

Christina Lake Cannabis Corp.
Financial Statements
For the three and six months ended May 31, 2024 and 2023
(Unaudited - Expressed in Canadian Dollars)

NOTICE OF NO AUDITOR REVIEW

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

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

These unaudited condensed interim financial statements for the six months ended May 31, 2024 have not been reviewed or audited by the Company's independent auditors in accordance with standards established by the Chartered Professional Accountants of Canada.

Christina Lake Cannabis Corp.
Statements of Financial Position
(Expressed in Canadian Dollars - Unaudited)

As at	Notes	May 31, 2024 \$	November 30, 2023 \$
ASSETS			
Current assets			
Cash		1,427,361	1,468,028
Receivables		1,746,747	1,846,669
Prepaid expenses and deposits		54,221	462,322
Assets held for sale	3	581,767	581,767
Inventory	6	3,928,919	5,654,514
		<u>7,739,015</u>	<u>10,013,300</u>
Non-current assets			
Property, plant and equipment	4	9,163,398	5,949,217
TOTAL ASSETS		16,902,413	15,962,517
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities	7,12	842,208	2,276,371
GST payable		3,251	72,547
Current portion of loans	10	445,227	598,376
Current portion of lease liability	11	122,915	
Current portion of government loan	8	-	37,331
Current portion of convertible debentures	9	1,368,292	1,019,546
		<u>2,781,893</u>	<u>4,004,171</u>
Non-current liabilities			
Non-current portion of government loan	8	-	-
Non-current portion of loans	10	318,209	342,986
Non-current portion of lease liability	11	326,529	
Convertible debentures	9	8,190,819	4,153,852
TOTAL LIABILITIES		11,617,450	8,501,009
SHAREHOLDERS' EQUITY			
Share capital	13	22,499,898	22,499,898
Equity component of convertible debenture	9	1,031,267	606,127
Obligation to issue shares	13	113,250	113,250
Reserves		2,728,373	2,724,226
Deficit		(21,087,826)	(18,481,993)
TOTAL SHAREHOLDERS' EQUITY		5,284,963	7,461,508
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		16,902,413	15,962,517

Nature and continuance of operations (Note 1)
Subsequent events (Note 19)

Approved on behalf of the Board:

"James McMillan"

James McMillan, Director

"Gil Playford"

Gil Playford, Director

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

	Notes	Three-month period ended,		Six-month period ended,	
		May 31, 2024	May 31, 2023	May 31, 2024	May 31, 2023
		\$	\$	\$	\$
Revenue from sale of goods	17	3,334,404	3,476,740	6,322,477	5,393,905
Cost of sales	6	(1,892,544)	(1,784,554)	(3,773,072)	(3,085,255)
Gross profit before fair value adjustments		1,441,860	1,692,186	2,549,405	2,308,650
Changes in fair value of inventory sold	6	(1,006,329)	(1,192,006)	(1,561,231)	(1,681,269)
Gross profit from sale of goods/change on growth of biological assets		435,531	500,180	988,174	627,381
General and administrative expenses					
Consulting fees	12	215,215	43,054	299,498	88,056
Communication expense		50,233	38,408	60,747	60,692
Corporate development		-	-	2,000	-
Depreciation	3	146,989	66,038	234,419	211,845
Foreign exchange		7,992	-	34,708	-
Insurance		48,190	20,037	71,447	40,180
Management fees	12	14,286	16,064	28,400	60,952
Marketing		-	-	241	2,385
Office and miscellaneous		160,267	130,129	300,488	235,413
Professional fees		109,154	137,987	194,194	206,316
Property Taxes		(18,824)	5,919	26,376	5,919
Salaries	12	536,010	397,808	1,036,319	915,638
Share based compensation	12,13	-	27,948	4,145	49,850
Research & Development		790	14,798	1,211	20,312
Repairs and maintenance		63,216	23,719	99,838	54,513
Bad debt expense	15	-	-	324,074	-
Regulatory fees		101,411	78,136	196,271	145,380
Total general and administrative expenses		(1,434,929)	(1,000,045)	(2,914,789)	(2,097,451)
Other items					
Accretion	8,9,11	(141,129)	(70,404)	(213,318)	(144,505)
Interest expense	9	(430,125)	(204,482)	(719,381)	(369,555)
Interest Income		18,353	-	31,385	-
Gain on settlement	13	(17,870)	-	53,527	-
Total other items		(570,771)	(274,886)	(847,787)	(514,060)
Loss and comprehensive loss for the period		(1,570,169)	(774,751)	(2,774,402)	(1,984,130)
Loss per share – basic and diluted		(0.01)	(0.01)	(0.02)	(0.02)
Weighted average number of common shares outstanding		130,959,845	130,959,845	131,122,173	130,959,845

