AYURCANN

Ayurcann Holdings Corp.

Condensed Interim Consolidated Financial Statements

For the Three Months Ended September 30, 2022

(Expressed in Canadian Dollars)

(Unaudited)

NOTICE OF NO AUDITOR REVIEW OF CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

These unaudited condensed interim consolidated financial statements, including comparatives, have been prepared in accordance with International Accounting Standards ("IAS") 34 'Interim Financial Reporting' ("IAS 34") using accounting policies consistent with the International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and Interpretations of the International Financial Reporting Interpretations Committee ("IFRIC").

Under National Instrument 51-102, Part 4, subsection 4.3(3) (a), if an auditor has not performed a review of the condensed interim consolidated financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor. The accompanying unaudited condensed interim consolidated financial statements of Ayurcann Holdings Corp. ("Company") have been prepared by and are the responsibility of the Company's management. The unaudited condensed interim consolidated financial statements are prepared in accordance with accounting principles generally accepted in Canada (these statements are prepared under International Financial Reporting Standards (IFRS)) and reflect management's best estimates and judgment based on information currently available. The Company's independent auditor has not performed a review of these condensed interim consolidated financial statements in accordance with standards established by the Chartered Professional Accountants of Canada for a review of interim financial statements by an entity's auditor.

Ayurcann Holdings Corp.
Condensed Interim Consolidated Statements of Financial Position
As at September 30, 2022 and June 30, 2022
(Unaudited - Expressed in Canadian dollars)

@r `s	Note		September 30, 2022		June 30, 2022
ASSETS					
Current:					
Cash		$	1,016,130	$	1,354,816
Trade and other receivables	5		1,500,521		1,399,916
Prepaid expenses and deposits			341,990		250,141
Harmonized sales tax recoverable			6,270		-
Income tax receivable			289,233		142,209
Inventories	6		2,741,314		2,947,897
			5,895,458		6,094,979
Non-current assets					
Property and equipment	7		952,079		939,273
Right-of-use assets	8		220,382		248,730
Intangible assets	4		2,750,000		-
Total Assets		**$**	**9,817,919**	**$**	**7,282,982**
LIABILITIES					
Current:					
Trade and other payables	9	$	2,683,551	$	1,994,023
Harmonized sales tax payable			-		38,889
Current portion of lease liability	8		140,516		135,188
			2,824,067		**2,168,100**
Non-current liabilities					
Lease liability	8		143,738		180,896
Long term debt	10		40,000		40,000
Total liabilities		**$**	**3,007,805**	**$**	**2,388,996**
SHAREHOLDERS' EQUITY					
Common share capital	13b		10,900,587		8,049,363
Warrant reserve	13c		935,744		935,744
Share based payments	13d		1,013,042		1,013,042
Accumulated deficit			(6,039,259)		(5,104,163)
Total Shareholders' Equity			**6,810,114**		**4,893,986**
Total Liabilities and Shareholders' Equity		**$**	**9,817,919**	**$**	**7,282,982**

Nature of operations and going concern	1
Subsequent events	16

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 condensed interim consolidated financial statements.

Ayurcann Holdings Corp.

Condensed Interim Consolidated Statements of Loss and Comprehensive Loss
For the three months ended September 30, 2022 and 2021
(Unaudited - Expressed in Canadian dollars)

	Note	Three months ended September 30, 2022	2021
Revenues			
Product sales (B2C)		$ 3,124,728	$ -
Product sales (B2B)		159,022	1,040,186
Services		74,463	825,692
Gross Revenues		**3,358,213**	1,865,878
Excise duties		(1,310,544)	-
Net Revenue		**2,047,669**	1,865,878
Cost of goods sold		(1,681,441)	(934,884)
Gross margin		**366,228**	930,994
Expenses			
Salaries and wages		459,407	229,264
Office and general		297,131	282,882
Sales and marketing		341,588	152,941
Professional fees		50,073	78,585
Consulting fees		18,790	19,196
Depreciation of property and equipment	7	823	1,700
		1,167,812	764,568
Operating income/(loss)		**(801,584)**	166,426
Share based payments	13b	116,503	-
Bad debt		-	37,350
Other income		-	8,520
Finance costs		17,009	(117)
Net Income/(loss) before income tax expense		**(935,096)**	120,673
Income tax recovery		-	4,030
Net loss and comprehensive loss		$ (935,096)	$ 124,703
Weighted average shares outstanding			
- Basic and diluted		129,719,452	104,597,633
Basic and diluted loss per share		$ (0.01)	$ 0.00

