



**ORCHID VENTURES, INC.
(DBA “ORCHID ESSENTIALS”)**

**CONSOLIDATED FINANCIAL STATEMENTS
AS AT AND FOR THE YEAR ENDED JUNE 30, 2021**

(Expressed in US dollars)



DALE MATHESON CARR-HILTON LABONTE LLP
CHARTERED PROFESSIONAL ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Orchid Ventures, Inc. (DBA "Orchid Essentials"),

Opinion

We have audited the consolidated financial statements of Orchid Ventures, Inc. (DBA "Orchid Essentials") (the "Company"), which comprise the consolidated statements of financial position as at June 30, 2021 and 2020 and the consolidated statements of loss and comprehensive loss, changes in shareholders' equity (deficit) and cash flows for the year ended June 30, 2021 and for thirteen month period ended June 30, 2020 and notes to the consolidated financial statements, including a summary of significant accounting policies (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at June 30, 2021 and 2020, and its financial performance and its cash flows for the year ended June 30, 2021 and for the thirteen month period ended June 30, 2020 in accordance with International Financial Reporting Standards.

Basis for Opinion

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

Material Uncertainty Related to Going Concern

We draw attention to Note 1 to the financial statements, which describes events or conditions that indicate 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 comprises the information included in Management's Discussion and Analysis.

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

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

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 Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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 Rakesh Patel.

DMCL

DALE MATHESON CARR-HILTON LABONTE LLP CHARTERED PROFESSIONAL ACCOUNTANTS

Vancouver, BC
October 31, 2021



An independent firm
associated with Moore
Global Network Limited

ORCHID VENTURES, INC. (DBA "ORCHID ESSENTIALS")
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(Expressed in US dollars)

		As at	
		June 30, 2021	June 30, 2020
	Note	\$	\$
Current assets			
Cash		1,276,435	76,017
Trade receivables	13	51,084	69,750
GST receivable		3,705	194
Prepays		176,395	172,288
Inventory	6	294,863	567,157
Lease receivable - current	15	119,064	-
Asset held for sale	8	80,500	50,000
Total current assets		2,002,046	935,406
Non-current assets			
Lease receivable - non-current	15	154,362	-
Equipment	7	-	6,060
Trademarks and licenses	8	2,389	87,682
Deposits		23,400	80,756
Right-of-use assets	15	-	378,117
		180,151	552,615
Total Assets		2,182,197	1,488,021
Current liabilities			
Trade payables	5	985,697	1,216,503
Wages payable	5	209,626	300,751
Obligation to issue shares	8	60,000	60,000
Warrant liability	17	1,910,291	185,959
Advances	19, 20	55,136	130,688
Deferred revenue	19	229,954	600,050
Lease liability - current	15	119,038	227,608
Total current liabilities		3,569,742	2,721,559
Non-current liabilities			
Lease liability - non-current	15	154,329	211,896
Total liabilities		3,724,071	2,933,455
Shareholders' deficit			
Share capital	10	13,259,833	10,667,287
Exchangeable units	10	38,077	1,062,097
Reserve	10	4,039,067	2,553,167
Deficit		(18,878,851)	(15,727,985)
Total shareholders' deficit		(1,541,874)	(1,445,434)
Total liabilities and shareholders' deficit		2,182,197	1,488,021

Note 1 - Nature of operations and going concern

Note 12 - Commitments and contingencies

Note 22 - Subsequent event

On behalf of the Board of Directors on October 31, 2021.

"Corey Mangold"
 Mr. Corey Mangold, CEO

"Rick Brown"
 Mr. Rick Brown, Director

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

ORCHID VENTURES, INC. (DBA “ORCHID ESSENTIALS”)
CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS
(Expressed in US dollars)

		Year	Thirteen Months
		Ended June 30,	Ended June 30,
	Note	2021	2020
		\$	\$
Revenues	16	3,720,366	1,568,276
Cost of sales	6	2,521,704	1,720,742
Gross profit (loss)		1,198,662	(152,466)
Operating expenses			
Administrative		142,485	226,196
Bad debt expense	11	-	493,091
Consulting	9	157,753	79,027
Depreciation and amortization	7, 8, 15	148,264	267,157
Insurance		86,068	52,874
Legal and professional fees		427,781	491,071
Management fees	9	232,375	304,650
Rent and utilities		123,780	72,946
Sales, marketing, and advertising		177,857	118,124
Software and information technology		6,327	41,664
Share-based payments	9, 10	1,295,382	1,105,474
Travel		49,160	181,932
Wages and benefits	9	1,103,933	2,014,659
Total operating expenses		3,951,165	5,448,865
Loss before other items		(2,752,503)	(5,601,331)
Other expenses (income)			
Interest expense	11, 15	168,470	149,096
Impairment of asset acquisition and license	8, 12	192	1,016,881
Foreign exchange		(17,131)	237,157
Fair value change in warrant liability	17	332,877	63,243
Loss on sale of equipment		-	15,616
Lease modification	15	(66,221)	(31,867)
Other income		(36,238)	-
		381,949	1,450,126
Loss from continuing operations		(3,134,452)	(7,051,457)
Loss from discontinued operations	2, 8	(16,414)	-
Net and comprehensive loss		(3,150,866)	(7,051,457)
Net loss per share			
Basic and diluted – continuing operations		\$ (0.106)	\$ (0.328)
Basic and diluted – discontinued operations		\$ (0.001)	\$ -
Weighted average number of common shares outstanding - basic and diluted		29,602,304	21,472,483

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

ORCHID VENTURES, INC. (DBA “ORCHID ESSENTIALS”)
CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS’ EQUITY (DEFICIT)
(Expressed in US dollars)

	Note	Number of Shares/Units		\$ Amount		Reserve	Deficit	Total
		Common Shares	Exchangeable units	Share capital	Exchangeable units			
				\$	\$	\$	\$	\$
Balance at May 31, 2019		16,537,962	925,481	8,466,628	1,667,303	1,475,737	(8,676,528)	2,933,140
Private placement	10	2,528,772	-	901,761	-	-	-	901,761
Share issuance costs	10	-	-	(17,477)	-	-	-	(17,477)
Warrant liability	17	-	-	(122,716)	-	-	-	(122,716)
Share-based payments	10	50,000	-	28,044	-	1,077,430	-	1,105,474
Shares issued as deposit on acquisition	10, 12	1,269,656	-	805,841	-	-	-	805,841
Conversion of exchangeable units	10	2,200,627	(176,734)	605,206	(605,206)	-	-	-
Net loss and comprehensive loss		-	-	-	-	-	(7,051,457)	(7,051,457)
Balance at June 30, 2020		22,587,017	748,747	10,667,287	1,062,097	2,553,167	(15,727,985)	(1,445,434)
Private placement	10, 17	16,838,000	-	2,879,467	-	190,518	-	3,069,985
Warrant liability	10, 17	-	-	(1,391,455)	-	-	-	(1,391,455)
Rounding on consolidation	10	41	-	-	-	-	-	-
Issuance of common shares for services	10	397,281	-	80,514	-	-	-	80,514
Conversion of exchangeable units	10	8,795,925	(511,284)	1,024,020	(1,024,020)	-	-	-
Share-based payments	9, 10	-	-	-	-	1,295,382	-	1,295,382
Net loss and comprehensive loss		-	-	-	-	-	(3,150,866)	(3,150,866)
Balance at June 30, 2021		48,618,264	237,463	13,259,833	38,077	4,039,067	(18,878,851)	(1,541,874)

On March 31, 2021, the Company completed a share consolidation on the basis of 1 (new) : 4 (old). All share amounts have been stated on a post consolidation basis.

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

ORCHID VENTURES, INC. (DBA “ORCHID ESSENTIALS”)
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Expressed in US dollars)

	Year Ended June 30, 2021	Thirteen Months Ended June 30, 2020
	\$	\$
Operating Activities		
Net loss	(3,150,866)	(7,051,457)
Items not involving cash in continuing operations:		
Depreciation and amortization	148,264	267,157
Interest	(30,798)	-
Lease modifications	(66,221)	(31,867)
Share-based payments	1,295,382	1,105,474
Shares for services	80,514	-
Fair value change in warrant liability	332,877	63,243
Bad debt	-	493,091
Impairment of license	-	111,000
Impairment of asset acquisition	-	905,881
Loss on sale of equipment	-	15,616
Changes in non-cash working capital items:		
Receivables	18,666	1,514,334
GST receivable	(3,511)	17,655
Inventory	272,294	814,679
Prepays	(15,575)	59,525
Trade payables	(161,310)	307,286
Accrued liabilities	(70,749)	(55,251)
Advances received	(75,552)	130,688
Deposits paid	57,356	(44,608)
Unearned revenue	(320,096)	600,050
Wages payable	(91,125)	213,351
Cash used in operating activities from continuing operations	(1,780,450)	(564,153)
Loss from discontinued operations	16,414	-
Cash used in operating activities	(1,764,036)	(564,153)
Financing activities		
Proceeds from issuance of shares	3,069,985	887,845
Loan repayment	-	(128,000)
Lease payments, net	(105,531)	(231,346)
Cash provided by financing activities	2,964,454	528,499
Change in cash during the year	1,200,418	(35,654)
Cash, beginning	76,017	111,671
Cash, ending	1,276,435	76,017

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

ORCHID VENTURES, INC. (DBA “ORCHID ESSENTIALS”)

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Expressed in US dollars)

Non-cash transactions during the periods ended June 30, 2021, and June 30, 2020 include:

- (a) The fair value of \$31,228 (2020 - \$28,044) allocated to compensation shares (Note 10)
- (b) The fair value of \$49,286 (2020 - \$Nil) allocated to share from wages payable being shares for debt (Note 10)
- (c) The fair value of \$190,518 (2020 - \$Nil) allocated to warrants issued as finder’s fee (Note 10)
- (d) The fair value of \$1,024,020 (2020 - \$605,206) reallocated between exchangeable units and common shares
- (e) The fair value of \$Nil (2020 - \$805,841) allocated to payment shares (Note 10, 12)

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

**ORCHID VENTURES, INC. (DBA “ORCHID ESSENTIALS”)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2021**
(Expressed in US dollars)

1. NATURE OF OPERATIONS AND GOING CONCERN

Orchid Ventures, Inc. (DBA “Orchid Essentials” and DBA “PurTec Delivery Systems”) was incorporated under the British Columbia Business Corporations Act on February 9, 2011 and was formerly Earny Resources Ltd. (“Earny”).

