continue as a going concern and ultimately on the appropriateness of the use of the accounting principles applicable to a going concern. The Corporation's Financial Statements do not include adjustments to amounts and classifications of assets and liabilities that might be necessary should the Corporation be unable to continue as a going concern. The Corporation continues to have access to equity and debt financing from private markets, but there are no guarantees that such financing would be available.

### **Cash Flows**

#### Cash Used in Operating Activities

Net cash used in operating activities was \$5,833,308 for the six months ended June 30, 2021 compared to \$2,486,121 for the six months ended June 30, 2020. The increase in cash used of \$3,347,187 or 134.6% was primarily due to a change in accrued interest of \$1,890,014 or 63.2%, the loss on conversion of debentures of \$4,034,794 or 100%, and the increase in net loss by \$6,381,588 or 104.4%. In addition, there were large changes from the prior period in accounts payable and accrued expenses and prepaid expenses and other current assets of \$806,758 and \$748,565, respectively, in addition to a large change in depreciation and amortization of \$883,447. These were offset by changes in the loss on issuance of the debenture penalty and the change in fair value of the warrant liability of \$1,105,671 and 1,036,000, respectively.

#### Cash Flow from Investing Activities

Net cash used in investing activities was \$2,605,528 for the six months ended June 30, 2021 compared to \$277,698 for the same period in 2020. The increase of \$2,327,830 or 838.3% was primarily due to purchases of property and equipment of to be used in operations and for their corporate offices.

#### Cash Flow from Financing Activities

Net cash provided from financing activities was \$3,070,635 for the six months June 30, 2021 compared to \$2,322,866 for the same period in 2020. The large increase was primarily due to inflows of \$3,626,540 for

the issuance of equity that occurred during the six months ended June 30, 2021 which was offset by repayments of lease liabilities and notes payable totaling \$533,636 and \$22,269, respectively.

## **Liquidity, Financing Activities, and Capital Resources**

### Liquidity

Capital resources are financing resources available to the Company and are defined as the Company's debt and equity. The Company manages its capital resources with the objective of maximizing shareholder value and sustaining future development of the business. The Company manages its capital structure and adjusts it, based on the funds available to the Company, in order to support the Company's activities. The Company may adjust capital spending, issue new equity, issue new debt or repay existing debt, subject to the availability of commercial terms. The Company will require additional financing in the near term as it continues to commence operations since its future revenues will not be enough to support its on-going operations and capital needs.

The Company's primary need for liquidity is to fund capital expenditures, working capital requirements, debt service requirements and for general corporate purposes. The Company's primary source of liquidity to date has been from funds received from the proceeds of equity issuances and debt financing. The Company's ability to fund operations, make planned capital expenditures and meet debt service requirements depends on future operating performance and cash flows, as well as the availability of future financing – all of which is subject to prevailing economic conditions and financial, business and other factors.

The Company has accessed the public capital markets in 2021 to raise additional liquidity by filing a listing statement in early 2021 allowing it to complete the CIVC Reverse Take Over ("RTO") as discussed within this MD&A. There can be no guarantee that the Company will be able to raise additional capital on terms acceptable to it or at all.

The financial statements for the three and six months ended June 30, 2021 are prepared on a going concern basis. The Company is an early-stage company and has accumulated significant losses to date. Furthermore, the Company and certain of its subsidiaries have a limited operating history and a history of negative cash flow from operating activities. These conditions, combined with the Company's dependence on third party financing in the near term to fund its business plan, indicate the existence of a material uncertainty that casts significant doubt on the Company's ability to continue as a going concern.

Management believes its current capital resources and its ability to manage cash flow and working capital levels will require the Company to seek future additional financing to allow it to meet its obligations, to make future debt service requirements, and to fund the other needs of its business. However, no assurance can be given that future sources of capital will be available. The ability of the Company to continue as a going concern is dependent on raising capital to fund its business plan and ultimately to attain profitable operations. Any delay or failure to complete any additional financing would have a material adverse effect on the Company's business, results of operations and financial condition, and the Company may be forced to reduce or cease its operations or seek relief under applicable bankruptcy law. The financial statements for the three and six months ended June 30, 2021 do not give effect to adjustments that would be necessary to the carrying values and classifications of assets and liabilities should the Company be unable to continue as a going concern.

