Christina Lake Cannabis Corp.

Condensed Interim Financial Statements

For the three and six months ended May 31, 2022 and 2021

(Unaudited - Expressed in Canadian Dollars)

NOTICE OF NO AUDITOR REVIEW

Under National Instrument 51-102, Part 4 subsection 4.3 (3), if an auditor has not performed a review of the unaudited condensed interim financial statements, they must be accompanied by a notice indicating that the unaudited condensed interim financial statements have not been reviewed by an auditor.

The accompanying unaudited condensed interim financial statements of Christina Lake Cannabis Corp. have been prepared by and are the responsibility of management.

These unaudited condensed interim financial statements for the six months ended May 31, 2022 have not been reviewed or audited by the Company's independent auditors in accordance with standards established by the Chartered Professional Accountants of Canada.

(Expressed in Canadian Dollars)

As at,	Notes		May 31, 2022 (unaudited)		November 30, 2021 (audited)
ASSETS					
Current assets					
Cash		$	1,259,986	$	1,075,666
Receivables			1,033,243		1,072,519
Prepaid expenses			164,786		122,755
Inventory	5		6,273,722		7,153,378
			8,731,737		9,424,318
Non-current assets					
Property, plant and equipment	3		9,254,767		9,544,573
TOTAL ASSETS		**$**	**17,986,504**	**$**	**18,968,891**
LIABILITIES					
Current liabilities					
Accounts payable and accrued liabilities	6,11	$	464,139	$	559,607
Current portion of loan	9		691,410		3,910
Current portion of lease liability	10		-		4,651
Current portion of preferred shares	12		-		3,057,414
Current portion of convertible debentures	8		-		3,765,682
			1,155,549		7,391,264
Non-current liabilities					
Government loan	7		31,594		30,568
Non-current portion of loan	9		1,005,539		6,517
Non-current portion of preferred shares	12		-		1,801,353
Convertible debentures	8		3,934,235		-
TOTAL LIABILITIES			6,126,917		9,229,702
SHAREHOLDERS' EQUITY					
Share capital	12		22,443,896		19,457,649
Equity component of convertible debenture	8		418,080		418,080
Obligation to issue shares	12		113,250		113,250
Reserves			2,631,563		2,703,270
Deficit			(13,747,202)		(12,953,060)
TOTAL SHAREHOLDERS' EQUITY			**11,859,587**		**9,739,189**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**$**	**17,986,504**	**$**	**18,968,891**

Nature and continuance of operations (Note 1)

Approved on behalf of the Board:

"Joel Dumaresq" *"Gil Playford"*

Joel Dumaresq, Director Gil Playford, Director

(Expressed in Canadian Dollars - Unaudited)

	Notes	Three-month period ended, May 31, 2022 $	May 31, 2021 $	Six-month period ended, May 31, 2022 $	May 31, 2021 $
Revenue from sale of goods	16	2,321,010	216,738	3,973,811	279,159
Cost of sales	5	(1,027,348)	(71,794)	(1,772,279)	(91,505)
Gross profit before fair value adjustments		1,293,662	144,944	2,201,532	187,654
Changes in fair value of inventory sold	5	(441,941)	(132,666)	(669,282)	(175,481)
Gross profit from sale of goods/change on growth of biological assets		851,721	12,278	1,532,250	12,173
General and administrative expenses					
Consulting fees	11	10,500	110,610	104,829	206,600
Communication expense		31,297	45,297	49,400	67,046
Corporate development		-	182,936	8,864	365,872
Depreciation	3	43,599	64,240	210,537	303,948
Foreign exchange		5,774	-	5,774	(447)
Insurance		36,421	40,892	80,165	40,892
Management fees	11	78,192	36,000	139,821	72,000
Marketing		1,603	292,859	44,966	402,310
Office and miscellaneous		141,625	67,425	251,785	217,469
Professional fees	11	101,644	59,033	190,569	157,132
Property Taxes		28,366	-	28,366	30,566
Salaries	11	308,477	294,598	759,458	719,761
Share based compensation	11,12	105,201	411,300	246,950	552,404
Repairs and maintenance		50,356	7,361	110,089	18,104
Regulatory fees		26,218	34,190	54,635	78,257
Total general and administrative expenses		(969,273)	(1,646,741)	(2,286,208)	(3,201,348)
Other items					
Accretion	7,8,10	(344)	(98,980)	(84,046)	(193,334)
Interest expense	8	(119,200)	(113,146)	(214,905)	(270,645)
Loss on sale of equipment		-	-	-	(4,900)
Fair value of preferred shares		-	-	-	(510,521)
Accounts payable write down		-	38,528	-	38,528
Gain on settlement	12	258,767	-	258,767	-
Total other items		139,223	(173,598)	(40,184)	(940,872)
Loss and comprehensive loss for the period		21,671	(1,808,061)	(794,142)	(4,130,047)
Loss per share – basic and diluted		(0.00)	(0.02)	(0.01)	(0.04)
Weighted average number of common shares outstanding		126,355,885	104,909,236	126,355,885	102,058,167