The Company’s head office, principal address and records office is 27762 Antonio Parkway Ste. L-1-631, Ladera Ranch CA 9269. The registered office is also 27762 Antonio Parkway Ste. L-1-631, Ladera Ranch CA 9269.

On March 7, 2019, the Company completed a business combination with CR International, Inc. (“CR International”). The transaction was an arm’s length transaction and constituted a reverse takeover (“RTO”) of Earny by CR International, pursuant to the policies of the TSX Venture Exchange (“TSX-V”). CR International was organized in the State of Nevada on June 18, 2018 by the shareholders of CR Companies, LLC (“CR Companies”), a company organized in the State of California on November 9, 2017. CR International and CR Companies completed a corporate reorganization (the “Corporate Reorganization”), the purpose of which was to facilitate the listing of CR Companies on the Canadian Securities Exchange (the “CSE”). In connection with the RTO, the Company voluntarily delisted from the TSX-V and received approval to list its common shares on the CSE on March 15, 2019.

The Company is in the business of brand licensing, design and manufacturing of electronic vaporizers, product development, branding, manufacturing and distribution of vape products containing cannabis.

To date, the Company has incurred losses and further losses are anticipated as the Company further develops its business. The continuing operations of the Company are dependent upon its ability to generate profitable operations in the future, and to continue to secure additional financing. There can be no assurance that the Company will be successful in its efforts to raise additional financing or if financing is available that it will be on terms that are acceptable to the Company. As at June 30, 2021, the Company has an accumulated deficit of \$18,878,851 (June 30, 2020 - \$ 15,727,985) and a working capital deficiency of \$1,567,696 (June 30, 2020 - \$1,786,153). These events and conditions indicate the existence of a material uncertainty that may cast significant doubt about the Company’s ability to continue as a going concern.

Further, in March 2020, the World Health Organization declared coronavirus COVID-19 a global pandemic. This contagious disease outbreak, which has continued to spread, and any related adverse public health developments, has adversely affected workforces, economies, and financial markets globally, potentially leading to an economic downturn. While the impact of COVID-19 is expected to be temporary, the current circumstances are dynamic and the impacts of COVID-19 on business operations cannot be reasonably estimated at this time. There can be no assurance that the Company will not be impacted by adverse consequences that may be brought about by the pandemic’s impact on its business, results of operations, financial position and cash flows in the future.

2. BASIS OF PRESENTATION

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 Interpretations Committee (“IFRIC”).

The Company’s board of directors approved the release of these consolidated financial statements on October 31, 2021.

These consolidated financial statements have been prepared on a historical cost basis, except for certain financial instruments, which are measured at fair value. The financial statements are presented in US dollars and all financial amounts, other than per-share amounts, are rounded to the nearest dollar. The functional currency of the Company is the US dollar.

The preparation of financial statements in compliance with IFRS requires management to make certain critical accounting estimates. It also requires management to exercise judgment in applying the Company’s accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 4.

ORCHID VENTURES, INC. (DBA “ORCHID ESSENTIALS”)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2021
(Expressed in US dollars)

2. BASIS OF PRESENTATION (continued)

During the current year, the management decided to sell its equity holding in CA Forrest Green Distribution, LLC (“CA Forrest”). Through a sale agreement for this has not been formally executed to date, CA Forrest is considered a discontinued operation and the Company recognized net loss from discontinued operations of \$16,414 (Note 8).

3. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PRESENTATION

During the previous year, the Company changed its fiscal year from May 31 to June 30. The accounting policies set out below have been applied consistently to all years presented in these financial statements unless otherwise indicated. Certain of the prior year’s figures may be reclassified to conform with the current year’s presentation.

The Company’s functional currency is the United States dollar. The reporting currency is the United States dollar.

a) Basis of consolidation

These consolidated financial statements have been prepared on a consolidated basis and include the accounts of the Company and the following subsidiaries:

Entity	Registered	Holding
CR Companies, LLC	California, USA	100% owned
CR International, Inc.	Nevada, USA	100% owned
Orchid Brands LLC	Delaware, USA	100% owned
CR Products, LLC (DBA “PurTec Delivery Systems”)	California, USA	100% owned
CR Manufacturing OR, Inc.	Oregon, USA	100% owned
CR Property Management, LLC	Nevada, USA	100% owned
CR Manufacturing CA, Inc.	California, USA	100% owned
Purcell Innovations, LLC (DBA CellG8 Technologies)	Nevada, USA	100% owned

The subsidiaries are controlled by the Company. Control exists when the Company is exposed, or has rights, to the variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date the control ceases. Intercompany balances and transactions, and any unrealized income and expenses arising from intercompany transactions, are eliminated in preparing the consolidated financial statements.

During the year the current Company recognized CA Forrest as discontinued operations pursuant to an agreement to sell an 80% equity interest in that company, retaining a 20% interest (Note 8).

b) Inventory

Inventory consists of finished goods and consumables. The Company periodically reviews its consumables for obsolete and potentially impaired items. The Company values finished goods at the lower of average cost, which is net of vendor rebates, and net realizable value. Net realizable value is the estimated selling price of inventory in the ordinary course of business, less any estimated selling costs. Cost of inventory includes expenditures in acquiring the inventories, production costs and other cost incurred in bringing them to their existing location.

c) Accounts receivable

The Company reviews all outstanding accounts receivable for collectability on a quarterly basis. An allowance for doubtful accounts is recorded for any amounts deemed uncollectable. The Company does not accrue interest receivable on past due accounts receivable.

ORCHID VENTURES, INC. (DBA “ORCHID ESSENTIALS”)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2021
(Expressed in US dollars)

3. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PRESENTATION (continued)

d) Revenue recognition

In accordance with IFRS 15, the Company recognizes revenue, excluding interest and dividend income and other such income from financial instruments recognized in accordance with IFRS 9, upon transfer of promised goods or services to customers in amounts that reflect the consideration to which the Company expects to be entitled in exchange for those goods or services based on the following five step approach:

- Step1: Identify the contracts with customers.
- Step2: Identify the performance obligations in the contract.
- Step3: Determine the transaction price.
- Step4: Allocate the transaction price to the performance obligations in the contract; and
- Step5: Recognize revenue when (or as) the entity satisfies a performance obligation.

The Company typically satisfies its performance obligations upon shipment of the goods, or upon delivery as the services are rendered or upon completion of services depending on whether the performance obligations are satisfied over time or at a point in time. The Company primarily acts as principal in contracts with its customers. The Company does not have material obligations for returns, refunds and other similar obligations, nor warranties and related obligations.

For performance obligations that the Company satisfies over time, the Company typically uses time-based measures of progress because the Company is providing a series of distinct services that are substantially the same and have the same pattern of transfer.

For performance obligations that the Company satisfies at a point in time, the Company typically uses shipment or delivery of goods and/or services in evaluating when a customer obtains control of promised goods or services.

A significant financing component exists and is accounted for if the timing of payments agreed to by the parties to the contract provides the customer or the Company with a significant benefit of financing the transfer of goods and services to the customer. As a practical expedient, the Company does not adjust the promised amount of consideration for the effects of a significant financing component if the Company expects, at contract inception, that the period between when the Company transfers a promised good or service to a customer and when the customer pays for that good or service will be one year or less.

The incremental costs of obtaining contracts with customers and the costs incurred in fulfilling contracts with customers are expensed when incurred.

The Company generally provides warranties for general repairs of defects that existed at the time of sale, as required by law, for production hardware products. As such, most warranties are assurance-type warranties under IFRS 15, which the Company accounts for under IAS 37- Provisions, Contingent Liabilities and Contingent Assets, consistent with its practice prior to the adoption of IFRS 15.

e) Cost of sales

Cost of sales includes manufacturing costs and other costs incurred in bringing inventory to its present condition and location.

f) Equipment

Equipment is stated at historical cost less accumulated depreciation and accumulated impairment losses. Amortization is calculated on a straight-line method to write off the cost of the assets to their residual values over their estimated useful lives. The useful lives applicable to each category of equipment is as follows:

<u>Class</u>	<u>Useful Lives</u>
Computers	3 years
Equipment	10 years
<u>Furniture</u>	<u>7 years</u>

ORCHID VENTURES, INC. (DBA “ORCHID ESSENTIALS”)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2021
(Expressed in US dollars)

3. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PRESENTATION (continued)

g) Intangibles

Intangible assets, comprised of trademarks and licenses, are recorded at cost, less accumulated amortization and impairment losses, if any. Intangible assets acquired in a business combination are measured at fair value at the acquisition date. Amortization is recorded on a straight-line basis over their estimated useful lives, which do not exceed the contractual period, if any. Intangible assets that have indefinite useful lives are not subject to amortization and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. The estimated useful lives, residual values and amortization methods are reviewed at each year-end, and any changes in estimates are accounted for prospectively. As of June 30, 2021, the Company recognized impairment losses in its licenses of \$Nil (thirteen month period ended June 30, 2020 - \$111,000) (Note 8).

h) Financial instruments

The following table shows the classification of financial instruments:

Financial assets	
Cash	FVTPL
Receivables	Amortized cost
Financial liabilities	
Trade payables, wages payable and advances	Amortized cost

The following are accounting policies for financial assets under IFRS 9.

