



# **Empower Clinics Inc.**

## **Condensed Interim Consolidated Financial Statements**

For the three and nine months ended September 30, 2021 and 2020

Unaudited

*Expressed in US dollars*

**Notice of Disclosure of Non-Auditor Review of the Condensed Interim Consolidated Financial Statements for the Three and Nine Months ended September 30, 2021 and 2020.**

Pursuant to subsection 4.3(3)(a) of National Instrument 51-102 - Continuous Disclosure Obligations, issued by the Canadian Securities Administrators, if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited condensed interim consolidated financial statements of Empower Clinics Inc. (the "Company") for the interim period ended September 30, 2021 and 2020, have been prepared in accordance with the International Accounting Standard 34 - *Interim Financial Reporting* as issued by the International Accounting Standards Board, and are the responsibility of the Company's management.

The Company's independent auditors, MNP LLP, have not performed a review of these condensed interim consolidated financial statements.

November 22, 2021

**EMPOWER CLINICS INC.**

## CONDENSED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(in United States dollars) - Unaudited

	Notes	September 30, 2021	December 31, 2020
		\$	\$
<b>ASSETS</b>			
Current			
Cash		2,160,587	4,889,824
Accounts receivable	8	446,613	264,866
Prepaid expenses		169,612	81,748
Inventory		853,686	17,681
Assets classified as held for sale	7	126,609	-
<b>Total current assets</b>		<b>3,757,107</b>	<b>5,254,119</b>
Property and equipment	10	3,496,860	1,590,047
Intangible assets	11	258,629	303,907
Goodwill	4,5,6,11	4,607,907	2,082,146
<b>Total assets</b>		<b>12,120,503</b>	<b>9,230,219</b>
<b>LIABILITIES</b>			
Current			
Accounts payable and accrued liabilities	12,23	3,446,662	3,442,725
Consideration payable	6	200,363	-
Current portion of loans payable	13	126,704	992,070
Notes payable	14	169,271	708,361
Convertible notes payable	17	204,722	200,530
Current portion of lease liability	15	218,342	241,138
Current portion of warrant liability	16	1,076,694	1,416,113
Liabilities classified as held for sale	7	99,083	-
<b>Total current liabilities</b>		<b>5,541,841</b>	<b>7,000,937</b>
Loans payable	13	1,081,211	1,140,157
Lease liability	15	855,737	255,248
Deferred revenue		-	26,694
Warrant liability	16	1,728,725	6,297,584
<b>Total liabilities</b>		<b>9,207,514</b>	<b>14,720,620</b>
<b>SHAREHOLDERS' DEFICIENCY</b>			
Issued capital	18(b)	54,369,808	22,969,566
Share subscriptions receivable	18(b)	(745,531)	(745,531)
Shares to be issued		60,287	60,287
Contributed surplus		2,833,439	2,223,269
Warrant reserve		-	80,638
Accumulated other comprehensive loss		(3,223)	-
Deficit		(53,601,791)	(30,078,630)
<b>Total shareholders' equity (deficiency)</b>		<b>2,912,989</b>	<b>(5,490,401)</b>
<b>Total liabilities and shareholders' deficiency</b>		<b>12,120,503</b>	<b>9,230,219</b>

Nature of operations and going concern (note 1)

Commitments (note 25)

Events after the reporting period (note 26)

Approved and authorized by the Board of Directors on November 22, 2021:

"Steven McAuley" Director

"Yoshi Tyler" Director

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

**EMPOWER CLINICS INC.****CONDENSED INTERIM CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS**

(in United States dollars, except number of shares outstanding) - Unaudited

	Notes	Three months ended		Nine months ended	
		September 30,		September 30,	
		2021	2020	2021	2020
		\$	\$	\$	\$
<b>Revenue</b>		<b>405,707</b>	85,960	<b>3,226,335</b>	222,690
<b>Direct expenses excluding depreciation and amortization</b>		<b>18,377</b>	39,202	<b>1,592,338</b>	106,900
<b>Gross margin</b>		<b>387,330</b>	46,758	<b>1,633,997</b>	115,790
Operating expenses	19	<b>666,572</b>	631,308	<b>2,293,524</b>	1,180,072
Legal and professional fees		<b>233,388</b>	127,776	<b>1,471,706</b>	349,972
Depreciation and amortization expense	10,11	<b>154,575</b>	29,525	<b>408,801</b>	88,578
Share-based payments	18(c),23	<b>236,201</b>	1,738	<b>841,759</b>	31,592
Loss from operations		<b>(903,406)</b>	(743,589)	<b>(3,381,793)</b>	(1,534,424)
<b>Other expenses (income)</b>					
Accretion expense	13,14	<b>8,151</b>	15,828	<b>18,761</b>	360,924
Interest expense	7,13-15,17	<b>51,319</b>	33,689	<b>97,569</b>	126,308
Interest income		-	(1,920)	-	(5,625)
Gain on debt settlement of accounts payable	18(b)	-	(25,978)	-	(49,277)
Gain on termination of leases	15	-	-	<b>(1,152)</b>	-
Loss (gain) on change in fair value of warrant liability	16	<b>(3,121,006)</b>	(435,607)	<b>19,721,807</b>	(475,539)
Gain on change in fair value of conversion feature		-	-	-	(2,795)
Other income, net		<b>(172,112)</b>	(15,979)	<b>(208,548)</b>	(81,326)
		<b>(3,233,648)</b>	(429,967)	<b>19,628,437</b>	(127,330)
<b>Net income (loss) from continuing operations</b>		<b>2,330,242</b>	(313,622)	<b>(23,010,230)</b>	(1,407,094)
Net (loss) income from discontinued operations	7	<b>(60,527)</b>	(146,413)	<b>(512,931)</b>	26,778
<b>Net income (loss) for the period</b>		<b>2,269,715</b>	(460,035)	<b>(23,523,161)</b>	(1,380,316)
<b>Other comprehensive income</b>					
Foreign currency translation adjustment		<b>(3,311)</b>	-	<b>(3,223)</b>	-
<b>Comprehensive income (loss) for the period</b>		<b>2,266,404</b>	(460,035)	<b>(23,526,384)</b>	(1,380,316)
<b>Earnings (loss) per share</b>					
Basic		<b>0.01</b>	(0.00)	<b>(0.07)</b>	(0.01)
Diluted		<b>0.01</b>	(0.00)	<b>(0.07)</b>	(0.01)
<b>Weighted average number of shares outstanding</b>					
Basic		<b>336,581,930</b>	196,243,209	<b>324,310,349</b>	117,289,366
Diluted		<b>353,944,686</b>	196,243,209	<b>341,673,105</b>	117,289,366

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

**EMPOWER CLINICS INC.****CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS**

(in United States dollars) - Unaudited

	Notes	2021	Nine months ended September 30, 2020
		\$	\$
<b>Operating activities</b>			
Net loss from continuing operations		(23,010,230)	(1,407,094)
Items not involving cash:			
Depreciation and amortization expense	10,11	408,801	88,578
Share-based payments	18(c),23	841,758	31,592
Accretion expense	13,14	18,761	360,924
Interest expense	7,13-15,17	97,569	126,308
Gain on debt settlement of accounts payable		-	(49,277)
Gain on termination of leases	15	(1,152)	-
Loss (gain) on change in fair value of warrant liability		19,721,807	(475,539)
Gain on change in fair value of conversion feature	18(b),23	-	(2,795)
Shares issued for compensation	18(b)	-	143,811
Shares issued for services		-	180,458
Other income, net		(71,383)	(293,655)
		(1,994,069)	(1,296,689)
Changes in working capital:			
Accounts receivable		(193,747)	(40,709)
Prepaid expenses		(90,208)	259,452
Inventory		(836,005)	(40,818)
Accounts payable and accrued liabilities		95,118	369,215
Consideration payable		200,363	-
Deferred revenue		(26,694)	26,769
<b>Net cash used in operating activities</b>		<b>(2,845,242)</b>	<b>(722,780)</b>
<b>Net cash (used in) provided by operating activities of discontinued operations</b>	7	<b>(427,632)</b>	191,286
<b>Investing activities</b>			
Investment in MediSure, net	6	(799,620)	-
Purchase of property and equipment	10	(1,616,736)	-
Acquisition of intangible assets		-	(127,446)
<b>Net cash used in investing activities</b>		<b>(2,416,356)</b>	<b>(127,446)</b>
<b>Financing activities</b>			
Proceeds from issue of shares	18(b)	-	751,579
Proceeds from stock options exercised	18(c)	211,535	-
Proceeds from warrants exercised	16,18(b)	4,315,587	-
Proceeds from agent warrants exercised	18(b)	48,346	-
Proceeds from agent compensation warrants exercised	18(b)	69,510	-
Share issue costs	18(b)	-	(3,998)
Advance of loans payable	13	49,942	29,987
Repayment of loans payable	13	(965,971)	-
Repayment of notes payable	14	(553,324)	-
Lease payments	15	(212,409)	(185,242)
<b>Net cash provided by financing activities</b>		<b>2,963,216</b>	<b>592,326</b>
<b>Effect of foreign exchange on cash</b>		<b>(3,223)</b>	-
<b>Decrease in cash</b>		<b>(2,729,237)</b>	<b>(66,614)</b>
<b>Cash, beginning of period</b>		<b>4,889,824</b>	<b>179,153</b>
<b>Cash, end of period</b>		<b>2,160,587</b>	<b>112,539</b>

Supplemental disclosure with respect to cash flows (note 21)