The accompanying notes are an integral part of these financial statements

Christina Lake Cannabis Corp.
Statement of Changes in Shareholders' Equity
For the six months ended May 31, 2024 and 2023
(Expressed in Canadian Dollars - Unaudited)

	Share capital		Obligation to issue shares \$	Equity component of convertible liability \$	Reserves \$	Deficit \$	Total \$	
	Common shares							
	Note	Number of shares #						Amount \$
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 year		-	-	-	-	-	(4,131,827)	(4,131,827)
Shares issued upon vesting of restricted shares	13	250,000	96,250	-	-	(96,250)	-	-
Convertible debenture	9,13	-	-	-	377,004	-	-	377,004
Repayment of convertible debentures	9	-	-	-	(1,643,318)	-	1,643,318	-
Share based compensation	13	-	-	-	-	78,371	-	78,371
Balance at November 30, 2023		131,122,174	22,499,898	113,250	606,127	2,742,226	(18,481,993)	7,461,508
Loss for the year		-	-	-	-	-	(2,774,402)	(2,774,402)
Convertible debenture	9,13	-	-	-	564,250	-	-	564,250
Repayment of convertible debentures	9	-	-	-	(139,110)	-	139,110	-
Share based compensation	13	-	-	-	-	4,145	-	4,145
Balance at May 31, 2024		131,122,174	22,499,898	113,250	1,031,267	2,728,371	(21,087,826)	5,284,963

The accompanying notes are an integral part of these financial statements

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

Six-month period ended,	May 31, 2024	May 31, 2023
	\$	\$
Operating activities		
Loss for the year	(2,774,402)	(1,984,130)
Non-cash items:		
Accretion	213,317	144,505
Depreciation	234,419	211,845
Fair value transfer of inventory sold	1,561,231	1,681,269
Interest expense	719,381	369,555
Share-based compensation	4,147	49,850
Changes in non-cash working capital items:		
Change in receivables	99,922	(353,215)
Change in prepaid expenses and deposits	408,101	(15,547)
Change in inventory	653,958	155,009
Change in accounts payable and accrued liabilities	(1,503,459)	148,918
Net cash flows provided by operating activities	(383,385)	407,861
Investing activities		
Acquisition of property, plant and equipment	(3,938,193)	(237,000)
Net cash flows used in investing activities	(3,938,193)	(237,000)
Financing activities		
Repayment of convertible debenture	(747,099)	-
Loan proceeds	809,645	-
Loan payments	(706,635)	(450,122)
Proceeds from convertible debentures, net of issuance cost	4,925,000	-
Net cash flows (used in) from financing activities	4,280,911	(450,122)
Increase (decrease) in cash	(40,667)	(279,261)
Cash, beginning of year	1,468,028	1,810,639
Cash, end of year	1,427,361	1,531,378
Supplemental non-cash flow information:		
	May 31, 2024	May 31, 2023
Years ended,	\$	\$
Equity portion on issuance of convertible debentures	517,494	-

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 1890 – 1075 West Georgia Street, Vancouver, BC, V6E 3C9.

