ICANIC BRANDS COMPANY INC.

BUSINESS ACQUISITION REPORT

FORM 51-102F4

Item 1. Identity of Company

1.1 Name and Address of Company

Icanic Brands Company Inc. (the "**Company**" or "**Icanic**")
Suite 1500, 1055 West Georgia Street
Vancouver, BC
V6E 4N7

1.2 Executive Officer

The following executive officer of the Company is knowledgeable about the significant acquisition and this business acquisition report:

Brandon Kou
Chief Executive Officer
Telephone: 562-335-6517

Item 2. Details of Acquisition

2.1 Nature of Business Acquired

The Company completed the acquisition (the "**Merger**") of all of the issued and outstanding common shares (the "**LEEF Shares**") of LEEF Holdings, Inc. ("**LEEF**") by way of a merger under the *Nevada Revised Statutes* pursuant to a merger agreement dated January 21, 2022, as amended (the "**Merger Agreement**").

LEEF is one of the largest cannabis extraction companies in the state of California and is a leading provider of bulk concentrates to many of the largest brands in the state. It is led by an expert group of legacy operators with decades of experience in organic soil-based farming and sophisticated extraction practices. LEEF's manufacturing capabilities include a 12,000 square foot extraction and manufacturing facility with significant throughput and distillate extraction capability. Headquartered in Willits, California, LEEF's core manufacturing competencies include ethanol extraction (Type 6 manufacturing license), hydrocarbon extraction (Type 7 manufacturing license), and solventless extraction. LEEF has also recently received a 186.7 acre cultivation land use permit, which will make it the owner of one of the largest cannabis cultivation sites in California. The site sits on over 1,900 acres of prime California real estate.

2.2 Date of Acquisition

The Company completed the Merger on April 20, 2022.

2.3 Consideration

Pursuant to the terms of the Merger Agreement, the Company acquired all the issued and outstanding LEEF Shares in accordance with the *Nevada Revised Statutes*. In consideration for the acquisition of the LEEF Shares, Icanic issued an aggregate of 758,274,035 common shares of the Company (the "**Icanic Shares**"), resulting in former LEEF shareholders being entitled to receive approximately 12.54755 Icanic Shares for each LEEF Share held. The Icanic Shares received as consideration pursuant to the Merger are subject to a contractual hold period in accordance with the terms of the Merger Agreement, with an initial one-eighth of the Icanic Shares received to be released one-year from today, and the remaining Icanic Shares to be released in equal one-eighth installments every three months thereafter.

Pursuant to the terms of the Merger Agreement, former LEEF shareholders will also be entitled to receive the following contingent earn-out payments (the "**Earn-Out Payments**"):

1. On July 20, 2023, an amount equal to 10% of (A) the product equal to two times the trailing 12-months ("**TTM**") revenue calculated for the 12-month period immediately following the date hereof minus (B) US$120 million (the "**First Earn-Out Payment**");

2. On July 20, 2024, an amount equal to 10% of (A) the product equal to two times the TTM revenue calculated for the 12-month period immediately following the date that is one year from the date hereof minus (B) the US$120 million and minus (C) any amounts paid pursuant to the First Earn-Out Payment (the "**Second Earn-Out Payment**"); and

3. On July 20, 2025, an amount equal to 10% of (A) the product equal to two times the TTM revenue calculated for the 12-month period immediately following the date that is two years from the date hereof minus (B) US$120 million, minus (C) any amounts paid pursuant to the First Earn-Out Payment, minus (D) any amounts paid pursuant to the Second Earn-Out Payment (the "**Third Earn-Out Payment**").

Each of the foregoing Earn-Out Payments will be satisfied in full through the issuance of Icanic Shares based on the 30-day volume weighted average trading price of the Icanic Shares on the Canadian Securities Exchange for the period ending on the business day prior to the issuance.

2.4 Effect on Financial Position

Except as otherwise publicly disclosed and in the ordinary course of business and other than in respect of changes that occurred as a result of the Merger, the Company does not have any current plans or proposals for material changes in its business affairs or the affairs of LEEF which may have a significant effect on the results of operations and financial position of the Company.

2.5 Prior Valuations

No valuation opinion was obtained in the last 12 months by the Company or LEFF as no such valuation opinion was required by securities legislation or a Canadian exchange or market to support the consideration under the Merger.

2.6 Parties to the Transaction

The Merger was not with an informed person, associate or affiliate of the Company as defined in Section 1.1 of National Instrument 51 – 102 *Continuous Disclosure Obligations*.

2.7 Date of Report

July 12, 2022

Item 3. Financial Statements

Pursuant to Part 8 of NI 51-102, the following financial statements are attached as schedules to the Business Acquisition Report and form part of this Business Acquisition Report:

Schedule A	The audited consolidated financial statements of LEFF and related notes thereto for the years ended December 31, 2021 and 2020.
Schedule B	The unaudited consolidated financial statements of LEEF for the three month period ended March 31, 2022 and 2021.

SCHEDULE A

LEEF Holdings, Inc.

CONSOLIDATED FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED
DECEMBER 31, 2021 AND 2020

(AMOUNTS EXPRESSED IN UNITED STATES DOLLARS)

LEEF Holdings, Inc.

Index to Consolidated Financial Statements

LEEF Holdings, Inc.

Management's Responsibility for Financial Reporting

To the Shareholders' of LEEF Holdings, Inc.

The accompanying consolidated financial statements ("financial statements") and accompanying notes in this report were prepared by management of LEEF Holdings, Inc., reviewed by the Audit Committee and approved by the Board of Directors.

Management is responsible for the preparation of the financial statements and believes that they fairly present the Company's financial condition and results of operation in conformity with International Financial Reporting Standards. Management has included in the Corporation's financial statements amounts based on estimates and judgments that it believes are reasonable, under the circumstances.

To discharge its responsibilities for financial reporting and safeguarding of assets, management believes that it has established appropriate systems of internal accounting control which provide reasonable assurance that the financial records are reliable and form a proper basis for the timely and accurate preparation of financial statements. Consistent with the concept of reasonable assurance, the Company recognizes that the relative cost of maintaining these controls should not exceed their expected benefits. Management further assures the quality of the financial records through careful selection and training of personnel and through the adoption and communication of financial and other relevant policies.

These consolidated financial statements have been audited by our auditors, Macias Gini & O'Connell LLP and their report is presented herein.

/s/ Micah Anderson		/s/ Emily Heitman	
Chairman, Director		*Director*	

July 11, 2022

Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Shareholders of
Leef Holdings, Inc. and Subsidiaries

Opinion

We have audited the consolidated financial statements of Leef Holdings, Inc. and its Subsidiaries (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2021 and 2020, and the statements of operations and comprehensive loss, changes in shareholders' equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2021 and 2020, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards 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 Consolidated Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audits of the consolidated 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

The accompanying consolidated financial statements have been prepared assuming that the entity will continue as a going concern. As discussed in Note 2 to the financial statements, the entity has suffered recurring losses from operations that raise substantial doubt about its ability to continue as a going concern. Management's plans regarding these matters are also described in Note 2. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified in respect of this matter.

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated 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 consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

The engagement partner on the audit resulting in this independent auditor's report is Simon Dufour, CPA.

Macias Gini & O'Connell LLP

MACIAS GINI & O'CONNELL LLP
Irvine, California
July 11, 2022

LEEF Holdings, Inc.
Consolidated Statements of Financial Position
As of December 31, 2021 and 2020
(Amounts Expressed in United States Dollars)

		2021	2020
Assets			
Current assets:			
Cash		$ 7,513,371	$ 1,119,851
Accounts receivable, net		1,841,421	1,618,877
Prepaid expenses and deposits		472,863	661,195
Deferred costs and other current assets		726,821	328,820
Inventory	*Note 4*	2,824,532	6,612,800
Total current assets		13,379,008	10,341,543
Non-Current Assets:			
Property and equipment, net	*Note 5*	16,693,849	16,150,823
Other assets		311,017	300,859
Total non-current assets		17,004,866	16,451,682
Total Assets		**$ 30,383,874**	**$ 26,793,225**
Liabilities and Shareholders' Equity			
Current liabilities:			
Accounts payable and other accrued liabilities	*Note 6*	$ 2,086,750	$ 2,878,640
Stock subscription payable	*Note 17*	1,195,356	-
Related party payables	*Note 17*	456,075	342,996
Current portion of convertible debentures, net of discount	*Note 10*	12,666,268	25,820
Current portion of notes payable	*Note 9*	40,571	37,692
Derivative liabilities, short term	*Note 8*	-	569,175
Lease liabilities, short term	*Note 7*	82,840	67,528
Current portion of finance liability, net of discount	*Note 7*	509,767	368,009
Tax payable	*Note 13*	2,784,886	2,366,598
Deferred revenue		80,589	119,983
Total current liabilities		19,903,102	6,776,441
Non-Current Liabilities:			
Lease liabilities, net of current portion	*Note 7*	824,583	880,355
Finance liability, net of current and discount	*Note 7*	373,070	882,837
Notes payable, net of current	*Note 9*	53,888	691,701
Derivative liabilities, long term	*Note 8*	2,513,681	2,615,894
Convertible debentures, net of current and discount	*Note 10*	-	9,813,805
Total non-current liabilities		3,765,222	14,884,592
Total Liabilities		**23,668,324**	**21,661,033**
Shareholders' Equity:			
Common share capital	*Note 11*	55,410	53,511
Contributed surplus		36,243,885	32,434,333
Accumulated deficit		(34,644,658)	(27,318,271)
Total equity attributable to shareholders' of Leef Holdings, Inc.		1,654,637	5,169,573
Non-controlling interest		5,060,913	(37,381)
Total Shareholders' Equity		**6,715,550**	**5,132,192**
Total Liabilities and Shareholders' Equity		**$ 30,383,874**	**$ 26,793,225**

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

LEEF Holdings, Inc.
Consolidated Statements of Operations and Comprehensive Loss
For the Years Ended December 31, 2021 and 2020
(Amounts Expressed in United States Dollars)

	2021	2020
Net revenue	$ 33,457,025	$ 33,370,853
Cost of sales	25,042,714	25,697,653
Gross profit	8,414,311	7,673,200
Operating expenses:		
Advertising and promotion	265,286	338,446
Depreciation	1,501,827	1,357,466
Wages and salaries	5,222,932	5,067,612
Office and general expenses	1,799,997	1,370,097
Research and development expenses	279,891	53,479
Legal and professional fees	1,038,378	597,065
Insurance expenses	500,026	288,828
Excise and other taxes	132,801	342,185
Lease expenses	155,676	120,403
Travel and business development	271,207	199,715
Total operating expenses	11,168,021	9,735,296
Loss from operations	(2,753,710)	(2,062,096)
Other expense:		
Interest expenses	3,977,187	3,894,151
Loss on disposal of asset	145,171	34,264
Loss on conversion and modifications of convertible debentures	-	1,530,821
Change in fair value of derivative liability	(215,291)	(375,228)
Forgiveness of notes payable	(611,429)	-
Total other expense	3,295,638	5,084,008
Loss before provision for income taxes	(6,049,348)	(7,146,104)
Provision for income taxes	1,680,798	1,365,495
Net loss and comprehensive loss	(7,730,146)	(8,511,599)
Net loss and comprehensive loss attributable to non-controlling interest	(403,759)	(145,501)
Net loss and comprehensive loss attributable to shareholders' of Leef Holdings, Inc.	**$ (7,326,387)**	**$ (8,366,098)**
Basic and diluted loss per share attributable to shareholders' of Leef Holdings, Inc.	**$ (0.13)**	**$ (0.16)**
Weighted average number of common shares outstanding - basic and diluted	**54,865,718**	**51,233,044**

