



CANNARA BIOTECH INC.

Condensed Interim Consolidated Financial Statements

For the three-month periods ended

November 30, 2022 and 2021

(Unaudited)

CANNARA BIOTECH INC.

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(Unaudited)

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CANNARA BIOTECH INC.

Condensed Interim Consolidated Statements of Financial Position
As at November 30, 2022 and August 31, 2022
(Unaudited - in Canadian dollars)

	November 30, 2022	August 31, 2022
Assets		
Current assets		
Cash	\$ 6,758,964	\$ 12,114,691
Accounts receivable	5,693,460	8,526,918
Lease receivable	61,886	90,251
Biological assets (note 3)	4,079,148	5,712,456
Inventory (note 4)	20,589,337	13,266,987
Prepaid expenses and other assets	1,210,643	1,277,381
	38,393,438	40,988,684
Deposits	296,114	296,114
Deposits on property, plant and equipment	565,546	928,385
Property, plant and equipment (note 5)	86,087,202	83,289,745
Right-of-use asset (note 6)	83,987	114,119
	\$ 125,426,287	\$ 125,617,047
Liabilities and Shareholders' Equity		
Current liabilities		
Accounts payable and accrued liabilities	\$ 8,779,999	\$ 9,307,959
Sales tax payable	15,421	319,664
Deferred lease revenue	300,905	—
Deferred revenue	—	7,087
Current portion of long-term debt	2,637	2,611
Current portion of deferred grant income	38,739	38,101
Current portion of lease liabilities (note 6)	159,161	219,702
Current portion of term loan (note 7)	1,965,961	1,965,961
	11,262,823	11,861,085
Lease liabilities (note 6)	10,408	16,962
Convertible debentures (note 7)	9,892,805	9,590,143
Deferred grant income	806,213	816,536
Term loan (note 7)	36,171,155	36,596,560
	58,143,404	58,881,286
Shareholders' equity		
Share capital	83,384,350	83,296,250
Contributed surplus	10,248,573	9,724,114
Deficit	(26,296,779)	(26,299,730)
Accumulated other comprehensive gain (loss)	(53,261)	15,127
Total equity	67,282,883	66,735,761
Contingencies (note 13)		
Subsequent events (note 17)		
	\$ 125,426,287	\$ 125,617,047

See accompanying notes to condensed interim consolidated financial statements.

CANNARA BIOTECH INC.

Condensed Interim Consolidated Statement of Net Income (Loss) and Comprehensive Loss
For the three-month periods ended November 30, 2022 and 2021
(Unaudited)

	Three-month periods ended	
	November 30, 2022	November 30, 2021
Revenue		
Revenue from sale of goods (note 14)	\$ 11,215,699	\$ 6,967,318
Excise taxes	(2,773,308)	(1,538,987)
Net revenue from sale of goods	8,442,391	5,428,331
Services revenue (note 14)	931,111	–
Lease revenue (note 14)	867,912	899,004
Other income	70,191	237,241
	10,311,605	6,564,576
Cost of sales		
Cost of goods sold (note 4)	5,506,890	3,480,123
Cost of services	696,736	–
Lease operating costs	84,581	70,428
Gross profit before fair value adjustments	4,023,398	3,014,025
Changes in fair value of inventory sold	(1,999,327)	(1,866,480)
Unrealized gain on changes in fair value of biological assets (note 3)	2,808,524	1,472,497
Gross profit	4,832,595	2,620,042
Operating expenses		
General and administrative (note 10)	1,849,202	1,605,257
Research and development	216,371	256,495
Selling, marketing and promotion	508,053	299,592
Professional and legal fees	233,543	232,380
Share-based compensation (note 9)	562,559	(34,124)
Amortization (note 5 and 6)	294,012	231,901
Gain on sublease agreement	–	(12,876)
Loss on disposal of property, plant and equipment	25,980	24,662
	3,689,720	2,603,287
Operating income	1,142,875	16,755
Net finance expense (note 11)	1,139,924	547,254
Net income (loss)	2,951	(530,499)
Other comprehensive loss		
Foreign currency translation adjustments	(68,388)	(29,380)
Total comprehensive loss	\$ (65,437)	\$ (559,879)
Basic and diluted earnings (loss) per share (note 8)	\$ 0.00	\$ (0.01)
Weighted average number of common shares, basic	877,217,585	876,481,321
Weighted average number of common shares, diluted	878,395,656	876,481,321

See accompanying notes to condensed interim consolidated financial statements.

CANNARA BIOTECH INC.

Condensed Interim Consolidated Statements of Changes in Equity
For the three-month periods ended November 30, 2022 and 2021
(Unaudited - in Canadian dollars)

	Shares	Share capital	Contributed surplus	Deficit	Accumulated other comprehensive gain (loss)	Total equity
As at August 31, 2022	876,981,321	\$ 83,296,250	\$ 9,724,114	\$ (26,299,730)	\$ 15,127	\$ 66,735,761
Net income	—	—	—	2,951	—	2,951
Other comprehensive loss						
Foreign currency translation adjustments	—	—	—	—	(68,388)	(68,388)
Comprehensive loss	—	—	—	2,951	(68,388)	(65,437)
Share-based compensation (note 9)						
Employee compensation	—	—	558,283	—	—	558,283
Other services	—	—	4,276	—	—	4,276
	—	—	562,559	—	—	562,559
Exercise of stock options (notes 8 and 9)	500,000	88,100	(38,100)	—	—	50,000
As at November 30, 2022	877,481,321	\$ 83,384,350	\$ 10,248,573	\$ (26,296,779)	\$ (53,261)	\$ 67,282,883

