

CordovaCann Corp.

Consolidated Financial Statements

For the Years Ended June 30, 2021, 2020 and 2019

(Expressed in Canadian Dollars)

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and Board of Directors of CordovaCann Corp.

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated statements of financial position of CordovaCann Corp. and subsidiaries (the “Company”) as of June 30, 2021 and 2020, and the related consolidated statements of operations and comprehensive loss, changes in equity, and cash flows for the years then ended, and the related notes (collectively referred to as the “consolidated financial statements”).

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as of June 30, 2021 and 2020, and the result of its operations and its cash flows for the years then ended, in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Material Uncertainty Related to Going Concern

We draw attention to Note 1 in the consolidated financial statements, which describe the events and conditions that indicate the existence of material uncertainties that may cast significant doubt about the Company’s ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s consolidated financial statements based on our audit. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (“PCAOB”) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audit, we are required to obtain an understanding of internal control over financial reporting, but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly, we express no such opinion.

Our audit included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audit also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matters

The critical audit matters communicated below are matters arising from the current period audit of the financial statements that were communicated or required to be communicated to the audit committee and that: (1) relate to accounts or disclosures that are material to the financial statements and (2) involved especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate.



Intangible assets with indefinite useful lives - Starbuds trade name - Refer to Notes 12 to the financial statements

Critical Audit Matter Description

The Company's evaluation of intangible assets with indefinite useful lives for impairment involves the comparison of the fair value of each indefinite lived intangible asset to its carrying value. The Company estimates the fair value using the income method, which is based on the present value of estimated future cash flows attributable to the respective assets. This requires management to make significant estimates and assumptions related to forecasts of future net sales and earnings. Changes in the assumptions could have a significant impact on either the fair value, the amount of any impairment charge, or both. The Company performed their annual impairment assessments of the intangible asset with indefinite useful life - the Starbuds trade name as of June 30, 2021. The estimated fair values exceeded their carrying values and therefore, no impairments were recorded. As of June 30, 2021, the Starbuds trade name was valued at \$5,243,967.

We identified the Company's impairment evaluations of the Starbuds trade name as a critical audit matter because of the significant judgments made by management to estimate its fair value. A high degree of auditor judgment and an increased extent of effort was required when performing audit procedures to evaluate the reasonableness of management's estimates and assumptions related to the forecasts of future net sales and earnings, as well as the selection of royalty rates and discount rates.

How the Critical Audit Matter Was Addressed in the Audit

Our audit procedures focused on the forecasts of future net sales and earnings, and the determination of the royalty rates and discount rates used in the impairment test. The procedures included the following, among others:

- We evaluated management's ability to accurately forecast net sales and earnings by comparing actual results to management's historical forecasts.
- We evaluated the reasonableness of management's forecast of net sales and earnings by comparing the forecasts to:
 - Historical net sales and earnings.
 - Underlying analysis detailing business strategies and growth plans including consideration of the effects related to the COVID-19 pandemic.
 - Internal communications to management and the Board of Directors.
 - Forecasted information included in Company press releases as well as in analyst and industry reports for the Company and certain of its peer companies.
- We evaluated the net sales and earnings growth rates, royalty rates, and discount rates by:
 - Testing the source information underlying the determination of net sales and earnings growth rates, royalty rates, and discount rates and the mathematical accuracy of the calculations.
 - Developing a range of independent estimates for the discount rates and comparing those to the discount rates selected by management.

Comparative Information

The consolidated financial statements of the Company as at June 30, 2019 and for the year then ended were audited by another auditor who expressed an unqualified (unmodified) opinion on those financial statements on December 2, 2019.



We have served as the Company's auditor since 2020.

Kreston gTA LLP

Chartered Professional Accountants

Licensed Public Accountants

Markham, Canada

October 28, 2021

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and Board of Directors of
CordovaCann Corp.

Opinion on the Financial Statements

We have audited the accompanying consolidated statements of operations and comprehensive loss, changes in equity (deficiency) and cash flows for the year ended June 30, 2019, and the related notes, comprising a summary of significant accounting policies and other explanatory information (collectively referred to as the “financial statements”).

In our opinion, the financial statements present fairly, in all material respects, the consolidated financial performance and consolidated cash flows for the year ended June 30, 2019, in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Material Uncertainty Related to Going Concern

Without modifying our opinion, we draw attention to Note 1 to the financial statements, which indicates that the Company incurred a comprehensive loss of \$5,829,331 during the year ended June 30, 2019 and, has a total accumulated deficit of \$19,570,801 at June 30, 2019. As stated in Note 1 to the financial statements, these events or conditions, along with other matters as set forth in Note 1, indicate that a material uncertainty exists that raises substantial doubt about the Company’s ability to continue as a going concern. The consolidated financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classification of liabilities that might result from the outcome of this uncertainty.

Basis for Opinion

Management’s Responsibility for the Financial Statement

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement, whether due to error or fraud. Those standards also require that we comply with ethical requirements, including independence. We are required to be independent with respect to the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB. We are a public accounting firm registered with the PCAOB.

An audit includes performing procedures to assess the risks of material misstatements of the financial statements, whether due to error or fraud, and performing procedures to respond to those risks. Such procedures included obtaining and examining, on a test basis, audit evidence regarding the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the financial control relevant to the Company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Accordingly, we express no such opinion.

An audit also includes evaluating the appropriateness of accounting policies and principles used and the reasonableness of significant estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audit is sufficient and appropriate to provide a reasonable basis for our audit opinion.

Marcum LLP

Marcum LLP

We served as the Company's auditor for 2018 and 2019.

Houston, Texas
December 2, 2019

CordovaCann Corp.

Consolidated Statements of Financial Position

(Expressed in Canadian Dollars)

As at	June 30, 2021	June 30, 2020
	\$	\$
ASSETS		
Current		
Cash and cash equivalents	1,058,494	647,739
Accounts receivable	7,924	-
Prepaid expenses and deposits	332,771	188,674
Inventory (Note 6)	504,521	118,682
Biological assets (Note 7)	26,611	-
Harmonized sales tax receivable	-	27,118
Other deposit - current portion (Note 26)	199,463	74,450
Total current assets	2,129,784	1,056,663
Other deposit (Note 26)	101,351	330,764
Right-of-use assets (Note 8)	3,169,655	2,539,670
Property and equipment, net (Note 9)	6,059,622	4,979,813
Intangible assets (Note 12)	5,243,967	5,243,967
Licenses (Note 13, 14, 16)	569,662	542,912
Total assets	17,274,041	14,693,789
LIABILITIES		
Current		
Accounts payable and accrued liabilities	3,326,171	2,800,206
Harmonized sales tax payable	98,916	-
Mortgage payable (Note 18)	1,566,067	766,531
Consideration payable (Note 13)	39,292	-
Convertible debentures (Note 22)	-	381,678
Income taxes payable (Note 30)	315,362	-
Contract liability (Note 20)	48,832	-
Lease liability (Note 17)	438,856	253,205
Promissory notes payable (Note 19)	1,017,772	1,314,427
Total current liabilities	6,851,268	5,516,047
Promissory notes payable (Note 19)	-	566,835
Deferred tax liability (Note 30)	36,540	4,939
Contract liability (Note 20)	178,071	-
Lease liability (Note 17)	2,889,789	2,329,279
Total liabilities	9,955,668	8,417,100
SHAREHOLDERS' EQUITY		
Share capital (Note 23)	26,145,146	19,697,180
Contingently issuable shares (Note 23)	-	2,040,000
Shares to be issued (Note 23)	923,590	510,000
Share subscriptions received in advance (Note 21)	647,296	-
Contributed surplus	7,844,814	6,709,782
Equity portion of convertible debentures	306,877	862,913
Accumulated deficit	(29,453,390)	(24,159,690)
Accumulated other comprehensive income	77,875	(41,599)
Total shareholders' equity attributable to Cordova shareholders	6,492,208	5,618,586
Non-controlling interest	826,165	658,103
Total equity	7,318,373	6,276,689
Total liabilities and shareholders' equity	17,274,041	14,693,789

Nature of operations and going concern (Note 1)

Commitments (Note 26)

Related party transactions (Note 27)

Subsequent events (Note 32)

Approved on behalf of the Board:

 "Dale Rasmussen", Director
 (signed)

 "Thomas M. Turner, Jr.", Director
 (signed)

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

CordovaCann Corp.

Consolidated Statements of Operations and Comprehensive Loss

For the Years Ended June 30, 2021, 2020 and 2019

(Expressed in Canadian Dollars)

	2021	2020	2019
	\$	\$	\$
Revenue	10,318,845	166,773	-
Cost of sales	(6,826,605)	(106,742)	(30,529)
Gross profit (loss)	3,492,240	60,031	(30,529)
Expenses			
Consulting fees	1,302,191	1,295,829	2,448,560
Share based compensation (Note 24, 25)	941,854	1,048,661	1,413,919
Professional fees	362,479	488,902	371,079
Shareholders information services	358,516	135,181	379,058
Salaries and wages	1,030,580	23,039	-
Office and general	749,522	208,484	605,334
Advertising costs	-	2,825	88,917
Depreciation (Note 9)	383,476	5,768	-
Amortization of right-of-use assets (Note 8)	434,837	92,167	-
Amortization of licenses (Note 16)	141,249	-	-
Leases and utilities	344,576	67,800	-
Exclusivity fee (Note 26(a))	-	-	48,367
Impairment of promissory note receivable	-	-	85,114
Impairment of equipment	-	-	107,515
	6,049,280	3,368,656	5,547,863
Loss before other income	(2,557,040)	(3,308,625)	(5,578,392)
Interest expenses (Note 18, 19, 22)	606,830	564,897	39,215
Interest on lease liability (Note 17)	223,798	46,171	-
Accretion expense (Note 19, 22)	184,410	249,518	24,680
Loss on settlement of fees	-	-	12,700
Loss on settlement of other investment (Note 5)	-	184,440	-
Impairment of assets (Note 10)	664,543	16,316	-
Foreign exchange loss	307,673	56,225	57,121
Gain on settlement	-	(51,023)	-
Loss on disposal of assets	7,422	-	-
Other income	(66,805)	(65,920)	-
Loss on deposit (Note 11)	-	396,000	124,428
Loss before income taxes	(4,484,911)	(4,705,249)	(5,836,536)
Income taxes payable (Note 30)	(315,362)	-	-
Deferred tax recovery (Note 30)	13,759	54,349	-
Net loss	(4,786,514)	(4,650,900)	(5,836,536)
Loss per share - basic and diluted	(0.06)	(0.10)	(0.15)
Weighted average number of outstanding common shares - basic and diluted	81,683,228	45,424,867	40,149,242
Net loss	(4,786,514)	(4,650,900)	(5,836,536)
Foreign exchange translation adjustment	119,474	(49,488)	7,205
Total comprehensive loss	(4,667,040)	(4,700,388)	(5,829,331)
Net loss attributable to:			
CordovaCann Corp.	(5,154,605)	(4,588,889)	(5,836,536)
Non-controlling interest	368,091	(62,011)	-

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

CordovaCann Corp.

Consolidated Statements of Changes in Equity

For the Years Ended June 30, 2021, 2020 and 2019

(Expressed in Canadian Dollars)

	Note	Number of Common Shares #	Share Capital \$	Contributed Surplus \$	Equity Portion of Convertible Debentures \$	Contingently issuable shares \$	Shares to be issued \$	Share subscriptions received in advance \$	Accumulated Deficit \$	Accumulated Other Comprehensive Income \$	Non-controlling interests \$	Shareholders' Equity \$
Balance, June 30, 2018		40,036,228	14,480,241	3,808,611	-	-	-	-	(13,734,265)	684	-	4,555,271
Issuance of warrants	25	-	-	1,413,919	-	-	-	-	-	-	-	1,413,919
Equity portion of convertible debentures	22	-	-	29,063	62,498	-	-	-	-	-	-	91,561
Warrant portion of promissory note payable	19	-	-	18,650	-	-	-	-	-	-	-	18,650
Common shares issued for exercise of warrants	23	750,000	156,587	(44,087)	-	-	-	-	-	-	-	112,500
Foreign currency translation gain	-	-	-	-	-	-	-	-	-	7,205	-	7,205
Net loss for the year	-	-	-	-	-	-	-	-	(5,836,536)	-	-	(5,836,536)
Balance, June 30, 2019		40,786,228	14,636,828	5,226,156	62,498	-	-	-	(19,570,801)	7,889	-	362,570
Issuance of warrants	25	-	-	631,336	-	-	-	-	-	-	-	631,336
Issuance of options	24	-	-	869,299	-	-	-	-	-	-	-	869,299
Forfeiture of warrants	25	-	-	(451,976)	-	-	-	-	-	-	-	(451,976)
Equity portion of convertible debentures	22	-	-	33,816	74,989	-	-	-	-	-	-	108,805
Conversion of convertible debenture	22	271,164	290,304	-	(19,140)	-	-	-	-	-	-	271,164
Warrant portion of promissory note payable	19	-	-	8,995	-	-	-	-	-	-	-	8,995
Conversion of convertible debenture	22	-	-	-	(36,434)	-	-	-	-	-	-	(36,434)
Equity portion of convertible debentures	22	-	-	415,010	748,990	-	-	-	-	-	-	1,164,000
Interest on equity portion of convertible debentures	22	-	-	-	32,010	-	-	-	-	-	-	32,010
Issuance of shares for asset acquisition	12	12,500,000	2,125,000	-	-	-	-	-	-	-	-	2,125,000
Contingent consideration for asset acquisition	12	-	-	-	-	3,570,000	-	-	-	-	-	3,570,000
Shares issued as part of contingent consideration	12	6,000,000	1,020,000	-	-	(1,020,000)	-	-	-	-	-	-
Shares issued as part of settlement	23	181,250	72,500	-	-	-	-	-	-	-	-	72,500
Shares to be issued as part of contingent consideration	23	-	-	-	-	(510,000)	510,000	-	-	-	-	-
Common shares issued for private placement	23	6,210,190	1,552,548	-	-	-	-	-	-	-	-	1,552,548
Acquisition of 2734158 Ontario Inc.	13	-	-	-	-	-	-	-	-	-	720,114	720,114
Deduction of deferred tax liabilities	-	-	-	(22,854)	-	-	-	-	-	-	-	(22,854)
Foreign currency translation gain	-	-	-	-	-	-	-	-	-	(49,488)	-	(49,488)
Net loss for the year	-	-	-	-	-	-	-	-	(4,588,889)	-	(62,011)	(4,650,900)
Balance, June 30, 2020		65,948,832	19,697,180	6,709,782	862,913	2,040,000	510,000	-	(24,159,690)	(41,599)	658,103	6,276,689

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

CordovaCann Corp.

