AYURCANN

Ayurcann Holdings Corp.

Audited Consolidated Financial Statements

Years Ended June 30, 2022 and 2021

(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, 2022 and 2021, 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, 2022 and 2021, 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 Consolidated 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 consolidated 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 $3,087,907 during the year ended June 30, 2022. 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.

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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, 2022

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

As at	Notes	June 30, 2022	June 30, 2021
		$	$
Assets			
Current assets			
Cash		**1,354,816**	725,016
Trade and other receivables	**5**	**1,399,916**	2,059,491
Prepaid expenses and deposits		**250,141**	308,467
Harmonized sales tax recoverable		**-**	20,880
Income tax receivable	**17**	**142,209**	-
Inventories	**6**	**2,947,897**	2,316,979
		6,094,979	5,430,833
Non-current assets			
Property and equipment	**7**	**939,273**	884,052
Right-of-use assets	**8**	**248,730**	362,121
Total assets		**7,282,982**	6,677,006
Liabilities			
Current liabilities			
Trade and other payables	**9**	**1,994,023**	1,083,938
Harmonized sales tax payable		**38,889**	-
Income tax payable	**17**	**-**	335,447
Current portion of lease liability	**10**	**135,188**	118,957
Due to related parties	**13**	**-**	33,359
		2,168,100	1,571,701
Non-current liabilities			
Lease liability	**10**	**180,896**	316,083
Long term debt	**11**	**40,000**	40,000
Total liabilities		**2,388,996**	1,927,784
Shareholders' equity			
Common share capital	14b	**8,049,363**	5,787,534
Warrants reserve		**935,744**	126,488
Contributed surplus	**14c, 14d**	**1,013,042**	851,454
Deficit		**(5,104,163)**	(2,016,253)
Total shareholders' equity		**4,893,986**	4,749,222
Total liabilities and shareholders' equity		**7,140,773**	6,677,006

Nature of operations and going concern	**1**
Subsequent events	**19**

Approved on behalf of the Board of Directors:

/s/. Igal Sudman ____________ Director

/s/ Roman Buzaker ____________ Director

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

Ayurcann Holdings Corp.

Consolidated Statements of Comprehensive Loss

(Expressed in Canadian dollars)

For the year ended June 30,	Notes	2022 $	2021 $
Revenues			
Product sales (B2C)		**3,839,923**	-
Product sales (B2B)		**3,740,892**	5,788,603
Services		**3,500,741**	1,845,053
Gross Revenues		**11,081,556**	7,633,656
Excise duties		**(1,695,564)**	-
Net Revenues		**9,385,992**	7,633,656
Cost of goods sold		**(7,165,398)**	(3,006,939)
Gross margin		**2,220,594**	4,626,717
Expenses			
Salaries and wages		**997,837**	754,467
Office and general		**1,758,984**	1,086,443
Share based payments	14b	**2,105,471**	133,697
Professional fees		**461,913**	398,660
Consulting fees	14b, 14c	**184,147**	83,979
Bad debt expense		**37,530**	
Depreciation of property and equipment	7	**6,921**	10,162
		5,552,803	2,467,408
Operating income (loss)		**(3,332,209)**	2,159,309
Other income		**-**	(101,394)
Transaction cost	16	-	1,888,434
Finance costs	14b, 14c	**91,145**	315,182
Net income (loss) before Income tax expense (note 17)		**(3,423,354)**	57,087
Current income tax expense (recovery)	17	**(335,447)**	335,447
Net loss and comprehensive loss for the year (note 17)		**(3,087,907)**	(278,360)
Comprehensive loss per share - basic and fully diluted		**(0.027)**	(0.003)
Weighted average number of common shares outstanding *		**118,511,846**	84,994,390

*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 consolidated financial statements.