These financial statements have been prepared on the assumption that the Company will continue as a going concern, meaning it will continue in operation for the foreseeable future and will be able to realize assets and discharge liabilities in the ordinary course of operations. As at May 31, 2024, the Company had accumulated losses of \$21,087,826 and incurred a loss of \$2,774,402 for then ended. 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 as a going concern. 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.

These financial statements were approved and authorized for issue on July 30, 2024 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, expected credit losses on receivables, 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 applied in the Company's financial statements include: the classification of expenditures as building improvements to be capitalized or as operating costs which are expensed; 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 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 property, plant and equipment 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

Assets held for sale

Property and equipment is classified as held for sale if it is highly probable that its carrying amount will be recovered primarily through sale rather than through continuing use. Such assets are measured at the lower of their carrying amount and fair value less costs to sell. Impairment losses on initial classification as held for sale and subsequent gains and losses on remeasurement are recognized in the statement of loss and comprehensive loss. Once classified as held for sale, property and equipment is no longer depreciated.

2. Significant accounting policies (Continued)

Impairment of assets

The Company performs impairment tests on its property and equipment when new events or circumstances occur or when new information becomes available relating to their recoverability. When the recoverable amount of each separately identifiable asset or cash generating unit (“CGU”) is less than its carrying value, the asset or CGU’s assets are written down to their recoverable amount with the impairment loss charged against profit or loss. A reversal of the impairment loss in a subsequent period will be charged against profit or loss if there is a significant reversal of the circumstances that caused the original impairment. The impairment will be reversed up to the amount of the 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 or other valuation techniques. Management calculates the discounted cash flows based upon its best estimate of a number of economic, operating, engineering, environmental, political and social assumptions. Any changes in the assumptions due to changing circumstances may affect the calculation of the recoverable amount.

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
Biological assets	FVTPL
Receivables	Amortized Cost
Accounts payable	Amortized Cost
GST payable	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 loss and 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 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 at 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. At the time of repayment, the equity component is transferred to retained earnings.

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.

2. Significant accounting policies (Continued)

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 with a corresponding lease 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 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 warrant reserve is transferred to share capital.

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.

2. Significant accounting policies (Continued)

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.

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 are sold and the realized fair value amounts included in inventory sold are recorded as a separate line on the statements of loss and comprehensive loss.

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.

2. Significant accounting policies (Continued)

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, 2023. 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.

3. Assets held for sale

Assets held for sale is comprised of land located at 46 Ponderosa Drive, that was not being utilized in the operations of the Company and was listed for sale in September 2023. The land is expected to be sold over the next year. And impairment loss of \$38,000 was recognized on the reclassification of land to assets held for sale.

4. Property, plant and equipment

	Right-of- use assets \$	Equipment \$	Land \$	Building & Building improvements \$	Total \$
Cost					
Balance at November 30, 2022	59,924	4,874,053	1,088,397	5,980,061	12,002,435
Additions	-	946,976	-	47,014	993,990
Transfer to asset held for sale	-	-	(619,767)	-	(619,767)
Balance, November 30, 2023	59,924	5,821,029	468,630	6,027,075	12,376,658
Additions	449,444	1,247,381	2,240,000	1,368	3,938,193
Balance, May 31, 2024	509,368	7,068,410	2,708,630	6,028,443	16,314,851
Accumulated depreciation					
Balance, November 30, 2022	59,924	2,006,929	-	657,676	2,724,529
Depreciation	-	1,264,874	-	300,038	1,564,912
Impairment of PP&E	-	944,000	38,000	1,194,000	2,176,000
Transfer to asset held for sale	-	-	(38,000)	-	(38,000)
Balance, November 30, 2023	59,924	4,215,803	-	2,151,714	6,427,441
Depreciation	-	585,603	-	138,409	724,012
Balance, May 31, 2024	59,924	4,801,406	-	2,290,123	7,151,453
Net book value					
November 30, 2023	-	1,605,226	468,630	3,875,361	5,949,217
May 31, 2024	449,444	2,267,004	2,708,630	3,738,320	9,163,398

4. Property, plant and equipment (Continued)

During the period ended May 31, 2024, the Company capitalized depreciation of \$489,594, (2023 - \$234,064) as inventory processing cost and \$Nil (2022 - \$Nil) as biological asset cost.