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

LEEF Holdings, Inc.
Consolidated Statements of Changes in Shareholders' Equity
For the Years Ended December 31, 2021 and 2020
(Amounts Expressed in United States Dollars)

	Common Share Capital						
	Number	$ Amount	Contributed surplus	Accumulated deficit	Total equity attributable to shareholders' of Leef Holdings, Inc.	Non-controlling interest	Total shareholders' equity
Balance as of January 1, 2020	**45,052,401**	**$ 45,052**	**$ 19,641,438**	**$ (18,952,173)**	**$ 734,317**	**$ -**	**$ 734,317**
Net loss	-	-	-	(8,366,098)	(8,366,098)	(145,501)	(8,511,599)
Shares issued for cash	5,230,000	5,230	5,224,770	-	5,230,000	-	5,230,000
Shares issued for cash to non-controlling interest holders	-	-	-	-	-	108,120	108,120
Stock option expense	-	-	1,817,787	-	1,817,787	-	1,817,787
Conversion of debentures to common stock	3,229,180	3,229	5,750,338	-	5,753,567	-	5,753,567
Balance as of December 31, 2020	**53,511,581**	**$ 53,511**	**$ 32,434,333**	**$ (27,318,271)**	**$ 5,169,573**	**$ (37,381)**	**$ 5,132,192**
Net loss	-	-	-	(7,326,387)	(7,326,387)	(403,759)	(7,730,146)
Shares issued for cash	1,898,534	1,899	2,501,105	-	2,503,004	-	2,503,004
Shares issued for cash to non-controlling interest holders	-	-	-	-	-	4,883,077	4,883,077
Stock option expense	-	-	1,308,447	-	1,308,447	-	1,308,447
Conversion of debentures to common stock	-	-	-	-	-	618,976	618,976
Balance as of December 31, 2021	**55,410,115**	**$ 55,410**	**$ 36,243,885**	**$ (34,644,658)**	**$ 1,654,637**	**$ 5,060,913**	**$ 6,715,550**

LEEF Holdings, Inc.
Consolidated Statements of Cash Flows
For the Years Ended December 31, 2021 and 2020
(Amounts Expressed in United States Dollars)

	2021	2020
Cash flow from operating activities:		
Net loss and comprehensive loss	$ (7,730,146)	$ (8,511,599)
Adjustments to reconcile net loss		
to net cash used in operating activities:		
Depreciation	1,501,827	1,357,466
Share based compensation	1,308,447	1,817,787
Loss on conversion and modifications of convertible debentures	-	1,530,821
Amortization of debt discounts	2,209,476	1,615,339
Loss on issuance of derivative liability	-	389,175
Change in fair value of derivative liability	(215,291)	(375,228)
Amortization of finance liability discounts	160,396	180,778
Loss on disposal of asset	145,171	34,264
Change in deferred tax assets	-	8,524
Forgiveness of notes payable	(611,429)	-
Changes in operating assets and liabilities:		
Accounts receivable, net	(210,644)	(320,541)
Prepaid expenses and deposits	290,830	(221,520)
Deferred costs and other current assets	(543,172)	962,211
Inventory	3,788,268	(2,197,209)
Other assets	(10,158)	(300,859)
Accounts payable and other accrued liabilities	(77,382)	(161,912)
Related party payables	113,079	(764,741)
Tax payable	418,288	535,980
Deferred revenue	(39,394)	55,146
Net cash provided by (used in) operating activities	**498,166**	**(4,366,118)**
Cash flows from investing activities:		
Equipment purchase	(1,113,270)	(1,173,099)
Cash acquired from acquisition of common controlled entity	214,916	-
Net cash used in investing activities	**(898,354)**	**(1,173,099)**
Cash flows from financing activities:		
Issuance of common shares	2,503,004	5,230,000
Issuance of shares to non-controlling holders	4,883,077	108,120
Proceeds from issuance of notes	-	618,367
Repayment of notes	(23,505)	(56,513)
Proceeds from issuance of convertible notes	-	180,000
Repayments on finance liabilities	(528,408)	(345,308)
Repayments on lease liabilities	(40,460)	(87,063)
Net cash provided by financing activities	**6,793,708**	**5,647,603**
Net increase in cash	**6,393,520**	**108,386**
Cash, beginning of year	1,119,851	1,011,465
Cash, end of year	**$ 7,513,371**	**$ 1,119,851**
Cash paid during the year for:		
Interest	$ 993,384	$ 1,342,716
Taxes	$ 449,570	$ 675,485
Other non-cash investing and financing activities:		
Interest paid-in-kind	$ 780,049	$ 746,160
Conversion of convertible debentures and derivatives	$ 618,976	$ 5,753,567
Stock subscription payable from acquistion of entity (see Note 17)	$ 1,195,356	$ -
Equipment purchase not yet paid as of year-end	$ -	$ 174,045

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

1. NATURE OF OPERATIONS

LEEF Holdings, Inc. (formerly LEEF Holdings, LLC.) ("LEEF" or "The Company") was incorporated under the laws of the State of Nevada on January 28, 2019. The Company operates in the regulated California cannabis industry and is primarily focused on manufacturing and distribution of cannabis products via multiple extraction methods. The Company also operates a Cannabidiol ("CBD") Wellness product line, LEEF Organics as well as a CBD pet product line, Paleo Paw. Both LEEF Organics and Paleo Paw are sold across the United States. The head office and principal office of the Company is 5666 La Jolla Boulevard, Suite 270, La Jolla, California 92037.

2. BASIS OF PRESENTATION

Statement of compliance

These consolidated financial statements, have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC") in effect as of December 31, 2021.

These consolidated financial statements of the Company for the years ended December 31, 2021 and 2020 were authorized for issuance by the Board of Directors on July 11, 2022.

Liquidity

Historically, the Company's primary source of liquidity has been its operations, capital contributions made by equity investors and debt issuances. The Company is currently meeting its current operational obligations as they become due from its current working capital and from operations. However, the Company has sustained losses since inception and may require additional capital in the future. As of and for the year ended December 31, 2021, the Company had an accumulated deficit of $34,644,658, a net loss attributable to the Company of $7,326,387 and net cash provided by operating activities of $498,166. The Company estimates that based on current business operations and working capital, it will continue to meet its obligations as they become due in the short term.

The Company is generating cash from revenues and deploying its capital reserves to acquire and develop assets capable of producing additional revenues and earnings over both the immediate and near term. Capital reserves are primarily being utilized for capital expenditures, facility improvements, product development and marketing.

Liquidity risk is the risk that the Company will not be able to meet its financial obligations associated with financial liabilities. The Company manages liquidity risk through the management of its capital structure. The Company's approach to managing liquidity is to ensure that it will have sufficient liquidity to settle obligations and liabilities when due. Additionally, on April 21, 2022, Icanic Brands Company, Inc. acquired 100% of the common stock of the Company. See "*Note 18 – Subsequent Events*" for further information.

Basis of presentation and measurement

These consolidated financial statements have been prepared, except for the cash flow information, on the accrual basis of accounting and on a historical cost basis except for certain financial liabilities measured at fair value. These consolidated financial statements are presented in United States Dollars, which is also the Company's functional currency, unless otherwise noted.

(Amounts Expressed in United States Dollars)

2. BASIS OF PRESENTATION *(Continued)*

COVID-19

On March 11, 2020, the World Health Organization declared COVID-19 a global pandemic and recommended containment and mitigation measures worldwide. While the ultimate severity of the outbreak and its impact on the economic environment is uncertain, the Company is monitoring this closely. In the event that the Company were to experience widespread transmission of the virus at one or more of the Company's facilities, the Company could suffer reputational harm or other potential liability. Further, the Company's business operations may be materially and adversely affected if a significant number of the Company's employees are impacted by the virus.

Functional and presentation currency

The functional currency of the Company (and its subsidiaries) is the United States dollar as this is the principal currency of the economic environment in which it operates. The United States dollar is also the Company's presentation currency. Transactions in foreign currencies are initially recorded in the Company's functional currency at the exchange rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange at the end of each reporting period. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when fair value is determined.

All gains and losses on translation of these foreign currency transactions are included in profit or loss.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of consolidation

These consolidated financial statements as of and for the years ended December 31, 2021 and 2020 include the accounts of the Company, its wholly-owned subsidiaries and entities over which the Company has control as defined in IFRS 10. Subsidiaries over which the Company has control are fully consolidated from the date control commences until the date control ceases. Control exists when the Company is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. In assessing control, potential voting rights that are currently exercisable are taken into account. All of the consolidated entities were under common control during the entirety of the periods for which their respective results of operations were included in the consolidated statements (i.e., from the date of their acquisition). All intercompany balances and transactions are eliminated on consolidation.

The following are the Company's wholly-owned California subsidiaries and entities over which the Company has control that are included in these consolidated financial statements as of and for the years ended December 31, 2021 and 2020:

Name	Purpose
Seven Zero Seven, LLC.	Manufacturing
Payne's Distribution, LLC.	Distribution
Paleo Paw Corp.	CBD Wellness
LEEF EC Retail, LLC.[1]	Dispensary
Willits Retail, LLC.	Dispensary
Aya Biosciences, Inc.[2]	Pharmaceutical
Anderson Development SB, LLC [3]	Cultivation

(1) As of December 31, 2020, LEEF EC Retail, LLC. was abandoned by the Company.
(2) As of December 31, 2021 and 2020, the Company owned a 51.01% and 71.66%, respectively, interest in Aya Biosciences, Inc. See "Note 10 – Convertible Debentures" for further information.
(3) The Company acquired Anderson Development SB, LLC effective November 3, 2021. See "Note 17 – Related Party Transactions" for further information.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Cash

Cash includes cash deposits in financial institutions and physical cash on hand.

Revenue

The Company generates revenue primarily from bulk product sales and white label services. 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(s) 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).

Product sales are generally recognized when the Company satisfies the performance obligations and transfers control over the goods 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. Returns are performed when the product does not meet the requested type, concentration, etc. and ordered by the customer. Returns and exchanges are reported and recorded at the same time as revenue transactions.

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 whereany 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 economicconditions 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 statement of 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.

