



**CordovaCann Corp.**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**FOR THE YEAR ENDED JUNE 30, 2023**

Prepared as at October 30, 2023

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# **CordovaCann Corp.**

Management's Discussion and Analysis

For the Year Ended June 30, 2023

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## **Management's Discussion and Analysis**

The following discussion and analysis by management of the financial results and condition of CordovaCann Corp. for the year ended June 30, 2023 should be read in conjunction with the annual audited consolidated financial statements for the year ended June 30, 2023. The Company's financial statements and the financial information herein have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB") and the interpretations of the IFRS Interpretations Committee ("IFRIC").

All dollars referred to herein are expressed in Canadian dollars except where indicated otherwise.

This management discussion and analysis is prepared by management as at October 30, 2023.

In this report, the words "us", "we", "our", the "Company" and "CordovaCann" have the same meaning unless otherwise stated and refer to CordovaCann Corp. and its subsidiaries.

## **Forward Looking Statements**

Certain statements contained in this report are forward-looking statements. All statements, other than statements of historical facts, included herein or incorporated by reference herein, including without limitation, statements regarding the Company's business strategy, plans and objectives of management for future operations and those statements preceded by, followed by or that otherwise include the words "believe", "expects", "anticipates", "intends", "estimates" or similar expressions or variations on such expressions are forward-looking statements. We can give no assurances that such forward-looking statements will prove to be correct.

Each forward-looking statement reflects the Company's current view of future events and is subject to risks, uncertainties and other factors that could cause actual results to differ materially from any results expressed or implied by the Company's forward-looking statements.

Risks and uncertainties include, but are not limited to:

- lack of substantial operating history;
- the impact of competition; and
- the enforceability of legal rights.

Important factors that could cause the actual results to differ from materially from the Company's expectations are disclosed in more detail set forth under the heading "Risk Factors" above. The Company's forward-looking statements are expressly qualified in their entirety by this cautionary statement.

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## Overview

### Business Overview

CordovaCann Corp. (formerly, LiveReel Media Corporation) (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 and Manitoba. 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 (the “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”.

The Company has the following three-pronged strategy to approach the cannabis marketplace:

#### *Retail*

The Company’s retail business in Canada now has 11 stores across two provinces and it is looking to establish a footprint in the United States. The Company’s current stores have compelling store unit economics, where stores are quickly profitable and have an investment payback of twelve months or less after opening. Cordova primarily targets markets where the stores become part of the fabric of the communities around them, thus creating a loyal customer base for its stores. Over fiscal 2023, the Company took steps to close down unprofitable stores and is focusing on growing in profitable markets going forward. The Company continues to pursue successful one-off retailers and small chains at valuations that are very accretive to the base.

#### *White Label Manufacturing*

The Company is focused on establishing white-label manufacturing of cannabis products to aid in the geographic proliferation of strong cannabis brands. Cordova plans on partnering with the best brands in its jurisdictions to lower the cost of production and accelerate the time to additional markets. Outsourcing manufacturing allows brands to focus on increasing audience size and share, while still dictating the production process. Cordova plans to attract these brands via its geographically diversified production facilities, which will enable brands to enter multiple new states at once.

#### *Niche Cannabis Brands*

The third key sector of focus for Cordova is developing or acquiring niche brands that have cult-like followings that can be introduced to new markets. Although most significant cannabis brands have been born on the west coast, they have neglected the opportunity to expand geographically. The potential to create national brands is expected to accelerate with the anticipated upcoming federal legalization and Cordova has the ability to leverage investments in white label manufacturing and larger retail chains to drive brand awareness and increase brand profitability.

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## **Key Transaction Summaries**

### *Summary of Investment in 2734158 Ontario Inc.*

On May 19, 2020, the Company completed the purchase of its initial stake of 2734158 Ontario Inc. ("273"), an arm's length Ontario-based cannabis retail venture (the "Ontario Transaction"). Cordova invested seven hundred twenty-three thousand dollars (\$723,000) in 273 in exchange for 50.1% of 273. Cordova invested two hundred thousand dollars (\$200,000) for 21.7% of 273 at the close of the Transaction, and invested (i) two hundred thousand dollars (\$200,000) on June 14, 2020, (ii) two hundred thousand dollars (\$200,000) on July 14, 2020, and (iii) one hundred twenty-three thousand dollars (\$123,000) on August 13, 2020, which collectively gave the Company ownership of 50.1% of 273 after all payments were made. The Transaction is subject to approval from the Alcohol and Gaming Commission of Ontario and compliance with all applicable laws, rules and regulations. Cordova holds 4 of 6 board seats of 273 and has a right of first refusal on any future sale of primary or secondary shares in 273. The retail stores are operated by 273 under the Star Buds brand name, and Cordova is leveraging its assets of Starbuds International Inc. to provide 273 with retail store designs and layouts, standard operating procedures, staff training, financing resources and systems support. On September 17, 2020, the Company acquired an additional 10.35% of the common shares of 273 not previously owned by Cordova (the "Additional Shares") bringing its accumulated ownership of 273 to 60.45%. The total purchase price for the Additional Shares amounted to \$305,267, of which \$265,975 was paid during the year end June 30, 2021 and the remainder \$39,292 was paid during the three months ending March 31, 2022.