During the year ended November 30, 2023, the Company determined there were indicators of potential impairment related to the carrying value of property plant & equipment. The Company recorded an impairment totaling \$2,176,000 against property, plant, and equipment, as the Company’s recoverable amount which was calculated by the fair value less cost of disposal approach, was less than the carrying value as of November 30, 2023. The fair value less cost of disposal was based on the market value by comparison approach, being a level 2 measurement in the fair value hierarchy. Key inputs are the acquisition metrics of recent transactions completed on similar assets to those of the Company.

During the year ended November 30, 2023, the Company listed the property located at 46 Ponderosa Drive for sale and therefore it was transferred to assets held for sale.

5. Biological assets

Biological assets are comprised of:

	Amount \$
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	-
Changes in fair value less cost to sell due to biological transformation	2,066,819
Production cost capitalized	2,391,429
Transferred to inventory upon harvest	(4,458,248)
Balance at November 30, 2023 and May 31, 2024	-

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 \$1.53 per gram of distillate. The average harvested yield of biomass is 1,306 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 plants 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.

5. Biological assets (Continued)

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

Significant inputs & assumptions	Range of inputs		Sensitivity	Impact on fair value	
	November 30, 2023	November 30, 2022		November 30, 2023	November 30, 2022
Average selling price per gram	\$1.90	\$3.00	Increase or decrease of \$0.25 per gram	\$575,500	\$836,250
Average yield per plant (grams)	1,306	1,774	Increase or decrease of 5% in yield per plant	\$151,451	\$324,825
Average yield to distillate from biomass (dependent on strain)	6%-9%	6%-9%	Increase or decrease of distillate yield by 5%	\$218,690	\$501,750

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.

6. Inventory

Inventory is comprised of cannabis biomass and derivatives:

	Amount \$
Balance at November 30, 2022	5,766,418
Capitalized cost	5,669,402
Harvested cannabis biomass (note 4)	4,458,248
Inventory write-down	(443,047)
Cost of sales	(7,260,463)
Changes in fair value of inventory sold	(2,536,044)
Balance at November 30, 2023	5,654,514
Capitalized cost	3,608,708
Cost of sales	(3,773,072)
Changes in fair value of inventory sold	(1,561,231)
Balance at May 31, 2024	3,928,919

During the period ended May 31, 2024, The Company recorded \$852,768 (2023 - \$854,247) of production costs and depreciation of \$457,793 (2023 - \$234,064).

6. Inventory

As at May 31, 2024, the Company held the following inventory:

	May 31, 2024	May 31, 2023
	\$	\$
Work-in-process	2,668,506	3,062,274
Finished goods	1,260,413	1,082,528
	3,928,919	4,144,802

7. Accounts payable and accrued liabilities

	May 31, 2024	November 30, 2023
	\$	\$
Accounts payable	483,342	559,730
Accrued liabilities	358,866	1,716,641
	842,208	2,276,371

8. 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 January 18, 2024, 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 bearing interest 5% per annum. Upon initial recognition, the Company recorded a gain on government loan of \$15,309. During the period ended February 29, 2024, the Company recorded accretion expense of \$Nil (2023 - \$1,173). The CEBA loan was fully repaid on January 15, 2024.

