MTL Cannabis Corp.

Condensed consolidated interim financial statements

For the three and nine months ended December 31, 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 consolidated interim financial statements of MTL Cannabis Corp. [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 consolidated 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.

MTL Cannabis Corp.

Condensded consolidated interim statements of financial position
[unaudited][expressed in Canadian dollars]

As at

	Notes	December 31, 2023 $	March 31, 2023 $
ASSETS			
Current assets			
Cash		**1,054,591**	437,551
Trade and other receivables	4	**7,692,427**	6,328,531
Inventory	5	**8,310,789**	9,169,875
Biological assets	6	**1,878,636**	1,260,189
Prepaid expenses and deposits		**1,793,296**	351,038
		20,729,739	17,547,184
Non-current assets			
Right-of-use assets, net	7	**11,662,166**	10,643,541
Property, plant and equipment, net	8	**17,851,253**	3,554,376
Intangible assets and goodwill, net	9	**24,643,862**	—
TOTAL ASSETS		**74,887,020**	31,745,101
LIABILITIES			
Current liabilities			
Trade and other payables		**13,155,559**	9,023,669
Income taxes payable		**1,298,132**	987,578
Lease obligations	7	**653,257**	185,804
Notes payable	10	**15,868,911**	6,157,979
Borrowings	11	**481,595**	1,460,000
Convertible debentures	12	**2,179,999**	—
		33,637,453	17,815,030
Non-current liabilities			
Lease obligations	7	**12,875,891**	11,576,866
Borrowings	11	**2,129,124**	—
Convertible debentures	12	**3,903,862**	—
Financial liabilities	3	**4,358,000**	—
Deferred tax liability		**3,716,053**	812,363
		60,620,383	30,204,259
SHAREHOLDERS' EQUITY			
Share capital	13	**61,877**	100
Contributed surplus	13	**15,575,443**	111,430
Retained (deficit) earnings		**(1,370,683)**	1,429,312
		14,266,637	1,540,842
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**74,887,020**	31,745,101
Commitments and contingencies	18		
Subsequent events	20		

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

MTL Cannabis Corp.

Condensed consolidated interim statements of loss and comprehensive loss

[unaudited][expressed in Canadian dollars, except number of shares]

	Notes	Three months ended December 31, 2023	Three months ended December 31, 2022	Nine months ended December 31, 2023	Nine months ended December 31, 2022
		$	$	**$**	$
Revenue					
Product revenue		**22,395,199**	8,695,241	**62,405,421**	20,533,045
Referral revenue		**1,310,755**	—	**2,209,791**	—
Excise tax		**(4,374,330)**	(1,972,421)	**(13,513,437)**	(4,157,311)
Net Revenue		**19,331,624**	6,722,820	**51,101,775**	16,375,734
Cost of sales		**9,515,713**	4,249,846	**29,497,691**	9,097,561
Gross profit before fair value adjustments		**9,815,911**	2,472,974	**21,604,084**	7,278,173
Unrealized fair value adjustments on biological assets	6	**1,335,372**	1,247,445	**2,637,938**	4,934,096
Realized fair value adjustments on sale of inventory		**(2,157,253)**	(1,415,015)	**(5,676,915)**	(5,985,619)
Gross profit		**8,994,030**	2,305,404	**18,565,107**	6,226,650
Operating expenses					
General and administrative	16	**5,345,090**	3,475,344	**11,981,597**	5,820,497
Sales and marketing		**434,644**	174,624	**739,436**	768,734
Amortization and depreciation	7,8,9	**1,337,406**	286,497	**2,462,449**	553,473
Share-based compensation	13	**—**	—	**61,777**	
		7,117,140	3,936,465	**15,245,259**	7,142,704
Operating income (loss)		**1,876,890**	(1,631,061)	**3,319,848**	(916,054)
Finance expense, net	15	**1,755,558**	532,920	**1,501,626**	1,418,162
Other (income) expense		**(240,439)**	(185,286)	**(491,480)**	(216,486)
Foreign exchange loss		**—**	—	**7,602**	—
Income before income taxes		**361,771**	(1,978,695)	**2,302,100**	(2,117,730)
Income tax expense		**610,057**	(237,219)	**744,095**	(237,219)
Net income (loss) and comprehensive income (loss) for the year		**(248,286)**	(1,741,476)	**1,558,005**	(1,880,511)
Income (loss) per share - basic and diluted		**$ (0.002)**	$ (0.04)	**$ 0.018**	$ (0.06)
Weighted average number of common shares outstanding - basic and diluted		**116,997,561**	46,152,564	**86,340,999**	33,238,568

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

MTL Cannabis Corp.

Statements of changes in shareholders' equity

For the three and nine months ended December 31, 2023 and 2022

[expressed in Canadian dollars, except number of shares]

	Common shares		Warrants	Contributed surplus	Retained earnings (deficit)	Total
	#	$	#	$	$	$
Balance as at March 31, 2022	**46,152,564**	**100**	**—**	**111,430**	**3,641,827**	**3,753,357**
Comprehensive loss	—	—	—	—	(1,880,511)	(1,880,511)
Balance as at December 31, 2022	**46,152,564**	**100**	**—**	**111,430**	**1,761,316**	**1,872,846**
Balance as at March 31, 2023	**46,152,564**	**100**	**—**	**111,430**	**1,429,312**	**1,540,842**
Common shares, warrants and options issued in connection with business acquisition (Note 3)	70,844,997	61,777	5,978,094	12,391,000	**—**	12,452,777
Contingent consideration payable to the Montreal Cannabis Médical Inc. Shareholders	**—**	**—**	—	**—**	(4,358,000)	(4,358,000)
Transfer of conversion feature liabiltiy to contributed surplus	**—**	**—**	—	2,740,000	**—**	2,740,000
Transfer of warranty liability to contributed surplus	**—**	**—**	—	310,000	**—**	310,000
Loss on modification of warrants	**—**	**—**	—	23,013		23,013
Comprehensive income	—	—	—	—	1,558,005	1,558,005
Balance as at December 31, 2023	**116,997,561**	**61,877**	**5,978,094**	**15,575,443**	**(1,370,683)**	**14,266,637**

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

MTL Cannabis Corp.

