Montreal Cannabis Médical Inc.

Condensed interim financial statements

For the three months ended June 30, 2023 and 2022

[unaudited] [Expressed in Canadian dollars]

NOTICE OF NO AUDITOR REVIEW OF CONDENSED INTERIM FINANCIAL STATEMENTS

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

The accompanying unaudited condensed interim financial statements of Montreal Cannabis Médical Inc. [the "Company"] have been prepared by and are the responsibility of the Company's management.

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

Montreal Cannabis Médical Inc.

Condensed interim statements of financial position
[expressed in Canadian dollars]

As at	Notes	**June 30, 2023** $	March 31, 2023 $
ASSETS			
Current assets			
Cash		**967,544**	437,551
Trade and other receivables	3	**8,354,693**	6,328,531
Inventory	4	**8,798,568**	9,169,875
Biological assets	5	**1,027,132**	1,260,189
Prepaid expenses and deposits		**466,739**	351,038
		19,614,676	17,547,184
Non-current assets			
Right-of-use assets, net	6	**10,371,913**	10,643,541
Equipment, net	7	**3,545,910**	3,554,376
TOTAL ASSETS		**33,532,499**	31,745,101
LIABILITIES			
Current liabilities			
Trade and other payables		**11,521,318**	9,023,669
Income taxes payable		**1,483,110**	987,578
Lease obligations	6	**262,326**	185,804
Notes payable	8	**6,068,762**	6,157,979
Borrowings	9	**1,060,000**	1,460,000
		20,395,516	17,815,030
Non-current liabilities			
Lease obligations	6	**11,453,636**	11,576,866
Deferred tax liability		**329,353**	812,363
		32,178,505	30,204,259
SHAREHOLDERS' EQUITY			
Share capital	10	**100**	100
Contributed surplus		**111,430**	111,430
Retained earnings		**1,242,464**	1,429,312
		1,353,994	1,540,842
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**33,532,499**	31,745,101
Commitments and contingencies	13		
Subsequent events	15		

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

Montreal Cannabis Médical Inc.

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

For the three months ended June 30,	Notes	**2023** **$**	2022 $
Revenue			
Product revenue		**16,863,295**	6,875,448
Less excise tax		**(4,099,508)**	(1,109,320)
		12,763,787	5,766,128
Cost of sales		**7,877,104**	2,067,360
Gross profit before fair value adjustments		**4,886,683**	3,698,768
Fair value adjustments on biological assets	5	**640,223**	2,000,363
Fair value adjustments on sale of inventory		**(2,252,125)**	(3,026,419)
Gross profit		**3,274,781**	2,672,712
Operating expenses			
General and administrative	12	**2,451,771**	1,463,391
Sales and marketing		**44,059**	212,581
Depreciation	6,7	**179,352**	189,922
		2,675,182	1,865,894
Operating income		**599,599**	806,818
Finance expense, net	9	**784,109**	341,539
Other income		**(10,184)**	—
(Loss) income before income taxes		**(174,326)**	465,279
Income tax expense		**12,522**	—
Net (loss) income and comprehensive (loss) income for the year		**(186,848)**	465,279
(Loss) income per share - basic and diluted	11	**$(18.68)**	$46.53
Weighted average number of common shares outstanding - basic and diluted		**10,000**	10,000

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

Montreal Cannabis Médical Inc.

Condensed interim statements of changes in shareholders' equity

For the three months ended June 30, 2023 and 2022

[expressed in Canadian dollars, except number of shares]

	Common shares		Contributed surplus	Retained earnings	Total
	#	$	$	$	$
Balance as at March 31, 2022	10,000	100	111,430	3,641,827	3,753,357
Net income	—	—	—	465,279	465,279
Balance as at June 30, 2022	10,000	100	111,430	4,107,106	4,218,636
Balance as at March 31, 2023	10,000	100	111,430	1,429,312	1,540,842
Net loss	—	—	—	(186,848)	(186,848)
Balance as at June 30, 2023	**10,000**	**100**	**111,430**	**1,242,464**	**1,353,994**

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

Montreal Cannabis Médical Inc.