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

**EMPOWER CLINICS INC.**
**CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (DEFICIENCY)**

For the nine months ended September 30, 2021 and 2020

(in United States dollars, except share numbers) - Unaudited

	Note	Number	Issued capital	Share subscriptions receivable	Shares to be issued	Contributed surplus	Warrant reserves	Accumulated other comprehensive loss	Deficit	Total
		#	\$	\$	\$	\$	\$	\$	\$	\$
Balance, December 31, 2019		137,697,430	7,827,310	-	22,050	1,501,361	146,685	-	(13,012,319)	(3,514,913)
Shares issued for former CEO	18(b)	651,875	15,239	-	(15,239)	-	-	-	-	-
Shares issued for cash, net	18(b)	30,742,334	490,468	-	-	-	-	-	-	490,468
Shares issued to settle accounts payable	18(b)	5,841,586	196,974	-	-	-	-	-	-	196,974
Vesting of escrow shares	18(b)	-	143,811	-	-	-	-	-	-	143,811
Shares issued for services	18(c)	9,500,000	270,292	-	-	-	-	-	-	270,292
Shares issued for conversion of debentures	18(b)	11,659,984	583,635	-	-	-	-	-	-	583,635
Obligation to issue shares		150,000	6,811	-	(6,811)	-	-	-	-	-
Share issue costs		-	(6,525)	-	-	-	2,527	-	-	(3,998)
Reclassification of expired warrants		-	-	-	-	80,280	(80,280)	-	-	-
Share-based payments		-	-	-	-	31,592	-	-	-	31,592
Net loss and comprehensive loss		-	-	-	-	-	-	-	(1,380,316)	(1,380,316)
<b>Balance, September 30, 2020</b>		<b>196,243,209</b>	<b>9,528,015</b>	<b>-</b>	<b>-</b>	<b>1,613,233</b>	<b>68,932</b>	<b>-</b>	<b>(14,392,635)</b>	<b>(3,182,455)</b>
Balance, December 31, 2020		283,811,903	22,969,566	(745,531)	60,287	2,223,269	80,638	-	(30,078,630)	(5,490,401)
Vesting of escrow shares		-	144,454	-	-	-	-	-	-	144,454
Shares issued for services	18(b)	1,275,676	86,812	-	-	-	-	-	-	86,812
Shares issued for acquisition of MediSure	18(b)	4,582,483	1,726,141	-	-	-	-	-	-	1,726,141
Exercise of options	18(b)	3,589,666	308,469	-	-	(96,934)	-	-	-	211,535
Exercise of warrants	18(b)	42,725,547	29,062,433	-	-	-	-	-	-	29,062,433
Exercise of agent share purchase warrants	18(b)	420,000	71,933	-	-	-	(23,587)	-	-	48,346
Exercise of agent compensation warrants	18(b)	1,760,000	-	-	-	-	(47,251)	-	-	(47,251)
Share-based payments	18(c)	-	-	-	-	697,304	-	-	-	697,304
Reclassification of expired warrants	18(d)	-	-	-	-	9,800	(9,800)	-	-	-
Foreign translation adjustment		-	-	-	-	-	-	(3,223)	-	(3,223)
Net loss		-	-	-	-	-	-	-	(23,523,161)	(23,523,161)
<b>Balance, September 30, 2021</b>		<b>338,165,275</b>	<b>54,369,808</b>	<b>(745,531)</b>	<b>60,287</b>	<b>2,833,439</b>	<b>-</b>	<b>(3,223)</b>	<b>(53,601,791)</b>	<b>2,912,989</b>

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

## **EMPOWER CLINICS INC.**

### **NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

September 30, 2021 and 2020

(in United States dollars, except where noted) - Unaudited

---

#### **1. NATURE OF OPERATIONS AND GOING CONCERN**

Empower Clinics Inc. ("Empower" or the "Company") was incorporated under the laws of the State of Nevada on February 20, 1997 and subsequently continued as a federally incorporated Canadian company pursuant to a continuation under the *Canada Business Corporations Act* on November 27, 2008.

On April 23, 2018, the Company completed the acquisition of Empower Healthcare Corp. (previously known as S.M.A.A.R.T Holdings Inc.) ("EHC"), which represented a reverse takeover of the Company by EHC, with EHC as the accounting acquirer and the Company as the accounting acquiree. In connection with the reverse takeover, the Company changed its name to "Empower Clinics Inc."

The Company is an integrated healthcare company that provides body and mind wellness for patients through its medical clinics, digital and telemedicine care, medical diagnostics laboratories and distribution of medical devices.

The registered office of the Company is located at Suite 505 - 1771 Robson Street, Vancouver, British Columbia, Canada, V6G 1C9.

#### **COVID-19**

On March 11, 2020, the World Health Organization declared the coronavirus disease ("COVID-19") a global pandemic, which continues to impact the international economy. As a direct result of the COVID-19 pandemic, the Company has realized both increases and decreases in patient visits and testing from time to time during the course of the pandemic, due to fluctuations in the severity of the pandemic, and implementations and reversals of government policies, regulations and responses from time to time, which resulted in fluctuating revenues and operating expenses. The Company continues to monitor the latest developments with respect to the pandemic globally, while also keeping a close eye on the more immediate impacts on the Company's North American operations. The Company remains committed to satisfying consumer and patient needs, and the Company's dedicated team of clinicians and educators continue to be available and provide support.

#### **Going concern**

These unaudited condensed interim consolidated financial statements ("consolidated financial statements") have been prepared under the assumption that the Company will be able to continue operating as a going concern, which assumes the Company will be able to realize its assets and discharge its liabilities in the normal course of operations for the foreseeable future. The Company has a history of losses and negative cash flows from operating activities, and as at September 30, 2021, the Company had a working capital deficiency of \$1,784,734 (December 31, 2020 - \$1,746,818) and an accumulated deficit of \$53,601,791 (December 31, 2020 - \$30,078,630). These circumstances present a material uncertainty and cast significant doubt over the Company's ability to continue as a going concern.

The Company anticipates that it will continue to actively pursue growth opportunities through acquisitions, the expansion of clinic locations and through new product development in order to drive revenue and generate positive cash flows from operations. The ability of the Company to continue operating as a going concern is dependent on its ability to raise sufficient additional funds to finance development activities and/or its ability to achieve profitable operations and positive cash flows from operations. There is no certainty management's plans described above will be successful or that sufficient financing will be available on terms acceptable to the Company or at all.

These consolidated financial statements do not reflect adjustments (if any) to the recorded amounts and classification of assets and liabilities, which could be necessary if the use of the going concern assumption is ultimately determined to be inappropriate. Such adjustments, if any, could be material.

**EMPOWER CLINICS INC.**

**NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

September 30, 2021 and 2020

(in United States dollars, except where noted) - Unaudited

---

**2. BASIS OF PREPARATION**

**a) Statement of compliance**

These consolidated financial statements were approved by the Company's Board of Directors and authorized for issue on November 22, 2021.

These consolidated financial statements have been prepared in accordance with International Accounting Standard 34 - Interim Financial Reporting using accounting policies consistent with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board. As such, these consolidated financial statements do not contain all the disclosures required by IFRS for annual financial statements and should be read in conjunction with the Company's audited annual consolidated financial statements for the years ended December 31, 2020, 2019, and 2018 ("annual financial statements").

The Company has reclassified certain items on the comparative consolidated statements of loss and comprehensive loss and consolidated statements of cash flows to improve clarity.

**b) Basis of presentation**

The consolidated financial statements have been prepared using the historical cost basis, except for certain financial assets and liabilities which are measured at fair value, as specified by IFRS for each type of asset, liability, income and expense as set out in the accounting policies below.

**c) Functional and presentation currency**

The consolidated financial statements are presented in United States ("US") dollars, except as otherwise noted, which is the functional currency of the Company and each of the Company's subsidiaries, except for Lawrence Park Health and Wellness Clinic Inc., 11000900 Canada Inc., Kai Medical Canada Corp, Medi-Collective Corp, and Medi-Collective: Brown's Line FHO Inc., for which Canadian dollars is the functional currency. References to C\$ are to Canadian dollars.

**d) Basis of consolidation**

These consolidated financial statements include the accounts of the Company and its subsidiaries. All intercompany transactions and balances are eliminated on consolidation. Control exists where the parent entity has power over the investee and is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Subsidiaries are included in the consolidated financial statements from the date control commences until the date control ceases.



**EMPOWER CLINICS INC.****NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

September 30, 2021 and 2020

(in United States dollars, except where noted) - Unaudited

**2. BASIS OF PREPARATION (continued)**

These consolidated financial statements incorporate the accounts of the Company and the following subsidiaries:

<b>Name of subsidiary</b>	<b>Country of Incorporation</b>	<b>Percentage Ownership</b>	<b>Functional Currency</b>	<b>Principal Activity</b>
11000900 Canada Inc. <sup>(1)</sup>	Canada	100%	CAD	Clinic operations
Empower Healthcare Assets Inc. <sup>(2)</sup>	USA	100%	USD	Holding company
Empower Healthcare Corp.	Canada	100%	USD	Holding company
Empower Healthcare Corp.	USA	100%	USD	Clinic operations
Kai Medical Canada Corp. <sup>(3)</sup>	Canada	100%	CAD	Product sales
Kai Medical Laboratory, LLC <sup>(4)</sup>	USA	100%	USD	Diagnostic testing
Lawrence Park Health and Wellness Clinic Inc. <sup>(4)</sup>	Canada	100%	CAD	Clinic operations
Medi + Sure Canada Inc. <sup>(5)</sup>	Canada	100%	CAD	Product sales
Medi Collective Corp. <sup>(6)</sup>	Canada	100%	CAD	Clinic operations
Medi-Collective: Brown's Line FHO Inc. <sup>(7)</sup>	Canada	100%	CAD	Clinic operations
S.M.A.A.R.T. Holding Co.	USA	100%	USD	Inactive
SMAART, Inc.	USA	100%	USD	Inactive
Sun Valley Alternative Health Centres NV, LLC <sup>(8)</sup>	USA	100%	USD	Held for sale
Sun Valley Health Franchising, LLC <sup>(8)</sup>	USA	100%	USD	Held for sale
Sun Valley Health Mesa, LLC <sup>(8)</sup>	USA	100%	USD	Held for sale
Sun Valley Health Tucson, LLC <sup>(8)</sup>	USA	100%	USD	Held for sale
Sun Valley Health West, LLC <sup>(8)</sup>	USA	100%	USD	Held for sale
Sun Valley Health, LLC <sup>(8)</sup>	USA	100%	USD	Held for sale
Sun Valley Health Holdings, LLC <sup>(8)</sup>	USA	100%	USD	Held for sale
THCF Access Point <sup>(9)</sup>	USA	100%	USD	Inactive
The Hemp and Cannabis Co. <sup>(9)</sup>	USA	100%	USD	Inactive

<sup>(1)</sup> Lawrence Park Health and Wellness Clinic Inc. and 11000900 Canada Inc. were acquired on December 31, 2020 (note 5).

<sup>(2)</sup> Empower Healthcare Assets Inc. was incorporated in the state of Delaware on April 16, 2019.

<sup>(3)</sup> Kai Medical Canada Corp. was incorporated on June 17, 2021.

<sup>(4)</sup> Kai Medical Laboratory, LLC was acquired on October 5, 2020 (note 4).

<sup>(5)</sup> Medi + Sure Canada Inc. was acquired on July 30, 2021 (note 6).

<sup>(6)</sup> Medi Collective Corp. was incorporated on May 12, 2021.

<sup>(7)</sup> Medi-Collective: Brown's Line FHO Inc. was incorporated on June 17, 2021.

<sup>(8)</sup> Acquired as part of the Sun Valley acquisition on April 30, 2019. Results of operations have been presented as discontinued operations in these interim condensed consolidated financial statements (note 7).

<sup>(9)</sup> The Hemp and Cannabis Co. and THCF Access Point have been inactive since 2018.

**3. SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies applied in the preparation of these consolidated financial statements are consistent with those applied and disclosed in note 3 to the annual consolidated financial statements.

**EMPOWER CLINICS INC.**

## NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2021 and 2020

(in United States dollars, except where noted) - Unaudited

**4. ACQUISITION OF KAI MEDICAL**

On October 5, 2020, the Company acquired 100% of the membership interest of Kai Medical Laboratory, LLC ("Kai Medical"), for consideration with a fair value of \$20,050 comprised of 500,000 stock options with a fair value of \$10,025 and 500,000 warrants with a fair value of \$10,025. The options and warrants are exercisable at a price of \$0.04 (C\$0.05) and expire on October 5, 2023. The options and warrants were valued using a Black-Scholes option pricing model with the following assumptions: three year expected life, risk free rate of 0.23%, share price of \$0.03 (C\$0.04) and volatility of 119.32%.

The transaction has been accounted for as a business combination under IFRS 3 - Business Combinations.

KAI Medical Laboratory operates a high-complexity CLIA and COLA accredited laboratory that provides reliable and accurate testing solutions to hospitals, medical clinics, pharmacies, and employer groups.

