

**POTENT VENTURES INC.**

**CONSOLIDATED FINANCIAL STATEMENTS**

**For the year ended September 30, 2021**

(Expressed in United States Dollars)

## INDEPENDENT AUDITOR'S REPORT

To the Shareholders of  
Potent Ventures Inc.

### *Opinion*

We have audited the accompanying consolidated financial statements of Potent Ventures Inc. (the "Company"), which comprise the consolidated balance sheets as at September 30, 2021 and 2020 and the consolidated statements of operations and comprehensive loss, changes in shareholders' equity, and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at September 30, 2021 and 2020, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

### *Basis for Opinion*

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

### *Material Uncertainty Related to Going Concern*

We draw attention to Note 1 of the consolidated financial statements, which indicates the Company's ability to continue as a going concern is dependent upon its ability in the future to achieve profitable operations and, obtain the necessary financing to meet its near-term obligations such that it can repay its liabilities when they become due. As stated in Note 1, these events and conditions indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

### *Other Information*

Management is responsible for the other information. The other information obtained at the date of this auditor's report includes Management's Discussion and Analysis.

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

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



We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

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

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

### ***Auditor's Responsibilities for the Audit of the Consolidated Financial Statements***

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

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Dylan Connelly.

A handwritten signature in black ink that reads "Davidson & Coysany LLP". The signature is written in a cursive, flowing style.

Vancouver, Canada

Chartered Professional Accountants

January 28, 2022

**POTENT VENTURES INC.**  
**CONSOLIDATED BALANCE SHEETS**  
(Expressed in United States Dollars)

AS AT	<i>Note</i>	September 30, 2021	September 30, 2020
<b>ASSETS</b>			
<b>Current</b>			
Cash		\$ 716,801	\$ 638,982
Inventory and deposits for inventory	4	-	53,232
Receivables		-	6,469
Loans receivable	6	-	230,129
Prepaid expenses and deposits		10,683	5,428
		727,484	934,240
<b>Non-Current</b>			
Investments	7	128,216	-
Property and equipment	8	-	148,066
Right of use asset	8	32,674	57,863
<b>Total assets</b>		<b>\$ 888,374</b>	<b>\$ 1,140,169</b>
<b>LIABILITIES AND EQUITY</b>			
<b>Current</b>			
Accounts payable and accrued liabilities		\$ 29,711	\$ 6,010
Lease liability	8	11,516	18,982
		41,227	24,992
<b>Non-Current</b>			
Lease liability	8	25,910	42,709
<b>Total Liabilities</b>		<b>67,137</b>	<b>67,701</b>
<b>Equity</b>			
Share capital	11	45,313,655	44,072,332
Reserves	11	7,768,906	7,278,107
Deficit		(52,156,075)	(50,172,722)
Total equity attributable to shareholders of the Company		926,486	1,177,717
Non-controlling interest		(105,249)	(105,249)
Total equity		821,237	1,072,468
<b>Total liabilities and equity</b>		<b>\$ 888,374</b>	<b>\$ 1,140,169</b>

**Nature and continuance of operations (Note 1)**

Approved on behalf of the Board of Directors and authorized for issuance on January 28, 2022:

“Signed”  
\_\_\_\_\_  
Charlie Lamb, Director

“Signed”  
\_\_\_\_\_  
Brian Keane, Director

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

**POTENT VENTURES INC.**  
**CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS**  
(Expressed in United States Dollars)

	<i>Note</i>	September 30, 2021	September 30, 2020
<b>Revenue</b>		\$ 47,297	\$ 133,379
<b>Cost of goods sold</b>		44,466	89,644
Gross margin		2,831	43,735
<b>Expenses</b>			
General and administrative	15	1,053,017	1,212,441
Professional fees		173,028	344,481
Share-based compensation	11	501,071	329,800
Northern Lights Organics milestone payment	9	-	26,341
Depreciation	8	25,189	27,007
<b>Total expenses</b>		1,752,305	1,940,070
Loss before other items		(1,749,474)	(1,896,335)
Impairment - loan receivable	6	(44,906)	(315,298)
Impairment - property and equipment		-	(581,125)
Impairment - assets held for sale	10	(85,011)	-
Gain on settlement of debt		-	113,334
Impairment - inventory		(16,011)	(89,129)
Impairment - inventory deposit		(99,988)	-
Unrealized gain on investments	7	18,303	-
Interest and other		(6,266)	(1,554)
Loss from continuing operations		(1,983,353)	(2,770,107)
Net loss from discontinued operations	10	-	(669,417)
<b>Net loss for the year</b>		(1,983,353)	(3,439,524)
Other comprehensive loss			
Translation adjustment		12,677	(19,073)
<b>Comprehensive loss for the year</b>		\$ (1,970,676)	\$ (3,458,597)
Comprehensive loss attributable to:			
Net loss - shareholders of the Company		(1,983,353)	(3,383,206)
Net loss - non-controlling interest		-	(56,318)
Translation adjustment		12,677	(19,073)
		\$ (1,970,676)	\$ (3,458,597)
<b>Loss per share</b>			
Basic and diluted - continuing operations		\$ (0.03)	\$ (0.08)
Basic and diluted - discontinued operations		\$ -	\$ (0.02)
Total		\$ (0.03)	\$ (0.10)
<b>Weighted average number of common shares</b>			
Basic and diluted		66,754,330	35,387,360

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

**POTENT VENTURES INC.**  
**CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY**  
(Expressed in United States Dollars)

	Number of common shares	Share Capital	Reserves	Translation adjustment reserve	Non-controlling interest	Deficit	Total equity
<b>Balance, September 30, 2019</b>	35,284,420	\$ 44,723,002	\$ 7,096,507	\$ (182,040)	\$ (48,931)	\$ (48,681,062)	\$ 2,907,476
Common shares issued for cash	7,091,200	831,661	-	-	-	-	831,661
Common shares issued for settlement of debt	317,004	37,263	-	-	-	-	37,263
Common shares issued for services	4,190,516	442,381	-	-	-	-	442,381
Common shares issued upon exercise of warrants	36,000	17,030	-	-	-	-	17,030
Shares issued under NLO agreement	80,000	26,341	-	-	-	-	26,341
Cancellation of shares - R&D Pharma Corp.	(620,008)	(604,433)	-	-	-	604,433	-
Cancellation of shares - services	(1,339,448)	(1,287,113)	-	-	-	1,287,113	-
Shares issuance costs - cash	-	(60,887)	-	-	-	-	(60,887)
Finders' warrants	-	(52,913)	52,913	-	-	-	-
Share-based compensation	-	-	329,800	-	-	-	329,800
Translation adjustment	-	-	-	(19,073)	-	-	(19,073)
Net loss for the year	-	-	-	-	(56,318)	(3,383,206)	(3,439,524)
<b>Balance, September 30, 2020</b>	45,039,684	\$ 44,072,332	\$ 7,479,220	\$ (201,113)	\$ (105,249)	\$ (50,172,722)	\$ 1,072,468
Common shares issued for cash	35,272,004	1,188,455	-	-	-	-	1,188,455
Common shares issued upon exercise of options	1,000,000	95,145	(36,811)	-	-	-	58,334
Common shares issued upon exercise of warrants	254,400	11,802	-	-	-	-	11,802
Shares issuance costs - cash	-	(40,217)	-	-	-	-	(40,217)
Finders' warrants	-	(13,862)	13,862	-	-	-	-
Share-based compensation	-	-	501,071	-	-	-	501,071
Translation adjustment	-	-	-	12,677	-	-	12,677
Net loss for the year	-	-	-	-	-	(1,983,353)	(1,983,353)
<b>Balance, September 30, 2021</b>	81,566,088	\$ 45,313,655	\$ 7,957,342	\$ (188,436)	\$ (105,249)	\$ (52,156,075)	\$ 821,237