Inventory

Inventory is valued at the lower of cost and net realizable value. Cost of cannabis biomass is comprised of initial third-party acquisition costs, plus analytical testing costs. Costs of extracted cannabis oil inventory are comprised of initial acquisition cost of the biomass and all direct and indirect processing costs including labor related costs, consumables, materials, packaging supplies and analytical testing costs. Net realizable value is determined as the estimated selling price in the ordinary course of business less the estimated cost of completion and the estimated costs necessary to make the sale. Packaging and supplies are initially valued at cost and subsequently at the lower of cost and net realizable value.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Property and equipment

Property and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

The depreciation rates applicable to each category of property and equipment are as follows:

Buildings	15 years
Office furniture and software	3 - 5 years
Machinery and equipment	10 years
Vehicles	8 years
Construction in progress	Not depreciated
Right-of-use asset	Shorter of lease term or economic life

The estimated useful lives, residual values and depreciation methods are reviewed at the end of each reporting year, with the effect of any changes in estimates accounted for on a prospective basis. The determination of appropriate useful lives and residual values are based on management's judgement; therefore, the resulting depreciation is subject to estimation uncertainty.

Items of equipment are derecognized upon disposal or when no future economic benefits are expected to arise from their continued use. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying value of the asset) is included in the Consolidated Statements of Operations and Comprehensive Loss in the period the asset is derecognized.

Impairment of long-lived assets

The Company evaluates the carrying value of long-lived assets at the end of each reporting period whether there is any indication that a long-lived asset is impaired. Such indicators include evidence of physical damage, indicators that the economic performance of the asset is worse than expected, decline in asset value that is more than the passage of time or normal use, or significant changes occur with an adverse effect on the Company's business. If any such indication exists, the Company estimates the recoverable amount of the asset, which is determined as the higher of the asset's fair value less costs of disposal and its value-in-use. Fair value is determined in accordance with IFRS 13, "*Fair Value Measurement*". Costs of disposal are the direct added costs only. Value-in-use is assessed based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects applicable market and economic conditions, the time value of money and the risks specific to the asset. An asset is impaired when its carrying amount exceeds its recoverable amount. The Company measures impairment based on the amount by which the carrying value exceeds the estimated recoverable amount of the long-lived asset.

Related party transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Related parties may be individuals or corporate entities. A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Leases

The Company accounts for leases in accordance with IFRS 16 "*Leases*". This standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than twelve months unless the underlying asset is of low value. A lessee is required to recognize a right-of-use ("ROU") asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. Under IFRS 16, monthly rent expenses are replaced with interest expenses and decreases to lease liability. The ROU asset is also depreciated on a monthly basis over the non-cancellable period of the lease.

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 interest expense. The interest expense is recognized over the lease period 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; 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 administrative expenses in the consolidated statement of operations and comprehensive loss. Short-term leases are defined as leases with a lease term of twelve 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 and general and administrative expenses.

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 or economic life, or 10 years. Depreciation is recognized from the commencement date of the lease.

Sale and leaseback transactions are assessed to determine whether a sale has occurred under IFRS 15. If a sale is determined not to have occurred, the underlying "sold" assets are not derecognized and a finance liability is established in the amount of cash received. At such time that the lease expires, the assets are then derecognized along with the finance liability, with a gain recognized on disposal for the difference between the two amounts, if any. Refer to "*Note 7 - Lease Liabilities*" for further discussion.

In accordance with IFRS 16, the satisfaction of a performance obligation under IFRS 15 is applied to sale and leaseback transactions. As the seller-lessee, the Company measures the right-of-use asset arising from the transaction at the proportion of the previous carrying amount of the asset that relates to the right of use retained. The Company only recognizes the gain or loss that relates to the rights transferred to the buyer-lessor. Adjustments are made to measure the sale proceeds at fair value in which any below-market terms are accounted for as a prepayment of lease payments and any above-market terms are accounted for as an additional financing cost. Adjustments for any off-market terms are on the more readily determinable basis of the difference between the fair value of the consideration for the sale and the fair value of the asset, and the difference between the present value of the contractual payments for the lease and the present value of lease payments at market rates.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Derivatives

The Company evaluates all of its agreements to determine if such instruments have derivatives or contain features that qualify as embedded derivatives. For derivative financial instruments that are accounted for as liabilities, the derivative instrument is initially recorded at its fair value and is then re-valued at each reporting date, with changes in the fair value reported in the Consolidated Statements of Operations and Comprehensive Loss. In calculating the fair value of derivative liabilities, the Company uses a valuation model when level 1 inputs are not available to estimate fair value at each reporting date. The classification of derivative instruments, including whether such instruments should be recorded as liabilities or as equity, is evaluated at the end of each reporting period. Derivative instrument liabilities are classified in the Consolidated Statement of Financial Position as current or non-current based on whether or not net-cash settlement of the derivative instrument could be required within 12 months of the Consolidated Statements of Financial Position date. Critical estimates and assumptions used in the model are discussed in "*Note 8 – Derivative Liabilities*".

Convertible debentures

Convertible debentures are financial instruments that are accounted for separately dependent on the nature of their components. The identification of such components embedded within a convertible debenture requires significant judgment given that it is based on the interpretation of the substance of the contractual agreement. Where the conversion option has a fixed conversion rate, the financial liability, which represents the obligation to pay coupon interest on the convertible debentures in the future, is initially measured at its fair value and subsequently measured at amortized cost. The residual amount is accounted for as an equity instrument at issuance. Where the conversion option has a variable conversion rate, the conversion option is recognized as a derivative liability measured at fair value. The determination of the fair value is also an area of significant judgment given that it is subject to various inputs, assumptions and estimates including: contractual future cash flows, discount rates, credit spreads and volatility.

Fees directly attributable to the transactions are apportioned to the financial liability, derivative liability and equity components in proportion to the allocation of proceeds.

Income Taxes

Tax expense recognized in profit or loss comprises the sum of current and deferred taxes not recognized in other comprehensive income or directly in equity.

Current Tax

Current tax assets and/or liabilities comprise those claims from, or obligations to, fiscal authorities relating to the current or prior reporting periods that are unpaid at the reporting date. Current tax is payable on taxable profit, which differs from profit or loss in the financial statements. Calculation of current tax is based on tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period.

Deferred Tax

Deferred taxes are calculated using the liability method on temporary differences between the carrying amounts of assets and liabilities and their tax bases. Deferred tax assets and liabilities are calculated, without discounting, at tax rates that are expected to apply to their respective period of realization, provided they are enacted or substantively enacted by the end of the reporting period. Deferred tax liabilities are always provided for in full.

Deferred tax assets are recognized to the extent that it is probable that they will be able to be utilized against future taxable income. Deferred tax assets and liabilities are offset only when the Company has a right and intention to offset current tax assets and liabilities from the same taxation authority.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Changes in deferred tax assets or liabilities are recognized as a component of tax income or expense in profit or loss, except where they relate to items that are recognized in other comprehensive income or directly in equity, in which case the related deferred tax is also recognized in other comprehensive income or equity, respectively.

Share-based payment

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.

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.

Loss per share

The Company presents basic earnings (loss) per share data for its common shares, calculated by dividing the net income (loss) available to common shareholders of the Company by the weighted average number of shares outstanding during the reporting period. Diluted earnings (loss) per share is computed similar to basic earnings (loss) per share except that the weighted average shares outstanding are increased to include additional shares for the assumed exercise of stock options and warrants, if dilutive.

Financial instruments

The Company recognizes financial assets to be measured at amortized cost or fair value in subsequent accounting periods following initial recognition in accordance with IFRS 9, "*Financial Instruments*".

Classification

The Company classifies its financial assets and financial liabilities in the following measurement categories: (i) those to be measured subsequently at fair value through profit or loss ("FVTPL"); (ii) those to be measured subsequently at fair value through other comprehensive income ("FVOCI"); and (iii) those to be measured subsequently at amortized cost. The classification of financial assets depends on the business model for managing the financial assets and whether the contractual cash flows represent solely payments of principal and interest ("SPPI"). Financial liabilities are classified as those to be measured at amortized cost unless they are designated as those to be measured subsequently at FVTPL (irrevocable election at the time of recognition). For assets and liabilities measured at fair value, gains or losses are either recorded in profit or loss or other comprehensive income.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Measurement

All financial instruments are required to be measured at fair value on initial recognition, plus, in the case of a financial asset or financial liability not at FVTPL, transaction costs that are directly attributable to the acquisition or issuance of the financial asset or financial liability. Transaction costs of financial assets and financial liabilities carried at FVTPL are expensed in profit or loss. Financial assets and financial liabilities with embedded derivatives are considered separately when determining whether their cash flows are solely payment of principal and interest.

Financial assets that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortized cost at the end of the subsequent accounting periods. All other financial assets including equity investments are measured at their fair values at the end of subsequent accounting periods, with any changes taken through profit and loss or other comprehensive income (irrevocable election at the time of recognition). For financial liabilities measured subsequently at FVTPL, changes in fair value due to credit risk are recorded in other comprehensive income.

Impairment

The Company assesses all information available, including on a forward-looking basis the expected credit loss associated with its assets carried at amortized cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk. To assess whether there is a significant increase in credit risk, the Company compares the risk of a default occurring on the asset at the reporting date with the risk of default at the date of initial recognition based on all information available, and reasonable and supportive forward-looking information. For accounts receivable only, the Company applies the simplified approach as required by IFRS 9. The simplified approach to the recognition of expected losses does not require the Company to track the changes in credit risk; rather, the Company recognizes a loss allowance based on lifetime expected credit losses at each reporting date from the date of the trade receivable.

Expected credit losses are measured as the difference in the present value of the contractual cash flows that are due to the Company under the contract, and the cash flows that the Company expects to receive. The Company assesses all information available, including past due status, credit ratings, the existence of third-party insurance, and forward-looking macro-economic factors in the measurement of the expected credit losses associated with its assets carried at amortized cost.

The Company measures expected credit loss by considering the risk of default over the contract period and incorporates forward-looking information into its measurement.

Summary of the Company's classification and measurements of financial assets and liabilities is as follows:

	Classification	Measurement
Financial assets:		
Cash	FVTPL	Fair value
Accounts receivable	Amortized cost	Amortized cost
Financial liabilities:		
Accounts payable and other accrued liabilities	Amortized cost	Amortized cost
Convertible debentures	FVTPL	Fair value
Notes payable	Amortized cost	Amortized cost
Derivative liabilities	FVTPL	Fair value
Lease liabilities	Amortized cost	Amortized cost

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Critical accounting judgements, estimates and assumptions

The preparation of these consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities and contingent liabilities at the date of the Financial Statements and reported amounts of revenues and expenses during the reporting period. Estimates and assumptions are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. However, actual outcomes can differ from these estimates.