	Shares	Share capital	Contributed surplus	Deficit	Accumulated other comprehensive gain	Total equity
As at August 31, 2021	876,481,321	\$ 83,208,150	\$ 9,412,746	\$ (28,605,149)	\$ 100,065	\$ 64,115,812
Net loss	—	—	—	(530,499)	—	(530,499)
Other comprehensive loss						
Foreign currency translation adjustments	—	—	—	—	(29,380)	(29,380)
Comprehensive loss	—	—	—	(530,499)	(29,380)	(559,879)
Share-based compensation (note 9)						
Employee compensation	—	—	(34,983)	—	—	(34,983)
Other services	—	—	859	—	—	859
	—	—	(34,124)	—	—	(34,124)
As at November 30, 2021	876,481,321	\$ 83,208,150	\$ 9,378,622	\$ (29,135,648)	\$ 70,685	\$ 63,521,809

See accompanying notes to condensed interim consolidated financial statements.

CANNARA BIOTECH INC.

Condensed Interim Consolidated Statements of Cash Flows
For the three-month periods ended November 30, 2022 and 2021
(Unaudited - in Canadian dollars)

	November 30, 2022	November 30, 2021
Cash provided by (used in):		
Operating		
Net income (loss)	\$ 2,951	\$ (530,499)
Items not involving cash:		
Changes in fair value of inventory sold	1,999,327	1,866,480
Unrealized gain on changes in fair value of biological assets (note 3)	(2,808,524)	(1,472,497)
Amortization of property, plant and equipment (note 5)	1,136,760	745,255
Amortization of right-of-use asset (note 6)	30,132	29,796
Interest expense (note 11)	854,420	376,370
Interest on lease liabilities (note 6)	9,492	19,642
Accretion on financing and amortization of financing costs (note 7)	257,756	178,091
Share-based compensation (note 9)	562,559	(34,124)
Gain on sublease	—	(12,876)
Loss on disposal of property, plant and equipment	25,980	24,662
Interest income (note 11)	(73,372)	(15,839)
Other	57	58
Net change in non-cash operating working capital items (note 16)	(2,312,626)	(1,061,059)
	(315,088)	113,460
Financing		
Private placement issuance costs	—	(25,250)
Convertible debenture issuance	—	(24,888)
Stock options exercised (notes 8 and 9)	50,000	—
Proceeds from debt financing	—	22,000,000
Debt financing issuance costs	—	(98,372)
Repayment of term loan (note 7)	(491,490)	—
Repayment of mortgage payable	—	(12,000,000)
Interest paid on debt instruments (note 7)	(710,331)	(269,663)
Lease payments (note 7)	(76,587)	(71,910)
Long-term debt payments	—	(591)
	(1,228,408)	9,509,326
Investing		
Interest received	63,125	5,164
Deposits on property, plant and equipment	(291,027)	(1,012,101)
Acquisitions of property, plant and equipment (note 5)	(3,534,941)	(2,636,417)
Proceeds from disposal of property, plant and equipment	19,000	33,956
	(3,743,843)	(3,609,398)
Net change in cash	(5,287,339)	6,013,388
Effect of foreign exchange on cash	(68,388)	(29,380)
Cash, beginning of period	12,114,691	8,159,305
Cash, end of period	\$ 6,758,964	\$ 14,143,313

See accompanying notes to condensed interim consolidated financial statements.

CANNARA BIOTECH INC.

Notes to Condensed Interim Consolidated Financial Statements
For the three-month periods ended November 30, 2022 and 2021
(Unaudited - in Canadian dollars)

1. Nature of operations

Cannara Biotech Inc. ("Cannara" or the "Company") is a vertically integrated producer of premium-grade cannabis and cannabis-derivative products for the Quebec and Canadian markets. The Company is domiciled in Canada and was incorporated under the laws of British Columbia on October 19, 2017. Its head office is located at 333 Décarie, Suite 200, Ville St-Laurent, Québec, H4N 3M9. The Company's common shares are listed under the symbol "LOVE.V" on the TSX Venture Exchange (the "TSXV") in Canada, "LOVFF" on the OTCQB Venture Market in the United States and "8CB" on the Frankfurt Stock Exchange in Germany.

Cannara owns and operates two Quebec-based mega cultivation facilities spanning over 1,650,000 square feet. Cannara's first purpose-built, modern indoor cultivation facility is located in Farnham, Quebec and measures 625,000 square feet, comprising 170,000 square feet of operational licensed cultivation area and 455,000 square feet of leased warehouse space ("Farnham Facility"). The second facility, acquired in June 2021, is a hybrid greenhouse facility that is being redesigned to replicate the indoor cultivation environment, including growing without utilizing the sun. The facility is comprised of 24 independent growing zones totaling 600,000 square feet, a 225,000 square feet cannabis 2.0 processing center and a 200,000 square feet rooftop greenhouse located in Valleyfield, Quebec ("Valleyfield Facility"). As of November 30, 2022, the redesign of the first seven growing zones have been completed and are now operational. Cannara operates through its wholly-owned subsidiaries, Cannara Biotech (Quebec) Inc. and Cannara Biotech (Valleyfield) Inc., both holding active licenses issued by Health Canada under the Cannabis Act.

