

TRANSCANNA HOLDINGS INC.

Condensed consolidated Financial Statements

For the period ended May 31, 2021

(Expressed in Canadian dollars)

NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS

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

The accompanying unaudited condensed consolidated interim financial statements of the Company have been prepared by and are the responsibility of the Company's management.

The Company's independent auditor has not performed a review of these financial statements in accordance with standards established by the Chartered Professional Accountants of Canada for a review of interim financial statements by an entity's auditor.

May 31, 2021

TRANSCANNA HOLDINGS INC.
CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(Amounts expressed in Canadian dollars)

	<i>Note</i>	May 31, 2021	November 30, 2020
ASSETS			
CURRENT			
Cash		\$ 4,063,304	\$ 1,243,733
Accounts receivable	6	409,578	127,159
Prepaid expenses		48,787	45,922
Inventory	3	885,377	537,257
Biological assets	4	677,088	434,984
Due from related parties	11	-	117,978
TOTAL CURRENT ASSETS		6,084,134	2,507,033
Property, plant and equipment	7	20,559,534	22,257,891
Right-of-use asset		811,233	973,319
Intangible assets	16	560,698	733,155
TOTAL ASSETS		\$ 28,015,599	\$ 26,471,398
LIABILITIES AND EQUITY (DEFICIENCY)			
CURRENT LIABILITIES			
Accounts payable and accrued liabilities	5	\$ 3,102,282	\$ 3,259,548
Current portion of lease liability		95,700	193,763
Current portion of loans payable	20	914,762	578,774
Due to related parties	10	211,223	284,066
TOTAL CURRENT LIABILITIES		4,323,967	4,316,151
Convertible debt	17	1,575,311	-
Long-term portion of lease liability		759,861	816,419
Long-term portion of loans payable	20	12,285,522	12,000,367
TOTAL LIABILITIES		18,944,661	17,132,937
EQUITY (DEFICIENCY)			
Share capital	11	51,193,112	46,545,058
Reserves	12, 13	8,784,078	7,596,616
Equity portion of convertible debt	17	312,307	-
Subscriptions receivable		(102,000)	-
Deficit		(53,049,506)	(45,262,470)
Accumulated other comprehensive income (loss)		1,932,947	459,257
TOTAL EQUITY (DEFICIENCY)		9,070,938	9,338,461
TOTAL LIABILITIES AND EQUITY (DEFICIENCY)		\$ 28,015,599	\$ 26,471,398

Operations of the Company and Going Concern (Note 1)

Subsequent Events (Note 19)

Approved on behalf of the Board of Directors on July 29, 2021

/s/ Stephanie Wesik

Director

/s/ Bob Blink

Director

The accompanying notes are an integral part of the condensed consolidated financial statements.

TRANSCANNA HOLDINGS INC.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
(Amounts expressed in Canadian dollars)

	<i>Note</i>	Three months ended		Six months ended	
		May 31, 2021	May 31, 2020	May 31, 2021	May 31, 2020
REVENUES					
Product revenue		\$ 734,204	\$ 3,541,735	\$ 1,325,640	\$ 3,762,438
Service revenue		-	20,808	-	697,534
Cost of finished cannabis inventory sold		(704,799)	(4,147,441)	(1,115,069)	(4,581,251)
GROSS MARGIN BEFORE FAIR VALUE ADJUSTMENTS		29,405	(584,898)	210,571	(121,279)
Realized gain (loss) in fair value of biological assets	4	161,780	-	71,820	-
Unrealized gain (loss) in fair value of biological assets	4	211,621	103,993	283,441	121,240
GROSS MARGIN		402,806	(480,905)	565,832	(39)
EXPENSES					
Amortization	7, 15	22,153	130,320	219,932	253,331
Selling, general and administrative expenses	14	1,141,438	2,303,366	4,556,204	5,298,498
TOTAL EXPENSES		(1,163,591)	(2,433,686)	(4,776,136)	(5,551,829)
LOSS BEFORE OTHER ITEMS		(760,785)	(2,914,591)	(4,210,304)	(5,551,868)
Accretion expense		432,623	(291,306)	87,447	(564,415)
Change in fair value of derivative liability		(18,354)	-	(18,354)	-
Impairment - Intangible asset		-	(7,287)	-	(11,314)
Interest expense		(247,917)	(199,029)	(489,924)	(337,910)
Foreign exchange		(1,849,625)	551,156	(3,240,777)	539,410
Gain (loss) from settlement of accounts payable		(36,624)	197,765	(15,124)	(229,296)
Gain (loss) from legal settlement	22	-	-	100,000	(67,535)
NET LOSS FOR THE YEAR BEFORE INCOME TAX		(2,480,682)	(2,663,292)	(7,787,036)	(6,222,928)
OTHER COMPREHENSIVE INCOME (LOSS) (Items that may be subsequently reclassified to profit and loss)					
Foreign currency translation		919,590	(428,804)	1,473,690	(414,752)
COMPREHENSIVE LOSS FOR THE YEAR		\$ (1,561,092)	\$ (3,092,096)	\$ (6,313,346)	\$ (6,637,680)
Loss per share					
Basic and diluted		\$ (0.05)	\$ (0.06)	\$ (0.15)	\$ (0.14)
Weighted average number of shares outstanding, basic and diluted		53,081,074	45,266,040	53,081,074	45,266,040