The following table summarizes the final purchase price allocation:

<b>Assets acquired</b>	<b>\$</b>
Cash	9,826
Accounts receivable	1,314
Prepaid	8,002
Property and equipment	1,422,819
Intangible asset	245,000
	<b>1,686,961</b>
<b>Liabilities assumed</b>	
Accounts payable and accrued liabilities	406,528
Loan payable	1,139,577
Lease liability	294,669
Disaster loan	59,846
PPP loan	77,028
<b>Net assets at fair value, as at October 5, 2020</b>	<b>(290,687)</b>
<b>Consideration</b>	
Fair value of 500,000 stock options issued	10,025
Fair value of 500,000 warrants issued	10,025
<b>Total consideration</b>	<b>20,050</b>
<b>Goodwill</b>	<b>310,737</b>

Accounts receivable had a fair value of \$1,314 while gross contractual accounts receivable were \$32,448 at the date of acquisition.

Property and equipment acquired included \$294,669 of right-of-use assets.

The intangible asset is comprised of the laboratory certification license which was valued at replacement cost which approximates the costs incurred by Kai Medical to acquire the laboratory certification license.

The loan payable had a principal balance of \$1,139,577, accrues interest at the prime rate plus 2% and matures on June 7, 2028. The prime rate as at October 5, 2020 was 3.25%. The loan payable's fair value was determined to be equal to its carrying value as the loan is collateralized, the borrower did not breach any of the default provisions, and the lender is an unrelated third party.

The disaster loan had a principal balance of \$150,000, accrues interest at 3.75% per annum and matures on June 24, 2040. The disaster loan was fair valued at \$59,846 using a discount rate of 13.83%.

The PPP loan had a principal balance of \$89,379, accrues interest at 1.00% per annum and matures on April 30, 2022. The PPP loan was fair valued at \$77,028 using a discount rate of 16.63%.

**EMPOWER CLINICS INC.**

## NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2021 and 2020

(in United States dollars, except where noted) - Unaudited

**4. ACQUISITION OF KAI MEDICAL (continued)**

The lease liability represents four leases with a fair value of \$294,669 on the date of acquisition, which is the net present value of the minimum future lease payments determined using the following assumptions:

	Lease 1	Lease 2	Lease 3	Lease 4
Remaining term (months)	20	5	55	55
Monthly payments	\$3,050 to \$3,250	\$2,850	\$2,554	\$2,041
Incremental borrowing rate	5.5%	5.5%	5.5%	5.5%
<b>Fair value on acquisition</b>	<b>\$60,145</b>	<b>\$14,039</b>	<b>\$122,536</b>	<b>\$97,949</b>

The goodwill generated as a result of this acquisition relates to other intangible assets that do not qualify for separate recognition.

**5. ACQUISITION OF LAWRENCE PARK & ATKINSON**

On December 31, 2020, the Company acquired 100% ownership of Lawrence Park Health and Wellness Clinic Inc. ("Lawrence Park") and 11000900 Canada Inc. ("Atkinson", together "Lawrence Park & Atkinson" or "LP&A"). Lawrence Park & Atkinson operate para-medical clinics in the Greater Toronto Area of Ontario, Canada. The acquisition of these entities is considered one combined acquisition as the businesses carry on similar activities in Canada and are evaluated together as one business by management, so are considered one CGU from the Company's perspective.

Consideration in the transaction had a fair value of \$1,766,933 comprised of cash consideration of \$215,991, cash payable of \$58,907, up to 3,750,000 stock options with a fair value of \$344,110 and share consideration with a fair value of \$1,147,925. Share consideration consisted of the issuance of 2,564,102 common shares of the Company with a fair value of \$0.2238 (C\$0.2850) based on the stock price on December 31, 2020 and 2,564,102 common shares of the Company subject to voluntary trading restrictions imposed by a contract (and therefore no discount for lack of marketability) lasting through December 31, 2022 and having an average fair value of \$0.2238 (C\$0.2850) per share, which have the following escrow condition: 320,513 common shares to be released every three months commencing on March 31, 2021.

Pursuant to the terms of the acquisition of LP&A, the 3,750,000 stock options are subject to the following milestone issuance schedule:

- Milestone 1 - 1/3 exercisable after 10 new clinics are opened within 18 months of the acquisition date
- Milestone 2 - 1/3 exercisable after an additional 10 new clinics are opened
- Milestone 3 - 1/3 exercisable after a further additional 10 new clinics are opened

The stock options will have a term of five years commencing on the date of issuance and become exercisable at a price equal to the greater of (a) the volume weighted average trading price ("VWAP") for the 10 trading days prior to the achievement of Milestone 1, and (b) the greater of the closing market prices of the Empower shares on (i) the trading day prior to the date of grant of the stock options; and (ii) in the event that the shares are not publicly traded, the fair value determined by an independent appraiser. The Company used the Black-Scholes option pricing model to determine the \$344,110 fair value of the stock options with the following assumptions:

	Milestone 1	Milestone 2	Milestone 3
Milestone date	June 30, 2022	December 31, 2023	June 30, 2025
Years to maturity	4.00	4.75	5.50
Risk-free rate	0.190%	0.250%	0.480%
Exercise price	C\$0.2850	C\$0.2850	C\$0.2850
Share price	C\$0.2850	C\$0.2850	C\$0.2850
Volatility	108.1%	108.1%	108.1%
Fair value per option	C\$0.2056	C\$0.2173	C\$0.2273
Probability	90%	50%	25%
<b>Fair value per option tranche <sup>(1)</sup></b>	<b>\$181,634</b> <b>(C\$231,256)</b>	<b>\$106,679</b> <b>(C\$135,824)</b>	<b>\$55,797</b> <b>(C\$71,041)</b>

(1) Canadian dollar amount translated using December 31, 2020 foreign exchange rate of 0.7854

The transaction has been accounted for as a business combination under IFRS 3 - Business Combinations.

**EMPOWER CLINICS INC.**

## NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2021 and 2020

(in United States dollars, except where noted) - Unaudited

**5. ACQUISITION OF LAWRENCE PARK & ATKINSON (continued)**

The following table summarizes the final purchase price allocation:

<b>Assets acquired</b>	<b>\$</b>
Cash and cash equivalents	38,521
Deposit	4,103
Intangible assets	58,907
Right-of-use assets	39,271
	<b>140,802</b>
<b>Liabilities assumed</b>	
Accounts payable and accrued liabilities	54,396
Lease liability	45,595
Loans payable	45,287
<b>Net assets at fair value, as at December 31, 2020</b>	<b>(4,476)</b>
<b>Consideration</b>	
Cash consideration	215,991
Cash consideration - withheld	58,907
Stock options	344,110
Share consideration	1,147,925
<b>Total consideration</b>	<b>1,766,933</b>
<b>Goodwill</b>	<b>1,771,409</b>

The intangible assets are comprised of the trade name with a fair value of \$43,198 and customer relationships with a fair value of \$15,709. The fair value of the trade name was determined using the relief from royalty method and the fair value of the customer relationships was determined using a discounted cash flow analysis. The key assumptions used in the cash flow projection related to the trade name include: (1) a discount rate of 20.5%; (2) revenue growth rates of 3.1% - 35%; (3) royalty rate of 1%; (4) discount rate of 20.5% and (5) terminal revenue growth of 2% per year. The key assumptions used in the cash flow projection related to the customer relationships include (1) customer growth rate of 2%; (2) customer retention rates of 55% and discount rate of 22.5%.

The lease liability represents one lease with a fair value of \$45,595 on the date of acquisition, which is the net present value of the minimum future lease payments determined using the following assumptions: (1) remaining number of payments - 13; (2) rent payment - \$3,631; and (3) incremental borrowing rate - 4.04%.

The loans payable balance at acquisition consists of two CEBA loans with a two-year term to maturity that have a fair value of \$45,287. The fair value was determined using a discounted cash flow analysis with a discount rate of 10.2%.

The goodwill generated as a result of this acquisition relates to other intangible assets that do not qualify for separate recognition.

**6. ACQUISITION OF MEDISURE**

On July 30, 2021, the Company acquired 100% ownership of Medi + Sure Canada Inc. ("MediSure"). Founded in 2010, MediSure produces diabetes testing products for sale in the Canadian market.

Consideration in the transaction had an aggregate fair value of \$2,720,525 (C\$3,403,767) comprised of cash consideration of \$794,021 (C\$1,000,000), a promissory note of \$200,363 (C\$250,000), and 4,582,483 common shares with a fair value of \$1,726,141 (C\$2,153,767). The promissory note is payable on July 30, 2022. Due to the short-term nature of the note, effects of discounting were deemed to be immaterial. Of the total common shares issued, 2,036,659 shares are subject to contractually imposed trading restrictions through July 2023 with 254,582 common shares released from escrow every three months commencing on October 30, 2021 (the "restricted trading shares"). The fair value of the restricted trading shares was not subject to a discount for lack of marketability as the trading restrictions are imposed via a contract as opposed to via securities legislation.

**EMPOWER CLINICS INC.**

## NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2021 and 2020

(in United States dollars, except where noted) - Unaudited

**6. ACQUISITION OF MEDISURE (continued)**

The transaction has been accounted for as a business combination under IFRS 3 - Business Combinations.

The following table summarizes the preliminary purchase price allocation:

<b>Assets acquired</b>	<b>\$</b>
Accounts receivable	119,961
GST receivable	3,338
Inventory	161,209
Prepaid expense	4,841
Property, plant, and equipment	5,359
Right-of-use assets	64,899
	<b>359,607</b>
<b>Liabilities assumed</b>	
Accounts payable and accrued liabilities	(52,922)
Bank indebtedness	(782)
Accrued liabilities	(41,155)
Lease liability	(64,899)
Shareholder loan	(10,715)
Accrued taxes	5,630
<b>Net assets at fair value, as at July 30, 2021</b>	<b>(164,843)</b>
<b>Consideration</b>	
Cash consideration	794,021
Fair value of promissory note (consideration payable)	200,363
Fair value of 2,545,824 share consideration	958,967
Fair value of 2,036,659 restricted share consideration	767,174
<b>Total consideration</b>	<b>2,720,525</b>
<b>Goodwill</b>	<b>2,525,761</b>

The lease liability represents one lease with a fair value of \$64,899 on the date of acquisition, which is the net present value of the minimum future lease payments determined using the following assumptions: (1) remaining number of payments - 24; (2) monthly payment - \$2,410; and (3) incremental borrowing rate - 6.00% per annum.

The shareholder loan balance at acquisition consists of a vehicle loan with a payout balance of \$10,715 (C\$13,407).

The goodwill generated as a result of this acquisition relates to other intangible assets that do not qualify for separate recognition. Goodwill was allocated to the Diagnostics & Technology CGU (note 11).

**7. DISCONTINUED OPERATIONS - SUN VALLEY**

On July 21, 2021, the Company entered into a non-binding agreement with a related party (subsequently updated to a letter of intent (note 26)) for the sale of 100% of the Company's interest in Sun Valley. The proposed consideration to be received by the Company is in the form of 1,000,000 common shares of the Company and payment of a prepaid rent balance for one of the clinic locations in Mesa, Arizona.

