

BEVCANNA

BEVCANNA ENTERPRISES INC.

Consolidated Financial Statements

For the Years ended December 31, 2022 and 2021

(Expressed in Canadian Dollars)

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Shareholders of
BevCanna Enterprises Inc.

Opinion

We have audited the consolidated financial statements of BevCanna Enterprises Inc. (the Company), which comprise the consolidated statements of financial position as at December 31, 2022 and the related consolidated statements of loss and comprehensive loss, consolidated statement of changes in shareholders' equity, and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2022, and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Material Uncertainty Related to Going Concern

We draw attention to Note 1 to the financial statements, which describes events or conditions that indicate the existence of a material uncertainty that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. Other than the matter described in the Material Uncertainty Related to Going Concern section, we have determined there are no key audit matters to be communicated in our report.

Other Matter

The consolidated financial statements of BevCanna Enterprises Inc. for the year ended December 31, 2021, were audited by another auditor who expressed an unmodified opinion on those statements on August 14, 2023.

Other Information

Management is responsible for the other information, which comprises the information included in the Company's Management Discussion & Analysis to be filed with the relevant Canadian securities commissions.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the

consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

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

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 and 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.

Furthermore, our responsibilities in a Company audit are to: (i) obtain sufficient appropriate audit evidence regarding the consolidated financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements., (ii) being responsible for the direction, supervision and performance of the Company audit and (iii) 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.



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

GreenGrowthCPAs

September 7, 2023

Marko Glisic
GreenGrowth CPAs
10250 Constellation Blvd.
Los Angeles, CA 90067

BevCanna Enterprises Inc.
Consolidated Statements of Financial Position
(Expressed in Canadian dollars)

	Notes	December 31, 2022	December 31, 2021
ASSETS		\$	\$
Current			
Cash	4	135,802	230,273
Amounts receivable	5	1,193,884	861,085
Inventory	6	921,816	623,690
Prepaid expenses and deposits	8	498,995	665,542
		2,750,497	2,380,590
Property, plant and equipment	9	15,312,694	15,894,954
Intangible assets	11	3,736,078	650,658
		21,799,269	18,926,202
LIABILITIES AND SHAREHOLDERS' EQUITY			
Liabilities			
Current			
Trade payable and accrued liabilities	13, 25	9,774,315	3,204,133
Deferred revenue		55,156	28,812
ST Loan payable	17	1,693,862	-
Due to related parties	15	105,000	177,465
Promissory note	14	2,431,468	2,384,597
Convertible debentures	16	1,071,425	461,408
		15,131,226	6,256,415
Non-current			
CEBA loans	18	230,000	99,978
		230,000	99,978
Shareholders' equity			
Share capital	19	131,081,326	120,591,809
Common shares held in treasury		(5,144,671)	(5,144,671)
Obligation to issue shares	19	1,000,000	1,000,000
Reserve	19, 20, 21	26,937,324	26,590,148
Accumulated other comprehensive income (loss)		1,012	(12,008)
Deficit		(147,156,170)	(130,301,652)
Equity attribute to shareholders of the parent		6,718,821	12,723,626
Equity attribute to non-controlling interest	22	(280,778)	(153,817)
		6,438,043	12,569,809
		21,799,269	18,926,202

Nature of operations and going concern (Note 1)

Commitments and contingencies (Note 26)

Subsequent events (Notes 20, 21, 29)

Approved and authorized for issue on behalf of the Board of Directors on September 7, 2023

"Marcello Leone"
Director, Marcello Leone

"John Campbell"
Director, John Campbell

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

BevCanna Enterprises Inc.

Consolidated Statements of Loss and Comprehensive Loss (Expressed in Canadian dollars)

Year ended December 31,	Notes	2022	2021
		\$	\$
Revenue	23, 25	5,834,564	3,117,677
Cost of revenue	6, 23	4,565,347	2,249,604
Gross profit (loss)		1,269,217	868,073
Expenses			
Amortization	9	835,509	2,462,590
Bad debt	5	-	124,074
Filing expense		88,475	186,154
Investors relations		199,910	2,018,157
Marketing		338,082	1,191,036
Management fee	15	717,288	560,000
Legal fee		1,043,844	618,357
Plant operation and office expenses		1,342,067	1,009,813
Professional fee		1,891,688	2,934,281
Rent		6,393	21,000
Research and development		74,475	49,021
Salaries		1,733,725	879,212
Share-based payments	15, 20	229,724	892,243
Travel		47,467	38,935
		8,548,647	12,984,873
Other expenses (income):			
Accretion expense	16, 18	54,065	44,383
Finance cost		839,654	755,529
Foreign exchange loss (gain)		67,133	(2,678)
Government grant	18	-	(11,575)
Impairment of intangible assets	11	2,224,428	2,053,275
Impairment of goodwill	11, 12	5,986,899	74,412,859
Impairment of property, plant and equipment	9, 11	-	1,828,688
Impairment of investment deposits	8	-	530,159
Loss on marketable securities	7	-	403,898
Loss on settlement of acquisition		133,012	6,946,508
Gain on debt settlement	11	(127,027)	(131,668)
Loss (gain) on disposal of assets		523,885	(228)
		9,702,049	86,829,150
Net loss for the year		(16,981,479)	(98,945,950)
Net loss for the year attributable to:			
Shareholders of the parent		(16,854,518)	(98,877,171)
Non-controlling interest	22	(126,961)	(68,779)
Other comprehensive income (loss)			
<i>Item that may be reclassified subsequently to income or loss:</i>			
Exchange differences on the translation of foreign operation		16,394	(15,382)
Total comprehensive loss		(16,965,085)	(98,961,332)
Total comprehensive loss for the year attributable to:			
Shareholders of the parent		(16,838,124)	(98,892,553)
Non-controlling interest	22	(126,961)	(68,779)
Loss per share attributes to shareholders of the parent (basic and diluted)		(0.14)	(0.59)
Weighted average number of shares outstanding (basic and diluted)		111,743,700	166,913,642

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

BevCanna Enterprises Inc.

Consolidated Statements of Changes in Shareholders' Equity (Expressed in Canadian dollars)

	Common shares		Common shares held in treasury	Reserve	Obligation to issue shares	Accumulated other comprehensive income (loss)	Deficit	Equity attributable to shareholders of the parent	Equity attributable to non-controlling interest	Total
	Number of shares	Amount (\$)	\$	\$	\$	\$	\$	\$	\$	\$
Balance, December 31, 2020	110,467,627	44,834,949	-	6,524,418	2,046,500	3,374	(31,409,099)	22,000,142	-	22,000,142
Shares issued for cash	2,433,333	2,596,666	-	1,003,333	(696,250)	-	-	2,903,749	-	2,903,749
Shares issued for debt settlement	4,947,686	1,972,636	-	-	-	-	-	1,972,636	-	1,972,636
Shares issued for services	205,195	120,950	-	-	-	-	-	120,950	-	120,950
Shares issued for options exercised	8,960,802	6,378,443	-	(2,711,822)	(350,250)	-	-	3,316,371	-	3,316,371
Shares issued for warrants exercised	3,085,500	2,897,250	-	(1,510,500)	-	-	-	1,386,750	-	1,386,750
Conversion of convertible debt	20,000	18,754	-	(3,754)	-	-	-	15,000	-	15,000
Shares issued for acquisition	50,000,000	61,772,161	-	22,471,102	-	-	-	84,243,263	(85,038)	84,158,225
Shares returned to treasury from acquisition	-	-	(4,832,171)	-	-	-	-	(4,832,171)	-	(4,832,171)
Share-based payments	-	-	-	892,243	-	-	-	892,243	-	892,243
Early repurchase of convertible debt	-	-	-	(74,872)	-	-	-	(74,872)	-	(74,872)
Reacquired common shares	-	-	(312,500)	-	-	-	-	(312,500)	-	(312,500)
Net loss and comprehensive loss	-	-	-	-	-	(15,382)	(98,892,553)	(98,907,935)	(68,779)	(98,976,714)
Balance, December 31, 2021	180,120,143	120,591,809	(5,144,671)	26,590,148	1,000,000	(12,008)	(130,301,652)	12,723,626	(153,817)	12,569,809
Shares issued for cash	-	-	-	-	-	-	-	-	-	-
Shares issued for debt settlement	6,839,126	1,133,916	-	(108,304)	-	-	-	1,025,612	-	1,025,612
Shares issued for services	-	-	-	-	-	-	-	-	-	-
Shares issued for options exercised	100,000	36,986	-	(9,486)	-	-	-	27,500	-	27,500
Shares issued for warrants exercised	-	-	-	-	-	-	-	-	-	-
Conversion of convertible debt	-	-	-	-	-	-	-	-	-	-
Shares issued for acquisition	49,025,197	9,318,615	-	235,242	-	-	-	9,593,857	-	9,593,857
Shares returned to treasury from acquisition	-	-	-	-	-	-	-	-	-	-
Share-based payments	-	-	-	229,724	-	-	-	229,724	-	229,724
Early repurchase of convertible debt	-	-	-	-	-	-	-	-	-	-
Net loss and comprehensive loss	-	-	-	-	-	13,020	(16,854,518)	(16,841,498)	(126,961)	(16,968,459)
Balance, December 31, 2022	236,084,466	131,081,326	(5,144,671)	26,937,324	1,000,000	1,012	(147,156,170)	6,718,821	(280,778)	6,438,043

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

BevCanna Enterprises Inc.
Consolidated Statements of Cash Flows
(Expressed in Canadian dollars)

Year ended December 31,	2022	2021
	\$	\$
Operating activities		
Net loss	(16,981,479)	(98,945,950)
Items not affecting cash:		
Amortization	835,509	2,462,590
Accretion expense	54,065	44,383
Bad debt	-	124,074
Finance costs	839,654	755,529
Government grant	-	(11,575)
Impairment of property, plant & equipment	-	1,828,688
Impairment of investment deposits	-	530,159
Impairment of intangible assets	2,224,428	2,053,275
Impairment of goodwill	5,986,899	74,412,859
Loss on marketable securities	-	403,898
Loss (gain) on debt settlement	(127,027)	(131,668)
Loss (gain) on disposal of asset	523,885	(228)
Loss on acquisition	133,012	6,946,508
Share-based payments	229,724	892,243
Shares issued for services	-	120,950
Unrealized foreign exchange (gain) loss	36,215	(59,372)
	(6,245,115)	(8,573,637)
Changes in non-cash working capital items:		
Amounts receivable	(64,712)	(424,974)
Prepaid expenses and deposits	166,547	(115,075)
Inventory	119,724	(395,616)
Deferred revenue	26,344	18,750
Trade payable and accrued liabilities	5,395,680	2,620,505
Due to/from related parties	(72,465)	(39,891)
Cash used in operating activities	(673,997)	(6,909,938)
Investing activities		
Purchase of property and equipment	(255,933)	(1,060,177)
Proceeds from sale of marketable securities	-	181,817
Cash from disposal of asset	-	4,327
Cash from acquisitions	971,282	23,625
Cash (used) / provided by in investing activities	715,349	(850,408)
Financing activities		
Proceeds from issues of shares	-	2,903,749
Proceeds from options exercised	27,500	3,316,371
Proceeds from warrants exercised	-	1,386,750
Payment paid to repurchase common shares	-	(250,000)
ST Loan payable	-	-
Proceeds from CEBA loan	-	20,000
Repayment for promissory note	-	(150,000)
Repayment of convertible debt	-	(124,532)
Interest paid	(140,129)	(176,865)
Cash (used) / provided by financing activities	(112,629)	6,925,473
Decrease in cash	(71,277)	(834,873)
Effect of change in foreign exchange rate on cash	(23,194)	30,607
Cash, beginning	230,273	1,034,539
Cash, ending	135,802	230,273
Supplemental non-cash information		
Intangible assets acquired from acquisitions	5,436,580	680,000
Goodwill acquired from acquisitions	5,986,899	71,203,661
Accrued costs in property and equipment	250,862	549,238

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

BevCanna Enterprises Inc.

