Christina Lake Cannabis Corp.

Financial Statements

Year ended November 30, 2022 and 2021

(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, 2022 and 2021, 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, 2022 and 2021, 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 3, 2023

(Expressed in Canadian Dollars)

As at,	Notes	November 30, 2022 $	November 30, 2021 $
ASSETS			
Current assets			
Cash		1,810,639	1,046,916
Investments		28,750	28,750
Receivables		1,906,820	1,147,341
Prepaid expenses		3,885	122,755
Inventory	5	5,766,418	7,153,378
		9,516,512	9,499,140
Non-current assets			
Property, plant and equipment	3	9,277,906	9,544,573
TOTAL ASSETS		**18,794,418**	**19,043,713**
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities	6,11	1,132,447	559,607
GST payable		76,451	74,822
Current portion of loans	9	897,632	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	3,726,424	3,765,682
		5,832,954	7,466,086
Non-current liabilities			
Government loan	7	34,947	30,568
Non-current portion of loans	9	581,329	6,517
Non-current portion of preferred shares	12	-	1,801,353
Convertible debentures	8	1,207,228	-
TOTAL LIABILITIES		7,656,458	9,304,524
SHAREHOLDERS' EQUITY			
Share capital	12	22,403,648	19,457,649
Equity component of convertible debenture	8	1,872,441	418,080
Obligation to issue shares	12	113,250	113,250
Reserves		2,742,105	2,703,270
Deficit		(15,993,484)	(12,953,060)
TOTAL SHAREHOLDERS' EQUITY		**11,137,960**	**9,739,189**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**18,794,418**	**19,043,713**

Nature and continuance of operations (Note 1)
Subsequent event (Note 18)

Approved on behalf of the Board:

"James McMillan" — James McMillan, Director

"Gil Playford" — Gil Playford, Director

(Expressed in Canadian Dollars)

	Notes	Year Ended November 30, 2022 $	Year Ended November 30, 2021 $
Revenue from sale of goods		10,073,055	3,633,450
Cost of sales	5	(5,937,128)	(1,429,972)
Gross profit before fair value adjustments		**4,135,927**	**2,203,478**
Inventory write down	5	(2,471,436)	(3,861,257)
Fair value change on growth of biological assets	4	4,641,853	3,240,450
Changes in fair value of inventory sold	5	(3,327,645)	(1,525,954)
Gross profit from sale of goods/change on growth of biological asset		**2,978,699**	**56,717**
General and administrative expenses			
Consulting fees	11	209,864	285,752
Communication expense		112,884	63,756
Corporate development		10,420	548,810
Depreciation	3	329,026	336,205
Foreign exchange		5,774	(447)
Insurance		74,416	36,597
Management fees	11	274,625	355,452
Marketing		47,456	469,707
Nursery expense		809	23,431
Office and miscellaneous		411,584	291,661
Professional fees	11	344,656	266,461
Property Taxes		13,511	12,918
Research and development		8,300	21,000
Salaries	11	1,851,382	1,181,827
Share based compensation	11,12	381,546	1,160,970
Repairs and maintenance		137,727	40,361
Regulatory fees		210,899	59,003
Total general and administrative expenses		(4,424,879)	(5,153,464)
Other items			
Accounts payable write down		-	38,528
Accretion	7,8,9,10	(201,585)	(368,625)
Change in estimate of preferred shares	12	(118,182)	(1,238,670)
Gain on settlement of preferred shares	12	296,416	-
Interest expense	8	(558,190)	(472,531)
Loss on sale of equipment		-	(4,900)
Total other items		(581,541)	(2,046,198)
Loss and comprehensive loss for the year		(2,027,721)	(7,142,945)
Loss per share – basic and diluted		(0.02)	(0.07)
Weighted average number of common shares outstanding		125,584,783	108,245,854

(Expressed in Canadian Dollars)