Significant assumptions about the future and other sources of estimation uncertainty that management has made at the end of the reporting period, that could result in a material adjustment to the carrying amounts of assets and liabilities in the event that actual results differ from assumptions made, relate to, but are not limited to, the following:

i) The inputs used in calculating the fair value for share-based payment expense included in loss and comprehensive loss.

ii) The valuation of shares and other equity instruments issued in non-cash transactions. Generally, the valuation of non-cash transactions is based on the value of the goods or services received. When non-cash transactions are entered into with employees and those providing similar services, the non-cash transactions are measured at the fair value of the consideration given up using market prices.

iii) Estimated useful lives, depreciation of property and equipment. Depreciation of property and equipment is dependent upon estimates of useful lives which are determined through the exercise of judgment. The assessment of any impairment of these assets is dependent upon estimates of recoverable amounts that take into account factors such as economic and market conditions and the useful lives of assets.

iv) Inventory is carried at the lower of cost or net realizable value. The determination of net realizable value involves significant management judgement and estimates, including the estimation of future selling prices.

v) Income taxes and deferred income tax assets or liabilities. Management uses judgment and estimates in determining the appropriate rates and amounts in recording deferred taxes, giving consideration to timing and probability. Actual taxes could vary significantly from these estimates as a result of future events, including changes in income tax law or the outcome of reviews by tax authorities and related appeals. The resolution of these uncertainties and the associated final taxes may result in adjustment to the Company's tax assets and tax liabilities. The recognition of deferred income tax assets is subject to judgment and estimation over whether these amounts can be realized.

vi) The individual fair values attributed to the different components of a financing transaction, notably derivative financial instruments, convertible debentures and loans, are determined using valuation techniques. The Company uses judgment to select the methods used to make certain assumptions and derive estimates. Significant judgment is also used when attributing fair values to each component of a transaction upon initial recognition, measuring fair values for certain instruments on a recurring basis and disclosing the fair values of financial instruments subsequently carried at amortized cost. These valuation estimates could be significantly different because of the use of judgment and the inherent uncertainty in estimating the fair value of instruments that are not quoted or observable in an active market. See "*Note 14 – Financial Instruments and Financial Risk Management*" for summaries of the Company's financial instruments as of December 31, 2021 and 2020.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Recent Accounting Pronouncements

The following IFRS standards have been recently issued by the IASB. The Company is assessing the impact of these new standards on future consolidated financial statements. Pronouncements that are not applicable or where it has been determined do not have a significant impact to the Company have been excluded herein.

IAS 1, "*Presentation of Financial Statements"* ("IAS 1") – IAS 1 has been revised to (i) clarify that the classification of liabilities as current or non-current should be based on rights that are in existence at the end of the reporting period and align the wording in all affected paragraphs to refer to the "right" to defer settlement by at least twelve months and make explicit that only rights in place "at the end of the reporting period" should affect the classification of a liability; (ii) clarify that classification is unaffected by expectations about whether an entity will exercise its right to defer settlement of a liability; and (iii) make clear that settlement refers to the transfer to the counterparty of cash, equity instruments, other assets or services. The amendments are effective for annual reporting periods beginning on or after January 1, 2023 and are to be applied retrospectively. Earlier application is permitted. IAS 1 has also been amended to help preparers in deciding which accounting policies to disclose in their financial statements. The amendments are to be applied prospectively and are effective for annual periods beginning on or after January 1, 2023. Earlier application is permitted. The Company does not expect the revisions to have a material impact on its consolidated financial statements at the time of adoption.

IAS 8, *"Accounting Policies, Changes in Accounting Estimates and Errors"* ("IAS 8") – IAS 8 has been amended to introduce the definition of an accounting estimate and include other amendments to help entities distinguish changes in accounting estimates from changes in accounting policies. The amendments are effective for annual periods beginning on or after January 1, 2023 and changes in accounting policies and changes in accounting estimates that occur on or after the start of that period. Earlier application is permitted. The Company does not expect the amendment to have a material impact on its consolidated financial statements at the time of adoption.

IAS 16, *"Property, Plant and Equipment"* ("IAS 16") – IAS 16 has been amended to prohibit a company from deducting from the cost of property, plant and equipment amounts received from selling items produced while the company is preparing the asset for its intended use. Instead, a company will recognize such sales proceeds and related cost in profit or loss. The amendments are effective for annual periods beginning on or after January 1, 2022. Earlier application is permitted. The Company does not expect the amendment to have a material impact on its consolidated financial statements at the time of adoption.

IAS 37, *"Provisions, Contingent Liabilities and Contingent Assets"* ("IAS 37") - IAS 37 has been amended to clarify that for the purpose of assessing whether a contract is onerous, the cost of fulfilling the contract includes both the incremental costs of fulfilling that contract and an allocation of other costs that relate directly to fulfilling contracts. The amendments are effective for annual periods beginning on or after January 1, 2022. Earlier application is permitted. The Company does not expect the amendment to have a material impact on its consolidated financial statements at the time of adoption.

(Amounts Expressed in United States Dollars)

4. INVENTORY

As of December 31, 2021 and 2020, inventory consists of the following:

	2021	2020
Raw materials	$ 227,454	$ 78,778
Work-in-Process	108,317	59,333
Finished goods - cannabis related products	2,488,761	6,474,689
Total inventory	**$ 2,824,532**	**$ 6,612,800**

During the years ended December 31, 2021 and 2020, inventory and inventoriable costs expensed to cost of goods sold were $24,222,043 and $23,391,034, respectively.

5. PROPERTY AND EQUIPMENT

A reconciliation of the beginning and ending balances of property and equipment for the year ended December 31, 2021 as follows:

	Buildings	Office equipment and software	Machinery and equipment	Right-of-use asset (1)	Vehicles	Construction in progress	Total
Cost							
Balance as of January 1, 2021	$ 14,278,132	$ 88,299	$ 2,636,739	$ 1,096,950	$ 233,263	$ 94,050	$ 18,427,433
Additions	104,585	79,192	352,110	-	-	1,547,048	2,082,935
Disposals and transfers	(130,378)	-	-	-	-	-	(130,378)
Balance as of December 31, 2021	**$ 14,252,339**	**$ 167,491**	**$ 2,988,849**	**$ 1,096,950**	**$ 233,263**	**$ 1,641,098**	**$ 20,379,990**
Accumulated Depreciation							
Balance as of January 1, 2021	$ (1,563,248)	$ (34,645)	$ (381,365)	$ (255,955)	$ (41,397)	$ -	$ (2,276,610)
Depreciation	(957,249)	(32,091)	(281,338)	(109,695)	(29,158)	-	(1,409,531)
Balance as of December 31, 2021	**$ (2,520,497)**	**$ (66,736)**	**$ (662,703)**	**$ (365,650)**	**$ (70,555)**	**$ -**	**$ (3,686,141)**
Net Book Value							
December 31, 2021	**$ 11,731,842**	**$ 100,755**	**$ 2,326,146**	**$ 731,300**	**$ 162,708**	**$ 1,641,098**	**$ 16,693,849**

(Amounts Expressed in United States Dollars)

5. PROPERTY AND EQUIPMENT *(Continued)*

A reconciliation of the beginning and ending balances of property and equipment for the year ended December 31, 2020 as follows:

	Buildings	Office equipment and software	Machinery and equipment	Right-of-use asset (1)	Vehicles	Construction in progress	Total
Cost							
Balance as of January 1, 2020	$ 13,570,549	$ 64,258	$ 2,135,686	$ 1,096,950	$ 250,536	$ -	$ 17,117,979
Additions	707,583	24,041	501,053	-	20,416	94,050	1,347,143
Disposals and transfers	-	-	-	-	(37,689)	-	(37,689)
Balance as of December 31, 2020	**$ 14,278,132**	**$ 88,299**	**$ 2,636,739**	**$ 1,096,950**	**$ 233,263**	**$ 94,050**	**$ 18,427,433**
Accumulated Depreciation							
Balance as of January 1, 2020	$ (588,579)	$ (16,228)	$ (149,111)	$ (146,260)	$ (18,966)	$ -	$ (919,144)
Depreciation	(974,669)	(18,417)	(232,254)	(109,695)	(22,431)	-	(1,357,466)
Balance as of December 31, 2020	**$ (1,563,248)**	**$ (34,645)**	**$ (381,365)**	**$ (255,955)**	**$ (41,397)**	**$ -**	**$ (2,276,610)**
Net Book Value							
December 31, 2020	**$ 12,714,884**	**$ 53,654**	**$ 2,255,374**	**$ 840,995**	**$ 191,866**	**$ 94,050**	**$ 16,150,823**

(1) See "Note 7 – Lease Liabilities" for further information

Depreciation expense of nil and nil, respectively, was included in cost of goods sold for the years ended December 31, 2021 and 2020.

6. ACCOUNTS PAYABLE AND OTHER ACCRUED LIABILITIES

As of December 31, 2021 and 2020, accounts payable and other accrued liabilities consisted of:

	2021	2020
Accounts payable	$ 1,049,808	$ 1,563,875
Accrued liabilities	1,036,942	1,314,765
Total accounts payable and other accrued liabilities	**$ 2,086,750**	**$ 2,878,640**

7. LEASE LIABILITIES

A reconciliation of the beginning and ending balance of lease liabilities for the years ended December 31, 2021 and 2020 are as follows:

	2021	2020
Balance as of beginning of year	$ 947,883	$ 1,034,946
Interest expense accrual	118,943	126,880
Payment of principal and interest	(159,403)	(213,943)
Balance as of end of year	**907,423**	**947,883**
Less current portion of lease liabilities	(82,840)	(67,528)
Lease liabilities, net of current portion	**$ 824,583**	**$ 880,355**

(Amounts Expressed in United States Dollars)

7. LEASE LIABILITIES *(Continued)*

The weighted average discount rate applied to the leases for the years ended December 31, 2021 and 2020 was 12.57% and 12.57%, respectively. The weighted average remaining terms of the leases as of December 31, 2021 and 2020 was 6.6 years and 7.7 years, respectively. Total future payments under lease agreements are further disclosed in "*Note 14 – Financial Instruments and Financial Risk Management*".

Finance Liability

In June 2019, the Company sold and subsequently leased back equipment with third parties resulting in total gross proceeds of approximately $2,130,000, fees of $153,800 as well as warrants issued to the lessor for the lease of equipment. The Company determined that this sale did not qualify as a sale under IFRS 15, "*Revenue Contracts with Customers"*, due to prohibited continuous involvement in the assets sold by the Company. Accordingly, the "sold" assets remained within equipment for the duration of the lease and a finance liability equal to the amount of the proceeds received, less fees and the fair value of the warrants issued, was recorded as a finance liability on the Consolidated Statements of Financial Position. See "*Note 12 - Share-based Compensation*" for further discussion on the warrants issued.

A reconciliation of the beginning and ending balance of the finance liability for the years ended December 31, 2021 and 2020 is as follows:

	2021	2020
Balance as of beginning of year	$ 1,536,388	$ 1,881,698
Interest expense accrual	200,329	268,685
Payment of principal and interest	(728,733)	(613,995)
Balance as of end of year	**1,007,984**	**1,536,388**
Less unamortized discount	(125,147)	(285,542)
Finance liability, net of discount	882,837	1,250,846
Less current portion of lease liabilities	(509,767)	(368,009)
Finance liability, net of current and discount	**$ 373,070**	**$ 882,837**

The weighted average discount rate applied to the finance leases for the years ended December 31, 2021 and 2020 was 33.03% and 33.03%, respectively. The weighted average remaining terms of the leases as of December 31, 2021 and 2020 was 1.3 years and 2.4 years, respectively. Total future payments under finance lease agreements are further disclosed in "*Note 14 – Financial Instruments and Financial Risk Management*".

8. DERIVATIVE LIABILITIES

During June 2019, the Company entered into a private placement financing by issuing approximately $14,671,000 senior secured convertible debentures (see *"Note 10 - Convertible Debentures"*) and 14,671 share purchase warrants that contain a non-fixed conversion ratio into the Company's shares and exercise price, respectively.