The Company continues to invest in capital expenditures at its Valleyfield Facility, redesigning 7 growing zones to-date. Multiple harvests have occurred since the start of the Valleyfield cultivation operations in November 2021 and have resulted in increased revenues as the harvested cannabis is processed and sold. The Company generated a nominal net income during the three-month period ended November 30, 2022 (2022 – net loss of \$0.5 million) and has a deficit of approximately \$26.3 million as at November 30, 2022 (August 31, 2022 - \$26.3 million). The Company expects that its existing cash resources of \$6.8 million as at November 30, 2022, along with the forecasted cash flows and available undrawn credit facilities (note 7), will enable it to fund its planned operating expenses for at least the next twelve months from November 30, 2022.

The ability of the Company to ultimately achieve recurrent profits from operations is dependent upon the continued success of its product and brand pipeline in addition to maintaining the consistency of its grow operations and lean cost structure. The Company expects to finance its operations through its sales, existing cash, available undrawn credit facilities and/or a combination of public or private equity and debt financing or other sources.

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Notes to Condensed Interim Consolidated Financial Statements
For the three-month periods ended November 30, 2022 and 2021
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2. Basis of preparation and significant accounting policies

(a) Statement of compliance

These condensed interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and International Accounting Standard ("IAS") 34, *Interim Financial Reporting*, as issued by the International Accounting Standards Board ("IASB").

These condensed interim consolidated financial statements were approved by the Board of Directors and authorized for issuance on January 20, 2023.

(b) Basis of preparation

The condensed interim consolidated financial statements were prepared using the same accounting policies as set forth in Notes 2 and 3 in the audited financial statements of the Company for the year ended August 31, 2022. These condensed interim consolidated financial statements do not include all the notes required in annual consolidated financial statements. Therefore, these condensed interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto of the Company for the year ended August 31, 2022.

The preparation of the Company's condensed interim consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of expenditures, assets and liabilities. Actual results could differ from those estimates.

On an ongoing basis, estimates and judgements are evaluated. The Company bases its estimates on the most probable set of economic conditions and planned course of action, historical experience, known trends and events, and various other factors believed to be reasonable under the circumstances, the results of which form the basis for making judgements about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. Uncertainty about these assumptions and estimates could result in an outcome that requires material adjustments to the carrying amount of the asset or liability affected in future periods. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which these estimates are revised and in any future periods affected.

The critical accounting judgments and key sources of estimation uncertainty are consistent with those in the audited consolidated financial statements and notes thereto to the Company for the year ended August 31, 2022.

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Notes to Condensed Interim Consolidated Financial Statements
For the three-month periods ended November 30, 2022 and 2021
(Unaudited - in Canadian dollars)

3. Biological assets

The Company's biological assets consist of cannabis plants up to the point of harvest. The changes in the carrying values of biological assets are as follows:

Carrying amount, August 31, 2021	\$	1,902,206
Production costs capitalized		10,257,220
Change in fair value due to biological transformation, less cost to sell		11,173,673
Transferred to inventory upon harvest		(17,620,643)
Carrying amount, August 31, 2022	\$	5,712,456
Production costs capitalized		3,725,342
Change in fair value due to biological transformation, less cost to sell		2,808,524
Transferred to inventory upon harvest		(8,167,174)
Carrying amount, November 30, 2022	\$	4,079,148

The estimates used in determining the fair value of cannabis plants are as follows:

- expected average wholesale and retail selling price per gram of harvested cannabis;
- expected cost to complete and cost to sell;
- expected yield per cannabis plant;
- stage of completion in the production process (days remaining until harvest);
- expected plant loss based on their various stages of growth.

The valuation of biological assets is based on an income approach in which the fair value at the point of harvesting is estimated based on selling prices less the costs to sell. For in-process biological assets, the fair value at point of harvest is adjusted based on the stage of growth at period-end. Stage of growth is determined by reference to the time incurred as a percentage of total weeks of growth as applied to estimated total fair value per gram (less costs to complete and costs to sell) to arrive at an in-process fair value for estimated biological assets, which have not yet been harvested.

Because there is no actively traded commodity market for cannabis plants and dried cannabis products, the valuation of the biological assets is obtained using valuations techniques where the inputs are based upon unobservable market data and are classified as level 3 in the fair market value hierarchy. There has been no transfer between levels as at November 30, 2022.

CANNARA BIOTECH INC.

Notes to Condensed Interim Consolidated Financial Statements
For the three-month periods ended November 30, 2022 and 2021
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3. Biological assets (continued)

Management's identified significant unobservable inputs, their values and sensitivity analysis are presented in the table below.

The income approach calculates the present value of expected future cash flows from the Company's biological assets using the following inputs for the period ended November 30, 2022:

Unobservable inputs	Input values	Sensitivity analysis
<i>Wholesale and retail selling price</i> Represents the average expected wholesale and retail selling price per gram of dried cannabis, excluding excise taxes, where applicable, which is expected to approximate future wholesale and retail selling prices.	Average of \$3.59 per gram (August 31, 2022 – average of \$3.62 per gram)	An increase or decrease of 5% applied to the selling price would result in a change of approximately \$338,000 to the valuation.
<i>Yield per plant</i> Represents the average number of grams of dried cannabis expected to be harvested from each cannabis plant from the two facilities.	73 grams per plant (August 31, 2022 – 78 grams per plant)	An increase or decrease of 5% applied to the average yield per plant would result in a change of approximately \$191,000 to the valuation.
<i>Stage of completion</i> Calculated by taking the average number of days in the cultivation cycle over the total estimated duration of a cultivation cycle which is currently approximately 13 to 14 weeks from clone to harvest.	Weighted average stage of completion is 41% (August 31, 2022 - 49%)	An increase or decrease of 5% applied to the average stage of growth per plant would result in a change of approximately \$159,000 to the valuation.

