Canada House Cannabis Group Inc.

Formerly as Canada House Wellness Group Inc.

Consolidated Financial Statements

July 31, 2022

(Expressed in thousands of Canadian dollars)

Canada House Cannabis Group Inc.
(formerly Canada House Wellness Group Inc.)

Table of Contents Page

Independent auditor's report

To the Shareholders of
Canada House Cannabis Group Inc.

Opinion

We have audited the consolidated financial statements of **Canada House Cannabis Group Inc.** and its subsidiaries [the "Group"], which comprise the consolidated statements of financial position as at July 31, 2022 and April 30, 2021, and the consolidated statements of loss and comprehensive loss, consolidated statements of changes in shareholders' equity and consolidated statements of cash flows for the 15-months period ended July 31, 2022 and the year ended April 30, 2021, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at July 31, 2022 and April 30, 2021, and its consolidated financial performance and its consolidated cash flows for the 15-months period ended July 31, 2022 and the year ended April 30, 2021 in accordance with International Financial Reporting Standards ["IFRS"].

Basis for opinion

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

Material uncertainty related to going concern

We draw attention to Note 1 of the consolidated financial statements, which indicates that the Group incurred a net loss of $11,093,000 during the 15-months period ended July 31, 2022 and, as of that date, the Group's cumulative deficit totaled $68,899,000. As stated in Note 1, these events or conditions, along with other matters as set forth in Note 1, indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other information

Management is responsible for the other information. The other information comprises Management's Discussion and Analysis.

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

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

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

Responsibilities of management and those charged with governance for the consolidated financial statements

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

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

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

Auditor's responsibilities for the audit of the consolidated financial statements

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

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

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

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

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

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

Ernst & Young LLP

Chartered Professional Accountants
Licensed Public Accountants

Toronto, Canada
November 28, 2022

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

	Note	July 31, 2022	April 30, 2021
ASSETS			
Current assets:			
Cash		**450**	1,835
Trade and other receivables	5	**3,058**	1,945
Inventory	6	**3,601**	5,018
Biological assets	7	**84**	692
Prepaid expenses and deposits		**534**	383
		7,727	9,873
Property, plant and equipment, net	8	**12,954**	14,587
Right-of-use assets, net	10	**2,182**	2,413
Intangible assets, net	9	**7,640**	7,087
Goodwill	4,9	**3,546**	3,032
Total assets		**34,049**	36,992
LIABILITIES			
Current liabilities:			
Trade and other payables		**11,574**	8,345
Due to related parties	12	**3**	3
Current portion of lease liability	10	**378**	524
Current portion of debentures	14	**1,050**	873
Mortgage payable	15	**2,000**	-
Promissory notes	11,12	**76**	68
Borrowings	13	**1,766**	326
Consideration payable	4	**197**	-
		17,044	12,139
Non-current liabilities			
Lease liability	10	**1,910**	1,952
Borrowings	13	**2,160**	120
Promissory notes	4,11,12	**10,790**	10,938
Mortgage payable	15	**-**	2,000
Consideration payable	4	**195**	-
Debentures	14	**3,717**	3,115
Deferred tax liabilities	4,20	**1,986**	1,855
Total liabilities		**37,802**	30,119
SHAREHOLDERS' EQUITY (DEFICIENCY)			
Share capital	16	**48,685**	48,685
Equity component of convertible debentures	14	**2,174**	2,174
Contributed surplus	16,17	**14,287**	15,775
Deficit		**(68,899)**	(59,761)
Equity (deficiency)		**(3,753)**	6,873
Total liabilities and shareholders’ equity (deficiency)		**34,049**	36,992

Nature of operations and going concern (note 1)
Commitments and contingencies (note 22)
Subsequent events (note 26)

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

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

Canada House Cannabis Group Inc.
(formerly Canada House Wellness Group Inc.)
Consolidated Statements of Loss and Comprehensive Loss
(Expressed in thousands of Canadian Dollars, except for shares and per share amounts)
For the fifteen months ended July 31, 2022 and twelve months ended April 30, 2021

	Note	July 31 2022	April 30 2021
Revenue			
Referral revenue		**6,633**	5,141
Product revenue		**22,729**	6,309
License revenue and other		**813**	430
Less excise tax		**(3,509)**	(1,320)
Net revenue		**26,666**	10,560
Cost of sales	6	**13,606**	6,066
Inventory impairment	6	**4,228**	2,266
Gross profit before fair value adjustments		**8,832**	2,228
Realized loss on sale of inventory		**1,176**	1,136
Unrealized loss (gain) on biological assets	7	**488**	(1,866)
Gross profit		**7,168**	2,958
Expenses			
General and administrative	21	**10,119**	8,253
Sales and marketing	21	**1,925**	506
Share-based compensation	17	**467**	461
Right-of-use assets amortization	10	**491**	460
Depreciation and amortization	8,9	**1,590**	911
		14,592	10,591
Loss from operations		**(7,424)**	(7,633)
Finance and transaction costs	18	**4,502**	2,736
(Gain) loss on debt settlement and modifications	11	**(1,019)**	918
Gain on assets disposal		**(9)**	-
Remeasurement on contingent consideration		**161**	-
Other expenses		**2**	10
Loss before income taxes		**(11,061)**	(11,297)
Provision for income taxes		**32**	68
Net loss and comprehensive loss for the period		**(11,093)**	(11,365)
Weighted average number of shares outstanding - basic and diluted		**22,781,787**	21,707,920
Net loss per share - basic and diluted	19	**$ (0.49)**	$ (0.52)

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

Canada House Cannabis Group Inc.
Consolidated Statements of Changes in Shareholders' Equity (Deficiency)
(formerly Canada House Wellness Group Inc.)
(Expressed in thousands of Canadian Dollars, except for shares and per share amounts)
For the fifteen months ended July 31, 2022 and twelve months ended April 30, 2021

	Note	Number of Shares	Share Capital	Equity Component of Convertible Debentures	Contributed Surplus	Deficit	Total Shareholders' Equity (Deficiency)
Balance as at May 1, 2020		**13,666,406**	**39,241**	**419**	**13,810**	**(48,396)**	**5,074**
Common shares issued pursuant to business acquisition		9,115,381	9,444	-	-	-	9,444
Convertible debenture		-	-	1,755	1,504	-	3,259
Share-based compensation		-	-	-	461	-	461
Net loss and comprehensive loss for the period		-	-	-	-	(11,365)	(11,365)
Balance as at April 30, 2021		**22,781,787**	**48,685**	**2,174**	**15,775**	**(59,761)**	**6,873**
Balance as at May 1, 2021		22,781,787	48,685	2,174	15,775	(59,761)	6,873
Share-based compensation	17	-	-	-	467	-	467
Net loss and comprehensive loss for the period		-	-	-	-	(11,093)	(11,093)
Expiry of conversion feature (note 14)		-	-	-	(1,955)	1,955	-
Balance as at July 31, 2022		**22,781,787**	**48,685**	**2,174**	**14,287**	**(68,899)**	**(3,753)**

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

Canada House Cannabis Group Inc.
(formerly Canada House Wellness Group Inc.)
Consolidated Statements of Cash Flows
(Expressed in thousands of Canadian Dollars, except for shares and per share amounts)
For the fifteen months ended July 31, 2022 and twelve months ended April 30, 2021

	Note	July 31 2022	April 30 2021
Cash provided by (used in)			
Operating activities:			
Net loss and comprehensive loss for the period		**(11,093)**	(11,365)
Add (deduct) items not affecting cash			
Depreciation and amortization	8,9	**3,095**	911
Share-based compensation		**467**	461
Non-cash finance and transaction costs		**4,803**	1,436
Realized fair value loss on sale of inventory		**1,176**	1,136
Unrealized fair value (gain) loss in fair value of biological assets		**488**	(1,866)
Inventory impairment		**4,228**	2,266
(Gain) loss on debt settlement and modifications		**(1,019)**	918
Remeasurement on contingent consideration		**161**	-
Right-of-use assets amortization	10	**491**	460
		2,797	(5,643)
Changes in non-cash working capital balances related to operations			
Trade and other receivables		**(1,113)**	(931)
Inventory		**(3,945)**	(3,598)
Biological assets		**226**	(232)
Prepaid expenses and deposits		**(151)**	(158)
Trade and other payables		**661**	7,207
Net cash used in operating activities		**(1,525)**	(3,355)
Investing activities:			
Purchase of property, plant and equipment, net	10	**(2,431)**	(794)
Proceeds from government grant		**954**	-
Business acquisition	4	**(681)**	130
Net cash used in investing activities		**(2,158)**	(664)
Financing activities:			
Borrowings		**3,340**	120
Lease payments		**(757)**	(707)
Cash interest payments on debenture		**(165)**	(133)
Repayment of convertible debentures		**(120)**	(2,818)
Issuance of debenture, net of transaction costs		**-**	6,110
Mortgage payable		**-**	2,000
Repayment of promissory note		**-**	(485)
Net cash provided by financing activities		**2,298**	4,087
Increase (decrease) in cash during the period		**(1,385)**	68
Cash, beginning of period		**1,835**	1,767
Cash, end of period		**450**	1,835

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

1. Nature of operations and going concern uncertainty

Canada House Cannabis Group Inc. (the "**Company**"), formerly Canada House Wellness 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).