Notes to the Consolidated Financial Statements

Years ended December 31, 2022 and 2021

(Expressed in Canadian dollar, unless otherwise noted)

1) Nature of operations

BevCanna Enterprises Inc. (the “Company”) was incorporated under the Business Corporations Act in British Columbia on July 13, 2017. The Company’s common shares are listed on the Canadian Securities Exchange (“CSE”) under the symbol “BEV”, in the United States on the OTCQB under symbol “BVNNF”, and in Germany on the Frankfurt Stock Exchange under the symbol “7BC”. The registered record office of the Company is 300 – 1008 Homer Street, Vancouver, BC V6C 2X1, Canada.

The Company develops and manufactures a range of alkaline, mineralized, and cannabinoid (“CBD”) beverages and supplements for both in-house brands and white-label customers, including the TRACE brand alkaline and mineralized beverage line produced and distributed through Naturo its wholly-owned subsidiary newly acquired in February 2021 (Note 11). The Company also provides direct-to-customer eCommerce sales of natural health products through its wholly-owned subsidiary Pure Therapy.

The Company has incurred losses and negative cash flows from operations that has primarily been funded through financing activities. The Company will need to raise additional capital during the next twelve months and beyond to support current operations and planned development. These factors indicate the existence of a material uncertainty that may cast significant doubt as to the Company’s ability to continue as a going concern. Management intends to finance operating costs over the next twelve months with cash on hand, debt and equity financings including private placements of common shares. These consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the settlement of liabilities in the normal course of business. These consolidated financial statements do not reflect the adjustments to the carrying values of assets and liabilities, the reported revenues and expenses, and the classifications used in the consolidated statement of financial position, that would be necessary if the Company were unable to realize its assets and settle its liabilities as a going concern in the normal course of operations. Such adjustments could be material.

2) Basis of presentation

(a) 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 of the International Financial Reporting Issues Committee (“IFRIC”). The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

These consolidated financial statements were approved by the Company’s Board of Directors on September 7, 2023.

(b) Basis of measurement

These consolidated financial statements have been prepared on a historical cost basis, modified where applicable. In addition, these consolidated financial statements have been prepared using the accrual basis of accounting except for cash flow information. The consolidated financial statements are presented in Canadian dollars, unless otherwise noted.

BevCanna Enterprises Inc.

Notes to the Consolidated Financial Statements

Years ended December 31, 2022 and 2021

(Expressed in Canadian dollar, unless otherwise noted)

2) Basis of presentation (continued)

(c) Basis of consolidation

These consolidated financial statements include the accounts of the Company and of the entities it controls (the “subsidiaries”). Control over an investee is achieved when the Company has power over the investee, has exposure or rights to variable returns from its involvement with the investee and has the ability to use its power over the investee to affect the amount of its returns. Profit or loss and each component of other comprehensive income or loss are attributed to the owners of the parent and to the non-controlling interest. The subsidiaries’ total comprehensive income or loss is attributed to the owners of the Company and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. Entities are consolidated from the date on which control is acquired by the Company and consolidation ends when control no longer exists. The Company must reassess whether it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Intercompany transactions, balances and unrealized gains and losses on intercompany transactions are eliminated on consolidation.

Details of the Company’s principal subsidiaries are as follows:

Name of subsidiary or controlled entity	Principal activity	Place of incorporation	Ownership	
			December 31, 2022	December 31, 2021
BevCanna Operating Corp. (“BCO”)	THC/CBD beverages	Canada	100%	100%
Naturally Pure Therapy Products Corp. (“Pure Therapy”)	Direct-to-consumer e-commerce	Canada	100%	100%
Naturo Group Enterprises Inc. (formerly Naturo Group Investments Inc., “Naturo”)	Wellness beverages	Canada	100%	100%
Naturo Springs Ltd. (“Springs”)	Bottled spring water	Canada	79%	79%
Embark Health, Inc. (“Embark”)	Manufacturing products	Canada	100%	-

The Company consolidates the accounts of multiple e-commerce merchant entities through Pure Therapy. These e-commerce merchants are incorporated in the United States of America (U.S.A.) and include La Fortuna Ventures LLC., BNoel Incorporated LLC, San Marcos Media LLC, Three Bun Enterprises LLC, Zay Enterprises LLC, JLP Enterprises LLC and Vader LLC. The Company has an arrangement with each of these entities through Pure Therapy that gives the Company power over these entities to affect the amount of its returns and has exposure and rights to variable returns from La Fortuna.

Carmanah Craft Corp. (“Carmanah”) dissolved in July 2023. There are no assets in Carmanah prior to dissolution.

Exceler Holdings Ltd (“Exceler”) dissolved in July 2023. There are no assets in Exceler prior to dissolution.

BevCanna Enterprises Inc.

Notes to the Consolidated Financial Statements

Years ended December 31, 2022 and 2021

(Expressed in Canadian dollar, unless otherwise noted)

2) Basis of presentation (continued)

(d) Functional and presentation currency

The consolidated financial statements are presented in Canadian dollars. The functional currency of the Company, BCO, Naturo, Springs and Embark is the Canadian dollar. The functional currency of Pure Therapy, the e-commerce merchant, entity is the US dollar.

(e) Use of estimates and judgments

The preparation of these consolidated financial statements in conformity with IFRS requires the Company's management to make judgments, estimates and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities, revenues and expenses. These estimates are based on historical experience, current and future economic conditions and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected. Actual results could differ from these estimates.

Estimation Uncertainty

The following are key assumptions concerning the future and other key sources of estimation uncertainty that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the current and next fiscal financial years:

- i. The Company makes estimates on the useful lives when determining depreciation of property and equipment and the amortization of intangible assets are dependent on 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 consider factors such as economic and market conditions and useful lives of assets.
- ii. The Company uses the Black-Scholes Option Pricing Model to value options and warrants granted during the year. The model was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable. The model requires management to make estimates that are subjective and may not be representative of actual.
- iii. Estimates of future taxable income are based on forecast cash flows from operations and the application of existing tax laws in each jurisdiction. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the Company to realize the net deferred tax assets recorded at the date of the statement of financial position could be impacted.
- iv. In an acquisition that constitutes a business combination, all identifiable assets, liabilities and contingent liabilities acquired are recorded at their fair values. Estimates are applied in the determination of the fair value of these assets and liabilities. For any intangible asset identified, depending on the type of intangible asset and the complexity of determining its fair value, an independent valuation expert or management may develop the fair value, using appropriate valuation techniques, which are generally based on a forecast of the total expected future net cash flows. The valuations are linked closely to the assumptions made by management regarding the future performance of the assets concerned and any changes in the discount rate applied.

BevCanna Enterprises Inc.

Notes to the Consolidated Financial Statements

Years ended December 31, 2022 and 2021

(Expressed in Canadian dollar, unless otherwise noted)

2) Basis of presentation (continued)

(e) Use of estimates and judgments (continued)

Significant Judgments

Information about critical judgments in applying accounting policies that have the most significant risk of causing material adjustment to the carrying amounts of assets and liabilities recognized in the consolidated financial statements are discussed below:

- i. The assessment of the Company's ability to continue as a going concern and its ability to execute its strategy by funding future working capital requirements requires judgment. Estimates and assumptions are continually evaluated and are based on historical experience and other factors, such as expectations of future events that are believed to be reasonable under the circumstances. The factors considered by management are disclosed in Note 1.
- ii. The Company's assets are aggregated into cash-generating units ("CGU" or "CGUs") for the purpose of calculating impairment. CGUs are based on an assessment of the unit's ability to generate independent cash inflows. The Company evaluated CGU at each reporting date to determine whether there are any indications of impairment. The Company considers both internal and external sources of information when assessing whether there are indications of impairment for the Company's intangible assets and goodwill. The assessment of any impairment of these assets is dependent upon estimates of recoverable amounts that consider various factors such as economic and market conditions and future use of these assets.
- iii. The determination of whether a set of assets acquired and liabilities assumed in an acquisition constitute a business may require the Company to make certain judgments, taking into account all facts and circumstances. A business is presumed to be an integrated set of activities and assets capable of being conducted and managed for the purpose of providing a return in the form of dividends, lower costs or economic benefits.
- iv. The assessment on whether the Company's subsidiary, Pure Therapy is a principal in its revenue activities related to the direct-to-customer e-commerce product sales and as a result, the revenue and cost of revenue are presented on a gross basis.
- v. The identification of convertible debenture components is based on interpretations of the substance of the contractual arrangement and therefore requires judgment from management. The separation of the components affects the initial recognition of the convertible debenture at issuance and the subsequent recognition of interest on the liability component. The determination of the fair value of the liability is also based on several assumptions, including contractual future cash flows, discount rates and the presence of any derivative financial instruments.
- vi. Management is required to assess the functional currency of the Company. In concluding that the Canadian dollar is the functional currency of the Company, management considered the currency that mainly influences the operating expenditures in the jurisdiction in which the Company operates.

BevCanna Enterprises Inc.

Notes to the Consolidated Financial Statements

Years ended December 31, 2022 and 2021

(Expressed in Canadian dollar, unless otherwise noted)

3) Summary of significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, unless otherwise indicated.

(a) Financial instruments

Financial instruments are accounted for in accordance with IFRS 9 *Financial Instruments: Classification and Measurement*. A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

The following table shows classification of the financial assets and liabilities:

Financial asset / liability	IFRS 9 Classification
Cash	FVTPL
Amounts receivable	Amortized cost
Marketable securities	FVTPL
Trade payable	Amortized cost
Due to related parties	Amortized cost
Promissory note	Amortized cost
Convertible debentures	Amortized cost
CEBA loan	Amortized cost

Financial assets

On initial recognition, financial assets are recognized at fair value and are subsequently classified and measured at: (i) amortized cost; (ii) fair value through other comprehensive income ("FVOCI"); or (iii) fair value through profit or loss ("FVTPL"). The classification of financial assets is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. A financial asset is measured at fair value net of transaction costs that are directly attributable to its acquisition except for financial assets at FVTPL where transaction costs are expensed. All financial assets not classified and measured at amortized cost or FVOCI are measured at FVTPL. On initial recognition of an equity instrument that is not held for trading, the Company may irrevocably elect to present subsequent changes in the investment's fair value in other comprehensive income.