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

For the year ended June 30,	Notes	2022	2021
		$	$
Operating activities			
Net loss for the period		(3,087,907)	(278,360)
Items not affecting cash:			
Transaction costs- RTO		-	2,113,792
Depreciation of property and equipment		207,399	178,912
Amortization of right-of-use assets		113,391	102,803
Accretion of finance costs		-	292,410
Share based payments		- 2,105,471	133,697
Interest on right-of-use assets		42,605	48,162
Amortization of deferred lease inducement		(10,233)	(10,071)
		(629,274)	2,581,345
Changes in non-cash working capital balances			
Trade and other receivables		659,575	(1,709,124)
Prepaids		58,326	(297,144)
Harmonized sales tax recoverable		(82,440)	(23,209)
Inventories		(630,918)	(2,035,034)
Income taxes		(335,447)	335,447
Trade and other payables		910,085	949,152
		579,182	(2,779,907)
Net cash used in operating activities		(50,092)	(198,562)
Investing activities			
Property and equipment additions		(262,621)	(508,986)
Cash acquired on RTO		-	872,232
Net cash used in investing activities		(262,621)	363,246
Financing activities			
Finance lease payments		(151,328)	(134,589)
Advances from (to) related parties		(33,361)	(139,897)
Proceeds from private placements		1,387,864	774,873
Share repurchase		(260,662)	-
Proceeds from warrant issuance		-	37,500
Net cash provided by financing activities		942,513	537,887
(Decrease) increase in cash flow		629,800	702,572
Cash, beginning of year		725,016	22,444
Cash, end of year		1,354,816	725,016

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

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

	Notes	Common share capital		Contributed surplus	Equity component of convertible promissory note	Warrant Reserve	Deficit	Total equity
		#	$	$	$	$	$	$
Balance at June 30, 2020		**77,253,073**	**1,544,635**	**821,771**	**36,454**	**-**	**(1,737,893)**	**664,967**
Founder share adjustment		-	172,041	-	-	-	-	172,041
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
Subscription proceeds issued for cash		3,189,585	476,344	-	-	126,488	-	602,832
RSUs converted for common shares		434,215	89,013	-	-	-	-	89,013
Common Shares Issued – RTO		16,097,729	3,000,000	-	-	-	-	3,000,000
Net loss for the period		-	-	-	-	-	(278,360)	(278,360)
Balance at June 30, 2021		**104,597,633**	**5,787,533**	**851,454**	**-**	**126,488**	**(2,016,253)**	**4,749,222**
RSUs converted for common shares		5,071,372	931,222	-	-	-	-	931,222
Shares Issued on Private Placement		7,710,354	591,270	-	-	-	-	591,270
Shares Issued on Phase 2 Milestone		5,159,958	1,000,000	-	-	-	-	1,000,000
Share buyback		(1,682,000)	(260,662)	-	-	-	-	(260,662)
Investor and Broker Warrants Issued from PP		-	-	-	-	809,256	-	809,256
Stock Option Issuance		-	-	**161,588**				161,588
Net loss for the period		-	-	-	-	-	(3,087,907)	(3,087,910)
Balance at June 30, 2022		**120,857,317**	**8,049,363**	**1,013,042**	**-**	**935,744**	**(5,104,160)**	**4,893,986**

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. (“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.

On April 8, 2021, the Company commenced trading on the Canadian Securities Exchange under the symbol “AYUR.” On November 30 2021, the Company began trading on the OTC Markets Group Inc. (OTCQB) under the symbol “CDCLF”. On January 22, 2022, the Company received approval from OTC Markets Group Inc., to change its symbol to "AYURF". On August 19, 2021, the Company inter-listed on the Frankfurt Stock Exchange under the symbol “3ZQ0.” The Company’s registered head office is 1080 Brock Road, Unit 6, Pickering, L1W3X4. The Company’s website is https://ayurcann.com/.

On April 20, 2022, the Company announced that it received a flower sales license from Health Canada, which will allow the Company to sell dried cannabis flower products in Canada through authorized distributors and retailers.

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 ($3,087,907) during the year ended June 30, 2022, and as at June 30, 2022, the Company’s accumulated deficit was ($5,104,163). A large portion of the deficit is related to the one-time transaction costs as a result of the RTO transaction.

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 an 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 audited consolidated financial statements are based on IFRSs issued and outstanding as of October 25, 2022, 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;
- 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

Significant Accounting Policies - Continued

- 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. The Company offers its product lines, both B2B and B2C.

Gross revenue includes excise taxes, which the Company pays as principal, but excludes duties and taxes collected on behalf of third parties. Net revenue from sale of goods, as presented in the consolidated statements of loss and comprehensive loss, represents revenue from the sale of goods less applicable excise taxes, expected price discounts, and allowances for customer returns. Excise taxes are a production tax which is payable when a cannabis product is delivered to the customer and are not directly related to the value of revenue.

