Christina Lake Cannabis Corp.

Financial Statements

Year ended November 30, 2021 and 2020

(Expressed in Canadian Dollars)

DALE MATHESON CARR-HILTON LABONTE LLP
CHARTERED PROFESSIONAL ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Christina Lake Cannabis Corp.

Opinion

We have audited the financial statements of Christina Lake Cannabis Corp. (the "Company"), which comprise the statements of financial position as at November 30, 2021 and 2020, and the statements of loss and comprehensive loss, changes in shareholders' equity and cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at November 30, 2021 and 2020, and its financial performance and its cash flows for the years 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 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 financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 1 to the financial statements, which describes matters and conditions that indicates the existence of material uncertainty 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 Information

Management is responsible for the other information. The other information comprises the information included in Management's Discussion and Analysis.

Our opinion on the 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 financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained Management's Discussion and Analysis prior to the date of this auditor's report. 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 Financial Statements

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

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related 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 Financial Statements

Our objectives are to obtain reasonable assurance about whether the 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 financial statements. As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the 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 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 financial statements, including the disclosures, and whether the 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 Cherry Ho.

DMCL

DALE MATHESON CARR-HILTON LABONTE LLP
CHARTERED PROFESSIONAL ACCOUNTANTS
Vancouver, BC

April 13, 2022

MOORE

An independent firm
associated with Moore
Global Network Limited

(Expressed in Canadian Dollars)

As at,	Notes		November 30, 2021		November 30, 2020
ASSETS					
Current assets					
Cash		$	1,075,666	$	1,844,356
Receivables			1,072,519		71,808
Prepaid expenses			122,755		129,964
Inventory	5		7,153,378		6,222,808
			9,424,318		8,268,936
Non-current assets					
Property, plant and equipment	3		9,544,573		9,534,850
TOTAL ASSETS		**$**	**18,968,891**	**$**	**17,803,786**
LIABILITIES					
Current liabilities					
Accounts payable and accrued liabilities	6,11	$	559,607	$	670,929
Current portion of loan	9		3,910		3,910
Current portion of lease liability	10		4,651		29,562
Current portion of preferred shares	12		3,057,414		1,110,784
Current portion of convertible debentures	8		3,765,682		-
			7,391,264		1,815,185
Non-current liabilities					
Government loan	7		30,568		26,737
Convertible debentures	8		-		3,982,218
Non-current portion of loan	9		6,517		10,427
Non-current portion of lease liability	10		-		4,652
Non-current portion of preferred shares	12		1,801,353		2,509,314
TOTAL LIABILITIES			9,229,702		8,348,533
SHAREHOLDERS' EQUITY					
Share capital	12		19,457,649		11,735,608
Equity component of convertible debenture	8		418,080		557,111
Obligation to issue shares	12		113,250		679,500
Reserves			2,703,270		2,293,149
Deficit			(12,953,060)		(5,810,115)
TOTAL SHAREHOLDERS' EQUITY			**9,739,189**		**9,455,253**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**$**	**18,968,891**	**$**	**17,803,786**

Nature and continuance of operations (Note 1)
Subsequent events (Note 17)

Approved on behalf of the Board:

"Joel Dumaresq" *"Gil Playford"*

Joel Dumaresq, Director Gil Playford, Director

(Expressed in Canadian Dollars)

Years ended,	Notes	Year Ended November 30, 2021 $	Year Ended November 30, 2020 $
Revenue from sale of goods	16	3,633,450	-
Cost of sales	5	(1,429,972)	-
Gross profit before fair value adjustments		**2,203,478**	-
Inventory write down	5	(3,861,257)	-
Fair value change on growth of biological assets	4	3,240,450	4,767,202
Changes in fair value of inventory sold	5	(1,525,954)	-
Gross profit from sale of goods/change on growth of biological assets		**56,717**	**4,767,202**
General and administrative expenses			
Consulting fees	11	285,752	417,771
Communication expense		63,756	47,576
Corporate development		548,810	-
Depreciation	3	336,205	142,314
Foreign exchange		(447)	(990)
Freight		-	64,259
Gain on government debt	7	-	(15,309)
Insurance		36,597	50,517
Management fees	11	355,452	122,614
Marketing		469,707	215,537
Nursery expenses		23,431	39,989
Office and miscellaneous		291,661	277,779
Professional fees	11	266,461	336,372
Property taxes		12,918	25,144
Research and development		21,000	19,088
Salaries	11	1,181,827	911,620
Share based compensation	11,12	1,160,970	2,370,971
Repairs and maintenance		40,361	2,527
Regulatory fees		59,003	123,589
Total general and administrative expenses		(5.153.464)	(5,151,368)
Other items			
Accounts payable write down		38,528	-
Accretion	7,8,10,12	(368,625)	(275,965)
Change in estimate of preferred shares	12	(1,238,670)	(1,896,095)
Interest expense	8	(472,531)	(296,413)
Loss on sale of equipment		(4,900)	-
Total other items		(2,046,198)	(2,468,473)
Loss and comprehensive loss for the year		**(7,142,945)**	(2,852,639)
Loss per share – basic and diluted		**(0.07)**	(0.04)
Weighted average number of common shares outstanding		**108,245,854**	80,152,075

Christina Lake Cannabis Corp.
Statement of Changes in Shareholders' Equity
For the years ended November 30, 2021 and 2020
(Expressed in Canadian Dollars)

		Share capital – Common shares						
		Number of shares	Amount	Obligation to issue shares	Equity component of convertible liability	Reserves	Deficit	Total
		#	$	$	$	$	$	$
Balance at November 30, 2019		**76,119,202**	**8,093,927**	**104,932**	**-**	**539,940**	**(2,957,476)**	**5,781,323**
Loss for the year		-	-	-	-	-	(2,852,639)	(2,852,639)
Shares for consulting services	12	854,110	179,932	(104,932)	-	-	-	75,000
Shares for advisory services	12	2,000,000	600,000	-	-	-	-	600,000
Shares issued upon exercise of options	12	2,356,100	474,484	-	-	(207,435)	-	267,049
Shares issued upon exercise of warrants	12	3,606,800	746,850	-	-	(5,930)	-	740,920
Private placement, net of share issue costs	12	5,504,103	1,640,415	-	-	-	-	1,640,415
Fair value of finder's fee warrants issued	12	-	-	-	-	60,103	-	60,103
Obligation to issue shares	12	-	-	679,500	-	-	-	679,500
Equity component of convertible liability	8	-	-	-	557,111	-	-	557,111
Share based compensation	12	-	-	-	-	1,906,471	-	1,906,471
Balance at November 30, 2020		**90,440,315**	**11,735,608**	**679,500**	**557,111**	**2,293,149**	**(5,810,115)**	**9,455,253**
Loss for the year		-	-	-	-	-	(7,142,945)	(7,142,945)
Private placement, net of share issue costs	12	12,054,359	4,243,996	(530,000)	-	23,186	-	3,737,182
Shares issued upon exercise of warrants	12	4,476,000	1,230,303	-	-	(60,103)	-	1,170,200
Shares issued upon exercise of options	12	1,989,500	642,137	-	-	(335,832)	-	306,305
Conversion of convertible debenture	8,12	5,936,000	1,191,255	-	(139,031)	-	-	1,052,224
Shares issued in lieu of cash	12	300,000	60,000	(60,000)	-	-	-	-
Shares issued for RSU vesting	12	250,000	96,250	-	-	(96,250)	-	-
Shares issued to consultants	12	445,000	258,100	-	-	-	-	258,100
Obligation to issue shares	12	-	-	23,750	-	-	-	23,750
Share based compensation	12	-	-	-	-	879,120	-	879,120
Balance at November 30, 2021		**115,891,174**	**19,457,649**	**113,250**	**418,080**	**2,703,270**	**(12,953,060)**	**9,739,189**

Christina Lake Cannabis Corp.
Statements of Cash Flows
(Expressed in Canadian Dollars)