### *Summary of Manitoba Transaction*

On December 2, 2020, the Company, through its wholly owned subsidiary Cordova Investments Canada, Inc., completed the purchase of a 51% stake in 10062771 Manitoba Ltd. ("Manitoba Ltd.") a Manitoba-based cannabis retail venture (the "Manitoba Transaction"). The purchase price for the shares was one hundred fifty thousand dollars (\$150,000) payable to Manitoba Ltd. and six million (6,000,000) warrants of the Company to be granted to the current shareholders of Manitoba Ltd., with each warrant entitling the holder thereof to purchase one common share in the capital of the Company at an exercise price of \$0.32 until November 30, 2022. In addition, the Company has agreed to loan up to one hundred fifty thousand dollars (\$150,000) to Manitoba Ltd. to enable the opening of the second store in Manitoba. The stores will be operated by Manitoba Ltd. under the Star Buds brand name, and the Company will provide the financing resources and systems support as needed. The Company also has a right of first refusal regarding any future primary issuance or secondary sale of shares of Manitoba Ltd., and has a call option to purchase all of the outstanding equity interests of Manitoba Ltd. at any time following the two-year anniversary of the closing date at a valuation equivalent to four times the trailing twelve months normalized EBITDA of Manitoba Ltd.

### *Summary of Oregon Transaction*

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

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## *Summary of Washington Transaction*

On February 26, 2021, Cordova WA entered into an agreement to acquire 100% of Extraction Technologies, LLC ("Extraction Tech"), a Washington-based company that provides cannabis extraction services to multiple cannabis licensed processors and will enable Cordova to provide manufactured cannabis products on both a white label and branded basis throughout the state of Washington. Extraction Tech owns a manufacturing building, processing equipment and contracts with tolling and white label customers. The consideration for the Transaction was three million (3,000,000) common shares of the Company on the closing date and an earnout payment of five hundred thousand (500,000) common shares of the Company for every \$125,000 US dollars in EBITDA generated by Extraction Tech during the 12-month period beginning on the 3-month anniversary of the closing date and ending of the 15-month anniversary of the closing date. The maximum earnout payment that could be paid for the acquisition of Extraction Tech was four million (4,000,000) common shares.

## **Business Plan and Strategy**

### **Current Business Plan and Strategy**

CordovaCann is committed to assembling a premier cannabis business with a vision to becoming a global industry leader. The Company is building and acquiring leading cannabis retail, processing and production operators in key jurisdictions that will enable CordovaCann to serve national and international markets that have legal, regulated medical, and/or recreational cannabis industries. The Company is focused on expanding its retail footprint, investing and scaling its branded product portfolio, and leveraging excess capacity for white label manufacturing. The Company intends to leverage its low-cost infrastructure, administrative support, and move toward vertical integration in key markets to establish a global multi-jurisdictional platform.

CordovaCann continues to work with knowledgeable cannabis operators and over the next twelve months, the Company is focused on growing its retail operations in both Canada and the United States. It is also working to expand the throughput of its wholesale operations as well as launch branded products in its U.S. markets. Moving forward, the Company will also seek to enter additional key legal markets not currently served by CordovaCann, as well as seek to expand operations in those markets where the Company already has a presence. CordovaCann plans to develop various end products for distribution in each of its current markets as well as to service other brands and intellectual property owners with its growing processing and manufacturing platforms and allow these clients and prospective clients to gain access to our distribution channels to generate additional revenue for the Company.

CordovaCann's long-term focus is to continue expanding its reach into additional legal markets, and the Company expects to organically build and acquire cannabis producers, processors and retailers globally. The Company continues to develop and acquire additional operations and products, and broaden its channels for distribution.

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## ***Current Outlook***

Management continues to take an active approach to examining business opportunities in the cannabis industry that could enhance shareholder value. The focus in the near term is to continue to grow its retail operations in Canada where the Company has established a presence in the Provinces of Ontario and Manitoba. The Company is expecting to grow its retail operations both through development of new stores as well as looking for acquisition opportunities in strategic markets.

CordovaCann is also focussing on growing its presence in the United States. Along with its growing operations in Oregon and Washington the Company is actively pursuing new opportunities in additional states to add to its portfolio, with its goal of having vertically integrated operations in key global cannabis markets.

## **Selected Financings**

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 US \$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.

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.

On February 19, 2021, the Company issued 6,117,721 common shares of the Company for gross proceeds of \$1,976,870; of which \$1,380,300 was received in cash and \$596,570 was issued in settlement of outstanding fees and debt.

## ***Number of Common Shares***

There were 109,502,853 Common Shares issued and outstanding as at June 30, 2023 and 109,502,853 common shares issued and outstanding as at the date of this report. There were no stock options issued and outstanding as at June 30, 2023 and no stock options issued and outstanding as at the date of this report. There were 10,097,379 share purchase warrants issued and outstanding as at June 30, 2023 and 10,097,379 share purchase warrants issued and outstanding as at the date of this report.

