Canada House Wellness Group Inc.

Condensed Interim Consolidated Financial Statements

July 31, 2021

(Expressed in thousands of Canadian dollars)

(Unaudited)

Canada House Wellness Group Inc.

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Notice of no auditor review of condensed interim consolidated financial statements

Under Part 4, subsection 4.3(3)(a) of National Instrument 51-102 – Continuous Disclosure Obligations, if an auditor has not performed a review of the condensed interim consolidated financial statements, they must be accompanied by a notice indicating that the interim financial statements have not been reviewed by an auditor.

The accompanying unaudited condensed interim consolidated financial statements of Canada House Wellness Group Inc. (the "Company") have been prepared by and are the responsibility of the Company's management.

The Company's independent auditor has not performed a review of these condensed interim consolidated financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

Canada House Wellness Group Inc.
Condensed Interim Consolidated Statements of Financial Position
(Unaudited - Expressed in thousands of Canadian Dollars, except for shares and per share amounts)

	Note	July 31 2021 $000's	April 30, 2021 $000's
ASSETS			
Current assets:			
Cash		**741**	1,835
Trade and other receivables	5	**1,049**	1,945
Inventory	6	**5,506**	5,018
Biological assets	7	**468**	692
Prepaid expenses and deposits		**559**	383
		8,323	9,873
Property, plant and equipment, net	8	**14,066**	14,587
Right-of-use assets, net	10	**2,258**	2,413
Intangible assets, net	4,9	**7,613**	7,087
Goodwill	4	**3,552**	3,032
		35,812	36,992
LIABILITIES			
Current liabilities:			
Trade and other payables		**8,757**	8,345
Due to related parties	12	**3**	3
Current portion of lease liability	10	**501**	524
Current portion of convertible debentures	14	**985**	873
Promissory notes	11,12	**70**	68
Borrowings	13	**328**	326
Mortgage payable	15	**2,000**	2,000
Consideration payable	4	**411**	-
		13,055	12,139
Non-current liabilities			
Lease liability	10	**1,837**	1,952
Borrowings	13	**120**	120
Promissory notes	4,11,12	**11,102**	10,938
Convertible debentures	14	**3,218**	3,115
Deferred tax liabilities	4	**1,996**	1,855
		31,328	30,119
SHAREHOLDERS' EQUITY			
Share capital	16	**48,685**	48,685
Equity component of convertible debentures	14	**2,174**	2,174
Contributed surplus	16,17	**15,961**	15,775
Deficit		**(62,336)**	(59,761)
		4,484	6,873
		35,812	36,992

Nature of operations and going concern (note 1)
Commitments and contingencies (note 20)
Subsequent events (note 24)

Approved by the Board:
"*Dennis Moir*" Chair of the Board "*Norman Betts*" Director

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

Canada House Wellness Group Inc.
Condensed Interim Consolidated Statements of Loss and Comprehensive Loss
(Unaudited - Expressed in thousands of Canadian Dollars, except for shares and per share amounts)
For the three months ended July 31, 2021 and 2020

	Note	July 31 2021 $000's	July 31, 2020 $000's
Revenue			
Referral revenue		**1,350**	1,329
Product revenue		**3,210**	1,552
License revenue and other		**113**	18
Less excise tax		**(649)**	(372)
Net revenue		**4,024**	2,527
Cost of sales	6	**2,567**	1,084
Gross profit before fair value adjustments		**1,457**	1,443
Fair value adjustment on sale of inventory		**276**	71
Fair value adjustment on biological assets	7	**59**	(712)
Gross profit		**1,122**	2,084
Expenses			
General and administrative	19	**1,908**	1,735
Sales and marketing	19	**311**	32
Share-based compensation	17	**186**	94
Right-of-use assets amortization	10	**94**	127
Depreciation and amortization	8,9	**262**	194
Loss from operations		**(1,639)**	(98)
Finance and transaction costs		**908**	525
Gain on debt settlement		**(2)**	-
Other expenses		**-**	5
Loss before income taxes		**(2,545)**	(628)
Provision for income taxes		**30**	4
Net loss and comprehensive loss for the period		**(2,575)**	(632)
Weighted average number of shares outstanding - basic and diluted		**83,453,630**	55,640,125
Net loss per share - basic and diluted	18	**$ (0.00)**	$ (0.00)

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

Canada House Wellness Group Inc.
Condensed Interim Consolidated Statements of Changes in Shareholders' Equity
(Unaudited - Expressed in thousands of Canadian Dollars, except for shares and per share amounts)
For the three months ended July 31, 2021 and 2020

	Note	Number of Shares	Share Capital $000's	Equity Component of Convertible Debentures $000's	Contributed Surplus $000's	Deficit $000's	Total Shareholders' Equity $000's
Balance as at May 1, 2020		**409,992,178**	**39,241**	**419**	**13,810**	**(48,396)**	**5,074**
Common shares issued pursuant to business acquisition		273,461,452	9,444	-	-	-	9,444
Share-based compensation		-	-	-	94	-	94
Net loss and comprehensive loss for the period		-	-	-	-	(632)	(632)
Balance as at July 31, 2020		**683,453,630**	**48,685**	**419**	**13,904**	**(49,028)**	**13,980**
Balance as at May 1, 2021		683,453,630	48,685	2,174	15,775	(59,761)	6,873
Share-based compensation	17	-	-	-	186	-	186
Net loss and comprehensive loss for the period		-	-	-	-	(2,575)	(2,575)
Balance as at July 31, 2021		**683,453,630**	**48,685**	**2,174**	**15,961**	**(62,336)**	**4,484**

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

Canada House Wellness Group Inc.
Condensed Interim Consolidated Statements of Cash Flows
(Unaudited - Expressed in thousands of Canadian Dollars, except for shares and per share amounts)
For the three months ended July 31, 2021 and 2020

