CANNTAB THERAPEUTICS LIMITED

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

THREE AND NINE MONTHS ENDED FEBRUARY 28, 2023 AND 2022

(Stated in $CAD)

(Unaudited - Prepared by Management)

<u>NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS</u>

The accompanying unaudited interim condensed consolidated financial statements of the Company have been prepared by, and are the responsibility of, the Company's management. The Company's external auditor has not performed a review of these financial statements in accordance with standards established by CPA Canada for a review of interim financial statements by an entity's auditor.

CANNTAB THERAPEUTICS LIMITED
INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AS AT FEBRUARY 28, 2023 AND MAY 31, 2022
(Stated in $CAD)
(Unaudited - Prepared by Management)

	February 28 2023	May 31 2022
ASSETS		
Current:		
Cash	**$ 16,814**	$ 691,111
Accounts receivable (Note 6)	**32,042**	209,720
Inventories (Note 7)	**287,154**	489,256
Prepaid expenses and deposits	**-**	74,527
	336,010	1,464,614
Long term:		
Plant and equipment	**341,699**	778,554
Right-of-use assets (Note 9)	**-**	305,118
Intangible assets	**275,834**	303,818
	$ 953,543	$ 2,852,104
LIABILITIES		
Current:		
Bank loan payable	**$ 60,000**	$ 60,000
Accounts payable and accrued liabilities (Note 8)	**1,212,123**	967,669
Current portion of lease liabilities (Note 9)	**-**	152,505
Current portion of debentures payable (Note 10(III))	**1,836,060**	1,300,114
Current portion of derivative liabilities (Note 10(III))	**5,061**	77,229
	3,113,244	2,557,517
Long term:		
Lease liabilities (Note 9)	**-**	201,491
Debentures payable (Note 10(III))	**-**	126,204
Derivative liabilities (Note 10(III))	**-**	278,115
	3,113,244	3,163,327
SHAREHOLDERS' DEFICIT		
Common shares (Note 11)	**13,443,304**	13,443,304
Contributed surplus	**3,007,658**	2,944,928
Accumulated deficit	**(18,610,663)**	(16,699,455)
	(2,159,701)	(311,223)
	$ 953,543	$ 2,852,104

Going concern (Note 2(c))

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

Approved on behalf of the Board:

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

CANNTAB THERAPEUTICS LIMITED
INTERIM CONDENSED CONSOLIDATED STATEMENTS OF NET LOSS AND COMPREHENSIVE LOSS
THREE AND NINE MONTHS ENDED FEBRUARY 28, 2023 AND 2022

(Stated in $CAD)

(Unaudited - Prepared by Management)

	Three months ended February 28 2023	**Nine months ended February 28 2023**	Three months ended February 28 2022	Nine months ended February 28 2022
Revenue				
Tablet sales, net of returns	**$ (22,156)**	$ 33,936	$ 48,461	$ 253,822
Cost of sales	**(17,246)**	11,940	25,377	130,017
Gross profit (loss)	**(4,910)**	21,996	23,084	123,805
Expenses				
Employee compensation and benefits	**8,564**	326,382	185,492	776,590
Marketing and regulatory expenses	**8,634**	108,707	47,247	180,808
Professional fees	**50,259**	138,117	122,044	342,128
Consulting fees	**(7,881)**	79,915	135,017	340,172
General and administrative	**27,745**	102,729	49,412	166,404
Research and development	**540**	31,800	81,126	145,274
Interest and accretion	**161,520**	615,512	106,927	355,899
Share based compensation	**-**	62,730	96,110	372,887
Depreciation of plant and equipment and right-of-use assets	**74,071**	359,075	95,257	416,983
Amortization of intangible assets	**17,438**	43,159	13,825	29,162
	340,890	1,868,126	932,457	3,126,307
Loss from operations	**(345,800)**	(1,846,130)	(909,373)	(3,002,502)
Other income (expenses)				
Gain on derivative liabilities (Note 10)	**273,533**	350,283	527,931	794,505
Interest income	**-**	-	2,430	2,430
Loss on disposal of assets	**-**	**-**	(39,326)	(39,326)
Impairment provisions (Note 12)	**(340,361)**	(415,361)	-	-
Net loss and comprehensive loss	**$ (412,628)**	$ (1,911,208)	$ (418,338)	$ (2,244,893)
Basic and diluted loss per share (Note 11(e))	**$ (0.01)**	$ (0.05)	$ (0.01)	$ (0.06)