The Company derecognizes financial assets only when the contractual rights to cash flows from the financial assets expire, or when it transfers the financial assets and substantially all of the associated risks and rewards of ownership to another entity.

The classification determines the method by which the financial assets are carried on the statement of financial position subsequent to inception and how changes in value are recorded.

Impairment of financial assets

IFRS 9 uses the expected credit loss ("ECL") model. The credit loss model groups receivables based on similar credit risk characteristics and days past due in order to estimate bad debts. The ECL model applies to the Company's receivables.

An 'expected credit loss' impairment model applies which requires a loss allowance to be recognized based on expected credit losses. The estimated present value of future cash flows associated with the asset is determined and an impairment loss is recognized for the difference between this amount and the carrying amount as follows: the carrying amount of the asset is reduced to an estimated present value of the future cash flows associated with the asset, discounted at the financial asset's original effective interest rate, either directly or through the use of an allowance account and the resulting loss is recognized in profit or loss for the period.

BevCanna Enterprises Inc.

Notes to the Consolidated Financial Statements

Years ended December 31, 2022 and 2021

(Expressed in Canadian dollar, unless otherwise noted)

3) Summary of significant accounting policies (continued)

(a) Financial instruments (continued)

Impairment of financial assets (continued)

In a subsequent period, if the amount of the impairment loss related to financial assets measured at amortized cost decreases, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

Financial liabilities

Financial liabilities are designated as either: (i) fair value through profit or loss; or (ii) other financial liabilities. All financial liabilities are classified and subsequently measured at amortized cost except for financial liabilities at FVTPL. The classification determines the method by which the financial liabilities are carried on the statement of financial position subsequent to inception and how changes in value are recorded. Trade payables and due to related parties are classified under other financial liabilities and carried on the statement of financial position at amortized cost.

The Company derecognizes a financial liability when its contractual obligations are discharged, cancelled, or expire. The Company also derecognizes a financial liability when the terms of the liability are modified such that the terms and/or cash flows of the modified instrument are substantially different, in which case a new financial liability based on the modified terms is recognized at fair value. Gains and losses on derecognition are generally recognized in profit or loss.

(b) Business combinations

The Company accounts for a transaction as a business combination when the acquisition of an asset or group of assets constitutes a business and when the Company obtains control of the entity being acquired. Business combinations are accounted for using the acquisition method. In applying the acquisition method, the Company separately records the identifiable assets acquired, the liabilities assumed, and goodwill acquired and any non-controlling interest in the acquired entity.

The Company measures the identifiable assets acquired and the liabilities assumed at their acquisition-date fair values, less any non-controlling interest at fair value. Goodwill is measured as the excess of the fair value of the consideration transferred, less any non-controlling interest in the entity being acquired over the fair value of the net identifiable assets acquired. The consideration transferred in a business combination is measured as the aggregate of the acquisition-date fair values of the assets transferred by the acquirer, the liabilities assumed by the acquirer on behalf of the acquiree, any contingent consideration and the equity interests issued by the Company. Transaction costs, other than those associated with the issuance of debt or equity securities that the Company incurs in connection with a business combination, are expensed as incurred.

The acquisition date is the date when the Company obtains control of the acquiree. Contingent consideration is measured at its acquisition date fair value and included as part of the consideration transferred in a business combination. Contingent consideration that is classified as a liability is re-measured at subsequent reporting dates in accordance with the criteria and guidance provided under IFRS with corresponding gain or loss recorded in the consolidated statements of loss and comprehensive loss.

BevCanna Enterprises Inc.

Notes to the Consolidated Financial Statements

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(Expressed in Canadian dollar, unless otherwise noted)

3) Summary of significant accounting policies (continued)

(c) Intangible assets

Intangible assets are recorded as cost less accumulated amortization and any accumulated impairment losses. Intangible assets with finite useful lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The useful lives of intangible assets are assessed as either finite or indefinite. The amortization method and amortization period of an intangible asset with a finite useful life is reviewed at least annually. Changes in the expected useful life or the expected pattern of consumption of economic benefits embodied in the asset are accounted for by changing the amortization period or method as appropriate and are treated as a change in accounting estimates.

The amortization expense on intangible assets with finite lives is recognized in the consolidated statements of comprehensive loss. Intangible assets with indefinite useful lives are not amortized but are tested for impairment annually, either individually or at the CGU level. The assessment of indefinite useful life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Intangible assets are primarily comprised of the library of brand, water rights, marketing intangibles and Independent business owner (“IBO”) relationships acquired from external acquisitions and are classified as finite use life intangible assets and are amortized as follows:

	Useful Life (years)
IBO relationships	2
Marketing intangibles	9
Brand	20

(d) Inventory

Inventory consists primarily of finished goods, raw ingredients and packaging. Inventory is valued at the lower of cost and net realizable value with cost based upon the weighted average method of inventory costing. The realizable value of finished goods is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. The cost of inventory is based on landed cost, which includes all costs incurred to bring inventory to the Company’s distribution centers. If the Company determines that the estimated net realizable value of its inventory is less than the carrying value of such inventory, it records it as a charge to cost of sales.

(e) Property, plant and equipment

Property, plant and equipment are recorded at cost less accumulated amortization and impairment charges. The cost of repair and maintenance is expensed as incurred. Depreciation is provided using the declining balance method over the estimated useful lives of the assets. Upon sale or other disposition of a depreciable asset, cost and accumulated depreciation are removed from the property and equipment and any gain or loss is recorded to profit or loss.

BevCanna Enterprises Inc.

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(Expressed in Canadian dollar, unless otherwise noted)

3) Summary of significant accounting policies (continued)

(e) Property, plant and equipment (continued)

The significant class of property and equipment is as follows:

	Depreciation rate
Building and warehouse	4%
Furniture and equipment	20%

Land and construction-in-progress are not amortized.

(f) Impairment of non-financial assets

At each reporting date, the Company reviews the carrying amounts of its non-financial assets to determine whether there is any indication of impairment. If any such indication exists, the asset is then tested for impairment by comparing its recoverable amount to its carrying value. Goodwill and indefinite life intangible assets are tested for impairment annually or when a triggering event for impairment is identified.

A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. Goodwill and indefinite life intangible assets are allocated to a CGU for the purpose of impairment testing based on the level at which management monitors them, which is not higher than an operating segment. The allocation is made to the CGU that is expected to benefit from the business combination in which the goodwill arose.

When the recoverable amount of each separately identifiable asset or CGU is less than its carrying value, the asset or CGU's assets are written down to their recoverable amount with the impairment loss charged against profit or loss. The recoverable amount of an asset or a CGU is the higher of its value in use and its fair value less costs to sell. Value in use is based on the estimated future cash flows from the asset or CGU, discounted to their present value using a post-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. The fair value less costs to sell is based on the best information available to reflect the amount that could be obtained from the disposal of the asset or CGU in an arm's length transaction between knowledgeable and willing parties, net of estimates of the costs of disposal.

For asset impairments other than goodwill, the impairment loss reduces the carrying amounts of the non-financial assets in the CGU on a pro-rata basis, up to an asset's individual recoverable amount. Any loss identified from goodwill impairment testing is first applied to reduce the carrying amount of goodwill allocated to the CGU grouping, and then to reduce the carrying amounts of the other non-financial assets in the CGU on a pro-rata basis. Impairment losses and reversals are recognized separately from operations in the consolidated statement of loss and comprehensive loss.

A reversal of the impairment loss in a subsequent period will be charged against profit or loss if there is a significant reversal of the circumstances that caused the original impairment. The impairment will be reversed up to the amount of depreciated carrying value that would have otherwise occurred if the impairment loss had not occurred.

BevCanna Enterprises Inc.

Notes to the Consolidated Financial Statements

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(Expressed in Canadian dollar, unless otherwise noted)

3) Summary of significant accounting policies (continued)

(g) Non-controlling interest ("NCI")

NCI is measured at its proportionate share of the acquiree's identifiable net assets or liabilities. Net income or loss and comprehensive income or loss for the period are allocated between NCI and shareholders of the parent. NCI in subsidiaries must be presented in the consolidated statement of financial position within equity, separately from the equity of the owners of the parent. Changes in the Company's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

(h) Foreign currency translation

The functional currency of each entity is determined using the currency of the primary economic environment in which that entity operates.

Translation of foreign currency transactions

Transactions in foreign currencies are translated using the exchange rate prevailing at the date of the transaction. At each reporting date, foreign currency denominated monetary assets and liabilities are translated at year-end exchange rates. Exchange differences arising from the transactions are recorded in profit or loss for the period, except for exchange differences relating to borrowings hedging net investments denominated in the consolidated subsidiaries' currency. These differences are recognized in other comprehensive income as currency translation differences until the disposal of the net investment. Exchange differences arising from operating transactions are recorded in operating profit for the period; exchange differences related to financing transactions are recognized as finance costs or income, or in other comprehensive income.

Translation of foreign operations

The assets and liabilities of a foreign operation, including goodwill and fair value adjustments arising from the acquisition, are translated in Canadian dollars at year-end exchange rates. Income and expenses, and cash flows of a foreign operation are translated in Canadian dollars using average exchange rates. Differences resulting from translating foreign operations are reported as translation differences in equity. When a foreign operation is disposed of, the translation differences previously recognized in equity are reclassified to profit or loss.

(i) Convertible debentures

The components of the compound financial instruments (convertible debentures) issued by the Company are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangement and the definitions of a financial liability and an equity instrument. The conversion option that will be settled by the exchange of a fixed amount in cash for a fixed number of equity instruments of the Company is classified as an equity instrument. At the issue date, the liability component is recognized at fair value, which is estimated using the effective interest rate on the market for similar nonconvertible instruments. Subsequently, the liability component is measured at amortized cost using the effective interest rate until it is extinguished on conversion or maturity.

BevCanna Enterprises Inc.

Notes to the Consolidated Financial Statements

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(Expressed in Canadian dollar, unless otherwise noted)

3) Summary of significant accounting policies (continued)

(i) Convertible debentures (continued)

The value of the conversion option classified as equity is determined at the issue date, by deducting the amount of the liability component from the fair value of the compound instrument as a whole. This amount is recognized in equity, net of tax effects, and is not revised subsequently. When the conversion option is exercised, the equity component of the convertible debentures will be transferred to share capital. No profit or gain is recognized to the conversion or expiration of the conversion option.

Transaction costs related to the issuance of the convertible debentures are allocated to the liability and equity components in proportion to the initial carrying amounts. Transaction costs related to the equity component are recognized directly in equity. Transaction costs relating to the liability component are included in the carrying value of the liability component and amortized over the estimated useful life of the debentures using the effective interest rate method.

(j) Revenue Recognition

The Company derives its revenue from sales of manufactured CBD beverage products and manufactured bottled water, as well as direct online sales of natural health products through its e-commerce platform operated by Pure Therapy. In addition, the Company derives revenue from providing CBD beverage production services for white-label clients. To recognize its revenue, the Company performs the five-step model analysis in accordance with IFRS 15 *Revenue from Contract with Customers* as follows:

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

The Company recognizes revenues from its beverage and natural health product sales when the products are delivered or drop-shipped to the customers and there is no unfulfilled obligation that could affect the customer's acceptance. These criteria are generally met at the time the products are dispatched, which is generally when control of the goods has passed to the customer.

