AYURCANN

Ayurcann Holdings Corp.

Audited Consolidated Financial Statements

Years Ended June 30, 2021 and 2020

(Expressed in Canadian Dollars)

CLEARHOUSE LLP
CHARTERED PROFESSIONAL ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of
Ayurcann Holdings Corp.

Report on the Audit of the Consolidated Financial Statements

Opinion
We have audited the consolidated financial statements of Ayurcann Holdings Corp. (the "Company"), which comprise the consolidated statements of financial position as at June 30, 2021 and 2020 and the consolidated statements of loss and comprehensive loss, consolidated statements of cash flows and consolidated statements of changes in equity for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Company as at June 30, 2021 and 2020 and its financial performance and its cash flows for the years then ended, in accordance with International Financial Reporting Standards.

Basis for Opinion
We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with those requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Relating to Going Concern
We draw your attention to Note 1 in the consolidated financial statements, which indicates that the Company incurred a comprehensive loss of $278,360 during the year ended June 30, 2021. As stated in Note 1, these events or conditions, along with other matters as set forth in Note 1, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Information Other than the Consolidated Financial Statements and Auditor's Report Thereon
Management is responsible for the other information. The other information comprises the annual management's discussion and analysis, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

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

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements. As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Pat Kenney.

Clearhouse LLP

Chartered Professional Accountants
Licensed Public Accountants

Mississauga, Ontario
October 28, 2021

Ayurcann Holdings Corp.
Consolidated Statements of Financial Position
(Expressed in Canadian dollars)

As at	Notes	June 30, 2021	June 30, 2020
		$	$
Assets			
Current assets			
Cash		**725,016**	22,444
Trade and other receivables	5	**2,059,491**	350,365
Prepaid expenses and deposits		**308,467**	11,323
Harmonized sales tax recoverable		**20,880**	-
Inventories	6	**2,316,979**	281,949
		5,430,833	666,081
Non-current assets			
Property and equipment	7	**884,052**	553,978
Right-of-use assets	8	**362,121**	306,094
Total assets		**6,677,006**	1,526,153
Liabilities			
Current liabilities			
Trade and other payables	9	**1,083,938**	134,786
Harmonized sales tax payable		**-**	2,329
Current portion of lease liability	9	**118,957**	90,545
Due to related parties	13	**33,359**	149,219
Convertible promissory note	11, 16	**-**	161,357
Income tax payable	19	**335,447**	-
		1,571,701	538,236
Non-current liabilities			
Lease liability	10	**316,083**	282,950
Long term debt	12	**40,000**	40,000
Total liabilities		**1,927,784**	861,186
Shareholders' equity			
Common share capital	15b	**5,787,534**	1,544,635
Contributed surplus	15c, 15d	**851,454**	821,771
Warrants issued		**126,488**	-
Equity component of convertible promissory note	11, 17	**-**	36,454
Deficit		**(2,016,253)**	(1,737,893)
Total shareholders' equity		**4,749,222**	664,967
Total liabilities and shareholders' equity		**6,677,006**	1,526,153

Nature of operations and going concern	1
Other events	17
Contingencies	20
Subsequent events	21

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

Approved on behalf of the Board of Directors:

"Roman Buzaker" , Director

"Igal Sudman" , Director

Ayurcann Holdings Corp.

Consolidated Statements of Comprehensive Loss

(Expressed in Canadian dollars)

For the year ended June 30,	Notes	2021	2020
		$	$
Revenues			
Trade sales - cannabis distillate		**5,788,603**	63,054
Processing fees		**1,845,053**	548,775
		7,633,656	611,829
Cost of goods sold	**16**	**(3,006,939)**	(240,429)
Gross margin		**4,626,717**	371,400
Expenses			
Salaries and wages		**754,467**	88,977
Office and general	**20**	**644,189**	121,553
Share based payments		**133,697**	14,571
Professional fees		**398,660**	46,569
Business development		**428,306**	66,501
Consulting fees	**15b, 15c**	**83,979**	73,357
Travel		**13,948**	10,311
Depreciation of property and equipment	**6**	**10,162**	7,782
		2,467,408	429,621
Operating income (loss)		**2,159,309**	(58,221)
Transaction costs	**17**	**1,888,434**	-
Other income		**(101,394)**	-
Finance costs	**15b, 15c**	**315,182**	546,339
Net income before income taxes (note 17)		**57,087**	(604,560)
Current income tax expense		**335,447**	-
Net loss and comprehensive loss for the year		**(278,360)**	(604,560)
Comprehensive loss per share - basic and diluted		**(0.003)**	(0.01)
Weighted average number of common shares outstanding *		**84,994,390**	78,876,883

* All share and per share numbers have been adjusted to reflect the share exchange ratio as if it had occurred at the beginning of all reported periods.

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

Ayurcann Holdings Corp.
Consolidated Statement of Changes in Equity
(Expressed in Canadian dollars)

	Notes	Common share capital		Contributed surplus	Equity component of convertible promissory note	Warrant Issuance	Deficit	Total equity
		#	$	$	$		$	$
Balance June 30, 2019		**75,106,132**	**1,345,485**	**492,600**	**-**		**(1,127,371)**	**710,714**
Adoption of IFRS 16		-	-	-	-	-	(5,962)	(5,962)
Balance June 30, 2019, as restated		**75,106,132**	**1,345,485**	**492,600**	**-**	**-**	**(1,133,333)**	**704,752**
Common shares issued for services		7,935,299	540,000	-	-	-	-	540,000
Common shares repurchased		(7,347,499)	(500,000)	-	-	-	-	(500,000)
Common shares issued for cash proceeds		1,559,141	159,150	-	-	-	-	159,150
Warrants issued for services		-	-	314,600	-	-	-	314,600
Stock option issuance		-	-	14,571	-	-	-	14,571
Equity component of convertible promissory note		-	-	-	36,454	-	-	36,454
Net loss for the period		-	-	-	-	-	(604,560)	(604,560)
Balance June 30, 2020		**77,253,073**	**1,544,635**	**821,771**	**36,454**	**-**	**(1,737,893)**	**664,967**
Founders' shares adjustment		-	172,041	-	-	-	-	172,041
Subscription proceeds issued for cash		3,189,585	476,344	-	-	126,488	-	602,832
RSUs vested for common shares		434,215	89,013	-	-	-	-	89,013
Common shares issued - RTO transaction & severance		16,097,729	3,000,000	-	-	-	-	3,000,000
Convertible debt exchanged for shares		7,347,500	453,000	-	(36,454)	-	-	416,546
Exercise of warrants		275,531	52,500	(15,000)	-	-	-	37,500
Stock option issuance		-	-	44,683	-	-	-	44,683
Net loss for the period		-	-	-	-	-	(278,360)	(278,360)
Balance June 30, 2021		**104,597,633**	**5,787,533**	**851,454**	**-**	**126,488**	**(2,016,253)**	**4,749,222**