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## Results of Operations

### Quarterly Financial Results

The following table summarizes financial information for the 4<sup>th</sup> quarter of fiscal 2023 and the preceding seven quarters:

Quarter Ended	Jun 30, 2023	Mar 31, 2023	Dec 31, 2022	Sep 30, 2022	Jun 30, 2022	Mar 31, 2022	Dec 31, 2021	Sep 30, 2021
	\$	\$	\$	\$	\$	\$	\$	\$
Revenue	3,251,612	3,210,982	3,436,399	3,695,713	2,941,888	3,322,500	3,486,983	3,774,713
Net loss from continuing operations	(4,417,788)	(783,028)	(982,607)	(734,487)	(1,674,608)	(1,023,462)	(637,702)	(648,057)
Net loss per share – basic and diluted	(0.04)	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)

### *Results of Operations*

	2023	2022	2021
	\$	\$	\$
Revenue	13,594,706	13,526,084	10,318,845
Cost of sales	(9,733,113)	(9,798,408)	(6,826,605)
Gross profit	3,861,593	3,727,676	3,492,240
Operating expenses	6,341,323	6,900,396	6,049,280
Other income (expense)	(4,404,580)	(811,109)	(1,927,871)
Income tax recovery (expense)	(33,600)	(39,637)	(301,603)
Net loss	(6,917,910)	(4,023,466)	(4,786,514)

### *Revenue*

During the year ended June 30, 2023, the Company's revenue amounted to \$13,594,706, as compared to \$13,526,084 and \$10,318,845, respectively, during the years ended June 30, 2022 and 2021. Revenue is primarily related to the cannabis retail operations of the Company in the provinces of Ontario, Manitoba, British Columbia, and Alberta. Further, investments in Washington operations have also contributed to the revenue during the year ended June 30, 2023. The Company's revenue was impacted due to the closure of its retail store locations in Western Canada, offset by the increase in Ontario retail store revenue.

### *Cost of Sales and Gross Margin*

During the year ended June 30, 2023, the Company's incurred cost of sales in the amount \$9,733,113 and realized gross margin of \$3,861,593 (June 30, 2022 – \$9,798,408 and \$3,727,676, respectively; June 30, 2021 – \$6,826,605 and \$3,492,240, respectively) primarily related to its retail operations in Canada.



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## *Operating Expenses*

The Company incurred the following operating expenses during the years ended June 30, 2023, 2022 and 2021:

	2023	2022	2021
	\$	\$	\$
Consulting fees	<b>1,005,312</b>	1,289,457	1,302,191
Share based compensation	-	1,920	941,854
Professional fees	<b>213,188</b>	268,055	362,479
Shareholders information services	<b>231,971</b>	249,099	358,516
Salaries and wages	<b>2,336,569</b>	2,183,630	1,030,580
Office and general	<b>1,022,545</b>	1,145,361	749,522
Depreciation	<b>345,095</b>	345,188	383,476
Amortization of right-of-use assets	<b>694,730</b>	782,108	434,837
Amortization of licenses	<b>164,582</b>	164,582	141,249
Leases and utilities	<b>327,331</b>	470,996	344,576
	<b>6,341,323</b>	6,900,396	6,049,280

The overall analysis of the key expenses above is as follows:

### *Consulting fees*

Consulting fees for the year ended June 30, 2023 amounted to \$1,005,312 (June 30, 2022 – \$1,289,457; June 30, 2021 – \$1,302,191). Consulting fees related to fees accrued for the officers of the Company and other consultants that support the Company and the decrease is related to the increase of salaried workers in contrast to consultants.

### *Share based compensation*

Share based compensation for the year ended June 30, 2023 amounted to \$nil (June 30, 2022 – \$1,920; June 30, 2021 – \$941,854). The share-based compensation expense is in relation to the graded vesting of warrants that were issued previously.

### *Professional fees*

Professional fees for the year ended June 30, 2023 amounted to \$213,188 (June 30, 2022 – \$268,055; June 30, 2021 – \$362,479). Professional fees for during the respective periods were comprised of audit and legal fees associated with the Company's compliance costs as a public entity.

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### ***Shareholder information services***

Shareholders information services for the year ended June 30, 2023 amounted to \$231,971 (June 30, 2022 – \$249,099; June 30, 2021 – \$358,516). Shareholder information services during the respective periods were comprised of director fees, transfer agent fees, other filing fees and investor relation services.

### ***Salaries and wages***

Salaries and wages for the year ended June 30, 2023 amounted to \$2,336,569 (June 30, 2022 – \$2,183,630; June 30, 2021 – \$1,030,580). The salaries and wages expenses are primarily related to the employees hired for the Company's retail cannabis operations.

### ***Office and general***

Office and general for the year ended June 30, 2023 amounted to \$1,022,545 (June 30, 2022 – \$1,145,361; June 30, 2021 – \$749,522). Office and general costs were primarily comprised of administrative, travel and other expenses incurred by the Company and its employees and consultants along with merchant fees associated with retails.

