LOTUS

CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

For the three months ended November 30, 2022

(Expressed in Canadian Dollars)

NOTICE OF NO AUDITOR REVIEW OF CONDENSED INTERIM FINANCIAL STATEMENTS

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor. The following condensed interim consolidated financial statements of Lotus Ventures Inc. are unaudited. They have been prepared by management and approved by the Audit Committee and Board of Directors of the Company. The Company's independent auditors have not performed a review of these condensed interim financial statements.

LOTUS VENTURES INC.
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
(Expressed in Canadian Dollars)

	As at November 30, 2022	As at August 31, 2022
ASSETS		
Current		
Cash	$ 2,582	$ 46,796
Accounts receivable	161,198	9,364
Biological assets (Note 4)	207,000	207,230
Inventory (Note 5)	389,000	319,000
Prepaid expenses and deposits	231,253	118,218
	991,033	701,608
Non-current		
Restricted cash	226	226
Property, plant and equipment (Note 6)	12,573,306	12,769,359
	12,573,532	12,769,585
Total assets	$ 13,564,565	$ 13,471,193
LIABILITIES		
Current		
Accounts payable and accrued liabilities (Note 8)	$ 903,225	$ 878,512
GST payable	586,681	592,000
Loans payable (Note 9)	1,850,100	1,011,020
Total liabilities	3,340,006	2,481,532
SHAREHOLDERS' EQUITY		
Share capital (Note 7)	$ 17,399,165	$ 17,399,165
Reserves	4,324,864	4,324,864
Deficit	(11,499,470)	(10,734,368)
Total shareholders' equity	10,224,559	10,989,661
Total liabilities and shareholders' equity	$ 13,564,565	$ 13,471,193

Note 13 Subsequent event

Approved and authorized by the Board on February 28, 2023.

"Dale McClanaghan" Director *"Carl Correia"* Director
Dale McClanaghan Carl Correia

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

LOTUS VENTURES INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(Expressed in Canadian Dollars)

		Three months ended November 30, 2022		Three months ended November 30, 2021
Revenue	$	144,603	$	410,568
Cost of sales*		(144,403)		(214,766)
Gross margin before fair value changes		-		195,802
Changes in fair value of biological assets less realized portion relating to inventory sold**		(428,899)		241,732
Gross margin		(428,899)		437,534
General and administrative expenses				
Advertising and promotion	$	14,058	$	22,347
Amortization		156,064		166,382
Bank fees and interest		63,217		8,167
Consulting (Note 8)		61,994		73,100
Insurance		4,113		-
Listing, filing and transfer fees		4,304		2,550
Office and miscellaneous		29,753		39,753
Professional fees		-		36,242
Rent (Note 8)		2,700		2,700
Sales commissions		-		21,000
		(336,203)		(372,241)
Net operating income (loss)		(765,102)		65,293
Other income				
Canada Emergency Wage Subsidy		-		-
Net income (loss) and comprehensive income (loss)	$	(765,102)	$	241,097
Basic and diluted income per share	$	0.00	$	0.00
Weighted average number of shares outstanding		89,969,799		89,969,799

*Comprised only of costs incurred exclusive of the effects of any fair value adjustments.
**A composite figure comprising unrealized income related to recording biological assets at fair value net of these same amounts, related to the cost of those assets, subsequently included in inventory and recognized as an expense upon sale.

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

LOTUS VENTURES INC.
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(Expressed in Canadian Dollars)

	Common shares				
	Number of Shares	**Amount**	**Reserves**	**Deficit**	**Total**
Balance, August 31, 2022	**89,969,799**	**17,399,165**	**$ 4,324,864**	**$ (10,734,368)**	**$ 10,989,661**
Net income	-	-	-	(765,102)	(765,102)
Balance, November 30, 2022	**89,969,799**	**$ 17,399,165**	**$ 4,324,864**	**$ (11,499,470)**	**$ 10,224,559**
Balance, August 31, 2021	**89,969,799**	**$ 17,399,165**	**$ 4,324,864**	**$ (5,941,609)**	**$ 15,782,420**
Net income	-	-	-	65,293	65,293
Balance, November 30, 2021	**89,969,799**	**$ 17,399,165**	**$ 4,324,864**	**$ (5,876,316)**	**$ 15,847,713**

