CANNTAB THERAPEUTICS LIMITED

CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED MAY 31, 2022 AND 2021

(Stated in $CAD)

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of
Canntab Therapeutics Limited

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Canntab Therapeutics Limited (the Company), which comprise the consolidated statements of financial position as at May 31, 2022, and the consolidated statements of loss and comprehensive loss, consolidated statements of changes in equity and consolidated statements of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

Basis for Opinion

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

Material Uncertainty Relating to Going Concern

We draw your attention to Note 1 in the consolidated financial statements, which indicates the Company incurred a comprehensive loss of $3,689,186 during the year ended May 31, 2022. As stated in Note 1, these events or conditions, along with other matters as set forth in Note 1, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other Matter

The consolidated financial statements of the Company for the year ended May 31, 2021, were audited by another auditor, who expressed an unmodified opinion on those statements on September 28, 2021.

Information Other than the Consolidated Financial Statements and Auditor's Report Thereon

Management is responsible for the other information. The other information comprises the annual management's discussion and analysis, but does not include the consolidated financial statements and our auditor's report thereon.

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

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

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

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

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

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

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management’s use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor’s report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor’s report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

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

Clearhouse LLP

Chartered Professional Accountants
Licensed Public Accountants

Mississauga, Ontario
September 28, 2022

CANNTAB THERAPEUTICS LIMITED
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AS AT MAY 31, 2022 AND 2021
(Stated in $CAD)

	2022	2021
ASSETS		
Current:		
Cash and cash equivalents (Note 6)	**$ 691,111**	$ 1,490,863
Accounts receivable (Note 7)	**209,720**	207,363
Inventories (Note 8)	**489,256**	1,720,646
Prepaid expenses and deposits	**74,527**	95,945
	1,464,614	3,514,817
Long term:		
Plant and equipment (Note 10)	**778,554**	2,065,988
Right-of-use assets (Note 12)	**305,118**	490,932
Intangible assets (Note 13)	**303,818**	289,107
	$ 2,852,104	$ 6,360,844
LIABILITIES		
Current:		
Bank loan payable	**$ 60,000**	$ 60,000
Accounts payable and accrued liabilities (Note 14)	**967,669**	1,421,108
Current portion of lease liabilities (Note 15)	**152,505**	183,884
Current portion of debentures payable (Note 16(III))	**1,300,114**	-
Current portion of derivative liabilities (Note 16(III))	**77,229**	-
	2,557,517	1,664,992
Long term:		
Lease liabilities (Note 15)	**201,491**	353,997
Debentures payable (Note 16(III))	**126,204**	968,032
Derivative liabilities (Note 16(III))	**278,115**	1,105,065
	3,163,327	4,092,086
SHAREHOLDERS' EQUITY (DEFICIT)		
Common shares (Note 17)	**13,443,304**	11,606,235
Shares to be issued (Note 17(a))	**-**	813,750
Contributed surplus	**2,944,928**	2,859,042
Accumulated deficit	**(16,699,455)**	(13,010,269)
	(311,223)	2,268,758
	$ 2,852,104	$ 6,360,844

Going concern (Note 2(c))

Subsequent events (Note 29)

The accompanying notes form an integral part of these consolidated financial statements

Approved on behalf of the Board:

"Richard Goldstein" Director   *"Vitor Fonseca"* Director

CANNTAB THERAPEUTICS LIMITED
CONSOLIDATED STATEMENTS OF NET LOSS AND COMPREHENSIVE LOSS
YEARS ENDED MAY 31, 2022 AND 2021
(Stated in $CAD)

	2022	2021
Revenue		
Tablet sales	**$ 293,362**	$ -
Cost of sales		
Cost of goods sold	**223,894**	-
Gross profit	**69,468**	-
Expenses		
Employee compensation and benefits	**1,057,928**	785,637
Professional fees	**383,570**	384,993
Consulting fees	**497,138**	573,515
Marketing and regulatory expenses	**226,388**	128,175
General and administrative	**211,699**	198,969
Research and development	**205,031**	80,357
Interest and accretion	**566,672**	188,722
Share based compensation (Note 18(j))	**450,345**	632,772
Depreciation of plant and equipment and right-of-use assets	**591,400**	510,604
Amortization of intangible assets	**43,317**	35,738
	4,233,488	3,519,482
Loss from operations	**(4,164,020)**	(3,519,482)
Other income (expenses)		
Gain (loss) on derivative liabilities (Note 16)	**1,922,639**	(470,321)
Loss on disposal of assets (Note 10)	**(39,326)**	-
Impairment - inventory (Note 8(a))	**(1,008,479)**	(263,312)
Impairment - production equipment (Note 10)	**(400,000)**	-
Impairment - advance to supplier (Note 9)	**-**	(166,667)
Net loss and comprehensive loss	**$ (3,689,186)**	$ (4,419,782)
Basic and diluted loss per share (Note 17(e))	**$ (0.10)**	$ (0.13)

The accompanying notes form an integral part of these consolidated financial statements

CANNTAB THERAPEUTICS LIMITED
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
YEARS ENDED MAY 31, 2022 AND 2021
(Stated in $CAD)

	Note	Common shares Number	Common shares Amount	Shares to be issued	Contributed surplus	Accumulated deficit	Total
As at June 1, 2020		**32,757,601**	**$ 9,843,783**	**$ -**	**$ 2,275,448**	**$ (8,590,487)**	**$ 3,528,744**
Net loss and comprehensive loss		-	-	-	-	(4,419,782)	**(4,419,782)**
Share based compensation	**18(j)**	-	-	-	632,772	-	**632,772**
Exercise of broker warrants	**17(c)**	116,523	86,716	-	(28,455)	-	**58,261**
Shares issued on equipment purchases	**17(c)**	2,584,313	1,318,000	-	-	-	**1,318,000**
Exercise of stock options	**17(c)**	100,000	69,978	-	(44,978)	-	**25,000**
Exercise of share purchase warrants	**17(c)**	380,000	287,758	-	(2,758)	-	**285,000**
Proceeds on shares to be issued	**17(d)**	-	-	813,750	-	-	**813,750**
Issuance of broker warrants in connection with debenture offering	**20(b)**	-	-	-	27,013	-	**27,013**
As at May 31, 2021		**35,938,437**	**11,606,235**	**813,750**	**2,859,042**	**(13,010,269)**	**2,268,758**
Net loss and comprehensive loss		-	-	-	-	(3,689,186)	**(3,689,186)**
Share based compensation	**18(j)**	-	-	-	431,145	-	**431,145**
Shares issued in exchange for services	**17(b)**	40,000	19,200	-	-	-	**19,200**
Exercise of share purchase warrants	**17(b)**	1,384,000	1,048,045	(813,750)	(10,045)	-	**224,250**
Exercise of stock options	**17(b)**	960,000	435,854	-	(195,854)	-	**240,000**
Exercise of special warrants	**17(b)**	412,500	203,740	-	(96,240)	-	**107,500**
Exercise of broker warrants	**17(b)**	174,222	130,230	-	(43,120)	-	**87,110**
As at May 31, 2022		**38,909,159**	**$ 13,443,304**	**$ -**	**$ 2,944,928**	**$ (16,699,455)**	**$ (311,223)**

The accompanying notes form an integral part of these consolidated financial statements

CANNTAB THERAPEUTICS LIMITED
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED MAY 31, 2022 AND 2021
(Stated in $CAD)

	2022	2021
Operating activities		
Net loss and comprehensive loss	**$ (3,689,186)**	$ (4,419,782)
Add (deduct) items not affecting cash:		
Share based compensation	**450,345**	632,772
Depreciation of plant and equipment and right-of-use assets	**591,400**	510,604
Amortization of intangible assets	**43,317**	35,738
Interest and accretion on debentures	**415,506**	77,384
Loss on disposal of assets	**39,326**	-
Impairment provision - inventory	**1,008,479**	263,312
Impairment - production equipment	**400,000**	-
Impairment provision - advance to supplier	**-**	166,667
Gain (loss) on derivative liabilities	**(1,922,639)**	470,321
Consulting fees settled through debenture issuance	**-**	50,000
Broker warrants expensed as transaction costs	**-**	10,887
	(2,663,452)	(2,202,097)
Change in non-cash working capital items		
Accounts receivable	**(2,357)**	(59,857)
Inventories	**499**	(878,901)
Term loan payable	**-**	20,000
Prepaid expenses and deposits	**21,418**	64,783
Accounts payable and accrued liabilities	**(202,007)**	206,594
	(2,845,899)	(2,849,478)
Investing activities		
Purchase of plant and equipment	**(30,105)**	(271,955)
Purchase of intangible assets	**(58,029)**	(73,134)
Proceeds on sale of assets	**239,484**	-
	151,350	(345,089)
Financing activities		
Proceeds from convertible debenture offering, net of transaction costs	**1,299,821**	1,491,519
Proceeds on exercise of share purchase warrants	**224,250**	285,000
Proceeds on exercise of stock options	**240,000**	25,000
Proceeds on exercise of special warrants	**107,500**	-
Proceeds on exercise of broker compensation warrants	**87,111**	58,261
Repayment of lease liabilities	**(63,885)**	(78,538)
Proceeds from shares to be issued	**-**	813,750
	1,894,797	2,594,992
Change in cash and cash equivalents	**(799,752)**	(599,575)
Cash and cash equivalents, beginning of year	**1,490,863**	2,090,438
Cash and cash equivalents, end of year	**$ 691,111**	$ 1,490,863

Non-cash transactions (Note 28)

The accompanying notes form an integral part of these consolidated financial statements

1. Nature of Operations

(a) Nature of operations

Canntab Therapeutics Limited ("Canntab" or the "Company") was incorporated on April 20, 2016 under the Canada Business Corporations Act. The Company, with its head office located at 223 Riviera Drive, Markham, Ontario, L3R 5J6, is a Canadian phytopharmaceutical company focused on the manufacturing and distribution of a suite of hard pill cannabinoid formulations in multiple doses and timed-release combinations. Canntab's proprietary hard pill cannabinoid formulations provide doctors, patients and consumers with medical grade solutions which incorporate all the features one would expect from any prescription or over the counter medication sold in pharmacies around the world.

Canntab holds both a Cannabis Standard Processing and Sales for Medical Purposes Licence (recently amended and expanded to allow for direct sales to consumers) and a Cannabis Research Licence from Health Canada.

Canntab trades on the Canadian Securities Exchange under the symbol "PILL", the OTCQB Best Market under the symbol "CTABF" and the Frankfurt Stock Exchange under the symbol "TBF1"

2. Basis Of Presentation

(a) Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and Interpretations of the International Financial Reporting Interpretations Committee ("IFRIC"). The accounting policies set out below were consistently applied to all periods presented unless otherwise noted. The consolidated financial statements were authorized for issuance by the Board of Directors on September 28, 2022.