		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 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)	-	-	1,052,22
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**
Balance at November 30, 2021		**115,891,174**	**19,457,649**	**113,250**	**418,080**	**2,703,270**	**(12,953,060)**	**9,739,189**
Loss for the year		-	-	-	-	-	(2,027,721)	(2,027,721)
Shares issued upon preferred share conversion	12	13,000,000	2,470,000	-	-	-	-	2,470,000
Shares issued upon exercise of options	12	751,000	217,799	-	-	(150,211)	-	67,588
Shares issued upon exercise of warrants	12	730,000	65,700	-	-	-	-	65,700
Shares issued upon vesting of restricted shares	12	500,000	192,500	-	-	(192,500)	-	-
Convertible debenture	12	-	-	-	1,872,441	-	-	1,872,441
Extinguishment of convertible debentures	8	-	-	-	(418,080)	-	(1,012,703)	(1,430,783)
Share based compensation	12	-	-	-	-	381,546	-	381,546
Balance at November 30, 2022		**130,872,174**	**22,403,648**	**113,250**	**1,872,441**	**2,742,105**	**(15,993,484)**	**11,137,960**

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

Years ended,	**November 30, 2022 $**	**November 30, 2021 $**
Operating activities		
Loss for the year	(2,027,721)	(7,142,945)
Non-cash items:		
Accretion	201,585	368,625
Accounts payable write down	-	(38,528)
Change in estimate of preferred shares	118,182	1,238,670
Depreciation	329,026	336,205
Fair value change of biological asset	(4,641,853)	(3,240,450)
Fair value transfer of inventory sold	3,327,645	1,525,954
Gain on preferred share settlement	(296,416)	-
Interest expense	429,889	472,531
Inventory write down	2,471,436	3,861,257
Loss on sale of equipment	-	4,900
Share-based compensation	381,546	1,160,970
Changes in non-cash working capital items:		
Increase in receivables	(834,301)	(1,000,711)
Decrease in prepaid expenses	118,870	7,209
Decrease(increase) in inventory	(1,262,556)	(2,274,978)
Increase in accounts payable and accrued liabilities	344,514	100,711
Net cash flows provided by (used in) operating activities	1,184,958	(4,620,580)
Investing activities		
Acquisition of equipment	(731,330)	(963,782)
Building improvements incurred	(59,076)	(265,405)
Proceeds from sale of equipment	-	24,500
Net cash flows used in investing activities	(790,406)	(1,204,687)
Financing activities		
Repayment of convertible debenture	(31,000)	-
Loan payments	(676,317)	(3,910)
Lease payments	(7,800)	(31,200)
Proceeds from convertible debentures, net of issuance cost	951,000	-
Proceeds from options exercised	67,588	306,305
Proceeds from private placement, net of issuance cost	-	3,615,182
Proceeds from warrants exercised	65,700	1,170,200
Net cash flows from financing activities	369,171	5,056,577
Increase (decrease) in cash	763,723	(768,690)
Cash, beginning of year	1,046,916	1,815,606
Cash, end of year	**1,810,639**	**1,046,916**

Supplemental non-cash flow information:

Years ended,	**November 30, 2022 $**	**November 30, 2021 $**
Accounts payable settlement with share issuance	-	122,000
Equity portion on conversion of convertible debentures	-	139,031
Equity portion on issuance of convertible debentures	1,872,441	-
Fair value of finder warrants	-	23,186
Extinguishment of convertible debentures	1,012,703	-
Accounts payable included in acquisition of property, plant and equipment	304,777	-
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. 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, 2022, the Company had accumulated losses of $15,993,484. The Company's continuation as a going concern is dependent upon the Company to successfully obtain debt or equity financings and harvest its cannabis and earn revenues from the sale of cannabis related derivatives 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 related derivatives to achieve profitability from its business activities. These financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary should the Company be unable to continue in existence. Such adjustments could be material.

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 financial statements were approved and authorized for issue on April 3, 2023 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.

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, loan 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.