The Company also generates its revenue from providing production services of beverages to white-label clients. For such manufacturing orders, the Company's performance obligation is the production of CBD beverages. Once the production is completed and a production report is provided, it's considered that the Company has fulfilled its performance obligation, at which time the Company become entitled to the amount outlined per the manufacturing order.

Revenue is recognized at the fair value of the consideration received or receivable. Consideration that is received and being processed at the bank but not yet released to the Company is recognized as reserve income asset in amounts receivable.

(k) Government grant

A government grant is recognized when there is reasonable assurance it will be received, and all related conditions will be complied with. The Company recognizes government grants in profit or loss on a systematic basis and in line with its recognition of the expenses that the grants are intended to compensate. The Company determines whether the grant compensates expenses already incurred or future costs.

BevCanna Enterprises Inc.

Notes to the Consolidated Financial Statements

Years ended December 31, 2022 and 2021

(Expressed in Canadian dollar, unless otherwise noted)

3) Summary of significant accounting policies (continued)

(k) Government grant (continued)

The Company has an interest-free repayable funding obligation from the Government of Canada. The benefit of the government loan at a below-market rate of interest is treated as a government grant, measured as the difference between proceeds received and the fair value of the loan based on prevailing market interest rates.

(l) Share-based payments

The Company may receive or acquire goods or services in a share-based transaction. The Company recognizes a corresponding increase in equity if the goods or services were received in an equity-settled share-based payment transaction, or a liability if the goods or services were acquired in a cash-settled share-based payment transaction. For equity-settled share-based payment transactions, the Company measures the goods or services received and the corresponding increase in equity directly at the fair value of the goods or services received, unless the fair value of the goods or services received cannot be estimated reliably, the Company measures their value and the corresponding increase in equity by reference to the fair value of the equity instruments issued.

Share-based payments to employees are measured at the fair value of the instruments issued and amortized over the vesting periods. Share-based payments to non-employees are measured at the fair value of goods or services received or the fair value of the equity instruments issued if it is determined the fair value of the goods or services cannot be reliably measured and are recorded at the date the goods or services are received. The corresponding amount is recorded to equity reserve. The fair value of options is determined using the Black–Scholes pricing model. The number of shares and options expected to vest is reviewed and adjusted at the end of each reporting period such that the amount recognized for services received as consideration for the equity instruments granted shall be based on the number of equity instruments that eventually vest. Any consideration paid by plan participants on the exercise of stock options is credited to share capital.

(m) Share capital

The Company records proceeds from share issued net of issuance costs and any tax effects. Common shares issued for consideration other than cash are valued based on their market value at the date the common shares are issued.

Proceeds from unit placements are allocated between shares and warrants issued using the residual method. Proceeds are first allocated to the shares according to the quoted price of existing shares at the time of issuance and any residual in the proceeds is allocated to warrants.

(n) Loss per share

Basic loss per share is computed using the weight average number of common shares outstanding during the period. The treasury stock method is used for the calculation of diluted loss per share, whereby all “in the money” stock options and share purchase warrants are assumed to have been exercised at the beginning of the period and the proceeds from their exercise are assumed to have been used to purchase common shares at the average market price during the period. When a loss is incurred during the period, basic and diluted loss per share are the same as the exercise of stock options and share purchase warrants is considered to be anti-dilutive.

BevCanna Enterprises Inc.

Notes to the Consolidated Financial Statements

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(Expressed in Canadian dollar, unless otherwise noted)

3) Summary of significant accounting policies (continued)

(o) Operating Segment

An operating segment is a component of the Company that engages in business activities from which it may earn revenues and incur expenses, including revenue and expenses that relate to transactions with any of the Company's other operating segments. All operating segments' results are reviewed regularly by the Company's executive management (Chief Executive Officer, Chief Financial Officer) to make decisions about resources to be allocated to the operating segment and assess its performance. Operating segment results that are reported to executive management and include items directly attributable to an operating segment as well as those that can be allocated on a reasonable basis. The Company's operating segments are defined in Note 24.

(p) Income taxes

Current income tax

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date, in the countries where the Company operates and generates taxable income.

Current income tax relating to items recognized directly in other comprehensive income or equity is recognized in other comprehensive income or equity and not in profit or loss. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred tax

Deferred tax is recognized on temporary differences at the reporting date arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and recognized only to the extent that it is probable that future taxable income will be available to allow all or part of the temporary differences to be utilized. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted and are expected to apply by the end of the reporting period. Deferred tax assets and deferred income tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

BevCanna Enterprises Inc.

Notes to the Consolidated Financial Statements

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3) Summary of significant accounting policies (continued)

(q) New accounting standards not yet adopted

1. Classification of Liabilities as Current or Non-current (Amendments to IAS 1)

On January 23, 2021, the IASB issued amendments to IAS 1 *Presentation of Financial Statements*, to clarify the classification of a liability as either current or non-current. On July 15, 2021, the IASB issued an amendment deferring the effective date by one year. Currently the amendments are effective for annual periods beginning on or after January 1, 2023. Early application is permitted.

The amendments eliminated the requirement that the right to defer settlement or transfer of a liability for at least 12 months be unconditional to classify a liability as non-current. Instead, the right must be substantive and exist at the end of the reporting period.

The amendments also clarify how an entity classifies a liability that is convertible at the option of the counterparty. The amendments state that:

- The settlement of a liability includes the transfer of the entity's own equity instruments to the counterparty.
- When classifying a liability as current or non-current, an entity may only omit conversion options recognized as equity.

2. Property, Plant and Equipment – Proceeds before Intended Use (amendments to IAS 16)

On May 14, 2021, the IASB published *Property, Plant and Equipment – Proceeds before Intended Use (Amendments to IAS 16)*. The amendments are effective for annual periods beginning on or after January 1, 2023. Early application is permitted.

The amendments provide guidance for the recognition of proceeds from selling items that an entity produces and sells in the process of making an item of property, plant and equipment available for its intended use, as well as the associated production costs. Specifically, the proceeds from selling items produced before the related asset is available for use, as well as the related production costs, must be recognized in profit or loss.

4) Cash

	December 31, 2022	December 31, 2021
	\$	\$
Cash deposited at banks	108,696	93,637
Cash held in trust	25,000	25,000
Cash held at e-commerce merchants	2,106	111,636
	135,802	230,273

BevCanna Enterprises Inc.

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5) Amounts receivable

	December 31, 2022	December 31, 2021
	\$	\$
Trade receivables	1,051,242	665,637
Reserve income asset	182,232	231,012
GST receivable	(98,854)	88,510
Other receivables	96,073	-
	1,230,693	985,159
Allowance for doubtful accounts	(36,809)	(124,074)
	1,193,884	861,085

Reserve income asset balances comprise amounts (eCommerce payments) being processed by banks and not released to the Company as at December 31, 2022 and 2021.

During the year ended December 31, 2022, there was \$146,939 (2021 - \$124,074) bad debt expense recognized on the consolidated statement of comprehensive loss. This is included in the line-item gain on debt receivables in 2022.

6) Inventory

	December 31, 2022	December 31, 2021
	\$	\$
Bottles and packaging	6,261	6,319
Finished goods	393,344	309,849
Raw materials	522,211	307,522
	921,816	623,690

BevCanna Enterprises Inc.

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7) Marketable securities

	December 31, 2022	December 31, 2021
	\$	\$
Balance, beginning	-	-
Acquisition (Note 11)	-	585,715
Disposition ⁽¹⁾	-	(181,817)
Remeasurement loss	-	(394,236)
Realized loss	-	(9,662)
Balance, ending	-	-

(1) All marketable securities held in 2021 were disposed of due to remeasurement at FMV. No additional marketable shares were purchased in 2022.

The marketable securities held during 2021 included 5,333,333 common shares and 666,666 warrants of RYU Apparel Inc. ("RYU", a company listed on the TSX.V) acquired through the acquisition of Naturo (Note 11). Each warrant is exercisable into one common share of RYU at the price of \$0.15 per share until February 12, 2022. On the acquisition date, the RYU common shares were valued at \$0.18 per share, the value of the warrants was estimated using the Black Scholes Option Pricing Model with the following weighted average assumptions: risk-free rate of 0.27%, expected life of 0.98 years, expected volatility of 342% and dividend yield of \$nil.

During 2021 the Company recorded a loss of \$394,236 from remeasuring the value of the RYU shares. The Company disposed of all RYU shares for \$181,817 and recognized a loss of \$9,662. The RYU warrants expired unexercised subsequently to the year end.

8) Prepaid expenses and deposits

	December 31, 2022	December 31, 2021
	\$	\$
Prepaid expenses	494,995	665,542
Deposits on equipment	4,000	-
	498,995	665,542

BevCanna Enterprises Inc.

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9) Property, plant and equipment

	Land \$	Furniture and equipment \$	Construction- in-progress \$	Buildings and warehouse \$	Total \$
<i>Cost</i>					
At December 31, 2020	-	280,348	5,438,045	-	5,718,393
Acquired (Note 11)	1,350,000	614,180	-	9,550,000	11,514,180
Additions	-	734,608	325,569	-	1,060,177
Disposal	-	(6,118)	-	-	(6,118)
Transfer of construction-in-progress	-	-	(3,934,926)	3,934,926	-
At December 31, 2021	1,350,000	1,623,018	1,828,688	13,484,926	18,286,632
Acquired (Note 11)	1,272,653	-	-	4,727,347	6,000,000
Additions	-	213,742	9,507	30,000	253,249
Disposal	(1,272,653)	-	-	(4,727,347)	(6,000,000)
At December 31, 2022	1,350,000	1,836,760	1,838,195	13,514,926	18,539,881
<i>Accumulated amortization</i>					
At December 31, 2020	-	25,032	-	-	25,032
Depreciation	-	170,392	-	368,585	538,977
Disposal	-	(1,019)	-	-	(1,019)
Impairment (i)	-	-	1,828,688	-	1,828,688
At December 31, 2021	-	194,405	1,828,688	368,585	2,391,678
Depreciation	-	306,775	-	528,734	835,509
At December 31, 2022	-	501,180	1,828,688	897,319	3,227,187
<i>Net book value</i>					
At December 31, 2021	1,350,000	1,428,613	-	13,116,341	15,894,954
At December 31, 2022	1,350,000	1,335,580	9,507	12,617,607	15,312,694

A manufacturing facility located in Ontario which was acquired as part of the acquisition of Embark as an asset held for sale, was sold during the year for proceeds of \$ 6,250,000 and a net gain of \$77,300.

BevCanna Enterprises Inc.

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10) Licence agreement

On September 12, 2018, the Company entered into a 10-year licence agreement (the "Licence Agreement") with two 10-year renewal options with Naturo and Springs.

Pursuant to the License Agreement, the Company entered into a lease agreement with Naturo and Springs to lease a portion of the land, aquifer and facilities controlled by Naturo and/or Springs in order to facilitate the development of the Company's business, and Naturo would provide the Company with certain manufacturing and quality assurance services for manufacturing beverages in Naturo's facility. The Company paid Naturo \$12,400,000 pursuant to the Licence Agreement, of which 50% was paid in common shares and the remaining portion in cash.