On May 30, 2022, the Company announced a change in its financial year end from April 30 to July 31. Accordingly for purpose of these annual financial statements of the Company, they represent a fiscal period of 15 months from the period May 1, 2021 to July 31, 2022. Comparative financial statements are for a 12-month period from May 1, 2020 to April 30, 2021.

These consolidated financial statements of the Company for the 15-month period ended July 31, 2022, 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 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 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 15-month period ended July 31, 2022 and the year ended April 30, 2021, the Company incurred a net loss of $11,093 and $11,365, and as at July 31, 2022, had an accumulated deficit of $68,899 and a working capital deficit of $9,317. Cash flow used in operations for the 15-month period ended July 31, 2022 was $1,525. 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 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 consolidated financial statements (**"financial statements"**) have been prepared by management in accordance with generally accepted accounting principles in Canada for publicly accountable enterprises, as set out in the *CPA Canada Handbook – Accounting*, which incorporates International Financial Reporting Standards (**"IFRS"**) as issued by the International Accounting Standards Board (**"IASB"**). The policies set out below have been consistently applied to all periods presented, unless otherwise noted.

These consolidated financial statements were approved and authorized for issuance in accordance with a resolution of the Board of Directors of the Company on November 28, 2022.

Basis of measurement

These financial statements have been prepared on a historical cost basis, except for convertible notes and biological assets that are measured at fair value and fair value less costs to sell. Historical costs are generally based upon the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Company takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2, *Share-based Payments* (**"IFRS 2"**) and measurements that have some similarities to fair value but are not fair value, such as value in use in IAS 36*, Impairment of Assets*.

As noted in note 26, following the shareholder meeting on August 23, 2022, the Company completed its previously announced consolidation of its common shares on the basis of thirty (30) preconsolidation shares for each one (1) postconsolidation share. Fractional shares resulting from the share consolidation were rounded up or down to the nearest whole Common Share. Accordingly, these financial statements have been prepared reflecting this share consolidation.

2. Basis of preparation (continued)

Functional currency and presentation currency
These financial statements are presented in Canadian dollars, which is the Company's functional currency.

Use of estimates and judgments
The preparation of these financial statements in conformity with IFRS requires management to make estimates, judgments and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities as at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from these estimates.

Estimates are based on management's best knowledge of current events and actions that the Company may undertake in the future. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the critical judgments, apart from those involving estimations, that management has made in the process of applying the Company's accounting policies and that have the most significant effect on the amounts recognized in the financial statements:

Going concern
At each reporting period, management assesses the basis of preparation of the financial statements. These financial statements have been prepared on a going concern basis in accordance with IFRS. The going concern basis of presentation assumes that the Company will continue its operations for the foreseeable future and be able to realize its assets and discharge its liabilities and commitments in the normal course of business (note 1).

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

Estimated useful life and amortization of intangible assets
The Company employs significant estimates to determine the estimated useful life of intangible assets, considering industry trends, contractual rights, past experience, expected use and review of asset useful lives. The Company reviews amortization methods and useful lives annually or when circumstances change and adjusts its amortization methods and assumptions prospectively.

Impairment of property, plant and equipment and intangible assets
Property, plant and equipment and intangible assets impairment testing requires management to make estimates in the impairment testing model. Impairment of property, plant and equipment and intangible assets is influenced by judgment in defining a cash-generating unit ("CGU") and determining the indicators of impairment and estimates used to measure impairment losses. The recoverable value of property, plant and equipment and intangible assets is determined using discounted future cash flow models, which incorporate assumptions regarding future events, specifically future cash flows, growth rates and discount rates.

2. Basis of preparation (continued)

Valuation of share-based payments and warrants
Management measures the costs for share-based payments and warrants using market-based option valuation techniques. Assumptions are made and estimates are used in applying the valuation techniques. These include estimating the future volatility of the share price, expected dividend yield, expected risk-free interest rate and the rate of forfeiture. Such estimates and assumptions are inherently uncertain. Changes in these assumptions affect the fair value estimates of share-based payments and warrants.

Business combinations
In a business combination, substantially all identifiable assets, liabilities and contingent liabilities acquired are recorded at the date of acquisition at their respective fair values. One of the most significant areas of judgment and estimation relates to the determination of the fair value of these assets and liabilities, including the fair value of consideration given. If any intangible assets are identified, depending on the type of intangible asset and the complexity of determining its fair value, the Company determines the fair value, using appropriate valuation techniques, which are generally based on a forecast of the total expected future net cash flows. These valuations are linked closely to the assumptions made by management regarding the future performance of the assets concerned and the discount rate applied.

Convertible debentures
Separating the liability and equity components requires the Company to estimate a market rate for an equivalent non-convertible instrument and in allocating the remainder to the conversion feature that is an equity instrument.

Valuation of the fair value less costs to sell of biological assets and agricultural produce
Biological assets, consisting of medical cannabis plants and agricultural produce, are measured at fair value less costs to sell up to the point of harvest. The determination of the fair values of the biological assets requires the Company to make assumptions with respect to how market participants would estimate fair value.

3. Significant accounting policies

Cash
Cash includes cash deposits in financial institutions.

Foreign currency translation
Foreign currency transactions are translated into Canadian dollars at exchange rates in effect on the date of the transactions. At the end of each reporting period, monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the foreign exchange rate applicable at that period-end date. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Expenses are translated at the exchange rates that approximate those in effect on the date of the transaction. Realized and unrealized exchange gains and losses are recognized in the consolidated statements of loss and comprehensive loss.

3. Significant accounting policies (continued)

Revenue recognition

The Company recognizes revenue to depict the transfer of promised services to customers in an amount that reflects the consideration to which the Company expects to be entitled in exchange for those services by applying the following steps:

1. Identify the contract with a customer;
2. Identify the performance obligations in the contract;
3. Determine the transaction price;
4. Allocate the transaction price; and
5. Recognize revenue when, or as, the Company satisfies a performance obligation.

Revenue represents the amount the Company expects to receive for products and services in its contracts with customers, net of discounts and sales taxes. The Company earns referral fee revenue by providing educational services to patients that may benefit from cannabis products. The Company educates consumers on different strains of cannabis plants and how to properly use the products of licensed producers based on the consumers' ailments and ultimately refers these clients to the cannabis producers.

The Company recognizes revenue upon transfer of control of products or services to customers at an amount that reflects the consideration the Company expects to receive in exchange for the products or services transferred. The Company evaluates contracts with customers to determine the appropriate unit of accounting (performance obligation) for revenue recognition purposes based on whether the product or service is distinct from some or all of the other products or services in the arrangement. A product or service is distinct if the customer can benefit from it on its own or together with other readily available resources and the Company’s promise to transfer the good or service is separately identifiable from other promises in the contractual arrangement with the customer. Non-distinct products and services are combined with other goods or services until they are distinct as a bundle and therefore form a single performance obligation.

The Company also earns revenue from referrals, which are earned for arranging an appointment between the Company's clients and a physician to obtain a prescription for the medical cannabis. These fees are paid by the patient and billed at the time when the appointment is arranged. Revenue is recognized when the appointment is completed.

