Montreal Cannabis Médical Inc.

Financial statements

For the years ended March 31, 2023 and 2022

[Expressed in Canadian dollars]

To the Shareholders of Montreal Cannabis Medical Inc.:

Opinion

We have audited the financial statements of Montreal Cannabis Medical Inc. (the "Company"), which comprise the statements of financial position as at March 31, 2023 and March 31, 2022, and the statements of (loss) income and comprehensive (loss) income, changes in shareholders equity and cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at March 31, 2023 and March 31, 2022, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

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

Other Information

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

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

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

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

Responsibilities of Management and for the Financial Statements

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

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

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Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

Montréal, Québec

MNP LLP [1]

August 11, 2023

[1] FCPA auditor, public accountancy permit no. A122514

Montreal Cannabis Médical Inc.

Statements of financial position
[expressed in Canadian dollars]

As at	Notes	**March 31, 2023** $	March 31, 2022 $
ASSETS			
Current assets			
Cash		**437,551**	470,559
Trade and other receivables	4	**6,328,531**	6,918,695
Inventory	5	**9,169,875**	5,580,596
Biological assets	6	**1,260,189**	1,506,250
Prepaid expenses and deposits		**351,038**	165,928
		17,547,184	14,642,028
Non-current assets			
Right-of-use assets, net	7	**10,643,541**	5,078,755
Equipment, net	8	**3,554,376**	4,048,111
TOTAL ASSETS		**31,745,101**	23,768,894
LIABILITIES			
Current liabilities			
Trade and other payables		**9,023,669**	8,162,134
Income taxes payable		**987,578**	101,766
Lease obligations	7	**185,804**	649,724
Notes payable	9	**6,157,979**	2,041,820
Borrowings	10	**1,460,000**	1,500,000
		17,815,030	12,455,444
Non-current liabilities			
Lease obligations	7	**11,576,866**	5,226,263
Borrowings	10	**—**	52,652
Deferred tax liability	14	**812,363**	2,281,178
		30,204,259	20,015,537
SHAREHOLDERS' EQUITY			
Share capital	11	**100**	100
Contributed surplus		**111,430**	111,430
Retained earnings		**1,429,312**	3,641,827
		1,540,842	3,753,357
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**31,745,101**	23,768,894

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

Montreal Cannabis Médical Inc.

Statements of (loss) income and comprehensive (loss) income
[expressed in Canadian dollars, except number of shares]

For the years ended March 31,	Notes		2023 $		2022 $
Revenue					
Product revenue			**31,259,648**		26,073,865
Less excise tax			**(6,689,610)**		(3,922,575)
			24,570,038		22,151,290
Cost of sales			**15,810,128**		11,180,573
Gross profit before fair value adjustments			**8,759,910**		10,970,717
Fair value adjustments on biological assets	6		**6,126,189**		12,199,876
Fair value adjustments on sale of inventory			**(6,986,307)**		(8,621,680)
Gross profit			**7,899,792**		14,548,913
Operating expenses					
General and administrative	13		**7,455,299**		5,839,052
Sales and marketing			**961,392**		2,509,869
Depreciation	7,8		**676,016**		666,490
			9,092,707		9,015,411
Operating (loss) income			**(1,192,915)**		5,533,502
Finance expense, net	9,10		**1,915,982**		1,286,899
Other (income) loss			**(313,379)**		161,160
(Loss) income before income taxes			**(2,795,518)**		4,085,443
Income tax (recovery) expense	14		**(583,003)**		1,883,798
Net (loss) income and comprehensive (loss) income for the year			**(2,212,515)**		2,201,645
(Loss) income per share - basic and diluted	12	**$**	**(221.25)**	$	220.16
Weighted average number of common shares outstanding - basic and diluted			**10,000**		10,000

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

Montreal Cannabis Médical Inc.

Statements of changes in shareholders' equity

For the years ended March 31, 2023 and 2022

[expressed in Canadian dollars, except number of shares]

	Common shares		**Contributed surplus**	**Retained earnings**	**Total**
	#	$	$	$	$
Balance as at March 31, 2021	10,000	100	111,430	1,440,182	1,551,712
Net income	—	—	—	2,201,645	2,201,645
Balance as at March 31, 2022	10,000	100	111,430	3,641,827	3,753,357
Net loss	—	—	—	(2,212,515)	(2,212,515)
Balance as at March 31, 2023	**10,000**	**100**	**111,430**	**1,429,312**	**1,540,842**

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

Montreal Cannabis Médical Inc.

Statements of cash flows
[expressed in Canadian dollars]

For the year ended March 31,	**2023** **$**	**2022** **$**
Operating activities:		
Net (loss) income for the period	**(2,212,515)**	2,201,645
Add (deduct) items not affecting cash		
Deferred tax (recovery) expense	**(1,468,815)**	1,782,032
Depreciation	**1,871,508**	1,847,533
Inventory impairment provision	**1,350,064**	2,579,889
Change in fair value adjustments on inventory sold	**6,986,307**	8,621,680
Change in fair value of biological assets	**(6,126,189)**	(12,199,876)
Expected credit losses	**1,721,213**	1,896,618
Other income	**66,790**	197,366
Finance expense	**1,750,503**	1,131,773
	3,938,866	7,562,042
Changes in non-cash working capital items:		
Trade and other receivables	**(658,890)**	(5,172,291)
Inventory	**(11,927,035)**	(14,380,682)
Biological assets	**6,372,250**	12,698,577
Prepaid expenses and deposits	**(185,110)**	(122,080)
Trade and other payables	**859,665**	4,450,542
Income taxes payable	**885,812**	101,766
Cash flows (used in) provided by operating activities	**(714,442)**	5,634,492
Investing activities:		
Proceeds on sale of equipment	**96,000**	35,000
Purchase of equipment	**(570,930)**	(2,293,977)
Issuance of loans receivable	**(472,159)**	(1,400,000)
Cash flows used in investing activities	**(947,089)**	(3,658,977)
Financing activities:		
Proceeds from notes payable	**5,995,000**	2,127,803
Proceeds from borrowings	**200,000**	—
Repayment of notes payable	**(2,677,097)**	(2,196,286)
Repayment of borrowings	**(300,000)**	—
Repayment of lease obligations	**(1,589,380)**	(1,581,526)
Cash flows provided by (used in) financing activities	**1,628,523**	(1,650,009)
Net change in cash during the year	**(33,008)**	325,506
Cash, beginning of the year	**470,559**	145,053
Cash, end of the year	**437,551**	470,559