Christina Lake Cannabis Corp.
Condensed Interim Statement of Changes in Shareholders' Equity
For the six months period ended May 31, 2022 and 2021
(Expressed in Canadian Dollars - Unaudited)

		Share capital						
		Common shares						
	Note	Number of shares #	Amount $	Obligation to issue shares $	Equity component of convertible liability $	Reserves $	Deficit $	Total $
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 period		-	-	-	-	-	(4,130,047)	(4,130,047)
Private placement, net of share issue costs	12	5,540,000	1,662,000	(530,000)	-	-	-	1,132,000
Warrants exercised	12	4,476,000	1,230,303	-	-	(60,103)	-	1,170,200
Options exercised	12	1,199,500	423,685	-	-	(224,730)	-	198,955
Conversion of convertible debenture	12	3,136,000	647,083	-	(73,414)	-	-	573,669
Shares issued in lieu of cash	12	300,000	60,000	(60,000)	-	-	-	-
Obligation to issue shares	12	-	-	1,545,362	-	-	-	1,545,362
Share based compensation	12	-	-	-	-	362,404	-	362,404
Balance at May 31, 2021		**105,091,815**	**15,758,679**	**1,634,862**	**483,697**	**2,370,720**	**(9,940,162)**	**10,307,796**
Balance at November 30, 2021		**115,891,174**	**19,457,659**	**113,250**	**418,080**	**2,703,270**	**(12,953,060)**	**9,739,189**
Loss for the period		-	-	-	-	-	(794,142)	(794,142)
Shares issued upon preferred share conversion	12	13,000,000	2,600,000	-	-	-	-	2,600,000
Shares issued upon exercise of options	12	751,000	178,913	-	-	(111,323)	-	67,590
Shares issued upon vesting of restricted shares	12	250,000	207,334	-	-	(161,084)	-	46,250
Share based compensation	12	-	-	-	-	200,700	-	200,700
Balance at May 31, 2022		**129,892,174**	**22,443,896**	**113,250**	**418,080**	**2,631,563**	**(13,747,202)**	**11,859,587**

Christina Lake Cannabis Corp.
Condensed Interim Statements of Cash Flows
(Expressed in Canadian Dollars - Unaudited)

Six month period ended,	May 31, 2022 $	May 31, 2021 $
Operating activities		
Loss for the period	(794,142)	(4,130,047)
Non-cash items:		
Accretion	83,702	193,334
Depreciation	266,812	303,948
Fair value transfer of inventory sold	669,282	175,481
Interest expense	95,705	270,645
Loss on sale of equipment	-	4,900
Share-based compensation	246,950	552,404
Change in estimate of preferred shares	-	510,520
Changes in non-cash working capital items:		
Increase (decrease) in receivables	39,276	(138,543)
Increase (decrease) in prepaid expenses	(42,031)	(84,117)
Increase (decrease) in inventory	210,374	(1,215,339)
Increase in accounts payable and accrued liabilities	(94,332)	(184,740)
Net cash flows provided by (used in) operating activities	681,596	(3,741,554)
Investing activities		
Acquisition of equipment	(18,248)	(555,884)
Building improvements incurred	41,242	(92,299)
Proceeds from sale of equipment		24,500
Net cash flows used in investing activities	22,994	(623,683)
Financing activities		-
Loan payments	(324,442)	(13,000)
Loan Proceeds	2,000,000	-
Repayment of Preferred Share Obligation	(4,858,767)	-
Shares issued in Preferred Share Conversion	2,600,000	-
Lease payments	(4,651)	-
Obligation to issue shares	-	1,355,362
Proceeds from options exercised	67,590	198,955
Proceeds from private placement, net of issuance cost	-	1,132,000
Proceeds from warrants exercised	-	1,170,200
Net cash flows from financing activities	(520,270)	3,843,517
Increase (decrease) in cash	184,320	(521,720)
Cash, beginning of year	1,075,666	1,844,356
Cash, end of period	**1,259,986**	**1,322,636**

Supplemental non-cash flow information:

Six months period ended,	May 31, 2022 $	May 31, 2021 $
Interest paid	-	-
Taxes paid	-	-
Equity portion on conversion of convertible debentures	-	73,414
Shares issued upon conversion of convertible debentures	-	647,083

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. 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 May 31, 2022, the Company had accumulated losses of $13,747,202 (November 30, 2021 - $12,953,060). 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 condensed interim financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") on a historical cost basis except for financial instruments that have been measured at fair value. In addition, these condensed interim consolidated financial statements have been prepared using the accrual basis of accounting except for cash flow information.