In addition, the Company earns revenue through licensing of its proprietary patient management software, recognizing revenue using a software as a service model, whereby it earns and collects revenue monthly based on patient count and/or number of clinics.

Biological assets

While the Company’s biological assets are within the scope of IAS 41, Agriculture, the direct and indirect costs of biological assets are determined using an approach similar to the capitalization criteria outlined in IAS 2, Inventories. They include the direct cost of seeds and growing materials as well as other indirect costs such as utilities and supplies used in the growing process. Indirect labour for individuals involved in the growing and quality control process is also included, as well as depreciation on production equipment and overhead costs such as rent to the extent it is associated with the growing space. All direct and indirect costs of biological assets are capitalized as they are incurred, and they are all subsequently recorded within the line item “cost of sales” in the consolidated statements of loss and comprehensive loss in the period that the related product is sold. Unrealized fair value gains/losses on growth of biological assets are recorded in a separate line on the face of the consolidated statements of loss and comprehensive loss. Biological assets are measured at their fair value less costs to sell on the consolidated statements of financial position.

3. Significant accounting policies (continued)

Inventories

The direct and indirect costs of inventory initially include the fair value of the biological asset at the time of harvest. They also include subsequent costs such as materials, labour and depreciation expense on equipment involved in packaging, labeling and inspection. All direct and indirect costs related to inventory are capitalized as they are incurred and they are subsequently recorded within "cost of sales" in the consolidated statements of loss and comprehensive loss at the time cannabis is sold, except for realized fair value amounts included in inventory sold, which are recorded as a separate line on the face of the consolidated statements of loss and comprehensive loss. Inventory is measured at lower of cost or net realizable value on the consolidated statements of financial position.

Property, plant and equipment

The Company's property, plant and equipment are measured at cost less accumulated depreciation and impairment losses.

The cost of an item of property, plant and equipment includes expenditures that are directly attributable to the acquisition or construction of the asset. The cost includes the cost of materials and direct labour, site preparation costs, installation and assembly costs, and any other costs directly attributable to bringing the assets to the location and condition necessary for the assets to be capable of operating in the manner intended by management. The cost of property, plant and equipment also includes any applicable borrowing costs. Borrowing costs are capitalized to property, plant and equipment until such time that the constructed asset is substantially complete and ready for its intended use.

Depreciation is recorded over the estimated useful lives as outlined below:

Building	4% on a declining balance basis
Leasehold improvements	Lesser of 5 years or lease term on a straight-line basis
Computer equipment	30% on a declining balance basis
Security equipment	5 years on a straight-line basis
Furniture and fixtures	20% on a declining balance basis
Vehicles	30% on a declining balance basis

The Company assesses an asset's residual value, useful life and depreciation method at each financial year-end or as required and makes adjustments if appropriate.

Gains and losses on disposal of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of the property, plant and equipment and are recognized in the consolidated statements of loss and comprehensive loss.

Right-of-use assets and lease liabilities

The Company assesses whether a contract is or contains a lease, at the inception of a contract. The Company recognizes a right-of-use asset and a corresponding lease liability with respect to all lease agreements in which it is the lessee.

3. Significant accounting policies (continued)

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Company uses its incremental borrowing rate. Subsequently, the lease liability is measured by increasing its carrying amount to reflect accretion of the lease liability (using the effective interest method) and by reducing the carrying amount to reflect lease payments made. The right-of-use asset is depreciated over the shorter of the lease term and the useful life of the underlying asset. The Company applies IAS 36 – Impairment of Assets, to determine whether the asset is impaired and account for any identified impairment loss.

The Company has elected not to recognize right-of-use assets and lease liabilities for leases that have a lease term of 12 months or less and do not contain a purchase option or for leases related to low-value assets. Lease payments on short-term leases and leases of low-value assets are recognized as selling and administrative expenses in the consolidated statements of operations and comprehensive income.

The Company has also elected to not separate fixed non-lease components from lease components and instead account for each lease component and associated fixed non-lease components as a single lease component.

Variable rents that do not depend on an index or rate are not included in the measurement of the lease liability and the right-of-use asset. The related payments are recognized as an expense in the period in which the event or condition that triggers those payments occurs and are presented as selling and administrative expense in the consolidated statements of operations and comprehensive income (loss).

Finite life and indefinite life intangible assets
Intangible assets consist of acquired intellectual property with a finite life and indefinite life. Intangible assets are amortized on a straight-line basis over their estimated useful lives and are measured at cost less accumulated amortization and accumulated impairment losses. At each reporting period, the useful lives of such assets are reviewed to determine whether events and circumstances continue to support the useful life assessment for the asset. Costs for intangible assets acquired in a business combination represent the fair value of the asset at the time of the acquisition. Intellectual property intangibles are amortized over a three-year period and software intangible is amortized 30% on a declining balance basis.

Intangible assets with finite useful lives are tested for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. Indefinite-life intangible assets are reviewed for impairment annually or at any time if an indicator of impairment exists.

Impairment of non-financial assets
The carrying values of property and equipment and intangible assets, including goodwill are assessed at the end of each reporting period as to whether there is any indication that the assets may be impaired. Goodwill and indefinite life intangible assets are tested for impairment annually during the fourth quarter of the fiscal year or when there is an indication that the asset may be impaired.

3. Significant accounting policies (continued)

If any indication of impairment exists or when the annual impairment testing for an asset is required, the Company estimates the recoverable amount of the asset or cash-generating unit ("CGU") to which the asset relates to, including goodwill and intangible assets, to determine the extent of any impairment loss. The recoverable amount is the higher of an asset's or CGU's fair value less costs of disposal and its value in use ("VIU") to the Company. In determining fair value less costs of disposal, the Company takes into consideration the market capitalization method. If the recoverable amount of an asset or a CGU is estimated to be less than its carrying amount, the carrying amount is reduced to its recoverable amount. An impairment loss is recognized immediately in the consolidated statements of operations and comprehensive income. For impaired assets, excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the Company estimates the asset's recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of amortization, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the consolidated statements of operations and comprehensive income. As disclosed in Note 24, the Company has two reportable and operating segments, and goodwill has been fully allocated to each appropriate segment as it represents the lowest level at which management monitors goodwill.

Income taxes
Income tax expense comprises current and deferred tax and represents the sum of the income tax currently payable and deferred tax.

The income tax currently payable is based on taxable profit for the year. Taxable profit differs from "loss before income taxes" as reported in the consolidated statements of loss and comprehensive loss because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Company's current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the year.

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

In addition, deferred tax liabilities are not recognized if the temporary difference arises from the initial recognition of goodwill.

The carrying amount of deferred tax assets is reviewed at the end of each year and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the year in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the year.

3. Significant accounting policies (continued)

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the year, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred taxes are recognized in profit or loss, except when they relate to items that are recognized in other comprehensive loss or directly in equity, in which case the current and deferred taxes are also recognized in other comprehensive loss or directly in equity, respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Share-based payments

The Company measures equity-settled share-based payments based on their fair value at the grant date and recognizes compensation expense over the period in which the service and, where applicable, the performance conditions are fulfilled (the vesting period) with a corresponding increase in equity (contributed surplus). Fair value is measured using the Black-Scholes option pricing model. The cumulative expense recognized for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Company's best estimate of the number of equity instruments that will ultimately vest. The expense or credit in the consolidated statements of loss and comprehensive loss for a period represents the movement in cumulative expense recognized as at the beginning and end of that period.

Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Company's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service and/or performance conditions.

No expense is recognized for awards that do not ultimately vest because non-market performance and/or service conditions have not been met. Where awards include a market or non-vesting condition, the transactions are treated as vested irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

When the terms of an equity-settled award are modified, the minimum expense recognized is the grant date fair value of the unmodified award, provided the original terms of the award are met. An additional expense, measured as at the date of modification, is recognized for any modification that increases the total fair value of the share-based payment transaction, or is otherwise beneficial to the employee. Where an award is cancelled by the entity or by the counterparty, any remaining element of the fair value of the award is expensed immediately through the consolidated statements of loss and comprehensive loss.

