



EMPOWER  
CLINICS

## **Empower Clinics Inc.**

**CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

**For the three months ended  
March 31, 2021 and 2020**

(Expressed in United States dollars - Unaudited)

**Notice of Disclosure of Non-auditor Review of the Condensed Interim Consolidated Financial Statements for the three months ended March 31, 2021 and 2020.**

Pursuant to National Instrument 51-102, Part 4, subsection 4.3(3)(a) issued by the Canadian Securities administrators, if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited condensed interim consolidated financial statements of Empower Clinics Inc. (“the Company” or “Empower”) for the interim period ended March 31, 2021 and 2020, have been prepared in accordance with the International Accounting Standard 34 - *Interim Financial Reporting* as issued by the International Accounting Standards Board and are the responsibility of the Company’s management.

The Company’s independent auditors, MNP LLP, have not performed a review of these condensed interim consolidated financial statements.

July 13, 2021

**EMPOWER CLINICS INC.**

## CONDENSED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(in United States dollars) - Unaudited

	Notes	March 31, 2021	December 31, 2020
		\$	\$
<b>ASSETS</b>			
Current			
Cash		6,286,942	4,889,824
Accounts receivable	6	786,280	264,866
Prepaid expenses		248,687	81,748
Inventory		14,380	17,681
<b>Total current assets</b>		<b>7,336,289</b>	<b>5,254,119</b>
Property and equipment	7	1,430,728	1,590,047
Intangible assets	8	289,410	303,907
Goodwill		2,082,146	2,082,146
<b>Total assets</b>		<b>11,138,573</b>	<b>9,230,219</b>
<b>LIABILITIES</b>			
Current			
Accounts payable and accrued liabilities	9, 18	3,442,581	3,442,725
Current portion of loans payable	10	184,899	992,070
Current portion of notes payable	11	164,358	708,361
Convertible notes payable		204,014	200,530
Current portion of lease liability	12	171,260	241,138
Current portion of warrant liability	13	641,153	1,416,113
<b>Total current liabilities</b>		<b>4,808,265</b>	<b>7,000,937</b>
Loans payable	10	1,097,141	1,140,157
Lease liability	12	193,418	255,248
Deferred revenue		1,694	26,694
Warrant liability	13	6,453,707	6,297,584
<b>Total liabilities</b>		<b>12,554,225</b>	<b>14,720,620</b>
<b>SHAREHOLDERS' DEFICIENCY</b>			
Issued capital	14(b)	51,980,992	22,969,566
Share subscriptions receivable	14(b)	(745,531)	(745,531)
Shares to be issued		60,287	60,287
Contributed surplus		2,570,933	2,223,269
Warrant reserve		9,801	80,638
Accumulated other comprehensive income		52	-
Deficit		(55,292,186)	(30,078,630)
<b>Total shareholders' deficiency</b>		<b>(1,415,652)</b>	<b>(5,490,401)</b>
<b>Total liabilities and shareholders' deficiency</b>		<b>11,138,573</b>	<b>9,230,219</b>

Nature of operations and going concern (note 1)

Commitments (note 20)

Events after the reporting period (note 21)

Approved and authorized by the Board of Directors on July 13, 2021:

"Steven McAuley" Director"Yoshi Tyler" Director

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

**EMPOWER CLINICS INC.****CONDENSED INTERIM CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS**

(in United States dollars, except number of shares outstanding) - Unaudited

	Notes	Three months ended March 31,	
		2021	2020
		\$	\$
<b>Revenues</b>			
Clinic services		2,033,147	767,803
Product revenues		3,553	21,332
<b>Total revenues</b>		<b>2,036,700</b>	<b>789,135</b>
<b>Direct clinic expenses excluding depreciation and amortization</b>			
Cost of clinic services		744,053	256,422
Cost of product revenues		-	11,978
<b>Total direct clinic expenses</b>		<b>744,053</b>	<b>268,400</b>
		<b>1,292,647</b>	<b>520,735</b>
Operating expenses	15	1,210,681	581,622
Legal and professional fees		869,836	139,213
Depreciation and amortization expense	7,8	160,597	90,425
Impairment of property and equipment	8	18,728	-
Share-based payments	14(c),18	435,986	27,306
<b>Loss from operations</b>		<b>(1,403,181)</b>	<b>(317,831)</b>
<b>Other expenses (income)</b>			
Accretion expense	10,11	1,777	284,051
Interest expense	10,11,12	31,300	60,394
Interest income		-	(1,835)
Gain on debt settlement of accounts payable	14(b)	-	(18,261)
Gain on termination of leases	12	(15,867)	-
Loss (gain) on change in fair value of warrant liability		23,793,165	(37,247)
Gain on change in fair value of conversion feature	13	-	(2,795)
Other income, net		-	(77,930)
		<b>23,810,375</b>	<b>206,377</b>
<b>Net loss for the period</b>		<b>(25,213,556)</b>	<b>(524,208)</b>
<b>Other comprehensive income (loss)</b>			
Foreign currency translation adjustment		(52)	-
<b>Comprehensive loss for the period</b>		<b>(25,213,608)</b>	<b>(524,208)</b>
<b>Loss per share</b>			
Basic		(0.11)	(0.00)
Diluted		(0.11)	(0.00)
<b>Weighted average number of shares outstanding</b>			
Basic		223,131,519	143,581,358
Diluted		223,131,519	143,581,358

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

**EMPOWER CLINICS INC.****CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS**

(in United States dollars) - Unaudited

	Notes	Three months ended March 31,	
		2021	2020
		\$	\$
<b>Operating activities</b>			
Net loss and comprehensive loss		(25,213,556)	(524,208)
Items not involving cash:			
Depreciation and amortization expense	7,8	160,597	90,425
Impairment of property and equipment		18,728	-
Share-based payments	14(c),18	435,986	27,306
Accretion expense	10,11	1,777	284,051
Interest expense	10,11,12	31,300	60,394
Gain on settlement of accounts payable		-	18,261
Gain on termination of leases	12	(4,471)	
Loss (gain) on change in fair value of warrant liability	13	23,793,165	(37,247)
Gain on change in fair value of conversion feature		-	(2,795)
Shares issued for compensation	14(b),18	-	47,937
Shares issued for services	14(b)	-	105,327
Foreign exchange		4,155	(105,409)
		(772,319)	(35,958)
Changes in working capital:			
Accounts receivable		(521,414)	19,508
Prepaid expenses		(166,939)	7,629
Inventory		3,301	393
Accounts payable and accrued liabilities		59,454	(2,708)
Deferred revenue		(25,000)	25,000
<b>Net cash (used in) provided by operating activities</b>		<b>(1,422,917)</b>	<b>13,864</b>
<b>Investing activities</b>			
Purchase of property and equipment	7	(57,546)	-
<b>Net cash used in investing activities</b>		<b>(57,546)</b>	<b>-</b>
<b>Financing activities</b>			
Proceeds from stock options exercised	14(c)	199,479	-
Proceeds from warrants exercised	14(d)	4,063,331	-
Proceeds from agent warrant exercised		117,857	-
Repayment of loans payable	10	(868,198)	-
Repayment of notes payable	11	(553,324)	-
Lease payments	12	(81,564)	(61,209)
<b>Net cash provided by (used in) financing activities</b>		<b>2,877,581</b>	<b>(61,209)</b>
<b>Increase (decrease) in cash</b>		<b>1,397,118</b>	<b>(47,345)</b>
<b>Cash, beginning of period</b>		<b>4,889,824</b>	<b>179,153</b>
<b>Cash, end of period</b>		<b>6,286,942</b>	<b>131,808</b>

Supplemental disclosure with respect to cash flows (note 16)