During April 2020 through November 2020, the Company entered into a private placement financing by issuing approximately $180,000 unsecured convertible debentures (see *"Note 10 - Convertible Debentures"*) that contain a non-fixed conversion ratio into the Aya Biosciences, Inc.'s ("Aya") shares. On February 4, 2021, all of the outstanding balance of unsecured convertible debentures were converted into shares of preferred series A stock of Aya.

(Amounts Expressed in United States Dollars)

8. DERIVATIVE LIABILITIES *(Continued)*

In accordance with IAS 32, "*Financial Instruments",* a contract to issue a variable number of equity shares fails to meet the definition of equity. Accordingly, such a contract or instrument would be accounted for as a derivative liability and measured at fair value with changes in fair value recognized in the Consolidated Statement of Operations and Comprehensive Loss at each period-end.

The Company used Monte Carlo and other option pricing models to estimate the fair value of the derivative liabilities for the senior secured convertible debentures and unsecured convertible debentures, respectively. Both the Monte Carlo and other option pricing models use Level 3 inputs in its valuation model.

The following assumptions were used by management to determine the fair value of the derivative liabilities during the years ended December 31, 2021 and 2020:

	2021	2020
Expected Stock Price Volatility	63.00%	91.00%
Risk-Free Annual Interest Rate	0.08%	0.12%
Expected Life (Years)	0.43	1.43
Share Price	$ 2.64	$ 1.55

A reconciliation of the beginning and ending balance of derivative liabilities and change in fair value of the derivative liabilities for the years ended December 31, 2021 and 2020 is as follows:

	2021	2020
Balance as of beginning of year	$ 3,185,069	$ 3,603,765
Initial recognition of derivative liabilities:		
Senior secured convertible debentures penalty	-	427,246
Conversion to equity: senior secured convertible debentures	(569,175)	(1,170,754)
Conversion of accrued interest to paid-in-kind interest:		
Senior secured convertible debentures	113,078	130,865
Initial recognition of derivative liabilities:		
Convertible debentures	-	180,000
Loss on issuance of derivative liability	-	389,175
Change in Fair Value	(215,291)	(375,228)
Balance as of end of year	**2,513,681**	**3,185,069**
Less derivative liabilities, short term	-	(569,175)
Derivative liabilities, long term	**$ 2,513,681**	**$ 2,615,894**

(Amounts Expressed in United States Dollars)

9. NOTES PAYBALE

As of December 31, 2021 and 2020, notes payable consisted of the following:

	2021	2020
Secured promissory notes dated November 2018 through October 2019 issued to finance equipment acquisitions which mature from December 2023 through October 2024, and bear interest of 7.64% to 11.44% with principal and interest payments due monthly.	$ 84,459	$ 111,026
Small Business Administration loan which bears interest at 1% with interest payments due monthly.	10,000	10,000
Promissory notes dated May 2020 and November 2020 related to the Paycheck Protection Program, bears interest at 1% and was subsequently forgiven in 2021.	-	608,367
Total notes payable	94,459	729,393
Less current portion of notes payable	(40,571)	(37,692)
Total notes payable, net of current	**$ 53,888**	**$ 691,701**

A reconciliation of the beginning and ending balances of notes payable for the years ended December 31, 2021 and 2020 is as follows:

	2021	2020
Balance as of beginning of year	$ 729,393	$ 167,539
Cash additions	-	618,367
Forgiveness of notes	(611,430)	-
Cash repayments	(23,504)	(56,513)
Balance as of end of year	**$ 94,459**	**$ 729,393**

In October 2021, all the principal and unpaid interest related to the Company's Paycheck Protection Program note payable was forgiven.

10. CONVERTIBLE DEBENTURES

As of December 31, 2021 and 2020, convertible debentures consisted of the following:

	2021	2020
Senior secured convertible promissory debentures dated June 2019, which matures on June 6, 2022, and bears interest at a rate of 9.0% with interest paid-in-kind. For holders who selected the interest paid-in-kind option, the interest rate is 10.0%.	$ 13,859,565	$ 13,157,421
Unsecured convertible promissory debentures dated April 2020 through November 2020 which matures on its first anniversary, and bears interest at 8.0%, with principal and interest payments due at maturity.	-	180,000
Total convertible debentures	13,859,565	13,337,421
Less unamortized discount	(1,193,297)	(3,497,796)
Total convertible debentures, net of discount	12,666,268	9,839,625
Less current portion of convertible debentures, net of discount	(12,666,268)	(25,820)
Total convertible debentures, net of current and discount	**$ -**	**$ 9,813,805**

(Amounts Expressed in United States Dollars)

10. CONVERTIBLE DEBENTURES *(Continued*

A reconciliation of the beginning and ending balances of convertible debentures for the years ended December 31, 2021 and 2020 is as follows:

	2021	2020
Balance as of beginning of year	$ 9,839,625	$ 11,088,228
Cash additions	-	180,000
Derivative component of debentures	(113,806)	(738,268)
Paid-in-kind interest	780,049	746,160
Derecogntion of debt and discount due to conversion	(49,076)	(3,339,420)
Change in debt discount due to modification	-	287,586
Amortization of debt discount	2,209,476	1,615,339
Balance as of end of year	**$ 12,666,268**	**$ 9,839,625**

Senior Debentures

On June 6, 2019, the Company entered into a convertible senior secured debenture (the "Senior Debentures") in an aggregate principal amount not to exceed $35,000,000 with accredited investors and qualified institutional buyers wherein the Senior Debentures shall mature on June 6, 2022 and bear interest at a rate of 9.0%. The Senior Debentures are to be issued from time to time at the election of the Company pursuant to one or more subscription agreements.

The Senior Debentures contain two conversion features wherein the conversion rate is equal to $1,000 principal amount of debentures divided by the conversion price, which is the lesser of (i) the price that is a 25% discount to the liquidity event price and (ii) the price determined based on a pre-money enterprise value of the Company of $150,000,000. The initial conversion rate shall be determined immediately upon the consummation of a liquidity event and shall be subject to adjustment.

In the event that a liquidity event, as defined in the Senior Debentures agreement, is consummated, holders have the right, at the holder's option, to convert all or any portion of their Senior Debentures into the Company's common shares (the "Optional Conversion"). Additionally, at the Company's election, the Company has the right to convert all outstanding debentures into common shares if all of the following conditions are satisfied, with no further action by the holders (the "Mandatory Conversion"):

(i) A liquidity event has been consummated;
(ii) The liquidity event price is at least 100% greater than the conversion price;
(iii) The common shares are listed on a recognized Canadian stock exchange or a national U.S. stock exchange; and
(iv) The daily VWAP of the common share is 20% greater than the liquidity event price for at least 10 consecutive trading days immediately prior to the date of the Company's conversion notice.

The Company may issue up to $3,500,000 aggregate principal amount of debentures without the consent of or notice to the holders in the event a Liquidity Event is not consummated on or prior to June 6, 2020. Pursuant to the Agency Agreement, in the event a liquidity event has not occurred by June 6, 2020, the Company will issue additional Debenture Units in an aggregate principal amount equal to 10% of the aggregate number of Debenture Units initially issued to the purchaser as a penalty. In June 2020, the Company issued additional Senior Debentures totaling $1,467,000 as a result of this provision. In connection with the additional debentures issued, the Company recognized a derivative liability of $427,246 and also recorded an offsetting debt discount

10. CONVERTIBLE DEBENTURES *(Continued)*

In December 2019, the Company reached an agreement with certain holders of the Senior Debentures to restructure the interest payments otherwise due on December 1, 2019 as payment-in-kind ("PIK"). The PIK feature resulted in the Company issuing such holders an additional debenture in a principal amount equal to their portion of accrued and unpaid interest as of December 1, 2019. Accordingly, on December 1, 2019, a total of $341,775 in PIK interest was added to the principal balance of the Senior Debentures.

In May 2020, the Company proposed two options to its Senior Debenture holders: (i) the Conversion Option and (ii) the PIK Option (the "2020 Amendment"). Under the Conversion Option, the Company offered its debtholders the opportunity to convert all outstanding Senior Debentures including all accrued interest as of June 1, 2020. The total amount would be converted into common shares based on a pre-conversion equity value of the Company of $78,000,000. The warrants issued in connection with the original subscription agreement will be preserved and not affected by the Conversion Option. Accordingly, on June 1, 2020, a portion of the holders elected the Conversion Option resulting in the conversion of principal in the amount of $4,068,769 into 3,229,180 shares at a conversion rate of $1.26 per share.

Under the PIK Option, the Company offered its Senior Debenture holders the option to accept payment-in-kind for all interest payments due through maturity. In lieu of cash payments, any interest beginning June 1, 2020 would be added to the principal amount of the debt. This would include any interest due on the Additional Debentures. If the PIK Option is elected, the total principal will accrue interest at an increased rate of 10% per annum effective June 1, 2020. Payment-in-kind interest added to the principal debt balance is also convertible. Accordingly, a portion of the holders elected the PIK Option resulting in $746,160 of payment-in-kind interest added to the principal balance.

The remaining Senior Debenture holders did not elect either option, and their Senior Debentures remain unchanged.

The 2020 Amendment was determined not to be a significant modification that would result in extinguishment accounting pursuant to IFRS 9, "*Financial Instruments"*. A loss on modification was recognized of $1,530,821 was recognized in the consolidated statement of operations for the 2020 Amendment. The loss on modification was comprised of $1,243,235 related to the inducement to convert ("Inducement Expense") and $287,586 related to the change in the amortized cost ("Amortized Cost Expense"). The Inducement Expense is calculated as the difference, at the date the terms are amended for the 2020 Amendment, between the fair value of the consideration the Senior Debenture holder received on conversion under the revised terms and the fair value of the consideration the holder would have received under the original term in accordance with International Accounting Standards 32, *Financial Instruments*. The Amortized Cost Expense is calculated as the difference in the amortized cost under the previous terms of the Senior Debenture and the modified terms for the 2020 Amendment in accordance with IFRS 9.

Effective June 6, 2022, the Company amended its Senior Debentures as part of a restructuring support agreement with Icanic Brands (the "Modification"). The Modification provides for 25% of the outstanding principal and accrued unpaid interest to be settled in cash with the remaining 75% settled in new convertible debentures which bear interest at 11% and convert into units at $0.10 with each unit comprised of an Icanic Brands common share and share purchase warrant exercisable into Icanic Brands common share at a price of $0.10 per share for a period of 24 months from the date of conversion. See "*Note 18 – Subsequent Events*" for further information.

10. CONVERTIBLE DEBENTURES *(Continued)*

In connection with the issuance of the Senior Debentures, share purchase warrants ("Senior Warrants") exercisable into common shares based on its issue price divided by its conversion price were also issued. The conversion price is equal to the lesser of: (A) the price that is a 25% discount to the liquidity event price and (B) the price determined based on a certain value. The exercise price is a price per common share which is 50% greater than the conversion price. The exercise price is subject to adjustment in the event of a common share reorganization, rights offering, special distribution, or capital reorganization. The warrants are exercisable upon the occurrence of a liquidity event, as defined in the Senior Warrant agreement, and the exercise period is the 24 months following the liquidity event date, provided that if a liquidity event has not occurred within five (5) years from the initial closing date of this offering, the warrants shall expire. The aggregate value of these warrants were determined to be de minimis. The embedded conversion feature of the Senior Debentures has been deemed to be a derivative. See Note 8 for further details.

