



CordovaCann Corp.

Consolidated Financial Statements

For the Years Ended June 30, 2022, 2021 and 2020

(Expressed in Canadian Dollars)

NOTICE TO READER

This notice accompanies CordovaCann Corp.'s Audited Consolidated Financial Statements for the Years Ended June 30, 2022, 2021 and 2020 filed via SEDAR. The Independent Auditor's Report on the financial statements has been amended to include the reference to the audit of the comparative June 30, 2021 and 2020 periods. There have been no changes to the financial statements.

INDEX

| | Page |
|--|------|
| Report of Independent Registered Public Accounting Firms | 2-3 |
| Consolidated Statements of Financial Position | 4 |
| Consolidated Statements of Operations and Comprehensive Loss | 5 |
| Consolidated Statements of Changes in Equity | 6 |
| Consolidated Statements of Cash Flows | 7 |
| Notes to the Consolidated Financial Statements | 8-53 |



REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and Board of Directors of CordovaCann Corp.

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated statements of financial position of CordovaCann Corp. and subsidiaries (the "Company") as of June 30, 2022 and 2021, and the related consolidated statements of operations and comprehensive loss, changes in equity, and cash flows for each of the three years in the period ended June 30, 2022, and the related notes (collectively referred to as the "consolidated financial statements").

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as of June 30, 2022 and 2021, and the result of its operations and its cash flows for each of the three years in the period then ended June 30, 2022, in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Material Uncertainty Related to Going Concern

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

Basis for Opinion

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

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

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

Critical Audit Matters

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



Sale lease back – Oregon Property - Refer to Notes 11 to the financial statements

Critical Audit Matter Description

In August 2021, the Company sold its Oregon Property and entered into an agreement to lease the Oregon Property from the buyer. For the sale lease back transaction, both the seller-lessee and the buyer-lessor shall apply the requirements for determining when a performance obligation is satisfied in IFRS 15 to determine whether the transfer of the asset is accounted for as a sale of that asset. This assessment needs complex judgments from management.

We identified the Company's sale lease back of the Oregon Property as a critical audit matter because of the significant judgements made by management to determine whether the transfer of Oregon Property is accounted for as a sale of that asset or as a financing transaction. A high degree of auditor judgment and an increased extent of effort was required when performing audit procedures to assess if control of Oregon Property passes to the buyer-lessor to determine whether the performance obligation is satisfied in IFRS 15.

How the Critical Audit Matter Was Addressed in the Audit

Our audit procedures focused on assess if the buyer-lessor obtains the control of Oregon Property. The procedures included the following, among others:

- We obtained the purchase and sale agreement to assess if the buyer-lessor has the ability to direct the use of and obtain substantially all of the remaining benefits from the asset.
- We assess whether there is any agreement or option to repurchase the asset for the seller-lessee.
- We obtained and evaluated the lease agreement to assess if the lease should be classified as a finance or operating lease by the buyer-lessor.

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

Kreston GTA LLP

Chartered Professional Accountants

Licensed Public Accountants

Markham, Canada

October 27, 2022

CordovaCann Corp.
Consolidated Statements of Financial Position
(Expressed in Canadian Dollars)

| As at | June 30, 2022 | June 30, 2021 |
|---|---------------|---------------|
| | \$ | \$ |
| ASSETS | | |
| Current | | |
| Cash and cash equivalents | 714,826 | 1,058,494 |
| Restricted cash (Note 6) | 1,033,650 | - |
| Harmonized sales tax receivable | 42,650 | - |
| Accounts receivable | 81,303 | 7,924 |
| Prepaid expenses and deposits | 385,366 | 332,771 |
| Loan receivable (Note 7) | 128,860 | - |
| Inventory (Note 8) | 723,953 | 504,521 |
| Biological assets (Note 9) | - | 26,611 |
| Other deposit - current portion (Note 10) | 100,220 | 199,463 |
| Total current assets | 3,210,828 | 2,129,784 |
| Other deposit (Note 10) | - | 101,351 |
| Property and equipment, net (Note 11) | 3,439,705 | 6,059,622 |
| Right-of-use assets (Note 12) | 4,451,385 | 3,169,655 |
| Intangible assets (Note 13) | 5,243,967 | 5,243,967 |
| Licenses (Note 14) | 405,080 | 569,662 |
| Total assets | 16,750,965 | 17,274,041 |
| LIABILITIES | | |
| Current | | |
| Accounts payable and accrued liabilities | 3,557,172 | 3,326,171 |
| Harmonized sales tax payable | - | 98,916 |
| Mortgage payable (Note 15) | 824,852 | 1,566,067 |
| Consideration payable (Note 5 (c)) | - | 39,292 |
| Income taxes payable | 316,017 | 315,362 |
| Contract liability (Note 16) | 50,771 | 48,832 |
| Lease liability (Note 17) | 601,732 | 438,856 |
| Promissory notes payable (Note 18) | 345,442 | 1,017,772 |
| Total current liabilities | 5,695,986 | 6,851,268 |
| Deferred tax liability | 21,420 | 36,540 |
| Contract liability (Note 16) | 134,925 | 178,071 |
| Lease liability (Note 17) | 4,312,247 | 2,889,789 |
| Total liabilities | 10,164,578 | 9,955,668 |
| SHAREHOLDERS' EQUITY | | |
| Share capital (Note 19) | 30,475,107 | 26,145,146 |
| Shares to be issued (Note 19) | - | 923,590 |
| Share subscriptions received in advance (Note 19) | - | 647,296 |
| Contributed surplus | 8,036,990 | 7,844,814 |
| Equity portion of convertible debentures | 689,645 | 306,877 |
| Accumulated deficit | (33,410,321) | (29,453,390) |
| Accumulated other comprehensive income | 70,073 | 77,875 |
| Total shareholders' equity attributable to Cordova shareholders | 5,861,494 | 6,492,208 |
| Non-controlling interest | 724,893 | 826,165 |
| Total equity | 6,586,387 | 7,318,373 |
| Total liabilities and shareholders' equity | 16,750,965 | 17,274,041 |

Nature of operations and going concern (Note 1)
Commitments (Note 23)
Related party transactions (Note 24)
Subsequent events (Note 29)

Approved on behalf of the Board:

“Dale Rasmussen”, Director
(signed)

“Thomas M. Turner, Jr.”, Director
(signed)

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

CordovaCann Corp.

Consolidated Statements of Operations and Comprehensive Loss

For the Years Ended June 30, 2022, 2021 and 2020

(Expressed in Canadian Dollars)

| | 2022 | 2021 | 2020 |
|---|--------------------|-------------|-------------|
| | \$ | \$ | \$ |
| Revenue | 13,526,084 | 10,318,845 | 166,773 |
| Cost of sales | (9,798,408) | (6,826,605) | (106,742) |
| Gross profit | 3,727,676 | 3,492,240 | 60,031 |
| Expenses | | | |
| Consulting fees | 1,289,457 | 1,302,191 | 1,295,829 |
| Share based compensation (<i>Note 21, 22</i>) | 1,920 | 941,854 | 1,048,661 |
| Professional fees | 268,055 | 362,479 | 488,902 |
| Shareholders information services | 249,099 | 358,516 | 135,181 |
| Salaries and wages | 2,183,630 | 1,030,580 | 23,039 |
| Office and general | 1,145,361 | 749,522 | 211,309 |
| Depreciation (<i>Note 11</i>) | 345,188 | 383,476 | 5,768 |
| Amortization of right-of-use assets (<i>Note 12</i>) | 782,108 | 434,837 | 92,167 |
| Amortization of licenses (<i>Note 14</i>) | 164,582 | 141,249 | - |
| Leases and utilities | 470,996 | 344,576 | 67,800 |
| | 6,900,396 | 6,049,280 | 3,368,656 |
| Loss before other income (expense) | (3,172,720) | (2,557,040) | (3,308,625) |
| Interest expenses (<i>Note 15, 18, 20</i>) | (308,877) | (606,830) | (564,897) |
| Interest on lease liability (<i>Note 17</i>) | (531,768) | (223,798) | (46,171) |
| Accretion expense (<i>Note 18, 20</i>) | (61,319) | (184,410) | (249,518) |
| Loss on settlement of other investment | - | - | (184,440) |
| Impairment of assets (<i>Note 11</i>) | (211,774) | (664,543) | (16,316) |
| Gain on extinguishment of lease (<i>Note 12, 17</i>) | 29,635 | - | - |
| Foreign exchange gain (loss) | 186,372 | (307,673) | (56,225) |
| Gain (loss) on settlement | (99,635) | - | 51,023 |
| Loss on disposal of assets | - | (7,422) | - |
| Other income | 186,257 | 66,805 | 65,920 |
| Loss on deposit | - | - | (396,000) |
| Loss before income tax recovery (expense) | (3,983,829) | (4,484,911) | (4,705,249) |
| Current | (54,757) | (315,362) | - |
| Deferred | 15,120 | 13,759 | 54,349 |
| Net loss | (4,023,466) | (4,786,514) | (4,650,900) |
| Loss per share - basic and diluted | (0.04) | (0.06) | (0.10) |
| Weighted average number of outstanding common shares - basic and diluted | 100,632,038 | 81,683,228 | 45,424,867 |
| Net loss | (4,023,466) | (4,786,514) | (4,650,900) |
| Foreign exchange translation adjustment | (7,802) | 119,474 | (49,488) |
| Comprehensive loss | (4,031,268) | (4,667,040) | (4,700,388) |
| Net loss attributable to: | | | |
| CordovaCann Corp. | (3,956,931) | (5,154,605) | (4,588,889) |
| Non-controlling interests | (66,535) | 368,091 | (62,011) |
| Comprehensive loss attributable to: | | | |
| CordovaCann Corp. | (3,964,733) | (5,035,131) | (4,638,377) |
| Non-controlling interests | (66,535) | 368,091 | (62,011) |