The Corporation, through its subsidiaries, leases certain business facilities from third parties under operating lease agreements that specify minimum rentals. The leases expire through 2025 and contain renewal provisions. The Corporation's total principal and interest related to their leases payments for the six months ended June 30, 2021 was approximately \$0.8 million.

### Financing Activities

On February 24, 2020 Ikänik Farms completed a non-brokered private placement of 1,897,429 common shares at a price of \$1.20 per common shares for aggregate gross proceeds of \$2,276,913.

On April 21, 2020 Ikänik Farms completed a non-brokered private placement of 11,250 series A share units (consisting of one series A share and one series A share purchase warrant) at a price of \$40.00 per series A share unit for aggregate gross proceeds of \$450,000.

On June 23, 2020 Ikänik Farms completed a private placement of 100 Convertible Debentures at a price of \$1,000 per unit for aggregate gross proceeds of approximately \$100,000. Immediately prior to the completion of the Reverse Take-Over, each Convertible Debenture converted into that number of units that equal to the principal amount of the Convertible Debenture (plus any interest accrued thereon) divided by a conversion price as set forth in the subscription agreements to the private placement. Each unit consisted of one common share and one common share purchase warrant entitling the holder to exercise it for one 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 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 \$5,785,792.75.

On November 13, 2020 Ikänik Farms completed a non-brokered private placement of 6,484,940 common share units (consisting of one common share and one common share purchase warrant) at a price of \$0.55 per common share unit for aggregate gross proceeds of \$3,566,717.

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.

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.

The cash proceeds from the transactions have been used for working capital and acquisition purposes.

#### Capital Resources

As of June 30, 2021, the Corporation had total current liabilities of \$10.3 million and cash of \$0.4 million to meet its current obligations. At that date, the Company had negative working capital of \$8.6 million on account of accounts payable and accrued expenses of \$5.2 million related to ongoing operations and vendor payables. The Company also has current amounts due for leases totaling \$3.5 million, notes payable of \$47 thousand, warrant liability of \$0.7 million, and \$0.7 million due related to purchase of High End, LLC. These current obligations are offset by accounts receivable of \$62 thousand, inventories of \$0.3 million, related party receivable of \$33 thousand, and \$0.9 million of prepaid expenses and other current assets. In addition, the issuance of convertible debentures and private placement discussed in this MD&A also increased the cash position of Ikanik.

The Company has future commitments as noted below for non-cancelable operating leases as of June 30, 2021.

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

Subsequent to June 30, 2021, the Company secured the following funding tranches to further support ongoing operations and the negative working capital that existed at that time:

- 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.

Management believes with the additional funding sources noted above will be able to support future operations of the Company through at least September 2022 at which time the Company plans on to secure additional funding through private and public offerings.

### **Off-Balance Sheet Arrangements**

As of the date of this filing, the Corporation does not have any off-balance-sheet arrangements that have, or are reasonably likely to have, a current or future effect on the results of operations or financial condition of the Corporation, including, and without limitation, such considerations as liquidity and capital resources.

### **Related Party Transactions**

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.

### **Share Based Compensation**

The Corporation has granted options to employees during the period.

### **Risk Factors**

Please refer to the Listing Statement of the Corporation filed with Canadian Securities Exchange to which this MD&A is appended (the "**Listing Statement**") for discussions on risk factors related to the Corporation.

### **Changes in or Adoption of Accounting Practices**

The following IFRS standards have been recently issued by the IASB. The Corporation is assessing the impact of these new standards on future consolidated financial statements. Pronouncements that are not

applicable or where it has been determined do not have a significant impact to the Corporation have been excluded herein.