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

Ayurcann Holdings Corp.
Consolidated Statements of Cash Flows
(Expressed in Canadian dollars)

For the year ended June 30,	Notes	2021	2020
		$	$
Operating activities			
Net loss		**(278,360)**	(604,560)
Items not affecting cash:			
Transaction costs - RTO		**2,113,792**	-
Depreciation of property and equipment		**178,912**	101,488
Amortization of right-of-use assets		**102,803**	81,626
Accretion of finance costs		**292,410**	520,424
Interest on right-of-use assets		**48,162**	43,890
Amortization of deferred lease inducement		**(10,071)**	(8,277)
Share based payments		**133,697**	14,571
Shares for services		**-**	40,000
		2,581,345	189,162
Changes in non-cash working capital balances:			
Trade and other receivables		**(1,709,124)**	(345,642)
Prepaids		**(297,144)**	300
Harmonized sales tax recoverable		**(23,209)**	40,086
Inventories		**(2,035,034)**	(281,949)
Income taxes		**335,447**	-
Trade and other payables		**949,152**	80,666
		(2,779,907)	(506,539)
Net cash used in operating activities		**(198,562)**	(317,377)
Investing activities			
Cash acquired on RTO		**872,232**	-
Property and equipment additions		**(508,986)**	(401,154)
Net cash used in investing activities		**363,246**	(401,154)
Financing activities			
Finance lease payments		**(134,589)**	(97,911)
Advances (to) from related parties, net of transaction costs		**(139,897)**	144,000
Proceeds from issuance of shares		**774,873**	159,510
Proceeds from long term debt		**-**	40,000
Proceeds from warrant issuance		**37,500**	-
Net cash provided by financing activities		**537,887**	245,239
Increase (decrease) in cash flow		**702,572**	(473,292)
Cash, beginning of year		**22,444**	495,736
Cash, end of year		**725,016**	22,444

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

1. Nature of Operations and Going Concern

Ayurcann Inc. was incorporated under the *Canada Business Corporations Act* ("CBCA") on June 22, 2018. Pacific Coal Corp. (the "Company") was incorporated on August 26, 2010 under the Business Corporation Act (Ontario). On April 12, 2011, the Company changed its name to Canada Coal Inc.

On March 26, 2021, the Company was renamed to Ayurcann Holdings Corp., following the reverse-takeover transaction (RTO) with Ayurcann Inc., which became a wholly-owned subsidiary of Ayurcann Holdings Corp. Pursuant to RTO accounting standards, these consolidated financial statements reflect the continuation of the financial position, operating results and cash flows of the Company's legal subsidiary, Ayurcann Inc. (see Note 16). The Company's principal business activity consists of providing post-harvest outsourcing solutions to licensed cannabis producers.

The Company's registered head office is 1080 Brock Road, Unit 6, Pickering, L1W 3X4.

The Company's website is https://ayurcann.com/.

These consolidated financial statements have been prepared based on the basis of accounting principles applicable to a going concern, which assumes that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations.

The Company incurred a comprehensive loss of $278,360 during the year ended June 30, 2021, and as at June 30, 2021, the Company's accumulated deficit was $2,016,253. It is important to note the comprehensive loss for year ended June 30, 20221 was largely due to RTO qualifying transaction costs such as legal fees and shell take-over costs. Ayurcann Inc., the operating entity comprising the consolidated financial statements, reported net income of $2,000,765 during the same period, see segmented information note 17,

The Company's ability to continue as a going concern is dependent upon its ability to obtain additional financing and or achieve profitable operations in the future. Management is aware, in making its assessment, of material uncertainties related to events or conditions that cast significant doubt upon the Company's ability to continue as a going concern. The consolidated financial statements do not reflect adjustments that would be necessary is the going concern assumptions were not appropriate. These adjustments could be material. Management is actively pursuing funding options required to meet the Company's requirements on a ongoing basis.

If the going concern assumption was not appropriate for these financial statements, adjustments would be necessary to the carrying values of assets and liabilities, net and comprehensive loss, and statements of financial position classifications used. Such adjustments could be material.

Since December 31, 2019, the outbreak of the novel strain of coronavirus, specifically identified as "COVID-19", has resulted in governments worldwide enacting emergency measures to combat the spread of the virus. These measures, which include the implementation of travel bans, self-imposed quarantine periods and social distancing, have caused material disruption to businesses globally resulting in an economic slowdown. Global equity markets have experienced significant volatility and weakness. Governments and central banks have reacted with significant monetary and fiscal interventions designed to stabilize economic conditions. The duration and impact of the COVID-19 outbreak is unknown at this time, as is the efficacy of the government and central bank interventions. It is not possible to reliably estimate the length and severity of these developments and the impact on the financial results and condition of the Company in future periods.

2. Basis of Preparation

Statement of compliance
The Company applies International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC").

The policies applied in these unaudited interim financial statements are based on IFRSs issued and outstanding as of October 28, 2021, the date the Board of Directors approved the statements.

Basis of measurement
These consolidated financial statements have been prepared on an accrual basis and are based on historical costs, except for certain financial instruments, which are measured at fair value, as explained in the accounting policies set out in Note 3.

Functional and presentation currency
The financial statements are presented in Canadian dollars, the Company's functional currency.

3. Significant Accounting Policies

Significant accounting estimates and judgments
The preparation of financial statements in conformity with IFRS requires management to make significant judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses and related footnote disclosures. Use of available information and the application of judgment are inherent in the formation of estimates. Actual results in the future can differ from these estimates, which may be material to future financial statements.