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

CANNTAB THERAPEUTICS LIMITED
INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' DEFICIENCY
PERIOD FROM JUNE 1, 2021 TO FEBRUARY 28, 2023
(Stated in $CAD)
(Unaudited - Prepared by Management)

	Common shares Number	Common shares Amount	Shares to be issued	Contributed surplus	Accumulated deficit	Total
As at June 1, 2021	**35,938,437**	**$ 11,606,235**	**$ 813,750**	**$ 2,859,042**	**$ (13,010,269)**	**$ 2,268,758**
Net loss and comprehensive loss	-	-	-	-	(2,244,893)	**(2,244,893)**
Share based compensation	-	-	-	372,887	-	**372,887**
Exercise of share purchase warrants	1,384,000	1,048,045	(813,750)	(10,045)	-	**224,250**
Exercise of stock options	960,000	435,854	-	(195,854)	-	**240,000**
Exercise of special warrants	412,500	209,100	-	(101,600)	-	**107,500**
Exercise of broker warrants	174,222	130,230	-	(43,120)	-	**87,110**
As at February 28, 2022	**38,869,159**	**13,429,464**	**-**	**2,881,310**	**(15,255,162)**	**1,055,612**
Net loss and comprehensive loss	-	-	-	-	(1,444,293)	**(1,444,293)**
Share based compensation	-	-	-	58,258	-	**58,258**
Shares issued in exchange for services	40,000	19,200	-	-	-	**19,200**
Shares issued on exercise of special warrants	-	(5,360)	-	5,360	-	**-**
As at May 31, 2022	**38,909,159**	**13,443,304**	**-**	**2,944,928**	**(16,699,455)**	**(311,223)**
Net loss and comprehensive loss	-	-	-	-	(1,911,208)	**(1,911,208)**
Share based compensation	-	-	-	62,730	-	**62,730**
As at February 28, 2023	**38,909,159**	**$ 13,443,304**	**$ -**	**$ 3,007,658**	**$ (18,610,663)**	**$ (2,159,701)**

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

CANNTAB THERAPEUTICS LIMITED
INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
NINE MONTHS ENDED FEBRUARY 28, 2023 AND 2022
(Stated in $CAD)
(Unaudited - Prepared by Management)

	2023	2021
Operating activities		
Net loss and comprehensive loss	**$ (1,911,208)**	$ (2,244,893)
Add (deduct) items not affecting cash:		
Share based compensation	**62,730**	372,887
Depreciation of plant and equipment and right-of-use assets	**359,075**	416,983
Amortization of intangible assets	**43,159**	29,162
Interest and accretion on debentures	**600,017**	251,131
Loss on disposal of assets	**-**	39,326
Impairment provisions	**415,361**	-
(Gain) loss on derivative liabilities	**(350,283)**	(794,505)
	(781,149)	(1,929,909)
Change in non-cash working capital items		
Accounts receivable	**177,678**	8,110
Inventories	**(51,866)**	(67,212)
Prepaid expenses and deposits	**49,110**	35,303
Accounts payable and accrued liabilities	**(15,821)**	(113,003)
	(622,048)	(2,066,711)
Investing activities		
Purchase of plant and equipment	**-**	(30,105)
Purchase of intangible assets	**(15,175)**	(44,816)
Proceeds on sale of assets	**-**	239,484
	(15,175)	164,563
Financing activities		
Proceeds from convertible debenture offering, net of transaction costs	**-**	1,299,821
Proceeds on exercise of stock options	**-**	240,000
Proceeds on exercise of special warrants	**-**	107,500
Proceeds on exercise of share purchase warrants	**-**	224,250
Proceeds on exercise of broker warrants	**-**	87,111
Repayment of lease liabilities	**(37,074)**	(46,182)
	(37,074)	1,912,500
Change in cash	**(674,297)**	10,352
Cash, beginning of period	**691,111**	1,490,863
Cash, end of period	**$ 16,814**	$ 1,501,215
Non-cash transactions		
Depreciation capitalized into inventory	**$ 32,406**	$ 212,844
Lease liability payments offset against accounts payable	**70,000**	90,000
Inventory pricing settlement with MediPharm	**-**	456,440
Debenture coupon interest payments not made, included in accrued liabilities	**190,275**	-
	$ 292,681	$ 759,284

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

1. 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 411 Cranbrooke Avenue, Toronto, Ontario, M4M 1N4 *(see note 9(a))*, 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. Long referred to as Cannabis 3.0 by the Company, 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. These include once a day and extended-release formulations, both providing an accurate dose and improved shelf stability.