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

CordovaCann Corp.

Consolidated Statements of Changes in Equity

For the Years Ended June 30, 2022, 2021 and 2020

(Expressed in Canadian Dollars)

| | 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, 2019 | 40,786,228 | 14,636,828 | 5,226,156 | 62,498 | - | - | - | (19,570,801) | 7,889 | - | 362,570 |
| Issuance of warrants | - | - | 631,336 | - | - | - | - | - | - | - | 631,336 |
| Issuance of options | - | - | 869,299 | - | - | - | - | - | - | - | 869,299 |
| Forfeiture of warrants | - | - | (451,976) | - | - | - | - | - | - | - | (451,976) |
| Equity portion of convertible debentures | - | - | 33,816 | 74,989 | - | - | - | - | - | - | 108,805 |
| Conversion of convertible debenture | 271,164 | 290,304 | - | (19,140) | - | - | - | - | - | - | 271,164 |
| Warrant portion of promissory note payable | - | - | 8,995 | - | - | - | - | - | - | - | 8,995 |
| Conversion of convertible debenture | - | - | - | (36,434) | - | - | - | - | - | - | (36,434) |
| Equity portion of convertible debentures | - | - | 415,010 | 748,990 | - | - | - | - | - | - | 1,164,000 |
| Interest on equity portion of convertible debentures | - | - | - | 32,010 | - | - | - | - | - | - | 32,010 |
| Issuance of shares for asset acquisition | 12,500,000 | 2,125,000 | - | - | - | - | - | - | - | - | 2,125,000 |
| Contingent consideration for asset acquisition | - | - | - | - | 3,570,000 | - | - | - | - | - | 3,570,000 |
| Shares issued as part of contingent consideration | 6,000,000 | 1,020,000 | - | - | (1,020,000) | - | - | - | - | - | - |
| Shares issued as part of settlement | 181,250 | 72,500 | - | - | - | - | - | - | - | - | 72,500 |
| Shares to be issued as part of contingent consideration | - | - | - | - | (510,000) | 510,000 | - | - | - | - | - |
| Common shares issued for private placement | 6,210,190 | 1,552,548 | - | - | - | - | - | - | - | - | 1,552,548 |
| Acquisition of 2734158 Ontario Inc. | - | - | - | - | - | - | - | - | - | 720,114 | 720,114 |
| Deduction of deferred tax liabilities | - | - | (22,854) | - | - | - | - | - | - | - | (22,854) |
| Foreign currency translation gain | - | - | - | - | - | - | - | - | (49,488) | - | (49,488) |
| Net loss for the year | - | - | - | - | - | - | - | (4,588,889) | - | (62,011) | (4,650,909) |
| 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 | 15,000,000 | 2,550,000 | - | - | (2,040,000) | (510,000) | - | - | - | - | - |
| Common shares issued for private placement | 9,202,242 | 2,944,716 | - | - | - | - | - | - | - | - | 2,944,716 |
| Issuance of warrants | - | - | 941,854 | - | - | - | - | - | - | - | 941,854 |
| Issuance of convertible debentures | - | - | 181,548 | 208,452 | - | - | - | - | - | - | 390,000 |
| Conversion of convertible debentures | - | - | - | (923,590) | - | 923,590 | - | - | - | - | - |
| Interest on convertible debentures | - | - | - | 159,102 | - | - | - | - | - | - | 159,102 |
| Acquisition of 2734158 Ontario Inc. additional NCI | - | - | - | - | - | - | - | (139,095) | - | (166,172) | (305,267) |
| Acquisition of 10062771 Manitoba Ltd. | - | - | - | - | - | - | - | - | - | 144,118 | 144,118 |
| Acquisition of Extraction Technologies, LLC | 3,000,000 | 953,250 | - | - | - | - | - | - | - | - | 953,250 |
| Dividend paid to NCI | - | - | - | - | - | - | - | - | - | (177,975) | (177,975) |
| Warrant portion of promissory note payable | - | - | 11,630 | - | - | - | - | - | - | - | 11,630 |
| Share subscriptions received in advance | - | - | - | - | - | - | 647,296 | - | - | - | 647,296 |
| Foreign currency translation adjustment | - | - | - | - | - | - | - | - | 119,474 | - | 119,474 |
| Net loss for the year | - | - | - | - | - | - | - | (5,154,605) | - | 368,091 | (4,786,514) |
| Balance, June 30, 2021 | 93,151,074 | 26,145,146 | 7,844,814 | 306,877 | - | 923,590 | 647,296 | (29,453,390) | 77,875 | 826,165 | 7,318,373 |
| Common shares issued for private placement | 3,379,379 | 1,013,814 | - | - | - | - | (647,296) | - | - | - | 366,518 |
| Exercise of options | 200,000 | 75,959 | (25,959) | - | - | - | - | - | - | - | 50,000 |
| Issuance of warrants | - | - | 1,920 | - | - | - | - | - | - | - | 1,920 |
| Interest on convertible debentures | - | - | - | 53,200 | - | - | - | - | - | - | 53,200 |
| Dividend paid to NCI | - | - | - | - | - | - | - | - | - | (34,737) | (34,737) |
| Shares issued as part of conversion of debentures | 5,354,400 | 923,590 | - | - | - | (923,590) | - | - | - | - | - |
| Exercise of warrants | 700,000 | 334,788 | (124,788) | - | - | - | - | - | - | - | 210,000 |
| Common shares issued for private placement | 6,718,000 | 1,981,810 | 122,436 | - | - | - | - | - | - | - | 2,104,246 |
| Refinancing of convertible debentures | - | - | 218,567 | 329,568 | - | - | - | - | - | - | 548,135 |
| Foreign currency translation adjustment | - | - | - | - | - | - | - | - | (7,802) | - | (7,802) |
| Net loss for the year | - | - | - | - | - | - | - | (3,956,931) | - | (66,535) | (4,023,466) |
| Balance, June 30, 2022 | 109,502,853 | 30,475,107 | 8,036,990 | 689,645 | - | - | - | (33,410,321) | 70,073 | 724,893 | 6,586,387 |