Significant estimates and underlying assumptions are reviewed on a periodic basis. Management uses historical experience and various other factors it believes to be reasonable under the circumstances as the basis for its judgments and estimates. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements, are outlined below:

- Recovery of accounts receivable - the Company estimates the collectability and timing of collection of its receivables, classifying them as current assets or long-term assets, and applies provisions for collectability when necessary;
- Valuation of inventory – the provision for obsolescence and the estimated net realizable value;
- Convertible promissory note is separated into its liability and equity components using the effective interest rate method. The fair value of the liability component at the time of issue is calculated as the discounted cash flows for the convertible debenture using the effective interest rate which was the estimated rate for a promissory note without a conversion feature. The fair value of the equity component was determined at the time of issue as the difference between the face value of the convertible promissory note and the fair value of the liability component. Changes in the input assumptions can materially affect the fair value estimates and the Company's classification between debt and equity components;
- Property and equipment and right-of-use assets - management is required to estimate the useful lives and residual value of property and equipment and right-of-use assets which are included in the statements of financial position and the related depreciation included in the statements of loss;
- Share-based payments – management is required to make a number of estimates when determining the compensation expense resulting from share-based transactions, including the forfeiture rate and expected life of the instruments;

3. Significant Accounting Policies (continued)

- Recoverability of deferred income tax assets – assessing whether the realization of tax losses against future taxable income for income tax purposes if probable;
- Impairment of property, plant and equipment and right-of-use assets - assessing whether indicators of impairment exist at reporting period ends and, if required, determining recoverable amounts including assumptions and inputs thereto; and
- Going concern assumption – Going concern presentation of the financial statements which assumes that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations as they come due.

Revenue recognition
The Company earns revenue from the extraction and processing of cannabis oil-based products - both through processing its own biomass cannabis and providing same services to its customers.

Revenue is measured at the fair value of the consideration received or receivable, net of estimated returns and discounts. The Company considers the terms of the sales contracts as well as industry practices, taking into consideration the type of customer, the nature of the transaction and the specific circumstances of each arrangement.

The Company accounts for revenue from a contract with a customer only when the following criteria are met:

- the contract has been approved by the parties to the contract;
- each party's rights in relation to the goods or services to be transferred can be identified;
- the payment terms for the goods or services to be transferred can be identified;
- the contract has commercial substance; and
- it is probable that the consideration to which the entity is entitled to in exchange for the goods or services will be collected.

Revenue from product sales and the related cost of goods sold are recognized on delivery of goods to the customer. Processing fee revenue is recognized on completion of services.

Cash and cash equivalents
Cash and cash equivalents comprise cash at banks and on hand, and short-term deposits with an original maturity of three months or less or cashable without penalty which are readily convertible into a known amount of cash.

Property and equipment
Property and equipment are recorded at cost, net of accumulated depreciation, and impairment charges, if any. Depreciation is provided for over the assets' useful lives at the following annual rates and methods:

Furniture and fixtures	Declining balance method	20%
Leasehold improvements	Straight-line method	Lease term
Machinery and equipment	Declining balance method	20%
Computer	Declining balance method	55%
Signs	Declining balance method	20%

Impairment of non-current assets
Property and equipment are assessed for indications of impairment at the end of each reporting period. If such indications exist, then the recoverable amount of the asset is estimated.

3. Significant Accounting Policies (continued)

An impairment loss is recognized when the carrying amount of the asset exceeds its recoverable amount. The recoverable amount of an asset is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and risks specific to the asset. Impairment losses are recognized in operations for the year in which they are identified.

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

Current income tax
Current income tax expense represents the sum of income tax currently payable. Current income tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the date of the statement of financial position.

Deferred income tax
Deferred income tax is provided using the asset and liability method on temporary differences at the date of the statement of financial position between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax assets are recognized for all deductible temporary differences, and the carry forward of unused tax losses, to the extent that it is probable that taxable Income will be available against which the deductible temporary differences and the carry forward of unused tax losses can be utilized.

The carrying amount of deferred income tax assets is reviewed at each date of the statement of financial position and reduced to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the deferred income tax asset to be utilized. Unrecognized deferred income tax assets are reassessed at each date of the statement of financial position and are recognized to the extent that it has become probable that future taxable income will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized, or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the date of the statement of financial position. Deferred income tax relating to items recognized directly in equity is recognized in equity and not in the statement of income and comprehensive (loss) income.

Deferred income tax assets and deferred income tax liabilities are offset if, and only if, a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority or to realize the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax assets or liabilities are expected to be settled or recovered.

Foreign currency transactions
Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the closing exchange rate being the rate prevailing on the statement of financial position date. Non-monetary assets and liabilities are translated at historical rates of exchange at the time of the acquisition of assets or obligations incurred. Revenues and expenses are translated at the rate of exchange in effect.

3. Significant Accounting Policies (continued)

at the date of the transactions. Foreign exchange translation gains and losses are recorded in operations in the period in which they occur.

Financial instruments

Recognition
The Company recognizes a financial asset or financial liability on the statement of financial position when it becomes party to the contractual provisions of the financial instrument. Financial assets are initially measured at fair value and are derecognized either when the Company has transferred substantially all the risks and rewards of ownership of the financial asset, or when cash flows expire. Financial liabilities are initially measured at fair value and are derecognized when the obligation specified in the contract is discharged, cancelled, or expired.

A write-off of a financial asset (or a portion thereof) constitutes a derecognition event. Write-off occurs when the Company has no reasonable expectations of recovering the contractual cash flows on a financial asset.

Classification and measurement
The Company determines the classification of its financial instruments at initial recognition. Financial assets and financial liabilities are classified according to the following measurement categories:

- those to be measured subsequently at fair value, either through profit or loss (“FVTPL”) or through other comprehensive income (“FVTOCI”); and
- those to be measured subsequently at amortized cost.

The classification and measurement of financial assets after initial recognition at fair value depends on the business model for managing the financial asset and the contractual terms of the cash flows. Financial assets that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding, are generally measured at amortized cost at each subsequent reporting period. All other financial assets are measured at their fair values at each subsequent reporting period, with any changes recorded through profit or loss or through other comprehensive income (which designation is made as an irrevocable election at the time of recognition). After initial recognition at fair value, financial liabilities are classified and measured at either:

- amortized cost;
- FVTPL, if the Company has made an irrevocable election at the time of recognition, or when required (for items such as instruments held for trading or derivatives); or
- FVTOCI, when the change in fair value is attributable to changes in the Company’s credit risk.

The Company reclassifies financial assets when and only when its business model for managing those assets changes. Financial liabilities are not reclassified.

Transaction costs that are directly attributable to the acquisition or issuance of a financial asset or financial liability classified as subsequently measured at amortized cost are included in the fair value of the instrument on initial recognition. Transaction costs for financial assets and financial liabilities classified at fair value through profit or loss are expensed in profit or loss.