**EMPOWER CLINICS INC.**

## NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2021 and 2020

(in United States dollars, except where noted) - Unaudited

**7. DISCONTINUED OPERATIONS - SUN VALLEY (continued)**

The following table summarizes the asset and liabilities classified as held for sale related to the discontinued operations of Sun Valley:

	<b>September 30, 2021</b>
	<b>\$</b>
Cash	24,459
Accounts receivable	12,000
Prepaid	2,344
Property and equipment	87,806
<b>Asset classified as held for sale</b>	<b>126,609</b>
Accounts payable and accrued liabilities	(28,828)
Lease liability	(70,255)
<b>Liabilities classified as held for sale</b>	<b>(99,083)</b>

The discontinued operations include the income (losses) during the period for the three and nine months ended September 30, 2021 and 2020.

	Three months ended		Nine months ended	
	<b>September 30, 2021</b>	September 30, 2020	<b>September 30, 2021</b>	September 30, 2020
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Revenue	<b>71,915</b>	557,979	<b>193,583</b>	2,134,260
Direct expenses excluding depreciation and amortization	<b>2,415</b>	(375,982)	<b>6,201</b>	68,625
Gross margin	<b>69,500</b>	933,961	<b>187,382</b>	2,065,635
Operating expenses	<b>135,389</b>	1,024,620	<b>610,834</b>	1,848,541
Impairment of property and equipment	-	-	<b>18,728</b>	-
Legal and professional fees (recovery)	<b>(10,474)</b>	1,948	<b>4,180</b>	25,808
Interest expense (recovery)	<b>(2,206)</b>	3,629	<b>3,610</b>	12,640
Depreciation expense	<b>7,318</b>	50,177	<b>67,432</b>	151,868
Gain on lease termination	-	-	<b>(4,471)</b>	-
Net (loss) income from discontinued operations	<b>(60,527)</b>	(146,413)	<b>(512,931)</b>	26,778

The cash flows associated with the discontinued operations for the three and nine months ended September 30, 2021 and 2020 were as follows:

	Three months ended		Nine months ended	
	<b>September 30, 2021</b>	September 30, 2020	<b>September 30, 2021</b>	September 30, 2020
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Net (loss) income from discontinued operations	<b>(55,925)</b>	(146,414)	<b>(512,931)</b>	26,778
Adjustments to non-cash items:				
Depreciation expense	<b>2,716</b>	50,177	<b>67,432</b>	151,868
Impairment of property and equipment	-	-	<b>18,728</b>	-
Interest expense (recovery)	<b>(2,206)</b>	3,629	<b>3,610</b>	12,640
Gain on lease termination	-	-	<b>(4,471)</b>	-
Net cash (used in) provided by discontinued operations	<b>(55,415)</b>	(92,608)	<b>(427,632)</b>	191,286

**EMPOWER CLINICS INC.**

## NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2021 and 2020

(in United States dollars, except where noted) - Unaudited

**8. ACCOUNTS RECEIVABLE**

The Company had the following in accounts receivable at September 30, 2021 and December 31, 2020:

	September 30, 2021	December 31, 2020
	\$	\$
Trade receivables, net	203,777	245,891
GST receivable	242,836	18,975
<b>Total</b>	<b>446,613</b>	<b>264,866</b>

The Company estimates a provision for lifetime expected credit losses for receivables aged greater than 91 days. As at September 30, 2021, the Company had \$116,960 (December 31, 2020 - \$nil) recorded as a provision for expected credit losses.

**9. INVENTORY**

The Company had the following in inventory at September 30, 2021 and December 31, 2020:

	September 30, 2021	December 31, 2020
	\$	\$
Diagnostics and COVID-19 testing supplies	522,938	17,681
Diabetes testing supplies	330,748	-
<b>Total</b>	<b>853,686</b>	<b>17,681</b>

**10. PROPERTY AND EQUIPMENT**

A continuity of property and equipment is as follows:

	Right-of-use assets	Furniture and equipment	Leasehold improvements	Testing equipment	Asset under Construction	Total
	\$	\$	\$	\$	\$	\$
<b>Cost</b>						
Balance, December 31, 2019	857,083	36,780	91,858	-	-	985,721
Acquisition of Kai Medical	294,669	114,000	86,000	928,149	-	1,422,818
Acquisition of LP&A	39,271	-	-	-	-	39,271
Additions	-	3,495	-	-	-	3,495
Disposals	(402,533)	-	-	-	-	(402,533)
Balance, December 31, 2020	788,490	154,275	177,858	928,149	-	2,048,772
Additions	927,218	153,429	571,410	15,455	876,442	2,543,954
Disposals	(209,070)	(15,180)	(32,086)	-	-	(256,336)
Impairment	-	(8,917)	(9,811)	-	-	(18,728)
Foreign exchange loss	(604)	(359)	(709)	(172)	-	(1,844)
Transferred to assets held for sale	(296,657)	(30,943)	(49,961)	-	-	(377,561)
<b>Balance, September 30, 2021</b>	<b>1,209,377</b>	<b>252,305</b>	<b>656,701</b>	<b>943,432</b>	<b>876,442</b>	<b>3,938,257</b>
<b>Accumulated depreciation</b>						
Balance, December 31, 2019	(147,195)	(7,179)	(33,924)	-	-	(188,298)
Depreciation	(222,910)	(35,776)	(40,881)	(29,005)	-	(328,572)
Disposals	58,145	-	-	-	-	58,145
Balance, December 31, 2020	(311,960)	(42,955)	(74,805)	(29,005)	-	(458,725)
Depreciation	(193,167)	(85,085)	(65,198)	(87,197)	-	(430,647)
Disposals	110,737	15,180	32,086	-	-	158,003
Foreign exchange loss (gain)	309	7	(101)	2	-	217
Transferred to assets held for sale	232,308	9,164	48,283	-	-	289,755
<b>Balance, September 30, 2021</b>	<b>(161,773)</b>	<b>(103,689)</b>	<b>(59,735)</b>	<b>(116,200)</b>	<b>-</b>	<b>(441,397)</b>
<b>Carrying amount</b>						
Balance, December 31, 2020	476,530	111,320	103,053	899,144	-	1,590,047
<b>Balance, September 30, 2021</b>	<b>1,047,604</b>	<b>148,616</b>	<b>596,966</b>	<b>827,232</b>	<b>876,442</b>	<b>3,496,860</b>

**EMPOWER CLINICS INC.****NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

September 30, 2021 and 2020

(in United States dollars, except where noted) - Unaudited

**10. PROPERTY AND EQUIPMENT (continued)**

As a result of the closure of Sun Valley clinics during the nine months ended September 30, 2021, the Company disposed of right of use assets with cost of \$134,887 and accumulated depreciation of \$81,662. Sun Valley clinic closures also resulted in disposals in furniture and equipment and leasehold improvements for the nine months ended September 30, 2021 with cost of \$47,266 and accumulated depreciation of \$28,538.

As a result of the non-binding agreement entered into on July 21, 2021 for the sale of 100% of the Company's interest in Sun Valley (note 7 and 26), the Company transferred right of use assets with cost of \$296,657 and accumulated depreciation of \$232,308, furniture and equipment with cost of \$37,593 and accumulated depreciation of \$27,717 and leasehold improvements with cost of \$108,760 and accumulated depreciation of \$87,859 to assets held for sale.

On April 1, 2021, the Company amended the terms of its lease agreement for the Kai Medical testing laboratory. As a result of the amendment, the Company derecognized the right-of-use asset with cost of \$74,183 and accumulated depreciation of \$29,075; these amounts are included in disposals of right-of-use assets. The Company recorded the right-of-use asset for the amended lease term and payments discounted at a rate of 6% per annum in the amount of \$511,951.

Additions to right-of-use assets includes \$415,267 for leases entered for Lawrence Park & Atkinson, Medi-Collective, and Brown's Line as well as the lease acquired in MediSure. Additions were measured as the future lease payments discounted at a rate of 6% per annum.

During the year ended December 31, 2020, the Company defaulted on the right-of-use CBD extraction facility and as a result, derecognized the right of use asset with a cost of \$402,533 and accumulated depreciation of \$58,145. The Company recognized a gain on lease termination of \$14,049. Included in accounts payable and accrued liabilities is \$15,533 in accrued unpaid rent for three months where the Company still had possession of the facility.

**11. INTANGIBLE ASSETS**

A continuity of intangible assets for the year ended December 31, 2020 and the nine months ended September 30, 2021 is as follows:

	Patient records	Brands, trademarks, licenses and domain names	Management software	Software	Total
	\$	\$	\$	\$	\$
<b>Cost</b>					
Balance, December 31, 2019	389,580	263,695	51,100	-	704,375
Additions	-	-	-	138,855	138,855
Acquisition of Kai Medical	-	245,000	-	-	245,000
Acquisition of LP&A	58,907	-	-	-	58,907
Impairment	(69,724)	(131,996)	-	(138,855)	(340,575)
Balance, December 31, 2020	378,763	376,699	51,100	-	806,562
Foreign exchange gain	363	-	-	-	363
<b>Balance, September 30, 2021</b>	<b>379,126</b>	<b>376,699</b>	<b>51,100</b>	<b>-</b>	<b>806,925</b>
<b>Accumulated amortization</b>					
Balance, December 31, 2019	(299,935)	(98,700)	(51,100)	-	(449,735)
Amortization	(19,921)	(32,999)	-	-	(52,920)
Balance, December 31, 2020	(319,856)	(131,699)	(51,100)	-	(502,655)
Amortization	(8,836)	(36,750)	-	-	(45,586)
Foreign exchange loss	(55)	-	-	-	(55)
<b>Balance, September 30, 2021</b>	<b>(328,747)</b>	<b>(168,449)</b>	<b>(51,100)</b>	<b>-</b>	<b>(548,296)</b>
<b>Carrying amount</b>					
Balance, December 31, 2020	58,907	245,000	-	-	303,907
<b>Balance, September 30, 2021</b>	<b>50,379</b>	<b>208,250</b>	<b>-</b>	<b>-</b>	<b>258,629</b>



**EMPOWER CLINICS INC.**

## NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2021 and 2020

(in United States dollars, except where noted) - Unaudited

**11. INTANGIBLE ASSETS (continued)****Goodwill**

A continuity of goodwill for the year ended December 31, 2020 and the nine months ended September 30, 2021 is as follows:

	<b>Total</b>
	<b>\$</b>
Balance, December 31, 2019	117,218
Acquisition of Kai Medical	310,737
Acquisition of Lawrence Park & Atkinson	1,771,409
Impairment	(117,218)
Balance, December 31, 2020	2,082,146
Acquisition of MediSure	2,525,761
<b>Balance, September 30, 2021</b>	<b>4,607,907</b>

At December 31, 2020, the Company assessed the goodwill recorded through the Sun Valley acquisition for impairment and found that the entire amount was impaired resulting in an impairment loss of \$117,218. The Company assessed intangible patient records and brand for impairment and found them to be fully impaired resulting in an impairment loss of \$340,575. The impairment losses pertaining to the Sun Valley goodwill and intangible assets related to a change in expected future cash flows for the CGU as a result of: 1) changes in the Arizona licensing regulations on June 7, 2019, which now requires certification on a two-year period whereas it was on a one-year basis prior to the change in regulation. The change in licensing regulations is expected to result in increased attrition and lower patient totals in Arizona as compared to that considered at the acquisition date which resulted in an impairment test being conducted on June 7, 2019, and 2) the negative impact of legalization of the passage of the Arizona Marijuana Legalization Initiative on November 3, 2020, which legalized the possession and use of recreational marijuana for adults (age 21 years or older). In addition, the legalization allows people to grow no more than six marijuana plants for personal use in their residence, as long as the plants are within an enclosed area with a lock and beyond public view. This legalization in Arizona has had a material adverse effect on the Company's operations within the state.