	Note	July 31 2021 $000's	July 31 2020 $000's
Cash provided by (used in)			
Operating activities:			
Net loss and comprehensive loss for the period		**(2,575)**	(632)
Add (deduct) items not affecting cash			
Depreciation and amortization	8,9	**262**	194
Share-based compensation		**186**	94
Non-cash finance and transaction costs		**699**	525
Realized fair value loss on sale of inventory		**276**	-
Unrealized fair value (gain) loss in fair value of biological assets		**59**	(712)
Gain on debt settlement		**(2)**	-
Other non-cash expenses, net		**-**	4
Right-of-use assets amortization	10	**94**	127
		(1,001)	(400)
Changes in non-cash working capital balances related to operations			
Trade and other receivables		**896**	118
Inventory		**(488)**	(649)
Biological assets		**224**	29
Lease liabilities		**-**	(191)
Prepaid expenses and deposits		**(176)**	(85)
Trade and other payables		**198**	900
Net cash used in operating activities		**(347)**	(278)
Investing activities:			
Purchase of property, plant and equipment		**(76)**	(8)
Business acquisition	4	**(500)**	139
Net cash (used in) provided by investing activities		**(576)**	131
Financing activities:			
Lease payments		**(146)**	-
Cash interest payments on debenture		**(25)**	-
Repayment of convertible debenture		**-**	(288)
Repayment of promissory note		**-**	(100)
Borrowings		**-**	120
Net cash used in financing activities		**(171)**	(268)
Decrease in cash during the period		**(1,094)**	(415)
Cash, beginning of period		**1,835**	1,767
Cash, end of period		**741**	1,352

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

1. Nature of operations and going concern uncertainty

Canada House Wellness Group Inc. (the "**Company**"), formerly Abba Medix Group Inc., was incorporated on September 29, 1982 under the *Company Act* of the Province of British Columbia and is listed on the Canadian Securities Exchange (the "**Exchange**") under the symbol CHV (formerly "**ABA**").

These unaudited condensed interim consolidated financial statements of the Company for the three months ended July 31, 2021, comprise the results of the Company and its wholly owned subsidiaries Abba Medix Corp. ("**Abba**"), Canada House Clinics Inc. ("**CHC**"), The Longevity Project Corp. ("**TLP**"), 690050 NB Inc. doing business as Knalysis Technologies ("**Knalysis**"), 2104071 Alberta Inc., which holds the dispensary license in Edmonton, Alberta, IsoCanMed Inc. ("**IsoCanMed**"), a licensed producer in Louiseville, Quebec, that produces high quality medical grade cannabis, and Margaree Health Group Inc. ("**Margaree**"), a medical cannabis clinic dedicated to Veterans in Nova Scotia. Canada House's goal is to become the leading cultivator of premium craft cannabis and provider of cannabinoid therapy, targeting the national medical cannabis markets, the recreational adult-use market in Quebec and across Canada.

Using its own proprietary patient management software developed by Knalysis, CHC provides education services concerning appropriate cannabinoid therapies to patients. Abba initially received its license to produce medical marijuana under the Access to Cannabis for Medical Purposes Regulations, as well as its license to produce cannabis oil and subsequently received an amendment to its Producer's Licence from Health Canada to include the sale and provision of marijuana seeds. In December 2018, Abba received a sales license to sell products from others, but not its own production. In August 2019, Abba was granted an amended license to sell its own production to provincially and territorially authorized provincial retailers and to holders of a license for medical purposes. The Company commenced sale of its Abba branded cannabis flower on October 1, 2019. On June 7, 2021, the Company announced that the registered office of the Company changed to 551 Rue SaintMarc, Louiseville, Quebec from 1773 Bayly Street, Pickering, Ontario.

Going concern uncertainty

The unaudited condensed interim consolidated financial statements have been prepared on the basis of accounting principles applicable to a going concern, which assumes that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations. These unaudited condensed interim consolidated financial statements do not include any adjustments to the amounts and classification of assets and liabilities that would be necessary should the Company be unable to continue as a going concern. Such adjustments could be material.

For the three months ended July 31, 2021, the Company incurred a net loss of $2,575, and as at July 31, 2021, had an accumulated deficit of $62,336 and a working capital deficit of July 31, 2021. Cash flow used in operations for the three months ended July 31, 2021 was $347. Whether, and when, the Company can attain profitability and positive cash flows from operations is subject to material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern and, therefore, the Company may be unable to realize its assets and discharge its liabilities in the normal course of business. The Company will need to raise additional capital in order to fund its planned operations and meet its obligations. While the Company has been successful in obtaining financing to date and believes it will be able to obtain sufficient funds in the future and ultimately achieve profitability and positive cash flows from operations, there can be no assurance that the Company will achieve profitability and be able to do so in the future on terms favorable for the Company.

1. Nature of operations and going concern uncertainty (continued)

COVID-19 global pandemic
On March 11, 2020, the World Health Organization recognized the outbreak of COVID-19 as a global pandemic resulting in uncertain economic and business impact on a global scale. Taking into consideration the impact of COVID-19, the Company has reviewed its significant estimates, assumptions and judgments used in the preparation of these unaudited condensed interim consolidated financial statements, including with respect to the determination of whether indicators of impairment exist for its tangible and intangible assets and the credit risk of its counterparties that the Company transacts with.

Based on this analysis, the Company has determined that there was no significant impact to any of managements estimates, assumptions or judgments, however, the continuing uncertainty associated with the COVID-19 pandemic may require changes to certain of these estimates, assumptions or judgments which could have a material impact on the Company's financial position and results of operations.

2. Basis of preparation

Statement of compliance
These unaudited condensed interim consolidated financial statements have been prepared in accordance with International Accounting Standard 34, *Interim Financial Reporting* ("IAS34"), as issued by the International Accounting Standards Board ("IASB").