Consolidated Statements of Changes in Equity
For the years ended June 30, 2021, 2020 and 2019
(Expressed in Canadian Dollars)

	Note	Number of Common Shares #	Share Capital \$	Contributed Surplus \$	Equity Portion of Convertible Debentures \$	Contingently issuable shares \$	Shares to be issued \$	Share subscriptions received in advance \$	Accumulated Deficit \$	Accumulated Other Comprehensive Income \$	Non-controlling interests \$	Shareholders' Equity \$
Balance, June 30, 2020		65,948,832	19,697,180	6,709,782	862,913	2,040,000	510,000	-	(24,159,690)	(41,599)	658,103	6,276,689
Shares issued as part of contingent consideration	23	15,000,000	2,550,000	-	-	(2,040,000)	(510,000)	-	-	-	-	-
Common shares issued for private placement	23	9,202,242	2,944,716	-	-	-	-	-	-	-	-	2,944,716
Issuance of warrants	25	-	-	941,854	-	-	-	-	-	-	-	941,854
Issuance of convertible debentures	22	-	-	181,548	208,452	-	-	-	-	-	-	390,000
Conversion of convertible debentures	22	-	-	-	(923,590)	-	923,590	-	-	-	-	-
Interest on convertible debentures	22	-	-	-	159,102	-	-	-	-	-	-	159,102
Acquisition of 2734158 Ontario Inc. additional NCI	13	-	-	-	-	-	-	-	(139,095)	-	(166,172)	(305,267)
Acquisition of 10062771 Manitoba Ltd.	14	-	-	-	-	-	-	-	-	-	144,118	144,118
Acquisition of Extraction Technologies, LLC	15	3,000,000	953,250	-	-	-	-	-	-	-	-	953,250
Dividend paid to NCI	13	-	-	-	-	-	-	-	-	-	(177,975)	(177,975)
Warrant portion of promissory note	19	-	-	11,630	-	-	-	-	-	-	-	11,630
Share subscriptions received in advance	21	-	-	-	-	-	-	647,296	-	-	-	647,296
Foreign currency translation gain		-	-	-	-	-	-	-	-	119,474	-	119,474
Net loss for the year		-	-	-	-	-	-	-	(5,154,605)	-	368,091	(4,786,514)
Balance, June 30, 2021		93,151,074	26,145,146	7,844,814	306,877	-	923,590	647,296	(29,453,390)	77,875	826,165	7,318,373

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

CordovaCann Corp.

Consolidated Statements of Cash Flows

For the Years Ended June 30, 2021, 2020 and 2019

(Expressed in Canadian Dollars)

	2021	2020	2019
	\$	\$	\$
Operating activities			
Net loss for the year	(4,786,514)	(4,650,900)	(5,836,536)
Adjusted for non-cash items:			
Shares issued on consulting agreement	-	27,550	-
Income taxes payable	315,362	-	-
Share based compensation	941,854	1,048,661	1,413,919
Impairment of promissory note receivable	-	-	85,114
Impairment of equipment	-	-	107,515
Amortization of right-of-use assets	434,837	92,167	-
Amortization of licenses	141,249	-	-
Depreciation	383,476	5,768	30,529
Loss on deposit	-	396,000	-
Loss on settlement of other investment	-	184,440	-
Impairment of assets	664,543	16,316	-
Interest expense	606,830	531,545	39,215
Interest on lease liability	223,798	46,171	-
Deferred tax recovery	(13,759)	(54,349)	-
Loss on disposal	7,422	-	-
Gain on settlement	-	(51,023)	-
Accretion expense	184,410	249,518	24,680
Promissory note extension	11,630	-	-
Convertible debentures issued for settlement of fees	-	-	250,000
Change in fair value of biological assets	(166,458)	-	-
Foreign exchange loss	307,673	-	-
Share issued on settlement of fees	-	140,680	-
Changes in non-cash working capital items:			
Prepaid expenses and deposits	(183,031)	(188,674)	(102,235)
Accounts receivable	(5,750)	-	-
Inventory	(242,426)	(118,682)	-
Harmonized sales tax receivable	126,035	(27,118)	-
Contract liability	226,903	-	-
Accounts payable and accrued liabilities	600,761	1,405,022	1,051,065
Cash used in operating activities	(221,155)	(946,908)	(2,936,734)
Investing activities			
Additions to property and equipment	(740,995)	(145,587)	(2,500,373)
Proceeds from disposal of property and equipment	38,538	-	-
Repayment of deposit received	96,587	-	-
Acquisition of Manitoba	2,059	-	-
Acquisition of Extraction Tech	(2,266)	-	-
Investment in related party	-	-	(500,000)
Promissory note receivable	-	-	(69,312)
Acquisition of non-controlling interest shares	(265,975)	-	-
Cash used in investing activities	(872,052)	(145,587)	(3,069,685)
Financing activities			
Issuance of mortgage payable	-	34,929	654,350
Issuance of convertible debentures	-	457,111	350,000
Repayment of convertible debentures	(30,000)	-	-
Repayment of promissory notes	(490,493)	-	-
Repayment of mortgages payable	(151,639)	-	-
Proceeds from debenture unit deposits	-	-	594,889
Payment of lease liabilities	(501,365)	(91,034)	-
Proceeds from share subscriptions received in advance	647,296	-	-
Proceeds from promissory note payable	-	(180,043)	1,108,627
Proceeds from the exercise of warrants	-	-	112,500
Payment of dividends to non-controlling interest shareholders	(177,975)	-	-
Proceeds from issuance of common shares	2,275,534	1,411,680	-
Proceeds from financing activities	1,571,358	1,632,643	2,820,366
Effect of exchange rate changes on cash	(67,396)	35,742	7,205
Net increase (decrease) in cash and cash equivalents	410,755	575,890	(3,178,848)
Cash and cash equivalents, beginning of year	647,739	71,849	3,250,697
Cash and cash equivalents, end of year	1,058,494	647,739	71,849

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

CordovaCann Corp.

Notes to the Consolidated Financial Statements
For the Years Ended June 30, 2021, 2020 and 2019
(Expressed in Canadian Dollars)

1. NATURE OF OPERATIONS AND GOING CONCERN

CordovaCann Corp. (the “Company” or “CordovaCann” or “Cordova”) is a Canadian-domiciled company focused on building a leading, diversified cannabis products business across multiple jurisdictions including Canada and the United States. CordovaCann primarily provides services and investment capital to the processing, production and retail vertical markets of the cannabis industry. The Company’s principal address is 217 Queen Street West, Suite 401, Toronto, Ontario, M5V 0R2.

The Company’s common shares currently trade on the Canadian Securities Exchange under the symbol “CDVA” and in the United States on the OTCQB under the symbol “LVRLF”.

These consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as promulgated by the International Accounting Standards Board (“IASB”) on a going concern basis which presumes the realization of assets and discharge of liabilities in the normal course of business for the foreseeable future. There is substantial doubt about the Company’s ability to continue as a going concern as the Company incurred a comprehensive loss of \$4,667,040 (June 30, 2020 – \$4,700,388) during the year ended June 30, 2021 and has a total accumulated deficit of \$29,453,390 (June 30, 2020 – \$24,159,690) as at June 30, 2021. The Company’s ability to continue as a going concern is dependent upon its ability to access sufficient capital until it has profitable operations and it raises a material concern. To this point, all operational activities and overhead costs have been funded through equity issuances, debt issuances and related party advances.

The Company believes that continued funding from equity and debt issuances will provide sufficient cash flow for it to continue as a going concern in its present form until its operations become profitable and cash flow positive, however, there can be no assurances that the Company will achieve this. Accordingly, these consolidated financial statements do not include any adjustments related to the recoverability and classification of recorded asset amounts or the amount and classification of liabilities or any other adjustments that might be necessary should the Company be unable to continue as a going concern.

2. BASIS OF PREPARATION

(a) Statement of Compliance

These consolidated financial statements of the Company and its subsidiaries were prepared using accounting policies consistent with IFRS as issued by the IASB and interpretations of the IFRS Interpretations Committee (“IFRIC”).

These consolidated financial statements were authorized for issue by the Board of Directors on October 28, 2021.

CordovaCann Corp.

Notes to the Consolidated Financial Statements
For the Years Ended June 30, 2021, 2020 and 2019
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2. BASIS OF PREPARATION (continued)

(b) Basis of Presentation

These consolidated financial statements have been prepared on a historical cost basis, except biological assets which were measured at fair value. Historical cost is based on the fair value of the consideration given in exchange for assets. In addition, these consolidated financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

(c) Functional and Presentation Currency

These consolidated financial statements are presented in Canadian dollars, which is the Company's presentation currency.

Translation of foreign-currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of each subsidiary at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange rate at that date. The foreign currency gain or loss resulting from the settlement of such transactions and from the translation at the reporting date of monetary assets and liabilities denominated in foreign currencies are recognized in profit or loss.

Translation of financial statements of subsidiaries

In translating the financial statements of the Company's foreign subsidiaries from their functional currencies into the Company's presentation currency of Canadian dollars, statement of financial position accounts are translated using the closing exchange rate in effect at the statement of financial position date and income and expense accounts are translated using an average exchange rate prevailing during the reporting period. Adjustments resulting from the translation, if any, are included in accumulated other comprehensive income (loss) in shareholders' equity (deficiency).

(d) Use of Estimates and Judgements

The preparation of these consolidated financial statements in accordance with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and reported amounts of assets and liabilities at the date of the consolidated financial statements and reported amounts of expenses during the reporting period. Actual outcomes could differ from these estimates. These consolidated financial statements include estimates, which, by their nature, are uncertain. The impacts of such estimates are pervasive throughout these consolidated financial statements, and may require accounting adjustments based on future occurrences. The estimates and underlying assumptions are reviewed on a regular basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected. The key assumptions concerning the future, and other key sources of estimation uncertainty as of the date of the statement of financial position that have a significant risk of causing material adjustment to the carrying amounts of assets and liabilities within the next fiscal year arise in connection with the valuation of financial instruments, valuation of acquired assets, fair value of share purchase warrants, share-based payments and deferred tax assets.

CordovaCann Corp.

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2. BASIS OF PREPARATION (continued)

(e) Basis of Consolidation

These consolidated financial statements include those of the Company and of the entities controlled by the Company (the “subsidiaries”). Control over an investee is achieved when the Company has power over the investee, has exposure or rights to variable returns from its involvement with the investee and has the ability to use its power over the investee to affect the amount of its returns. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

The following table lists the Company’s subsidiaries and their functional currencies:

Name of Subsidiaries	Place of Incorporation	Proportion of Ownership	Currency
CordovaCann Holdings Canada, Inc.	Ontario, Canada	100%	Canadian Dollars
Cordova Investments Canada, Inc.	Ontario, Canada	100%	Canadian Dollars
2734158 Ontario Inc.	Ontario, Canada	60.45%	Canadian Dollars
10062771 Manitoba Ltd.	Manitoba, Canada	51.00%	Canadian Dollars
CordovaCann Holdings, Inc.	Delaware, USA	100%	Canadian Dollars
Cordova CO Holdings, LLC	Colorado, USA	100%	United States Dollars
Cordova OR Holdings, LLC	Oregon, USA	100%	United States Dollars
CDVA Enterprises, LLC	California, USA	100%	United States Dollars
Cordova CA Holdings, LLC	California, USA	100%	United States Dollars
Cordova OR Operations, LLC	Oregon, USA	100%	United States Dollars
Cannabilt Farms, LLC	Oregon, USA	100%	United States Dollars
Cannabilt OR Retail, LLC	Oregon, USA	100%	United States Dollars
Cannabilt Holdings, Inc.	Oregon, USA	100%	United States Dollars
Future Processing, LLC	Oregon, USA	100%	United States Dollars
Extraction Technologies, LLC	Washington, USA	100%	United States Dollars
Cordova WA Holdings, LLC	Washington, USA	100%	United States Dollars

3. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies used in the preparation of these consolidated financial statements are described below.

Related party transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating policy decisions. Parties are also considered to be related if they are subject to common control. Related parties may be individuals or corporate entities. A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties.

CordovaCann Corp.

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and cash equivalents

Cash consists of bank balances and cash held in trust. Cash equivalents consist of short-term deposits with original maturities of three months or less. As at June 30, 2021 and June 30, 2020, there were no cash equivalents.

Share-based payments

Share-based payments to employees are measured at the fair value of the instruments issued and recognized over the expected service periods. Share-based payments to non-employees are measured at the fair value of goods or services received or the fair value of the equity instruments issued, if it is determined the fair value of the goods or services cannot be reliably measured, and are recorded at the date the goods or services are received. The corresponding amount is recorded to the stock options reserve. The fair value of options is determined using the Black-Scholes Option Pricing Model which incorporates all market vesting conditions. The number of shares and options expected to vest is reviewed and adjusted at the end of each reporting period such that the amount recognized for services received as consideration for the equity instruments granted shall be based on the number of equity instruments that will eventually vest.

Compound financial instruments

Compound financial instruments issued by the Company are comprised of convertible debentures that can be converted into common shares and promissory notes payable attached with warrants. The Compound financial instruments are segregated into their debt and equity components or derivative liability components at the date of issue, in accordance with the substance of the contractual agreements. The conversion feature of the convertible promissory notes is presumed to be classified as a derivative financial liability unless it meets all the criteria to recognize as equity instrument. One of criteria is that the conversion option exchanges a fixed amount of shares for a fixed amount of cash ("fixed for fixed").

If the conversion feature meets the fixed for fixed criteria, the conversion option will be classified as equity components. Equity instruments are instruments that evidence a residual interest in the assets of an entity after deducting all of its liabilities. Therefore, when the initial carrying amount of the compound financial instruments is allocated to its equity and liability components, the equity component is assigned the residual amount after deducting from the fair value of the instrument as a whole the amount separately determined for the liability component. The sum of the carrying amounts assigned to the liability and equity components on initial recognition is always equal to the fair value that would be ascribed to the instrument as a whole. No gain or loss arises from initially recognizing the components of the instrument separately.

If the conversion feature does not meet the fixed for fixed criteria, the conversion option will be recorded as derivative financial liability, which must be separately accounted for at fair value on initial recognition. The carrying amount of the debt component, on initial recognition, is recalculated as the difference between the proceeds of the convertible promissory notes as a whole and the fair value of the derivative financial liabilities. Subsequent to initial recognition, the derivative financial liability is re-measured at fair value at the end of each reporting period with changes in fair value recognized in the statement of operation for each reporting period, while the debt component is accreted to the face value of the debt using the effective interest method.