The impairment was determined based on value in use calculation which uses cash flow projections covering a five-year period and a discount rate of 6% per annum. The cash flows beyond the five-year period have been extrapolated using a terminal growth rate of 1.5% per annum. Key assumptions used in the cash flow projection related to attrition of 59%. The new patient attraction rate was estimated to be 68% as of acquisition date and 24% post legalization.

At December 31, 2020, the Company assessed the goodwill recorded through the Kai acquisition for impairment. The Company performed a discounted cash flow analysis to determine Kai Medical's value in use, which incorporated the following assumptions: (1) discount rate - 17%; (2) income tax rate - 27%; (3) terminal growth rate - 2%; (4) working capital - 8% of sales. The Company noted that the recoverable amount was greater than the carrying value and that no impairment was required as at December 31, 2020.

During the nine months ended September 30, 2021, goodwill from the Lawrence Park & Atkinson acquisition was allocated to the Health & Wellness CGU while goodwill from the Kai Medical acquisition was allocated to the Diagnostics & Technology CGU, consistent with its established reportable operating segments. Goodwill from the MediSure acquisition on July 30, 2021 was added to the Diagnostics & Technology CGU. The Company performs its annual impairment test of goodwill at fiscal year end.

A summary of goodwill by CGU at September 30, 2021 is as follows:

	<b>Health &amp; Wellness</b>	<b>Diagnostics &amp; Technology</b>	<b>Total</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>
Kai Medical	-	310,737	310,737
Lawrence Park & Atkinson	1,771,409	-	1,771,409
MediSure	-	2,525,761	2,525,761
<b>Total</b>	<b>1,771,409</b>	<b>2,836,498</b>	<b>4,607,907</b>

**EMPOWER CLINICS INC.**

## NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2021 and 2020

(in United States dollars, except where noted) - Unaudited

**12. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**

	September 30, 2021	December 31, 2020
	\$	\$
Trade payables and accrued liabilities	2,159,463	1,920,840
Payroll liabilities	1,287,199	1,521,885
<b>Total</b>	<b>3,446,662</b>	<b>3,442,725</b>

**13. LOANS PAYABLE**

	September 30, 2021	December 31, 2020
	\$	\$
Balance, beginning of period	2,132,227	761,711
Acquisition of Kai Medical	-	1,276,449
Acquisition of Lawrence Park	-	27,172
Acquisition of 11000900 Canada Ltd.	-	18,115
CEBA loan	-	31,417
PPP loan addition	49,942	-
Accretion expense	18,761	1,345
Interest expense	48,940	60,397
Repayment	(965,971)	(44,379)
Gain on loan forgiveness	(75,699)	-
Unrealized foreign exchange gain	(285)	-
Balance, end of period	1,207,915	2,132,227
Less: Current portion of loans payable	126,704	992,070
<b>Loans payable</b>	<b>1,081,211</b>	<b>1,140,157</b>

Loans payable as at December 31, 2019 consisted only of a loan with Bayview Equities Ltd. (the "Secured Party") with a principal amount of \$550,000. The balance as at December 31, 2019 and December 2018 reflects the principal plus accrued interest to date. The loan bears interest at 6% per annum and is due upon demand. The loan is secured by a grant to the Secured Party of a security interest in all the assets of EHC. On January 11, 2021, the Company repaid the principal and accrued interest of \$258,293 totalling \$808,293.

On May 27, 2020, the Company received a Canada Emergency Business Account ("CEBA") loan in the amount of \$31,417 (C\$40,000). The loan is interest free until January 1, 2023, at which time accrues interest at a rate of 5% per annum, payable monthly on the last day of each month. The loan has a possibility of forgiveness of 33% if it is repaid on or before December 31, 2022.

On October 5, 2020, through the acquisition of Kai Medical, the Company assumed three secured loans with a total fair value of \$1,276,449 (note 4). The total accretion expense and interest expense applicable to the Kai loans payable was \$13,841 and \$48,579, respectively (year ended December 31, 2020 - \$13,284 and \$1,345, respectively).

On December 31, 2020, through the acquisition of LP&A, the Company assumed two CEBA loans with a fair value of \$27,172 (C\$34,595) and \$18,115 (C\$23,064) and amounts due at maturity of C\$60,000 and C\$40,000, respectively. The loans are interest free until January 1, 2023, at which time interest accrues at a rate of 5% per annum, payable monthly on the last day of each month. The loans have a possibility of forgiveness of 33% of each loan if they are repaid on or before December 31, 2022. The loans were discounted using an annual rate of 3.21% and the fair value reflects an estimate that the amount will be repaid prior to December 31, 2022. Accretion expense recorded on these loans for the nine months ended September 30, 2021 was \$2,733.

On March 31, 2021, through its subsidiary Kai Medical, the Company entered into a loan agreement for \$86,378 with the US Small Business Administration issued under the CARES Act program: "Paycheck Protection Program" (the "PPP loan"). The loan bears interest at 1% per annum and matures on March 31, 2026. The loan was discounted at an estimated market rate of 16.63% recorded at its present value of \$49,942. As a result, \$36,436 was recorded as government grant income and is included in other income for the three and nine months ended September 30, 2021. Accretion expense and interest expense recorded on this loan for the three and nine months ended September 30, 2021 was \$2,187 and \$361, respectively.

**EMPOWER CLINICS INC.**

## NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2021 and 2020

(in United States dollars, except where noted) - Unaudited

**13. LOANS PAYABLE (continued)**

On August 31, 2021, a loan held in Kai Medical with a carrying amount of \$75,699 was forgiven by the U.S. Small Business Administration. As a result of the loan forgiveness, the Company recorded \$75,699 as income from loan forgiveness and is included in other income on the condensed interim consolidated statement of loss and comprehensive loss for the nine months ended September 30, 2021.

During the nine months ended September 30, 2021, the Company made scheduled payments on loans payable of \$157,678 (2020 - \$nil).

**14. NOTES PAYABLE**

	September 30, 2021	December 31, 2020
	\$	\$
Balance, beginning of period	708,361	969,891
Settled in shares (a)(b)	-	(148,745)
Repayment (b)(c)	(553,324)	(197,862)
Realized foreign exchange (gain) loss	(1,524)	4,918
Unrealized foreign exchange loss	2,630	6,304
Accretion expense	-	13,110
Interest expense	13,128	60,745
Balance, end of period	169,271	708,361

On April 30, 2019, the Company issued a promissory note payable in the amount of \$125,000. The promissory note was due July 31, 2019 and bears interest at a rate of 4% per annum. The Company was in default and extended the maturity date to August 31, 2020. The default resulted in a penalty of \$15,000 if the loan was not repaid in full by July 31, 2019 and an additional \$15,000 if the loan was not paid in full by August 31, 2019. On July 15, 2020, the Company settled the promissory note in 4,100,634 units in the private placement on the same date. The note had a carrying amount of \$148,745 which represented the principal plus interest and \$30,000 of late payment penalties. The Company recorded a loss on debt settlement of \$2,380 which is included in general and administrative expense.

On October 1, 2019, the Company issued a promissory note payable in the amount of \$188,765 (C\$250,000). The promissory note payable was due April 1, 2020 and bears interest at 10% per annum. Pursuant to the issuance of the note payable the Company incurred transaction costs including an administrative charge of \$18,876 (C\$25,000) and an obligation to issue 150,000 common shares of the Company with a fair value of \$6,811 which was been recorded as shares to be issued on the consolidated statements of changes in equity. The note payable has been recognized at amortized cost of \$163,093 (C\$216,000). On May 20, 2020, the Company issued a total of 844,444 common shares of which 694,444 were to settle an administrative charge of \$18,876 (C\$25,000) and the remaining 150,000 common shares were to settle the obligation to issue shares. The Company repaid the principal of \$250,000 on December 11, 2020. As at December 31, 2020, the Company had a balance owing of \$22,944 for accrued interest. The interest was repaid on January 11, 2021.

On February 23, 2021, the Company repaid a promissory note with a principal of \$437,985 and accrued interest of \$92,395.

**EMPOWER CLINICS INC.****NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

September 30, 2021 and 2020

(in United States dollars, except where noted) - Unaudited

**15. LEASE LIABILITY**

	Health & Wellness	Diagnostics & Technology	Corporate	Discontinued operations	Total
	\$	\$	\$	\$	\$
Balance, December 31, 2019	387,985	-	14,761	332,150	734,896
Acquisition of Kai Medical	-	294,669	-	-	294,669
Acquisition of LP&A	45,595	-	-	-	45,595
Interest expense	11,103	3,969	568	15,669	31,309
Payments	(15,405)	(25,586)	(12,270)	(173,139)	(226,400)
Termination of leases	(383,683)	-	-	-	(383,683)
Balance, December 31, 2020	45,595	273,052	3,059	174,680	496,386
Additions	350,368	576,850	-	-	927,218
Interest expense	7,110	25,375	31	3,610	36,126
Payments	(51,942)	(107,038)	(3,090)	(50,339)	(212,409)
Termination of leases	-	(46,260)	-	(57,696)	(103,956)
Lease liabilities classified as held for sale	-	-	-	(70,255)	(70,255)
Foreign exchange loss	759	210	-	-	969
<b>Balance, September 30, 2021</b>	<b>351,890</b>	<b>722,189</b>	<b>-</b>	<b>-</b>	<b>1,074,079</b>
Less: current portion of lease liability	86,246	132,096	-	-	218,342
<b>Lease liability</b>	<b>265,644</b>	<b>590,093</b>	<b>-</b>	<b>-</b>	<b>855,737</b>

During the year ended December 31, 2020, the Company defaulted on the right-of-use CBD extraction facility and as a result, derecognized the right-of-use asset associated with the CBD extraction facility (note 10). As a result, the Company extinguished the associated lease liability of \$383,683.

On April 1, 2021, the Company amended the terms of its lease agreement for the Kai Medical testing laboratory to extend the term to August 31, 2027 and doubled the space that it occupied. As a result of the amendment, the Company disposed of right-of-use assets with cost of \$74,183 and accumulated depreciation of \$29,075 and extinguished the lease liability with a carrying amount of \$46,260. The Company recorded a gain on extinguishment of \$1,152. The lease liability was re-measured to be \$511,951 on the modification date by discounting the amended future lease payments at a rate of 6% per annum.

As a result of the closure of Sun Valley clinics during the nine months ended September 30, 2021, the Company disposed of right of use assets with cost of \$134,887 and accumulated depreciation of \$81,662 and extinguished the lease liability with a carrying amount of \$57,696. The Company recorded a gain on extinguishment of \$4,471 which has been included in net loss from discontinued operations.