Statements of cash flows

[unaudited][expressed in Canadian dollars]

For the nine months ended	Notes	**31-Dec-23**	31-Dec-22
		$	$
Operating activities:			
Net income (loss) for the period		**1,558,005**	(1,880,511)
Add (deduct) items not affecting cash			
Deferred tax expense		**(483,010)**	(1,030,249)
Depreciation		**3,359,692**	1,282,862
Inventory impairment provision		**2,129,237**	—
Change in fair value adjustments on inventory sold		**5,676,915**	5,985,619
Change in fair value of biological assets		**(2,637,938)**	(4,934,096)
Provision for credit losses		**600,000**	2,156,848
Share-based compensation		**61,777**	—
Loss on modification		**(10,858)**	—
Gain on loan forgiveness		**(40,000)**	—
Finance (income) expense		**1,644,192**	1,266,314
		11,858,012	2,846,787
Changes in non-cash working capital items:			
Trade and other receivables		**3,790,744**	(1,254,055)
Inventory		**(4,897,487)**	(7,668,818)
Biological assets		**2,461,941**	4,781,334
Prepaid expenses and deposits		**(730,670)**	(18,516)
Trade and other payables		**(2,716,509)**	(503,741)
Income taxes payable		**310,554**	793,030
Cash flows provided by (used in) operating activities		**10,076,585**	(1,023,979)
Investing activities:			
Purchase of equipment		**(2,724,561)**	(478,745)
Change in loans receivable		**—**	(496,459)
Net cash acquired in business acquisition		**955,345**	—
Cash flows used in investing activities		**(1,769,216)**	(975,204)
Financing activities:			
Proceeds from notes payable		**4,538**	5,995,000
Proceeds from borrowings		**—**	200,000
Repayment of interest		**(536,883)**	—
Repayment of notes payable		**(2,746,138)**	(2,494,881)
Repayment of borrowings		**(2,513,461)**	—
Repayment of lease obligations		**(1,898,385)**	(1,191,747)
Cash flows provided by (used in) financing activities		**(7,690,329)**	2,508,372
Net change in cash during the period		**617,040**	509,189
Cash, beginning of the period		**437,551**	470,559
Cash, end of the period		**1,054,591**	979,748

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

1 Nature of business

MTL Cannabis Corp. (the "Company" or "MTLC"), formerly Canada House Group Inc. ("Canada House" or "CHV"), up to completion of the Tranche Two Closing, as defined below, was incorporated on September 29, 1982 under the *Company* Act of the Province of British Columbia. The Company's head office and principal place of business is located at 4225 Autoroute Transcanadienne, Pointe-Claire, Québec, Canada, H9R 1B4. The Company's common shares are listed on the Canadian Securities Exchange under the symbol "MTLC".

These unaudited condensed interim consolidated financial statements ("financial statements") of the Company for the three and nine months ended December 31, 2023 and 2022, comprise the results of the Company and its wholly owned subsidiaries Montréal Cannabis Médical Inc. ("MTL Cannabis"), Abba Medix Corp. ("Abba"), Canada House Clinics Inc. ("CHC"), The Longevity Project Corp. ("TLP"), IsoCanMed Inc. ("IsoCanMed"), a licensed producer in Louiseville, Quebec, that produces high quality medical grade cannabis, and Margaree Health Group Inc. ("Margaree"), a medical cannabis clinic dedicated to Veterans in Nova Scotia.

Reverse Take Over ("RTO") Transaction

On August 9, 2021, Canada House, MTL Cannabis, the MTL Cannabis shareholders, and the MTL Cannabis principals entered into a share exchange agreement. Subsequently, on July 22, 2022, Canada House and MTL Cannabis entered into a restated share exchange agreement (the "Agreement"). Pursuant to the Agreement, Canada House would acquire all of the issued and outstanding shares of MTL Cannabis over two tranches (the "RTO Transaction").

The first stage of the RTO Transaction was completed on August 30, 2022 (the "Tranche One Closing"). The Tranche One Closing resulted in Canada House acquiring 24.99% of the issued and outstanding common shares of MTL Cannabis from the MTL shareholders in exchange for 49.99% of the issued and outstanding common shares of Canada House. Canada House issued 22,770,340 common shares to the shareholders of MTL Cannabis on the Tranche One Closing. Subsequent to the Tranche One Closing, 45,567,767 common shares of Canada House were issued and outstanding.

The second stage of the RTO Transaction was completed on July 28, 2023 (the "Tranche Two Closing"). The Tranche Two Closing resulted in Canada House acquiring the remaining 75.01% of the issued and outstanding shares of MTL Cannabis from the MTL Cannabis shareholders in exchange for 70,713,556 common shares of Canada House, resulting in MTL Cannabis becoming a wholly owned subsidiary of Canada House. Upon completion of the Tranche Two Closing, the existing MTL Cannabis shareholders held a majority of the Canada House outstanding common shares, constituting a reverse take over of Canada House by the shareholders of MTL Cannabis. As a result, the comparative information included herein is solely that of MTL Cannabis. Upon completion of the RTO Transaction, Canada House changed its name to MTL Cannabis Corp.