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

CordovaCann Corp.
Consolidated Statements of Cash Flows
For the Years Ended June 30, 2022, 2021 and 2020
(Expressed in Canadian Dollars)

| | 2022 | 2021 | 2020 |
|---|------------------|------------------|----------------|
| | \$ | \$ | \$ |
| Operating activities | | | |
| Net loss for the year | (4,023,466) | (4,786,514) | (4,650,900) |
| Adjusted for non-cash items: | | | |
| Shares issued on consulting agreement | - | - | 27,550 |
| Income taxes payable | 54,757 | 315,362 | - |
| Share based compensation | 1,920 | 941,854 | 1,048,661 |
| Amortization of right-of-use assets | 782,108 | 434,837 | 92,167 |
| Amortization of licenses | 164,582 | 141,249 | - |
| Gain on extinguishment of lease | (29,635) | - | - |
| Depreciation | 345,188 | 383,476 | 5,768 |
| Loss on deposit | - | - | 396,000 |
| Loss on settlement of other investment | - | - | 184,440 |
| Impairment of assets | 211,774 | 664,543 | 16,316 |
| Interest expense | 308,877 | 606,830 | 531,545 |
| Interest on lease liability | 531,768 | 223,798 | 46,171 |
| Deferred tax recovery | (15,120) | (13,759) | (54,349) |
| Loss on disposal | - | 7,422 | - |
| Gain (loss) on settlement | 99,635 | - | (51,023) |
| Accretion expense | 61,319 | 184,410 | 249,518 |
| Promissory note extension | - | 11,630 | - |
| Change in fair value of biological assets | - | (166,458) | - |
| Foreign exchange gain (loss) | (186,372) | 307,673 | - |
| Shares issued on settlement of fees | - | - | 140,680 |
| Changes in non-cash working capital items: | | | |
| Prepaid expenses and deposits | (52,595) | (183,031) | (188,674) |
| Accounts receivable | (73,379) | (5,750) | - |
| Inventory | (219,432) | (242,426) | (118,682) |
| Income taxes payable | (51,132) | - | - |
| Hamonized sales tax receivable | (172,295) | 126,035 | (27,118) |
| Contract liability | (41,207) | 226,903 | - |
| Accounts payable and accrued liabilities | 231,001 | 600,761 | 1,405,022 |
| Cash used in operating activities | (2,071,704) | (221,155) | (946,908) |
| Investing activities | | | |
| Additions to property and equipment | (661,636) | (740,995) | (145,587) |
| Proceeds from disposal of property and equipment | 2,726,680 | 38,538 | - |
| Repayment of deposit received | - | 96,587 | - |
| Acquisition of Manitoba | - | 2,059 | - |
| Acquisition of Extraction Tech | - | (2,266) | - |
| Acquisition of non-controlling interest shares | - | (265,975) | - |
| Cash provided by investing activities | 2,065,044 | (872,052) | (145,587) |
| Financing activities | | | |
| Issuance of mortgage payable | - | - | 34,929 |
| Issuance of convertible debentures | - | - | 457,111 |
| Repayment of convertible debentures | - | (30,000) | - |
| Repayment of promissory notes | (583,809) | (490,493) | - |
| Proceeds from issuance of promissory notes | 888,405 | - | - |
| Repayment of mortgage payable | (755,789) | (151,639) | - |
| Payment of lease liabilities | (985,192) | (501,365) | (91,034) |
| Proceeds from other deposit | - | - | - |
| Proceeds from share subscriptions received in advance | - | 647,296 | - |
| Proceeds from private placement | 1,981,810 | - | - |
| Proceeds from promissory note payable | - | - | (180,043) |
| Proceeds from the exercise of warrants | 210,000 | - | - |
| Payment of dividends to non-controlling interest shareholders | (34,737) | (177,975) | - |
| Proceeds from issuance of common shares | - | 2,275,534 | 1,411,680 |
| Cash provided by (used in) financing activities | 720,688 | 1,571,358 | 1,632,643 |
| Effect of exchange rate changes on cash | (24,046) | (67,396) | 35,742 |
| Net increase in cash and cash equivalents | 689,982 | 410,755 | 575,890 |
| Cash and cash equivalents, beginning of year | 1,058,494 | 647,739 | 71,849 |
| Cash and cash equivalents, end of year | 1,748,476 | 1,058,494 | 647,739 |
| Cash and cash equivalents consist of: | | | |
| Cash | 714,826 | 1,058,494 | 647,739 |
| Restricted cash | 1,033,650 | - | - |

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

CordovaCann Corp.

Notes to the Consolidated Financial Statements
For the Years Ended June 30, 2022, 2021 and 2020
(Expressed in Canadian Dollars)

1. NATURE OF OPERATIONS AND GOING CONCERN

CordovaCann Corp. (the “Company” or “CordovaCann” or “Cordova”) is headquartered in Toronto, Canada and specializes in identifying, funding, developing and managing operations throughout the cannabis value chain. The Company takes a holistic approach to working with its partners throughout North America to build a network of cannabis operations on its multi-jurisdictional platform. CordovaCann owns operations in the United States in Oregon and Washington and has built a chain of cannabis retail stores in Canada with locations in Ontario, Manitoba, Alberta and British Columbia. On January 3, 2018, the Company changed its name from LiveReel Media Corporation to CordovaCann Corp. The Company’s principal address is 217 Queen Street West, Suite 401, Toronto, Ontario, M5V 0R2.

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

These consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as promulgated by the International Accounting Standards Board (“IASB”) on a going concern basis which presumes the realization of assets and discharge of liabilities in the normal course of business for the foreseeable future. There is substantial doubt about the Company’s ability to continue as a going concern as the Company incurred a comprehensive loss of \$4,031,268 (June 30, 2021 – \$4,667,040) during the year ended June 30, 2022 and has a total accumulated deficit of \$33,512,137 (June 30, 2021 – \$29,453,390) as at June 30, 2022. 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. These consolidated financial statements do not include any adjustments related to the recoverability and classification of recorded asset amounts or the amount and classification of liabilities or any other adjustments that might be necessary should the Company be unable to continue as a going concern.

2. BASIS OF PREPARATION

(a) Statement of Compliance

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

These consolidated financial statements were authorized for issue by the Board of Directors on October 27, 2022.

CordovaCann Corp.

Notes to the Consolidated Financial Statements
For the Years Ended June 30, 2022, 2021 and 2020
(Expressed in Canadian Dollars)

2. BASIS OF PREPARATION (continued)

(b) Basis of Presentation

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

(c) Functional and Presentation Currency

These consolidated financial statements are presented in Canadian dollars. The functional currency of the Company and its subsidiaries are detailed in Note 2(e) below.

Translation of foreign-currency transactions

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

Translation of financial statements of subsidiaries

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

(d) Use of Estimates and Judgements

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

CordovaCann Corp.

Notes to the Consolidated Financial Statements
For the Years Ended June 30, 2022, 2021 and 2020
(Expressed in Canadian Dollars)

2. BASIS OF PREPARATION (continued)

(e) Basis of Consolidation

These 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 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 |

CordovaCann Corp.

Notes to the Consolidated Financial Statements
For the Years Ended June 30, 2022, 2021 and 2020
(Expressed in Canadian Dollars)

3. SIGNIFICANT ACCOUNTING POLICIES

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

Related party transactions

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

Cash and cash equivalents

Cash consists of bank balances and cash held in trust. Cash equivalents consist of short-term deposits with original maturities of three months or less. As at June 30, 2022 and 2021, there were no cash equivalents. Restricted cash includes funds that can only be used for a specific purpose and has restrictions on use.

Share-based payments

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

Compound financial instruments

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

If the conversion feature meets the fixed for fixed criteria, the conversion option will be classified as equity components. Equity instruments are instruments that evidence a residual interest in the assets of an entity after deducting all of its liabilities. Therefore, when the initial carrying amount of the compound financial instruments is allocated to its equity and liability components, the equity component is assigned the residual amount after deducting from the fair value of the instrument as a whole the amount separately determined for the liability component. The sum of the carrying amounts assigned to the liability and equity components

CordovaCann Corp.

Notes to the Consolidated Financial Statements
For the Years Ended June 30, 2022, 2021 and 2020
(Expressed in Canadian Dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Compound financial instruments (continued)

on initial recognition is always equal to the fair value that would be ascribed to the instrument as a whole. No gain or loss arises from initially recognizing the components of the instrument separately.

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

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

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

Financial instruments

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

Financial assets

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

CordovaCann Corp.

Notes to the Consolidated Financial Statements
For the Years Ended June 30, 2022, 2021 and 2020
(Expressed in Canadian Dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

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

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

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

Financial liabilities

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

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

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

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

CordovaCann Corp.

