ICANIC BRANDS COMPANY INC.

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED JULY 31, 2021 AND 2020

(Expressed in Canadian Dollars)

MGO Certified Public Accountants

Independent Auditor's Report

To the Shareholders of Icanic Brands Company Inc.

Opinion

We have audited the consolidated financial statements of Icanic Brands Company Inc. and its subsidiaries (together, the "Company"), which comprise the consolidated statement of financial position as at July 31, 2021, and the consolidated statements of loss and comprehensive loss, shareholders' equity, and cash flows for the year then ended, and the related notes to the consolidated financial statements, including a summary of significant accounting policies (the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at July 31, 2021, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board.

Basis for Opinion

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

Material Uncertainty Related to Going Concern

We draw attention to Note 1 in the financial statements, which indicates that the Company has yet to generate a positive net income and had an accumulated deficit of $38,693,494 since its inception, and expects to incur further losses in the development of its business. 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.

Other Matter

The financial statements of the Company as of and for the year ended July 31, 2020, were audited by another auditor in accordance with generally accepted auditing standards who expressed an unmodified opinion on those financial statements on April 1, 2022.

Other Information

Management is responsible for the other information. The other information comprises the Management's Discussion and Analysis, but does not include the financial statements and our auditor's report thereon.

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

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

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

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

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related 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 Financial Statements

Our objectives are to obtain reasonable assurance about whether the 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 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 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 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 financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.

We communicate with the audit committee 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 the audit committee 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 Christina Guan, CPA.

Macias Gini & O’Connell LLP

Los Angeles, California
April 1, 2022

ICANIC BRANDS COMPANY INC. (FORMERLY INTEGRATED CANNABIS COMPANY, INC.)
Consolidated Statements of Financial Position
(Expressed in Canadian Dollars)

AS AT	Note	July 31, 2021 $	July 31, 2020 $
Current assets			
Cash and cash equivalents		1,807,990	2,037,614
Accounts receivable, net		1,451,507	1,039,681
Taxes recoverable		-	74,186
Prepaid expenses and deposits		367,315	1,078,807
Inventory	8	1,854,870	694,855
Promissory note receivable	6	1,309,446	1,408,427
Total current assets		6,791,128	6,333,570
Property and equipment, net	7	5,494,242	2,031,199
Goodwill	10	9,039,158	9,079,426
Acquisition deposit	9	26,203,360	26,103,601
Intangible assets, net	11	11,266,596	12,866,000
Total non-current assets		52,003,356	50,080,226
Total Assets		58,794,484	56,413,796
SHAREHOLDERS' EQUITY AND LIABILITIES			
Current liabilities			
Amounts payable and other accrued liabilities	12	1,324,131	1,517,192
Lease liabilities	14	255,241	172,084
Loan payable		266,608	287,116
Payroll payable		130,024	-
Derivative liability	13	82,805	129,745
Consideration payable	15	2,399,963	-
Income tax payable	20	361,630	-
Note payable	13	270,425	149,636
		5,090,827	2,255,773
Lease liabilities, net of current portion	14	871,763	992,497
Deferred income tax liabilities	20	3,320,440	4,036,729
Contingent consideration	15	2,228,162	-
Consideration payable, net of current portion	15	1,124,864	-
Total liabilities		12,636,056	7,284,999
Shareholders' Equity			
Common share capital	19	79,283,343	73,837,645
Shares to be issued	19	-	9,800
Share subscriptions receivable		-	(195,663)
Accumulated other comprehensive income (loss)		(1,379,359)	506,710
Reserves	19	6,947,938	5,754,384
Accumulated deficit		(38,693,494)	(30,784,079)
Total shareholders' equity		46,158,428	49,128,797
Total liabilities and shareholders' equity		58,794,484	56,413,796

Nature and continuance of operations (Note 1) and subsequent events (Note 23)

Approved on behalf of the board of directors on April 1, 2022

"Suhas Patel, Director"

"Nishal Kumar, Director"

ICANIC BRANDS COMPANY INC. (FORMERLY INTEGRATED CANNABIS COMPANY, INC.)
Consolidated Statements of Loss and Comprehensive Loss
(Expressed in Canadian Dollars)

For the years ended,	Note	July 31, 2021 $	July 31, 2020 $
Sales		9,798,741	7,971,497
Cost of sales		(7,106,719)	(5,862,697)
Gross margin		2,692,022	2,108,800
Operating Expenses			
Advertising and promotion		533,068	993,099
Depreciation and amortization	7, 11	2,625,265	3,683,425
Filing and listing fees		78,332	66,817
Interest		177,237	6,731
Legal and professional fees	18	93,645	369,485
Management and consulting fees	18	86,689	1,135,304
Office and general expenses		678,903	1,246,434
Payroll expense	18	1,565,409	1,316,147
Rent expense		39,879	-
Share-based compensation	19	1,466,475	1,253,788
Total operating expenses		(7,344,902)	(10,071,230)
Net loss before other items		(4,652,880)	(7,962,430)
Loss on foreign exchange translations		(2,208)	(8,009)
Realized gain on sale of marketable securities		-	4,976
Gain on settlement of accounts receivable		-	15,763
Gain on settlement of debt		-	3,844,221
Revaluation of derivative liability	13	64,564	15,607
Interest revenue		274	1,694
Recapture on sale of mineral properties		175,000	-
Write-off of taxes receivable		(79,591)	-
Impairment of intangible assets	11	(824,377)	(4,311,051)
Consideration paid in excess of identifiable assets	4	(3,120,377)	-
Other items		(3,786,715)	(436,799)
Net loss for the year, before income taxes		(8,439,595)	(8,399,229)
Income tax recovery (expense)	20	530,180	(197,515)
Net loss for the year		(7,909,415)	(8,596,744)
Foreign currency translation		(1,886,069)	550,153
Loss and comprehensive loss for the year		(9,795,484)	(8,046,591)
Basic and diluted net loss per share		(0.03)	(0.04)
Weighted average number of common shares outstanding		228,307,584	188,820,716

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

ICANIC BRANDS COMPANY INC. (FORMERLY INTEGRATED CANNABIS COMPANY, INC.)
Consolidated Statements of Shareholders' Equity
(Expressed in Canadian Dollars)

	Common Share Capital							
	Number of shares	Amount	Shares to be issued	Share subscriptions receivable	Accumulated other comprehensive income / (loss)	Reserve for share-based payments	Accumulated deficit	Total shareholders' equity
		$	$	$	$	$	$	$
Balance at July 31, 2019	**134,209,393**	**45,363,279**	**17,600,000**	**(95,286)**	**(43,443)**	**4,436,246**	**(22,187,335)**	**45,073,461**
Shares for services	1,550,000	776,500	-	-	-	-	-	776,500
Exercise of warrants	693,594	260,100	-	-	-	-	-	260,100
Share exchange agreement	40,000,000	17,600,000	(17,600,000)	-	-	-	-	-
Shares for debt (Note 19)	40,322,580	8,870,966	-	-	-	-	-	8,870,966
Private placements (Note 19)	4,290,000	1,008,150	-	(150,000)	-	64,350	-	922,500
Share issuance costs	-	(41,350)	-	-	-	-	-	(41,350)
Subscription received	-	-	9,800	49,623	-	-	-	59,423
Share-based compensation	-	-	-	-	-	1,253,788	-	1,253,788
Foreign currency translation	-	-	-	-	550,153	-	-	550,153
Loss for the year	-	-	-	-	-	-	(8,596,744)	(8,596,744)
Balance at July 31, 2020	**221,065,567**	**73,837,645**	**9,800**	**(195,663)**	**506,710**	**5,754,384**	**(30,784,079)**	**49,128,797**
Shares for services (Note 19)	183,150	100,000	-	-	-	-	-	100,000
Exercise of warrants (Note 19)	4,700,101	1,798,595	-	-	-	(69,857)	-	1,728,738
Exercise of options (Note 19)	600,000	383,661	-	-	-	(178,661)	-	205,000
Shares issued	-	-	(9,800)	9,800	-	-	-	-
Private placements (Note 19)	3,710,000	779,100	-	-	-	148,400	-	927,500
Share issuance costs		(20,000)	-	-	-	-	-	(20,000)
Subscription received (Note 19)	-	-	-	185,863	-	-	-	185,863
Acquisition of THC Engineering (Note 4)	224,050	78,418	-	-	-	-	-	78,418
Acquisition of De Krown (Note 5)	7,753,079	2,325,924	-	-	-	-	-	2,325,924
Share-based compensation (Note 19)	-	-	-	-	-	1,293,672	-	1,293,672
Foreign currency translation	-	-	-	-	(1,886,069)	-	-	(1,886,069)
Loss for the year	-	-	-	-	-	-	(7,909,415)	(7,909,415)
Balance at July 31, 2021	**238,235,947**	**79,283,343**	**-**	**-**	**(1,379,359)**	**6,947,938**	**(38,693,494)**	**46,158,428**

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

ICANIC BRANDS COMPANY INC. (FORMERLY INTEGRATED CANNABIS COMPANY, INC.)
Consolidated Statement of Cash Flows
(Expressed in Canadian Dollars)