Canntab previously held a Cannabis Standard Processing and Sales for Medical Purposes License and a Cannabis Research License from Health Canada. These licenses were surrendered in December, 2022. Under an agreement with a private licensed producer *(see note 5)*, the Company will conduct all its future cannabis processing and distribution activities under the private licensed producer's license with Health Canada. It is also undertaking efforts to license its technology internationally. Unless the Company can generate significant revenue from these efforts, it will be very difficult to continue operating as a going concern *(see note 2(c))*.

Canntab trades on the Canadian Securities Exchange under the symbol "PILL" and the Frankfurt Stock Exchange under the symbol "TBF1". It previously traded the OTCQB Best Market under the symbol "CTABF", but now trades under the same symbol on the OTC Pink Sheets.

2. BASIS OF PRESENTATION

(a) Statement of compliance

These unaudited interim condensed consolidated financial statements have been prepared in accordance with IAS 34 "Interim Financial Reporting" as issued by the International Accounting Standards Board ("IASB"), and accordingly do not include all the information required for full annual financial statements by International Financial Reporting Standards ("IFRS"). They have been prepared using the same accounting policies that were described in note 3 to the Company's annual consolidated financial statements for the year ended May 31, 2022 which were prepared in accordance with IFRS as issued by the IASB.

The unaudited interim condensed consolidated financial statements have not been reviewed by the Company's external auditors. They were authorized for issuance by the Board of Directors on April 26, 2023.

2. Basis Of Presentation, continued

(b) Basis of presentation

The unaudited interim condensed 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 unaudited interim condensed 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.

(c) Going concern

These unaudited interim condensed 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 unaudited interim condensed 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 unaudited interim condensed consolidated financial statements. Such adjustments could be material.

As at February 28, 2023, the Company had an accumulated deficit of $18,610,663 (May 31, 2022 - $16,699,455). Working capital deficiency as at February 28, 2023 was $2,777,234 compared to $1,092,903 as at May 31, 2022. Net loss and comprehensive loss for the nine months ended February 28, 2023 was $1,911,208 (2022 - $2,244,893). Additionally, the Company reported negative cash flow from operations (before changes in non-cash working capital) of $781,149 for the nine months ended February 28, 2023 (2022 - $1,929,909). Other than some initial licensing fees received and some recent online and 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 a consequence of the premises lease cancellation *(see note 9)* and revocation of its Health Canada licensing, management sought to move its production, testing and manufacturing equipment to establish its tablet manufacturing process at another licensed facility in Canada. On December 9, 2022, the Company entered into an agreement with Black Rose Organics Canada Inc. ("BRO"), a private Ontario based licensed producer *(see note 5)*. It is also undertaking efforts to license its technology internationally. Unless the company can generate significant revenue from these efforts, it will be very difficult to continue operating as a going concern.

2. BASIS OF PRESENTATION, CONTINUED

To continue as a going concern, the Company will also need to ii) obtain forbearance agreement from convertible debenture holders to forbear from enforcing their enforcement rights (as defined in the Interlender Agreement), or to forbear from declaring or acting upon, or exercising related rights or remedies under the debentures, (ii) arrange future financing that will largely depend upon prevailing capital market conditions and the continued support of its stakeholder base, and (iii) identify and negotiate partnerships to assist Canntab in expanding its product offerings in Canada, United States, and other international jurisdictions. However, there can be no assurance that management's plans will be successful. While the Company has been successful in prior fundraising efforts, there can be no assurance that (i) additional funds could be raised, or (ii) profitable operations can be achieved 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. RECENTLY ADOPTED ACCOUNTING PRONOUNCEMENTS

As at the date of these unaudited interim condensed consolidated financial statements, the Company has adopted the following new or revised IASB standards effective for annual periods beginning on or after January l, 2022. The Company has determined that the adoption of these new or revised standards has not any impact on these unaudited interim condensed consolidated financial statements.

(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.

(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.

(c) 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.

4. RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

As at the date of authorization of these unaudited interim condensed 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 unaudited interim condensed consolidated financial statements.

(a) 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.

(b) 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.

(c) 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.