(b) Basis of presentation

The consolidated financial statements are prepared on a going concern basis under the historical cost convention, except for certain financial instruments that are measured at fair value. Unless otherwise stated, the consolidated financial statements are presented in Canadian dollars. That is the Company's functional and presentation currency as (i) the Company is based in Canada, (ii) the majority of its operating costs are denominated in Canadian dollars, and (iii) all its financing is obtained through Canadian dollar private placements and debenture financings.

2. BASIS OF PRESENTATION, CONTINUED

(c) Going concern

These consolidated financial statements have been prepared on a going concern basis which assumes that the Company will, in the foreseeable future, continue to convert its sales orders into revenue, realize on its assets and discharge its liabilities in the normal course of business as they come due. Accordingly, the consolidated financial statements do not give effect to adjustments that would be necessary should the Company be unable to continue as a going concern and, therefore be required to realize its assets and liquidate its liabilities and commitments in other than the normal course of business and at amounts different from those in these consolidated financial statements. Such adjustments could be material.

As at May 31, 2022, the Company had an accumulated deficit of $16,699,455 (May 31, 2021 - $13,010,269). Working capital as at May 31, 2022 was a deficiency of $1,092,903 compared to a surplus of $1,849,825 as at May 31, 2021. Net loss and comprehensive loss for the year ended May 31, 2022 was $3,689,186 (2021 - $4,419,782). Other than some initial licensing fees received and some recent international sales, operations since inception have been largely funded from the issuance of shares and convertible debentures, the exercise of stock options and warrants and the sale of excess equipment.

As evidenced by its accumulated deficit, the Company has, during its start-up phase, made significant capital and operational investments from the funds raised. These funds have been used to build out the legal and operating infrastructure, the intellectual property portfolio and to obtain the production and sales licences necessary to capitalize on the opportunities within the cannabis marketplace in Canada and internationally.

The Company has undergone numerous recent financing initiatives as follows: (i) an initial convertible debenture offering for gross proceeds of $1,575,000 in December, 2020 (see note 16(I)), (ii) a second convertible debenture offering for gross proceeds of $1,312,000 in January, 2022 (see note 16(II)), (iii) $658,860 raised from exercise of share purchase warrants, stock options, special warrants and broker warrants since June, 2021 (see note 17(b)), and (iv) $239,000 from the sale of excess equipment. Based on the above and all other business initiatives being undertaken by management, the Company anticipates that it will have sufficient cash on hand to service its liabilities and fund operating costs for the immediate future, but there is uncertainty as to how long these funds will last. The Company believes that, based on its revenue forecasts, expected opportunities in the marketplace and the ability to reduce expenditures, it could continue as a going concern for a minimum of twelve months from the date of these financial statements.

2. Basis Of Presentation, continued

To achieve that, the Company will need to (i) continue to develop its marketing opportunities into further revenue generating transactions, (ii) obtain forbearance agreement from convertible debenture holders to forbear from enforcing their enforcement rights (as defined in the Interlender Agreement) *(see note 29(a)),* or to forbear from declaring or acting upon, or exercising related rights or remedies under the debentures, (iii) arrange future financing that will largely depend upon prevailing capital market conditions and the continued support of its shareholder base, and (iv) identify and negotiate partnerships to assist Canntab in expanding its product offerings in Canada, United States, and other international jurisdictions. Management will need to continue assessing its financing options to raise the funds required to continue its strategy of expanding its product line, manufacturing facilities, research and development and geographic coverage. However, there can be no assurance that management's fund raising plans will be successful. While the Company has been successful in recent fundraising efforts as noted above, there can be no assurance that additional funds could be raised in the future. As a result, these factors indicate the existence of a material uncertainty that may cast significant doubt upon the Company's ability to continue as a going concern.

3. Significant Accounting Policies

(a) Basis of consolidation

These consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries, 420 Therapeutics Inc. and Canntab USA, Inc., a Delaware company. The parent company amalgamated with Canntab Therapeutics Subsidiary Limited on July 30, 2021 and was continued as Canntab Therapeutics Limited.

A subsidiary is an entity controlled by the Company. Control exists when the Company has power over an investee, is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to use its power over the investee to affect its returns. The financial statements of a subsidiary are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries are changed when necessary to align them with the policies applied by the Company in these consolidated financial statements. All intercompany balances and transactions between the Company and its consolidated subsidiaries are eliminated upon consolidation.

3. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

(b) Financial instruments

Financial assets and financial liabilities are recognized when the Company becomes party to the contractual provisions of the financial instrument. Financial assets are derecognized when contractual rights have expired, or when substantially all of the risks and rewards are transferred. A financial liability is derecognized when it is extinguished, discharged, cancelled or expired. All financial instruments are initially measured at fair value adjusted for transaction costs (where applicable).

(i) **Financial assets**

When the Company first recognizes a financial asset, it classifies it based on the business model for managing the asset and the asset's contractual cash flow characteristics as follows:

Amortized cost

A financial asset is measured at amortized cost if both of the following conditions are met: (i) the asset is held within a business model the objective of which is to hold assets in order to collect contractual cash flows; and (ii) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. These financial assets are recognized initially at fair value plus or minus direct and incremental transaction costs and are subsequently measured at the effective interest rate method, net of any allowance for expected credit losses. The Company has cash and cash equivalents, accounts receivable and advance to a supplier classified as financial assets at amortized cost.

Fair value through other comprehensive income

Financial assets are classified and measured at fair value through other comprehensive income ("FVOCI") if they are held in a business the objective of which is achieved by both collecting contractual cash flows and selling financial assets, and cash flows are solely payments of principal and interest on the principal amount outstanding. The Company does not have any financial assets classified as FVOCI.

Fair value through profit or loss

Any other financial assets that are not held in one of the two business models mentioned above are measured at fair value through profit or loss ("FVTPL"). The Company does not have any financial assets classified as FVTPL.

(ii) **Financial liabilities**

The Company classifies each financial liability into one of two categories depending on the purpose for which the liability was incurred.

3. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

(b) Financial instruments, continued

Financial liabilities at FVTPL

Liabilities in this category are derivatives or liabilities classified as held-for-trading or designated as FVTPL on initial recognition. After initial recognition, such liabilities are measured at fair value with changes in fair value being recognized in profit or loss. The Company's financial liabilities which are classified and measured at FVTPL are derivative liabilities.

Amortized cost

Liabilities in this category are non-derivative financial liabilities that are not classified as held- for-trading. After initial recognition, such liabilities are measured at amortized cost using the effective interest rate method. Financial liabilities classified as amortized cost include accounts payable and accrued liabilities, debentures payable and bank loan payable.

(iii) **Transaction costs**

For FVTPL financial assets and liabilities, transaction costs on initial recognition, and thereafter, are included directly in profit or loss. For other categories of financial assets and liabilities, transaction costs are capitalized and included in the calculation of the effective interest rate and are amortized through profit or loss over the term of the related instrument.

(iv) **Impairment**

The expected credit loss ("ECL") impairment model applies to financial assets measured at amortized cost, contract assets and debt investments at FVOCI, but not to investments in equity instruments.

Allowances for ECL are recognized on all financial assets that are classified either at amortized cost or FVOCI and for all loan commitments and financial guarantees that are not measured at FVTPL. Allowances represent credit losses that reflect an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes, the time value of money and reasonable and supportable information about past events, current conditions and forecasts of future economic conditions.

ECL allowances are measured at amounts equal to either (i) 12-month ECL (also referred to as Stage 1 ECL), which comprises an allowance for all non-impaired financial instruments that have not experienced a significant increase in credit risk ("SICR") since initial recognition; or (ii) lifetime ECL (also referred to as Stage 2 ECL), which comprises an allowance for those financial instruments that have experienced a SICR since initial recognition; or where there is objective evidence of impairment (Stage 3 ECL). Lifetime ECL is recognized for Stage 2 and 3 financial instruments compared to 12- month ECL for Stage 1 financial instruments.

3. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

(b) Financial instruments, continued

(v) Determination of fair value

The fair value of a financial instrument on initial recognition is the transaction price, which is the fair value of the consideration given or received. Subsequent to initial recognition, fair value is determined by management using available market information or other valuation methodologies.

The fair value hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3).

The three levels of the fair value hierarchy are as follows:

Level 1:	Unadjusted quoted prices in active markets for identical assets or liabilities;
Level 2:	Inputs other than quoted prices included in level 1 that are observable for the asset or liability either directly or indirectly; and
Level 3:	Inputs that are not based on observable market data.

Determination of fair value and the resulting hierarchy requires the use of observable market data whenever available. The classification of an asset or liability in the hierarchy is based upon the lowest level of input that is significant to the measurement of fair value. The Company's derivative liabilities are classified as Level 2 in the fair value hierarchy.

(c) Cash and cash equivalents

Cash is comprised of cash balances held in banks and held in the Company's lawyers trust accounts. The Company considers short term, highly liquid investments that are readily convertible into known amounts of cash and which are not subject to significant risk of change in value to be cash equivalents. Cash equivalents have a short maturity of three months or less from the date of acquisition.

(d) Inventory

Inventory consists of raw materials, work-in-progress, finished goods and supplies and consumables used in the inventory process. Inventory is valued at the lower of cost and net realizable value. Costs capitalized to inventory include direct and indirect labor, consumables, materials, packaging supplies, utilities, facility costs, quality and testing costs, production related depreciation and other overhead costs. The Company reviews inventories for obsolete, redundant and slow-moving goods and any such inventories identified are written down to net realizable value. Inventory reserves are based on inventory obsolescence trends, historical experience and application of the specific identification method.

3. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

(e) Plant and equipment and right-of-use assets

Plant and equipment is stated at cost, net of accumulated depreciation and impairment losses, if any. Depreciation is computed using the following annual rates and methods which reflect the estimated useful life of the assets as follows:

Production equipment	-	20%	Declining balance
Furniture and fixtures	-	20%	Declining balance
Computer hardware	-	30%	Declining balance
Security equipment	-	30%	Declining balance
Leasehold improvements	-		Straight line over remaining lease term

Right-of-use assets, which consist of the capitalized value of occupancy leases, are amortized on a straight-line basis over the remaining terms of the respective leases, ranging from 31 to 48 months.

Assets not available for use are not depreciated. Depreciation will commence when construction is completed, and the asset is available for its intended use.

When components of an asset have a different useful life and cost that is significant to the total cost of the assets, depreciation is calculated on each separate component. Estimated useful lives and method of depreciation are reviewed annually.

(f) Intangible assets

Intangible assets are recognized at cost, net of accumulated amortization and impairment losses, if any. Amortization commences when the intangible asset is available for use.