Unsecured Debentures

From April 3, 2020 through November 19, 2020, Aya entered into convertible unsecured promissory notes (the "Unsecured Debentures") in an aggregate principal amount of $180,000 with investors and mature on the Unsecured Debentures first anniversary and bear interest at a rate of 8.0%. The Unsecured Debentures cannot be prepaid in whole or part.

In January 2021, Aya received proceeds of $4,883,000 through the issuance 2,639,459 of Series A Preferred Stock to non-controlling interest holders. As a result of this transaction, the total outstanding principal and unpaid accrued interest of the Unsecured Debentures totaling $189,735, less unamortized discount of $139,934, and the fair value of the conversion option of $569,175 automatically converted into 410,216 Series A Preferred Stock of Aya.

The Unsecured Debentures contain three conversion features: 1) Automatic Conversion – The first conversion is automatic on the issuance and sale of Aya's Class A-1 Common Membership Interest Units ("Common Units") at a price per Common Unit (the "Offering Price") that represents a certain valuation of the Aya ("Qualified Financing"). The number of Common Units issued upon such conversion shall be equal to the quotient obtained by dividing the outstanding balance (including both the principal and unpaid accrued interest) on the date of conversion by a conversion price (the "Automatic Conversion Price") equal to 25% of the Offering Price. The terms of the issuance of Common Units from the Automatic Conversion will be the same as the Common Units issued on a Qualified Financing. 2) Optional Conversion – the holders have the right, at the holder's option, at any time prior to the Automatic Conversion to convert all or any portion of their Unsecured Debentures outstanding balance into Common Units at a conversion price equal to 25% of the fair value of Aya's Common Units as determined by Aya's Board of Managers (the "Fair Value"). 3) Maturity Conversion – the holders have the right, at the holder's option, at any time on or after the Maturity Date to convert all and not less than all of their Unsecured Debentures outstanding balance into Common Units at a conversion price equal to 25% of the Fair Value of Aya's Common Units. In no event is the aggregate number of Common Units issuable upon the conversion with all other convertible promissory notes of like tenor exceed 12.5% of the total issued and outstanding common membership interest units of all classes of Aya.

As a result of the non-fixed number of shares the Senior Debentures, Unsecured Debentures and Senior Warrants can be converted or exercised into, these features were recognized as a derivative liability (see *"Note 8 – Derivative Liabilities"*).

11. SHAREHOLDERS' EQUITY

The Company has 250,000,000 shares of common stock ("Common Stock") authorized with a par value of $0.001 per share. Holders of Common Stock are entitled to notice of and to attend any meeting of the shareholders of the Company. At each such meeting, holders are entitled to one vote in respect to each share of Common Stock held.

(Amounts Expressed in United States Dollars)

11. SHAREHOLDERS' EQUITY *(Continued)*

Aya has 10,000,000 and 20,000,000 shares of preferred and common stock authorized, respectively, with each share having a par value of $0.0001. The 3,049,677 shares of outstanding Aya preferred stock has a $1.85 per share liquidation preference subject to adjustment for stock splits, stock dividends, combinations, recapitalizations or the like.

12. SHARE-BASED COMPENSATION

Warrants

A reconciliation of the beginning and ending balance of warrants outstanding is as follows:

	Warrants
Balance as of January 1, 2020	**525,871**
Issued	1,467
Balance as of December 31, 2021 and 2020	**527,338**

The following table summarizes the warrants outstanding that remain outstanding as of December 31, 2021 and 2020:

Expiration Date	Number of Warrants	Exercise Price
June 7, 2024	511,200	$ 1.00
June 6, 2024 [1]	16,138	Variable [1]
Total warrants outstanding	**527,338**	

[1] As a result of a liquidity event on April 20, 2022, the expiration date and exercise price were modified to April 20, 2024 and $0.2248 per warrant, respectively, in accordance with the original terms of the warrant agreement. See "*Note 18 – Subsequent Events*" for further information.

As of December 31, 2021 and 2020, 511,200 and 511,200 warrants, respectively, were able to be exercised.

The fair value of warrants exercisable for Common Shares that were classified as equity was determined using the Black-Scholes option-pricing model with the following assumptions on the date of issuance:

	2021	2020
Expected Stock Price Volatility	106.00%	106.00%
Risk-Free Annual Interest Rate	2.07%	2.07%
Expected Life (Years)	4.00	5.00
Share Price	$ 1.00	$ 1.00
Exercise Price	$ 1.00	$ 1.00

Stock price volatility was estimated by using the historical volatility of public companies comparable to the Company. Through the years ended December 31, 2021 and 2020, volatility was estimated by using a third-party valuation specialist. The expected life in years represents the period of time that warrants issued are expected to be outstanding. The risk-free rate was based on U.S. Treasury bills with a remaining term equal to the expected life of the warrants.

(Amounts Expressed in United States Dollars)

12. SHARE-BASED COMPENSATION *(Continued)*

As of December 31, 2021 and 2020, warrants outstanding classified as equity have a weighted-average remaining contractual life of 2.6 and 3.6 years, respectively.

2019 Stock incentive plan

The omnibus 2019 stock incentive plan permits the Board of Directors of the Company to grant options to employees and non-employees to acquire common shares of the Company at fair market value on the date of approval by the Board of Directors. Vesting is determined on an award-by-award basis.

The following table summarizes 2019 stock incentive plan activity during the years ended December 31, 2021 and 2020:

	Number of Stock Options		Weighted - Average Exercise
Balance as of January 1, 2020	**13,193,661**	$	0.81
Granted	2,329,422	$	0.59
Forfeited	(4,630,006)	$	(0.81)
Balance as of December 31, 2020	**10,893,077**	$	0.76
Granted	1,481,808	$	1.32
Forfeited	(1,471,852)	$	(0.81)
Balance as of December 31, 2021	**10,903,033**	$	0.83

(Amounts Expressed in United States Dollars)

12. SHARE-BASED COMPENSATION *(Continued)*

The following table summarizes the stock options that remain outstanding as of December 31, 2021:

Exercise Price	Expiration Date	Stock Options Outstanding	Stock Options Exercisable	Vesting Condition
$ 0.81	March 2030	250,000	240,000	Performance based
$ 0.81	February 2029	211,066	211,066	Performance based
$ 0.81	October 2022	125,000	125,000	Performance based
$ 0.81	January 2022	12,000	12,000	Immediate vesting
$ 0.81	February 2022	1,000	1,000	Immediate vesting
$ 0.81	October 2022	2,000	2,000	Immediate vesting
$ 0.81	April 2023	1,000	1,000	Immediate vesting
$ 0.81	January 2030	70,356	70,356	Immediate vesting
$ 0.81	July 2022	50,000	50,000	Two year vesting
$ 0.81	June 2029	1,500,000	500,000	Performance based
$ 0.81	February 2029	943,432	943,432	Performance based
$ 0.81	July 2029	2,251,370	2,251,370	Immediate vesting
$ 0.81	October 2023	31,125	10,374	Three year vesting
$ 0.81	September 2029	20,000	6,660	Three year vesting
$ 0.81	February 2029	135,880	107,855	Three year vesting
$ 0.81	February 2029	30,000	30,000	One year vesting
$ 0.81	February 2029	712,088	712,088	Two year vesting
$ 0.81	February 2029	1,828,554	1,828,554	25% on initial date, 25% over 3 years
$ 0.81	February 2029	135,577	135,577	Immediate vesting
$ 0.81	February 2029	210,777	210,777	Three year vesting
$ 0.01	October 2030	700,000	700,000	One year vesting
$ 1.26	April 2023	100,000	25,000	25% on initial date, 25% over 3 years
$ 1.26	October 2030	100,000	100,000	Performance based
$ 1.21	January 2031	10,000	2,500	Two year vesting
$ 1.31	June 2031	200,000	16,667	Three year vesting with performance acceleration
$ 1.32	July 2031	86,933	-	Three year vesting
$ 1.32	October 2031	1,116,750	-	Two year vesting
$ 1.32	October 2031	25,000	25,000	Immediate vesting
$ 1.21	December 2030	10,000	10,000	Performance based
$ 1.32	October 2022	33,125	33,125	Immediate vesting
		10,903,033	**8,361,401**	

(Amounts Expressed in United States Dollars)

12. SHARE-BASED COMPENSATION *(Continued)*

For the years ended December 31, 2021 and 2020, the fair value of stock options granted was determined using the Black-Scholes option-pricing model with the following assumptions at the time of grant:

	2021	2020
Weighted-Average Risk-Free Annual Interest Rate	1.31%	0.82%
Weighted-Average Expected Annual Dividend Yield	0.00%	0.00%
Weighted-Average Expected Stock Price Volatility	66.60%	103.19%
Weighted-Average Expected Life of Stock Options (Years)	5.77	3.56
Weighted-Average Expected Forfeiture Rate	41.60%	41.60%

The intrinsic value of the aggregate outstanding options as of December 31, 2021 and 2020 were $10,349,847 and $3,491,236, respectively.

13. PROVISION FOR INCOME TAXES AND DEFERRED INCOME TAXES

As the Company operates in the cannabis industry, the Company is subject to the limits of IRC Section 280E for U.S. federal income tax purposes under which the Company is only allowed to deduct expenses directly related to sales of product. This results in permanent differences between ordinary and necessary business expenses deemed non-allowable under IRC Section 280E.

The Company intends to be treated as a United States corporation for United States federal income tax purposes under section 7874 of the U.S. Tax Code and is expected to be subject to United States federal income tax.

Federal and California tax laws impose significant restrictions on the utilization of net operating loss carryforwards in the event of a change in ownership of the Company, as defined by Internal Revenue Code Section 382 (Section 382). The Company does not believe a change in ownership, as defined by Section 382, has occurred but a formal study has not been completed. The Company has net operating loss carryforwards for California income tax purposes of approximately $18,027,000 and $13,934,000, respectively, as of December 31, 2021 and 2020. The state net operating loss carryforwards, if not utilized, will expire beginning in 2042 as of December 31, 2021.

Effective October 2021, the Small Business Administration provided the Company with forgiveness of its Paycheck Protection Program ("PPP") debt. Section 1106 (i) of The Coronavirus Aid, Relief, and Economic Security Act (CARES Act) excludes forgiven PPP loans from taxable income as tax-exempt income. Management believes that the loan forgiveness is outside the scope of IRC 280E and is not taxable, and only expenses incurred from use of these funds that are subject to IRC 280E would be disallowed. The State of California conforms to section 1106 (i) of the CARES Act.