On May 15, 2021 the Company entered into a new lease agreement for its subsidiary Medi-Collective: Brown's Line FHO Inc. The Company recorded a lease liability of \$217,427, which represents the future lease payments discounted at a rate of 6% per annum.

For the nine months ended September 30, 2021, the Company recognized an expense of \$47,573 (September 30, 2020 - \$35,043) with respect to short-term and low value leases.

**EMPOWER CLINICS INC.**

## NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2021 and 2020

(in United States dollars, except where noted) - Unaudited

**16. WARRANT LIABILITY**

The warrants are classified as a financial instrument under the principles of IFRS 9, as the exercise price is in Canadian dollars while the functional currency of the Company is the US dollar. Accordingly, warrants are remeasured to fair value at each reporting date with the change in fair value charged to change in fair value of warrant liability in the consolidated statement of loss and comprehensive loss.

	Weighted average Exercise Price (C\$)	Warrants #	Warrant Liability \$
As at December 31, 2019		46,257,289	106,312
Issued	0.12	69,400,524	1,061,738
Exercised	0.13	(49,800,176)	(5,341,149)
Expired	0.39	(11,642,185)	-
Loss on change in fair value of warrant liability			11,886,796
As at December 31, 2020		54,215,452	7,713,697
Issued	0.12	2,110,000	116,761
Exercised	0.13	(42,725,547)	(24,746,846)
Expired	0.16	(294,108)	-
Loss on change in fair value of warrant liability			19,721,807
<b>As at September 30, 2021</b>		<b>13,305,797</b>	<b>2,805,419</b>
Less: Current portion of warrant liability			1,076,694
Non-current portion of warrant liability			1,728,725

On March 8, 2021, pursuant to the exercise of 1,760,000 agent purchase warrants, the Company issued 1,760,000 share purchase warrants for \$0.04 (C\$0.05) per agent purchase warrant. Each warrant entitles the holder to acquire one common share at a price of \$0.09 (C\$0.12) per share and expire on November 9, 2022. The agent purchase warrants were valued at \$116,761 using the Black-Scholes option pricing model with the following assumptions: a 1.67 year expected average life, share price of \$0.69 (C\$0.87); 100% volatility; risk-free interest rate of 0.29%; and an expected dividend yield of 0%. The fair value of these agent purchase warrants was recorded to warrant liability.

Included in warrants issued and exercised is 350,000 warrants resulting from the reinstatement of expired warrants for certain holders which were immediately exercised. There was no profit or loss associated with the warrants as the derivative component had a fair value of \$nil as a result of a zero-term expected life.

The following table summarizes the warrants outstanding and exercisable as at September 30, 2021:

Expiry date	Number of warrants	Weighted average exercise price (C\$)	Weighted average remaining life (in years)
April 8, 2022	1,158,017	C\$0.16	0.52
April 16, 2022	2,525,000	C\$0.10	0.54
July 15, 2022	1,416,700	C\$0.12	0.79
September 9, 2022	3,746,080	C\$0.31	0.94
November 9, 2022	3,960,000	C\$0.12	1.11
October 5, 2023	500,000	C\$0.05	2.01
	<b>13,305,797</b>	<b>C\$0.17</b>	<b>0.90</b>

**EMPOWER CLINICS INC.**

## NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2021 and 2020

(in United States dollars, except where noted) - Unaudited

**17. CONVERTIBLE NOTES PAYABLE**

	September 30, 2021	December 31, 2020
	\$	\$
Balance, beginning of period	200,530	192,717
Issue of notes payable	-	-
Unrealized foreign exchange loss	1,207	3,971
Interest expense	2,985	3,842
Balance, end of period	204,722	200,530

On December 9, 2019, the Company issued a convertible promissory note payable in the amount of \$188,893 (C\$250,000). The convertible promissory note payable is due December 9, 2021 and bears interest at 2% per annum. The convertible promissory note is convertible at a share price equal to the closing share price on the date prior to conversion for total shares equal to the face value of the note divided by the closing share price. As the settlement is fixed at the face value of the obligation, the Company has determined that the conversion option has \$nil value.

**18. EQUITY****a) Authorized share capital**

Unlimited number of common shares without nominal or par value. At September 30, 2021, there were 338,165,275 issued and outstanding common shares (December 31, 2020 - 283,811,903). The Company does not currently pay dividends and entitlement will only arise upon declaration.

**b) Issued - common shares**

During the nine months ended September 30, 2021, the Company completed the following transactions:

**Shares issued for services**

- i. On February 26, 2021, the Company issued 1,207,206 common shares for \$0.05 (C\$0.06) per common share for total fair value consideration of \$59,598 (C\$75,600) for marketing services.
- ii. On June 11, 2021, the Company issued 13,204 common shares for \$0.52 (C\$0.63) per common share for total fair value consideration of \$6,847 for marketing services.
- iii. On July 22, 2021, the Company issued 21,176 common shares for \$0.41 (C\$0.51) per common share for total fair value consideration of \$8,594 (C\$10,800) for marketing services.
- iv. On June 11, 2021, the Company issued 34,090 common shares for \$0.35 (C\$0.44) per common share for total fair value consideration of \$11,773 (C\$15,000) for marketing services.

**Exercise of options**

- v. During the nine months ended September 30, 2021, 3,589,666 stock options with a weighted average exercise price of \$0.06 (C\$0.07) were exercised for proceeds of \$211,535 (C\$248,733) resulting in the issuance of 3,589,666 common shares. Upon exercise, \$96,934 was transferred from contributed surplus to issued capital.

**EMPOWER CLINICS INC.****NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

September 30, 2021 and 2020

(in United States dollars, except where noted) - Unaudited

**18. EQUITY (continued)****Exercise of warrants**

- vi. During the nine months ended September 30, 2021, the Company issued common shares as a result of warrant exercises as follows:

<b>Issue date</b>	<b>Number of warrants exercise and shares issued</b>	<b>Weighted average exercise price (C\$)</b>	<b>Weighted average exercise price</b>	<b>Cash received</b>	<b>Warrant liability transferred to share capital</b>	<b>Share capital</b>
January 4, 2021	856,000	0.16	0.13	107,411	76,582	183,993
January 6, 2021	2,178,817	0.16	0.13	274,821	253,452	528,273
January 12, 2021	550,000	0.16	0.13	69,041	79,362	148,403
January 14, 2021	1,000,000	0.10	0.08	79,026	188,759	267,785
January 14, 2021	1,000,000	0.12	0.09	94,832	182,209	277,041
January 14, 2021	1,059,000	0.16	0.13	133,902	140,479	274,381
January 19, 2021	500,000	0.16	0.13	62,819	71,449	134,268
January 25, 2021	400,000	0.16	0.13	50,243	63,176	113,419
January 27, 2021	863,911	0.16	0.13	108,200	111,363	219,563
February 4, 2021	450,000	0.16	0.12	56,127	58,811	114,938
February 8, 2021	500,000	0.16	0.13	62,730	65,118	127,848
February 11, 2021	150,000	0.16	0.13	18,918	49,666	68,584
February 16, 2021	1,201,400	0.16	0.13	151,548	695,565	847,113
February 17, 2021	268,245	0.16	0.13	33,763	204,737	238,500
February 19, 2021	1,250,000	0.16	0.13	158,554	1,394,935	1,553,489
February 24, 2021	1,500,000	0.05	0.04	59,770	1,913,085	1,972,855
February 24, 2021	1,000,000	0.10	0.08	79,694	1,235,875	1,315,569
February 24, 2021	200,000	0.12	0.10	19,127	244,251	263,378
February 24, 2021	1,369,864	0.16	0.13	174,672	1,626,802	1,801,474
February 26, 2021	2,500,000	0.12	0.09	236,500	2,117,056	2,353,556
February 26, 2021	211,179	0.16	0.13	26,637	171,488	198,125
March 2, 2021	500,000	0.10	0.08	39,601	357,139	396,740
March 2, 2021	2,000,000	0.12	0.10	190,084	1,407,808	1,597,892
March 8, 2021	7,000,000	0.12	0.09	663,507	4,203,738	4,867,245
March 8, 2021	225,000	0.16	0.13	28,436	126,190	154,626
March 10, 2021	10,750,000	0.12	0.09	1,020,815	5,963,892	6,984,707
March 12, 2021	1,867,131	0.12	0.10	179,345	1,224,589	1,403,934
March 17, 2021	250,000	0.12	0.10	24,067	160,329	184,396
April 5, 2021	150,000	0.16	0.13	19,162	-	19,162
April 5, 2021	300,000	0.12	0.10	28,743	147,856	176,599
April 30, 2021	175,000	0.10	0.08	14,245	-	14,245
May 20, 2021	250,000	0.12	0.10	24,855	100,054	124,909
June 23, 2021	150,000	0.12	0.10	14,650	67,161	81,811
June 24, 2021	100,000	0.12	0.10	9,742	43,870	53,612
<b>Total</b>	<b>42,725,547</b>	<b>0.13</b>	<b>0.10</b>	<b>4,315,587</b>	<b>24,746,846</b>	<b>29,062,433</b>

- vii. 420,000 agent purchase warrants with a weighted average exercise price of \$0.12 (C\$0.15) were exercised for proceeds of \$48,347 (C\$61,200) resulting in the issuance of 420,000 common shares. Upon exercise, \$23,587 was transferred from warrant reserve to issued capital.
- viii. 1,760,000 agent purchase warrants with an exercise price of \$0.09 (C\$0.12) were exercised for proceeds of \$69,510 (C\$88,000) resulting in the issuance of 1,760,000 common shares. Upon exercise, \$57,051 was transferred from warrant reserve to warrant liability.

**Acquisition of MediSure**

On July 30, 2021, as part of the consideration in the acquisition of MediSure the Company issued 4,582,483 common shares with a fair value of \$1,726,141 (note 6).

**EMPOWER CLINICS INC.**

## NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2021 and 2020

(in United States dollars, except where noted) - Unaudited

---

**18. EQUITY (continued)**

During the year ended December 31, 2020, the Company completed the following transactions:

**Shares issued to former CEO**

- i. On March 11, 2020, pursuant to the incorrect cancellation of common shares of the former CEO, the Company issued 651,875 common shares.