The Company classifies its financial assets in one of the following categories: (1) financial assets at fair value through profit or loss (“FVTPL”), (2) financial assets at amortized cost or (3) financial assets at fair value through other comprehensive income (“FVTOCI”). The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

Financial assets at FVTPL

Financial assets carried at FVTPL are initially recorded at fair value and transaction costs are expensed in the statement of loss. Realized and unrealized gains and losses arising from changes in the fair value of the financial asset held at FVTPL are included in the statement of loss in the period in which they arise.

Financial assets at amortized cost

Financial assets at amortized cost are initially recognized at fair value and subsequently carried at amortized cost less any impairment. They are classified as current assets or non-current assets based on their maturity date.

Financial assets at FVTOCI

Investments in equity instruments at FVTOCI are initially recognized at fair value plus transaction costs. Subsequently, they are measured at fair value, with gains and losses arising from changes in fair value recognized in other comprehensive income. There is no subsequent reclassification of fair value gains and losses to profit or loss following the de-recognition of the investment.

Financial assets are derecognized when they mature or are sold, and substantially all the risks and rewards of ownership have been transferred. Gains and losses on de-recognition of financial assets classified as FVTPL or amortized cost are recognized in the statement of loss. Gains or losses on financial assets classified as FVTOCI remain within accumulated other comprehensive income.

ORCHID VENTURES, INC. (DBA “ORCHID ESSENTIALS”)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2021
(Expressed in US dollars)

3. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PRESENTATION (continued)

Impairment of financial assets

At each reporting date, the Company assesses whether there is objective evidence that a financial asset is impaired. If such evidence exists, an impairment loss is recognized in the statement of loss. Impairment losses on financial assets carried at amortized cost, including loans and receivables, are calculated as the difference between the amortized cost of the loan or receivable and the present value of the estimated future cash flows, discounted using the instrument's original effective interest rate. Impairment losses on financial assets carried at amortized cost are reversed in subsequent periods if the amount of the loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized.

Financial liabilities

Financial liabilities are recognized initially at fair value and in the case of financial liabilities not subsequently measured at fair value, net of directly attributable transaction costs. Financial liabilities are derecognized when the obligation specified in the contract is discharged, canceled, or expired. Trade payables and accrued liabilities, debentures and deferred consideration on acquisition are classified as financial liabilities to be subsequently measured at amortized cost.

Fair value hierarchy

The Company uses the following hierarchy for determining and disclosing the fair value of the financial instruments by valuation technique:

Level 1 – Applies to assets or liabilities for which there are quoted prices in active markets for identical assets or liabilities.

Level 2 – Applies to assets or liabilities for which there are inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly such as quoted prices for similar assets or liabilities in active markets or indirectly such as quoted prices for identical assets or liabilities in markets with insufficient volume or infrequent transactions.

Level 3 – Applies to assets or liabilities for which there are unobservable market data.

Cash deposits have been measured at fair value using Level 1 inputs. The carrying value of trade receivables, trade payables, wages payable and advances payable approximate their fair value because of the short-term nature of these instruments or their ability of prompt liquidation.

i) Income taxes

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

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

Deferred taxes are calculated using the liability method on temporary differences between the carrying amounts of assets and liabilities and their tax bases. Deferred tax is not provided on the initial recognition of goodwill or on the initial recognition of an asset or liability unless the related transaction is a business combination or affects taxable profit or accounting profit. Deferred tax liabilities on temporary differences associated with shares in subsidiaries and joint ventures is not provided for if reversal of these temporary differences can be controlled by the Company and it is probable that reversal will not occur in the foreseeable future.

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3. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PRESENTATION (continued)

Deferred tax assets and liabilities are measured using substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are likely to reverse. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in profit or loss in the period that includes the substantive enactment date. Deferred tax assets are recognized for all temporary differences, carry-forward of unused tax credits and unused tax losses to the extent that it is probable that future taxable profits will be available against which they can be utilized.

Deferred tax assets and liabilities are calculated, without discounting, at tax rates that are expected to apply to their respective period of realization, provided they are enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and liabilities are offset only when the Company has a right and intention to offset current tax assets and liabilities from the same taxation authority and the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same entity or different entities which intend to settle current tax assets and liabilities on a net basis or simultaneously in each future period in which significant amounts of deferred tax assets or liabilities are expected to be recovered or settled.

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

j) Impairment of non-financial assets

At the end of each reporting period, the carrying amounts of the Company’s assets are reviewed to determine whether there is any indication that those assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment, if any. The recoverable amount is the higher of fair value less costs to sell and value in use. Fair value is determined as the amount that would be obtained from the sale of the asset in an arm’s length transaction between knowledgeable and willing parties. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount and the impairment loss is recognized in profit or loss for the period. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash generating unit to which the asset belongs.

When an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but to an amount that does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

For assets that generate largely independent cash inflows, which is comprised of intangible assets of the Company, the recoverable amount is determined for the cash generating unit (‘CGU’) to which the asset belongs. Where an impairment loss subsequently reverses, the carrying amount of the asset or CGU is increased to the revised estimate of its recoverable amount, but to an amount that does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset or CGU in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

k) Share-based payments

Share-based payment arrangements in which the Company receives goods or services as consideration for its own equity instruments are accounted for as equity-settled transactions and, when determinable, are recorded at the value of the goods and services received. If the value of the goods and services received is not determinable, then the fair value of the share-based payment is used.

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3. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PRESENTATION (continued)

The Company uses a fair value-based method (Black-Scholes Option Pricing Model) for all share options granted to directors, employees and certain non-employees. For directors and employees, the fair value of the share options is measured at the date of grant. For grants to non-employees where the fair value of the goods or services is not determinable, the fair value of the share options is measured on the date the services are received.

The fair value of share-based payments is charged to profit or loss or with the offsetting credit to reserve. For directors, employees and consultants, the share options are recognized over the vesting period based on the best available estimate of the number of share options expected to vest. If options vest immediately, the expense is recognized when the options are issued. Estimates are subsequently revised if there is any indication that the number of share options expected to vest differs from previous estimates. Any cumulative adjustment prior to vesting is recognized in the current period. No adjustment is made to any expense recognized in prior periods where vested. For non-employees, the share options are recognized over the related service period. When share options are exercised, the amounts previously recognized in reserve are transferred to share capital.

In the event share options are forfeited prior to vesting, the associated fair value recorded to date is reversed. The fair value of any vested share options that expire remain in reserve.

l) Earnings (loss) per share

Basic earnings (loss) per share is computed by dividing net income (loss) (the numerator) by the weighted average number of outstanding shares for the period (denominator). In computing diluted earnings per share, an adjustment is made for the dilutive effect of outstanding share options, warrants and other convertible instruments.

In the periods when the Company reports a net loss, the effect of potential issuances of shares under share options and other convertible instruments is anti-dilutive. Therefore, basic and diluted loss per share are the same. When diluted earnings per share is calculated, only those share options and other convertible instruments with exercise prices below the average trading price of the Company's shares for the period will be dilutive.

m) Related party transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities. A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties. Related party transactions that are in the normal course of business and have commercial substance are measured at the exchange amount.

n) Foreign currency translation

The consolidated financial statements of the Company are presented in US dollars. The individual financial statements of each subsidiary are presented in its functional currency, the currency of the primary economic environment in which the entity operates. The functional currency of the Company and its subsidiaries is the US dollar.

Transactions in currencies other than the entity's functional currency are translated at the exchange rates in effect on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of the exchange in effect as at the statement of financial position date. Non-monetary assets and liabilities denominated in foreign currencies are translated at the exchange rates prevailing at the time of the acquisition of the assets or assumption of the liabilities. Foreign currency differences arising on translation are recognized in profit or loss.

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3. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PRESENTATION (continued)

o) Leases

At inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The Company assesses whether the contract involves the use of an identified asset, whether the right to obtain substantially all of the economic benefits from use of the asset during the term of the arrangement exists, and if the Company has the right to direct the use of the asset. At inception or on reassessment of a contract that contains a lease component, the Company allocates the consideration in the contract to each lease component on the basis of their relative standalone prices.

As a lessee, the Company recognizes a right-of-use asset and a lease liability at the commencement date of a lease. The right-of-use asset is initially measured at cost, which is comprised of the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any decommissioning and restoration costs, less any lease incentives received.