Condensed interim statements of cash flows
[expressed in Canadian dollars]

For the three months ended June 30,	2023 $	2022 $
Operating activities:		
Net (loss) income for the period	**(186,848)**	465,279
Add (deduct) items not affecting cash		
Deferred tax recovery	**(483,010)**	—
Depreciation	**499,045**	432,440
Inventory impairment provision	**1,350,064**	1,350,064
Change in fair value adjustments on inventory sold	**2,252,125**	3,026,419
Change in fair value of biological assets	**(640,223)**	(2,000,363)
Expected credit losses	**417,145**	—
Other income	**30,194**	—
Finance expense	**755,263**	302,032
	3,993,755	3,575,871
Changes in non-cash working capital items:		
Trade and other receivables	**(2,443,307)**	(749,972)
Inventory	**(3,274,842)**	(3,923,042)
Biological assets	**873,280**	2,051,897
Prepaid expenses and deposits	**(115,701)**	(295,169)
Trade and other payables	**2,611,312**	(1,350,432)
Income taxes payable	**495,532**	—
Cash flows provided (used in) by operating activities	**2,140,029**	(690,847)
Investing activities:		
Purchase of equipment	**(318,847)**	(226,292)
Cash flows used in investing activities	**(318,847)**	(226,292)
Financing activities:		
Proceeds from notes payable	**—**	2,545,000
Repayment of notes payable	**(350,500)**	(960,084)
Repayment of borrowings	**(400,000)**	—
Repayment of lease obligations	**(540,689)**	(392,003)
Cash flows (used in) provided by financing activities	**(1,291,189)**	1,192,913
Net change in cash during the period	**529,993**	275,774
Cash, beginning of the period	**437,551**	470,559
Cash, end of the period	**967,544**	746,333

The accompanying notes are an integral part of these condensed interim 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 unaudited condensed interim financial statements ("financial statements") were prepared using the same accounting policies and methods as those used in the Company's audited financial statements for the year ended March 31, 2023. These financial statements have been prepared in compliance with IAS 34 – Interim Financial Reporting, as issued by the International Accounting Standards Board ("IASB"). Accordingly, certain disclosures normally included in annual financial statements prepared in accordance with International Financial Reporting Standards ("IFRS") have been omitted or condensed. These financial statements should be read in conjunction with the Company's audited financial statements for the year ended March 31, 2023.

These financial statements were approved and authorized for issuance by the Board of Directors of the Company on August 28, 2023.

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.

New standards, amendments and interpretations recently 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.

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 impact of adopting these amendments on the Company's financial statements was not significant.

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.

(expressed in Canadian dollars, except share amounts)

The amendments are effective for annual periods beginning on or after January 1, 2023. The impact of adopting these amendments on the Company's financial statements was not significant.

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 impact of adopting these amendments on the Company's financial statements was not significant.

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

IFRS 16 – Leases ("IFRS 16")

In September 2022, the IASB issued amendments to IFRS 16, Leases, which add to requirements explaining how a company accounts for a sale and leaseback after the date of the transaction.

The amendments are effective for annual reporting periods beginning on or after January 1, 2024. Earlier application is permitted.

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 Consolidated Financial Statements.

3 Trade and other receivables

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

	June 30, 2023	**March 31, 2023**
	$	**$**
Trade receivables (Note 18)	**9,432,775**	6,989,468
SR&ED receivables	**74,094**	74,094
Less: expected credit losses	**(1,152,176)**	(735,031)
	8,354,693	6,328,531

The Company's loan receivables include the following:

	June 30, 2023	**March 31, 2023**
	$	**$**
Accrued interest	**24,452**	24,452
Advances	**2,882,800**	2,882,800
Allowance for credit losses	**(2,907,252)**	(2,907,252)
	—	—

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 $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, and converted $1,010,541 of outstanding trade receivables due from ICM to a loan receivable.

As of June 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 12).

(expressed in Canadian dollars, except share amounts)

4 Inventory

The Company's inventory consists of the following:

	June 30, 2023	March 31, 2023
	$	$
Harvested cannabis	**9,203,000**	9,686,034
Purchased cannabis	**1,495,356**	1,731,546
Carrying value	**10,698,356**	11,417,580
Less: provision	**(1,899,788)**	(2,247,705)
	8,798,568	9,169,875

During the three months ended June 30, 2023, the Company expensed $6,562,505 of inventory (2022 – $1,573,155). Included in the amount of inventory expensed is $319,693 of inventoried depreciation costs (2022 – $242,518), and an inventory write-down of $132,836 (2022 – $486,237) recognized in cost of sales.

As of June 30, 2023, the carrying value of inventory includes $486,039 of inventoried depreciation costs (2022 – $547,546).