Years ended,	**November 30, 2021 $**	**November 30, 2020 $**
Operating activities		
Loss for the year	(7,142,945)	(2,852,639)
Non-cash items:		
Accretion	368,625	275,965
Accounts payable write down	(38,528)	-
Change in estimate of preferred shares	1,238,670	1,896,095
Depreciation	336,205	142,314
Fair value change of biological asset	(3,240,450)	(4,767,202)
Fair value transfer of inventory sold	1,525,954	-
Gain on government loan	-	(15,309)
Interest expense	472,531	296,413
Inventory write down	3,861,257	-
Loss on sale of equipment	4,900	-
Share-based compensation	1,160,970	2,370,971
Changes in non-cash working capital items:		
Increase (decrease) in receivables	(1,000,711)	108,540
Increase (decrease) in prepaid expenses	7,209	(123,834)
Decrease in inventory	(2,274,978)	(1,253,799)
Increase in accounts payable and accrued liabilities	100,711	605,633
Net cash flows used in operating activities	(4,620,580)	(3,316,852)
Investing activities		
Acquisition of equipment	(963,782)	(2,704,363)
Building improvements incurred	(265,405)	(2,078,621)
Proceeds from sale of equipment	24,500	-
Net cash flows used in investing activities	(1,204,687)	(4,782,984)
Financing activities		
CERB loan received from government	-	40,000
Equipment loan	-	15,640
Loan payments	(3,910)	(1,303)
Lease payments	(31,200)	(26,000)
Obligation to issue shares	-	530,000
Proceeds from options exercised	306,305	267,049
Proceeds from preferred shares offering, net of issuance costs	-	1,984,698
Proceeds from private placement, net of issuance cost	3,615,182	1,640,415
Proceeds from warrants exercised	1,170,200	740,920
Proceeds on convertible debentures, net of issuance costs	-	3,916,795
Subscription receivable	-	95,005
Net cash flows from financing activities	5,056,577	9,203,219
Increase (decrease) in cash	(768,690)	1,103,383
Cash, beginning of year	1,844,356	740,973
Cash, end of year	**1,075,666**	**1,844,356**

Supplemental non-cash flow information:

Years ended,	**November 30, 2021 $**	**November 30, 2020 $**
Accounts payable settlement with convertible debentures	-	154,500
Accounts payable settlement with share issuance	122,000	-
Building improvements in accounts payable	-	51,506
Equity portion of on conversion of convertible debentures	139,031	-
Fair value of finder warrants	23,186	60,103
Shares issued upon conversion of convertible debentures	1,191,255	-

The accompanying notes are an integral part of these financial statements

1. Nature and continuance of operations

Christina Lake Cannabis Corp. (the "Company") was incorporated on October 26, 2014, under the laws of the province of British Columbia, Canada. On December 21, 2018, the Company changed its name from Cervantes Capital Corp. to Christina Lake Cannabis Corp. The Company is a licensed producer of cannabis in British Columbia under the Cannabis Act with a standard cultivation, processing and sales license and a research and development license. On October 1, 2020, the Company began trading on the Canadian Securities Exchange under the ticker symbol "CLC" and on the OTC Markets Group Inc. under the ticker symbol "CLCFF."

The Company's principal address, records office and registered address are located at Suite 810 – 789 West Pender Street, Vancouver, BC, V6C 1H2.

These financial statements have been prepared on the assumption that the Company will continue as a going concern, meaning it will continue in operation for the foreseeable future and will be able to realize assets and discharge liabilities in the ordinary course of operations. As at November 30, 2021, the Company had accumulated losses of $12,953,060 (2020 - $5,810,115). The Company's continuation as a going concern is dependent upon the Company to successfully harvest its cannabis and earn revenues from the sale of cannabis to meet current and future obligations and ultimately achieve profitable operations. These factors indicate the existence of a material uncertainty that may cast significant doubt on the Company's ability to continue as a going concern. Management intends to successfully harvest and sell cannabis to achieve profitability from its business activities.

In March 2020 the World Health Organization declared coronavirus COVID-19 a global pandemic. This contagious disease outbreak, which has continued to spread, and any related adverse public health developments, has adversely affected workforces, economies, and financial markets globally, potentially leading to an economic downturn. The Company is closely monitoring the impact of the pandemic on all aspects of its business, but at this time there has not been any negative impact on the Company's business operation and sales.

2. Significant accounting policies

Basis of presentation

These financial statements have been prepared in accordance with International Financial Reporting Standards and Interpretations (collectively, "IFRS"), as issued by the International Accounting Standards Board ("IASB") and the International Financial Reporting Interpretations Committee ("IFRIC"). These financial statements have been prepared on an historical cost basis, except for financial instruments which are classified as fair value through profit or loss. In addition, these financial statements have been prepared using the accrual basis of accounting, except for cash flow information. All amounts on the financial statements are presented in Canadian dollars which is the functional currency of the Company.

These audited annual financial statements were approved and authorized for issue on April 13, 2022 by the directors of the Company.

Functional and presentation currency

In management's judgement, the functional currency of the Company is the Canadian dollar. The presentation currency used in preparing these financial statements of the Company is also the Canadian dollar.

2. Significant accounting policies (Continued)

Significant estimates and assumptions

The preparation of the Company's financial statements in conformity with IFRS requires management to make estimates and assumptions concerning the future. Estimates and assumptions are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. However, actual outcomes can differ from these estimates.

Areas requiring a significant degree of estimation relate to the fair value measurements for financial instruments and biological assets, discount rate on lease liability, convertible debentures and preferred shares, assumptions used in the cash flow projection for preferred shares, useful lives and valuation of property, plant and equipment, valuation of inventory and the recoverability and measurement of deferred tax assets and liabilities. Actual results may differ from those estimates.

Management is required to make a number of estimates in calculating the fair value less costs to sell of biological assets. These estimates include a number of assumptions such as estimating the stage of growth of the cannabis, harvesting costs, sales price, and expected yields.

Significant judgments

The preparation of financial statements in accordance with IFRS requires the Company to make judgments, apart from those involving estimates, in applying accounting policies. The most significant judgments in applying the Company's financial statements include: the classification of expenditures as building improvements to be capitalized or as operating costs which are expensed; discount rate used for right of use assets; the assessment of the Company's ability to continue as a going concern and whether there are events or conditions that may give rise to a significant uncertainty.

Loss per share

Basic loss per share is calculated by dividing the loss attributable to common shareholders by the weighted average number of common shares outstanding in the period. For all periods presented, the loss attributable to common shareholders equals the reported loss attributable to owners of the Company. Diluted loss per share is calculated by the treasury stock method. Under the treasury stock method, the weighted average number of common shares outstanding for the calculation of diluted loss per share assumes that the proceeds to be received on the exercise of dilutive share options and warrants are used to repurchase common shares at the average market price during the period.

Property, Plant and Equipment

Property, plant and equipment (included land, building and building improvement) are stated at cost less accumulated depreciation. Cost includes all expenditures incurred to bring assets to the location and condition necessary for them to be operated in the manner intended by management. Depreciation is provided on the straight-line method over the estimated useful lives of the assets. Depreciation commences once an asset is ready for its intended use. Upon sale or other disposition of a depreciable asset, cost and accumulated depreciation are removed from properties and any gain or loss is reflected as a gain or loss from operations.

The estimated useful lives are:

Building and building improvements	20 years
Equipment	3-5 years
Right of use assets	lease term

2. Significant accounting policies (Continued)

Impairment of assets

The Company performs impairment tests on its property and equipment when new events or circumstances occur or when new information becomes available relating to their recoverability. When the recoverable amount of each separately identifiable asset or cash generating unit ("CGU") is less than its carrying value, the asset or CGU's assets are written down to their recoverable amount with the impairment loss charged against profit or loss. A reversal of the impairment loss in a subsequent period will be charged against profit or loss if there is a significant reversal of the circumstances that caused the original impairment. The impairment will be reversed up to the amount of depreciated carrying value that would have otherwise occurred if the impairment loss had not occurred.