Loss per share

The Company presents basic and diluted loss per share data for its common shares. Basic loss per share is calculated by dividing the loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the year. Diluted loss per share is determined by adjusting the loss attributable to common shareholders and the weighted average number of common shares outstanding, adjusted for the effects of all dilutive potential common shares, which comprise preferred shares, warrants, share options and convertible debentures issued.

3. Significant accounting policies (continued)

Financial instruments
Financial assets and financial liabilities are recognized when the Company becomes a party to the contractual provisions of the instruments.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss ("FVTPL")) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognized immediately in profit or loss.

(i) Financial assets
On initial recognition, a financial asset is classified as measured at amortized cost, fair value through other comprehensive income (''FVOCI''), or FVTPL. The classification of financial assets is based on the business model in which a financial asset is managed and its contractual cash flow characteristics. Derivatives embedded in contracts where the host is a financial asset in the scope of the standard are not separated. Instead, the hybrid financial asset as a whole is assessed for classification.

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at FVTPL:

It is held within a business model whose objective is to hold assets to collect contractual cash flows; and
Its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt investment is measured at FVOCI if it meets both of the following conditions and is not designated as at FVTPL:

It is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
Its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Company may irrevocably elect to present subsequent changes in the investment's fair value in other comprehensive income ("OCI"). This election is made on an investment-by-investment basis.

All financial assets not classified as measured at amortized cost or FVOCI as described above are measured at FVTPL. This includes all derivative financial assets. On initial recognition, the Company may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortized cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

A financial asset (unless it is a trade receivable without a significant financing component that is initially measured at the transaction price) is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition.

3. Significant accounting policies (continued)

The following accounting policies apply to the subsequent measurement of financial assets.

Financial assets at FVTPL	Subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognized in profit or loss.
Financial assets at amortized cost	Subsequently measured at amortized cost using the effective interest method, less any impairment losses. Interest income, foreign exchange gains and losses and impairment losses are recognized in profit or loss. Any gain or loss on derecognition is recognized in profit or loss.
Debt investments at FVOCI	Subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment losses are recognized in profit or loss. Other net gains and losses are recognized in OCI. On derecognition, gains and losses accumulated in OCI are reclassified to profit or loss.
Equity investments at FVOCI	Subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment losses are recognized in profit or loss. Other net gains and losses are recognized in OCI. On derecognition, gains and losses accumulated in OCI are reclassified to profit or loss.

(ii) Financial liabilities
The Company initially recognizes financial liabilities at fair value on the date at which the Company becomes a party to the contractual provisions of the instrument.

The Company classifies its financial liabilities as either financial liabilities at FVTPL or at amortized cost.

Subsequent to initial recognition, other liabilities are measured at amortized cost using the effective interest method. Financial liabilities at fair value are stated at fair value with changes being recognized in profit or loss.

The Company derecognizes a financial liability when its contractual obligations are discharged or cancelled or expire.

(iii) Financial liabilities and equity instruments
Classification as debt or equity
Debt and equity instruments issued by the Company are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments
An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by a group entity are recognized at the proceeds received, net of direct issue costs.

Repurchase of the Company's own equity instruments is recognized and deducted directly in equity. No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

3. Significant accounting policies (continued)

(iv) Classification of financial instruments

The Company classifies its financial assets and liabilities depending on the purpose for which the financial instruments were acquired, their characteristics and management intent as outlined below:

Financial assets/liabilities	**Classification**
Cash	Amortized cost
Trade and other receivables	Amortized cost
Trade and other payables	Amortized cost
Contingent consideration	Fair value through profit or loss
Due to related parties	Amortized cost
Promissory notes	Amortized cost
Borrowings	Amortized cost
Convertible debentures	Amortized cost

(v) Impairment of financial assets

An expected credit loss ("**ECL**") model applies to financial assets measured at amortized cost. The Company's financial assets measured at amortized cost and subject to the ECL model consist primarily of trade and other receivables and loan receivable. The Company adopted the simplified approach to impairment for trade and other receivables by recognizing lifetime expected losses on initial recognition.

Convertible debentures

Convertible debentures are separated into liability and equity components based on the terms of the contract.

On issuance of the instruments, the fair value of the liability component is determined using a market rate for an equivalent non-convertible instrument. This amount is classified as a financial liability measured at amortized cost (net of transaction costs) until it is extinguished on conversion or redemption.

The remainder of the proceeds is allocated to the equity component that is recognized and included in equity. Transaction costs are deducted from equity, net of associated income tax. The carrying amount of the conversion option is not remeasured in subsequent periods.

Government Grant

Government assistance that requires repayment and that is non-interest bearing is accounted for at its fair value, based on management's best estimate. The difference between the assistance amount and its fair value is accounted for as a government grant and recognized in income over the period in which the related costs they are intended to compensate are recognized

Future Accounting Pronouncements

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

3. Significant accounting policies (continued)

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.

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.

IFRS 3 – Business Combinations ("IFRS 3")
Amendments to IFRS 3 were issued in May 2020, and are effective for annual periods beginning on or after January 1, 2022, with earlier application permitted. The amendments update references within IFRS 3 to the 2018 Conceptual Framework and require that the principles in IAS 27 - Provisions, Contingent Liabilities and Contingent Assets be used to identify liabilities and contingent assets arising from business combination.

IAS 8 – Accounting policies, Changes in accounting estimates and Errors ("IAS 8")
Amendments to IAS 8 were issued in February 2021, IASB issued Definition of Accounting Estimates, which amends IAS 8. The amendment replaces the definition of accounting estimates. Under the new definition, accounting estimates are "monetary amounts in financial statements that are subject to measurement uncertainty." The amendment provides clarification to help entities to distinguish between accounting policies and accounting estimates. The amendments are effective for annual periods beginning on or after January 1, 2023.

IAS 12 – Income Taxes ("IAS 12")
Amendments to IAS 12 were issued in May 2021, IASB issued Deferred Tax related to Assets and Liabilities arising from a Single Transaction, which amends IAS 12. The amendment narrows the scope of the initial recognition exemption so that it does not apply to transactions that give rise to equal and offset temporary differences. As a result, companies will need to recognize a deferred tax asset and deferred tax liability for temporary differences arising on initial recognition of transactions such as leases and decommissioning obligations. The amendments are effective for annual periods beginning on or after January 1, 2023 and are to be applied retrospectively.

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

4. Business acquisitions

Margaree Health Group Inc. acquisition

On May 27, 2021 ("**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	
Cash	500
Earn-out	411
	911
Fair value of net identifiable assets acquired	
Intangible Assets	532
Deferred Tax Liability	(141)
	391
Goodwill	520
	911

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.

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.

4. Business acquisitions (continued)

In the event CHC achieves a Margaree earn-out revenue target of $350 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 for period from May 1, 2021 to April 30, 2022, $365 for period from May 1, 2022 to April 30, 2023, or $400 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. On June 30, 2022, the vendor elected 45% of the revenue for three years and CHC paid $181 of consideration based on 45% of the revenue $402 earned during the period from May 1, 2021 to April 30, 2022.

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. On July 31, 2022, the remaining balance of the contingent consideration was revalued to be $392 based on the increased sales since the acquisition resulting a $161 expense of remeasurement on contingent consideration in the 15-month period.

IsoCanMed Inc. acquisition

On June 12, 2020 (“Closing Date”), the Company acquired 100% of the outstanding shares of IsoCanMed Inc. (“IsoCanMed”), a fully operational cannabis producer located in Louisville, Quebec, for total consideration of $19,843. The consideration consisted of 273,461,452 consideration shares valued as $9,444, plus assumption of three promissory notes (“Notes”) for $12,500 payable, valued as $10,399, on or before June 12, 2023 and bearing interest at 5% payable annually. The Notes are secured by a general security agreement registered against the assets of IsoCanMed. The Company has the right at any time to prepay all or any portion of the principal amount of the Note without penalty or interest.

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

4. Business acquisitions (continued)

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

Purchase Consideration	
Share consideration	9,444
Assumption of promissory note	10,399
	19,843
Fair value of net identifiable assets acquired	
Net Working Capital	3,836
Tangible Assets	9,869
Intangible Assets	7,000
Other Liabilities	(2,039)
Deferred Tax Liability	(1,855)
	16,811
Goodwill	3,032
	19,843

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.