### ***Depreciation***

Depreciation for the year ended June 30, 2023 amounted to \$345,095 (June 30, 2022 – \$345,188; June 30, 2021 – \$383,476). Depreciation relates to the depreciation of tangible assets purchased for the Company's retail cannabis stores.

### ***Amortization of right-of-use assets***

Amortization of right-of-use assets for the year ended June 30, 2023 amounted to \$694,730 (June 30, 2022 – \$782,108; June 30, 2021 – \$434,837). Amortization relates to the Company's retail leases entered into for its Ontario, Manitoba and Oregon locations.

### ***Amortization of licenses***

Amortization of licenses for the year ended June 30, 2023 amounted to \$164,582 (June 30, 2022 – \$164,582; June 30, 2021 – \$141,249). Amortization of licenses relates to the amortization of retail cannabis licenses acquired in the prior fiscal periods.

### ***Leases and utilities***

Leases and utilities for the year ended June 30, 2023 amounted to \$327,331 (June 30, 2022 – \$470,996; June 30, 2021 – \$344,576). Lease and utilities expenses relate to the leases entered into through the Company's retail platforms as well as the sale-leaseback transaction for its Oregon Property. The decrease over the comparative period is due to the reduced overhead incurred related to the Company's operating leases in Oregon and its locations in the Western provinces.

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## *Other Income and Expenses*

The overall analysis of other income/expenses is as follows:

	2023	2022	2021
	\$	\$	\$
Interest expense	529,473	308,877	606,830
Interest on lease liability	473,136	531,768	223,798
Accretion expense	26,741	61,319	184,410
Loss on convertible debentures	218,567	-	-
Impairment of assets	1,030,537	211,774	664,543
Impairment of intangible assets	2,145,628	-	-
Gain on extinguishment of lease	(52,126)	(29,635)	-
Foreign exchange gain (loss)	(49,363)	(186,372)	307,673
Allowance for loan receivable	264,800		
Gain (loss) on settlement	-	99,635	-
Loss on disposal of assets	-	-	7,422
Other income	(182,813)	(186,257)	(66,805)
	<b>4,404,580</b>	<b>811,109</b>	<b>1,927,871</b>

### *Interest expenses*

Interest expense for the year ended June 30, 2023 amounted to \$529,473 (June 30, 2022 – \$308,877; June 30, 2021 – \$606,830). Interest expense during the respective periods was primarily in relation to convertible debentures, promissory notes and mortgages issued. The increase in interest during year ended June 30, 2023 as compared to June 30, 2022 is due to additional issuances of short-term promissory notes along with the financing and administrative costs associated with the Washington Refinance.

### *Interest on lease liability*

Interest on lease liability for the year ended June 30, 2023 amounted to \$473,136 (June 30, 2022 – \$531,768; June 30, 2021 – \$223,798). Interest on lease liability relates primary to the Company's Canadian leases in Ontario and Manitoba and its United States lease in Oregon. The decrease in interest on lease liability during the year ended June 30, 2023 is due to the closure of its lease locations in Western Canada.

### *Accretion expense*

Accretion expense for the year ended June 30, 2023 amounted to \$26,741 (June 30, 2022 – \$61,319; June 30, 2021 – \$184,410). Accretion expense relates to the accreted interest on promissory notes. The decrease in accretion expense is due the repayment of these promissory notes during the year ended June 30, 2022 and the maturity of these promissory notes during the year ended June 30, 2023.

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### ***Loss on convertible debentures***

Loss on convertible debentures for the year ended June 30, 2023 amounted to \$218,567 (June 30, 2022 – \$nil; June 30, 2021 – \$nil). Loss on convertible debentures relates to the reclassification of the equity portion of convertible debentures into a liability.

### ***Impairment of assets***

Impairment of assets for the year ended June 30, 2023 amounted to \$1,030,537 (June 30, 2022 – \$211,774; June 30, 2021 – \$664,543). The impairment was related to closing down of retail locations in Alberta and British Columbia and the related reduction in right-of-use Assets.

### ***Impairment of intangible assets***

Impairment of intangible assets for the year ended June 30, 2023 amounted to \$2,145,628 (June 30, 2022 - \$nil; June 30, 2021 - \$nil). The intangible assets were partially impaired due to closure of retail locations in Alberta and British Columbia.

### ***Gain on extinguishment of lease***

Gain on extinguishment of lease for the year ended June 30, 2023 amounted to \$52,126 (June 30, 2022 – \$29,635; June 30, 2021 – \$nil). Net gain on extinguishment of leases was attributable to the closure of the Alberta and British Columbia retail locations which resulted in an extinguishment of lease liabilities and corresponding impairment of right of use assets.

### ***Foreign exchange gain (loss)***

Foreign exchange gain for the year ended June 30, 2023 amounted to \$49,363 (June 30, 2022 – \$186,372) as compared to a foreign exchange loss of \$307,673 during the year ended June 30, 2021. The foreign exchange gains and losses during the respective periods were a result of the exchange rate fluctuations related to transactions based in United States Dollars.