These condensed interim 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 condensed interim financial statements have been prepared using the accrual basis of accounting, except for cash flow information. All amounts on the condensed interim financial statements are presented in Canadian dollars which is the functional currency of the Company.

These unaudited condensed interim financial statements were approved and authorized for issue on August 02, 2022 by the directors of the Company.

Statement of compliance

These condensed interim financial statements, including comparatives, have been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting" ("IAS 34") using accounting policies consistent with the International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and Interpretations of the IFRS Interpretations Committee.

2. Significant accounting policies (Continued)

***Statement of compliance* (continued)**

These unaudited condensed interim financial statements do not include all of the information required of a full annual financial report and is intended to provide users with an update in relation to events and transactions that are significant to an understanding of the changes in financial position and performance of the Company since the end of the last annual reporting period. It is therefore recommended that this financial report be read in conjunction with the audited financial statements of the Company for the year ended November 30, 2021.

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.

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.

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.

(Expressed in Canadian Dollars - Unaudited)

2. Significant accounting policies (Continued)

Recent Accounting Pronouncements (Continued)

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.

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, 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
Additions		540,433	-	-	23,944	562,916
Balance, May 31, 2022	59,924	3,965,573	1,088,397	394,875	5,523,861	11,032,630
Accumulated amortization						
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
Change	9,476	260,711	-	-	145,097	415,284
Balance, May 31, 2022	59,924	1,212,315			505,624	1,777,963
Net book value						
November 30, 2021	9,476	2,912,435	1,088,397	394,875	5,139,390	9,544,573
May 31, 2022	-	2,753,258	1,088,397	394,875	5,018,237	9,254,767

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 period ended May 31, 2022, the Company capitalized depreciation of $104,771 (2021 - $224,337) as inventory processing cost and $Nil (2020 - $Nil) as biological asset cost.

(Expressed in Canadian Dollars - Unaudited)

4. Biological assets

Biological assets are comprised of:

	Amount $
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 and May 31, 2022	-

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, 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
Capitalized cost	1,561,905
Cost of sales	(1,772,279)
Changes in fair value of inventory sold	(669,282)
Balance at May 31, 2022	6,273,722

(Expressed in Canadian Dollars - Unaudited)

5. Inventory (Continued)

During the six months period ended May 31, 2022, the Company recorded $1,065,393 (2021 - $910,098) of production costs and depreciation of $104,771 (2021 - $224,337).

As at May 31, 2022, the Company held the following inventory:

	May 31, 2022 $	**November 30, 2021 $**
Work-in-process	3,254,558	2,654,564
Finished goods	1,068,000	1,189,863
Fair value adjustment to inventory related biological assets	1,951,164	3,308,951
	6,273,722	7,153,378

6. Accounts payable and accrued liabilities

	May 31, 2022 $	**November 30, 2021 $**
Accounts payable	202,958	294,926
Accrued liabilities	261,181	264,681
	464,139	**559,607**

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 six months period ended May 31, 2022, the Company recorded accretion expense of $1,026 (2021 - $1,846).

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 - Unaudited)

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, 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
Debt modification	(168,772)		(168,772)
Interest expense	192,052		192,053
Accretion expense	145,273		145,273
Balance, May 31, 2022	3,934,235	418,080	4,352,316

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.

On March 15, 2022, 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.

(Expressed in Canadian Dollars - Unaudited)

9. Loan payable

During the period ended May 31, 2022, the Company entered into a loan agreement in connection with the redemption and cancellation of the Class B Preferred Shares for $2,000,000. The loan bears interest at 8% per annum and matures August 31, 2024.

	$
March 29, 2022	2,000,000
Repayments	(312,500)
Balance, May 31, 2022	1,687,500
Current portion	687,500
Non-current portion	1,000,000

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, 2020	14,337
Repayments	(3,910)
Balance, November 30, 2021	10,427
Repayments	(978)
Balance, May 31, 2022	9,449
Current portion	3,910
Non-current portion	5,539

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.