Fair value of financial instruments
The determination of the fair value of financial assets and liabilities, for which there is no observable market price, requires the use of valuation techniques. For financial instruments that trade infrequently

3. Significant Accounting Policies (continued)

and have little price transparency, fair value is less objective as such it requires varying degrees of judgment. The use of judgment in valuing financial instruments includes assessing qualitative factors such on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the particular instrument.

The Company measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:
Level 1: Quoted market price in an active market for an identical instrument.

Level 2: Valuation techniques based on observable inputs derived either directly or indirectly from market prices. This category includes instruments valued using quoted market prices in active markets for similar instruments, quoted market prices for identical or similar instruments in markets that are considered less than active or other valuation techniques where all significant inputs are directly or indirectly observable from market data.

Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted market prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

As of June 30, 2021, except for cash, none of the Company's financial instruments are recorded at fair value in the statements of financial position. Cash is classified as Level 1.

Compound Instruments
The components of compound instruments (convertible promissory note) issued by the Company are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument. A conversion option that will be settled by the exchange of a fixed amount of cash of another financial asset for a fixed number of the Company's own equity instruments is an equity instrument.

At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for similar non-convertible instruments. This amount is recorded as a liability on an amortized cost basis using the effective interest rate method until extinguished upon conversion or at the instrument's maturity date.

The conversion option classified as equity is determined by deducting the amount of the liability component from the fair value of the compound instrument as a whole. This is recognized and included in equity and is not subsequently remeasured. In addition, the conversion option classified as equity will remain in equity. No gain or loss is recognized in profit or loss upon conversion or expiration of the conversion option.

Transaction costs that relate to the issue of the convertible debenture are allocated to the liability and equity components in proportion to the allocation of the gross proceeds. Transaction costs relating to the equity component are recognized directly in equity. Transaction costs relating to the liability component are included in the carrying amount of the liability component and are amortized over the term of the convertible debentures using the effective interest method.

Impairment of financial assets
The Company assesses all information available, including on a forward-looking basis the expected credit losses associated with any financial assets carried at amortized cost. The impairment methodology

3. Significant Accounting Policies (continued)

applied depends on whether there has been a significant increase in credit risk. To assess whether there is a significant increase in credit risk, the Company compares the risk of a default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition based on all information available, and reasonable and supportive forward-looking information.

Inventories
Inventories consist of finished goods, work-in-process and raw materials and is valued at the lower of cost and net realizable value. Cost is determined using the standard cost method, which is updated regularly to reflect current conditions and approximate cost based on the weighted average formula. Cost of inventories includes cost of purchase (purchase price, transport, handling, and other costs directly attributable to the acquisition of inventories), cost of conversion, and other costs incurred in bringing the inventories to their present location and condition. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

All inventories are reviewed for impairment due to slow moving and obsolete inventory. The provision for obsolete, slow moving and defective inventories are recognized in profit or loss. Previous write downs to net realizable value are reversed to the extend there is a subsequent increase in the net realizable value of the inventory.

Related party transactions
Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Related parties, which may be individuals or corporate entities, are also considered to be related if they are subject to common control or common significant influence. A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties. Related party transactions that are in the normal course of business and have commercial substance are measured at the exchange amount.

Provisions
Provisions are recognized when the Company has a present obligation (legal or constructive) that has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risk specific to the obligation. The increase in the provision due to the passage of time is recognized as interest expense.

Comprehensive loss per share
The basic comprehensive income (loss) per share is computed by dividing comprehensive income (loss) by the weighted average number of common shares outstanding during the year. The diluted comprehensive income (loss) per share reflect the potential dilution of common share equivalents, such as outstanding stock options and share purchase warrants, in the weighted average number of common shares outstanding during the year, if dilutive. The “treasury stock method” is used for the assumed proceeds upon the exercise of the options and warrants that are used to purchase common shares at the average market price during the year.

Equity-based payments
Equity-based share-based payment transactions with parties other than employees are measured at the fair value of goods or services received, except where that fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments granted, measured at the date the entity obtains the goods or the counterparty renders the service.

3. Significant Accounting Policies (continued)

The fair value of stock options, warrants and restricted share units (“RSU’s”) granted is measured using the black-scholes option-pricing model, considering the terms and conditions upon which the instruments were granted.

Repurchase of Shares
Repurchase of shares is recorded using the constructive retirement method which is used under the assumption that the repurchased shares will not be reissued in the future. Under this approach, the amount by which the repurchased amount was less that the stated capital of the shares, if any, is credited to contributed surplus. The stated capital of the repurchased shares is determined based on the original cost of the particular shares at the time of the repurchase.

Government grants and assistance
Grants and subsidies are recognized at their fair value where there is reasonable assurance that the grant will be received and the Company will comply with all the attached conditions. Fair value signifies the amount received in cash. The grants and subsidies are presented as ‘other fees in operations.

Leases (“IFRS 16”)
IFRS 16 introduced a single, on-balance sheet accounting model for leases. The Company, as a lessee, has recognized right-of use assets representing its rights to use the underlying assets and lease liabilities representing its obligation to make lease payments.

A right-of-use asset is initially measured at cost, and subsequently at cost less any accumulated depreciation or impairment losses and adjusted for certain re-measurements of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. The Company primarily uses its incremental borrowing rate as the discount rate.

The lease liability is subsequently increased by the interest cost on the lease liability and decreased by lease payments made. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, a change in the estimate of the amount expected to be payable under a residual value guarantee, or as appropriate, changes in the assessment of whether a purchase or extension option is reasonably certain to be exercised or a termination option is reasonably certain not to be exercised.

The Company has furthermore applied judgment to determine the applicable discount rate. The discount rate is based on the Company's incremental borrowing rate and reflects the current market assessments of the time value of money and the associated risks for which the estimates of future cash flows have not been adjusted for.

Basis of consolidation
These consolidated financial statements incorporate the financial statements of the Company and its subsidiary. The subsidiary is consolidated from the date of acquisition, being the date on which the Company obtains control, and continues to be consolidated until the date that such control ceases. Control is achieved when an investor has power over an investee to direct its activities, exposure to variable returns from an investee, and the ability to use the power to affect the investor's returns.

The results of subsidiary acquired or disposed of during the period presented are included in the consolidated statements of comprehensive loss from the effective date of control and up to the effective date of disposal or loss of control, as appropriate. All intercompany transactions, balances, income and expenses are eliminated upon consolidation.