### ***Allowance for loan receivable***

Allowance for loan receivable for the year ended June 30, 2023 amounted to \$264,800 (June 30, 2022 and 2021 – \$nil). Allowance for loan receivable relates to an allowance on its advances for the acquisition of AuBio as a result of the Company's delayed payment schedule based on the initial arrangement.

### ***Other income***

Other income for the year ended June 30, 2023 amounted to \$182,813 (June 30, 2022 – \$186,257; June 30, 2021 – \$66,805). Other income is related to rental of the Company's Washington property as well sale of data related to its retail operations.

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## Liquidity and Capital Resources

### Working Capital

As at June 30, 2023, the Company had total assets of \$10,263,706 (June 30, 2022 – \$16,750,965) consisting of the following:

	June 30, 2023	June 30, 2022
	\$	\$
<b>ASSETS</b>		
Current		
Cash and cash equivalents	248,416	714,826
Restricted cash	171,405	1,033,650
Harmonized sales tax receivable	-	42,650
Accounts receivable	47,202	81,303
Prepaid expenses and deposits	209,493	385,366
Loan receivable	-	128,860
Inventory	919,481	723,953
Other deposit - current portion	52,960	100,220
Total current assets	1,648,957	3,210,828
Right-of-use assets	2,880,863	3,439,705
Property and equipment, net	2,395,049	4,451,385
Intangible assets	3,098,339	5,243,967
Licenses	240,498	405,080
Total assets	10,263,706	16,750,965

The decrease in total assets from June 30, 2022 to June 30, 2023 was primarily a result of a reduction of cash and restricted cash, along with impairment and depreciation of property and equipment and right-of-use assets, and the impairment of intangible assets.

As at June 30, 2023, the Company had total liabilities of \$11,290,298 (June 30, 2022 – \$10,164,578) consisting of the following:

	June 30, 2023	June 30, 2022
	\$	\$
<b>LIABILITIES</b>		
Current		
Accounts payable and accrued liabilities	4,600,357	3,557,172
Mortgage payable	31,475	824,852
Income taxes payable	132,318	316,017
Contract liability	52,166	50,771
Harmonized sales tax payable	33,623	-
Lease liability	419,529	601,732
Convertible debentures	1,042,763	-
Promissory notes payable	1,569,253	345,442
Total current liabilities	7,881,484	5,695,986
Deferred tax liability	6,300	21,420
Mortgage payable	911,428	-
Contract liability	86,752	134,925
Lease liability	2,404,964	4,312,247
Total liabilities	11,290,928	10,164,578

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The increase in liabilities from June 30, 2022 to June 30, 2023 was primarily related to the increase in promissory notes and the Washington Refinance as noted below and the reclassification of a equity convertible debenture into a convertible debenture liability.

As at June 30, 2023, the Company had a working capital deficiency of \$6,232,527 as compared to a working capital deficiency of \$2,485,158 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. This uncertainty may cast significant doubt about the ability of the Company to continue as a going concern. To this point, all cashflow shortfall from operational activities and overhead costs have been funded through equity issuances, debt issuances and related party advances.

## *Cash Used in Operating Activities*

The Company used cash in operating activities in the amount of \$452,733 (June 30, 2022 – \$2,071,704; June 30, 2021 – \$221,155) for the year ended June 30, 2023 due to the reasons discussed above.

## *Cash Provided by (Used in) Investing Activities*

Cash used in investing activities during to the year ended June 30, 2023 amounted to \$708,878 as compared cash provided by investing activities in the amount of \$2,065,044 during the year ended June 30, 2022 and cash used in investing activities of \$872,052 during the year ended June 30, 2021. The investing activities during the year ended June 30, 2023 were in relation to additions of property and equipment in the amount of \$761,937. During the year ended June 30, 2022, the Company had additions of property and equipment of \$661,636 and received proceeds from the disposition of property and equipment in the amount of \$2,726,680.

## *Cash Provided by (used in) From Financing Activities*

Cash used in financing activities amounted to \$134,360 during the year ended June 30, 2023 as compared to cash provided by financing activities in the amount of \$720,688 and \$1,571,358, respectively, during the years ended June 30, 2022 and 2021. Financing activities related to the proceeds from the issuance of promissory note, the repayment of promissory notes, the payment of lease liabilities, repayment of the Oregon Mortgage, other debt and lease liabilities.

## **Financings**

### *Share Capital*

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

During the year ended June 30, 2023, the Company did not have any common share transactions.

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 US \$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

# CordovaCann Corp.

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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.

- 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.

### Warrants

	Warrants Outstanding	Weighted Average Exercise Price	Weighted Average Life Remaining (years)
<b>June 30, 2021</b>	<b>15,589,500</b>	<b>0.53</b>	<b>2.00</b>
Issued	10,097,379	<b>0.98</b>	<b>2.00</b>
Exercised	(700,000)	<b>0.30</b>	<b>0.16</b>
Expired	(3,309,500)	<b>0.48</b>	-
<b>June 30, 2022</b>	<b>21,677,379</b>	<b>\$ 0.65</b>	<b>1.00</b>
Issued	-	-	-
Exercised	-	-	-
Expired	(11,580,000)	<b>0.40</b>	-
<b>June 30, 2023</b>	<b>10,097,379</b>	<b>\$ 0.98</b>	<b>0.58</b>

During the year ended June 30, 2023:

- 11,580,000 common share purchase warrants expired, unexercised.