Intangible assets with finite lives are amortized over their useful economic lives as follows:

License agreement	-	20	years
Patent costs	-	10	years
Computer software	-	2	years

The estimated useful life and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

Gains and losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in profit and loss when the asset is derecognized.

3. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

(g) Impairment of non-financial assets

The Company reviews long-lived assets and definite life intangible assets for impairment when events or circumstances indicate an asset may be impaired. Assets are assigned to a cash generating unit ("CGU") based on the lowest level at which they generate independent cash inflows. When there is an indication of impairment, an impairment charge is recorded to the extent the carrying value of a CGU exceeds the greater of the CGU's fair value less costs to dispose and its value in use, determined by discounting expected cash flows (recoverable amount). An impairment loss is reversed if a CGU's recoverable amount increases to the extent that the related assets' carrying amounts are no larger than the amount that would have been determined, net of amortization, had no impairment loss been recorded.

During the year ended May 31, 2022, the Company recorded an impairment charge of $400,000 (2021 - $Nil) against production equipment *(see note 10)*.

(h) Debentures payable

Convertible debentures are financial instruments which are accounted for separately dependent on the nature of their components: a financial liability and an equity instrument. The identification of such components embedded within a convertible debenture requires significant judgment given that it is based on the interpretation of the substance of the contractual arrangement. Where the conversion option has a fixed conversion rate, the financial liability, which represents the obligation to pay coupon interest on the convertible debentures in the future, is initially measured at its fair value and subsequently measured at amortized cost. The residual amount is accounted for as an equity instrument at issuance. Where the conversion option has a variable conversion rate, the conversion option is recognized as a derivative liability measured at fair value through profit and loss. The residual amount is recognized as a financial liability and subsequently measured at amortized cost using the effective interest method.

Any directly attributable transaction costs are apportioned to the debt liability and equity components in proportion to the allocation of proceeds. Any transaction costs appropriated to the derivative liability are expensed in the period.

Given that it is subject to various inputs, assumptions and estimates including contractual future cash flows, discount rates, credit spreads and volatility, the determination of the fair value is also an area of significant judgment.

3. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

(i) Accounts receivable

Accounts receivable are recognized initially at fair value and subsequently measured at amortized cost, less any provisions for impairment. Impairment provisions are estimated using the expected credit loss impairment model where any expected future credit losses are provided for, irrespective of whether a loss event has occurred at the reporting date. Estimates of expected credit losses take into account the Company's collection history, deterioration of collection rates during the average credit period, as well as observable changes in and forecasts of future economic conditions that affect default risk. Where applicable, the carrying amount of a trade receivable is reduced for any expected credit losses through the use of an allowance for ECL provision. Changes in the ECL provision are recognized in the statement of net loss and comprehensive loss. When the Company determines that no recovery of the amount owing is possible, the amount is deemed irrecoverable and the financial asset is written off.

(j) Foreign currency translation

Foreign currency transactions are recorded at the exchange rate as at the date of the transaction. At each reporting date, monetary assets and liabilities are translated using the period end foreign exchange rate. Non-monetary assets and liabilities in foreign currencies other than the functional currency are translated using the historical rate. All gains and losses on translation of these foreign currency transactions are recognized in profit and loss.

(k) Equity

Common shares are classified as equity. Incremental costs directly attributable to the issuance of shares are recognized as a deduction from equity. The Company accounts for warrants using the relevant valuation models at the date of issuance. The value of the warrants at the date of issuance is included in contributed surplus.

(l) Share based compensation

The Company has a stock option plan for directors, officers and employees. Each tranche of an award is considered a separate award with its own vesting period and grant date fair value. The fair value of each tranche is measured at the date of grant using the Black-Scholes option pricing model. Compensation expense is recognized over each tranche's vesting period, based on the number of awards expected to vest, with the offset credited to contributed surplus.

The proceeds from the exercise of stock options or warrants are recognized in share capital upon exercise at the exercise price paid by the holder, and the fair value attributed to these options or warrants is transferred from contributed surplus to share capital.

The proceeds from the exercise of stock options or warrants are recognized in share capital upon exercise at the exercise price paid by the holder.

3. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

(m) Revenue recognition

The Company generates revenue primarily from the sale of tablets of hard pill cannabinoid formulations. The Company uses the following five-step contract-based analysis of transactions to determine if, when and how much revenue can be recognized:

(i) Identify the contract with a customer;
(ii) Identify the performance obligation(s) in the contract;
(iii) Determine the transaction price;
(iv) Allocate the transaction price to the performance obligation(s) in the contract; and
(v) Recognize revenue when or as the Company satisfies the performance obligation(s).

Revenue from the sale of tablets is generally recognized when control over the goods has been transferred to the customer. Payment is due within a specified time period as permitted by the underlying agreement and the Company's credit policy upon the transfer of goods to the customer. The Company generally satisfies its performance obligation and transfers control to the customer upon delivery and acceptance by the customer. Revenue is recorded at the estimated amount of consideration to which the Company expects to be entitled, net of any estimated product returns.

For contracts that permit the customer to return a product, revenue is recognized to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur. Therefore, at the point of sale, the amount of revenue recognized is adjusted for expected returns, which are estimated based on the historical experience and knowledge of the customer and market expectations. At the same time, the Company would also have a right to recover returned goods, so consequently a refund liability and a right to recover returned goods asset are recognized. The right to recover returned goods asset is measured at the former carrying amount of the inventory less any expected costs to recover goods. The Company reviews its estimate of expected returns at each reporting date and updates the amounts of the asset and liability accordingly.

(n) Research and development costs

Research costs are charged to operations as incurred. Research costs consist primarily of consulting expenses and materials related to the design, testing, and manufacture of the various components of the Company's cannabis product line. Development activities involve a plan for the production of new or substantially improved products and processes. Development expenditures are capitalized only if development costs can be measured reliably, the product is technically and commercially feasible, future economic benefits are probable, and the Company intends to or has sufficient resources to complete development and to use or sell the asset. The expenditure capitalized includes the cost of materials, direct labour and overhead costs that are directly attributable to preparing the asset for its intended use, and borrowing costs on qualifying assets. Other development expenditure is recognized in the statement of operations as incurred.

3. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

(o) Income taxes

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

Current tax is recognized and measured at the amount expected to be recovered from or payable to the taxation authorities based on the income tax rates enacted or substantively enacted at the end of the reporting period and includes any adjustment to taxes payable in respect of previous years.

Deferred tax is recognized on any temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable earnings. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the asset is realized, and the liability is settled. The effect of a change in the enacted or substantively enacted tax rates is recognized in net earnings and comprehensive income or in equity depending on the item to which the adjustment relates.

Deferred tax assets are recognized to the extent future recovery is probable. At each reporting period end, deferred tax assets are reduced to the extent that it is no longer probable that sufficient taxable earnings will be available to allow all or part of the asset to be recovered.

Provisions for taxes are made using the best estimate of the amount expected to be paid based on a qualitative assessment of all relevant factors. The Company reviews the adequacy of these provisions at the end of the reporting period. However, it is possible that at some future date an additional liability could result from audits by taxing authorities. Where the final outcome of these tax related matters is different from the amounts that were initially recorded, such differences will affect the tax provisions in the period in which such determination is made.

The Company follows the liability method of income tax allocation. Under this method, future tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities and are measured using the substantially enacted tax rates and laws that will be in effect when the differences are expected to reverse. The amount of future tax assets recognized is limited to the amount, if any, that is considered to be more likely than not to be realized.

(p) Loss per share

Basic loss per share amounts are calculated by dividing consolidated net loss for the reporting period attributable to common shareholders by the weighted average number of common shares outstanding during the year.

Diluted loss per share amounts are calculated by dividing the consolidated net loss attributable to common shareholders by the weighted average number of shares outstanding during the year plus the weighted average number of shares that would be issued on the conversion of all the dilutive potential ordinary shares into common shares.

3. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

(q) Provisions and contingencies

A provision is recognized when the Company has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

(r) Critical accounting estimates and judgements

The preparation of these consolidated financial statements requires management to make estimates and judgements about the future that affect the amounts recorded in the consolidated financial statements. These estimates and judgements are based on the Company's experience and management's expectations about future events that are believed to be reasonable under the circumstances, and they are continually being evaluated based on new facts and experience. Actual results may differ from these estimates and judgements.

Areas where estimates and judgements are significant to these consolidated financial statements are as follows:

Inventory: Management is required to make a number of estimates in determining the costs allocated to manufactured inventory. Management must also determine if the cost of any inventories exceed its net realizable value ("NRV"), such as cases where prices have decreased or inventories have spoiled or otherwise been damaged. The impairment loss of inventories assessment requires a degree of estimation and judgment. The level of the provision is assessed by considering recent sales experience, the ageing of inventories, damaged, obsolete, slow moving inventories and other factors that affect inventory obsolescence.

Share based compensation: Stock option and warrant fair values utilize option pricing models that require the input of assumptions, including the expected life, volatility of the Company's stock price, forfeitures and the risk free rate. Changes in the assumptions can materially affect the fair value estimate and therefore the existing models do not necessarily provide a reliable single measure of the fair value of the stock option or warrants issued.

Asset acquisition: Asset acquisitions where consideration is satisfied through the issuance of shares involves judgement and estimate in the determination of the fair value of the goods received. The Company determined the fair value of the assets acquired using a combination of third party valuations and listed prices for assets acquired.

3. Significant Accounting Policies, continued

(r) Critical accounting estimates and judgements, continued

Non-financial asset impairment: The Company evaluates the carrying value of plant, equipment and intangible assets at the end of each reporting period to determine whether there is an indication of asset impairment. Such indicators include evidence of physical damage, indicators that the economic performance of asset is worse than expected, or that the decline in asset value is more than the passage of time or normal use, or significant changes occur with an adverse effect on the Company's business. If any such indication exists, the Company estimates the recoverable amount of the asset. An asset is impaired when its carrying amount exceeds its recoverable amount.

Estimated useful lives and depreciation/amortization of plant and equipment, right-of-use assets and intangible assets: Depreciation of plant and equipment and right-of-use assets and amortization of intangible assets are dependent upon estimates of useful lives based on management's judgment.

Return provision: For contracts that permit the customer to return an item, revenue is recognized to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur. Therefore, at the point of sale, the amount of revenue recognized is adjusted for expected returns, which are estimated based on the historical experience and knowledge of the customer and market expectations. The Company reviews its estimate of expected returns at each reporting. The return provision is based on management judgement and estimate.

Going concern: The assessment of whether the going concern assumption is appropriate requires management to consider all available information about the future, which is at least, but not limited to, 12 months from the end of the reporting period. The Company is aware that material uncertainties related to events or conditions may cast significant doubt upon the Company's ability to continue as a going concern.