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

LOTUS VENTURES INC.
CONSOLIDATED STATEMENT OF CASH FLOWS
(Expressed in Canadian Dollars)

	Three months ended November 30, 2022	Three months ended November 30, 2021
Cash flows from(to) operating activities		
Net (loss) income for the year	$ (765,102)	$ 65,293
Items not affecting operating cash flows:		
Amortization	156,064	166,382
Accrued interest	39,031	7,959
Net unrealized gain on biological assets	428,898	(241,732)
Changes in non-cash working capital items:		
Accounts receivable	(151,834)	113,015
GST payable	(5,319)	33,389
Biological assets	(458,679))	(446,280)
Prepaid expenses	(49,633)	(139,273)
Deferred revenue	-	-
Accounts payable and accrued liabilities	(97,890)	(119,445)
Due to related parties	60,200	16,199
	(844,264)	544,493
Cash flows from(to) financing activities		
Cash received for shares issued	-	-
Proceeds from loans	873,800	261,564
Repayment of loans	(73,750)	-
	800,050	261,564
Cash flows to investing activities		
Expenditures on property, plant and equipment	-	(56,610)
Net change in cash	(44,214)	(339,539)
Cash, beginning of the year	46,796	580,178
Cash, end of the year	$ 2,852	$ 240,639

Note 12 Supplemental non-cash disclosures

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

Note 1 Nature and Continuance of Operations

The public company predecessor to Lotus Ventures Inc. (the ‘Company’ or ‘Lotus’) was incorporated under the Business Corporations Act (B.C.) on May 12, 2010 as Strachan Resources Ltd. (‘Strachan’). Strachan’s common shares were previously listed for trading on the TSX Venture Exchange (‘Venture’), and it was classified as a Capital Pool Company pursuant to Venture Policy 2.4 until the completion of a 2014 amalgamation agreement with a BC private company also known as Lotus Ventures Inc. For accounting purposes, this amalgamation was considered to constitute a reverse acquisition, with the private company the continuing reporting entity and Strachan the entity having been acquired. Effective December 8, 2014, the Company’s common shares were listed for trading on the Canadian Securities Exchange.

In March 2019 the Company received Health Canada certification as a Licensed Producer of cannabis products with the issuance of a Standard Cultivation License and a Sale for Medical Purposes License. During the fourth quarter of the August 31, 2019 fiscal year the Company commenced cultivation activity at its production facility, which since 2018 it has constructed near Armstrong, BC. In September 2021, Lotus received a Standard Processing License from Health Canada, which authorizes the Company to produce and sell cannabis directly to provincial distributors. The Company may also sell its products to business-to-business as bulk wholesale or to registered medical patients through the previously-obtained licenses.

These consolidated financial statements have been prepared on a going concern basis, which assumes the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities and commitments in the normal course of business. There are certain adverse conditions and events that may cast doubt on the validity of this assumption. The Company’s major business activities have only recently been legalized in Canada and it is therefore subject to significant regulatory oversight and requirements. The sustainability of this business, and in fact the nature and scope of the entire legalized cannabis sector, has yet to be fully established on a commercial basis and remains difficult to predict. Prior to the August 31, 2020 fiscal year, the Company had incurred losses since inception and only during the first quarter of that year had the Company begun to realize its first revenues from active business operations. As at November 30, 2022 the Company has an operating deficit, from inception, of $11.5 million and a working capital deficiency of approximately $2.3 million. These factors are indicative of the existence of a material uncertainty that may cast significant doubt about the Company’s ability to continue as a going concern. The Company’s ability to continue its operations and to realize its assets at their carrying values is dependent upon developing profitable operations on a commercial basis, and/or obtaining financing and continued support from its shareholders and creditors on terms which are acceptable to it. These consolidated financial statements do not give effect to any adjustments which would be necessary should the Company be unable to continue as a going concern and therefore required to realize its assets and discharge its liabilities in other than the normal course of business and likely at amounts different from those reflected in the accompanying consolidated financial statements.

Note 2 Basis of Preparation

Statement of Compliance

These consolidated financial statements are 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”).