2 Basis of preparation

Statement of compliance

These financial statements were prepared using the same accounting policies and methods as those used in the 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 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 February 29, 2024.

Basis of consolidation

These financial statements comprise the accounts of the Company and its wholly-owned subsidiaries.

Subsidiaries are fully consolidated from the date of acquisition, which is the date on which the Company obtains control and continue to be consolidated until the date when such control ceases. Control is achieved when the Company has power over the investee, is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to use its power to affect its returns. The Company reassesses whether or not it controls an investee if facts and circumstances indicate there are changes to one or more of the three elements of control listed above. The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. All intercompany balances, transactions and unrealized gains and losses resulting from intercompany transactions and dividends are eliminated on consolidation.

Functional currency and presentation currency

These condensed consolidated interim financial statements are presented in Canadian dollars, which is the functional currency of the Company and its subsidiaries.

Use of estimates and judgments

The preparation of these condensed consolidated interim 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.

In addition to the use of estimates and judgments disclosed in the annual financial statements, the additional areas which require management to make critical judgments include:

Business combinations

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

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, 2024, with earlier application permitted. The Company early adopted these amendments effective April 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.

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 Business combination

Acquisitions that are determined to be business combinations have been accounted for using the acquisition method. In applying the acquisition method, the Company separately measures at their acquisition-date fair values, the identifiable assets acquired, the liabilities assumed, goodwill acquired and any non-controlling interest in the acquired entity. The consideration transferred for the acquisition of a subsidiary is the fair value of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Company. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement that does not require continued employment services. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

The financial results of each subsidiary have been included in the condensed consolidated interim statements of income (loss) and comprehensive income (loss) from their respective acquisition dates.

Accordingly, the allocation of the purchase price to assets and liabilities is based on the fair value, with the excess of the purchase price over the fair value of the net assets acquired being allocated to goodwill.

Acquisition of Canada House

On July 28, 2023, MTL Cannabis and Canada House completed the RTO Transaction following the Tranche two Closing. Pursuant to the share exchange agreement, the MTL shareholders acquired 80% of the rights, title and interest in and to all of the issued and outstanding shares in the capital of Canada House. In exchange for the shares in the capital of Canada House, the Company agreed to pay total consideration of $12,557,000, comprised of share consideration of $11,014,000, replacement warrants and options issued with a fair value of $1,377,000, and settlement of the pre-existing relationship for the amount of $166,000. The share consideration was measured at the fair value of the shares that MTL Cannabis would have to issue to the shareholders of CHV, to give the shareholders of CHV the same percentage of equity interest in the combined entity that results from the reverse takeover had it taken the legal form of MTL Cannabis acquiring Canada House.

The fair value of the replacement warrants and options were assessed using a combination of a Monte Carlo analysis and Black-Scholes model. Key assumptions used in both models were a share price of $0.47, estimated volatility of 100% and a risk-free rate of 4.0%.

The provisional allocation of the fair value of the purchase price to the identifiable assets acquired and liabilities assumed as at the date of the acquisition is as follows:

[unaudited] [expressed in Canadian dollars, except share amounts]

	$
Cash	955,345
Trade and other receivables	5,920,640
Prepaid expenses and deposits	711,588
Inventory	1,881,663
Biological assets	442,450
Property, plant and equipment	13,025,164
Right-of-use assets, net	2,035,501
Intangible assets, net	12,780,000
Goodwill	12,916,007
Trade and other payables	(6,784,327)
Lease liability	(2,035,501)
Notes payable	(10,875,572)
Borrowings	(3,409,286)
Convertible debentures	(6,219,972)
Financial instrument liabilities	(5,400,000)
Deferred tax liability	(3,386,700)
Total consideration	12,557,000

Goodwill arising on the acquisition reflects the benefits attributable to synergies, revenue growth and future market development. These benefits were not recognized separately from goodwill because they did not meet the recognition criteria for identifiable intangible assets. This goodwill is not deductible for income tax purposes.

Consideration payable to the shareholders of MTL Cannabis

As a part of the acquisition of Canada House on July 28, 2023, consideration was payable to the selling shareholders of MTL Cannabis if certain revenue targets were achieved during the first and second twelve months following the Tranche Two Closing. The maximum consideration payable to the selling shareholders of MTL Cannabis is $5,000,000. The Company uses a scenario-based model to independently assess individual earn-outs and calculate the fair value of the earn-out based on probabilities of success attributable to each individual scenario. The fair value of the consideration payable was determined to be $4,358,000. The Company determined that this payment to the shareholders of MTL Cannabis was not part of the RTO Transaction under IFRS 3 – *Business Combinations*. The consideration is recorded within the statement of changes in equity.

Acquisition costs in connection with the RTO Transaction are expensed as incurred and recorded within the line item ‘General and administrative’ expense. The Company also recognized an expense of $61,777 as share-based compensation expense relating to 131,441 common shares issued for services in connection with the RTO Transaction. The common shares were valued at a price of $0.47 per common share.

4 Trade and other receivables

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

	December 31, 2023	March 31, 2023
	$	$
Trade receivables	**7,434,533**	6,989,468
SR&ED receivables	**398,699**	74,094
Sales tax receivables	**149,667**	—
Other receivables	**309,528**	—
Less: expected credit losses	**(600,000)**	(735,031)
	7,692,427	6,328,531

[unaudited] [expressed in Canadian dollars, except share amounts]

5 Inventory

The Company's inventory consists of the following:

	December 31, 2023	March 31, 2023
	$	**$**
Supplies and materials	**15,944**	—
Inventory – Work in process	**7,112,469**	10,266,930
Inventory – Finished goods	**3,311,613**	1,150,650
Carrying value	**10,440,026**	11,417,580
Less: provision	**(2,129,237)**	(2,247,705)
	8,310,789	9,169,875

During the three and nine months ended December 31, 2023, the Company expensed $8,060,355 and $25,062,653 of inventory (2022 – $4,249,846 and $9,097,561). Included in the amount of inventory expensed to cost of sales is $208,501 and $897,243 (2022 – $245,523 and $729,389) of depreciation. During the three and nine months ended December 31, 2023, the Company recorded $nil and $132,836, respectively (December 31, 2022 – $261,875 and $703,420) of inventory write-downs that were included in cost of sales. During the three and nine months ended December 31, 2023, the Company recorded $nil of inventory impairment reversals that were included as a reduction to cost of sales (December 31, 2022 – $140,540).