These unaudited condensed interim consolidated financial statements were approved and authorized for issuance in accordance with a resolution of the Board of Directors of the Company on September 28, 2021.

These unaudited condensed interim consolidated financial statements should be read in conjunction with the Company's audited financial statements for the year ended April 30, 2021.

3. Significant accounting policies

The accounting policies adopted in the preparation of these unaudited condensed interim consolidated financial statements are consistent with those followed in the preparation of the Company's annual consolidated financial statements for the year ended April 30, 2021, no new standards were adopted.

Future Accounting Pronouncements
The Company has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

Amendments to IAS 1: Classification of Liabilities as Current or Non-Current and Deferral of Effective Date
In January 2020, the IASB issued amendments to IAS 1, Presentation of Financial Statements, to provide a more general approach to the presentation of liabilities as current or non-current based on contractual arrangements in place at the reporting date. These amendments:

- specify that the rights and conditions existing at the end of the reporting period are relevant in determining whether the Company has a right to defer settlement of a liability by at least twelve months; provide that management's expectations are not a relevant consideration as to whether the Company will exercise its rights to defer settlement of a liability; and
- clarify when a liability is considered settled.

3. Significant accounting policies (continued)

On July 15, 2020, the IASB issued a deferral of the effective date for the new guidance by one year to annual reporting periods beginning on or after January 1, 2023 and is to be applied retrospectively. The Company has not yet determined the impact of these amendments on its consolidated financial statements.

Amendments to IAS 37: Onerous Contracts - Cost of Fulfilling a Contract
In May 2020, the IASB issued amendments to IAS 37, Provisions, Contingent Liabilities and Contingent Assets, to specify that the cost of fulfilling a contract comprises the costs that relate directly to the contract, and can either be incremental costs of fulfilling that contract or an allocation of other costs that relate directly to fulfilling contracts. The new guidance will be effective for annual periods beginning on or after January 1, 2022 and is to be applied to contracts that have unfulfilled obligations as at the beginning of that period. The Company has not yet determined the impact of these amendments on its consolidated financial statements.

4. Business acquisition

On May 27, 2020 ("**Closing Date**"), the Company's wholly-owned subsidiary, CHC, acquired 100% of the issued and outstanding shares of Margaree Health Group Inc. ("**Margaree**"), a medical cannabis clinic dedicated to veterans in Nova Scotia, for total consideration of $911. The consideration consisted of $500 of cash and a three year earn-out measured against Margaree's revenue during the earn-out period, valued as $411.

The following table sets out the allocation of the purchase price to assets acquired and liabilities assumed:

Purchase Consideration	**$000's**
Cash	500
Earn-out	411
	911
Fair value of net identifiable assets acquired	**$000's**
Intangible Assets	532
Deferred Tax Liability	(141)
	391
Goodwill	520
	911

The purchase price allocation is provisional as the Company is still in the process of obtaining additional information with respect to certain working capital accounts, the valuation of intangible assets, including their respective amortization periods, and finalization of the fair value of the purchase price consideration.

The acquisition was accounted for as a business combination using the acquisition method, with the results of operations consolidated with the Company from the date of acquisition. Goodwill represents the excess of the purchase price of the acquisition over the fair value of the net identifiable assets acquired. The goodwill recognized is attributable mainly to expected future growth potential and expected synergies. Goodwill arising from the acquisition is deductible for tax purposes.

4. Business acquisition and reverse takeover (continued)

The earn-out considerable payable in cash or, at the joint election and agreement of CHC and vendor, shall be payable as follows:

- Payment of 40% of Margaree earn-out revenue for the period from May 1, 2021 to April 30, 2022 during the first week of July 2022;
- Payment of 40% of Margaree earn-out revenue for the period from May 1, 2022 to April 30, 2023 during the first week of July 2023; and
- Payment of 40% of Margaree earn-out revenue for the period from May 1, 2023 to April 30, 2024 during the first week of July 2024.

In the event CHC achieves a Margaree earn-out revenue target of $350,000 for period from May 1, 2021 to April 30, 2022, the vendor may elect to amend the earn-out consideration such that is payable as follows:

- Payment of 50% of Margaree earn-out revenue for the period from May 1, 2021 to April 30, 2022 during the first week of July 2022;
- Payment of 50% of Margaree earn-out revenue for the period from May 1, 2022 to April 30, 2023 during the first week of July 2023.

In the event CHC achieves a Margaree earn-out revenue target of $330,000 for period from May 1, 2021 to April 30, 2022, $365,000 for period from May 1, 2022 to April 30, 2023, or $400,000 for period from May 1, 2023 to April 30, 2024, the vendor may elect to amend the earn-out consideration such that the vendor will receive a payment of 45% of Margaree earn-out revenue for the period in which it achieves the earn-out revenue target.

For accounting purposes, the consideration payable is valued at the net present value of the estimated earn-out payments using a discount of 10% on the Closing date.

5. Trade and other receivables

The Company's trade and other receivables include the following:

	July 31 2021 $000's	**April 30, 2021 $000's**
Trade and other receivables	**1,003**	1,926
Input taxes and other taxes receivables	**46**	19
	1,049	1,945

As at July 31, 2021, $14 (April 30, 2021 - $14) of allowance for doubtful accounts has been provided for and is not expected to be collected.

6. Inventory

The Company's inventory is comprised of the following:

	Carrying Value $000's
Balance as at April 30, 2020	**1,773**
Purchased cannabis	1,330
Harvested cannabis	1,915
Balance as at April 30, 2021	**5,018**
Purchased cannabis	618
Harvested cannabis	(130)
Balance as of July 31, 2021	**5,506**

As of July 31, 2021, the balance of inventory is comprised of a fair value loss of $209 (April 30, 2021 - $411) upon harvest, $2,817 (April 30, 2021 - $3,149) of cost capitalized to inventory and $2,898 (April 30, 2021 - $2,280) of purchased products.