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

**POTENT VENTURES INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(Expressed in United States Dollars)

	September 30, 2021	September 30, 2020
<b>Operating activities</b>		
Net loss for the year	\$ (1,983,353)	\$ (3,439,524)
Adjusted for:		
Depreciation	25,189	27,007
Share-based compensation	501,071	329,800
Gain on debt settlement	-	113,334
Fair value adjustment - long term investment	(18,303)	-
Northern Lights Organics milestone payment	-	26,341
Shares issued for service	-	442,381
Impairment - loan receivable	44,906	315,298
Impairment - equipment	85,011	581,123
Impairment - inventory and inventory deposits	115,999	89,129
Impairment - assets held for sale	-	144,127
Changes in non-cash working capital:		
Receivables	6,469	25,112
Prepaid expenses	(5,255)	34,440
Accounts payable and accrued liabilities	30,669	(284,856)
Inventory and inventory deposits	(62,767)	(21,144)
Cash flows from discontinued operations	-	(1,708)
Cash flows from operating activities	(1,260,364)	(1,619,140)
<b>Investing activities</b>		
Property and equipment	70,803	(250,715)
Disposition of available for sale assets	-	282,766
Loans receivable - repaid	80,000	862,580
Loans receivable	-	(130,129)
Cash flows from investing activities	150,803	764,502
<b>Financing activities</b>		
Common shares issued for cash	1,188,455	831,661
Share issue costs	(40,217)	(60,887)
Common shares issued upon exercise of options and warrants	70,136	17,030
Lease repayments	(24,265)	(19,840)
Cash flows from financing activities	1,194,109	767,964
Effect of exchange rate changes on cash	(6,729)	(97,289)
<b>Decrease in cash</b>	<b>77,819</b>	<b>(183,963)</b>
<b>Cash, beginning of year</b>	<b>638,982</b>	<b>822,945</b>
<b>Cash, end of year</b>	<b>\$ 716,801</b>	<b>\$ 638,982</b>
<b>Supplemental cash flow information</b>		
Promissory note received for asset sale (Note 6)	\$ -	\$ 100,000
Desposit for land paid in prior year	\$ -	\$ 226,530
Fair value of finders' warrants	\$ 13,862	\$ 52,913

No cash was paid for interest or income taxes for the periods presented.

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



**POTENT VENTURES INC.**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2021

(Expressed in United States Dollars unless otherwise noted)

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**1. NATURE AND CONTINUANCE OF OPERATIONS**

Potent Ventures Inc. (the “Company”, Formerly Weekend Unlimited Industries Inc.) was incorporated pursuant to the provisions of the *British Columbia Business Corporations Act* on September 21, 2017. The Company’s registered and records office address is 1066 West Hastings Street, Vancouver BC V6E 3X1.

The Company is a provider of branded packaging in the regulated cannabis industry. The Company’s focus is on building and facilitating the growth of a diversified portfolio of branded consumer products.

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) with the assumption that the Company will be able to realize its assets and discharge its liabilities in the normal course of business rather than through a process of forced liquidation. The financial statements do not include adjustments to amounts and classifications of assets and liabilities that might be necessary should the Company be unable to continue operations. The Company’s ability to continue as a going concern is dependent upon its ability in the future to achieve profitable operations and, obtain the necessary financing to meet its near-term obligations such that it can repay its liabilities when they become due. The inability to achieve these objectives may cast significant doubt about the Company’s ability to continue as a going concern.

On April 28, 2021 the Company completed a roll forward of its common shares (“share consolidation”) on the basis of four post-roll forward common share for every one pre-roll forward common shares held (1-to-4). All references contained in these consolidated financial statements to issued and outstanding common shares, warrants, per share amounts, and exercise prices, have been retroactively restated to reflect the effect of the share roll forward.

The Company is subject to regulation under the federal and provincial laws of Canada and certain civic and state laws in the United States of America. Almost half of the states in the United States have enacted legislation to regulate the sale and use of medical cannabis without limits on tetrahydrocannabinol (“THC”), while other states have regulated the sale and use of medical cannabis with strict limits on the levels of THC. Notwithstanding the permissive regulatory environment of adult-use recreational and medical cannabis at the state level, cannabis continues to be categorized as a controlled substance under the Controlled Substances Act (the “CSA”) in the United States and as such, cannabis-related practices or activities, including without limitation, the manufacture, importation, possession, use or distribution of cannabis are illegal under United States federal law. Strict compliance with state laws with respect to cannabis will neither absolve the Company of liability under United States federal law, nor provide a defense to any federal proceeding which may be brought against the Company. Any such proceedings brought against the Company may adversely affect the Company’s operations and financial performance.

On March 11, 2020, the World Health Organization categorized COVID-19 as a pandemic. The potential economic effects within the Company’s environment and in the global markets, possible disruption in supply chains, and measures being introduced at various levels of government to curtail the spread of the virus (such as travel restrictions, closures of non-essential municipal and private operations, imposition of quarantines and social distancing) could have a material impact on the Company’s operations. The extent of the impact of this outbreak and related containment measures on the Company’s operations cannot be reliably estimated.

**POTENT VENTURES INC.**

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2021

(Expressed in United States Dollars unless otherwise noted)

**2. BASIS OF PRESENTATION****Statement of compliance**

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and interpretations of the IFRS Interpretations Committee (“IFRIC”).

**Basis of measurement**

These consolidated financial statements have been prepared on a historical cost basis, except for financial instruments classified as financial instruments at fair value through profit or loss, which are stated at fair value. In addition, these consolidated financial statements have been prepared using the accrual basis of accounting except for cash flow information.

**Presentation and functional currency**

The consolidated financial statements of the Company are presented in United States dollars. The functional currency of the Company is the Canadian dollar. The functional currency of the Company’s wholly owned subsidiaries is detailed below.