The share consideration comprised of 273,461,452 common shares of the Company ("Share Consideration") and are subject a lockup agreement whereby the IsoCanMed shareholders covenant not to sell, transfer or otherwise dispose of:

- With respect to 25% of the Share Consideration, for a period ending on the 6 month anniversary of the Closing Date;
- With respect to an additional 25% of the Share Consideration, for a period ending on the 12 month anniversary of the Closing Date;
- With respect to an additional 25% of the Share Consideration, for a period ending on the 18 month anniversary of the Closing Date; and
- An additional 25% of the Share Consideration, for a period ending on the 24 month anniversary of the Closing Date.

For accounting purposes, the Share Consideration transferred for the acquired business includes a discount in the value of the share consideration to reflect the trading restriction placed on the shares.

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

5. Trade and other receivables

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

	July 31 2022	April 30, 2021
Trade and other receivables	**3,034**	1,926
Input taxes and other taxes receivables	**24**	19
	3,058	1,945

As at July 31, 2022, $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:

	July 31 2022	April 30, 2021
Dried cannabis		
- Work-in-process	**2,146**	3,887
- Finished goods	**1,424**	1,101
Packaging and consumables	**7**	6
Other	**24**	24
	3,601	5,018

As of July 31, 2022, the balance of inventory is comprised of a fair value gain of $164 (April 30, 2021 - $411) upon harvest, $432 (April 30, 2021 - $3,149) of cost capitalized to inventory and $2,356 (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 15-month period ended July 31, 2022 is $13,606 (April 30, 2021 - $6,066). The Company impaired $4,228 (April 30, 2021 - $2,266) cannabis inventory during the 15-month period ended July 31, 2022, due to the costs capitalized exceeding the net realizable value of the inventory.

During the 15-month period ended July 31,2022 and for the year ended April 30, 2021, inventory expensed to cost of sales was $13,606 and $6,066, respectively.

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

7. Biological assets

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

	$'000
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	1,305
Changes in fair value due to biological transformation	(159)
Transferred to inventory upon harvest	(1,754)
Balance as at July 31, 2022	**84**

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. Harvested cannabis is transferred from biological assets to inventory at their fair value less costs to sell at harvest.

The biological assets were measured at their fair value less costs to sell of $84 on July 31, 2022 (April 30, 2021 - $692).

As at July 31, 2022

Significant inputs and assumptions	**Inputs**	**Sensitivity**	**Effect on biological asset balance**
Weighted average selling price per gram	$1.75	10% Increase or decrease	$11
Average yield per plant	586 grams	10% Increase or decrease	$8
Post-harvest cost per gram	$0.48	10% Increase or decrease	$3

As at April 30, 2021

Significant inputs and assumptions	**Inputs**	**Sensitivity**	**Effect on biological asset balance**
Weighted average selling price per gram	$2	10% Increase or decrease	$92
Average yield per plant	14 grams	10% Increase or decrease	$75
Post-harvest cost per gram	$0.39	10% Increase or decrease	$18

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

8. Property, plant and equipment

Cost	Leasehold Improvements	Equipment	Furniture and Fixtures	Building	Land	Total
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	50	633	17	1,386	63	2,149
Disposals	(174)	(635)	(11)	(3)	(364)	(1,187)
Balance as at July 31, 2022	**7,191**	**3,768**	**310**	**9,269**	**629**	**21,167**

Accumulated depreciation	Leasehold Improvements	Equipment	Furniture and Fixtures	Building	Land	Total
Balance as at April 30, 2020	**2,501**	**705**	**155**	**39**	**-**	**3,400**
Depreciation	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**
Depreciation	1,862	724	35	384	-	3,005
Disposals	(108)	(295)	(7)	-	-	(410)
Balance as at July 31, 2022	**5,636**	**1,697**	**187**	**693**	**-**	**8,213**

Net book value	Leasehold Improvements	Equipment	Furniture and Fixtures	Building	Land	Total
Balance as at April 30, 2021	3,433	2,502	145	7,577	930	14,587
Balance as at July 31, 2022	**1,555**	**2,071**	**123**	**8,576**	**629**	**12,954**

Of total depreciation for the 15-month period ended July 31, 2022 totaling $3,005 (April 30, 2021 - $2,293), $757 (April 30, 2021 - $1,126) was allocated to biological assets, $694 (April 30, 2021 - $293) was allocated to inventory, $54 (April 30, 2021 - Nil) was allocated to cost of sales, and $1,500 (April 30, 2021 - $874) was expensed as depreciation.

9. Intangible assets and goodwill

Cost	Computer Software	License	Client List	Total
Balance as at April 30, 2020	**398**	**-**	**-**	**398**
Acquired on business combination (note 4)	-	7,000	-	7,000
Balance as at April 30, 2021	**398**	**7,000**	**-**	**7,398**
Additions	118	-	-	118
Acquired on business combination (note 4)	-	-	532	532
Balance as at July 31, 2022	**516**	**7,000**	**532**	**8,048**

Accumulated Amortization	Computer Software	License	Client List	Total
Balance as at April 30, 2020	**274**	**-**	**-**	**274**
Amortization	37	-	-	37
Balance as at April 30, 2021	**311**	**-**	**-**	**311**
Amortization	51	-	46	97
Balance as at July 31, 2022	**362**	**-**	**46**	**408**

Net Book value	Computer Software	License	Intellectual Property	Total
Balance as at April 30, 2021	87	7,000	-	7,087
Balance as at July 31, 2022	**154**	**7,000**	**486**	**7,640**

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).

A continuity of the Company’s goodwill balance is as follow:

	$000's
As at April 30, 2020	**-**
Additions (note 4)	3,032
As at April 30, 2021	**3,032**
Additions (note 4)	520
Adjustment	(6)
As at July 31, 2022	**3,546**

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

9. Intangible assets and goodwill (continued)

The Company operates as two CGU and therefore goodwill and intangible assets have been allocated to their respective CGU and tested at the CGU level.

Licensed Producer
The Company's Licensed Producer CGU represents its operations dedicated to the cultivation and sale of cannabis products and has goodwill of $3,032. In assessing goodwill and indefinite-life intangible assets for impairment, the Company compared the aggregate recoverable amount of the assets included in the CGU to there respective carrying amounts. The recoverable amount of the CGU was based on value in use, estimated using discounted cash flows. The fair value measurement was categorized as a Level 3 fair value based on the inputs in the valuation technique used.

The carrying value of the Licensed Producer CGU goodwill as at July 31, 2022 was $3,032. The key assumptions used in the estimation of the recoverable amount are set out below. The values assigned to the key assumptions represents management's assessment of the future trends in the industry and have been based on historical data from both external and internal resources.

Pre-tax discount rate	23%
Terminal growth rate	2%
Budgeted earnings growth rate (average)	1%

The estimated recoverable amount of the CGU exceeded its carrying amount and as such, there was no impairment recorded as at July 31, 2022.

Sensitivity to changes in assumptions

Management has performed an assessment to determinate whether an impairment would have been recognized if there was a change in any of the key assumptions identified above. An increase of 50 basis points in the pre-tax discount rate, a decrease of 50 basis points in the terminal growth rate, or a decrease of 50 basis points in the earnings growth rate, each used in isolation to perform the goodwill impairment tests, would not have results in an impairment charge being recognized for the 15-month period ended July 31, 2022.

CHC
The Company's CHC business represents its clinical business focused on providing education services to assist their patients in selecting a licensed producer, identifying appropriate strains, and consult and support patients regarding the use of medical cannabis. CHC is not in the business of growing or distributing cannabis and has no plans to undertake these activities in the future. Management considered a revenue multiple to determine the recoverable amount of the CGU and determined the estimated recoverable amount to exceed its carrying amount and as such no impairment was recorded as at July 31, 2022. Management has performed an assessment to determinate whether an impairment would have been recognized if there was a change in any of the key assumptions, specifically the revenue multiple and determine that a decrease of 10% would not have resulted in an impairment charge.