2. Significant accounting policies (Continued)

Significant estimates and assumptions (Continued)
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. For the periods presented, the Company reported a net loss. Basic per share amounts are the same basis as on a dilutive basis as the result would be anti-dilutive.

Property, Plant and Equipment
Property, plant and equipment (includes 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

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,

2. Significant accounting policies (Continued)

Impairment of assets (Continued)

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.

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.

2. Significant accounting policies (Continued)

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	FVTPL
Investments	FVTPL
Receivables	Amortized Cost
Accounts payable	Amortized Cost
GST payable	Amortized Cost
Lease liability	Amortized Cost
Convertible debentures	Amortized Cost
Government loan	Amortized Cost
Loans	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.

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.

2. Significant accounting policies (Continued)

Financial Instruments (Continued)

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.

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 depreciation 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.

2. Significant accounting policies (Continued)

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 statement of comprehensive loss. Short term leases are defined as leases with a lease term of 12 months or less. The Company has short-term leases of equipment and office rentals.

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.

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. Restricted Share Units, ("RSUs") are equity settled only. Compensation expense is recognized based on the share price of the Company's common shares on the grant date multiplied by the number of RSUs expected to vest and recognized ratably over the vesting period, with a corresponding credit to shares based payment reserve.

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 depreciation 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 related derivatives 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.

2. Significant accounting policies (Continued)

Revenue Recognition

IFRS 15, Revenue from Contracts with Customers ("IFRS 15) specifies how and when revenue should be recognized based on a five-step model, which is applied to all contracts with customers. The Company's accounting policy for revenue recognition under IFRS 15 is to follow a five-step model to determine the amount and timing of revenue to be recognized:

1. Identifying the contract with a customer
2. Identifying the performance obligations within the contract
3. Determining the transaction price
4. Allocating the transaction price to the performance obligations
5. Recognizing revenue when/as performance obligation(s) are satisfied.

The Company generated revenue from the sale of cannabis related derivatives. Revenue is recognized when the Company transfers control of the goods to the customer. Control of the product transfers at a point in time either upon shipment to or receipt by the customer, depending on the contractual terms. The Company recognizes revenue in an amount that reflects the consideration that the Company expects to receive considering any variation that may result from rights of return.

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 December 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. These amendments are effective for annual periods beginning on or after January 1, 2023.

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.

(Expressed in Canadian Dollars)

3. Property, plant and equipment

Property, plant and equipment are comprised of the following balances:

	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	-	1,009,914	-	-	85,269	1,095,183
Balance, November 30, 2022	59,924	4,874,053	1,088,397	394,875	5,585,186	12,002,435
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	1,055,225	-	-	297,149	1,361,850
Balance, November 30, 2022	59,924	2,006,929	-	-	657,676	2,724,529
Net book value						
November 30, 2021	9,476	2,912,435	1,088,397	394,875	5,139,390	9,544,573
November 30, 2022	-	2,867,124	1,088,397	394,875	4,927,510	9,277,906

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, 2022, the Company capitalized depreciation of $769,809 (2021 - $609,998) as inventory processing cost and $263,015 (2021 - $192,355) as biological asset cost.

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	-
Changes in fair value less cost to sell due to biological transformation	4,641,853
Production cost capitalized	2,242,286
Transferred to inventory upon harvest	(6,884,139)
Balance at November 30, 2022	-

Measurement of the biological transformation of the plant at fair value less costs to sell and less incremental processing costs post-harvest is recognized at the point of harvest.

(Expressed in Canadian Dollars)

4. Biological assets (Continued)

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 $2.06 per gram of distillate. The average harvested yield of biomass is 1,774 grams per plant with an average yield from dried biomass to distillate of 6 to 9% depending on strains.

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 on 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 designated planting area or density. Management reviews all significant inputs based on historical information obtained.