Compound financial instruments: The conversion feature and the share purchase warrants component of convertible debentures are accounted for as derivative liabilities and are required to be fair valued on inception and at each reporting period. The estimates, assumptions and judgments made in relation to the fair value of derivative liabilities are subject to measurement uncertainty. The valuation techniques used to determine fair value require inputs that involve assumptions and judgments such as estimating the future volatility of the stock price and expected life. In addition, the acceleration provision contained in the share purchase warrants requires additional valuation assessment. Such judgments and assumptions are inherently uncertain.

(s) Leases

The Company recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred, less any lease incentives received.

3. Significant Accounting Policies, continued

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Company by the end of the lease term or the cost of the right-of-use asset reflects that the Company will exercise a purchase option. In that case, the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property, plant and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate.

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, or if the Company changes its assessment of whether it will exercise a purchase, extension or termination option.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

Leases with a term less than twelve months or of a low value are expensed as incurred.

(t) Government assistance

Government grants are recognized where there is reasonable assurance that the grant will be received, and all the required conditions are complied with. Government grants in respect of capital expenditures are credited to the carrying amount of the related asset and are released to income over the expected useful lives of the relevant assets. When the grant relates to an expense item, it is recognized in income on a systematic basis over the periods that the related costs it is intended to compensate are expensed. When the Company receives a forgivable loan from the government, it is treated as a government grant only when there is reasonable assurance that the Company will meet the terms for forgiveness of the loan.

4. Recently Issued Accounting Pronouncements

As at the date of authorization of these consolidated financial statements, the IASB has issued the following new or revised standards which are not yet effective. The Company has not yet assessed the impact of these amendments on the consolidated financial statements.

4. Recently Issued Accounting Pronouncements, continued

(a) IAS 16 "Property, Plant and Equipment"

This standard has been amended to prohibit an entity from deducting from the cost of an item of property, plant and equipment any proceeds received from selling items produced while the entity is preparing the asset for its intended use, clarify that an entity is "testing whether the asset is functioning properly" when it assesses the technical and physical performance of the asset and requires certain related disclosures. The amendments are effective for annual periods beginning on or after January l, 2022.

(b) IAS 37 "Provisions"

This standard has been amended to clarify that, before a separate provision for an onerous contract is established, an entity recognizes an impairment loss that has occurred on assets used in fulfilling the contract, rather than on assets dedicated to that contract and to clarify the meaning of costs to fulfil a contract. The amendments are effective for annual periods beginning on or after January l, 2022.

(c) IAS 1, "Presentation of Financial Statements", and IAS 8, "Accounting Policies, Changes in Accounting Estimates and Errors"

This standard has been amended to clarify that liabilities are classified as either current or non-current depending on the rights that exist at the end of the reporting period. Classification is unaffected by the expectations of the entity or events after the reporting date. This amendment also clarifies the meaning of settlement of a liability. This amendment is effective for annual periods beginning on or after January l, 2023.

(d) IAS 12 "Income Taxes"

This standard has been amended to require companies to recognize deferred tax on transactions that, on initial recognition, give rise to equal amounts of taxable and deductible temporary differences. The amendments are effective for annual reporting periods beginning on or after January 1, 2023.

(e) IFRS 9 "Financial Instruments"

This standard has been amended to address which fees should be included in the 10% test for derecognition of financial liabilities. This amendment is effective for annual periods beginning on or after January 1, 2022.

4. Recently Issued Accounting Pronouncements, continued

(f) IAS 8 "Definition of Accounting Estimates"

On February 12, 2021, the IASB issued Definition of Accounting Estimates. The amendments introduce a new definition for accounting estimates, clarifying that they are monetary amounts in the financial statements that are subject to measurement uncertainty. The amendments also clarify the relationship between accounting policies and accounting estimates by specifying that a company develops an accounting estimate to achieve the objective set out by an accounting policy. The amendments are effective for annual periods beginning on or after January 1, 2023.

(g) IAS 1 "Accounting Policies"

On February 12, 2021, the IASB issued amendments to IAS 1 "Presentation of Financial Statements" and an update to IFRS Practice Statement 2 "Making Materiality Judgements" to help companies provide useful accounting policy disclosures.

The key amendments to IAS 1 include a requirement for companies to disclose their material accounting policies rather than their significant accounting policies; clarifying that accounting policies related to immaterial transactions, other events or conditions are themselves immaterial and as such need not be disclosed; and clarifying that not all accounting policies that relate to material transactions, other events or conditions are themselves material to a company's financial statements. The amendments are effective for annual periods beginning on or after January 1, 2023.

5. MediPharm Memorandum Of Understanding

(a) During the year ended May 31, 2020, the Company acquired distillate from MediPharm Labs Inc. (“MediPharm”) for a pre-HST purchase price of $473,460. This distillate was recorded in inventory as the Company controlled the distillate purchase. During the year ended May 31, 2021, the Company acquired additional distillate for a pre-HST purchase price of $232,980. No amounts were paid to MediPharm related to these purchases such that the HST-included amount owing as at May 31, 2021 was $797,278 (May 31, 2020 - $535,009).

(b) During the year ended May 31, 2021, the Company entered into two sales transactions with MediPharm whereby the Company shipped tablets to MediPharm and initially recognized gross revenue of $967,500 as the Company had transferred control of the tablets to MediPharm. The sales orders to MediPharm contained a return provision whereby any unsold tablets could be returned to the Company for the original sales price. As required under IFRS 15, the Company assesses its estimate of expected returns at each reporting period for contracts that permit customer returns and revenue is only recognized to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur.

5. MEDIPHARM MEMORANDUM OF UNDERSTANDING, CONTINUED

(c) As at May 31, 2021, it became apparent that there was a high likelihood that most product would be returned as the throughput of sales by MediPharm to its end customers had not been achieved. As such, the Company revised the estimate of the transaction price to $Nil, reversed all revenue previously recognized, and recorded a right to recover goods returned of $459,038 *(see note 8)*. This estimate was later confirmed by the Memorandum of Understanding detailed below. All the inventory sold to MediPharm remained on hand at their facility as at May 31, 2021 and May 31, 2022.

(d) On September 16, 2021, the Company and MediPharm executed a Memorandum of Understanding ("MOU") whereby MediPharm would return all the tablets purchased from Canntab, which would settle the accounts receivable owed to Canntab. Commencing within sixty days after Canntab's first sale of the returned product, Canntab has agreed to pay MediPharm $20,000 per month for a period of twelve and a half consecutive months, to a maximum amount of $250,000. Upon MediPharm being paid $250,000 in accordance with the payment terms above, the amounts payable for the distillate will be considered paid in full, which would settle the amounts otherwise due under the distillate purchase orders.

(e) The return of tablets under the MOU corroborated the return provision and right to recover assets recorded as at May 31, 2021. As there was no reasonable expectation of collection of the accounts receivable, the amount was written off as of May 31, 2021 and no refund liability has been recorded.

(f) The legal settlement of the accounts payable for the distillate initially purchased for $797,278 (HST included) occurred with the signing of the MediPharm MOU on September 16, 2021. As such, the revised obligation of $250,000 (HST excluded) has now been adjusted and included in accrued liabilities as at May 31, 2022 *(see note 13)* as the criteria for the liability to be extinguished have now been met. Accordingly, the carrying value of inventory has been reduced by the pre-HST decrease in the pricing of $456,440.

6. CASH AND CASH EQUIVALENTS

	2022	2021
Cash	**$ 691,111**	$ 412,358
Cash in Company lawyer's trust account	**-**	1,078,505
	$ 691,111	$ 1,490,863

The cash in the Company lawyer's trust account is unrestricted. The majority of this balance as at May 31, 2021 included undisbursed proceeds received after exercise of share purchase warrants in May, 2021 *(see note 17(b))* and were disbursed to the Company.

7. ACCOUNTS RECEIVABLE

		2022		2021
Trade accounts receivable	**$**	**49,556**	$	-
HST recoverable		**183,381**		197,363
Provision for returns		**(31,431)**		-
Accrued receivables		**8,214**		-
Non-trade accounts receivable		**-**		10,000
	$	**209,720**	$	207,363

(a) HST recoverable as at May 31, 2022 is comprised of balances due from recent quarterly claims. With a CRA audit now completed, the balance is expected to be refunded in full by the end of September, 2022.

HST recoverable as at May 31, 2021 included the net of (i) the reversal of $125,775 of previously reported HST payable on the previous MediPharm sales, and (ii) the reversal of $91,722 of previously claimed HST ITC's arising from the effective MediPharm price decrease of $456,440 *(see note 5(c))*.

(b) As outlined in note 5, the refund liability recorded related to the MediPharm transaction has been offset against the accounts receivable due from MediPharm as at May 31, 2021, as there was no expectation that this receivable would be recoverable once the product is returned. In September, 2021, the Company reached an agreement with MediPharm to recover all products sold for no consideration, corroborating the fact that no payment from MediPharm would be made *(see note 5(e))*.

8. INVENTORIES

		2022		2021
Non-cannabis raw materials	**$**	**40,135**	$	162,878
Cannabis oil raw materials		**7,443**		139,976
Work-in-progress		**31,447**		192,255
Finished goods		**410,231**		766,499
Right-to-recover returned goods (Note 5(c))		**-**		459,038
	$	**489,256**	$	1,720,646

The Company has recognized a total provision for inventory obsolescence as at May 31, 2022 of $1,271,790 (May 31, 2021 - $263,312). With the signing of the MediPharm MOU on September 16, 2021, the right-to-recover returned goods provision has been reversed out against the trade accounts payable obligation to MediPharm (*see note 5(f))*.

9. ADVANCE TO SUPPLIER

(a) In February 2019 and March 2019, the Company, along with two other parties (collectively, the "Secured Party" or the "Purchasers"), entered into three agreements with an arm's length cannabis supplier (the "Debtor" or the "Supplier"), as follows

- **(i)** A supply agreement dated February 8, 2019 (the "2019 Supply Agreement"),
- **(ii)** A supply agreement dated February 25, 2019 (the "5 Year Supply Agreement"), and
- **(iii)** A security agreement dated March 7, 2019 (the "Security Agreement")

(b) On February 8, 2019, the Company, as part of the Secured Party, entered into the 2019 Supply Agreement to purchase hemp flower from the Supplier. Pursuant to the agreement, the Purchasers have agreed to buy approximately 1,000 kg of the Supplier's 2018 hemp crop at a purchase price of $100.00 per kg per 1% of CBD extracted from the flower.