The CGU's recoverable amount is the greater of an asset's fair value less costs to sell and value in use. In calculating the recoverable amount, the Company utilizes discounted cash flow techniques to determine fair value when it is not possible to determine fair value from active markets or a written offer to purchase. Management calculates the discounted cash flows based upon its best estimate of a number of economic, operating, engineering, environmental, political and social assumptions. Any changes in the assumptions due to changing circumstances may affect the calculation of the recoverable amount.

Share capital

Common shares are classified as equity. Transaction costs directly attributable to the issue of common shares and common share warrants are recognized as a deduction from equity. Common shares issued for non-monetary consideration are measured based on their market value at the date the common shares are issued.

The proceeds from the issuance of units are allocated between common shares and warrants based on the residual value method. Under this method, the proceeds are allocated first to capital stock based on the fair value of the common shares at the time the units are priced and any residual value is allocated to the warrants reserve. Consideration received for the exercise of warrants is recorded in capital stock, and any related amount recorded in reserve is transferred to capital stock.

Income taxes

Current income tax:

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date, in the countries where the Company operates and generates taxable income.

Current income tax relating to items recognized directly in other comprehensive income or equity is recognized in other comprehensive income or equity and not in profit or loss. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred income tax:

Deferred income tax is provided using the asset and liability method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

The carrying amount of deferred income tax assets is reviewed at the end of each reporting period and recognized only to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized.

2. Significant accounting policies (Continued)

Income taxes (Continued)

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized, or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred income tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

Comparative figures

Certain comparative figures have been reclassified to conform to current year's presentation. Such reclassification is for presentation purpose only and has no effect on previously reported results.

Financial instruments

Classification

The Company classifies its financial instruments in the following categories: at fair value through profit and loss ("FVTPL"), at fair value through other comprehensive loss ("FVTOCI") or at amortized cost. The Company determines the classification of financial assets at initial recognition. The classification of debt instruments is driven by the Company's business model for managing the financial assets and their contractual cash flow characteristics. Equity instruments that are held for trading are classified as FVTPL. For other equity instruments, on the day of acquisition the Company can make an irrevocable election (on an instrument-by-instrument basis) to designate them as at FVTOCI. Financial liabilities are measured at amortized cost, unless they are required to be measured at FVTPL (such as instruments held for trading or derivatives) or if the Company has opted to measure them at FVTPL.

The following table shows the classification of financial instruments:

Financial Instrument	Classification
Cash	Amortized Cost
Receivables	Amortized Cost
Accounts payable	Amortized Cost
Preferred shares	Amortized Cost
Convertible debentures	Amortized Cost
Loan payable	Amortized Cost

Measurement

Financial assets and liabilities at amortized cost
Financial assets and liabilities at amortized cost are initially recognized at fair value plus or minus transaction costs, respectively, and subsequently carried at amortized cost less any impairment.

Financial assets and liabilities at FVTPL
Financial assets and liabilities carried at FVTPL are initially recorded at fair value and transaction costs are expensed in the statements of loss and comprehensive loss. Realized and unrealized gains and losses arising from changes in the fair value of the financial assets and liabilities held at FVTPL are included in the statements of loss and comprehensive loss in the period in which they arise. Where management has opted to recognize a financial liability at FVTPL, any changes associated with the Company's own credit risk will be recognized in other comprehensive loss.

2. Significant accounting policies (Continued)

Financial Instruments (Continued)

Financial assets through other comprehensive income ("FVTOCI")

Financial assets that meet the following conditions are measured at FVTOCI:

The financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and

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.

The Company does not currently hold any financial instruments designated as FVTOCI.

Equity instruments designated as FVTOCI
On initial recognition, the Company may make an irrevocable election (on an instrument-by-instrument basis) to designate investments in equity instruments that would otherwise be measured at fair value through profit or loss to present subsequent changes in fair value in other comprehensive income. Designation at FVTOCI is not permitted if the equity investment is held for trading or if it is contingent consideration recognized by an acquirer in a business combination. Investments in equity instruments at FVTOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognized in other OCI. The cumulative gain or loss is not reclassified to profit or loss on disposal of the equity instrument, instead, it is transferred to retained earnings. The Company does not currently hold any equity instruments designated as FVTOCI.

Impairment of financial assets at amortized cost
The Company recognizes a loss allowance for expected credit losses on financial assets that are measured at amortized cost. At each reporting date, the Company measures the loss allowance for the financial asset at an amount equal to the lifetime expected credit losses if the credit risk on the financial asset has increased significantly since initial recognition. If at the reporting date, the credit risk on the financial asset has not increased significantly since initial recognition, the Company measures the loss allowance for the financial asset at an amount equal to the twelve month expected credit losses. The Company shall recognize in the statements of comprehensive loss, as an impairment gain or loss, the amount of expected credit losses (or reversal) that is required to adjust the loss allowance at the reporting date to the amount that is required to be recognized.

Derecognition

Financial assets
The Company derecognizes financial assets only when the contractual rights to cash flows from the financial assets expire, or when it transfers the financial assets and substantially all of the associated risks and rewards of ownership to another entity. Gains and losses on derecognition are generally recognized in the statements of loss and comprehensive loss.

Financial liabilities
The Company derecognizes financial liabilities only when its obligations under the financial liabilities are discharged, cancelled or expired. Generally, the difference between the carrying amount of the financial liability derecognized and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognized in the statements of loss and comprehensive loss.

2. Significant accounting policies (continued)

Convertible debentures

The convertible debentures which meet the fixed-for-fixed criteria (fixed consideration received and fixed number of shares issued upon conversion) are separated into their liability and equity components on the consolidated statements of financial position. The liability component is initially recognized at fair value, calculated as the net present value of the liability based upon non-convertible debt issued by comparable issuers and accounted for at amortized cost using the effective interest rate method. The effective interest rate used is the estimated rate for the non-convertible debt with similar terms in the time of issue. The fair value of the equity component is determined at the time of issue as the difference between the face value of the convertible debentures and the fair value of the liability component.

Transaction costs that are directly attributed to the issuance of the debentures are recorded against equity and loan components on a pro-rated basis. Transaction costs allocated to the liability component are accreted over the term of the loan using the effective interest rate method.

Biological assets

The Company's biological assets consist of cannabis plants which are not yet harvested. These biological assets are measured at fair value less costs to sell. The Company capitalizes all related direct costs of growing materials as well as other indirect costs of production such as utilities and supplies used in the growing process. Indirect labour for individuals involved in the growing and quality control process is also included, as well as amortization on production equipment and overhead costs to the extent it is associated with the growing space. All direct and indirect costs of biological assets are capitalized as they are incurred, and subsequently transferred to inventory at the point of harvest. Unrealized fair value gains on growth of biological assets are recorded in a separate line on the face of the statements of loss and comprehensive loss and subsequently transferred to inventory at the point of harvest.

IFRS 16 - Leases

The Company assesses whether a contract is or contains a lease at inception of the contract. A lease is recognized as a right-of-use asset and corresponding liability at the commencement date. Each lease payment included in the lease liability is apportioned between the repayment of the liability and a finance cost. Lease liabilities represent the net present value of fixed lease payments (including in-substance fixed payments); variable lease payments based on an index, rate, or subject to a fair market value renewal condition; amounts expected to be payable by the lessee under residual value guarantees, the exercise price of a purchase option if the lessee is reasonably certain to exercise that option, and payments of penalties for terminating the lease, if it is probable that the lessee will exercise that option.

The lease payments are discounted using the interest rate implicit in the lease or, if that rate cannot be determined, the lessee's incremental borrowing rate. The period over which the lease payments are discounted is the expected lease term, including renewal and termination options that the Company is reasonably certain to exercise.

Payments associated with short-term leases and leases of low-value assets are recognized as an expense on a straight-line basis in general and administration and sales and marketing expense in the consolidated statement of comprehensive loss. Short term leases are defined as leases with a lease term of 12 months or less.