Note 2 Basis of Preparation – (cont'd)

Consolidated Financial Statements

These consolidated financial statements include the accounts of the Company and its 100% controlled entity Lotus Cannabis Alberta Incorporated.

Inter-company balances and transactions, including unrealized income and expenses arising from inter-company transactions, are eliminated on consolidation.

Basis of Measurement

These consolidated financial statements have been prepared on a historical costs basis except for financial instruments classified as financial instruments at fair value through profit or loss, which are stated at their fair value. In addition, these consolidated financial statements have been prepared using the accrual basis of accounting.

These consolidated financial statements are presented in Canadian dollars, which is also the Company's functional currency.

The preparation of these consolidated financial statements requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported expenses during the period. Actual results could differ from these estimates.

Note 3 Significant Accounting Policies

Financial instruments

Financial assets and financial liabilities are recognized when the Company becomes a party to the contractual provisions of a financial instrument.

At initial recognition, financial assets are measured at fair value and classified as subsequently measured at amortized cost, fair value through other comprehensive income ("FVTOCI") or fair value through profit or loss ("FVTPL"). At initial recognition, financial liabilities are measured at fair value and classified as, subject to certain exceptions, subsequently measured at amortized cost. For financial assets and financial liabilities not at FVTPL, fair value is adjusted for transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognized immediately in the consolidated statement of comprehensive loss.

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at FVTPL: (i) it is held within a business model whose objective is to hold assets to collect contractual cash flows, and (ii) its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A financial asset is measured at FVTOCI if it meets both of the following conditions and is not designated as at FVTPL: (i) it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, and (ii) its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Note 3 Significant Accounting Policies – (cont'd)

Financial instruments – (cont'd)

A financial asset is measured at FVTPL unless it is measured at amortized cost or FVTOCI. However, an irrevocable election can be made at initial recognition for particular investments in equity instruments that would otherwise be measured at FVTPL to present subsequent changes in fair value through other comprehensive income.

The Company's financial instruments are classified and subsequently measured as follows:

Account	Classification
Cash	Amortized cost
Receivables	Amortized cost
Deposits	Amortized cost
Accounts payable and accrued liabilities (excluding GST/sales tax payable)	Amortized cost
Loans payable	Amortized cost

Cash and cash equivalents

Cash in the consolidated statement of financial position comprises cash at banks and on hand. Cash equivalents is comprised of highly liquid investments held at major financial institutions, having maturity dates of three months or less from the date of purchase, which are readily convertible into known amounts of cash. There were no cash equivalents at November 30, and August 31, 2022.

Intangible assets

Intangible assets are recognized when they become identifiable, which is to say when they arise from contractual or other rights, or when they are separable, or capable of being sold, transferred, licensed, rented or exchanged. They are initially recorded at cost, subject to the reliability of measurement, and are carried as assets to the extent that it is probable that the future economic benefits applicable to such costs will flow to the Company.

Biological assets

Biological assets are valued in accordance with IAS 41 and are presented at their fair value less costs to sell up to the point of harvest, which becomes the basis for the cost of finished goods inventory after harvest. The Company's biological assets consist of cannabis plants, and because there is no actively traded commodity market for plants or dried product, the valuation of these biological assets is obtained using valuation techniques where the inputs are based upon unobservable market data. These inputs are Level 3 on the fair value hierarchy, and are subject to volatility in market prices and several uncontrollable factors, which could significantly affect the fair value of biological assets in future periods

The Company initially records cannabis plants at cost, which includes elements of seedling purchases, direct labour, power and all other direct costs. The number of weeks in the production cycle is between 14 and 16 weeks from propagation to harvest. The fair value of biological assets under cultivation is then determined using a valuation model to estimate expected harvest yield per plant applied to the estimated price per gram less processing and selling costs. The delta between

Note 3 Significant Accounting Policies – (cont'd)

Biological assets – (cont'd)

this valuation and the actual costs incurred in respect to it is recognized in income as an unrealized gain on changes in fair value of biological assets.

During the period ended November 30, 2022, the wholesale selling price was between $1.25 and $3.50 per gram, and harvest yield was between 60 and 140 grams per plant.

The selling price used in the valuation of biological assets is based on the average selling price of all cannabis products and can vary based on strain. Expected yield is also subject to a variety of factors including psychoactive strength and length of the growth cycle.