As of December 31, 2023, the carrying value of inventory includes $473,295 of inventoried depreciation costs (March 31, 2023 – $519,613).

6 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
Business acquisition (Note 3)	442,450
Production costs capitalized	4,851,868
Changes in fair values less costs to sell due to biological transformation	2,637,938
Transferred to inventory upon harvest	(7,313,809)
Balance – December 31, 2023	**1,878,636**

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 December 31, 2023		As at March 31, 2023	
	Assumption:	**Input**	**10% change**	**Input**	**10% change**
i	Weighted average of expected loss of plants until harvest [a]	24%	$60,057	9%	$13,007
ii	Expected yields (dry grams of cannabis per plant) [b]	495 dry flower and 138 dry trim	$187,864	527	$126,019
iii	Weighted average number of growing weeks completed as a percentage of total growing weeks as at year-end	51%	$187,864	53%	$126,019
iv	Estimated selling price (per gram) [c]	$1.84 per gram dried flower	$320,438	$2.06 per gram dried flower	$200,996

[unaudited] [expressed in Canadian dollars, except share amounts]

v	After harvest cost to complete and sell (per gram)	$0.77 per gram dried flower	$132,573	$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.

[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 December 31, 2023, it is expected that the Company's biological assets will yield approximately 3,459,920 (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 income (loss) and comprehensive income (loss).

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.

7 Leases

Right-of-use asset

Cost	**$**
Balance – March 31, 2023	13,187,064
Business acquisition (Note 3)	2,035,501
Balance – December 31, 2023	**15,222,565**
Accumulated depreciation	
Balance – March 31, 2023	2,543,523
Depreciation	1,016,876
Balance – December 31, 2023	**3,560,399**
Net Balance – March 31, 2023	10,643,541
Net Balance – December 31, 2023	**11,662,166**

Lease obligations

	$
Balance – March 31, 2023	11,762,670
Business acquisition (Note 3)	2,035,501
Interest accretion	1,629,362
Lease repayments	(1,898,385)
Balance – December 31, 2023	**13,529,148**
Current	**653,257**
Non-current	**12,875,891**

The Company's right-of-use assets and lease obligations relate to the Company's warehouse and office premises.

[unaudited] [expressed in Canadian dollars, except share amounts]

8 Property, plant and equipment

	Equipment and supplies	Computer equipment	Leasehold improvements	Building	Land	Total
	$	$	$	$	$	$
Cost						
Balance, March 31, 2023	6,054,457	30,470	72,479	—	—	6,157,406
Business acquisition (Note 3)	1,687,185	151,937	317,909	10,246,176	621,957	13,025,164
Additions	475,465	19,747	21,250	2,208,099	—	2,724,561
Disposals	—	—	—	—	—	—
Balance, December 31, 2023	**8,217,107**	**202,154**	**411,638**	**12,454,275**	**621,957**	**21,907,131**
Accumulated depreciation						
Balance, March 31, 2023	2,586,398	10,893	5,739	—	—	2,603,030
Depreciation	688,711	27,156	267,254	475,466	—	1,458,587
Disposals	—	—	(5,739)	—	—	(5,739)
Balance, December 31, 2023	**3,275,109**	**38,049**	**267,254**	**475,466**	**—**	**4,055,878**
Carrying value						
Balance, March 31, 2023	3,468,059	19,577	66,740	—	—	3,554,376
Balance, December 31, 2023	**4,941,998**	**164,105**	**144,384**	**11,978,809**	**621,957**	**17,851,253**

During the three and nine months ended December 31, 2023, the Company allocated $230,129 and $560,072 (2022 – $86,303 and $565,009) of depreciation expense to the production of biological assets and inventory. During the three and nine months ended December 31, 2023, the Company recognized a loss on disposal of $nil and $nil (2022 – $nil and $nil).

9 Intangible assets and goodwill, net

	License	Technology	Trademarks and brand	Goodwill	Total
Cost	$	$	$	$	$
Balance, March 31, 2023	—	—	—	—	—
Acquisition	12,240,000	260,000	280,000	12,916,007	25,696,007
Balance, December 31, 2023	**12,240,000**	**260,000**	**280,000**	**12,916,007**	**25,696,007**
Accumulated depreciation					
Balance, March 31, 2023	—	—	—	—	—
Depreciation	1,020,005	15,475	16,665	—	1,052,145
Balance, December 31, 2023	**1,020,005**	**15,475**	**16,665**	**—**	**1,052,145**
Carrying Value					
Balance, March 31, 2023	—	—	—	—	—
Balance, December 31, 2023	**11,219,995**	**244,525**	**263,335**	**12,916,007**	**24,643,862**

[unaudited] [expressed in Canadian dollars, except share amounts]

10 Notes payable

The following table presents the notes payable for the Company:

	December 31, 2023	March 31, 2023
	$	$
Due to related parties [i]	**5,152,181**	6,157,979
Promissory notes [ii]	**10,716,730**	—
Total notes payable	**15,868,911**	6,157,979
Current	**15,868,911**	6,157,979
Non-current	**—**	—

[i] Due to related parties

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 December 31, 2023, $5,152,181 (March 31, 2023 – $6,157,979) of notes payable were due on demand.