Right-of-use assets are measured at cost, which is calculated as the amount of the initial measurement of lease liability plus any lease payments made at or before the commencement date, any initial direct costs and related restoration costs. The right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the useful life of the underlying asset. The depreciation is recognized from the commencement date of the lease.

2. Significant accounting policies (continued)

Share-based payments

Share-based payments to employees 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 option reserve. The fair value of options is determined using the Black–Scholes Option Pricing Model. 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.

Inventory

Inventory is valued at the lower of cost and net realizable value. The capitalized cost for produced inventory includes the direct and indirect costs initially capitalized to biological assets before the transfer to inventory. The capitalized cost also includes subsequent costs such as materials, labour and amortization expense on equipment involved in packaging, labelling and inspection. The total cost of inventory also includes a fair value adjustment which represents the fair value of the biological asset at the time of harvest. All direct and indirect costs related to inventory are capitalized as they are incurred, and they are subsequently recorded within 'cost of goods sold' on the statements of loss and comprehensive loss at the time cannabis is sold, the realized fair value amounts included in inventory sold are recorded as a separate line on the statements of loss and comprehensive loss.

Recent Accounting Pronouncements

As at the date of authorization of these financial statements, the IASB and the IFRIC had issued certain pronouncements that are mandatory for the Company's accounting periods commencing on or after January 1, 2022. Many are not applicable or do not have a significant impact to the Company, have been excluded. The Company had assessed that no material impact is expected upon the adoption of the following amendments on its financial statements:

Amendments to IAS 1

In January 2020, the IASB issued amendments to IAS 1 which clarify the requirements for classifying liabilities as either current or non-current by: (i) specifying that the conditions which exist at the end of the reporting period determine if a right to defer settlement of a liability exists; (ii) clarifying that settlement of a liability refers to the transfer to the counterparty of cash, equity instruments, other assets or services; (iii) clarifying that classification is unaffected by management's expectation about events after the balance sheet date; and (iv) clarifying the classification requirements for debt an entity may settle by converting it into equity.

The amendments clarify existing requirements, rather than make changes to the requirements, and so are not expected to have a significant impact on an entity's financial statements. However, the clarifications may result in reclassification of some liabilities from current to non-current or vice-versa, which could impact an entity's loan covenants. Because of this impact, the IASB has provided a longer effective date to allow entities to prepare for these amendments. In July 2020, the IASB issued an amendment to defer the effective date of the amendments by one year from its originally planned effective date to annual periods beginning on or after January 1, 2023 due to the impact of COVID-19. Early application is permitted.

(Expressed in Canadian Dollars)

2. Significant accounting policies (Continued)

Recent Accounting Pronouncements

Amendments to IAS 37 – Provisions, Contingent Liabilities and Contingent Assets ("IAS 37")

In May 2020, the IASB issued amendments to update IAS 37. The amendments specify that in assessing whether a contract is onerous under IAS 37, the cost of fulfilling a contract includes both the incremental costs and an allocation of costs that relate directly to contract activities. The amendments also include examples of costs that do, and do not, relate directly to a contract. These amendments are effective for annual periods beginning on or after January 1, 2022. Earlier application is permitted.

3. Property, plant and equipment

On March 27, 2020, the Company was granted the Standard Cultivation License ("SCL") from Health Canada for the Company's 32-acre phase 1 facility. This license authorizes the cultivation and sale of cannabis under the Cannabis Act and provides the Company with over 950,000 sf of licensed outdoor cultivation space.

	Right-of-use asset $	Equipment $	Land $	Building $	Building improvement $	Total $
Cost						
Balance at November 30, 2019	-	225,394	1,088,397	394,875	3,471,668	5,180,334
Additions	59,924	2,704,363	-	-	1,814,350	4,578,637
Balance at November 30, 2020	59,924	2,929,757	1,088,397	394,875	5,286,018	9,758,971
Additions	-	963,782	-	-	213,899	1,177,681
Disposal	-	(29,400)	-	-	-	(29,400)
Balance, November 30, 2021	59,924	3,864,139	1,088,397	394,875	5,499,917	10,907,252
Accumulated amortization						
Balance at November 30, 2019	-	-	-	-	-	-
Change	21,496	133,317	-	-	69,308	224,121
Balance at November 30, 2020	21,496	133,317	-	-	69,308	224,121
Change	28,952	818,387	-	-	291,219	1,138,558
Balance, November 30, 2021	50,448	951,704	-	-	360,527	1,362,679
Net book value						
November 30, 2020	38,428	2,796,440	1,088,397	394,875	5,216,710	9,534,850
November 30, 2021	9,476	2,912,435	1,088,397	394,875	5,139,390	9,544,573

The right-of-use asset relates to leased equipment for the production and cultivation of cannabis. The lease is reflected on the balance sheet as a right-of-use asset, with an associated lease liability (Note 10). The discount rate applied to the lease is 8%.

During the year ended November 30, 2021, the Company capitalized depreciation of $609,998 (2020 - $18,977) as inventory processing cost and $192,355 (2020 - $62,830) as biological asset cost.

(Expressed in Canadian Dollars)

4. Biological assets

Biological assets are comprised of:

	Amount $
Balance at November 30, 2019	-
Changes in fair value less cost to sell due to biological transformation	4,767,202
Production cost capitalized	1,315,032
Transferred to inventory upon harvest	(6,082,234)
Balance at November 30, 2020	-
Changes in fair value less cost to sell due to biological transformation	3,240,450
Production cost capitalized	1,732,191
Transferred to inventory upon harvest	(4,972,641)
Balance at November 30, 2021	-

Measurement of the biological transformation of the plant at fair value less costs to sell and less incremental processing costs begins in the fourth week prior to harvest and is recognized evenly until the point of harvest. The Company has determined that conversion of plants to distillate is the highest and best use. The Company has determined the fair value less costs to sell and less incremental processing costs of cannabis distillate to be $2.25 per gram of distillate. The total factors an average harvested yield of biomass of 1,540 grams per plant with an average yield to distillate of 5 to 7% depending on strain.

The fair value of biological assets is determined using a valuation model to estimate expected yield per plant applied to the estimated selling price per gram less incremental processing and selling costs. Only when there is a material change from the expected fair value used for cannabis does the Company make any adjustments to the fair value used.

Sales price used in the valuation of biological assets is based on the average selling price of cannabis distillate products and can vary based on different strains being grown as well as the proportion of sales derived from wholesale sales. Selling costs vary depending on methods of selling and are considered based on the expected method of selling and the determined additional processing costs which would be incurred. Expected yields for the cannabis plant is also subject to a variety of factors, such as strains being grown, length of growing cycle, and space allocated for growing. Management reviews all significant inputs based on historical information obtained.

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.

5. Inventory

Inventory is comprised of cannabis biomass and derivatives:

	Amount $
Balance at November 30, 2019	-
Capitalized cost	140,574
Harvested cannabis biomass	6,082,234
Balance at November 30, 2020	6,222,808
Capitalized cost	2,775,112
Harvested cannabis biomass	4,972,641
Inventory write-down	(3,861,257)
Cost of sales	(1,429,972)
Changes in fair value of inventory sold	(1,525,954)
Balance at November 30, 2021	7,153,378

(Expressed in Canadian Dollars)

5. Inventory (Continued)

During the year ended November 30, 2021, the Company wrote down its inventory of cannabis-related products to the net realizable value, which resulted in an impairment of $3,861,257 (2020 - $Nil). The Company also recorded $2,165,114 (2020 - $58,767) of production costs and depreciation of $609,998 (2020 - $81,807).

As at November 30, 2021, the Company held the following inventory:

	November 30, 2021 $	November 30, 2020 $
Work-in-process	2,654,564	1,455,606
Finished goods	1,189,863	-
Fair value adjustment to inventory related biological assets	3,308,951	4,767,202
	7,153,378	6,222,808

6. Accounts payable and accrued liabilities

	November 30, 2021	November 30, 2020
Accounts payable	$ 294,926	$ 233,648
Accrued liabilities	264,681	437,281
	$ 559,607	**$ 670,929**

7. CEBA Loan

The Company entered into a Canada Emergency Business Account "CEBA" loan with the Government of Canada.