(c) On February 25, 2019, the Company, as part of the Secured Party, entered into the 5 Year Supply Agreement under which the Supplier grants the Purchasers the right of first refusal to purchase up to $5.0 million of the Supplier's hemp crop for a period of 5 years commencing in 2019 at a purchase price of $100.0 per kg per 1% of CBD extracted from the flower. Based on the agreement, the anticipated purchase price for the 2019 crop is $1.0 million plus applicable taxes. Of this amount, $500,000 will be paid by the Purchasers as a loan to the Supplier, with the intention, as outlined in the agreement, that it is to be paid by in the form of purchases of hemp.

(d) The Security Agreement secured a $500,000 loan made by the Secured Party to the Supplier. The Company contributed its one-third share of this advance of $166,667 in fiscal 2019.

- **(i)** The security interest consists of a fixed and specific charge and a floating charge in the present and future undertakings, property and assets of the Debtor and in all goods, chattel paper, documents of title, instruments, intangibles and securities now owned or hereafter owned or acquired by or on behalf of Debtor.

- **(ii)** The loan is due by December 31, 2020 and, in the event of default, bears interest at 5% per annum. The loan is to be repaid out of product from the 2019 and/or 2020 crops.

(e) As a result of receiving no repayments in cash or out of product, an impairment provision was recorded as at May 31, 2021 against the entire balance of $166,667.

10. Plant And Equipment

	Production equipment	Furniture and fixtures	Computer hardware	Leasehold improvements	Security equipment	Total
Cost						
As at May 31, 2020	**$ 634,271**	**$ 27,631**	**$ 12,949**	**$ 326,856**	**$ 365,375**	**$ 1,367,082**
Additions	185,395	15,429	5,467	65,664	10,802	282,757
Disposals	-	-	-	-	(106,406)	(106,406)
Asset purchase from CMAX Technologies *(see note 11(a))*	583,000	-	-	435,000	-	1,018,000
Asset purchase from Pharmageneric Solutions *(see note 11(b))*	300,000	-	-	-	-	300,000
As at May 31, 2021	**1,702,666**	**43,060**	**18,416**	**827,520**	**269,771**	**2,861,433**
Additions	30,575	273	500	-	-	31,348
Disposal	(518,699)	-	-	-	(1,243)	(519,942)
Impairment charge	(400,000)	-	-	-	-	(400,000)
As at May 31, 2022	**$ 814,542**	**$ 43,333**	**$ 18,916**	**$ 827,520**	**$ 268,528**	**$ 1,972,839**
Accumulated depreciation						
As at May 31, 2020	**$ 215,286**	**$ 5,780**	**$ 6,057**	**$ 16,736**	**$ 27,403**	**$ 271,262**
Depreciation	193,885	5,914	2,888	250,226	71,270	524,183
As at May 31, 2021	**409,171**	**11,694**	**8,945**	**266,962**	**98,673**	**795,445**
Depreciation	246,525	6,300	2,916	331,845	51,143	638,729
Disposals	(239,889)	-	-	-	-	(239,889)
As at May 31, 2022	**$ 415,807**	**$ 17,994**	**$ 11,861**	**$ 598,807**	**$ 149,816**	**$ 1,194,285**
Net book value						
As at May 31, 2021	**$ 1,293,495**	**$ 31,366**	**$ 9,471**	**$ 560,558**	**$ 171,098**	**$ 2,065,988**
As at May 31, 2022	**$ 398,735**	**$ 25,339**	**$ 7,055**	**$ 228,713**	**$ 118,712**	**$ 778,554**

10. Plant And Equipment, continued

During the year ended May 31, 2022, (i) depreciation of $190,226 (2021 - $169,583) has been capitalized into inventory, and (ii) the Company sold some excess equipment for net proceeds of $239,484, resulting in a loss on disposal of $39,326. During the year ended May 31, 2022, the Company recorded an impairment charge of $400,000 against production equipment to reflect reduced utilization from a projected decline in sales. As at May 31, 2021, the Company had equipment of $150,000 which was not available for use and therefore not depreciated.

11. Asset Purchase Agreements

(a) CMAX asset purchase

In October, 2020, the Company closed an asset purchase agreement to acquire certain cannabis-processing equipment and leasehold improvements from CMAX Technologies Inc. ("CMAX"), a related party to the Company, for a purchase price of $1,018,000. The purchase price represents the estimated fair value of the assets acquired, and was satisfied through the issuance of 1,996,078 common shares of the Company at a deemed price of $0.51 per share.

The CMAX purchase is a related party transaction as three of the Company's four directors are also officers, directors and/or shareholders of CMAX. The CMAX purchase was approved by the independent director of the Company.

(b) Pharmagenerics asset purchase

In October, 2020, the Company closed an asset purchase agreement with Pharmagenerics Solutions Inc. ("Pharma") to purchase certain cannabis-processing equipment owned by Pharma for a purchase price of $300,000. The purchase price of the Pharma assets represents the estimated fair value of the assets acquired, and was satisfied through the issuance of 588,235 common shares of the Company at a deemed price of $0.51 per share.

At the time the asset purchase agreement was signed and the sales price determined, Pharma and Canntab were not related parties. However, subsequently, the sole shareholder of Pharma became the Chief Scientific Officer of the Company. The Pharma purchase was approved by the Board of the Directors of the Company.

12. Right Of Use Assets

		Building
Cost		
As at May 31, 2022 and 2021	$	**785,017**
Accumulated depreciation		
As at June 1, 2020	$	**108,371**
Depreciation		108,371
As at May 31, 2021		**294,085**
Depreciation		185,814
As at May 31, 2022	$	**479,899**
Net book value		
As at May 31, 2021	$	**490,932**
As at May 31, 2022	$	**305,118**

Depreciation of $42,917 (2021 - $29,709) has been capitalized into inventory.

13. Intangible assets

	License agreements	Patent costs	Computer software	Website under development	Total
Cost					
As at May 31, 2020	$ **60,000**	$ **209,762**	$ **16,615**	$ **15,023**	$ **301,400**
Additions	-	43,086	-	30,048	73,134
As at May 31, 2021	**60,000**	**252,848**	**16,615**	**45,071**	**374,534**
Additions	-	58,028	-	-	58,028
As at May 31, 2022	$ **60,000**	$ **310,876**	$ **16,615**	$ **45,071**	$ **432,562**
Accumulated amortization					
As at May 31, 2020	$ **9,500**	$ **31,612**	$ **8,577**	$ **-**	$ **49,689**
Amortization	3,000	24,700	8,038	-	35,738
As at May 31, 2021	**12,500**	**56,312**	**16,615**	**-**	**85,427**
Amortization	3,000	29,049	-	11,268	43,317
As at May 31, 2022	$ **15,500**	$ **85,361**	$ **16,615**	$ **11,268**	$ **128,744**
Net book value					
As at May 31, 2021	$ **47,500**	$ **196,536**	$ **-**	$ **45,071**	$ **289,107**
As at May 31, 2022	$ **44,500**	$ **225,515**	$ **-**	$ **33,803**	$ **303,818**

14. Accounts Payable And Accrued Liabilities

	2022	2021
Trade accounts payable	**$ 160,917**	$ 1,015,318
Accrued liabilities	**677,968**	288,626
Accounts payable - related company (Note 23(a))	**128,784**	76,544
Customer deposit	**-**	40,620
	$ 967,669	$ 1,421,108

Trade accounts payable as at May 31, 2022 includes $Nil (May 31, 2021 - $797,278) due to MediPharm *(see note 5(a))*. Under the terms of the MediPharm Memorandum of Understanding dated September 16, 2021, the companies have agreed to settle this obligation for $250,000 (plus applicable HST) *(see note 5(d))*. This provision has been included in accrued liabilities.

15. Lease Liabilities

In prior periods, the Company entered into two separate occupancy leases, as follows:

(a) a lease at 223 Riviera Drive, Markham, Ontario with CMAX Technologies Inc., the related company described in note 23(c) with a monthly payment of $10,000 until expiry by December 31, 2022
(b) a lease at 225 Riviera Drive, Markham, Ontario with an arm's length company with base rent ranging from $8,958 to $9,583 per month over the five year lease term ending April 30, 2025.

As result, the Company recognized lease liabilities of $771,579 in the year ended May 31, 2020 measured at the present value of lease payments, discounted using the Company's incremental borrowing rate of 10%.

Movement in these lease liabilities during the years ended May 31, 2022 and 2021 consisted of the following:

	2022	2021
Lease liabilities, beginning of year	**$ 537,881**	$ 686,419
Interest payable on lease liabilities	**43,615**	61,046
Repayments during the year	**(227,500)**	(209,584)
Lease liabilities, end of year	**353,996**	537,881
Less current portion	**(152,505)**	(183,884)
Long-term portion	**$ 201,491**	$ 353,997

The following table outlines the cash flow and interest expense related to lease liabilities during the reporting periods:

	2022	2021
Interest expense on lease liabilities	**$ 43,616**	$ 51,481
Expense related to short-term leases	**57,389**	78,244

16. DEBENTURES PAYABLE AND DERIVATIVE LIABILITIES

(I) December, 2020 offering

(a) On December 30, 2020, the Company closed on a private placement of $1,525,000 of secured debentures, issued at a price of $1,000 per debenture with a term of two years and due by December 30, 2022. In addition, the Company granted compensation to its CFO in the form of convertible debentures of $50,000. The total face value of convertible debentures outstanding as at May 31, 2022 was $1,575,000 (2021 - $1,575,000).

(b) The major terms of the debentures are as follows:

(i) The principal amount bears interest at a rate of 10% per annum. Interest was calculated from the issue date and paid up front in cash for the initial 6 months, thereafter payable quarterly in cash on the last business day of each calendar quarter, first interest payment being paid on September 30, 2021. If the debenture holder elects, in its sole and absolute discretion, interest may be paid in common shares at the conversion price at any time following the issue date.

(ii) The debentures are convertible into common shares of the Company at a conversion price, subject to adjustments, of $0.80 per share, and will mature two years from the date of issuance. Beginning on the date that is four months and one day following the closing date of the offering, the Company will have the right to prepay or redeem a part or the entire principal amount of the convertible debentures plus any accrued and unpaid interest.

(iii) The Company also has the right to force the conversion of all of the principal amount of the then outstanding convertible debentures at the conversion price upon giving the debenture holders not less than 30 days advance written notice, should the volume weighted average trading price of the shares be greater than $1.20 per share for the preceding 15 consecutive trading days.

(iv) The convertible debentures are secured by way of an agency and interlender security agreement made in favor of a collateral agent acting as agent for all of the holders of the debentures, granting a security interest in substantially all of the Company's assets. The Company will have the right to prepay any or part of the convertible debentures at any time prior to the maturity date by paying the principal amount of the convertible debentures.