(d) 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. Agreement With Licensed Producer

As a consequence of the premises lease cancellation *(see note 9)* and revocation of its Health Canada licensing), management sought to move its production, testing and manufacturing equipment to establish its tablet manufacturing process at another licensed facility in Canada. On December 9, 2022, the Company entered into an agreement with Black Rose Organics Canada Inc. ("BRO"), a private Ontario based licensed producer, with the following major terms:

(a) Canntab has proprietary processes it has developed in order to manufacture cannabis- infused medical tablets products that it will provide;

(b) BRO will provide necessary licenses to process cannabis products under the Cannabis Act and its regulations;

(c) Canntab shall deliver and transfer to BRO its inventory of cannabis products (tablets and extracts) which BRO shall store at its licensed premises in Scarborough, Ontario, free of charge, to be repackaged by BRO, to manufacture or package tablets containing THC and/or CBD using Canntab's proprietary processes and equipment;

(d) BRO will provide the facility for the installation of Canntab equipment (of which Canntab will still retain ownership), and BRO will manufacture cannabis-infused tablet products on the terms and conditions set out in the agreement;

(e) Canntab will during the term of this agreement allow BRO to use Canntab equipment to manufacture cannabis products for sale by BRO in accordance with the terms and provisions of the agreement;

(f) Revenue will be shared as follows:
- As to Canntab's current inventory of packaged goods, 60% to Canntab and 40% to BRO;
- As to future production of Canntab products, 50% to Canntab and 50% to BRO;
- As to net profit from white label agreements brought from BRO by Canntab, 40% to Canntab and 60% to BRO.

6. Accounts Receivable

	February 28 2023	May 31 2022
Trade accounts receivable	**$ 2,531**	$ 49,556
HST recoverable	**21,316**	183,381
Accrued receivables	**8,195**	8,214
Provision for returns	**-**	(31,431)
	$ 32,042	$ 209,720

7. INVENTORIES

	February 28 2022	May 31 2022
Non-cannabis raw materials	**$ 20,068**	$ 40,135
Cannabis oil raw materials	**3,722**	7,443
Work-in-progress	**-**	31,447
Finished goods	**263,364**	410,231
	$ 287,154	$ 489,256

The Company has recognized a total provision for inventory obsolescence as at February 28, 2023 of $1,558,165 (May 31, 2022 - $1,271,790).

8. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	February 28 2023	May 31 2022
Accounts Payable And Accrued Liabilities	**$ 1**	$ -
Trade accounts payable	**203,581**	160,917
Accrued liabilities	**847,015**	677,968
Accounts payable - related company	**161,526**	128,784
	$ 1,212,123	$ 967,669

Accrued liabilities includes provisions for the following:

- $250,0000 for amounts due to MediPharm under the terms of the MediPharm Memorandum of Understanding dated September 16, 2021.
- $312,433 (May 31, 2022 - $142,158) with respect to unpaid coupon interest owing on both the December, 2020 and January, 2022 debentures (see note 10(I)(f)).

9. LEASE LIABILITIES AND RIGHT-OF-USE ASSETS

The Company had previously entered into two separate occupancy leases, as follows:

(a) a lease at 223 Riviera Drive, Markham, Ontario with CMAX Technologies Inc., a company related by common management and ownership, 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.

The lease at 223 Riviera Drive expired on December 31, 2022 and was not renewed. The right-of-use asset associated with the lease was fully depreciated, and the corresponding lease liability was fully amortized, as of the lease expiry date.

The lease at 225 Riviera Drive was set to expire by April 30, 2025. The Company had previously attempted to sub-let these premises, but the landlord did not approve the sublet. The Company and the landlord effectively agreed to an early termination of the lease, and the Company surrendered vacant possession of the property on December 31, 2022.

9. LEASE LIABILITIES AND RIGHT-OF-USE ASSETS, CONTINUED

As a result of this early termination, the Company recorded the following adjustments:

Forgiveness of remaining lease liability	$	237,964
Impairment of remaining ROU asset balance		(196,773)
Write-off of remaining lease deposit		(16,459)
Net recovery credited to operations	$	24,732

10. 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 an initial term of two years and due by December 30, 2022, subsequently extended to October 31, 2023 *(see note 10(I)(f))*. 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 February 28, 2023 was $1,575,000 (May 31, 2022 - $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.

10. DEBENTURES PAYABLE AND DERIVATIVE LIABILITIES, CONTINUED

(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. 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.

(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) 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.

10. DEBENTURES PAYABLE AND DERIVATIVE LIABILITIES, CONTINUED

(e) Following the pricing of the January, 2022 debenture offering *(see note 10(II))*, the adjustment provisions as disclosed in note *10(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 derivative liabilities have been valued at $Nil as they effectively expired on the original due date of the debentures of December 30, 2022. The following table reflects the continuity of the components of the December, 2020 convertible debentures and derivative liabilities as at February 28, 2023.