The loan is an interest free loan of $40,000 from the Government of Canada. If the CEBA loan is repaid by December 31, 2023, 25% being $10,000 will be forgiven. If the Company is not able to repay, the loan will convert into a regular loan with a three-year term at 5% per annum. Upon initial recognition, the Company recorded a gain on government loan of $15,309. During the year ended November 30, 2021, the Company recorded accretion expense of $3,831 (2020 - $2,046).

8. Convertible debentures

During the year ended November 30, 2020, the Company closed six tranches of unsecured convertible debenture financings ("Debentures") with an aggregate face value of $5,000 each. The Debentures bear interest of 12%, maturing in 24 months and the principal and interest are convertible into common shares at a conversion price of $0.20, at the option of the debenture holders.

During the year ended November 30, 2021, a portion of the Debentures were converted to shares and 5,936,000 shares were issued, extinguishing $1,052,224 in principal debt and related interest.

(Expressed in Canadian Dollars)

8. Convertible debentures (continued)

The following table reconciles the recorded value of the liability and the equity components of the convertible debentures:

	Convertible debenture $	Equity component of convertible debenture $	Total $
Balance, November 30, 2019	-	-	-
Additions	3,698,041	595,459	4,294,500
Debt issuance cost	(243,960)	(39,348)	(283,308)
Interest expense	296,413	-	296,413
Accretion expense	231,724	-	231,724
Balance, November 30, 2020	3,982,218	557,111	4,539,329
Conversion	(1,052,224)	(139,031)	(1,191,255)
Interest expense	472,531	-	472,531
Accretion expense	363,157	-	363,157
Balance, November 30, 2021	3,765,682	418,080	4,183,762

Management estimated that the fair value on initial recognition of the debentures using a discount rate of 20% with the residual value allocated to the equity component of the convertible debentures.

9. Loan payable

During the year ended November 30, 2020, the Company entered into a loan agreement to purchase equipment for $15,640. The loan does not bear interest and matures in four years.

	$
Balance, November 30, 2019	-
Loan additions	15,640
Repayments	(1,303)
Balance, November 30, 2020	14,337
Repayments	(3,910)
Balance, November 30, 2021	10,427
Current portion	3,910
Non-current portion	6,517

10. Lease liability

During the year ended November 30, 2020, the Company entered into lease agreements to lease a loader and generator for a period of 2 years. The Company recognized right-of-use asset of $59,924 and lease liability of $59,924.

At the commencement date of the lease, the lease liability was measured as the present value of the future lease payments that were not paid at that date. These lease payments are discounted using a discount rate of 8%, which is the Company’s estimated incremental borrowing rate.

(Expressed in Canadian Dollars)

10. Lease liability (continued)

The following is a continuity schedule of lease liabilities for the year ended November 30, 2021 and 2020:

	$
Balance, November 30, 2019	-
Lease additions	59,924
Lease payments	(26,000)
Lease payment transferred to accounts payable	(2,600)
Accretion on lease liability	2,890
Balance, November 30, 2020	34,214
Lease payments	(31,200)
Accretion on lease liability	1,637
Balance, November 30, 2021	4,651
Current portion	4,651
Non-current portion	-

11. Related party transactions and balances

The Company has identified its directors and certain senior officers as its key management personnel.

During the period, the Company entered into transactions with related parties comprised of directors, officers and companies with common directors. The key management compensation and director fees consist of the following for the year ended November 30, 2021 and November 30, 2020:

	November 30, 2021 $	November 30, 2020 $
Accounting fees included in Professional fees paid to the CFO	87,524	-
Consulting fees paid to a previous director of the Company	-	10,000
Consulting fees paid to a private company jointly controlled by the CEO	-	238,289
Consulting fees paid to an officer of the Company	114,679	-
Lease payments to a company controlled by a director	31,200	-
Management fees paid to CEO	144,000	45,325
Salaries paid to key management	278,750	254,371
Share based payments	402,021	414,141
Shares issued in lieu of cash for consulting fees (Note 12)	23,750	375,000
	1,081,924	1,337,126

As at November 30, 2021, there was $185,748 (November 30, 2020 - $396,720) included in accounts payable and accrued liabilities for related parties of the Company. The balances are unsecured, due on demand and are non-interest bearing.

During the year ended November 30, 2021, the Company paid rent of $6,500 to a private company jointly controlled by the CEO (2020 - $6,500).

During the year ended November 30, 2021, the Company paid lease payments of $31,200 to a private company controlled by a director (2020- $20,800).

During the year ended November 30, 2021, the Company has an obligation to issue 500,000 shares (2020 - 250,000 shares) to the CEO in lieu of cash for consulting fees in the amount of $23,750 (2020 - $89,500) (Note 12).

11. Related party transactions and balances (continued)

During the year ended November 30, 2021, the Company issued convertible debentures to directors and officers of the Company in aggregate principal amount of $Nil (2020 - $230,000).

The Company was obligated to issue 604,110 shares to the former CEO of the Company as part of his employment agreement, which is recorded as obligation to issue shares of $104,932 at November 30, 2019. Consequently, 604,110 shares were issued during the year ended November 30, 2020.

12. Share Capital

Authorized share capital

Unlimited number of common shares without par value.

Unlimited number of Class B preferred shares.

Issued share capital

At November 30, 2021, there were 115,891,174 (2020 – 90,440,315) issued and fully paid common shares outstanding.

At November 30, 2021, there were 2,000,000 (2020 – 2,000,000) issued and fully paid Class B preferred shares outstanding.

Preferred shares

During the year ended November 30, 2020, the Company closed a preferred share private placement for total proceeds of $2,000,000 (“Preferred Share Capital”). The Company paid finder’s fees in cash of $15,302 and issued 1,000,000 finder’s shares with a fair value of $300,000 to Leede Jones Grable Inc., providing strategic advisory services to the Company related to the preferred share private placements.

The following terms apply to the Preferred Shares:

Cumulative dividends on the Preferred Shares shall accrue and become payable in arrears on a monthly basis, for a period of 48 months, based on the following calculation:

- Repayment of Preferred Share Capital: 40% of the total revenue received by the Company from the sale of cannabis oil, hemp oil and other such hemp and cannabis derivative extracts produced by the Company, less the cost of any third-party feedstock (the “Product Revenue”), up to cumulative aggregate Product Revenue of $5,000,000; It shall be payable as a capital repayment of the Preferred shares; and

(Expressed in Canadian Dollars)

12. Share Capital (continued)

Preferred shares (continued)

- Preferred Share Dividend: for cumulative aggregate Product Revenue exceeding $5,000,000, immediately following the repayment of Preferred Share Capital, the Company shall accrue on a monthly basis an amount equal to the sum of: (A) $80 per kilogram of dry cannabis produced and processed by the Company from its own feedstock; and (B) an amount equal to 35% of Product Revenue derived from third party feedstock.

The payment of all accrued and accumulated dividends shall be postponed for that portion of Product Revenue attributable to uncollected revenue (the "Revenue Receivable") and the balance of the postponed accrued and accumulated dividend shall become payable in the month where the Revenue Receivable is received by the Company. No dividend shall accrue or be payable after 4 years from the date of issuance. The preferred shares are secured by certain production equipment.

The preferred shares have been classified as liability at amortized cost due to the requirement for the Company to deliver cash during the term of the agreement. At inception, the Company determined that the effective interest rate of this financial liability was 20%.

At as November 30, 2021, in light of production data generated from the Company's 2021 harvest and sales transactions that occurred subsequent to the year end, the Company revised the estimates of the cash flow projection for preferred shares capital repayment and dividend and recorded a loss of $1,238,670 using the effective interest rate of 20%.