	December 31, 2023	March 31, 2023
	$	$
Balance – Beginning of period	**6,157,979**	2,041,820
Advances	**4,538**	5,995,000
Interest expense	**735,802**	798,256
Repayments	**(1,746,138)**	(2,677,097)
Balance – End of period	**5,152,181**	6,157,979
Current	**5,152,181**	6,157,979
Non-current	**—**	—

[ii] Promissory notes

On July 28, 2023, as part of the business acquisition (Note 3), the Company assumed three promissory notes (the “ISO Promissory Notes”) each with a principal value of $4,167,667, for an aggregate amount of $12,500,000, bearing interest at 5% payable annually. The maturity dates of the three promissory notes are December 12, 2023, June 12, 2024, and December 12, 2024. The promissory notes are secured by a general security agreement registered against the assets of IsoCanMed.

On closing of the RTO Transaction, the Company determined that the fair value of the ISO Promissory Notes was $10,875,572.

On December 11, 2023, the Company and one of the note holders agreed to amend one of the promissory note (the “Amended ISO Promissory Note”). The Amended ISO Promissory note extended the maturity date from December 12, 2023 to April 30, 2024. In exchange for the extension, the Company repaid $1,000,000 of the outstanding principal of the promissory note and amended the terms of outstanding warrants (see Note 13). The exercise price of 333,333 warrants issued in conjunction with the ISO Promissory Notes were reduced from $1.20 per common share to $0.66 per share. The warrants were also amended to include a clause where, if the closing price of the common shares for ten consecutive trading days exceeds $0.825 per Share (the "Accelerated Period"), the expiry date of the Warrants will be automatically accelerated without any further action on the part of the Company or the holder of the Warrants to a date that is 30 days following the end of the Accelerated Period.

The Company determined that the changes to the contractual cash flows and term were a substantial modification. Therefore, the Company extinguished the existing debt of $3,244,863 and recognized new debt with a fair value of $3,052,388. The Company recognized the gain on extinguishment of $192,475, recorded in the line-item finance expense, net in the consolidated statements of income (loss) and comprehensive income (loss).

The Company also determined the exercise price will remain fixed if and when the contingent event occurs. Therefore, the warrants will remain classified as equity. The Company recorded a loss on modification of $23,013 on remeasurement of the warrants, recorded in the line-item finance expense, net in the consolidated statements of income (loss) and comprehensive income (loss).

[unaudited] [expressed in Canadian dollars, except share amounts]

	December 31, 2023
	$
Balance – Beginning of period	—
Business acquisition (Note 3)	10,875,572
Interest expense	1,033,633
Repayments	(1,000,000)
Gain on extinguishment	(192,475)
Balance – End of period	10,716,730
Current	10,716,730
Non-current	—

11 Borrowings

The following table presents the borrowings for the Company:

	December 31, 2023	March 31, 2023
	$	$
Biofloral Loan [i]	—	1,400,000
Canada Emergency Business Account Loan I [ii]	—	60,000
Canada Emergency Business Account Loan II [iii]	—	—
Mortgage payable [iv]	2,268,089	—
Unsecured loan [v]	342,630	—
Debenture [vi]	—	—
Total borrowings	2,610,719	1,460,000
Current	481,595	1,460,000
Non-current	2,129,124	—

[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 nine months ended December 31, 2023, the Company repaid $1,400,000 of the principal balance. The loan is classified at amortized cost and accounted for using the effective interest rate method. During the three and nine months ended December 31, 2023, the Company incurred $nil and $38,781 of interest expense (2022 – $42,840 and $126,438). The loan was repaid on July 17, 2023.

	Amount
	$
Balance – March 31, 2023	1,400,000
Interest expense	38,781
Repayments	(1,438,781)
Balance – December 31, 2023	—

[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 and nine months ended December 31, 2023, the Company incurred $nil and $nil of interest expense (2022 – $2,348 and $7,348). On December 28, 2023, the Company repaid $40,000 of the loan and the remaining $20,000 was forgiven. The Company recognized a gain on forgiveness of $20,000, recorded in the line-item "other income" in the consolidated statements of income (loss) and comprehensive income (loss).

[iii] Canada Emergency Business Account Loan Two

On July 28, 2023, as part of the business acquisition (Note 3), the Company assumed additional CEBA loans of $80,000. The loans are due by December 31, 2024, and bear interest at 5% per annum starting from January 1, 2024, payable at maturity. Repaying the balance of the loans on or before December 31, 2023, will result in loan forgiveness of 25 percent. On December 28, 2023, the Company repaid $60,000 of the loan and the remaining $20,000 was forgiven. The Company recognized a gain on forgiveness of $20,000, recorded in the line-item "other income" in the consolidated statements of income (loss) and comprehensive income (loss).

[iv] Mortgage payable

On July 28, 2023, as part of the business acquisition (Note 3), the Company assumed a mortgage payable balance (the "Mortgage") for an aggregate principal of $2,000,000, bearing interest at 12% per annum. The Mortgage is secured by the property and assets of the Company's wholly owned subsidiary, IsoCanMed, in Louiseville, Quebec, and is subject to monthly interest-only installments of $17,000, with the principal amount due on January 1, 2024. On closing of the RTO Transaction, the Company determined that the fair value was $2,058,334.

On December 20, 2023, the Company and lender entered into an amended mortgage agreement (the "Amended Mortgage"). The Amended Mortgage delayed repayment of the principal and accrued and outstanding interest from January 1, 2024 to January 1, 2025. Under the terms of the Amended Mortgage, the interest rate was increased from 12% to 13.25% per annum, payable monthly beginning February 1, 2024.