The right-of-use asset is subsequently depreciated from the commencement date to the earlier of the end of the lease term, or the end of the useful life of the asset. In addition, the right-of-use asset may be reduced due to impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

A lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by the interest rate implicit in the lease, or if that rate cannot be readily determined, the incremental borrowing rate. Lease payments included in the measurement of the lease liability are comprised of:

- a) fixed payments, including in-substance fixed payments, less any lease incentives receivable.
- b) variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date.
- c) amounts expected to be payable under a residual value guarantee.
- d) exercise prices of purchase options if the Company is reasonably certain to exercise that option; and
- e) payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, or if there is a change in the estimate or assessment of the expected amount payable under a residual value guarantee, purchase, extension or termination option. Variable lease payments not included in the initial measurement of the lease liability are charged directly to profit or loss.

p) Recent Accounting Pronouncements

The adoption of the following standards and interpretations, which have been issued but are not yet effective, are not expected to have a material effect on the Company’s future results and financial position:

Onerous Contracts—Cost of Fulfilling a Contract (Amendments to IAS 37)

The amendments to IAS 37 specify which costs an entity includes in determining the cost of fulfilling a contract for the purpose of assessing whether the contract is onerous. Costs that relate directly to a contract can either be incremental costs of fulfilling that contract (examples would be direct labour, materials) or an allocation of other costs that relate directly to fulfilling contracts (an example would be the allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract). These amendments are effective for reporting periods beginning on or after January 1, 2022.

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3. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PRESENTATION (continued)

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

The amendments to IAS1 provide a more general approach to the classification of liabilities based on the contractual arrangements in place at the reporting date. These amendments are effective for reporting periods beginning on or after January 1, 2023.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

In preparing these consolidated financial statements, the Company makes estimates and assumptions concerning the future that affect the amounts recorded. Actual results could differ from these estimates. Estimates and assumptions are based on historical experience, expectations of future events and other factors considered by management to be reasonable. The estimates and assumptions that could result in a material impact to the carrying amounts of assets and liabilities are outlined below:

Use of estimates

a) Inventory valuation

The Company records a write-down to reflect management’s best estimate of the net realizable value of inventory which includes assumptions and estimates for future sell-through of units, selling prices as well as disposal costs, where appropriate, based on historical experience. Management continually reviews the carrying value of its inventory, to assess whether the write-down is adequate, based on current economic conditions and an assessment of sales trends.

b) Share-based compensation

The Company measures the cost of equity-settled transactions with employees and consultants by reference to the fair value of equity instruments at the date on which they are granted. Estimating fair value for share-based payments requires determining the most appropriate valuation model for a grant of equity instruments, which is dependent on the terms and conditions of the grant.

c) Equipment

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

d) Recognition and valuation of deferred tax assets

The recognition of deferred tax assets is based upon whether it is probable that sufficient and suitable taxable profits will be available in the future or whether taxable temporary differences will reverse such that deferred tax assets can be utilized. Recognition therefore involves a degree of estimation and judgement regarding the future financial performance or the timing of the reversed deferred tax liabilities where deferred tax assets have been recognized.

e) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, net of estimated discounts. The Company considers the terms of the sales contracts as well as industry practices, taking into consideration the type of customer, the nature of the transaction and the specific circumstances of each arrangement.

f) Deferred revenue

Payments from customer received in advance of the revenue recognition criteria is deferred and recorded as a liability until it is earned.

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4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

g) Expected credit losses

The Company recognizes an allowance for expected credit losses (“ECL”) for all financial assets not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Company expects to receive, discounted at an approximation of the original effective interest rate. ECLs are recognized in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

For trade receivables and contract assets, the Company applies a simplified approach in calculating ECLs. Therefore, the Company does not track changes in credit risk, but instead recognizes a loss allowance based on lifetime ECLs at each reporting date. A financial asset is considered in default when contractual payments are 365 days past due. Therefore, the Company does not track changes in credit risk but makes a loss allowance based on 12 months ECL.

A financial asset may also be considered to be in default if internal or external information indicates that the Company is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

h) Warranty provision

The Company estimates warranty expense based on historical records, taking into account the likelihood of a warranty issue, estimated costs of warranty repair and total units in the market. The Company records a liability in respect of estimated future warranty costs. The actual cost that the Company may incur and the timing of the repairs to be carried out may differ significantly from the estimated accrual.

The Company warrants that its products will operate substantially in conformity with product documentation. The Company accrues for known warranty issues if a loss is probable and can be reasonably estimated and accrues for estimated incurred but unidentified warranty issues based on historical activity. To date, the Company has had no material warranty claims.

Use of judgments

The preparation of financial statements in accordance with IFRS requires the Company to make judgements, apart from those involving estimates, in applying accounting policies. The most significant judgements applying to the Company’s financial statements include the assessment of the Company’s going concern.

5. RELATED PARTY TRANSACTIONS

At June 30, 2021, a balance of \$Nil (June 30, 2020 \$390,192) was recorded in trade payables and \$170,821 (June 30, 2020 \$263,136) recorded in wages payable were for amounts due to directors and officers of the Company. The amounts are unsecured, non-interest bearing and have no fixed terms of repayment.

During the year ended June 30, 2021, \$50,000 of debt owed to the CEO, for services rendered, was converted into 197,281 common shares at a fair market value of CAD \$63,130 at the date of the agreement (Note 10).

See Note 9 for discussion of executive compensation.

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6. INVENTORY

Inventory consists of vape products and hardware, and oil purchased from third-party manufacturers. As at June 30, 2021, inventory is comprised of the following:

	As at	June 30, 2021	June 30, 2020
		\$	\$
Finished goods		294,863	547,451
Raw material		-	19,706
		<u>294,863</u>	<u>567,157</u>

Inventory expensed in net income and included in cost of sales for the year ended June 30, 2021 was \$1,673,564 (June 30, 2020 - \$1,704,190). An inventory obsolescence and damage allowance amount recognized in the statement of loss as inventory write-off for the year ended June 30, 2021 was \$11,988 (thirteen month period ended June 30, 2020 - \$Nil).

7. EQUIPMENT

	Computers	Equipment	Furniture	Total
	\$	\$	\$	\$
Cost				
Balance May 31, 2019	24,798	56,174	3,467	84,439
Additions	-	(16,705)	-	(16,705)
Balance June 30, 2020	24,798	39,469	3,467	67,734
Discontinued operations		(7,000)		(7,000)
Balance June 30, 2021	24,798	32,469	3,467	60,734
Accumulated Amortization				
Balance May 31, 2019	14,152	6,575	991	21,718
Additions	10,646	26,834	2,476	39,956
Balance June 30, 2020	24,798	33,409	3,467	61,674
Discontinued operations	-	(940)	-	(940)
Balance June 30, 2021	24,798	32,469	3,467	60,734
Net Book Value				
As at June 30, 2020	-	6,060	-	6,060
As at June 30, 2021	-	-	-	-

8. TRADEMARKS AND LICENSES

Trademarks:

To June 30, 2021, the Company has incurred \$15,495 (June 30, 2020 - \$15,392) in direct registration costs of its trademarks and recorded amortization of \$13,106 (June 30, 2020 - \$7,710) resulting in a net balance of trademarks at June 30, 2021 in the amount of \$2,389 (June 30, 2020 - \$7,682).

Licenses:

The Company tests for impairment of the licenses when events or conditions may indicate the carrying value is no longer recoverable. An impairment is evident when recoverable amount is less than the net book value. The recoverable amount is the higher of (i) the fair value cost to sell and (ii) its value in use.

CA Forrest

On December 31, 2018, the Company completed the acquisition of all the outstanding common shares of CA Forrest.

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8. TRADEMARKS AND LICENSES (continued)

Licenses (continued)

The Company acquired 100% of the issued and outstanding membership interest shares, resulting in CA Forrest becoming a wholly-owned subsidiary of the Company. For accounting purposes, the acquisition of CA Forrest has been recorded as an asset acquisition as CA Forrest did not have the necessary inputs and processes capable of producing outputs required to meet the definition as defined by *IFRS 3, Business Combinations*.

The consideration for the interest in CA Forrest was as follows:

- (a) Payment of \$5,000 (paid) on closing date;
- (b) Payment of a further \$15,000 (accrued) upon date at which the Bureau of Cannabis Control (“BCC”) grants CA Forrest an annual license (the “License Acquisition Date”); and
- (c) Issuance of the number of shares of common stock of the Company equal to \$60,000, subject to CSE approval, upon License Acquisition Date. As at June 30, 2020 and subsequently, the Company has not received CSE approval to issue such common shares.

The identifiable assets acquired and liabilities assumed resulting from the acquisition of CA Forrest were comprised only of a temporary license and annual distribution license in the state of California, with a carrying value of \$Nil. Accordingly, the full amount of the consideration has been allocated to licenses.

On September 29, 2020 the Company agreed to sell its Bureau of Cannabis Control Distributor License for the State of California: License No. C11-0000967 for CA Forrest at 2338 Anaheim Street East, Suite 201C, Long Beach, CA 90804-573 to the Tine Trading Company, LLC (“Tine Trading”) (Buyer).

Awaiting confirmation of transfer by the Bureau of Cannabis Control, the Company classified the carrying value of the license of \$80,000 as assets held for sale and consideration received from the Tine Trading as deposits as of June 30, 2021.

In August 2021 the Company entered in an agreement in principal to sell an 80% equity interest in CA Forrest to Tine Trading for a price of \$500. As of June 30, 2021 the Company recognized CA Forrest as a discontinued operation, removing all of the assets and liabilities from the consolidated financial statements and recognizing a loss of \$16,414 from discontinued operations. The sale price proposed of \$500 is included in assets held for sale.