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

1 Nature of business

Montreal Cannabis Médical Inc. (the "Company" or “MTL Cannabis”) was incorporated on April 27, 2017, under the Canada Business Corporations Act. The Company is a Health Canada licensed cultivator and processor. The Company received its license to cultivate and process cannabis on February 7, 2020. The Company also received its license to sell dried cannabis on February 22, 2022, and its license to sell cannabis topicals, extracts, and edibles on October 3, 2022.

The Company’s head office and principal place of business is located at 4225 Autoroute Transcanadienne, Pointe-Claire, Québec, Canada, H9R 1B4.

2 Basis of preparation

Statement of compliance

These financial statements have been prepared by management in accordance with 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 financial statements were approved and authorized for issuance by the Board of Directors of the Company on August 11, 2023.

Basis of measurement

These financial statements have been prepared on a historical cost basis, with the exception of certain financial instruments measured at fair value on initial recognition and biological assets which are measured at fair value less cost to sell. Historical costs are generally based upon the fair value of the consideration given in exchange for goods and services received.

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 disclosure purposes in these financial statements is determined on such a basis, except for measurements that have some similarities to fair value, but are not fair value, such as value in use in *IAS 36 Impairment of Assets*.

Functional currency and presentation currency

These financial statements are presented in Canadian dollars, which is the functional currency of the Company.

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 at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Estimates are based on management’s best knowledge of current events and actions 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:

- Leases

  Measurement of right-of-use assets and lease liabilities require judgment in determining lease terms, such as assessing the likelihood of exercising extension options and determination of the appropriate discount rate. In the case where an incremental borrowing rate is used, the Company estimates the incremental borrowing rate based on the lease term, collateral assumptions, and the economic environment in which the lease is denominated. Renewal options are only included if management is reasonably certain that the option will be renewed.

- Inventories

  Inventories are valued at the lower of cost and net realizable value. The costs of inventory involve estimates in determining the allocation of fixed and variable production overhead. These estimates include determination of normal production capacity and nature of expenses to be allocated. In assessing the recoverability of final inventory values, management compares the inventory cost to estimated net realizable value. Management records a provision to inventory to the extent the cost of inventory exceeds the estimated net realizable value.

- Valuation of the fair value less costs to sell of biological assets

  In calculating the value of the biological assets, management is required to make a number of estimates, including estimating the stage of growth of the cannabis up to the point of harvest, harvesting costs, selling costs, average or expected selling prices and list prices and expected yields for the cannabis plants.

- Depreciation and impairment of equipment

  Depreciation of equipment is dependent on 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 on estimates of recoverable amounts that take into account factors such as economic and market conditions and the useful lives of assets.

- Loan receivables and trade and other receivables

  The recognition of loans receivable and trade and other receivables requires the Company to assess credit risk and collectability when assessing allowances for expected credit loss. The Company considers historical trends and any available information indicating a customer could be experiencing liquidity or going concern problems and the status of any contractual or legal disputes with customers in performing this assessment. The Company's provision is based on its historical credit loss experiences, adjusted for forward-looking factors specific to the debtors and the economic environment.

- Financial guarantee

  Financial guarantee contracts issued by the Company represent a financial liability initially recognized at fair value, which is determined using a valuation method that quantifies the economic benefit of the financial guarantee to the holder. Subsequently, the Company is required to determine the fair value in accordance with an expected credit loss model. Management judgment is required in determining the appropriate discount rates to present value the cash flows, which takes into consideration the credit risk of the guarantee holder and the expected value of any collateral attached with the loan arrangement.

3 Summary of significant accounting policies

[a] Revenue Recognition

The Company's accounting policy for revenue recognition under IFRS 15, Revenue from Contracts with Customers ("IFRS 15"), is to follow a five-step model to determine the amount and timing of revenue to be recognized by applying the following steps:

i) identify the contract with a customer;
ii) identify the performance obligations in the contract;
iii) determine the transaction price;
iv) allocate the transaction price to the performance obligations in the contract; and
v) recognize revenue when (or as) the Company satisfies a performance obligation.

Revenue from the sale of cannabis is recognized when the Company transfers control of the good to the customer. This is generally considered to have occurred when products have been delivered to the location specified in the sales contract and accepted by the customer. The Company recognizes deferred revenue when proceeds are received but not earned. Revenue is recognized when the products are transferred to the customer and the Company's performance obligations have been fulfilled.

The Company recognizes revenue in an amount that reflects the consideration the Company expects to receive taking into account any variation that may result from rights of return and discounts.

The determination of whether revenue should be reported on a gross or net basis is based on an assessment of whether the Company is acting as the principal or an agent in these transactions with resellers and involves judgment based on an evaluation of the terms of each arrangement. While none of the factors individually are considered presumptive or determinative, in reaching conclusions on gross versus net revenue recognition, management places the most weight on the analysis of whether the Company controls and are responsible for the condition of the goods until they are ultimately sold to the end customer.

Areas of judgment include identifying the customer per the definition within IFRS 15 and determining whether control has passed to the customer, and estimating expected returns and variable considerations for discounts.

[b] 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) 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 fair value through profit or loss are recognized immediately in profit or loss.

- Financial assets

  On initial recognition, a financial asset is classified as measured at amortized cost, fair value through other comprehensive income (''FVOCI''), or fair value through profit and loss (''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.

  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 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.

  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.

- 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 amortized cost.

Subsequent to initial recognition, other liabilities are measured at amortized cost using the effective interest method. Financial liabilities at FVTPL 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.