3. Significant Accounting Policies (continued)

Adoption of new accounting standards

(a) IFRS 3. In October 2018, the IASB issued amendments to IFRS 3 “Definition of a Business” The amendments clarify the definition of a business, with the objective of assisting entities to determine whether a transaction should be accounted for as a business combination or as an asset acquisition. The amendment provides an assessment framework to determine when a series of integrated activities is not a business. The Company adopted this standard effective July 1, 2020 and the adoption of this new standard does not have a material impact on these consolidated financial statements.

(b) IAS 1 “Presentation of Financial Statements” and IAS 8 “Accounting Policies, Changes in Accounting Estimates and Errors” were amended in October 2018 to refine the definition of materiality and clarify its characteristics. The revised definition focuses on the idea that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general-purpose financial statements make on the basis of those financial statements. The Company adopted this standard effective July 1, 2020 and the adoption of this new standard does not have a material impact on these consolidated financial statements.

4. Capital Management

The Company defines capital as total shareholders’ equity. The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company, in order to support the growth and development of its operations and bring new products to market and to ensure it continues as a going concern. 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. The Company will continue to assess new opportunities and seek to acquire an interest in growth situations if it feels there is sufficient economic potential and if it has adequate financial resourcesto do so.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable. There were no changes in the Company’s approach to capital management during the year June 30, 2021.

The Company is not subject to externally imposed capital requirements.

(Expressed in Canadian Dollars)

5. Trade and Other Receivables

Trade and other receivables are collectible from customer sales. The following is an aging analysis of the Company's trade and other receivables:

		Aging in Days			
	Total Receivable	**Current**	**31 to 60**	**61 to 90**	**91+**
June 30, 2020	$ 350,365	$ 189,363	$ 161,002	$ -	$ -
June 30, 2021	**$ 2,059,491**	**$ 1,939,937**	**$ 22,425**	**$ -**	**$ 97,129**

As at June 30, 2021 and June 30, 2020, no impairment was recorded for any portion of the accounts receivable. The company held no collateral for any receivable amounts outstanding as at June 30, 2021 and June 30, 2020.

6. Inventories

As at,	**June 30, 2021**	June, 30 2020
	$	$
Work-in-progress	**815,410**	88,718
Finished goods	**1,293,910**	193,231
Packaging	**153,950**	-
Biomass	**53,709**	-
	2,316,979	281,949

Write-downs to net realizable value for obsolete and slow-moving inventories of $nil (2020 - $nil) were included in cost of goods sold for the period. Inventories recognized as an expense in the year ended June 30, 2021, and 2020 is equal to cost of goods sold presented in the statements of comprehensive loss.

(Expressed in Canadian Dollars)

7. Property and Equipment

	Furniture and Fixtures	Leasehold Improvements	Machinery and Equipment	Computer	Signs	Total
Cost	$	$	$	$	$	$
30-Jun-19	2,014	280,554	-	-	-	282,568
Additions	5,129	305,644	61,561	27,997	825	401,156
30-Jun-20	**7,143**	**586,198**	**61,561**	**27,997**	**825**	**683,724**
Accumulated Depreciation	$	$	$	$	$	$
30-Jun-19	201	28,055	-	-	-	28,256
Depreciation	876	86,676	6,156	7,699	83	101,490
30-Jun-20	**1,077**	**114,731**	**6,156**	**7,699**	**83**	**129,746**
Carrying Value	$	$	$	$	$	$
30-Jun-20	**6,066**	**471,467**	**55,405**	**20,298**	**742**	**553,978**

	Furniture and Fixtures	Leasehold Improvements	Machinery and Equipment	Computer	Signs	Total
Cost	$	$	$	$	$	$
30-Jun-20	7,143	586,198	61,561	27,997	825	683,724
Additions	8,856	327,624	170,632	1,874	-	508,986
30-June-21	**15,999**	**913,822**	**232,193**	**29,871**	**825**	**1,192,710**
Accumulated Depreciation	$	$	$	$	$	$
30-Jun-20	1,077	114,731	6,156	7,699	83	129,746
Depreciation	2,402	136,123	30,225	10,023	139	178,912
30-June-21	**3,479**	**250,854**	**36,381**	**17,722**	**222**	**308,658**
Carrying Value	$	$	$	$	$	$
30-June-21	**12,520**	**662,968**	**195,812**	**12,149**	**603**	**884,052**

(Expressed in Canadian Dollars)

8. Right-of-Use-Assets

	Production facility
	$
Cost	
June 30, 2019	-
Additions	387,720
Balance, June 30, 2020	**387,720**
Additions	158,830
Balance, June 30, 2021	**546,550**
Accumulated amortization	
Balance, June 30, 2019	**-**
Amortization for the year	81,626
Balance, June 30, 2020	**81,626**
Additions - other	102,803
Balance, June 30, 2021	**184,429**
Carrying value	
Balance, June 30, 2020	306,094
Balance, June 30, 2021	**362,121**

Right-of-use assets comprise of production facility lease and are amortized over 60 months.

9. Trade and Other Payables

Trade and other payables are principally comprised of amounts outstanding for trade purchases on operating activities. The following comprises trade and other payables:

As at,	**June 30, 2021**	June 30, 2020
	$	$
Trade payables	**996,318**	111,210
Accrued & other current liabilities	**87,620**	23,576
	1,083,938	134,786

The standard maturity terms of the Company’s trade and other payables are 30 to 60 days.

(Expressed in Canadian Dollars)

10. Lease Liability

	Production facility
Balance, June 30, 2019	
Additions – IFRS 16	393,682
Lease inducement	31,039
Interest expense	43,890
Lease payments	(95,116)
Balance, June 30, 2020	**373,495**
Interest expense	35,714
Additions – IFRS 16	158,829
Lease Inducement	(8,277)
Lease payments	(134,791)
Other adjustments	-
Amortization of rent inducement	10,070
Balance, June 30, 2021	**435,040**

Allocated as:	$
Current	118,957
Non-current	316,083
Balance, June 30, 2021	**435,040**

The lease payments are discounted using an interest rate of 12%, which is the Company's incremental borrowing rate. The first lease has an initial expiry date of March 24, 2024 with the Company holding two five-year renewal options. The Company entered into a new lease agreement with a neighboring unit at 1080 Brock Road, Pickering Ontario. The new lease began November 1, 2020 and has an expiry date of October 31, 2025.