CordovaCann Corp.

Notes to the Consolidated Financial Statements
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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Compound financial instruments (continued)

Transaction costs are allocated to the debt and equity components in proportion to the allocation of the proceeds on initial recognition. Transaction costs allocated to equity components will be accounted for as a deduction from equity, net of any related income tax benefit; cost allocated to the derivative financial liability component are expensed; and cost allocated to the debt component are offset against the carrying amount of the liability and included in the determination of the effective interest rate.

The liability component of a compound financial instrument is recognized initially at the fair value of a similar liability that does not have an equity conversion option. The equity component is recognized initially as the difference between the fair value of the computed financial instrument as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts. Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortized cost using the effective interest method. The equity component of a compound financial instrument is not re-measured subsequent to initial recognition except on conversion or upon expiration, when the carrying value of the equity portion is transferred to common shares or contributed surplus.

Financial instruments

The Company recognizes a financial asset or a financial liability when it becomes a party to the contractual provisions of the instrument. Under IFRS 9, such financial assets or financial liabilities are initially recognized at fair value and the subsequent measurement depends on their classification.

Financial assets

IFRS 9 uses a single approach to determine whether a financial asset is classified and measured at amortized cost or at fair value. The classification and measurement of financial assets is based on the Company's business models for managing its financial assets and whether the contractual cash flows represent solely payments of principal and interest ("SPPI"). Financial assets are initially measured at fair value and are subsequently measured at either (i) amortized cost; (ii) fair value through other comprehensive income ("FVTOCI"); or (iii) at fair value through profit or loss ("FVTPL").

Amortized cost - Financial assets classified and measured at amortized cost are those assets that are held within a business model whose objective is to hold financial assets in order to collect contractual cash flows, and the contractual terms of the financial asset give rise to cash flows that are SPPI. Financial assets classified at amortized cost are measured using the effective interest method.

Fair value through other comprehensive income - Financial assets classified and measured at FVTOCI are those assets that are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, and the contractual terms of the financial asset give rise to cash flows that are SPPI. This classification includes certain equity instruments where IFRS 9 allows an entity to make an irrevocable election to classify the equity instruments, on an instrument-by-instrument basis, that would otherwise be measured at FVTPL to present subsequent changes in FVTOCI.

CordovaCann Corp.

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

FVTPL - Financial assets classified and measured at FVTPL are those assets that do not meet the criteria to be classified at amortized cost or at FVTOCI. This category includes debt instruments whose cash flow characteristics are not SPPI or are not held within a business model whose objective is either to collect contractual cash flows, or to both collect contractual cash flows and sell the financial asset.

Financial liabilities

Under IFRS 9, financial liabilities are primarily classified at amortized cost with limited exceptions. Financial liabilities are derecognized when the obligation specified in the contract is discharged, cancelled or expires. The Company's accounting policy for each category is as follows:

FVTPL - This category comprises derivatives, liabilities acquired or incurred principally for the purpose of selling or repurchasing it in the near term, and certain financial liabilities that were designated at FVTPL from inception.

Amortized cost - Financial liabilities are recognized initially at fair value net of directly attributable transaction costs. They are subsequently recognized at amortized cost using effective interest method with interest expense recognized on an effective yield basis.

Financial assets and liabilities are offset and the net amount is presented in the statement of financial position when the Company has a legal right to offset the amounts and it intends to either settle on a net basis or realize the asset and settle the liability simultaneously.

The following table summarizes the classification of the Company's financial instruments:

Financial assets

Cash and cash equivalents	Amortized cost
Accounts receivable	Amortized cost
Other deposit	Amortized cost

Financial liabilities

Accounts payable and accrued liabilities	Amortized cost
Convertible debentures	Amortized cost
Mortgage payable	Amortized cost
Consideration payable	Amortized cost
Contract liability	Amortized cost
Promissory notes payable	Amortized cost
Lease liabilities	Amortized cost

The adoption of IFRS 9 did not have an impact on the Company's classification and measurement of financial assets and liabilities. On adoption of IFRS 9 on July 1, 2018, there was no change in the carrying value of the financial instruments on transition from IAS 39. IFRS 9 uses an expected credit loss impairment model as

CordovaCann Corp.

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

opposed to an incurred credit loss model under IAS 39. The impairment model is applicable to financial assets measured at amortized cost where any expected future credit losses are provided for, irrespective of whether a loss event has occurred as at the reporting date. For accounts receivable excluding taxes receivable, the Company utilized a provision matrix, as permitted under the simplified approach, and has measured the expected credit losses based on lifetime expected credit losses taking into consideration historical credit loss experience and financial factors specific to the debtors and other factors. The carrying amount of trade receivables is reduced for any expected credit losses through the use of an allowance account. Changes in the carrying amount of the allowance account are recognized in the statement of comprehensive income. At the point when the Company is satisfied that no recovery of the amount owing is possible, the amount is considered not recoverable and the financial asset is written off. The adoption of the new expected credit loss impairment model had a negligible impact on the carrying amounts of financial assets at amortized cost.

Impairment of long-lived assets

Long-lived assets, including property, plant and equipment and intangible assets are reviewed for impairment at each statement of financial position date or whenever events or changes in circumstances indicate that the carrying amount of an asset exceeds its recoverable amount. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the cash-generating unit, or "CGU").

The recoverable amount of an asset or a CGU is the higher of its fair value, less costs to sell, and its value in use. If the carrying amount of an asset exceeds its recoverable amount, an impairment charge is recognized immediately in profit or loss equal to the amount by which the carrying amount exceeds the recoverable amount. Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the lesser of the revised estimate of recoverable amount, and the carrying amount that would have been recorded had no impairment loss been recognized previously.

Inventories

Inventories for finished cannabis goods are initially valued at cost, and subsequently at the lower of cost and net realizable value. Cost is determined using the average costing method. 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 inventories identified are written down to net realizable value.

Equity

Common shares are classified as equity. Transaction costs directly attributable to the issue of common shares and share purchase options are recognized as a deduction from equity, net of any tax effects. When share capital recognized as equity is repurchased, the amount of the consideration paid, including directly attributable costs, is recognized as a deduction from total equity.

CordovaCann Corp.

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue

Revenue from the sale of cannabis goods is recognized when the significant risks and rewards of ownership have been transferred, generally at the date of transfer of ownership title. Revenue from the sale of goods is measured at the fair value of the consideration received.

Service revenues, including long-term marketing contracts, are recognized over a period of time as performance obligations are completed. Payment of the transaction price for the marketing contract is typically due prior to the services being rendered and therefore, the transaction price is recognized as a contract liability, or deferred revenue, when payment is received. Contract liabilities are subsequently recognized into revenue as or when the Company fulfills its performance obligation.

Property and equipment, net

Equipment is stated at cost, less accumulated depreciation and any accumulated impairment losses. The gain or loss arising on the disposal or retirement of an item of equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in the statement of operations. Expenditures to replace a component of an item of equipment that is accounted for separately are capitalized and the existing carrying amount of the component written off. Other subsequent expenditures are capitalized if future economic benefits will arise from the expenditure. All other expenditures, including repair and maintenance, are recognized in the statement of operations as incurred.

Depreciation is charged to the income statement based on the cost, less estimated residual value, of the asset on a straight-line basis over the estimated useful life. Depreciation commences when the assets are available for use. The estimated useful lives are as follows:

	<u>Method:</u>	<u>Rate:</u>
Equipment	Straight-line	5 years
Furnitures and fixtures	Straight-line	5 years
Leasehold improvements	Straight-line	Over the lease term
Computer equipment	Straight-line	2 years
Building	Straight-line	25 years

Property and equipment, excluding land, not yet ready for use are not amortized until they are available for use.

Loss per share

Basic loss per share is calculated by dividing net loss by the weighted average number of common shares outstanding during the period. Diluted loss per share reflects the dilution that would occur if outstanding stock options and share purchase warrants were exercised or converted into common shares using the treasury stock method and are calculated by dividing net loss applicable to common shares by the sum of the weighted average number of common shares outstanding and all additional common shares that would have been outstanding if potentially dilutive common shares had been issued. The inclusion of the Company's stock options and share purchase warrants in the computation of diluted loss per share would have an anti-dilutive effect on loss per share and are therefore excluding from the computation. Consequently, there is no difference between basic loss per share and diluted loss per share.

CordovaCann Corp.

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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 using the acquisition method. The total consideration paid for the acquisition is the aggregate of the fair values of assets given, liabilities incurred or assumed, and equity instruments issued 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. Acquisition costs are expensed in statement of operations and comprehensive income (loss). Contingent consideration, if any, is measured at its acquisition date fair value and included as part of the consideration transferred in a business combination.

Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates with the corresponding gain or loss being recognized in profit or loss.

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, 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 or net liabilities assumed, is recorded as goodwill. 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

Goodwill is initially measured at cost and is calculated as the excess of the purchase price for an acquired business over the fair value of acquired net identifiable assets and liabilities and is allocated to the cash-generating units ("CGU") to which it relates. Goodwill is not amortized but is evaluated for impairment against the carrying amount of the CGU annually or more often if events or circumstances indicate that there may be an impairment. The carrying amount of a CGU includes the carrying amount of assets, liabilities and goodwill allocated to the CGU. If the recoverable amount is less than the carrying value, the impairment loss is first allocated to reduce the carrying amount of any goodwill allocated to the CGU and then to the other non-financial assets of the CGU proportionately based on the carrying amount of each asset. Any impairment loss is charged to income in the period in which the impairment is identified. Goodwill is stated at cost less accumulated impairment losses. Subsequent reversals of goodwill impairment are prohibited.

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets

Intangible assets acquired are measured on initial recognition at cost. The cost of an intangible asset acquired in a business combination is the fair value at the date of acquisition. The useful lives of intangible assets are assessed as either finite or indefinite. Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization expense on intangible assets with finite lives is recognised in the consolidated statement of operations and comprehensive loss. Intangible assets with indefinite useful lives are not amortized, but are tested for impairment annually or more frequently when circumstances indicate that the carrying value may not be recoverable.

Asset type	Amortization method	Amortization term
Licenses	Straight-line	3 - 5 years
Starbuds trade name	N/A	Indefinite

Estimated useful lives of intangible assets are shorter of the economic life and the year the right is legally enforceable. The estimated useful life, residual value and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

Following initial recognition, intangible assets with indefinite useful lives are carried at cost less any accumulated impairment losses.

Income taxes

Income tax expense is comprised of current and deferred tax. Income tax expense is recognized in profit or loss except to the extent that it relates to items recognized in equity, in which case it is recognized in equity. Current income tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustments to tax payable in respect of previous years.

Deferred tax liabilities or assets are recognized using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and amounts used for taxation purposes. Deferred tax is not recognized on the initial recognition of assets or liabilities in a transaction that is not a business combination.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

CordovaCann Corp.

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases

The Company adopted IFRS 16 – Leases (“IFRS 16”) on July 1, 2019. The Company has applied IFRS 16 using the modified retrospective approach, under which the Company will not restate its comparative figures but will recognize the cumulative effect of adopting IFRS 16 as an adjustment to opening retained earnings. Additionally, the Company has elected not to recognize right-of use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low-value assets. The following are the significant accounting policies which have been amended as a result of IFRS 16, and applied as at July 1, 2019:

Right-of use assets

At inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset of a period of time in exchange for consideration. At inception or on reassessment of a contract that contains a lease component, the Company allocates the consideration in the contract to each lease component on the basis of their relative stand-alone prices.

Lease obligations

The Company recognized lease obligation and right-of-use asset for its leased equipment at the date of adoption of IFRS 16. The lease obligation is measured at the present value of the remaining lease payments as of July 1, 2019, discounted using the interest rate implicit in the lease terms. If that rate cannot be readily determined, the Company will use its incremental borrowing rate.

The Lease term determined by the Company comprises:

- The non-cancellable period of lease contracts, including a rent-free period if applicable;
- Periods covered by an option to extend the lease if the Company is reasonably certain to exercise that option;
- Periods covered by an option to terminate the lease if the Company is reasonably certain not to exercise that option.

For leases entered into after July 1, 2019, the commencement date of the lease begins on the date on which the lessor makes the underlying asset available for use to the Company. Lease payments included in the measurement of the lease obligation are comprised of the following:

- Fixed lease payments, including in-substance fixed payments;
- Variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- Amounts expected to be payable under a residual value guarantee;
- The exercise price of purchase options that the Company is reasonably certain to exercise;
- Lease payments in an option renewal period if the Company is reasonably certain to exercise the extension option;
- Penalties for early termination of the lease unless the Company is reasonably certain not to terminate early; and;
- Less any lease incentives receivable;

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases (continued)

Variable payments for leases that do not depend on an index or rate are not included in the measurement of the lease obligations. The variable payments are recognized as an expense in the period in which they are incurred. The Company accounts for any leases and associated non-lease components separately, as opposed to a single arrangement, which is permitted under IFRS 16. The Company records non-lease components such as an expense in the period in which they are incurred.

Interest on the lease obligations is calculated using the effective interest method and increases the lease obligation while rent payments reduce the obligation. The lease obligation is remeasured whenever a lease contract is modified, and the lease modification is not accounted for as a separate lease, or there is a change in the assessment of the exercise of an extension option. The lease obligation is remeasured by discounting the revised lease payments using a revised discount rate resulting in a corresponding adjustment to the right-of-use asset or is recorded in gain or loss if the carrying amount of the right-of-use asset has been reduced to zero or the modification results in a reduction in the scope of the lease.

As at July 1, 2019, the right-of-use asset have been initially calculated at an amount equal to the initial value of the lease obligation. There is no impact on retained earnings. For leases entered into, on or after July 1, 2019, the right-of-use asset will be initially calculated at an amount equal to the initial value of the lease liability, adjusted for the following items:

- Any lease payments made at or before the commencement date, less any lease incentives received;
- Any initial direct costs incurred by the Company;
- An estimate of costs to dismantle and remove the underlying asset or to restore the site on which the asset is located.

For short-term leases that have a lease term of 12 months or less and low-value assets, the Company has elected to not recognize a lease obligation and right-of-use asset and instead will recognize a lease expense as permitted under IFRS 16.

The right-of-use assets will be depreciated using the straight-line from the date of adoption to the earlier of the end of the useful life of the asset or the end of the lease term as determined under IFRS 16. For leases entered into after July 1, 2019, the right-of-use assets will be depreciated from the date of commencement to the earlier of the end of the useful life of the asset or the end of the lease term.

Under IFRS 16, right-of-use assets are tested for impairment in accordance with IAS 36, Impairment of Assets which replaces the previous requirement to recognize a provision for onerous lease contracts under IAS 37, Provisions, Contingent liabilities and Contingent assets.