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. For contracts that permit the customer to return a product, revenue is recognized to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur. Therefore, at the point of sale, the amount of revenue recognized is adjusted for expected returns, which are estimated based on the historical experience and knowledge of the customer and market expectations. At the same time, the Company would also have a right to recover returned goods, so consequently a refund liability and a right to recover returned goods asset are recognized. The right to recover returned goods asset is measured at the former carrying amount of the inventory less any expected costs to recover goods. The Company reviews its estimate of expected returns at each reporting date and updates the amounts of the asset and liability accordingly.

Cash & 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.

Significant Accounting Policies - Continued

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.

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

Significant Accounting Policies – Continued

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 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.

Significant Accounting Policies - Continued

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 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, 2022, 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.

Significant Accounting Policies - Continued

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 expected credit loss ("ECL") impairment model applies to financial assets measured at amortized cost, contract assets and debt investments at FVOCI, but not to investments in equity instruments. Allowances for ECL are recognized on all financial assets that are classified either at amortized cost or FVOCI and for all loan commitments and financial guarantees that are not measured at FVTPL. Allowances represent credit losses that reflect an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes, the time value of money and reasonable and supportable information about past events, current conditions and forecasts of future economic conditions.

ECL allowances are measured at amounts equal to either (i) 12-month ECL (also referred to as Stage 1 ECL), which comprises an allowance for all non-impaired financial instruments that have not experienced a significant increase in credit risk ("SICR") since initial recognition; or (ii) lifetime ECL (also referred to as Stage 2 ECL), which comprises an allowance for those financial instruments that have experienced a SICR since initial recognition; or where there is objective evidence of impairment (Stage 3 ECL). Lifetime ECL is recognized for Stage 2 and 3 financial instruments compared to 12- month ECL for Stage 1 financial instruments.

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.

Significant Accounting Policies – Continued

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 current period. 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 period, 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 period.

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.

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.

Significant Accounting Policies - Continued

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.

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 resources to 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 ending June 30, 2022. 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**	**30 to 60**	**61 to 90**	**90+**	**Total**
June 30, 2021	1,939,937	22,425	-	97,129	2,059,491
June 30, 2022	**1,399,916**	**-**	**-**	**-**	**1,399,916**

As at June 30, 2022 the Company recorded a bad debt expense of $37,530 as settlement with a customer during the period. As at June 30, 2021, no additional impairment was recorded for any portion of the accounts receivable. The company held no collateral for any receivable amounts outstanding as at June 30, 2022 and 2021.

6. Inventories

As at,	**June 30, 2022**	June 30, 2021
	$	$
Work-in-progress	**283,137**	815,410
Finished goods	**387,903**	1,293,910
Bulk	**1,310,514**	-
Facility Related/Other	**452,688**	-
Packaging	**144,284**	153,950
Packaged	**367,234**	-
Biomass	**2,137**	53,709
	2,947,897	2,316,979

Write-downs to net realizable value for obsolete and slow-moving inventories of $nil during the year ending June 30, 2022 (June 30, 2021 - $nil) were included in cost of goods sold for the period. Inventories recognized as an expense in the years ending June 30, 2022, and 2021 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						
As at June 30, 2020	7,143	586,198	61,561	27,997	825	683,724
Additions during the year	8,856	327,624	170,632	1,874	-	508,986
As at June 30, 2021	15,999	913,821	232,193	29,871	825	1,192,710
Additions during the year	7,330	79,325	175,537	429	-	262,621
As at June 30, 2022	**23,329**	**993,146**	**407,730**	**30,300**	**825**	**1,455,331**
Accumulated Amortization						
As at June 30, 2020	1,077	114,731	6,156	7,699	83	129,746
Depreciation for the year	2,402	136,123	30,225	10,023	139	178,912
As at June 30, 2021	3,479	250,854	36,381	17,722	222	308,658
Depreciation for the period	3,237	140,526	56,716	6,800	120	207,399
As at June 30, 2022	**6,716**	**391,380**	**93,097**	**24,522**	**342**	**516,057**
Carrying Value						
As at June 30, 2021	12,520	662,968	195,812	12,149	603	884,052
As at June 30, 2022	**16,613**	**601,766**	**314,633**	**5,778**	**483**	**939,274**