* 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 condensed interim consolidated financial statements.

Ayurcann Holdings Corp.
Condensed Interim Consolidated Statements of Cash Flows
For the three months ended September 30, 2022 and 2021
(Unaudited – Expressed in Canadian dollar)

	Notes	2022	2021
Operating activities			
Net Income (Loss) for the period		$ (935,096)	$ 124,703
Items not affecting cash			
Depreciation of property and equipment		48,308	74,949
Amortization of right-of-use assets	8	28,348	-
Share based payments	13b	116,503	-
Interest on right-of-use assets	8	8,561	-
Amortization of deferred lease inducement	8	(2,559)	-
Change in non-cash working capital items			
Trade and other receivables		(100,605)	662,200
Prepaid expenses		(91,849)	(88,913)
Harmonized sales tax recoverable		(45,159)	34,836
Inventories		206,583	(607,917)
Trade and other payables		689,528	164,936
Income tax		(147,024)	-
Cash Flows provided (used) for operating activities		**(224,461)**	364,794
Investing activities			
Property and equipment additions		(61,114)	(70,624)
Cash Flows used in investing activities		**(61,114)**	(70,624)
Financing activities			
Finance lease payments	8	(37,832)	(28,533)
Share repurchase	14b	(15,279)	-
Advances from related parties		-	(14,459)
Cash Flows used in financing activities		**(53,111)**	(42,992)
(Decrease)/Increase in cash		(338,686)	251,178
Cash, beginning of period		1,354,816	725,016
Cash, end of period		**$ 1,016,130**	**$ 976,194**

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

Ayurcann Holdings Corp.
Condensed Interim Consolidated Statements of Changes in Equity
For the three months ended September 30, 2022 and 2021
(Unaudited - Expressed in Canadian dollars)

	Note	Common shares		Reserves		Accumulated deficit	Total
		No. of shares	Dollar Amount	Warrants	Share based payments		
As at July 1, 2021		**104,597,633**	**$ 5,787,533**	**$ 126,488**	**$ 851,454**	**$ (2,016,253)**	**$ 4,749,222**
Net Income and comprehensive income for the period		-	-	-	-	124,703	124,703
As at September 30, 2021		**104,597,633**	**5,787,533**	**126,488**	**851,454**	**(1,891,550)**	**4,873,925**
RSUs converted for common shares	14b	5,071,372	931,222	-	-	-	931,222
Common shares issued under private placement, net of issuance costs	14b	7,710,354	591,270	-	-	-	591,270
Investor and broker warrants issued from private placement		-	-	809,256	-	-	809,256
Shares issued on Phase 2 milestone	14b	5,159,958	1,000,000	-	-	-	1,000,000
Share buyback	14b	(1,682,000)	(260,662)	-	-	-	(260,662)
Share based payments	14c	-	-	-	161,588		161,588
Net loss and comprehensive loss for the period		-	-	-		(3,212,613)	(3,212,613)
As at June 30, 2022		**120,857,317**	**8,049,363**	**935,744**	**1,013,042**	**(5,104,163)**	**4,893,986**
RSUs converted for common shares	14b	1,226,350	116,503	-	-	-	116,503
Share buyback	14b	(142,000)	(15,279)	-	-	-	(15,279)
Common shares issued on acquisition	4	32,352,941	2,750,000	-	-	-	2,750,000
Net loss and comprehensive loss for the period		-	-	-	-	(935,096)	(935,096)
As at September 30, 2022		**154,294,608**	**$ 10,900,587**	**$ 935,744**	**$ 1,013,042**	**$ (6,039,259)**	**$ 6,810,114**