9. Convertible debentures

Convertible debenture issued in 2024

On February 9, 2024 the Company closed a property acquisition in Midway, BC and issued a secured convertible debenture in the principal amount of \$3,000,000 respectively. The debenture is secured by land and buildings. The debenture matures in 60 months from the date of issuance and bear interest at the rate of 10% per annum in the first 12 months, 15% per annum in the second 12 months, and 20% per annum for the remaining 36 months with such interest to be accrued on a monthly basis and paid on an annual basis in the first 24 months. From month 25 to maturity the annual payments convert into quarterly interest payments with annual principal payments on the anniversary date in months 36, 48, and 60. Pursuant to the terms of the debenture, the subscribers may at any time prior to the maturity date convert the principal amounts of the debenture and any accrued but unpaid interest into common shares of the Company, at a price of \$0.05 per common share. The Company may prepay the debenture at any time prior to maturity with an early termination penalty equal to the remaining interest payable under the Note.

The above convertible debenture is a compound financial instrument. The Company allocated \$2,655,919, net of issuance costs, of the debt to the liability component and \$344,081 to the equity component. 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 component.

9. Convertible debentures (Continued)

Convertible debenture issued in 2024

On February 29, 2024 the Company closed a non-brokered private placement of secured convertible debentures in the principal amount of \$1,925,000 respectively. The debentures are secured by land and buildings. The debentures mature in 60 months from the date of issuance and bear interest at the rate of 10% per annum in the first 12 months, 15% per annum in the second 12 months, and 20% per annum for the remaining 36 months with such interest to be accrued on a monthly basis and paid on an annual basis in the first 24 months. From month 25 to maturity the annual payments convert into quarterly interest payments with annual principal payments on the anniversary date in months 36, 48, and 60. 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 \$0.05 per common share. The Company may prepay the debentures at any time prior to maturity with an early termination penalty equal to the remaining interest payable under the Note. \$1,355,000 of the secured convertible debentures were subscribed to by directors and officers of the Company (Note 12).

The above convertible debenture is a compound financial instrument. The Company allocated \$1,704,831, net of issuance costs, of the debt to the liability component and \$220,169 to the equity component. 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 component.

Convertible debenture issued in 2023

On September 12, 2023, September 25, 2023, and November 3, 2023 the Company closed a non-brokered private placement of secured convertible debentures in the principal amount of \$3,190,000, \$750,000, and \$294,000 respectively. The debentures are secured by land and buildings. 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 monthly basis. From month 16 to maturity the monthly payments convert into blended principal & interest payments. 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 \$0.06 per common share. The Company may prepay the debentures at any time prior to maturity. \$2,498,000 of the secured convertible debentures were subscribed to by directors and officers of the Company (Note 12).

The above convertible debenture is a compound financial instrument. The Company allocated \$3,830,036, net of issuance costs, of the debt to the liability component and \$377,004 to the equity component. 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 component.

9. Convertible debentures (Continued)

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 12).

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 13). 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 Option 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 years and 2.32 years, volatility between 106% and 114% and a risk-free interest 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 interest 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 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.

9. 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.

During the year ended November 30, 2023, the Company repaid \$4,174,250 of the liability component of the 2020 convertible debenture. On repayment, the equity component was transferred to retained earnings. A gain on repayment of \$214,946 was recognized in the statement of loss and comprehensive loss.

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

	2024 Convertible debenture \$	2023 Convertible debenture \$	2022 Convertible debenture \$	2020 convertible debenture \$	Total \$
Balance, November 30, 2022	-	-	898,468	4,035,184	4,933,652
Additions	-	3,830,036	-	-	3,830,036
Repayment	-	(95,850)	(144,000)	(4,174,250)	(4,414,100)
Interest expense	-	125,648	144,000	296,683	566,331
Accretion expense	-	31,402	32,072	194,005	257,479
Balance, November 30, 2023	-	3,891,236	930,540	351,622	5,173,398
Additions	4,360,750	-	-	-	4,360,750
Repayment	-	(316,680)	(114,975)	(394,596)	(826,251)
Interest expense	134,116	316,680	174,737	30,540	656,073
Accretion expense	98,381	85,982	28,954	12,434	225,751
Balance, May 31, 2024	4,593,242	3,977,218	1,019,256	-	9,589,716
Current portion	499,413	1,334,254	33,851	-	835,167
Non-current portion	4,093,829	2,642,964	985,405	-	8,754,549