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

# EMPOWER CLINICS INC.

## CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For the three months ended March 31, 2021 and 2020

(in United States dollars, except share numbers) - Unaudited

	Note	Number #	Issued capital \$	Share subscriptions receivable	Shares to be issued \$	Contributed surplus \$	Warrant reserves \$	Accumulated other comprehensive loss \$	Deficit \$	Total \$
Balance, December 31, 2019		137,697,430	7,827,310	-	22,050	146,685	1,501,361	-	(13,012,319)	(3,514,913)
Shares issued to former CEO	14(b)	651,875	15,239	-	(15,239)	-	-	-	-	-
Vesting escrow shares	14(b)	-	47,937	-	-	-	-	-	-	47,937
Shares issued to settle accounts payable	14(b)	4,800,000	164,346	-	-	-	-	-	-	164,346
Shares issued for services	14(b)	4,000,000	105,327	-	-	-	-	-	-	105,327
Share-based payments	14(c)	-	-	-	-	-	27,306	-	-	27,306
Net loss and comprehensive loss		-	-	-	-	-	-	-	(524,208)	(524,208)
<b>Balance, March 31, 2020</b>		<b>147,149,305</b>	<b>8,160,159</b>	<b>-</b>	<b>6,811</b>	<b>146,685</b>	<b>1,528,667</b>	<b>-</b>	<b>(13,536,527)</b>	<b>(3,694,205)</b>
Shares issued on private placement, net		55,309,465	921,138	-	-	49,782	-	-	-	970,920
Shares issued on debt settlement	14(b)	1,041,586	54,804	-	-	-	-	-	-	54,804
Vesting of escrow shares	14(b)	-	145,088	-	-	-	-	-	-	145,088
Shares issued for services	14(b)	5,500,000	382,027	-	60,287	-	-	-	-	442,314
Shares issued on conversion of debentures	14(b)	11,659,984	621,353	-	-	-	-	-	-	621,353
Obligation to issue shares	14(b)	150,000	6,811	-	(6,811)	-	-	-	-	-
Exercise of Options	14(b)	7,583,333	840,499	(745,531)	-	-	(36,306)	-	-	58,662
Exercise of Warrants	14(b)	50,290,026	10,689,762	-	-	(35,549)	-	-	-	10,654,213
Lawrence Park & Atkinson acquisition	14(b)	5,128,204	1,147,925	-	-	-	344,110	-	-	1,492,035
Kai Medical acquisition	14(b)	-	-	-	-	-	10,025	-	-	10,025
Reclassification of expired warrants	14(b)	-	-	-	-	(80,280)	80,280	-	-	-
Share based payments	14(c)	-	-	-	-	-	296,493	-	-	296,493
Net loss and comprehensive loss		-	-	-	-	-	-	-	(16,542,103)	(16,542,103)
<b>Balance, December 31, 2020</b>		<b>283,811,903</b>	<b>22,969,566</b>	<b>(745,531)</b>	<b>60,287</b>	<b>80,638</b>	<b>2,223,269</b>	<b>-</b>	<b>(30,078,630)</b>	<b>(5,490,401)</b>
Shares issued on debt settlement		1,207,206	59,598	-	-	-	-	-	-	59,598
Exercise of options	14(c)	3,339,666	287,801	-	-	(88,322)	-	-	-	199,479
Exercise of warrants	14(b)	41,600,547	28,592,094	-	-	-	-	-	-	28,592,094
Exercise of agent share purchase warrants		420,000	71,933	-	-	-	(23,586)	-	-	48,347
Exercise of agent compensation warrants		1,760,000	-	-	-	-	(47,251)	-	-	(47,251)
Share-based payments		-	-	-	-	435,986	-	-	-	435,986
Foreign translation adjustment		-	-	-	-	-	-	52	-	52
Net loss and comprehensive loss		-	-	-	-	-	-	-	(25,213,556)	(25,213,556)
<b>Balance, March 31, 2021</b>		<b>332,139,322</b>	<b>51,980,992</b>	<b>(745,531)</b>	<b>60,287</b>	<b>2,570,933</b>	<b>9,801</b>	<b>52</b>	<b>(55,292,186)</b>	<b>(1,415,652)</b>

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

## **EMPOWER CLINICS INC.**

### **NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

March 31, 2021 and 2020

(in United States dollars, except where noted) - Unaudited

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#### **1. NATURE OF OPERATIONS AND GOING CONCERN**

Empower Clinics Inc. ("Empower" or the "Company") was incorporated under the laws of the Province of British Columbia on April 28, 2015. The Company is a leading owner and operator of medical cannabis clinics, developer of medical products, and provides laboratory testing services in the US, focused on enabling individuals to improve and protect their health.

This business is conducted through Empower's wholly-owned Nevada, USA subsidiary, Empower Healthcare Corp. and on April 16, 2019, the Company incorporated a wholly-owned Delaware corporation, Empower Healthcare Assets Inc. ("EHA"). Through a series of transactions on April 30, 2019, EHA acquired all the outstanding membership interest of Sun Valley Certification Clinics Holdings, LLC and its subsidiaries Sun Valley Alternative Health Centers, LLC, Sun Valley Alternative Health Centers West, LLC, Sun Valley Alternative Health Centers NV, LLC, Sun Valley Alternative Health Centers Tucson, LLC, Sun Valley Alternative Health Centers Mesa, LLC, and Sun Valley Certification Clinics Franchising, LLC (collectively "Sun Valley"). On October 5, 2020 and December 31, 2020, respectively, the Company acquired all of the outstanding membership interest of Kai Medical Laboratory, LLC (note 4) and Lawrence Park Health and Wellness Clinic Inc. and 11000900 Canada Inc. (note 5).

The registered office of the Company is located at Suite 918 - 1030 West Georgia Street, Vancouver, British Columbia, Canada, V6C 1G8. The Company's U.S. headquarters are at 105 SE 18th Avenue, Portland, Oregon.

#### **COVID-19**

On March 11, 2020, the World Health Organization declared the coronavirus disease ("COVID-19") a global pandemic. During the remainder of March 2020 and through to December 31, 2020, the COVID-19 pandemic has negatively impacted global economic and financial markets. Most industries have been impacted by the COVID-19 pandemic and are facing operating challenges associated with the regulations and guidelines resulting from efforts to contain it.

As a direct result of the COVID-19 pandemic, the Company realized significant increases in patient visits and testing, which resulted in increased revenues and operating expenses. The global response to the COVID-19 pandemic has resulted in, among other things, border closures, severe travel restrictions, as well as quarantine, self-isolation, and other emergency measures imposed by various governments. Additional government or regulatory actions or inactions around the world including in jurisdictions where the Company operates may also have potentially significant economic and social impacts. If the Company's business operations are disrupted or suspended as a result of these or other measures, it may have a material adverse effect on the Company's business, results of operations and financial performance. Factors that may be impacted, among other things, are the Company's operating plan, supply chain and workforce. The Company continues to monitor the situation closely, including any potential impact on its operations. The extent to which COVID-19 may impact the Company's business and operations will depend on future developments that are highly uncertain and cannot be accurately estimated, at this time, including new information which may emerge concerning the severity of and the actions required to contain COVID-19 or remedy its impact.

#### **Going concern**

These condensed interim consolidated financial statements ("consolidated financial statements") have been prepared on the assumption that the Company will be able to continue operating as a going concern, which assumes the Company will be able to realize its assets and discharge its liabilities in the normal course of operations for the foreseeable future. The Company has a history of losses and negative cash flows from operating activities, and as at March 31, 2021, the Company had a working capital of \$2,528,024 (December 31, 2020 - \$1,746,818) and an accumulated deficit of \$55,292,186 (December 31, 2020 - \$30,078,630). These circumstances represent a material uncertainty that cast substantial doubt on the Company's ability to continue as a going concern and ultimately the appropriateness of the use of going concern assumption.

Subsequent to March 31, 2021, warrant and option exercises resulted in cash proceeds of C\$145,000 which the Company plans to use to support its working capital requirements, allowing it to operate without an immediate requirement to access new capital. The Company anticipates that it will continue to actively pursue growth opportunities through acquisitions, the expansion of clinic locations and through new product development in order to drive revenue and generate positive cash flows from operations. The ability of the Company to continue operating as a going concern is dependent on its ability to raise sufficient additional funds to finance development activities and/or its ability to achieve profitable operations and positive cash flows from operations. There is no certainty management's plans described above will be successful or that sufficient financing will be available on terms acceptable to the Company.

**EMPOWER CLINICS INC.****NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

March 31, 2021 and 2020

(in United States dollars, except where noted) - Unaudited

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**1. NATURE OF OPERATIONS AND GOING CONCERN (continued)**

These consolidated financial statements do not reflect adjustments (if any) to the recorded amounts and classification of assets and liabilities, which could be necessary if the use of the going concern assumption is ultimately determined to be inappropriate. Such adjustments, if any, could be material.

**2. BASIS OF PREPARATION****a) Statement of compliance**

These consolidated financial statements were approved by the Board of Directors and authorized for issue on July 13, 2021.

These consolidated financial statements have been prepared in accordance with International Accounting Standard 34 - Interim Financial Reporting using accounting policies consistent with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board. As such, these financial statements do not contain all the disclosures required by IFRS for annual financial statements and should be read in conjunction with the Company's audited annual consolidated financial statements for the years ended December 31, 2020, 2019, and 2018 ("annual financial statements").

The Company has reclassified certain items on the comparative consolidated statements of loss and comprehensive loss and consolidated statements of cash flows to improve clarity.

**b) Basis of presentation**

The consolidated financial statements have been prepared using the historical cost basis, except for certain financial assets and liabilities which are measured at fair value, as specified by IFRS for each type of asset, liability, income and expense as set out in the accounting policies below.

**c) Functional and presentation currency**

The consolidated financial statements are presented in United States ("US") dollars, except as otherwise noted, which is the functional currency of the Company and each of the Company's subsidiaries, except for Lawrence Park Health and Wellness Clinic Inc. and 11000900 Canada Inc. for which Canadian dollars is the functional currency. References to C\$ are to Canadian dollars.