The accompanying notes are an integral part of the 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. 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 condensed interim 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 net loss and comprehensive loss of $935,096 during the three month period ending September 30,2022, and as at September 30, 2022, the Company's accumulated deficit was $6,039,259. A large portion of the deficit is related to the one-time transaction costs as a result of the reverse-takeover 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 if 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 condensed interim consolidated financial statements are based on IFRSs issued and outstanding as of November 28, 2022, the date the Board of Directors approved the statements.

Basis of measurement
These condensed interim 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;

- Estimated useful lives, amortization of intangible assets, and impairment testing – amortization of intangible assets is recorded on a straight-line basis over their estimated useful lives, which do not exceed the contractual period, if any. The assessment of any impairment is dependent upon estimates of recoverable amounts that take into account factors such as economic and market conditions and useful lives of assets
- Business Combinations – classification of an acquisition as a business combination or an asset acquisition depends on whether the assets acquired constitute a business, which can be complex judgement. Whether an acquisition is classified as a business combination or asset acquisition can have a significant impact on the entries made on and after acquisition. In determining the fair value of all identifiable assets and liabilities acquired, the most significant estimates relate to intangible assets. For or any intangible asset identified, depending on the type of intangible asset and the complexity of determining its fair value, an independent valuation expert or management may develop the fair value, using appropriate valuation techniques, which are generally based on a forecast of the total expected future net cash flows. The evaluations are linked closely to the assumptions made by management regarding the future performance of these assets and any changes in the discount rate applied.
- 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. 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 assets 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 assets 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.

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.

Intangible assets
Intangible assets are stated at cost, net of accumulated amortization and accumulated impairment losses, if any.

The Company amortizes on a straight line basis the intanbible assets over the assets useful lives which is determined to be 5 years.

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 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 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 September 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.

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.

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 extent 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 an 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 reflects 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 than 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 subsidiaries 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. 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 period ending September 30, 2022. The Company is not subject to externally imposed capital requirements.

(Expressed in Canadian Dollars)

4. Acquisition

Joints and Hustle & Shake Inc.

On September 7, 2022, the Company completed the acquisition of Joints and Hustle & Shake Inc. by issuing 32,352,941 common shares of the Company in exchange for 100% of issued and outstanding shares of Joints and Hustle & Shake Inc. Accordingly, Joints and Hustle & Shake Inc. ("Joints and Hustle") is now a wholly owned subsidiary of the Company. The consideration shares 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.

Since Joints and Hustle did not meet the definition of a business under IFRS 3 – Business Combinations, the acquisition was accounted for as a purchase of Joints and Hustle assets. The consideration paid was determined as equity-settled share-based payments under IFRS 2, at the fair value of the equity of the Company issued to the shareholders of Joints and Hustle on the date of closing as noted above. IFRS 2 requires the shares issued for the acquisition of the net assets of Joints and Hustle to be measured at the fair value of the net assets, unless the fair value cannot be reliably estimated.

The following represent the preliminary fair value allocation to identifiable net assets acquired at September 30, 2022. Remeasurement may be made up to the finalization of the purchase price allocation which cannot be later than September 7, 2023 (one year after the transaction per IFRS 3.45):

		Total
Intangible assets (brand)	$	2,750,000
		2,750,000
Fair value of consideration paid:		
Common shares		2,750,000
	$	2,750,000

The Company plans to amortize its intangible asset over its useful life of 5 years.