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

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	Lease Liability
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**
Additions	454	454
Disposal	(47)	(45)
Amortization expense	(638)	-
Interest expense	-	160
Payments	-	(757)
Balance as at July 31, 2022	**2,182**	**2,288**
Current	**-**	**378**
Non-current	**2,182**	**1,910**

Of total amortization for the 15-month period ended July 31, 2022 totaling $639 (April 30, 2021 - $604), $106 (April 30, 2021 - $123) was allocated to biological assets, $42 (April 30, 2021 - $21) was allocated to inventory and $491 (April 30, 2021 - $460) was expensed as right-of-use assets amortization.

11. Promissory notes

Current
In January 2020, the Company issued 10,000,000 common shares at a deemed price per share of $1.5 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, $492 was repaid prior to the 15-month period ended April 30, 2022. As at July 31, 2022, the balance of promissory notes of $76 includes $53 of principal and $23 accrued interest payable at the rate of 8% per annum.

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

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, 2022, the amortized cost is $10,790 (note 12).

In July 2022, the maturity date for the one promissory note in the amount of $4,167 was extended to June 12, 2024 and two promissory notes in the total amount of $8,333 were extended to December 12, 2024. The amendment was treated as a debt modification under IFRS 9 as the terms were not substantially different given the discounted present value of the cash flows under the amended terms is less than 10% different from the discounted present value of the remaining cash flows of the original financial liability. The modification has resulted in a gain of $1,019 recorded in the consolidated statements of loss and comprehensive loss for the period.

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 15-month period ended July 31, 2022 and the year ended April 30, 2021 is as follows:

	July 31, 2022	April 30, 2021
Salaries and wages	**2,114**	1,819
Share-based compensation	**266**	342
General and administrative	**88**	-
	2,468	2,161

During the 15-month period ending July 31, 2022, the Company paid $188 of consulting fees to a shareholder and paid $28 of rent to a company owned by the same shareholder. As of July 31, 2022, the Company owes $136 (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.

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

13. Borrowings

Borrowings consist of the following for the 15 month period ended July 31, 2022 and year ended April 30, 2021:

	July 31, 2022	April 30, 2021
Current		
Loan from vendor (1)	**334**	326
Loan from other lender (2)	**805**	-
Retrofit loan from Montreal Cannabis Medical Inc. (3)	**627**	-
Total current borrowings	**1,766**	326
Non-current		
Retrofit loan from Montreal Cannabis Medical Inc. (3)	**1,013**	-
Loan from Montreal Cannabis Medical Inc. (3)	**1,027**	-
Loans from bank (4)	**120**	120
Total non-current borrowings	**2,160**	120
Total borrowings	**3,926**	446

(1) Loan from vendor
The loan from vendor is a three-year loan of $313 at 2% interest per annum. The interest is payable annually. The loan is unsecured and matures on October 31, 2021. As of July 31, 2022, the balance of $334 includes $313 of principal and $27 of accrued interest.

(2) Loan from other lender
In October 2021, the Company issued a $700 principal amount secured debenture (the "**Debenture**") to DMMB (Pty) Holdings Ltd. The Debenture has a two-year term and bears interest at 18% per annum. As of July 31, 2022, the balance of Debenture $805 includes $700 of principal and $105 of accrued interest.

(3) Loans from Montreal Cannabis Medical Inc.

Retrofit loan from Montreal Cannabis Medical Inc.

On December 15, 2021, Montreal Cannabis Medical Inc. ("**MTL**") and IsoCanMed entered into a loan agreement for IsoCanMed to borrow up to $4,139 from MTL. The Loan amount is to be used by IsoCanMed for the completion of the Retrofit. IsoCanMed borrowed $1,612 for Phase 1 of the Retrofit as of July 31, 2022 and the total balance of the loan is $1,640 including $1,612 of principal and $27 of interest accrued at 8% per annum. $627 is classified as current and the $1,027 is classed as non-current to reflect the repayment terms.

The Loan Amount will be made available to IsoCanMed in two tranches as follows:

Tranche 1 (Phases 1 & 2 of the Retrofit)
Tranche 2 (Phases 3 to 7 of the Retrofit)

13. Borrowings (continued)

Each tranche of the Loan Amount will be paid repaid as follows:

Tranche 1:
Commencing on February 3, 2022 and continuing on each monthly anniversary thereafter to September 3, 2022, interest only payments on amounts advanced up to the Tranche 1 loan Amount, at the annual interest rate of 8% per annum, shall be payable by IsoCanMed to MTL.

Commencing on December 3, 2022 and continuing on each three (3) month anniversary thereafter until the Tranche 1 Loan Amount and accrued interest are satisfied in full, IsoCanMed agrees to pay to MTL eight (8) quarterly installments in the amount of $200,000, with the balance of principal and interest owing to be satisfied in full on the ninth (9th) quarterly anniversary thereafter.

Tranche 2:
Commencing on June 1, 2022 and continuing on each monthly anniversary thereafter to January 1, 2023, interest only payments on amounts advanced up to the Tranche 2 Loan Amount, at the annual interest rate of 8% per annum, shall be payable by IsoCanMed to MTL.

Commencing on April 1, 2023 and continuing on each three (3) month anniversary thereafter until the Tranche 2 Loan Amount and accrued interest are satisfied in full, IsoCanMed agrees to pay to MTL nine (9) quarterly installments in the amount of $300,000, with the balance of principal and interest owing to be satisfied in full on the tenth (10th) quarterly anniversary thereafter.

CHV unconditionally and irrevocably guarantees the due and punctual performance and observance by IsoCanMed of its obligations under this Agreement.

Loan from Montreal Cannabis Medical Inc.

During the 15-month period ending July 31, 2022, the Company borrowed $1,000 from MTL in total at 3% interest per annum. The loan is unsecured and has no specific terms of repayment. As of July 31, 2022, the balance of $1,027 includes $1,000 of principal and $27 of accrued interest.

(4) Loans from bank
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, 2024 at the interest rate of 5% per annum starting from January 1, 2024. Repaying the balance of the loans on or before December 31, 2023 will result in loan forgiveness of 25 percent ($30).

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

14. Convertible debentures

During the 15-month period ended July 31, 2022, the changes of the carrying value of the convertible debentures are as follows:

	2020 Debentures	2017 Debentures	2019 Debenture	Total
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**
Principal amount repaid	-	(120)	-	**(120)**
Interest payments	-	(165)	-	**(165)**
Interest accretion expense	602	462	-	**1,064**
Balance as at July 31, 2022	3,717	1,050	**-**	**4,767**
Current	**-**	**1,050**	**-**	**1,050**
Non-current	**3,717**	**-**	**-**	**3,717**

2017 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) 175 detachable common share purchase warrants of the Company (each, a "2017 Warrant") exercisable into common shares of the Company over a 48 month period at fixed exercise prices. All of the 2017 Warrants have expired with none exercised.

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 $5.7 per share if converted within the first 12 months following issuance, and at a conversion price of $12 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 $10.5 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 $5.7 per share. If the volume weighted average closing price of the common shares of the Company is greater than or equal to $15 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 $12 per share.

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

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.

Transaction costs consisted of $307 in cash and $356 of broker warrants with identical terms as the 2017 Warrants.

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

Convertible debentures, liability	1,934
Conversion feature (1)	1,955
Deferred tax liability on conversion feature	705
Warrants	3,368
	7,962

(1) Upon expiry, $1,955 related to the conversion feature was reclassified from contributed surplus to deficit.

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, 2022, $1,050 of the principal amount of the 2017 Debentures remains outstanding and presented within current liabilities.

Prior to the maturity of the 2017 Debentures, the Company corresponded with the remaining holders of 2017 Debentures and proposed Convertible Debenture Amending Agreements (the "**Amending Agreements**") to: i) extend the Maturity Date of the 2017 Debentures to December 5, 2022; ii) increase the interest rate on the outstanding Principal from 8.5% per annum to 18.0% per annum from and after December 5, 2021; iii) remove the conversion right under the Debenture; and, iv) reaffirm the Company's obligations under the 2017 Debentures. The Company has not entered into Amending Agreements with all holders of the 2017 Debentures to extend the Maturity Date of the 2017 Debentures. The principal and interest of the 2017 Debentures not subject to such extensions is due and payable and the holders of the 2017 Debentures may exercise rights to enforce the payment thereof.

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

14. Convertible debentures (continued)

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 $1.5 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.