Christina Lake Cannabis Corp.
Notes to the financial statements
For the Six-month period ended May 31, 2024 and 2023
(Expressed in Canadian Dollars – Unaudited)

9. Convertible debentures (Continued)

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

	2024 equity component \$	2023 equity component \$	2022 equity component \$	2020 equity component \$	Total \$
Balance, November 30, 2022	-	-	90,013	1,782,428	1,872,441
Additions	-	377,004	-	-	377,004
Repayment	-	-	-	(1,643,318)	(1,643,318)
Balance, November 30, 2023	-	377,004	90,013	139,110	606,127
Additions	564,250	-	-	-	564,250
Repayment	-	-	-	(139,110)	(139,110)
Balance, May 31, 2024	564,250	377,004	90,013	-	1,031,267

10. 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 13). The loan bears simple interest at 8% per annum and matures August 31, 2024 collateralised of equipment and land of the Company. Upon issuance of the loan, the Company repaid one 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, 2022	-
Additions (note 13)	1,471,467
Accretion	(68,738)
Repayments	(812,500)
Interest paid in cash	(151,507)
Interest	140,000
Balance, November 30, 2023	578,722
Repayments	(375,000)
Interest paid in cash	(70,192)
Interest	70,192
Balance, May 31, 2024	203,722
Current portion	203,722
Non-current portion	-

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, 2022	7,494
Repayments	(3,910)
Balance, November 30, 2023	3,584
Repayments	(1,955)
Balance, May 31, 2024	1,629
Current portion	1,629
Non-current portion	-

Christina Lake Cannabis Corp.
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(Expressed in Canadian Dollars – Unaudited)

10. Loan payable (Continued)

During the year ended November 30, 2023, the Company entered into a loan agreement to purchase equipment for \$291,559. The loan bears interest at 15% per annum and matures on September 15, 2026. The first 15 months of the loan is interest only payments.

	\$
Balance, November 30, 2022	-
Additions	291,559
Interest paid in cash	(7,289)
Interest	7,289
Balance, November 30, 2023	291,559
Interest paid cash	(21,867)
Interest	21,867
Balance, May 31, 2024	291,559
Current portion	69,419
Non-current portion	222,140

During the year ended November 30, 2023, the Company entered into a loan agreement to purchase equipment for \$61,915. The loan bears interest at 1.49% per annum and matures on December 15, 2028.

	\$
Balance, November 30, 2022	-
Additions	61,915
Repayments	(9,459)
Interest paid in cash	(435)
Interest	435
Balance, November 30, 2023	52,456
Interest paid in cash	(383)
Interest	(5,397)
Balance, May 31, 2024	46,676
Current portion	6,616
Non-current portion	40,060

During the period ended February 29, 2024, the Company entered into a loan agreement to purchase equipment for \$63,590. The loan bears interest at 4.99% per annum and matures on December 15, 2029.

	\$
Balance, November 30, 2023	-
Additions	63,590
Repayments	(3,972)
Interest paid in cash	(1,551)
Interest	1,551
Balance, May 31, 2024	59,618
Current portion	9,518
Non-current portion	50,100

10. Loan payable (Continued)

During the period ended February 29, 2024, the Company entered into a loan agreement to purchase equipment for \$249,050 USD. The loan is non-interest bearing and matures on September 5, 2024.

	\$
Balance, November 30, 2023	-
Additions	333,951
Repayments	(185,527)
Balance, May 31, 2024	148,424
Current portion	148,424
Non-current portion	-

During the year ended November 30, 2023, the Company entered into a loan agreement to purchase equipment for \$19,339. The loan does not bear interest and matures in three years.