Inventory

The Company values inventories at the lower of cost and net realizable value. Inventories of harvested cannabis are transferred from biological assets at their fair value at harvest, which becomes the initial deemed cost. Any subsequent post-harvest costs are capitalized to inventory to the extent that aggregate cost remains less than net realizable value. Net realizable value is determined as the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. The cost of inventories is determined using the weighted average cost basis.

Inventories are written down to net realizable value when the cost of inventories is estimated to be unrecoverable due to obsolescence, damage, or declining market prices. When the circumstances that previously caused inventories to be written down below cost no longer exist or when there is apparent evidence of an increase in selling price then the amount of the write down previously recorded is reversed. Storage costs, indirect administrative overhead, and certain other selling costs related to inventories are expensed in the period incurred.

Property, plant and equipment

Property, plant and equipment are carried at cost, less accumulated amortization and accumulated impairment losses. Cost comprises the fair value of consideration given to acquire an asset and includes the direct expenditures associated with bringing the asset to the location and condition necessary for putting it into use along with the future cost of dismantling and removing the asset. When parts of an item of fixed assets have different useful lives, they are accounted for as separate items (major components) of fixed assets.

The Company uses the following amortization rates for its property, plant and equipment:

Computer software and equipment	55%	Declining balance
Buildings	6%	Declining balance
Equipment	5 years	Straight line

Certain of the Company's property, plant and equipment have not yet been put into use and as a result, useful lives have not yet been determined and no amortization has been recorded to date on this property, plant and equipment.

Note 3 Significant Accounting Policies – (cont'd)

Property, plant and equipment – (cont'd)

Costs of assets in the course of construction are capitalized as construction in progress. On completion, the cost of construction is transferred to the appropriate category of property and equipment and amortization commences when the asset is available for its intended use.

An asset's residual value, useful life and amortization method are reviewed at each financial year-end and adjusted if appropriate. When parts of an item of equipment have different useful lives, they are accounted for as separate items (major components) of equipment.

Gain and losses on disposal of an item of equipment are determined by comparing the proceeds from disposal with the carrying amount of the equipment and are recognized in profit or loss.

Right-of-use assets and lease liability

Where the Company has entered a lease, the Company recognizes a right-of-use asset representing its rights to use the underlying assets and a lease liability representing its obligation to make lease payments. The right-of-use asset, where it relates to an operating lease, is presented net of accumulated amortization and is disclosed under right-of-use assets on the consolidated statement of financial position. The right of use assets are depreciated over the shorter of the lease term and their estimated useful lives unless it is reasonably certain that the Company will obtain ownership at the end of the lease term, in which case, the estimated useful life of the asset is used.

The lease liability is disclosed as a separate line item, allocated between current and non-current liabilities. The lease liability associated with all leases is measured at the present value of the expected lease payments at inception and discounted using the interest rate implicit in the lease. If the rate cannot be readily determined, the Company's incremental borrowing rate is used to discount the lease liability. Judgement is required to determine the incremental borrowing rate.

Income taxes

Income tax is recognized in profit or loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity. Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at period end, adjusted for amendments to tax payable with regards to previous years.

Deferred tax is recorded using the consolidated statement of financial position liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the consolidated statement of financial position date.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. To the extent that the Company does not consider it is probable that a future tax asset will be recovered, it provides a valuation allowance against that excess.

Note 3 <u>Significant Accounting Policies</u> – (cont'd)

Income taxes – (cont'd)

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

Share capital

Common shares are classified as equity. Transaction costs directly attributable to the issue of common shares and share options are recognized as a deduction from equity, net of any tax effects.

The Company has adopted a residual value method with respect to the measurement of shares and warrants issued as private placement units. The residual value method first allocates value to the more easily measurable component based on fair value and then the residual value, if any, to the less easily measurable component.

The fair value of the common shares issued in the private placements is considered to be the more easily measurable component and the common share are valued at their fair value, as determined by the closing quoted bid price on the announcement date. The balance, if any, is allocated to the attached warrants. Any fair value attributed to the warrants is recorded as reserves.