The following is a continuity schedule of lease liabilities for the six months ended May 31, 2022 and for the year ended November 30, 2021:

	$
Balance, November 30, 2020	34,214
Lease payments	(31,200)
Accretion on lease liability	1,637
Balance, November 30, 2021	4,651
Lease payments	(5,200)
Accretion on lease liability	549
Balance, May 31, 2022	-

(Expressed in Canadian Dollars - Unaudited)

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 six months period ended May 31, 2022 and May 31, 2021:

	May 31, 2022 $	May 31, 2021 $
Management fees paid to the CFO	51,250	41,500
Corporate development fees paid to the Company secretary	17,143	-
Consulting fees paid to an officer of the Company	60,000	-
Lease payments to a company controlled by a director	13,000	15,600
Management fees paid to CEO	72,000	72,000
Salaries paid to key management	53,308	133,021
Share based payments	49,307	190,000
	316,008	452,121

As at May 31, 2022, there was $234,885 (November 30, 2021 - $185,748) 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 six months period ended May 31, 2022, the Company accrued rent of $1,500 to a private company jointly controlled by the CEO (2021 - $1,500).

During the six months period ended May 31, 2022, the Company paid lease payments of $13,000 to a private company controlled by a director (2021- $7,800).

As at May 31, 2022, the Company has an obligation to issue 500,000 shares (November 30, 2021 - 500,000 shares) to the CEO in lieu of cash for consulting fees earned in prior years (Note 12).

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 May 31, 2022, there were 129,892,173 (November 30, 2021 – 115,891,173) issued and fully paid common shares outstanding.

At May 31, 2022, issued and fully paid Class B preferred shares outstanding were Nil (November 30, 2021 – 2,000,000).

12. Share Capital (continued)

Preferred shares

During the period ending May 31, 2022, the Company redeemed and cancelled 2,000,000 of the Class B preferred shares. In connection with the redemption the Company issued a secured promissory note in the amount of $2,000,000 which bears an interest rate of 8% per annum and matures on August 31, 2024. The Company also issued 13,000,000 common shares at a deemed price of $0.20 per common share.

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

- 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%.

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.

(Expressed in Canadian Dollars - Unaudited)

12. Share Capital (continued)

Preferred shares (continued)

The following is a continuity schedule for preferred shares as at May 31, 2022:

	$
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	-
Long term portion	-
Balance, May 31, 2022	-

Share issuances during the six months period ended May 31, 2022

During the six-month period ended May 31, 2022, the Company issued 751,000 common shares pursuant to stock option exercise for gross proceeds of $67,590. The Company transferred $141,669 from reserve to share capital.

During the six-month period ended May 31, 2022, the Company issued 13,000,000 common shares pursuant to the redemption and cancellation of the Class B Preferred Shares at a deemed price of $0.20 per common share representing a total of $2,600,000.

During the six months period ended May 31, 2022, The Company issued 250,000 common shares with a fair value of $46,250, pursuant to the vesting of restricted stock units.

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%.

(Expressed in Canadian Dollars - Unaudited)

12. Share Capital (continued)

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.

Escrow Shares

As at May 31, 2022, a total of 12,573,618 (November 30, 2021 – 16,764,826) securities, including 10,033,925 shares (November 30, 2021 – 13,378,568), 2,301,193 warrants (November 30, 2021 – 3,068,258), 238,500 stock options (November 30, 2021 – 318,000) and nil convertible debentures (November 30, 2021 – nil), 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 - Unaudited)

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, 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
Expired*	(445,200)	0.40
Outstanding, May 31, 2022	14,549,477	0.44

*445,200 warrants expired unexercised during the six-months period ended May 31, 2022.

As of May 31, 2022, 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, 2022	0.40	6,981,299
December 9, 2022	0.50	2,770,002
December 8, 2023	0.65	3,338,176
		14,549,477

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.

Stock options granted during the six months period ended May 31, 2022.

On March 15, 2022, the Company granted 375,000 options to certain employees (“Employee Stock Options”) and 300,000 to a director of the Company (“Director Stock Options”). The Employee Stock Options and Director Stock Options have exercise prices of $0.25 and $0.20, respectively, and expire on March 15, 2027. The total fair value was $103,317 of the options was determined using the Black Scholes Option Pricing Model with the following assumptions: Expected life – 5 years; risk-free rate – 1.96%; volatility: 110%. The Employee Stock Options vested immediately and half of the Director Stock Options vested immediately, with the remaining vesting on March 15, 2023. For the period ended May 31, 2022, the Company recorded share-based compensation of $80,358.