	\$
Balance, November 30, 2022	-
Additions	19,339
Repayments	(4,298)
Balance, November 30, 2023	15,041
Repayments	(3,223)
Balance, May 31, 2024	11,818
Current portion	5,909
Non-current portion	5,909

11. 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 a 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 was the Company's estimated incremental borrowing rate.

During the period ended May 31, 2024, the Company entered into lease agreement to lease harvest processing equipment for a period of 3 years. The Company recognized a right-of-use asset of \$449,444 and lease liability of \$449,444. The lease agreement is with an entity 50% owned by a director of the Company.

11. Lease liability (Continued)

The following is a continuity schedule of lease liabilities for the period ended May 31, 2024 and 2023:

	\$
Balance, November 30, 2023	-
Lease addition	449,444
Lease payments	-
Accretion on lease liability	-
Balance, May 31, 2024	449,444

12. Related party transactions and balances

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

As at May 31, 2024, \$150,382 (2023 - \$103,809) was 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 May 31, 2024, the Company paid for an equipment rental in the amount of \$29,773. The equipment was acquired from a company controlled by a director. The rental agreement is for 14 months with a buyout option at the end of the term.

As at May 31, 2024, the Company entered into a lease agreement with payments of \$13,363 per month for harvest equipment. The equipment was acquired from a company 50% controlled by a director. The lease agreement is for 36 months with a buyout option at the end of the term.

As at February 29 2024, the Company has an obligation to issue 500,000 shares (2023 – 500,000 shares) to the former CEO in lieu of cash for consulting fees in the amount of \$113,250 (2023 - \$113,250) earned in prior years (Note 13).

During the period ending May 31, 2024, directors and officers of the Company subscribed for \$1,355,000 (2023 – \$Nil) convertible debentures in a non-brokered private placement of secured convertible debentures (Note 9).

During the period ending May 31, 2024, 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 May 31, 2024 and 2023:

	May 31, 2024	May 31, 2023
	\$	\$
Consulting fees paid to an officer of the Company	33,600	60,952
Lease payments to a company controlled by a director	29,773	55,650
Salaries and bonus paid to key management	335,433	219,501
Share based payments	4,145	36,733
	402,951	372,836

13. 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 May 31, 2024, there were 131,122,173 (2023 – 131,122,173) issued and fully paid common shares outstanding. At May 31, 2024, there were Nil (2023 - Nil) 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.

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 were 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%.

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 10). 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.

13. Share Capital (Continued)

Preferred shares (continued)

The following is a continuity schedule for preferred shares as at November 30, 2023 and 2022:

	\$
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 (note 10)	(2,210,533)
Shares issued for preferred share redemption and cancellation	(2,470,000)
Gain on settlement	(296,416)
Balance, November 30, 2022 and 2023	-

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, 2023

During the year ended November 30, 2023, the Company issued 250,000 common shares with a fair value of \$96,250, pursuant to the vesting of restricted stock units. The Company transferred \$96,250 from reserves to share capital.

Escrow Shares

As at November 30, 2023, a total of nil (2022 – 8,601,413) securities, including nil shares (2022 – 6,908,284), nil warrants (2022 – 1,534,129), and nil (2022 – 159,000) stock options 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 were 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

13. Share Capital (Continued)

Warrants

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

	Number of share purchase warrants #	Weighted average exercise price \$
Outstanding, November, 30, 2022	13,569,477	0.47
Expired	(9,751,301)	0.43
Outstanding, November, 30, 2023	3,818,176	0.59
Expired	(3,338,176)	0.65
Outstanding, May 31, 2024	480,000	0.20

As of May 31, 2024, 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, 2024	0.20	480,000
		480,000

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 interest rate – 2.91%; volatility: 101%. During the year ended November 30, 2023, the Company recorded share-based compensation of \$8,878 (2022 - \$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 Option Pricing Model with the following assumptions: Expected life – 3.55 years; risk-free interest rate – 3.35%; volatility: 97%. During the year ended November 30, 2023, the Company recorded share-based compensation of \$37,597 (2022 - \$40,214).