- 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. The Company does not reclassify financial liabilities or equity after initial recognition due to a change in circumstance.

  - 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.

- 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:

Classification	
Cash	Amortized cost
Trade and other receivables	Amortized cost
Trade and other payables	Amortized cost
Notes payable	Amortized cost
Borrowings	Amortized cost
Financial guarantee	FVTPL

- 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. The Company applies the simplified approach to impairment for trade and other receivables by recognizing a loss allowance based on lifetime expected losses at each reporting date taking into consideration historical credit loss experience and financial factors specific to the debtors and general economic conditions. The Company has assessed the impairment of its trade and other receivables using the expected credit loss model, and no material difference was noted. The Company applies the general approach when assessing impairment for loans receivable based on the lifetime expected credit losses.

- Financial guarantee

  Financial guarantee contracts are recognized as a financial liability at the time the guarantee is issued. The liability is initially measured at fair value and subsequently at the higher of:

- The amount determined in accordance with the expected credit loss model under IFRS 9, Financial Instruments ("IFRS 9") and
- The amount initially recognized less, where appropriate, the cumulative amount of income recognized in accordance with the principles of IFRS 15.

The fair value of financial guarantees is determined based on the present value of the difference in cash flows between the contractual payments required under the debt instrument and the payments that would be required without the guarantee, or the estimated amount that would be payable to a third party for assuming the obligations.

[c] Cash

Cash includes deposits held with major financial institutions.

[d] 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 consumed throughout 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 "cost of sales" in the statements of income and comprehensive income in the period that the related product is sold. Unrealized fair value gains on growth of biological assets are recorded in a separate line on the face of the statements of income and comprehensive income. Biological assets are measured at their fair value less costs to sell on the statements of financial position.

[e] 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. Cost is determined using the weighted average method. 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 statements of income and comprehensive income 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 statements of income and comprehensive income. Inventory is measured at the lower of cost or net realizable value on the statements of financial position.

[f] Equipment

Equipment is measured at cost less accumulated depreciation and impairment losses. The cost of an item of equipment includes expenditures that are directly attributable to the acquisition or construction of the asset. When parts of an item of equipment have different useful lives, they are accounted for as separate items (major components) of equipment.

The cost of replacing part of an item of equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Company and its cost can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing of equipment are recognized in statements of income and comprehensive income.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance costs incurred are charged to the statements of income and comprehensive income.

Gains and losses on disposal of an item of equipment are determined by comparing the proceeds from disposal with the carrying amount and are recognized net within other income in the statements of income and comprehensive income.
Depreciation is based on the estimated useful lives of the assets provided as follows:

Computer equipment	30% declining balance
Equipment and supplies	20% declining balance
Leasehold improvements	20% declining balance

An item of equipment and any significant part initially recognized are derecognized upon disposal or when no future economic benefits are expected from their use or disposal. The assets' residual values, useful lives and methods of depreciation and the depreciation charge are adjusted prospectively, if appropriate.

[g] Leases

At inception of a contract, the Company assesses whether a contract is, or contains, a lease based on whether the contract conveys the right to control the use of identified asset for a period of time in exchange for consideration. The Company recognized a right-of-use ("ROU") asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured based on the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of the costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received. The ROU assets are depreciated to the earlier of the end of useful life of the ROU asset or the lease term using the straight-line method as this most closely reflects the expected pattern of the consumption of the future economic benefits. The lease term includes periods covered by an option to extend if the Company is reasonably certain to exercise that option. In addition, the ROU asset can be periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate.

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from the change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, or if the Company changes its assessment of whether it will exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the ROU asset, unless it has been reduced to zero.

A lease modification will be accounted for as a separate lease if the modification increases the scope of the lease and if the consideration for the lease increases by an amount commensurate with the stand-alone price for the increase in scope. For a modification that is not a separate lease or where the increase in consideration is not commensurate, at the effective date of the lease modification, the Company will remeasure the lease liability using the Company's incremental borrowing rate, when the rate implicit to the lease is not readily available, with a corresponding adjustment to the ROU asset.

[h] Impairment of long-lived assets

Long-lived assets, including equipment, are tested for impairment when there are indicators of impairment which are reviewed at each reporting date or earlier whenever events or changes in circumstances indicate that the carrying amount of an asset exceeds its recoverable amount.

For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the cash-generating unit, or "CGU"). The recoverable amount of an asset or a CGU is the higher of its fair value, less costs of disposal, and its value in use. If the carrying amount of an asset exceeds its recoverable amount, an impairment charge is recognized immediately in net loss equal to the amount by which the carrying amount exceeds the recoverable amount. Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the lesser of the revised estimate of recoverable amount, and the carrying amount that would have been recorded had no impairment loss been recognized previously.

[i] Income Taxes

Income tax expense comprises of current and deferred tax. Current tax and deferred tax are recognized in net profit or loss except to the extent that it relates to a business combination or items recognized directly in equity or in other comprehensive income.

Current income taxes are recognized for the estimated income taxes payable or receivable on taxable income or loss for the current year and any adjustment to income taxes payable in respect of previous years. Current income taxes are determined using tax rates and tax laws that have been enacted or substantively enacted by the year-end date.

Deferred tax assets and liabilities are recognized where the carrying amount of an asset or liability differs from its tax base, except for taxable temporary differences arising on the initial recognition of goodwill and temporary differences arising on the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction affects neither accounting nor taxable profit or loss.

Recognition of deferred tax assets for unused tax losses, tax credits and deductible temporary differences is restricted to those instances where it is probable that future taxable profit will be available against which the deferred tax asset can be utilized. At the end of each reporting period, the Company reassesses unrecognized deferred tax assets. The Company recognizes a previously unrecognized deferred tax asset to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

[j] Net Income per Share

Net income per share is calculated based on the income for the financial year and the weighted average number of common shares outstanding during the year. Diluted net income per share is calculated using the income for the financial year adjusted for the effect of any dilutive instruments and the weighted average diluted number of shares (ignoring any potential issue of common shares that would be anti-dilutive) during the year.