The following table highlights the sensitivities and impact of changes in significant assumptions on the fair value of biological assets grown at outdoor facility:

Significant inputs & assumptions	Range of inputs		Sensitivity	Impact on fair value	
	November 30, 2022	November 30, 2021		November 30, 2022	November 30, 2021
Average selling price per gram	$3.00	$3.80	Increase or decrease of $0.25 per gram	$836,250	$551,500
Average yield per plant (grams)	1774	1,540	Increase or decrease of 5% in yield per plant	$324,825	$369,140
Average yield to distillate from biomass (dependent on strain)	6-9%	5-7%	Increase or decrease of distillate yield by 5%	$501,750	$419,667

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 biological transformation to inventory upon harvest.

(Expressed in Canadian Dollars)

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	3,465,110
Harvested cannabis biomass	6,884,139
Inventory write-down	(2,471,436)
Cost of sales	(5,937,128)
Changes in fair value of inventory sold	(3,327,645)
Balance at November 30, 2022	5,766,418

During the year ended November 30, 2022, the Company recognized $2,471,436 (2021- $3,861,257) in inventory impairment due to price decrease in cannabis related derivatives, consisting of $281,635 (2021 - $685,337) recognized in cost of sales and $2,189,801 (2021 - $3,175,920) recognized in changes in fair value of inventory sold. wrote down its inventory of cannabis-related products to the net realizable value, which resulted in an impairment of $2,471,436 (2021 - $3,861,257). The Company also recorded $2,695,301 (2021 - $2,165,114) of production costs and depreciation of $769,809 (2021 - $609,998).

As at November 30, 2022, the Company held the following inventory:

	November 30, 2022 $	**November 30, 2021 $**
Work-in-process	4,910,459	4,895,845
Finished goods	855,959	2,257,533
	5,766,418	7,153,378

6. Accounts payable and accrued liabilities

	November 30, 2022 $	**November 30, 2021 $**
Accounts payable	487,175	294,926
Accrued liabilities	645,272	264,681
	1,132,447	**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 year ended November 30, 2022, the Company recorded accretion expense of $4,379 (2021 - $3,831).

8. Convertible debentures

Convertible debenture issued in 2022

On September 8, 2022 and October 18, 2022, the Company closed a non-brokered private placement of unsecured convertible debentures in the principal amount of $810,000 and $150,000, respectively. The debentures mature in 36 months from the date of issuance and bear interest at the rate of 15% per annum, with such interest to be accrued on a monthly basis and paid on a semi-annual basis. Pursuant to the terms of the debentures, the subscribers may at any time prior to the maturity date convert the principal amounts of the debentures and any accrued but unpaid interest into common shares of the Company, at a price of $0.15 per common share. $300,000 of unsecured convertible debentures were subscribed by directors and officers of the Company (Note 11).

On September 8, 2022 and October 18, 2022, the Company issued 405,000 and 75,000 bonus warrants to the subscribers of the offering, respectively (Note 12). Each subscriber received one half of one bonus warrant for each $1 subscribed under the offering. Each bonus warrant is exercisable until December 31, 2024 to acquire one additional common share per bonus warrant at an exercise price of $0.20 per share. The bonus warrants are subject to an acceleration clause, whereby if the volume weighted average price of the Company's common shares exceeds $0.40 per common share for a period of 20 days, the Company may accelerate the expiry of the bonus warrants by providing notice to the holders.

In connection with the first tranche of the private placement, the Company paid a finder's fee of $9,000 in cash.

The convertible debenture is a compound financial instrument. Management estimated the fair value of the debt using a discount rate of 20% applicable to the Company's business, with the residual value allocated to the equity components of the convertible debenture.

The residual value was allocated between the warrants and the conversion feature using the relative fair value method. The Black Scholes Pricing Model was used to determine the fair value of the warrants and conversion feature. For the warrant fair value, the inputs for the pricing model were stock prices between $0.115 and $0.13, and exercise price of $0.20, expected life between 2.22 and 2.32, volatility between 106% and 114% and a risk-free rate of 3.57% to 4.13%. For the conversion feature, the inputs for the pricing model were a stock price stock prices between $0.115 and $0.13, and exercise price of $0.15, expected life of 3 years, volatility between 106% and 114% and a risk-free rate of 3.57% to 4.13%.