The Company's estimates are, by their nature, subject to change, and differences from the anticipated yield will be reflected in the gain or loss on biological assets in future periods.

As at November 30, 2022, it is expected that the Company's biological assets will yield approximately 6,172 kilograms of dried cannabis when harvested (August 31, 2022 - 5,539 kilograms of dried cannabis).

CANNARA BIOTECH INC.

Notes to Condensed Interim Consolidated Financial Statements
For the three-month periods ended November 30, 2022 and 2021
(Unaudited - in Canadian dollars)

4. Inventory

Inventory consists of the following:

				November 30, 2022
	Capitalized cost	Fair value adjustment ¹		Total
Raw materials - cultivation and supplies	\$ 3,721,073	\$ –	\$	3,721,073
Harvested cannabis				
Dried cannabis and work-in-progress	7,555,360	4,420,361		11,975,721
Finished goods	1,777,485	749,544		2,527,029
Derivative products				
Derivatives products and work-in-progress	1,342,349	72,945		1,415,294
Finished goods	628,153	10,162		638,315
Finished goods – cannabis accessories	311,905	–		311,905
	\$ 15,336,325	\$ 5,253,012	\$	20,589,337

				August 31, 2022
	Capitalized cost	Fair value adjustment ¹		Total
Raw materials - cultivation and supplies	\$ 3,007,615	\$ –	\$	3,007,615
Harvested cannabis				
Dried cannabis and work-in-progress	5,206,319	2,548,848		7,755,167
Finished goods	880,749	384,699		1,265,448
Derivative products				
Derivative products and work-in-progress	900,252	80,701		980,953
Finished goods	84,680	430		85,110
Finished goods – cannabis accessories	172,694	–		172,694
	\$ 10,252,309	\$ 3,014,678	\$	13,266,987

¹ Fair value adjustment represent the fair value adjustment transferred from biological assets at harvest.

The amount of inventory expensed as cost of goods sold during the three-month period ended November 30, 2022 was \$5,506,890 (2021 - \$3,480,123), including an impairment loss on inventory of \$36,349 (2022 – \$301,594) for cannabis that cost exceeds its net realizable value.

CANNARA BIOTECH INC.

Notes to Condensed Interim Consolidated Financial Statements
For the three-month periods ended November 30, 2022 and 2021
(Unaudited - in Canadian dollars)

5. Property, plant and equipment

	Land	Buildings	Facility production equipment	Computer equipment and software	Vehicles	Furniture and fixtures	Construction in progress	Total
Cost								
Balance as at August 31, 2022	\$ 2,452,085	\$ 64,297,845	\$ 10,858,550	\$ 1,473,919	\$ 40,440	\$ 1,852,072	\$ 11,531,330	\$ 92,506,241
Additions	–	1,805,491	807,727	28,934	–	73,262	1,263,783	3,979,197
Transfer	–	1,628,801	462,878	–	–	192,119	(2,283,798)	–
Disposal	–	–	(58,205)	–	–	–	–	(58,205)
Balance as at November 30, 2022	\$ 2,452,085	\$ 67,732,137	\$ 12,070,950	\$ 1,502,853	\$ 40,440	\$ 2,117,453	\$ 10,511,315	\$ 96,427,233
Accumulated amortization								
Balance as at August 31, 2022	\$ –	\$ (6,465,617)	\$ (1,632,112)	\$ (661,078)	\$ (8,938)	\$ (448,751)	\$ –	\$ (9,216,496)
Amortization	–	(735,790)	(283,065)	(65,462)	(2,022)	(50,421)	–	(1,136,760)
Disposal	–	–	13,225	–	–	–	–	13,225
Balance as at November 30, 2022	\$ –	(7,201,407)	(1,901,952)	(726,540)	(10,960)	(499,172)	–	\$ (10,340,031)
Net book value								
Balance as at November 30, 2022	\$ 2,452,085	\$ 60,530,730	\$ 10,168,998	\$ 776,313	\$ 29,480	\$ 1,618,281	\$ 10,511,315	\$ 86,087,202

For the three-month period ended November 30, 2022, the assets included in construction in progress represent the Valleyfield Facility and related capital expenditures incurred to render the facility operational, for the redesign of the remaining growing zones, the construction of warehouse, office and processing space center in addition to post-harvest capital improvements at the Farnham Facility to process cannabis that will be received from the Valleyfield Facility. The costs are transferred to other categories as the assets become available or ready for use.

During the three-month period ended November 30, 2022, the Company recognized \$1,136,760 as amortization, of which \$263,880 have been recognized in the consolidated statement of income (loss) and comprehensive loss, \$14,537 have been included in cost of services and \$858,343 have been included in the calculation of the biological assets and inventory valuation.

