



CordovaCann Corp.

Unaudited Condensed Interim Consolidated Financial Statements

For the Three Months Ended September 30, 2021 and 2020

(Expressed in Canadian Dollars)

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CordovaCann Corp.

Notice to Reader Issued by Management

Under National Instrument 51-102, Part 4, Subsection 4.3(3)(a), if an auditor has not performed a review of the condensed interim consolidated financial statements, they must be accompanied by a notice to this effect.

The accompanying unaudited condensed interim consolidated financial statements have been prepared and are the responsibility of the Company's management. The Company's independent auditor has not performed a review of the unaudited condensed interim consolidated financial statements.

November 29, 2021

CordovaCann Corp.

Unaudited Condensed Interim Consolidated Statements of Financial Position

(Expressed in Canadian Dollars)

As at	September 30, 2021	June 30, 2021
	\$	\$
ASSETS		
Current		
Cash and cash equivalents	670,085	1,058,494
Restricted cash (Note 25)	1,022,019	-
Accounts receivable	38,692	7,924
Prepaid expenses and deposits	367,820	332,771
Inventory (Note 5)	732,048	504,521
Biological assets (Note 6)	25,143	26,611
Other deposit - current portion (Note 23)	224,567	199,463
Total current assets	3,080,374	2,129,784
Other deposit (Note 23)	75,504	101,351
Right-of-use assets (Note 7)	5,213,691	3,169,655
Property and equipment, net (Note 8)	3,650,152	6,059,622
Intangible assets (Note 9)	5,243,967	5,243,967
Licenses (Note 10, 11, 13)	514,517	569,662
Total assets	17,778,205	17,274,041
LIABILITIES		
Current		
Accounts payable and accrued liabilities	3,289,908	3,326,171
Harmonized sales tax payable	1,057	98,916
Mortgage payable (Note 15)	824,282	1,566,067
Consideration payable (Note 10)	-	39,292
Income taxes payable	331,760	315,362
Contract liability (Note 17)	50,199	48,832
Lease liability (Note 14)	528,897	438,856
Promissory notes payable (Note 16)	385,954	1,017,772
Total current liabilities	5,412,057	6,851,268
Deferred tax liability	36,540	36,540
Contract liability (Note 17)	170,541	178,071
Lease liability (Note 14)	4,957,354	2,889,789
Total liabilities	10,576,492	9,955,668
SHAREHOLDERS' EQUITY		
Share capital (Note 20)	27,234,919	26,145,146
Shares to be issued (Note 23)	923,590	923,590
Share subscriptions received in advance (Note 18)	-	647,296
Contributed surplus	7,820,775	7,844,814
Equity portion of convertible debentures	321,502	306,877
Accumulated deficit	(30,122,061)	(29,453,390)
Accumulated other comprehensive income	196,880	77,875
Total shareholders' equity attributable to Cordova shareholders	6,375,605	6,492,208
Non-controlling interest	826,108	826,165
Total equity	7,201,713	7,318,373
Total liabilities and shareholders' equity	17,778,205	17,274,041

Nature of operations and going concern (Note 1)

Commitments (Note 23)

Related party transactions (Note 24)

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 condensed interim consolidated financial statements.

CordovaCann Corp.

Unaudited Condensed Interim Consolidated Statements of Operations and Comprehensive Loss
For the Three Months Ended September 30, 2021 and 2020
(Expressed in Canadian Dollars)

	2021	2020
	\$	\$
Revenue	3,774,713	1,836,812
Cost of sales	(2,689,223)	(1,182,139)
Gross profit (loss)	1,085,490	654,673
Expenses		
Consulting fees	221,465	154,016
Share based compensation (<i>Note 21, 22</i>)	1,920	117,598
Professional fees	27,555	72,596
Shareholders information services	55,843	36,371
Salaries and wages	481,023	189,380
Office and general	284,835	146,024
Depreciation (<i>Note 8</i>)	87,539	12,639
Amortization of right-of-use assets (<i>Note 7</i>)	183,152	87,745
Amortization of licenses (<i>Note 13</i>)	55,145	27,146
Leases and utilities	220,908	71,686
	1,619,385	915,201
Loss before other income	(533,895)	(260,528)
Interest expenses (<i>Note 17, 18, 19</i>)	41,886	184,619
Interest on lease liability (<i>Note 14</i>)	119,918	45,038
Accretion expense (<i>Note 17, 18, 19</i>)	26,512	70,915
Foreign exchange (gain) loss	(87,377)	58,558
Other income	(32,537)	-
Loss before income taxes	(602,297)	(619,658)
Income taxes expense	45,760	-
Deferred tax recovery	-	(1,932)
Net loss	(648,057)	(617,726)
Loss per share - basic and diluted	(0.01)	(0.01)
Weighted average number of outstanding common shares - basic and diluted	94,824,269	71,634,472
Net loss	(648,057)	(617,726)
Foreign exchange translation adjustment	(119,005)	(23,617)
Total comprehensive loss	(529,052)	(594,109)
Net loss attributable to:		
CordovaCann Corp.	(668,671)	(766,715)
Non-controlling interest	20,614	148,989