**Consolidation**

These consolidated financial statements include the accounts of the Company and its subsidiaries, which are controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity and be exposed to the variable returns from its activities. The list below sets out the principal subsidiaries of the Company. These subsidiaries engage in intercompany transactions, all of which are eliminated upon the preparation of these consolidated financial statements:

<b>Name of subsidiary</b>	<b>Abbreviation</b>	<b>Country of Incorporation</b>	<b>Percentage Ownership</b>	<b>Functional Currency</b>	<b>Principal Activity</b>
Weekend Unlimited Holdings Inc.	Weekend Holdings	USA	100%	CAD	Holding Company
Weekend Unlimited Washington, LLC	Weekend Washington	USA	100%	CAD	Branding services
Wknd Shop, LLC (Formerly S&K Industries LLC)	Wknd Shop	USA	100%	CAD	Hemp products
Elevation Growers Ltd. (Formerly Cannabis Brands Inc.)	EG	CAN	100%	CAD	Holding Company
Northern Lights Organics Inc.	NLO	CAN	70%	CAD	Hemp Cultivation

**POTENT VENTURES INC.**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2021

(Expressed in United States Dollars unless otherwise noted)

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**3. USE OF ESTIMATES, ASSUMPTIONS, AND JUDGEMENTS**

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities and contingent liabilities at the date of the consolidated financial statements, and the reported amounts of expenses during the reporting period. Estimates and assumptions are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Uncertainty about these judgments, estimates and assumptions could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in future periods.

**Impairment of long-lived assets**

Long-lived assets, including property and equipment, are reviewed for impairment annually or whenever events or changes in circumstances indicate that the carrying amount of an asset exceeds its recoverable amount. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or group of assets (CGU). The recoverable amount of an asset or a CGU is the higher of its fair value, less costs to sell, and its value in use. If the carrying amount of an asset exceeds its recoverable amount, an impairment charge is recognized immediately in profit or loss by the amount by which the carrying amount of the asset exceeds the recoverable amount. Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the lesser of the revised estimate of recoverable amount, and the carrying amount that would have been recorded had no impairment loss been recognized previously.

**Share-based payments**

The Company utilizes the Black-Scholes option pricing model ("Black-Scholes") to estimate the fair value of warrants and stock options granted to directors, officers, employees, consultants. The use of Black-Scholes requires management to make various estimates and assumptions that impact the value assigned to the stock options including the forecast future volatility of the stock price, the risk-free interest rate, dividend yield and the expected life of the stock options. Any changes in these assumptions could have a material impact on the Share-based compensation calculation value, however the most significant estimate is the volatility. The Company estimated volatility based on historic share prices of companies operating in the regulated cannabis industry. Historical volatility is not necessarily indicative of future volatility. The expected life of stock options or warrants is determined based on the estimate that they would be exercised evenly over their term. There was no recent history of stock option exercises available to consider in the estimate of expected life at the time of grant.

**POTENT VENTURES INC.**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2021

(Expressed in United States Dollars unless otherwise noted)

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**4. SIGNIFICANT ACCOUNTING POLICIES**

**Foreign currencies**

*Functional and presentation currency*

The functional currency is the currency of the primary economic environment in which the entity operates. The functional currency of the Company and its subsidiaries was determined by conducting an analysis of the consideration factors identified in IAS 21, “The Effects of Changes in Foreign Exchange Rates” (“IAS 21”). The functional currency of the Company and its subsidiaries is included within Note 2.

*Translation of foreign transactions and balances into the functional currency*

Foreign currency transactions are translated into the functional currency of the Company at rates of exchange prevailing on the dates of the transactions. At each reporting date, all monetary assets and liabilities that are denominated in foreign currencies are translated to the functional currency of the Company at the rates prevailing at the date of the statement of financial position. Foreign exchange gains and losses resulting from the settlement of such transactions are recognized in profit or loss.

*Translation of the functional currency into the presentation currency*

The results of operations which have a different presentation currency than the Company are translated to US dollars at appropriate average rates of exchange during the period. The assets and liabilities of these operations are translated to US dollars at rates of exchange in effect at the end of the period. Gains or losses arising on translation of these operations to US dollars at period end are recognized in accumulated other comprehensive income as a translation adjustment.

**Share-based payments**

The Company may grant stock options to acquire common shares of the Company to directors, officers, employees and consultants. An individual is classified as an employee when the individual is an employee for legal or tax purposes or provides services similar to those performed by an employee.

The fair value of stock options is measured on the date of grant, using the Black-Scholes option pricing model, and is recognized over the vesting period. Consideration paid for the shares on the exercise of stock options is credited to share capital.

In situations where equity instruments are issued to non-employees and some or all of the goods or services received by the entity as consideration cannot be specifically identified, they are measured at fair value of the share-based payment. Otherwise, share-based payments are measured at the fair value of goods or services received.

**POTENT VENTURES INC.**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2021

(Expressed in United States Dollars unless otherwise noted)

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**4. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Income taxes**

Income tax on the profit or loss for the periods presented comprises current and deferred tax. Income tax is recognized in profit or loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity. Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at period end, adjusted for amendments to tax payable with regards to previous years.

Deferred tax is recorded by providing for temporary differences, between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes; the initial recognition of assets or liabilities which affect neither accounting nor taxable loss as well as differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the consolidated statement of financial position date. A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized.

Additional income taxes that arise from the distribution of dividends are recognized at the same time as the liability to pay the related dividend. Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

**Loss per share**

The Company presents basic loss per share for its common shares, calculated by dividing the loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted loss per share does not adjust the loss attributable to common shareholders or the weighted average number of common shares outstanding when the effect is anti-dilutive.

**POTENT VENTURES INC.**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2021

(Expressed in United States Dollars unless otherwise noted)

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**4. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Financial instruments**

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 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

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 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.

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) FVTPL; 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. Accounts payable and accrued liabilities is classified on the statement of financial position at amortized cost.

**Inventory**

Inventories of finished goods and packing materials are valued initially at cost and subsequently at the lower of cost and net realizable value. Inventory consists of infused products, accessories, and product packaging. Net realizable value is determined as the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. Cost is determined using the weighted average cost basis. Products for resale and supplies and consumables are valued at the lower of cost and net realizable value. The Company reviews inventory for obsolete and slow-moving goods and any such inventory is written-down to net realizable value. During the period the Company expensed \$44,466 of inventory to cost of goods sold (September 30, 2020 - \$89,644) and impaired \$16,011 of obsolete inventory.

**POTENT VENTURES INC.**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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**4. SIGNIFICANT ACCOUNTING POLICIES**

**Impairment of non-financial assets**

The Company reviews the carrying amounts of its non-financial assets, including property and equipment and other non-current assets, when events or changes in circumstances indicate the assets may not be recoverable. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash generating unit to which the asset belongs. Assets carried at fair value are excluded from impairment analysis.

The recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows to be derived from continuing use of the asset or cash generating unit are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Fair value less costs of disposal is the amount obtainable from the sale of an asset or cash generating unit in an arm's length transaction between knowledgeable, willing parties, less the cost of disposal. When a binding sale agreement is not available, fair value less costs of disposal is estimated using a discounted cash flow approach with inputs and assumptions consistent with those of a market participant. If the recoverable amount of an asset or cash generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash generating unit is reduced to its recoverable amount. An impairment loss is recognized immediately in net income. Where an impairment loss subsequently reverses, the carrying amount of the asset or cash generating unit is increased to the revised estimate of its recoverable amount, such that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized.

**Property and equipment**

Property and equipment are stated at cost, net of accumulated depreciation and accumulated impairment losses, if any. Depreciation is calculated using the following methods and rates:

<b>Category</b>	<b>Method</b>	<b>Rate</b>
Building	Declining balance	5%
Equipment	Declining balance	20%

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected from its use. Any gain or loss arising from derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying value of the asset) is included in the profit or loss in the period the asset is derecognized. The assets' residual values, useful lives and methods of depreciation are reviewed at each reporting date, and adjusted prospectively, if appropriate.

**POTENT VENTURES INC.**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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**4. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Revenue**

The Company's accounting policy for revenue recognition under IFRS 15 is as follows:

To determine the amount and timing of revenue to be recognized, the Company follows a 5-step process:

1. Identifying the contract with a customer
2. Identifying the performance obligations
3. Determining the transaction price
4. Allocating the transaction price to the performance obligations
5. Recognizing revenue when/as performance obligation(s) are satisfied.

Revenue from the direct sale of branded products and branded packaging for a fixed price is recognized when the Company transfers control of the good to the customer upon delivery.

**Share capital**

Common shares are classified as shareholders' equity. Incremental costs directly attributable to the issue of common shares and other equity instruments are recognized as a deduction from shareholders' equity. Common shares issued for consideration other than cash, are valued based on their market value at the date the shares are issued.

The Company has adopted a residual value method with respect to the measurement of warrants attached to private placement units. The residual value method first allocates value to the more easily measurable component based on fair value and then the residual value, if any, to the less easily measurable component. The Company considers the fair value of common shares issued in the private placements to be the more easily measurable component and the common shares are valued at their fair value, as determined by the closing market price on the announcement date. The balance, if any, is allocated to the attached warrants. Any fair value attributed to the warrants is recorded as reserves.

**Non-controlling interest**

Non-controlling interest in the Company's less than wholly owned subsidiaries is classified as a separate component of equity. On initial recognition, non-controlling interest is measured at the fair value of the non-controlling entity's contribution into the related subsidiary. Subsequent to the original transaction date, adjustments are made to the carrying amount of non-controlling interest for the non-controlling interest's share of changes to the subsidiary's equity.

Changes in the Company's ownership interest in a subsidiary that do not result in a loss of control are recorded as equity transactions. The carrying amount of non-controlling interest is adjusted to reflect the change in the non-controlling interest's relative interest in the subsidiary, and the difference between the adjustment to the carrying amount of non-controlling interests and the Company's share of proceeds received and/or consideration paid is recognized directly in equity and attributed to owners of the Company.



**POTENT VENTURES INC.**

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**4. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Leases**

To identify a lease, the Company (1) considers whether an explicit or implicit asset is specified in the contract and (2) determines whether the Company obtains substantially all the economic benefits from the use of the underlying asset by assessing numerous factors, including but not limited to substitution rights and the right to determine how and for what purpose the asset is used.

When assessing the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option or to not exercise a termination option. This judgment is based on factors such as contract rates compared to market rates, economic reasons, significance of leasehold improvements, termination and relocation costs, installation of specialized assets, residual value guarantees, and any sublease term.

The Company has elected not to recognize right-of-use assets and lease liabilities for low-value assets or short-term leases with a term of 12 months or less. These lease payments are recognized in operating expenses over the lease term.

The lease liability is initially measured at the present value of the lease payments that are not paid. The Company elected to not separate non-lease components from lease components and to account for the non-lease and lease components as a single lease component. Lease payments generally include fixed payments less any lease incentives receivable. The lease liability is discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. The Company estimates the incremental borrowing rate based on the lease term, collateral assumptions, and the economic environment in which the lease is denominated. The lease liability is subsequently measured at a amortized cost using the effective interest method. The lease liability is remeasured when the expected lease payments change as a result of new assessments of contractual options and residual value guarantees.

The right-of-use asset is recognized at the present value of the liability at the commencement date of the lease less any incentives received from the lessor. Added to the right-of-use asset are initial direct costs, payments made before the commencement date, and estimated restoration costs. The right-of-use asset is subsequently depreciated on a straight-line basis from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability. Upon adoption of IFRS 16 the Company recorded a right of use asset of \$81,531 and a lease liability of a corresponding amount. The right of use asset was measured at the present value of the remaining lease payments, discounted using the Company's weighted average incremental borrowing rate of 15%.

**5. RECENT ACCOUNTING PRONOUNCEMENTS**

**Recent accounting policies**

The Company has not yet adopted certain standards, interpretations to existing standards and amendments which have been issued but have an effective date on or later than October 1, 2021. Many of these updates are not currently relevant to the Company and are therefore not discussed herein.

**POTENT VENTURES INC.**

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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(Expressed in United States Dollars unless otherwise noted)

**6. LOANS RECEIVABLE**

A summary of the Company's loans receivable is as follows:

	Love Hemp Group Plc	Orchard Bloom LLC	Ruby Mae's LLC	MDFD Holdings LLC	Northern Lights Supply Inc.	Total
<b>Balance, September 30, 2019</b>	-	500,000	-	-	490,815	990,815
Loans granted	105,129	-	25,000	100,000	-	230,129
Loans repaid	-	(278,565)	-	-	(384,015)	(662,580)
Impairment	-	(221,435)	-	-	(93,863)	(315,298)
Foreign exchange variance	-	-	-	-	(12,937)	(12,937)
<b>Balance, September 30, 2020</b>	\$ 105,129	\$ -	\$ 25,000	\$ 100,000	\$ -	\$ 230,129
Impairment	-	-	-	(44,906)	-	(44,906)
Loans repaid	-	-	(25,000)	(55,000)	-	(80,000)
Loan settled for shares	(116,347)	-	-	-	-	(116,347)
Foreign exchange variance	11,218	-	-	(94)	-	11,124
<b>Balance, September 30, 2021</b>	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

Love Hemp Group Plc

In February 2020, the Company advanced Love Hemp Group Plc ("LHG") an unsecured demand loan of \$116,347 (CAD \$140,000) bearing interest of 5%. The loan matured November 1, 2020. LHG was considered a related party due to common directors of each Company. On November 1, 2020 the Company amended the maturity date to May 1, 2021. During the year ended September 30, 2021 the Company settled the loan balance in exchange for 3,000,000 Ordinary shares of LHG. LHG is no longer considered a related party as both Charlie Lamb and Robert Payment have now resigned from LHG.