IFRIC 23 - Uncertainty over Income Tax Treatments, was issued by IASB on June 7, 2017. The interpretation provides guidance on the accounting for current and deferred tax assets and liabilities in circumstances in which there is uncertainty over income tax treatments. IFRIC 23 requires the entity to contemplate whether uncertain tax treatments should be considered separately or as a group based on the predictability of the resolution. In addition, the entity should assess if the tax authority will accept uncertain tax treatments, and in the case where it is not probable, the interpretation requires the entity to reflect the uncertainty with disclosure of the most likely amount and the expected value of the income tax payable or recoverable. The interpretation is effective for annual periods beginning on or after January 1, 2019 with early adoption permitted. The adoption of this standard on January 1, 2019 did not have any impact on the Company's financial statements.

IFRS 16 – Leases In January 2016, the IASB issued IFRS 16, “Leases”, which replaces IAS 17, “Leases” and related interpretations. The standard introduces a single lessee accounting model and requires lessees to recognize assets and liabilities for all leases with a term exceeding twelve months, unless the underlying asset is insignificant. A lessee is required to recognize a right-of-use (“ROU”) asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. The Company adopted the standard on January 1, 2019 using the modified retrospective method, which provides lessees a method for recording existing leases at adoption with no restatement of prior comparative periods.

The Company elected to apply the following recognition exemptions and practical expedients, as described under IFRS 16:

- Recognition exemption of short-term leases;
- Application of a single discount rate to a portfolio of leases with similar characteristics;
- Application of hindsight in determining the applicable lease term at the date of transition; and
- Election to not separate non-lease components from lease components, and instead account for each lease component and any associated non-lease components as a single lease component.

The majority of the Company's property leases, which were previously treated as operating leases, were impacted by IFRS 16. The adoption of IFRS 16 has resulted in:

- Higher non-current assets related to the initial recognition of the present value of the Company's unavoidable future lease payments as right-of-use assets under property and equipment, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognized in the consolidated statement of financial position as of January 1, 2019;
- Higher current and non-current liabilities related to the concurrent recognition of lease liabilities, which are measured at the present value of the remaining fixed lease payments, discounted by our incremental borrowing rate of 25.0% as of January 1, 2019;

- Replacement of rent expense previously recorded in general and administrative expense with depreciation expense of these right-of-use assets and higher finance costs related to the accretion of interest expense of the corresponding lease liabilities; and
- Variable lease payments that do not depend on an index or rate and non-lease components are expensed as incurred.

The new standard does not change the amount of cash transferred between the lessor and lessee but impacts the presentation of the operating and financing cash flows by decreasing operating cash flows and increasing financing cash flows.

Adjustments to opening balances resulting from the initial adoption of IFRS 16, with the effects of transition being recognized directly to retained earnings is as follows:

	As Previously Reported Under IAS 17	IFRS 16 Transition Adjustments	As Reported Under IFRS 16
Property and Equipment, Net	\$ 21,078	\$ 380,956	\$ 402,034
Lease Liabilities	\$ -	\$ (380,956)	\$ (380,956)
Deferred Rent	\$ 6,339	\$ (6,339)	\$ -

A reconciliation of the operation lease commitments as of June 29, 2019 to the opening balance of the lease liabilities at the date of adoption is as follows:

Operating Lease Commitments as of December 31, 2018	\$ 684,278
Lease Liabilities Recognized as of January 1, 2019	-
Short-term Lease Payments Excluded	(42,000)
Effect of Discounting Using the Lessee's Incremental Borrowing Rate	(261,322)
Lease Liabilities Recognized as of January 1, 2019	<u>\$ 380,956</u>

As a result of adopting IFRS 16, the Company updated its lease accounting policies as follows:

The Company has real estate leases for retail stores, cultivation facilities, corporate offices, and equipment leases. At inception of a contract, the Company estimates whether the contract includes a lease. A contract contains a lease if it includes enforceable rights and obligations under which the right to control the use of an identified asset is conveyed for a period of time in exchange for consideration. The Company recognized a ROU asset and a lease liability at the commencement date – the date when the asset is available for use by the lessee.