[k] Government Assistance

Government assistance is recognized when there is reasonable assurance it will be received and all related conditions will be complied with. When the government assistance relates to an expense item, it is recognized as a reduction of expense over the period necessary to match the government assistance on a systematic basis to the costs it is intended to subsidize. When the government assistance relates to depreciable assets the value of the grant is deducted from the carrying amount of the asset. The grant is recognized over the life of the depreciable asset as a reduction to depreciation expense.

Government assistance includes government loans received at a below market rate of interest and scientific research and experimental development ("SR&ED") tax credits. When loans are received at rates below market rates, the benefit is measured as the difference between the initial carrying value of the loan determined in accordance with IFRS 9, Financial Instruments ("IFRS 9") and the proceeds received. The difference between the initial carrying amount and the proceeds received is recognized as a government grant and is included in other income on the statements of income and comprehensive income, as the grant conditions are satisfied.

New standards, amendments and interpretations not yet adopted by the Company

IAS 1, Presentation of financial statements ("IAS 1")

In January 2020, the IASB issued Classification of Liabilities as Current or Non-current (Amendments to IAS 1). The amendments aim to promote consistency in applying the requirements by helping companies determine whether, in the consolidated statements of financial position, debt and other liabilities with an uncertain settlement date should be classified as current (due or potentially due to be settled within one year) or non-current. The amendments include clarifying the classification requirements for debt a company might settle by converting it into equity.

(expressed in Canadian dollars, except share amounts)

The amendments are effective for annual reporting periods beginning on or after January 1, 2022, with earlier application permitted. In July 2020, the effective date was deferred to January 1, 2023. The Company is still assessing the impact of adopting these amendments on its financial statements.

In October 2022, the IASB issued Non-current Liabilities with Covenants (Amendments to IAS 1). The amendments improve the information an entity provides when its right to defer settlement of a liability for at least twelve months is subject to compliance with covenants.

The amendments are effective for annual periods beginning on or after January 1, 2024. The Company is still assessing the impact of adopting these amendments on its financial statements.

IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors ("IAS 8")

In February 2021, the IASB issued Definition of Accounting Estimates, which amends IAS 8. The amendment will require the disclosure of material accounting policy information rather than disclosing significant accounting policies and clarifies how to distinguish changes in accounting policies from changes in 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. The Company is still assessing the impact of adopting these amendments on its financial statements.

IAS 12, Income Taxes ("IAS 12")

In May 2021, the IASB issued Deferred Tax related to Assets and Liabilities arising from a single transaction (Amendments to 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 taxable and deductible 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 reporting periods beginning on or after January 1, 2023 and are to be applied retrospectively. The Company is still assessing the impact of adopting these amendments on its financial statements.

All other IFRSs and amendments issued but not yet effective have been assessed by the Company and are not expected to have a material impact on the financial statements.

4 Trade and other receivables

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

	March 31, 2023	**March 31, 2022**
	$	**$**
Trade receivables (Note 18)	**6,989,468**	7,180,298
SR&ED receivables	**74,094**	235,015
Less: expected credit losses	**(735,031)**	(496,618)
	6,328,531	6,918,695

During the year ended March 31, 2023, the Company, received $190,000 (2022 – $nil) of interest income related to past due invoices and recognized the full amount in the financial statement line item 'other income (loss)'.

The Company's loan receivables include the following:

	March 31, 2023	**March 31, 2022**
	$	**$**
Accrued interest	**24,452**	24,452
Advances	**2,882,800**	1,400,000
Allowance for credit losses	**(2,907,252)**	(1,424,452)
	—	—

The Company advanced proceeds of $1,000,000 to Canada House Cannabis Group Inc ("CHV") during the year ended March 31, 2022. The loan accrued interest at a rate of 3% per annum. The Company also entered into a loan agreement with IsoCanMed Inc. ("ICM"), a wholly owned subsidiary of CHV, and advanced total proceeds of

(expressed in Canadian dollars, except share amounts)

$400,000. The proceeds were being used by ICM to retrofit its production facilities. During the year ended March 31, 2023, the Company advanced an additional $472,159 to ICM. During the year ended March 31, 2023, the Company also converted $1,010,641 of outstanding trade receivables due from ICM to a loan receivable.

As of March 31, 2022 and 2023, the Company assessed the likelihood of realization of the CHV and ICM loans receivable, underlying collateral, and current and future economic trends and provided an allowance in full. The loss was recognized in the statement of (loss) income and comprehensive (loss) income in the financial statement line item 'General and administrative'. The loss is included within 'General operating costs' (Note 13).

For trade receivables and loan receivables, changes in allowance for credit losses was as follows:

	March 31, 2023	**March 31, 2022**
	$	**$**
Opening balance	**1,921,070**	—
Additions	**1,721,213**	1,921,070
Closing balance	**3,642,283**	1,921,070

5 Inventory

The Company's inventory consists of the following:

	March 31, 2023	**March 31, 2022**
	$	**$**
Harvested cannabis	**9,686,034**	7,554,103
Purchased cannabis	**1,731,546**	606,382
Carrying value	**11,417,580**	8,160,485
Less: provision	**(2,247,705)**	(2,579,889)
	9,169,875	5,580,596

During the year ended March 31, 2023, the Company expensed $13,241,135 of inventory (2022 – $11,180,573). Included in the amount of inventory expensed is $1,195,492 of inventoried depreciation costs (2022 – $1,210,531), and an inventory write-down of $1,350,064 (2022 – $2,579,889) in cost of sales.

As of March 31, 2023, the carrying value of inventory includes $519,613 of inventoried depreciation costs (2022– $485,214).