Prior to the transaction, Archerwill beneficially owned or had control or direction over 104,066 common shares in the capital of the Company and 165,787 securities of the Company convertible into or exercisable for 165,787 common shares.

Archerwill concurrently received 4.3 million common share purchase warrants, exercisable at $1.8 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:

Convertible debenture, liability	2,851
Conversion feature	1,755
Warrants	1,504
	6,110

As of July 31, 2022, $6,500 of the principal amount of the 2020 convertible debenture remains outstanding and the amortized cost is $3,717.

In August 2022, the conversion price of the Archerwill Debenture was amended from $1.50 (pre-consolidation $0.05)(Note 26) to the lower of $0.90 and the volume weighted average trading price of the Common Shares of the Resulting Issuer over the first 20 trading days following the resumption of trading of the Common Shares on the CSE, subject to a minimum price of $0.50. The excise price of the 4.3 million common share purchase warrants was amended from $1.80 per share (pre-consolidation $0.06) to the lower of $1.20 and 130% of the volume weighted average trading price of the Common Shares of the Resulting Issuer over the first 20 trading days following the resumption of trading of the Common Shares on the CSE.

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 each time of renewal. The Company is in negotiation on the renewal terms with the lender as the date of the financial statements issue date.

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

16. Share capital

(a) Authorized

The authorized share capital of the Company consists of an unlimited number of common shares.

(b) Issued and outstanding

	Common Shares Number	$	Equity component of convertible debentures	Number of Warrants	Contributed Surplus
Balance as at April 30, 2020	**13,666,406**	**39,241**	**419**	**6,646,123**	**13,810**
Common shares issued pursuant to business combination [(b)]	9,115,381	9,444	-	-	-
Convertible debenture [(note 14)]	-	-	1,755	4,333,333	1,504
Share-based compensation	-	-	-	-	461
Warrants expired	-	-	-	(5,764,118)	-
Balance as at April 30, 2021	**22,781,787**	**48,685**	**2,174**	**5,215,338**	**15,775**
Expiry of conversion feature	-	-	-	-	(1,955)
Warrants expired	-	-	-	(1,939,549)	-
Share-based compensation	-	-	-	-	467
Balance as at July 31, 2022 [(a)]	22,781,787	48,685	2,174	3,275,789	14,287

During the 15-month period ending July 31, 2022:

(a) The Company extended the expiry date of 3,244,762 (subject to adjustment) outstanding common share purchase warrants of the Company issued on March 4, 2020 (the “**Warrants**”) from March 3, 2023, to December 31, 2026. Aside from the extension of the expiry date, all other terms of the Warrants will remain unchanged.

During the year ending April 30, 2021:

(b) The Company issued 9,115,382 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.

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

17. Share-based compensation (continued)

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.

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	**1,240,000**	**3.60**
Granted	730,833	1.50
Exercised	(114,167)	4.50
Balance as at April 30, 2021	**1,856,666**	**2.70**
Expired	(80,000)	7.50
Forfeited	(163,333)	3.60
Cancelled	(348,333)	5.70
Balance as at July 31, 2022	**1,265,000**	**1.50**

The following table is a summary of the Company's share options outstanding as at July 31, 2022:

Exercising Price ($)	Number Outstanding	Weighted Average Exercising Contractual Life Years	Number Exercisable
1.50	1,261,667	2.62	1,078,958
4.80	3,333	1.73	3,333
1.50	1,265,000	2.62	1,082,291

(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 April 30, 2021:

Exercising Price ($)	Number Outstanding	Weighted Average Exercising Contractual Life Years	Number Exercisable
1.50	1,346,667	4.40	656,076
4.65	33,333	2.96	33,334
4.80	3,333	2.98	3,333
5.10	118,333	2.56	88,750
5.70	41,667	2.50	41,667
6.00	233,333	2.21	233,333
7.50	80,000	0.53	80,000
2.70	1,856,666	3.77	1,136,493

The Company recognized $467 of share-based compensation expense during the 15-month period ended July 31, 2022 (April 30, 2021 – $461), with a corresponding amount recognized as a contributed surplus.

During the 15-month period ended July 31, 2022, the Company did not issue any stock options, 2,400,000 stock options expired and 163,333 stock options were forfeited. On May 12, 2022, the Company announced cancellation of 348,333 incentive stock options previously held by certain directors, officers, and employees of the Company.

18. Finance and transaction costs

The finance and transaction costs for the 15-month period ended July 31, 2022 and the year ended April 30, 2021 are comprised of the follows:

	July 31, 2022	April 30, 2021
Interest and bank charges	313	79
Interest on debentures	952	517
Accretion on debentures	899	746
Interest on promissory notes	781	547
Accretion on promissory notes	872	539
Interest on mortgage	250	77
Accretion on leases	160	151
Transaction costs	275	80
Total	**4,502**	**2,736**

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

19. 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 15-month period ended July 31, 2022, 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, 2022 Number of Shares	April 30, 2021 Number of Shares
Convertible debentures	**4,333,333**	4,430,833
Warrants	**109,193**	10,979,457
Share options	**1,265,000**	1,856,667
	5,707,526	17,266,957

20. Income taxes

Income tax expense varies from the amount that would be computed by applying the basic federal and provincial tax rates to loss before income taxes, shown as follows:

	July 31, 2022	April 30, 2021
Loss before income taxes	**(11,061)**	(11,297)
Statutory federal and provincial income tax rate in Canada	**26.5%**	26.5%
Income tax recovery at the statutory tax rate	**(2,931)**	(2,994)
Permanent differences	**58**	(54)
Change in deferred tax assets not recognized	**2,905**	3,116
Provision for (recovery of) income taxes	**32**	68

A valuation allowance has been applied against all of the Company's deferred income tax assets.

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

20. Income taxes (continued)

The Company has a non-capital loss carried forward to reduce future years' taxable income, which will expire as follows:

2034	265
2035	2,971
2036	2,082
2037	1,698
2038	4,890
2039	8,198
2040	8,305
2041	11,757
2042	10,962
	51,128

21. Nature of expenses

General and administrative expenses for the 15-month period ended July 31, 2022 and the year ended April 30, 2021 are composed of:

	July 31 2022	**April 30 2021**
Salaries, wages and consulting fees	**6,960**	6,221
General operating	**1,860**	1,280
Occupancy costs	**478**	411
Professional fees	**821**	341
	10,119	8,253

Sales and marketing expenses for the 15-month period ended July 31, 2022 and the year ended April 30, 2021 are comprised of:

	July 31 2022	**April 30 2021**
Sales and marketing	**1,812**	480
Travel	**113**	26
	1,925	506

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

22. Commitments and contingencies

Commitments
As at July 31, 2022, the Company is committed under leases for equipment and office space for the following minimum annual rentals:

2022	541
2023	467
2024	425
Thereafter	1,228
	2,661

Contingencies

(a) 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.

(b) 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 retained external counsel to appear on IsoCanMed's behalf and respond to the application. IsoCanMed's external counsel has filed a Defence and Counterclaim to the Plaintiff's application along with the expert report relied upon in same. At this time. the Plaintiff's defense to IsoCanMed's Counterclaim and any expert evidence to be relied upon by the Plaintiff have not been filed with the Court. Initial discoveries of the Parties related to the Plaintiff's claim and IsoCanMed's Counterclaim have been delayed.

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

22. Commitments and contingencies (continued)

(c) Prior to the maturity of the Company's outstanding Convertible Debentures dated December 5, 2017 (the "**2017 Debentures**"), the Company corresponded with the remaining holders of 2017 Debentures and proposed Convertible Debenture Amending Agreements (the "**Amending Agreements**") to: i) extend the Maturity Date of the 2017 Debentures to December 5, 2022; ii) increase the interest rate on the outstanding Principal from 8.5% per annum to 18.0% per annum from and after December 5, 2021; iii) remove the conversion right under the Debenture; and, iv) reaffirm the Company's obligations under the 2017 Debentures. The Company has not entered into Amending Agreements with all holders of the 2017 Debentures to extend the Maturity Date of the 2017 Debentures. The principal and interest of the 2017 Debentures not subject to such extensions is due and payable and the holders of the 2017 Debentures may exercise rights to enforce the payment thereof.

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.