The accompanying notes are an integral part of the condensed consolidated financial statements.

TRANSCANNA HOLDINGS INC.
CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (DEFICIENCY)
(Amounts expressed in Canadian dollars)

	Number of common shares	Share Capital	Reserves	Subscriptions receivable	Accumulated Other Comprehensive Income	Deficit	Total equity (deficiency)
Balance at November 30, 2019	38,381,786	38,465,541	6,411,036	-	(118,007)	(28,132,613)	16,625,957
Shares issued for cash	3,600,000	1,800,000	-	-	-	-	1,800,000
Share issuance costs - cash refund	-	4,755	-	-	-	-	4,755
Shares issued upon exercise of warrants	1,908,750	2,121,279	(212,529)	-	-	-	1,908,750
Shares issued upon exercise of options	625,000	785,420	(296,920)	-	-	-	488,500
Shares for settlement of debt	1,500,504	1,805,806	-	-	-	-	1,805,806
Cancellation of shares	(750,000)	(274,643)	-	-	-	-	(274,643)
Share-based compensation	-	-	925,615	-	-	-	925,615
Other comprehensive income	-	-	-	-	(414,752)	-	(414,752)
Net loss for the period	-	-	-	-	-	(6,222,928)	(6,222,928)
Balance at May 31, 2020	45,266,040	44,708,158	6,827,202	-	(532,759)	(34,355,541)	16,647,060
Shares issued for cash	1,838,000	1,010,900	-	-	-	-	1,010,900
Share issuance costs - broker units	63,040	-	-	-	-	-	-
Shares for settlement of debt	300,000	450,000	-	-	-	-	450,000
Shares for services	400,000	376,000	-	-	-	-	376,000
Warrants issued for cash	-	-	238,750	-	-	-	238,750
Share-based compensation	-	-	530,664	-	-	-	530,664
Foreign currency translation adjustments	-	-	-	-	835,922	-	835,922
Net loss for the period	-	-	-	-	-	(12,265,357)	(12,265,357)
Balance at November 30, 2020	47,867,080	46,545,058	7,596,616	-	303,163	(46,620,898)	7,823,939
Shares issued for cash	2,625,067	2,153,974	-	(22,000)	-	-	2,131,974
Share issuance costs - cash	-	(108,542)	-	-	-	-	(108,542)
Share issuance costs - broker units	23,600	-	-	-	-	-	-
Share issuance costs - broker warrants	-	(64,143)	64,143	-	-	-	-
Shares issued upon exercise of warrants	1,232,070	1,119,053	(32,500)	-	-	-	1,086,553
Shares issued upon exercise of options	450,000	705,785	(255,785)	-	-	-	450,000
Shares for settlement of debt	920,388	841,927	-	-	-	-	841,927
Warrants issued for cash	-	-	190,000	(80,000)	-	-	110,000
Cancellation of shares	(37,131)	-	-	-	-	-	-
Share-based compensation	-	-	1,221,604	-	-	-	1,221,604
Other comprehensive income	-	-	-	-	1,473,690	-	1,473,690
Net loss for the year	-	-	-	-	-	(7,787,036)	(7,787,036)
Balance at May 31, 2021	53,081,074	51,193,112	8,784,078	(102,000)	1,776,853	(54,407,934)	7,244,109

The accompanying notes are an integral part of the condensed consolidated financial statements