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Standards adopted on July 1, 2020

Biological assets

The Company's biological assets consists of cannabis plants. The Company measures the biological assets in accordance with IAS 41 – Agriculture at fair value less costs to sell up to the point of harvest, which becomes the basis for the cost of finished goods inventories after harvest. Fair value is determined based on future cash flows of the in-process biological assets less costs to complete. Costs to sell include post-harvest production, shipping, and fulfilment costs. at fair value less costs to sell up to the point of harvest. The effect of unrealized gains or losses arising from the changes in fair value less costs to sell during the year are included in the consolidated results of operations in the appropriate year.

New standards not yet adopted and interpretations issued but not yet effective

The following IFRS standards have been recently issued by the IASB. Pronouncements that are irrelevant or not expected to have a significant impact have been excluded.

IFRS 10 - Consolidated Financial Statements ("IFRS 10")

IFRS 10 and IAS 28 – Investments in Associates and Joint Ventures (“IAS 28”) were amended in September 2014 to address a conflict between the requirements of IAS 28 and IFRS 10 and clarify that in a transaction involving an associate or joint venture, the extent of gain or loss recognition depends on whether the assets sold or contributed constitute a business. The effective date of these amendments is yet to be determined, however early adoption is permitted.

Amendments to IFRS 3: Definition of a Business

In October 2018, the IASB issued “Definition of a Business (Amendments to IFRS 3)”. The amendments clarify the definition of a business, with the objective of assisting entities to determine whether a transaction should be accounted for as a business combination or as an asset acquisition. The amendment provides an assessment framework to determine when a series of integrated activities is not a business. The amendments are effective for business combinations occurring on or after the beginning of the first annual reporting period beginning on or after January 1, 2020. The Company has evaluated the potential impact of these amendments and concluded that there is no impact to the Company's consolidated financial statements.

Amendments to IAS 1: Classification of Liabilities as Current or Non-current

The amendment clarifies the requirements relating to determining if a liability should be presented as current or non-current in the statement of financial position. Under the new requirement, the assessment of whether a liability is presented as current or non-current is based on the contractual arrangements in place as at the reporting date and does not impact the amount or timing of recognition. The amendment applies retrospectively for annual reporting periods beginning on or after January 1, 2022. The Company is currently evaluating the potential impact of these amendments on the Company's consolidated financial statements.

CordovaCann Corp.

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

New standards not yet adopted and interpretations issued but not yet effective (continued)

Amendments to IAS 37: Onerous Contracts and the cost of Fulfilling a Contract

The amendment specifies that ‘cost of fulfilling’ a contract comprises the ‘costs that relate directly to the contract’. Costs that relate directly to a contract can either be incremental costs of fulfilling that contract or an allocation of other costs that relate directly to fulfilling contracts. The amendment is effective for annual periods beginning on or after January 1, 2022 with early application permitted. The Company is currently evaluating the potential impact of these amendments on the Company’s consolidated financial statements.

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

Information about critical judgments in applying accounting policies and estimates that have the most significant effect on the amounts recognized in these consolidated financial statements is included in the following notes:

Determination of control

The control principle in IFRS 10 sets out the three elements of control: power over the investee; exposure, or rights, to variable returns from involvement with the investee; and the ability to use power over the investee to affect the amount of those returns. Judgement is required in assessing these three elements and reaching a conclusion on obtaining of control of a business.

Income taxes

The measurement of income taxes payable and deferred income tax assets and liabilities requires management to make judgments in the interpretation and application of the relevant tax laws. The actual amount of income taxes only becomes final upon filing and acceptance of the tax return by the relevant tax authorities, which occurs subsequent to the issuance of these consolidated financial statements.

Impairment of long-lived assets

Assets, including property and equipment, are reviewed for impairment whenever events or changes in circumstances indicate that their carrying amounts exceed their recoverable amounts. If an impairment assessment is required, the assessment of fair value often requires estimates and assumptions such as discount rates, exchange rates, commodity prices, rehabilitation and restoration costs, future capital requirements and future operating performance. Changes in such estimates could impact recoverable values of these assets. Estimates are reviewed regularly by management.

Useful lives of depreciable assets

The Company estimates the useful lives for an item of depreciable assets to its significant parts and depreciates separately each such part. Management reviews the useful lives of depreciable assets and their significant parts at each reporting date based on the expected utility of the assets to the Company. Actual results, however, may vary due to a variety of factors including technical obsolescence.

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4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Valuation of biological assets and inventory

Management is required to make a number of estimates in calculating the fair value of biological assets and harvested hemp inventory. These estimates include a number of assumptions including estimations of the stage of growth of the hemp, pre-harvest and post-harvest costs, sales price and expected yields. Inventories of harvested finished goods and packaging materials are valued at the lower of cost or net realizable value. Management determines net realizable value, which is the estimated selling price less the estimated costs to completion, and the estimated selling costs. The Company estimates the net realizable value of inventories by using the most reliable evidence available at each reporting date. The future realization of these inventories may be different from estimated realization. A change to these assumptions could impact the Company's inventory valuation and gross profit from sales of inventories.

Share-based payment transactions

The Company measures the cost of equity-settled transactions with goods and services received by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value for share-based payment transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determining the most appropriate inputs to the valuation model including the expected life of the stock option, volatility and dividend yield and making assumptions about them. The assumptions and models used for estimating fair value for share-based payment transactions are disclosed in Note 24 and Note 25.

Provisions and contingencies

The amount recognized as provision, including legal, contractual, constructive and other exposures or obligations, is the best estimate of the consideration required to settle the related liability, including any related interest charges, taking into account the risks and uncertainties surrounding the obligation. In addition, contingencies will only be resolved when one or more future events occur or fail to occur. Therefore assessment of contingencies inherently involves the exercise of significant judgment and estimates of the outcome of future events. The Company assesses its liabilities and contingencies based upon the best information available, relevant tax laws and other appropriate requirements.

Determination of purchase price allocations and contingent consideration

Judgements are made in determining the fair value of assets and liabilities, including the valuation of separately identifiable intangibles acquired as part of an acquisition. Further, estimates are made in determining the value of contingent consideration payments that should be recorded as part of the consideration on the date of acquisition and changes in contingent consideration payable in subsequent reporting periods, if any. Contingent consideration payments are generally based on acquired businesses achieving certain performance targets. The estimates are based on management's best assessment of the related inputs used in the valuation models, such as future cash flows and discount rates. Future performance results that differ from management's estimates could result in changes to liabilities recorded, which are recorded as they arise through profit or loss.

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4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Valuation of convertible debentures

The convertible debentures were separated into their liability and equity components or derivative liability component at the date of issue, in accordance with the substance of the contractual agreements. The conversion options require an estimation of the fair value of a similar liability that doesn't have an associated equity component by using a suitable discount rate at initial recognition and each extension date. The carrying amount of the conversion options is then determined by deducting the fair value of the financial liability from the fair value of the convertible debenture as a whole.

Leases

Management applies judgment in reviewing each of its contractual arrangements to determine whether the arrangement contains a lease. Leases that are recognized are subject to further management judgment and estimation in various areas specific to the arrangement, including lease term and discount rate. In determining the lease term to be recognized, Management considers all facts and circumstances that create an economic incentive to exercise an extension operation, or not to exercise a termination option. Where the rate implicit in a lease is not readily determinable, the discount rate of lease obligations are estimated using a discount rate similar to the Company's specific incremental borrowing rate. This rate represents the rate that the Company would incur to obtain the funds necessary to purchase an asset of a similar value, with similar payment terms and security in a similar economic environment.

5. OTHER INVESTMENT

On September 18, 2018, the Company subscribed for 500,000 convertible preferred shares of NWN Inc. ("NWN") at a price of \$1.00 per preferred share (each, a "Preferred Share") for a total consideration of \$500,000. Each Preferred Share is convertible into one common share of NWN, subject to appropriate adjustments for any stock splits, consolidations or other recapitalizations. The Company had pledged the Preferred Shares of NWN as security for Promissory Note B as disclosed in Note 19. Due to the default provisions of Promissory Note B, the pledged Preferred Shares for NWN were called on October 26, 2020 as described on Note 19, and resulted in loss on the settlement of debt in the amount of \$184,540 during the year ended June 30, 2020. As at June 30, 2021, the value of the NWN investment amounted to \$nil (June 30, 2020 - \$nil)

6. INVENTORY

The Company's inventory includes purchased products. The Company's purchased inventory during the year ended June 30, 2021 amounted to \$7,119,894 (June 30, 2020 - \$225,424). Included in inventory, is the transfer of biological assets upon harvest amounted to \$259,008 (Note 7). The Company's inventory as at June 30, 2021 amounted to \$504,521 (June 30, 2020 - \$118,682).

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7. BIOLOGICAL ASSETS

The biological assets of the Company consist of cannabis plants. The Company's cannabis operations are located in Clackamas County, Oregon. The composition of the biological assets for the year ended June 30, 2021 is as follows:

	\$
Balance, June 30, 2020	-
Fair value adjustment on biological assets	286,540
Exchange realignment	(921)
Transferred to inventory upon harvest	(259,008)
Balance, June 30, 2021	26,611

Assumptions:

Biological assets are valued in accordance with IAS 41 – *Agriculture* (“IAS 41”) and are presented at their fair values less costs to sell at the point of harvest. The estimates and assumptions used are subject to volatility in uncontrollable market conditions, may significantly impact the fair value of biological assets. Biological assets represent a level 3 asset in the fair value hierarchy. For in process biological assets, the fair value at the point of harvest is adjusted based on the stage of growth.

When determining the fair value of biological assets, the Company makes estimates and uses assumptions as follows:

- Expected costs required to grow the cannabis up to the point of harvest;
- Estimated selling price per lb;
- Expected yield from cannabis plants; and
- Estimated stage of growth - As at June 30, 2021, on average, the biological assets were estimated as 78% complete as to the next expected harvest date.

The following table quantifies each significant unobservable input and provides the impact of a 5% increase or decrease that each input would have on the fair value of biological assets:

	Range of inputs	Sensitivity	Impact on fair value as at June 30, 2021 (\$)
Estimated selling price per lb	\$1,300 - \$1,400	Increase 5%	1,342
		Decrease 5%	(1,320)
Estimated yield per cannabis plant	70 - 84 grams	Increase 5%	1,342
		Decrease 5%	(1,320)

The estimations made by the Company, are subject to change, and differences from the anticipated yield will be reflected in the gain or loss on biological assets in future periods.

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8. RIGHT-OF-USE ASSETS

The Company recognized the right-of-use asset for it leased properties as follows:

	\$
Balance, June 30, 2019	-
Additions during the year	2,631,837
Depreciation for the year	(92,167)
Balance, June 30, 2020	2,539,670
Additions during the year	963,489
Acquisition of a subsidiary	101,333
Depreciation for the year	(434,837)
Balance, June 30, 2021	3,169,655

Leased properties are amortized over the terms of their respective leases.

9. PROPERTY AND EQUIPMENT, NET

Property and equipment, net consists of the following:

	Land \$	Building \$	Construction in progress \$	Leasehold improvements \$	Machinery and equipment \$	Computer equipment \$	Furnitures and fixtures \$	Total \$
Cost								
As at June 30, 2019	523,480	1,361,048	1,760,861	-	-	-	-	3,645,389
Additions	-	-	-	1,130,183	-	44,645	30,984	1,205,812
Translation adjustment	21,640	56,264	72,792	-	-	-	-	150,696
Impairment charge	-	-	-	(16,316)	-	-	-	(16,316)
As at June 30, 2020	545,120	1,417,312	1,833,653	1,113,867	-	44,645	30,984	4,985,581
Additions	-	-	-	356,337	5,657	84,394	294,607	740,995
Disposals	-	-	-	(11,384)	-	(13,444)	(22,229)	(47,057)
Acquisition of subsidiaries	417,183	1,036,378	-	3,889	323,823	-	12,251	1,793,524
Translation adjustment	(60,124)	(143,323)	-	(155,296)	(11,023)	-	-	(369,766)
Transfer	-	-	(1,833,653)	1,833,653	-	-	-	-
Impairment charge	(95,429)	(248,115)	-	(320,999)	-	-	-	(664,543)
As at June 30, 2021	806,750	2,062,253	-	2,820,066	318,457	115,595	315,613	6,438,734
Accumulated depreciation								
As at June 30, 2019	-	-	-	-	-	-	-	-
Depreciation	-	-	-	(2,027)	-	(2,708)	(1,033)	(5,768)
As at June 30, 2020	-	-	-	(2,027)	-	(2,708)	(1,033)	(5,768)
Depreciation	-	(46,365)	-	(256,534)	(22,379)	(29,711)	(28,487)	(383,476)
Disposals	-	-	-	-	-	-	1,097	1,097
Translation adjustment	-	1,551	-	6,735	749	-	-	9,035
As at June 30, 2021	-	(44,814)	-	(251,826)	(21,630)	(32,419)	(28,423)	(379,112)
Net book value (\$)								
At June 30, 2019	523,480	1,361,048	1,760,861	-	-	-	-	3,645,389
At June 30, 2020	545,120	1,417,312	1,833,653	1,111,840	-	41,937	29,951	4,979,813
At June 30, 2021	806,750	2,017,439	-	2,568,240	296,827	83,176	287,190	6,059,622

During the year ended June 30, 2021, the Company incurred a depreciation expense in the amount of \$383,476 (June 30, 2020 - \$5,768; June 30, 2019 - \$30,529 included in cost of sales).

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9. PROPERTY AND EQUIPMENT, NET (continued)

Oregon - Land, building and construction in progress

On April 4, 2018, the Company entered into an agreement to acquire a 27.5% interest of Cordova OR Operations, LLC (“OR Operations”) for the acquisition of land and buildings. Under the terms of this agreement, the Company acquired a 27.5% membership interest in OR Operations for \$534,311 (US \$400,000). On June 19, 2019, the Company purchased the remaining 72.5% interest in OR Operations for \$1,361,048 (US\$1,040,000) (Note 11). The Company spent \$1,760,861 in relation to construction in progress during the year ended June 30, 2019. Amortization expenses of \$232,407 was recorded during the year ended June 30, 2021 (June 30, 2020 - \$nil).