23. 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, 2022	April 30, 2021
Share capital, including equity component of convertible debentures	50,859	50,859
Convertible debentures	4,767	3,988
Promissory notes	10,866	11,006
Borrowings	3,926	446
Mortgage payable	2,000	2,000
	72,418	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, 2022, the Company had raised, net of issuance costs, approximately $41,312 (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.

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

24. 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, 2022 and April 30, 2021, three customers represented 42% and 73% of the outstanding trade and other receivable balance, respectively. For the 15-month period ended July 31, 2022, three customers accounted for 77% of revenue (2021 – three customer accounted for 73% of revenue).

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.

The aging of trade receivables is as follows:

	July 31, 2022	April 30, 2021
Not past due	**1,726**	1,627
1 to 30 days past due	**724**	94
31 to 60 days past due	**358**	196
Over 61 days past due	**226**	9
	3,034	1,926

As at July 31, 2022, 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.

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

24. Financial instruments and risk management (continued)

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

	Carrying Amount	Total Contractual Cash Flow	Year 1	Year 2	Year 3	Year 4 and Beyond
Lease liability	2,288	2,661	541	467	425	1,228
Promissory notes	76	76	76	-	-	-
Promissory note - non-current	10,790	12,500	-	4,167	8,333	-
Trade and other payables	11,574	12,254	11,221	-	-	1,033
Convertible debentures	4,767	9,183	1,116	-	-	8,067
Borrowings	3,926	925	-	925	-	-
Due to related parties	3	3	3	-	-	-
Mortgage payable	2,000	2,346	2,346	-	-	-
	35,424	**39,948**	**15,303**	**5,559**	**8,758**	**10,328**

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.

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, 2022 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, 2022.

Fair values
The carrying values of cash, trade and other receivables, trade and other payables, promissory notes, 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.

24. Financial instruments and risk management (continued)

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 prioritises 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 15-month period ended July 31, 2022, there were no transfers of amounts between levels.

25. Segmented information

The Company has two reportable and operating segments. The Company cultivates and distributes cannabis related products via federally approved cannabis programs by way of its Licensed Producer business. In addition, Company operates its clinic business through its CHC subsidiary. The Company derives substantially all of its revenue from these two segments. 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.

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

25. Segmented information (continued)

The following table presents details on the Company's segments for the 15 month period ended July 31, 2022

Operating segments	CHC	Licensed Producer	Corporate and other	Total
Revenue				
Referral revenue	6,633	-	-	**6,633**
Product revenue	-	22,729	-	**22,729**
License revenue and other	31	782	-	**813**
Less: excise tax	-	(3,509)	-	**(3,509)**
Net revenue	6,664	20,002	-	**26,666**
Cost of sales	3	13,603	-	**13,606**
Inventory impairment	-	4,228	-	**4,228**
Gross profit before fair value adjustments	6,661	2,171	-	**8,832**
Realized loss on sale of inventory	-	1,176	-	**1,176**
Realized loss (gain) on biological assets	-	488	-	**488**
Gross profit	6,661	507	-	**7,168**
Expenses	5,742	8,353	497	**14,592**
Loss from operations	919	(7,846)	(497)	**(7,424)**
Finance and transaction costs	713	2,729	1,060	**4,502**
(Gain) loss on debt settlement and modifications	-	-	(1,019)	**(1,019)**
Gain on assets disposal	-	(9)	-	**(9)**
Remeasurement on contingent consideration	161	-	-	**161**
Other expenses	-	2	-	**2**
Loss before income	45	(10,568)	(538)	**(11,061)**
Provision for income tax	67	(35)	-	**32**
Net loss and comprehensive loss for the period	(22)	(10,533)	(538)	**(11,093)**

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

25. Segmented information (continued)

The following table presents details on the Company's segments for the year ended April 30, 2021

Operating segments	CHC	Licensed Producer	Corporate and other	Total
Revenue				
Referral revenue	5,141	-	-	**5,141**
Product revenue	-	6,309	-	**6,309**
License revenue and other	27	403	-	**430**
Less: excise tax	-	(1,320)	-	**(1,320)**
Net revenue	5,168	5,392	-	**10,560**
Cost of sales	3	6,063	-	**6,066**
Inventory impairment	-	2,266	-	**2,266**
Gross profit before fair value adjustments	5,165	(2,937)	-	**2,228**
Realized loss on sale of inventory	-	1,136	-	**1,136**
Realized loss (gain) on biological assets	-	(1,866)	-	**(1,866)**
Gross profit	5,165	(2,207)	-	**2,958**
Expenses	4,867	4,839	885	**10,591**
Loss from operations	298	(7,046)	(885)	**(7,633)**
Finance and transaction costs	280	2,534	(78)	**2,736**
(Gain) loss on debt settlement	19	641	258	**918**
Other expenses	-	(1)	11	**10**
Loss before income	(1)	(10,220)	(1,076)	**(11,297)**
Provision for income tax	65	3	-	**68**
Net loss	(66)	(10,223)	(1,076)	**(11,365)**

26. 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. ("Montreal 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 Montreal 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 Montreal Cannabis corporate name with shares continuing to trade on the Canadian Securities Exchange. For further information please see the Company's press release dated July 26, 2022.

Following the shareholder meeting on August 23, 2022, the Company completed its previously announced consolidation of its common shares on the basis of thirty (30) pre-consolidation shares for each one (1) post-consolidation share. Fractional shares resulting from the share consolidation were rounded up or down to the nearest whole Common Share. The Company has also officially adopted "Canada House Cannabis Group Inc." as its corporate legal name.

26. Subsequent events (continued)

On August 30, 2022, Canada House Cannabis Group announced closing of the first tranche of its acquisition of MTL Cannabis.

With the closing of the first tranche of the Transaction (the "Initial Closing") the Company acquired approximately 24.99% of the issued and outstanding shares of MTL Cannabis in exchange for 49.99% of the issued and outstanding common shares of the Company. Following the completion of the Company's share consolidation, the shareholders of MTL Cannabis were issued 22,779,340 Common Shares on the Initial Closing. There are now 45,567,767 Common Shares issued and outstanding.

Now that the Initial Closing has been completed, the parties will proceed to satisfying the closing conditions to the second tranche of the Transaction, namely the preparation of the required audited annual and unaudited interim financial statements and related management's discussion and analysis of MTL Cannabis in order for the Company to proceed to a shareholder meeting to approve the Transaction, as required by the rules and policies of the Canadian Securities Exchange. The definitive transaction agreement between the parties provides for the Company to acquire the remaining 75.01 % of the issued and outstanding shares of MTL Cannabis on the second tranche of the Transaction (the "Subsequent Closing") in exchange for such number of Common Shares that when added to the Common Shares issued on the Initial Closing, is equal to 80.0% of the issued and outstanding common shares of the Company.

The percentages of Common Shares noted above will be subject to anti-dilution adjustments in favour of the vendors of the MTL Cannabis shares wherein additional Common Shares will be issued up to 49.99% of the Common Shares prior to the Subsequent Closing and up to 80.0% following the Subsequent Closing in the event of the issuance of Common Shares upon the conversion of the principal and accrued interest of the Company's $6.5 million convertible debenture issued to Archerwill Investments Inc. on August 5, 2020.

The Transaction constitutes a "reverse takeover" of the Company and it is anticipated that following the Subsequent Closing, the Company will operate under the MTL Cannabis corporate name with shares trading on the CSE under a related ticker symbol. Trading in the common shares of the Company has been halted since the Transaction was initially announced on August 9, 2021 and is expected to remain halted until the Subsequent Closing.

The Subsequent Closing is subject to a number of conditions customary for a transaction of this nature, including but not limited to (i) approval by the shareholders of Canada House of the acquisition at a special meeting to be called for these purposes (in the case of the Subsequent Closing), (ii) the completion of the Share Consolidation, (iii) there being no material adverse change in the business of Canada House or MTL Cannabis (as applicable) prior to the Subsequent Closing, and (iv) receipt of applicable third party and regulatory approvals including the approval of the CSE. The Subsequent Closing will occur as soon as possible following the satisfaction of all such closing conditions. A press release will be issued in due course to announce the expected timing of the Subsequent Closing once the parties have progressed the financial statements of MTL Cannabis.