12. Share Capital (continued)

Stock Options (continued)

Stock options granted during the year ended November 30, 2021

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. For the period ended May 31, 2022, the Company recorded share-based compensation of $1,559.

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. During the period ended May 31, 2022, the Company recorded share-based compensation of $63,170.

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. During the period ended May 31, 2022, the Company recorded share-based compensation of $5,868.

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. During the period ended May 31, 2022, the Company recorded share-based compensation of $22,194.

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. During the period ended May 31, 2022, the Company recorded share-based compensation of $17,545.

On March 15, 2022, the Company granted 375,000 stock options with an exercise price of $0.25 and expires five years from the date of grant. The stock options held no vesting schedule. The Company also granted 300,000 stock options with an exercise price of $0.20 and expires five years from the date of grant. The stock options vest 50% upon issuance and 50% on the anniversary date of issuance. The total fair value of the options was $103,317 determined using the Black Scholes Option Pricing Model. $85,201 stock-based compensation was recorded for the period ended May 31, 2022.

(Expressed in Canadian Dollars - Unaudited)

12. Share Capital (continued)

Stock Options (continued)

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

	Number of share purchase options #	Weighted average exercise price $
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	11,674,000	0.17
Granted	675,000	0.23
Exercised	(751,000)	0.09
Cancelled	(1,255,000)	(0.12)
Outstanding, May 31, 2022	10,343,400	0.18

The weighted average price of shares at the time the options were exercised during the six months period ended May 31, 2022 was $0.09 (year ended November 30, 2021 - $0.15).

As of May 31, 2022, 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 #
June 1, 2024	0.09	2,270,000	2,270,000
August 14, 2022	0.20	10,000	10,000
December 13, 2024	0.09	363,400	256,667
August 20, 2024	0.09	2,000,000	2,000,000
August 20, 2024	0.25	400,000	400,000
August 20, 2025	0.20	100,000	62,500
August 20, 2025	0.25	150,000	150,000
August 20, 2025	0.15	1,650,000	1,306,250
August 20, 2025	0.09	100,000	62,500
September 8, 2024	0.25	300,000	150,000
September 29, 2025	0.20	850,000	850,000
November 26, 2025	0.40	1,100,000	1,100,000
January 8, 2026	0.88	200,000	200,000
May 4, 2026	0.61	175,000	175,000
March 15, 2027	0.25	375,000	375,000
March 15, 2027	0.20	300,000	150,000
		10,343,400	9,517,917

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.

(Expressed in Canadian Dollars - Unaudited)

12. Share Capital (continued)

Restricted share units(continued)

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 May 31, 2022, the Company has recognized an additional $143,009 (November 30, 2021 - $155,529).

On March 15, 2022, the Company issued an aggregate of 200,000 RSUs to a director of the Company in accordance with the Company's RSU plan. 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. The total fair value of the RSU was $40,000. During the period ended May 31, 2022, the Company recognized share-based compensation of $24,164.

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 for consulting fees in the amount of $23,750 (2020 - $89,500). These 500,000 shares had not been issued as at May 31, 2022 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, 2020	679,500
Additions	23,750
Share issuance	(590,000)
Balance as at November 30, 2021 and May 31, 2022	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.

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 May 31, 2022, the Company had no material receivable balances past due and the balances were collected subsequent to May 31, 2022. 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.

(Expressed in Canadian Dollars - Unaudited)

13. Financial risk and capital management (continued)

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 May 31, 2022, the Company has cash of $1,259,986 (November 30, 2021 - $1,075,666) to cover short term obligations.

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.

14. Financial risk and capital management

The Company has the following contractual obligations as at May 31, 2022, which are expected to be payable in the following respective periods:

		Total		≤ 1 year		Over 1 year – 3 years
Accounts payable	$	464,139	$	464,139	$	-
Loan payable		1,696,949		691,410		1,005,539
Preferred shares		-	-	-	-	-
Government loan		31,594		-		31,594
Convertible debentures		3,934,235		-		3,934,235
Total	$	6,126,917	$	1,155,549	$	4,971,368

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 May 31, 2022, the Company has convertible debentures of $3,607,734 (November 30, 2021 - $3,765,682), government loans of $31,594 (November 30, 2021 - $30,568), and a secured loan $1,696,949 (November 30, 2021 – Nil) which bears fixed interest rates and a nil interest rate for the government loan, 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. Revenue

During the period ended May 31, 2022, the Company had three major customers who accounted for approximately 74% (November 30, 2021 – 2 major customers accounting for approximately 71%) of the total revenue for the period.