See below for breakdown of loss from discontinued operations:

	\$
Carrying value of assets	43,595
Carrying value of liabilities	(730,116)
Carrying value of net assets	(686,521)
Forgiveness of intercompany debt	703,635
Selling price	500
Loss from discontinued operations	\$16,614

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8. TRADEMARKS AND LICENSES (continued)

Licenses (continued)

Artemis Link, LLC (“Artemis”)

On October 27, 2018, the Company completed the acquisition of all of the assets of Artemis, an Oregon LLC.

The consideration for the assets of Artemis was as follows:

- (a) Payment of \$136,000 (paid) on closing date; and
- (b) Payment of a further \$25,000 (paid) in settlement of a litigation to which Artemis has been identified as a defendant.

The identifiable assets acquired from the acquisition with Artemis were comprised only of a wholesale license, with a carrying value of \$Nil. Accordingly, the full amount of the consideration has been allocated to license. The license initially expired on April 30, 2020 and was renewed to on April 30, 2021.

In performing the annual impairment test in fiscal 2020, the Company identified indicators of impairment. Accordingly, the Company recorded an impairment of \$111,000, resulting in a net book as at June 30, 2020 of \$50,000.

During the year ending June 30, 2020, the Company entered into an agreement to transfer title to the license, pursuant to a license agreement (Note 21). Accordingly, the Artemis license was classified as held for sale at June 30, 2020 and fully transferred during the year ended June 30, 2021.

9. EXECUTIVE COMPENSATION

Key Management Compensation:

Related party transactions not otherwise described in these consolidated financial statements are shown below. The remuneration of the Company’s directors and other members of key management, being the CEO, President, and CFO who have the authority and responsibility for planning, directing and controlling the activities of the Company, consist of the following amounts:

	Year ended June 30, 2021	Thirteen months ended June 30, 2020
	\$	\$
Salary	314,160	111,000
Management fees	232,375	193,650
Consulting	56,834	71,546
Share-based payments	909,701	731,302
	<u>1,513,070</u>	<u>1,107,498</u>

Management fees were charged by the Company’s CEO, Corey Mangold, the Company’s President, Rick Brown, and the Company’s CFO, Yousuf Jaffar. During the year ended June 30, 2021, the Company issued 4,225,000 (June 30, 2020 – 200,000) stock options to the CEO, President and CFO of the Company at a fair value of \$804,205 (June 30, 2020 - \$28,044) as a share-based payment as compensation for services provided (Note 10)

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10. SHAREHOLDERS’ EQUITY

(a) Authorized

The Company has an unlimited number of common shares authorized for issuance with no par value.

Prior to the RTO, CR International, Inc. was authorized to issue the following:

Common shares - 245,000,000 common shares with a par value of \$0.001.

Preferred shares - 5,000,000 preferred shares with a par value of \$0.001.

Prior to the RTO, CR Companies, LLC was authorized to issue the following:

Class A units - 9,000,000 Class A units for the purpose of issuing equity to founders. Holders of Class A units are entitled to a number of votes equivalent to the number of class A units held.

Class B units - 5,000,000 Class B units of its equity for the purpose of issuing equity to investors. Holders of Class B units have no voting rights.

Class C units - 1,000,000 Class C units of its equity for the purpose of issuing equity to incentivize its Members, Managers, officers, employees, consultants or other service providers of the company. Holders of Class C units have no voting rights.

(b) Issued and Outstanding

Class A units

As of June 30, 2021, the Company had issued and outstanding a total of 227,943 (June 30, 2020 – 483,222), Class A units with a nominal value.

Class B units

As of June 30, 2021, the Company had issued and outstanding a total of Nil (June 30, 2020 – 197,500) Class B units with a value of \$Nil (June 30, 2020 - \$790,000).

Class C units

As of June 30, 2021, the Company had issued and outstanding a total of 9,519 (June 30, 2020 – 68,024) Class C units with a par value of \$38,077 (June 30, 2020 - \$272,097).

Exchangeable units

In accordance with the corporate reorganization, the existing shareholders of CR Companies have the right to exchange their Class A, Class B and Class C units for exchangeable units (“Exchangeable Units”) at a rate of 1 (old): 3.9957 (new, post consolidation shares). These shareholders have the right to exchange such Exchangeable Units for common shares of the Company at any time until March 7, 2023. Accordingly, an aggregate of 15,535,715 post consolidation common shares of the Company will eventually be issued in connection with the exchange of Exchangeable Units.

A voting trust (“Voting Trust”) was established on grant date, pursuant to which the trustees of such Voting Trust will be issued a special voting share (“Special Voting Share”) entitling them to vote a total of 15,535,715 post consolidation common shares, which represents the total number of common shares to be issued by the Company in exchange for the Exchangeable Units. The Special Voting Share has no other rights, preferences or privileges.

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10. SHAREHOLDERS' EQUITY (continued)

(b) Issued and Outstanding (continued)

As Exchangeable Units are exchanged for common shares of the Company, the voting rights attaching to the Special Voting Share will be cancelled proportionately to the number of the Company's common shares issued. As a result, and at the end of the four-year period allowed for exchanges, the Special Voting Share will be cancelled.

Any Exchangeable Units not exchanged prior to March 7, 2023, will be deemed to have been transferred and surrendered to the Company for exchange into common shares.

During the year ended June 30, 2021, 2,045,136 pre-consolidated (511,284 post-consolidated) Exchangeable Units (thirteen month ended June 30, 2020 – 706,937 pre-consolidated (176,734 post-consolidated)) were exchanged for 8,795,925 (2020 – 2,200,627) common shares. Accordingly, the Company reallocated \$1,024,020 (2020 - \$605,206) from the value of the underlying Class A/B or C unit, to share capital. To June 30, 2021, an aggregate of 3,818,859 common shares remains to be issued in connection with the exchange of Exchangeable Units (Note 22).

Common Shares

During the year ended June 30, 2021, the Company:

- i) issued 200,000 common shares with a fair value of \$31,228 (CAD \$40,000) to Sea2Sky LLC for services rendered.
- ii) issued 197,281 common shares with a fair value of \$49,286 (CAD \$63,130) to partially pay off the debt owing to Company owned by a director, for services rendered (Note 5).
- iii) issued 16,838,000 common shares at CAD \$0.25 per share for gross proceeds of \$3,286,357 (CAD \$4,209,500). By the terms of issue, the Company also issued 8,419,000 warrants, being one half of one common share purchased, at an exercise price of CAD \$0.40 and an expiration date of April 1, 2023. These warrants were valued at \$1,391,455 (CAD \$1,782,317) using the Black Scholes Option Pricing Model and were recorded as warrant liability (Note 17). As part of the financing, the Company granted 1,107,400 finders warrants and paid a cash finders fee of \$216,371 (CAD \$277,150). These warrants have an exercise price of CAD \$0.25 and an expiration date of April 1, 2023. The fair value of the finder's warrants of \$190,518 (CAD \$245,342) was recorded as a share issuance cost and was determined using Black-Scholes Pricing Model with the following assumptions – risk free interest rate 0.22%, expected stock price volatility 203%, expected dividend yield 0.0%, expected life 2 years.

During the thirteen month period ended June 30, 2020, the Company:

- i) Issued 1,269,656 common shares with a fair value of \$805,841 pursuant to an asset purchase agreement with GreenBloom Cannabis Co. (“GreenBloom”) (Note 12).
- ii) Completed a private placement of 2,528,772 units of value CAD \$1,179,210 (USD \$901,761). Each unit consists of one common share and one share purchase warrant. Each warrant entitles the holder to acquire one common share at CAD\$0.18 per share until October 24, 2021. The Company incurred \$17,477 in share issuance costs.
- iii) Issued 50,000 common shares to the President of the Company with a fair value of \$28,044 as a share-based payment.
- iv) 706,937 Exchangeable units were converted into 2,200,627 common shares of the Company.

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10. SHAREHOLDERS' EQUITY (continued)

(c) Consolidation of shares

On March 31, 2021, the Company consolidated its common shares on the basis of a one (1) post-consolidation share for each four (4) pre-consolidation shares. All references to share capital common shares and per share amounts in the financial statements have been retrospectively restated for this consolidation.

(d) Escrow shares

7,641,230 shares issued to the principals of the Company under the RTO are subject to escrow conditions required by applicable securities laws and the CSE requirements. Pursuant to the terms of the escrow agreements, 67% of the escrowed shares have since been released from escrow as of June 30, 2021. The remaining 2,292,371 shares held within escrow will be released over a period of 12 months.

(e) Reserve

The reserve records items recognized as share-based compensation expense and other share-based payments until such time that the stock options or warrants are exercised, at which time the corresponding amount will be transferred to share capital.

(f) Stock options

On October 23, 2019, the Company adopted a 20% rolling share option plan (the “Plan”) that enables management to grant options to directors, officers, employees and other service providers. The Company follows the CSE policies where the number of common shares which may be issued pursuant to options granted under the Plan may not exceed 10% of the issued and outstanding shares of the Company from time to time at the date of granting of options and have a maximum of 10 years. Each option agreement with the grantee sets forth, among other things, the number of options granted, the exercise price and the vesting conditions of the options as determined by the Board of Directors.