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:

	Current	31 to 60	61 to 90	91+	Total
Balance outstanding, July 1, 2021	**$ 1,939,937**	**$ 22,425**	**$ -**	**$ 97,129**	**$ 2,059,491**
Change	(540,021)	(22,425)		(97,129)	(659,575)
Balance outstanding, June 30, 2022	**1,399,916**	**-**	**-**	**-**	**1,399,916**
Change	(23,867)	104,106	-	20,366	100,604.54
Balance outstanding, September 30, 202	**$ 1,376,049**	**$ 104,106**	**$ -**	**$ 20,366**	**$ 1,500,521**

As at September 30, 2022 the Company recorded a bad debt expense of $nil (September 30, 2021- $37,530) as settlement with a customer during the period. As at June 30, 2021, the Company recorded a bad debt expense of $37,530. The company held no collateral for any receivable amounts outstanding as at September 30, 2022 and June 30, 2022.

(Expressed in Canadian Dollars)

6. Inventories

		September 30, 2022		June 30, 2022
Work in process	$	283,137	$	283,137
Finished goods		270,496		387,903
Bulk		1,031,327		1,310,514
Facility Related/other		452,688		452,688
Packaging		79,254		144,284
Packaged		441,190		367,234
Biomass		183,222		2,137
	$	2,741,314	$	2,947,897

Write-downs to net realizable value for obsolete and slow-moving inventories of $nil during the period ending September 30, 2022 (September 30, 2021 - $nil) were included in cost of goods sold for the period. Inventories recognized as an expense in the period ending September 30, 2022, and 2021 is equal to cost of goods sold presented in the statements of comprehensive loss.

7. Property and Equipment

		Furniture and Fixtures		Leasehold Improvements		Machinery and Equipment		Computer		Signs	Total
Carrying value, July 1, 2021	**$**	**12,520**	**$**	**662,968**	**$**	**195,812**	**$**	**12,149**	**$**	**602**	**$ 884,051**
Additions during the period		7,330		79,325		175,537		429		-	262,621
Depreciation		(3,237)		(140,526)		(56,716)		(6,800)		(120)	(207,399)
Net carrying value, June 30, 2022		**16,613**		**601,767**		**314,633**		**5,778**		**482**	**939,273**
Additions during the period		-		3,620		57,494		-		-	61,114
Depreciation		(831)		(30,179)		(16,476)		(799)		(23)	(48,308)
Net carrying value, September 30, 202	**$**	**15,782**	**$**	**575,208**	**$**	**355,651**	**$**	**4,979**	**$**	**459**	**$ 952,079**

(Expressed in Canadian Dollars)

8. Right-of-Use Asset and Lease Liability

	Right-of-use assets	Lease Liabilities
Balance outstanding, July 1, 2021	**$ 362,121**	**$ 435,040**
Additions	-	-
Interest	-	42,604
Repayments	-	(151,328)
Adjustments	-	(20,466)
Amortization	(113,391)	10,234
Balance outstanding, June 30, 2022	**248,730**	**316,084**
Additions	**-**	**-**
Interest	**-**	8,561
Repayments	**-**	(37,832)
Adjustments	**-**	(5,118)
Amortization	(28,348)	2,559
Balance outstanding, September 30, 2022	**$ 220,382**	**$ 284,254**

Allocated as:		
Current	**$ -**	**$ 140,516**
Non-current	**220,382**	**143,738**
	$ 220,382	**$ 284,254**

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

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 October31, 2025.

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:

	September 30, 2022	June 30, 2022
Trade payables	$ 1,105,598	$ 912,510
Excise tax payable	1,310,544	1,036,172
Accured and other current liabilities	267,409	45,341
	$ 2,683,551	$ 1,994,023

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

10. 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.

11. Key Management Compensation

The Company defines key management personnel as its President, Chief Executive Officer and Directors. Key management compensation for the three-month period ending September 30, 2022 comprised executive fees of $165,000 (September 30, 2021 – $82,500) of which $57,000 was paid in the form of restricted share units (see Note 12). For the three months ending September 30, 2022, Share based executive payments - $80,503 (September 30, 2021 - $Nil).