(expressed in Canadian dollars, except share amounts)

6 Biological assets

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

	$
Balance – March 31, 2021	2,004,951
Production costs capitalized	4,110,586
Changes in fair values less costs to sell due to biological transformation	12,199,876
Transferred to inventory upon harvest	(16,809,163)
Balance – March 31, 2022	1,506,250
Production costs capitalized	4,317,702
Changes in fair values less costs to sell due to biological transformation	6,126,189
Transferred to inventory upon harvest	(10,689,952)
Balance – March 31, 2023	**1,260,189**

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

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

The following table quantifies each significant unobservable input, and also provides the impact a 10% increase or decrease in each input would have on the fair value of biological assets:

		As at March 31, 2023		**As at March 31, 2022**	
	Assumption:	**Input**	**10% change**	**Input**	**10% change**
i	Weighted average of expected loss of plants until harvest [a]	9%	$13,007	16%	$29,318
ii	Expected yields (dry grams of cannabis per plant) [b]	527	$126,019	668 grams	$150,625
iii	Weighted average number of growing weeks completed as a percentage of total growing weeks as at year-end	53%	$126,019	45%	$150,625
iv	Estimated selling price (per gram) [c]	$2.06 per gram dried flower	$200,996	$2.24 per gram dried flower	$222,161
v	After harvest cost to complete and sell (per gram)	$0.77 per gram dried flower	$74,977	$0.72 per gram dried flower	$71,536

[a] Weighted average of expected loss of plants until harvest represents loss via plants that do not survive to the point of harvest. It does not include any financial loss on a surviving plant.

[b] Expected average yields for cannabis plants vary based on the mix of strains and number of plants existing at each reporting date.

[c] The estimated selling price (per gram) represents the actual average sales price for the Company's strains sold as bulk products.

The Company estimates the harvest yields for cannabis at various stages of growth. As of March 31, 2023, it is expected that the Company's biological assets will yield approximately 1,855,123 grams (2022 – 2,220,432 grams) of dry cannabis flower, when harvested. The fair value adjustments on biological assets are presented separately on the statements of (loss) income and comprehensive (loss) income.

The Company's estimates, by their nature, are subject to changes that could result from volatility of market prices, unanticipated regulatory changes, harvest yields, loss of crops, changes in estimates and other uncontrollable factors that could significantly affect the future fair value of biological assets.

(expressed in Canadian dollars, except share amounts)

7 Leases

Right-of-use asset

Cost	**$**
Balance –March 31, 2021	6,676,829
Additions	157,304
Disposals	(178,234)
Balance – March 31, 2022	6,655,899
Additions	40,591
Modifications	6,490,574
Balance – March 31, 2023	**13,187,064**
Accumulated depreciation	
Balance –March 31, 2021	660,817
Depreciation	963,694
Disposals	(47,367)
Balance – March 31, 2022	1,577,144
Depreciation	966,379
Balance – March 31, 2023	**2,543,523**
Net Balance – March 31, 2022	5,078,755
Net Balance – March 31, 2023	**10,643,541**

The Company's right-of-use assets consist of premises and vehicles. During the year ended March 31, 2023, the Company allocated $265,542 (2022 – $265,541) of depreciation expense to the production of biological assets and inventory. During the year ended March 31, 2023, the Company allocated $35,784 (2022 – $35,734) of depreciation expense to cost of sales.

Lease obligations

	$
Balance – March 31, 2021	6,385,907
Additions	157,304
Interest accretion	1,038,755
Lease repayments	(1,581,526)
Loss on early termination	35,875
Disposals	(160,328)
Balance – March 31, 2022	5,875,987
Additions	40,591
Interest accretion	944,898
Lease repayments	(1,589,380)
Modifications	6,490,574
Balance – March 31, 2023	**11,762,670**
Current	**185,804**
Non-current	**11,576,866**

The following table sets out a maturity analysis of the leases payments payable, showing the undiscounted lease payments to be paid on an annual basis, reconciled to lease obligation.

	$
Less than one year	2,162,755
One to two years	2,247,083
Two to three years	2,334,573
Three to four years	2,414,448
Thereafter	16,360,857
Total undiscounted lease payments payable	25,519,717
Less: impact of present value	13,757,047
Balance – March 31, 2023	**11,762,670**

The Company also received rental income of $nil during the year ended March 31, 2023 (2022 – $221,939) relating to the short-term rental of unused warehouse facilities, which has been included in general and administrative expenses on the statement of income and comprehensive income.

(expressed in Canadian dollars, except share amounts)

On March 30, 2023, the Company modified its lease agreement on its head office at 4225 Transcanadienne Highway. The modification extended the maturity date from September 30, 2025 to March 31, 2033, and increased the monthly payments. The Company determined that this modification did not result in a new lease. As a result of the modification, the Company remeasured the lease liability by discounting the revised lease payments using a revised discount rate, and made a corresponding increase to its right-of-use asset in the amount of $3,621,294. The leased premises is owned by a company controlled by the Chief Cultivation Officer and the Chief Operating Officer.

On March 30, 2023, the Company modified its lease agreement on its production facility at 815 Tecumseh Ave. The modification extended the maturity date from March 31, 2030 to March 31, 2033, increased the monthly payments, and added additional leased space that has a commencement date of April 1, 2024. As a result of the modification, the Company remeasured the lease liability by discounting the revised lease payments using a revised discount rate and made a corresponding increase to the ROU asset in the amount of $2,869,280. The leased premises is owned by a company controlled by the Chief Cultivation Officer and the Chief Operating Officer.

For its leased premises, the Company hypothecates all of its equipment and other moveable effects to its landlord up to the market value equivalent of one years' rent as security against the lease obligation.