5 Biological assets

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

	$
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
Production costs capitalized	1,351,305
Changes in fair values less costs to sell due to biological transformation	640,223
Transferred to inventory upon harvest	(2,224,585)
Balance – June 30, 2023	**1,027,132**

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, the expected selling price per gram and the expected 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 at period end:

		As at June 30, 2023		As at March 31, 2023	
	Assumption:	**Input**	**10% change**	**Input**	**10% change**
i	Weighted average of expected loss of plants until harvest [a]	10%	$11,130	9%	$13,007
ii	Expected yields (dry grams of cannabis per plant) [b]	453	$102,713	527	$126,019
iii	Weighted average number of growing weeks completed as a percentage of total growing weeks as at year-end	48%	$102,713	53%	$126,019
iv	Estimated selling price (per gram) [c]	$2.06 per gram dried flower	$173,154	$2.06 per gram dried flower	$200,996
v	After harvest cost to complete and sell (per gram)	$0.84 per gram dried flower	$70,441	$0.77 per gram dried flower	$74,977

[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.

(expressed in Canadian dollars, except share amounts)

[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 June 30, 2023, it is expected that the Company's biological assets will yield approximately 1,947,387 (March 31, 2023 – 1,855,123) 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.

6 Leases

Right-of-use asset

Cost	**$**
Balance –March 31, 2022	6,655,899
Additions	40,591
Modification	6,490,574
Balance – March 31, 2023	13,187,064
Additions	—
Modifications	—
Balance – June 30, 2023	**13,187,064**
Accumulated depreciation	
Balance –March 31, 2022	1,577,144
Depreciation	966,379
Balance – March 31, 2023	2,543,523
Depreciation	271,628
Balance – June 30, 2023	**2,815,151**
Net Balance – March 31, 2023	10,643,541
Net Balance – June 30, 2023	**10,371,913**

Lease obligations

	$
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
Additions	—
Interest accretion	**493,981**
Lease repayments	**(540,689)**
Modifications	—
Balance – June 30, 2023	**11,715,962**
Current	262,326
Non-current	11,453,636

(expressed in Canadian dollars, except share amounts)

7 Equipment

	Equipment and supplies	Computer Equipment	Leasehold Improvements	Total
	$	$	$	$
Cost				
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
Additions	205,184	—	—	205,184
Disposals	(39,706)	—	—	(39,706)
Balance, June 30, 2023	**6,219,935**	**30,470**	**72,479**	**6,322,884**
Accumulated depreciation				
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
Depreciation	178,487	1,632	3,337	183,456
Disposals	(9,512)	—	—	(9,512)
Balance, June 30, 2023	**2,755,373**	**12,525**	**9,076**	**2,776,974**
Carrying value				
Balance, March 31, 2023	3,468,059	19,577	66,740	3,554,376
Balance, June 30, 2023	**3,464,562**	**17,945**	**63,403**	**3,545,910**

During the three months ended June 30, 2023, the Company allocated $178,346 (2022 – $266,976) of depreciation expense to the production of biological assets and inventory. During the period ended June 30, 2023, the Company recognized a loss on disposal of $30,194 (2022 – $nil) recognized in other income.

8 Notes payable

The following table presents the notes payable for the Company:

	June 30, 2023	March 31, 2023
	$	$
Balance – Beginning of year	**6,157,979**	2,041,820
Advances	**—**	5,995,000
Interest expense	**261,283**	798,256
Repayments	**(350,500)**	(2,677,097)
Balance – End of year	**6,068,762**	6,157,979

Notes payable are due to certain shareholders and related parties of the Company. The notes payable bear interest ranging from 0% to 17% per annum and are unsecured. As of June 30, 2023, $6,068,762 (March 31, 2023 – $6,157,979 of notes payable were due on demand.

9 Borrowings

The following table presents the borrowings for the Company:

	June 30, 2023	March 31, 2023
	$	$
Biofloral Loan [i]	**1,000,000**	1,400,000
Canada Emergency Business Account Loan [ii]	**60,000**	60,000
Total borrowings	**1,060,000**	1,460,000

[i] Biofloral Loan

In July 2019, the Company entered into a $1,500,000 loan agreement for a three year term with 9204-2761 Québec Inc. (“Biofloral”), an unrelated party**.** In April 2022, Biofloral provided additional funding of $200,000, at the same terms. Both parties also agreed to extend the maturity date beyond July 2022 on a month-to-month basis. The loan is secured against the Company's equipment. The loan accrued 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 three months ended June 30, 2023, the Company repaid $400,000 of the principal balance. The loan is classified at amortized cost and accounted for using the effective interest rate method. During the three months ended June 30, 2023, the Company incurred $33,233 of interest expense (2022 – $33,233). The loan was repaid subsequent to June 30, 2023 (Note 15).