Provision for income taxes consists of the following for the years ended December 31, 2021 and 2020:

	2021	2020
Current:		
Federal	$ 1,664,935	$ 1,374,019
State	17,760	-
Total current	1,682,695	1,374,019
Deferred:		
Federal	(1,897)	(8,524)
Total deferred	(1,897)	(8,524)
Total provision for income taxes	**$ 1,680,798**	**$ 1,365,495**

(Amounts Expressed in United States Dollars)

13. PROVISION FOR INCOME TAXES AND DEFERRED INCOME TAXES *(Continued)*

As of December 31, 2021 and 2020, the components of deferred tax assets and liabilities is as follows:

	2021	2020
Deferred tax assets:		
Reserves	10,421	8,524
Total deferred tax assets, net	**$ 10,421**	**$ 8,524**

The reconciliation between the effective tax rate on income from continuing operations and the statutory tax rate for the years ended December 31, 2021 and 2020 is as follows:

	2021	2020
Expected income tax benefit at statutory tax rate	$ (1,270,081)	$ (1,654,591)
Changes in income taxes resulting from:		
State taxes (net of federal tax benefits)	(244,068)	(482,599)
Tax benefit of losses not recognized	772,986	844,011
Stock compensation	274,774	381,735
Debt discount/interest	506,207	330,869
Permanent non-deductible	1,769,131	1,952,987
Other	(128,151)	(6,917)
Total income tax expense	**$ 1,680,798**	**$ 1,365,495**

14. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

Financial Instruments

Financial instruments recorded at fair value are classified using a fair value hierarchy that reflects the significance of the inputs to fair value measurements. The three levels of hierarchy are:

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;
Level 2 – Inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly; and
Level 3 – Inputs for the asset or liability that are not based on observable market data.

Financial instruments are measured at amortized cost or at fair value. Financial instruments measured at amortized cost consist of accounts receivable, and accounts payable and accrued liabilities wherein the carrying value approximates fair value due to its short-term nature. Other financial instruments measured at amortized cost include notes payable, lease liabilities, and convertible debentures wherein the carrying value at the effective interest rate approximates fair value as the interest rate for notes payable and the interest rate used to discount the host debt contract for convertible debentures approximate a market rate for similar instruments offered to the Company.

Cash are measured at Level 1 inputs. Derivative assets and derivative liabilities are measured at fair value based on the Monte Carlo and Black-Scholes option-pricing model, which uses Level 3 inputs. Convertible debentures are measured at fair value based on the Monte Carlo and Black-Sholes simulation model, which uses Level 3 inputs.

(Amounts Expressed in United States Dollars)

14. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT *(Continued)*

The following table summarizes the Company's financial instruments as of December 31, 2021:

	Amortized Cost	FVTPL	Total
Financial assets:			
Cash	$ -	$ 7,513,371	$ 7,513,371
Accounts receivable	$ 1,841,421	$ -	$ 1,841,421
Financial liabilities:			
Accounts payable and other accrued liabilities	$ 2,086,750	$ -	$ 2,086,750
Convertible debentures	$ -	$ 12,666,268	$ 12,666,268
Notes payable	$ 94,459	$ -	$ 94,459
Derivative liabilities	$ -	$ 2,513,681	$ 2,513,681
Lease liabilities	$ 907,423	$ -	$ 907,423
Finance lease liabilities	$ 882,837	$ -	$ 882,837

The following table summarizes the Company's financial instruments as of December 31, 2020:

	Amortized Cost	FVTPL	Total
Financial assets:			
Cash	$ -	$ 1,119,851	$ 1,119,851
Accounts receivable	$ 1,618,877	$ -	$ 1,618,877
Financial liabilities:			
Accounts payable and other accrued liabilities	$ 2,878,640	$ -	$ 2,878,640
Convertible debentures	$ -	$ 9,839,625	$ 9,839,625
Notes payable	$ 729,393	$ -	$ 729,393
Derivative liabilities	$ -	$ 3,185,069	$ 3,185,069
Lease liabilities	$ 947,883	$ -	$ 947,883
Finance lease liabilities	$ 1,250,846	$ -	$ 1,250,846

Financial Risk Management

The Company is exposed to varying degrees to a variety of financial instrument related risks. The Board approves and monitors the risk management processes, inclusive of counterparty limits, controlling and reporting structures. The type of risk exposure and the way in which such exposure is managed is provided as follows:

Credit risk

Credit risk is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations. Financial instruments that potentially subject the Company to significant concentrations of credit risk consist primarily of cash, and receivables. The Company's cash is held through United States financial institutions and no losses have been incurred in relation to these items.

The Company's receivables are comprised of trade accounts receivable, unbilled revenues, and term note receivables. As of December 31, 2021 and 2020, the Company has approximately $1,394,000 and $2,265,000, respectively, $138,000 and $18,500, respectively, $607,000 and $133,600, respectively, in trade accounts receivable outstanding 0-60 days, 61-90 days and over 90 days, respectively. The expected credit loss for overdue balances as of December 31, 2021 and 2020 is estimated to be approximately $322,000 and $684,000, respectively, based on subsequent collections, discussions with associated customers and analysis of the credit worthiness of the customer.

(Amounts Expressed in United States Dollars)

14. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT *(Continued)*

As of December 31, 2021 and 2020, the Company has a promissory note receivable for approximately $326,000 and $130,700, respectively, from a California licensed producer and included as a component of other assets in the Consolidated Statements of Financial Position. As security for the promissory note the Company holds second ranking security interest, to the senior lender, over the licensed producers' assets.

The carrying amount of cash, promissory note receivable, and trade and other receivables represent the maximum exposure to credit risk. As of December 31, 2021 and 2020, the net amount of maximum exposure risk was approximately $9,840,000 and $2,984,000, respectively.

Economic dependence risk

Economic dependence risk is the risk of reliance upon a select number of customers which significantly impact the financial performance of the Company. The Company recorded sales from a customer of the Company representing approximately 10% and 10% of total revenue during the years ended December 31, 2021 and 2020, respectively. As of December 31, 2021 and 2020, the Company had $234,100 in the form of a note receivable and nil amounts due from this customer, respectively.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations associated with financial liabilities. The Company manages liquidity risk through the management of its capital structure. The Company's approach to managing liquidity is to ensure that it will have sufficient liquidity to settle obligations and liabilities when due.

The Company has the following contractual obligations as of December 31, 2021:

	< 1 Year	1 to 3 Years	3 to 5 Years	> 5 Years	TOTAL
Accounts payable and other accrued liabilities	$ 2,086,750	$ -	$ -	$ -	$ 2,086,750
Convertible debentures, net of discount	$ 12,666,268	$ -	$ -	$ -	$ 12,666,268
Notes payable	$ 40,571	$ 53,888	$ -	$ -	$ 94,459
Derivative liabilities	$ -	$ 2,513,681	$ -	$ -	$ 2,513,681
Lease liabilities	$ 82,840	$ 348,262	$ 339,441	$ 136,880	$ 907,423
Finance lease liabilities	$ 509,767	$ 373,070	$ -	$ -	$ 882,837

The Company has the following contractual obligations as of December 31, 2020:

	< 1 Year	1 to 3 Years	3 to 5 Years	> 5 Years	TOTAL
Accounts payable and other accrued liabilities	$ 2,878,640	$ -	$ -	$ -	$ 2,878,640
Convertible debentures, net of discount	$ 25,820	$ 9,813,805	$ -	$ -	$ 9,839,625
Notes payable	$ 37,692	$ 691,701	$ -	$ -	$ 729,393
Derivative liabilities	$ 569,175	$ 2,615,894	$ -	$ -	$ 3,185,069
Lease liabilities	$ 67,528	$ 296,323	$ 291,834	$ 292,198	$ 947,883
Finance lease liabilities	$ 368,009	$ 882,837	$ -	$ -	$ 1,250,846

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Cash bear interest at market rates. The Company's financial liabilities have fixed rates of interest and therefore expose the Company to a limited interest rate fair value risk.

(Amounts Expressed in United States Dollars)

15. NON-CONTROLLING INTEREST

Non-controlling interest represents the net assets of the subsidiaries the Company does not directly own. The net assets of the non-controlling interest are represented by equity holders outside of the Company. As of December 31, 2021 and 2020, the Company holds an 51.01% and 71.66% interest, respectively, in an investment subsidiary and the third party holds a 48.99% and 28.34% minority interest, respectively. This entity is included in the financial statements with a resulting non-controlling interest reflected therein. Non-controlling interests are included as a component of shareholders' equity.

A reconciliation of the beginning and ending balances for non-controlling interest for the year ended December 31, 2021 and 2020 is as follows:

	2021	2020
Balance as of beginning of year	$ (37,381)	$ -
Cash contributions from non-controlling holders	4,883,077	108,120
Conversion of debentures to common stock	618,976	-
Share of loss	(403,759)	(145,501)
Balance as of end of year	**$ 5,060,913**	**$ (37,381)**

As of December 31, 2021 and 2020, non-controlling interest included the following amounts before intercompany eliminations:

	2021	2020
Current assets	$ -	$ 257,504
Non-current assets	-	30,574
Total assets	**$ -**	**$ 288,078**
Current liabilities	$ -	$ 96,249
Non-current liabilities	-	570,175
Total liabilities	**$ -**	**$ 666,424**
Revenues	**$ -**	**$ 12,000**
Net loss and comprehensive loss attributable to non-controlling interest	**$ (403,759)**	**$ (145,501)**

16. COMMITMENTS AND CONTINGENCIES

Contingencies

The Company's operations are subject to a variety of local and state regulations. Failure to comply with one or more of these regulations could result in fines, restrictions on its operations, or losses of permits that could result in the Company ceasing operations. While management of the Company believes that the Company is in compliance with applicable local and state regulations as of December 31, 2021 and 2020, marijuana regulations continue to evolve and are subject to differing interpretations. In addition, the use, sale, and possession of cannabis in the United States, despite state laws, is illegal under federal law. However, individual states have enacted legislation permitting exemptions for various uses, mainly for medical and industrial use but also including recreational use. As a result of the differing state and federal laws, the Company may be subject to regulatory fines, penalties or restrictions in the future.

(Amounts Expressed in United States Dollars)

16. COMMITMENTS AND CONTINGENCIES *(Continued)*

Claims and Litigation

From time to time, the Company may be involved in litigation relating to claims arising out of operations in the normal course of business. As of December 31, 2021 and 2020, there were no pending or threatened lawsuits that could reasonably be expected to have a material effect on the results of the Company's operations. As of December 31, 2021 and 2020, there are also no proceedings in which any of the Company's directors, officers or affiliates is an adverse party to the Company or has a material interest adverse to the Company's interest.

17. RELATED PARTY TRANSACTIONS

Key Management Compensation

Key management personnel are persons responsible for planning, directing and controlling activities of an entity, and include executive and non-executive persons. During the years ended December 31, 2021 and 2020, the Company recognized approximately $492,000 and $356,000, respectively, and $640,438 and $467,000, respectively, in compensation and stock based compensation, respectively, provided to key management.

Related Party Balances

For the years ended December 31, 2021 and 2020, the Company had accrued approximately $1,242,000 and $1,191,000, respectively, of expenses to a farming company that is owned by a member of management and shareholder with approximately $320,000 and $343,000, respectively, unpaid as of December 31, 2021 and 2020.