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

CordovaCann Corp.

Unaudited Condensed Interim Consolidated Statements of Changes in Equity (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	20	6,000,000	1,020,000	-	-	(510,000)	(510,000)	-	-	-	-	-
Common shares issued for private placement	20	3,024,521	967,846	-	-	-	-	-	-	-	-	967,846
Issuance of warrants	24	-	-	117,598	-	-	-	-	-	-	-	117,598
Interest on convertible debentures	19	-	-	-	43,650	-	-	-	-	-	-	43,650
Change in ownership interests in 2734158 Ontario Inc.	10	-	-	-	-	-	-	(139,891)	-	-	(165,376)	(305,267)
Foreign currency translation gain		-	-	-	-	-	-	-	23,617	-	-	23,617
Net loss for the period		-	-	-	-	-	-	(766,715)	-	-	148,989	(617,726)
Balance, September 30, 2020		74,973,353	21,685,026	6,827,380	906,563	1,530,000	-	-	(25,066,296)	(17,982)	641,716	6,506,407
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
Common shares issued for private placement	20	3,379,379	1,013,814	-	-	-	-	(647,296)	-	-	-	366,518
Exercise of options	21	200,000	75,959	(25,959)	-	-	-	-	-	-	-	50,000
Issuance of warrants	22	-	-	1,920	-	-	-	-	-	-	-	1,920
Interest on convertible debentures	19	-	-	-	14,625	-	-	-	-	-	-	14,625
Dividend paid to NCI	10	-	-	-	-	-	-	-	-	-	(20,671)	(20,671)
Foreign currency translation gain		-	-	-	-	-	-	-	119,005	-	-	119,005
Net loss for the period		-	-	-	-	-	-	(668,671)	-	-	20,614	(648,057)
Balance, September 30, 2021		96,730,453	27,234,919	7,820,775	321,502	-	923,590	-	(30,122,061)	196,880	826,108	7,201,713

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

CordovaCann Corp.

Unaudited Condensed Interim Consolidated Statements of Cash Flows
For the Three Months Ended September 30, 2021 and 2020
(Expressed in Canadian Dollars)

	2021	2020
	\$	\$
Operating activities		
Net loss for the period	(648,057)	(617,726)
Adjusted for non-cash items:		
Income taxes payable	45,760	-
Share based compensation	1,920	117,598
Amortization of right-of-use assets	183,152	87,745
Amortization of licenses	55,145	27,146
Depreciation	87,539	12,639
Interest expense	41,886	168,634
Interest on lease liability	119,918	45,038
Deferred tax recovery	—	(1,932)
Accretion expense	26,512	70,915
Foreign exchange (gain) loss	199,844	120,184
Changes in non-cash working capital items:		
Prepaid expenses and deposits	(35,049)	3,763
Accounts receivable	(30,768)	-
Inventory	(148,555)	(107,685)
Income taxes payable	16,398	-
Harmonized sales tax receivable	(97,859)	53,857
Accounts payable and accrued liabilities	176,813	(48,251)
Cash used in operating activities	(5,401)	(68,075)
Investing activities		
Additions to property and equipment	(185,416)	(117,976)
Proceeds from disposal of property and equipment	1,311,839	-
Payment towards subsidiary NCI shares	(39,292)	(72,539)
Cash used in investing activities	1,087,131	(190,515)
Financing activities		
Repayment of promissory notes	(427,114)	(66,695)
Payment of lease liabilities	(189,500)	(94,903)
Proceeds from other deposit	20,160	-
Proceeds from share subscriptions received in advance	-	266,757
Proceeds from the exercise of warrants	50,000	-
Payment of dividends to non-controlling interest shareholders	(20,671)	-
Proceeds from issuance of common shares	-	552,501
Proceeds from financing activities	(567,125)	657,660
Effect of exchange rate changes on cash	119,005	54,524
Net increase in cash and cash equivalents	633,610	453,594
Cash and cash equivalents, beginning of period	1,058,494	647,739
Cash and cash equivalents, end of period	1,692,104	1,101,333
Cash and cash equivalents consist of:		
Cash	670,085	1,058,494
Restricted cash	1,022,019	-

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

CordovaCann Corp.