TRANSCANNA HOLDINGS INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Amounts expressed in Canadian dollars)

For the six months ended	May 31, 2021	May 31, 2020
OPERATING ACTIVITIES		
Net loss for the period before income tax	\$ (7,787,036)	\$ (4,365,966)
Items not affecting cash		
Accretion	337,189	392,461
Amortization	217,466	395,608
Change in fair value of biological assets	(283,441)	-
Change in fair value of derivative liability	17,286	-
Gain from settlement of accounts payable	18,354	-
Interest expense	247,917	-
Share-based compensation	1,221,604	972,187
Changes in non-cash working capital:		
Accounts payable and accrued liabilities	1,399,574	30,822
Accounts receivables	(88,714)	279,599
Biological assets	(426,122)	(367,740)
Inventory	(348,120)	(378,865)
Prepaid expenses	(2,865)	85,092
Legal provision	-	67,535
Due to/from related parties	2,312,214	37,790
CASH FLOWS USED IN OPERATING ACTIVITIES	(3,164,694)	(2,851,477)
FINANCING ACTIVITIES		
Payments of lease liabilities	(141,289)	-
Proceeds from issuance of shares	2,131,974	1,171,050
Proceeds from issuance of warrants	110,000	-
Proceeds from exercise of warrants	450,000	1,908,750
Proceeds from exercise of options	1,086,553	488,500
Share issuance costs - cash	(108,542)	4,755
Loans payable	(239,428)	-
CASH FLOWS FROM FINANCING ACTIVITIES	3,289,268	3,573,055
INVESTING ACTIVITIES		
Acquisition of property, plant, and equipment	-	(994,202)
Advances receivable	-	(4,785)
Deposits	-	(16,742)
Issuance of convertible note	2,415,600	-
CASH FLOWS USED IN INVESTING ACTIVITIES	2,415,600	(1,015,729)
EFFECT OF FOREIGN EXCHANGE RATE CHANGES ON CASH	279,397	(42,355)
Change in cash during the period	2,819,571	(336,506)
Cash, beginning of the period	1,243,733	3,119,533
CASH, END OF THE YEAR	\$ 4,063,304	\$ 2,783,027

The accompanying notes are an integral part of the condensed consolidated financial statements

TRANSCANNA HOLDINGS INC.

Notes to the Condensed Consolidated Financial Statements

For the period ended May 31, 2021

(Amounts expressed in Canadian dollars, unless otherwise indicated)

1. OPERATIONS OF THE COMPANY AND GOING CONCERN

TransCanna Holdings Inc. (the “Company” or “TransCanna”) was incorporated on October 26, 2017, under the Business Corporations Act (British Columbia). The Company’s principal business activity is the creation of consumer brands, from inception to sales, which includes, but is not limited, to the manufacturing transportation and distribution services in the state of California including cannabis related products.

On January 9, 2019, the Company completed an initial public offering (“IPO”) transaction and private placement. Following the transaction, the Company’s shares were traded on the Canadian Securities Exchange (the “CSE”) under the symbol “TCAN”. The Company’s head office and registered office is located at Suite 928-1030 West Georgia Street, Vancouver, BC V6E 2Y3.

The Company, via its wholly owned subsidiary Lyfted Farms Inc., is licensed to cultivate, distribute, and sell wholesale cannabis products in the state of California. The Company operates in California pursuant to the California Medicinal and Adult-Use Cannabis Regulation and Safety Act. The Company is subject to risks common in the life sciences and consumer products industries including, but not limited to, compliance with government regulations, regulatory approvals, competitive markets, new technological innovations, protection of proprietary technology, dependence on key personnel, uncertainty of market acceptance and the need to obtain additional financing.

The Company’s business activities, and the business activities of its subsidiaries, which operate in jurisdictions where the use of marijuana has been legalized under state and local laws, currently are illegal under U.S. federal law. The U.S. Controlled Substances Act classifies marijuana as a Schedule I controlled substance. Any proceeding that may be brought against the Company could have a material adverse effect on the Company’s business plans, financial condition and results of operations.