For the years ended,	July 31, 2021 $	July 31, 2020 $
Operating activities		
Net loss for the year	(7,909,415)	(8,596,744)
Accretion expense	192,526	23,805
Interest expense	-	6,731
Recapture on sale of mineral properties	(175,000)	-
Impairment of intangible assets	824,377	4,311,051
Revaluation of derivative liability	(64,564)	(15,607)
Depreciation and amortization	2,625,265	3,725,686
Foreign exchange gain (loss)	(32,874)	44,600
Gain on settlement of accounts receivable	-	(15,763)
Realized gain on sale of marketable security	-	(4,976)
Gain on settlement of debt	-	(3,720,034)
Consulting services	-	776,500
Deferred income taxes	(530,180)	197,515
Share-based compensation	1,466,475	1,253,788
Consideration paid in excess of identifiable assets	3,120,377	-
Write-off of taxes receivable	79,591	-
Net changes in non-cash working capital		
Accounts receivable	(357,228)	(791,312)
Taxes recoverable	-	(27,108)
Prepaid expenses and deposits	943,994	(922,328)
Inventory	(889,093)	(240,740)
Taxes payable	(23,413)	-
Accounts payable and other accrued liabilities	(157,540)	1,029,195
Net cash used in operating activities	(886,702)	(2,965,741)
Investing activities		
Cash paid to acquire De Krown Inc.	(461,077)	-
Cash acquired from De Krown Inc.	26,388	-
Equipment purchases	(1,727,303)	(940,522)
Lease payments	(200,208)	(74,466)
Cash advanced	(99,759)	-
Proceeds from sale of marketable securities	-	354,790
Loans as acquisition deposit	-	(533,230)
Loans receivable	-	63,798
Net cash used in investing activities	(2,461,959)	(1,129,630)
Financing activities		
Proceeds from issuance of shares, net of share issuance cost	907,500	881,150
Obligation to issue shares	-	9,800
Recapture on sale of mineral properties	175,000	-
Share subscription receivable	185,863	49,623
Secured loan payable	-	267,120
Exercise of warrants	1,728,738	260,100
Exercise of options	205,000	-
Exercise of options	-	258,686
Repayment of loans payable	(2,500)	(57,990)
Net cash provided by financing activities	3,199,601	1,668,499
Net change in cash	(80,745)	(2,426,872)
Effect of foreign exchange on cash	(149,060)	(18,669)
Cash, beginning of year	2,037,795	4,482,955
Cash, end of year	1,807,990	2,037,614
Interest paid	-	-
Taxes paid	-	-

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

1. Nature and Continuance of Operations

Icanic Brands Company Inc. (the "Company") (Formerly Integrated Cannabis Company, Inc.) was incorporated on September 15, 2011, under the laws of the province of British Columbia and is registered extra-provincially under the laws of Ontario. The Company is a cannabis branded products manufacturer based in California, Sacramento. The Company is a public company whose common shares are listed for trading on the Canadian Securities Exchange ("CSE") under the symbol "ICAN". The head office of the Company is located at Suite 810 - 789 West Pender Street, Vancouver, BC, V6C 1H2, Canada.

These consolidated financial statements have been prepared on a going concern basis, which contemplates continuity of normal business activities and the realization of assets and discharge of liabilities in the normal course of business. As at July 31, 2021, the Company has yet to generate a positive net income and had an accumulated deficit of $38,693,494 (July 31, 2020 - $30,784,079). The Company is actively seeking additional sources of financing. In assessing whether the going concern assumption is appropriate, management takes into account all available information about the future, which is at least, but not limited to, twelve months from the end of the reporting period. Management is aware, in making its assessment, of uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern that these uncertainties are material and, therefore, that it may be unable to realize its assets and discharge its liabilities in the normal course of business. Accordingly, they do not give effect to adjustments that would be necessary should the Company be unable to continue as a going concern and therefore to realize its assets and discharge its liabilities and commitments in other than the normal course of business and at amounts different from those in the accompanying consolidated financial statements.

2. Basis of Presentation

Statement of compliance

These consolidated financial statements have been prepared by management in accordance with International Financial Reporting Standard ("IFRS"), as set out in the CPA Canada Handbook – Accounting ("CPA Handbook") as issued by the International Accounting Standards Board ("IASB"). The policies set out below have been consistently applied to all periods presented unless otherwise noted.

These consolidated financial statements were approved and authorized for issuance by the Company's Board of Directors on April 1, 2022.

Basis of measurement

These consolidated financial statements have been prepared on a historical cost basis except for derivative financial instruments, which are measured at fair value through profit and loss, as explained in the accounting policies below. Historical costs are generally based upon the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Company takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date.

2. Basis of Presentation (Continued)

Basis of consolidation

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power, directly and indirectly, to govern the financial and operating policies of an entity and be exposed to the variable returns from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The following is a list of the Company's operating subsidiaries:

Name	Jurisdiction of incorporation	Interest
1127466 B.C. Ltd.	Canada	100%
X-Sprays Industries Inc.	US	100%
Ganja Gold Inc.	US	100%
De Krown Inc.	US	100%

All inter-company transactions and balances have been eliminated in the consolidated financial statement presentation.

Functional currency

All figures presented in the consolidated financial statements are reflected in Canadian dollars; however, the functional currency of the Company includes the Canadian dollar and the US dollar. The Company's subsidiaries' functional currency is the US dollar.

Foreign currency transactions are translated to the respective functional currencies of the Company's entities at the exchange rates in effect on the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated to the functional currency at the foreign exchange rate applicable at the statement of financial position date. Non-monetary items carried at historical cost denominated in foreign currencies are translated to the functional currency at the date of the transactions. Non-monetary items carried at fair value denominated in foreign currencies are translated to the functional currency at the date when the fair value was determined. Realized and unrealized exchange gains and losses are recognized through profit and loss.

On consolidation, the assets and liabilities of foreign operations reported in their functional currencies are translated into Canadian dollars, the Company's presentation currency, at period-end exchange rates. Income and expenses, and cash flows of foreign operations are translated into Canadian dollars using average exchange rates. Exchange differences resulting from translating foreign operations are recognized in accumulated other comprehensive income (loss).

3. Significant Accounting Policies

The preparation of the consolidated financial statements requires that the Company's management make judgments and estimates of effects of uncertain future events on the carrying amounts of the Company's assets and liabilities at the end of the reporting period. Actual future outcomes could differ from present estimates and judgments, potentially having material future effects on the Company's consolidated financial statements. Estimates are reviewed on an ongoing basis and are based on historical experience and other facts and circumstances. Revisions to estimates and the resulting effects on the carrying amounts of the Company's assets and liabilities are accounted for prospectively.

3. Significant Accounting Policies (Continued)

The significant accounting policies used by the Company are as follows:

Accounts receivable

Accounts receivable are recognized initially at fair value and subsequently measured at amortized cost, less any provisions for impairment. Financial assets measured at amortized cost are assessed for impairment at the end of each reporting period. Impairment provisions are estimated using the expected credit loss impairment model where any expected future credit losses are provided for, irrespective of whether a loss event has occurred at the reporting date.

Estimates of expected credit losses take into account the Company's collection history, deterioration of collection rates during the average credit period, as well as observable changes in and forecasts of future economic conditions that affect default risk. Where applicable, the carrying amount of a trade receivable is reduced for any expected credit losses through the use of an allowance for doubtful accounts ("AFDA") provision. Changes in the AFDA provision are recognized in the consolidated statement of loss and comprehensive loss. When the Company determines that no recovery of the amount owing is possible, the amount is deemed irrecoverable and the financial asset is written off. As at July 31, 2021, the Company recorded an allowance for doubtful accounts of $3,738 (2020 - $53,849).

Inventory

Inventory is valued at the lower of cost and net realizable value. The Company's inventory is comprised of cannabis related products and derivatives The cost of inventory is calculated using the weighted average method and comprises all costs of purchase necessary to bring the goods to sale. Net realizable value represents the estimated selling price for products sold in the ordinary course of business less the estimated costs necessary to make the sale. Management uses the most reliable evidence available in determining the net realizable value of inventories. Actual selling prices may differ from estimates, based on market conditions at the time of sale. Allowances are made against obsolete or damaged inventory and charged to cost of sales. The reversal of any write-down of inventory arising from increase in the net realizable value is recognized as a reduction of cost of sales in the period in which the reversal occurred. As at July 31, 2021 and 2020, the Company did not record a write down of inventory.

Financial instruments

The Company adopted all the requirements of IFRS 9 Financial Instruments on January 1, 2018. IFRS 9 utilizes a revised model for recognition and measurement of financial instruments in a single, forward-looking "expected loss" impairment model.

The following is the Company's accounting policy for financial instruments under IFRS 9:

Classification

The Company classifies its financial instruments in the following categories: at fair value through profit and loss ("FVTPL"), at fair value through other comprehensive loss ("FVTOCI") or at amortized cost. The Company determines the classification of financial assets at initial recognition. The classification of debt instruments is driven by the Company's business model for managing the financial assets and their contractual cash flow characteristics. Equity instruments that are held for trading are classified as FVTPL. For other equity instruments, on the day of acquisition the Company can make an irrevocable election (on an instrument-by-instrument basis) to designate them as at FVTOCI. Financial liabilities are measured at amortized cost, unless they are required to be measured at FVTPL (such as instruments held for trading or derivatives) or if the Company has opted to measure them at FVTPL.

3. Significant Accounting Policies (Continued)

Financial instruments

The following table shows the classifications under IFRS 9:

	IFRS 9 Classification
Financial assets	
Cash and cash equivalents	FVTPL
Accounts receivable	Amortized cost
Promissory note receivable	Amortized cost
Financial liabilities	
Accounts payable and other accrued liabilities	Amortized cost
Lease liabilities	Amortized cost
Derivative liability	FVTPL
Contingent consideration	FVTPL
Consideration payable	FVTPL
Note payable	Amortized cost

Measurement

Financial assets and liabilities at amortized cost
Financial assets and liabilities at amortized cost are initially recognized at fair value plus or minus transaction costs, respectively, and subsequently carried at amortized cost less any impairment.

Financial assets and liabilities at FVTPL
Financial assets and liabilities carried at FVTPL are initially recorded at fair value and transaction costs are expensed in the consolidated statements of loss and comprehensive loss. Realized and unrealized gains and losses arising from changes in the fair value of the financial assets and liabilities held at FVTPL are included in the consolidated statements of loss and comprehensive loss in the period in which they arise. Where management has opted to recognize a financial liability at FVTPL, any changes associated with the Company's own credit risk will be recognized in other comprehensive loss.

Financial assets through other comprehensive income ("FVTOCI")
Financial assets that meet the following conditions are measured at FVTOCI:

- The financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely
- payments of principal and interest on the principal amount outstanding.