8 Equipment

	Equipment and supplies	Computer Equipment	Leasehold Improvements	Total
	$	$	$	$
Cost				
Balance, March 31, 2021	5,514,647	13,432	—	5,528,079
Additions	792,195	28,400	16,500	837,095
Disposals	(553,780)	(20,008)	—	(573,788)
Balance, March 31, 2022	5,753,062	21,824	16,500	5,791,386
Additions	374,594	8,646	55,979	439,219
Disposals	(73,199)	—	—	(73,199)
Balance, March 31, 2023	**6,054,457**	**30,470**	**72,479**	**6,157,406**
Accumulated depreciation				
Balance, March 31, 2021	974,578	3,083	—	977,661
Depreciation	891,335	4,071	1,375	896,781
Disposals	(127,961)	(3,206)	—	(131,167)
Balance, March 31, 2022	1,737,952	3,948	1,375	1,743,275
Depreciation	892,435	6,945	4,364	903,744
Disposals	(43,989)	—	—	(43,989)
Balance, March 31, 2023	**2,586,398**	**10,893**	**5,739**	**2,603,030**
Carrying value				
Balance, March 31, 2022	4,015,110	17,876	15,125	4,048,111
Balance, March 31, 2023	**3,468,059**	**19,577**	**66,740**	**3,554,376**

During the year ended March 31, 2023, the Company allocated $908,276 (2022 – $841,718) of depreciation expense to the production of biological assets and inventory. During the year ended March 31, 2023, the Company recognized a gain on disposal of $66,790 (2022 – loss of $190,952) recognized in other (income) loss.

9 Notes payable

The following table presents the notes payable for the Company:

	March 31, 2023	March 31, 2022
	$	$
Balance – Beginning of year	**2,041,820**	2,025,463
Advances	**5,995,000**	2,127,803
Interest expense	**798,256**	84,840
Repayments	**(2,677,097)**	(2,196,286)
Balance – End of year	**6,157,979**	2,041,820

(expressed in Canadian dollars, except share amounts)

Notes payable are due to certain shareholders of the Company. The notes payable bear interest ranging from 0% to 17% per annum and are unsecured. As of March 31, 2023, $6,157,979 (2022 – $1,805,592) of notes payable were due on demand.

10 Borrowings

The following table presents the borrowings for the Company:

	March 31, 2023	March 31, 2022
	$	**$**
Biofloral Loan [i]	**1,400,000**	1,500,000
Canada Emergency Business Account Loan [ii]	**60,000**	52,652
Total borrowings	**1,460,000**	1,552,652
Current	**1,460,000**	1,500,000
Non-current	**—**	52,652

[i] Biofloral Loan

In July 2019, the Company entered into a $1,500,000 loan agreement with 9204-2761 Québec Inc. (“Biofloral”), an unrelated party**.** The loan matures in July 2022. In April 2022, Biofloral provided additional funding of $200,000, at the same terms, and due on demand. Both parties agreed to extend the terms beyond the maturity date of July 2022 on a month to month basis. The loan is secured against the Company’s equipment. The loan accrues interest at 7% for the first 24 months and 10% thereafter. The Company is required to remit monthly payments of interest with principal balance due at maturity. During the year, the Company repaid $300,000 of the principal balance. The loan is classified at amortized cost and accounted for using the effective interest rate method. During the year ended March 31, 2023, the Company incurred $165,479 of interest expense (2022 – $136,808).

The Company has pledged up to $1,850,000 of movable hypothec as security on the loan encumbering the totality of the tangible and intangible movable property of the Company. As part of the loan, the Company is required to remain under control of the Michel Clement Family Trust, an entity under control of the Company’s President, and the Richard Clement Family Trust, an entity under control of the Company’s CEO. As at March 31, 2023, the Company was in compliance with the covenant.

[ii] Canada Emergency Business Account Loan

The Company received $40,000 in May 2020 and $20,000 in December 2020 through the Canada Emergency Business Account program (“CEBA”). The loans are interest free. The CEBA was launched by the government of Canada in response to the global COVID-19 health crisis. On January 12, 2022, the forgiveness repayment date on CEBA loans was extended to December 31, 2023, for eligible CEBA loan holders in good standing. If the loans are repaid in full by December 31, 2023, $20,000 of the loan will be forgiven. If the loan is not repaid by December 31, 2023, it will be converted into a 3-year term loan bearing interest at 5%, due December 31, 2025.

The loan was classified at amortized cost and accounted for using the effective interest rate method. The benefit of the government loan received at below market rate of interest is treated as a government grant. The loan is recognized at fair value using the Company’s incremental borrowing rate of 17%. The difference between the initial carrying amount and the proceeds received of $20,229 was recognized as a government grant and is included in other income on the statements of income and comprehensive income. During the year ended March 31, 2023, the Company incurred $7,349 of interest expense (2022 – $8,178).

Finance expense for the years ended March 31, 2023 and 2022 consists of the following:

	2023	2022
	$	**$**
Interest on lease obligations	**944,898**	1,038,755
Interest on notes payable	**798,256**	84,840
Interest on borrowings	**172,828**	144,986
Other finance expenses	**—**	18,318
	1,915,982	1,286,899

(expressed in Canadian dollars, except share amounts)

11 Share capital

Authorized

The Company has authorized capital consisting of an unlimited number of common shares with no par value.

Issued and outstanding

	Common shares	
	#	**$**
Balance – March 31, 2022 and 2023	10,000	100

12 Earnings per share

The Company presents basic and diluted EPS data for its shares. Basic EPS is calculated by dividing net (loss) income by the weighted average number of common shares outstanding during the period. Diluted EPS is determined by adjusting net (loss) income and the weighted average number of common shares outstanding, for the effects of all dilutive potential shares. For the years ended March 31, 2023 and 2022, the Company did not have any other potential dilutive instruments outstanding.

13 Nature of expenses

General and administrative expenses for the years ended March 31, 2023 and 2022 consists of the following:

	2023	2022
	$	**$**
Salaries, wages and benefits	**2,975,428**	2,354,897
General operating costs	**2,966,126**	2,748,686
Occupancy costs / (recovery)	**—**	(260,213)
Professional fees	**1,513,745**	995,682
	7,455,299	5,839,052

For the year ended March 31, 2023, the Company recognized through cost of sales $4,802,914 (2022 – $3,584,454) of salaries, wages and benefits that were capitalized to the production of biological assets and inventory.