On August 4, 2021, OR Operations sold all of its land, building, and construction-in-progress (the “Oregon Property”) for \$2,726,680 (US \$2,200,000) and entered into an agreement to lease the Oregon Property from the buyer (the “Lease”). The Lease will allow the Company to operate on the Oregon Property for ten years, and provides options for two subsequent ten year renewal periods. Proceeds from the sale were used to retire debts related to the Oregon Property and to finance the planned expansion in Oregon. A total of \$743,640 (US \$600,000) of the purchase price has been placed in escrow by the buyer to allow the completion of the buildout. The Lease was signed on July 20, 2021 and commenced on August 1, 2021. There is no rent payable during the first three months of the Lease and subsequent payments amount to \$27,267 (US \$22,000) per month for the remainder of the first year, with annual payment escalators thereafter.

The selling price of \$2,726,680 for the Oregon Property was lower than its carrying value, which indicated the impairment of these assets and resulted of impairment loss in the amount of \$664,543. As at June 30, 2021, the value of Oregon Property amounted to \$2,585,412 (June 30, 2020 - \$3,796,085).

Leasehold improvements

Leasehold improvements include those acquired as part of the asset acquisition of Star Buds International Inc., as disclosed in Note 12 in the amount of \$1,060,224. Management assessed the indicators of impairment and determined that the leasehold improvements were impaired and resulted of impairment of assets in the amount of \$16,316 during the year ended June 30, 2020.

10. ACQUISITION OF CORDOVA OR OPERATIONS, LLC

On April 4, 2018, the Company entered into an agreement to acquire a 27.5% interest of Cordova OR Operations, LLC (“OR Operations”) for the acquisition of land and buildings. Under the terms of the agreement, the Company acquired a 27.5% membership interest in OR Operations for \$534,311 (US \$400,000). On June 19, 2019, the Company purchased the remaining 72.5% interest in OR Operations for \$1,361,048 (US\$1,040,000). The acquisition of OR Operations did not meet the minimum requirements of a business and therefore the Company has accounted for the transaction as an asset acquisition.

On August 4, 2021, OR Operations sold all of its land, building, and construction-in-progress (the “Oregon Property”) for \$2,726,680 (Note 9).

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11. LOSS ON DEPOSIT

On June 19, 2019, the Company entered into an asset purchase agreement to acquire certain assets and licenses. The Company made non-refundable payments of \$124,428 (US \$94,000), with the balance of \$325,631 (US \$246,000) to be paid within 45 days. The Company did not make the subsequent payment of \$325,631 and recorded a loss on deposit in the amount of \$124,428 for the year ended June 30, 2019.

12. ASSET ACQUISITION OF STAR BUDS INTERNATIONAL INC.

On April 8, 2020 (the “Closing date”), the Company completed the purchase of certain tangible assets and intellectual property (the “Assets”) of an arm’s length Canadian cannabis corporation (the “Transaction”), Star Buds International Inc. (the “Vendor” or “Star Buds”).

To acquire the Assets from the Vendor, the Company:

- (i) issued 12,500,000 common shares of the Company on the Closing date of the Transaction, in exchange for the Assets held and related to five retail cannabis stores and four medical cannabis clinics;
- (ii) agreed to issue 3,000,000 common shares of the Company for each additional lease assignment in Alberta to the Company, up to a maximum of 6,000,000 common shares of the Company;
- (iii) agreed to issue 3,000,000 common shares of the Company for the opening of each retail store, up to a maximum of 15,000,000 common shares of the Company. Each store must be opened by April 8, 2021 for the Vendor to receive this additional consideration;
- (iv) issued a three-year promissory note for \$527,967 with interest at 6% per annum payable upon maturity (the “Closing Promissory Note”). The fair value of the promissory notes was determined to be \$381,093 (*Note 19 (e)*);
- (v) agreed to issue two additional three-year promissory notes in amounts \$222,500 and \$196,832 upon obtaining assignment of two specific leases to the Company. Such additional notes to have same terms as the Closing Promissory Note. The fair values of the promissory notes were determined to be \$160,603 and \$142,075 (*Note 19 (e)*).

The consideration payables as per note (ii) and (iii) above are considered a contingent consideration. Management assessed the probability of the issuance of shares noted in (ii) and (iii) above to be highly probable. The total fair value of the 21,000,000 contingently issuable shares is estimated to be \$3,570,000. The Company has referred to IFRS 3 by analogy and accordingly, the contingent consideration has been recorded as part of the cost of the purchase. The contingent consideration of shares has been classified as equity, as the number of shares to be issued has been fixed based on the Company’s share price a day prior to the closing date.

On May 8, 2020, the Company obtained two additional lease assignments in Alberta and issued 6,000,000 common shares of the Company to the Vendor. Accordingly, the value of the 6,000,000 common shares amounting to \$1,020,000 was transferred from contingently issuable shares to share capital.

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12. ASSET ACQUISITION OF STAR BUDS INTERNATIONAL INC. (continued)

On July 27, 2020, the Company issued 6,000,000 common shares in relation to the opening of two additional retail stores under the Star Buds brand name. The Company had opened the retail store in Barrie as at June 30, 2020 and accordingly, the value of 6,000,000 common shares amounting to \$1,020,000 was transferred from shares to be issued (\$510,000) and contingently issuable shares (\$510,000) to share capital.

On January 6, 2021, the Company issued the final 9,000,000 common shares in relation to the opening of three additional retail stores under the Star Buds brand name. Accordingly, the value of 9,000,000 common shares amounting to \$1,530,000 was transferred from contingently issuable shares to shares to be issued.

	\$
Consideration paid	
33,500,000 common shares at \$0.17 per share	5,695,000
Initial promissory note (iv)	381,093
Additional promissory notes (v)	302,678
	<u>6,378,771</u>
Liabilities assumed	55,000
	<u>6,433,771</u>
Amount allocated to:	
Leasehold improvements	1,060,224
Rental deposits	129,580
Star Buds trade name	5,243,967
	<u>6,433,771</u>

No amortization or impairment was recorded in relation to the intangible asset – Starbuds trade name during the year ended June 30, 2021 (June 30, 2020 - \$nil).

13. ACQUISITION OF 2734158 ONTARIO INC.

On May 15, 2020, the Company entered into a subscription agreement to acquire 50.1% ownership interest in 2734158 Ontario Inc. ("273 Ontario") by subscribing to 501,000 common shares of 273 Ontario for a total consideration of \$723,000 (the "Acquisition"). Pursuant to the subscription agreement, the subscription price (the "Subscription Price") was paid as follows:

- payment of \$200,000 on May 15, 2020 and issuance of 138,589 common shares;
- payment of \$200,000 on June 15, 2020 and issuance of 138,589 common shares;
- payment of \$200,000 on July 15, 2020 and issuance of 138,589 common shares; and
- payment of \$123,000 on August 15, 2020 and issuance of 85,233 common shares.

The following table summarises the recognized amounts of assets acquired and liabilities assumed at the date of acquisition.

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13. ACQUISITION OF 2734158 ONTARIO INC. (continued)

Cash	48,850
Other assets	59,040
Computer equipment	16,337
Furniture and fixture	27,222
Leasehold improvement	46,081
Liabilities assumed	(20,328)
Total identifiable net assets acquired	177,202

On August 15, 2020, the total Subscription Price of \$723,000 was fully paid to 2734158 Ontario Inc.

The non-controlling interest is calculated as follow.

Consideration	723,000
Ownership acquired	50.1%
Fair value of assets acquired	1,443,114
Consideration	(723,000)
Non-controlling interest	720,114

Licenses allocated from the acquisition has been recognized as follows.

Consideration transferred	723,000
Consideration received by 273 Ontario	(723,000)
Non-controlling interest	720,114
Fair value of identifiable net assets	(177,202)
Fair value of licences	542,912

On September 17, 2020, the Company acquired an additional 10.35% of the common shares of 273 Ontario not previously owned by Cordova (the "Additional Shares"). The total purchase price for the Additional Shares amounted to \$305,267, of which \$72,539 was paid on closing, and the remaining amounts will be paid as follows:

- payment of \$157,167 paid on the earlier of retail license approval of Cordova by the Alcohol and Gaming Commission of Ontario or January 15, 2021 (the "License Payment");
- payment of \$36,269 on the date three months after the License Payment; and
- payment of \$39,292 on the date nine months after the License Payment

As Cordova previously controlled 273 Ontario with 50.1% ownership interest, this transaction resulted in a change to Cordova's ownership stake and was accounted for as an equity transaction.

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13. ACQUISITION OF 2734158 ONTARIO INC. (continued)

The \$139,095 difference between the carrying value \$166,172 for the non-controlling interests and the \$305,267 consideration paid was recognized directly in deficit.

During the year ended June 30, 2021, the Company paid \$72,539 on closing and the License Payment for total payments in the amount of \$265,975. The total amount outstanding for the payment of the Additional Shares as at June 30, 2021 was \$39,292.

During the years ended June 30, 2021, 273 Ontario paid dividends in the amount of \$450,000. Of the \$450,000 dividends paid, \$177,975 were paid to the non-controlling interest shareholders of 273 Ontario.

14. ACQUISITION OF 10062771 MANITOBA LTD.

On December 1, 2020, the Company acquired 51% of the issued and outstanding shares of 10062771 Manitoba Ltd. ("Manitoba Ltd"), a Manitoba-based cannabis retail venture (the "Transaction"). Manitoba Ltd is considered to be a related party by virtue of a common officer and director. Per the terms of the Transaction, the Company acquired 51% of the issued and outstanding shares of Manitoba Ltd on a fully-diluted basis (the "Purchased Shares"). The consideration for the Purchased Shares was one hundred fifty thousand dollars (\$150,000) payable in cash on closing of the Transaction (the "Consideration"). In addition, Cordova has agreed to loan up to one hundred fifty thousand dollars (\$150,000) to Manitoba Ltd to enable the opening of the second store in Manitoba Ltd. On June 21, 2021, the Company entered into a promissory note agreement with Manitoba Ltd for the loan of \$150,000 with the initial tranche of \$100,000 having been provided.

The following table summarises the recognized amounts of assets acquired and liabilities assumed at the date of acquisition.

	\$
Cash	29,795
Prepaid expenses	4,595
Inventory	72,265
Furnitures and fixtures	12,251
Leasehold improvements	3,889
Right-of-use asset	101,333
Lease liability	(101,333)
Liabilities assumed	(101,317)
Total identifiable net assets acquired	21,478

On December 1, 2020, the total Subscription Price of \$150,000 was fully paid to Manitoba Ltd.

The fair value of non-controlling interest at the acquisition date was calculated as follows:

	\$
Cash consideration transferred	150,000
Ownership acquired	51%
Fair value of Manitoba Ltd	294,118
Fair value of the controlling interests for the Company	(150,000)
Non-controlling interest	144,118

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14. ACQUISITION OF 10062771 MANITOBA LTD. (continued)

The Company recognized the intangible assets – licenses at the acquisition date and calculated their fair value as follows:

	\$
Cash consideration	150,000
Consideration received by Manitoba Ltd.	(150,000)
Non-controlling interest	144,118
Deferred tax liability	45,359
Fair value of identifiable assets	(21,478)
Fair value of licenses	167,999

15. ACQUISITION OF EXTRACTION TECHNOLOGIES, LLC

On February 26, 2021, the Company, through its wholly-owned subsidiary, Cordova WA Holdings, LLC, completed the acquisition of Extraction Technologies, LLC (“Extraction Tech”), an arm’s length Washington-based company (the “Washington Acquisition”). The Washington Acquisition includes the purchase of a 10,900 sq. ft. manufacturing building, processing equipment, and contracts with tolling and white label customers. The Consideration for the Washington Acquisition is three million (3,000,000) common shares of the Company issued on closing and five hundred thousand (500,000) common shares for every US \$125,000 in EBITDA generated by Extraction Tech during the 12-month period beginning on the 3-month anniversary post-closing and ending on the 15-month anniversary of the closing date (the “Earnout Payment”). The maximum Earnout Payment that can be earned by Extraction Tech is four million (4,000,000) common shares.

The Earnout Payment is considered a contingent consideration. As at February 26, 2021 and June 30, 2021, management has assessed that the Earnout Payment is considered highly improbable and accordingly has not recognized the Earnout Payment.

In accordance with the Company’s accounting policies and IFRS 3, the measurement period for the Transaction shall not exceed one year from acquisition date. Accordingly, the accounting for the Transaction date has only been provisionally determined as at June 30, 2021. The following table summarizes the fair value of consideration paid on acquisition date and the allocation of the Consideration to the assets and liabilities acquired. The Company has yet to determine and value any intangible assets that may have been acquired as part of the Transaction and the probability of the Earnout Payment being made. Once this has been determined, the value of the provisional goodwill may change. These changes may be material.

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15. ACQUISITION OF EXTRACTION TECHNOLOGIES, LLC (continued)

	\$
Consideration paid	
3,000,000 Common shares	953,250
Earnout share consideration	-
Total consideration:	953,250
Purchase Price Allocation	
Accounts receivable	2,258
Inventory	5,178
Bank overdraft	(2,266)
Capital assets	1,777,385
Mortgage payable	(829,305)
	953,250

16. LICENSE

	\$
Cost	
As at June 30, 2019	-
Acquisition of a subsidiary (Note 13)	542,912
As at June 30, 2020	542,912
Acquisition of a subsidiary (Note 14)	167,999
As at June 30, 2021	710,911
Accumulated amortization	
As at July 1, 2019	-
Amortization	-
As at June 30, 2020	-
Amortization	(141,249)
As at June 30, 2021	(141,249)
Net book value (\$)	
At June 30, 2019	-
At June 30, 2020	542,912
At June 30, 2021	569,662

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17. LEASE LIABILITY

The following table represents the lease obligations for the Company as at June 30, 2021:

	\$
Balance, June 30, 2019	-
Additions	2,631,837
Interest expense	46,171
Lease payments	(95,524)
Balance, June 30, 2020	2,582,484
Additions	922,395
Acquisition of a subsidiary	101,333
Interest expense	223,798
Lease payments	(501,365)
Balance, June 30, 2021	3,328,645

Allocated as:

	As at June 30, 2021	As at June 30, 2020
	\$	\$
Current	438,856	253,205
Long-term	2,889,789	2,329,279
Total	3,328,645	2,582,484

The following table presents the contractual undiscounted cash flows for lease obligations as at June 30, 2021:

	\$
Less than one year	712,733
One to five years	2,703,948
More than five years	736,094
Total undiscounted lease obligation	4,152,775

When measuring the lease obligation, the Company discounted the lease payments using the implicit interest rate in the lease terms. The Company has a lease with a term less than 12 months and recorded \$32,479 (2020 - \$12,330) of rent expense attributed to short-term leases during the year ended June 30, 2021.