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;
- The Company issued 3,379,379 common share purchase warrants in connection with a non-brokered private placement;
- 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 in to employees and directors, for the amendment of promissory notes payable, and a convertible debenture financing;
- 1,450,000 common share purchase warrants expired, unexercised; and
- No common share purchase warrants were forfeited or cancelled.

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During the year ended June 30, 2023, the Company expensed \$nil (June 30, 2022 – \$1,920; June 30, 2021 – \$941,854), in the fair value of warrants as a result of the issuances which have been recorded as share based compensation.

### *Stock 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, 2023 are as follows:

	<b>Options Outstanding</b>	<b>Weighted Average Exercise Price</b>	<b>Weighted Average Life Remaining (years)</b>
<b>June 30, 2021</b>	<b>5,300,000</b>	<b>0.31</b>	<b>1.77</b>
Issued	-	-	-
Exercised	(200,000)	<b>0.25</b>	<b>0.65</b>
Expired	-	-	-
<b>June 30, 2022</b>	<b>5,100,000</b>	<b>\$ 0.31</b>	<b>0.78</b>
Issued	-	-	-
Exercised	-	-	-
Expired	(5,100,000)	<b>0.31</b>	-
<b>June 30, 2023</b>	<b>-</b>	<b>\$ -</b>	<b>-</b>

There were no stock options issued during the years ended June 30, 2023 and 2022.

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, 2023, 5,100,000 (2022 – nil) stock options expired, unexercised.

During the year ended June 30, 2023, 2022 and 2021, the Company expensed \$nil of the fair value of the stock options.



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### ***Mortgage payable***

#### *Oregon Mortgage*

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

On June 12, 2020, the Company entered into a new mortgage (the "New Mortgage"), in the amount of \$815,760 (US \$600,000), and paid off the existing Mortgage and accrued interest of \$724,894 (US \$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.

Oregon Mortgage as at June 30, 2023 and 2022 amounted \$nil. Total interest expense in relation to the Oregon Mortgage for the year ended June 30, 2023 amounted to \$nil (June 30, 2022 – \$nil; June 30, 2021 – \$146,672).

#### *Washington Mortgage*

On February 26, 2021, the Company completed the Washington Acquisition (Note 5 (a)) 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.

On November 1, 2022, the Company refinancing the existing Washing Mortgage for an aggregate amount of US \$725,000, less a US \$7,500 interest reserve amount (the "Washington Refinance"). As a result of financing and administrative costs incurred in relation to the Washington Refinancing, along with the payment of the previous outstanding Washington Mortgage, there were no additional cash proceeds received. The refinanced Washington Mortgage has a maturity date of five years from the date of refinancing and bears interest at 9.75% for the first two years, with interest escalators in subsequent years.

As at June 30, 2023, the amount outstanding under the Washington Mortgage amounted to \$942,903 (June 30, 2022 – \$824,852). The current portion of the Washington Mortgage amounted to \$31,475 and the long-term amounted to \$911,428. Total interest expense in relation to the Washington Mortgage amounted to \$187,113 during the year ended June 30, 2023 (June 30, 2022 – \$102,907; June 30, 2021 – \$43,675).

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

As at June 30, 2023 and 2022, \$nil was outstanding under Promissory Note A. Interest expense of \$nil (June 30, 2022 – \$317; June 30, 2021 – \$7,149) was recorded for the year ended June 30, 2023.

### *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 originally matured on December 18, 2019 and bears interest at a rate of 15% per annum, accrued monthly and due at maturity. 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 Company extended the maturity date of the Promissory Note B to December 15, 2021 and fully repaid it during the year ended June 30, 2022. As at June 30, 2023 and 2022, the value of the Promissory Note B amounted to \$nil.

### *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.

On June 8, 2020, the Company issued a promissory note (the “Promissory Note C-2”) in the principal amount of \$225,000 (Note 12(v)). 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 (Note 12(v)). 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

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interest and principal at a market interest rate of 19% which is estimated to be the borrowing rate available to the Company for similar instruments of debt.

During the year ended June 30, 2023, the Company repaid \$21,000. As at June 30, 2023, the value of these promissory notes amounted to \$371,033 (June 30, 2022 – \$345,442). Interest and accretion in the amount of \$16,905 and \$29,685, respectively (June 30, 2022 – \$61,319 and \$20,971, respectively; June 30, 2021 – \$95,832 and \$35,007, respectively) was recorded during the year ended June 30, 2023. These promissory notes post maturity and are in default.

During the years ended June 30, 2023 and 2022, the Company issued short-term promissory notes to certain arm's-length parties:

### *Demand Notes 2022*

During the year ended June 30, 2022, the Company issued demand notes (the "2022 Demand Notes") in the aggregate amount of \$902,020 (US \$700,000). \$515,440 (US \$400,000) was repaid in cash while the remaining \$390,000 (US \$300,000) was settled into convertible debentures (Note 20). During the year ended June 30, 2022, the total interest and administrative fees charged in relation to the 2022 Demand Notes amounted to \$133,283.