On November 2, 2021, the Company acquired 100% of the outstanding membership interests of Anderson Development SB, LLC ("ADSB") from third parties and a controlling interest holding related party in exchange for approximately $1,440,000 plus up to an additional $2,400,000 of consideration (the "Contingent Consideration") (collectively, the "Consideration"). The Consideration is payable in Common Stock. The Contingent Consideration is subject to ADSB obtaining a land use permit and a business license by August 31, 2023 that permits ADSB to conduct cannabis cultivation operations. ADSB primarily holds an option to acquire certain real property in Santa Barbara County, California. The Company determined that the acquisition of ADSB membership interest was a common control transaction and have elected to record the assets acquired and liabilities assumed at the historical book value rather than fair value with no recognition of goodwill or gain or loss. Additionally, the Company has elected to record the equity Consideration at par value and will recognize the Contingent Consideration in the consolidated financial statements only when met.

Below are the amounts recognized by the Company for the assets acquired and liabilities assumed:

Cash	$ 214,916
Accounts receivable	11,900
Prepaid expenses and deposits	102,498
Property and equipment	931,583
Accounts payable and other accrued liabilities	(65,541)
Stock subscription payable	**$ 1,195,356**

18. SUBSEQUENT EVENTS

In August 2021, the Company entered into a binding Letter of Intent ("LOI") with Icanic Brands Company, Inc ("Icanic Brands"). On April 21, 2022 Icanic Brands acquired 100% of the Common Stock in an all-stock transaction pursuant to the terms of a merger agreement among Icanic Brands, Icanic Merger Sub, Inc. ("Subco") and the Company. The Subco is a wholly-owned subsidiary of Icanic Brands. Under the terms of the merger agreement, Icanic Brands issued 758,274,035 common shares (the "Icanic Shares"), in which the shareholders of the Company are entitled to approximately 12.54755 Icanic Shares of each common Stock held. Icanic Shares are subject to lock-up restrictions, in which, one-eighth of Icanic Shares received will be released one year following the date of merger. The remaining Icanic shares are to be released in equal one-eighth installments every three months thereafter. The Company's shareholders' are entitled to receive certain contingent earn-out payments in Icanic Shares beginning on July 20, 2023 through July 20, 2025. The effects of this transactions on the Company's financial statements have not yet been determined.

In connection with merger with Icanic described above, warrants issued in connection with the Senior Debentures had its expiration date and exercise price modified to April 20, 2024 and $0.2248 per warrant, respectively, in accordance with the original terms of the warrant agreement.

On April 22, 2022, a key management executive of Aya Biosciences, Inc. was issued the option to purchase 400,000 shares of Class A-2 common stock ("Common Stock") in Aya Biosciences, Inc. Pursuant to the terms of the stock incentive award agreement, an aggregate of 400,000 Common Stock at an exercise price of $1.07 per Common Stock was granted. The option shall be immediately vested in full as of the grant date and will expire ten years after the grant date.

Effective June 6, 2022, the Company amended its Senior Debentures as part of a restructuring support agreement with Icanic Brands (the "Modification"). The Modification provides for 25% of the outstanding principal and accrued unpaid interest to be settled in cash with the remaining 75% settled in new convertible debentures which bear interest at 11% and convert into units at $0.10 with each unit comprised of an Icanic Brands common share and share purchase warrant exercisable into Icanic Brands common share at a price of $0.10 per share for a period of 24 months from the date of conversion.

SCHEDULE B

UNAUDITED INTERIM FINANCIAL STATEMENTS OF LEEF HOLDINGS, INC.

LEEF Holdings, Inc.

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
AS OF AND FOR THE THREE MONTHS ENDED
MARCH 31, 2022 AND 2021

(AMOUNTS EXPRESSED IN UNITED STATES DOLLARS)

LEEF Holdings, Inc.

Index to Condensed Interim Consolidated Financial Statements

Page(s)

Condensed Interim Consolidated Financial Statements:

LEEF Holdings, Inc.
Condensed Interim Consolidated Statements of Financial Position
As of March 31, 2022 and 2021
(Amounts Expressed in United States Dollars)

	March 31, 2022	March 31, 2021
Assets		
Current assets:		
Cash	$ 10,134,502	$ 7,359,036
Accounts receivable, net	3,130,389	2,125,690
Prepaid expenses and deposits	387,305	619,592
Deferred costs and other current assets	606,681	1,093,193
Inventory	4,356,289	4,280,249
Total current assets	18,615,166	15,477,760
Non-Current Assets:		
Property and equipment, net	16,479,276	16,016,725
Other assets	311,017	42,970
Total non-current assets	16,790,293	16,059,695
Total Assets	**$ 35,405,459**	**$ 31,537,455**
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and other accrued liabilities	$ 3,779,167	$ 3,558,727
Related party payables	513,770	342,996
Current portion of convertible debentures, net of discount	12,666,268	9,841,856
Current portion of notes payable	33,187	39,368
Lease liabilities, short term	63,399	84,727
Current portion of finance liability, net of discount	579,633	213,830
Tax payable	3,641,460	2,379,446
Deferred revenue	80,589	19,794
Total current liabilities	21,357,473	16,480,744
Non-Current Liabilities:		
Lease liabilities, net of current portion	824,583	697,115
Finance liability, net of current and discount	190,887	882,837
Notes payable, net of current	53,888	685,800
Derivative liabilities, long term	2,513,681	3,185,069
Total non-current liabilities	3,583,039	5,450,821
Total Liabilities	**24,940,512**	**21,931,565**
Shareholders' Equity:		
Common share capital	58,904	53,702
Contributed surplus	39,838,698	32,624,677
Accumulated deficit	(34,454,890)	(27,888,184)
Total equity attributable to shareholders' of Leef Holdings, Inc.	5,442,712	4,790,195
Non-controlling interest	5,022,235	4,815,695
Total Shareholders' Equity	**10,464,947**	**9,605,890**
Total Liabilities and Shareholders' Equity	**$ 35,405,459**	**$ 31,537,455**

LEEF Holdings, Inc.
Condensed Interim Consolidated Statements of Operations and Comprehensive Loss
For the Three Months Ended March 31, 2022 and 2021
(Amounts Expressed in United States Dollars)

	March 31, 2022	March 31, 2021
Net revenue	$ 7,434,173	$ 11,181,340
Cost of sales	4,484,699	8,746,556
Gross profit	2,949,474	2,434,784
Operating expenses:		
Advertising and promotion	104,170	79,489
Depreciation	319,498	466,364
Wages and salaries	514,144	842,977
Office and general expenses	317,061	280,044
Research and development expenses	(8,160)	4,943
Legal and professional fees	239,649	195,137
Insurance expenses	136,729	94,614
Excise and other taxes	22,592	55,577
Lease expenses	32,260	35,752
Travel and business development	53,699	45,076
Total operating expenses	1,731,642	2,099,973
Loss from operations	1,217,832	334,811
Other expense:		
Interest expenses	417,067	471,384
Total other expense	417,067	471,384
Loss before provision for income taxes	800,765	(136,573)
Provision for income taxes	649,675	463,341
Net loss and comprehensive loss	151,090	(599,914)
Net loss and comprehensive loss attributable to non-controlling interest	(38,678)	(30,001)
Net loss and comprehensive loss attributable to shareholders' of Leef Holdings, Inc.	**$ 189,768**	**$ (569,913)**
Basic and diluted loss per share attributable to shareholders' of Leef Holdings, Inc.	**$ 0.00**	**$ (0.01)**
Weighted average number of common shares outstanding - basic and diluted	**57,157,045**	**53,606,849**

LEEF Holdings, Inc.
Condensed Interim Consolidated Statements of Changes in Shareholders' Equity
For the Three Months Ended March 31, 2022 and 2021
(Amounts Expressed in United States Dollars)

	Common Share Capital						
	Number	$ Amount	Contributed surplus	Accumulated deficit	Total equity attributable to shareholders' of Leef Holdings, Inc.	Non-controlling interest	Total shareholders' equity
Balance as of January 1, 2021	**53,511,581**	**$ 53,511**	**$ 32,434,333**	**$ (27,318,271)**	**$ 5,169,573**	**$ (37,381)**	**$ 5,132,192**
Net loss	-	-	-	(569,913)	(569,913)	(30,001)	(599,914)
Shares issued for cash	190,535	191	190,344	-	190,535	-	190,535
Shares issued for cash to non-controlling interest holders	-	-	-	-	-	4,883,077	4,883,077
Balance as of March 31, 2021	**53,702,116**	**$ 53,702**	**$ 32,624,677**	**$ (27,888,184)**	**$ 4,790,195**	**$ 4,815,695**	**$ 9,605,890**
Balance as of January 1, 2022	**55,410,115**	**$ 55,410**	**$ 36,243,885**	**$ (34,644,658)**	**$ 1,654,637**	**$ 5,060,913**	**$ 6,715,550**
Net loss	-	-	-	189,768	189,768	(38,678)	151,090
Shares issued for cash	2,402,951	2,403	2,400,548	-	2,402,951	-	2,402,951
Shares issued for for acquisition of entity under common control	1,090,908	1,091	1,194,265	-	1,195,356	-	1,195,356
Balance as of March 31, 2022	**58,903,974**	**$ 58,904**	**$ 39,838,698**	**$ (34,454,890)**	**$ 5,442,712**	**$ 5,022,235**	**$ 10,464,947**

LEEF Holdings, Inc.
Condensed Interim Consolidated Statements of Cash Flows
For the Three Months Ended March 31, 2022 and 2021
(Amounts Expressed in United States Dollars)

	March 31, 2022	March 31, 2021
Cash flow from operating activities:		
Net loss and comprehensive loss	$ 151,090	$ (599,914)
Adjustments to reconcile net loss		
to net cash used in operating activities:		
Depreciation	319,498	466,364
Amortization of finance liability discounts	32,909	29,558
Changes in operating assets and liabilities:		
Accounts receivable, net	(1,288,968)	(506,813)
Prepaid expenses and deposits	85,558	41,603
Deferred costs and other current assets	120,140	(764,373)
Inventory	(1,531,757)	2,332,551
Other assets	-	257,889
Accounts payable and other accrued liabilities	1,692,417	680,087
Related party payables	57,695	-
Tax payable	856,574	12,848
Deferred revenue	-	(100,189)
Net cash provided by (used in) operating activities	**495,156**	**1,849,611**
Cash flows from investing activities:		
Equipment purchase	(104,925)	(332,266)
Cash acquired from acquisition of common controlled entity	-	-
Net cash used in investing activities	**(104,925)**	**(332,266)**
Cash flows from financing activities:		
Issuance of common shares	2,402,951	190,535
Issuance of shares to non-controlling holders	-	4,883,077
Repayment of notes	(7,384)	(1,994)
Repayments on finance liabilities	(145,226)	(183,737)
Repayments on lease liabilities	(19,441)	(166,041)
Net cash provided by financing activities	**2,230,900**	**4,721,840**
Net increase in cash	**2,621,131**	**6,239,185**
Cash, beginning of year	7,513,371	1,119,851
Cash, end of year	**$ 10,134,502**	**$ 7,359,036**
Cash paid during the year for:		
Interest	$ 109,023	$ 158,060
Taxes	$ 449,570	$ 463,341
Other non-cash investing and financing activities:		
Shares issued for acquisition of common control enttiy	$ 1,195,356	$ -