Orchard Bloom LLC

During the year ended September 30, 2018 the Company advanced funds totaling \$500,000 to a Washington State Cannabis Cultivator and Processor, an unrelated third party. The advanced funds are unsecured, accrue interest at 5% and have a maturity date of October 2023. In October 2018 the Company formalized the advance by entering a promissory note for a principal sum of up to \$600,000.

The principal balance shall accrue interest at an annual rate of 5% per year. The note is to be repaid in the form of sixty equal monthly payments commencing from the date funds are released from escrow. In the event of late payment, the borrower shall have 30 days to cure any late payment after which time interest of 15% per annum will accrue until such late payments are cured and all accrued interest has been paid. The Company received an immediate payment of \$278,565 upon entering a settlement agreement with the lender and impaired the remaining loan balance of \$221,435.

Ruby Mae's LLC

During the year ended September 30, 2019, the Company received a non-interest bearing secured note in the amount of \$25,000 from Ruby Mae's LLC. The maturity date of the note was February 28, 2020. The maturity date was extended to March 30, 2021. During the year ended September 30, 2021 the balance owing was recovered in full.

**POTENT VENTURES INC.**

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(Expressed in United States Dollars unless otherwise noted)

**6. LOANS RECEIVABLE (Continued)***MDFD Holdings LLC*

In relation to the sale of equipment and inventory at the Company's former facility in Wenatchee Washington the Company received a promissory note of \$100,000. Under the note monthly payments to the Company are to commence January 3, 2021 of \$6,666 per month until the balance is repaid. The note bears interest of 5%. During the year ended September 30, 2021 the Company accepted \$55,000 as final payment of the outstanding balance.

*Northern Lights Supply Inc.*

In November 2018, the Company entered into a secured 6% loan facility for up to CAD \$1,200,000, of which the Company has initially advanced CAD \$500,000. The borrower is an Alberta based cannabis retailer. During the year ended September 30, 2019 the Company advanced an additional CAD \$250,000.

During the period ended December 31, 2019 the Company entered an amending agreement with Northern Lights Supply Inc. for early repayment of its loan, whereby the parties agreed to reduce the loan balance to CAD \$650,000, following interest payments received of \$33,750, and amended the repayment terms as follows:

- a payment of CAD \$ 275,000 upon execution of the amending agreement
- 6 semi-annual payments of CAD \$50,000 over three years
- One final payment of CAD \$75,000
- Elimination of the conversion option

The Company recognized an impairment charge of \$75,510 in relation to the reduced loan balance as at September 30, 2019.

During the year ended September 30, 2020 the Company agreed to accept a final CAD \$200,000 immediately as full settlement of the outstanding balance. Accordingly, the Company recorded an impairment of \$93,863.

**7. INVESTMENTS**

A continuity of the Company's investments is as follows:

	<b>Love Hemp Group Plc.</b>
Balance, September 30, 2020	\$ -
Shares received for debt settlement (Note 6)	116,347
Unrealized fair value gain	18,303
Foreign exchange	(6,434)
Balance, September 30, 2021	\$ 128,216

During the year ended September 30, 2021 the Company entered a debt settlement agreement to settle an outstanding loan totaling \$116,347 in exchange for 3,000,000 Ordinary Shares of Love Hemp Group Plc.

**POTENT VENTURES INC.**

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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(Expressed in United States Dollars unless otherwise noted)

**8. PROPERTY AND EQUIPMENT**

	<b>Land</b>	<b>Equipment</b>	<b>Total</b>
<b>Cost</b>			
Balance September 30, 2019	\$ -	\$ 212,638	\$ 212,638
Additions	456,439	20,806	477,245
Transfer to assets held for sale	-	(183,928)	(183,928)
Impairment	(309,573)	(48,191)	(357,764)
Foreign exchange	1,200	(1,325)	(125)
Balance September 30, 2020	\$ 148,066	\$ -	\$ 148,066
Transfer to assets held for sale	(148,066)	-	(148,066)
Balance, September 30, 2021	\$ -	\$ -	\$ -
<b>Accumulated depreciation</b>			
Balance September 30, 2019	\$ -	\$ 45,234	\$ 45,234
Additions	-	3,339	3,339
Transfer to assets held for sale	-	(38,917)	(38,917)
Foreign exchange	-	(9,656)	(9,656)
Balance September 30, 2020	\$ -	\$ -	\$ -
Balance, September 30, 2021	\$ -	\$ -	\$ -
<b>Net book value</b>			
September 30, 2020	\$ 148,066	\$ -	\$ 148,066
September 30, 2021	\$ -	\$ -	\$ -

Land transferred to assets held for sale was impaired by \$85,011 (Note 10).

**POTENT VENTURES INC.**

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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(Expressed in United States Dollars unless otherwise noted)

**8. PROPERTY AND EQUIPMENT (Continued)**

A continuity of the right of use asset and lease liability is as follows:

Right of use asset recognized on adoption of IFRS 16	\$	81,531
Depreciation of right of use asset		(23,668)
Balance - September 30, 2020	\$	57,863
Depreciation of right of use asset		(25,189)
Balance - September 30, 2021	\$	32,674

Lease liability recognized on adoption of IFRS 16	\$	81,531
Lease payments		(29,911)
Interest		10,071
Balance - September 30, 2020	\$	61,691
Lease payments		(31,833)
Interest		7,568
Balance - September 30, 2021	\$	37,426

Current portion	\$	11,516
Long term		25,910
Total	\$	37,426

The Company recorded interest expense of \$7,568 in relation to the lease liability during the year. The lease expires in February 2023. The monthly rent expense is \$3,351. The effective date of the lease was February 1, 2018.

**POTENT VENTURES INC.**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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**9. ACQUISITION OF NORTHERN LIGHTS ORGANICS INC.**

During the year ended September 30, 2018, the Company signed an agreement to purchase all of the shares of Northern Lights Organics Ltd. ("NLO") and was granted an option to acquire an organic farm in northern BC. As consideration for the shares of NLO the Company agreed to:

- Fund an ACMPR application;
- Upon closing, pay CAD \$25,000 in cash and issue 20,000 common shares of the Company. The shares were issued during the period ended December 31, 2018 and had a fair value of \$144,951;
- Upon receipt of a license to cultivate and sell hemp and/or cannabis, issue common shares with a value equal to CAD \$1,000,000;
- Upon harvest of the first outdoor hemp and/or cannabis crop, pay CAD \$25,000 in cash; and
- Upon completion of an expansion facility of at least 100,000 square feet, issue common shares with a value equal to CAD \$500,000.

If exercised, the option price to acquire the agricultural property was as follows:

- CAD \$1,150,000 if exercised during the period ending February 2019
- CAD \$1,250,000 if exercised during the period ending February 2020
- CAD \$1,350,000 if exercised during the period ending February 2021

During the year ended September 30, 2018 the Company notified NLO that it would not pursue the purchase option in its current form.