8. Right-of-Use-Assets

	Production facility $
Cost	
June 30, 2020	387,720
Additions	158,830
Balance, June 30, 2021	**546,550**
Additions	-
Balance, June 30, 2022	**546,550**
Accumulated amortization	
Balance, June 30, 2020	**81,626**
Amortization for the year	102,803
Balance, June 30, 2021	**184,429**
Amortization for the year	113,391
Balance, June 30, 2022	**297,820**
Carrying value	
Balance, June 30, 2021	362,121
Balance, June 30, 2022	**248,730**

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

(Expressed in Canadian Dollars)

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, 2022**	June 30, 2021
	$	$
Trade payables	**912,510**	996,318
Excise tax payable	**1,036,172**	-
Accrued and other current liabilities	**45,341**	87,620
	1,994,023	1,083,938

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

10. Lease Liability

	Production facility
Balance, June 30, 2020	373,495
Additions – IFRS 16	158,829
Lease inducement	(8,277)
Interest expense	35,714
Amortization of rent inducement	10,070
Lease payments	(134,791)
Balance, June 30, 2021	**435,040**
Interest expense	42,604
Lease payments	(151,328)
Other adjustments	(20,466)
Amortization of rent inducement	10,234
Balance, June 30, 2022	**316,084**

Allocated as:	$
Current	135,188
Non-current	180,896
Balance, June 30, 2022	**316,084**

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 second lease began November 1, 2020 and has an expiry date of October 31, 2025.

11. 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, 2023, 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.

12. Key Management Compensation

The Company defines key management personnel as its President, Chief Executive Officer and Directors. Key management compensation for the year ending June 30, 2022, comprised executive fees of $580,577 (June 30, 2021 – $270,360). For the year ending June 30, 2022, Share based executive payments - $564,688 (June 30, 2021 - $133,697).

13. Related Party Transactions and Balances

As at June 30, 2022, there are no longer related party loan balances payable to the CEO and the COO (June 30 2021 -33,359). Interest incurred on related party balances payable to the CEO and COO are $6,875 and $6,187 respectively for the year ending June 30, 2022 and $16,679 and $16,679 respectively for the year ended June 30, 2021.

Stock based compensation of directors and key management personnel including Chief Executive Officer and Chief Operating Officer of the Company for the periods ended June 30, 2022 and 2021 was $564,688 and $ 89,041. Director fees of the Company for the periods ended June 30, 2022 and 2021 was $218,193 and $13,818 respectively.

14. Share Capital

a. Authorized Shares
An unlimited number of common shares

b. Issued Shares

For the year ended June 30, 2022:

On October 7, 2021, the Company closed a non-brokered private placement of 7,710,354 units at a price of $0.18 per unit, for gross proceeds of $1,387,864. Each unit consists of one common share in the capital of the Company and one common share purchase Warrant exercisable at $0.22 for a period of the earlier of: (a) 36 months from the date of closing or (b) if, at any time after the closing, the closing price on the common share on the Canadian Securities Exchange is at lease $0.70 for a minimum on 10 consecutive trading days, the Company 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 30 days following the date of such written notice.

On October 28, 2021, in connection with the completion of the Build-Out, the second and final ear-out entitlement was triggered, whereby 5,159,958 common shares were issued to original Ayurcann Inc. shareholders equivalent to $1,000,000.

During the year ended June 30, 2022, 5,071,372 shares were issued on the vesting of RSUs.

On March 1, 2022, the Company initiated a normal course issuer bid to acquire up to 6,085,890 common shares in the capital of the Company representing approximately 5% of its issued and outstanding Common Shares. During the Year ended June 30, 2022, the Company repurchased 1,682,000 common shares under the share buy-back program at prices between $0.112 - 0.171 per common share.

For the year ended June 30, 2021:

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.

(Expressed in Canadian Dollars)

Share Capital (continued)

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.

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.

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 16.