**d) Basis of consolidation**

These consolidated financial statements include the accounts of the Company and its subsidiaries. All intercompany transactions and balances are eliminated on consolidation. Control exists where the parent entity has power over the investee and is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Subsidiaries are included in the consolidated financial statements from the date control commences until the date control ceases. These consolidated financial statements incorporate the accounts of the Company and the following subsidiaries:



**EMPOWER CLINICS INC.**

## NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2021 and 2020

(in United States dollars, except where noted) - Unaudited

**2. BASIS OF PREPARATION (continued)**

<b>Name of subsidiary</b>	<b>Country of Incorporation</b>	<b>Percentage Ownership</b>	<b>Functional Currency</b>	<b>Principal Activity</b>
S.M.A.A.R.T. Holdings Inc.	USA	100%	USD	Holding company
Empower Healthcare Corp.	Canada	100%	USD	Holding company
Empower Healthcare Corp.	USA	100%	USD	Clinic operations
SMAART, Inc.	USA	100%	USD	Holding company
The Hemp and Cannabis Co. <sup>(1)</sup>	USA	100%	USD	Holding company
THCF Access Point <sup>(1)</sup>	USA	100%	USD	Holding company
Empower Healthcare Assets Inc. <sup>(2)</sup>	USA	100%	USD	Holding company
Sun Valley Heath Holdings, LLC <sup>(3)</sup>	USA	100%	USD	Holding company
Sun Valley Health Franchising, LLC <sup>(3)</sup>	USA	100%	USD	Clinic operations
Sun Valley Health, LLC <sup>(3)</sup>	USA	100%	USD	Clinic operations
Sun Valley Health West, LLC <sup>(3)</sup>	USA	100%	USD	Clinic operations
Sun Valley Health Tucson, LLC <sup>(3)</sup>	USA	100%	USD	Clinic operations
Sun Valley Health Mesa, LLC <sup>(3)</sup>	USA	100%	USD	Clinic operations
Sun Valley Alternative Health Centres NV, LLC <sup>(3)</sup>	USA	100%	USD	Clinic operations
Kai Medical Laboratory, LLC <sup>(4)</sup>	USA	100%	USD	Clinic operations
Lawrence Park Health and Wellness Clinic Inc. <sup>(5)</sup>	Canada	100%	CAD	Clinic operations
11000900 Canada Inc. <sup>(5)</sup>	Canada	100%	CAD	Clinic operations

<sup>(1)</sup> These companies were inactive during the years ended December 31, 2020 and 2019

<sup>(2)</sup> This Company was incorporated on April 27, 2019

<sup>(3)</sup> These Companies were acquired as part of the Sun Valley acquisition on April 30, 2019

<sup>(4)</sup> Acquired on October 5, 2020 (note 4)

<sup>(5)</sup> Acquired on December 31, 2020 (note 5)

**3. SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies applied in the preparation of these financial statements are consistent with those applied and disclosed in note 3 to the annual consolidated financial statements:

**Significant estimates and assumptions**

The Company's management makes judgements in the process of applying the Company's accounting policies in the preparation of its interim financial statements. In addition, the preparation of the financial statements requires that the Company's management make assumptions and estimates of effects of uncertain future events on the carrying amounts of the Company's assets and liabilities at the end of the reporting period and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates as the estimation process is inherently uncertain.

Estimates are reviewed on an ongoing basis based on historical experience and other factors that are considered to be relevant under the circumstances. Revisions to estimates and the resulting effects on the carrying amounts of the Company's assets and liabilities are accounted for prospectively. The Company's interim results are not necessarily indicative of its results for a full year. The significant judgements and estimates applied in the preparation of these interim financial statements are consistent with those applied and disclosed in note 3 of the annual financial statements.

**EMPOWER CLINICS INC.**

## NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2021 and 2020

(in United States dollars, except where noted) - Unaudited

**4. ACQUISITION OF KAI MEDICAL**

On October 5, 2020, the Company acquired 100% of the membership interest of Kai Medical Laboratory, LLC ("Kai Medical"), for consideration with a fair value of \$20,050 comprised of 500,000 stock options with a fair value of \$10,025 and 500,000 warrants with a fair value of \$10,025. The options and warrants are exercisable at a price of \$0.04 (C\$0.05) and expire on October 5, 2023. The options and warrants were valued using a Black-Scholes option pricing model with the following assumptions: three year expected life, risk free rate of 0.23%, share price of \$0.03 (C\$0.04) and volatility of 119.32%.

The transaction has been accounted for as a business combination under IFRS 3 - Business Combinations.

KAI Medical Laboratory operates a high-complexity CLIA and COLA accredited laboratory that provides reliable and accurate testing solutions to hospitals, medical clinics, pharmacies, and employer groups.

The following table summarizes the final purchase price allocation:

<b>Assets Acquired</b>	<b>\$</b>
Cash	9,826
Accounts receivable	1,314
Prepaid	8,002
Property and equipment	1,422,819
Intangible asset	245,000
	<b>1,686,961</b>
<b>Liabilities Assumed</b>	
Accounts payable and accrued liabilities	406,528
Loan payable	1,139,577
Lease liability	294,669
Disaster loan	59,846
PPP loan	77,028
<b>Net assets at fair value, as at October 5, 2020</b>	<b>(290,687)</b>
<b>Consideration</b>	
Fair value of 500,000 stock options issued	10,025
Fair value of 500,000 warrants issued	10,025
<b>Total consideration</b>	<b>20,050</b>
<b>Goodwill</b>	<b>310,737</b>

Accounts receivable had a fair value of \$1,314 while gross contractual accounts receivable were \$32,448 at the date of acquisition.

Property and equipment acquired included \$294,669 of right-of-use assets.

The intangible asset is comprised of the laboratory certification license which was valued at replacement cost which approximates the costs incurred by Kai Medical to acquire the laboratory certification license.

The loan payable had a principal balance of \$1,139,577, accrues interest at the prime rate plus 2% and matures on June 7, 2028. The prime rate as at October 5, 2020 was 3.25%. The loan payable's fair value was determined to be equal to its carrying value as the loan is collateralized, the borrower did not breach any of the default provisions, and the lender is an unrelated third party.

The disaster loan had a principal balance of \$150,000, accrues interest at 3.75% per annum and matures on June 24, 2040. The disaster loan was fair valued at \$59,846 using a discount rate of 13.83%.

**EMPOWER CLINICS INC.****NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

March 31, 2021 and 2020

(in United States dollars, except where noted) - Unaudited

**4. ACQUISITION OF KAI MEDICAL (continued)**

The PPP loan had a principal balance of \$89,379, accrues interest at 1.00% per annum and matures on April 30, 2022. The PPP loan was fair valued at \$77,028 using a discount rate of 16.63%.

The lease liability represents four leases with a fair value of \$294,669 on the date of acquisition, which is the net present value of the minimum future lease payments determined using the following assumptions:

	Lease 1	Lease 2	Lease 3	Lease 4
Remaining term (months)	20	5	55	55
Monthly payments	\$3,050 to \$3,250	\$2,850	\$2,554	\$2,041
Incremental borrowing rate	5.5%	5.5%	5.5%	5.5%
<b>Fair value on acquisition</b>	<b>\$60,145</b>	<b>\$14,039</b>	<b>\$122,536</b>	<b>\$97,949</b>

The goodwill generated as a result of this acquisition relates to other intangible assets that do not qualify for separate recognition.

**5. ACQUISITION OF LAWRENCE PARK & ATKINSON**

On December 31, 2020, the Company acquired 100% ownership of Lawrence Park Health and Wellness Clinic Inc. ("Lawrence Park") and 11000900 Canada Inc. ("Atkinson", together "Lawrence Park & Atkinson" or "LP&A"). Lawrence Park & Atkinson operate para-medical clinics in the Greater Toronto Area of Ontario, Canada. The acquisition of these entities is considered one combined acquisition as the businesses carry on similar activities in Canada and are evaluated together as one business by management, so are considered one CGU from the Company's perspective.

Consideration in the transaction had a fair value of \$1,766,933 comprised of cash consideration of \$215,991, cash payable of \$58,907, up to 3,750,000 stock options with a fair value of \$344,110 and share consideration with a fair value of \$1,147,925. Share consideration consisted of the issuance of 2,564,102 common shares of the Company with a fair value of \$0.2238 (C\$0.2850) based on the stock price on December 31, 2020 and 2,564,102 common shares of the Company subject to voluntary trading restrictions imposed by a contract (and therefore no discount for lack of marketability) lasting through December 31, 2022 and having an average fair value of \$0.2238 (C\$0.2850) per share, which have the following escrow condition: 320,513 common shares to be released every three months commencing on March 31, 2021.