Notes to the Unaudited Condensed Interim Consolidated Financial Statements

For the Three Months Ended September 30, 2021 and 2020

(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 \$529,052 (September 30, 2020 – \$594,109) during the three months ended September 30, 2021 and has a total accumulated deficit of \$30,122,061 (June 30, 2021 – \$29,453,390) as at September 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 condensed interim 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 condensed interim consolidated financial statements were authorized for issue by the Company’s Board of Directors on November 29, 2021.

CordovaCann Corp.

Notes to the Unaudited Condensed Interim Consolidated Financial Statements

For the Three Months Ended September 30, 2021 and 2020

(Expressed in Canadian Dollars)

2. BASIS OF PREPARATION (continued)

(b) Basis of Presentation

These condensed interim 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 condensed interim consolidated financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

(c) Functional and Presentation Currency

These condensed interim 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 condensed interim 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 condensed interim 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.

Notes to the Unaudited Condensed Interim Consolidated Financial Statements
For the Three Months Ended September 30, 2021 and 2020
(Expressed in Canadian Dollars)

2. BASIS OF PREPARATION (continued)

(e) Basis of Consolidation

These condensed interim consolidated financial statements include those of the Company and its subsidiaries, which are the entities controlled by the Company. 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 condensed interim 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 condensed interim consolidated financial statements are synonymous with the significant accounting policies of the Company's annual audited financial statements for the year ended June 30, 2021.

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.

CordovaCann Corp.

Notes to the Unaudited Condensed Interim Consolidated Financial Statements

For the Three Months Ended September 30, 2021 and 2020

(Expressed in Canadian Dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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 condensed interim 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 condensed interim consolidated financial statements.

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 condensed interim consolidated financial statements.

CordovaCann Corp.

Notes to the Unaudited Condensed Interim Consolidated Financial Statements
For the Three Months Ended September 30, 2021 and 2020
(Expressed in Canadian Dollars)

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 condensed interim consolidated financial statements is included in the following:

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 condensed interim 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.

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.

CordovaCann Corp.

Notes to the Unaudited Condensed Interim Consolidated Financial Statements

For the Three Months Ended September 30, 2021 and 2020

(Expressed in Canadian Dollars)

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

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 21 and Note 22.

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 the 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.

Valuation of convertible debentures

The convertible debentures were separated into their equity and/or liability components at the date of issuance, 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. A convertible debenture for which the Company is able to avoid a contractual obligation to pay cash is classified as an equity instrument.

CordovaCann Corp.

Notes to the Unaudited Condensed Interim Consolidated Financial Statements
For the Three Months Ended September 30, 2021 and 2020
(Expressed in Canadian Dollars)

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

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 estimating the Company's specific incremental borrowing rate. The incremental borrowing 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. INVENTORY

The Company's inventory includes purchased products and harvested cannabis plants. The Company's cost of inventory during the three months ended September 30, 2021 amounted to \$2,553,267 (September 30, 2020 - \$1,289,824). Included in inventory, is the transfer of biological assets upon harvest amounted to \$259,008 (Note 6). The Company's inventory as at September 30, 2021 amounted to \$729,611 (June 30, 2021 - \$504,521).

6. 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 three months ended September 30, 2021 is as follows:

	\$
Balance, June 30, 2020	-
Product costs capitalized	120,082
Fair value adjustment on biological assets	166,458
Exchange realignment	(921)
Transferred to inventory upon harvest	(259,008)
Balance, June 30, 2021	26,611
Product costs capitalized	49,954
Fair value adjustment on biological assets	74,416
Exchange realignment	278
Transferred to inventory upon harvest	(126,116)
Balance, September 30, 2021	25,143

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.

CordovaCann Corp.

