Christina Lake Cannabis Corp.

Condensed Interim Financial Statements

For the three months ended February 28, 2023 and 2022

(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 three months ended February 28, 2023 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 - Unaudited)

As at,	**Notes**	**February 28, 2023 $**	**November 30, 2022 $**
ASSETS			
Current assets			
Cash		1,500,047	1,810,639
Investments		28,750	28,750
Receivables		1,146,313	1,906,820
Prepaid expenses		45,570	3,885
Inventory	5	5,064,765	5,766,418
		7,785,446	9,516,512
Non-current assets			
Property, plant and equipment	3	9,423,722	9,277,906
TOTAL ASSETS		**17,209,168**	**18,794,418**
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities	6,11	753,843	1,132,447
GST payable		32,552	76,451
Current portion of loans	9	893,617	897,632
Current portion of convertible debentures	8	3,929,825	3,726,424
		5,609,837	5,832,954
Non-current liabilities			
Government loan	7	36,120	34,947
Non-current portion of loans	9	383,054	581,329
Convertible debentures	8	1,207,228	1,207,228
TOTAL LIABILITIES		7,236,239	7,656,458
SHAREHOLDERS' EQUITY			
Share capital	12	22,499,898	22,403,648
Equity component of convertible debenture	8	1,872,441	1,872,441
Obligation to issue shares	12	113,250	113,250
Reserves		2,667,761	2,742,105
Deficit		(17,180,421)	(15,993,484)
TOTAL SHAREHOLDERS' EQUITY		**9,972,929**	**11,137,960**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**17,209,168**	**18,794,418**

Nature and continuance of operations (Note 1)

Approved on behalf of the Board:

"James McMillan" — James McMillan, Director

"Gil Playford" — Gil Playford, Director

Christina Lake Cannabis Corp.
Condensed Interim Statements of Loss and Comprehensive Loss
(Expressed in Canadian Dollars - Unaudited)

	Notes	Three-month period ended, February 28, 2023 $	Three-month period ended, February 28, 2022 $
Revenue from sale of goods		1,917,165	1,652,801
Cost of sales	5	(1,300,701)	(744,931)
Gross profit before fair value adjustments		**616,464**	**907,870**
Changes in fair value of inventory sold	5	(489,263)	(227,341)
Gross profit from sale of goods/change on growth of biological asset		**127,201**	**680,529**
General and administrative expenses			
Consulting fees	11	45,002	94,329
Communication expense		22,284	18,103
Corporate development		-	8,864
Depreciation	3	145,807	166,938
Insurance		20,143	43,744
Management fees	11	44,888	61,629
Marketing		2,385	43,363
Nursery expense		879	-
Office and miscellaneous		104,401	110,160
Professional fees	11	68,329	88,925
Research and development		5,514	-
Salaries	11	517,830	450,981
Share based compensation	12	21,906	95,501
Repairs and maintenance		30,794	59,733
Regulatory fees		67,244	28,417
Total general and administrative expenses		(1,097,406)	(1,270,687)
Other items			
Accretion	7,8, 10	(74,101)	(83,702)
Interest expense	8, 9	(165,073)	(95,705)
Total other items		(239,174)	(179,407)
Loss and comprehensive loss for the period		(1,209,379)	(769,565)
Loss per share – basic and diluted		(0.01)	(0.00)
Weighted average number of common shares outstanding		130,896,832	116,367,840

The accompanying notes are an integral part of these financial statements

Christina Lake Cannabis Corp.
Condensed Interim Statement of Changes in Shareholders' Equity
For the three months ended February 28, 2023 and 2022
(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, 2021		**115,891,174**	**19,457,649**	**113,250**	**418,080**	**2,703,270**	**(12,953,060)**	**9,739,189**
Loss for the period		-	-	-	-	-	(769,565)	(769,565)
Shares issued upon exercise of options	12	700,000	204,669	-	-	(141,669)	-	63,000
Share based compensation	12	-	-	-	-	95,501	-	95,501
Balance at February 28, 2022		**116,591,174**	**19,662,318**	**113,250**	**418,080**	**2,657,102**	**(13,722,625)**	**9,128,125**
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**
Loss for the period		-	-	-	-	-	(1,209,379)	(1,209,379)
Shares issued upon vesting of restricted shares	12	250,000	96,250	-	-	(96,250)	-	-
Share based compensation	12	-	-	-	-	21,905	-	21,905
Balance a February 28, 2023		**131,122,174**	**22,499,898**	**113,250**	**1,872,441**	**2,667,760**	**(17,202,863)**	**9,950,486**

(Expressed in Canadian Dollars - Unaudited)