Pursuant to the terms of the acquisition of LP&A, the 3,750,000 stock options are subject to the following milestone issuance schedule:

- Milestone 1 - 1/3 exercisable after 10 new clinics are opened within 18 months of the acquisition date
- Milestone 2 - 1/3 exercisable after an additional 10 new clinics are opened
- Milestone 3 - 1/3 exercisable after a further additional 10 new clinics are opened

The stock options will have a term of five years commencing on the date of issuance and become exercisable at a price equal to the greater of (a) the volume weighted average trading price ("VWAP") for the 10 trading days prior to the achievement of Milestone 1, and (b) the greater of the closing market prices of the Empower shares on (i) the trading day prior to the date of grant of the stock options; and (ii) in the event that the shares are not publicly traded, the fair value determined by an independent appraiser. The Company used the Black-Scholes option pricing model to determine the \$344,110 fair value of the stock options with the following assumptions:

	Milestone 1	Milestone 2	Milestone 3
Milestone date	June 30, 2022	December 31, 2023	June 30, 2025
Years to maturity	4.00	4.75	5.50
Risk-free rate	0.190%	0.250%	0.480%
Exercise price	C\$0.2850	C\$0.2850	C\$0.2850
Share price	C\$0.2850	C\$0.2850	C\$0.2850
Volatility	108.1%	108.1%	108.1%
<b>Fair value per option</b>	<b>C\$0.2056</b>	<b>C\$0.2173</b>	<b>C\$0.2273</b>
Probability	90%	50%	25%
<b>Fair value per option tranche <sup>(1)</sup></b>	<b>\$181,634 (C\$231,256)</b>	<b>\$106,679 (C\$135,824)</b>	<b>\$55,797 (C\$71,041)</b>

<sup>(1)</sup> Canadian dollar amount translated using December 31, 2020 foreign exchange rate of 0.7854

The transaction has been accounted for as a business combination under IFRS 3 - Business Combinations.

**EMPOWER CLINICS INC.**

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**5. ACQUISITION OF LAWRENCE PARK & ATKINSON (continued)**

The following table summarizes the final purchase price allocation:

<b>Assets Acquired</b>	<b>\$</b>
Cash and cash equivalents	38,521
Deposit	4,103
Intangible assets	58,907
Right-of-use assets	39,271
	<b>140,802</b>
<b>Liabilities Assumed</b>	
Accounts payable and accrued liabilities	54,396
Lease liability	45,595
Loans payable	45,287
<b>Net assets at fair value, as at December 31, 2020</b>	<b>(4,476)</b>
<b>Consideration</b>	
Cash consideration	215,991
Cash consideration - withheld	58,907
Stock options	344,110
Share consideration	1,147,925
<b>Total Consideration</b>	<b>1,766,933</b>
<b>Goodwill</b>	<b>1,771,409</b>

The intangible assets are comprised of the trade name with a fair value of \$43,198 and customer relationships with a fair value of \$15,709. The fair value of the trade name was determined using the relief from royalty method and the fair value of the customer relationships was determined using a discounted cash flow analysis. The key assumptions used in the cash flow projection related to the trade name include: (1) a discount rate of 20.5%; (2) revenue growth rates of 3.1% - 35%; (3) royalty rate of 1%; (4) discount rate of 20.5% and (5) terminal revenue growth of 2% per year. The key assumptions used in the cash flow projection related to the customer relationships include (1) customer growth rate of 2%; (2) customer retention rates of 55% and discount rate of 22.5%.

The lease liability represents one lease with a fair value of \$45,595 on the date of acquisition, which is the net present value of the minimum future lease payments determined using the following assumptions: (1) remaining number of payments - 13; (2) rent payment - \$3,631; and (3) incremental borrowing rate - 4.04%.

The loans payable balance at acquisition consists of two CEBA loans with a two-year term to maturity that have a fair value of \$45,287. The fair value was determined using a discounted cash flow analysis with a discount rate of 10.2%.

The goodwill generated as a result of this acquisition relates to other intangible assets that do not qualify for separate recognition.

**6. ACCOUNTS RECEIVABLE**

The Company had the following in accounts receivable at March 31, 2021 and December 31, 2020:

	<b>March 31, 2021</b>	December 31, 2020
	<b>\$</b>	<b>\$</b>
Trade receivables, net	<b>709,748</b>	245,891
GST receivable	<b>76,532</b>	18,975
	<b>786,280</b>	264,866

The Company estimates a provision for lifetime expected credit losses for receivables aged greater than 91 days. As at March 31, 2021, the Company had \$nil (December 31, 2020 - \$nil) recorded as a provision for expected credit losses.

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**7. PROPERTY AND EQUIPMENT**

A continuity of property and equipment for the three months ended March 31, 2021 and 2020 is as follows:

	<b>Right-of-use assets</b>	<b>Furniture and equipment</b>	<b>Leasehold improvements</b>	<b>Testing equipment</b>	<b>Total</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>Cost</b>					
Balance, December 31, 2019	857,083	36,780	91,858	-	985,721
Acquisition of Kai Medical	294,669	114,000	86,000	928,149	1,422,818
Acquisition of LP&A	39,271	-	-	-	39,271
Additions	-	3,495	-	-	3,495
Disposals	(402,533)	-	-	-	(402,533)
Balance, December 31, 2020	788,490	154,275	177,858	928,149	2,048,772
Additions	-	19,558	37,988	-	57,546
Impairment	-	(4,484)	(14,244)	-	(18,728)
Disposals	(148,926)	(15,180)	(27,654)	-	(191,760)
Foreign exchange	490	-	-	-	490
<b>Balance, March 31, 2021</b>	<b>640,054</b>	<b>154,169</b>	<b>173,948</b>	<b>928,149</b>	<b>1,896,320</b>
<b>Accumulated amortization</b>					
Balance, December 31, 2019	(147,195)	(7,179)	(33,924)	-	(188,298)
Amortization	(222,910)	(35,776)	(40,881)	(29,005)	(328,572)
Disposals	58,145	-	-	-	58,145
Balance, December 31, 2020	(311,960)	(42,955)	(74,805)	(29,005)	(458,725)
Amortization	(76,812)	(23,397)	(16,188)	(29,005)	(145,402)
Disposals	95,701	15,180	27,654	-	138,535
<b>Balance, March 31, 2021</b>	<b>(293,071)</b>	<b>(51,172)</b>	<b>(63,339)</b>	<b>(58,010)</b>	<b>(465,592)</b>
<b>Carrying amount</b>					
Balance, December 31, 2020	476,530	111,320	103,053	899,144	1,590,047
<b>Balance, March 31, 2021</b>	<b>346,983</b>	<b>102,997</b>	<b>110,609</b>	<b>870,139</b>	<b>1,430,728</b>

On May 9, 2019, the Company terminated the lease for the Chicago clinic. As a result of the lease termination, the Company derecognized the right-of-use asset with a cost of \$255,859 and accumulated amortization of \$184,787 and recorded an impairment loss \$71,072 representing the undepreciated portion of the right-of-use asset above the lease liability which is included as impairment loss on write-off of property and equipment on the consolidated statements of loss and comprehensive loss.

The Company also derecognized the associated lease liability of \$76,626 and recorded a gain of \$5,549 representing the excess of the right-of-use asset above the lease liability which is included as impairment loss on property and equipment on the consolidated statements of loss and comprehensive loss. In addition, the Company recognized an impairment loss of \$114,516 representing the carrying value of leasehold improvements written-off for the Chicago clinic on termination of the lease. This is included as impairment loss on property and equipment on the consolidated statements of loss and comprehensive loss.

The Company defaulted on the Spokane lease and as a result, derecognized the right-of-use asset with a cost of \$69,113 and accumulated amortization of \$61,060 and recorded a loss of \$8,053 representing the carrying value of the right-of-use asset which is included as impairment loss on property and equipment on the consolidated statements of loss and comprehensive loss. The lease liability of \$9,700 has not been derecognized as the Company negotiates a settlement with the landlord of the facility. In addition, the Company recognized a loss on disposal of \$2,610 representing the carrying value of the furniture and equipment.

Through the acquisition of Kai Medical on October 5, 2020, the Company acquired testing equipment with a fair value of \$829,803 and right-of-use assets of \$294,669. The right-of-use assets relate to leased office space and equipment.

The Company defaulted on the right-of-use CBD extraction facility and as a result, derecognized the right of use asset with a cost of \$402,533 and accumulated depreciation of \$58,145. The Company recognized a gain on lease termination of \$14,049. The Company still has \$15,533 in lease liabilities related to unpaid rent for three months where the Company still had possession of the facility.