Notes to the Unaudited Condensed Interim Consolidated Financial Statements
For the Three Months Ended September 30, 2021 and 2020
(Expressed in Canadian Dollars)

6. BIOLOGICAL ASSETS (continued)

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 September 30, 2021, on average, the biological assets were estimated as 74% 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 September 30, 2021 (\$)
Estimated selling price per lb	\$1,200 - \$1,400	Increase 5%	1,257
		Decrease 5%	(1,241)
Estimated yield per cannabis plant	70 - 84 grams	Increase 5%	1,257
		Decrease 5%	(1,241)

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.

7. RIGHT-OF-USE ASSETS

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

	\$
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
Additions during the period	2,227,188
Depreciation for the period	(183,152)
Balance, September 30, 2021	5,213,691

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

Included in additions for the period ended September 30, 2021 is the addition of the lease on the Oregon Property as a result of a sale-leaseback, as further described in Note 8.

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8. 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, 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
Translation adjustment	-	94,270	-	-	-	-	-	94,270
Additions	-	-	-	97,954	-	24,244	63,218	185,416
Disposals	(403,524)	(1,019,086)	-	(1,162,803)	-	-	-	(2,585,413)
Impairment charge	-	-	-	-	-	-	-	-
As at September 30, 2021	403,226	1,137,437	-	1,755,217	318,457	139,839	378,831	4,133,007
Accumulated depreciation								
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)
Depreciation	-	(14,983)	-	(1,402)	-	-	-	(16,385)
Disposals	-	30,076	-	(22,570)	(34,047)	(10,764)	(50,054)	(87,359)
Translation adjustment	-	-	-	-	-	-	-	-
As at September 30, 2021	-	(29,721)	-	(275,798)	(55,677)	(43,183)	(78,477)	(482,855)
Net book value (\$)								
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
At September 30, 2021	403,226	1,167,158	-	2,031,015	374,134	183,022	457,308	3,650,152

During the three months ended September 30, 2021, the Company incurred a depreciation expense in the amount of \$87,359 (September 30, 2020 - \$12,639).

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). Construction in progress amounted to \$1,760,861 during the year ended June 30, 2019.

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. . The Lease was signed on July 20, 2021 and commenced on August 1, 2021. Certain amounts have been placed in escrow by the buyer to allow the completion of the buildout, as disclosed in Note 25.

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8. PROPERTY AND EQUIPMENT, NET (continued)

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 during the year ended June 30, 2021.

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.

9. 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.

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

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.

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
	6,433,771
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 three months ended September 30, 2021 (September 30, 2020 - \$nil).

10. 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 for the issuance of 138,589 common shares;
- payment of \$200,000 on June 15, 2020 for the issuance of 138,589 common shares;
- payment of \$200,000 on July 15, 2020 for the issuance of 138,589 common shares; and
- payment of \$123,000 on August 15, 2020 for the 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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10. 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.

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.

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10. ACQUISITION OF 2734158 ONTARIO INC. (continued)

During the year ended June 30, 2021, the Company paid \$ payments in the amount of \$265,975 in total. During the three months ended September 30, 2021, the Company paid the remaining \$39,292 outstanding. The total amount outstanding for the payment of the Additional Shares as at September 30, 2021 was \$nil (June 30, 2021 - \$39,292).

During the year 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.

During the three months ended September 30, 2021, 273 Ontario paid dividends in the amount of \$52,265. Of the \$52,265 paid, \$20,671 was paid to the non-controlling interest shareholders of 273 Ontario.

11. 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 Purchases 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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11. 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

12. 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 September 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 February 26, 2021 and September 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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12. 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

13. LICENSE

	\$
Cost	
As at June 30, 2020	542,912
Acquisition of a subsidiary (Note 11)	167,999
As at June 30, 2021	710,911
Additions (disposals)	-
As at September 30, 2021	710,911
Accumulated amortization	
As at June 30, 2020	-
Amortization	(141,249)
As at June 30, 2021	(141,249)
Amortization	(55,145)
As at September 30, 2021	(196,394)
Net book value (\$)	
At June 30, 2020	542,912
At June 30, 2021	569,662
At September 30, 2021	514,517

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14. LEASE LIABILITY

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

	\$
Balance, June 30, 2020	2,582,484
Additions	922,394
Acquisition of a subsidiary	101,333
Interest expense	223,799
Lease payments	(501,365)
Balance, June 30, 2021	3,328,645
Additions	2,227,188
Interest expense	119,918
Lease payments	(189,500)
Balance, September 30, 2021	5,486,251

Allocated as:

	September 30, 2021	June 30, 2021
	\$	\$
Current	528,897	438,856
Long-term	4,957,354	2,889,789
Total	5,486,251	3,328,645

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

	\$
Less than one year	1,073,179
One to five years	4,300,296
More than five years	2,744,957
Total undiscounted lease obligation	8,118,432

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 \$21,196 (September 30, 2020 - \$32,479) of rent expense attributed to short-term leases during the three months ended September 30, 2021.