The Company does not currently hold any financial instruments designated as FVTOCI.

3. Significant Accounting Policies (Continued)

Financial instruments

Equity instruments designated as FVTOCI
On initial recognition, the Company may make an irrevocable election (on an instrument-by-instrument basis) to designate investments in equity instruments that would otherwise be measured at fair value through profit or loss to present subsequent changes in fair value in other comprehensive income. Designation at FVTOCI is not permitted if the equity investment is held for trading or if it is contingent consideration recognized by an acquirer in a business combination. Investments in equity instruments at FVTOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognized in other OCI. The cumulative gain or loss is not reclassified to profit or loss on disposal of the equity instrument, instead, it is transferred to retained earnings. The Company does not currently hold any equity instruments designated as FVTOCI.

Impairment of financial assets at amortized cost
The Company recognizes a loss allowance for expected credit losses on financial assets that are measured at amortized cost. At each reporting date, the Company measures the loss allowance for the financial asset at an amount equal to the lifetime expected credit losses if the credit risk on the financial asset has increased significantly since initial recognition. If at the reporting date, the financial asset has not increased significantly since initial recognition, the Company measures the loss allowance for the financial asset at an amount equal to the twelve month expected credit losses. The Company shall recognize in the consolidated statements of comprehensive loss, as an impairment gain or loss, the amount of expected credit losses (or reversal) that is required to adjust the loss allowance at the reporting date to the amount that is required to be recognized.

Financial assets
The Company derecognizes financial assets only when the contractual rights to cash flows from the financial assets expire, or when it transfers the financial assets and substantially all of the associated risks and rewards of ownership to another entity. Gains and losses on derecognition are generally recognized in the consolidated statements of loss and comprehensive loss.

Financial liabilities
The Company derecognizes financial liabilities only when its obligations under the financial liabilities are discharged, cancelled or expired. Generally, the difference between the carrying amount of the financial liability derecognized and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognized in the consolidated statements of loss and comprehensive loss.

Property and equipment

The Company records property and equipment at cost less accumulated amortization and accumulated impairment losses. It recognizes amortization to write off the cost of assets less their residual values over their useful lives, using the following methods and rates:

Leasehold improvements – over lease term
Equipment – 5 years
Right-of-use assets – straight-line over term of lease

3. Significant Accounting Policies (Continued)

Property and equipment (continued)

An item of property and equipment is de-recognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on disposal of the asset, determined as the difference between the net disposal proceeds and the carrying amount of the asset, is recognized in profit or loss. Where an item of property and equipment and deferred costs consist of major components with different useful lives, the components are accounted for as separate items of property and equipment and deferred expenditures. Expenditures incurred to replace a component of an item of property and equipment that is accounted for separately, including major inspection and overhaul expenditures, are capitalized.

Goodwill

Goodwill represents the excess of the purchase price paid for the acquisition of an entity over the fair value of the net tangible and intangible assets acquired. Goodwill is allocated to the cash generating unit ("CGU") or group of CGUs which are expected to benefit from the synergies of the combination. Goodwill is not subject to amortization.

The goodwill balance is assessed for impairment annually or when facts and circumstances indicate that it is impaired. Goodwill is tested for impairment at a CGU level by comparing the carrying value to the recoverable amount, which is determined as the greater of fair value less costs of disposal and value in use. Any excess of the carrying amount over the recoverable amount is the impaired amount. The recoverable amount estimates are categorized as Level 3 according to the fair value hierarchy. Impairment charges are recognized in the consolidated statements of loss and comprehensive loss. Goodwill is reported at cost less any accumulated impairment. Goodwill impairments are not reversed.

Intangible assets

The Company's intangible assets consist of brands, licenses, customer relationships and other identifiable intangible assets. Intangible assets acquired are measured on initial recognition at cost, while the cost of intangible assets acquired in a business combination is initially recorded at their fair values as at the date of acquisition. It recognizes amortization to write off the cost of assets less their residual values over their useful lives, using the following methods and rates:

Brands – 7 years
Customer relationships – 2 years
Intellectual property – 7 years
Licenses – 5.5 years

An intangible asset is derecognized on disposal or when no future economic benefits are expected from use or disposal. Any gain or loss arising from the derecognition of an intangible asset is measured as the difference between the net disposal proceeds and the carrying amount of the asset and is recognized in profit or loss.

Following initial recognition, intangible assets with indefinite useful lives are carried at cost less any accumulated impairment losses.

3. Significant Accounting Policies (Continued)

Impairment of long-lived assets

Goodwill and intangible assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

For the purpose of testing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating unit, or “CGU”). An impairment loss is recognized for the amount, if any, by which the asset’s carrying amount exceeds its recoverable amount. The recoverable amount is the higher of the asset’s fair value less cost to sell and the value in use (being the present value of expected future cash flows of the asset or CGU). Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the lesser of the revised estimate of recoverable amount and the carrying amount that would have been recorded had no impairment loss been previously recognized, with the exception of goodwill and indefinite lived intangible assets.

Leases

The Company assesses whether a contract is or contains a lease at inception of the contract. A lease is recognized as a right-of-use asset and corresponding liability at the commencement date. Each lease payment included in the lease liability is apportioned between the repayment of the liability and a finance cost. The finance cost is recognized in “finance and other costs” in the consolidated statements of loss and comprehensive loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability. Lease liabilities represent the net present value of fixed lease payments (including in-substance fixed payments); variable lease payments based on an index, rate, or subject to a fair market value renewal condition; amounts expected to be payable by the lessee under residual value guarantees, the exercise price of a purchase option if the lessee is reasonably certain to exercise that option, and payments of penalties for terminating the lease, if it is probable that the lessee will exercise that option.

The Company’s lease liability is recognized net of lease incentives receivable. The lease payments are discounted using the interest rate implicit in the lease or, if that rate cannot be determined, the lessee’s incremental borrowing rate. The period over which the lease payments are discounted is the expected lease term, including renewal and termination options that the Company is reasonably certain to exercise.

Payments associated with short-term leases and leases of low-value assets are recognized as an expense on a straight-line basis in general and administration and sales and marketing expense in the consolidated statements of loss and comprehensive loss. Short term leases are defined as leases with a lease term of 12 months or less.

Variable lease payments that do not depend on an index, rate, or subject to a fair market value renewal condition are expensed as incurred and recognized in costs of goods sold, general and administration or sales and marketing expense, as appropriate given how the underlying leased asset is used, in the consolidated statement of comprehensive loss.

Right-of-use assets are measured at cost, which is calculated as the amount of the initial measurement of lease liability plus any lease payments made at or before the commencement date, any initial direct costs and related restoration costs. The right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the useful life of the underlying asset. The depreciation is recognized from the commencement date of the lease.

3. Significant Accounting Policies (Continued)

Derivatives

Derivatives are initially measured at fair value and are subsequently measured at FVTPL. If the transaction price does not equal to fair value at the point of initial recognition, management measures the fair value of each component of the investment and any unrealized gains or losses at inception are either recognized in profit or loss or deferred and recognized over the term of the investment, depending on whether the valuation inputs are based on observable market data. The resulting unrealized gain or loss at inception and subsequent changes in fair value are recognized in profit or loss for the period.

Share Capital

Common shares are classified as equity. Transaction costs directly attributable to the issue of common shares and share options are recognized as a deduction from equity, net of any tax effects.

Where share capital is issued, or received, as non-monetary consideration and the fair value of the asset received or given up is not readily determinable, the fair market value of the shares is used to record the transaction. The fair market value of the shares is based on the trading price of those shares on the appropriate stock exchange on the date of the agreement to issue or receive shares as determined by the board of directors.

Foreign currency

These consolidated financial statements are presented in Canadian dollars, which is also the functional currency of the parent company. Each subsidiary determines its own functional currency and items included in the financial statements of each subsidiary are measured using that functional currency.

i) <u>Transactions and Balances in Foreign Currencies</u>

Foreign currency transactions are translated into the functional currency of the respective entity, using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the remeasurement of monetary items at year-end exchange rates are recognized in profit or loss.

Non-monetary items measured at historical cost are translated using the exchange rates at the date of the transaction and are not retranslated. Non-monetary items measured at fair value are translated using the exchange rates at the date when fair value was determined.

ii) <u>Foreign operations</u>

On consolidation, the assets and liabilities of foreign operations are translated into Canadian dollars at the exchange rate prevailing at the reporting date and their income statements are translated at exchange rates prevailing at the dates of the transactions. The exchange differences arising on the translation are recognized in other comprehensive income and accumulated in the foreign currency translation reserve in equity. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognized in earnings and recognized as part of the gain or loss on disposal.

3. Significant Accounting Policies (Continued)

Revenue recognition

The Company generates revenue primarily from the sale of cannabis related. The Company uses the following five-step contract-based analysis of transactions to determine if, when and how much revenue can be recognized:

1. Identify the contract with a customer;
2. Identify the performance obligation(s) in the contract;
3. Determine the transaction price;
4. Allocate the transaction price to the performance obligation(s) in the contract; and
5. Recognize revenue when or as the Company satisfies the performance obligation(s).

Revenue from the sale of cannabis is generally recognized when control over the goods has been transferred to the customer. Payment for sales is typically due prior to shipment. Payment for wholesale transactions is due within a specified time period as permitted by the underlying agreement and the Company's credit policy upon the transfer of goods to the customer. The Company generally satisfies its performance obligation and transfers control to the customer upon delivery and acceptance by the customer. Revenue is recorded at the estimated amount of consideration to which the Company expects to be entitled.

Share-based Compensation

As part of its remuneration, the Company grants stock options and warrants to buy common shares of the Company to its employees. An individual is classified as an employee when the individual is an employee for legal or tax purposes (direct employee) or provides services similar to those performed by a direct employee, including directors of the Company. The fair value of employee services is determined indirectly by reference to the fair value of the equity instruments granted. This fair value is measured at the grant date, using the Black-Scholes option pricing model, and is recognized over the vesting period, based on the best available estimate of the number of share options expected to vest. Estimates are subsequently revised if there is any indication that the number of share options expected to vest differs from previous estimates.