Convertible debenture issued in 2020

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 per common share, 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.

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 Debentures.

(Expressed in Canadian Dollars)

8. Convertible debentures (Continued)

On March 13, 2022, the Company amended the terms of the following Debentures:

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

On August 18, 2022, the Company amended the terms of an additional 12.4 Debentures issued on August 20, 2020 in the principal amount of $62,000.

The amended terms are as follows:

- Term extension from 24 months to 42 months
- Change in interest payable from a non-pro rata basis for year one and a pro rata basis for year two to a non-pro rata basis for the full term. All interest payable shall be convertible into common shares at a price of $0.20 per common share, with an amount equals to unpaid interest for the period from last payment date to the maturity date, regardless of the date of conversion.

Due to the amendment to the terms of the Debentures, the Company is deemed to have extinguished the existing debentures and reissued new debentures with the new terms. The Company valued the liability and conversion feature of the new debentures at $3,590,918 and $1,782,4287 respectively.

The following table reconciles the recorded value of the liability component:

	2022 Convertible debenture $	2020 convertible debenture $	Total $
Balance, November 30, 2020	-	3,928,218	3,928,218
Conversion	-	(1,052,224)	(1,052,224)
Interest expense	-	472,531	472,531
Accretion expense	-	363,157	363,157
Balance, November 30, 2021	-	3,765,682	3,765,682
Additions	860,987	3,590,918	4,451,905
Repayment	-	(31,000)	(31,000)
Extinguishment	-	(3,942,563)	(3,942,563)
Interest expense	30,859	386,308	417,167
Accretion expense	6,622	265,839	272,461
Balance, November 30, 2022	898,468	4,035,184	4,933,652
Current portion	-	3,726,424	3,726,424
Non-current portion	898,468	308,760	1,207,228

The following table reconciles the recorded value of the equity component:

	2022 equity component $	2020 equity component $	Total $
Balance, November 30, 2020	-	557,111	557,111
Conversion	-	(139,031)	(139,031)
Balance, November 30, 2021	-	418,080	418,080
Additions	90,013	1,782,428	1,872,441
Extinguishment	-	(418,080)	(418,080)
Balance, November 30, 2022	90,013	1,782,428	1,872,441

(Expressed in Canadian Dollars)

9. Loan payable

During the year ended November 30, 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 (Note 12). The loan bears simple interest at 8% per annum and matures August 31, 2024 with security of equipment and land of the Company. Upon issuance of the loan, the Company repaid one of the loan holder $250,000 principal and $48,384 interest for the entire term. Therefore, the additions of the loan is higher than its face value.

	$
Balance, November 30, 2021	-
Additions	2,210,533
Accretion	(78,404)
Repayments	(673,384)
Interest paid in cash	(128,301)
Interest	141,023
Balance, November 30, 2022	1,471,467
Current portion	892,745
Non-current portion	578,722

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	(2,933)
Balance, November 30, 2022	7,494
Current portion	4,887
Non-current portion	2,607

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 years ended November 30, 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	(7,800)
Accretion on lease liability	3,149
Balance, November 30, 2022	-

(Expressed in Canadian Dollars)

11. Related party transactions and balances

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

As at November 30, 2022, there was $348,035 (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.

As at November 30, 2022, the Company has an obligation to issue 500,000 shares (2021 – 250,000 shares) to the former CEO in lieu of cash for consulting fees in the amount of $113,250 (2021 - $113,250) earned in prior years (Note 12).

During the year ending November 30, 2022, directors and officers of the Company subscribed $300,000 convertible debentures in a non-brokered private placement of unsecured convertible debentures (Note 8).