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18. MORTGAGE PAYABLE

Oregon Mortgage

On June 16, 2019, the Company obtained financing through a mortgage (the “Mortgage”) in the amount of \$696,117 (US \$531,915) against a property that has title to 6 acres of real estate in Clackamas County, Oregon (the “Property”). The Mortgage was due in six months from the date of the agreement at an initial draw of \$654,350 (US \$500,000), implying interest at a rate of 12.77% per annum. The Mortgage after the date of default bears interest at 12% per annum, payable monthly, until the repayment of the outstanding amount. The Mortgage was secured by a first charge on the Property.

On June 12, 2020, the Company entered into a new mortgage (the “New Mortgage”), in the amount of \$815,760 (US \$600,000), and paid off the existing Mortgage and accrued interest of \$724,894 (USD\$531,914). The New Mortgage bears interest at 12%, is secured by a first charge on the Property and matures on December 15, 2020. The transaction cost of \$52,045 was deducted from the initial carrying value of the mortgage payable and was recognized into profit and loss over the term of the mortgage payable.

The mortgage payable outstanding as at June 30, 2021 was \$755,789 (June 30, 2020 – \$766,531). Total interest expense in relation to the mortgage payable for the year ended June 30, 2021 amounted to \$146,672 (June 30, 2020 – \$88,667). On August 4, 2021, the Oregon Mortgage was fully paid off upon the closing of selling Oregon Property (Note 9).

Washington Mortgage

On February 26, 2021, the Company completed the Washington Acquisition (Note 15) and assumed a mortgage payable in the amount of \$829,305 (US \$653,768). The Mortgage was entered into on September 28, 2020 by the vendors of the Washington Acquisition with an initial amount of \$874,921 (US \$654,000) and matures on October 1, 2021 (the “Washington Mortgage”). The Washington Mortgage bears interest at 12.5%, payable monthly, and secured by a first charge on the property acquired as part of the Washington Acquisition.

As at June 30, 2021, the amount outstanding under the Washington Mortgage amounted to \$810,277. Total interest expense in relation to the Washington Mortgage amounted to \$43,675 during the year ended June 30, 2021.

19. PROMISSORY NOTES PAYABLE

Promissory Note A – February 1, 2019

On February 1, 2019, the Company issued an unsecured promissory note (the “Promissory Note A”) in the principal amount of \$196,425 (US \$150,000). The Promissory Note A matured on May 1, 2019 and bears interest at a rate of 10% per annum, accrued monthly and due at maturity. As at the date of these consolidated financial statements, the Promissory Note A is in default and remains outstanding. In connection with the Promissory Note A, the Company also issued warrants for the purchase of 150,000 common shares of the Company exercisable until January 31, 2020 at a price of \$1.00 per share.

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19. PROMISSORY NOTES PAYABLE (continued)

The Promissory Note A was determined to be a compound instrument, comprising a liability and warrants. The initial carrying amount of the financial liability was determined by discounting the stream of future payments of interest and principal at a market interest rate of 19% which is estimated to be the borrowing rate available to the Company for similar instruments of debt having no warrants. Using the residual method, the carrying amount of the warrants issued is the difference between the principal amount and the initial fair value of the financial liability. The fair value of the liability was determined to be \$192,142 (US \$146,729). The residual value of \$4,283 (US \$3,271) was allocated to warrants. The carrying value of the Promissory Note A, net of the warrant component, has been accreted using the effective interest rate method over the term of the Promissory Note A, such that the carrying amount of the financial liability will equal the principal balance at maturity.

As at June 30, 2021, \$44,732 was outstanding under Promissory Note A (June 30, 2020 – \$164,342). Interest expense of \$7,149 (June 30, 2020 - \$19,227; June 30, 2019 - \$8,340) was recorded for the year ended June 30, 2021.

Promissory Note B – June 12, 2019

On June 12, 2019, the Company issued a secured promissory note (the “Promissory Note B”) in the principal amount of \$261,740 (US \$200,000). The Promissory Note B matured on June 30, 2020 and bears interest at a rate of 15% per annum, accrued monthly and due at maturity. The Promissory Note B was secured by the convertible preferred shares investment in NWN (*Note 5*). Due to the default provisions of Promissory Note B, the pledged Preferred Shares for NWN were called and resulted the loss on the settlement of debt in the amount of \$184,540 during the year ended June 30, 2020. As at June 30, 2021, the value of the Promissory Note B amounted to \$nil (2020 – \$nil). Interest expense in the amount of \$nil, was recorded for the year ended June 30, 2021 (2020 - \$40,280; 2019 - \$1,950, respectively).

Promissory Note C – June 19, 2019

On June 19, 2019, the Company issued secured promissory notes (the “Promissory Note C”) in the aggregate principal amount of \$654,350 (US \$500,000). The Promissory Note C matured on December 18, 2019 and bears interest at a rate of 15% per annum, accrued monthly and due at maturity. The Promissory Note C is secured by a general security interest over all the assets of Cordova OR Holdings, LLC, a wholly owned subsidiary of the Company and parent to OR Operations. In connection with the Promissory Note C, the Company issued warrants for the purchase of 200,000 common shares of the Company exercisable until June 18, 2021 at a price of \$1.00 per share.

The Promissory Note C was determined to be a compound instrument, comprising of a liability and warrants. The initial carrying amount of the financial liability was determined by discounting the stream of future payments of interest and principal at a market interest rate of 19% which is estimated to be the borrowing rate available to the Company for similar instruments of debt having no warrants. Using the residual method, the carrying amount of the warrants issued is the difference between the principal amount and the initial fair value of the financial liability.

The fair value of the liability was determined to be \$652,675 (US \$489,152). The residual value of \$14,367 (US \$10,848) was allocated to warrants. The carrying value of the Promissory Note C, net of the warrant component, has been accreted using the effective interest rate method over the term of the Promissory Note C, such that the carrying amount of the financial liability will equal the principal balance at maturity.

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19. PROMISSORY NOTES PAYABLE (continued)

On December 16, 2019, the Company extended the maturity date of the Promissory Note C to March 19, 2020 (the “Extension”) in exchange for a one-time fee in the amount \$13,142 (US \$10,000), due at maturity and the issuance of additional warrants for the purchase of 200,000 common shares of the Company exercisable until June 18, 2021 at a price of \$0.30 per share.

On the date of the Extension, the fair value of the liability was determined to be \$696,151 (US \$530,643). The residual value of \$8,995 (US \$6,857) was allocated to warrants. The carrying value of Promissory Note C, as a result of the Extension, net of the warrant component, has been accreted using the effective interest rate method over the term of the Promissory Note C, such that the carrying amount of the financial liability will equal the principal balance at maturity.

On March 16, 2020, the Company extended the maturity date of the Promissory Note C to June 19, 2020 in exchange for a fee in the amount \$13,142 (US \$10,000), due at maturity. On June 15, 2020, the Company extended the maturity date of the Promissory Note C to December 19, 2020 in exchange for a fee in the amount \$40,472 (US \$29,750), due at maturity.

On December 15, 2020, the Company extended the maturity date of the Promissory Note C to December 15, 2021 (the “Second Extension”) in exchange for a one-time fee in the amount \$54,113 (US \$42,200), the issuance of “Warrants – #A” for the purchase of 200,000 common shares of the Company exercisable until December 31, 2022 at a price of \$0.32 per share, and the issuance of “Warrants - #B” for the purchase of 200,000 common shares of the Company exercisable until December 31, 2022 at a price of \$0.50 per share.

On the date of the Second Extension, the fair value of the liability was determined to be \$655,272 (US \$515,070). The residual value of \$15,823 (US \$12,437) was allocated to warrants. The carrying value of Promissory Note C, as a result of the Extension, net of the warrant component, has been accreted using the effective interest rate method over the term of the Promissory Note C, such that the carrying amount of the financial liability will equal the principal balance at maturity.

As at June 30, 2021, the value of the Promissory Note C amounted to \$477,672 (June 30, 2020 - \$817,935). Accretion expense of \$11,536 (June 30, 2020 - \$22,671; June 30, 2019 - \$847) and interest expense of \$179,720 (June 30, 2020 - \$131,893; June 30, 2019 - \$3,020) was recorded for the year ended June 30, 2021.

Promissory Note D – October 28, 2019

On October 28, 2019, the Company issued a promissory note (the “Promissory Note D”) in the principal amount of \$391,680 (US \$300,000). The Promissory Note D matured on June 30, 2020 and bears interest at a rate of 5% per annum, accrued monthly and due at maturity. Subsequent to the issuance, the Promissory Note D was extended until October 31, 2020 for a one-time fee of US \$40,000. Interest on the Promissory Note D subsequent to the maturity date bears interest at 15% per annum. The Promissory Note D is secured by a personal guarantee of vendors.

On May 25, 2020, the Company issued 453,720 common shares of the Company at a price of \$0.25 per share for \$113,317 (US \$78,150) of Promissory Note D. On August 17, 2020, the Company issued 125,507 common shares of the Company at a price of \$0.32 per share for \$40,162 (US \$29,750) of Promissory Note. On February 19, 2021, the Company issued 1,085,062 common shares of the Company at a price of \$0.32 per share for \$347,220 (US \$257,200) of Promissory Note D. As at June 30, 2021, the \$391,680 (US \$300,000) of Promissory Note D with accrued interest payable were fully settled by common shares.

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19. PROMISSORY NOTES PAYABLE (continued)

Accretion expense of \$24,334 (June 30, 2020 - \$37,026) and interest expense of \$78,827 (June 30, 2020 - \$55,139; June 30, 2019 - \$nil) were recorded for the year ended June 30, 2021.

Promissory Note E – April 8, 2020

On April 28, 2020, the Company issued a promissory note (the “Promissory Note E-1”) in the principal amount of \$527,967 (Note 12 (iv)). The Promissory Note E-1 matures on April 8, 2023 and bears interest at a rate of 6% per annum, calculated in arrears, compounded annually and payable at maturity. The fair value of \$381,093 for the Promissory Note E-1 was determined by discounting the stream of future payments of interest and principal at a market interest rate of 19% which is estimated to be the borrowing rate available to the Company for similar instruments of debt.

On May 8, 2020, the Company repaid \$90,803 of the principal in cash and issued 181,250 of its common shares to settle \$72,500 of the principal outstanding. On June 30, 2020 the Company repaid \$20,000 of the principal.

On August 13, 2020 and August 17, 2020, the Company repaid a total of \$15,000 of the principal in cash and issued 585,936 of its common shares to settle \$187,500 of the principal. On March 5, 2021 and April 1, 2021, the Company repaid a total of \$14,000 of the principal in cash.

As at June 30, 2021, the value of the Promissory Note E-1 amounted to \$124,008 (June 30, 2020 - \$259,889). Interest and accretion expense of \$9,847 and \$60,003, respectively (June 30, 2020 - \$6,454 and \$6,851, respectively) was recorded for the year ended June 30, 2021.

On June 8, 2020, the Company issued a promissory note (the “Promissory Note E-2”) in the principal amount of \$225,000 (Note 12(v)). The Promissory Note E-2 matures on April 8, 2023 and bears interest at a rate of 6% per annum, calculated in arrears, compounded annually and payable at maturity. The fair value of \$160,603 for the Promissory Note E-2 was determined by discounting the stream of future payments of interest and principal at a market interest rate of 19% which is estimated to be the borrowing rate available to the Company for similar instruments of debt.

As at June 30, 2021, the value of the Promissory Note E-2 amounted to \$194,821 (June 30, 2020 - \$162,868). Interest and accretion expense of \$13,350 and \$18,603, respectively (June 30, 2020 - \$805 and \$1,461, respectively) was recorded for the year ended June 30, 2021.

On June 8, 2020, the Company issued a promissory note (the “Promissory Note E-3”) in the principal amount of \$196,832 (Note 12(v)). The Promissory Note E-3 matures on April 8, 2023 and bears interest at a rate of 6% per annum, calculated in arrears, compounded annually and payable at maturity. The fair value of \$142,075 for the Promissory Note E-3 was determined by discounting the stream of future payments of interest and principal at a market interest rate of 19% which is estimated to be the borrowing rate available to the Company for similar instruments of debt.

As at June 30, 2021, the value of the Promissory Note E-3 amounted to \$172,347 (June 30, 2020 - \$144,079). Interest and accretion expense of \$11,810 and \$16,457, respectively (June 30, 2020 - \$772 and \$1,292, respectively) was recorded for the year ended June 30, 2021.

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20. CONTRACT LIABILITY

The Company's contract liability is deferred revenue which relates to revenue expected to be recognized in the future related to performance obligations that are unsatisfied (or partially unsatisfied) which amounted to \$226,903 (June 30, 2020 - \$nil). Details of the Company's contract liability is noted as follows:

	June 30, 2021	June 30, 2020
Opening balance	\$ -	\$ -
Additions	244,133	-
Revenue recognized from contract liability	(17,230)	-
Ending balance	\$ 226,903	\$ -
Current portion	\$ 48,832	\$ -
Long-term portion	178,071	-

21. SHARE SUBSCRIPTIONS RECEIVED IN ADVANCE

During the year ended June 30, 2021, the Company received a total of \$647,296 in deposits related to a non-brokered private placement financing. On August 19, 2021, the Company closed the non-brokered private placement financing, pursuant to which the Company issued 3,379,379 units at a price of \$0.30 per unit for gross proceeds of \$1,013,814; of which \$661,530 was received in cash and \$352,284 was issued in settlement of outstanding fees and debt (Note 32).

22. CONVERTIBLE DEBENTURES

a) *Convertible Debentures Series A-1 – March 13, 2019*

On March 13, 2019, the Company closed a non-brokered private placement of unsecured subordinated convertible debenture units (the "Debenture Units of Series A-1") of the Company for gross proceeds of \$600,000; of which \$350,000 was received in cash and \$250,000 was issued in settlement of outstanding fees with a fair value amounting to \$237,300. The balance of \$12,700 has been recorded as a loss on settlement of fees.

Each Debenture Unit of Series A-1 consists of \$1,000 principal amount of unsecured subordinated convertible debentures (the "Debentures of Series A-1") and 500 common share purchase warrants (the "Warrants of Series A-1") of the Company. The Debentures of Series A-1 mature on March 12, 2021 and bear interest at a rate of 10% per annum, accrued monthly and payable at maturity. The outstanding principal amount of the Debentures of Series A-1 and any accrued interest is convertible into common shares of the Company at the option of the holder at any time prior to the maturity date at a conversion price of \$1.00 per share. The Company also has the option to force conversion of the Debentures of Series A-1 and any accrued interest at the same conversion price if the Company's common shares trade above \$2.50 per share for ten consecutive trading days on the Canadian Securities Exchange. Each full Warrant of Series A-1 entitles the holder to purchase one

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22. CONVERTIBLE DEBENTURES (continued)

common share of the Company until March 12, 2021 at an exercise price of \$1.20 per share. 300,000 Warrants of Series A-1 were issued related to the Debenture Units of Series A-1.