(v) On closing, the Company issued to the purchasers of the convertible debentures one share purchase warrant for each share underlying the convertible debenture purchased, or 1,968,750 warrants in total *(see note 21(a))*. The warrants are exercisable for a period of three years from issuance into shares of the Company with each warrant entitling the holder thereof to acquire one share at an exercise price of $1.00 per share. The warrants are subject to an acceleration right exercisable by the Company at its option if, for the preceding 15 consecutive trading days, the volume weighted average trading price of the shares is greater than $2.00 per share. If the Company provides notice that it intends to exercise its acceleration right, the accelerated expiry date of the warrants will be the 30th calendar day following the date of such notice of exercise.

16. DEBENTURES PAYABLE AND DERIVATIVE LIABILITIES, CONTINUED

(vi) If, at any time during the term of the convertible debentures and the warrants, the Company issues securities at a price deemed lower than the conversion price or exercise price then in effect, then the exercise price and the conversion price would be adjusted downward.

(c) As a result of the contractual terms that may result in a potential adjustment to the debenture conversion price and exercise price of the warrants, the conversion feature and warrants did not meet equity classification. In failing the equity classification, the conversion feature and share purchase warrants have been accounted for as derivative liabilities. The effect is that the convertible debenture host debt instrument has been accounted for at amortized cost, with the derivative liabilities being measured at fair value with changes in value being recorded in profit or loss. In addition to the above, the prepayment option represents an embedded derivative liability. The prepayment option was valued at $Nil initially and as at May 31, 2021.

(d) As a result of the above, the Company was required to first fair value the conversion feature and share purchase warrants at fair value as at December 30, 2020 and the residual was allocated to the host debt instrument. At each reporting date, the debenture portion gets accreted towards its face value and derivative liabilities are revalued.

(e) As a result of the pricing of the January, 2022 debenture offering *(see note 16(II))*, the adjustment provisions as disclosed in note *16(I)(b)(vi))* were deemed to have occurred. As a result, the debenture conversion price has decreased from $0.80 to $0.70 and the warrant exercise price has decreased from $1.00 to $0.90. The following table reflects the continuity of the components of the December, 2020 convertible debentures and derivative liabilities as at May 31, 2022:

	Convertible debentures	Derivative liability: conversion feature	Derivative liability: share purchase warrants	Derivative liability: total	Total
Balance, May 31, 2020	$ -	$ -	$ -	$ -	$ -
Fair values on issuance on December 30, 2020	940,256	250,838	383,906	634,744	1,575,000
Transaction costs	(49,608)	-	-	-	(49,608)
Interest and accretion	77,384	-	-	-	77,384
Revaluation	-	283,289	187,032	470,321	470,321
Balance, May 31, 2021	968,032	534,127	570,938	1,105,065	2,073,097
Interest and accretion	410,832	-	-	-	410,832
Revaluation	-	(483,385)	(544,451)	(1,027,836)	(1,027,836)
Balance, May 31, 2022	$ 1,300,114	$ 50,742	$ 26,487	$ 77,229	$ 1,377,343

16. DEBENTURES PAYABLE AND DERIVATIVE LIABILITIES, CONTINUED

(f) Management used a barrier option pricing model to value the conversion feature - derivative liability and a Monte Carlo simulation model to value the share purchase warrant – derivative liability at inception and as at May 31, 2021. Both derivatives were valued using a barrier option pricing model as at May 31, 2022. The following assumptions were used in the valuation models:

	Derivative liability: conversion feature			Derivative liability: share purchase warrants		
	December 30, 2020	May 31, 2021	May 31, 2022	December 30, 2020	May 31, 2021	May 31, 2022
Risk free rate	0.20%	0.27%	2.85%	0.20%	0.27%	2.85%
Volatility	35% to 45%	35% to 45%	115%	35% to 45%	35% to 45%	115%
Share price	0.82	1.01	0.30	0.82	1.01	0.30

(g) All required quarterly interest payments have been paid in cash up to December 31, 2021.

(h) On September 22, 2022, the Company entered into a Debenture Amending Agreement to extend the maturity date of these debentures *(see note 29(a))*.

(II) <u>January, 2022 offering</u>

(a) On January 31, 2022, the Company closed on a second private placement of $1,312,000 of secured debentures, issued at a price of $1,000 per debenture with a term of two years and due by January 31, 2024. On closing, the Company also issued to the purchasers of the convertible debentures one share purchase warrant for each share underlying the convertible debenture purchased, or 1,874,285 warrants in total *(see note 21(d))*. The debentures were issued with the same terms and conditions as the December, 2020 offering *(see note16(I))*, except for:
- the debentures have a conversion price of $0.70
- the warrants have an exercise price of $0.80 and a term of 2 years

(b) As the contractual terms of the January, 2022 offering are similar to the terms of the December, 2020 offering and may result in a potential adjustment to the debenture conversion price and exercise price of the warrants, the conversion feature and warrants do not meet equity classification. In failing the equity classification, the conversion feature and share purchase warrants have been accounted for as derivative liabilities, similar to the December, 2020 offering.

16. DEBENTURES PAYABLE AND DERIVATIVE LIABILITIES, CONTINUED

(c) The following table reflects the continuity of the components of the January, 2022 convertible debentures and derivative liabilities as at May 31, 2022:

	Convertible debentures	Derivative liability: conversion feature	Derivative liability: share purchase warrants	Derivative liability: total	Total
Balance, May 31, 2021	$ -	$ -	$ -	$ -	$ -
Fair values on issuance on January 31, 2022	139,081	543,638	629,280	1,172,918	1,311,999
Transaction costs	(17,552)	-	-	-	(17,552)
Interest and accretion	4,675	-	-	-	4,675
Revaluation	-	(407,376)	(487,427)	(894,803)	(894,803)
Balance, May 31, 2022	$ 126,204	$ 136,262	$ 141,853	$ 278,115	$ 404,319

(d) Management used a barrier option pricing model to value both the conversion feature - derivative liability and the share purchase warrant – derivative liability at inception and as at May 31, 2022. The following assumptions were used in the valuation models:

	Derivative liability: conversion feature		Derivative liability: share purchase warrants	
	January 31, 2022	May 31, 2021	January 31, 2022	May 31, 2021
Risk free rate	2.08%	2.85%	2.08%	2.85%
Volatility	115%	115%	115%	115%
Share price	$ 0.70	$ 0.30	$ 0.70	$ 0.30

16. Debentures Payable And Derivative Liabilities, continued

(III) Summary

As at May 31, 2022, the combined balances of the respective offerings are as follows :

	Convertible debentures	Derivative liability: conversion feature	Derivative liability: share purchase warrants	Derivative liability: total	Total
December, 2020 offering	$ 1,300,114	$ 50,742	$ 26,487	$ 77,229	$ 1,377,343
January, 2022 offering	126,204	136,262	141,853	278,115	404,319
Balance, May 31, 2022	1,426,318	187,004	168,340	355,344	1,781,662
Less: current portion	(1,300,114)	(50,742)	(26,487)	(77,229)	(1,377,343)
Balance, May 31, 2022	$ 126,204	$ 136,262	$ 141,853	$ 278,115	$ 404,319

17. Share Capital

Continuity schedules for each component of the Company's share capital and other equity instruments are disclosed in the consolidated statements of changes in shareholders' equity for the period from June 1, 2020 to May 31, 2022. Descriptions of the changes in shareholders' equity are as follows:

(a) Authorized share capital

The Company is authorized to issue an unlimited number of common shares.

(b) Share issuances during the year ended May 31, 2022

In June, 2021, 1,384,000 common shares were issued for gross proceeds of $1,038,000 upon exercise of 1,384,000 share purchase warrants issued in connection with the private placement that closed in March, 2020 *(see note 21(c))*. Of the total proceeds, $813,750 were received prior to May 31, 2021, were presented as shares to be issued on the consolidated statement of financial position as at May 31, 2021 *(see note 17(d))*, and subsequently transferred to share capital in the current year.

In January, 2022 and February, 2022, a total of 960,000 common shares were issued for gross proceeds of $240,000 on the exercise of 960,000 stock options *(see note 18(i))*.

12,500 common shares were issued in November, 2021 for gross proceeds of $7,500 on the exercise of 12,500 special warrants. A further 400,000 common shares were issued in February, 2022 for gross proceeds of $100,000 on the exercise of 400,000 special warrants *(see note 19(a))*.

In January, 2022 and February, 2022, a total of 174,222 broker compensation warrants were exercised for cash proceeds of $87,110, resulting in the issuance of 174,222 common shares *(see note 20(d))*.

17 SHARE CAPITAL, CONTINUED

In April 2022, 40,000 common shares valued at $19,200 were issued as compensation to a consultant.

(c) Share issuances during the year ended May 31, 2021

In July, 2020, 109,523 broker compensation warrants were exercised for cash proceeds of $54,761, resulting in the issuance of 109,523 common shares *(see note 20(a))*. In March, 2021, a further 7,000 broker compensation warrants were exercised for cash proceeds of $3,500, resulting in the issuance of 7,000 common shares *(see note 20(c))*.

In October, 2020, the Company issued a total of 2,584,313 shares valued at $1,318,000 to close on the following asset purchase agreements:

- 1,996,078 common shares at a deemed price of $0.51 per share for a total of $1,018,000 to close an asset purchase agreement with CMAX, a related party *(see note 11(a))*; and
- 588,235 common shares at a deemed price of $0.51 per share for a total of $300,000 to close an asset purchase agreement with Pharmagenerics Solutions *(see note 11(b))*. The shares have been recorded at the estimated fair value of the assets acquired.

In December, 2020, 100,000 stock options were exercised for cash proceeds of $25,000, resulting in the issuance of 960,000 common shares *(see note 18(d))*.

In April and May of 2021, 380,000 share purchase warrants were exercised for cash proceeds of $285,000, resulting in the issuance of 380,000 common shares *(see note 21(b))*.

(d) Shares to be issued

On May 28, 2021, 1,085,000 share purchase warrants that were issued as part of the private placement that closed during the year ended May 31, 2020 were exercised for $0.75 each for total cash proceeds of $813,750. These funds were held in the Company's lawyer's trust account *(see note 6)* as at May 31, 2022. The resulting 1,085,000 common shares were not issued as part of this exercise until June 7, 2021 *(see note 17(b))*, and as such, the shares have been presented as shares to be issued on the consolidated statement of financial position as at May 31, 2021.

(e) Loss per share

Basic loss per share is computed using the weighted average number of common shares outstanding. The weighted average number of common shares outstanding for the year ended May 31, 2022 was 37,723,925 (2021 - 34,552,675).

The potentially dilutive equity instruments outstanding as at May 31, 2022 were (i) 1,722,926 stock options (2021 - 2,417,926), (ii) 1,650,000 special warrants (2021 - 2,687,500), (iii) 3,843,035 share purchase warrants (2021 - 9,039,750), and (iv) 47,813 broker compensation warrants (2021 - 401,480).