Equity-settled share-based payment transactions with parties other than employees are measured at the fair value of the 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 instrument granted or vested if the option vests over a period. This fair value is measured at the grant date, using the Black-Scholes option pricing model, and is recognized over the vesting period, based on the best available estimate of the number of share options expected to vest. Estimates are subsequently revised if there is any indication that the number of share options expected to vest differs from previous estimates.

All share-based remuneration is ultimately recognized as an expense in the consolidated statements of loss and comprehensive loss with a corresponding credit to contributed surplus. Upon exercise of share options, the proceeds received net of any directly attributable transactions costs and the amount originally credited to contributed surplus are allocated to share capital. When options expire unexercised the related value remains in contributed surplus.

3. Significant Accounting Policies (Continued)

Business combination

A business combination is a transaction or event in which an acquirer obtains control of one or more businesses and is accounted for using the acquisition method. The total consideration paid for the acquisition is the fair value equity instruments issued in exchange for control of the acquiree at the acquisition date. The acquisition date is the date when the Company obtains control of the acquiree. The identifiable assets acquired, and liabilities assumed are recognized at their acquisition date fair values, except for deferred taxes and share-based payment awards where IFRS provides exceptions to recording the amounts at fair value. Goodwill represents the difference between total consideration paid and the fair value of the net-identifiable assets acquired. Acquisition costs incurred are expensed in the consolidated statement of loss and comprehensive loss.

Contingent consideration is measured at its acquisition date fair value and is included as part of the consideration transferred in a business combination, subject to the applicable terms and conditions. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with IFRS 9 Financial Instruments with the corresponding gain or loss recognized in the consolidated statements of loss and comprehensive loss.

Based on the facts and circumstances that existed at the acquisition date, management will perform a valuation analysis to allocate the purchase price based on the fair values of the identifiable assets acquired and liabilities assumed on the acquisition date. Management has one year from the acquisition date to confirm and finalize the facts and circumstances that support the finalized fair value analysis and related purchase price allocation. Until such time, these values are provisionally reported and are subject to change. Changes to fair values and allocations are retrospectively adjusted in subsequent periods.

In determining the fair value of all identifiable assets acquired and liabilities assumed, the most significant estimates generally relate to contingent consideration and intangible assets. Management exercises judgment in estimating the probability and timing of when earn-outs are expected to be achieved, which is used as the basis for estimating fair value. Identified intangible assets are fair valued using appropriate valuation techniques which are generally based on a forecast of the total expected future net cash flows of the acquiree. Valuations are highly dependent on the inputs used and assumptions made by management regarding the future performance of these assets and any changes in the discount rate applied.

Acquisitions that do not meet the definition of a business combination are accounted for as asset acquisitions. Consideration paid for an asset acquisition is allocated to the individual identifiable assets acquired and liabilities assumed based on the fair value of the goods and services received. Asset acquisitions do not give rise to goodwill. Any consideration paid in excess of the identifiable assets and liabilities assumed is expensed to the statements of loss and comprehensive loss.

Loss per share

The Company calculates basic loss per share by dividing the loss for the year by the weighted average number of common shares outstanding during the year. It calculates diluted loss per share in a similar manner, except that it increases the weighted average number of common shares outstanding, using the treasury stock method, to include common shares potentially issuable from the assumed exercise of stock options and other instruments, if dilutive. In the Company’s case, these potential issuances are “anti-dilutive” as they would decrease the loss per share; consequently, the amounts calculated for basic and diluted loss per share are the same.

3. Significant Accounting Policies (Continued)

Significant accounting judgments and estimates

The preparation of consolidated financial statements in conformity with IFRS requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported revenues and expenses during the year. Although management uses historical experience and its best knowledge of the amount, events or actions to form the basis for judgments and estimates, actual results may differ from these estimates.

The following are the critical judgments and estimates that management has made in the process of applying the Company's accounting policies and that have the most significant effect on the amounts recognized in the consolidated financial statements:

Business combinations and asset acquisitions
Judgement is required to determine if the Company's acquisition represented a business combination or an asset purchase. More specifically, management concluded that most of the Company's acquisitions did not represent a business, as the assets acquired were not an integrated set of activities with inputs, processes and outputs. For acquisitions that represented the purchase of assets, no goodwill was recognized on the transactions and acquisition costs were capitalized to the assets purchased rather than expensed. As the Company concluded that most of the acquisition was an asset acquisition, an allocation of the purchase price to the individual identifiable assets acquired, including identifiable and unidentifiable intangible assets, and liabilities assumed based on their fair values at the date of purchase was required. The fair values of the net assets acquired were calculated using significant estimates and judgments. If estimates or judgments differed, this could result in a materially different allocation of net assets on the consolidated statements of financial position.

In a business combination, substantially all identifiable assets, liabilities and contingent liabilities acquired are recorded at the date of acquisition at their respective fair values. One of the most significant areas of judgment and estimation relates to the determination of the fair value of these assets and liabilities, including the fair value of contingent consideration, if applicable. If any intangible assets are identified, depending on the type of intangible asset and the complexity of determining its fair value, an independent external valuation expert may develop the fair value, using appropriate valuation techniques, which are generally based on a forecast of the total expected future net cash flows. These valuations are linked closely to the assumptions made by management regarding the future performance of the assets concerned and any changes in the discount rate applied. In certain circumstances where estimates have been made, the Company may obtain third-party valuations of certain assets, which could result in further refinement of the fair-value allocation of certain purchase prices and accounting adjustments.

Functional Currency Translations
The functional currency of the Company and each of the Company's subsidiaries is the currency of the primary economic environment in which the respective entity operates. Such determination involves certain judgements to identify the primary economic environment. The Company reconsiders the functional currency of an entity if there is a significant change in the events and/or conditions which determine the primary economic environment. In the event of a change of functional currency, the Company revaluates the classification of financial instruments. Upon the change in the parent Company's functional currency during the year, the financing warrants, which were initially classified as a derivative liability on the consolidated statements of financial position, were reassessed and reclassified as equity instruments at the fair value on the date of the functional currency change.

3. Significant Accounting Policies (Continued)

Significant accounting judgments and estimates (continued)

Valuation of share-based payments
The Company uses the Black-Scholes Option Pricing Model for valuation of share-based payments. Option pricing models require the input of subjective assumptions including expected price volatility, interest rate, and forfeiture rate. Changes in the input assumptions can materially affect the fair value estimate and the Company's earnings and equity reserves.

Estimated useful life of long-lived assets
Judgment is used to estimate each component of a long-lived asset's useful life and is based on an analysis of all pertinent factors including, but not limited to, the expected use of the asset and in the case of an intangible asset, contractual provisions that enable renewal or extension of the asset's legal or contractual life without substantial cost, and renewal history. If the estimated useful lives were incorrect, it could result in an increase or decrease in the annual amortization expense, and future impairment charges or recoveries.

Impairment of long-lived assets
Long-lived assets are reviewed for impairment upon the occurrence of events or changes in circumstances indicating that the carrying value of the asset may not be recoverable. For the purpose of measuring recoverable amounts, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). The recoverable amount is the higher of an asset's fair value less costs to sell and value in use (being the present value of the expected future cash flows of the relevant asset or cash-generating unit). An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. Management evaluates impairment losses for potential reversals when events or circumstances warrant such consideration.

Income taxes
Provisions for taxes are made using the best estimate of the amount expected to be paid based on a qualitative assessment of all relevant factors. The Company reviews the adequacy of these provisions at the end of the reporting period. However, it is possible that at some future date an additional liability could result from audits by taxing authorities. Where the final outcome of these tax-related matters is different from the amounts that were initially recorded, such differences will affect the tax provisions in the period in which such determination is made.

The Company's effective income tax rate can vary significantly for various reasons, including the mix and volume of business in lower income tax jurisdictions and in jurisdictions for which no deferred income tax assets have been recognized because management believed it was not probable that future taxable profit would be available against which income tax losses and deductible temporary differences could be utilized.

Provisions
Provisions are accrued for liabilities with uncertain timing or amounts, if, in the opinion of management, it is both likely that a future event will confirm that a liability had been incurred at the date of the consolidated financial statements and the amount can be reasonably estimated. In cases where it is not possible to determine whether such a liability has occurred, or to reasonably estimate the amount of loss until the performance of some future event, no accrual is made until that time. In the ordinary course of business, the Company may be party to legal proceedings which include claims for monetary damages asserted against the Company. The adequacy of provisions is regularly assessed as new information becomes available.

3. Significant Accounting Policies (Continued)

Significant accounting judgments and estimates (continued)

Leases

Leases requires lessees to discount lease payments using the rate implicit in the lease if that rate is readily available. If that rate cannot be readily determined, the lessee is required to use its incremental borrowing rate. The Company generally uses the incremental borrowing rate when initially recording real estate leases as the implicit rates are not readily available as information from the lessor regarding the fair value of underlying assets and initial direct costs incurred by the lessor related to the leased assets is not available.

The Company determines the incremental borrowing rate as the interest rate the Company would pay to borrow over a similar term the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The Company used an incremental borrowing rate of 15%.

Leases requires lessees to estimate the lease term. In determining the period which the Company has the right to use an underlying asset, management considers the non-cancellable period along with all facts and circumstances that create an economic incentive to exercise an extension option, or not to exercise a termination option.

Fair values

Certain of the Company's assets and liabilities are measured at fair value. In estimating fair value, the Company uses market-observable data to the extent it is available. In certain cases where Level 1 inputs are not available the Company will engage third party qualified valuers to perform the valuation.

Going concern

Since March 2020, 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 Company's consolidated financial results.