The Debenture Units of Series A-1 are determined to be a compound instrument, comprising a liability, a conversion feature and warrants. Both conversion feature and warrants met the fixed for fixed criteria and were therefore presented as equity instruments in accordance with IAS 32. The fair value of the debt component was determined by discounting the stream of future payments of interest and principal at a market interest rate of 19% which is estimated to be the borrowing rate available to the Company for similar instruments of debt having no conversion rights. Using the residual method, the carrying amount of the conversion feature and the warrants issued is the difference between the principal amount and the initial fair value of the financial liability.

The fair value of the liability was determined to be \$508,439. The residual value of \$91,561 was allocated to the equity portion of convertible debt and warrants based on their pro-rata fair values of \$62,498 and \$29,063, respectively. The carrying value of the Debentures of Series A-1, net of the equity components, have been accreted using the effective interest rate method over the term of the debentures, such that the carrying amount of the financial liability will equal the principal balance at maturity.

The equity component from the initial recognition resulted taxable temporary difference. The Company recognized the deferred tax liabilities of 24,264, which was charged directly to the carrying amount of the two equity components. Subsequent changes in the deferred tax liability are recognized in profit and loss as deferred tax recovery.

On January 16, 2020, the Company issued 271,164 common shares at \$1.00 per share as a result of a partial conversion of the outstanding Debentures of Series A-1 with a face value of principal \$250,000 and accrued interest of \$21,164. The debt in the amount of \$271,164 and the equity in the amount of \$21,979, were transferred to share capital upon conversion.

During the year ended June 30, 2021, the principal amount of \$25,000 and accrued interest of \$5,000 for a total of \$30,000 was repaid on maturity. The remaining Debenture Units of Series A-1 were converted into the Convertible Debentures Series A-4 offering. The principal amount of \$325,000, the accrued interest of \$65,000, for total transfer of \$390,000 were transferred to Convertible Debentures Series A-3.

As at June 30, 2021, the value of the Debentures of Series A-1 amounted to \$nil (June 30, 2020 – \$381,678). Accretion expense of \$17,440 (June 30, 2020 - \$57,806; June 30, 2019 - \$15,118) and interest expense of \$24,382 (June 30, 2020 - \$48,275; June 30, 2019 - \$22,903) were recorded for the year ended June 30, 2021.

b) Convertible Debentures Series A-2 – August 14, 2019

On August 14, 2019, the Company closed a non-brokered private placement of unsecured subordinated convertible debenture units (the “Debenture Units of Series A-2”) of the Company for gross proceeds of \$713,000.

Each Debenture Unit of Series A-2 consists of \$1,000 principal amount of unsecured subordinated convertible debentures (the “Debentures of Series A-2”) and 500 common share purchase warrants (the “Warrants of Series A-2”) of the Company. The Debentures of Series A-2 mature on August 13, 2021 and bear interest at a rate of 10% per annum, accrued monthly and payable at maturity. The outstanding principal amount of the

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22. CONVERTIBLE DEBENTURES (continued)

Debentures of Series A-2 and any accrued interest is convertible into common shares of the Company at the option of the holder at any time prior to the maturity date at a conversion price of \$1.00 per share. The Company also has the option to force conversion of the Debentures of Series A-2 and any accrued interest at the same conversion price if the Company's common shares trade above \$2.50 per share for ten consecutive trading days on the Canadian Securities Exchange. Each full Warrant of Series A-2 entitles the holder to purchase one common share of the Company until August 13, 2021 at an exercise price of \$1.20 per share. As a result, 356,500 Warrants of Series A-2 were issued related to the Debenture Units of Series A-2.

The Debenture Units of Series A-2 were determined to be a compound instrument, comprising a liability, a conversion feature and warrants. The fair value of debt component was determined by discounting the stream of future payments of interest and principal at a market interest rate of 19% which is estimated to be the borrowing rate available to the Company for similar instruments of debt having no conversion rights. Using the residual method, the carrying amount of the conversion feature and the warrants issued is the difference between the principal amount and the initial fair value of the financial liability.

The fair value of the liability was determined to be \$604,195. The residual value of \$108,805 was allocated to the equity portion of convertible debt and warrants based on their pro-rata fair values of \$74,989 and \$33,816, respectively. The deferred tax liability of \$28,833 was charged directly to the carrying amount of these two equity components. The carrying value of the Debentures of Series A-2, net of the equity components, have been accreted using the effective interest rate method over the term of the debentures, such that the carrying amount of the financial liability will equal the principal balance at maturity.

On April 22, 2020, the Debenture Units of Series A-2 were converted into the Convertible Debentures Series A-3 offering. The principal amount of \$713,000, the accrued interest of 49,614 and a small loss of \$1,614, for total transfer of \$761,000 were transferred to Convertible Debentures Series A-3. The total amount of interest and accretion amounted to \$49,614 and \$33,454, respectively. The Company recorded deferred tax recovery of \$28,833 for the year ended June 30, 2020.

c) Convertible Debentures Series A-3 – April 22, 2020

On April 22, 2020, the Company closed a non-brokered private placement of unsecured subordinated convertible debenture units (the "Debenture Units of Series A-3") of the Company for gross proceeds of \$1,164,000.

Each Debenture Unit of Series A-3 consists of \$1,000 principal amount of unsecured subordinated convertible debentures (the "Debentures of Series A-3") and 2,000 common share purchase warrants (the "Warrants of Series A-3") of the Company. The Debentures of Series A-3 mature on April 21, 2021 and bear interest at a rate of 15% per annum, accrued monthly and payable at maturity. The outstanding principal amount of the Debentures of Series A-3 and any accrued interest is convertible into common shares of the Company at the option of the holder at any time prior to the maturity date at a conversion price of \$0.25 per share. The Company also has the option to force conversion of the Debentures of Series A-3 and any accrued interest at the same conversion price if the Company's common shares trade above \$0.50 per share for ten consecutive trading days on the Canadian Securities Exchange. Furthermore, the Debentures of Series A-3 and accrued interest shall automatically convert into common shares of the Company at maturity. Each full Warrant of Series A-3 entitles the holder to purchase one common share of the Company until April 21, 2022 at an exercise price of

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22. CONVERTIBLE DEBENTURES (continued)

\$0.30 per share. As a result, 2,328,000 Warrants of Series A-3 were issued related to the Debenture Units of Series A-3.

Prior to closing of the Offering, the Company exercised its rights of early repayment in respect of certain of the Convertible Debentures of Series A-2 of the Company issued on August 14, 2019 and, in connection with its election for early repayment, holders of the Convertible Debentures of Series A-2 directed the Company to retain the funds representing such repayment and to apply such funds towards satisfaction of the purchase price for the respective Debenture of Series A-3. The Company issued an aggregate of 761 Debenture Units to the subscribers of the Debentures of Series A-2.

The Debenture Units of Series A-3 were determined to be an equity instrument, comprising a conversion feature and warrants as a result of the Company being able to avoid a contractual obligation to pay cash related to the principal and interest at maturity. The subscription amount of \$1,164,000 was allocated to the equity portion of convertible debt and warrants based on their pro-rata fair values of \$748,990 and \$415,010, respectively. The interest expense related to the Debenture Units of Series A-3 are added to the equity portion of convertible debt as accrued.

On April 24, 2021, the Company elected to automatically convert the Debentures of Series A-3. Accordingly, these have been classified as shares to be issued. The Company expects to issue these shares by November 2021.

During the year ended June 30, 2021, interest of \$142,490 was recorded in the equity portion of the convertible debt (June 30, 2020 - \$32,010).

d) Convertible Debentures Series A-4 – March 12, 2021

On March 12, 2021, the Company closed a non-brokered private placement of unsecured subordinated convertible debenture units (the “Debenture Units of Series A-4”) of the Company for gross proceeds of \$390,000.

Each Debenture Unit of Series A-4 consists of \$1,000 principal amount of unsecured subordinated convertible debentures (the “Debentures of Series A-4”) and 1,000 common share purchase warrants (the “Warrants of Series A-4”) of the Company. The Debentures of Series A-4 mature on March 12, 2022 and bear interest at a rate of 15% per annum, accrued monthly and payable at maturity. The outstanding principal amount of the Debentures of Series A-3 and any accrued interest is convertible into common shares of the Company at the option of the holder at any time prior to the maturity date at a conversion price of \$0.50 per share. The Company also has the option to force conversion of the Debentures of Series A-4 and any accrued interest at the same conversion price if the Company’s common shares trade above \$0.50 per share for ten consecutive trading days on the Canadian Securities Exchange. Furthermore, the Debentures of Series A-4 and accrued interest shall automatically convert into common shares of the Company at maturity. Each full Warrant of Series A-4 entitles the holder to purchase one common share of the Company until March 12, 2023 at an exercise price of \$0.75 per share.

Prior to closing of the Offering, the Company exercised its rights of early repayment in respect of certain of the Convertible Debentures of Series A-1 of the Company issued on March 13, 2019 and, in connection with its election for early repayment, holders of the Convertible Debentures of Series A-1 directed the Company to

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22. CONVERTIBLE DEBENTURES (continued)

retain the funds representing such repayment and to apply such funds towards satisfaction of the purchase price for the respective Debenture of Series A-4. The Company issued an aggregate of 390 Debenture Units to the subscribers of the Debentures of Series A-1.

The Debenture Units of Series A-4 were determined to be an equity instrument, comprising a conversion feature and warrants as a result of the Company being able to avoid a contractual obligation to pay cash related to the principal and interest at maturity. The subscription amount of \$390,000 was allocated to the equity portion of convertible debt and warrants based on their pro-rata fair values of \$208,452 and \$181,548, respectively. The interest expense related to the Debenture Units of Series A-4 are added to the equity portion of convertible debt as accrued.

During the year ended June 30, 2021, interest of \$16,512 was recorded in the equity portion of the convertible debt (June 30, 2020 - \$nil).

23. SHARE CAPITAL

The authorized share capital of the Company consists of an unlimited number of common shares.

During the year ended June 30, 2021, the Company had the following common share transactions:

- On February 26, 2021, the Company issued 3,000,000 common shares of the Company for the acquisition of Extraction Technologies, LLC (Note 15);
- On February 19, 2021, the Company issued 6,177,721 common shares of the Company at a price of \$0.32 per share for gross proceeds of \$1,976,870; of which \$1,380,400 was received in cash and \$596,570 was issued in settlement of outstanding fees and debt;
- On January 6, 2021, the Company issued 9,000,000 common shares of the Company at a price of \$0.17 per share in relation to the asset acquisition of Star Buds for the opening of three cannabis retail stores under the Starbuds trade name;
- On August 17, 2020, the Company issued 3,024,521 common shares of the Company at a price of \$0.32 per share for gross proceeds of \$967,846; of which \$552,501 was received in cash and \$415,345 was issued in settlement of outstanding fees and debt; and
- On July 27, 2020, the Company issued 6,000,000 common shares of the Company at a price of \$0.17 per share in relation to the asset acquisition of Starbuds for the opening of two cannabis retail stores under the Starbuds trade name.

During the year ended June 30, 2020, the Company had the following common share transactions:

- On May 25, 2020, the Company issued 6,210,190 common shares of the Company at a price of \$0.25 per share for gross proceeds of \$1,552,548; of which \$1,411,680 was received in cash and \$140,868 was issued in settlement of outstanding fees and debt;
- On May 8, 2020, the Company issued 6,000,000 common shares of the Company at a price of \$0.17 per share in relation to the contingent consideration issued for the asset acquisition of Star Buds;
- On May 8, 2020, the Company issued 181,250 common shares of the Company at a price of \$0.40 per share for the settlement of a portion of Promissory Note E;
- On April 8, 2020, the Company issued 12,500,000 common shares of the Company at a price of \$0.17 per share in relation to the asset acquisition of Star Buds; and

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23. SHARE CAPITAL

- On January 16, 2020, the Company issued 271,164 common shares of the Company at a price of \$1.00 per share as a result of a partial conversion of the Debentures of Series A-1, as disclosed in Note 22.

During the year ended June 30, 2019, the Company had the following common share transactions:

- On May 4, 2019, and in connection with warrants previously issued to a consultant, warrants were exercised for the purchase of 750,000 common shares of the Company at an exercise price of \$0.15 per share for total gross proceeds of \$112,500. As a result of this exercise, contributed surplus in the amount of \$44,087 was transferred into share capital.

Shares to be issued

As at June 30, 2020, 3,000,000 common shares of the Company at a price of \$0.17 per share were to be issued in relation to the contingent consideration issued for the asset acquisition of Star Buds, amounting to \$510,000. On July 27, 2020, these shares were issued.

As at June 30, 2021 and in connection with the automatic conversion of shares relating to Convertible Debentures Series A-3, 5,354,400 common shares were classified as shares to be issued.

As at June 30, 2021, the value of shares to be issued amounted to \$923,590 (June 30, 2020 - \$510,000).

Contingently issuable shares

As at June 30, 2021, there were 4,000,000 contingently issuable shares of the Company (June 30, 2020 – 12,000,000) (Note 15).

24. OPTIONS

On November 22, 2018, the Company's shareholders approved and the Company adopted a rolling stock option plan (the "Option Plan"), under which the Board of Directors may from time to time, in its discretion, grant to directors, officers, employees and consultants of the Company. Pursuant to the Option Plan, the Company may issue options for such period and exercise price as may be determined by the Board of Directors, and in any case not exceeding ten (10) years from the date of grant with the total options issued under the Option Plan not exceeding ten percent (10%) of the common shares of the Company, outstanding at the time of the granting of such options. The minimum exercise price of an option granted under the Option plan must not be less than the market value of the common shares on the date such option is granted.

Outstanding options as at June 30, 2021 are as follows:

	Options Outstanding	Weighted Average Exercise Price	Weighted Average Life Remaining (yrs)
Executive Officers	300,000	\$0.25	1.65
Directors	3,550,000	\$0.28	1.79
Consultants	1,450,000	\$0.39	1.81
	<u>5,300,000</u>		

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24. OPTIONS (continued)

Grant Date	Expiry Date	Options Outstanding	Options Exercisable	Exercise Price	Fair Value
Feb. 25, 2020 ⁽ⁱⁱⁱ⁾	Feb. 24, 2023	800,000	800,000	\$0.25	\$103,838
Apr. 7, 2020 ^(iv)	Apr. 6, 2023	3,000,000	3,000,000	\$0.25	\$369,426
May 16, 2020 ^(v)	May 5, 2023	1,500,000	1,500,000	\$0.45	\$396,036

The fair value of these issued stock options were determined using the Black-Scholes Option Pricing Model with the following range of assumptions:

Stock price	\$0.19-0.405
Risk-free interest rate	0.33-1.37 %
Expected life	3 years
Estimated volatility in the market price of the common shares	112-124 %
Dividend yield	nil

During the year ended June 30, 2021, 1,750,000 options expired unexercised.