18. Stock Options

On September 12, 2018, the Company's directors approved and adopted a stock option plan for directors, officers, employees and consultants. The aggregate number of shares that may be reserved for issuance under the plan cannot exceed 10% of the total outstanding shares issued.

Stock option activity during the years ended May 31, 2022 and 2021 was as follows:

	Year ended May 31, 2022			Year ended May 31, 2021		
	Options		**Weighted average exercise price**	Options		Weighted average exercise price
Outstanding, beginning of year	**2,417,926**	**$**	**0.50**	1,495,000	$	0.25
Grant of options *(see note 18(a))*	**-**		**-**	150,000		1.00
Grant of options *(see note 18(b))*	**-**		**-**	275,000		0.80
Grant of options *(see note 18(c))*	**-**		**-**	500,000		0.70
Exercise of options (*see note 18(d)*)	**-**		**-**	(100,000)		0.38
Grant of options *(see note 18(e))*	**-**		**-**	182,926		0.80
Grant of options *(see note 18(f))*	**-**		**-**	50,000		0.80
Grant of options (*see note 18(g)*)	**465,000**		**0.80**	-		-
Grant of options (*see note 18(h)*)	**120,000**		**0.80**	-		-
Exercise of options (*see note 18(i)*)	**(960,000)**		**0.25**	-		-
Options forfeited/expired	**(320,000)**		**-**	(135,000)		0.25
Outstanding, end of year	**1,722,926**	**$**	**0.52**	2,417,926	$	0.50

As at May 31, 2022, the outstanding options (by grant date) to acquire common shares of the Company were as follows:

	Number of options				
Grant date	**Granted**	**Exercisable**	**Exercise price ($)**	**Remaining life**	**Expiry date**
June 8, 2020	130,000	130,000	1.00	0.1	June 8, 2022
July 13, 2020	275,000	275,000	0.80	0.1	July 13, 2022
November 13, 2020	500,000	275,000	0.70	1.1	June 30, 2023
December 30, 2020	182,926	182,926	0.80	1.6	December 30, 2023
February 3, 2021	50,000	50,000	0.80	0.7	February 3, 2023
September 1, 2021	465,000	155,000	0.80	3.3	September 1, 2025
November 11, 2021	120,000	120,000	0.80	1.5	November 11, 2023
	1,722,926	1,187,926	0.50	0.5	

18. STOCK OPTIONS, CONTINUED

(a) On June 8, 2020, the Company granted 150,000 options to certain employees and consultants. Each option entitles the holder thereof to purchase one common share of the Company at a price of $1.00 per share expiring in 2 years and vested immediately.

The fair value of these stock options was calculated using the Black-Scholes option pricing model. Under the assumptions of: (1) risk free interest rate of 0.32%, (2) expected volatility of 114%, (3) expected life of 2 years, and (4) dividend yield of 0.0%, the fair value attributed to each option was $0.58.

(b) On July 13, 2020, the Company granted 275,000 options to certain employees and consultants. Each option entitles the holder thereof to purchase one common share of the Company at a price of $0.80 per share expiring in 2 years and vested immediately.

The fair value of these stock options was calculated using the Black-Scholes option pricing model. Under the assumptions of: (1) risk free interest rate of 0.32%, (2) expected volatility of 112%, (3) expected life of 2 years, and (4) dividend yield of 0.0%, the fair value attributed to each option was $0.45.

(c) On November 13, 2020, the Company granted 500,000 options to its CEO. Each option entitles the holder to purchase one common share of the Company at a price of $0.70 per shares. The options vesting in various quantities on a semi-annual basis until expiry by June 30, 2023.

The fair value of these stock options was calculated using the Black-Scholes option pricing model. Under the assumptions of: (1) risk free interest rate of 0.27%, (2) expected volatility of 97%, (3) expected life of 2.6 years, and (4) dividend yield of 0.0%, the fair value attributed to each option was $0.40.

(d) In December, 2020, 100,000 stock options were exercised for cash proceeds of $25,000, resulting in the issuance of 100,000 common shares *(see note 17(c))*.

(e) On December 30, 2020, the Company granted 182,926 options to an individual who is both an officer and director of the Company. Each option entitles the holder to purchase one common share of the Company at a price of $0.80 per share expiring in 3 years and vested immediately.

The fair value of these stock options was calculated using the Black-Scholes option pricing model. Under the assumptions of: (1) risk free interest rate of 0.20%, (2) expected volatility of 101%, (3) expected life of 3 years, and (4) dividend yield of 0.0%, the fair value attributed to each option was $0.51.

18. Stock Options, continued

(f) On February 3, 2021, the Company granted 50,000 options to a consultant. Each option entitles the holder to purchase one common share of the Company at a price of $0.80 per share expiring in 2 years and vested immediately.

The fair value of these stock options was calculated using the Black-Scholes option pricing model. Under the assumptions of: (1) risk free interest rate of 0.17%, (2) expected volatility of 99%, (3) expected life of 2 years, and (4) dividend yield of 0.0%, the fair value attributed to each option was $0.37.

(g) In September, 2021, the Company granted 465,000 stock options to certain employees of the Company. The options are exercisable at a price $0.80 per option, expire by September 1, 2025, and vest as to 1/6 immediately, and 1/6 for each subsequent six month period, such that they are fully vested by March 1, 2024.

The fair value of these options was calculated using the Black-Scholes option pricing model. Under the assumptions of: (1) risk free interest rate of 0.71%, (2) expected volatility of 187%, (3) expected life of 4.00 years, and (4) dividend yield of 0.0%, the fair value attributed to each option was $0.70.

(h) In November 2021, the Company granted 120,000 stock options to certain consultants of the Company. The options are exercisable at a price $0.80 per option, expire by November 11, 2023, and vested immediately.

The fair value of these options was calculated using the Black-Scholes option pricing model. Under the assumptions of: (1) risk free interest rate of 1.00%, (2) expected volatility of 81%, (3) expected life of 2.00 years, and (4) dividend yield of 0.0%, the fair value attributed to each option was $0.60.

(i) In December, 2021, 960,000 stock options were exercised resulting in the issuance of 960,000 common shares *(see note 17(b))*.

(j) Total share based compensation recognized for the year ended May 31, 2022, based on accrual of previously granted stock options and special warrants expected to vest in the reporting periods, was as follows:

	2022	2021
Stock options	**$ 356,174**	$ 435,942
Special warrants	**74,971**	196,830
	431,145	632,772
Shares issued to consultant as compensation	**19,200**	-
	$ 450,345	$ 632,772

19. Special Warrants

Special warrant activity during the years ended May 31, 2022 and 2021 was as follows:

	Year ended May 31, 2022		Year ended May 31, 2021	
	Options	**Weighted average exercise price**	Options	Weighted average exercise price
Outstanding, beginning of year	**2,687,500**	**$ 0.54**	2,847,500	$ 0.54
Exercise of special warrants *(see note 19(a))*	**(412,500)**	**0.26**	-	-
Special warrants forfeited/expired	**(625,000)**	**0.51**	(160,000)	0.60
Outstanding, end of year	**1,650,000**	**$ 0.62**	2,687,500	$ 0.54
Weighted-average remaining life		**2.7**		2.6

(a) 12,500 common shares were issued in November, 2021 for gross proceeds of $7,500 on the exercise of 12,500 special warrants. A further 400,000 common shares were issued in February, 2022 for gross proceeds of $100,000 on the exercise of 400,000 special warrants *(see note 18(b))*.

20. Broker Compensation Warrants

Broker compensation warrant activity during the years ended May 31, 2022 and 2021 was as follows:

	Year ended May 31, 2022		Year ended May 31, 2021	
	Options	**Weighted average exercise price**	Options	Weighted average exercise price
Outstanding, beginning of year	**401,480**	**$ 0.54**	470,190	$ 0.57
Exercised in July, 2020 *(see note 20(a))*	**-**	**0.50**	(109,523)	0.50
Issued in December, 2020 *(see note 20(b))*	**-**	**0.80**	47,813	0.80
Exercised in March, 2021 *(see note 20(c))*	**-**	**0.50**	(7,000)	0.50
Exercised in January, 2022 *(see note 20(d))*	**(174,222)**	**0.75**	-	-
Expiries in year	**(179,445)**	**0.50**	-	-
Outstanding, end of year	**47,813**	**$ 0.80**	401,480	$ 0.54
Weighted-average remaining life		**0.6**		0.8

(a) In July, 2020, 109,523 broker compensation warrants were exercised for cash proceeds of $54,762, resulting in the issuance of 109,523 common shares *(see note 17(c))*.

20. BROKER COMPENSATION WARRANTS, continued

(b) In December, 2020, in connection with the convertible debenture placement *(see note 16(I))*, the Company issued 47,813 broker compensation warrants, exercisable at $0.80 each, expire in 2 years and vested fully on issuance. The fair value of the broker compensation warrants issued was $27,013, recorded as a transaction cost and allocated proportionately to the host debentures and derivative liability. The portion allocated to the derivative liability of $10,887 was expensed in the period. The fair value was calculated using a Black-Scholes option pricing model with the following assumptions (1) risk-free interest rate of 0.20%, (2) expected volatility of 100% and (3) expected term of 2 years.

(c) In March, 2021, 7,000 broker compensation warrants were exercised for cash proceeds of $3,500, resulting in the issuance of 7,000 common shares *(see note 17(c))*.

(d) In January, 2022 and February, 2022, a total of 174,222 broker compensation warrants were exercised for cash proceeds of $87,110, resulting in the issuance of 174,222 common shares *(see note 17(b))*.

21. SHARE PURCHASE WARRANTS

Activity with respect to share purchase warrants during the years ended May 31, 2022 and 2021 was as follows:

	Year ended May 31, 2022		Year ended May 31, 2021	
	Options	**Weighted average exercise price**	Options	Weighted average exercise price
Outstanding, beginning of year	**9,039,750**	**$ 0.80**	7,451,000	$ 0.75
Issued in conjunction with convertible debentures in December, 2020 *(see note 21(a))*	**-**	**-**	1,968,750	1.00
Exercised in April and May, 2021 *(see note 21(b))*	**-**	**-**	(380,000)	0.75
Exercised in June, 2021 *(see note 21(c))*	**(1,384,000)**	**-**	-	-
Issued in conjunction with convertible debentures in January, 2022 *(see note 21(d))*	**1,874,285**	**-**	-	-
Expired in year *(see note 21(c))*	**(5,687,000)**	**-**	-	-
Outstanding, end of year	**3,843,035**	**$ 0.90**	9,039,750	$ 0.80
Weighted-average remaining life		**1.6**		1.2

(a) As described in note 16(I)(b)(v), in December, 2020, the Company issued to the purchasers of the convertible debentures one share purchase warrant for each share underlying the convertible debenture purchased, or 1,968,750 warrants in total. The warrants are subject to various conditions and rights as detailed in note 16(b).