	Convertible debentures	Derivative liability: conversion feature	Derivative liability: share purchase warrants	Derivative liability: total	Total
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
Interest and accretion	274,886	-	-	-	274,886
Revaluation	-	(50,742)	(26,487)	(77,229)	(77,229)
Balance, February 28, 2023	$ 1,575,000	$ -	$ -	$ -	$ 1,575,000

(f) 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 10(I)(f))* 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.

10. DEBENTURES PAYABLE AND DERIVATIVE LIABILITIES, CONTINUED

(II) January, 2022 offering

(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. The debentures were issued with the same terms and conditions as the December, 2020 offering *(see note10(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.

(c) The following table reflects the continuity of the components of the January, 2022 convertible debentures and derivative liabilities as at February 28, 2023:

	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
Interest and accretion	134,856	-	-	-	134,856
Revaluation	-	(133,638)	(139,416)	(273,054)	(273,054)
Balance, February 28, 2023	$ 261,060	$ 2,624	$ 2,437	$ 5,061	$ 266,121

10. DEBENTURES PAYABLE AND DERIVATIVE LIABILITIES, CONTINUED

(III) Summary

As at February 28, 2023, 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	$ 1,575,000	$ -	$ -	$ -	$ 1,575,000
January, 2022 offering	261,060	2,624	2,437	5,061	266,121
Balance, February 28, 2023	1,836,060	2,624	2,437	5,061	1,841,121
Less: current portion	(1,836,060)	-	-	-	(1,836,060)
Balance, February 28, 2023	$ -	$ 2,624	$ 2,437	$ 5,061	$ 5,061

Unpaid coupon interest on both series of debentures totals $312,433 as at February 28, 2023, and is included in accounts payable and accrued liabilities *(see note 8)*.

11. SHARE CAPITAL

Continuity schedules for each component of the Company's share capital and other equity instruments are disclosed in the unaudited interim condensed consolidated statements of changes in shareholders' equity for the period from June 1, 2021 to February 28, 2023. 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 capital and other equity instrument changes during the nine months ended February 28, 2023

The only change to share capital and other equity instruments during the nine months ended February 28, 2023 were the expiries of 455,000 stock options and 47,813 broker warrants. There was no share capital issued, or any stock options, special warrants, broker warrants or share purchase warrants granted, issued, exercised or forfeited during the period.

11 SHARE CAPITAL, CONTINUED

(c) 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 three and nine month periods ended February 28, 2023 were 38,909,159 and 38,909,159 respectively (three and nine month periods ended February 28, 2022 - 37,736,044 and 37,355,419 respectively).

The potentially dilutive equity instruments outstanding as at February 28, 2023 were (i) 1,267,926 stock options (May 31, 2022 - 1,722,926), (ii) 1,650,000 special warrants (May 31, 2022 - 1,650,000), (iii) 3,843,035 share purchase warrants (May 31, 2022 - 3,843,035), and (iv) Nil broker compensation warrants (May 31, 2022 - 47,813).

12. IMPAIRMENT PROVISIONS

The Company has recorded the following provisions for impairment during the nine month period ended February 28, 2023:

	2023	2022
Inventory (Note 7)	**$ 286,374**	$ -
Plant and equipment	**153,719**	-
Recovery (net) re lease termination at 225 Riviera (Note 9)	**(24,732)**	-
	415,361	-

13. FINANCIAL INSTRUMENTS AND RISK FACTORS

(a) Credit risk

Credit risk arises from deposits with banks, HST receivable and trade accounts receivable. The maximum exposure to credit risk as at February 28, 2023 is $48,856 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 credit quality of each customer in trade accounts receivable is considered high, and is monitored on an on-going basis.

13. FINANCIAL INSTRUMENTS AND RISK FACTORS, continued

(b) Liquidity risk

Liquidity risk is the risk that the Company cannot meet its financial liabilities as they become due. As at February 28, 2023, the Company had a working capital deficiency of $2,777,234 (May 31, 2022 - $1,092,903) and as such, is exposed to significant liquidity risk *(see note 2(c))*. All of the Company's financial liabilities have contractual maturities of 30 days or due on demand and are subject to normal trade terms.

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. Most of the Company's financial liabilities are due within one year except for certain lease liabilities and the convertible debenture that closed in January, 2022.

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. Under an agreement with a private licensed producer *(see note 5)*, the Company will conduct all its future cannabis processing and distribution activities under the private licensed producer's license with Health Canada. It is also undertaking efforts to license its technology internationally. Unless the Company can generate significant revenue from these efforts, it will be very difficult to continue operating as a going concern *(see note 2(c))*.

(c) 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.

14. 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.