Allowance for doubtful accounts

The Company makes estimates for allowances that represent its estimate of potential losses in respect of trade receivables. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loss component established for groups of similar assets in respect of losses that may have been incurred but not yet specifically identified. The Company's allowance is determined by historical experiences, and considers factors including the aging of the balances, the customer's creditworthiness, current economic conditions, expectation of bankruptcies and the economic volatility in the markets/locations of customers. COVID-19 has increased the measurement uncertainty with respect to the determination of the allowance for doubtful accounts

3. Significant Accounting Policies (Continued)

Significant accounting judgments and estimates (continued)

Valuation of inventory

In calculating the net realizable value (NRV) of inventory, management determines the selling prices based on current observable market sales prices, selling costs, and includes an estimate of spoiled or expired inventory based on the most reliable evidence available at the time, to record inventory at the lower of cost or net realizable value.

Recent Accounting Pronouncements

As at the date of authorization of these financial statements, the IASB and the IFRS Interpretations Committee had issued certain pronouncements that are mandatory for the Company's accounting periods commencing on or after January 1, 2021. Many are not applicable or do not have a significant impact to the Company, have been excluded. The Company had assessed that no material impact is expected upon the adoption of the following amendments on its consolidated financial statements:

Amendments to IAS 1
In January 2020, the IASB issued amendments to IAS 1 which clarify the requirements for classifying liabilities as either current or non-current by: (i) specifying that the conditions which exist at the end of the reporting period determine if a right to defer settlement of a liability exists; (ii) clarifying that settlement of a liability refers to the transfer to the counterparty of cash, equity instruments, other assets or services; (iii) clarifying that classification is unaffected by management's expectation about events after the balance sheet date; and (iv) clarifying the classification requirements for debt an entity may settle by converting it into equity.

The amendments clarify existing requirements, rather than make changes to the requirements, and so are not expected to have a significant impact on an entity's financial statements. However, the clarifications may result in reclassification of some liabilities from current to non-current or vice-versa, which could impact an entity's loan covenants. Because of this impact, the IASB has provided a longer effective date to allow entities to prepare for these amendments. In July 2020, the IASB issued an amendment to defer the effective date of the amendments by one year from its originally planned effective date to annual periods beginning on or after January 1, 2023 due to the impact of COVID-19. Early application is permitted.

Amendments to IAS 37 – Provisions, Contingent Liabilities and Contingent Assets ("IAS 37")
In May 2020, the IASB issued amendments to update IAS 37. The amendments specify that in assessing whether a contract is onerous under IAS 37, the cost of fulfilling a contract includes both the incremental costs and an allocation of costs that relate directly to contract activities. The amendments also include examples of costs that do, and do not, relate directly to a contract. These amendments are effective for annual periods beginning on or after January 1, 2022. Earlier application is permitted.

4. Asset Acquisition

Acquisition of THC Engineering, LLC.

On April 15, 2021, the Company entered into a Share Exchange Agreement ("SEA") to acquire 100% of THC Engineering LLC, ("THC"). THC is an arm's length US-based company that builds automated technology within the cannabis manufacturing industry. The Company acquired the intellectual property of certain machinery developed by THC. The SEA closed on May 7, 2021 ("Closing Date"). All share issuances are calculated using a 10 day VWAP ("VWAP")

As consideration, the Company agreed to issue the following in common shares:

- US $1,750,000 at a price per common share equal to a VWAP. ("Consideration Shares");
- US $2,750,000 common shares at a price per common share equal to a VWAP upon the satisfaction of certain milestones ("Technology Shares"); and,
- A 15% net royalty for products sold using THC's intellectual property, three years from the Closing Date.

The Technology Shares are issuable upon the completion of the following milestones:
- US $500,000 common shares at a price per common equal to a VWAP ("First Technology Target")
- US $1,750,000 common shares at a price per common share equal toa VWAP ("Second Technology Target")
- US $500,000 upon the completion of the First and Second Technology Target.

The Consideration Shares and Technology Shares are subject to certain escrow conditions ("Payment Dates") as follows:

- 6% of Considerations are issuable upon the Closing Date (Issued)
- 25% of Consideration and Technology Share are issuable on January 1, 2022 (In progress)**;
- 25% of Consideration and Technology Share are issuable on April 1, 2022;
- 25% of Consideration and Technology Share are issuable on July 1, 2022; and,
- 19% of Consideration and 25% Technology Share are issuable on October 1, 2022.

In the event the First and Second Technology Target is met subsequent to Payment Dates, the Technology Shares will be issued in equal installments over the remaining Payment Dates.

** The Company is in the process of issuing these consideration and technology shares.

The purchase price allocation of THC's assets acquired and liabilities in Canadian dollars assumed is summarized below:

Purchase price:	**Amount**
	$
Consideration shares	78,418
Consideration payable (Note 15)	2,075,497
Contingent consideration (Note 15)	2,228,162
	4,382,077
Identifiable intangible assets (intellectual property) (Note 11)	1,261,700
Consideration paid in excess of net assets acquired	3,120,377
	4,382,077

(Expressed in Canadian Dollars)

4. Asset Acquisition (Continued)

At the time of acquisition, the Company was conducting research and development on cannabis related machinery, which did which did not meet the definition of intangible assets. As such, the remaining unidentifiable assets in the amount of $3,120,377 were expensed in the Consolidated Statements of Loss and Comprehensive Loss.

The following is an analysis of the purchase price at fair values as at the Closing Date:

	Level 1 $	Level 2 $	Level 3 $
Shares issued	78,418	-	-
Consideration payable	-	-	2,075,497
Contingent consideration	-	-	2,228,162
Total purchase price	78,418	-	4,303,659

5. Business Combination

Acquisition of De Krown Enterprises LLC.

On July 2, 2021, the Company acquired 100% of De Krown Enterprises LLC (“De Krown”), a California-based leading cannabis manufacturing partner and brand owner. The De Krown acquisition was completed on July 2, 2021 (“Closing Date”).

As consideration, the Company agreed to issue the following in common shares:

- Issued 7,177,061 common shares with a fair value of $2,153,122 (Issued) to extinguish certain debt;
- Pay $479,527 of cash to extinguish certain debt and capital expenditures to De Krown’s shareholders (paid);
- A profit sharing arrangement whereby 50% of De Krown’s profits over a 24 month period will be paid to De Krown’s original unit holders; and,
- Certain revenue payments payable for a 12 month consecutive period, starting one year from the Closing Date.
- Issued 576,018 common shares with a fair value of $172,803 as signing bonuses to De Krown’s executives. The signing bonuses has been expensed as share based compensation on the Statement of Loss and Comprehensive Loss.

(Expressed in Canadian Dollars)

5. Business Combination (Continued)

Acquisition of De Krown Enterprises LLC. (Continued)

The purchase price allocation of De Krown's assets acquired and liabilities assumed is summarized below:

Purchase price:	**Amount**
	$
Shares issued	2,153,122
Cash	461,077
Profit sharing arrangement (consideration payable – Note 15)	174,468
Revenue payments (consideration payable – Note 15)	1,274,862
Total purchase price	4,063,529
Assets acquired:	
Cash	26,388
Accounts receivable	335,983
Inventory	2,036
Property and equipment (Note 7)	2,321,224
Intangible assets (Note 11)	1,345,896
Liabilities assumed:	
Accounts payable and other liabilities	(51,732)
Deferred tax liability	(175,515)
Lease liabilities (Note 14)	(212,797)
Payroll liabilities	(125,765)
Net assets acquired	3,465,718
Goodwill recognized from acquisition (Note 10)	597,811

The Company determined that De Krown's business objectives were synergistic with the Company's business plans and objectives. Goodwill consists of an assembled workforce, cost synergies and future economic potential of De Krown. Intangible assets consist market related intangible assets, customer relationships and production licenses.

The following is an analysis of the purchase price at fair values as at the Closing Date:

	Level 1	Level 2	Level 3
	$	$	$
Shares issued	2,153,122	-	-
Cash	461,077	-	-
Profit sharing arrangement	-	-	174,468
Revenue payments	-	-	1,274,862
Total purchase price	2,614,199	-	1,449,330

(Expressed in Canadian Dollars)

5. Business Combination (Continued)

Acquisition of De Krown Enterprises LLC. (Continued)

During the period ended from July 2, 2021 to July 31, 2021, the Company recorded a net loss of $45,890 (excluding any impairment charge) in the Consolidated Statements of Loss and Comprehensive Loss in connection with De Krown.

Net loss for the Company would have been higher by approximately $62,394, for the year ended July 31, 2021, if the acquisition had taken place on August 1, 2020. In connection with this transaction, the Company did not recognize any material transaction cost.

6. Promissory Note Receivable

As at July 31, 2021 and 2020, the promissory note receivable consists of the following:

	July 31, 2021	July 31, 2020
	$	$
Promissory note receivable	1,309,446	1,408,427

Subsequent to the year ended July 31, 2021, the Company entered into a Definitive Sale and Assignment Agreement (the "Agreement"), whereby the Company sold its interest in a Sacramento, California cultivation facility for USD $2,000,000. Pursuant to the terms of the Agreement, the Promissory Note Receivable was included in the disposition of the Company's interest (Note 23).