Share-based compensation

Employees (including directors and senior executives) of the Company may receive a portion of their remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

In situations where equity instruments are issued for goods or services, the share-based compensation is measured at the fair value of the goods and services received. Where the consideration cannot be specifically identified, they are measured at the fair value of the share-based compensation.

The costs of equity-settled transactions with employees are measured by reference to the fair value at the date on which they are granted.

The costs of equity-settled transactions are recognized, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ("the vesting date").

The cumulative expense is recognized for equity-settled transactions at each reporting date until the vesting date reflects the Company's best estimate of the number of equity instruments that will ultimately vest.

No expense is recognized for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied provided that all other performance and/or service conditions are satisfied.

Note 3 Significant Accounting Policies – (cont'd)

Share-based compensation – (cont'd)

Where the terms of an equity-settled award are modified, the minimum expense recognized is the expense as if the terms had not been modified. An additional expense is recognized for any modification which increases the total fair value of the share-based compensation arrangement, or is otherwise beneficial to the employee as measured at the date of modification.

Income (loss) per share

The Company presents basic and diluted income (loss) per share data for its common shares, calculated by dividing the loss attributed to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted income (loss) per share does not adjust the income (loss) attributed to common shareholders or the weighted average number of common shares outstanding when the effect is anti-dilutive.

Related party transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Related parties may be individuals or corporate entities. A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties.

Revenue recognition

Revenue is recognized at the fair value of consideration received or receivable. Revenue from the sale of goods is recognized when all the following conditions have been satisfied:

- the Company has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Company; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Payments received from customers in advance of meeting all of the recognition criteria are recorded as deferred revenue and subsequently recognized as those criteria are met.

Significant accounting judgments and estimates

The preparation of these consolidated financial statements requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and reported amounts of expenses during the reporting period. Actual outcomes could differ from these estimates. These consolidated financial statements include estimates which, by their nature, are uncertain. The impacts of such estimates

Note 3 Significant Accounting Policies – (cont'd)

Significant accounting judgments and estimates – (cont'd)

are pervasive throughout the consolidated financial statements and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and future periods if the revision affects both current and future periods. These estimates are based on historical experience, current and future economic conditions and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Significant assumptions about the future and other sources of uncertainty that management has made at the consolidated financial position reporting date, that could result in a material adjustment to the carrying amounts of assets and liabilities, in the event that actual results differ from assumptions made, relate to, but are not limited to, the following:

Biological assets

In calculating the value of the biological assets, management is required to make a number of estimates, including estimating the stage of growth of the cannabis up to the point of harvest, harvesting costs, selling costs, sales price, wastage and expected yields for the cannabis plant.

The requirements under IFRS relating to biological assets are general purpose standards premised on the existence of readily-available fair value information in respect to the products under cultivation, along with the implicit assumption that formal reporting and accounting experience involving such assets does exist. The production and distribution of cannabis products has been decriminalized in Canada only in the recent past, the industry is therefore heavily regulated under a regime that is recently-established and which continues to evolve, and in addition such business activities remain illegal in many jurisdictions outside of Canada. These factors, together with Company's status as having only recently commenced its own cultivation activities, create significant uncertainties in respect to its initial fair value estimations in this area.

Estimated useful lives and impairment considerations

Depreciation and amortization of property, plant and equipment are dependent upon useful lives, which are determined through the exercise of judgment. The assessment of any impairment of these assets is dependent upon estimates of recoverable amounts that take into account factors such as economic and market conditions and the useful lives of assets.

Share-based compensation

In calculating the share-based compensation expense, key estimates such as the rate of forfeiture of options granted, the expected life of the option, the volatility of the Company's stock price and the risk-free interest rate are used.

Going concern

Management applies judgment in its evaluation of the Company's ability to continue as a going concern.

(Expressed in Canadian Dollars)

Note 3 **Significant Accounting Policies – (cont'd)**

Adoption of new and revised accounting standards and interpretations

New accounting standards issued but not yet effective

Certain new standards, interpretations and amendments to existing standards have been issued by the IASB or the International Financial Reporting Interpretations Committee ("IFRIC") that are mandatory for accounting periods beginning on or after September 1, 2021, or later periods. Some updates that are not applicable or are not consequential to the Company may have been excluded from the list below. The Company has reviewed new and revised accounting pronouncements that have been issued but are not yet effective. The Company does not anticipate any material changes to the consolidated financial statements upon adoption of these new revised accounting pronouncements.