**EMPOWER CLINICS INC.**

## NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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**8. INTANGIBLE ASSETS**

A continuity of intangible assets for the year ended December 31, 2020 and the three months ended March 31, 2021 is as follows:

	Patient records	Brands, trademarks, licenses and domain names	Management software	Software	Total
	\$	\$	\$	\$	\$
<b>Cost</b>					
Balance, December 31, 2019	389,580	263,695	51,100	-	704,375
Additions	-	-	-	138,855	138,855
Acquisition of Kai Medical	-	245,000	-	-	245,000
Acquisition of LP&A	58,907	-	-	-	58,907
Impairment	(69,724)	(131,996)	-	(138,855)	(340,575)
Balance, December 31, 2020	378,763	376,699	51,100	-	806,562
Foreign exchange	350	348	-	-	698
<b>Balance, March 31, 2021</b>	<b>379,113</b>	<b>377,047</b>	<b>51,100</b>	<b>-</b>	<b>807,260</b>
<b>Accumulated amortization</b>					
Balance, December 31, 2019	(299,935)	(98,700)	(51,100)	-	(370,276)
Amortization	(52,920)	-	-	-	(52,920)
Balance, December 31, 2020	(352,855)	(98,700)	(51,100)	-	(423,196)
Amortization	(15,195)	-	-	-	(15,195)
<b>Balance, March 31, 2021</b>	<b>(368,050)</b>	<b>(98,700)</b>	<b>(51,100)</b>	<b>-</b>	<b>(438,391)</b>
<b>Carrying amount</b>					
Balance, December 31, 2020	25,908	277,999	-	-	303,907
<b>Balance, March 31, 2021</b>	<b>11,063</b>	<b>278,347</b>	<b>-</b>	<b>-</b>	<b>289,410</b>

**9. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**

	March 31, 2021	December 31, 2020
	\$	\$
Trade payables and accrued liabilities (note 18)	1,917,694	1,920,840
Payroll liabilities	1,524,887	1,521,885
	<b>3,442,581</b>	<b>3,442,725</b>

**10. LOANS PAYABLE**

	March 31, 2021	December 31, 2020
	\$	\$
Balance, beginning of period	2,132,227	761,711
Acquisition of Kai Medical	-	1,276,449
Acquisition of Lawrence Park	-	27,172
Acquisition of 11000900 Canada Ltd.	-	18,115
CEBA loan	-	31,417
Accretion expense	1,776	1,345
Interest expense	16,203	60,397
Repayment	(868,198)	(44,379)
Unrealized foreign exchange loss	32	-
Balance, end of period	1,282,040	2,132,227
Less: Current portion of loans payable	184,899	992,070
Non-current portion of loans payable	<b>1,097,141</b>	<b>1,140,157</b>

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**10. LOANS PAYABLE (continued)**

Loans payable as at December 31, 2019 and December 31, 2018 consisted only of a loan with Bayview Equities Ltd. (the "Secured Party") with a principal amount of \$550,000. The balance as at December 31, 2019 and December 2018 reflects the principal plus accrued interest to date. The loan bears interest at 6% per annum and is due upon demand. The loan is secured by a grant to the Secured Party of a security interest in all the assets of EHC. On January 11, 2021, the Company repaid the principal and accrued interest of \$258,293.

On May 27, 2020, the Company received a Canada Emergency Business Account ("CEBA") loan in the amount of \$31,417 (C\$40,000). The loan is interest free until January 1, 2023, at which time accrues interest at a rate of 5% per annum, payable monthly on the last day of each month. The loan has a possibility of forgiveness of 33% if it is repaid on or before December 31, 2022.

On October 5, 2020, through the acquisition of Kai Medical, the Company assumed three secured loans with a total fair value of \$1,276,449 (note 4). From the date of acquisition to December 31, 2020, the total accretion expense and interest expense applicable to the Kai loans payable were \$13,284 and \$1,345, respectively.

On December 31, 2020, through the acquisition of LP&A, the Company assumed two CEBA loans with a fair value of \$27,172 (C\$34,595) and \$18,115 (C\$23,064) and amounts due at maturity of C\$60,000 and C\$40,000, respectively. The loans are interest free until January 1, 2023, at which time interest accrues at a rate of 5% per annum, payable monthly on the last day of each month. The loans have a possibility of forgiveness of 33% of each loan if they are repaid on or before December 31, 2022. The loans were discounted using an annual rate of 3.21% and the fair value reflects an estimate that the amount will be repaid prior to December 31, 2022.

**11. NOTES PAYABLE**

	<b>March 31, 2021</b>	December 31, 2020
	<b>\$</b>	<b>\$</b>
Balance, beginning of period	<b>708,361</b>	969,891
Settled in shares (a)(b)	-	(148,745)
Repayment	<b>(553,324)</b>	(197,862)
Realized foreign exchange (gain) loss	<b>(1,525)</b>	4,918
Unrealized foreign exchange loss	<b>3,786</b>	6,304
Accretion expense	-	13,110
Interest expense	<b>7,060</b>	60,745
Balance, end of period	<b>164,358</b>	708,361
Less: Current portion of notes payable	<b>164,358</b>	708,361
Non-current portion of notes payable	-	-

- a) On April 30, 2019, the Company issued a promissory note payable in the amount of \$125,000. The promissory note was due July 31, 2019 and bears interest at a rate of 4% per annum. The Company was in default and extended the maturity date to August 31, 2020. The default resulted in a penalty of \$15,000 if the loan was not repaid in full by July 31, 2019 and an additional \$15,000 if the loan was not paid in full by August 31, 2019. On July 15, 2020, the Company settled the promissory note in 4,100,634 units in the private placement on the same date. The note had a carrying amount of \$148,745 which represented the principal plus interest and \$30,000 of late payment penalties. The Company recorded a loss on debt settlement of \$2,380 which is included in general and administrative expense.
- b) On October 1, 2019, the Company issued a promissory note payable in the amount of \$188,765 (C\$250,000). The promissory note payable was due April 1, 2020, and bears interest at 10% per annum. Pursuant to the issuance of the note payable the Company incurred transaction costs including an administrative charge of \$18,876 (C\$25,000) and an obligation to issue 150,000 common shares of the Company with a fair value of \$6,811 which was been recorded as shares to be issued on the consolidated statements of changes in equity. The note payable has been recognized at amortized cost of \$163,093 (C\$216,000). On May 20, 2020, the Company issued a total of 844,444 common shares of which 694,444 were to settle an administrative charge of \$18,876 (C\$25,000) and the remaining 150,000 common shares were to settle the obligation to issue shares. The Company repaid the principal of \$250,000 on December 11, 2020. As at December 31, 2020, the Company had a balance owing of \$22,944 for accrued interest. The interest was repaid on January 11, 2021.

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**12. LEASE LIABILITY**

	Empower clinics	Sun Valley clinics	CBD extraction facility	Kai Medical	Lawrence Park & Atkinson	Total
	\$	\$	\$	\$	\$	\$
Balance, December 31, 2019	14,761	332,150	387,985	-	-	734,896
Acquisition of Kai Medical	-	-	-	294,669	-	294,669
Acquisition of LP&A	-	-	-	-	45,595	45,595
Interest expense	568	15,669	11,103	3,969	-	31,309
Payments	(12,270)	(173,139)	(15,405)	(25,586)	-	(226,400)
Termination of leases	-	-	(383,683)	-	-	(383,683)
Balance, December 31, 2020	3,059	174,680	-	273,052	45,595	496,386
Interest expense	31	2,425	-	3,959	636	7,051
Payments	(3,090)	(36,033)	-	(31,486)	(10,955)	(81,564)
Termination of leases	-	(57,696)	-	-	-	(57,696)
Foreign exchange	-	-	-	-	501	501
<b>Balance, March 31, 2021</b>	<b>-</b>	<b>83,376</b>	<b>-</b>	<b>245,525</b>	<b>35,777</b>	<b>364,678</b>
Less: current portion of lease liability	-	54,482	-	81,001	35,777	171,260
Lease liability	-	28,894	-	164,524	-	193,418

The Company defaulted on the right-of-use CBD extraction facility and as a result, derecognized the right of use asset associated with the CBD extraction facility (note 7). As a result, the Company extinguished the associated lease liability of \$383,683.

During the three months ended March 31, 2021, the Company recognized an expense of \$23,548 (March 31, 2020 - \$16,105) with respect to short-term and low value leases.

**13. WARRANT LIABILITY**

The warrants are classified as a financial instrument under the principles of IFRS 9, as the exercise price is in Canadian dollars while the functional currency of the Company is the US dollar. Accordingly, warrants are remeasured to fair value at each reporting date with the change in fair value charged to change in fair value of warrant liability in the consolidated statement of loss and comprehensive loss.