7. Property and Equipment

As at July 31, 2021 and 2020, the property and equipment consists of the following:

	Leasehold improvement(2)	Equipment(1&2)	Right-of-Use Asset(2)	TOTAL
	$	$	$	$
Cost				
Balance, July 31, 2019	**-**	**-**	**-**	**-**
Additions	-	940,522	1,526,019	2,466,541
Lease termination	-	-	(369,712)	(369,712)
Foreign currency adjustments	-	-	72,589	72,589
Balance, July 31, 2020	**-**	**940,522**	**1,228,896**	**2,169,418**
Additions	504,488	991,171	-	1,495,659
Additions via business combination (Note 5)	865,718	1,242,709	212,797	2,321,224
Foreign currency adjustments	(10,914)	(58,614)	(77,057)	(146,585)
Balance, July 31, 2021	**1,359,292**	**3,115,788**	**1,364,636**	**5,839,716**
Accumulated depreciation				
Balance, July 31, 2019	-	-	-	**-**
Depreciation	-	42,261	97,680	139,941
Foreign currency adjustments	-	(1,298)	(424)	(1,722)
Balance, July 31, 2020	**-**	**40,963**	**97,256**	**138,219**
Depreciation	6,130	87,974	113,153	207,257
Adjustment to depreciation	-	-	(2)	(2)
Balance, July 31, 2021	**6,130**	**129,937**	**210,407**	**345,474**
net book value				
Balance, July 31, 2020	**-**	**899,559**	**1,131,640**	**2,031,199**
Balance, July 31, 2021	**1,353,162**	**2,986,851**	**1,154,229**	**5,494,242**

(Expressed in Canadian Dollars)

7. Property and Equipment (Continued)

(1) As at July 31, 2021, the amortization of the Company's equipment has been included in Cost of Sales on the consolidated statements of loss and comprehensive loss.
(2) During the year ended July 31, 2021, the Company acquired De Krown (Note 5) resulting in the acquisition of certain leasehold improvement, equipment and right-of-use asset with a carrying value of $865,718, $1,242,709 and $212,797, respectively.

8. Inventory

As at July 31, 2021 and 2020, Inventory consists of the following:

	2021	2020
	$	$
Finished goods – cannabis related products	1,179,430	515,107
Raw material	675,440	179,748
Total	1,854,870	694,855

9. Acquisition Deposit

On May 21, 2019, the Company entered into a share exchange agreement (the "Definitive Agreement") among the Company, 1200665 B.C. Ltd., a private British Columbia company ("1200665BC"), whereby the Company will acquire all of the issued and outstanding shares of 1200665BC. 1200665BC, have pending Share Purchase Agreements ("SPA") with V6E and Sullivan Park, whom are beneficial owners of cannabis cultivation and manufacturing licenses in the state of Nevada. The Company is seeking regulatory approval for the transfer of ownership from the State of Nevada. Upon receipt of regulatory approval, the transaction with 1200665BC will close.

As consideration, the Company issued 30,645,161 common shares with a fair value of $11,645,161 and settled the remaining purchase price of $12,500,000 through the issuance of 40,322,580 common shares.

The acquisition deposit represents funds and equity advanced to these Entities. Upon regulatory approval, the Company assess whether the acquired business meet the definition under IFRS 3 – *Business Combinations* and the acquisition deposit will be the purchase price. The acquisition deposit will be eliminated upon regulatory approval.

	Amount
	$
Balance, July 31, 2019	25,570,371
Funds advanced	533,230
Balance, July 31, 2020	26,103,601
Funds advanced	99,759
Balance, July 31, 2021	26,203,360

As at July 31, 2021, under IAS 36 – *Impairment*, the Company did not identify impairment indicators.

(Expressed in Canadian Dollars)

10. Goodwill

Management has identified four CGUs which represents the lowest level within the Company at which goodwill is monitored for internal management purposes, Icanic Brands Corp, X-Sprays, De Krown, and Ganja Gold.

	Ganja Gold $	De Krown $	Total $
Balance, July 31, 2019	8,904,938	-	8,904,938
Foreign exchange	174,488	-	174,488
Balance, July 31, 2020	9,079,426	-	9,076,426
Additions from business combination (Note 5)	-	597,811	597,811
Foreign exchange	(638,079)	-	(638,079)
Balance, July 31, 2021	8,441,347	597,811	9,039,158

For the purposes of testing impairment, the recoverable amount of each CGU comprising goodwill was based on the fair values less cost of disposal, estimated using discounted cash flows. As at July 31, 2021, the recoverable amount of each CGU exceeded the carrying value and no impairment was recorded.

11. Intangible Assets

Intangible assets consist of the following:

	Licenses $	Customer Relationships $	Brands $	Intellectual property $	Total $
Cost					
Balance, July 31, 2019	14,877,000	79,000	4,057,000	1,353,000	20,366,000
Foreign exchange	289,626	1,427	79,471	26,272	396,796
Impairment	(3,619,057)	(212)	(518,549)	(173,233)	(4,311,051)
Balance, July 31, 2020	11,547,569	80,215	3,617,922	1,206,039	16,451,745
Additions via business combination (Note 5)	934,650	311,550	-	99,696	1,345,896
Additions via asset acqusition(Note 4)	-	-	-	1,261,700	1,261,700
Foreign exchange	(617,420)	(2,614)	(213,080)	(70,611)	(903,725)
Impairment	(628,452)	-	(146,934)	(48,991)	(824,377)
Balance, July 31, 2021	11,236,347	389,151	3,257,908	2,447,833	17,331,239
Accumulated amortization					
Balance, July 31, 2019	-	-	-	-	-
Additions	2,757,569	40,212	590,925	197,039	3,585,745
Balance, July 31, 2020	2,757,569	40,212	590,925	197,039	3,585,745
Additions	1,816,128	37,386	468,986	156,398	2,478,898
Balance, July 31, 2021	4,573,697	77,598	1,059,911	353,437	6,064,643
Net book value					
Balance, July 31, 2020	8,790,000	40,003	3,026,997	1,009,000	12,866,000
Balance, July 31, 2021	6,662,650	311,553	2,197,997	2,094,396	11,266,596

(Expressed in Canadian Dollars)

11. Intangible Assets (Continued)

As at July 31, 2021, management considered the existence of impairment indicators related to the Company's intangible assets. For the purpose of testing impairment, the recoverable amount of each intangible asset was based on the fair values less cost of disposal, estimated using discounted cash flows. The recoverable amount of each intangible asset was determined by an arm's length third party valuation expert. During the year ended July 31, 2021, the Company recognized an impairment of intangible assets of $824,377 (2020 - $4,311,051).

12. Accounts Payable and other accrued liabilities

As at July 31, 2021 and 2020, accounts payable and other accrued liabilities consists of the following:

	2021 $	2020 $
Accounts payable	1,324,131	1,467,192
Accrued liabilities	-	50,000
Total	1,324,131	1,517,192

13. Note payable and derivative liability

On March 1, 2020, the Company entered into a note payable for gross proceeds of $US $200,000 ("Secured Loan"). The Secured Loan bears interest of 6%, matures on December 31, 2020 and the principal and interest is convertible into common stock of the Company at a market rate less an allowable discount ("Conversion Price").

For the Secured Loan, the variability of the Conversion Price would result in a variable number of shares on conversion. For the Secured Loan, the conversion does not meet the fixed for fixed requirement because a variable number of shares could be issued. On initial recognition, the derivative liability of $144,764 was recognized, with the residual value of $122,356 allocated to debt. The Company estimated the fair value of equity as $Nil. The Secured Loan are being accreted to the face value of the debt plus interest to maturity.

Subsequent to the year ended July 31, 2021, the term of the loan was extended to mature on June 30, 2022.

The following table reconciles the recorded value of the liability and derivative components of the note payable.

(Expressed in Canadian Dollars)

13. Note payable and derivative liability (Continued)

	loan payable $	Derivative liability $	Total $
Balance, July 31, 2019	-	-	-
Additions	122,356	144,764	267,120
Accretion	20,226	-	20,226
Interest	6,731	-	6,731
Foreign exchange	323	588	911
Revaluation of derivative liability	-	(15,607)	(15,607)
Balance, July 31, 2020	149,636	129,745	279,381
Accretion	144,850	-	144,850
Interest	15,289	-	15,289
Amendment	(25,894)	25,894	-
Foreign exchange	(13,456)	(8,270)	(21,726)
Revaluation of derivative liability	-	(64,564)	(64,564)
Balance, July 31, 2021	270,425	82,805	353,230

14. Lease Liabilities

The Company has two lease contracts for its facilities in California. The Company used an incremental borrowing rate between 12% to 15%.

The following is a continuity schedule of lease liabilities for the years ended July 31, 2021 and 2020.

Set below are the carry amounts of the lease liabilities recognized and the movements during the period:

	Facility Lease $	Facility Lease $	Total $
As at August 1, 2019	-	-	-
Additions	1,122,697	-	1,122,697
Payments	(31,906)	-	(31,906)
Foreign exchange	71,274	-	71,274
Accretion	2,516	-	2,516
As at July 31, 2020	1,164,581	-	1,164,581
Additions from business combination (Note 5)	-	212,797	212,797
Payments	(193,542)	(11,148)	(204,690)
Foreign exchange	(78,261)	191	(78,070)
Accretion	29,921	2,465	32,386
As at July 31, 2021	922,699	204,305	1,127,004
Current lease liabilities	144,637	110,604	255,241
Non-current lease liabilities	778,062	93,701	871,763
Total	922,699	204,305	1,127,004

(Expressed in Canadian Dollars)

14. Lease Liabilities (Continued)

The undiscounted lease liabilities are as follows:

	$
July 31, 2022	329,620
July 31, 2023	306,846
July 31, 2024	219,143
July 31, 2025	230,100
July 31, 2026	241,605
Thereafter	1,218,257
Total	2,545,571

15. Contingent Consideration and Consideration Payable

Contingent consideration and consideration payable consist of the following:

	Contingent consideration $	Consideration payable $
As at July 31, 2020	-	-
Additions from asset acquisition (Note 4)	2,228,162	2,075,497
Additions from business combination (Note 5)	-	1,449,330
As at July 31, 2021	2,228,162	3,524,827
Current liabilities	-	2,399,963
Non-current liabilities	2,228,162	1,124,864
Total	2,228,162	3,524,827

(Expressed in Canadian Dollars)

16. Financial Risk Management

Classification of financial instruments

As at July 31, 2021	Financial assets - FVTPL	Financial assets – amortized costs	Financial liabilities – amortized costs
	$	$	$
Cash and cash equivalent	1,807,990	-	-
Accounts receivable	-	1,451,507	-
Promissory note receivable	-	1,309,446	-
Accounts payable and other accrued liabilities	-	-	1,324,131
Derivative liability	82,805	-	-
Lease liabilities	-	-	1,127,004
Notes payable	-	-	270,425

As at July 31, 2020	Financial assets - FVTPL	Financial assets – amortized costs	Financial liabilities – amortized costs
	$	$	$
Cash and cash equivalent	2,037,614	-	-
Accounts receivable	-	1,039,681	-
Promissory note receivable	-	1,408,427	-
Accounts payable and accrued liabilities	-	-	1,517,192
Derivative liability	129,745	-	-
Lease liabilities	-	-	1,164,581

The carrying values of the Company's financial instruments carried at amortized cost approximate fair values due to their short duration.