On February 14, 2020, the Company entered into an amended second lease agreement with Naturo to increase the premises for permitted use by the Company from 5,500 square feet to 12,289 square feet for the remaining term of the lease. The Company agreed to pay \$1,253,400 for the additional space and displacement fee to Naturo. The Company issued 1,537,411 common shares and paid \$600,000 in cash.

Prior to the acquisition of Naturo (Note 11), the Company recorded amortization of \$158,715 related to the License Agreement. At the date of the acquisition, the Company recorded a loss on acquisition of \$6,946,508. This was the loss on settlement of the pre-existing contractual relationship due to a revaluation of the License Agreement to \$2,129,000. On February 19, 2021, upon the Company's acquisition of Naturo, the accounts associated with the pre-existing License Agreement between Company and Naturo were eliminated upon consolidation.

	December 31, 2022	December 31, 2021
	\$	\$
Balance, beginning	-	9,234,223
Amortization, prior to acquisition	-	(158,715)
Settlement of pre-existing relationship (Note 11)	-	(2,129,000)
Loss on settlement upon acquisition	-	(6,946,508)
Balance, ending	-	-

BevCanna Enterprises Inc.

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11) Intangible assets

	IBO relationships (a) \$	Marketing intangibles (b) \$	Brand (c) \$	Total \$
<i>Cost</i>				
At December 31, 2020	3,340,000	590,000	-	3,930,000
Additions	-	-	680,000	680,000
At December 31, 2021	3,340,000	590,000	680,000	4,610,000
Additions	-	-	5,436,580	5,436,580
At December 31, 2022	3,340,000	590,000	6,116,580	10,046,580
<i>Accumulated amortization</i>				
At December 31, 2020	119,976	21,193	-	141,169
Depreciation	1,670,000	65,556	29,342	1,764,898
Impairment	1,550,024	503,251	-	2,053,275
At December 31, 2021	3,340,000	590,000	29,342	3,959,342
Depreciation	-	-	126,732	126,732
Impairment	-	-	2,224,428	2,224,428
At December 31, 2022	3,340,000	590,000	2,380,502	6,310,502
<i>Net book value</i>				
At December 31 2021	-	-	650,658	650,658
At December 31, 2022	-	-	3,736,078	3,736,078

(a) Acquisition of Naturally Pure Therapy Products Corp.

On September 4, 2020, the Company concluded a share exchange agreement with Pure Therapy and acquired all of the issued and outstanding common shares of Pure Therapy which operates a direct-to-consumer e-commerce product sales business. The intangible assets acquired include a list of customers acquired through contracts of partnership with Independent Business Owners (“IBOs”) to sell Pure Therapy products through online campaigns, brands and websites and associated marketing intangibles (the “Marketing Intangibles”).

The acquisition has been accounted for as a business combination in accordance with IFRS 3 *Business Combinations*, using the acquisition method whereby the net assets acquired are recorded at fair value. The following table presents the fair value of the assets acquired at the date of the acquisition:

BevCanna Enterprises Inc.

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(Expressed in Canadian dollar, unless otherwise noted)

11) Intangible assets (continued)

(a) Acquisition of Naturally Pure Therapy Products Corp. (continued)

<i>Consideration:</i>	\$
Fair value of common shares issued (30,000,000 @ \$0.245 per share)	7,350,000
<i>Net assets acquired:</i>	
Cash	210,802
Intangible asset – IBO relationships	3,340,000
Intangible asset – Marketing intangibles	590,000
Total net assets	4,140,802
Goodwill (Note 12)	3,209,198

For the year ended December 31, 2021, Pure Therapy has contributed a net income of \$169,107 (2020 – net loss of \$169,310) to the consolidated statements of loss and comprehensive loss.

During the year ended December 31, 2021, the Company determined the IBO relationships and marketing intangibles were impaired due to the uncertainty in realizing future benefits from the intangible assets. Accordingly, a \$1,550,024 impairment loss was charged to the IBO relationships and \$503,251 to the marketing intangibles, and the carrying values of these intangible assets were both reduced to \$nil. In addition, Pure Therapy's goodwill was impaired by \$3,209,198 to \$nil as well (Note 12).

(b) Acquisition of Naturo Group Investments Inc.

On December 11, 2020, and as amended on January 31, 2021, the Company entered into an amalgamation agreement to complete the acquisition of all issued and outstanding securities of Naturo (the "Acquisition"), primarily to secure its access to the water bottling facility and the water source rights for the cannabis beverage business. Based in British Columbia, Canada, Naturo develops and manufactures beverages and consumer products for in-house brands and private label clients. Naturo owns an alkaline spring water aquifer and a HACCP certified manufacturing facility. It also owns and operates nationally distributed house brands across Canada. The acquisition closed on February 19, 2021.

The consideration for the acquisition of Naturo consisted of the following:

- a) 50,000,000 common shares of the Company were issued to the former shareholders of Naturo with a fair value of \$1.30 per share;
- b) The Company assumed the obligations to issue:
 - i. 450,000 common shares of the Company pursuant to outstanding options in Naturo exercisable at \$0.25 until July 31, 2024,
 - ii. 26,250,000 common shares of the Company pursuant to outstanding warrants in Naturo exercisable at \$0.50 until August 19, 2021, and
 - iii. Common shares of the Company as may be issuable pursuant to a convertible debenture in Naturo in the principal amount of \$1,468,373 convertible at \$0.40 per share, maturing on January 27, 2023 (Note 28) and accruing interest at an annual rate of 10% which is also convertible into shares.

BevCanna Enterprises Inc.

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(Expressed in Canadian dollar, unless otherwise noted)

11) Intangible assets (continued)

(b) Acquisition of Naturo Group Investments Inc. (continued)

At the time of the Acquisition, the Company determined that Naturo constituted a business as the operation of Naturo meets the definition of a business as defined under IFRS 3 *Business Combinations*, and accounted for it as such on the date that control was acquired. The Company has recognized the identifiable assets and liabilities acquired at their estimated fair values at the closing date of the Acquisition.

The Company performed an evaluation of the underlying assets and liabilities acquired and determined that the total net assets obtained supported a valuation of approximately \$15,420,746 and the excess of \$71,185,661 was allocated to goodwill, which primarily consisted of the assembled workforce, access to additional production capacity and the expected synergies from combining the operation and distribution network.

The purchase price allocation determined at the closing date of the Acquisition of Naturo is as following:

<i>Consideration:</i>		\$
Fair value of common shares issued	61,772,161	
Fair value of warrants	21,941,126	
Fair value of options	529,976	
Settlement of inter-company balances	234,144	
Settlement of pre-existing relationship (Note 10)	2,129,000	
	<u>86,606,407</u>	
<i>Net assets acquired:</i>		
Cash	23,625	
Marketable securities (note 7)	585,715	
BevCanna common shares, repurchased (Note 19)	4,832,171	
Property, plant and equipment (Note 9)	11,514,182	
Right-of-use asset	15,731	
Liabilities assumed	(302,879)	
Debt assumed	(2,012,836)	
Intangible asset – brand	680,000	
Non-controlling interest	85,037	
Total net assets	<u>15,420,746</u>	
Goodwill (Note 12)	<u>71,185,661</u>	
	<u>86,606,407</u>	

During the year ended December 31, 2021, the Company reviewed Naturo's goodwill and intangible assets and determined that the carrying amount of the goodwill was fully impaired. As a result, an impairment loss of \$71,185,661 was recorded against the goodwill account balance and reduced the carrying value of the goodwill as at December 31, 2021 to \$nil (Note 12).

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11) Intangible assets (continued)

(c) Acquisition of Embark

On January 28, 2022, the Company completed the acquisition of Embark Health Inc. (“Embark”). Embark develops and manufactures high-end solvent less cannabis extracts, concentrates, liquid, powder beverage mixes, topicals and edible products. On closing of the transaction, the Company issued 54,925,889 common shares to acquire all of the issued and outstanding common shares of Embark. Embark became a wholly-owned subsidiary of the Company. On September 30, 2022, there were 5,900,692 common shares returned to treasury pursuant to the finalization of the working capital adjustment clause of the Acquisition. The net number of shares issued for the acquisition was 49,025,197 common shares.

The consideration for the acquisition of Embark including the following:

- a) 54,925,889 common shares (“Consideration Shares”) were issued to the former shareholders of Embark as consideration for the purchase price of \$9.69 million.
- b) 5,900,692 common shares valued at \$1.09 million returned to treasury pursuant to the finalization of the working capital adjustment clause of the Acquisition.
- c) The Consideration Shares are subject to resale restriction over a one-year period in equal portions.

At the time of the Acquisition, the Company determined that Embark constituted a business as the operation of Naturo meets the definition of a business as defined under IFRS 3 *Business Combinations*, and accounted for it as such on the date that control was acquired. The Company has recognized the identifiable assets and liabilities acquired at their fair values at the closing date of the Acquisition.

The Company performed an evaluation of the underlying assets and liabilities acquired and determined that the total net assets obtained supported a valuation of approximately \$3,712,138 and the excess of \$5,986,899 was allocated to goodwill.

<i>Consideration:</i>		\$
Fair value of common shares and warrants issued	9,069,661	
Fair value of warrants	380,422	
Fee paid associated with the Acquisition	248,954	
	<u>9,699,037</u>	
<i>Net assets acquired:</i>		
Cash	971,282	
Accounts Receivable	268,087	
Inventory	417,850	
Right-of-use asset	1,166,982	
Property, Plant and Equipment	6,000,000	
Intangible asset - Brand	5,436,580	
Accounts Payable	(2,332,054)	
Right-of-use liabilities	(900,241)	
Loan payable	(6,790,000)	
Convertible debenture	(526,348)	
Total net assets	3,712,138	
Goodwill (Note 12)	5,986,899	
	<u>9,699,037</u>	

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11) Intangible assets (continued)

(c) Acquisition of Embark (continued)

During the year ended December 31, 2022, the Company reviewed Embark's assets and found the following impairments:

- Goodwill was fully impaired, resulting in an impairment loss of \$5,986,899
- Brand value was partially impaired, resulting in an impairment loss of \$2,224,428

12) Goodwill

The goodwill represents the excess purchase price paid by the Company over the fair value of net tangible and intangible assets identified in the calculated purchase price. The goodwill recognized on acquisition is attributable mainly to the expected future growth potential, expanded production capability, expanded customer base as well as expected synergies to the combined operations as a result of the completion of the acquisitions.

For the purposes of assessing impairment of goodwill and non-financial assets, the Company must identify its CGUs. Determination of what constitutes a CGU is subject to management judgment. Among all the CGUs of the Company, there was one CGUs that was allocated to goodwill in 2022: Embark Health Inc.

Embark CGU belongs to the Cannabis segment as they pertain to development, production and manufacturing of cannabis products.