A summary of changes in stock options is presented below:

	Number of options	Weighted average exercise price
		\$ CAD
Balance, May 31, 2019	2,325,000	1.32
Issued	2,775,000	0.52
Cancelled	(3,100,000)	1.32
Balance, June 30, 2020	2,000,000	0.21
Issued	6,570,000	0.30
Cancelled	(962,500)	0.25
Balance, June 30, 2021	7,607,500	0.29

On March 18, 2019, the Company issued 9,300,000 pre-consolidated (2,325,000 post-consolidated) stock options to directors, officers and employees of the Company. The stock options vest over a period of 9 months and are exercisable at a price of CAD \$0.33 until March 18, 2024. The grant date fair value of the stock options was \$1,891,664 and was determined using Black Scholes Option Pricing Model with the following assumptions – risk free interest rate: 1.36%, expected stock price volatility – 110%, expected dividend yield – 0.0%, expected life – 5 years. During the thirteen month period ended June 30, 2020 the Company recorded \$480,713 in share-based compensation in relation to this grant. During the thirteen month period ended June 30, 2020, 9,200,000 pre-consolidated (2,300,000 post consolidated) of these options were cancelled. The remaining options were cancelled during the year ended June 30, 2021.

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10. SHAREHOLDERS' EQUITY (continued)

(f) Stock options (continued)

On June 28, 2019, the Company issued 500,000 stock options to directors of the Company. The stock options vest immediately and are exercisable at a price of CAD \$1.32 until June 28, 2024. The grant date fair value of the stock options was \$314,280 and was determined using the Black-Scholes Option Pricing Model with the following assumptions – risk free interest rate: 1.52%, expected stock price volatility - 100%, expected dividend yield – 0.0%, expected life – 5 years. During the thirteen month period ended June 30, 2020, these options were cancelled.

On July 30, 2019, the Company issued 300,000 stock options to the President of the Company. The stock options vest immediately and are exercisable at a price of CAD \$1.40 until July 30, 2024. The grant date fair value of the stock options was \$130,280 and was determined using the Black-Scholes Option Pricing Model with the following assumptions – risk free interest rate: 1.52%, expected stock price volatility - 100%, expected dividend yield – 0.0%, expected life – 5 years. During the thirteen month period ended June 30, 2020, these options were cancelled.

On June 1, 2020, the Company issued 1,975,000 stock options to the officers and employees of the Company. The stock options vest immediately and are exercisable at a price of CAD0.20 until June 1, 2025. The grant date fair value of the stock options was \$115,833 and was determined using Black-Scholes Option Pricing Model with the following assumptions – risk free interest rate: 0.26%, expected stock price volatility – 100%, expected dividend yield – 0.0%, expected life – 5 years. 500,000 of these options have been cancelled during the year and 1,475,000 remain outstanding on June 30, 2021.

On July 28, 2020, the Company issued 1,562,500 stock options to directors, officers and employees of the Company. The stock options vest immediately and are exercisable at a price of CAD0.24 until July 28, 2025. The grant date fair value of the stock options was \$259,035 and was determined using Black-Scholes Option Pricing Model with the following assumptions – discount rate of bond equivalent yield: 0.33%, expected stock price volatility – 100%, expected dividend yield – 0.0%, expected life – 5 years. 437,500 of these options have been cancelled during the year and 1,125,000 remain outstanding on June 30, 2021.

On January 19, 2021, the Company issued 537,500 stock options to a director and a contractor of the Company. The stock options vest immediately and are exercisable at a price of CAD0.20 until January 19, 2026. The grant date fair value of the stock options was \$62,032 and was determined using Black-Scholes Option Pricing Model with the following assumptions – discount rate of bond equivalent yield: 0.41%, expected stock price volatility – 100%, expected dividend yield – 0.0%, expected life – 5 years.

On April 21, 2021 the Company issued 4,470,000 options to directors and employees of the Company. The stock options vest immediately and are exercisable at a price of CAD \$0.34 until April 21, 2026. The grant date fair value of the stock options was \$881,085 and was determined using Black-Scholes Option Pricing Model with the following assumptions – discount rate of bond equivalent yield: 0.94%, expected stock price volatility – 100%, expected dividend yield – 0.0%, expected life – 5 years.

Stock options outstanding as at June 30, 2021 is as follows:

Pre-Consolidated Outstanding	Post-Consolidated Outstanding	Exercise Price (CAD)	Expiry date	Weighted average remaining life
5,900,000	1,475,000	0.20	June 1, 2025	3.84
4,500,000	1,125,000	0.24	July 28, 2025	3.99
2,150,000	537,500	0.20	January 19, 2026	4.47
-	4,470,000	0.34	April 21, 2026	4.73
12,550,000	7,607,500	7,607,500		

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10. SHAREHOLDERS' EQUITY (continued)

(h) Warrants

A summary of changes in warrants during the year ended June 30, 2021 and thirteen-month period ended June 30, 2020:

	Number of warrants	Weighted average exercise price
		\$
Balance, May 31, 2019	208,138	1.32
Granted	4,078,772	0.56
Cancelled.	(17,500)	1.32
Expired	(139,800)	1.32
Balance, June 30, 2020	4,129,610	0.64
Repriced	(2,528,773)	0.72
Repriced	2,528,773	0.36
Expired	(50,838)	1.32
Issued	10,276,400	0.37
Balance, June 30, 2021	14,355,172	0.65

The following warrants were outstanding as at June 30, 2021:

Pre- Consolidated Outstanding	Post- Consolidated Outstanding	Exercisable	Exercise price (\$ CAD)	Expiry date
10,115,088	2,528,772	2,528,772	0.36	October, 24, 2023
200,000	50,000	50,000	1.88	July, 3, 2022
6,000,000	1,500,000	375,000	0.20	March, 30, 2022
1,000,000	250,000	250,000	0.24	December, 17, 2021
2,000,000	500,000	500,000	0.24	December, 24, 2021
-	8,419,000	8,419,000	0.40	April, 1, 2023
-	1,107,400	1,107,400	0.25	April, 1, 2023
19,315,088	14,355,172	13,230,172		

On July 3, 2019, the Company entered in a Memorandum of Understanding (“MOU”) with Infusion Factory, LLC (“Infusion”). As part of the consideration, the Company issued warrants to purchase up to 200,000 shares of the Company at a price of CAD \$0.47 per share for a period of 3 years from the date of issuance of warrants. The Company recorded share-based compensation of \$29,880 for the grant date fair value was determined using Black-Scholes Option Pricing Model with the following assumptions – risk free interest rate: 1.58%, expected stock price volatility – 100%, expected dividend yield – 0.0%, expected life – 3 years.

On December 21, 2020, the Company granted 2,000,000 pre-consolidated, 500,000 post-consolidated, warrants to a consultant of the Company for the purchase of up to 500,000 post-consolidated shares at \$0.24 per share expiring on December 21, 2024. The fair value of the grant \$64,176 (CAD \$82,204), using the Black-Scholes Pricing Model, was recorded as share issuance cost

On March 26, 2021, the Company reduced the exercise price of certain common share purchase warrants for the purchase of up to 2,528,772 common shares in the capital of the Company from CAD \$0.72 per share to CAD \$0.36 per share. The expiry date of the warrants was extended from October 24, 2021, to October 24, 2023. See note 17 for revaluation of warrant liability.

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10. SHAREHOLDERS' EQUITY (continued)

On April 1, 2021, by the terms of private placement, the Company also issued 8,419,000 warrants, being one half of one common share purchased, at an exercise price of CAD \$0.40 and an expiration date of April 1, 2023. The fair value \$1,391,276, using the Black-Scholes Option Pricing Model, was recorded as warrant liability on the date of issue to be transferred to share capital upon exercise or expiration of these warrants.

On April 1, 2021, the Company also granted 1,107,400 finder's warrants being 7% of the total number of shares issued. These warrants have an exercise price of CAD \$0.25 and an expiration date of April 1, 2023. The fair value of the grant \$190,518 (CAD \$244,036), using the Black-Scholes Option Pricing Model, was recorded as share issuance cost.

11. LOANS PAYABLE

- a) On January 25, 2019, the Company had entered into a distribution agreement (the “Agreement”) with Cypress Manufacturing Company, a California corporation doing business as Indus Distribution (“Indus”). The term of the Agreement was for a period of 2 years. If the Agreement is terminated without cause prior to such date, the terminating party must pay the lessor of (a) \$1,000,000 and (b) the sum of the most recent 3 months net revenue.

As part of the Agreement, Indus loaned \$651,400 to the Company. The loan was unsecured and was to be repaid at a stated rate per unit sold by Indus until the loan has been repaid. In such case that the Company's RTO was completed while there is still a balance owing, the Company would remit the balance to Indus within 10 days of the RTO closing date. As at June 30, 2019, the remaining outstanding loan was \$196,115.

On November 20, 2019, the Agreement was terminated with cause, thereby mutually releasing both the Company and Indus from the aforementioned commitments. During the thirteen month period ended June 30, 2020, the Company recognized \$376,529, net of the remaining outstanding loan of \$196,115 in bad debt in the consolidated statement of loss and comprehensive loss related to this arrangement.

- b) On July 31, 2020, the Company entered into a \$100,000 line of credit facility with Augustiner Capital Ventures, LLC, a Delaware LLC ("Augustiner"). The line of credit facility, secured against the assets of the Company, will allow the Company to borrow up to a maximum of \$100,000 at an interest rate of 10% per annum. Advances made under the line of credit will bear a 60-day term from the date each advance is made. In consideration for the line of credit facility, the Company has agreed to issue Augustiner warrants equal to 10 times the amount of each advance, to a maximum of 1,000,000 warrants. Each warrant will be exercisable into one common share of the Company for a period of one year from the date of issuance as such price that is equal to the greater of (i) the closing price of the Company's common shares on the date of the advance; and (ii) CAD \$0.20.