Financial Risk Management Objectives and Policies

The Company is exposed to various financial risks resulting from both its operations and its investments activities. The Company's management, with the Board of Directors oversight, manages financial risks. Where material, these risks will be reviewed and monitored by the Board of Directors.

Financial Risks

The Company's main financial risk exposure and its financial risk management policies are as follows:

Credit risk

Credit risk is the risk of loss associated with a counter-party's inability to fulfill its payment obligations. The credit risk is limited to the carrying value amount carried on the statement of financial position. Credit risk associated with accounts receivable, the promissory note receivable and loans receivable arises from the possibility that the principal and/or interest due may become uncollectible. The Company mitigates this risk by managing and monitoring the underlying business relationship. The Company is currently exposed to moderate credit risk associated with its trade receivable. Subsequent to the year ended July 31, 2021, the Company sold the promissory note receivable and other interests in a California facility for USD $2,000,000 (Note 23).

16. Financial Risk Management (Continued)

Market and Other Risks

Market risk is the risk of uncertainty arising primarily from possible commodity market price movements and their impact on the future economic viability of the Company's projects and ability of the Company to raise capital. These market risks are evaluated by monitoring changes in key economic indicators and market information on an on-going basis and adjusting operating and exploration budgets accordingly. As at July 31, 2021, the market and other risks are low.

Liquidity Risk

Liquidity risk is the risk the Company will not be able to meet its financial obligations as they fall due. The Company manages its liquidity needs by carefully monitoring cash outflows due in day-to-day business.

Liquidity needs are monitored in various time bands, including 30-day, 180-day and 360-day lookout periods. As at July 31, 2021, the Company has a working capital of $1,700,301 (July 31, 2020 – $3,346,658) and may require additional financing to meet its short term obligations.

Currency risk

The Company is exposed to currency risk related to the fluctuation of foreign exchange rates and the degree of volatility of those rates. Currency risk is limited to the portion of the Company's business transactions and balances denominated in currencies other than the United States dollar.

17. Capital Management

The Company considers its capital to be comprised of shareholders' equity.

The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue new shares. Although the Company has been successful at raising funds in the past through the issuance of capital stock, it is uncertain whether it will continue this method of financing due to the current difficult market conditions.

In order to facilitate management of its capital requirements, the Company prepares expenditure budgets that are updated as necessary depending on various factors, including successful capital deployment and general industry conditions.

There have been no changes to the Company's approach to capital management during the period.

(Expressed in Canadian Dollars)

18. Related Party Transactions and Disclosures

As of July 31, 2021, included in accounts payable and other accrued liabilities, is an amount due to related parties of $1,764 (July 31, 2020 - $2,814). This amount consists of amounts due to a former director of the Company. These amounts were made to provide working capital and are non-interest bearing and without fixed terms of repayment.

Relationship	Type of service		July 31, 2021		July 31, 2020
CFO and Director has a minority interest in a firm providing accounting services.	Legal and professional fees	$	60,329	$	45,000
CFO and Director has a minority interest in a firm providing corporate consulting services	Consulting fees		46,250		51,050
CFO and Director controls a firm providing corporate consulting services.	Consulting fees		-		17,100
CEO and Director	Salaries		356,748		-
CEO and Director	Share-based compensation		259,323		16,429
		$	722,650	$	129,579

19. Share Capital

(i) Authorized capital

The Company's authorized share capital consists of:

- an unlimited number of common shares without par value; and
- an unlimited number of preferred shares issuable in series. No preferred shares are issued as of July 31, 2021.

(ii) Common shares

For the year ended July 31, 2021:

a) On August 13, 2020, the Company issued 3,710,000 units (each a “Unit”) at a price of $0.25 per Unit for aggregate gross proceeds of $927,500. Each Unit is comprised of one common share in the capital of the Company (a “Share”) and one common share purchase warrant (a “Warrant”). Each Warrant shall be exercisable to acquire one additional Share at a price of $0.31 for a period of two years from the date of issuance. In the event that the Shares trade at a closing price of greater than $0.50 per Share for ten (10) consecutive trading days, the Company may accelerate the expiry date of the Warrants to expire on the 30th day after the date on which such notice is given. The fair value of the warrants was $148,400, using the residual method. The Company paid share issuance cost of $20,000.

b) During the year ended July 31, 2021, the Company issued 4,700,101 common shares upon exercise of warrants for total proceeds of $1,728,738. The Company re-allocated $69,857 from reserve to share capital.

19. Share Capital (Continued)

c) During the year ended July 31, 2021, the Company issued 600,000 common shares upon exercise of options for total proceeds of $205,000. The Company re-allocated $178,661 from reserve to share capital.

d) During the year ended July 31, 2021, the Company issued 183,150 common shares with a fair value of $100,000 to a consultant of the Company for services rendered.

e) During the year ended July 31, 2021, the Company issued 224,050 common shares with a fair value of $78,418 pursuant to acquisition of THC Engineering Inc. (Note 4)

f) During the year ended July 31, 2021, the Company issued 7,753,079 common shares with a fair value of $2,325,924 pursuant to acquisition of De Krown Enterprises LLC. (Note 5)

For the year ended July 31, 2020:

a) On August 14, 2019, the Company issued 150,000 common shares, valued at $76,500 to a consultant of the Company for services rendered.

b) On August 16, 2019, the Company issued 1,250,000 common shares, valued at $625,000 to a consultant of the Company for services rendered.

c) During the year ended July 31, 2020, the Company issued 693,594 common shares upon exercise of warrants at $0.375 per share for total proceeds of $260,100.

d) On November 12, 2019, the Company issued 150,000 common shares with a fair value of $75,000 to a consultant of the Company for services rendered.

e) On February 5, 2020, the Company fulfilled its obligation by issuing 40,000,000 common shares valued at $17,600,000 pursuant to the California Definitive Agreement with Ganja Gold.

f) On February 6, 2020, the Company entered into an amending agreement (the "Amending Agreement") with 1200665 B.C. Ltd. and settled $12,500,000 of outstanding debt through the issuance of 40,322,580 common shares. The shares were issued with a fair value of $8,870,966 resulting in a $3,629,032 gain on settlement of debt.

On November 5, 2019, the Company announced that it, together with certain shareholders of the Company entered into a voluntary pooling agreement (the "Agreement"). The Agreement restricts the sale of approximately 26,000,000 shares of the Company, representing approximately 12% of the issued and outstanding shares of the Company. There are approximately 91,000,000 restricted shares outstanding at July 31, 2020.

g) On July 22, 2020, the Company announced a first tranche closing of its non-brokered private placement announced on June 11, 2020 (the "Offering"). Pursuant to the first tranche, the company issued 4,290,000 units at a price of $0.25 per unit for gross proceeds of $1,072,500. Each Unit is comprised of one common share in the capital of the Company (a "Share") and one common share purchase warrant (a "Warrant"). Each Warrant shall be exercisable to acquire one additional Share at a price of $0.31 for a period of two years from the date of issuance. In the event that the Shares trade at a closing price of greater than $0.50 per Share for ten (10) consecutive trading days, the Company may accelerate the expiry date of the Warrants to expire on the 30th day after the date on which such notice is given. The fair value of the warrants was $64,350, using the residual method. The Company paid share issuance cost of $41,350.

19. Share Capital (Continued)

(iii) Share options

The Company has a share option plan in place under which the Board of Directors may grant options to acquire common shares of the Company to qualified directors, officers, employees and other service providers. The share options vest according to the provisions of the individual option agreements approved by the directors' resolutions and have a maximum life of ten years. The plan allows for the issuance of up to 10% of the number of issued and outstanding common shares of the Company at any time on a non-diluted basis.

On June 30, 2021, the Company granted 199,998 stock options to a director and employees at an exercise price of $0.35 per share expiring June 30, 2026 and vests over 30 months, commencing on December 1, 2021. The total fair value of these stock options was determined to be $45,188 using the Black Scholes Option Pricing Model using the assumptions at the time of grant of risk free interest rates of 0.87%, expected life of 5 years, expected volatility of 107%, forfeiture rate of 0% and a dividend rate of 0%. During the year ended July 31, 2021, the Company recognized share-based compensation of $2,624 relating to these options.

On March 1, 2021, the Company granted 500,000 stock options to a director at an exercise price of $0.55 per share expiring March 1, 2026 and vests over 30 months, commencing September 1, 2021. The fair value of these 500,000 stock options was determined to be $307,424 using the Black Scholes Option Pricing Model using the assumptions at the time of grant of risk free interest rates of 0.63%, expected life of 5 years, expected volatility of 247%, forfeiture rate of 0% and a dividend rate of 0%. During the year ended July 31, 2021, the Company recognized share-based compensation of $114,061 relating to these options.

On February 9, 2021, the Company granted 100,000 stock options to a consultant at an exercise price of $0.70 per share expiring February 9, 2026 and vested immediately. The fair value of these 100,000 stock options was determined to be $47,920 using the Black Scholes Option Pricing Model using the assumptions at the time of grant of risk free interest rates of 0.39%, expected life of 5 years, expected volatility of 248%, forfeiture rate of 0% and a dividend rate of 0% relating to these options. During the year ended July 31, 2021, the Company recognized share-based compensation of $47,920 relating to these options.