(expressed in Canadian dollars, except share amounts)

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 June 30, 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 non-interest bearing. 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%, maturing on 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. During the three months ended June 30, 2023, the Company incurred $nil of interest expense (2022 – $nil).

Finance expense for the three months ended June 30, 2023 and 2022 consists of the following:

	2023	2022
	$	$
Interest on lease obligations	493,981	245,463
Interest on notes payable	261,283	56,569
Interest on borrowings	33,233	33,233
Other finance expenses	(4,388)	6,274
	784,109	341,539

10 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, 2023 and June 30, 2023	10,000	100

11 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 period ended June 30, 2023 and 2022, the Company did not have any other potential dilutive instruments outstanding.

(expressed in Canadian dollars, except share amounts)

12 Nature of expenses

General and administrative expenses for the there months ended June 30, 2023 and 2022 consists of the following:

	2023	2022
	$	**$**
Salaries, wages and benefits	**902,062**	676,752
General operating costs	**782,981**	436,384
Occupancy costs / (recovery)	**(95,413)**	—
Professional fees	**862,141**	350,255
	2,451,771	1,463,391

For the three months ended June 30, 2023, the Company recognized through cost of sales $1,455,900 (2022 – $1,030,104) of salaries, wages and benefits that were capitalized to the production of biological assets and inventory.

13 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 June 30, 2023, the total amount outstanding and payable by the Lessor under the mortgage was $16,130,000 (March 31, 2023 – $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 cannot estimate the magnitude of the liability at this time and as such has not recognized a provision in these financial statements with respect to this matter.

14 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 its subsidiaries, ICM and Abba Medix Corp.

For the three months ended June 30, 2023, the Company made sales to related parties totaling $12,195,744 (2022 - $5,359,670). The related parties are 49.99% owned by the Chief Cultivation Officer and the Chief Operating Officer. As of June 30, 2023, the Company had an outstanding receivable balance of $8,401,305 (March 31, 2023 – $5,354,468). During the period ended March 31, 2023, an amount of $1,010,541 of trade receivables was converted into a loan receivable.

As of June 30, 2023, the Company had an outstanding loan receivables balance of $2,907,252 (March 31, 2023 – $2,907,252) from CHV recorded in trade and other receivables (Note 3). The loans charge interest at rates ranging between 3% to 8% per annum and are due on demand.

Compensation expense which consists of salaries and benefits for the Company’s key management personnel for the three months ended June 30, 2023, was $231,730 (2022 – $221,250).

During the three months ended June 30, 2023, the Company made rental and lease payments totaling $527,050 (2022 – $381,495) to a company that is controlled by the Chief Cultivation Officer and the Chief Operating Officer.

During the three months ended June 30, 2023, the Company purchased $2,661,529 (2022 – $515,014) of equipment and services at market rates from companies controlled by the Chief Cultivation Officer and the Chief Operating Officer. As of June 30, 2023, the Company had an outstanding balance of $4,690,329 (March 31, 2023 – $798,337) recorded in trade and other payables.

During the three months ended June 30, 2023, the Company accrued interest of $214,906 (2022 – $nil) on a notes payable balance from a Company controlled by the Chief Cultivation Officer and Chief Operating Officer. The Company repaid $350,000 during the three months ended June 30, 2023 (2022 – $905,084). As of June 30, 2023, the Company had an outstanding balance payable of $5,040,935 (March 31, 2023 – $5,176,028) recorded in notes payable (Note 8). 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 three months ended June 30, 2023, the Company accrued interest of $46,377 (2022 – $nil) on a notes payable balance from a Company controlled by the Chief Cultivation Officer and Chief Operating Officer. The Company repaid $500 during the three months ended June 30, 2023 (2022 – $55,000). As of June 30, 2023, the Company had an outstanding balance payable of $1,027,827 (March 31, 2023 – $981,950) recorded in notes payable (Note 8). 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.

15 Subsequent events

Loan repayment

On July 10, 2023, the Company repaid the Biofloral Loan (Note 9) in full in the amount of $1,400,000. The balance of the loan outstanding after the repayment was $nil.

Reverse takeover transaction

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.