**Shares issued on private placement**

- ii. On April 16, 2020, pursuant to a private placement financing, the Company issued 16,325,000 units for \$0.03 (C\$0.04) per unit for gross proceeds of \$462,400 (C\$653,000) comprised of cash of \$219,300 (C\$313,000) and the settlement of accounts payable in the amount of \$243,100 (C\$340,000). Each unit is comprised of one common share and one common share purchase warrant. Each warrant entitles the holder to acquire one common share at a price of \$0.07 (C\$0.10) per share for a period of twenty-four months following the closing date of the financing. Share issue costs included cash payments of \$1,714 (C\$2,400) (\$1,026 of which was allocated to the warrant liability and recorded in the profit and loss) and the issuance of 60,000 share purchase warrants valued at \$1,017 using the Black-Scholes option pricing model with the following assumptions: a two year expected average life, share price of \$0.04 (C\$0.05); 100% volatility; risk-free interest rate of 0.34%; and an expected dividend yield of 0%. Consideration of \$276,809 was recorded to warrant liability and the residual amount of \$185,590 was recorded to issued capital.
- iii. On July 15, 2020, pursuant to a private placement financing, the Company issued 14,417,334 units for \$0.04 (C\$0.05) per unit for gross proceeds of \$532,280 (C\$720,867) comprised of cash of \$335,352 (C\$454,167) and the settlement of accounts payable in the amount of \$196,928 (C\$266,700). Each unit is comprised of one common share and one common share purchase warrant. Each warrant entitles the holder to acquire one common share at a price of \$0.09 (C\$0.12) per share for a period of twenty-four months following the closing date of the financing. Share issue costs included cash payments of \$3,553 (C\$4,800) (\$1,518 of which was allocated to the warrant liability and recorded in the profit and loss) and the issuance of 96,000 share purchase warrants valued at \$1,509 using the Black-Scholes option pricing model with the following assumptions: a two year expected average life, share price of \$0.04 (C\$0.06); 100% volatility; risk-free interest rate of 0.24%; and an expected dividend yield of 0%. Consideration of \$227,402 was recorded to warrant liability and the residual amount of \$304,878 was recorded to issued capital.
- iv. On October 27, 2020, pursuant to a private placement financing, the Company issued 1,500,000 units for \$0.04 (C\$0.05) per unit for gross proceeds of \$56,974 (C\$75,000). Each unit consists of one common share and one common share purchase warrant. Each warrant entitles the holder to acquire one common share at a price of \$0.09 (C\$0.12) per share for a period of twenty-four months. Of gross proceeds, \$32,956 was allocated to share capital and \$24,698 was allocated to warrant liability.
- v. On November 9, 2020, pursuant to a private placement financing, the Company issued 23,067,131 units for \$0.04 (C\$0.05) per unit for gross proceeds of \$889,250 (C\$1,153,357). Each unit consists of one common share and one common share purchase warrant. Each warrant entitles the holder to acquire one common share at a price of \$0.09 (C\$0.12) per share for a period of twenty-four months (\$42,403 of share issuance costs which was allocated to the warrant liability and recorded in the profit and loss). Of gross proceeds, \$506,801 was allocated to share capital and \$382,449 was allocated to warrant liability.

**Shares issued on debt settlement**

- vi. On January 23, 2020, the Company issued 4,800,000 common shares for \$0.03 (C\$0.045) per common share for total fair value consideration of \$164,346 (C\$216,000) as settlement of accounts payable in the amount of \$182,607 (C\$240,000) resulting in a gain on debt settlement of \$18,261.
- vii. On May 7, 2020, the Company issued 347,142 common shares for \$0.06 (C\$0.08) per common share for total fair value consideration of \$19,812 (C\$27,767) as settlement of accounts payable in the amount of \$23,189 (C\$32,500) resulting in a gain on debt settlement of \$4,538.
- viii. On May 20, 2020, the Company issued 694,444 common shares for \$0.05 (C\$0.07) per common share for total fair value consideration of \$34,992 (C\$48,611) as settlement of accounts payable in the amount of \$17,996 (C\$25,000) resulting in a gain on debt settlement of \$500.



**EMPOWER CLINICS INC.**

## NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2021 and 2020

(in United States dollars, except where noted) - Unaudited

---

**18. EQUITY (continued)*****Vesting of escrow shares***

- ix. For the year ended December 31, 2020, the Company recognized \$193,025 in connection with the vesting of escrow shares.

***Shares issued for services***

- x. On February 11, 2020, the Company issued 4,000,000 common shares for \$0.03 (C\$0.035) per common share for total fair value consideration of \$190,110 (C\$252,276) for marketing services.
- xi. On September 22, 2020, the Company issued 2,500,000 common shares for \$0.03 (C\$0.04) per common share for total fair value consideration of \$135,529 (C\$191,015) for marketing services.
- xii. On September 23, 2020, the Company issued 3,000,000 common shares for \$0.03 (C\$0.04) per common share for total fair value consideration of \$161,715 (C\$214,237) as settlement of accounts payable in the amount of \$184,173 (C\$244,103) resulting in a gain on debt settlement of \$22,458.

***Shares issued on conversion of debentures***

- xiii. On April 2, 2020, pursuant to the conversion of convertible debentures with a face value of \$268,554 (C\$367,500) and accrued interest of \$16,113 (C\$22,050), the Company issued 3,541,366 common shares and 3,541,366 common share purchase warrants. Each warrant entitles the holder to acquire one common share at a price of \$0.07 (C\$0.10) for a period of two years following the closing date of the conversion. At the date of the conversion, the conversion feature was valued at \$nil and the debt was valued at \$276,478. Consideration of \$24,607 was recorded to warrant liability and the residual amount of \$251,871 was recorded to issued capital.
- xiv. On April 8, 2020, pursuant to the conversion of convertible debentures with a face value of \$147,691 (C\$207,270) and accrued interest of \$8,254 (C\$11,584), the Company issued 1,989,588 common shares and 1,989,588 common share purchase warrants. Each warrant entitles the holder to acquire one common share at a price of \$0.07 (C\$0.10) for a period of two years following the closing date of the conversion. At the date of the conversion, the conversion feature was valued at \$nil and the debt was valued at \$78,213. Consideration of \$21,981 was recorded to warrant liability and the residual amount of \$56,232 was recorded to issued capital.
- xv. On May 7, 2020, pursuant to the conversion of convertible debentures with a face value of \$356,720 (C\$500,000) and accrued interest of \$42,180 (C\$56,376), the Company issued 6,129,030 common shares and 6,129,030 common share purchase warrants. Each warrant entitles the holder to acquire one common share at a price of \$0.09 (C\$0.12) for a period of one year following the closing date of the conversion. At the date of the conversion, the conversion feature was valued at \$nil and the debt was valued at \$417,815. Consideration of \$104,565 was recorded to warrant liability and the residual amount of \$313,250 was recorded to issued capital.

***Obligation to issue shares***

- xvi. On May 20, 2020, pursuant to the issuance of a promissory note payable in the amount of \$188,765 (C\$250,000), the Company settled its obligation to issues 150,000 common shares.

***Exercise of options***

- xvii. On November 3, 2020, the CEO of the Company exercised 7,000,000 stock options with an exercise price of \$0.11 (C\$0.14) resulting in the issuance of 7,000,000 common shares. The proceeds of \$745,531 (C\$980,000) for the options were not received by December 31, 2020 and the Company recorded a share subscriptions receivable against the freely trading common shares.
- xviii. On December 8, 2020, 300,000 options with an exercise price of \$0.04 (C\$0.05) were exercised for proceeds of \$11,718 (C\$15,000) resulting in the issuance of 300,000 common shares. Upon exercise, \$4,047 was transferred from contributed surplus to equity.

**EMPOWER CLINICS INC.**

## NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2021 and 2020

(in United States dollars, except where noted) - Unaudited

**18. EQUITY (continued)**

- xix. On December 14, 2020, 83,333 options with an exercise price of \$0.08 (C\$0.10) were exercised for proceeds of \$6,527 (C\$8,333) resulting in the issuance of 83,333 common shares. Upon exercise, \$137 was transferred from contributed surplus to equity.
- xx. On December 21, 2020, 200,000 options with an exercise price of \$0.20 (C\$0.26) were exercised for proceeds of \$40,416 (C\$52,000) resulting in the issuance of 200,000 common shares. Upon exercise, \$32,125 was transferred from contributed surplus to equity.

**Exercise of warrants**

During the year ended December 31, 2020, the Company issued common shares as a result of warrant exercises as follows:

Issue date	Number of warrants exercise and shares issued	Weighted average exercise price (C\$)	Weighted average exercise price	Cash received	Warrant liability transferred to share capital	Share capital
December 8, 2020	1,000,000	0.12	0.0937	93,691	121,464	215,156
December 8, 2020	909,090	0.16	0.1249	113,565	97,647	211,212
December 9, 2020	9,125,000	0.10	0.0781	712,724	958,652	1,671,375
December 9, 2020	7,364,515	0.12	0.0937	690,262	675,387	1,365,648
December 9, 2020	5,512,264	0.16	0.1250	688,872	308,191	997,063
December 10, 2020	2,000,000	0.10	0.0785	157,060	267,897	424,957
December 10, 2020	4,736,634	0.12	0.0942	446,361	607,619	1,053,980
December 10, 2020	5,828,618	0.16	0.1256	732,353	484,975	1,217,328
December 10, 2020	431,075	0.19	0.1492	64,319	20,324	84,643
December 14, 2020	2,064,515	0.12	0.0941	194,201	407,762	601,963
December 14, 2020	2,192,728	0.16	0.1254	275,015	367,169	642,184
December 15, 2020	5,300,000	0.16	0.1258	666,562	672,239	1,338,801
December 17, 2020	2,063,637	0.16	0.1258	259,618	194,262	453,880
December 22, 2020	1,700,000	0.16	0.1240	210,722	187,746	398,468
December 28, 2020	61,950	0.16	0.1249	7,740	5,364	13,104
<b>Total</b>	<b>50,290,026</b>	<b>0.13</b>	<b>0.1056</b>	<b>5,313,064</b>	<b>5,376,697</b>	<b>10,689,762</b>

**Acquisition of Lawrence Park & Atkinson**

On December 31, 2020, as part of the consideration in the acquisition of Lawrence Park & Atkinson (note 5), the Company issued 5,128,204 common shares with a fair value of \$1,147,925.

**c) Share options**

The Company has an incentive share option plan ("the plan") in place under which it is authorized to grant share options to executive officers, directors, employees and consultants. The plan allows the Company to grant share options up to a maximum of 10.0% of the number of issued shares of the Company.

Share option transactions and the number of share options outstanding during the years ended December 31, 2020, 2019 and nine months ended September 30, 2021 are summarized as follows:

**EMPOWER CLINICS INC.**

## NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2021 and 2020

(in United States dollars, except where noted) - Unaudited

**18. EQUITY (continued)**

	Number of share options	Weighted average exercise price (C\$)
Outstanding, December 31, 2019	10,450,000	0.16
Granted	6,967,761	0.07
Exercised	(7,583,333)	0.14
Outstanding, December 31, 2020	9,834,428	0.08
Granted	2,361,364	0.43
Cancelled	(1,936,667)	0.06
Expired	(50,000)	0.05
Exercised	(3,589,666)	0.07
<b>Outstanding, September 30, 2021</b>	<b>6,619,459</b>	<b>0.17</b>
<b>Exercisable, September 30, 2021</b>	<b>5,356,959</b>	<b>0.22</b>

The weighed average remaining contractual life of share options outstanding as at September 30, 2021 was 2.98 years (2020 - 3.04 years). The weighted average fair value of options granted during the nine months ended September 30, 2021 was \$0.32 (2020 - \$0.02). The range of exercise prices for options outstanding at September 30, 2021 was C\$0.05 to C\$0.57 (2020 - C\$0.05 to C\$0.38).

The fair value of share options recognized as an expense during the three and nine months ended September 30, 2021, was \$91,747 and \$697,305, respectively (2020 - \$1,738 and \$31,592, respectively). The following are the assumptions used for the Black Scholes option pricing model valuation of share options granted during the nine months ended September 30, 2021 and 2020:

	September 30, 2021	September 30, 2020
Risk-free interest rate	0.17%-0.30%	0.47%-1.57%
Expected life	5 years	3 years
Expected volatility	100%	100.0%
Forfeiture rate	0.0%	0.0%
Dividend rate	0.0%	0.0%

The risk-free rate of periods within the expected life of the share options is based on the Canadian government bond rate. The annualized volatility and forfeiture rate assumptions are based on historical results.