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15. 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.

On August 4, 2021, the Oregon Mortgage was fully paid off upon the closing of selling Oregon Property (Note 8).

The mortgage payable outstanding as at September 30, 2021 was \$nil (June 30, 2021 – \$755,789). Total interest expense in relation to the mortgage payable for the three months ended September 30, 2021 amounted to \$7,517 (September 30, 2020 – \$49,795).

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 September 30, 2021, the amount outstanding under the Washington Mortgage amounted to \$824,282.

16. 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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16. 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 September 30, 2021, \$46,303 was outstanding under Promissory Note A (June 30, 2021 – \$44,732). Interest expense of \$315 (September 30, 2020 - \$3,330) was recorded for the three months ended September 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 three months ended September 30, 2021. As at September 30, 2021, the value of the Promissory Note B amounted to \$nil (June 30, 2021 – \$nil). Interest expense in the amount of \$nil, was recorded for the three months ended September 30, 2021 (September 30, 2020 - \$nil).

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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16. 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.

The Company repaid Promissory Note C during the three months ended September 30, 2021.

As at September 30, 2021, the value of the Promissory Note C amounted to \$nil (June 30, 2021 - \$477,672). Interest expense of \$15,687 (September 30, 2020 - \$43,382) was recorded for the three months ended September 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.

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16. PROMISSORY NOTES PAYABLE (continued)

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 and September 30, 2021, the \$391,680 (US \$300,000) of Promissory Note D with accrued interest payable were fully settled by common shares.

Interest expense of \$nil (September 30, 2020 – \$33,497) were recorded for the three months ended September 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.

During the three months ended September 30, 2021, the Company paid and settled \$145,456 worth of principal and interest in respect to Promissory Note E-1.

As at September 30, 2021, the value of the Promissory Note E-1 amounted to \$nil (June 30, 2021 - \$124,008). Interest and accretion expense of \$990 and \$19,028, respectively (September 30, 2020 - \$3,848 and \$55,212, respectively) was recorded for the three months ended September 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.

During the three months ended September 30, 2021, the Company paid and settled \$38,543 worth of principal in respect to Promissory Note E-2.

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16. PROMISSORY NOTES PAYABLE (continued)

As at September 30, 2021, the value of the Promissory Note E-2 amounted to \$162,381 (June 30, 2021 - \$194,821). Interest and accretion expense of \$3,019 and \$3,083, respectively (September 30, 2020 - \$3,365 and \$4,463, respectively) was recorded for the three months ended September 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 September 30, 2021, the value of the Promissory Note E-3 amounted to \$179,692 (June 30, 2021 - \$172,347). Interest and accretion expense of \$2,944 and \$4,401, respectively (September 30, 2020 - \$2,977 and \$3,948, respectively) was recorded for the three months ended September 30, 2021.

17. 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 \$220,740 (June 30, 2021 - \$nil). Details of the Company's contract liability is noted as follows:

	September 30, 2021	June 30, 2021
Opening balance	\$ 226,903	\$ -
Additions	-	244,133
Changes in exchange rates	6,412	-
Revenue recognized from contract liability	(12,377)	(17,230)
Ending balance	\$ 220,740	\$ 226,903
Current portion	\$ 50,199	\$ 48,832
Long-term portion	170,541	178,071

18. 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 20).

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19. 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 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.

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19. CONVERTIBLE DEBENTURES (continued)

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 September 30, 2021, the value of the Debentures of Series A-1 amounted to \$nil (June 30, 2021 – \$nil).

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

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, 2021.

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19. CONVERTIBLE DEBENTURES (continued)

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 \$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.

During the three months ended September 30, 2021, interest of \$nil was recorded in the equity portion of the convertible debt (June 30, 2021 - \$142,490).

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.