14. Share Capital (continued)

c. Warrants

A summary of the Company's warrants for the years ended June 30, 2022 and 2021 is presented below:

	Warrants	Weighted average exercise price
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 (ii)	1,087,500	0.40
Granted private placement 1 (i)	1,602,556	0.38
Outstanding, June 30, 2021	**17,109,517**	**0.18**
Warrants issued in private placement (iii)	7,710,354	0.22
Broker warrants issued in private placement	98,594	0.22
Expired Warrants – January 2022 (iii)	(1,087,500)	0.40
Expired Warrants – May 2022 (v)	(7,071,961)	0.14
Expired Warrants – June 2022 (v)	(1,469,500)	0.14
Outstanding, June 30, 2022	**15,289,504**	**0.21**

As at June 30, 2022, the following warrants were outstanding and exercisable:

Date of grant	Number of warrants	Exercise price	Expiry date
August 19, 2019	5,878,000	0.14	August 19, 2022
April 28, 2021	1,602,556	0.38	April 28, 2024
October 6, 2021	7,808,948	0.22	October 6, 2024

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(Expressed in Canadian Dollars)

Share Capital (continued)

(i) 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.

(ii) 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 there were only 1,087,500 warrants accounted for with an exercise price of $0.40 and expiry date of January 23, 2022

(iii) On October 6, 2021 the Company issued 7,710,354 warrants and 98,594 broker warrants in connection with a private placement. Each warrant is exercisable into one common share at a price of $0.22 per share and expires on October 6, 2024. The fair value of $654,262 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 – 1.02%; dividend yield 0%; expected stock volatility – 86.28% and an expected life of 3 years.

(iv) On October 29, 2021, in connection with the completion of the Build-Out and further to the Company's

press release dated November 25, 2020, the Company has provided Health Canada with notice that the Build-Out has been completed, triggering the second and final earn-out entitlement to original Ayurcann Inc. shareholders of an aggregate of 5,159,958 common shares of the Company.

(v) During the last fiscal quarter ending June 30, 2022, 8,541,461 warrants expired unexercised

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, 2020	**0.15**	**125,000**
Granted (i)	0.15	333,334
Granted (ii)	0.15	783,735
Issued on RTO	0.15	75,000
Cancelled on RTO	0.15	(533,334)
Acquired from Canada Coal	0.10	625,000
Granted (iii) (iv)	0.28	1,705,100

(Expressed in Canadian Dollars)

Share Capital (continued)

Balance, June 30, 2021	**0.17**	**3,113,835**
Expired (v)	0.10	**(625,000)**
Issued (vi)	0.17	**133,233**
Balance, June 30, 2022	**0.18**	**2,622,068**

(i) 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.

(ii) 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.

(iii) 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.

(iv) 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.

(v) On March 25, 2022, 625,000 options of the Company originally issued on September 22, 2016, expired unexercised.

(vi) On April 11, 2022, the Company issued 133,233 options with an expiry date of April 11, 2024, and a strike price of $0.17

The following table reflects the stock options issued and outstanding as of June 30, 2022:

Expiry date	**Exercise price**	**Options**	**Number of Options vested (exercisable)**
	$	#	
September 5, 2022	0.1021	183,688	183,688
September 16, 2023	0.1021	489,834	489,834
November 24, 2023	0.0953	110,213	110,213
April 13, 2024	0.1600	1,000,100	1,000,100
June 30, 2023	0.20	75,000	75,000
June 30, 2023	0.38	230,000	230,000
June 30, 2023	0.28	400,000	400,000

(Expressed in Canadian Dollars)

April 11, 2025	0.17	133,233	133,233
	0.1817	**2,622,068**	**2,622,068**

Share Capital (continued)

15. Reclassification

Certain comparative figures have been reclassified to conform to the current year's presentation on the consolidated financial statements and the consolidated statements of loss. Net loss previously reported has not been affected by these reclassifications.

16. Other Events- Reverse Take-over Transaction

On November 24, 2020 Ayurcann Inc. executed a definitive business combination agreement with Canada Coal Inc. (TSXV:CCK.H) whereby Ayurcann Inc., subject to certain conditions and applicable shareholder and 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:

(Expressed in Canadian Dollars)

Other Events - Continued

	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**

17. 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, 2022**	June 30, 2021
Income before income taxes	(3,423,355)	57,082
Combined statutory tax rate	26.5%	26.5%
Income tax recovery at statutory rate	(907,189)	15,127
Permanent differences and other	(63,955)	(156,174)
Temporary differences	(196,345)	73,837
Difference in current and deferred tax rate	-	-
Share/debt issuance costs ,	554,166	500,435
Prior year losses utilized	328,184	(300,084)
Change in deferred income tax asset not recognized	(50,309)	202,306
Income Tax Expense (Recovery)	**(335,447)**	335,447

Deferred income taxes

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

(Expressed in Canadian Dollars)

Income Taxes - Continued

	June 30, 2022	June 30, 2021
	$	$
Capital assets	56,362	(59,162)
Non-capital losses	401,757	538,073
Financial liabilities and other	-	-
Deferred transaction costs	60,351	89,868
Deferred tax assets not recognized	(518,470)	(568,779)
Deferred tax asset (liability)	518,470	568,779

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.