(Expressed in Canadian Dollars)

11. Convertible Promissory Note

On January 10, 2020, the Company issued a $500,000 convertible promissory note (the “Note”) to ExpoWorld Ltd. The Note matured on January 10, 2021 and bore interest at the rate of 8% per annum, payable quarterly. The Note carried a conversion feature at the option of the holder, into common shares of the Company at a conversion price of $0.10 per share. The Note was secured by a general security interest in all present and future assets of the Company.

The Note was a compound instrument comprising a liability and a conversion feature. As a result, the liability and equity components have been presented separately. The initial carrying value of the liability was calculated by discounting the stream of future payments of principal and interest using a market interest rate of 14.74%. Using the residual method, the carrying value of the conversion feature is the difference between the principal amount and the initial carrying value of the financial liability. The equity component was recorded in equity reserves on the statement of financial position. The financial liability portion, net of the equity component, was accreted using the effective interest method over the term of the Note such that the carrying amount of the financial liability equaled the principal balance at maturity.

Pursuant to consulting agreements, the Company issued 5,000,000 common shares valued at $500,000 and 4,000,000 warrants valued at $314,600 (see note 15) to financial consultants who assisted in structuring the convertible promissory note. The shares and warrants are accounted as financing costs and amortized over the term of the convertible promissory note.

The note was fully converted to common shares of the Company on November 23, 2020.

	$
Balance, June 30, 2019	**-**
Principal issuance during the year	500,000
Equity allocation	(36,455)
Finance costs	(814,600)
Accretion of equity allocation	14,599
Accretion of financing costs	497,813
Balance, June 30, 2020	**161,357**
Accretion of equity allocation	13,010
Finance costs	(6,667)
Accretion of financing costs	226,277
Converted to shares	(407,310)
Balance, June 30, 2021	**-**

12. Long-Term Debt

On April 17, 2020, the Company received a $40,000 loan through the Canada Emergency Response Account (“CEBA”). In December 2020, the Company received an additional $20,000 through the CEBA program. The loan is non-interest bearing until December 31, 2022, at which time if paid back in full, $20,000 is forgivable, and if not, the loan becomes a three-year interest-bearing term loan.

13. Key Management Compensation

The Company defines key management personnel as its President, Chief Executive Officer and Directors. Key management compensation for the year ended June 30, 2021 comprised executive fees of $270,360 (2020 - $nil) and share based payments of $133,697 (2020 - $14,571).

14. Related Party Transactions and Balances

As at June 30, 2021, there are related party loan balances payable to the President, CEO and a corporation controlled by the CEO of $nil (2020 - $57,300), $nil (2020 - $57,500) and $nil (2020 - $58,456) respectively. Interest incurred on related party balances payable to the President and Chief Executive Officer are $16,679 (2020 - $nil) and $16,679 (2020 - $nil) respectively. In connection with the arranging and sourcing of these loans, the Company incurred transaction costs of $nil (2020 - $32,050).

15. Share Capital

a. Authorized Shares

An unlimited number of common shares

b. Issued Shares

During the years ended June 30, 2021 and 2020, the Company issued common shares as follows:

Shares for Services

On August 6, 2019, pursuant to a consulting agreement, the Company issued 146,950 common shares in exchange for consulting services valued at $10,000.

On August 13, 2019, pursuant to consulting agreements, the Company issued 7,347,500 common shares valued at $500,000 and 4,000,000 warrants valued at $314,600 in exchange for assistance in structuring the convertible promissory note (see note 11).

On October 15, 2019, pursuant to a consulting agreement, the Company issued 146,950 common shares in exchange for consulting services valued at $10,000.

On January 17, 2020, pursuant to advisory board member agreements, the Company issued 293,900 common shares in exchange for consulting services valued at $20,000.

On April 13, 2021, the Company issued 1,548,875 RSUs to various management members, employees, and consultants at a deemed price of $0.16 per share which vest October 16, 2021. The value of these RSUs were recorded on the vesting date when they convert to common shares.

On June 30, 2021, the Company issued 1,098,682 RSUs to various management members, employees, and consultants at a deemed price of $0.205 per share. 434,215 RSUs issued to directors and officers vested immediately. A value of $89,014 was recorded for the vested RSUs with the balance to be recorded on the vesting date of October 26, 2021.

Share Repurchase

On January 10, 2020, pursuant to a share purchase agreement with ExpoWorld Ltd., the Company bought back 7,347,500 shares in exchange for a convertible promissory note of $500,000 (note 11).The price per repurchased share was equal to the price per share as initially subscribed by ExpoWorld Ltd. Therefore, the share repurchase was reflected as a $500,000 reduction of common share capital.

(Expressed in Canadian Dollars)

15. Share Capital (continued)

Private Placements

On March 30, 2020, and pursuant to a non-brokered private placement, the Company issued 1,559,141 common shares at a price of $0.15 per common share for gross proceeds of $159,150.

On April 26, 2021, the Company issued 3,189,585 units (the "Units") via a private placement, at a price of $0.189 per Unit for total aggregate gross proceeds of $602,832. Each Unit consisted of a common share in the capital of the Company (the "Common Share") and one-half of one common share purchase warrant (the "Warrant"), with each full Warrant entitling its holder to acquire one additional Common Share at an exercise price of $0.38 per Common Share for a period of 36 months from the date of issuance. The warrants were ascribed a value of $125,875. Broker warrants associated with the placement were ascribed a value of $613.

Convertible Debt

On November 23, 2020, 7,347,500 shares were issued at a deemed price of $0.10 per share in satisfaction of a $500,000 convertible promissory note, see note 11.

Warrant Exercises

On December 8, 2020, 275,531 warrants were exercised for shares at a price of $0.14 per share. Cash of $37,500 was received. A balance of $15,000 was added to the value of the warrants exercised, estimated using the Black-Scholes model on the warrants exercised.