The amortized cost of preferred shares at year end was estimated based on the following assumptions:

- Estimated annual production capacity of approximately 35,000 kilograms of dry biomass which is highly dependent on weather conditions for growing;
- Estimated A grade distillate yield of approximately of 5-7%;
- Lead time of approximately 4-5 months to process the biomass to distillate oil;
- The estimated sales price of distillate oil is between $3,500 and $3,900 per kilogram; and
- Payment based on 90-day delay on cash conversion cycle.

The following is a continuity schedule for preferred shares as at November 30, 2021:

	$
Balance, November 30, 2019	-
Preferred shares	2,000,000
Deferred transaction costs	(315,302)
Accretion expenses	39,305
Change in estimate of preferred shares	1,896,095
Balance, November 30, 2020	**3,620,098**
Change in estimate of preferred shares	1,238,670
Balance, November 30, 2021	**4,858,767**
Current portion	3,057,414
Long term portion	1,801,353

Subsequent to the year ended November 30, 2021, the Company amended the terms of the Preferred Shares (Note 17).

12. Share Capital (continued)

Share issuances during the year ended November 30, 2021

During the year ending November 30, 2021, the Company issued 4,476,000 common shares pursuant to warrants exercised at prices ranging from $0.20 to $0.40 for gross proceeds of $1,170,200. The Company transferred $60,103 from reserve to share capital.

During the year ended November 30, 2021, the Company issued 1,989,500 common shares pursuant to stock option exercise at prices ranging from $0.09 to $0.25 for gross proceeds of $306,305. The Company transferred $335,832 from reserve to share capital.

During the year ended November 30, 2021, Convertible Debentures were converted to shares and 5,936,000 shares were issued with a fair value of $1,191,255, extinguishing $1,052,224 in principal debt, accretion and related interest. The Company transferred $139,031 from the equity component of convertible debenture to share capital.

On June 8, 2021, the Company closed an oversubscribed non-brokered private placement and issued 6,283,813 Units of the Company for gross proceeds of $2,639,201. Each Unit consist of one common share and one-half warrant (with two half warrants being a "Warrant"). Each Warrant entitles the holder to purchase one additional common share at a price of $0.65 per share for period of 30 months from the date of issuance. The Company paid cash finder's fees of $34,020 and issued 81,000 broker warrants with a fair value of $23,186 and 230,546 Broker Units with a fair value of $96,829. The Broker Warrants and Broker Units carry the same terms noted above. The fair value of the broker warrants was measured using the Black-Scholes Option Pricing Model with the following assumptions: stock price - $0.58; exercise price - $0.65; expected life – 1.66 years; volatility – 110%; dividend yield - Nil; and risk-free rate – 0.32%.

On December 9, 2020 the Company closed a non-brokered private placement of 5,540,000 units of the Company at a price of $0.30 per unit for gross proceeds of $1,662,000. Each unit consists of one common share and one half of one transferable share purchase warrant, with each whole warrant exercisable into a common share. Each warrant entitles the holder thereof to purchase one additional share at a price of $0.50 per share for a period of two years from the date of issuance.

The Company issued 300,000 common shares with a fair value of $60,000, pursuant to a soil purchase agreement.

The Company issued 445,000 common shares with a fair value of $258,100, to certain directors and consultants for services rendered.

The Company issued 250,000 common shares with a fair value of $96,250, pursuant to the vesting of restricted stock units.

Share issuances during the year ended November 30, 2020

On September 30, 2020, the Company issued 1,000,000 common shares at a fair value of $300,000 to Mervin Boychuk, a member of the Company's Advisory Committee, for advisory services provided to the Company; 250,000 common shares at a fair value of $75,000 to Joel Dumaresq, CFO, for his consulting service provided to the Company; and 1,000,000 common shares at a fair value of $300,000 to Leede Jones Gable Inc., providing strategic advisory services related to the preferred share private placements.

On September 28, 2020, the Company completed a private placement and issued 30,000 shares at a price of $0.30 per common share for gross proceeds of $9,000.

On August 20, 2020 the Company closed a non-brokered private placement of 2,000,000 Class B preferred shares at a price of $1.00 per preferred share for gross proceeds of $2,000,000.

(Expressed in Canadian Dollars)

12. Share Capital (continued)

Share issuances during the year ended November 30, 2020 (continued)

On July 28, 2020 the Company closed a non-brokered private placement of 470,881 common shares for gross proceeds of $141,264.

On July 14, 2020 the Company closed a non-brokered private placement of 5,003,222 common shares for gross proceeds of $1,500,967. The Company paid share issuance cost of $10,816.

During the year ended November 30, 2020, 2,356,100 options were exercised at prices ranging from $0.09 to 0.20 per share for proceeds of $267,049. Pursuant to these exercised options, the Company transferred $207,435 from reserve to share capital.

During the year ended November 30, 2020, 3,606,800 warrants were exercised at prices ranging from $0.20 to 0.40 per share for proceeds of $740,920. Pursuant to these exercised warrants, the Company transferred $5,930 from reserve to share capital.

The Company entered into a departure agreement with the former CEO. Pursuant to the terms of the agreement, the Company issued 604,110 compensation shares on January 27, 2020 with a fair value of $120,822. The Company recorded an obligation to issue shares of $104,932 upon entering the agreement. The obligation was removed and the share capital was increased accordingly, with an additional $15,890 recognized as share-based compensation during the three months ended February 29, 2020.

Escrow Shares

As at November 30, 2021, a total of 16,764,826 securities, including 13,378,568 shares (November 30, 2020 – 19,977,852), 3,068,258 warrants (November 30, 2020 – 3,477,387), 318,000 stock options (November 30, 2020 – 477,000) and nil convertible debentures (November 30, 2020 – 43), are held in escrow.

On October 1, 2020, the date on which the Company was listed on Canadian Securities Exchange (“Listing Date”), 2,219,762 common shares were released from escrow. The remaining 19,977,852 common shares will be released pursuant to the following schedule:

On the Listing date	1/10 of the escrow securities
6 months after the Listing Date	1/6 of the remaining escrow securities
12 months after the Listing Date	1/5 of the remaining escrow securities
18 months after the Listing Date	1/4 of the remaining escrow securities
24 months after the Listing Date	1/3 of the remaining escrow securities
30 months after the Listing Date	1/2 of the remaining escrow securities
36 months after the Listing Date	the remaining escrow securities

(Expressed in Canadian Dollars)

12. Share Capital (continued)

Warrants

The continuity of the Company's share purchase warrants pursuant is as follows:

	Number of share purchase warrants #	Weighted average exercise price $
Outstanding, November, 30, 2019	17,633,549	0.29
Granted	771,000	0.20
Exercised	(3,606,800)	0.20
Expired	(1,211,250)	0.20
Outstanding, November, 30, 2020	13,586,499	0.32
Granted	6,108,178	0.58
Exercised	(4,476,000)	0.26
Expired	(224,000)	0.20
Outstanding, November 30, 2021	14,994,677	0.44

As of November 30, 2021, the Company had share purchase warrants outstanding and exercisable to acquire common shares of the Company as follows:

Expiry date	Exercise price $	Number of warrants, issued and exercisable #
October 22, 2022	0.09	1,460,000
December 31, 2021*	0.40	7,426,499
December 9, 2022	0.50	2,770,002
December 8, 2023	0.65	3,338,176
		14,994,677

*445,200 warrants expired unexercised subsequent to the year ended November 30, 2021.

On February 21, 2020, the Company extended the expiry dates of 2,293,799 warrants expiring on October 17, 2020 to December 31, 2021.

On April 14, 2020, the Company extended the expiry dates of 6,062,500 warrants expiring on September 30, 2020 to December 31, 2021.

On September 14, 2020, the Company extended the expiry dates of 442,200 warrants expiring on September 20, 2020 and 100,800 warrants expiring on October 17, 2020 to December 31, 2021.

On December 17, 2021, the Company extended the expiry dates of 6,981,299 warrants expiring on December 31, 2021 to December 31, 2022.