The Company incurred cash transaction costs of $30,000 which are being amortized as accretion expense over the term of the Amended Mortgage. The amortization of transaction costs is included in the line-item 'finance expense, net' in the consolidated statements of income (loss) and comprehensive income (loss). As a result of the Amended Mortgage, the Company recognized a loss on modification of $158,604, recorded in the line-item finance expense, net in the consolidated statements of income (loss) and comprehensive income (loss).

During the three and nine months ended December 31, 2023, the Company incurred $69,484 and $109,484 of interest expense (2022 – $nil and $nil).

[v] Unsecured loan

On July 28, 2023, as part of the business acquisition (Note 3), the Company assumed a three-year unsecured loan provided by a vendor, bearing interest at 2% per annum, payable annually. The loan matured on October 31, 2021 and is due on demand.

On closing of the RTO Transaction, the Company determined that the fair value was $340,010, comprised of the principal amount of $313,000 and accrued but unpaid interest of $27,010. During the three and nine months ended December 31, 2023, the Company incurred $1,575 and $2,620 of interest expense (2022 – $nil and $nil).

[vi] Debenture

On July 28, 2023, as part of the business acquisition (Note 3), the Company assumed a secured debenture to DMBB (Pty) Holdings Ltd. in the principal amount of $700,000, with accrued interest of $230,942 (the "Debenture"). The Debenture bears interest at 18% per annum, payable at maturity. The Debenture matures in October 2023.

The Company determined that the fair value was $930,942. During the three and nine months ended December 31, 2023, the Company incurred $nil and $43,738 of interest expense (2022 – $nil and $nil).

On September 29, 2023, the Company repaid the outstanding principal and accrued interest of $974,680.

[unaudited] [expressed in Canadian dollars, except share amounts]

12 Convertible debentures

Change of the carrying value of the convertible debentures are as follows:

	2017 Debentures (i)	Archerwill Debentures (ii)	Total
	$	$	$
Balance as at March 31, 2023	—	—	—
Business acquisition (Note 3)	607,000	5,612,972	6,219,972
Interest accretion expense	36,883	400,772	437,655
Interest payments	(36,883)	(536,883)	(573,766)
Balance as at December 31, 2023	**607,000**	**5,476,861**	**6,083,861**
Current	607,000	1,572,999	2,179,999
Non-current	—	3,903,862	3,903,862

(i) 2017 Debentures

On July 28, 2023, as part of the business acquisition (Note 3), the Company assumed unsecured convertible debentures with an outstanding balance of $607,000 (the “2017 Debentures”). Each 2017 Debentures unit comprises a principal amount of $1,000 and bears interest at 18% per annum, payable monthly. As of December 31, 2023 the 2017 Debentures are due on demand and are no longer convertible.

The Company determined that the fair value of the 2017 Debentures was $607,000. During the three and nine months ended December 31, 2023, the Company incurred $18,673 and $36,883 of interest expense (2022 – $nil and $nil).

(ii) Archerwill Debentures

On July 28, 2023, as part of the business acquisition (Note 3), the Company assumed secured convertible debentures for gross proceeds of $6,500,000 (the “Archerwill Debentures”). Each Archerwill Debentures unit comprises a principal amount of $1,000 and bears interest at 8% per annum. The Archerwill Debentures may be converted into common shares at the lower of $0.90 and the volume weighted average trading price of the Common Shares of the Resulting Issuer over the first 20 trading days following the resumption of trading of the Common Shares on the Canadian Securities Exchange ("CSE"), subject to a minimum price of $0.50. The Archerwill Debentures are convertible into shares or payable in cash at maturity, at the option of the lender. Unless converted earlier, the Archerwill Debentures mature on August 8, 2025.

In conjunction with the Archerwill Debentures, the Company issued 4,333,333 common share purchase warrants (the “Archerwill Debenture Warrants”), exercisable until August 8, 2024 at the lower of $1.20 and 130% of the volume weighted average trading price (“VWAP”) of the Common Shares of the Resulting Issuer over the first 20 trading days following the resumption of trading of the Common Shares on the Canadian Securities Exchange ("CSE"). On September 18, 2023, 60% or 2,600,000 of the Archerwill Debenture Warrants were cancelled as the 20 day VWAP of Common Shares following the resumption of trading on the CSE was less than $0.65 per common share.

On closing of the business acquisition (Note 3), the Company determined that the fair value of the host debt instrument, the conversion option derivative, and warrant liability was $6,219,972, $4,866,000, and $562,000 respectively. The fair value of the conversion feature and warrants were assessed using a combination of a Monte Carlo analysis and Black-Scholes model. Key assumptions used in both models were a share price of $0.47, estimated volatility of 100% and a risk-free rate of 4.0%. The fair value of the host debt instrument was fair valued based on a discount rate of 22%.

After the first 20 trading days following the resumption of trading, the conversion option derivative and warrant liability met the criteria for equity classification on September 18, 2023. In accordance with IAS 32, the conversion option derivative and warrant liability were reclassed into equity at the remeasured fair value on September 18, 2023.

As at September 18, 2023, the Company determined the fair value of the conversion option derivative, and warrant liability as $2,740,000, and $310,000 respectively. The fair value of the conversion feature and warrants were assessed using a combination of a Monte Carlo analysis and Black-Scholes model. Key assumptions used in both models were a share price of $0.31, estimated volatility of 105% and a risk-free rate of 4.1%. The gain of $2,378,000 was recorded in the line item 'Finance expense, net'.