Three-month period ended,	February 28, 2023 $	February 28, 2022 $
Operating activities		
Loss for the period	(1,209,379)	(769,565)
Non-cash items:		
Accretion	74,101	83,702
Depreciation	145,807	166,938
Fair value transfer of inventory sold	489,263	227,341
Interest expense	164,994	95,705
Share-based compensation	21,906	95,501
Changes in non-cash working capital items:		
Increase in receivables	684,056	523,282
Decrease in prepaid expenses	(41,685)	57,942
Decrease(increase) in inventory	212,390	248,420
Increase in accounts payable and accrued liabilities	(397,617)	(109,591)
Net cash flows provided by operating activities	143,836	619,675
Investing activities		
Acquisition of equipment	(221,919)	(64,559)
Building improvements incurred	(7,789)	(11,842)
Proceeds from sale of equipment	-	-
Net cash flows used in investing activities	(229,708)	(76,401)
Financing activities		
Loan payments	(224,718)	(978)
Lease payments	-	(4,651)
Proceeds from options exercised	-	63,000
Net cash flows from financing activities	(224,718)	57,371
Increase (decrease) in cash	(310,590)	600,645
Cash, beginning of year	1,810,639	1,075,666
Cash, end of period	**1,500,049**	**1,676,311**

Supplemental non-cash flow information:

Three-month period ended,	February 28, 2023 $	February 28, 2022 $
Interest paid	34,521	-
Taxes paid	-	-

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 February 28, 2023, the Company had accumulated losses of $17,180,421 (2022 - $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 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 April 28, 2023 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.

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, 2022.

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.

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 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 - Unaudited)

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, 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
Additions	-	479,062	-	-	7,789	486,851
Balance, February 28, 2023	59,924	5,353,115	1,088,397	394,875	5,592,975	12,489,286
Accumulated amortization						
Balance at 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
Change	-	266,371	-	-	74,664	341,035
Balance, February 28, 2023	59,924	2,273,300	-	-	732,340	3,065,564
Net book value						
November 30, 2022	-	2,867,124	1,088,397	394,875	4,927,510	9,277,906
February 28, 2023	-	3,079,815	1,088,397	394,875	4,860,635	9,423,722

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 February 28, 2023, the Company capitalized depreciation of $234,064 (2022 - $99,874) as inventory processing cost and $Nil (2022 - $Nil) 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 and February 28, 2023	-

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.

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.

(Expressed in Canadian Dollars - Unaudited)

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.

5. Inventory

Inventory is comprised of cannabis biomass and derivatives:

	Amount $
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
Capitalized cost	1,088,311
Cost of sales	(1,300,701)
Changes in fair value of inventory sold	(489,263)
Balance at February 28, 2023	5,064,765

During the period ended February 28, 2023, the Company recorded $854,247 (2022 - $496,512) of production costs and depreciation of $234,064 (2022 - $99,874).

(Expressed in Canadian Dollars - Unaudited)

As at February 28, 2023, the Company held the following inventory:

	February 28, 2023 **$**	**November 30, 2022** **$**
Work-in-process	3,298,985	4,910,459
Finished goods	1,765,780	855,959
	5,064,765	5,766,418

6. Accounts payable and accrued liabilities

	February 28, 2023 **$**	**November 30, 2022** **$**
Accounts payable	439,782	487,175
Accrued liabilities	314,061	645,272
	753,843	**1,132,447**

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 period ended February 28, 2023, the Company recorded accretion expense of $1,173 (2022 - $1,026).

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.

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. 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.

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.

(Expressed in Canadian Dollars - Unaudited)

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

	2022 Convertible debenture $	2020 convertible debenture $	Total $
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
Interest expense	35,507	94,966	130,473
Accretion expense	7,906	65,022	72,928
Balance, February 28, 2023	941,881	4,195,173	5,137,054
Current portion	-	3,726,424	3,929,825
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, 2021	-	418,080	418,080
Additions	90,013	1,782,428	1,872,441
Extinguishment	-	(418,080)	(418,080)
Balance, November 30, 2022 and February 28, 2023	90,013	1,782,428	1,872,441

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
Repayments	(222,998)
Interest	28,292
Balance, February 28, 2023	1,276,761
Current portion	893,617
Non-current portion	383,054

(Expressed in Canadian Dollars - Unaudited)

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 and February 28, 2023	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 period ended February 28, 2023 and for the year ended November 30, 2022:

	$
Balance, November 30, 2021	4,651
Lease payments	(7,800)
Accretion on lease liability	3,149
Balance, November 30, 2022 and February 28, 2023	-
	-

11. Related party transactions and balances

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

As at February 28, 2023, there was $103,809 (2022 - $348,035) 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 February 28, 2023, the Company has an obligation to issue 500,000 shares (2022 – 500,000 shares) to the former CEO in lieu of cash for consulting fees in the amount of $113,250 (2022 - $113,250) earned in prior years (Note 12).