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Notes to Condensed Interim Consolidated Financial Statements
For the three-month periods ended November 30, 2022 and 2021
(Unaudited - in Canadian dollars)

5. Property, plant and equipment (continued)

	Land	Buildings	Facilities production equipment	Computer equipment and software	Vehicles	Furniture and fixtures	Construction in progress	Total
Cost								
Balance as at August 31, 2021	\$ 2,452,085	\$ 44,792,468	\$ 5,833,454	\$ 1,262,343	\$ 18,440	\$ 1,352,642	\$ 21,234,527	\$ 76,945,959
Additions	—	1,871,176	3,536,542	166,522	22,000	117,321	9,973,395	15,686,956
Transfer	—	17,634,201	1,615,228	45,054	—	382,109	(19,676,592)	—
Disposal	—	—	(126,674)	—	—	—	—	(126,674)
Balance as at August 31, 2022	\$ 2,452,085	\$ 64,297,845	\$ 10,858,550	\$ 1,473,919	\$ 40,440	\$ 1,852,072	\$ 11,531,330	\$ 92,506,241
Accumulated amortization								
Balance as at August 31, 2021	\$ —	\$ (3,881,432)	\$ (828,841)	\$ (421,653)	\$ (3,771)	\$ (293,011)	\$ —	\$ (5,428,708)
Amortization	—	(2,584,185)	(819,025)	(239,425)	(5,167)	(155,740)	—	(3,803,542)
Disposal	—	—	15,754	—	—	—	—	15,754
Balance as at August 31, 2022	\$ —	\$ (6,465,617)	\$ (1,632,112)	\$ (661,078)	\$ (8,938)	\$ (448,751)	\$ —	\$ (9,216,496)
Net book value								
Balance as at August 31, 2022	\$ 2,452,085	\$ 57,832,228	\$ 9,226,438	\$ 812,841	\$ 31,502	\$ 1,403,321	\$ 11,531,330	\$ 83,289,745

During the three-month period ended November 31, 2021, the Company recognized \$745,255 as amortization expense, of which \$202,105 have been recognized in the consolidated statement of income (loss) and comprehensive loss and \$543,150 have been included in the calculation of the biological assets and inventory valuation.

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Notes to Condensed Interim Consolidated Financial Statements
For the three-month periods ended November 30, 2022 and 2021
(Unaudited - in Canadian dollars)

6. Right-of-use assets and lease liabilities

(a) Right-of-use assets

	November 30, 2022	August 31, 2022
Cost		
Balance, beginning of period	\$ 575,176	\$ 630,024
Additions	—	25,190
Derecognition of portion related to sublease agreement	—	(80,038)
Balance, end of period	\$ 575,176	\$ 575,176
Accumulated depreciation		
Balance, beginning of period	\$ (461,057)	\$ (397,476)
Amortization	(30,132)	(117,042)
Derecognition of portion related to sublease agreement	—	53,461
Balance, end of period	\$ (491,189)	\$ (461,057)
Net book value		
Balance, end of period	\$ 83,987	\$ 114,119

(b) Lease liabilities

	November 30, 2022	August 31, 2022
Maturity analysis - contractual undiscounted cash flows:		
Less than one year	\$ 169,104	\$ 238,732
One to five years	11,617	17,574
Total undiscounted lease liabilities	\$ 180,721	\$ 256,306
Current	\$ 159,161	\$ 219,702
Non-current	10,408	16,962
Lease liabilities included in the condensed interim consolidated statement of financial position	\$ 169,569	\$ 236,664
Balance as at August 31, 2022		\$ 236,664
Lease payments		(76,587)
Interest on lease liabilities		9,492
Balance as at November 30, 2022		\$ 169,569

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Notes to Condensed Interim Consolidated Financial Statements
For the three-month periods ended November 30, 2022 and 2021
(Unaudited - in Canadian dollars)

7. Financing

(a) Term loan

	November 30, 2022	August 31, 2022
Net carrying value, beginning of period	\$ 38,562,521	\$ —
Proceeds from term loan	—	39,319,223
Repayment of term loan	(491,490)	—
Addition of term loan issuance costs	—	(822,627)
Amortization of deferred financing costs	66,085	65,925
Net carrying value, end of period	\$ 38,137,116	\$ 38,562,521
Term loan ⁽ⁱ⁾	\$ 38,827,733	\$ 39,319,223
Less: unamortized financing costs	(690,617)	(756,702)
	38,137,116	38,562,521
Short-term portion of term loan	(1,965,961)	(1,965,961)
	\$ 36,171,155	\$ 36,596,560

- ⁽ⁱ⁾ The term loan bears a variable interest rate based on prime and/or banker acceptance rates. As at November 30, 2022, the interest on the term loan was 7.95%. The term loan is reimbursable quarterly based on an amortization schedule of 80 quarters, beginning November 30, 2022 and has a term of 3 year, ending May 31, 2025. The credit facility is secured by a first ranking mortgage against the Farnham and Valleyfield Facility, and is guaranteed with limited recourse, in part, by a related party for a fee based on the amount of the outstanding term loan (note 15(b)).

For the three-month period ended November 30, 2022, the Company recognized \$743,403 as interest expense for the term loan. As at November 30, 2022, accrued interests of \$256,814 were included in account payables and accrued liabilities.

The Company also has access to a \$5 million line of credit and up to \$10 million in an accordion facility of credit. As at November 30, 2022, the Company did not draw from the line of credit and has not requested further funding under its accordion facility.

The Company has to respect financial covenants such as (a) maintaining a certain liquidity coverage at all the times, and, starting on September 2023, to maintain (b) a fixed charge coverage ratio equal to or more than 1.25 to 1.0, (c) a funded debt to EBITDA ratio equal to or less than 3.0 to 1.0 at each quarter-end; and (d) an EBITDA of \$3 million for the fiscal quarter of May 31, 2023 and an EBITDA of \$4 million for the fiscal quarter ending August 31, 2023 and thereafter. The Company was in compliance with the covenants as at November 30, 2022.