Products purchased from other producers are carried at the lower of their carrying amount and net realizable value. Carrying amount approximates the price paid to acquire the products.

Cost of sales for the three months ended July 31, 2021 is $2,567 (July 31, 2020 - $1,084). The Company impaired $1,004 (July 31, 2020 - $129) cannabis inventory during the three months ended July 31, 2021, due to the costs capitalized exceeding the net realizable value of the inventory.

7. Biological assets

Biological assets consist of cannabis on plants. The changes in the carrying value of biological assets are as follows:

	$000's
Balance as at April 30, 2020	**203**
Acquired on business combination	585
Production costs capitalized	3,580
Changes in fair value due to biological transformation	2,492
Transferred to inventory upon harvest	(6,168)
Balance as at April 30, 2021	**692**
Production costs capitalized	431
Changes in fair value due to biological transformation	84
Transferred to inventory upon harvest	(739)
Balance as at July 31, 2021	**468**

7. Biological assets (continued)

The Company measures its biological assets at their fair value less costs to sell. This is determined using a model that estimates the expected harvest yield in grams for plants currently being cultivated, and then multiplies that amount by the expected wholesale selling price.

The fair value measurements for biological assets have been categorized as Level 3 fair values based on the inputs to the valuation technique used. The Company's method of accounting for biological assets attributes value accretion on a straight-line basis throughout the life of the biological asset from initial cloning to the point of harvest.

The biological assets were measured at their fair value less costs to sell of $468 on July 31, 2021 (April 30, 2021 - $692).

As at July 31, 2021, it is expected that the Company's cannabis plants biological assets will yield approximately 323,908 grams (April 30, 2021 - 488,338 grams) of dry cannabis flowers and approximately 6,278 grams (April 30, 2021 - 6,949 grams) of dry cannabis trim upon completion of production. For the three months ended July 31, 2021, $59 (July 31, 2020 - and $712 of gain) is recognized as unrealized loss on changes in fair value of biological assets.

8. Property, plant and equipment

Cost	Leasehold Improvements $000's	Equipment $000's	Furniture and Fixtures $000's	Building $000's	Land $000's	Total $000's
Balance as at April 30, 2020	**6,904**	**1,509**	**311**	**261**	**555**	**9,540**
Acquired on business combination	-	1,848	21	7,625	375	9,869
Additions	608	427	16	-	-	1,051
Disposals	(197)	(14)	(44)	-	-	(255)
Balance as at April 30, 2021	**7,315**	**3,770**	**304**	**7,886**	**930**	**20,205**
Additions	11	65	-	-	-	76
Balance as at July 31, 2021	**7,326**	**3,835**	**304**	**7,886**	**930**	**20,281**

Accumulated depreciation	Leasehold Improvements $000's	Equipment $000's	Furniture and Fixtures $000's	Building $000's	Land $000's	Total $000's
Balance as at April 30, 2020	**2,501**	**705**	**155**	**39**	**-**	**3,400**
Additions	1,424	575	34	270	-	2,303
Disposals	(43)	(12)	(30)	-	-	(85)
Balance as at April 30, 2021	**3,882**	**1,268**	**159**	**309**	**-**	**5,618**
Additions	365	150	7	75	-	597
Balance as at July 31, 2021	**4,247**	**1,418**	**166**	**384**	**-**	**6,215**

8. Property, plant and equipment (continued)

Net book value	Leasehold Improvements $000's	Equipment $000's	Furniture and Fixtures $000's	Building $000's	Land $000's	Total $000's
Balance as at April 30, 2021	3,433	2,502	145	7,577	930	14,587
Balance as at July 31, 2021	**3,079**	**2,417**	**138**	**7,502**	**930**	**14,066**

Of total depreciation for the three months ended July 31, 2021 totaling $599 (July 31, 2020 - $504), $259 (July 31, 2020 - $248) to biological assets, $84 (July 31, 2020 - $72) to inventory and $256 (July 31, 2020 - $184) to depreciation.

9. Intangible assets

Cost	Computer Software $000's	License $000's	Client List $000's	Total $000's
Balance as at April 30, 2020	**398**	**-**	**-**	**398**
Acquired on business combination	-	7,000	-	7,000
Balance as at April 30, 2021	**398**	**7,000**	**-**	**7,398**
Acquired on business combination	-	-	532	532
Balance as at July 31, 2021	**398**	**7,000**	**532**	**7,930**

Accumulated Amortization	Computer Software $000's	License $000's	Client List $000's	Total $000's
Balance as at April 30, 2020	**274**	**-**	**-**	**274**
Amortization	37	-	-	37
Balance as at April 30, 2021	**311**	**-**	**-**	**311**
Amortization	6	-	-	6
Balance as at July 31, 2021	**317**	**-**	**-**	**317**

Net Book value	Computer Software $000's	License $000's	Intellectual Property $000's	Total $000's
Balance as at April 30, 2021	87	7,000	-	7,087
Balance as at July 31, 2021	**81**	**7,000**	**532**	**7,613**

9. Intangible assets (continued)

In May 2021, the Company acquired 100% of issued and outstanding shares of Margaree, and as part of the transaction, a client list was acquired and valued at $532. (note 4)

10. Right-of-use assets and lease liability

The change in carrying value of the Company's right-of-use assets and lease liability was as follows:

	Right-of-use Assets $000's	Lease Liability $000's
Balance as at April 30, 2020	**3,182**	**3,208**
Additions	119	115
Disposal	(286)	(289)
Amortization expense	(602)	-
Interest expense	-	150
Payments	-	(708)
Balance as at April 30, 2021	**2,413**	**2,476**
Disposal	(26)	(24)
Amortization expense	(129)	-
Interest expense	-	32
Payments	-	(146)
Balance as at July 31, 2021	**2,258**	**2,338**
Current	**-**	**501**
Non-current	**2,258**	**1,837**

Of total amortization for the three months ended July 31, 2021 totaling $128 (July 31, 2020 - $164), $26 (July 31, 2020 - $33) to biological assets, $8 (July 31, 2020 - $4) to inventory and $94 (July 31, 2020 - $127) to amortization.