Notes to the Consolidated Financial Statements
For the Years Ended June 30, 2022, 2021 and 2020
(Expressed in Canadian Dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

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

Financial assets

| | |
|---------------------------|----------------|
| Cash and cash equivalents | Amortized cost |
| Accounts receivable | Amortized cost |
| Loan receivable | |
| Other deposit | Amortized cost |

Financial liabilities

| | |
|--|----------------|
| Accounts payable and accrued liabilities | Amortized cost |
| Mortgage payable | Amortized cost |
| Consideration payable | Amortized cost |
| Contract liability | Amortized cost |
| Promissory notes payable | Amortized cost |
| Lease liabilities | Amortized cost |

IFRS 9 uses an expected credit loss impairment model which is applicable to financial assets measured at amortized cost where any expected future credit losses are provided for, irrespective of whether a loss event has occurred as at the reporting date. For accounts receivable excluding taxes receivable, the Company utilized a provision matrix, as permitted under the simplified approach, and has measured the expected credit losses based on lifetime expected credit losses taking into consideration historical credit loss experience and financial factors specific to the debtors and other factors. The carrying amount of trade receivables is reduced for any expected credit losses through the use of an allowance account. Changes in the carrying amount of the allowance account are recognized in the statement of comprehensive income. At the point when the Company is satisfied that no recovery of the amount owing is possible, the amount is considered not recoverable and the financial asset is written off.

Impairment of long-lived assets

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

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

CordovaCann Corp.

Notes to the Consolidated Financial Statements
For the Years Ended June 30, 2022, 2021 and 2020
(Expressed in Canadian Dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Inventories

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

Revenue

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

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

Property and equipment, net

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

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

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

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

CordovaCann Corp.

Notes to the Consolidated Financial Statements

For the Years Ended June 30, 2022, 2021 and 2020

(Expressed in Canadian Dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Loss per share

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

Business combinations

A business combination is a transaction or event in which an acquirer obtains control of one or more businesses and is accounted for using the acquisition method. The total consideration paid for the acquisition is the aggregate of the fair values of assets given, liabilities incurred or assumed, and equity instruments issued in exchange for control of the acquiree at the acquisition date. The acquisition date is the date where the Company obtains control of the acquiree.

The identifiable assets acquired, and liabilities assumed are recognized at their acquisition date fair values, except for deferred taxes and share-based payment awards where IFRS provides exceptions to recording the amounts at fair value. Acquisition costs are expensed in statement of operations and comprehensive income (loss). Contingent consideration, if any, is measured at its acquisition date fair value and included as part of the consideration transferred in a business combination.

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

Non-controlling interest in the acquiree, if any, is recognized either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets, determined on an acquisition-by-acquisition basis. For each acquisition, the excess of total consideration, the fair value of previously held equity interest prior to obtaining control and the non-controlling interest in the acquiree, over the fair value of the identifiable net assets acquired or net liabilities assumed, is recorded as goodwill. Certain fair values may be estimated at the acquisition date pending confirmation or completion of the valuation process. Where provisional values are used in accounting for a business combination, they may be adjusted retrospectively in subsequent periods. The measurement period is the period from the acquisition date to the date complete information about facts and circumstances that existed as of the acquisition date is received. However, the measurement period does not exceed one year from the acquisition date.

CordovaCann Corp.

Notes to the Consolidated Financial Statements
For the Years Ended June 30, 2022, 2021 and 2020
(Expressed in Canadian Dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Goodwill

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

Equity

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

Intangible assets

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

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

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

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

CordovaCann Corp.

Notes to the Consolidated Financial Statements
For the Years Ended June 30, 2022, 2021 and 2020
(Expressed in Canadian Dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Income taxes

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

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

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

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

Leases

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

Right-of use assets

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

Lease obligations

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

CordovaCann Corp.

Notes to the Consolidated Financial Statements

For the Years Ended June 30, 2022, 2021 and 2020

(Expressed in Canadian Dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases (continued)

The Lease term determined by the Company comprises:

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

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

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

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

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

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

CordovaCann Corp.

Notes to the Consolidated Financial Statements
For the Years Ended June 30, 2022, 2021 and 2020
(Expressed in Canadian Dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases (continued)

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

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

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

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

Biological assets

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

New Accounting Pronouncements

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.

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, 2023. The Company is currently evaluating the potential impact of these amendments on the Company's consolidated financial statements.

CordovaCann Corp.

Notes to the Consolidated Financial Statements
For the Years Ended June 30, 2022, 2021 and 2020
(Expressed in Canadian Dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

New Accounting Pronouncements (continued)

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

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

Amendments to IFRS 9: Financial Instruments

As part of its 2018-2020 annual improvements to IFRS standards process, the IASB issued amendments to IFRS 9. The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other’s behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment. The amendment is effective for annual reporting periods beginning on or after January 1, 2022 with earlier adoption permitted. The Company is currently evaluating the potential impact of these amendments on the Company’s consolidated financial statements

Amendments to IAS 41: Agriculture

As part of its 2018-2020 annual improvements to IFRS standards process, the IASB issued amendments to IAS 41. The amendment removes the requirement in paragraph 22 of IAS 41 for entities to exclude taxation cash flow when measuring the fair value of a biological asset using a present value technique. This will ensure consistency with the requirements in IFRS 13. The amendment is effective for annual reporting periods beginning on or after January 1, 2022. The Company is currently evaluating the potential impact of these amendments on the Company’s consolidated financial statements.

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

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.

CordovaCann Corp.

Notes to the Consolidated Financial Statements
For the Years Ended June 30, 2022, 2021 and 2020
(Expressed in Canadian Dollars)

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Income taxes

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

Impairment of long-lived assets

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

Useful lives of depreciable assets

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

Valuation of biological assets and inventory

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

Share-based payment transactions

The Company measures the cost of equity-settled transactions with goods and services received by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value for share-based payment transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determining the most appropriate inputs to the valuation model including the expected life of the stock option, volatility and dividend yield and making assumptions about them. The assumptions and valuation models used for estimating fair value for share-based payment transactions are disclosed in Note 21 and Note 22.

CordovaCann Corp.

Notes to the Consolidated Financial Statements
For the Years Ended June 30, 2022, 2021 and 2020
(Expressed in Canadian Dollars)

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

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 the statement of operations and comprehensive loss.

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 that estimates 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.

Valuation of convertible debentures

Judgement is made on the initial recognition of convertible debentures and the appropriate allocation 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 Consolidated Financial Statements
For the Years Ended June 30, 2022, 2021 and 2020
(Expressed in Canadian Dollars)

5. ACQUISITIONS

During the year ended June 30, 2022, the Company did not complete any business combinations or asset acquisitions.

During the years ended June 30, 2021 and 2020, the Company completed the following business combinations and asset acquisitions:

a) *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 was considered a contingent consideration. During the year ended June 30, 2022, the conditions for the Earnout Payment were not met and accordingly, was not recognized.

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.

| | |
|----------------------------------|-----------|
| | \$ |
| 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 |

CordovaCann Corp.

Notes to the Consolidated Financial Statements
For the Years Ended June 30, 2022, 2021 and 2020
(Expressed in Canadian Dollars)

5. ACQUISITIONS (continued)

b) Acquisition of 10062771 Manitoba Ltd.

On December 1, 2020, the Company acquired 51% of the issued and outstanding shares of 10062771 Manitoba Ltd. (“Manitoba Ltd”), a Manitoba-based cannabis retail venture (the “Transaction”). Manitoba Ltd is considered to be a related party by virtue of a common officer and director. Per the terms of the Transaction, the Company acquired 51% of the issued and outstanding shares of Manitoba Ltd on a fully-diluted basis (the “Purchased Shares”). The consideration for the Purchased Shares was one hundred fifty thousand dollars (\$150,000) payable in cash on closing of the Transaction (the “Consideration”). In addition, Cordova 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.

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 |

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 |

CordovaCann Corp.

Notes to the Consolidated Financial Statements
For the Years Ended June 30, 2022, 2021 and 2020
(Expressed in Canadian Dollars)

5. ACQUISITIONS (continued)

c) 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.

| | |
|--|-----------------|
| 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 273 Ontario.

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 |

CordovaCann Corp.

Notes to the Consolidated Financial Statements
For the Years Ended June 30, 2022, 2021 and 2020
(Expressed in Canadian Dollars)

5. ACQUISITIONS (continued)

c) Acquisition of 2734158 Ontario Inc. (continued)

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.

During the year ended June 30, 2021, the Company paid \$72,539 on closing and the License Payment for total payments in the amount of \$265,975. During the year ended June 30, 2022, the Company paid the remaining \$39,292 outstanding. The total amount outstanding by the Company for the payment of the Additional Shares as at June 30, 2022 was \$nil (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 year ended June 30, 2022, 273 Ontario paid dividends in the amount of \$87,831. Of the \$87,831 paid, \$34,737 was paid to the non-controlling interest shareholders of 273 Ontario.

d) 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;

CordovaCann Corp.