The Company tests the recoverability of its goodwill annually, or more frequently if events or changes in circumstances indicate that they might be impaired. As at December 31, 2022, the Company has the carrying amount of goodwill at \$5,986,899 (2021 - \$3,209,198) due to the following:

	2022	2021
	\$	\$
Balance, beginning	-	3,209,198
Acquisition of Naturo	-	71,203,661
Acquisition of Embark	5,986,899	-
Impairment of Pure Therapy	-	(3,209,198)
Impairment of Naturo	-	(71,203,661)
Impairment of Embark	(5,986,899)	-
Balance, ending	-	-

As at December 31, 2022, before recognizing the impairment charge, the carrying amount of goodwill allocated to the Embark CGU is \$5,986,899 (2021 – \$0)

At December 31, 2022, the Company tested its CGUs for impairment. The inputs for the calculated recoverable amounts below are not based on observable market data. As such, the recoverable amounts for Embark CGUs are categorized in Level 3 of the fair value measurement hierarchy.

BevCanna Enterprises Inc.

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12) Goodwill (continued)

For the Embark CGU, the estimated recoverable amount calculated was using discounted cash flow model based on 2023 to 2026 revenues, less costs of disposal. This resulted in a recoverable amount of \$4,002,193, exceeded by the CGU carrying amount of \$5,436,580. The exceeding amount was allocated to fully reduce the carrying amount goodwill to \$nil. The fair value of the remaining assets was higher than the recoverable amount and as a result, no further impairment charge was recorded against them. The discount cash flow model used reflected the value-in-use of the Company. A 1% change in the recoverable amount is a difference of approximately \$40,022 and would not yield a different result. As a result, the Company recorded impairment losses of \$5,985,899 on goodwill for the Embark CGU.

13) Accounts payable and accrued liabilities

	December 31, 2022	December 31, 2021
	\$	\$
Trade payables	6,589,820	2,178,025
Payables related to capital expenditures	-	549,238
Accrued liabilities	2,675,856	351,870
Contingent liability (Note 26)	-	125,000
Excise tax payable	508,639	-
	9,774,315	3,204,133

14) Promissory note

The promissory note was acquired as part of the debt assumed on the acquisition of Naturo (Note 11). On August 5, 2017, Naturo entered into a promissory note for \$2,500,000 with an interest rate of 8%, payable quarterly, and due on August 5, 2020. On August 5, 2020, the promissory note was extended for one year. The loan is secured by the land of Naturo and the personal property of the CEO under the general security agreement ("GSA"). Upon assumption by the Company, the promissory note was valued at \$2,545,479. After the expiry on August 5, 2021, the promissory note had been rolled forward on a month-to-month basis carrying an interest rate of 8%, payable monthly and due on demand.

During the year ended December 31, 2022, the Company made \$0 worth of principal repayments and recorded finance costs of \$188,000 related to the promissory note. As at December 31, 2022, the outstanding balance of the loan and accrued interest was \$2,431,468.

The Company has the option to repay the loan in full or in part at any time. The promissory note is presented as a current liability on the consolidated statement of financial position because the Company expects to settle or redeem the promissory note within the next twelve months.

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15) Related party transactions and balances

Key management personnel include those persons having authority and responsibility for planning, directing and controlling the activities of the Company as a whole. The Company has determined that key management personnel consist of members of the Company's Board of Directors and corporate officers.

Related Parties Transactions:

The remuneration of directors and key management personnel was as follows:

Year ended December 31,	2022	2021
	\$	\$
Management and Consulting fees		
Chief Financial Officer ("CFO") and Chief Strategic Officer ("CSO")	240,000	240,000
Chief Executive Officer ("CEO")	357,659	305,000
President	200,004	200,004
Former President	180,808	60,000
Directors	120,000	47,500
Company controlled by individual related to CEO	132,285	47,250
Share-based payments		
CFO & CSO	155,177	56,347
President	6,950	73,775
Directors	-	83,324
	1,392,883	1,113,200

In addition, during the year ended December 31, 2022, the Company expensed \$Nil (2021 - \$352,218) in consulting fee and share based-payments to two companies controlled by two individuals related to the CEO. During the year ended December 31, 2022, the Company expensed \$Nil (2021 - \$372,359) in consulting fee and share based-payments to a company controlled by an individual related to the Former President.

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Notes to the Consolidated Financial Statements

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(Expressed in Canadian dollar, unless otherwise noted)

15) Related party transactions and balances (continued)

Related Parties Balances:

As at December 31, 2022 and 2021, the following amounts were included in accounts payable and accrued liabilities in relation to transactions with related parties, which were non-interest bearing, unsecured and due on demand:

As at December 31,	2022	2021
	\$	\$
<i>Accounts payable and accrued liabilities:</i>		
Chief Financial Officer ("CFO") and Chief Strategic Officer ("CSO")	210,000	42,000
Chief Executive Officer ("CEO") (i)	344,856	65,299
President	67,003	7,000
Former President	78,500	-
Directors	123,250	15,250
Company controlled by individual related to CEO	105,000	47,250
Individual related to CEO (ii)	405,370	86,758
	1,333,979	263,557

- (i) The CEO also provided a shareholder loan to the company of \$100,000 in 2022.
- (ii) Two individuals related to the CEO each provided \$125,000 USD in purchase order factoring to the Company for productions. The financing fee is \$25,000 USD each. \$25,000 USD principal was repaid during 2022. At end of December 31, 2022, \$275,000 USD was still outstanding (note 17).

16) Convertible debentures

BevCanna Debentures

On April 14, 2020, the Company completed a non-brokered financing of \$630,000 by issuing convertible debentures ("Debentures"). The Debentures accrue interest at the rate of 8% per annum payable semi-annually and mature on April 14, 2023. The Debentures are convertible to common shares of the Company at \$0.75 per share.

The holders of the Debentures are entitled to convert the unpaid principal and interest into common shares of the Company at a conversion price of \$0.75 per share. If at any time the daily weighted average trading price of the Company's shares is greater than \$1.00 for the preceding 10 days, the Company will have the option to convert the outstanding principal amount at the price of \$0.75 per share.

BevCanna Enterprises Inc.

Notes to the Consolidated Financial Statements

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(Expressed in Canadian dollar, unless otherwise noted)

16) Convertible debentures (continued)

The initial liability component of the Debentures was calculated at the present value of interest payments and expected return using an effective interest rate of 16% per annum. The equity component was determined using the residual method whereby, the fair value of the equity component is arrived at by deducting the amount determined separately for the liability from the face value of the instrument. As a result, the fair value of the conversion feature was determined to be \$118,252 and was recognized into the equity reserve of the Company.

On February 8, 2021, the Company completed an early redemption for \$115,000 of the debenture and paid \$124,532 towards the outstanding principal and accrued interest. On the same date, the Company converted \$15,000 of the debentures into 20,000 common shares. The Company reclassified \$3,754 from equity reserves to share capital related to this conversion.

No early redemptions were completed in 2022.

Naturo Debenture

On January 27, 2021, Naturo completed a debt settlement with an individual related to the CEO of the Company (Note 15) by issuing a convertible debenture for \$1,505,021 with an interest bearing at 10% per annum, payable monthly and maturing in 24 months. The debenture is convertible to common shares of the Company at \$0.40 per share at any time at the discretion of the debenture holder. Upon assumption by the Company on the Acquisition Date, the convertible debenture was valued at \$1,468,373 (Note 11).

On June 28, 2021, the Company entered into a debenture amendment and cancellation agreement with the related party to settle the \$1,505,020 in the convertible debenture plus a \$500,000 payable for finance charge, with a receivable of \$2,005,020 from the CEO of the Company. There was \$nil gain or loss on the settlement of these balances.

Upon the settlement, the convertible debenture has an outstanding balance of \$1,525,459 for the principal and accrued interest. Following the settlement, the excess \$20,439 accrued interest payable remains outstanding as of December 31, 2022.

Embark Debenture

On February On January 28, 2022, the Company completed the acquisition of Embark Health Inc. ("Embark"). The debenture is convertible to common shares of the Company at a price equal to the lesser of: (A) a 15% discount to the price attributable to the Shares issued in connection with the Qualified Financing; and (B) the Maturity Conversion Price of \$2.00 per share at any time at the discretion of the debenture holder. Upon assumption by the Company on the Acquisition Date, the convertible debenture was valued at \$526,348.

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Notes to the Consolidated Financial Statements

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16) Convertible debentures (continued)

Embark Debenture (continued)

	\$
Balance, December 31, 2020	510,090
Acquisition (Note 11)	1,468,373
Accretion expense	36,212
Finance charge	81,753
Conversion to shares (Note 19)	(15,000)
Early redemption	(115,000)
Settled	(1,505,020)
Balance, December 31, 2021	461,408
Acquisition (Note 11)	526,348
Addition	50,000
Accretion expense	45,552
Accretion expense (Embark)	(34,799)
Finance charge	42,916
Finance charge payment	(20,000)
Balance, December 31, 2022	1,071,425

17) Short term loans

The Company entered into three short term loans over the year 2022:

- The related party loans are non-interest-bearing and are repayable at any time.
- The purchase order factoring of individuals related to the CEO consisted of two individuals each providing \$125,000 USD with a \$25,000 USD financing fee each. \$25,000 USD of the principal was repaid during 2022, resulting in \$275,000 USD outstanding. Interest is calculated
- The Company entered into several factoring agreements against purchase order receivables with several creditors.

Balance, December 31, 2021	-
Related party	30,000
Purchase order factoring – individuals related to CEO	372,461
Purchase order factoring – Embark	1,291,401
Balance, December 31, 2022	1,693,862

BevCanna Enterprises Inc.

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18) CEBA loans

In April 2020, the Government of Canada funded the loan program Canada Emergency Business Account ("CEBA"). Companies were offered a \$40,000 non-interest-bearing loan with 25% loan forgiveness automatically applied if \$30,000 of the loan was repaid prior to December 31, 2021.

The repayment terms have since extended to December 31, 2023, and the loan offer has increased to \$60,000 with 33.33% of forgiveness automatically applied if 66.66% of the payment is received prior to December 31, 2023. The loan is repayable at any time without penalty, but amounts repaid cannot be readvanced.

If the term loan is not repaid by Dec 31, 2023, the term loan will automatically renew with a maturity date of December 31, 2025, subject to interest at 5% per annum, with payments of interest due monthly. In the event of default, the loan payable becomes due immediately.

	\$
Balance, December 31, 2020	24,787
Acquisition (Note 11)	58,595
Addition	8,425
Accretion expense	8,171
Balance, December 31, 2021	99,978
Acquisition (Note 11)	120,000
Accretion expense	10,022
Balance, December 31, 2022	230,000

The CEBA loans are accounted for using the amortized cost method discounted at an effective interest rate with the discount portion recorded as a government grant. During the year ended December 31, 2022, there was \$nil (2021 - \$11,575) recorded as government grant.

19) Share capital

Authorized

The Company is authorized to issue an unlimited number of common shares without par value.

Issued

During the year ended December 31, 2022, the Company entered into the following share capital transactions:

- On January 19, 2022, the Company issued 100,000 common shares to an external investor upon their exercise of stock options at the price \$0.275 per share.
- On January 27, 2022, the Company issued 54,925,889 common shares valued at \$10,161,289 pursuant to the acquisition of Embark (Note 11).
- On February 23, 2022, the Company issued 6,839,126 common shares to settle \$1,368,226 of debt owned to various vendors. The common shares had a fair value of \$1,094,260 and the Company recognized a gain on the settlement of debt of \$273,966.