During the year ended June 30, 2021, the Company had drawn a total of \$100,000 from the line of credit facility and as such, issued Augustiner a total of 1,000,000 pre-consolidated, 250,000 post-consolidated, warrants (Note 10). The fair value of the finder's warrants of \$29,054 (CAD \$37,215) was recorded as a financing cost and was determined using Black Scholes Option Pricing Model with the following assumptions – risk free interest rate: 0.24%, expected stock price volatility – 203%, expected dividend yield – 0.0%, expected life – 1 year. As of June 30, 2021, the Company has repaid all borrowings under the line of credit.

12. COMMITMENTS AND CONTINGENCIES

- a) Settlement Agreement

On February 7, 2019, the Company entered into a Settlement and Release Agreement with Brown & Streza, LLP (“B&S”), a former legal service provider to the Company, whereby the Company and B&S agreed the Company shall pay \$165,000. During the year ended June 30, 2021, the Company repaid \$5,000 (thirteen month period ended June 30, 2020 - \$40,000). As of June 30, 2021, the Company owes B&S \$60,000 (June 30, 2020 - \$65,000).

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12. COMMITMENTS AND CONTINGENCIES (continued)

b) Leases

Base rent (net) per month is payable as follows:

	Base Rent
	\$
2021	74,770
2022	143,400
2023	111,491

On September 15, 2018, the Company entered into a Commercial Lease Agreement for its licensed production facility at 11785 SE Hwy 212, Suite 313, Clackamas, Oregon. The lease term ends on September 30, 2023, with two successive options to extend the lease term for a period of 5 years. Monthly base rent is \$9,936 and a security deposit of \$19,872 was required. On January 7, 2020 the Company subleased the facility to Orechid, LLC, the licensee of the Orchid Brand in Oregon. The sublease terms state that the tenant will lease the property for the duration of the lease period. The Company has since sold its BCC cannabis license to Tine Trading, its licensee in Oregon, and pursuant to the terms of the sale agreement, Tine Trading is responsible for making all lease payments (Note 8 and 15). The Company entered into the sublease agreement as its licensee was operating the building and the cannabis license had been successfully transferred. The sublease covers all of the monthly lease amount.

On August 1, 2019, the Company entered into a Commercial Lease Agreement for its retail location in the City of Long Beach, Beach, County of Los Angeles., State of California. and commonly known as, 2338 East Anaheim St. Suite 201C Long Beach, CA, 90804. The lease term ends on July 31, 2021. The term may be extended for 2 three-year options. Monthly base rent starts at \$3,500 per month and a security deposit of \$11,468 was required.

c) GreenBloom Cannabis Co. Arbitration

During the thirteen month period ended June 30, 2020, the Company entered into the following series of related transactions –

On July 3, 2019, as last amended on July 29, 2019, the Company entered into a definitive agreement with GreenBloom Cannabis Co. (“GreenBloom”) for the acquisition of certain assets (the “Asset Purchase Agreement”). As consideration, the Company will pay an aggregate purchase price of \$10,000,000 to be paid over 12 months from the date of closing, and issue 50,000,000 common shares at a price of CAD \$0.50 per share (the “Payment Shares”). To June 30, 2020, the Company issued 5,078,623 common shares at a fair value of \$805,841 (Note 10).

On July 29, 2010, the Company entered into a share purchase agreement, whereby the Company agreed to acquire the issued and outstanding common shares of Bimini Farms, Inc. (“Bimini”) As initial consideration, the Company was obligated to pay a non-refundable deposit of \$100,040 (paid).

On September 20, 2019, the Company also entered into a Commercial Lease Agreement (the "Lease Agreement") with a company related by way of common shareholders, which provided the Company a lease for real property located in, Calexico, California. The premise is to be used as cannabis cultivation, manufacturing, distribution and retail as permitted by state and local jurisdictions. In the event the Company is unable to secure a cannabis cultivation license from the City of Calexico, the Company will remain liable for the first month's rent, last month's rent, and security deposit, totaling \$540,000 (unpaid), which will be retained as a termination fee. The Company will otherwise be released of any further liability under the Lease Agreement.

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12. COMMITMENTS AND CONTINGENCIES (continued)

Upon completion of the due diligence process, the Company served notice of termination of the Asset Purchase Agreement and Lease Agreement. Further, the Company determined not to pursue the purchase of Bimini. Accordingly, to June 30, 2020, the Company has recorded an impairment of asset acquisition of \$905,881.

On November 6, 2019, GreenBloom filed an arbitration claim against the Company seeking \$10,000,000 in damages for breach of contract and damages for termination of the Asset Purchase Agreement and the Lease Agreement. The Company has assessed the claim and believes it is without merit and that it is unlikely for GreenBloom to prevail in the arbitration.

13. FINANCIAL INSTRUMENTS

The Company is exposed to certain financial risks as listed below. There has been no change in the exposure to risk, nor its objectives, policies and process for managing the risk from the prior year. Disclosures relating to exposure to risks, in particular credit risk, liquidity risk, foreign exchange risk and interest rate risk are provided below.

Credit Risk

Credit risk is the risk of an unexpected loss if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Company's financial instruments that are exposed to concentrations of credit risk are primarily cash and trade receivables.

The Company limits its exposure to credit risk with respect to cash by investing available cash with major banks in the United States of America. The Company's cash is not subject to any external restrictions.

The Company's receivables are due as follows:

As at	June 30	June 30
	2021	2020
	\$	\$
Current	1,091	81
31-60 days	47,493	63,708
Over 60 days	2,500	5,961
	<u>51,084</u>	<u>69,750</u>

With respect to receivables, the Company mitigates the risk by performing ongoing credit evaluations of its customers' financial condition. The Company monitors collectability of receivables on an on-going basis to determine credit risk.

At June 30, 2021, any accounts receivable due beyond one year have been provided for in the allowance for doubtful accounts.

Liquidity Risk

As at June 30, 2021 the Company had cash of \$1,276,435 (June 30, 2020 - \$76,017) available to settle current liabilities of \$3,569,742 (June 30, 2020 - \$2,721,559), all of which are due within one year. The Company expects to finance its inventory purchases and administrative expenditures through cash flows from operations, debt, as well as equity financing. Liquidity risk is assessed as high.

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13. FINANCIAL INSTRUMENTS (continued)

Liquidity Risk (continued)

The following table identifies the undiscounted contractual maturities of the Company’s financial liabilities as at June 30, 2021:

	Within one year \$	After one but not more than five years \$	After five years \$	Total \$
Trade payables	985,697	-	-	985,697
Wages payables	209,626	-	-	209,626
Advances	55,136	-	-	55,136
Warranty liability	1,910,291	-	-	1,910,291
Deferred revenue	229,954	-	-	229,954
Lease liability	119,038	154,329	-	273,367
	3,509,742	154,329	-	3,664,071

Market Risk

The Company is exposed to market risk with respect to foreign currency risk.

The Company is exposed to foreign currency risk on fluctuations related to cash, trade payables and accrued liabilities that are denominated in a foreign currency. As at June 30, 2021, the Company had trade payables of \$192,906 (June 30, 2020 - \$319,977) denominated in foreign currencies. Management’s assessment of the Company’s exposure to market risk is low.

Interest Rate Risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company’s exposure to interest rate risk is minimal.

14. CAPITAL MANAGEMENT

As at June 30, 2021 the Company’s capital is composed of share capital. The Company’s primary objectives, when managing its capital, are to maintain adequate levels of funding to support the manufacturing operations of the Company and to maintain corporate and administrative functions.

The Company defines capital as cash and equity, consisting of the issued share capital. The capital structure of the Company is managed to provide sufficient funding operating activities. Funds are primarily secured through a combination of equity capital raised by way of private placements and short-term debt. There can be no assurances that the Company will be able to continue raising equity capital and short-term debt in this manner. The Company invests all capital that is surplus to its immediate needs in short-term, liquid and highly rated financial instruments, such as cash and other short-term deposits, which are all held with major financial institutions.

There were no changes to the Company’s approach to capital management during the year ended June 30, 2021.

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15. RIGHT-OF-USE ASSETS AND LEASE LIABILITY

Right-of-Use Assets

	Property Lease \$
Cost:	
At May 31, 2019	-
Adjustment on initial adoption of IFRS 16 (Note 3)	883,258
Lease modifications	(284,143)
At June 30, 2020	599,115
Lease modifications	84,280
Sublease adjustment	(316,186)
Discontinued operations	(51,201)
At June 30, 2021	316,008
Depreciation	
At May 31, 2019	-
Charge for the period	220,998
At June 30, 2020	220,998
Charge for the year	95,010
At June 30, 2021	316,008
Net Book Value	
At June 30, 2020	378,117
At June 30, 2021	-

Depreciation of right-of-use assets is calculated using the straight-line method of the remaining lease term.

On November 16, 2020, the premises at Clackamas, Oregon were sub-leased to the Tine Trading pursuant to the transfer of OLCC distribution license to that company on October 26, 2020. In connection to the sub lease the lessor adjusted the payment schedule on the lease leading to a lease modification and the Company recognizing a gain of \$53,080.