Stock Options

On March 1, 2017, the Board of Directors approved the adoption of a fixed Stock Option Plan reserving for issuance, upon the exercise of options granted pursuant to the Stock Option Plan, a maximum of 20% of the issued and outstanding shares of the Company, less any shares required to be reserved with respect to options granted by the Company prior to the implementation of the Stock Option Plan. The Stock Option Plan was subsequently replaced with the 2018 Plan which was approved by shareholders at its January 9, 2019 Annual General and Special Meeting. The 2018 Plan is substantively similar to the Stock Option Plan except that it increases the number of common shares reserved under it. The 2018 Plan reserves 8,158,321 common shares (which represents 20% of the Company’s outstanding common shares as of the record date for the Meeting), compared to 199,520 under the Stock Option Plan.

12. Share Capital (continued)

Stock Options (continued)

On December 13, 2019, the Company granted 1,540,000 Options to certain employees, with a fair value of $257,869, to acquire one additional common share at a price of $0.09 until December 13, 2024. The fair value of the options was determined using the Black Scholes Option Pricing Model with the following assumptions summarized in below table. These stock options vest 33% on issue, 33% on the first anniversary and 34% on the second anniversary. For the year ended November 30, 2020, an amount of $185,943 was recorded as stock-based compensation with a corresponding credit to reserves as a result of the graded vesting terms. For the year ended November 30, 2021, the Company recorded share-based compensation of $46,799.

On August 20, 2020, the Company granted 6,875,000 Options to certain directors, officers and consultants of the Company to acquire one additional common share at price between $0.09 and $0.25 per common share for terms of between six months and five years. The fair value of the options was determined using the Black Scholes Option Pricing Model with the following assumptions summarized in below table. $1,117,284 stock-based compensation was recorded as a result of various vesting terms for the year ended November 30, 2020. During the year ended November 30, 2021, the Company recorded share-based compensation of $465,776.

On September 8, 2020, the Company granted 450,000 Options to certain consultants of the Company to acquire one additional common share at price of $0.25 per common share for three to four years. The fair value of the options was determined using the Black Scholes Option Pricing Model with weighted average assumptions summarized in below table. $47,812 stock-based compensation was recorded as a result of various vesting terms for the year ended November 30, 2020. During the year ended November 30, 2021, the Company recorded share-based compensation of $37,204.

On September 29, 2020, the Company granted 1,250,000 Options to various consultants of the Company to acquire one additional common share at price of $0.20 per common share for five years. The fair value of the options was determined using the Black Scholes Option Pricing Model with weighted average assumptions summarized in below table. $295,776 stock-based compensation was recorded for the year ended November 30, 2020.

On November 26, 2020, the Company granted 1,100,000 Options to various consultants of the Company to acquire one additional common share at price of $0.40 per common share for five years. The fair value of the options was determined using the Black Scholes Option Pricing Model with weighted average assumptions summarized in below table. $259,656 stock-based compensation was recorded for the year ended November 30, 2020.

On January 8, 2021, the Company granted 200,000 stock options with an exercise price of $0.88 and expires five years from the date of grant. The stock options vest over a 24 month period from the date of issuance. The total fair value of the options was $141,106 determined using the Black Scholes Option Pricing Model. $108,725 stock-based compensation was recorded for the year ended November 30, 2021.

On May 4, 2021, the Company granted 175,000 stock options with an exercise price of $0.61 and expires five years from the date of grant. The stock options vest 50% six months from the date of issuance and 50% on the anniversary date of issuance. The total fair value of the options was $82,632 determined using the Black Scholes Option Pricing Model. $65,087 stock-based compensation was recorded for the year ended November 30, 2021.

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The weighted average fair value of options granted during the year ended November 30, 2021 was $0.60 (2020 - $0.21).

(Expressed in Canadian Dollars)

12. Share Capital (continued)

Stock Options (continued)

The Black-Scholes Option Pricing Model was used with the following assumptions:

	Year ending November 30, 2021	Year ending November 30, 2020
Exercise price	$0.61 to $0.88	$0.09 to $0.40
Expected life	4.25 to 5 years	6 months to 5 years
Volatility	110%	100%
Risk-free-rate	0.37% - 0.75%	0.30% to 1.59%

The continuity of the Company's share purchase options is as follows:

	Number of share purchase options #	Weighted average exercise price $
Outstanding, November 30, 2019	5,080,000	0.09
Granted	11,215,000	0.17
Exercised	(2,356,100)	0.11
Cancelled	(300,000)	(0.09)
Outstanding, November 30, 2020	13,638,900	0.15
Granted	375,000	0.75
Exercised	(1,989,500)	0.15
Cancelled	(350,000)	(0.16)
Outstanding, November 30, 2021	11,674,400	0.17

The weighted average price of shares at the time the options were exercised during the year ended November 30, 2021 was $0.68 (2020 - $0.31).

As of November 30, 2021, the Company had share purchase options outstanding and exercisable to acquire common shares of the Company as follows:

Expiry date	Exercise price $	Number of options outstanding #	Number of options exercisable #	Weighted average remaining contractual life
June 1, 2024	0.09	2,470,000	2,470,000	2.50
August 14, 2022	0.20	10,000	10,000	0.70
December 13, 2024	0.09	1,219,400	695,800	3.04
August 20, 2024	0.09	2,500,000	2,500,000	2.72
August 20, 2024	0.25	400,000	400,000	2.72
August 20, 2025	0.20	225,000	93,750	3.72
August 20, 2025	0.25	275,000	228,125	3.72
August 20, 2025	0.15	1,650,000	956,250	3.72
August 20, 2025	0.09	300,000	187,500	3.72
September 8, 2024	0.25	300,000	150,000	2.78
September 29, 2025	0.20	850,000	850,000	3.83
November 26, 2025	0.40	1,100,000	1,100,000	3.99
January 8, 2026	0.88	200,000	75,000	4.11
May 4, 2026	0.61	175,000	87,500	4.43
		11,674,400	9,803,925	3.00

(Expressed in Canadian Dollars)

12. Share Capital (continued)

Restricted share units

On April 19, 2021, the Board of Directors approved the adoption of a Restricted Share Unit Plan reserving for issuance, upon the vesting of units granted pursuant to the Restricted Share Unit Plan, a maximum of 20% of the issued and outstanding shares of the Company, including the Company's stock option plan.

On September 30, 2021, the Company granted 1,000,000 restricted share units ("RSUs") to the President of the Company. 250,000 of the RSUs vest immediately upon issuance, with the balance to vest in three increments of 250,000 over 18 months. The RSUs were priced at $0.37 based on the closing price of the common shares on the Canadian Securities Exchange on September 29, 2021. The total fair value of the RSU's was $385,000. As at November 30, 2021, the Company has recognized $155,529.

Reserve

The reserve account records items recognized as stock-based compensation expense and the fair value of finders' warrants issued until such time that the stock options and warrants are exercised, at which time the corresponding amount will be reallocated to share capital.

Obligation to issue shares

During the year ended November 30, 2021, the Company recorded an obligation to issue 500,000 shares (2020 – 250,000 shares) to the CEO in lieu of cash flor consulting fees in the amount of $23,750 (2020 - $89,500). These 750,000 shares had not been issued as at November 30, 2021 and were included in obligation to issue shares.

During the year ended November 30, 2020, the Company recorded an obligation to issue 300,000 shares with a fair value of $60,000 pursuant to a soil purchase agreement. These shares were issued during the year ended November 30, 2021.

As at November 30, 2020, the Company had received proceeds of $530,000 in cash for a private placement that was completed on December 9, 2020.

	Balance ($)
Balance as at November 30, 2019	-
Additions	679,500
Balance as at November 30, 2020	679,500
Additions	23,750
Share issuance	(590,000)
Balance as at November 30, 2021	113,250

13. Financial instruments

The Company classifies its financial instruments into categories as follows: cash and subscriptions receivable as financial assets at amortized cost, and accounts payable, preferred shares, convertible debenture and loans as other financial liabilities at amortized cost.