BevCanna Enterprises Inc.

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(Expressed in Canadian dollar, unless otherwise noted)

19) Share capital (continued)

Issued (continued)

- On September 30, 2022, there were 5,900,692 common shares valued at \$1,091,628 returned to treasury pursuant to the finalization of the working capital adjustment clause of the acquisition of Embark. This makes the net issued shares for the acquisition of Embark 49,025,197 common shares valued at \$9,069,661 (Note 11).

During the year ended December 31, 2021, the Company entered into the following share capital transactions:

- In January, 2021, the Company issued 1,950,000 common shares to various consultants upon their exercise of stock options at the prices of \$0.30 to \$0.50 per share.
- On January 8, 2021, the Company issued 25,000 common shares to settle debt of \$37,500 with a consultant. The common shares issued had a fair value of \$26,750 and the Company recognized a gain on settlement of debt of \$10,750.
- On January 8, 2021, the Company completed a private placement of \$3,500,000 for 2,333,333 units of the Company at \$1.50 per unit. Each unit consists of one common share and one warrant, exercisable at \$2.00 per warrant and expiring in one year from the date of closing. Of the total amount, \$696,250 was received prior to December 31, 2020. Using the residual method, the common share purchase warrants were valued at \$1,003,333.
- On January 25, 2021, the Company issued 336,000 common shares to a consultant upon the exercise of share purchase warrants at the price of \$0.40 per share.
- In February, 2021, the Company issued 5,224,000 common shares to various consultants upon their exercise of stock options at the prices of \$0.30 to \$0.50 per share.
- In February, 2021, the Company issued 762,000 common shares to several consultants upon the exercise of share purchase warrants at the prices of \$0.30 to \$0.40 per share.
- On February 8, 2021, the Company issued 20,000 common shares on the conversion of \$15,000 of the Debenture (Note 16).
- On February 8, 2021, the Company issued 58,810 common shares to settle \$51,501 of debt owned to various vendors. The common shares had a fair value of \$54,105 and the Company recognized a loss on the settlement of debt of \$2,604.
- On February 18, 2021, the Company issued 50,000,000 common shares valued at \$61,772,161 pursuant to the acquisition of Naturo (Note 11). As part of the transaction, 3,717,000 common shares were reacquired and recorded in common shares held in treasury at a value of \$4,832,171.
- In March, 2021, the Company issued 450,000 common shares to several consultants upon their exercise of stock options at the prices of \$0.30 to \$0.50 per share.
- On March 15, 2021, the Company completed a private placement of 100,000 common shares of the Company for proceeds of \$100,000.

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19) Share capital (continued)

Issued (continued)

- On March 18, 2021, the Company issued 250,000 common shares to a consultant upon the exercise of share purchase warrants at the price of \$0.50 per share.
- In April, 2021, the Company issued 100,000 common shares to various consultants upon their exercise of stock options at the price of \$0.50 per share.
- In April, 2021, the Company issued 637,500 common shares to various consultants upon their exercise of stock options at the price of \$0.50 per share.
- In May 2021, the Company issued 200,000 common shares to two consultants upon their exercise of stock options at the prices of \$0.25 to \$0.30 per share.
- On May 5, 2021, the Company issued 614,825 common shares to various vendors to settle debt with a fair value of \$405,164 and for services with a fair value of \$68,250. The issuance resulted in a \$36,888 gain on the settlement of debt.
- On May 18, 2021, the Company issued 100,000 common shares to a consultant upon the exercise of share purchase warrants at the price of \$0.50 per share.
- In June 2021, the Company issued 400,000 common shares to various consultants upon their exercise of stock options at the prices of \$0.50 per share.
- In June 2021, the Company issued 400,000 common shares to two consultants upon their exercise of stock options at the price of \$0.50 per share.
- On June 28, 2021, the Company entered into a share purchase agreement with an individual related to the CEO to acquire 625,000 shares of the Company for \$250,000. The Company repurchased the shares by settlement and forgiveness of the outstanding amount of \$250,000 owed by the related party. The shares had a fair value of \$312,500, as a result, a gain of \$62,500 was recognized for the repurchase of these shares.
- On July 28, 2021, the Company issued 1,144,255 common shares to various vendors to settle debt with a fair value of \$629,340. The issuance resulted in a \$22,885 gain on the settlement of debt.
- In August 2021, the Company issued 600,000 common shares to two consultants upon their exercise of stock options at the price of \$0.50 per share.
- On September 13, 2021, the Company issued 886,412 common shares to various vendors to settle debt with a fair value of \$292,516. The issuance resulted in a \$105,778 gain on the settlement of debt.
- In October 2021, the Company issued 272,727 common shares to various consultants upon their exercise of stock options at the prices of \$0.275 per share.
- In November 2021, the Company issued 90,000 common shares to various consultants upon their exercise of stock options at the prices of \$0.275 per share.

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19) Share capital (continued)

Issued (continued)

- On November 23, 2021, the Company issued 2,321,306 common shares at a price of \$0.25 for debt settlements of \$605,895 with vendors, consultants and related parties, and 102,273 common shares for service rendered by a consultant with a value of \$28,125. The issuance resulted in a \$60,590 loss on the settlement of debt.
- In December 2021, the Company issued 274,075 common shares to various consultants upon their exercise of stock options at the prices of \$0.275 per share.

Obligations to issue shares:

During the year ended December 31, 2019, the Company received \$1,000,000 of proceeds towards the exercise of certain share purchase warrants issued during 2018. As at December 31, 2022, these warrants remained outstanding and unexercised. As a result, the amount remained to be classified as obligations to issue shares on the consolidated statement of financial position as at December 31, 2022.

20) Stock options

In 2018, the Company adopted an incentive stock option plan ("Plan"). Pursuant to the Company's stock option plan, directors may authorize the granting of options to directors, officers, employees and consultants of the Company. The expiry date for each option is determined by the board of directors at the time such option is granted. All options under the plan are non-assignable, non-transferrable and only exercisable by the optionee.

During the year ended December 31, 2022:

- On February 23, 2022, the Company granted 2,000,000 options with an exercise price of \$0.20 to a consultant and a director. The options vested 100% on the date of grant.

During the year ended December 31, 2021:

- On February 8, 2021, the Company granted 100,000 options with an exercise price of \$1.00 to a consultant and a director. The options are exercisable for one year and vested immediately.
- On February 18, 2021, the Company granted 450,000 options with an exercise price of \$0.25 and an expiry date of July 31, 2024 to Naturo option holders as part of the Naturo acquisition (Note 11). The options vested immediately.
- On April 19, 2021, the Company granted 1,000,000 stock options with an exercise price of \$1.50 and expiry date of May 19, 2023. The stock options are to vest based on a schedule set upon the satisfaction of certain non-market performance criteria related to achieving sales targets in a region. The value of these stock options was estimated to \$399,397. Based on the estimates made by management on the probability of achieving these targets, \$47,928 was recognized and included in the share-based payment for the year ended December 31, 2021.
- On September 15, 2021, the Company granted 2,500,000 stock options with an exercise price of \$0.45 and an expiry date of September 15, 2023 to certain officers, directors and consultants of the Company. The options vested immediately.

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20) Stock options (continued)

- On October 19, 2021, the Company granted 1,000,000 stock options with an exercise price of \$0.275 and expiration date of October 19, 2023. The options vested immediately.

A summary of the changes in the share options are presented below:

	Options outstanding	Weighted- average exercise price
At December 31, 2020	11,637,667	0.43
Granted	9,050,000	0.47
Exercised	(8,335,802)	0.40
Forfeited	(2,450,000)	0.44
At December 31, 2021	9,901,865	0.48
Granted	2,000,000	0.20
Exercised	(100,000)	0.28
Forfeited	(7,201,865)	0.38
At December 31, 2022	4,600,000	0.52

The following table summarizes information about the share options outstanding and exercisable at December 31, 2022:

Expiry date	Number of stock options outstanding	Number of stock options exercisable	Weighted average exercise price	Weighted average remaining contractual life
			\$	
May 19, 2023 ⁽¹⁾	1,000,000	1,000,000	1.50	0.38
June 23, 2023 ⁽¹⁾	2,000,000	1,000,000	0.20	0.48
October 5, 2023	1,000,000	1,000,000	0.28	0.76
February 28, 2024	250,000	250,000	0.50	1.16
July 31, 2024	350,000	350,000	0.25	1.58
	4,600,000	3,600,000	0.52	0.64

⁽¹⁾ Subsequent to December 31, 2022, 3,000,000 stock options expired unexercised.

During the year ended December 31, 2022, the Company recognized share-based payments expense of \$229,724 (2021 - \$892,243).

The estimated grant date fair value of the options granted during the year ended December 31, 2022 and 2021 was calculated using the Black-Scholes option pricing model with the following weighted-average assumptions:

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20) Stock options (continued)

	2022	2021
Risk-free interest rate	1.49%	0.67%
Expected life (years)	1.33	1.17
Annualized volatility	120.7%	95.6%
Dividend rate	0%	0%

21) Share purchase warrants

A summary of the changes in the share purchase warrants are presented below:

	Warrants outstanding	Weighted-average exercise price
		\$
At December 31, 2020	4,806,800	0.45
Granted	28,583,333	0.62
Expired	(24,762,500)	0.50
Exercised	(3,085,500)	0.45
At December 31, 2021	5,542,133	1.13
Granted	5,279,237	1.47
Exercised	(2,542,133)	1.87
At December 31, 2022	8,279,237	1.12

The following table summarizes information about the share options outstanding and exercisable at December 31, 2022:

Expiry date	Exercise price	Number of shares options outstanding	Weighted average remaining contractual life
	\$		
December 14, 2023	0.50	3,000,000	0.95
January 27, 2024	1.47	5,279,237	1.07
	1.12	8,279,237	1.03

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22) Non-controlling interest

The non-controlling interest attributes to the common shares representing 21% equity interest in Naturo Springs Ltd. held by non-controlling interest holders and is related to the consideration transferred in the acquisition of Naturo as described in Note 11. During the year ended December 31, 2022, the continuity of equity attributable to the non-controlling interest is as follows:

	Amount
Balance, December 31, 2020	-
Non-controlling interest acquired from the Acquisition of Naturo (Note 11)	(85,038)
Share of net loss for the period	(68,779)
Balance, December 31, 2021	(153,817)
Share of net loss for the period	(126,961)
Balance, December 31, 2022	(280,778)

The following is the summarized statement of financial position of Springs as at December 31, 2022:

	2022\$	2021 \$
Current:		
Assets	422,735	400,165
Liabilities	(3,854,735)	(3,353,519)
Current net liabilities	(3,432,000)	(2,953,354)
Non-current:		
Assets	1,656,723	1,776,323
Liabilities	-	(409)
Non-current net assets	1,656,723	1,775,914
Net liabilities	(1,775,277)	(1,177,440)

The following is the summarized comprehensive loss of Springs for the year ended December 31, 2022 and for the period from the Acquisition Date (Note 11) to December 31, 2021:

	2022 \$	2021 \$
Revenue	322,240	578,368
Expenses	(938,554)	(905,887)
Total comprehensive loss	(616,314)	(327,519)

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23) Revenue and cost of revenue

Revenue for the year ended December 31 is derived from sales of the following products:

	2022	2021
For the year ended	\$	\$
THC beverage	4,642,337	484,934
Bottled water	662,094	699,084
Natural health products	530,133	1,933,659
	5,834,564	3,117,677

Cost of revenue for the year ended December 31 is comprised of the following:

	2022	2021
For the year ended	\$	\$
THC beverage	3,287,950	217,008
Bottled water	769,584	546,362
Natural health products	507,813	1,486,234
	4,565,347	2,249,604

There are two customers accounting for more than 10% of gross revenue the Company generated during the year, specifically 32.9% and 13.0% (2021 – 14.4%), respectively, of total revenue. The amount receivable from this customer constitutes 13% and nil respectively (2021 – 4.9% and nil) of the amount receivable and has been fully received subsequent to December 31, 2022.