RTO Transaction

On March 16, 2021, the Company acquired all the common shares of Canada Coal Inc. ("Canada Coal") in exchange for 16,097,729 common share of the Company. The transaction was classified as an RTO with the Company acquiring Canada Coal for financial reporting purposes. The continuing company trading symbol is (CSE: AYUR). See Note 17.

c. Warrants

A summary of the Company's warrants for the years ended June 30, 2021 and 2020 is presented below:

	Warrants	Weighted average exercise price
	#	$
Outstanding, June 30, 2019	**6,000,000**	**0.20**
Granted (i)	4,000,000	0.20
Outstanding, June 30, 2020	**10,000,000**	**0.20**
Exercised	(187,500)	0.20
Cancelled on RTO	(9,812,500)	0.20
Issued on RTO	14,419,461	0.14
Acquired from Canada Coal (iii)	1,087,500	0.40
Granted (ii)	1,602,556	0.38
Outstanding, June 30, 2021	**17,109,517**	**0.18**

(Expressed in Canadian Dollars)

15. Share Capital (Continued)

As at June 30, 2021, the following warrants were outstanding and exercisable:

Date of grant	Number of warrants	Exercise price	Expiry date
May 31, 2019	7,071,961	0.14	May 31, 2022
June 10, 2019	1,469,500	0.14	June 10, 2022
August 19, 2019	5,878,000	0.14	August 19, 2022
January 23, 2020	1,087,500	0.40	January 23, 2022
April 28, 2021	1,602,556	0.38	April 28, 2024

(i) On May 31, 2019 the Company issued 5,000,000 warrants to ExpoWorld Ltd., in connection with a private placement (see prior year adjustment note 19). Each warrant is exercisable into one common share at a price of $0.20 per share and expires on May 31, 2022. The fair value of $410,700 was assigned to the warrants and has been estimated using the Black-Scholes model for pricing warrants under the following assumptions: risk free interest rate - 1.39%; dividend yield 0%; expected stock volatility – 174.3% and an expected life of 3 years.

(ii) On April 28, 2021 the Company issued 1,594,795 warrants and 7,761 broker warrants in connection with a private placement. Each warrant is exercisable into one common share at a price of $0.38 per share and expires on April 28, 2024. The fair value of $126,487 was assigned to the warrants and has been estimated using the Black-Scholes model for pricing warrants under the following assumptions: risk free interest rate – 0.48%; dividend yield 0%; expected stock volatility – 100.87% and an expected life of 3 years.

(iii) Prior to the completion of the reverse take-over transaction, Canada Coal had 5,000,000 warrants outstanding. Majority of the warrants were due to expire prior to effecting the transaction. Canada Coal effected a share consolidation on the basis of 2:1 and the warrants and there were only 1,087,500 warrants accounted for.

d. Stock options

The Company has a Share Option Plan (the "Plan") under which it is authorized to grant options to purchase common shares of the Company to directors, senior officers, employees and/or consultants of the Company. The aggregate number of shares of the Company which may be issued and sold under the Plan will not exceed 10% of the total number of common shares issued and outstanding from time to time. Share options are granted with a maximum term of ten years with vesting requirements at the discretion of the Board of Directors.

	Exercise price $	Options #
Balance, June 30, 2019	**-**	**-**
Granted (i)	0.15	325,000
Cancelled	0.15	(200,000)
Balance, June 30, 2020	**0.15**	**125,000**
Granted (ii) (iii)	0.15	408,334
Cancelled on RTO	0.15	(533,334)
Issued on RTO	0.15	783,735
Acquired from Canada Coal	0.10	625,000
Granted (iv) (v)	0.28	1,705,100
Balance, June 30, 2021	**0.17**	**3,113,835**

15. Share Capital (Continued)

d. Stock options

(i) On September 5, 2019, the Company granted 325,000 stock options to employees and consultants of the Company exercisable at $0.15 per common share until September 5, 2022. From the total, 125,000 options vest immediately and 200,000 options vests in thirds on each of the first, second and third anniversary dates. The grant date fair value of $26,228 was assigned to the stock options as estimated by using the Black-Scholes valuation model with the following assumptions: share price of $0.10, expected dividend yield of 0%, expected volatility of 161.5%, risk-free rate of return of 1.38% and an expected maturity of 3 years.

(ii) On September 16, 2020, the Company granted 333,334 stock options to a consultant of the Company exercisable at $0.15 per common share until September 16, 2023. The options vest immediately. The grant date fair value of $38,942 was assigned to the stock options as estimated by using the Black-Scholes valuation model with the following assumptions: share price of $0.10, expected dividend yield of 0%, expected volatility of 141%, risk-free rate of return of 0.27% and an expected maturity of 3 years.

(iii) On November 16, 2020, the Company granted 75,000 stock options to a consultant for advisory services. The options are exercisable at $0.14 per common share until November 16, 2023. The options vest immediately. The grant date fair value of $5,741 was assigned to the stock options as estimated by using the Black-Scholes valuation model with the following assumptions: share price of $0.14, expected dividend yield of 0%, expected volatility of 93.57%, risk-free rate of return of 0.2% and an expected maturity of 3 years.

(iv) On April 13, 2021, the Company granted 1,000,100 stock options to employees. The options are exercisable at $0.16 per common share until April 13, 2024. The options vest after 6 months from date of grant. The grant date fair value of $103,800 was assigned to the stock options as estimated by using the Black-Scholes valuation model with the following assumptions: share price of $0.18, expected dividend yield of 0%, expected volatility of 107%, risk-free rate of return of 0.48% and an expected maturity of 3 years.

(v) On June 25, 2021, the Company granted 705,000 stock options to consultants. 400,000 options are exercisable at $0.28, 230,000 options are exercisable at $0.38 and 75,000 options exercisable at $0.205 until June 30, 2023. The options vest after 4 months from date of grant.

(Expressed in Canadian Dollars)

The following table reflects the stock options issued and outstanding as of June 30, 2021:

Expiry date	Exercise price	Options	Weighted average contractual life (years)	Number of options vested (exercisable)
	$	#		
September 5, 2022	0.1021	183,688	1.18	183,688
September 16, 2023	0.1021	489,834	2.21	489,834
November 24, 2023	0.0953	110,213	2.40	110,213
March 25, 2022	0.1000	625,000	0.73	625,000
April 13, 2024	0.1600	1,000,100	2.79	-
June 30, 2023	0.2050	75,000	2.00	-
June 30, 2023	0.3800	230,000	2.00	-
June 30, 2023	0.2800	400,000	2.00	-
	0.1659	**3,113,835**	**1.92**	**1,408,735**

16. Cost of Sales

For the year ended June 30,	2021	2020
	$	**$**
Purchases and direct service costs	**4,251,075**	249,365
Direct labour	**175,242**	41,850
Depreciation of production equipment	**141,218**	93,706
Insurance	**40,047**	10,259
Utilities	**33,853**	9,960
Amortization of production facility right-of-use asset	**60,527**	73,348
Interest on production facility right-of -use asset	**33,854**	43,890
Facility rental	**53,894**	-
Quality Control	**52,971**	-
Change in inventory	**(1,835,742)**	(281,949)
	3,006,939	240,429

(Expressed in Canadian Dollars)

17. Other Events – Reverse Take-over Transaction

On November 24, 2020 Ayurcann Inc. executed a definitive business combination agreement with CanadaCoal Inc. (TSXV:CCK.H) whereby Ayurcann Inc., subject to certain conditions and applicable shareholderand regulatory approvals, will affect a reverse takeover of Canada Coal Inc. by way of a "three-cornered amalgamation" with Ayurcann Inc. and 12487772 Canada Inc, a wholly-owned subsidiary or Canada Coal Inc. ("Subco").