18. Financial Instruments and Risk Factors

(a) Fair value of financial instruments

The fair values of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities approximate their fair values due to the short-term or demand nature of these balances. The Company's financial instruments are exposed to certain financial risks, as summarized below.

(b) Credit risk

Credit risk arises from trade accounts receivable. The maximum exposure to credit risk as at June 30, 2022 is $1,399,916 which represents accounts receivable in the consolidated statement of financial position.

The Company's credit risk is attributable to its accounts receivable, which is comprised of trade accounts receivable. The credit quality of the Company's customers is considered high, and is monitored on an on-going basis.

(c) Liquidity risk

The business of the Company necessitates the management of liquidity risk. The Company's objective is to mitigate short-term liquidity risk by maintaining adequate working capital reserves and its long-term liquidity risk through good relations with external capital markets. The Company is exposed to liquidity risk or the risk of not meeting its financial obligations as they come due. Most of the Company's financial liabilities are due within one year except for finance lease obligations.

The Company manages liquidity risk through the management of its capital structure and resources to ensure that it has sufficient liquidity to settle obligations and liabilities when they are due. Management keeps track of its operational needs and creates budgets and cash flow estimates to determine cash flow requirements for general business and working capital needs, as well as growth projects. The Company's ability to meet its operational needs is dependent on future operating results and cash flows, which are determined by economic, financial, competitive, market, regulatory factors and other factors.

Financial Instruments and Risk Factors - Continued

(d) Market risk

Market risk is the risk of loss that may arise from changes in market factors such as interest rates, foreign exchange rates and equity prices.

(i) The Company does not have assets or liabilities in a foreign currency and therefore is not exposed to foreign currency risk.

(ii) Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company is not subject to interest rate risk from any of its liabilities as the CEBA loan will be a fixed interest when it converts to a term loan.

19. Subsequent events

On July 28, 2022, pursuant to certain consulting agreements entered into between the Company and its acting directors, officers and consultants (together, “Management”, the Company and Management agreed that the aggregate quarterly management fee payment obligation in the amount of $83,750 (each, a “Quarterly Payment”) will be settled in Common Shares going forward, beginning on September 30, 2022. Each Quarterly Payment is to be satisfied through the issuance of Common Shares calculated according to the greater of: (i) ten-day volume weighted average price of the Common Shares on the CSE ending on the quarter end date; (ii) the discounted market price pursuant to the policies of the CSE; and (iii) $0.05. The Common Shares will be subject to a four month and one day hold period pursuant to the polices of the CSE and applicable securities laws.

Subsequent to the year ended June 30, 2022, the Company repurchased 394,000 shares repurchased at prices between $0.095-0.122 per share.

On July 28, 2022, the Company announced various corporate updates as well as a grant of 1,226,350 restricted share units at a deemed price of $0.095 to certain directors, officers, employees, and consultants of the Company pursuant to the Company's RSU plan. Each RSU granted vests immediately.

On September 7, 2022, the Company announced that further to its press release dated June 22, 2022, the Company has closed its acquisition of Joints and Hustle & Shake Inc. ("Joints and Hustle") for $5,500,000 in an all-stock acquisition, pursuant to a share purchase agreement entered into between the Company, Joints and Hustle and Tetra Oils Inc. ("Tetra").In connection with closing the Acquisition, the Company has issued 32,352,941 common shares in the capital of the Company to Tetra. Each Common Share was issued on the basis of a deemed price of $0.17 per Common Share. The Shares issued are subject to a statutory hold period of four months and one day and, pursuant to the terms of the Share Purchase Agreement, (i) have been deposited into escrow and are to be released every six months in 25% allotments; and (ii) are subject to post-closing downward adjustments pursuant to the terms and conditions of the escrow agreement.