11. Promissory notes

Current
In January 2020, the Company issued 30,000,000 common shares at a deemed price per share of $0.05 to each of two former shareholders of MFT and TLP pursuant to separate debt settlement agreements entered into between the Company and each such individual for the satisfaction of $3,000 of remaining contingent consideration of $3,545 owing to the shareholders, which payments were originally due in November 2019. The remaining $545 remains owing under two promissory notes, part of which was repaid in the year ended April 30, 2021. As at July 31, 2021, the balance of promissory notes of $70 includes $53 of principals and the accrued interest at the rate of 8% per annum payable.

11. Promissory notes (continued)

Non-current

On June 12, 2020, the Company acquired 100% of the outstanding shares of IsoCanMed. As part of the consideration, the Company assumed three promissory notes in the total amount of $12,500 payable on or before June 12, 2023 and bearing interest at 5% payable annually. The promissory notes are secured by a general security agreement registered against the asset of IsoCanMed. At the time of acquisition, the promissory notes were valued at $10,398. As of July 31, 2021, the amortized cost is $11,102. (note 12)

12. Related party transactions

Key management personnel are those persons having the authority and responsibility for planning, directing and controlling activities of the Company, directly or indirectly, including the Chief Executive Officer, Chief Financial Officer, Chief Operating Officer, Chief Technology Officer and equivalent and Directors.

Compensation expense for the Company's key management personnel for the three months ended July 31, 2021 and 2020 is as follows:

	July 31, 2021 $000's	July 31, 2020 $000's
Salaries and wages	**507**	276
Share-based compensation	**105**	81
General and administrative	**18**	49
	630	406

During the three months ending July 31, 2021, the Company paid $38 of consulting fees to a shareholder and paid $6 of rent to a company owned by the same shareholder. As of July 31, 2021, the Company owes $90 (April 30, 2021 - $3) to a shareholder of the Company and owes promissory notes in the total amount of $12,500 payable (April 30, 2021 - $12,500) to three shareholders. (note 11)

All related party transactions were in the normal course of operations, measured at the exchange amount.

13. Borrowings

Borrowings consist of the following:

	July 31, 2021 $000's	April 30, 2021 $000's
Loan from vendor	**328**	326
Loans from bank	**120**	120
	448	446

The loan from vendor is a three-year loan at 2% interest per annum. The interest is payable annually. The loan is unsecured and matures on October 31, 2021.

13. Borrowings (continued)

The loans from bank in the amount of $120 are loans from a Canadian financial institution under the Canada Emergency Business Account ("**CEBA**") program. The loans are due by December 31, 2023 at the interest rate of 5% per annum starting from January 1, 2023. Repaying the balance of the loans on or before December 31, 2022 will result in loan forgiveness of 25 percent ($30).

14. Convertible debentures

During the three months ended July 31, 2021, the changes of the carrying value of the convertible debentures are as follows:

	2020 Debentures $000's	2017 Debentures $000's	2019 Debenture $000's	Total $000's
Balance as at April 30, 2020	-	560	2,551	**3,111**
Principal amount issued	6,500	-	(2,587)	**3,913**
Issuance costs	(390)	-	-	**(390)**
Conversion feature at inception	(1,755)	-	-	**(1,755)**
Warrants at inception	(1,504)	-	-	**(1,504)**
Interest payments	-	(99)	(518)	**(617)**
Loss on settlement	-	-	385	**385**
Interest accretion expense	264	412	169	**845**
Balance as at April 30, 2021	**3,115**	**873**	**-**	**3,988**
Interest payments	-	(25)	-	**(25)**
Interest accretion expense	103	137	-	**240**
Balance as at July 31, 2021	3,218	985	**-**	**4,203**
Current	**-**	**985**	**-**	**985**
Non-current	**3,218**	**-**	**-**	**3,218**

2017 convertible debentures

On December 5, 2017, the Company issued 8,624 unsecured convertible debenture ("**2017 Debentures**") units for gross proceeds of $8,624. Of the gross proceeds received, $2,000 represented promissory notes that were settled through the issuance of these convertible debenture units, $75 represented convertible debentures issued to former key management as severance and $130 represented convertible debentures issued as settlement of $176 of trade payables. Each 2017 Debentures unit comprises: (i) $1,000 principal amount of 8.5% unsecured convertible debentures with a maturity date of December 5, 2021; and (ii) 5,263 detachable common share purchase warrants of the Company (each, a "**2017 Warrant**"). Each 2017 Debenture shall be convertible at the holder's option into fully paid common shares of the Company at any time prior to the maturity date at a conversion price of $0.19 per share if converted within the first 12 months following issuance, and at a conversion price of $0.40 per share if converted at any time following the date that is 12 months and one day following issuance until maturity. If the volume weighted average closing price of the common shares is greater than or equal to $0.35 for a period of five consecutive days at any time within the first 12 months of the closing date, the Company has the option to force conversion at $0.19 per share. If the volume weighted average closing price of the common shares of the Company is greater than or equal to $0.50 for a period of five consecutive days at any time after 12 months and before maturity, the Company has the option to force conversion at $0.40 per share.

14. Convertible debentures (continued)

The debentures may be redeemed at any time after issuance on the following basis:

Redemption price	Redemption date
115% of the principal amount plus any accrued and unpaid interest	0–12 months from closing
112% of the principal amount plus any accrued and unpaid interest	12–24 months from closing
109% of the principal amount plus any accrued and unpaid interest	24–36 months from closing
106% of the principal amount plus any accrued and unpaid interest	36–48 months from closing

The interest payable on the debenture is payable monthly in cash. Each December Warrant shall be exercisable into one common share of the Company at an exercise price of $0.30 per share for a period of 12 months following issuance; at an exercise price of $0.40 from 12 months to 24 months following issuance; at an exercise price of $0.60 from 24 months to 36 months following issuance and at an exercise price of $0.80 from 36 months to 48 months following issuance.