Note 4 **Biological assets**

	2022	2021
Opening balance	$ 207,230	$ 1,288,000
Production costs capitalized	643,271	2,974,140
Changes in fair value	(65,501)	(607,910)
Transferred to inventory upon harvest	(578,000)	(3,447,000)
	$ 207,000	$ 207,230

During the period ended November 30, 2022, $39,988 (2021 - $39,988) of amortization related to growing equipment was included in production costs capitalized.

The Company's biological assets consist of cannabis plants. The significant assumptions used to determine the fair value of the plants include:

- Expected yield by strain of plant;
- Wastage of plants;
- Duration of the production cycle;
- Percentage of costs incurred to date compared to the total costs expected to be incurred;
- Percentage of costs incurred for each stage of plant growth; and
- Market value less selling costs.

The Company's estimates are, by their nature, subject to change and differences from anticipated yield will be reflected in the gain or loss on biological assets in future periods.

On average, the production cycle is 117 days. As at November 30, 2022, it is estimated that the Company's biological assets will yield approximately 207,000 grams of cannabis when harvested (2021 – 412,000). As at November 30, 2022, the Company had approximately 4,150 plants that were biological assets (2021 – 4,150).

(Expressed in Canadian Dollars)

Note 5 Inventory

As at November 30, 2022, the Company's inventory consisted of approximately 1,536,000 grams of dried cannabis awaiting release for sale (2021 – 880,000). The cost of inventory is recognized as a separate asset upon harvest and subsequently included in cost of sales when sold. For the period ended November 30, 2022, cost of sales recognized was representative of approximately 70,000 grams (2021 – 165,000).

During the year ended August 31, 2022, the Company recognized an impairment of $1,437,000 related to its harvested cannabis inventory due to the capitalized costs exceeding the estimated net realizable value of that inventory. The impairment loss was included in the cost of sales on the consolidated statements of comprehensive income (loss).

Note 6 Property, plant and equipment

	Land $	Buildings $	Software $	Equipment $	Construction in Progress $	Total $
Cost						
As at August 31, 2022	1,026,557	12,789,260	78,741	799,765	978,938	15,673,261
Additions during the period	-	-	-	-	-	-
As at November 30, 2022	1,026,557	12,789,260	78,741	799,765	978,938	15,673,261
Accumulated amortization						
As at August 31, 2022	-	2,450,013	71,647	382,242	-	2,903,902
Additions during the period	-	155,090	975	39,988	-	196,053
As at November 30, 2022	-	2,605,103	72,622	422,230	-	3,099,955
Net Book Value						
As at August 31, 2022	1,026,557	10,339,247	7,094	417,523	978,938	12,769,359
As at November 30, 2022	**1,026,557**	**10,184,157**	**6,119**	**377,535**	**978,938**	**12,573,306**

Note 7 Share Capital

a) Authorized

The authorized share capital of the Company consists of an unlimited number of common shares without any special rights or restrictions.

The Company did not have any share transactions during the period ended November 30, 2022, and 2021.

During the year ended August 31, 2021, the Company completed the following share issuances:

(Expressed in Canadian Dollars)

Note 7 **Share Capital – (cont'd)**

b) Share purchase options

The Company operates an employee stock option plan. Share-based payments to directors, officers, employees and consultants are measured at the fair value of the instruments issued and amortized over the vesting periods. Share-based payments to non-employees are measured at the fair value of goods or services received or the fair value of the equity instruments issued, if it is determined the fair value of the goods or services cannot be reliably measured, and are recorded at the date the goods or services are received. The corresponding amount is recorded to the stock option reserve. The fair value of options is determined using a Black–Scholes pricing model which incorporates all market vesting conditions. The number of shares and options expected to vest is reviewed and adjusted at the end of each reporting period such that the amount recognized for services received as consideration for the equity instruments granted shall be based on the number of equity instruments that eventually vest.

The Company did not have any share option transactions during the period ended November 30, 2022, and 2021.

During the year ended August 31, 2022, share-based compensation expense was $nil (2021 - $nil).