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7. Financing (continued)

(b) Convertible debentures

The rollforward of the financial liability component of the convertible debentures is as follows:

Net carrying value as at August 31, 2021	\$	8,466,008
Interest expense		435,178
Accretion and amortization of deferred issuance costs		688,957
Net carrying value, August 31, 2022		9,590,143
Interest expense		111,017
Accretion and amortization of deferred issuance costs		191,645
Net carrying value as at November 30, 2022	\$	9,892,805

During the three-month period ended November 30, 2022, the Company recognized \$111,017 as interest expense (2021 - \$106,707). The convertible debentures bear interest at 4% per annum and interest is payable at term or at conversion if it occurs. As at November 30, 2022, accrued interest of \$617,944 was included in account payable and accrued liabilities (August 31, 2022 - \$506,926).

8. Share Capital

(a) Authorized

The Company has authorized an unlimited number of voting and participating common shares.

(b) Transactions on share capital

During the first quarter of 2023, a total of 500,000 stock options were exercised at a price of \$0.10 per share for a total consideration of \$50,000, resulting in the issuance of 500,000 new common shares of the Company.

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8. Share Capital (continued)

(c) Earnings per share

The calculation of basic earnings per share was calculated based on the net income (loss) attributable to common shareholders of the Company divided by the weighted average number of common shares outstanding during the year, while the diluted earnings (loss) per share was adjusted for the effects of potential dilutive common shares such as options and convertible debentures.

The calculations for basic and diluted earnings (loss) per share for the period ended November 30, 2022 and 2021 was as follows:

	November 30, 2022	November 30, 2021
Net income (loss)	\$ 2,951	\$ (530,499)
Issued common shares as at September 1, 2022 and 2021	876,981,321	876,481,321
Effect of stock options exercised for common shares	236,264	–
Weighted average number of common shares, basic	877,217,585	876,481,321
Impact of dilutive securities:		
Stock options	1,178,072	–
Weighted average number of common shares, diluted	878,395,657	876,481,321
Earning (loss) per share – basic	\$ 0.00	\$ (0.01)
Earning (loss) per share – diluted	\$ 0.00	\$ (0.01)

For the three-month ended November 30, 2022, 29,632,449 share options and 59,444,444 shares as-if the convertible debentures were converted that may potentially dilute earnings per share in the future, were excluded from the weighted average number of diluted common shares calculation as their effect would have been anti-dilutive (2022 – 32,764,333 share options and 59,444,444 shares as-if the convertible debentures were converted).

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9. Share-based compensation

The Company has established a share option plan whereby certain personnel may be granted options to acquire shares under the terms of the employee share option plan or shares may be granted to third parties in exchange for services. The number and characteristics of share options granted under the employee share option plan are determined by the Board of Directors of the Company but cannot exceed 10% of the outstanding balance of shares issued. The characteristics of share options granted to third parties for services are determined on a case-by-case basis.

The share options granted under the employee share option plan vest 25% after the first anniversary of the grant date with the remainder vesting in 36 monthly consecutive equal instalments or as approved by the Board of Directors and expire five years from the date of issue. The plan provides for the issuance of common shares at an exercise price determined by the Board of Directors which is not lower than the fair value of the common shares on the grant date. Outstanding options under the plan are granted with service requirements (or service conditions) and become exercisable upon vesting. The share options granted to third parties for services have vesting terms determined on a case-by-case basis.

The activity of outstanding share options for the three-month periods ended November 30, 2022 and 2021 was as follows:

	November 30, 2022		November 30, 2021	
	Number	Weighted average exercise price	Number	Weighted average exercise price
Outstanding, beginning of period	24,524,122	\$ 0.15	36,539,337	\$ 0.21
Granted	21,725,000	0.15	—	—
Exercised	(500,000)	0.10	—	—
Forfeited	(611,884)	0.18	(2,420,834)	0.18
Expired	(4,788)	0.18	(1,354,170)	0.18
Outstanding, end of period	45,132,450	0.15	32,764,333	0.21
Exercisable, end of period	14,800,285	\$ 0.14	26,673,283	\$ 0.22

During the first quarter of 2023, the Company granted 21,500,000 options that vest over time in accordance with the employee share option plan and 225,000 options that vested immediately.

The share options forfeited relate to the share options held by directors and/or employees that are no longer part of the Company.

During the three-month period ended November 30, 2022, the Company recorded a share-based compensation expense of \$562,559 in the consolidated statement of income (loss) and comprehensive loss (2022 – share-based compensation recovery of \$34,124).

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9. Share-based compensation (continued)

The estimated fair value of the share options at the grant date was measured using the Black-Scholes option pricing model and the following weighted average inputs and assumptions:

		November 30, 2022
Share price ⁽ⁱ⁾	\$	0.11
Exercise price	\$	0.15
Risk-free interest rate ⁽ⁱⁱ⁾		3.40%
Expected life ⁽ⁱⁱⁱ⁾		5 years
Expected price volatility ^(iv)		89%
Fair value of the option	\$	0.08
Expected dividend yield ^(v)		Nil

(i) The share price is based on the market price on the date of the grant.

(ii) The risk-free interest rate was based on the Bank of Canada government bonds rates in effect at grant date for time periods approximately equal to the expected life of the option.

(iii) The expected life of the options reflects the assumption of future exercise patterns that may occur.

(iv) Expected price volatility was estimated based on historical volatility of the Company's shares.

(v) The expected dividend yield has been estimated at nil as the Company has never paid cash dividends and does not expect to do so in the foreseeable future.