During the year ended June 30, 2021, the Company expensed \$nil (June 30, 2020 - \$869,299, June 30, 2019 – \$nil) of the fair value of the options.

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25. WARRANTS

	Warrants Outstanding		Weighted Average Exercise Price	Weighted Average Life Remaining (years)
June 30, 2019	8,375,000	\$	0.93	1.05
Issued	8,424,500		0.33	2.23
Forfeited	(750,000)		2.00	0.00
Expired	(5,800,000)		0.62	0.00
June 30, 2020	10,249,500		0.53	2.00
Issued	6,790,000		0.35	1.97
Expired	(1,450,000)		1.29	0.00
June 30, 2021	15,589,500	\$	0.38	1.30

During the year ended June 30, 2021:

- the Company issued 6,790,000 common share purchase warrants in to employees and directors, for the amendment of promissory notes payable, and a convertible debenture financing;
- 1,450,000 common share purchase warrants expired, unexercised; and
- No common share warrants were forfeited or cancelled.

The fair value of these issued warrants of was determined using the Black-Scholes Option Pricing Model with the following range of assumptions:

Stock price	\$0.19-0.35
Risk-free interest rate	0.26-0.32 %
Expected life	1-3 years
Estimated volatility in the market price of the common shares	87-89 %
Dividend yield	nil

During the year ended June 30, 2020:

- the Company issued 8,424,500 common share purchase warrants in consideration for convertible debenture financings, certain service providers and promissory notes;
- 5,800,000 common share purchase warrants expired, unexercised;
- 750,000 common share purchase warrants were forfeited; and
- No common share warrants were cancelled.

Stock price	\$0.19-0.30
Risk-free interest rate	0.42-1.37 %
Expected life	2-3years
Estimated volatility in the market price of the common shares	117-124 %
Dividend yield	nil

During the year ended June 30, 2021, the Company expensed \$941,854 (June 30, 2020 – \$179,362; June 30, 2019 – \$1,413,919) in the fair value of warrants as a result of the issuances which have been recorded as share based compensation.

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26. COMMITMENTS

(a) Exclusivity Fee

On March 7, 2018, the Company entered into a memorandum of understanding (the “MOU”) with a third party which granted the Company an exclusivity option on a transaction to acquire a majority stake in real estate and intellectual property owned by the third party. Under the terms of the MOU, the Company agreed to pay the third party up to US \$100,000 for such exclusivity until termination by either party. In October 2019, the Company terminated the MOU. During the year ended June 30, 2021, the Company paid and expensed a total of \$nil (June 30, 2020 - \$nil; June 30, 2019 - \$48,367).

(b) Employment Agreements

The Company is party to certain employment agreements with key executives of the Company that contain clauses requiring additional payments of up to two times the annual entitlements under these agreements upon occurrence of certain events, such as a change of control. As a triggering event has not taken place, the contingent payments have not been reflected in these consolidated financial statements.

(c) Deposit in Joint Forces

On November 7, 2019, the Company advanced CDN \$408,840 (US \$300,000) to a non-arm’s length party in exchange for Promissory Note D (the “Joint Forces Deposit”).

On October 12, 2020, the Company entered into a settlement agreement (the “Settlement”), settling the outstanding Joint Forces Deposit for a payment term over 2 years for a total of US \$338,000. The proceeds of the Settlement will be received by the beneficiaries of Promissory Note D. As a result, a gain on Settlement was recorded in the amount of \$51,023 (US \$38,000) during the year ended June 30, 2020.

Accordingly, the Joint Forces Deposit was determined to be a financial instrument and recorded at amortized cost. The initial carrying amount of the financial asset was determined by discounting the stream of future payments of interest and principal at a market interest rate of 8% which is estimated to be the lending rate available to the Company for similar instruments. The balance as at June 30, 2021 was \$300,814 (June 30, 2020 - \$405,214). The current portion of the Joint Forces Deposit as at June 30, 2021 amounted to \$101,351. Interest income in relation to the Joint Forces Deposit amounted to \$28,939 during the year ended June 30, 2021 (2020 – \$nil).

(d) Loss on Deposit

During the year ended June 30, 2019, the Company made certain non-refundable deposits towards a transaction in California (the “California Transaction”). During the year ended June 30, 2020, the Company terminated the California Transaction and recorded a loss on a deposit in the amount of \$396,000.

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26. COMMITMENTS (continued)

(e) Lease agreement

On July 20, 2021, the Company entered into a lease agreement with the buyer of Oregon Property. The lease commenced on August 1, 2021 with the initial term of ten years and two subsequent ten-year renewal periods. There is no rent payable during the first three months of the Lease and subsequent payments amount to subsequent payments amount to \$27,267 (US \$22,000) per month for the remainder of the first year, with annual payment escalators thereafter.

(f) COVID-19

On March 11, 2020, the World Health Organization declared the outbreak of the novel strain of coronavirus (“COVID-19”) a pandemic, which has resulted in governments worldwide enacting emergency measures to combat the spread of the virus. These measures, which include the implementation of travel bans, self-imposed quarantine periods and social distancing, have caused material disruption to businesses globally resulting in an economic slowdown. Global equity markets have experienced significant volatility and weakness. Governments and central banks have reacted with significant monetary and fiscal interventions designed to stabilize economic conditions. The duration and impact of the COVID-19 outbreak is unknown at this time, as is the efficacy of the government and central bank interventions. It is not possible to reliably estimate the length and severity of these developments and the impact on the financial results and condition of the Company and its operating subsidiaries in future periods as well as the Company’s ability to find new business opportunities, raise capital or restructure the Company’s finances

27. RELATED PARTY TRANSACTIONS

Related party transactions for the year ended June 30, 2021, 2020 and 2019 and the balances as at those dates, not disclosed elsewhere in these consolidated financial statements are:

- a) During the year ended June 30, 2021, the Company expensed \$842,500 (June 30, 2020 - \$662,284; June 30, 2019 - \$1,116,103), in fees payable to officers and directors of the Company and in fees payable to a corporation related by virtue of a common officer and director. As at June 30, 2021, the Company had fees payable to officers and directors of the Company of \$1,494,228 (June 30, 2020 - \$1,278,106); and
- b) During the year ended June 30, 2021, the Company expensed \$740,200 (June 30, 2020 - \$559,846; June 30, 2019 - \$nil) in share based compensation related to officers and directors of the Company.

28. FINANCIAL INSTRUMENTS AND RISK FACTORS

The fair value hierarchy that reflects the significance of inputs used in making fair value measurements is as follows:

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

Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. from derived prices); and

Level 3: inputs for the asset or liability that are not based upon observable market data.

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28. FINANCIAL INSTRUMENTS AND RISK FACTORS (continued)

Assets are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

The fair values of the Company's financial instruments consisting of cash and cash equivalents, promissory note and accounts payable and accrued liabilities approximate their carrying value due to the relatively short term maturities of these instruments.

Risk Management Policies

The Company, through its financial assets and liabilities, is exposed to various risks. The Company has established policies and procedures to manage these risks, with the objective of minimizing any adverse effect that changes in these variables could have on these consolidated financial statements. The following analysis provides a measurement of risks as at June 30, 2021:

Credit Risk

The Company's maximum exposure to credit risk, which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties, totals the carrying amount of these assets as stated in the consolidated statements of financial position. The Company's principal financial assets are cash, restricted investments and accounts receivable, which represent the Company's exposure to credit risk in relation to financial assets. The credit risk on cash and restricted investments is mitigated by transacting with banks with high credit ratings assigned by international credit-rating agencies. An allowance for expected credit losses is established based upon factors surrounding the credit risk of specific accounts, historical trends and other information when necessary.

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due within one year. The Company's approach to managing liquidity risk is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

As at June 30, 2021, there is substantial doubt about the Company's ability to continue as a going concern primarily due to its history of losses and negative working capital. Liquidity risk continues to be a key concern in the development of future operations.

Market Risk

(i) 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 interest rates on all of the Company's existing debt are fixed, and therefore it is not currently subject to any significant interest rate risk.

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28. FINANCIAL INSTRUMENTS AND RISK FACTORS (continued)

(ii) Foreign Currency Risk

The Company is exposed to foreign currency risk from fluctuations in foreign exchange rates and the degree of volatility in these rates due to the timing of their accounts payable balances. The risk is mitigated by timely payment of creditors and monitoring of foreign exchange fluctuations by management. As at June 30, 2021, the Company did not use derivative instruments to hedge its exposure to foreign currency risk.

(iii) Price Risk

The Company's operations do not involve the direct input or output of any commodities and therefore it is not subject to any significant commodity price risk. In addition, the Company does not have any equity investment in other listed public companies, and therefore it is not subject to any significant stock market price risk.

29. CAPITAL MANAGEMENT

The Company includes equity comprised of issued share capital, contributed surplus, deficit in the definition of capital and accumulated other comprehensive loss. As at June 30, 2021, the Company's shareholders' equity was \$6,492,208 (June 30, 2020 – shareholders' equity of \$5,618,586). The Company's objectives when managing capital are as follows:

- (i) to safeguard the Company's ability to continue as a going concern; and
- (ii) to raise sufficient capital to meet its business objectives.

The Company manages its capital structure and makes adjustments to it, based on the general economic conditions, the Company's long-term and short-term capital requirements. To secure the additional capital necessary to pursue these plans, the Company may attempt to raise additional funds through the issuance of equity or debt.

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30. INCOME TAXES

Canadian

Income Taxes

The major factors that cause variations from the Company's combined federal and provincial statutory Canadian income tax rates were the following:

	<u>June 30, 2021</u>	<u>June 30, 2020</u>	<u>June 30, 2019</u>
Loss from Canadian operations	\$ (3,533,381)	\$ (4,254,121)	\$ (5,057,042)
Combined Canadian statutory income tax rates	<u>26.50%</u>	<u>26.50%</u>	<u>26.50%</u>
Income tax recovery at statutory income tax rates	\$ (936,346)	\$ (1,127,342)	\$ (1,340,116)
Increase in taxes resulting from:			
Stock-based compensation expense	249,951	277,895	374,689
Other	151,821	122,137	11,671
Unrecognized benefit of non-capital losses	836,177	672,781	953,756
Provision for income taxes, net of (recovery)	<u>\$ 301,603</u>	<u>\$ (54,349)</u>	<u>\$ -</u>

Deferred Income Taxes

Deferred tax assets have not been recognized in respect of the following deductible temporary differences:

	<u>June 30, 2021</u>	<u>June 30, 2020</u>	<u>June 30, 2019</u>
Amounts related to tax loss carry forwards	13,857,000	11,898,000	8,467,000

A deferred tax asset has not been recognized in respect of the above because it is not probable that future taxable profits will be available against which the temporary difference can be utilized.

Deferred Tax Liabilities

	June 30, 2021	June 30, 2020
Convertible debt	\$ -	\$4,939
Licenses	\$ 36,540	\$-

Non-capital Losses

As at June 30, 2021, the Company has accumulated non-capital tax loss carry forwards for income tax purposes of carry-forward of approximately \$13,720,000 which may be applied against future Canadian taxable income and expire as detailed below. No deferred taxes have been recognized in these consolidated financial statements in respect of the following as the probability that future taxable profit will allow the deferred tax asset to be recognized cannot be predicted at this time.

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30. INCOME TAXES (continued)

The net operating losses for these years will not be available to reduce future taxable income until the returns are filed.

2027	536,000
2028	868,000
2029	1,047,000
2030	627,000
2031	251,000
2032	161,000
2033	52,000
2034	115,000
2035	177,000
2036	74,000
2037	88,000
2038	1,399,000
2039	3,602,000
2040	2,901,000
2041	1,959,000
	<u>\$ 13,857,000</u>

United States

Income Taxes

The major factors that cause variations from the Company's combined United States federal and state level income tax rates were the following:

	June 30, 2021	June 30, 2020	June 30, 2019
	\$	\$	\$
Loss from US operations	(951,531)	(420,578)	(772,238)
Combined federal and state level taxes	27.79%	29.71%	26.64%
Expected income tax payable	(264,430)	(124,941)	(205,724)
Temporary difference, Equipment	200,620	-	34,826
Other	(42,348)	-	-
Unrecognized benefit of non-capital losses	106,158	124,941	170,898
Provision for income taxes	-	-	-

Deferred Income Taxes

Deferred tax assets have not been recognized in respect of the following United States deductible temporary differences:

	June 30, 2021	June 30, 2020	June 30, 2019
Amounts related to tax loss carry forwards	1,581,000	1,199,000	778,000

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30. INCOME TAXES (continued)

A deferred tax asset has not been recognized in respect of the above because it is not probable that future taxable profits will be available against which the temporary difference can be utilized.

Non-capital Losses

As at June 30, 2021, the Company has accumulated non-capital tax loss carry forwards for income tax purposes of carry-forward of approximately \$1,581,000 which may be applied against future United States taxable income and expire as detailed below.

No deferred taxes have been recognized in these consolidated financial statements in respect of the following as the probability that future taxable profit will allow the deferred tax asset to be recognized cannot be predicted at this time.

2038	\$	144,000
2039		634,000
2040		421,000
2041		382,000
	\$	<u>1,581,000</u>

31. COMPARATIVE AMOUNTS

Certain comparative figures have been reclassified to conform to the consolidated financial statement presentation adopted for the current period. Such reclassifications did not have an impact on previously reported net and comprehensive loss.

32. SUBSEQUENT EVENTS

On August 4, 2021, the Company sold all of its land, building and equipment (the “Oregon Property”) for US \$2,200,000 and entered into an agreement to lease the Oregon Property from the buyer (the “Sale Leaseback”). The Sale Leaseback will allow the Company to operate the Oregon Property for ten years, and provides options for two subsequent ten-year renewal periods. Proceeds from the sale were used to retire debts related to the Oregon Property and finance the planned Oregon expansion. A total of US \$600,000 of the purchase price has been placed in escrow by the buyer to allow the Company to complete its buildout of the facility. The Sale Leaseback was signed on July 20, 2021 and commenced on August 1, 2021.

On August 19, 2021, the Company closed a non-brokered private placement financing, pursuant to which the Company issued 3,379,379 units at a price of \$0.30 per unit for gross proceeds of \$1,013,814; of which \$661,530 was received in cash and \$352,284 was issued in settlement of outstanding fees and debt.