On March 26, 2021, Canada Coal Inc. ("Canada Coal") and Ayurcann Inc. closed a "three-cornered amalgamation" under the provisions of the CBCA, whereby 12487772 Canada Inc., a wholly-owned subsidiary of Canada Coal, Subco amalgamated with Ayurcann Inc.and continue as one amalgamated corporation ("Amalco"), as a wholly-owned subsidiary of Canada Coal, which has since been renamed "Ayurcann Holdings Corp." (the "Transaction"). The continuing company trading symbol is (CSE: AYUR).

As part of the Transaction, Canada Coal consolidated its common shares (the "CCK Shares") on the basis of two (2) CCK Shares for each one (1) Canada Coal post-consolidation share ("CCK Post-Consolidation Share"). Ayurcann shareholders received 1.4695 Post-Consolidation Shares for each Ayurcann share. As a result of the amalgamation there are 100,973,833 Post-Consolidation Shares issued and outstanding, as flows:

	Number outstanding	Percentage
Auyrcann - Open	57,758,501	
Share exchange adjustment	27,117,603	
Auyrcann - adjusted	84,876,104	84%
Canada Coal	16,097,729	16%
Total	100,973,833	100%

As a result of the share exchange between Canada Coal and the Ayurcann Inc., described above, the former shareholders of Ayurcann Inc. acquired control of Canada Coal. Accordingly, the acquisition is accounted for as a reverse takeover of Canada Coal, and therefore Canada Coal does not constitute a business as defined under IFRS 3 Business Combination. The business combination is accounted for under IFRS 2 Share-Based Transaction. As Ayurcann Inc. is deemed to be the accounting acquirer for accounting purposes, its assets, liabilities and operations are included in the financial statements at their historical carrying value. As a result of this asset acquisition, a listing expense of $1,888,434 has been recorded, This reflects the difference between estimated fair value of consideration given as follows:

	Identifiable net assets acquired	$
	Cash in Canada Coal	872,232
	Deferred transaction costs	230,357
	Receivables + Prepaids	9,948
	Total assets	**1,112,538**
Less	Liabilities Assumed	(972)
	Net Assets Acquired	1,111,566
	Deemed share consideration	3,000,000
	Listing expense (transaction cost)	**1,888,434**

(Expressed in Canadian Dollars)

17. Segmented Information

The table below summarizes the post-harvest cannabis activities of the operating entity in the consolidated financial statements, Ayurcann Inc., for the year ending June 30, 2021. While the Company incurred a $278,360 consolidated net loss over the same period, the majority of the loss was attributed to transactional cost from the RTO with Canada Coal, and majority of the expense was not cash-based. Results of the segment are below:

	Cannabis segment (year ended June 30, 2021)
Revenue	**7,633,656**
COGS	(3,006,939)
Gross margin	**4,626,717**
Operating expenses	(2,165,318)
Operating income	**2,461,399**
Finance costs	(214,205)
Net income before income taxes	**2,247,194**
Current income tax expense	(335,447)
Segmented net income	**1,911,747**

18. Income Taxes

Current income taxes

The Company's provision for income taxes differs from the amounts computed by applying the basic current rate of 26.5% for Ontario to the income (loss) for the year before taxes as shown in the following table at June 30:

Year ended	**June 30, 2021**	June 30, 2020
Income before income taxes	57,082	(604,561)
Combined statutory tax rate	26.5%	12.5%
Income tax recovery at statutory rate	15,127	(75,570)
Permanent differences and other	(156,174)	24,040
Temporary differences	73,837	(62,686)
Difference in current and deferred tax rate	-	-
Share/debt issuance costs ,	500,435	-
Prior year losses utilized	(300,084)	-
Change in deferred income tax asset not recognized	202,306	118,683
Income Tax Expense (Recovery)	335,447	-

(Expressed in Canadian Dollars)

19. Income Taxes (Continued)

Deferred income taxes

The primary differences that give rise to deferred income tax balances are as follows:

	June 30, 2021	June 30, 2020
	$	$
Capital assets	(59,162)	(80,594)
Non-capital losses	538,073	334,272
Financial liabilities and other	-	-
Deferred transaction costs	89,868	112,795
Deferred tax assets not recognized	(568,779)	(366,473)
Deferred tax asset (liability)	**-**	-

Tax loss carry forwards

The Company has non-capital losses, available to offset future taxable income for income tax purposes, of $2,206,442 which expire between 2039 and 2041.

Certain deferred tax assets have not been recognized because it is not probable that future taxable profit will be available against which the Company can utilize the benefits therefrom.

20. Subsequent events

On August 20, 2021, the Company entered into a customer debt settlement arrangement with Teal Valley Health Inc. The bad debt write off will be recorded at a value of $37,530.42. There is no further credit exposure with this customer.

On October 8, 2021, The Company announced that it has granted an aggregate of 1,253,125 Restricted Share Units to certain directors, officers, employees, and consultants of the Company, pursuant to the Company's Restricted Share Unit plan, dated April 1, 2021. The Restricted Share Units vest immediately but will be subject to a hold period of 4 months and a day.

The Company also announced a closing of a non-brokered private placement of 7,710,354 units at a price of $0.18 per Unit for aggregate gross proceeds of $1,387,863.72. Each Unit consists of one common share in the capital of the Corporation and one Common Share purchase warrant. Each Warrant entitles the holder thereof to purchase one Common Share at an exercise price of $0.22 for a period of the earlier of: (a) thirty six (36) months from the date of the closing of the Private Placement; or (b) if, at any time after the Closing, the closing price of the Common Shares on the Canadian Securities Exchange is at least $0.70 for a minimum of ten consecutive trading days, the Corporation may, upon providing written notice to the holders of the Warrants, accelerate the expiry date of the Warrants to the date that is at least thirty days following the date of such written notice. In connection with the Private Placement, eligible finders received $17,747.28 in cash and 98,594 broker warrants. Broker warrants were issued on the same terms as investor warrants and are also subject to the acceleration clause.