During the year ended September 30, 2019 the Company entered a new share purchase agreement with NLO which replaced and superseded any prior agreements between the parties. The terms of the new share purchase agreement are as follows:

- Divested 30% of the equity ownership to one of the original vendors
- Advanced CAD \$150,000 to NLO on closing of the modified share purchase agreement to be used towards development of the project
- Agreed to fund an additional CAD \$150,000 in July 2019 upon achievement of certain milestones
- Agreed to fund an additional CAD \$340,000 in February 2020 upon achievement of certain milestones
- Issue 40,000 common shares upon the achievement of certain milestones
- Issue CAD \$1,000,000 in common shares upon the achievement of certain milestones
- Agreed to purchase a 50% interest in the organic farm for CAD \$600,000 (Paid).

As at September 30, 2019 \$226,530 had been paid with the remaining amount paid during the year ended September 30, 2020 and recorded as land (Note 8). As at September 30, 2020 the Company determined that it was appropriate to impair the value of the land to the assessed value of \$148,066 as this was the most probable recoverable amount given the decline in prices of hemp biomass.

During the year ended September 30, 2020 the Company issued 20,000 common shares with a fair value of \$26,341 in relation to the transaction to acquire a 70% interest in Northern Lights Organics Ltd.

**POTENT VENTURES INC.**

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**10. DISCONTINUED OPERATIONS AND ASSETS HELD FOR SALE**

The following table summarizes the results from discontinued operations for the year ended September 30, 2020:

	Wknd Shop LLC	Northern Lights	Total
Revenue	\$ 241,862	\$ -	\$ 241,862
Cost of good sold	(227,218)	-	(227,218)
Gross margin	14,644	-	14,644
Expenses			
General and administrative	339,691	44,421	384,112
Impairment - equipment	-	144,127	144,127
Consulting	114,420	-	114,420
Other items	25,829	15,573	41,402
<b>Loss from discontinued operations</b>	<b>\$ (465,296)</b>	<b>\$ (204,121)</b>	<b>\$ (669,417)</b>

During the year ended September 30, 2020, the Company classified Wknd Shop LLC and NLO as discontinued operations as management determined these business lines would no longer be pursued.

During the year ended September 30, 2021, the Company reached an agreement to sell its land in Northern British Columbia for \$70,803 (CAD \$90,000). In relation to the sale, the Company recorded an impairment of \$85,011 on the book value of the land.

**11. SHARE CAPITAL AND RESERVES****Authorized**

Unlimited common shares with no par value and unlimited preferred shares with no par value. As of September 30, 2021, there were 81,566,088 common shares outstanding (September 30, 2020 – 45,039,684).

**Escrow Shares**

The Company has shares subject to trading restrictions and escrow which are released in tranches through 2021. As at September 30, 2021, a total of 230,592 common shares were subject to these escrow restrictions.

**Issued and Outstanding – Common Shares Fiscal 2021:**

On February 22, 2021, the Company closed a non-brokered private placement of 35,272,004 units at a price of CAD \$0.0425 per unit, raising gross proceeds of \$1,188,455 (CAD \$1,499,060). Each unit consists of one common share and one share purchase warrant entitling the holder to purchase an additional common share for CAD \$0.0575 for a period of 2 years from the issue date.

In connection with the closing of the private placement, the Company paid finder's fees of \$40,217 in cash and issued 1,193,600 finder's warrants. The finder's warrants hold the same terms of the warrants issued as part of the Units. The grant date fair value of the broker warrants was \$13,862, using the Black-Scholes option Pricing Model with the following assumptions: expected life – 2 years, expected volatility – 80%, dividend yield – \$0, and risk-free rate – 0.23%.

**POTENT VENTURES INC.**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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**11. SHARE CAPITAL AND RESERVES (Continued)**

**Issued and Outstanding – Common Shares Fiscal 2020:**

During the year ended September 30, 2020 the Company issued common shares as follows:

- a) Issued 80,000 common shares upon the achievement of certain milestones under the Northern Lights Organics share purchase agreement with a fair value of \$26,341.
- b) Issued 36,000 common share upon the exercise of warrants at a price of CAD \$0.625 each for proceeds of \$17,030 (CAD - \$22,500).
- c) Cancelled 1,339,448 common shares in relation to the return of shares from certain vendors. In relation to the cancellation, the Company recorded a charge to deficit of \$1,287,113.
- d) The Company completed a non-brokered private placement of \$831,661 (CAD \$1,108,001) by the issuance of 7,091,200 units at CAD \$0.1562. Each unit consists of one common share and one common share purchase warrant entitling the holder to subscribe for one additional share at a price of CAD \$0.2125 for a period of 2 years, subject to the Company's right to accelerate the expiry date upon 30 days' notice if its shares trade at CAD \$0.4375 or more for a period of 10 days. In connection with the issuance of the units the Company issued 517,400 broker warrants on the same terms as the unit offering and incurred cash finder's fees of \$60,887. The Company recorded share issue costs of \$52,913 with respect to the broker warrants granted as finders' fees. The fair value of these broker warrants was CAD \$0.1125 per warrant and was estimated using the Black-Scholes option pricing model.
- e) Issued 317,004 common shares to settle outstanding debts with a fair value of \$37,263. In relation to the issuance, the Company recorded a gain on settlement of debt of \$113,334.
- f) Issued 2,950,516 common shares for services with a fair value of \$335,041.
- g) Issued 260,000 common shares for services with a fair value of \$24,917.
- h) Issued 980,000 common shares to members of management for services with a fair value of \$82,423.
- i) Cancelled 620,008 common shares in relation to the return of shares from certain vendors of R&D Pharma Corp. In relation to the cancellation, the Company recorded a charge to deficit of \$604,433



**POTENT VENTURES INC.**

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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**11. SHARE CAPITAL AND RESERVES (Continued)****Warrants**

A summary of warrant activity is as follows:

	Number of Warrants	Weighted Average Exercise Price (\$CAD)
<b>Balance at September 30, 2019</b>	16,599,456	2.1125
Granted	9,472,504	1.0325
Expired	(3,563,872)	1.5350
Exercised	(36,000)	0.6250
<b>Balance at September 30, 2020</b>	22,472,088	1.7500
Granted	36,465,604	0.0575
Expired	(14,863,488)	1.5236
Exercised	(254,400)	0.0575
<b>Balance at September 30, 2021</b>	43,819,804	0.0844

The following table summarizes warrants outstanding as of September 30, 2021:

Expiry date	Number of Warrants	Weighted Average Exercise Price (\$CAD)	Weighted Average Remaining Years
February 11, 2022	7,090,128	\$0.2125	0.37
March 10, 2022	518,472	\$0.2125	0.44
February 22, 2023	36,211,204	\$0.0575	1.40
	43,819,804		1.22