These condensed consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) with the going concern assumption, which assumes that the Company will continue in operation for the foreseeable future and, accordingly, will be able to realize its assets and discharge its liabilities in the normal course of operations. The Company’s ability to realize its assets and discharge its liabilities is dependent upon the Company obtaining the necessary financing and ultimately upon its ability to achieve profitable operations. The Company’s ability to continue as a going concern is dependent upon its ability in the future to achieve profitable operations and, obtain the necessary financing to meet its near-term obligations such that it can repay its liabilities when they become due. The inability to achieve these objectives indicate the existence of a material uncertainty that may cast significant doubt about the Company’s ability to continue as a going concern. The Company has incurred losses since its inception and has an accumulated deficit of \$1,760,167 53,049,506 with a working capital of \$1,760,167 as at May 31, 2021.

Failure to arrange adequate financing on acceptable terms and/or achieve profitability may have an adverse effect on the financial position, results of operations, cash flows and prospects of the Company. These condensed consolidated financial statements do not give effect to adjustments to assets or liabilities that would be necessary should the Company be unable to continue as a going concern. Such adjustments could be material.

2. BASIS OF PREPARATION

Statement of compliance

These condensed interim consolidated financial statements have been prepared in accordance with International Accounting Standards (“IAS”) 34, Interim Financial Reporting, as issued by the International Accounting Standards Board (“IASB”) and should be read in conjunction with the Company’s audited consolidated financial statements as of and for the year ended November 30, 2020. These financial statements do not include all disclosures required for

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Notes to the Condensed Consolidated Financial Statements

For the period ended May 31, 2021

(Amounts expressed in Canadian dollars, unless otherwise indicated)

a complete set of IFRS financial statements. However, selected explanatory notes are included to explain events and transactions deemed significant to provide an understanding of the changes in the Company's financial position and performance since its most recent annual financial statements. These financial statements are presented in U.S. dollars. The Canadian dollar serves as the functional currency of the Company and the Company's subsidiaries all use the U.S. dollar as their functional currency.

The condensed consolidated financial statements were approved and authorized for issue by the Board of Directors of the Company on July 29, 2021.

Restatement of previously reported consolidated financial statements

During the preparation of the annual audited consolidated financial statements for the year ended November 30, 2020, the Company noticed irregularities with its revenue recognition and the allocation of overhead costs over the three quarters ended February 29, May 31, and August 31. This resulted in a decrease in the net income reported during the year.

As a result of the restatement, the Company's reported net loss was increased by \$2,913,911 for the nine month period ended May 31, 2020, to a loss of \$10,018,966.

The following tables for the Company's prior interim periods and year ended August 31, 2020 summarize the effect of the adjustment described above:

Three months ended February 29, 2020	Previously reported	Adjustment	As restated
Product revenue	\$ 436,722	\$ (216,019)	\$ 220,703
Service revenue	469,079	207,647	676,726
Cost of finished cannabis inventory sold	(404,601)	(29,209)	(433,810)
Deficit	(31,054,454)	(37,581)	(31,092,035)
Total equity (deficiency)	17,441,247	37,581	17,478,828

Six months ended May 31, 2020	Previously reported	Adjustment	As restated
Product revenue	\$ 1,136,431	\$ 2,626,007	\$ 3,762,438
Service revenue	4,070,050	(3,372,516)	697,534
Cost of finished cannabis inventory sold	(3,653,671)	(927,580)	(4,581,251)
Deficit	(32,274,613)	(1,674,089)	(33,948,702)
Total equity (deficiency)	18,668,630	1,674,089	20,342,719

Nine months ended August 31, 2020	Previously reported	Adjustment	As restated
Product revenue	\$ 1,636,059	\$ 3,924,622	\$ 5,560,681
Service revenue	5,349,637	(4,654,518)	695,119
Cost of finished cannabis inventory sold	(4,618,232)	(2,184,015)	(6,802,247)
Deficit	(31,054,454)	(2,913,911)	(33,968,365)
Total equity (deficiency)	17,441,247	2,913,911	20,355,158

There were no differences for the statement of financial position previously reported as at February 28, 2021.

Critical accounting estimates, judgments and assumptions

The preparation of the Company's condensed interim consolidated interim financial statements requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, and revenue and expenses. Actual results may differ from these estimates. The estimates and underlying

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assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods. The significant judgments made by management in applying the Company's accounting policies and the key sources of estimation uncertainty were consistent with those described in the Company's most recent annual consolidated financial statements.