Notes to the Consolidated Financial Statements
For the Years Ended June 30, 2022, 2021 and 2020
(Expressed in Canadian Dollars)

5. ACQUISITIONS (continued)

d) Acquisition of Star Buds International Inc. (continued)

- (iv) issued a three-year promissory note for \$527,967 with interest at 6% per annum payable upon maturity (the "Closing Promissory Note"). The fair value of the promissory notes was determined to be \$381,093 (Note 19 (e));
- (v) agreed to issue two additional three-year promissory notes in amounts \$222,500 and \$196,832 upon obtaining assignment of two specific leases to the Company. Such additional notes to have same terms as the Closing Promissory Note. The fair values of the promissory notes were determined to be \$160,603 and \$142,075 (Note 19 (e)).

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

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

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.

| | \$ |
|--|------------------------|
| 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 |
| | <hr/> 6,378,771 |
| Liabilities assumed | 55,000 |
| | <hr/> 6,433,771 |
| Amount allocated to: | |
| Leasehold improvements | 1,060,224 |
| Rental deposits | 129,580 |
| Star Buds trade name | 5,243,967 |
| | <hr/> 6,433,771 |

CordovaCann Corp.

Notes to the Consolidated Financial Statements
For the Years Ended June 30, 2022, 2021 and 2020
(Expressed in Canadian Dollars)

5. ACQUISITIONS (continued)

e) Acquisition of Cordova OR Operations, LLC

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

On August 4, 2021, OR Operations sold all of its land, building, and construction-in-progress (the “Oregon Property”) for \$2,726,680 (*Note 11*).

6. RESTRICTED CASH

Restricted cash relates to an amount held in an escrow account by the buyer of the Oregon Property (the “Escrow Account”). The amount held in the Escrow Account is non-interest bearing and restricted for the completion of the buildout of the Oregon Property (*Note 11*). During the year ended June 30, 2022, there was no amount withdrawn from the Escrow Account. The balance as at June 30, 2022 amounted to \$1,033,650 (US \$802,500) (2021 – \$nil).

7. LOAN RECEIVABLE

On June 27, 2022, the Company acquired the rights to purchase the assets (the “AuBio Assets”) of AuBio Labs, LLC (the “AuBio Transaction”). The consideration for the AuBio Transaction is \$902,020 (US \$700,000), of which, \$128,860 (US \$100,000) was provided on the closing date of the AuBio Transaction, with the remaining \$773,160 (US \$600,000) to be advanced in tranches of \$128,860 (US \$100,000) over four months post transaction and \$257,720 (US \$200,000) to be advanced on November 26, 2022 (the “AuBio Advances”). Upon advancing the final amount, the Company will have the option to convert the AuBio Advances into full ownership of the AuBio Assets.

As at June 30, 2022, the Company had only advanced \$128,860 (US \$100,000). Due to the short-term duration of the advance and the Company’s option of completing the AuBio Transaction, this has been reflected as a loan receivable amount.

As at June 30, 2022, the loan receivable amounted to \$128,860 (US \$100,000) (2021 - \$nil).

8. INVENTORY

The Company’s inventory includes purchased products and harvested cannabis plants. The Company’s cost of inventory during the year ended June 30, 2022 amounted to \$9,665,379 (2021 – \$7,119,894). Included in inventory, is the transfer of biological assets upon harvest amounted to \$212,878 (*Note 9*). The Company’s inventory as at June 30, 2022 amounted to \$723,953 (2021 – \$504,521).

CordovaCann Corp.

Notes to the Consolidated Financial Statements
For the Years Ended June 30, 2022, 2021 and 2020
(Expressed in Canadian Dollars)

9. BIOLOGICAL ASSETS

The biological assets of the Company consist of cannabis plants. The Company's cannabis operations are located in Clackamas County, Oregon. During the year ended June 30, 2022, the Company no longer had any plants growing. The composition of the biological assets for the year ended June 30, 2022 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 | 135,413 |
| Exchange realignment | (2,385) |
| Transferred to inventory upon harvest | (133,028) |
| Balance, June 30, 2022 | - |

Assumptions:

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

When determining the fair value of biological assets, the Company makes estimates and uses assumptions. Such assumptions include:

- Expected costs required to grow the cannabis plants up to the point of harvest;
- Estimated selling price per lb;
- Expected yield from cannabis plants; and
- Estimated stage of growth.

As at June 30, 2022, the Company no longer had any plants growing and accordingly, the value of the biological assets were valued at \$nil.

10. OTHER DEPOSIT

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 C (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 C. 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.

CordovaCann Corp.

Notes to the Consolidated Financial Statements
For the Years Ended June 30, 2022, 2021 and 2020
(Expressed in Canadian Dollars)

10. OTHER DEPOSIT (continued)

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 \$100,220 as at June 30, 2022 (2021 – \$300,814). The current portion of the Joint Forces Deposit as at June 30, 2022 amounted to \$100,220 (June 30, 2021 - \$199,463). Interest income in relation to the Joint Forces Deposit amounted to \$19,056 during the year ended June 30, 2022 (2021 – \$28,939).

11. 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) | (143,324) | - | (155,296) | (11,023) | - | - | (369,767) |
| Transfer | - | - | (1,833,653) | 1,833,653 | - | - | - | - |
| Impairment charge | (95,429) | (248,115) | - | (320,999) | - | - | - | (664,543) |
| As at June 30, 2021 | 806,750 | 2,062,251 | - | 2,820,066 | 318,457 | 115,595 | 315,613 | 6,438,734 |
| Additions | - | 24,311 | - | 505,062 | - | 36,384 | 95,879 | 661,636 |
| Disposals | (403,524) | (1,019,086) | - | (1,162,803) | - | - | - | (2,585,413) |
| Translation adjustment | - | (21,743) | - | - | - | - | - | (21,743) |
| Impairment charge | - | - | - | (211,774) | - | - | - | (211,774) |
| As at June 30, 2022 | 403,226 | 1,045,734 | - | 1,950,551 | 318,457 | 151,979 | 411,492 | 4,281,440 |
| 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 | - | (22,475) | - | (230,161) | (11,457) | (36,176) | (44,919) | (345,188) |
| Disposals | - | - | - | (22,570) | (34,047) | (10,764) | (50,054) | (117,435) |
| Translation adjustment | - | - | - | - | - | - | - | - |
| As at June 30, 2022 | - | (67,289) | - | (504,557) | (67,134) | (79,359) | (123,396) | (841,735) |
| 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 | 2,017,437 | - | 2,568,240 | 296,827 | 83,176 | 287,190 | 6,059,622 |
| At June 30, 2022 | 403,226 | 978,445 | - | 1,445,994 | 251,323 | 72,620 | 288,096 | 3,439,705 |

During the year ended June 30, 2022, the Company incurred a depreciation expense in the amount of \$345,188 (June 30, 2021 - \$383,476).

Oregon – Sale leaseback transaction

On August 4, 2021, the Company, through its wholly-owned subsidiary, Cordova OR Operations, LLC, 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.

CordovaCann Corp.

Notes to the Consolidated Financial Statements
For the Years Ended June 30, 2022, 2021 and 2020
(Expressed in Canadian Dollars)

11. PROPERTY AND EQUIPMENT, NET (continued)

Oregon – Sale leaseback transaction (continued)

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 6. 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 the carrying value of the assets, comprising of land, building and construction-in-progress. Accordingly, an impairment loss in the amount of \$664,543 was recorded during the year ended June 30, 2021. There was no impairment loss recorded in relation to the Oregon Property during the year ended June 30, 2022.

Leasehold improvements

Leasehold improvements include those acquired as part of the asset acquisition of Star Buds International Inc., as disclosed in Note 5(d) in the amount of \$1,060,224. During the year ended June 30, 2022, the Company incurred an impairment expense in the amount of \$211,774 related to these leasehold improvements (2021 – \$nil).

12. RIGHT-OF-USE ASSETS

| | \$ |
|-----------------------------------|------------------|
| 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 year | 2,227,188 |
| Depreciation for the year | (782,847) |
| Impairment of right of use assets | (183,693) |
| Foreign exchange translation | 21,082 |
| Balance, June 30, 2022 | 4,451,385 |

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

Included in additions during the year ended June 30, 2022 is the addition of the lease on the Oregon Property in connection with a sale-leaseback transaction, as further described in Note 11.