13. Share Capital (Continued)

Stock Options (continued)

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 interest 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, 2023, the Company recorded share-based compensation of \$4,988 (2022 - \$64,401).

Stock options granted in prior years

During the period ended May 31, 2024 the Company recorded \$4,145 in share-based compensation relating to options which were granted in years prior to fiscal 2022 but vested in fiscal 2022. All such options were fully vested during the year ended November 30, 2022 with no further share-based compensation for fiscal 2023 or through February 29, 2024.

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

	Number of share purchase options #	Weighted average exercise price \$
Outstanding, November 30, 2023	11,483,400	0.18
Granted	-	
Exercised	-	
Cancelled	-	
Outstanding, February 29, 2024	11,483,400	0.18

The weighted average fair value of options granted during the period ended May 31, 2024 was Nil (2023 - \$0.18).

13. Share Capital (Continued)

Stock Options (continued)

As of May 31, 2024, 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	200,000
May 4, 2026	0.61	175,000	175,000
March 15, 2027	0.25	375,000	375,000
March 15, 2027	0.20	300,000	300,000
June 20, 2027	0.12	1,000,000	875,000
August 10, 2027	0.15	150,000	131,250
		11,483,400	11,339,650

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, 2023, the Company has recognized \$21,154 (2022 - \$208,304) 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, 2023, the Company recognized share-based compensation of \$5,754 (2022 - \$34,247).

As of May 31, 2024, the Company has 200,000 RSUs outstanding, of which 200,000 remains exercisable.

13. Share Capital (Continued)

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. If the stock options or warrants are not exercised, their value remains in reserves.

Obligation to issue shares

During the year ended November 30, 2022, the Company recorded an obligation to issue 500,000 shares to the former CEO in lieu of cash for consulting fees totalling \$113,250. These 500,000 shares had not been issued as at February 29, 2024 and remain in obligation to issue shares.

14. 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. No biological assets exist as at May 31, 2024 and 2023.

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.

15. 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:

15. Financial risk and capital management (Continued)

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 May 31, 2024, the Company had \$324,074 in receivable balances past due and the balances were not collected subsequent to May 31, 2024. The receivable was due from a Company that went into credit protection and The Company has recognized a bad debt expense in the reporting period. 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 May 31, 2024, the Company has cash of \$1,427,361 (2023 - \$1,468,028) 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.

The Company has the following contractual obligations as at May 31, 2024, which are expected to be payable in the following respective periods:

	Total	≤ 1 year	Over 1 year – 3 years
Accounts payable	\$ 842,208	\$ 842,208	\$ -
GST payable	3,251	3,251	-
Loan payable	763,436	445,227	318,209
Lease liability	449,444	122,915	326,529
Convertible debentures	9,559,111	1,368,292	8,190,819
Total	\$ 11,617,450	\$ 2,781,893	\$ 8,835,557

15. Financial risk and capital management (Continued)

Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. As at May 31, 2024, the Company has government loan of \$Nil (2023 - \$36,120) and an equipment purchase loans of \$161,871 (2023-\$7,494), which bear no interest, convertible debentures of \$9,559,111 (2023 - \$5,137,053) and a secured loan of \$601,575 (2023 – \$1,276,671), 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.

16. 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.

17. Revenue

For the year ended May 31, 2024 and 2023, the following revenue was recorded from wholesale customers that comprise 10% or more of revenue:

	May 31, 2024	May 31, 2023
Customer A	62%	68%
Customer B	14%	12%
	<u>76%</u>	<u>80%</u>

18. Subsequent events

- a) On June 1, 2024 The Company entered into a 24 month rental agreement for equipment with a monthly payment of \$1,700 per month. The Company has the option to purchase the equipment at the end of the rental period. The Company is owned by a director of the Company.
- b) On June 1, 2024 The Company had 2,270,000 unexercised stock options with an exercise price of \$0.09 expire.