14 Income taxes

The reconciliation of income tax expense for the years ended March 31, 2023 and 2022 consists of the following:

	2023	2022
	$	**$**
Income (loss) before income taxes	**(2,795,518)**	4,085,443
Statutory tax rate	**26.50%**	26.50%
Expected income tax provision (recovery)	**(740,813)**	1,082,642
Impact of difference in deferred tax rate	**196,470**	188,740
Tax rate changes and other adjustments	**(153,148)**	298,920
Non-deductible expenses	**29,185**	200,252
Change in deferred tax assets not recognized	**85,303**	113,244
Net income tax provision	**(583,003)**	1,883,798

Deferred income tax assets in excess of deferred income tax liabilities have not been recognized in respect of the following attributes because it is not probable that future taxable profit will be available against which the Company can use the benefits.

(expressed in Canadian dollars, except share amounts)

	March 31, 2023	March 31, 2022
	$	$
Non-capital loss carry forwards	**—**	96,526
SR&ED	**—**	(21,116)
Equipment	**(570,124)**	(1,048,346)
Biological assets and inventory	**(874,674)**	(1,631,938)
Reserve	**579,994**	320,343
Lease Liability	**47,141**	—
CEBA Loan	**5,300**	3,353
Total deferred tax liabilities	**(812,363)**	(2,281,178)

The Company has non-capital loss carry forwards of $nil (2022 – $839,349), which may be carried forward to apply against future year income tax for Canadian income tax purposes, subject to the final determination by taxation authorities, which expire between the years 2039 and 2041.

15 Commitments and contingencies

Commitments

Financial Guarantee

In May 2022, the Company provided a financial guarantee in relation to a mortgage entered into by 9336-4644 Quebec Inc. (the “Lessor”), a company under common control. The Lessor owns the real estate of 4225 Transcanadienne Highway and 815 Tecumseh Ave and leases the premises to the Company for the purposes of conducting their business operations.

The Company has guaranteed all outstanding obligations of the Lessor, related to this mortgage, which includes any principal and interest payments, accrued and unpaid interest and/or penalties in the occurrence of any default event. The Company is required to settle any outstanding obligations through cash payment. The mortgage is secured by real estate.

As at March 31, 2023, the total amount outstanding and payable by the Lessor under the mortgage was $16,130,000 (2022 – $16,130,000). The Company has recognized $nil relating to this guarantee.

Lease commitment

On March 30, 2023, the Company modified its lease agreement on its production facility. The modification added additional leased space from April 1, 2024 to March 31, 2033. As a result the Company has not recognized the lease commitment for the additional space as at March 31, 2023. The total undiscounted lease payments related to the additional leased space is $4,182,691.

Contingencies

In the ordinary course of business, from time to time, the Company is involved in various claims related to operations, rights, commercial, employment or other claims. While the outcome of these matters may not be estimable at the reporting date, the Company makes provision, where possible, for the estimate outcome of such claims or proceedings.

Former employee

In April 2022, a former employee filed a claim against the Company for unjust dismissal. The amount being claimed is approximately $250,000. Management is actively defending this claim and therefore has not recorded a provision in respect of this matter.

16 Related party transactions

Key management personnel are those persons having the authority and responsibility for planning, directing and controlling activities of the entity, directly or indirectly and consists of the Chief Executive Officer, Chief Cultivation Officer, Chief Operating Officer, and President.

On August 30, 2022, the Company closed the first tranche of its transaction with CHV. With the closing of the first tranche of the Transaction (the "Initial Closing") CHV acquired 24.99% of the issued and outstanding shares of MTL in exchange for 49.99% of the issued and outstanding common shares of CHV to the shareholders of the Company on the Initial Closing. This transaction resulted in the Company being considered a related party to CHV and it's subsidiaries, ICM and Abba Medix Corp.

During the period ended March 31, 2023, the Company made sales to CHV and its subsidiaries totaling $22,320,320 (March 31, 2022 - $3,800,934). CHV is 49.99% owned by the Chief Cultivation Officer and the Chief Operating Officer. As of March 31, 2023, the Company had an outstanding receivable balance of $5,354,468 (March 31, 2022 – $2,489,620). During the period ended March 31, 2023, an amount of $1,010,641 of trade receivables was converted into a loan receivable.

During the year the Company made purchases from CHV and its subsidiaries totaling $6,282,074 (March 31, 2022 - $286,227). The ending inventory on hand for these purchases at March 31, 2023 was $1,503,138.

As of March 31, 2023, the Company had a loan receivables balance of $2,907,252 (March 31, 2022 – $1,424,452) from CHV and its subsidiaries recorded in trade and other receivables (Note 4). The loans charge interest at rates ranging between 3% to 8% per annum. The CHV loan receivable is due on demand and the ICM construction loan is due in quarterly installments, commencing in December 2022.

Compensation expense which consists of salaries and benefits for the Company's key management personnel for the year ended March 31, 2023, was $934,519 (2022 – $542,069).

During the year ended March 31, 2023, the Company made rental and lease payments totaling $1,537,984 (2022 – $1,513,984) to a company that is controlled by the Chief Cultivation Officer and the Chief Operating Officer.

During the year ended March 31, 2023, the Company purchased $2,294,043 (2022 – $2,393,338) of equipment and services at market rates from a company that is controlled by the Chief Cultivation Officer and the Chief Operating Officer. As of March 31, 2023, the Company had an outstanding balance of $798,337 (2022 – $2,074,919) recorded in trade and other payables. These items were recognized under equipment and cost of sales during the year.

During the year ended March 31, 2023, the Company was advanced $5,450,000 (2022 – $1,420,000) and repaid $2,189,525 (2022 – $1,077,000) of notes payable from a Company controlled by the Chief Cultivation Officer and the Chief Operating Officer. As of March 31, 2023, the Company had an outstanding balance payable of $5,176,028 (2022 – $1,417,290) recorded in notes payable (Note 9). The balance payable is due on demand. As of June 30, 2022, the note is interest bearing at a rate of 17% per annum. Prior to this period the interest was non-interest bearing.