Details of granted, exercised, and outstanding stock options are as follows:

	Three Months Ended November 30, 2022		Year Ended August 31, 2022	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
		$		$
Balance at the beginning of the year	8,245,000	0.25	8,245,000	0.25
Granted	-	-	-	-
Cancelled/forfeited	-	-	-	-
Outstanding, end of the year	8,245,000	0.25	8,245,000	0.25

(Expressed in Canadian Dollars)

Note 7 **Share Capital – (cont'd)**

b) Share purchase warrants

Details of outstanding share purchase warrants are as follows:

	Three Months Ended November 30, 2022		Year Ended August 31, 2022	
	Number of Warrants	Weighted Average Exercise Price	Number of Warrants	Weighted Average Exercise Price
		$		$
Balance, beginning of the year	35,701,100	0.38	39,062,530	0.37
Issued	-	-	-	-
Expired/cancelled	-	-	(3,361,250)	0.25
Outstanding, end of the year	35,701,100	0.38	35,701,100	0.38

As at November 30, 2022, the weighted-average contractual remaining life of the share purchase warrants was 1.06 years (August 31, 2022 – 1.31 years).

Subsequent to November 30, 2022, 10,036,100 warrants exercisable at $0.70 per share expired unexercised.

Note 8 **Related Party Transactions**

	November 30 2022	November 30 2021
Compensation:		
Consulting fees	$ 42,500	$ 24,000
Production costs	55,000	50,716
Rent and Accounting	2,700	8,199
Share-based payments	-	-
	$ 100,200	$ 82,915

During the three months ended November 30, 2022, the Company incurred management consulting fees of $42,500 (2021 – $24,000), included in consulting fees for the period, to a private company controlled by the Company's President and CEO. As at November 30, 2022, $185,968 (August 31, 2022 - $143,468) was payable to this private company for the unpaid portion of these fees and miscellaneous expense reimbursements.

During the three months ended November 30, 2022, the Company incurred salaries allocated to production costs of $55,000 (2021 - $50,716), to the Company's COO. As at November 30, 2022, $116,000 (August 31, 2022 - $101,000) was payable for the unpaid portion.

(Expressed in Canadian Dollars)

Note 8 Related Party Transactions – (cont'd)

During the three months ended November 30, 2022, the Company paid rent and accounting fees of $2,700 (2021 - $8,199) to a private company controlled by a director of the Company. As at November 30, 2022, $61,008 (August 31, 2022 - $58,308) was payable for the unpaid portion.

Refer also to Note 9.

Note 9 Loans payable

	November 30, 2022	August 31, 2022
Balance, beginning of the year	$ 1,011,020	$ 319,704
Loans advanced	873,800	711,144
Interest on loans	39,030	52,402
Loans repaid	(73,750)	(72,230)
Outstanding, end of the year	$ 1,850,100	$ 1,011,020

On July 12, 2019, $190,000 was advanced from a party related to the Company's CEO. The promissory note is repayable, in whole or in part, upon written notice provided by the lender and bears interest at a rate of 8.95% compounded annually. An additional $260,000 was advanced by the party during the year ended August 31, 2020. During the year ended August 31, 2021, the Company made payments in aggregate of $212,613 towards the outstanding balance. During the year ended August 31, 2022, an additional $173,500 was advanced by the party, and the promissory note amended to increase the interest rate to 9.95% compounded annually commencing September 1, 2021.

On August 15, 2019, $50,000 was advanced to the Company from an unrelated party. The promissory note is repayable, in whole or in part, upon written notice provided by the lender and bears interest at a rate of 8.95% compounded annually. An additional $80,000 was advanced by this party during the year ended August 31, 2020 under the same terms as the original promissory note. During the year ended August 31, 2021, the Company made payments in aggregate of $19,438 towards the outstanding balance. During the year ended August 31, 2022, an additional $25,000 was advanced by the party, and the promissory note amended to increase the interest rate to 9.95% compounded annually commencing September 1, 2021.

During the year ended August 31, 2020, an aggregate of $210,000 was advanced to the Company from other directors. These promissory notes are repayable, in whole or in part, upon written notice provided by the lenders and bear interest at a rate of 9.00% compounded annually. During the year ended August 31, 2021, the Company repaid these loans in full.