13. Financial instruments (continued)

Fair value

Cash is carried at fair market value based on quoted market prices in an active market. The carrying value of accounts payable approximate its fair values due to the short-term nature of these financial instruments. The carrying value of the Company's preferred shares approximate fair value as these have been discounted using a market discount rate and based on expected future cash flows. 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 and 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.

Cash is measured using level 1 inputs.

13. Financial risk and capital management

The Company is exposed in varying degrees to a variety of financial instrument related risks. The Board of Directors approves and monitors the risk management processes, inclusive of documented investment policies, counterparty limits, and controlling and reporting structures. The type of risk exposure and the way in which such exposure is managed is provided as follows:

Credit risk
Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Company's primary exposure to credit risk is on its cash held in bank accounts and accounts receivable. The majority of cash is deposited in bank accounts held with a major bank in Canada. As most of the Company's cash is held by one bank there is a concentration of credit risk. This risk is managed by using major banks that are high credit quality financial institutions as determined by rating agencies. Credit risk related to cash is assessed as low.

The Company provides credit to certain customers in the normal course of operations. Credit risk is generally limited to receivables from arm's length customers. The Company's credit risk related to its receivables as moderate. At November 30, 2021, the Company had no material receivable balances past due and the balances were collected subsequent to November 30, 2021. The Company has established monitoring processes to mitigate credit risk related to receivables.

Foreign exchange risk
Foreign currency risk is the risk that the fair values of future cash flows of a financial instrument will fluctuate because they are denominated in currencies that differ from the respective functional currency. The Company is not exposed to foreign exchange risk.

Liquidity risk
Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company has a planning and budgeting process in place to help determine the funds required to support the Company's normal operating requirements on an ongoing basis. The Company ensures that there are sufficient funds to meet its short-term business requirements, taking into account its anticipated cash flows from operations and its holdings of cash. As of November 30, 2021, the Company has cash of $1,075,666 (2020 - $1,844,356) to cover short term obligations.

(Expressed in Canadian Dollars)

14. Financial risk and capital management (continued)

Historically, the Company's sole source of funding has been loans from related parties, convertible debentures, preferred share financings and private placements. The Company's access to financing is always uncertain. There can be no assurance of continued access to significant equity funding. Liquidity risk is assessed as high.

The Company has the following contractual obligations as at November 30, 2021, which are expected to be payable in the following respective periods:

	Total	≤ 1 year	Over 1 year – 3 years
Accounts payable	$ 559,607	$ 559,607	$ -
Loan payable	10,427	3,910	6,517
Lease liability	4,651	4,651	-
Preferred shares	4,858,767	3,057,414	1,801,353
Government loan	30,568	-	30,568
Convertible debentures	3,765,682	3,765,682	-
Total	$ 9,229,702	$ 7,391,264	$ 1,838,438

Interest rate risk

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. As at November 30, 2021, the Company has convertible debentures of $3,765,682 and government loans of $30,568, which bears a fixed interest rate and a nil interest rate, respectively. As such, the Company's interest rate risk is low.

Capital Management

The Company's policy is to maintain a strong capital base so as to maintain investor and creditor confidence and to sustain future development of the business. The capital structure of the Company consists of equity and cash. There were no changes in the Company's approach to capital management during the year. The Company is not subject to any externally imposed capital requirements.

15. Income Taxes

A reconciliation of the expected income tax recovery to the actual income tax recovery is as follows:

	November 30, 2021	November 30, 2020
Net loss before income taxes	$ (7,142,945)	$ (2,852,639)
Statutory tax rate	27%	27%
Expected income tax recovery at the statutory tax rate	(1,928,595)	(770,213)
Permanent differences	759,207	1,259,214
Temporary differences	(91,156)	-
Changes in valuation allowance	1,260,544	(489,001)
Income tax recovery	$ -	$ -

(Expressed in Canadian Dollars)

15. Income Taxes (continued)

The Company has the following deductible temporary differences for which no deferred tax asset has been recognized:

		November 30, 2021		November 30, 2020
Non-capital loss	$	1,765,141	$	1,162,553
Property, plant and equipment		369,368		68,452
Share issuance cost		50,189		35,939
Inventory		(924,154)		(1,266,944)
Valuation allowance		(1,260,544)		-
	$	-	$	-

At November 30, 2021, the Company has non-capital losses of $6,540,000 (November 30, 2020: $4,306,000) which expire as follows: $25,000 in 2035 and $8,000 in 2036, $173,000 in 2037, $357,000 in 2038, $1,020,000 in 2039 and $2,960,000 in 2040, $1,997,000 in 2041, share issuance costs of $185,884 and undepreciated capital allowance of $1,368,032 available for future deduction.

16. Revenue

During the year ending November 30, 2021, which was the first year of sales, the Company had two major customers who accounted for approximately 71% of the total revenue for the year.

17. Subsequent events

a) Subsequent to the year end, November 30, 2021, 751,000 Options were exercised at $0.09 for gross proceeds of $67,590.

b) Subsequent to the year end, the Company closed the redemption of the class B preferred shares in accordance with the revised terms of the preferred shares (Note 12).

In connection with the redemption, the preferred shareholders were issued in aggregate:
(i) a secured promissory note in the amount of $2,000,000 which bears interest at a rate of 8% per annum and mature on October 31, 2024; and
(ii) 13,000,000 common shares in the capital of the Company at a deemed price of $0.20 per common share.

Following the redemption and payment of the redemption price to the preferred holders, all of the outstanding preferred shares were cancelled. 2260994 Alberta Ltd., the general partner of Excalibur Technologies L.P., is a company controlled by Mervin Boychuk, ultimately received an aggregate of 920,485 common shares in connection with the redemption. Accordingly, the redemption constituted to that extent a related party transaction. In conjunction with the close, the Company elected to repay $250,000 plus interest of $48,383.56 to reduce the total amount owing under the Promissory note issued. The remaining balance is $1,750,000 which will bear interest at a rate of 8% per annum noted above.

17. Subsequent events (continued)

c) Subsequent to the year end, the Company issued an aggregate of 200,000 RSUs and 675,000 stock options ("Options") to directors and employees of the Company in accordance with the Company's Option and RSU plan. 300,000 Options have been granted with an exercise price of $0.20 and 375,000 Options have been granted with an exercise price of $0.25. Each Option entitles the holder thereof to purchase one additional common share of the Company for a period of 5 years from grant, at its respective exercise price. The Options are subject to various vesting restrictions. The RSUs vest upon various agreed upon milestones and entitle the holder the ability to acquire one common share of the Company underlying each such RSU by delivering a notice of acquisition to the Company in accordance with the RSU plan.

d) Subsequent to year ended November 30, 2021, the Company amended the terms of the following unsecured convertible debentures:

- 358 convertible debentures issued on March 13, 2020 in the principal amount of $1,790,000;
- 158 convertible debentures issued on March 23, 2020 in the principal amount of $790,000;
- 20 convertible debentures issued on April 7, 2020 in the principal amount of $100,000;
- 5 convertible debentures issued on May 14, 2020 in the principal amount of $25,000;
- 50 convertible debentures issued on May 25, 2020 in the principal amount of $250,000; and
- 38.5 convertible debentures issued on August 20, 2020 in the principal amount of $192,500.

The convertible debentures mature twenty-four months from the date of issuance and bear interest at a rate of 12% per annum. Under the amended terms, the Convertible Debentures will now mature forty-two months from the date of issuance and the debenture holder will have the option to convert unpaid and accrued interest into conversion shares at a price of $0.20, and, regardless of the date of conversion, such holder will receive interest payable in conversion shares that is an amount equal to the unpaid interest for the period from the issue date, or date of last interest payment, if later, up to and including the maturity date, on a non pro rata basis. All other terms of the convertible debentures remain unchanged. The total principal amount outstanding under the convertible debentures amendment is $3,147,500.

Convertible Debentures that have not been extended will remain subject to the original terms from issuance.