During the year ended March 31, 2023, the Company was advanced $545,000 (2022 – $522,784) and repaid $55,356 (2022 – $229,281) of notes payable from a Company controlled by the Chief Cultivation Officer and the Chief Operating Officer. As of March 31, 2023, the Company had an outstanding balance of $981,950 (2022 – $382,495) recorded in notes payable (Note 9). The balance payable is due on demand. As of June 30, 2022, the note is interest bearing at a rate of 17% per annum. Prior to this period the interest was non-interest bearing.

During the year ended March 31, 2023, the Company repaid $5,807 (2022 – $104,986) of an advance from the Chief Cultivation Officer. As of March 31, 2023, the Company had an outstanding balance of $nil (2022 – $5,807) due to the Chief Operating Officer and recorded in notes payable (Note 9). The balance payable is non-interest bearing and due on demand.

(expressed in Canadian dollars, except share amounts)

During the year ended March 31, 2022, the Company was advanced $185,019 from the Chief Executive officer. This amount was fully repaid during the year. The advance was non-interest bearing.

17 Capital management

The Company's capital management objectives are to maintain financial flexibility in order to pursue its strategy of organic growth and to provide returns to its shareholders. The Company defines capital as the aggregate of its capital stock, borrowings, and notes payable.

Total managed capital is as follows:

	March 31, 2023	March 31, 2022
	$	$
Borrowings	**1,460,000**	1,552,652
Notes payable	**6,157,979**	2,041,820
Share capital	**100**	100
	7,618,079	3,594,572

The Company manages its capital structure in accordance with changes in economic conditions. In order to maintain or adjust its capital structure, the Company may elect to issue or repay financial liabilities, issue shares, repurchase shares, pay dividends or undertake any other activities as deemed appropriate under the specific circumstances. The Company is not subject to any externally imposed capital requirements.

18 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 March 31, 2023, two customers represented 85% of the outstanding receivable balance (2022 – three customers represented 93%). For the year ended March 31, 2023, two customers accounted for 68% of the Company's revenue (2022 – two customers represented 79%)

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:

	March 31, 2023	March 31, 2022
	$	$
Current	**4,026,139**	5,664,584
1 – 30 days past due	**2,644,388**	61,739
31 – 60 days past due	**177,182**	870,412
Greater than 60 days past due	**141,759**	583,563
	6,989,468	7,180,298
Less: expected credit losses	**(735,031)**	(496,618)
	6,254,437	6,683,680

The expected credit losses were recognized in the statement of loss and comprehensive loss in the financial statement line item 'General and administrative'. The losses are included within 'General operating costs' (Note 13).

Liquidity risk

Liquidity risk is the risk the Company will not be able to meet its financial obligations as they come 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, the issuance of share capital and, if desired, the issuance of debt. The Company's trade and other payables are all due within 12 months from the date of these financial statements.

(expressed in Canadian dollars, except share amounts)

The Company is obligated to the following contractual maturities of undiscounted cash flows as at March 31, 2023:

	Carrying amount	**Year 1**	**Year 2 and thereafter**	**Total**
	$	**$**	**$**	**$**
Trade and other payables	**9,023,669**	**9,023,669**	**—**	**9,023,669**
Notes payable	**6,157,979**	**6,157,979**	**—**	**6,157,979**
Borrowings	**1,460,000**	**1,478,763**	**—**	**1,478,763**
	16,641,648	**16,660,411**	**—**	**16,660,411**

The Company was obligated to the following contractual maturities of undiscounted cash flows as at March 31, 2022:

	Carrying amount	**Year 1**	**Year 2 and thereafter**	**Total**
	$	$	$	$
Trade and other payables	8,162,134	8,162,134	—	8,162,134
Notes payable	2,041,820	2,041,820	—	2,041,820
Borrowings	1,552,652	1,550,000	40,000	1,590,000
	11,756,606	11,753,954	40,000	11,793,954

Market risk

Market risk is the risk 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: foreign currency risk, interest rate risk and other price risk.

- Foreign currency risk

Foreign currency risk arises on financial instruments that are denominated in a currency other than the functional currency in which they are measured. The Company is not exposed to foreign currency risk as at March 31, 2023.

- Interest rate risk

Interest rate risk is the risk 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 March 31, 2023 as there are no material long-term borrowings outstanding subject to variable interest rates.

- Other price risk

Other price risk is the risk 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 March 31, 2023.

Fair values

The risk of material change in fair value is not considered to be significant. The Company does not use derivative financial instruments to manage this risk.

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

- Level 1 – Unadjusted quoted prices as at the measurement date for identical assets or liabilities in active markets.

- Level 2 – Observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

- Level 3 – Significant unobservable inputs that are supported by little or no market activity. The fair value hierarchy also requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

The fair value hierarchy requires the use of observable market inputs whenever such inputs exist. A financial instrument is classified to the lowest level of the hierarchy for which a significant input has been considered in measuring fair value. During the year, there were no transfers of amounts between levels and the Company did not have any financial instruments measured at fair value.

19 Subsequent events

On July 10, 2023, the Company repaid the Biofloral Loan (Note 10) in full in the amount of $1,400,000. The balance of the loan outstanding after the repayment is $nil.

Subsequent to year end, the company entered into an international supply agreement to cannabis products into the following territories: Australia, the United Kingdom, the European Union and LATAM. Since the execution of the agreement, the Company has shipped and recognized revenue for a shipment of bulk cannabis product into Portugal.

On July 28, 2023, the Company closed a transaction whereby CHV acquired the remaining 75.01% of the issued and outstanding shares of MTL Cannabis. The shareholders of MTL Cannabis were given 70,713,556 of the issued and outstanding common shares of CHV, or 30.01%, as consideration for the transaction. Subsequent to this transaction, CHV owned 100% of the issued and outstanding shares of MTL Cannabis.

The Transaction will constitute a reverse take-over of CHV by MTL Cannabis, with CHV being the legal acquirer and MTL Cannabis being the acquirer for accounting purposes. Pursuant to the transaction, CHV will effect a name change, changing its name from Canada House Cannabis Group Inc. to MTL Cannabis Corp.