On October 14, 2020, the Company granted 4,869,000 common shares of the Company at an exercise price of $0.35 per share and expiring on October 14, 2025. 3,619,000 options vest in 30 months, 250,000 options vest in 24 months and 1,000,000 options vested immediately. The fair value of these 4,869,000 stock options was determined to be $1,378,173 using the Black Scholes Option Pricing Model using the assumptions at the time of grant of risk free interest rates of 0.35%, expected life of 5 years, expected volatility of 110%, forfeiture rate of 0% and a dividend rate of 0%. During the year ended July 31, 2021, the Company recognized share-based compensation of $844,576 relating to these options.

On July 31, 2019, the Company granted 4,100,000 share options to consultants at an exercise price of $0.33 per share expiring July 31, 2024. 1,650,000 options vest in 6 months and 2,450,000 options vest over 4 years. The fair value of these 4,100,000 stock options was determined to be $1,796,211 using the Black Scholes Option Pricing Model using the assumptions at the time of grant of risk free interest rates of 1.47%, expected life of 5 years, expected volatility of 250%, forfeiture rate of 0% and a dividend rate of 0%. During the year ended July 31, 2021, the Company recognized share-based compensation of $284,491 relating to these options.

(Expressed in Canadian Dollars)

19. Share Capital (Continued)

(iii) Share options (Continued)

The issued and outstanding options balance as at July 31, 2021 and July 31, 2020 is comprised as follows:

	Number of Options	Weighted Average Price
		$
Balance July 31, 2019 and July 31, 2020	13,200,000	0.35
Options granted	5,668,998	0.36
Exercised	(600,000)	0.34
Cancelled	(3,500,000)	0.34
Balance July 31, 2021	14,768,998	0.35

As at July 31, 2021, 9,889,400 options are exercisable with a weighted average price of $0.36 and average life of 3.23 years.

As of July 31, 2021, the Company had share purchase options outstanding and exercisable to acquire common shares of the Company as follows:

Expiry date	Exercise price $	Number of options #	Number of exercisable options #
June 8, 2023	0.40	2,750,000	2,750,000
July 4, 2024	0.33	3,750,000	3,750,000
July 31, 2024	0.33	2,950,000	2,215,000
October 14, 2025	0.35	4,519,000	1,074,400
February 9, 2026	0.70	100,000	100,000
March 1, 2026	0.55	500,000	-
June 30, 2026	0.35	199,998	-
		14,768,998	9,889,400

(iv) Warrants

The issued and outstanding warrants balance as at July 31, 2021 and July 31, 2020 are comprised as follows:

	Exercise Price	Average Life	Expiry Date	Number of Warrants
	$			
Balance July 31, 2019	0.375	0.56		11,712,816
Private placements warrants	0.310	0.55	July 22, 2022	4,290,000
Warrants exercised	0.375	-		(693,594)
Balance July 31, 2020	0.357	1.11		15,309,222
Private placements warrants	0.310	0.31	August 13, 2022	3,710,000
Warrants exercised	0.372	-		(4,700,101)
Warrants expired	0.375	-		(6,839,121)
Balance July 31, 2021	0.310	1.01		7,480,000

(Expressed in Canadian Dollars)

19. Share Capital (Continued)

(iv) Warrants (Continued)

As of July 31, 2021, the Company had warrants outstanding and exercisable to acquire common shares of the Company as follows:

Expiry date	Exercise price $	Number of warrants, issued and exercisable #
July 22, 2022	0.31	3,770,000
August 13, 2022	0.31	3,710,000
		7,480,000

(v) Reserves

Reserves includes accumulated foreign currency translation adjustments and the accumulated fair value of share-based compensation and warrants transferred from share-based payment reserve and warrant reserve upon cancellation or expiry of the share options and warrants.

20. Income Taxes

The income taxes shown in the consolidated statements of loss and comprehensive loss differ from the amounts obtained by applying statutory rates to the loss before income taxes due to the following:

	July 31, 2021	**July 31, 2020**
	$	$
Loss for the period	(8,439,595)	(8,399,229)
Enacted tax rates	27.0%	27.0%
Expected income tax recovery	(2,278,691)	(2,267,792)
Items not deductible for income tax purposes	691,338	(596,264)
Foreign exchange and tax rate differences	100,280	68,614
Share-based compensation	349,290	-
Business combination	48,530	197,516
Unrealized foreign exchange	(269,670)	-
Impairment	(175,520)	1,163,984
Excess consideration	655,280	-
Adjustment to prior year tax returns	280	-
Current and prior tax attributes not recognized	348,640	1,631,457
Income tax (recovery) expense	(530,180)	197,515

The Company’s income tax (recovery) expense is allocated as follows:

	July 31, 2021	**July 31, 2020**
	$	$
Current income tax expense	361,630	-
Deferred income tax (recovery) expense	(891,810)	197,515
Income tax (recovery) expense	(530,180)	197,515

(Expressed in Canadian Dollars)

20. Income Taxes (Continued)

The following table summarizes the components of deferred taxes:

	July 31, 2021	July 31, 2020
Deferred Tax Assets	$	$
Right-of use liability	275,330	347,511
Deferred tax liabilities		
Intangible assets	(2,759,360)	(3,839,213)
Inventory write-off	(552,590)	(207,345)
Right-of use asset	(283,810)	(337,682)
Net deferred tax liabilities	(3,320,440)	(4,036,729)

Deferred tax assets and liabilities have been offset where they relate to income taxes levied by the same taxation authority and the Company has the legal right and intent to offset.

Movement in net deferred tax liabilities:

	$
Balance, July 31, 2019	-
Recognized in statement of loss	197,515
Recognized in goodwill	3,839,214
Balance, July 31, 2020	4,036,729
Recognized in statement of loss	(891,810)
Recognized in goodwill	175,521
Balance, July 31, 2021	3,320,440

Details of deferred tax assets are as follows:

	July 31, 2021	July 31, 2020
	$	$
Non-capital loss carry forwards	1,998,370	1,959,256
Resource properties	2,236,970	2,080,015
Share issue costs	34,940	44,817
Reserves	6,490	-
Unrecognized deferred tax assets	(4,276,770)	(4,084,088)
	-	-

As at July 31, 2021, the Company had approximately $8,567,736 of non-capital losses available, which begin to expire in 2032 through to 2041 and may be applied against future taxable income.

(Expressed in Canadian Dollars)

21. Segmented Information

The assets and operations of the Company are located in Canada and the United States. The Company has one reportable business segments in the cannabis sector.

	Canada	**USA**	**TOTAL**
Year ended July 31, 2021	**$**	**$**	**$**
Revenues	-	9,798,741	9,798,741
Total expenses	(7,173,903)	(11,064,431)	(18,238,334)
Net loss	(7,173,903)	(1,265,690)	(8,439,593)
As at July 31, 2021			
Current assets	1,349,489	5,441,639	6,791,128
Total assets	27,737,347	31,057,137	58,794,484
Total liabilities	6,073,135	6,562,922	12,636,056
As at July 31, 2020			
Current assets	1,055,678	5,277,892	6,333,570
Total assets	27,159,279	29,254,517	56,413,796
Total liabilities	299,074	6,985,925	7,284,999

22. Supplemental cash flow information

Non-cash financing and investing activities along with other cash flow information during the years ended July 31, 2021 and 2020 are as follows:

	2021 $	2020 $
Fair value transfer on exercise of stock options	178,661	-
Fair value transfer on exercise of warrants	69,857	-
Shares issued for debt	-	8,870,966
Shares issued for acquisition of THC Engineering	78,718	-
Shares issued for acquisition of De Krown	2,153,121	-

23. Subsequent Events

a) On January 25, 2022, the Company entered into a Definitive Agreement (the "Agreement") to acquire 100% of LEEF Holdings Inc. ("LEEF"), a California based premier extraction Company.

Under the terms of the LOI, the Purchase Price ("Purchase Price") is comprised of the following:

- Closing Purchase Price ("Closing Purchase price"); and,
- Earn-out Payments ("Earn-Out Payments").

The Closing Purchase Price will be equal to the higher of i) US $120,000,000 or ii) two times the trailing 1-months revenue of LEEF for the period ended September 30, 2021. The Closing Purchase Price will be calculated using a 30-day volume weighted average price of the Company on the Canadian Securities Exchange. The Closing Purchase Price is subject to certain escrow arrangements.

The Earn-Out Payments are as follows:

1. 15 months following Closing, an amount equal to (A) 10% of the TTM revenue calculated for the 12-month period immediately following Closing, multiplied by 2.0, minus (B) the Closing Purchase Price (the "First Earn-Out Payment");

2. 27 months following Closing, an amount equal to (A) 10% of the TTM revenue calculated for 12-month period immediately following the first anniversary of the Closing, multiplied by 2.0, minus (B) the Closing Purchase Price and minus (C) any amounts paid pursuant to the First Earn-Out Payment (the "Second Earn-Out Payment"); and

3. 9 months following Closing, an amount equal to (A) 10% of the TTM revenue calculated for 12-month period immediately following the second anniversary of the Closing, multiplied by 2.0, minus (B) the Closing Purchase Price and minus (C) any amounts paid pursuant to the First Earn-Out Payment and Second Earn-Out Payment (the "Third Earn-Out Payment").

b) On September 28, 2021, the Company entered into a Definitive Sale and Assignment Agreement (the "Agreement"), whereby the Company sold its interest and rights in the Sacramento, California based Cultivation Facility. As consideration, the Company received US $2,000,000 and the discounted purchase rights to supply its current California based infused pre-roll products.

c) On October 1, 2021, the Company entered into a Binding Letter of Intent ("Binding LOI") to acquire 100% of Substance LLC ("Substance"), a premium California based cannabis brand.

Under the terms of the Binding LOI, the Purchase Price ("Substance Purchase Price"), is comprised of the following:

- 12 month earn-out based on revenues ("Earn Out"); and,
- Milestone Bonuses ("Milestone Bonuses").

The Earn Out will be 1.3 times the trailing 12-months revenue of Substance for the period ending 12 months post-closing of the acquisition, using a 30-day volume weighted average price of the Company on the Canadian Securities Exchange.