During the year ended June 30, 2022, an existing long-term lease was cancelled. Accordingly, impairment of right of use assets was recorded of \$183,693 along with a forgiveness of lease liability in the amount of \$213,328. A net gain on extinguishment of \$29,635 was recorded in the consolidated statements of operations and comprehensive loss.

CordovaCann Corp.

Notes to the Consolidated Financial Statements
For the Years Ended June 30, 2022, 2021 and 2020
(Expressed in Canadian Dollars)

13. INTANGIBLE ASSETS

The Company's intangible assets relates to the brand name acquired from Star Buds International Inc. (*Note 5 (d)*). As this intangible asset was determined to be an indefinite life intangible asset, no amortization was recorded during the years ended June 30, 2022 and 2021.

No impairment was recorded in relation to the intangible asset – Star Buds trade name during the years ended June 30, 2022 and 2021.

14. LICENSES

| | \$ |
|--|------------------|
| Cost | |
| As at June 30, 2020 | 542,912 |
| Acquisition of a subsidiary (<i>Note 11</i>) | 167,999 |
| As at June 30, 2021 | 710,911 |
| Additions (disposals) | - |
| As at June 30, 2022 | 710,911 |
| Accumulated amortization | |
| As at June 30, 2020 | - |
| Amortization | (141,249) |
| As at June 30, 2021 | (141,249) |
| Amortization | (164,582) |
| As at June 30, 2022 | (305,831) |
| Net book value (\$) | |
| As at June 30, 2021 | 569,662 |
| As at June 30, 2022 | 405,080 |

During the year ended June 30, 2022, amortization expense in relation to these licenses amounted to \$164,582 (June 30, 2021 – \$141,249).

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.

CordovaCann Corp.

Notes to the Consolidated Financial Statements
For the Years Ended June 30, 2022, 2021 and 2020
(Expressed in Canadian Dollars)

15. MORTGAGE PAYABLE (continued)

Oregon Mortgage (continued)

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 sale of the Oregon Property (Note 11).

Oregon Mortgage as at June 30, 2022 amounted \$nil (June 30, 2021 – \$755,789). Total interest expense in relation to the Oregon Mortgage for the year ended June 30, 2022 amounted to \$nil (June 30, 2021 – \$146,672).

Washington Mortgage

On February 26, 2021, the Company completed the Washington Acquisition (Note 12) and assumed a mortgage payable in the amount of \$829,305 (US \$653,768) (the “Washington Mortgage”). The Washington 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, 2022. The Washington Mortgage bears interest at 12.5%, payable monthly, and secured by a first charge on the property acquired as part of the Washington Acquisition.

As at June 30, 2022, the amount outstanding under the Washington Mortgage amounted to \$824,852 (2021 – \$810,278). Total interest expense in relation to the Washington Mortgage amounted to \$102,907 during the year ended June 30, 2022 (2021 – \$43,675).

16. 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 \$185,696 (June 30, 2021 - \$226,903). Details of the Company’s contract liability is noted as follows:

| | | June 30, 2022 | June 30, 2021 |
|--|----|--------------------------|------------------|
| Opening balance | \$ | 226,903 | \$ - |
| Additions | | - | 244,133 |
| Changes in exchange rates | | 8,123 | - |
| Revenue recognized from contract liability | | (49,330) | (17,230) |
| Ending balance | \$ | 185,696 | \$ 226,903 |
| Current portion | \$ | 50,771 | \$ 48,832 |
| Long-term portion | | 134,925 | 178,071 |

CordovaCann Corp.

Notes to the Consolidated Financial Statements
For the Years Ended June 30, 2022, 2021 and 2020
(Expressed in Canadian Dollars)

17. LEASE LIABILITY

The following table represents the lease obligations for the Company as at June 30, 2022:

| | \$ |
|---------------------------------------|------------------|
| 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 | 532,773 |
| Lease payments | (985,192) |
| Extinguishment of the lease liability | (213,328) |
| Foreign exchange translation | 23,893 |
| Balance, June 30, 2022 | 4,913,979 |

Allocated as:

| | June 30, 2022 | June 30, 2021 |
|--------------|------------------|------------------|
| | \$ | \$ |
| Current | 601,732 | 438,856 |
| Long-term | 4,312,247 | 2,889,789 |
| Total | 4,913,979 | 3,328,645 |

The following table presents the contractual undiscounted cash flows for lease obligations as at June 30, 2022:

| | June 30, 2022 |
|--|------------------|
| | \$ |
| Less than one year | 1,090,103 |
| One to five years | 3,867,127 |
| More than five years | 2,133,198 |
| Total undiscounted lease obligation | 7,090,428 |

The Company has a lease with a term less than 12 months and recorded \$173,667, respectively (2021 – \$32,479) of rent expense attributed to short-term leases during the year ended June 30, 2022.

CordovaCann Corp.

Notes to the Consolidated Financial Statements
For the Years Ended June 30, 2022, 2021 and 2020
(Expressed in Canadian Dollars)

18. 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. 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.

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.

The Company repaid Promissory Note A and accrued interest during the years ended June 30, 2022 and 2021

As at June 30, 2022, \$nil was outstanding under Promissory Note A (2021 – \$44,732). Interest expense of \$317 (June 30, 2021 - \$7,149) was recorded for the year ended June 30, 2022.

Promissory Note B – June 19, 2019

On June 19, 2019, the Company issued secured promissory notes (the “Promissory Note B”) in the aggregate principal amount of \$654,350 (US \$500,000). The Promissory Note B matured on December 18, 2019 and bears interest at a rate of 15% per annum, accrued monthly and due at maturity. The Promissory Note B 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 B, 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 B 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 B, net of the warrant component, has been accreted using the effective interest rate method over the term of the Promissory Note B, such that the carrying amount of the financial liability will equal the principal balance at maturity.

CordovaCann Corp.

Notes to the Consolidated Financial Statements
For the Years Ended June 30, 2022, 2021 and 2020
(Expressed in Canadian Dollars)

18. PROMISSORY NOTES PAYABLE (continued)

Promissory Note B – June 19, 2019 (continued)

On December 16, 2019, the Company extended the maturity date of the Promissory Note B 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 B, 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 B, 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 B 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 B 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 B 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 B, 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 B, such that the carrying amount of the financial liability will equal the principal balance at maturity.

The Company repaid Promissory Note B during the year ended June 30, 2022.

As at June 30, 2022, the value of the Promissory Note B amounted to \$nil (June 30, 2021 - \$477,672). Accretion expense of \$nil (June 30, 2021 - \$11,536; June 30, 2020 - \$22,671) and interest expense of \$nil (June 30, 2021 - \$179,720; June 30, 2020 - \$131,893) was recorded for the year ended June 30, 2022.

Promissory Note C – April 8, 2020

On April 28, 2020, the Company issued a promissory note (the “Promissory Note C-1”) in the principal amount of \$527,967. The Promissory Note C-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 C-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.

CordovaCann Corp.

Notes to the Consolidated Financial Statements

For the Years Ended June 30, 2022, 2021 and 2020

(Expressed in Canadian Dollars)

18. PROMISSORY NOTES PAYABLE (continued)

On June 8, 2020, the Company issued a promissory note (the “Promissory Note C-2”) in the principal amount of \$225,000 . The Promissory Note C-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 C-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.

On June 8, 2020, the Company issued a promissory note (the “Promissory Note C-3”) in the principal amount of \$196,832. The Promissory Note C-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 C-3 was determined by discounting the stream of future payments of interest and principal at a market interest rate of 19% which is estimated to be the borrowing rate available to the Company for similar instruments of debt.

As at June 30, 2022, the value of these promissory notes amounted to \$345,442 (June 30, 2021 – \$491,175). Interest and accretion in the amount of \$61,319 and \$20,971, respectively (June 30, 2021 – \$95,832 and \$35,007, respectively; June 30, 2020 – \$60,597 and \$7,970, respectively).

Demand Notes – Year Ended June 30, 2022

During the year ended June 30, 2022, the Company issued short-term promissory notes (the “Demand Notes”) to certain arm's-length parties. The aggregate amount of Demand Notes issued during the year ended June 30, 2022 amounted to \$902,020 (US \$700,000). \$515,440 (US \$400,000) was repaid in cash while the remaining \$390,000 (US \$300,000) (Note 20 (e)) was settled into convertible debentures. The total interest and administrative fees charged in relation to these Demand Notes during the year ended June 30, 2022 amounted to \$133,283 (US \$100,000) (2021 – \$nil).