(Expressed in Canadian Dollars - Unaudited)

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 period ended February 28, 2023 and February 28, 2022:

	February 28, 2023 $	February 28, 2022 $
Consulting fees paid to an officer of the Company	45,714	38,572
Equipment purchase/lease to a company controlled by a director	55,650	5,200
Management fees paid to the CFO	-	25,625
Management fees and rent paid to former CEO	-	36,000
Salaries and bonus paid to key management	90,000	27,394
Share based payments	18,510	34,317
	209,875	167,108

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 February 28, 2023, there were 131,122,173 (2022 – 116,591,174) issued and fully paid common shares outstanding.

At February 28, 2023, there were Nil (2022 - 2,000,000) issued and fully paid Class B preferred shares outstanding.

Preferred shares

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

The following terms apply to the Preferred Shares:

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

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

- 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.

(Expressed in Canadian Dollars - Unaudited)

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.

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 period ended February 28, 2023

During the period ended February 28, 2023, the Company issued 250,000 shares pursuant to restricted stock unit exercises. The Company transferred $96,250 from reserve to share capital.

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.

(Expressed in Canadian Dollars - Unaudited)

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.

Escrow Shares

As at February 28, 2023, a total of 8,601,413 (2022 – 16,764,826) securities, including 6,908,284 shares (2022 – 13,378,568), 1,534,129 warrants (2022 – 3,068,258), 159,000 (2022 - 318,000) stock options and nil(2022 – 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

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, 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
Expired	(9,751,301)	0.43
Outstanding, February 28, 2023	3,818,176	0.59

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

As of February 28, 2023, 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 8, 2023	0.65	3,338,176
December 31, 2024	0.20	480,000
		3,818,176

**9,751,301 Warrants expired unexercised during the period ended February 28, 2023.

(Expressed in Canadian Dollars - Unaudited)

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. During the period ended February 28, 2023, the Company recorded share-based compensation of $3,395.

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 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. During the period ended February 28, 2023, the Company recorded share-based compensation of $14,235.

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. During the period ended February 28, 2023, the Company recorded share-based compensation of $4,276.

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

	Three months ending February 28, 2023	Year ending November 30, 2022
Exercise price	$0.12 to $0.25	$0.12 to $0.25
Expected life	3.55 years	3.55 years
Volatility	76% to 101%	76% to 101%
Risk-free-rate	1.94% to 3.35%	1.94% to 3.35%

(Expressed in Canadian Dollars - Unaudited)

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

	Number of share purchase options #	Weighted average exercise price $
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
Outstanding, February 28, 2023	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 February 28, 2023 was $0.18 (2022 - $0.18).

As of February 28, 2023, 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

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 February 28, 2023, the Company has recognized $Nil (2022 - $28,181) 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 February 28, 2023, the Company has 200,000 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 February 28, 2023 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.

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.

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 is moderate. At February 28, 2023, the Company had no material receivable balances past due and the balances were collected subsequent to February 28, 2023. 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 February 28, 2023, the Company has cash of $1,500,047 (2022 - $1,810,639) 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 - Unaudited)

The Company has the following contractual obligations as at February 28, 2023, which are expected to be payable in the following respective periods:

		Total		≤ 1 year		Over 1 year – 3 years
Accounts payable	$	753,843	$	753,843	$	-
GST payable		32,552		32,552		-
Loan payable		1,276,671		893,617		383,054
Government loan		36,120		-		36,120
Convertible debentures		5,137,053		3,929,825		1,207,228
Total	$	7,236,239	$	5,609,837	$	1,626,402

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 February 28, 2023, the Company has government loan of $36,120 (2022 - $34,947) and an equipment purchase loan of $7,494 (2022-$7,494), which bear nil interest rates, convertible debentures of $5,137,053 (2022 - $4,933,652) and a secured loan of $1,276,671 (2022 – $1,471,467), which bear fixed interest rates respectively. As such, the Company's interest rate risk is low.

Price risk

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.

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. Segment information

Operating segment

The Company operates in a single reportable operating segment –cultivation and production of cannabis related derivatives.

Geographic segment

The Company's operation is based solely in Canada.

16. Revenue

For the three months ended February 28, 2023 and 2022, the following revenue was recorded from wholesale customers that comprise 10% or more of revenue:

	February 28, 2023	**February 28, 2022**
Customer A	67%	52%
Customer B	12%	24%
Customer C	-	10%
	79%	86%