(b) In April and May of 2021, a total of 380,000 share purchase warrants were exercised for cash proceeds of $224,250, resulting in the issuance of 380,000 common shares *(see note 17(c))*.

(c) In June, 2021, 1,384,000 common shares were issued for gross proceeds of $1,038,000 upon exercise of 1,384,000 share purchase warrants issued in connection with the private placement that closed in March, 2020 *(see note 17(b))*.

After exercise of these warrants, a total of 5,687,000 warrants from the same offering remained outstanding. The expiry date of these warrants was extended from March 12, 2022 to May 18, 2022, at which date they all expired unexercised.

(d) As described in note 16(II), in January, 2022, the Company issued to the purchasers of the convertible debentures one share purchase warrant for each share underlying the convertible debenture purchased, or 1,874,285 warrants in total. The warrants are exercisable at a price $0.90 per option, expire by January 30, 2024, and are subject to similar terms and conditions as detailed in note 16(I)(b).

22. INCOME TAXES

(a) Income tax rate reconciliation

The Company's provision for income tax differs from the amounts computed by applying the combined federal and provincial rate of 26.5% to the loss for the year before taxes as shown in the following table as at May 31:

	2022	2021
Net loss before recovery of income taxes	**$ (3,689,186)**	$ (4,419,782)
Statutory tax rates	**26.50%**	26.50%
Expected income tax recovery	**(977,634)**	(1,171,242)
Decrease (increase) resulting from:		
Share issue costs and non-deductible expenses	**178,457**	168,194
Change in unrecognized deferred tax assets	**799,177**	1,003,048
Income tax expense	**$ -**	$ -

(b) Certain deferred tax assets have not been recognized because it is not probable that future taxable profit will be available against which the Company can utilize the benefits therefrom. The deferred tax assets not recognized are as follows:

	2022	2021
Non-capital loss carryforwards	**$ 3,377,882**	$ 2,472,605
Share issuance costs	**41,483**	110,740
Plant and equipment	**6,111**	131,996
SR&ED pool and tax credits	**235,112**	222,137
Other	**93,809**	17,741
Deferred tax assets (liabilities)	**3,754,397**	2,955,219
Less: deferred tax assets not recognized	**(3,754,397)**	(2,955,219)
Deferred tax assets (liabilities)	**$ -**	$ -

(c) The non-capital loss carryforwards expire as follows:

2037	$ 494,955
2038	1,195,868
2039	1,415,498
2040	2,463,323
2041	3,760,942
2042	3,416,137
	$ 12,746,723

23. Related Party Transactions

During the years ended May 31, 2022 and 2021, the Company had the following related party transactions, including (i) compensation of key management personnel and directors, and (ii) transactions with entities related to, or controlled by, officers and directors, as follows:

		2022		2021
Salary	**$**	**247,117**	$	245,067
Consulting fees		**228,000**		310,500
Car allowances		**9,600**		19,200
Share based compensation		**271,627**		338,173
	$	**756,344**	$	912,940

(a) The Company is related to CMAX Technologies Inc. by virtue of common ownership and management. The Company entered into a lease renewal agreement with CMAX in fiscal 2020 under which it is obligated to make monthly rental payments of $10,000 until expiry on December 31, 2022. During the year ended May 31, 2022, the Company made payments of $120,000 (2021 - $120,000).

(b) Legal fees recorded during the year ended May 31, 2022 from a law firm of which a director is a partner totalled $46,141 (2021 - $43,736).

(c) Subscriptions from related parties of $280,000 and $250,000 are included in the debenture financings that closed in January 2022 and December 2020 respectively *(see note 16*).

(d) In October, 2020, the Company completed related party asset acquisitions totalling $1,318,000 through the issuance of 2,584,313 common shares *(see notes 11 and 17(c))*.

(e) Accounts payable and accrued liabilities as at May 31, 2022 includes $216,972 (2021 - $164,624) with respect to balances owing to related parties for the transactions disclosed above.

24. Government Grants

In April, 2020, the Government of Canada passed the Canada Emergency Wage Subsidy ("CEWS") to support employers facing financial hardship as measured by certain revenue decline as a result of the COVID-19 pandemic. In accordance with IAS 20 Accounting for Government Grants and Disclosure of Government Assistance, during the year ended May 31, 2022, the Company recognized $Nil (2021 - $142,429) of CEWS funding as a reimbursement of employee compensation costs. Of this amount, $Nil (2021 - $38,157) was capitalized into inventory with the remainder recorded as an offset to the employee compensation and benefits financial statement caption.

25. FINANCIAL INSTRUMENTS AND RISK FACTORS

(a) Fair value of financial instruments

The fair values of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities and bank loan payable approximate their fair values due to the short-term or demand nature of these balances. The Company's financial instruments are exposed to certain financial risks, as summarized below.

The fair value of the convertible debentures as at May 31, 2022 was approximately $2,667,000. The fair value was determined using the discounted cash flow method using a discount rate of 25%. The discount rate used is management's best estimate reflective of the Company's specific credit risk.

Derivative liabilities are measured at fair value through profit or loss and require level 3 inputs and use the key assumptions detailed in note 16(e).

(b) Credit risk

Credit risk arises from deposits with banks, HST receivable and trade accounts receivable. The maximum exposure to credit risk as at May 31, 2022 is $900,831 of cash and cash equivalents and accounts receivable in the consolidated statement of financial position.

Cash and cash equivalents consists of bank deposits unrestricted funds held in the Company lawyer's trust account. All of the above have been invested with a Canadian chartered bank, from which management believes the risk of loss to be remote. The Company regularly monitors its credit risk exposure and takes steps to mitigate the likelihood of these exposures resulting in actual loss.

The Company's credit risk is attributable to its accounts receivable, which is comprised of trade accounts receivable and refundable HST ITC's. The entire balance in trade accounts receivable of $49,556 relate to sales made to the Ontario Cannabis Store. The credit quality of the customer is considered high, and is monitored on an on-going basis.

(c) Liquidity risk

The business of the Company necessitates the management of liquidity risk. The Company's objective is to mitigate short-term liquidity risk by maintaining adequate working capital reserves and its long-term liquidity risk through good relations with external capital markets. The Company is exposed to liquidity risk or the risk of not meeting its financial obligations as they come due. Most of the Company's financial liabilities are due within one year except for finance lease obligations and the convertible debenture that closed in January, 2022.

25. FINANCIAL INSTRUMENTS AND RISK FACTORS, continued

The Company manages liquidity risk through the management of its capital structure and resources to ensure that it has sufficient liquidity to settle obligations and liabilities when they are due. Management keeps track of its operational needs and creates budgets and cash flow estimates to determine cash flow requirements for general business and working capital needs, as well as growth projects. The Company's ability to meet its operational needs is dependent on future operating results and cash flows, which are determined by economic, financial, competitive, market, regulatory factors and other factors.

The Company has undergone numerous recent financing initiatives as follows: (i) an initial convertible debenture offering for gross proceeds of $1,575,000 in December, 2020 *(see note 16(I))*, (ii) a second convertible debenture offering for gross proceeds of $1,312,000 in January, 2022 *(see note 16(II))*, (iii) $658,860 raised from exercise of share purchase warrants, stock options, special warrants and broker warrants since April, 2021 *(see note 17(b))*, and (iv) $239,000 from the sale of excess equipment. As at May 31, 2022, the Company had working capital of $1,092,903 (May 31, 2021 - $1,849,825).

The following table outlines the Company's contractual undiscounted obligations. The Company analyzes contractual obligations for financial liabilities in conjunction with other commitments in managing liquidity risk. Contractual obligations include accounts payable and accrued liabilities, bank loan payable, lease liabilities and debentures payable.

	<1 year	2 years	3-4 years	5 years	Total
	$	$	$	$	$
Accounts payable and accrued liabilities	967,669	-	-	-	967,669
Bank loan payable	60,000	-	-	-	60,000
Lease liabilities	152,505	100,325	-	-	252,830
Debentures payable: principal and interest	1,798,075	1,400,000	-	-	3,198,075
Total contractual obligations	2,978,249	1,500,325	-	-	4,478,574

(d) Market risk

Market risk is the risk of loss that may arise from changes in market factors such as interest rates, foreign exchange rates and equity prices.

(i) The Company does not have assets or liabilities in a foreign currency and therefore is not exposed to foreign currency risk.

(ii) Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company is not subject to interest rate risk from its convertible debentures as they are all fixed rate instruments.

26. Capital Disclosures

The Company manages its capital to maintain its ability to continue as a going concern and to provide returns to shareholders and benefits to other stakeholders. The Company includes equity, comprised of share capital, contributed surplus and accumulated deficit, in its definition of capital.

The Company manages its capital structure and adjusts it in light of economic conditions. Upon approval from its Board of Directors, it will balance its overall capital structure through new share issues or by undertaking other activities as deemed appropriate under the specific circumstances.

The Company is not subject to externally imposed capital requirements and its overall strategy with respect to capital risk management remains unchanged from the prior fiscal year.

27. Segmented Information

The Company's operations comprise a single operating segment engaged in the medical marijuana business. All property and equipment, right-of-use assets and intangible assets are located in Canada.

28. Non-Cash Transactions

	2022	2021
Shares issued on asset purchases	**$ -**	$ 1,318,000
Depreciation capitalized into inventory	**233,143**	208,858
Lease liability payments offset against accounts payable	**120,000**	70,000
Inventory pricing settlement with MediPharm	**-**	456,440
Accounts payable settled through debenture issuance	**-**	50,000
Disposal of plant and equipment	**-**	(120,329)

29. Subsequent events

(a) Debenture Amending Agreement

On September 22, 2022, pursuant to the terms of the Interlender Agreement dated December 21, 2020, the Company entered into a Debenture Amending Agreement with the holders of the debentures issued on December 30, 2020 *(see note 16(I))* under which the parties agreed:

- to extend the maturity date of the debentures from December 30, 2022 (the "current maturity date") to October 31, 2023;
- to waive any default in payment due and payable as of the current maturity date and to forbear from enforcing any enforcement rights under the Interlender Agreement, or to forbear from declaring or acting upon, or exercising related rights or remedies under the debentures, relating to the current maturity date; and
- that all other terms of the debenture shall continue in full force and effect.

(b) Sub-let of premises

On September, 2022, the Company entered into an agreement to sub-let their premises at 225 Riviera Avenue, Markham, Ontario effective October 10, 2022.