The Company assesses at lease commencement whether it is reasonably certain to exercise extension or termination options. The Company reassesses its lease portfolio to determine whether it is reasonably certain to exercise the options if there is a significant event or significant change in circumstances within its control. The extension options which are considered reasonably certain to be exercised are mainly



those for which operational decisions have been made which make the leased assets vital to the continued relevant business activities.

Liabilities arising from a lease are initially measured at the present value of the lease payments that are not paid at that date discounted using the Company's incremental borrowing rate. Lease liabilities include the value of the following payments:

- Fixed payments, including in-substance fixed payments, less any lease incentives receivable;
- The exercise price of a purchase option if the Company is reasonably certain to exercise that option; and
- Penalties for early termination of the lease, if the lease term reflects the Company exercising an option to terminate the lease.

The lease liability is subsequently measured at amortized cost using the effective interest method. The lease liability is decreased by cash paid less interest expense incurred. The lease liability is remeasured when there is a change in future lease payments, or if the Company changes its assessment of whether it will exercise an extension, purchase, or termination option. ROU assets are measured at cost and are comprised of the following:

- The amount of the initial measurement of lease liability;
- Lease payments made at or before the commencement date less any lease incentives received;
- Any initial direct costs; and
- An estimate of costs of dismantling and removing the underlying asset, restoring the site on which it is located or the underlying asset, if applicable.

The ROU asset is depreciated on a straight-line basis from the commencement date to the end of the lease term. The depreciation expense on ROU assets replaces rent expense. The value of the ROU asset is periodically reduced by impairment losses, if any, and adjusted for certain revaluations of the lease liability.

### **Financial Instruments and Financial Risk Management**

The Company has adopted IFRS 9, *Financial Instruments*. IFRS 9 introduces new requirements for the classification and measurement of financial assets and hedge accounting. 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 introduces a new expected credit loss model for the purpose of assessing the impairment of financial assets.

As the Company was founded in April 2018, IFRS was adopted upon the Company's inception.

### 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.

(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).

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

### Financial Risk Management

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

#### *Credit Risk*

Credit risk is the risk of a potential loss to the Corporation if a customer or third party to a financial instrument fails to meet its contractual obligations. The maximum credit exposure at September 30, 2020 is the carrying amount of cash and cash equivalents.

The Corporation provides credit to its customers in the normal course of business and has established credit evaluation and monitoring processes to mitigate credit risk, but has limited risk as the majority of its sales are transacted with cash.

#### *Liquidity Risk*

Liquidity risk is the risk that the Corporation will not be able to meet its financial obligations associated with financial liabilities. The Corporation manages liquidity risk through the management of its capital structure. The Corporation's approach to managing liquidity is to ensure that it will have sufficient liquidity to settle obligations and liabilities when due.

#### *Market Risk*

##### *(a) 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. Cash and cash equivalents bear interest at market rates. The Corporation's financial debts have fixed rates of interest and therefore expose the Corporation to a limited interest rate fair value risk.

*(b) Currency Risk*

As the Corporation's operations are located in the United States, the Corporation is subject to currency transaction and translation risks.

The Corporation holds cash in Canadian dollars and U.S dollars. The Corporation raises capital in Canadian capital markets and thus is exposed to fluctuations in the Canadian dollar relative to the U.S dollar, specifically in relation to USD denominated liabilities.

As at June 30, 2021, the Corporation had no hedging agreements in place with respect to foreign exchange rates, however management monitors the Canadian and U.S currency markets closely and continuously assesses the need to enter into currency hedging arrangements. The Corporation has not entered into any agreements or purchased any instruments to hedge possible currency risks at this time.

**Financial Statement Classifications**

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.

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.

	<u>Estimated Useful Life</u>
Computer software & hardware	3-6 years
Furniture & equipment	3-10 years
Leasehold improvements	3-6 years
Vehicles	5-6 years
Right-of-use assets	3-10 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
Customer relationships	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 10 for additional detail on impairment tests). For the three and six months ended June 30, 2021 and 2020, there was no impairment recorded as the Company assesses for impairment at calendar year end and records the loss at that time.

### 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.

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 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.