Note 9 Loans payable – (cont'd)

During the year ended August 31, 2020, $25,000 was advanced to the Company from an unrelated party. This promissory note is repayable, in whole or in part, upon written notice provided by the lenders and bear interest at a rate of 8.95% compounded annually. During the year ended August 31, 2022, the promissory note was amended to increase the interest rate to 9.95% compounded annually commencing September 1, 2021.

On November 4, 2021, $25,564 was advanced from a party related to the Company's COO. The promissory note is repayable, in whole or in part, upon written notice provided by the lender and bears interest at a rate of 9.95% compounded annually.

On November 30, 2021, and August 22, 2022, respectively $100,000 and $40,000 was advanced to the company from a party related to a member of the board. The promissory note is repayable, in whole or in part, upon written notice provided by the lender and bears interest at a rate of 9.95% compounded annually.

On January 7, 2022, $25,000 was advanced to the Company from an unrelated party. The promissory note is repayable, in whole or in part, upon written notice provided by the lender and bears interest at a rate of 9.95% compounded annually.

On January 21, 2022, $90,000 was advanced to the Company from an unrelated party. The promissory note is repayable, in whole or in part, upon written notice provided by the lender and bears interest at a rate of 9.95% compounded annually.

On August 24, 2022, $70,000 was advanced from a party related to a member of the board. The promissory note is repayable, in whole or in part, upon written notice provided by the lender and bears interest at a rate of 9.95% compounded annually.

During the year ended August 31, 2022, an aggregate of $162,080 was advanced by the Company's CEO. The promissory note is repayable, in whole or in part, upon written notice provided by the lender and bears interest at a rate of 9.95% compounded annually. An aggregate of $72,230 was repaid to the party during the year ended August 31, 2022.

During the three months ended November 30, 2022, $700,000 was advanced to the company from a party related to a member of the board. The loan bears interest at 15%, is secured by certain inventory of the Company and is due in full on or before November 15, 2023.

(Expressed in Canadian Dollars)

Note 10 Capital Management

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern and to maintain a flexible capital structure which optimizes the cost of capital within a framework of acceptable risk. In the management of capital, the Company includes the components of shareholders' equity, as well as cash and cash equivalents. There are no external restrictions on the use of the Company's capital other than as provided in Policy 2.4 Capital Pool Companies of the TSX Venture Exchange.

The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust its capital structure, the Company may issue new shares, issue new debt, acquire or dispose of assets or adjust the amount of cash and cash equivalents.

The Company's financial instruments are exposed to the following risks:

Credit Risk

The Company's primary exposure to credit risk is the risk of illiquidity of cash amounting to $2,852 at November 30, 2022. As the Company's policy is to limit cash holdings to instruments issued by major Canadian banks, or investments of equivalent or better quality, the credit risk is considered by management to be negligible.

Fair Value of Financial Instruments

The fair value of the Company's financial assets approximates the carrying amount. Financial instruments measured at fair value are classified into one of three levels in the fair value hierarchy according to the relative reliability of the inputs used to estimate the fair values. The three levels of the fair value hierarchy are:

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

The fair value classification of the Company's financial instruments as at November 30, 2022 is as follows:

		As at November 30, 2022	
	Fair value level	Fair value through profit or loss	Loans and receivables at amortized cost
Financial assets			
Cash	1	$ 2,582	$ -
Accounts receivable	1	-	161,198
		$ 2,582	$ 161,198

(Expressed in Canadian Dollars)

Note 10 Capital Management – (cont'd)

The fair value classification of the Company's financial instruments as at August 31, 2022 is as follows:

		As at August 31, 2022	
	Fair value level	Fair value through profit or loss	Loans and receivables at amortized cost
Financial assets			
Cash	1	$ 46,796	$ -
Accounts receivable	1	-	9,364
		$ 46,796	$ 9,364

During the three months ended November 30, 2022 and 2021, there were no transfers between level 1, level 2 and level 3 classified assets.

Note 11 Supplemental Non-cash Disclosures

The Company incurred $62,402 (2021 - $nil) in prepaid expenses which were included in accounts payable and accrued liabilities as at November 30, 2022.