The number of outstanding stock options that could be exercised for an equal number of common shares is as follows:

Expiry date	Exercise price \$	Number outstanding	Number exercisable
June 1, 2023	\$ 0.10	7,500,001	7,500,001
December 17, 2023	0.18	795,000	780,519
May 1, 2024	0.18	694,000	619,750
October 3, 2024	0.18	125,000	96,350
November 25, 2024	0.18	20,000	14,984
January 16, 2025	0.18	420,000	297,500
April 14, 2025	0.18	86,452	58,106
May 4, 2025	0.18	400,000	200,000
July 24, 2025	0.18	3,485,000	2,095,374
November 10, 2025	0.18	250,000	250,000
December 15, 2025	0.18	282,000	135,103
February 1, 2026	0.18	626,664	297,597
July 27, 2026	0.18	375,000	125,002
December 7, 2026	0.18	6,860,000	225,000
April 26, 2027	0.18	100,000	—
May 25, 2027	0.18	213,333	213,333
July 26, 2027	0.18	1,175,000	—
September 29, 2027	0.10	7,500,000	1,666,666
September 29, 2027	0.18	14,125,000	225,000
November 24, 2027	0.18	100,000	—
		45,132,450	14,800,285

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10. General and administrative

	Three-month periods ended	
	November 30, 2022	November 30, 2021
Salaries and benefits	\$ 864,296	\$ 715,169
Administrative and regulatory expense	590,097	382,036
Facility expense	394,809	508,052
General and administrative	\$ 1,849,202	\$ 1,605,257

11. Net finance expense

	Three-month periods ended	
	November 30, 2022	November 30, 2021
Interest income	\$ 73,372	\$ 15,839
Foreign exchange gain	72,523	21,560
Finance income	145,895	37,399
Interest on term loan	743,403	–
Interest on mortgage payable	–	269,663
Interest on convertible debentures	111,017	106,707
Interest on lease liabilities	9,492	19,642
Fees related to letter of credit	53,111	–
Debt financing guarantee fees	93,750	–
Accretion and amortization of financing costs	257,756	178,091
Other finance expense	17,290	10,550
Finance expense	1,285,819	584,653
Net finance expense	\$ 1,139,924	\$ 547,254

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12. Financial instruments

Fair value measurements

The fair value of cash, accounts receivable, lease receivable, accounts payable and accrued liabilities approximate their carrying amounts due to the short-term maturity of those instruments.

The fair value of the term loan approximates its carrying amount as the interest rate approximates the current market rate.

The fair value on the convertible debentures is approximately \$9.5 million.

13. Contingencies

In the normal course of business, the Company may be involved in various legal and regulatory proceedings. The Company believes that the resolution of these proceedings will not have a material favourable or unfavourable effect on its condensed interim consolidated statement of financial position or financial performance. As at November 30, 2022, there are no material claims in favor or against the Company.

14. Segment disclosures

(a) Reportable segments

The Company operates in two segments: (1) Cannabis operations, which encompasses the cultivation, processing and sale of dried cannabis and cannabis derivatives exclusively for the Canadian market and other cannabis services ("Cannabis operations"); and (2) Real estate operations, related to the Farnham and Valleyfield building ("Real estate operations").

The chief operating decision-maker assesses performance based on segment operating results, which were defined as segment operating income (loss) before share-based compensation, amortization, net finance expense, gain on sublease on initial recognition, loss on disposal of property, plant and equipment and income tax. Categorized as "Other" are items related to U.S. hemp-based CBD products revenues and related operating costs. The accounting policies of the segments are the same as those described in note 3 of the audited financial statements of the Company for the year ended August 31, 2022.

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14. Segment disclosures (continued)

(a) Reportable segments (continued)

	Three-month period ended November 31, 2022				Three-month period ended November 30, 2021			
	Cannabis operations	Real estate operations	Other	Total	Cannabis operations	Real estate operations	Other	Total
Revenue								
Revenue from sale of goods	\$ 11,215,699	\$ –	\$ –	\$ 11,215,699	\$ 6,954,968	\$ –	\$ 12,350	\$ 6,967,318
Excise taxes	(2,773,308)	–	–	(2,773,308)	(1,538,987)	–	–	(1,538,987)
Net revenue from sale of goods	8,442,391	–	–	8,442,391	5,415,981	–	12,350	5,428,331
Services revenues	931,111	–	–	931,111	–	–	–	–
Lease revenue	–	867,912	–	867,912	–	899,004	–	899,004
Other income	70,191	–	–	70,191	237,241	–	–	237,241
	9,443,693	867,912	–	10,311,605	5,653,222	899,004	12,350	6,564,576
Cost of revenues								
Cost of goods sold	5,506,890	–	–	5,506,890	3,472,934	–	7,189	3,480,123
Cost of services	696,736	–	–	696,736	–	–	–	–
Lease operating costs	–	84,581	–	84,581	–	70,428	–	70,428
Segment gross profit before fair value adjustments	3,240,067	783,331	–	4,023,398	2,180,288	828,576	5,161	3,014,025
Changes in fair value of inventory sold	(1,999,327)	–	–	(1,999,327)	(1,866,480)	–	–	(1,866,480)
Unrealized gain on changes in fair value of biological assets	2,808,524	–	–	2,808,524	1,472,497	–	–	1,472,497
Segment gross profit	4,049,264	783,331	–	4,832,595	1,786,305	828,576	5,161	2,620,042
Operating expenses	2,807,169	–	–	2,807,169	2,368,704	–	25,020	2,393,724
Segment operating income (loss)	1,242,095	783,331	–	2,025,426	(582,399)	828,576	(19,859)	226,318
Share-based compensation	–	–	562,559	562,559	–	–	(34,124)	(34,124)
Amortization	–	–	294,012	294,012	–	–	231,901	231,901
Loss on disposal of property, plant and equipment	–	–	25,980	25,980	–	–	24,662	24,662
Gain on sublease agreement	–	–	–	–	–	–	(12,876)	(12,876)
Net finance expense	–	–	1,139,924	1,139,924	–	–	547,254	547,254
Net income (loss)	\$ 1,242,095	\$ 783,331	\$ (2,022,475)	\$ 2,951	\$ (582,399)	\$ 828,576	\$ (776,676)	\$ (530,499)

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14. Segment disclosures (continued)

(b) Entity-wide disclosures

All property, plant and equipment are located in Canada.