CordovaCann Corp.

Notes to the Consolidated Financial Statements
For the Years Ended June 30, 2022, 2021 and 2020
(Expressed in Canadian Dollars)

19. SHARE CAPITAL

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

During the year ended June 30, 2022, the Company had the following common share transactions:

- On April 21, 2022, the Company closed a non-brokered private placement financing, pursuant to which the Company issued 6,718,000 units at a price of \$0.31 per unit for gross proceeds of \$2,104,246 (US \$1,679,500); of which \$1,891,879 (US \$1,510,000) was received in cash and \$212,367 (US \$169,500) was issued in settlement of outstanding fees and debt. Each unit is comprised of one common share of the Company and one warrant that entitles the holder to purchase one share of the Company at a price of \$1.25 per share for a period of two years from the date of issuance. \$122,436 was allocated to warrants;
- On February 26, 2022 and in connection with the exercise of share purchase warrants, 700,000 common shares were issued at a price of \$0.30 per share for aggregate proceeds of \$210,000. In relation to this exercise, 124,788 was transferred from contributed surplus to share capital;
- On December 17, 2021 and in connection with the automatic conversion of shares relating to Convertible Debentures Series A-3, 5,354,400 common shares were issued. \$923,590 was transferred from shares to be issued to share capital;
- 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, which included \$97,500 which was outstanding to a director of the Company. These units were comprised of a common share and a share purchase warrant exercisable at \$0.45 per share for a period of 24 months from the date of issuance; 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. As a result of this exercise, \$25,959 was transferred from contributed surplus to share capital.

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 5);
- 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.

CordovaCann Corp.

Notes to the Consolidated Financial Statements
For the Years Ended June 30, 2022, 2021 and 2020
(Expressed in Canadian Dollars)

19. SHARE CAPITAL (continued)

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. On December 17, 2021, these common shares were issued.

As at June 30, 2022, the value of shares to be issued amounted to \$nil (June 30, 2021 – \$923,590).

Contingently issuable shares

As at June 30, 2022 there were nil (2021 - 4,000,000) contingently issuable shares of the Company in relation to the Washington Acquisition (Note 5).

Shares 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. This non-brokered private placement closed on August 19, 2021, as noted above.

20. 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.

CordovaCann Corp.

Notes to the Consolidated Financial Statements
For the Years Ended June 30, 2022, 2021 and 2020
(Expressed in Canadian Dollars)

20. CONVERTIBLE DEBENTURES (continued)

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

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

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

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

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.

CordovaCann Corp.

Notes to the Consolidated Financial Statements

For the Years Ended June 30, 2022, 2021 and 2020

(Expressed in Canadian Dollars)

20. CONVERTIBLE DEBENTURES (continued)

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 loss of \$1,614, for total transfer of \$761,000 were transferred to Convertible Debentures Series A-3. The total amount of interest and accretion amounted to \$49,614 and \$33,454, respectively. The Company recorded deferred tax recovery of \$28,833 for the year ended June 30, 2020.

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

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

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

CordovaCann Corp.

Notes to the Consolidated Financial Statements
For the Years Ended June 30, 2022, 2021 and 2020
(Expressed in Canadian Dollars)

20. CONVERTIBLE DEBENTURES (continued)

On April 24, 2021, the Company elected to automatically convert the Debentures of Series A-3 (Note 20).

During the year ended June 30, 2022, interest of \$nil was recorded in the equity portion of the convertible debt (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.

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.

On May 31, 2022, the Debenture Units of Series A-4 were converted into the Convertible Debentures Series A-5 offering. The principal amount of \$390,000, the accrued interest of \$58,500 were transferred to Convertible Debentures Series A-5. As a result of the transfer, a loss in the amount of \$99,635 was recorded.

During the year ended June 30, 2022, interest of \$45,762 was recorded in the equity portion of the convertible debt (2021 - \$16,512).

CordovaCann Corp.

Notes to the Consolidated Financial Statements
For the Years Ended June 30, 2022, 2021 and 2020
(Expressed in Canadian Dollars)

20. CONVERTIBLE DEBENTURES (continued)

e) *Convertible Debentures Series A-5 – May 31, 2022*

On May 31, 2022, the Company closed a non-brokered private placement of unsecured subordinated convertible debenture units (the “Debenture Units of Series A-5”) of the Company for gross proceeds of \$897,000.

Each Debenture Unit of Series A-5 consists of \$1,000 principal amount of unsecured subordinated convertible debentures (the “Debentures of Series A-5”) and 1,000 common share purchase warrants (the “Warrants of Series A-5”) of the Company. The Debentures of Series A-5 mature on May 31, 2023 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-5 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 \$0.36 per share. The Company also has the option to force conversion of the Debentures of Series A-5 and any accrued interest at the same conversion price if the Company’s common shares trade above \$1.00 per share for ten consecutive trading days on the Canadian Securities Exchange. Furthermore, the Debentures of Series A-5 and accrued interest shall automatically convert into common shares of the Company at maturity. Each full Warrant of Series A-5 entitles the holder to purchase one common share of the Company until May 31, 2023 at an exercise price of \$1.25 per share.

Prior to closing of the Offering, the Company exercised its rights of repayment in respect of the Convertible Debentures of Series A-4 of the Company issued on March 12, 2021 and, in connection with its election for early repayment, holders of the Convertible Debentures of Series A-4 directed the Company to retain the funds representing repayment and to apply such funds towards satisfaction of the purchase price for the respective Debenture of Series A-5. The Company issued an aggregate of \$488,500 worth of Debenture Units to the subscribers of the Debentures of Series A-4. The remaining \$448,500 pertained to a settlement of outstanding Demand Loans (Note 18) in the amount of \$390,000 (US \$300,000) and \$58,500 (US \$45,000) of interest.

The Debenture Units of Series A-5 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 \$897,000 was allocated to the equity portion of convertible debt and warrants based on their pro-rata fair values of \$678,433 and \$218,567, respectively. The interest expense related to the Debenture Units of Series A-5 are added to the equity portion of convertible debt as accrued.

During the year ended June 30, 2022, interest of \$11,212 was recorded in the equity portion of the convertible debt (2021 - \$nil).

CordovaCann Corp.

Notes to the Consolidated Financial Statements
For the Years Ended June 30, 2022, 2021 and 2020
(Expressed in Canadian Dollars)

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 June 30, 2022 are as follows:

| | Options Outstanding | Weighted Average Exercise Price | Weighted Average Life Remaining (yrs) |
|--------------------|------------------------|------------------------------------|---|
| Executive Officers | 300,000 | \$0.25 | 0.65 |
| Directors | 3,550,000 | \$0.28 | 0.79 |
| Consultants | 1,250,000 | \$0.41 | 0.83 |
| | 5,100,000 | | |

| 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 |

CordovaCann Corp.

Notes to the Consolidated Financial Statements
For the Years Ended June 30, 2022, 2021 and 2020
(Expressed in Canadian Dollars)

21. OPTIONS (continued)

There were no stock options issued during the year ended June 30, 2022 and year ended June 30, 2021.

During the year ended June 30, 2022 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.

During the year ended June 30, 2022, the Company expensed \$nil (June 30, 2021 - \$nil; June 30, 2020 - \$869,299) of the fair value of the stock options.

22. WARRANTS

| | <u>Warrants Outstanding</u> | | <u>Weighted Average Exercise Price</u> | <u>Weighted Average Life Remaining (years)</u> |
|----------------------|---------------------------------|-----------|--|--|
| 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 | 10,097,379 | | 0.98 | 2.00 |
| Exercised | (700,000) | | 0.30 | 0.16 |
| Expired | (3,309,500) | | 0.48 | - |
| June 30, 2022 | 21,677,379 | \$ | 0.65 | 1.00 |

During the year ended June 30, 2022:

- The Company issued 6,718,000 common share purchase warrants in connection with a non-brokered convertible debenture offering (Note 19);
- The Company issued 3,379,379 common share purchase warrants in connection with a non-brokered private placement (Note 19);
- 700,000 common share purchase warrants were exercised (Note 19);
- 3,309,500 common share purchase warrants expired, unexercised; and
- No common share purchase warrants were forfeited or cancelled.