During the year ended September 30, 2021, the Company recorded share issue costs of \$13,862 (2020 - \$52,913) with respect to 1,193,600 broker warrants granted as finders' fees. The weighted average fair value of these broker warrants was CAD \$0.06 per warrant and was estimated using the Black-Scholes option pricing model. The weighted average assumptions used in calculating the fair value are as follows:

	September 30, 2021	September 30, 2020
Risk-free interest rate	0.23%	1.50%
Expected life	2	2
Annualized volatility	80%	80%
Dividend rate	0%	0%
Weighted average fair value per warrant (\$CAD)	\$0.06	\$0.02

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**11. SHARE CAPITAL AND RESERVES (Continued)****Stock options**

The Company has adopted a stock option plan (the "Plan") for its directors, officers, employees and consultants to acquire common shares of the Company at a price determined by the fair market value of the shares at the date immediately preceding the date on which the option is granted. The aggregate number of stock options granted shall not exceed 10% of the issued and outstanding common shares of the Company at the time of shareholder approval of the plan, with no one individual being granted more than 5% of the issued and outstanding common shares. In addition, the exercise price of stock options granted under the plan shall not be lower than the exercise price permitted by the CSE, and all stock options granted under the plan will have a maximum term of seven years.

A summary of stock option activity is as follows:

	Number of Options	Weighted Average Exercise Price (\$CAD)
<b>Balance at September 30, 2019</b>	2,138,000	1.7875
Cancelled	(2,138,000)	1.7875
Granted	3,944,000	0.1563
<b>Balance at September 30, 2020</b>	3,944,000	0.1563
Cancelled	(2,152,000)	0.1563
Exercised	(1,000,000)	0.0713
Granted	15,400,000	0.0642
<b>Balance at September 30, 2021</b>	16,192,000	0.0740

The following table summarizes stock options outstanding and exercisable as of September 30, 2021:

Expiry date	Number of Options	Number of Exercisable Options	Weighted Average Exercise Price (\$CAD)	Weighted Average Remaining Years
March 25, 2025	1,792,000	1,792,000	\$0.1563	3.48
March 9, 2026	4,800,000	4,800,000	\$0.0713	4.44
June 29, 2026	9,600,000	9,600,000	\$0.0600	4.75
	16,192,000	16,192,000		

Share-based compensation expense recognized during the period of \$501,071 (2020 - \$329,800) related to options granted and vested during the period. The Option Pricing Model used the following weighted average assumptions:

	September 30, 2021	September 30, 2020
Risk-free interest rate	0.50%	1.50%
Expected life of options	5	4.25
Expected forfeitures	0%	10%
Annualized volatility	80%	80%
Dividend rate	0%	0%
Weighted average fair value per option (\$CAD)	\$0.04	\$0.02

Expected annualized volatility was determined using the historic volatility of established comparable publicly traded cannabis companies.

**POTENT VENTURES INC.**

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**11. SHARE CAPITAL AND RESERVES (Continued)**

The following is a summary of the changes in reserves:

**Reserves**

	Stock options	Exchangable preferred shares	Warrants	Total
<b>Balance, September 30, 2019</b>	\$ 1,703,371	\$ 572,795	\$ 4,820,341	\$ 7,096,507
Finders' warrants	-	-	52,913	52,913
Transfer	-	(572,795)	572,795	-
Share-based payments	329,800	-	-	329,800
<b>Balance, September 30, 2020</b>	\$ 2,033,171	\$ -	\$ 5,446,049	\$ 7,479,220
Finders' warrants	-	-	13,862	13,862
Exercise of stock options	(36,811)	-	-	(36,811)
Share-based payments	501,071	-	-	501,071
<b>Balance, September 30, 2021</b>	\$ 2,497,431	\$ -	\$ 5,459,911	\$ 7,957,342

**12. RELATED PARTY TRANSACTIONS****Key management personnel**

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 executive and non-executive members of the Company's Board of Directors and corporate officers and/or companies controlled by those individuals.

During the years ended September 30, 2021, and 2020 the Company entered the following key management transactions:

	September 30, 2021	September 30, 2020
<b>Key Management Remuneration:</b>		
Charlie Lamb - CEO, Director	\$ 162,891	84,782
Robert Payment - CFO, Director	132,108	42,391
Brian Keane - Director	45,000	30,000
Michael Young - Former Director	26,900	5,000
Chris Backus - Former CEO, Director	-	184,346
Michael Hopkinson - Former CFO	-	2,975
David Parchomchuk - Former Director	-	18,593
Kevin Ernst - Former Director	-	7,500
<b>Total</b>	\$ 366,899	\$ 375,587

Share-based compensation of \$134,653 (2020 - \$87,994) was related to directors, officers, and a former officer.

**POTENT VENTURES INC.**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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**12. RELATED PARTY TRANSACTIONS (Continued)**

Other related party transactions include:

- The Company recorded an impairment of inventory deposits in the amount of \$99,988 which was related to inventory which was indirectly acquired from a Company with a Common Director and officer, Brian Keane.
- Included in accounts payable is \$10,000 owing to Robert Payment for consulting fees.
- In February 2020, the Company advanced Love Hemp Group Plc ("LHG") an unsecured demand loan of \$116,347 (CAD \$140,000) bearing interest of 5%. LHG was considered a related party due to a common director of each Company (Note 6).

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

Cash is carried at fair value using a level 1 fair value measurement. The recorded values of accounts payable and accrued liabilities approximate their fair values due to their short-term to maturity.

**Financial risk management**

The Company's risk exposures and the impact on the Company's financial instruments are summarized below.

*Credit risk*

Credit risk is the risk of loss associated with a counterparty's inability to fulfill its payment obligations. The Company's credit risk is primarily attributable to cash. Cash is held with reputable Canadian and United States financial institutions, from which management believes the risk of loss is remote. The Company's maximum credit risk exposure is equivalent to the carrying value of these instruments.

*Interest rate risk*

The Company is exposed to interest rate risk to the extent that the cash maintained at the financial institutions is subject to a floating rate of interest. The interest rate risk on cash is not considered significant.

*Liquidity risk*

The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As at September 30, 2021 the Company's financial liabilities consist of accounts payable and accrued liabilities, which have contractual maturities within one year. The Company manages liquidity risk by reviewing its capital requirements on an ongoing basis.

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## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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**13. FINANCIAL INSTRUMENTS (Continued)***Foreign currency risk*

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign currency rates. As at September 30, 2021, the Company had cash, investments, and, accounts payable and accrued liabilities, denominated in Canadian dollars ("CAD"). A 10% fluctuation in the foreign exchange rate between the USD and Canadian dollar would have a \$67,000 impact on profit or loss for the year. The Company does not undertake currency hedging activities to mitigate its foreign currency risk.