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, 2022 and November 30, 2021:

	November 30, 2022 $	November 30, 2021 $
Consulting fees paid to an officer of the Company	141,508	114,679
Directors' fees	86,960	-
Lease payments to a company controlled by a director	31,200	31,200
Management fees paid to the CFO	51,250	87,524
Management fees and rent paid to former CEO	101,500	144,000
Salaries and bonus paid to key management	409,691	278,750
Share based payments	336,789	402,750
Shares issued in lieu of cash for consulting fees (Note 12)	-	23,750
	1,158,898	1,081,924

12. Share Capital

Authorized share capital

Unlimited number of common shares without par value.

Unlimited number of Class B preferred shares without par value.

Issued share capital

At November 30, 2022, there were 130,872,174 (2021 - 115,891,174) issued and fully paid common shares outstanding.

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

12. Share Capital (Continued)

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

- 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 November 30, 2021 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.

During the year ending November 30, 2022, the Company redeemed 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 (Note 9). The Company also issued 13,000,000 common shares with a fair value of $2,470,000. On the date of settlement, the fair value of the Class B preferred shares at the transaction date was $4,976,949 and the Company recorded a change in preferred share fair value of $118,182. After the issuance of the above noted promissory note and common shares, the Company recorded a gain on settlement in the amount of $296,416.

(Expressed in Canadian Dollars)

12. Share Capital (Continued)

Preferred shares (continued)

The following is a continuity schedule for preferred shares as at November 30, 2022:

	$
Balance, November 30, 2020	**3,620,098**
Change in estimate of preferred shares	1,238,670
Balance, November 30, 2021	**4,858,767**
Change in estimate of preferred shares	118,182
Balance on the date of settlement	**4,976,949**
Secured promissory note issued for redemption	(2,210,533)
Shares issued for preferred share redemption and cancellation	(2,470,000)
Gain on settlement	(296,416)

Share issuances during the year ended November 30, 2022

On October 19, 2022, the Company issued 730,000 common shares pursuant to the various warrant exercises for gross proceeds of $65,700.

During the year ended November 30, 2022, the Company issued 751,000 common shares pursuant to stock option exercise for gross proceeds of $67,588. The Company transferred $150,211 from reserve to share capital.

During the year ended November 30, 2022, the Company issued 500,000 shares pursuant to restricted stock unit exercises. The Company transferred $192,500 from reserve to share capital.

During the year ended November 30, 2022, the Company issued 13,000,000 common shares pursuant to the redemption and cancellation of the Class B Preferred Shares with a fair value of $2,470,000.

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 at $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.

(Expressed in Canadian Dollars)

12. Share Capital (Continued)

Share issuances during the year ended November 30, 2021 (continued)

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.

Escrow Shares

As at November 30, 2022, a total of 8,601,413 (2021 – 16,764,826) securities, including 6,908,284 shares (2021 – 13,378,568), 1,534,129 warrants (2021 – 3,068,258), 159,000 (2021 - 318,000) stock options and nil(2021 – nil) convertible debentures, are held in escrow.

On October 1, 2020, the date on which the Company was listed on Canadian Securities Exchange ("Listing Date"), 2,302,761 common shares were released from escrow. The remaining 20,724,853 common shares would 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, 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
Granted (Note 8)	480,000	0.20
Exercised*	(730,000)	0.09
Expired	(1,175,200)	0.21
Outstanding, November 30, 2022	13,569,477	0.47

*The share price at the time of warrant exercise was $0.115 per share.

As of November 30, 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 #
December 31, 2022**	0.40	6,981,299
December 9, 2022**	0.50	2,770,002
December 8, 2023	0.65	3,338,176
December 31, 2024	0.20	480,000
		13,569,477

**9,751,301 Warrants expired unexercised subsequent to the year ended November 30, 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.

Stock options granted during the year ended November 30, 2022.