12. Related Party Transactions and Balances

As at September 30, 2022, there are no longer related party loan balances payable to the CEO and the COO (June 30 2022 - $nil). Interest incurred on related party balances payable to the CEO and COO are $nil respectively for the three month period ending September 30, 2022 (September 30, 2021 – Interest incurred on loans was $9,450).

Stock based compensation of directors and key management personnel including Chief Executive Officer and Chief Operating Officer of the Company for the three months ended September 30, 2022 was $57,000. Director fees of the Company for the three months ended September 30, 2022 were $23,503.

13. 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 least $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 earnout 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 three months ended September 30, 2022:

During the three months ended September 30, 2022, 1,226,350 shares were issued on the vesting of RSUs.

During the three months ended September 30, 2022, under the Company's normal course issuer bid the Company acquired 142,000 common shares under the share buy-back program at prices between $0.08 - $0.11 per common share.

(Expressed in Canadian Dollars)

On September 7, 2022 (See Note 4) the Company issued 32,352,941 common shares on closing of the acquisition of Joints and Hustle at a fair value of $2,750,000.

c. Warrants

A summary of the Company's warrants for the three months ended September 30, 2022 and September 30, 2021 is presented below:

	Number of Warrants	Weighted Average Exercise Price
Balance outstanding, July 1, 2021 and September 30, 2021	**17,109,517**	**$ 0.180**
Warrants issued in private placement	7,710,354	0.220
Broker warrants issued in private placement	98,594	0.220
Expired warrants	(9,628,961)	(0.169)
Warrants exercised	-	-
Balance outstanding, June 30, 2022	**15,289,504**	**$ 0.210**
Expired warrants	(5,878,000)	(0.140)
Balance outstanding, September 30, 2022	**9,411,504**	**$ 0.250**

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

Date of Grant	Number of warrants	Exercise price	Expiry date
April 28, 2021	1,602,556	$ 0.38	April 28, 2024
October 6, 2021	7,808,948	0.22	Octobr 6, 2024
	9,411,504		

(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. The 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.

(Expressed in Canadian Dollars)

(v) During the three months ended September 30, 2022, 5,878,000 warrants expired unexercised (Year ended June 30, 2022 – 9,628,961)

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.

	Number of options		Weighted Average Exercise Price
Balance outstanding, July 1, 2021, September 30, 2021	**3,113,835**	**$**	**0.17**
Issued	133,233		0.17
Expired	(625,000)		0.10
Balance outstanding, June 30, 2022	**2,622,068**	**$**	**0.18**
Issued	**-**		-
Expired	**(183,688)**	**$**	**0.10**
Balance outstanding, September 30, 2022	**2,438,380**	**$**	**0.19**

(i) 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.

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

(iii) For the period ended September 30, 2022, 183,688 options of the Company expired unexercised.

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

Expiry date		Exercise Price	Options Outstanding	Options Exerciseable
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		0.2000	75,000	75,000
June 30, 2023		0.3800	230,000	230,000
June 30, 2023		0.2800	400,000	400,000
April 11, 2025		0.1700	133,233	133,233
		0.1880	**2,438,380**	**2,438,380**

14. 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

15. 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 September 30, 2022 is $1,500,521 which represents accounts receivable in the consolidated statement of financial position.

The Company's credit risk is attributable to its accounts receivable, which are 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

(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

16. Subsequent events

a) On October 17, 2022, the Company announced it had settled debt owing to 2388765 Ontario Inc. a company controlled by Igal Sudman, the Chief Executive Officer of the Company ("238") and IIPAC Inc. a company controlled by Roman Buzaker , the Chief Financial Officer of the Company ("IIPAC") in the amount of $60,000 (the "Transaction"). As part of the Transaction, 238 and IIPAC each converted $30,000 of their respective debt owed by the Company into 475,435 common shares in the capital of the Company ("Common Shares"), at a deemed price of $0.0631 per Common Share.

b) Subsequent to September 30, 2022, under the Company's normal course issuer bid the Company acquired 65,000 common shares under the share buy-back program at prices between $0.064 - $0.077 per common share.