During the year ended June 30, 2021:

- the Company issued 6,790,000 common share purchase warrants 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 purchase warrants were forfeited or cancelled.

CordovaCann Corp.

Notes to the Consolidated Financial Statements
For the Years Ended June 30, 2022, 2021 and 2020
(Expressed in Canadian Dollars)

22. WARRANTS (continued)

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

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

During the year ended June 30, 2022, the Company expensed \$1,920 (June 30, 2021 – \$941,854; June 30, 2020 – \$179,362), in the fair value of warrants as a result of the issuances which have been recorded as share based compensation.

23. COMMITMENTS

(a) Employment Agreements

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

(b) 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 have caused material disruption to businesses globally resulting in an economic slowdown. The COVID-19 pandemic has impacted revenue in the Canadian consumer market, as governments have imposed retail access restrictions to curbside pickup at points during the pandemic, and have changed their purchasing patterns to reflect the slow-down in the market. The sale of consumer cannabis has been recognized as an essential service across Canada. All of the Company’s facilities in Canada and the United States continue to be operational and the Company continues to work closely with local, national and international government authorities to ensure that the Company is following the required protocols and guidelines related to COVID-19 within each region.

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. The effects of any such changes could be material, which could result in, among other things, impairment of long-lived assets. The Company is closely monitoring the impact of COVID-19 on all aspects of its business.

CordovaCann Corp.

Notes to the Consolidated Financial Statements
For the Years Ended June 30, 2022, 2021 and 2020
(Expressed in Canadian Dollars)

24. RELATED PARTY TRANSACTIONS

Related party transactions as at and for the year ended June 30, 2022, 2021 and 2020 and the balances as at those dates, not disclosed elsewhere in these consolidated financial statements are as follows:

- a) During the year ended June 30, 2022, the Company expensed \$669,000 (June 30, 2021 – \$842,500; June 30, 2020 - \$662,284), in fees payable to officers and directors of the Company and in fees payable to a corporation related by virtue of a common officer and director. As at June 30, 2022, the Company had fees payable to officers and directors of the Company of \$1,879,125 (June 30, 2021 – \$1,859,567); and
- b) During the year ended June 30, 2022, the Company expensed \$nil (June 30, 2021 - \$740,200; June 30, 2020 - \$559,846) in share based compensation related to officers and directors of the Company.

25. 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, restricted cash, accounts receivable, promissory notes payable, mortgage payable and accounts payable and accrued liabilities approximate their carrying value due to the relatively short-term maturities of these instruments.

Risk Management Policies

The Company, through its financial assets and liabilities, is exposed to various risks. The Company has established policies and procedures to manage these risks, with the objective of minimizing any adverse effect that changes in these variables could have on these consolidated financial statements. The following analysis provides a measurement of risks as at June 30, 2022:

CordovaCann Corp.

Notes to the Consolidated Financial Statements
For the Years Ended June 30, 2022, 2021 and 2020
(Expressed in Canadian Dollars)

25. 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 June 30, 2022, 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, 2022, 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 investments in other listed public companies, and therefore it is not subject to any significant stock market price risk.

CordovaCann Corp.

Notes to the Consolidated Financial Statements
For the Years Ended June 30, 2022, 2021 and 2020
(Expressed in Canadian Dollars)

26. CAPITAL MANAGEMENT

The Company's definition of capital includes all components of shareholders' equity excluding non-controlling interest. As at June 30, 2022, the Company's capital amounted to \$5,861,494 (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 short-term and long-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.

27. INCOME TAXES

Canadian

Income Taxes

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

| | <u>June 30,</u> <u>2022</u> | <u>June 30,</u> <u>2021</u> | <u>June 30,</u> <u>2020</u> |
|---|--------------------------------|--------------------------------|--------------------------------|
| Loss from Canadian operations | \$ (3,352,945) | \$ (3,533,381) | \$ (4,254,121) |
| Combined Canadian statutory income tax rates | <u>26.50%</u> | <u>26.50%</u> | <u>26.50%</u> |
| Income tax recovery at statutory income tax rates | \$ (880,530) | \$ (936,346) | \$ (1,127,342) |
| Increase in taxes resulting from: | | | |
| Stock-based compensation expense | 509 | 249,951 | 277,895 |
| Other | 97,998 | 151,821 | 122,137 |
| Unrecognized benefit of non-capital losses | <u>829,661</u> | <u>836,177</u> | <u>672,781</u> |
| Provision for income taxes, net of (recovery) | <u>\$ 39,637</u> | <u>\$ 301,603</u> | <u>\$ (54,349)</u> |

Deferred Income Taxes

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

| | <u>June 30,</u> <u>2022</u> | <u>June 30,</u> <u>2021</u> | <u>June 30,</u> <u>2020</u> |
|--|--------------------------------|--------------------------------|--------------------------------|
| Amounts related to tax loss carry forwards | 16,836,000 | 13,857,000 | 11,898,000 |

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

CordovaCann Corp.

Notes to the Consolidated Financial Statements
For the Years Ended June 30, 2022, 2021 and 2020
(Expressed in Canadian Dollars)

27. INCOME TAXES (continued)

| Deferred Tax Liabilities | June 30, 2022 | June 30, 2021 |
|---------------------------------|----------------------|----------------------|
| Licenses | \$ 21,420 | \$36,540 |

Non-capital Losses

As at June 30, 2022, the Company has accumulated non-capital tax loss carry forwards for income tax purposes of carry-forward of approximately \$16,836,000 which may be applied against future Canadian taxable income and expire as detailed below. No deferred taxes have been recognized in these consolidated financial statements in respect of the following as the probability that future taxable profit will allow the deferred tax asset to be recognized cannot be predicted at this time.

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

| | |
|------|----------------------|
| 2027 | 536,000 |
| 2028 | 868,000 |
| 2029 | 1,047,000 |
| 2030 | 627,000 |
| 2031 | 251,000 |
| 2032 | 161,000 |
| 2033 | 52,000 |
| 2034 | 115,000 |
| 2035 | 177,000 |
| 2036 | 74,000 |
| 2037 | 88,000 |
| 2038 | 1,399,000 |
| 2039 | 3,602,000 |
| 2040 | 2,901,000 |
| 2041 | 1,959,000 |
| 2042 | 2,979,000 |
| | <u>\$ 16,836,000</u> |

CordovaCann Corp.

Notes to the Consolidated Financial Statements
For the Years Ended June 30, 2022, 2021 and 2020
(Expressed in Canadian Dollars)

27. INCOME TAXES (continued)

United States

Income Taxes

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

| | June 30, 2022 | June 30, 2021 | June 30, 2020 |
|--|---------------|---------------|---------------|
| | \$ | \$ | \$ |
| Loss from US operations | (636,005) | (951,531) | (420,578) |
| Combined federal and state level taxes | 28.15% | 27.79% | 29.71% |
| Expected income tax payable | (179,035) | (264,430) | (124,941) |
| Temporary difference, Equipment | 147,255 | 200,620.00 | — |
| Other | 16,311 | 42,348.00 | - |
| Unrecognized benefit of non-capital losses | 15,469 | 106,158 | 124,941 |
| Provision for income taxes | - | - | - |

Deferred Income Taxes

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

| | June 30, 2022 | June 30, 2021 | June 30, 2020 |
|--|------------------|------------------|------------------|
| Amounts related to tax loss carry forwards | 1,618,000 | 1,581,000 | 1,199,000 |

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

Non-capital Losses

As at June 30, 2022, the Company has accumulated non-capital tax loss carry forwards for income tax purposes of carry-forward of approximately \$1,618,000 which may be applied against future United States taxable income and expire as detailed below.

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

| | |
|------|---------------------|
| 2038 | \$ 144,000 |
| 2039 | 634,000 |
| 2040 | 421,000 |
| 2041 | 382,000 |
| 2042 | 37,000 |
| | <u>\$ 1,618,000</u> |

CordovaCann Corp.

Notes to the Consolidated Financial Statements
For the Years Ended June 30, 2022, 2021 and 2020
(Expressed in Canadian Dollars)

28. COMPARATIVE AMOUNTS

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

29. SUBSEQUENT EVENTS

Subsequent to the year ended June 30, 2022, the Company issued short-term promissory notes to certain arm's-length parties. The aggregate amount of these promissory notes amounted to \$773,160 (US \$600,000). Of these \$773,160 (US \$600,000) issued promissory notes, \$257,720 (US \$200,000) has been repaid.