[unaudited] [expressed in Canadian dollars, except share amounts]

13 Share capital

(a) Authorized

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

(b) Issued and outstanding

	Common shares	
	#	$
Balance – March 31, 2023	46,152,564	100
Shares issued pursuant to Tranche Two Closing (Note 3)	70,173,556	—
Shares issued for services (Note 3)	131,441	61,777
Balance – December 31, 2023	**116,997,561**	**61,877**

(c) Warrants

On July 28, 2023, as a result of the business acquisition (Note 3), the Company issued replacement warrants for all warrants issued and outstanding of Canada House at the time of the Tranche Two Closing. The replacement warrants were issued on the same terms, except they were exercisable into common shares of MTL Cannabis Corp., rather than Canada House. Each warrant converts into one common share of the Company on exercise. The fair value of the replacements warrants in MTL Cannabis Corp. was included as a part of the total purchase consideration (Note 3).

The changes in the numbers of warrants outstanding during the nine months ended December 31, 2023 were as follows:

	Number of warrants	Weighted average exercise price
	#	$
Outstanding as at March 31, 2023	—	—
Business acquisition	4,244,761	1.39
Reclassification of warrant liability to equity (i)	1,733,333	0.75
Outstanding as at December 31, 2023	**5,978,094**	**1.20**

The following table is a summary of the Company's warrants outstanding as at December 31, 2023:

Expiration date	Warrants outstanding	Weighted average exercise price
	#	$
2025-08-30	999,999	1.02
2026-12-31	3,244,762	1.50
2027-08-05	1,733,333	0.75
	5,978,094	**1.20**

(d) Stock options

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

On July 28, 2023, as a result of the business acquisition (Note 3), the Company issued replacement stock options for all options issued and outstanding of Canada House at the time of the Tranche Two Closing. The replacement stock options were issued on the same terms, except they were exercisable into common shares of MTL Cannabis Corp., rather than Canada House. Each stock option converts into one common share of the Company on exercise.

[unaudited] [expressed in Canadian dollars, except share amounts]

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

The fair value of the replacements options in MTL Cannabis Corp. was included as a part of the total purchase consideration (Note 3).

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

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

	2023		2022	
	Number of options	**Weighted average exercise price**	Number of options	Weighted average exercise price
	#	**$**	#	$
Options outstanding, beginning of period	—	—	—	—
Options granted	**1,765,000**	**1.26**	—	—
Options outstanding – December 31	**1,765,000**	**1.26**	—	—
Options exercisable – December 31	**1,765,000**	**1.26**	—	—

The following table is a summary of the Company's share options outstanding as at December 31, 2023:

Options outstanding			**Options exercisable**	
Exercise price	**Number outstanding**	**Weighted average remaining contractual life [years]**	**Weighted average exercise price**	**Number exercisable**
$	**#**	**#**	**$**	**#**
0.63	500,000	4.66	0.63	500,000
1.50	1,261,667	1.76	1.50	1,261,667
4.80	3,333	0.31	4.80	3,333
1.26	**1,765,000**	**2.58**	**1.26**	**1,765,000**

14 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 three months ended December 31,		**For the nine months ended December 31,**	
	2023	**2022**	**2023**	**2022**
	$	**$**	**$**	**$**
Net income (loss) for the period	**(248,286)**	(1,741,476)	**1,558,005**	(1,880,511)
Weighted average number of shares for basic EPS	**116,997,561**	46,152,564	**86,340,999**	33,238,568
Basic and diluted EPS	**$(0.002)**	$(0.038)	**$0.018**	$(0.057)

The Company has three categories of potentially dilutive securities: convertible debentures, warrants and stock options. These potentially dilutive securities were out of the money for the period ending December 31, 2023.

[unaudited] [expressed in Canadian dollars, except share amounts]

15 Finance expense

Finance expense for the three and nine months ended December 31, 2023 and 2022 consists of the following:

	For the three months ended December 31,		For the nine months ended December 31,	
	2023	**2022**	**2023**	**2022**
	$	**$**	**$**	**$**
Interest on lease obligations	**577,633**	234,618	**1,629,362**	721,111
Interest on notes payable	**838,850**	227,694	**1,769,435**	537,854
Interest on borrowings	**71,059**	45,197	**194,623**	133,786
Interest on convertible debentures	**268,236**	—	**437,655**	—
Fair value gain on financial liabilities (Note 12)	**—**	—	**(2,378,000)**	—
Other finance (income) expense	**(220)**	25,411	**(151,449)**	25,411
	1,755,558	532,920	**1,501,626**	1,418,162

16 Nature of expenses

General and administrative expenses for the three and nine months ended December 31, 2023 and 2022 consists of the following:

	For the three months ended December 31,		For the nine months ended December 31,	
	2023	**2022**	**2023**	**2022**
	$	**$**	**$**	**$**
Salaries, wages and benefits	**3,581,507**	677,025	**6,558,675**	2,183,196
General operating	**1,137,206**	2,428,912	**3,179,866**	2,733,275
Occupancy expense (recovery)	**95,163**	—	**(108,571)**	—
Professional fees	**531,214**	369,407	**2,351,627**	904,026
	5,345,090	3,475,344	**11,981,597**	5,820,497

17 Segmented information

The Company reports segment information based on internal reports used by the Chief Operating Decision maker (“CODM”) to make operating and resource decisions and to assess performance. The CODM is the Chief Executive Officer. The CODM makes decisions and assesses performance of the Company on a consolidated basis such that the Company is a single reportable operating segment. The company has two reportable and operating segments. The Company cultivates and distributes cannabis related products via federally approved cannabis programs by way of its Licensed Producer business. In addition, Company operates its clinic business through its CHC subsidiary. The Company derives substantially all of its revenue from these two segments.