Transaction costs consisted of $307 in cash and $356 of broker warrants with identical terms as the December Warrants.

On initial recognition, the Company allocated the proceeds, net of transaction costs, as follows:

	$000's
Convertible debentures, liability	1,934
Conversion feature	1,955
Deferred tax liability on conversion feature	705
Warrants	3,368
	7,962

The value of the conversion option was calculated by subtracting the net present value of the debenture from the face value of the convertible debentures. The net present value of the debenture was calculated using a discount rate of 20.37% over a term of 48 months. As of July 31, 2021, $1,170 of the principal amount of the 2017 debentures remains outstanding.

2020 convertible debenture
On August 8, 2020, the Company closed the strategic investment transaction with Archerwill Investments Inc.("**Archerwill**"). Archerwill invested $6,500 in the form of a secured convertible debenture, repaying the 2019 convertible debentures in full. The debenture may be converted into common shares at a price of $0.05 per common share and bears interest at 8.0%, compound annually, convertible into shares or payable in cash at maturity, at the option of Archerwill. Unless converted earlier, the debentures mature in five years.

14. Convertible debentures (continued)

Prior to the transaction, Archerwill beneficially owned or had control or direction over 3,122,000 common shares in the capital of the Company and 4,973,635 securities of the Company convertible into or exercisable for 4,973,635 common shares.

Archerwill concurrently received 130 million common share purchase warrants, exercisable at six cents per share for a period of four years, which, if exercised in full, would subsequently increase Archerwill's ownership interest to 28.3% (assuming Archerwill's conversion and exercise in full of all securities it holds in the Company but no other conversions of outstanding securities of the Company). The transaction costs were allocated pro rata based on each individual component's fair value.

On initial recognition, the Company allocated the proceeds, net of $390 of transaction costs, as follows:

	$000's
Convertible debenture, liability	2,851
Conversion feature	1,755
Warrants	1,504
	6,110

As of July 31, 2021, $6,500 of the principal amount of the 2020 convertible debenture remains outstanding and the amortized cost is $3,218.

15. Mortgage payable

On December 24, 2020, the Company closed a $2,000 non-dilutive term loan financing at an annual interest rate of 10% (the "**Loan**"). The Loan is secured by the property and assets of the Company's wholly owned subsidiary, IsoCanMed, in Louiseville, Quebec and is subject to monthly interest-only installments of $17, with the principal amount repayable at the end of one year. The Loan may be extended for an additional year, at the discretion of the lender, upon 30 days written renewal notice by the Company. The renewal notice will indicate if the Company intends to repay any portion of the loan, up to a maximum of $1,000. A commitment fee, equal to 4% of the loan amount less the amount repaid, is payable at the time of renewal.

16. Share capital

(a) Authorized
The authorized share capital of the Company consists of an unlimited number of common shares.

16. Share capital (continued)

(b) Issued and outstanding

	Common Shares Number	Common Shares $000's	Equity component of convertible debentures $000's	Number of Warrants	Contributed Surplus $000's
Balance as at April 30, 2020	**409,992,178**	**39,241**	**419**	**199,383,696**	**13,810**
Common shares issued pursuant to business combination [(a)]	273,461,452	9,444	-	-	-
Convertible debenture [(note 14)]	-	-	1,755	130,000,000	1,504
Share-based compensation	-	-	-	-	461
Balance as at April 30, 2021	**683,453,630**	**48,685**	**2,174**	**329,383,696**	**15,775**
Warrants expired	-	-	-	(5,764,118)	-
Share-based compensation	-	-	-	-	186
Balance as at July 31, 2021	683,453,630	48,685	2,174	323,619,578	15,961

During the year ending April 30, 2021:

(a) The Company issued 273,461,452 common shares pursuant to the acquisition of IsoCanMed Inc. valued at $9,444.

17. Share-based compensation

The Company has established a stock option plan (the "**Option Plan**") for directors, officers, employees and consultants of the Company. The Company's Board of Directors determines, among other things, the eligibility of individuals to participate in the Option Plan and the term, vesting periods, and the exercise price of options granted to individuals under the Option Plan.

Each share option converts into one common share of the Company on exercise. No amounts are paid or payable by the individual on receipt of the option. The options carry neither rights to dividends nor voting rights. Options may be exercised at any time from the date of vesting to the date of their expiry.

The Company's Option Plan provides that the number of common shares reserved for issuance may not exceed 10% of the common shares that are outstanding unless the Board of Directors shall have increased such limit by a Board of Directors resolution. In addition, the aggregate number of shares so reserved for issuance to one person may not exceed 5% of the issued and outstanding shares. If any options terminate, expire, or are cancelled as contemplated by the Option Plan, the number of options so terminated, expired or cancelled shall again be available under the Option Plan.