24) Financial instruments

Fair value

Financial instruments measured at fair value are classified into one of three levels in the fair value hierarchy according to the relative reliability of the inputs used to estimate the fair values. The three levels of the fair value hierarchy are:

- Level 1: Values based on unadjusted quoted prices in active markets that are accessible at the measurement date for identical assets or liabilities.
- Level 2: Values based on quoted prices in markets that are not active or model inputs that are observable either directly or indirectly for substantially the full term of the asset or liability.
- Level 3: Values based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement.

The carrying value of the Company's financial assets and liabilities including cash, amounts receivable and deposits and trade and other payables included in the consolidated statement of financial position at December 31, 2022 and 2021 approximate their fair value due to their short terms to maturity.

Financial risks

The Company's activities expose it to financial risks of varying degrees of significance which could affect its ability to achieve its strategic objectives for growth and shareholder returns. The principal financial risks to which the Company is exposed are credit risk, foreign exchange risk, liquidity risk and interest rate risk.

BevCanna Enterprises Inc.

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24) Financial instruments (continued)

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework and reviews the Company's policies on an ongoing basis. There have been no significant changes in the Company's exposure to these financial risks in the year ended December 31, 2022.

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.

The Company is subject to credit risk on its cash and trade receivables. The Company limits its exposure to credit loss on cash by placing its cash with a high-quality financial institution. The Company has concentrations of credit risk with respect to trade receivables as large amounts of its trade receivable are concentrated amongst a small number of customers. The Company performs credit evaluations of its customers but generally does not require collateral to support trade receivables. Trade receivables are shown net of any provision made for impairment of the receivables. Due to this factor, the Company believes that no additional credit risk, beyond the amounts provided for collection loss, is inherent in trade receivable.

Credit risk (continued)

Among amounts receivable, there is reserve income asset which primarily comprises balances either held back by the banks or amount recoverable from the government authority. Management believes the risk of loss on the reserve income asset to be minimal.

Liquidity risk

Liquidity risk is the risk that the Company will incur difficulties meeting its financial obligations as they are due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions.

Interest rate risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in interest rate. The Company is exposed to interest rate risk on its cash and debt instruments and has determined there is no material exposure related to interest rate risk as the debt is fixed rate. Based on borrowings that accrue interest as at December 31, 2022 and December 31, 2021, a 1% change in interest rate would not have a significant impact on net loss.

Foreign currency risk

Foreign currency risk is the risk that the fair values of future cash flows of a financial instrument will fluctuate because they are denominated in currencies that differ from the respective functional currency. The Company's exposure to currency risk is limited as the majority of its sales and expenditures are denominated in the same currency as its functional currency.

25) Segmented information

The Company determines its reportable segments based on the nature of operations and includes three operating segments: alkaline and mineralized beverages and supplements, CBD beverage and eCommerce. The alkaline and mineralized beverages include the development and manufacturing of TRACE brand and other beverages and supplements. The CBD beverage include the development and/or production of cannabinoid beverages and supplements for both in-house brands and white-label customers. The eCommerce segment includes direct-to-customer sales of natural health products including nutraceutical and hemp-based CBD products.

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25) Segmented information (continued)

The Company' financial information by reportable segment for the year ended December 31, 2022 and 2021 is as follows:

Year ended December 31, 2022:

	Non-Cannabis Beverage \$	Cannabis Beverage \$	eCommerce \$	Total \$
Revenue from external customers	662,094	4,642,337	530,133	5,834,564
Cost of revenue	769,584	3,287,950	507,813	4,565,347
Depreciation and amortization	466,524	368,985	-	835,509
Other selling, general and administrative expenses	1,273,461	16,019,653	122,073	16,006,284
Segment income (loss)	(1,847,475)	(15,034,251)	(99,753)	(16,981,479)
Segment assets	15,998,933		340,869	21,799,269
Segment liabilities	11,371,224	3,817,909	172,093	25,361,226

Year ended December 31, 2021:

	Non-Cannabis Beverage \$	Cannabis Beverage \$	eCommerce \$	Total \$
Revenue from external customers	699,084	484,934	1,933,659	3,117,677
Cost of revenue	546,362	217,008	1,486,234	2,249,604
Depreciation and amortization	381,891	2,080,699	-	2,462,590
Other selling, general and administrative expenses	1,003,802	9,240,163	278,318	10,522,283
Segment income (loss)	(1,232,971)	(11,052,936)	169,107	(12,116,800)
Segment assets	10,377,367	8,087,174	461,661	18,926,202
Segment liabilities	3,551,081	2,599,271	206,041	6,356,393

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25) Segmented information (continued)

The Company' financial information by geography for the year ended December 31, 2022 and 2021 is as follows:

	Canada \$	U.S.A. \$	Total \$
<i>Assets</i>			
As at December 31, 2022			
Current	2,409,628	340,869	2,750,497
Non-current	19,048,772	-	19,048,772
Total assets	21,458,400	340,869	21,799,269
As at December 31, 2021			
Current	2,037,942	342,648	2,380,590
Non-current	16,545,611	-	16,545,611
Total assets	18,583,553	342,648	18,926,201
<i>Revenue</i>			
For the year ended December 31, 2022	5,304,431	530,133	5,834,564
For the year ended December 31, 2021	1,184,018	1,933,659	3,117,677
<i>Net income (loss)</i>			
For the year ended December 31, 2022	(16,881,726)	(99,753)	(16,981,479)
For the year ended December 31, 2021	(99,115,057)	(169,107)	(98,945,950)

26) Commitments and contingencies

(a) Commitments

Contractual Obligations

As at December 31, 2022	Carrying amount \$	Contractual cash flows \$	Under 1 year \$	1-3 years \$
Trade payable and accrued liabilities	9,774,315	9,774,315	9,774,315	-
Due to related parties	105,000	105,000	105,000	-
Promissory note	2,431,468	2,431,468	2,431,468	-
ST Loan Payable	1,693,862	1,693,862	1,693,862	-
Leasing Obligation	4,714	4,714	4,714	-
Convertible debentures	1,071,425	1,071,425	1,071,425	-
CEBA loan	230,000	230,000	-	230,000
Total	15,310,784	15,310,784	15,080,784	230,000

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26) Commitments and contingencies (continued)

(b) Contingencies

The Company is a party to a variety of agreements in the ordinary course of operation, under which it may be obligated to indemnify third parties with respect to certain matters. Certain conditions may exist as of the date the consolidated financial statements are issued, which may result in a loss to the Company. Management assesses such contingent liabilities and such assessment inherently involves an exercise of judgment. In assessing loss contingencies related to claims, proceedings or litigation that are pending against the Company or unasserted claims that may result in such proceedings, if the assessment of a contingency indicates that it is probable that a material loss has been incurred and the amount of the liability can be estimated, the estimated liability would be accrued in the Company's consolidated financial statements.

During 2021, the Company received a claim for an alleged settlement of damages. Legal advice obtained as at the time the financial statements were prepared indicated that it is likely that the claim could result in an award of \$125,000 (Note 13), as such, the company has expensed this amount as a loss on debt settlement in 2021. This was settled and paid in full in July of 2023

The Company is involved in other litigation and disputes arising in the normal course of operations. Management is of the opinion that the outcome of any potential litigation will not have a material adverse impact on the Company's financial position or results of operations. Accordingly, no provisions for the settlement of other outstanding litigation and potential claims have been accrued.

27) Capital management

The Company's objective when managing capital is to maintain a flexible capital structure for its projects for the benefit of its stakeholders. The Company's main source of funds is from its ability to raise public and/or private equity or loan financing. The Company manages the capital structure and makes appropriate adjustments to it based upon changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue new shares, issue new debt, acquire or dispose of assets.

In 2022 the capital focus was on reduction of expenses and conservation of cash. This was completed through the development of purchase order factoring.

The Company's investment policy is to invest its available cash in Canadian chartered banks and from time to time in guaranteed term deposits at fixed interest rates established at the time of investment. All its funds are available for project and corporate objectives.

The Company considers cash to include amounts held in banks. The Company places its cash with institutions of high credit worthiness.

The Company is not subject to any externally imposed capital requirements. There is no change in the way the Company manages its capital during the year ended December 31, 2022.

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28) Income taxes

The tax effect of the significant temporary differences, which comprise deferred income tax assets and liabilities, are as follows:

	2022	2021
	\$	\$
Net loss before income tax	(16,981,479)	(98,945,950)
Statutory income tax rate	27.00%	27.00%
Expected income tax (recovery)	(4,585,000)	(26,715,000)
Change in foreign exchange rates and other	-	-
Permanent Difference	2,145,000	20,339,000
Share issue cost	-	(11,000)
Change in unrecognized deductible temporary differences	2,440,000	6,123,000
Other	-	264,000
Total income tax recovery	-	-

The significant components of the Company's deferred tax assets that have not been included on the consolidated statement of financial position are as follows:

	2022	2021
	\$	\$
Deferred tax assets (liabilities)		
Non-capital losses	12,695,000	11,751,000
Property and equipment	234,000	(619,000)
Capital losses	19,000	19,000
Share issue costs and other	289,000	352,000
Intangible assets	1,441,000	1,984,000
	14,678,000	13,487,000
Unrecognized deferred tax assets	(14,678,000)	(13,487,000)
Net deferred tax assets	-	-

The Company has available non-capital losses of approximately \$47,017,000 that expire between 2027 and 2043 and may be carried forward and applied against income for tax purposes.

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29) Subsequent Events

Debt

On July 21, 2023, the Company received \$600,000 short term mortgage loan from a third-party group. The loan is secured with second charge on the Company's land and property at Bridesville. The loan is due in three months, bearing an interest of 13.5% per annum, compounded monthly for first two months and 21% per annum, after two months. The Company paid a 2% fee to the broker and a \$3,000 fee for closing the short-term loan. The Company used \$200,000 of the proceeds to pay off outstanding debt, which included a \$125,000 CPL charge against the property and \$400,000 for working capital.

Purchase Order Factoring

Subsequent to December 31, 2022, the Company entered into several factoring agreements against purchase order receivables with several creditors and obtained total advances of approximately \$1,852,703. For the amounts advanced against the purchase order receivables, the Company has repaid approximately \$1,567,995 and incurred facilitation fees of \$149,763 in total.