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.

#### 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.

#### Stock-Based Compensation

The Company measures equity settled stock-based payments based on their fair value at the grant date and recognizes compensation expense over the vesting period based on the Company's estimate of equity instruments that will eventually vest. Expected forfeitures are estimated at the date of grant and subsequently adjusted if further information indicates actual forfeitures may vary from the original estimate. The impact of the revision of the original estimate is recognized in profit or loss such that the cumulative expense reflects the revised estimate. For stock-based payments granted to non-employees, the compensation expense is measured at the fair value of goods and services received except where the fair value cannot be estimated in which case it is measured at the fair value of the equity instruments granted. The fair value of stock-based compensation to non-employees is periodically re-measured until counterparty performance is complete, and any change therein is recognized over the period and in the same manner as if the Company had paid cash instead of paying with or using equity instruments.

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 and December 31, 2020.

#### 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.

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.

(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.

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.

(ix) Implementation of IFRS 16

The adoption of IFRS 16, Leases, required, as of January 1, 2019, the Company to assess its significant judgments and certain key estimates when apply the standard as noted below and in Note 5.

Critical judgements required in the application of IFRS 16 include the following:

- Identifying whether a contract or part of a contract includes a lease at inception of the contract. The Company's assessment includes the exercise of judgement about whether the contract depends on a specific asset, whether the Company obtains substantially all the economic benefits from the use of the asset, and whether the Company has the right to direct the use of the asset and non-lease components;
- Identifying lease components and allocating the consideration to each lease component on the basis of the relative stand-alone price of each lease component. The Company assesses each lease component for a right to use an underlying asset and, if necessary, determines the relative stand-alone price for each lease component based on current market prices;
- Determining whether it is reasonably certain that an extension, purchase or termination option will be exercised, on a lease by lease basis. The Company considers all facts and circumstances and examines whether there is an economic incentive or penalty affecting the decision to exercise an option; and
- Establishing whether there are multiple leases in an arrangement. The Company's assessment includes the exercise of judgement whether it has the right to control multiple assets within a contract.

Key sources of estimation uncertainty in the application of IFRS 16 include the following:

- Estimating the lease term. The Company determines the lease term as the non-cancellable period of the lease at the commencement date, adjusted for any purchase, renewal or termination options it deems reasonably certain to exercise;
- Determining the appropriate incremental borrowing rate specific to each leased asset. The Company establishes incremental borrowing rates used as discount factors in discounting payments reflecting the Company's borrowing rate, duration of lease term and credit spread; and
- Assessing whether a ROU asset is impaired if indicators are present.

Unanticipated changes in these judgements or estimates could affect the identification and determination of the fair value of lease liabilities and ROU assets at initial recognition, as well as the subsequent measurement of lease liabilities and ROU assets. Changes in the economic environment or changes in the cannabis and retail industry may impact management's assessment of lease terms, and any changes in Management's estimate of lease terms may have a material impact on the Company's statement of financial position and Statement of Operations and Comprehensive Loss. In addition, the Company's assessed incremental borrowing rates are subject to change mainly due to macroeconomic changes in the environment and cannabis industry and the Company's creditworthiness.

These items could potentially result in changes to amounts reported in the Consolidated Statements of Operations and Comprehensive Loss and Financial Position of the Company.

### Signification Assumptions

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.

### **Additional Disclosure for Venture Issuers without Significant Revenue**

A breakdown of all material components of expenses of the Corporation is set forth in the interim condensed financial statements for the three and six months ended June 30, 2021.

### **Description of Securities Outstanding**

As at June 30, 2021, Ikänik Farms had 99,659,828 common shares, 568,695 series A shares, 4,140,000 options, 70,400 series A options, 32,463,086 common share purchase warrants, 48,518 series A share purchase warrants, 7,091,000 convertible debentures convertible into common shares, 178,500 convertible into series A shares 520,066 broker warrants and 973,344 advisory warrants issued and outstanding. The terms of the convertible securities are set out in the Listing Statement and throughout this MD&A.

### **Subsequent Events**

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.