	Weighted average Exercise Price (C\$)	Warrants #	Warrant Liability \$
As at December 31, 2019		46,257,289	106,312
Issued	C\$0.12	69,400,524	1,061,738
Exercised	C\$0.13	(49,800,176)	(5,341,149)
Expired	C\$0.39	(11,642,185)	-
Loss on change in fair value of warrant liability			11,886,796
As at December 31, 2020		54,215,452	7,713,697
Issued	C\$0.12	1,760,000	116,761
Exercised	C\$0.13	(41,600,547)	(24,528,763)
Loss on change in fair value of warrant liability			23,793,165
<b>As at March 31, 2021</b>		<b>14,374,905</b>	<b>7,094,860</b>
Less: Current portion of warrant liability			641,153
Non-current portion of warrant liability			6,453,707



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**13. WARRANT LIABILITY (continued)**

The following table summarizes the warrants outstanding and exercisable as at March 31, 2021:

<b>Expiry date</b>	<b>Number of warrants</b>	<b>Weighted average exercise price (\$C)</b>	<b>Weighted average remaining life (in years)</b>
April 2,2021	1,053,637	C\$0.16	0.01
May 3,2021	194,380	C\$0.16	0.09
September 13,2021	2,696	C\$0.16	0.45
September 20,2021	1,412	C\$0.16	0.47
April 16,2022	2,700,000	C\$0.10	1.04
July 15,2022	1,716,700	C\$0.12	1.29
September 9,2022	3,746,080	C\$0.31	1.44
November 9,2022	4,460,000	C\$0.12	1.61
October 5,2023	500,000	C\$0.05	2.52
	<b>14,374,905</b>	<b>C\$0.17</b>	<b>1.32</b>

On April 2, 2020, pursuant to the conversion of convertible debentures with a face value of \$268,554 (C\$367,500) and accrued interest of \$16,113 (C\$22,050), the Company issued 3,541,366 units. Each unit is comprised of one common share and one common share purchase warrant (note 14(b)). Each warrant entitles the holder to acquire one common share at a price of \$0.11 (C\$0.16) for a period of two years following the closing date of the conversion.

On April 8, 2020, pursuant to the conversion of convertible debentures with a face value of \$147,691 (C\$207,270) and accrued interest of \$8,254 (C\$11,584), the Company issued 1,989,588 units. Each unit is comprised of one common share and one common share purchase warrant (note 14(b)). Each warrant entitles the holder to acquire one common share at a price of \$0.11 (C\$0.16) for a period of two years following the closing date of the conversion.

On April 16, 2020, pursuant to a private placement financing, the Company issued 16,325,000 units at a price of C\$0.03 (C\$0.04) per unit for gross proceeds of \$462,399 (C\$653,000). Each unit consists of one common share and one common share purchase warrant. Each warrant entitles the holder to acquire one common share at a price of \$0.07 (C\$0.10) per share for a period of two years following the closing date of the financing.

On May 7, 2020, pursuant to the conversion of convertible debentures with a face value of \$178,380 (C\$250,000) and accrued interest of \$20,600 (C\$28,871), the Company issued 3,064,515 common shares and 3,064,515 common share purchase warrants (note 14(b)). Each warrant entitles the holder to acquire one common share at a price of \$0.09 (C\$0.12) for a period of one year following the closing date of the conversion.

On July 15, 2020, pursuant to a private placement financing, the Company issued 14,417,334 units for \$0.04 (C\$0.05) per unit for gross proceeds of \$532,280 (C\$720,867). Each unit is comprised of one common share and one common share purchase warrant. Each warrant entitles the holder to acquire one common share at a price of \$0.09 (C\$0.12) per share for a period of 24 months following the closing date of the financing.

On October 5, 2020, the Company issued 500,000 warrants for \$0.03 (C\$0.05) pursuant to costs in connection with the acquisition of Kai Medical. Each warrant entitles the holder to acquire one common share at a price of \$0.09 (C\$0.12) per share for a period of 36 months following the closing date of the financing.

On November 9, 2020, pursuant to a private placement financing, the Company issued 24,567,131 units for \$0.04 (C\$0.05) per unit for gross proceeds of \$944,257 (C\$1,228,366). Each unit is comprised of one common share and one common share purchase warrant. Each warrant entitles the holder to acquire one common share at a price of \$0.09 (C\$0.12) per share for a period of 24 months following the closing date of the financing. Additionally, as part of this private placement financing, the Company issued 1,760,000 agent purchase warrants as compensation to the brokers. Each agent purchase warrant entitles the holder to acquire one common share at a price of \$0.04 (C\$0.05) and one share purchase warrant for a period of two years following the closing date of the financing. The agent purchase warrants were valued at \$47,251 using the Black-Scholes option pricing model with the following assumptions: a two year expected average life, share price of \$0.04 (C\$0.05); 100% volatility; risk-free interest rate of 0.24%; and an expected dividend yield of 0%.

**EMPOWER CLINICS INC.**

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**13. WARRANT LIABILITY (continued)**

On March 8, 2021, pursuant to the exercise of 1,760,000 agent purchase warrants, the Company issued 1,760,000 share purchase warrants for \$0.04 (C\$0.05) per agent purchase warrants. Each warrant entitles the holder to acquire one common share at a price of \$0.09 (C\$0.12) per share and expire on November 9, 2022. The purchase warrants were valued at \$116,761 using the Black-Scholes option pricing model with the following assumptions: a 1.67 year expected average life, share price of \$0.69 (C\$0.87); 100% volatility; risk-free interest rate of 0.29%; and an expected dividend yield of 0%. The fair value of these purchase warrants was recorded to warrant liability.

**14. EQUITY****a) Authorized share capital**

Unlimited number of common shares without nominal or par value. At March 31, 2021, there were 332,139,322 issued and outstanding common shares (December 31, 2020 - 283,811,903). The Company does not currently pay dividends and entitlement will only arise upon declaration.

**b) Issued - common shares**

During the three months ended March 31, 2021, the Company completed the following transactions:

***Shares issued for services***

- i. On February 26, 2021, the Company issued 1,207,206 common shares for \$0.05 (C\$0.06) per common share for total fair value consideration of \$59,598 (C\$75,600) for marketing services.

***Exercise of options***

- ii. 3,339,666 stock options with a weighted average exercise price of \$0.06 (C\$0.08) were exercised for proceeds of \$199,479 (C\$251,733) resulting in the issuance of 3,339,666 common shares. Upon exercise, \$88,322 was transferred from contributed surplus to issued capital.

***Exercise of warrants***

- iii. 41,600,547 purchase warrants with a weighted average exercise price of \$0.10 (C\$0.13) were exercised for proceeds of \$4,063,331 (C\$5,140,212) resulting in the issuance of 41,600,547 common shares. The fair value of the warrants exercised was \$28,592,094 as determined using the Black-Scholes option pricing model. The resulting loss on warrant revaluation was \$23,793,165.
- iv. 420,000 agent purchase warrants with a weighted average exercise price of \$0.12 (C\$0.15) were exercised for proceeds of \$48,347 (C\$61,200) resulting in the issuance of 420,000 common shares. Upon exercise, \$23,586 was transferred from warrant reserve to issued capital.
- v. 1,760,000 agent purchase warrants with an exercise price of \$0.09 (C\$0.12) were exercised for proceeds of \$69,510 (C\$88,000) resulting in the issuance of 1,760,000 common shares. Upon exercise, \$47,251 was transferred from warrant reserve to warrant liability.

During the year ended December 31, 2020, the Company completed the following transactions:

***Shares issued to former CEO***

- i. On March 11, 2020, pursuant to the incorrect cancellation of common shares of the former CEO, the Company issued 651,875 common shares.

**EMPOWER CLINICS INC.****NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

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**14. EQUITY (continued)*****Shares issued on private placement***

- ii. On April 16, 2020, pursuant to a private placement financing, the Company issued 16,325,000 units for \$0.03 (C\$0.04) per unit for gross proceeds of \$462,400 (C\$653,000) comprised of cash of \$219,300 (C\$313,000) and the settlement of accounts payable in the amount of \$243,100 (C\$340,000). Each unit is comprised of one common share and one common share purchase warrant. Each warrant entitles the holder to acquire one common share at a price of \$0.07 (C\$0.10) per share for a period of twenty-four months following the closing date of the financing (note 13). Share issue costs included cash payments of \$1,714 (C\$2,400) (\$1,026 of which was allocated to the warrant liability and recorded in the profit and loss) and the issuance of 60,000 share purchase warrants valued at \$1,017 using the Black-Scholes option pricing model with the following assumptions: a two year expected average life, share price of \$0.04 (C\$0.05); 100% volatility; risk-free interest rate of 0.34%; and an expected dividend yield of 0%. Consideration of \$276,809 was recorded to warrant liability and the residual amount of \$185,590 was recorded to issued capital.
- iii. On July 15, 2020, pursuant to a private placement financing, the Company issued 14,417,334 units for \$0.04 (C\$0.05) per unit for gross proceeds of \$532,280 (C\$720,867) comprised of cash of \$335,352 (C\$454,167) and the settlement of accounts payable in the amount of \$196,928 (C\$266,700). Each unit is comprised of one common share and one common share purchase warrant. Each warrant entitles the holder to acquire one common share at a price of \$0.09 (C\$0.12) per share for a period of twenty-four months following the closing date of the financing (note 13). Share issue costs included cash payments of \$3,553 (C\$4,800) (\$1,518 of which was allocated to the warrant liability and recorded in the profit and loss) and the issuance of 96,000 share purchase warrants valued at \$1,509 using the Black-Scholes option pricing model with the following assumptions: a two year expected average life, share price of \$0.04 (C\$0.06); 100% volatility; risk-free interest rate of 0.24%; and an expected dividend yield of 0%. Consideration of \$227,402 was recorded to warrant liability and the residual amount of \$304,878 was recorded to issued capital.
- iv. On October 27, 2020, pursuant to a private placement financing, the Company issued 1,500,000 units for \$0.04 (C\$0.05) per unit for gross proceeds of \$56,974 (C\$75,000). Each unit consists of one common share and one common share purchase warrant. Each warrant entitles the holder to acquire one common share at a price of \$0.09 (C\$0.12) per share for a period of twenty-four months. Of gross proceeds, \$32,956 was allocated to share capital and \$24,698 was allocated to warrant liability.
- v. On November 9, 2020, pursuant to a private placement financing, the Company issued 23,067,131 units for \$0.04 (C\$0.05) per unit for gross proceeds of \$889,250 (C\$1,153,357). Each unit consists of one common share and one common share purchase warrant. Each warrant entitles the holder to acquire one common share at a price of \$0.09 (C\$0.12) per share for a period of twenty-four months (\$42,403 of share issuance costs which was allocated to the warrant liability and recorded in the profit and loss). Of gross proceeds, \$506,801 was allocated to share capital and \$382,449 was allocated to warrant liability.