On August 10, 2022, the Company granted 150,000 options to an employee, with a total fair value of $15,165, to acquire one additional common share of the Company at a price of $0.15 per share until August 10, 2027. These stock options vest quarterly over a 2-year period from the date of grant. The fair value was determined using the Black Scholes Option Pricing Model with the following assumptions: Expected life – 3.55 years; risk-free rate – 2.91%; volatility: 101%. During the year ended November 30, 2022, the Company recorded share-based compensation of $5,884.

On June 20, 2022, the Company granted 1,000,000 options to an officer, with a total fair value of $79,112, to acquire one additional common share at a price of $0.12 until June 20, 2027. These stock options vest quarterly over a 2-year period from the date of grant. The fair value was determined using the Black Scholes

12. Share Capital (Continued)

Stock Options (continued)

Option Pricing Model with the following assumptions: Expected life –3.55 years; risk-free rate – 3.35%; volatility: 97%. During the year ended November 30, 2022, the Company recorded share-based compensation of $40,214.

On March 15, 2022, the Company granted 375,000 options to employees ("Employee Stock Options") and 300,000 stock options 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 of the options was $69,072 and was determined using the Black Scholes Option Pricing Model with the following assumptions: Expected life – 3.55 years; risk-free rate – 1.94%; volatility: 76%. The Employee Stock Options vested immediately and half of the Director Stock Options vested immediately, with the remaining vesting on March 15, 2023. During the year ended November 30, 2022, the Company recorded share-based compensation of $64,401.

Stock options granted in prior years

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. During the year ended November 30, 2022, the Company recorded share-based compensation reversal of $685 due to option forfeitures.

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 year ended November 30, 2022, the Company recorded share-based compensation reversal of $26,868 due to option forfeitures.

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 year ended November 30, 2022, the Company recorded share-based compensation of $7,067.

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 year ended November 30, 2022, the Company recorded share-based compensation of $31,437.

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, 2022. During the period ended November 30, 2022, the Company recorded share-based compensation of $17,545.

(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, 2022	Year ending November 30, 2021
Exercise price	$0.12 to $0.25	$0.61 to $0.88
Expected life	3.55 years	4.25 to 5 years
Volatility	76% to 101%	110%
Risk-free-rate	1.94% to 3.35%	0.37% - 0.75%

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	1,825,000	0.16
Exercised	(751,000)	0.09
Cancelled/expired/forfeited	(1,265,000)	0.12
Outstanding, November 30, 2022	11,483,400	0.18

The weighted average fair value of options granted during the year ended November 30, 2022 was $0.09 (2021 - $0.60).The weighted average price of shares at the time the options were exercised during the year ended November 30, 2022 was $0.18 (2021 - $0.68).

As of November 30, 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
December 13, 2024	0.09	363,400	363,400
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	100,000
August 20, 2025	0.25	150,000	150,000
August 20, 2025	0.15	1,650,000	1,650,000
August 20, 2025	0.09	100,000	100,000
September 8, 2024	0.25	300,000	300,000
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	175,000
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
June 20, 2027	0.12	1,000,000	125,000
August 10, 2027	0.15	150,000	18,750
		11,483,400	10,302,150

12. Share Capital (Continued)

Restricted share units ("RSUs")

On April 19, 2021, the Board of Directors approved the adoption of a RSUs Plan reserving for issuance, upon the vesting of units granted pursuant to the RSUs 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 RSUs to the President of the Company. 250,000 of the RSUs vested immediately upon issuance, with the balance to vest in three increments of 250,000 over 18 months. The RSUs were priced at $0.385 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, 2022, the Company has recognized $208,304 (2021 - $155,529) in share based compensation.

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 year ended November 30, 2022, the Company recognized share-based compensation of $34,247.

As of November 30, 2022, the Company has 450,000 RSUs outstanding, of which 100,000 remains exercisable.

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 to the former CEO in lieu of cash for consulting fees totalling $113,250 (2021 - $113,250). These 500,000 shares had not been issued as at November 30, 2022 and were included in obligation to issue shares.