Lease Liability

	\$
Lease liabilities recognized as of June 1, 2019	883,258
Lease modification	(316,010)
Lease payments made	(231,346)
Interest expense on lease liabilities	103,602
Lease liability as of June 30, 2020	439,504
Lease modifications	31,200
Lease payments made during the year	(192,231)
Interest expense on lease liabilities	45,138
Discontinued operations	(50,244)
	273,367
Less Current portion	119,038
As at June 30, 2021	154,329

The lease liabilities have been discounted at a rate of 15% upon adoption of IFRS 16

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15. RIGHT-OF-USE ASSETS AND LEASE LIABILITY (continued)

Lease Receivable

	\$
Lease receivable recognized as of Decemer 1, 2020	329,328
Lease payments received	(86,700)
Interest revenue on lease receivable	30,798
<u>Lease receivable as of June 30, 2021</u>	<u>\$ 273,426</u>

On November 16, 2020, the premises at Clackamas, Oregon were sub-leased to the Tine Trading pursuant to the transfer of OLCC distribution license to that company on October 26, 2020. The Company follows the recommendations of IFRS 16 – Leases (“IFRS 16”) in accounting for the sub-lease. Upon recognition of the sub lease the Company derecognized the accompanying right-of-use asset and recognized a gain of \$13,141.

16. SEGMENTED INFORMATION AND ECONOMIC DEPENDENCE

The Company operates primarily in a single geographical segment, being North America. During the year ended June 30, 2021, 95% of the Company’s sale revenues were generated from six main customers (thirteen-month period ended June 30, 2020 – 60% from four main customers).

17. WARRANT LIABILITY

The exercise price of certain warrants is denominated in CDN dollars; however, the functional currency of the Company is the US dollar. Consequently, the value of the proceeds on exercise is not fixed and will vary based on foreign exchange rate movements. The warrants when issued other than as compensation for goods and services are therefore a derivative for accounting purposes and are required to be recognized as a derivate liability and measured at fair value at each reporting period. Any changes in fair value from period to period are recorded as non-cash gain or loss in the consolidated statements of comprehensive loss.

In connection with the private placement completed during the year ended June 30, 2021, the Company issued a total of 8,419,000 warrants exercisable at a price of CDN \$0.40. These warrants were allocated a grant date fair value of \$1,391,455 using the Black-Scholes Option Pricing Model (Note 10).

The fair value of the liability as at June 30, 2021 was \$1,391,156. Accordingly, the Company recorded a gain in fair value change in warrant liability of \$299.

In connection with a private placement completed during the period ended June 30, 2020, the Company issued a total of 2,528,772 warrants exercisable at a price of CDN \$0.32. These warrants were allocated a grant date fair value of \$122,716 using the Black-Scholes Option Pricing Model.

The fair value of the liability as at June 30, 2020 was \$185,959. Accordingly, the Company recorded a fair value change in warrant liability of \$63,243 during the thirteen month period ended June 30, 2020. On March 26, 2021, the Company reduced the exercise price of these warrants from \$0.72 per share to \$0.36 per share and extended the expiry date from October 24, 2021, to October 24, 2023. The fair value of the liability as of June 30, 2021 was \$519,135. Accordingly, the Company recorded a fair market change in warrant liability of \$333,176.

The fair value of the warrants is calculated using the Black-Scholes Option Pricing Model. Option pricing models require the input of highly speculative assumptions, including the expected future price volatility of a Company’s shares. Changes in these assumptions can materially affect the fair value estimate and, therefore, existing models do not necessarily provide a reliable single measure of the fair value of the Company’s warrants.

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17. WARRANT LIABILITY (continued)

The Company used the following assumptions to estimate the fair value:

	June 30, 2021	
	On Grant	Year End
Risk-free interest rate	0.22%	0.44%
Expected stock price volatility	203.00%	203.00%
Expected forfeiture rate	0.00%	0.00%
Expected dividend yield	0.00%	0.00%
Expected warrant life in years	2.00	1.88
Weighted average strike price	0.40	0.39
Weighted average share price	0.26	0.27

18. INCOME TAXES

(a) Reconciliation between statutory rate and actual rate:

	June 30, 2021	June 30, 2020
Net income Before Tax	(3,150,866)	(7,051,457)
Statutory tax rates	26.50%	26.50%
Income taxes (recovery) computed at the statutory rates	(834,979)	(1,868,636)
Expenses not deductible in US	64	3,874
Expenses not deductible in Canada	337,444	298,240
Effect of foreign tax rates	6,522	19,940
Deferred tax allowances	490,949	1,546,582
Recovery of income taxes	-	-

(b) Deferred income tax assets (liabilities)

	June 30, 2021	June 30, 2020
	\$	\$
Non-capital losses carried forward	1,960,919	1,498,866
Intangible assets	35,268	47,998
Property, Plant and Equipment	(361)	(281)
	1,995,827	1,546,582

No provision has been made for income taxes at June 30, 2021, as any income tax liability would have been allocated to the individual members of CR Companies.

At June 30, 2021, the Company has non-capital losses carried forward for tax purposes available to reduce taxable income for future years in the approximate amounts of \$2,088,000 in Canada and \$5,311,700 in the United States. These losses commence expiring in 2039.

19. DEFERRED REVENUE

As at June 30, 2021, the Company had received payments amounting to \$229,954 (June 30, 2020 - \$600,050) from customers in advance of the revenue recognition criteria and accordingly recorded as a liability until it is earned. Included in the deferred revenue amount at June 30, 2021 is \$80,000 for the sale of the CA Forrest Green license (Note 8). Included in the deferred revenue amount at June 30, 2020 was the \$50,000 License Activation Fee (Note 8).

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20. ADVANCES

On March 11, 2020, the Company entered into a Letter of Intent (“LOI”) between PurTec Delivery Systems, LLC (“Purtec”) and Innovative Packaging Company, Inc. (“IPC”) in order to pursue a joint venture to be formalized at a future date. The LOI provided for an initial payment of \$100,000 (the “Advance”) from IPC (received). The payment is non-refundable and if terms for a joint venture are not agreed upon, IPC would be permitted to fund orders for PurTec customers as well as markup product from PurTec to recoup the payment. As at June 30, 2020 the terms of a joint venture have not been finalized and accordingly, the Company commenced drawing down the Advance. Once the \$150,000 is drawn-down, there will be no remaining obligation. As at June 30, 2021 \$55,136 (June 30, 2020, \$80,688) remains as an advance.

21. LICENSING AGREEMENTS

a) Licensing agreement

On March 31, 2020, the Company entered into a licensing agreement (the “Licensing Agreement”) with two privately held nutrient delivery system companies (the “Licensors”).

Pursuant to the Licensing Agreement, the Company will have the global exclusive right to sell CELLg8® for use in THC products and the non-exclusive right to sell the product within CBD, supplement, vitamin, and nutraceutical industries. Under the Licensing Agreement, the Company issued an aggregate of 3,000,000 common share purchase warrants (“Warrants”) to each Licensor, for a total of 6,000,000 common share purchase warrants, which allow the Licensors to acquire one common share of the Company (a “Warrant Share”) at a price of \$0.05 per Warrant Share for a period of 24 months. Certain of the Warrants are subject to certain vesting milestones, as follows: (a) 1,500,000 Warrants are immediately exercisable (outstanding); (b) 1,500,000 Warrants once the Company does US\$3MM in aggregate sales of CELLg8®; (c) an additional 1,500,000 Warrants once the Company does US\$10MM in aggregate sales of CELLg8®; and (d) 1,500,000 Warrants once the Company does US\$15MM in aggregate sales of CELLg8®. The Warrants issued in connection with the Licensing Agreement are non-transferable and any Warrant Shares issued upon the exercise thereof will be subject to a four-month-and one-day statutory hold period in accordance with applicable securities laws.

The grant date fair value of the warrants of \$6,444 was recorded as share based payments and was determined using Black Scholes Option Pricing Model with the following assumptions – risk free interest rate: 1.58%, expected stock price volatility – 100%, expected dividend yield – 0.0%, expected life – 2 years.

To maintain global exclusivity of CELLg8® use in THC products, the Company must meet the following purchase requirements:

- i) Purchasing at least US\$350,000 in products from CELLg8® by the end of the first consecutive 6-month period;
- ii) Purchasing at least US\$650,000 in products from CELLg8® by the end of the consecutive 12-month period; and
- iii) Purchasing at least US\$1,000,000 in products from CELLg8® by the end of the consecutive 18-month period.

b) Licensing and supply agreement

On May 11, 2020, the Company entered into a Licensing and Supply Agreement with Orechid LLC, combined with Tine Trading (the “Licensee”) to license its Orchid Essentials brand in the state of Oregon. Included in the transaction, is the sale of an OLCC distribution license assigned to the Orchid Essentials’ facility in Clackamas,

Oregon and the rights to expand into Colorado and Oklahoma, under a separate agreement and at a later date. The Licensee will do business as Orechid LLC, while ownership of the distribution license will transfer to the Licensee. The Licensee paid the Company \$50,000 as a License Activation Fee (Note 19) and ownership of the OLCC distribution license was transferred to the Licensee on October 26, 2020 and accordingly classified the license as held for sale (Note 8).

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21. LICENSING AGREEMENTS (continued)

The Licensee has agreed to pay Orchid \$630,000 USD for the acquisition of Orchid’s inventory and revenue in an Oregon facility, and the rights to expand into Colorado and Oklahoma, plus the opportunity to secure the rights to license Orchid Essentials in other domestic states. Orchid LLC, will pay the Company a licensing fee on all Orchid Essentials brand sales over a 10-year term and as part of the licensing agreement, will purchase all vaporizer hardware and packaging through PurTec Delivery Systems, an Orchid Ventures subsidiary. As of June 30, 2021, no further payments have been paid to the Company by the Licensee.

22. SUBSEQUENT EVENT

Subsequent to June 30, 2021, a total of 227,943 post-consolidated Class A exchangeable units and 9,519 post-consolidated Class C exchangeable units were exchanged for 3,818,859 common shares