(Unaudited - Expressed in thousands of Canadian dollars, except for shares and per share amounts)

17. Share-based compensation (continued)

The changes in the number of stock options during the period were as follows:

	Number of Options #	Weighted Average Exercise Price $
Balance as at April 30, 2020	**37,200,000**	**0.12**
Granted	21,925,000	0.05
Exercised	(3,425,000)	0.15
Balance as at April 30, 2021	**55,700,000**	**0.09**
Forfeited	(4,700,000)	0.12
Balance as at July 31, 2021	**51,000,000**	**0.09**

The following table is a summary of the Company's share options outstanding as at July 31, 2021:

Exercising Price $	Number Outstanding #	Weighted Average Exercising Contractual Life Years	Number Exercisable #
0.050	38,050,000	4.18	17,569,793
0.155	1,000,000	2.71	1,000,000
0.160	100,000	2.73	100,000
0.170	2,700,000	2.31	2,662,500
0.190	1,250,000	2.25	1,250,000
0.200	5,500,000	1.96	7,000,000
0.250	2,400,000	0.28	2,400,000
0.090	51,000,000	3.58	31,982,293

(Unaudited - Expressed in thousands of Canadian dollars, except for shares and per share amounts)

17. Share-based compensation (continued)

The following table is a summary of the Company's share options outstanding as at and April 30, 2021:

Exercising Price $	Number Outstanding #	Weighted Average Exercising Contractual Life Years	Number Exercisable #
0.050	40,400,000	4.40	19,682,293
0.155	1,000,000	2.96	1,000,000
0.160	100,000	2.98	100,000
0.170	3,550,000	2.56	2,662,500
0.190	1,250,000	2.50	1,250,000
0.200	7,000,000	2.21	7,000,000
0.250	2,400,000	0.53	2,400,000
0.090	55,700,000	3.77	34,094,793

The Company recognized $186 of share-based compensation expense during the three months ended July 31, 2021 (July 31, 2020 – $94), with a corresponding amount recognized as a contributed surplus.

18. Loss per share

Net loss per common share represents net loss attributable to common shareholders divided by the weighted average number of common shares outstanding during the period.

Diluted loss per common share is calculated by dividing the applicable net loss by the sum of the weighted average number of common shares outstanding and all additional common shares that would have been outstanding if potentially dilutive common shares had been issued during the period.

For the three months ended July 31, 2021, diluted loss per share equals basic loss per share due to the anti-dilutive effect of convertible debentures, warrants and stock options. The outstanding number and type of securities that could potentially dilute basic net loss per share in the future, but would have decreased the loss per share (anti-dilutive) for the periods presented, are as follows:

	July 31, 2021 Number of Shares	April 30, 2021 Number of Shares
Convertible debentures	**132,925,000**	132,925,000
Warrants	**323,619,578**	329,383,696
Share options	**51,000,000**	55,700,000
	507,544,578	518,008,696

19. Nature of expenses

General and administrative expenses for the three months ended July 31, 2021 and 2020 are composed of:

	July 31, 2021 $000's	July 31, 2020 $000's
Salaries, wages and consulting fees	**1,455**	1,272
General operating	**268**	294
Occupancy costs	**19**	65
Professional fees	**166**	104
	1,908	1,735

Sales and marketing expenses for the three months ended July 31, 2021 and 2020 are comprised of:

	July 31, 2021 $000's	July 31, 2020 $000's
Advertising and promotion	**291**	22
Travel	**20**	10
	311	32

20. Commitments and contingencies

Commitments
As at July 31, 2021, the Company is committed under leases for equipment and office space for the following minimum annual rentals:

	$000's
2022	578
2023	459
2024	365
Thereafter	1,374
	2,776

Contingencies

(a) On September 23, 2020, the Company was served with a Statement of Claim for damages for the alleged breach of a former employee’s employment agreement, or in the alternative, for the alleged constructive dismissal of a former employee, in the amount of $728 plus interest and costs. The claim was initiated in the Ontario Superior Court of Justice. The Company filed a Statement of Defence to the claim on November 6, 2020 and believes the claim is without merit.

20. Commitments and contingencies (continued)

(b) The Company and its subsidiary, Abba, were served with a Statement of Claim for damages for the alleged failure to pay invoices in the amount of $200 plus pre- and post-judgment interest. Pleadings have now closed, and the parties are in the process of scheduling examinations for discovery. Given that examinations for discovery have not yet occurred, it is too early in the process to have a reasonable expectation or evaluation of the Plaintiff's claim, but the Company believes the claim to be without merit.

(c) On April 15, 2021, Canada House's wholly owned subsidiary, IsoCanMed, was served with an application to initiate proceedings for damages for its alleged failure to pay invoices in the amount of $304 plus pre and post judgment interest. Prior to the Plaintiff initiating proceedings, IsoCanMed provided the Plaintiff with a list of deficiencies related to the Plaintiff's work installing the HVAC system at IsoCanMed's facility. The list of deficiencies includes the Plaintiff's supply and installation of a chiller which has not yet been put into operation by the Plaintiff. The Plaintiff and IsoCanMed discussed IsoCanMed's payment of the balance owing (approximately $305) on the total contract value of $2,300 when the Plaintiff had successfully remedied the outstanding deficiencies in its workmanship. In addition, at the request of the Plaintiff, IsoCanMed provided the Plaintiff with comments on the items it disputed in the Plaintiff's outstanding invoices. After receiving IsoCanMed's requested comments, the Plaintiff halted all communication and proceeded with this application.

IsoCanMed has retained external counsel to appear on IsoCanMed's behalf and respond to the application. IsoCanMed's external counsel has advised the Court of its intent to file a Defence and Counterclaim to the Plaintiff's application. The Court has accepted protocol which require IsoCanMed to file its Defense, Counterclaim, and any expert reports relied upon in same by October 29, 2021. Initial discoveries of the Parties related to the Plaintiff's claim are scheduled for November 2324, 2021, and Discovery of IsoCanMed related to its potential counterclaim is scheduled for February 9, 2022. The Plaintiff's defense to the potential counterclaim of IsoCanMed and any expert evidence to be relied upon by the Plaintiff must be filed by April 15, 2022.

In the ordinary course of business and from time to time, the Company is involved in various other claims related to its ordinary course and conduct of its business. Although such matters cannot be predicted with certainty, management does not consider the Company's exposure to these claims to be material to these consolidated financial statements.

21. Capital management

The Company defines the capital that it manages as the amounts it classifies in share capital, augmented by any amounts raised through the issuance of convertible debentures, promissory notes, borrowings and mortgage payable.