13. Financial instruments

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. 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.

13. Financial instruments (Continued)

Cash and investments are measured using level 1 inputs. Biological assets are measured using level 3 inputs.

The Company determined that the carrying values of its short-term financial assets and liabilities approximate the corresponding fair values because of the relatively short periods to maturity of these instruments and the low credit risk.

The carrying value of the Company's convertible debentures approximates fair value as the liability component was discounted using an estimated market rate. The carrying value of long-term debts where interest is charged at a fixed rate is not significantly different than fair value.

14. 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 is moderate. At November 30, 2022, the Company had no material receivable balances past due and the balances were collected subsequent to November 30, 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.

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, 2022, the Company has cash of $1,810,639 (2021 - $1,046,916) to cover short term obligations.

Historically, the Company's source of funding has been through operations, 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 moderate.

(Expressed in Canadian Dollars)

14. Financial risk and capital management (Continued)

The Company has the following contractual obligations as at November 30, 2022, which are expected to be payable in the following respective periods:

		Total		≤ 1 year		Over 1 year – 3 years
Accounts payable	$	1,132,447	$	1,132,447	$	-
GST payable		76,451		76,451		-
Loan payable		1,565,473		893,910		671,563
Government loan		40,000		-		40,000
Convertible debentures		5,951,039		4,197,524		1,753,515
Total	$	8,765,410	$	6,300,332	$	2,465,078

<u>Interest rate risk</u>
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, 2022, the Company has government loan of $34,947 (2021 - $30,568) and an equipment purchase loan of $7,494 (2021-$10,427) , which bear nil interest rates, convertible debentures of $4,933,652 (2021 - $3,765,682) and a secured loan of $1,471,467 (2021 – Nil), which bear fixed interest rates respectively. As such, the Company's interest rate risk is low.

<u>Price risk</u>
Price risk is the risk that the future cash flows of cannabis related derivatives will fluctuate because of changes in market prices. Fluctuation in price will significantly impact the demand for the Company's products and the Company's ability to generate cash inflow for its sustainable operation. Sensitivity analysis in Note 4 illustrates the impact of price changes in the fair value of biological assets, which in the end effects the value of the Company's cannabis related derivatives.

<u>Capital Management</u>
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. Segment information

<u>Operating segment</u>
The Company operates in a single reportable operating segment –cultivation and production of cannabis related derivatives.

<u>Geographic segment</u>
The Company's operation is based solely in Canada.

(Expressed in Canadian Dollars)

16. Income Taxes

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

		November 30, 2022		November 30, 2021
Net loss before income taxes	$	(2,027,721)	$	(7,142,945)
Statutory tax rate		27%		27%
Expected income tax recovery at the statutory tax rate		(547,485)		(1,928,595)
Permanent differences		199,822		759,207
Temporary differences		(43,430)		(1,594,936)
Changes in valuation allowance		391,093		2,764,324
Income tax recovery	$	-	$	-

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

		November 30, 2022		November 30, 2021
Non-capital loss	$	2,399,735	$	2,344,767
Property, plant and equipment		726,573		369,368
Share issuance cost		29,109		50,189
Valuation allowance		(3,155,417)		(2,764,324)
	$	-	$	-

At November 30, 2022, the Company has non-capital losses of $8,888,000 (November 30, 2021: $6,540,000) which expire as follows: $229,000 in 2038, $1,020,000 in 2039, $2,958,000 in 2040, $3,615,000 in 2041, and $1,066,000 in 2042.

17. Revenue

For the year ended November 30, 2022 and 2021, the following revenue was recorded from wholesale customers that comprise 10% or more of revenue:

	November 30, 2022	November 30, 2021
Customer A	66%	60%
Customer B	-	11%
	66%	71%

18. Subsequent event

On January 23, 2023, the Company accelerated the vesting scheduled attached to the RSUs issued to an officer of the Company pursuant to his retirement and converted 250,000 RSUs into common shares.