***Shares issued on debt settlement***

- vi. On January 23, 2020, the Company issued 4,800,000 common shares for \$0.03 (C\$0.045) per common share for total fair value consideration of \$164,346 (C\$216,000) as settlement of accounts payable in the amount of \$182,607 (C\$240,000) resulting in a gain on debt settlement of \$18,261.
- vii. On May 7, 2020, the Company issued 347,142 common shares for \$0.06 (C\$0.08) per common share for total fair value consideration of \$19,812 (C\$27,767) as settlement of accounts payable in the amount of \$23,189 (C\$32,500) resulting in a gain on debt settlement of \$4,538.
- viii. On May 20, 2020, the Company issued 694,444 common shares for \$0.05 (C\$0.07) per common share for total fair value consideration of \$34,992 (C\$48,611) as settlement of accounts payable in the amount of \$17,996 (C\$25,000) resulting in a gain on debt settlement of \$500.

***Vesting of escrow shares***

- ix. For the year ended December 31, 2020, the Company recognized \$193,025 in connection with the vesting of escrow shares.

**EMPOWER CLINICS INC.**

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**14. EQUITY (continued)*****Shares issued for services***

- x. On February 11, 2020, the Company issued 4,000,000 common shares for \$0.03 (C\$0.035) per common share for total fair value consideration of \$190,110 (C\$252,276) for marketing services.
- xi. On September 22, 2020, the Company issued 2,500,000 common shares for \$0.03 (C\$0.04) per common share for total fair value consideration of \$135,529 (C\$191,015) for marketing services.
- xii. On September 23, 2020, the Company issued 3,000,000 common shares for \$0.03 (C\$0.04) per common share for total fair value consideration of \$161,715 (C\$214,237) as settlement of accounts payable in the amount of \$184,173 (C\$244,103) resulting in a gain on debt settlement of \$22,458.

***Shares issued on conversion of debentures***

- xiii. On April 2, 2020, pursuant to the conversion of convertible debentures with a face value of \$268,554 (C\$367,500) and accrued interest of \$16,113 (C\$22,050), the Company issued 3,541,366 common shares and 3,541,366 common share purchase warrants. Each warrant entitles the holder to acquire one common share at a price of \$0.07 (C\$0.10) for a period of two years following the closing date of the conversion. At the date of the conversion, the conversion feature was valued at \$nil and the debt was valued at \$276,478. Consideration of \$24,607 was recorded to warrant liability and the residual amount of \$251,871 was recorded to issued capital.
- xiv. On April 8, 2020, pursuant to the conversion of convertible debentures with a face value of \$147,691 (C\$207,270) and accrued interest of \$8,254 (C\$11,584), the Company issued 1,989,588 common shares and 1,989,588 common share purchase warrants. Each warrant entitles the holder to acquire one common share at a price of \$0.07 (C\$0.10) for a period of two years following the closing date of the conversion. At the date of the conversion, the conversion feature was valued at \$nil and the debt was valued at \$78,213. Consideration of \$21,981 was recorded to warrant liability and the residual amount of \$56,232 was recorded to issued capital.
- xv. On May 7, 2020, pursuant to the conversion of convertible debentures with a face value of \$356,720 (C\$500,000) and accrued interest of \$42,180 (C\$56,376), the Company issued 6,129,030 common shares and 6,129,030 common share purchase warrants. Each warrant entitles the holder to acquire one common share at a price of \$0.09 (C\$0.12) for a period of one year following the closing date of the conversion. At the date of the conversion, the conversion feature was valued at \$nil and the debt was valued at \$417,815. Consideration of \$104,565 was recorded to warrant liability and the residual amount of \$313,250 was recorded to issued capital.

***Obligation to issue shares***

- xvi. On May 20, 2020, pursuant to the issuance of a promissory note payable in the amount of \$188,765 (C\$250,000), the Company settled its obligation to issues 150,000 common shares.

***Exercise of options***

- xvii. On November 3, 2020, the CEO of the Company exercised 7,000,000 stock options with an exercise price of \$0.11 (C\$0.14) resulting in the issuance of 7,000,000 common shares. The proceeds of \$745,531 (C\$980,000) for the options were not received by December 31, 2020 and the Company recorded a share subscriptions receivable against the freely trading common shares.
- xviii. On December 8, 2020, 300,000 options with an exercise price of \$0.04 (C\$0.05) were exercised for proceeds of \$11,718 (C\$15,000) resulting in the issuance of 300,000 common shares. Upon exercise, \$4,047 was transferred from contributed surplus to equity.
- xix. On December 14, 2020, 83,333 options with an exercise price of \$0.08 (C\$0.10) were exercised for proceeds of \$6,527 (C\$8,333) resulting in the issuance of 83,333 common shares. Upon exercise, \$137 was transferred from contributed surplus to equity.
- xx. On December 21, 2020, 200,000 options with an exercise price of \$0.20 (C\$0.26) were exercised for proceeds of \$40,416 (C\$52,000) resulting in the issuance of 200,000 common shares. Upon exercise, \$32,125 was transferred from contributed surplus to equity.

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**14. EQUITY (continued)****Exercise of warrants**

During the year ended December 31, 2020, the Company issued common shares as a result of warrant exercises as follows:

Issue date	Number of warrants exercise and shares issued	Weighted average exercise price (\$C)	Weighted average exercise price	Cash received	Warrant liability transferred to share capital	Share capital
December 8, 2020	1,000,000	0.12	0.0937	93,691	121,464	215,156
December 8, 2020	909,090	0.16	0.1249	113,565	97,647	211,212
December 9, 2020	9,125,000	0.10	0.0781	712,724	958,652	1,671,375
December 9, 2020	7,364,515	0.12	0.0937	690,262	675,387	1,365,648
December 9, 2020	5,512,264	0.16	0.1250	688,872	308,191	997,063
December 10, 2020	2,000,000	0.10	0.0785	157,060	267,897	424,957
December 10, 2020	4,736,634	0.12	0.0942	446,361	607,619	1,053,980
December 10, 2020	5,828,618	0.16	0.1256	732,353	484,975	1,217,328
December 10, 2020	431,075	0.19	0.1492	64,319	20,324	84,643
December 14, 2020	2,064,515	0.12	0.0941	194,201	407,762	601,963
December 14, 2020	2,192,728	0.16	0.1254	275,015	367,169	642,184
December 15, 2020	5,300,000	0.16	0.1258	666,562	672,239	1,338,801
December 17, 2020	2,063,637	0.16	0.1258	259,618	194,262	453,880
December 22, 2020	1,700,000	0.16	0.1240	210,722	187,746	398,468
December 28, 2020	61,950	0.16	0.1249	7,740	5,364	13,104
<b>Total</b>	<b>50,290,026</b>	<b>0.13</b>	<b>0.1056</b>	<b>5,313,064</b>	<b>5,376,697</b>	<b>10,689,762</b>

**Acquisition of Lawrence Park & Atkinson**

On December 31, 2020, as part of the consideration in the acquisition of Lawrence Park & Atkinson (note 5), the Company issued 5,128,204 common shares with a fair value of \$1,147,925.

**c) Share options**

The Company has an incentive share option plan ("the plan") in place under which it is authorized to grant share options to executive officers, directors, employees and consultants. The plan allows the Company to grant share options up to a maximum of 10.0% of the number of issued shares of the Company.