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

Revenue for the three and nine months ended December 31, 2023 and 2022:

	For the three months ended December 31,		For the nine months ended December 31,	
	2023	**2022**	**2023**	**2022**
	$	**$**	**$**	**$**
Licensed producer	**22,369,345**	8,695,241	**62,370,723**	20,533,045
CHC	**1,336,609**	—	**2,244,489**	—
	23,705,954	8,695,241	**64,615,212**	20,533,045

[unaudited] [expressed in Canadian dollars, except share amounts]

Non-current assets as at December 31, 2023 and March 31, 2023:

	Licensed producer	CHC	Total
	$	$	$
December 31, 2023			
Right-of-use assets, net	10,820,076	842,090	11,662,166
Property, plant and equipment, net	17,253,576	597,677	17,851,253
Intangible assets, net	24,136,002	507,860	24,643,862
	52,209,654	**1,947,627**	**54,157,281**
March 31, 2023			
Right-of-use assets, net	10,643,541	—	10,643,541
Property, plant and equipment, net	3,554,376	—	3,554,376
	14,197,917	**—**	**14,197,917**

18 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 December 31, 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 December 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.

a) 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.

b) The Company and its subsidiary, Abba, were served with a Statement of Claim for damages for the alleged failure to pay invoices in the amount of $200,000 plus pre- and post-judgment interest. Pleadings have now closed, and the parties are in the process of scheduling examinations for discovery. Given that examinations for discovery have not yet occurred, it is too early in the process to have a reasonable expectation or evaluation of the Plaintiff's claim, but the Company believes the claim to be without merit.

c) On April 15, 2021, Canada House's wholly owned subsidiary, IsoCanMed, was served with an application to initiate proceedings for damages for its alleged failure to pay invoices in the amount of $304,000 plus pre and post judgment interest. Prior to the Plaintiff initiating proceedings, IsoCanMed provided the Plaintiff with a list of deficiencies related to the Plaintiff's work installing the HVAC system at IsoCanMed's facility. The list of deficiencies includes the Plaintiff's supply and installation of a chiller which has not yet been put into operation by the Plaintiff. The Plaintiff and IsoCanMed discussed IsoCanMed's payment of the balance owing (approximately $305,000) on the total contract value of $2,300,000 when the Plaintiff had successfully remedied the outstanding deficiencies in its workmanship. In addition, at the request of the Plaintiff, IsoCanMed provided the Plaintiff with comments on the items it disputed in the Plaintiff's outstanding invoices. After receiving IsoCanMed's requested comments, the Plaintiff halted all communication and proceeded with this application.

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

d) The Company was served with an application to initiate proceedings for damages for its alleged failure to pay indebtedness in the amount of $65,000. The Company has retained external counsel to appear on the Company's behalf and respond to the application. It is too early in the process to have a reasonable expectation or evaluation of the plaintiff's claim, but the Company believes the claim to be without merit.

e) The Company is in the process of corresponding with the remaining holders of the Company's outstanding Convertible Debentures dated December 5, 2017, some of which were amended by Convertible Debenture Amending Agreements dated as of December 5, 2021 (collectively, the "2017 Debentures"), to propose repayment terms. The Company has not entered into repayment agreements with all holders of the 2017 Debentures. The principal and interest of the 2017 Debentures not subject to repayment agreements is due and payable and the holders of the 2017 Debentures may exercise rights to enforce the payment thereof.

19 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 the RTO Transaction with CHV. With the closing of the first tranche of the RTO 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 resulted in the Company being considered a related party to CHV and its subsidiaries, ICM and Abba Medix Corp.

The second stage of the RTO Transaction was completed on July 28, 2023 (the “Tranche Two Closing”). The Tranche Two Closing resulted in Canada House acquiring the remaining 75.01% of the issued and outstanding shares of MTL Cannabis in exchange for 30.01% of the issued and outstanding common shares of Canada House.

Compensation expense which consists of salaries and benefits for the Company’s key management personnel for the three and nine months ended December 31, 2023, was $203,348 and $529,703 (2022 – $193,925 and $443,931).

As of December 31, 2023, the Company had an outstanding receivable balance of $49,100 (March 31, 2023 – $22,472).

During the three and nine months ended December 31, 2023, the Company purchased $76,617 and $1,273,976 (2022 – $736,906 and $1,692,583) of equipment and services at market rates. As of December 31, 2023, the Company had an outstanding balance of $2,602 (March 31, 2023 – $632,505) recorded in trade and other payables. The Company also made prepayments of $201,992 as of December 31, 2023 (March 31, 2023 – $180,714).

During the three and nine months ended December 31, 2023, the Company made rental and lease payments to related parties totaling $532,720 and $1,683,625 (2022 – $387,165 and $1,179,165).

During the three and nine months ended December 31, 2023, the Company accrued interest of $229,465 and $735,802 (2022 – $214,194 and $454,847) on a notes payable balance from a Company controlled by the Chief Cultivation Officer and Chief Operating Officer. The Company repaid $1,746,138 during the nine months ended December 31, 2023 (2022 – $2,189,525). As of December 31, 2023, the Company had an outstanding balance payable of $5,152,181 (March 31, 2023 – $6,157,979) recorded in notes payable (Note 10). The balance payable is due on demand. As of September 30, 2022, the note is interest bearing at a rate of 17% per annum. Prior to this period the interest was non-interest bearing.

20 Subsequent Events

On February 1, 2024, the Company paid down principal amounts to three of its creditors in the amount of $1,000,000 in total. Of this principal amount, $500,000 was paid towards the Notes Payable, $250,000 was paid towards “Convertible Debentures”, and $250,000 was paid towards the Borrowings.