**d) Agent share purchase warrants**

Agent share purchase warrant transactions and the number of agent share purchase warrants outstanding and exercisable during nine months ended September 30, 2021 and year ended December 31, 2020 are summarized as follows:

	Number of agent share purchase warrants	Weighted average exercise price (C\$)
Outstanding, December 31, 2019	1,504,818	0.24
Granted	1,916,000	0.12
Exercised	(489,850)	0.16
Expired	(627,068)	0.31
Outstanding, December 31, 2020	2,303,900	0.13
Exercised	(2,180,000)	0.12
Expired	(123,900)	0.16
<b>Outstanding, September 30, 2021</b>	<b>-</b>	<b>-</b>

In connection with agent share purchase warrants that expired in the nine months ended September 30, 2021, \$9,800 (2020 - \$80,280) was reclassified from warrant reserve to contributed surplus.

**EMPOWER CLINICS INC.****NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

September 30, 2021 and 2020

(in United States dollars, except where noted) - Unaudited

**19. OPERATING EXPENSES**

	Three months ended		Nine months ended	
	September 30, 2021	September 30, 2020	September 30, 2021	September 30, 2020
	\$	\$	\$	\$
Salaries and benefits	301,996	104,530	983,533	372,901
Rent	20,135	(20,612)	47,573	(23,130)
Advertising and promotion	120,501	479,549	426,092	680,936
Telephone and internet	50,230	2,734	215,824	8,246
Penalties	-	-	11,048	-
Other	173,710	65,107	609,454	141,119
	<b>666,572</b>	<b>631,308</b>	<b>2,293,524</b>	<b>1,180,072</b>

**20. SEGMENT INFORMATION**

The Company's business activities for the nine months ended September 30, 2021 were conducted through four reportable segments corresponding with its business model. The segments are as follows: (a) Health & Wellness, comprising clinic operations with revenue resulting from patient visits and telemedicine services; (b) Diagnostics & Technology, comprising the diagnostic testing services provided by Kai Medical, and the sale of medical equipment by Kai Medical Canada Corp. and MediSure; (c) corporate costs; and (d) discontinued operations related to Sun Valley. Financial performance and balances by operating segment are displayed below:

For the nine months ended September 30, 2021	Health & Wellness	Diagnostics & Technology	Corporate	Discontinued operations	Consolidated
	\$	\$	\$	\$	\$
Total revenue	548,208	2,475,637	202,490	-	3,226,335
Operating expenses	(549,139)	(2,620,119)	(3,438,870)	-	(6,608,128)
Other expenses	(2,863)	111,222	(19,736,796)	-	(19,628,437)
Net loss from continuing operations	(3,794)	(33,260)	(22,973,176)	-	(23,010,230)
Net loss from discontinued operations	-	-	-	(512,931)	(512,931)
Net loss	(3,794)	(33,260)	(22,973,176)	(512,931)	(23,523,161)

For the nine months ended September 30, 2020	Health & Wellness	Diagnostics & Technology	Corporate	Discontinued operations	Consolidated
	\$	\$	\$	\$	\$
Total revenue	222,690	-	-	-	222,690
Operating expenses	(364,704)	-	(1,392,410)	-	(1,757,114)
Other expenses	(11,295)	-	138,625	-	127,330
Net loss from continuing operations	(153,309)	-	(1,253,785)	-	(1,407,094)
Net loss from discontinued operations	-	-	-	26,778	26,778
Net loss	(153,309)	-	(1,253,785)	26,778	(1,380,316)

As at September 30, 2021	Health & Wellness	Diagnostics & Technology	Corporate	Discontinued operations	Consolidated
	\$	\$	\$	\$	\$
Assets	3,369,091	6,260,961	2,363,842	126,609	12,120,503
Liabilities	467,965	2,557,168	6,083,298	99,083	9,207,514

As at December 31, 2020	Health & Wellness	Diagnostics & Technology	Corporate	Discontinued operations	Consolidated
	\$	\$	\$	\$	\$
Assets	724,227	2,490,081	5,644,570	371,341	9,230,219
Liabilities	914,437	1,923,346	11,603,622	279,215	14,720,620

**EMPOWER CLINICS INC.****NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

September 30, 2021 and 2020

(in United States dollars, except where noted) - Unaudited

**21. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS**

Significant non-cash transactions were as follows:

	September 30, 2021	Nine months ended September 30, 2020
	\$	\$
Vesting of escrow shares	144,454	95,874
Shares issued as settlement of convertible debentures payable	-	600,323
Shares issued as settlement of accounts payable	-	181,842
Shares issued for services	86,812	105,327
Shares issued to former CEO	-	15,239

Income tax payments for the nine months ended September 30, 2021 were \$nil (2020 - \$nil). As at September 30, 2021, the Company has accrued \$350,000 (December 31, 2020 - \$350,000) in late tax filing penalties related to income taxes in the United States.

**22. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT****a) Fair value measurement of financial assets and liabilities**

The Company has established a fair value hierarchy that reflects the significance of inputs of valuation techniques used in making fair value measurements 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 on observable market data.

The carrying values of cash, accounts receivable, prepaid expenses, inventory, and accounts payable and accrued liabilities approximate their carrying values due to their short-term nature.

The Company has no assets or liabilities that would be categorized as Level 2 in the fair value hierarchy.

As at September 30, 2021 and December 31, 2020, there were no financial assets or liabilities measured and recognized in the consolidated statements of financial position at fair value that would be categorized as Level 3 in the fair value hierarchy above with the exception of the warrant liability, which is a Level 3 fair value measurement.

**23. RELATED PARTY TRANSACTIONS**

The Company's related parties include subsidiaries, associates, joint ventures, affiliated entities and key management personnel and any transactions with such parties for goods and/or services that are made on regular commercial terms. During the nine months ended September 30, 2021 and 2020, the Company did not enter into any transactions with related parties outside of compensation to key management personnel as disclosed below.

Key management are those personnel having the authority and responsibility for planning, directing, and controlling the Company. Salaries and benefits, bonuses, and termination benefits are included in operating expenses and share-based payments are recorded as share-based payment expense or share capital.

**EMPOWER CLINICS INC.**

## NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2021 and 2020

(in United States dollars, except where noted) - Unaudited

**23. RELATED PARTY TRANSACTIONS (continued)**

Key management compensation for the three and September months ended September 30, 2021 and 2020 includes:

	Three months ended		Nine months ended	
	September 30, 2021	September 30, 2020	September 30, 2021	September 30, 2020
	\$	\$	\$	\$
Salaries and benefits	75,565	174,617	504,839	516,218
Share-based payments	-	1,738	346,375	12,156
Director's fees	7,500	3,750	20,000	11,250
	<b>83,065</b>	180,105	<b>871,214</b>	539,624

Included in salaries and benefits for the three and nine months ended September 30, 2021 is \$nil and \$nil, respectively (2020 - \$61,846 and \$129,902, respectively) related to common shares awarded to the CEO.

As at September 30, 2021, \$156,344 (December 31, 2020 - \$157,055) is due to the CEO for salaries and benefits. The amounts are unsecured and due on demand.

As at September 30, 2021, share subscriptions receivable consists of \$745,531 (C\$980,000) due from the CEO for the exercise of 7,000,000 options at an exercise price of \$0.11 (C\$0.14). Share subscriptions receivable reduces shareholders' equity. The share subscriptions receivable has no specified interest or terms of repayment.

**24. MANAGEMENT OF CAPITAL**

The Company's objectives of capital management are intended to safeguard the Company's normal operating requirements on an ongoing basis. At September 30, 2021, the capital of the Company consists of consolidated deficit, notes payable, convertible notes payable, and loans payable, net of cash.

	September 30, 2021	December 31, 2020
	\$	\$
Total shareholder's deficiency	2,912,989	(5,490,401)
Notes payable	169,271	708,361
Convertible notes payable	204,722	200,530
Current portion of loans payable	126,704	992,070
Loans payable	1,081,211	1,140,157
	<b>4,494,897</b>	(2,449,283)
Less: Cash	<b>(2,160,587)</b>	<b>(4,889,824)</b>
	<b>2,334,310</b>	<b>(7,339,107)</b>

The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business. Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable. In order to facilitate the management of its capital requirements, the Company prepares expenditure budgets that are updated as necessary depending on various factors, including successful capital deployment and general industry conditions. The Company also has in place a planning, budgeting and forecasting process which is used to identify the amount of funds required to ensure the Company has appropriate liquidity to meet short and long-term operating objectives. The Company is dependent on cash flows generated from its clinical operations and from external financing to fund its activities. In order to maintain or adjust its capital structure, the Company may issue new shares or debt.

At September 30, 2021 and December 31, 2020, the Company was not subject to any externally imposed capital requirements.

**EMPOWER CLINICS INC.**

## NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2021 and 2020

(in United States dollars, except where noted) - Unaudited

**25. COMMITMENTS**

A summary of discounted liabilities and future operating commitments at September 30, 2021 are as follows:

	Total	Within 1 year	2 - 5 years	Greater than 5 years
	\$	\$	\$	\$
<b>Maturity analysis of financial liabilities</b>				
Accounts payables and accrued liabilities	3,446,662	3,446,662	-	-
Loans payable	1,207,915	126,704	200,059	881,152
Notes payable	169,271	169,271	-	-
Convertible notes payable	204,722	204,722	-	-
Lease payments	1,900,517	443,839	1,152,319	304,359
<b>Total financial liabilities</b>	<b>6,929,087</b>	<b>4,391,198</b>	<b>1,352,379</b>	<b>1,185,511</b>

**26. EVENTS AFTER THE REPORTING PERIOD**

On October 25, 2021, pursuant to the exercise of 1,136,700 warrants at an exercise price of \$0.10 (C\$0.12), the Company issued 1,136,700 common shares for gross proceeds of \$110,187 (C\$136,404).

On October 28, 2021, the Company announced that the non-binding term sheet for the sale of Sun Valley had been updated in the form of a new letter of intent to proceed to a definitive agreement within 30 days. Under the new terms, it is proposed that 100% ownership of Sun Valley be sold to the previous owners of Sun Valley for consideration of 1,000,000 shares of Empower and payment of a prepaid rent balance for one of the clinic locations in Mesa, Arizona. As at September 30, 2021, the assets and liabilities of Sun Valley have been classified as assets and liabilities held for sale and the results of operations for the three and nine months ended September 30, 2021 and 2020 have been classified as discontinued operations (note 7).

On November 8, 2021, 13,204 common shares of the Company were returned to treasury. The shares were originally issued on July 11, 2021 as a share-based payment for marketing services (note 18).

On November 8, 2021, the Company granted 200,000 stock options to a consultant. Each stock option is exercisable into one common share of the Company at an exercise price of C\$0.37 per share until November 8, 2026. The stock options vest quarterly over 12 months.

Subsequent to period end and to the date of issue of these condensed interim consolidated financial statements, an aggregate of 260,000 stock options expired, unexercised.