	July 31, 2021 $000's	April 30, 2021 $000's
Share capital, including equity component of convertible debentures	50,859	50,859
Convertible debentures	4,203	3,988
Promissory notes	11,102	11,006
Borrowings	448	446
Mortgage payable	2,000	2,000
	68,612	68,299

The Company's objectives when managing capital are to ensure that there are adequate capital resources to safeguard the Company's ability to continue as a going concern and to maintain adequate levels of funding to support its ongoing initiatives and business development activities in order to provide returns for its shareholders.

The Company is an early-stage company and is dependent on raising further capital, primarily equity, to fund its capital expenditures and its operating expenses in excess of revenue until such time as it reaches cash break-even. As at July 31, 2021, the Company had raised, net of issuance costs, approximately $40,612 (April 30, 2021 - $40,612) by the issuance of common shares, warrants, convertible debentures and long-term debt. The Company may raise additional equity in the future, although there can be no assurance that the Company will be successful in doing so.

22. Financial instruments and risk management

Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from deposits with banks and outstanding receivables. The Company trades only with recognized, creditworthy third parties. The Company performs credit checks for all customers who wish to trade on credit terms. As at July 31, 2021 and April 30, 2021, two customers represented 44% and three customers represented 73% of the outstanding trade and other receivable balance, respectively.

For the three months ended July 31, 2021, two customers accounted for approximately 55% of the Company's consolidated revenue (July 31, 2020 – three customers accounted for approximately 59%).

The Company does not hold any collateral as security, but mitigates this risk by dealing only with what management believes to be financially sound counterparties and, accordingly, does not anticipate significant loss for non-performance.

22. Financial instruments and risk management (continued)

The aging of trade receivables is as follows:

	July 31, 2021 $000's	April 30, 2021 $000's
Not past due	**419**	1,627
1 to 30 days past due	**513**	94
31 to 60 days past due	**54**	196
Over 61 days past due	**17**	9
	1,003	1,926

As at July 31, 2021, the expected credit loss recognized was $14 (April 30, 2021 - $14).

Liquidity risk
Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company's exposure to liquidity risk is dependent on the Company's ability to raise additional financing to meet its commitments and sustain operations. The Company mitigates liquidity risk by management of working capital, cash flows and the issuance of share capital.

The Company is obligated to the following contractual maturities of undiscounted cash flows:

	Carrying Amount $000's	Total Contractual Cash Flow $000's	Year 1 $000's	Year 2 $000's	Year 3 $000's	Year 4 and Beyond $000's
Lease liability	2,338	2,776	578	459	365	1,374
Promissory notes	70	70	70	-	-	-
Promissory note - non-current	11,102	14,375	1,328	13,047	-	-
Trade and other payables	8,757	8,757	8,757	-	-	-
Convertible debentures	4,203	10,303	1,203	-	-	9,100
Borrowings	448	443	443	-	-	-
Due to related parties	3	3	3	-	-	-
Mortgage payable	2,000	2,083	2,083	-	-	-
	28,921	**38,810**	**14,465**	**13,506**	**365**	**10,474**

Market risk
Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk.

22. Financial instruments and risk management (continued)

Currency risk
Currency risk is the risk to the Company's earnings that arises from fluctuations of foreign exchange rates. The Company is not exposed to foreign currency exchange risk as it has minimal financial instruments denominated in a foreign currency and substantially all of the Company's transactions are in Canadian dollars, which is also the Company's functional currency.

Interest rate risk
Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company is not exposed to interest rate risk as at July 31, 2021 as the Company does not have any variable interest rate assets or liabilities.

Other price risk
Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market. The Company is not exposed to other price risk as at July 31, 2021.

Fair values
The carrying values of cash, trade and other receivables, loan receivable, trade and other payables, borrowings and convertible debentures approximate the fair values due to the short-term nature of these items or the interest rates and discount rates being at market. The risk of material change in fair value is not considered to be significant due to a relatively short-term nature. The Company does not use derivative financial instruments to manage this risk.

Financial instruments recorded at fair value on the consolidated statements of financial position are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The Company categorizes its fair value measurements according to a three-level hierarchy. The hierarchy prioritizes the inputs used by the Company's valuation techniques. A level is assigned to each fair value measurement based on the lowest-level input significant to the fair value measurement in its entirety. The three levels of the fair value hierarchy are defined as follows:

- Level 1 – Unadjusted quoted prices as at the measurement date for identical assets or liabilities in active markets.
- Level 2 – Observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.
- Level 3 – Significant unobservable inputs that are supported by little or no market activity. The fair value hierarchy also requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

The fair value hierarchy requires the use of observable market inputs whenever such inputs exist. A financial instrument is classified to the lowest level of the hierarchy for which a significant input has been considered in measuring fair value.

During the three months ended July 31, 2021, there were no transfers of amounts between levels.

23. Segmented information

The Company has one reportable and operating segment, which primarily cultivates and distributes cannabis related products via federally approved cannabis programs, and this single reportable segment derives its revenue from the sale of such products. The Company reports segment information based on internal reports used by the Chief Operating Decision maker ("**CODM**") to make operating and resource decisions and to assess performance. The CODM is the Chief Executive Officer. The CODM makes decisions and assesses performance of the Company on a consolidated basis such that the Company is a single reportable operating segment.

The Company primarily operates in one principal geographical area, Canada, accordingly all of the Company's long lived assets are located in Canada.

24. Subsequent events

On August 9, 2021, the Company announced that they have entered into a definitive share exchange agreement for the Company acquisition of all of the issued and outstanding shares of Montréal Cannabis Medical Inc. ("MTL Cannabis") (herein referred to as the "Transaction"). The Transaction is considered an arm's length transaction and will constitute a "reverse takeover" of the Company by MTL Cannabis as it is anticipated that the Company's shareholders will account for approximately 20% of the combined company post merger. Should the Transaction be completed, it is anticipated that the Company will operate under the MTL Cannabis corporate name with shares continuing to trade on the Canadian Securities Exchange.