As at June 30, 2022, there was no principal amount or accrued interest outstanding in relation to the 2022 Demand Notes.

### *Demand Notes 2023*

During the year ended June 30, 2023, the Company issued demand notes (the "2023 Demand Notes") in the aggregate amount of \$1,257,800 (US \$950,000) with fixed interest amounts and maturity dates between October 2022 to February 2023. \$198,600 (US \$150,000) of principal repayments and \$50,239 (US \$37,500) of interest repayments were made in cash during the year ended June 30, 2023.

The total interest and administrative fees charged in relation to the 2023 Demand Notes during the year ended June 30, 2023 amounted to \$190,907 (US \$142,500).

As at June 30, 2023, the outstanding principal amount of the 2023 Demand Notes amounted to \$1,059,200 (US \$800,000) and the outstanding accrued interest amounted to \$139,020 (US \$105,000).

Includes in the aggregate amount of 2023 Demand Notes issued during the year ended June 30, 2023 is the principal amount of \$132,400 (US \$100,000) and accrued interest of \$19,860 (US \$15,000) to the Chief Executive Officer and Chairman of the Company. These amounts have not been repaid to the respective related party and remain outstanding.

The 2023 Demand Notes have matured and are in default.

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## *Convertible Debentures*

### *Convertible Debentures Series– 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 matured 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-4 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.

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, 2023, interest of \$nil was recorded in the equity portion of the convertible debt (June 30, 2022 – \$45,762; June 30, 2021 – \$16,512) in relation to these convertible debentures.

### *Convertible Debentures Series A-5 – May 30, 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 with annual interest rate of 15% and maturity on May 31, 2023.

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

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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 in the amount of \$390,000 (US \$300,000) and \$58,500 (US \$45,000) of interest.

At initial recognition, the Debenture Units of Series A-5 were determined to be an equity instrument due to 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.

On the maturity date of May 30, 2023, the Company did not elect to convert the Debenture Units of Series A-5. As a result of the non-exercise of the conversion option, the Company's Debenture Units of Series A-5 no longer met the criteria of an equity instrument, as it could no longer avoid the contractual obligation to pay cash related to the principal and interest. Accordingly, the Company reclassified the equity portion of convertible debenture to a convertible debenture liability at its face value of \$897,000. As a result of the reclassification, the Company recorded a loss in the amount of \$218,567 during the year ended June 30, 2023. The loss arises from the difference between the face value of convertible debentures and the amount reclassified from equity to the convertible debenture liability on the maturity date.

During the year ended June 30, 2023, interest of \$134,551 was recorded in the convertible debentures (June 30, 2022 – \$11,212). As at June 30, 2023, the outstanding principal amount of the convertible debentures remained at \$879,000 and the outstanding accrued interest amounted to \$145,763.

## ***Key Contractual Obligations***

There are no other key contractual obligations as at June 30, 2023 other than leases entered into through its retail operations disclosed in details in the Company's consolidated financial statements.

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

As at June 30, 2023, the Company did not have any off-Balance Sheet arrangements, including any relationships with unconsolidated entities or financial partnerships to enhance perceived liquidity.

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## **Transactions with Related Parties**

Related party transactions as at and for the year ended June 30, 2023, 2022 and 2021 and the balances as at those dates, not disclosed elsewhere in the Company's consolidated financial statements are as follows:

- a) During the year ended June 30, 2023, the Company expensed \$660,000 (June 30, 2022 – \$669,000; June 30, 2021 – \$842,500), 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; and
- b) As at June 30, 2023, the Company had fees payable to officers and directors of the Company of \$2,467,695 (June 30, 2022 – \$1,879,125).

## ***Contingencies***

During the year ended June 30, 2023, the Company was identified as a defendant along with three other defendants (the "Other Defendants") to a complaint in the Orange County Superior Court of California and for the State of California (the "Complaint"). The Complaint contains five causes of actions by the plaintiff (the "Plaintiff"), but only one of those causes of action, for injunctive relief, is asserted against the Company. The Complaint involves claims by the Plaintiff that at the request of the Other Defendants, the Plaintiff guaranteed a loan to acquire lab equipment for the benefit of the Other Defendants in the amount of \$251,793. The Complaint claims that the Other Defendants failed to pay off the subject loan and converted the equipment, depriving the Plaintiff of the ability to foreclose and receive repayment. The cause of action for injunctive relief against the Company (as well as the Other Defendants) requests that the court issue an order setting forth title and control to the equipment. The Company currently leases this equipment from the Other Defendants. The Company has not been served the Complaint and there is no claim for damages against the Company presently in the Complaint. The Company intends on defending this Complaint to the extent that a liability is imposed on the Company for the replacement of the equipment or for the monetary damages imposed on the Other Defendants. As at the date of these consolidated financial statements, it is premature, and not practical, to determine whether or not there will be any outflow and, if so, the amount of that outflow. Accordingly, no provisions have been made on the Company's consolidated financial statements of position with respect to the Complaint.