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19. CONVERTIBLE DEBENTURES (continued)

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 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 three months ended September 30, 2021, interest of \$14,625 was recorded in the equity portion of the convertible debt (June 30, 2021 - \$16,512).

20. SHARE CAPITAL

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

During the three months ended September 30, 2021, the Company had the following common share transactions:

- 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; and
- On August 1, 2021 and in connection with the exercise of stock-options by consultants, 200,000 common shares were issued at a price of \$0.25 per share.

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20. SHARE CAPITAL (continued)

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.
- 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.

Shares to be issued

During the year ended 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 and September 30, 2021, the value of shares to be issued amounted to \$923,590.

Contingently issuable shares

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

21. 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 September 30, 2021 are as follows:

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21. OPTIONS (continued)

	Options Outstanding	Weighted Average Exercise Price	Weighted Average Life Remaining (yrs)
Executive Officers	300,000	\$0.25	1.40
Directors	3,550,000	\$0.28	1.54
Consultants	1,250,000	\$0.39	1.56
	<u>5,100,000</u>		

Grant Date	Expiry Date	Options Outstanding	Options Exercisable	Exercise Price	Fair Value
Feb. 25, 2020 ⁽ⁱⁱⁱ⁾	Feb. 24, 2023	600,000	600,000	\$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 three months ended September 30, 2021 and in connection with stock options previously issued to consultants, stock options were exercised for the purchase of 200,000 common shares of the Company at an exercise price of \$0.25 per share for gross proceeds of \$50,000. As a result of this exercise, contributed surplus in the amount of \$25,959 was transferred to share capital.

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

There were no stock options issued during the three months ended September 30, 2021.

During the three months ended September 30, 2021, the Company expensed \$nil (September 30, 2020 - \$nil) of the fair value of the stock options.

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22. WARRANTS

	Warrants Outstanding	Weighted Average Exercise Price	Weighted Average Life Remaining (years)
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
Issued	3,379,379	0.45	2.00
Expired	-	-	-
September 30, 2021	18,968,879	0.40	1.21

During the three months ended September 30, 2021:

- The Company issued 3,379,379 common share purchase warrants in connection with a non-brokered private placement.
- No common share warrants were forfeited or cancelled.

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 three months ended September 30, 2021, the Company expensed \$1,920 (September 30, 2020 – \$117,598) in the fair value of warrants as a result of the issuances which have been recorded as share based compensation.

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23. COMMITMENTS

(a) 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 condensed interim consolidated financial statements.

(b) 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 of the Joint Forces Deposit amounted to \$300,071 as at September 30, 2021 (June 30, 2021 - \$300,814). The current portion of the Joint Forces Deposit as at September 30, 2021 amounted to \$224,567. Interest income in relation to the Joint Forces Deposit amounted to \$6,056 during the three months ended September 30, 2021 (September 30, 2020 – \$nil).

(c) 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.

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24. RELATED PARTY TRANSACTIONS

Related party transactions for the three months ended September 30, 2021 and 2020 and the balances as at those dates, not disclosed elsewhere in these condensed interim consolidated financial statements are:

- a) During the three months ended September 30, 2021, the Company expensed \$165,000 (September 30, 2020 - \$97,050), 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 September 30, 2021, the Company had fees payable to officers and directors of the Company of \$1,673,438 (June 30, 2021 - \$1,494,228); and
- b) During the three months ended September 30, 2021, the Company expensed \$nil (September 30, 2020 - \$559,846) in share based compensation related to officers and directors of the Company.

25. RESTRICTED CASH

Restricted cash relates a non-interest bearing amount held in an escrow account by the buyer of the Oregon Property (the “Escrow Account”). The amount held in the Escrow Account is restricted for the completion of the buildout of the Oregon Property (Note 8). During the three months ended September 30, 2021, there was no amount withdrawn from the Escrow Account. The balance as at September 30, 2021 amounted to \$1,022,019 (June 30, 2021 - \$nil).

26. 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.

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 condensed interim consolidated financial statements. The following analysis provides a measurement of risks as at September 30, 2021:

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26. FINANCIAL INSTRUMENTS AND RISK FACTORS (continued)

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 September 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.

(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.

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27. 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 September 30, 2021, the Company's shareholders' equity was \$6,375,605 (June 30, 2021 – \$6,492,208). 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.

28. COMPARATIVE AMOUNTS

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