Share option transactions and the number of share options outstanding during the years ended December 31, 2020, 2019 and three months ended March 31, 2021 are summarized as follows:

	Number of share options	Weighted average exercise price (\$C)
Outstanding, December 31, 2019	10,450,000	0.16
Granted	6,967,761	0.07
Exercised	(7,583,333)	0.14
Outstanding, December 31, 2020	9,834,428	0.08
Granted	1,761,364	0.40
Cancelled	(1,936,667)	(0.06)
Exercised	(3,339,666)	(0.07)
<b>Outstanding, March 31, 2021</b>	<b>6,319,459</b>	<b>0.18</b>
<b>Exercisable, March 31, 2021</b>	<b>4,744,459</b>	<b>0.18</b>

**EMPOWER CLINICS INC.**

## NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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**14. EQUITY (continued)**

Share options outstanding and exercisable at March 31, 2021, are as follows:

Exercise price (C\$)	Weighted average life of options (years)	Number of options outstanding	Number of options exercisable
0.10	3.92	1,250,000	1,250,000
0.26	2.55	250,000	250,000
0.14	1.21	700,000	700,000
0.05	2.15	1,765,000	1,390,000
0.06	3.94	575,000	325,000
0.21	4.73	18,095	18,095
0.25	4.85	950,000	-
0.22	4.91	11,364	11,364
0.57	4.93	800,000	800,000
		<b>6,319,459</b>	<b>4,744,459</b>

The fair value of share options recognized as an expense during the three months ended March 31, 2021, was \$435,986 (2020 - \$27,306). The following are the assumptions used for the Black Scholes option pricing model valuation of share options granted during the three months ended March 31, 2021 and 2020:

	March 31, 2021	March 31, 2020
Risk-free interest rate	0.170%-0.30%	0.47%-1.57%
Expected life	5 years	3 years
Expected volatility	100%	100.0%
Forfeiture rate	0.00%	0.0%
Dividend rate	0.00%	0.0%

The risk-free rate of periods within the expected life of the share options is based on the Canadian government bond rate. The annualized volatility and forfeiture rate assumptions are based on historical results.

**d) Agent share purchase warrants**

Agent share purchase warrant transactions and the number of agent share purchase warrants outstanding and exercisable during three months ended March 31, 2021 and year ended December 31, 2020 are summarized as follows:

	Number of agent share purchase warrants	Weighted average exercise price (\$C)
Outstanding, December 31, 2019	1,504,818	0.24
Granted	1,916,000	0.12
Exercised	(489,850)	0.16
Expired	(627,068)	0.31
Outstanding, December 31, 2020	2,303,900	0.13
Exercised	(2,180,000)	0.12
<b>Outstanding, March 31, 2021</b>	<b>123,900</b>	<b>0.16</b>

The following table summarizes the agent share purchase warrants outstanding and exercisable as at March 31, 2021:

Expiry date	Number of warrants	Weighted average exercise price (\$C)	Weighted average remaining life (in years)
April 2, 2021	63,900	0.16	0.01
May 3, 2021	60,000	0.16	0.09
	<b>123,900</b>	<b>0.16</b>	<b>0.05</b>

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**15. OPERATING EXPENSES**

	Three months ended March 31,	
	2021	2020
	\$	\$
Salaries and benefits	539,739	467,084
Rent	109,121	16,105
Advertising and promotion	161,766	36,082
Telephone and internet	118,841	25,500
Penalties	11,048	-
Other	270,166	36,851
	<b>1,210,681</b>	<b>581,622</b>

**16. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS**

Significant non-cash transactions were as follows:

	Three months ended March 31,	
	2021	2020
	\$	\$
Vesting of escrow shares	-	47,937
Shares issued as settlement of accounts payable	-	164,346
Shares issued for services	59,598	105,327
Shares issued to former CEO	-	15,239
	<b>59,598</b>	<b>332,849</b>

Income tax payments for the three months ended March 31, 2021 were \$nil (2020 - \$nil). As at March 31, 2021, the Company has accrued \$350,000 (December 31, 2020 - \$350,000) in late tax filing penalties related to income taxes in the United States.

**17. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT****a) Fair value measurement of financial assets and liabilities**

The Company has established a fair value hierarchy that reflects the significance of inputs of valuation techniques used in making fair value measurements as follows:

Level 1 - quoted prices in active markets for identical assets or liabilities;

Level 2 - inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. from derived prices); and

Level 3 - inputs for the asset or liability that are not based on observable market data.

The carrying values of cash, accounts receivable, prepaid expenses, inventory, and accounts payable and accrued liabilities approximate their carrying values due to their short-term nature.

The Company has no assets or liabilities that would be categorized as Level 2 in the fair value hierarchy.

As at March 31, 2021 and December 31, 2020, there were no financial assets or liabilities measured and recognized in the consolidated statements of financial position at fair value that would be categorized as Level 3 in the fair value hierarchy above with the exception of the conversion feature liability and warrant liability, which are both Level 3 fair value measurements.

**18. RELATED PARTY TRANSACTIONS**

The Company's related parties include subsidiaries, associates, joint ventures, affiliated entities and key management personnel and any transactions with such parties for goods and/or services that are made on regular commercial terms. During the three months ended March 31, 2021 and 2020, the Company did not enter into any transactions with related parties outside of compensation to key management personnel as disclosed below.

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**18. RELATED PARTY TRANSACTIONS (continued)**

Key management are those personnel having the authority and responsibility for planning, directing, and controlling the Company. Salaries and benefits, bonuses, and termination benefits are included in operating expenses and share-based payments are recorded as share-based payment expense or share capital.

Key management compensation for the three months ended March 31, 2021 and 2020 includes:

	Three months ended March 31	
	2021	2020
	\$	\$
Salaries and benefits	215,859	169,644
Share-based payments	233,486	7,870
Directors fees	5,000	3,750
	<b>454,345</b>	<b>181,264</b>

Included in salaries and benefits for the three months ended March 31, 2021 is \$nil (2020 - \$34,028) related to common shares awarded to the CEO.

As at March 31, 2021, \$157,291 (December 31, 2020 - \$157,055) is due to the CEO for salaries and benefits. The amounts are unsecured and due on demand. As at March 31, 2021, \$101,831 (December 31, 2020 - \$53,914) is due to the Senior Vice Present Development and Director and his spouse for consideration related to the Sun Valley acquisition as well as salaries and benefits. As at March 31, 2021, \$5,000 (December 31, 2020 - \$nil) is due to a director of the Company for director fees.

As at March 31, 2021, share subscriptions receivable consists of \$745,531 (C\$980,000) due from the CEO for the exercise of 7,000,000 options at an exercise price of \$0.11 (C\$0.14). Share subscriptions receivable reduces shareholders' equity. The share subscriptions receivable has no specified interest or terms of repayment.

**19. MANAGEMENT OF CAPITAL**

The Company's objectives of capital management are intended to safeguard the Company's normal operating requirements on an ongoing basis. At March 31, 2021, the capital of the Company consists of consolidated deficit, notes payable, convertible notes payable, and loans payable, net of cash.

	March 31, 2021	December 31, 2020
	\$	\$
Total shareholder's deficiency	(1,415,652)	(5,490,401)
Notes payable	164,358	708,361
Convertible notes payable	204,014	200,530
Current portion of loans payable	184,899	992,070
Loans payable	1,097,141	1,140,157
	<b>234,760</b>	<b>(2,449,283)</b>
Less: Cash	<b>(6,286,942)</b>	<b>(4,889,824)</b>
	<b>(6,052,182)</b>	<b>(7,339,107)</b>

The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business. Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable. In order to facilitate the management of its capital requirements, the Company prepares expenditure budgets that are updated as necessary depending on various factors, including successful capital deployment and general industry conditions. The Company also has in place a planning, budgeting and forecasting process which is used to identify the amount of funds required to ensure the Company has appropriate liquidity to meet short and long-term operating objectives. The Company is dependent on cash flows generated from its clinical operations and from external financing to fund its activities. In order to maintain or adjust its capital structure, the Company may issue new shares or debt.

At March 31, 2021 and December 31, 2020, the Company was not subject to any externally imposed capital requirements.



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**20. COMMITMENTS**

A summary of discounted liabilities and future operating commitments at March 31, 2021 are as follows:

	<b>Total</b>	<b>Within 1 year</b>	<b>2 - 5 years</b>	<b>Greater than 5 years</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>Maturity analysis of financial liabilities</b>				
Accounts payables and accrued liabilities	<b>3,442,581</b>	3,442,581	-	-
Loans payable	<b>1,282,040</b>	184,899	132,990	964,151
Notes payable	<b>164,358</b>	164,358	-	-
Convertible notes payable	<b>204,014</b>	204,014	-	-
Lease payments	<b>364,678</b>	171,260	193,418	-
<b>Total financial liabilities</b>	<b>5,457,671</b>	4,167,112	326,408	964,151

**21. EVENTS AFTER THE REPORTING PERIOD**

Subsequent to March 31, 2021, pursuant to the exercise of 1,125,000 share purchase warrants with a weighted average exercise price of C\$0.12, the Company issued 1,125,000 common share for gross proceeds of C\$137,500.

Subsequent to March 31, 2021, pursuant to the exercise of 125,000 stock options with a weighted average exercise price of C\$0.06, the Company issued 125,000 common share for gross proceeds of C\$7,500.