## **Financial and Derivative Instruments**

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, 2023:

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Company is not exposed to any significant credit 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, 2023, there is substantial doubt about the Company's ability to continue as a going concern primarily due to its history of losses. Liquidity risk continues to be a key concern in the development of future operations.

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 cash flow interest rate risk.

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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, 2023, the Company did not use derivative instruments to hedge its exposure to foreign currency risk.

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

## **Critical Accounting Policies**

These consolidated financial statements of the Company and its subsidiaries were prepared using accounting policies consistent with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations of the IFRS Interpretations Committee ("IFRIC").

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

### **Basis of Presentation**

These consolidated financial statements have been prepared on a historical cost basis, except where otherwise disclosed. 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.

### **Functional and Presentation Currency**

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

#### *Translation of foreign-currency transactions*

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

#### *Translation of financial statements of subsidiaries*

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

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## 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.

## Basis of Consolidation

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

The following table lists the Company's subsidiaries and their functional currencies.

<b>Name of Subsidiaries</b>	<b>Place of Incorporation</b>	<b>Ownership Interest</b>	<b>Currency</b>
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
Cordova MA Holdings, Inc.	Massachusetts, USA	100%	United States Dollars



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## **Share-based payments**

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

## **Compound financial instruments**

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

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

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

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

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

## **Financial instruments**

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

### *Financial assets*

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

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

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

**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.

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

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

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

***Financial assets***

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

***Financial liabilities***

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

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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.

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## **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.

## **Evaluation of Disclosure Control and Procedures**

The term "disclosure controls and procedures" is defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, or the Exchange Act. This term refers to the controls and procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified by the Securities and Exchange Commission. Our management, including our Chief Executive Officer and Chief Financial Officer, together with the members of our Audit Committee have evaluated the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures were ineffective as of the end of the period covered by this report.

There were no changes to our internal control over financial reporting since June 30, 2023 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## **Business Environment**

### ***Compliance with Applicable State Law***

Each licensee of the Intellectual Property complies with applicable U.S. state licensing requirements as follows: (1) each licensee is licensed pursuant to applicable U.S. state law to cultivate, possess and/or distribute cannabis in such state; (2) renewal dates for such licenses are docketed by legal counsel and/or other advisors; (3) random internal audits of the licensee's business activities are conducted by the applicable state regulator and by the respective investee to ensure compliance with applicable state law; (4) each employee is provided with an employee handbook that outlines internal standard operating procedures in connection with the cultivation, possession and distribution of cannabis to ensure that all cannabis inventory and proceeds from the sale of such cannabis are properly accounted for and tracked, using scanners to confirm each customer's legal age and the validity of each customer's drivers' license; (5) each

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room that cannabis inventory and/or proceeds from the sale of such inventory enter is monitored by video surveillance; (6) software is used to track cannabis inventory from seed-to-sale; and (7) each licensee is contractually obligated to comply with applicable state law in connection with the cultivation, possession and/or distribution of cannabis. CordovaCann's U.S. legal counsel reviews, from time to time, the licenses and documents referenced above in order to confirm such information and identify any deficiencies.

### *Oregon's Cannabis Regulatory Environment*

For the purposes of Staff Notice 51-352, the assets and interests held by CordovaCann in Oregon are classified as "ancillary" involvement in the U.S. cannabis industry.

Oregon authorized the cultivation, possession and distribution of cannabis by certain licensed Oregon cannabis businesses. The Oregon Liquor Control Commission regulates Oregon's cannabis regulatory program. CordovaCann is advised by U.S. legal counsel and/or other advisors in connection with Oregon's cannabis regulatory program. CordovaCann only engages in transactions with Oregon cannabis businesses that hold licenses that are in good standing to cultivate, possess and/or distribute cannabis in Oregon in compliance with Oregon's cannabis regulatory program. To the extent required by Oregon's cannabis regulatory program, CordovaCann has fully disclosed and/or registered each financial interest CordovaCann holds in such Oregon cannabis business.

### *Washington's Cannabis Regulatory Environment*

For the purposes of Staff Notice 51-352, the assets and interests contemplated to be held by CordovaCann in Washington are classified as "ancillary" involvement in the U.S. cannabis industry.

Washington authorized the cultivation, possession and distribution of cannabis by certain licensed Washington cannabis businesses. The Washington State Liquor and Cannabis Board regulates Washington's cannabis regulatory program. CordovaCann is advised by U.S. legal counsel and/or other advisors in connection with Washington's cannabis regulatory program. CordovaCann only engages in transactions with Washington cannabis businesses that hold licenses that are in good standing to cultivate, possess and/or distribute cannabis in Washington in compliance with Washington's cannabis regulatory program. To the extent required by Washington's cannabis regulatory program, CordovaCann has fully disclosed and/or registered each financial interest CordovaCann holds in such Washington cannabis business.

## **Public Securities Filings**

Additional information regarding the Company is filed on SEDAR+ at [www.sedarplus.ca](http://www.sedarplus.ca) and the United States Securities and Exchange Commission at [www.edgar.gov](http://www.edgar.gov).