(c) Sources of lease revenues

The Company leased 414,114 square feet of the total 625,000 available square feet in its Farnham facility to third parties. For the period ended November 30, 2022, the Company realized 100% of its lease revenue with two lessees:

- The lease term for Tenant A is up to September 30, 2027. Lease revenues from this tenant for the three-month period ended November 30, 2022 amounted to \$117,758.
- The lease term for Tenant B is up to October 31, 2024, with options to extend. Lease revenues from this tenant for the three-month period ended November 30, 2022 amounted to \$750,154.

Income is generated from customers domiciled in Canada.

(d) Source of cannabis and cannabis accessories revenues

	Three-month periods ended	
	November 30, 2022	November 30, 2021
Revenue from Canadian retailers	\$ 11,113,989	\$ 6,664,730
Excise taxes	(2,773,308)	(1,538,987)
	8,340,681	5,125,743
Revenue from wholesale	101,710	290,238
	\$ 8,442,391	\$ 5,415,981

For the three-month period ended November 30, 2022, the Company has generated 96% of its cannabis revenues from two provincial distributors (2021 – 90% with one provincial distributor).

(e) Source of services revenues

The Company generated services revenues from cannabis production services. For the three-month period ended November 30, 2022, the Company has generated all of its management services-related revenues with one customer. Subsequent to quarter-end, the Company terminated this agreement.

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15. Related parties

(a) Key management personnel compensation

Key management personnel are the people who have the authority and responsibility for planning, directing and controlling the business activities of the Company and include all of its directors and chief executives.

The compensations of key management personnel, including directors' fees, salaries and benefits were as follows:

	Three-month periods ended	
	November 30, 2022	November 30, 2021
Salaries and benefits	\$ 210,000	\$ 107,500
Shared-based compensation	488,185	26,508
Board of Directors' fees	17,500	17,500
	\$ 715,685	\$ 151,508

(b) Other transactions with related parties

Related parties include entities related by virtue of key management personnel and directors exercising significant influence or control over the entities' financial and operating policies.

The following provides the transaction amounts by nature with related parties:

	Three-month periods ended	
	November 30, 2022	November 30, 2021
Nature of transactions:		
Other expenses (income) ⁽ⁱ⁾	\$ —	\$ (937)
Interest on debt financing ⁽ⁱ⁾	111,017	323,664
Debt financing guarantee fees ^{(i) (iii)}	93,750	—
	\$ 204,767	\$ 322,727

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15. Related parties (continued)

(b) Other transactions with related parties (continued)

	November 30, 2022	August 31, 2022
Balances due to related parties are as follows:		
Accounts payable and accrued liabilities ^{(i) (ii)}	\$ (680,444)	\$ (894,781)
Accounts payable to key management personnel ⁽ⁱⁱ⁾	(60,646)	(52,614)
Accounts payable to Board of Directors members	(15,230)	(15,230)
Convertible debentures ⁽ⁱ⁾	(10,700,000)	(10,700,000)

- (i) The Company has Board of Directors member who are a shareholder in an entity with which the Company entered into various transactions with for the financing of the Farnham and Valleyfield Facilities.
- (ii) Accounts payable relate to accrued salary and vacation for key management personnel. Related party transactions have been recorded at the exchange amount, which is the amount agreed to and established by the related parties.
- (iii) As part of the financing closed in prior year, a related party is providing certain guarantees to the lenders on the debt financing and is charging the Company a fee in exchange.

16. Cash flow information

Net change in non-cash working capital items:

	Three-month periods ended	
	November 30, 2022	November 30, 2021
Accounts receivable	\$ 2,839,617	\$ (759,723)
Sales tax payable	(304,243)	219,040
Lease receivable	32,396	27,435
Biological assets	(3,725,342)	(1,516,262)
Inventory	(1,154,503)	407,152
Prepaid expenses and other assets	66,738	(113,621)
Accounts payable and accrued liabilities	(351,422)	260,727
Deferred lease revenue	300,905	284,072
Deferred grant income	(9,685)	130,121
Deferred revenue	(7,087)	-
	\$ (2,312,626)	\$ (1,061,059)

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16. Cash flow information (continued)

Supplemental information in the condensed interim consolidated statement of cash flows:

	Three-month periods ended	
	November 30, 2022	November 30, 2021
Variation of property, plant and equipment included in accounts payable and accrued liabilities	\$ 209,610	\$ 217,669
Reclass of deposit on property, plant and equipment to property, plant and equipment	653,866	180,927

17. Subsequent events

New lease agreement signed for the Valleyfield site

The Company signed a lease agreement with a new tenant for a building that is under construction at its Valleyfield site. The start of the lease term is set for the beginning of calendar year 2024 following the end of the construction of the building with a term of 11 years.

Stock options grant

Subsequent to quarter-end, the Company granted a total of 378,000 stock options to certain employees at an exercise price of \$0.18 per common share, subject to certain vesting conditions in accordance with the employee share option plan.