**14. CAPITAL MANAGEMENT**

The Company defines capital as equity. The Company manages its capital structure and makes adjustments in order to have the funds available to support its operating activities.

The Company's objective when managing capital is to safeguard the Company's ability to continue as a going concern and to pursue the development of its business. The Company manages its capital structure and adjusts it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust its capital structure, the Company may issue new equity instruments, new debt, or acquire and/or dispose of assets. As discussed in Note 1, the Company's ability to continue as a going concern is uncertain and dependent upon the continued financial support of its shareholders, future profitable operations, and securing additional financing. Management reviews its capital management approach on an ongoing basis. There were no changes in the Company's approach to capital management during the years presented. The Company is not subject to externally imposed capital requirement.

**15. GENERAL AND ADMINISTRATIVE EXPENSE**

For the year ended:

	September 30, 2021	September 30, 2020
<b>General and administrative</b>		
Advertising, marketing, and brand development	\$ 3,736	\$ 274,903
Investor relations	60,021	80,511
Office expenses and general administration	147,167	178,976
Management fees	366,898	375,587
Consulting	468,895	259,705
Travel and entertainment	6,300	42,759
<b>Total</b>	<b>\$ 1,053,017</b>	<b>\$ 1,212,441</b>

**POTENT VENTURES INC.**

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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**16. SEGMENTED INFORMATION**

The Company operates in two segments, referred to as Business to Business (“B2B”) and its administrative costs center, (“Corporate”). B2B is focused on the provision of services to cultivators, and processors in Washington State and Oklahoma. The corporate head office is located in Canada. Segmented info as at and for the year ended September 30, 2021 is as follows:

	<b>B2B (USA)</b>	<b>Corporate (Canada)</b>	<b>Total</b>
Revenue	\$ 47,297		\$ 47,297
Cost of goods sold	44,466	-	44,466
Gross margin	2,831	-	2,831
<b>Expenses</b>			
General and administrative	\$ 175,717	\$ 877,300	\$ 1,053,017
Share based payments	-	501,071	501,071
Professional fees	21,674	151,354	173,028
Depreciation	25,189	-	25,189
Total expenses	222,580	1,529,725	1,752,305
Net Loss before other items	\$ (219,749)	\$ (1,529,725)	\$ (1,749,474)
Property and equipment	\$ -	\$ -	\$ -
Total assets	\$ 23,167	\$ 865,207	\$ 888,374
Total liabilities	\$ 1,084	\$ 66,053	\$ 67,137

Segmented info as at and for the year ended September 30, 2020 is as follows:

	<b>B2B (USA)</b>	<b>Corporate (Canada)</b>	<b>Total</b>
Revenue	\$ 133,379		\$ 133,379
Cost of goods sold	89,644	-	89,644
Gross margin	43,735	-	43,735
<b>Expenses</b>			
General and administrative	\$ 355,465	\$ 856,976	\$ 1,212,441
Professional fees	78,908	265,573	344,481
Share-based compensation	-	329,800	329,800
Northern Lights Organics milestone payment	-	26,341	26,341
Depreciation	3,339	23,668	27,007
Total expenses	437,712	1,502,358	1,940,070
Net Loss before other items	\$ (393,977)	\$ (1,502,358)	\$ (1,896,335)
Property and equipment	\$ -	\$ 148,066	\$ 148,066
Total assets	\$ 591,775	\$ 548,394	\$ 1,140,169
Total liabilities	\$ 4,202	\$ 63,499	\$ 67,701

**POTENT VENTURES INC.**

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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**17. INCOME TAX**

A reconciliation of income taxes at statutory rates with the reported taxes is as follows:

	September 30 2021	September 30 2020
Loss before tax from continuing operations	\$ 1,983,354	\$ (2,770,107)
Loss before tax from discontinued operations	-	(669,417)
<b>Loss for the year before income tax</b>	<b>1,983,354</b>	<b>(3,439,524)</b>
Expected income tax (recovery)	\$ (536,000)	\$ (929,000)
Change in statutory, foreign tax, foreign exchange rates and other	(192,000)	308,000
Permanent Difference	289,000	2,067,000
Share issue cost	(15,000)	(16,000)
Impact of sale of subsidiary, R&D Pharma Corp.	-	(3,136,000)
Adjustment to prior years provision versus statutory tax returns and expiry of non-capital losses	(205,000)	2,346,000
Change in unrecognized deductible temporary differences	659,000	(640,000)
Total income tax expense (recovery)	\$ -	\$ -

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

	September 30 2021	September 30 2020
Deferred Tax Assets (liabilities)		
Property and equipment / ROU Asset and Liability	\$ 1,000	\$ 1,000
Share issue costs	246,000	344,000
Allowable capital losses	2,090,000	2,010,000
Non-capital losses available for future period	3,516,000	2,837,000
	5,853,000	5,192,000
Unrecognized deferred tax assets	(5,853,000)	(5,192,000)
Net deferred tax assets	\$ -	\$ -

The significant components of the Company's temporary differences, unused tax credits and unused tax losses that have not been included on the consolidated statement of financial position are as follows:

	September 30 2021	Expiry Date Range	September 30 2020	Expiry Date Range
<b>Temporary Differences</b>				
Property and equipment / ROU Asset and Liability	\$ 5,000	Indefinite	\$ 4,000	Indefinite
Share issue costs	910,000	2041 to 2044	1,276,000	2040 to 2043
Allowable capital losses	8,049,000	2024 to Indefinite	7,750,000	2024 to Indefinite
Non-capital losses available for future period	13,618,000	2038 to Indefinite	10,685,000	2036 to Indefinite
Canada	11,842,000	2038 to 2041	9,883,000	2036 to 2039
USA	1,775,000	Indefinite	802,000	Indefinite

**POTENT VENTURES INC.**

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**18. SUBSEQUENT EVENTS**

Subsequent to September 30, 2021, the Company completed the following transactions:

- October 13, 2021, the company has completed a first closing of a non-brokered private placement of up to \$2,000,000 (the "Offering"). The Company accepted subscriptions for 15,430,000 units at a price of CDN \$0.04 per Unit, raising gross proceeds of CDN\$617,200. Each unit consists of one common share and one share purchase warrant entitling the holder to purchase an additional common share for CDN\$0.05 for a period of 2 years from the issue date. All of the securities issuable in connection with the offering will be subject to a hold period expiring four months and one day after date of issuance
- December 22, 2021, the Company announced that the Company will change its name to "The Gummy Project", with a new stock symbol "GUMY". The Company expects the name change and ticker change to become effective upon the Canadian Securities Exchange ("CSE") approving the "listing statement" and the "change of business" being approved by shareholders (such date hereinafter referred to as the "Effective Date"). The Company will continue to trade under the CSE stock symbol "POT" until the Effective Date.
- December 22, 2021, The Company issued 428,571 common shares of the Company to two separate consultants, for an aggregate total of 857,142 common shares, pursuant to each of their existing contracts with the Company.