3. INVENTORY

Details of the Company's inventory are shown in the table below:

Raw materials	\$	375,601
Finished goods		161,656
Carrying amount, November 30, 2020	\$	537,257
Raw materials	\$	359,510
Finished goods		525,867
Carrying amount, May 31, 2021	\$	885,377

During the period ended May 31, 2021, inventory expensed to cost of goods sold was \$1,115,069 (2020 - \$3,249,070).

4. BIOLOGICAL ASSETS

Biological assets consist of actively growing cannabis plants expected to be harvested as agricultural produce. The changes in the carrying amount of the biological assets are shown in the table below:

Carrying amount, November 30, 2019	\$	144,479
Production costs capitalized		3,068,613
Transferred to inventories upon harvest		(2,872,972)
Changes in fair value less costs to sell due to biological transformation		94,864
Carrying amount, November 30, 2020	\$	434,984
Production costs capitalized		558,313
Transferred to inventories upon harvest		(599,650)
Changes in fair value less costs to sell due to biological transformation		283,441
Carrying amount, May 31, 2021	\$	677,088

The Company's biological assets consist of unharvested cannabis plants and are presented at their fair values less costs to sell up to the point of harvest. The valuation of these biological assets is obtained using a specific valuation technique where the inputs are based upon unobservable market data (Level 3 in the fair value hierarchy).

The valuation of biological assets is based on a market approach where fair value at the point of harvest is estimated based on future selling prices less the costs to sell at harvest. For in-process biological assets, the estimated fair value at the point of harvest is adjusted based on the plants' stage of growth, which is determined by reference to days remaining to harvest over the average growth cycle. The number of weeks in a production cycle is approximately 16 weeks from propagation to harvest.

The Company's estimates are subject to changes that could result from volatility of market prices, unanticipated regulatory changes, harvest yields, loss of crops, changes in estimates and other uncontrollable factors that could significantly affect the future fair value of biological assets. These estimates include the following assumptions:

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(Amounts expressed in Canadian dollars, unless otherwise indicated)

a. Selling prices per gram were determined by estimating the Company's average selling price for each respective period. The Company's average selling price for the period ended May 31, 2021 was US\$7.26 (2020 – US\$5.70) per gram;

b. The stage of plant growth at which point of harvest is determined. As of May 31, 2021, the biological assets were on average 28% (2020 - 94%) completed;

c. Expected costs to grow were determined by estimating the Company's average cost per gram, which was \$4.58 (2020- \$3.90) per gram and equivalent gram of cannabis sold as of May 31, 2021; and

d. Expected yield per plant varies by strain and is estimated through historical growing. The Company's average dry yield per plant As of May 31, 2021 was 76 grams (2020 - 71 grams) per cannabis plant.

Significant unobservable assumptions used in the valuation of biological assets, including the sensitivities on changes in these assumptions and their effect on the fair value of biological assets, are shown in the table below:

Significant assumptions	Inputs	Impact of 20% change		
Estimated selling price per gram	USD	\$7.38	\$	185,242
Stage of growth		46%	\$	36,172
Expected yield per plant in grams		79 gm	\$	215,158

The Company's estimates are subject to change and differences from the anticipated yield will be reflected in the gain or loss on biological assets in future periods.

5. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	May 31, 2021		May 31, 2020	
Trade payables	\$	3,098,140	\$	3,031,733
Accrued liabilities		4,142		227,815
	\$	3,102,282	\$	3,259,548

6. ACCOUNTS RECEIVABLE

	May 31, 2021		May 31, 2020	
Sales tax receivable	\$	13,075	\$	293,247
Trade receivables		396,503		11,126
Employee advances receivable		-		70,720
	\$	409,578	\$	375,093

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(Amounts expressed in Canadian dollars, unless otherwise indicated)

7. PROPERTY, PLANT AND EQUIPMENT

Cost	Computer hardware	Furniture and equipment	Vehicle	Building	Land	Leasehold improvements	TOTAL
Balance, November 30, 2018	\$ 41,955	\$ -	\$ -	\$ -	\$ -	\$ -	41,955
Additions	3,888	14,100	113,572	28,791,366	1,627,977	1,102,324	31,653,227
Property, plant and equipment acquired	4,977	230,909	18,017	-	-	286,012	539,915
Foreign exchange adjustments	-	(2,811)	(10,831)	(22,762)	(8,672)	5,429	(39,647)
Balance, November 30, 2019	\$ 50,820	\$ 242,198	\$ 120,758	\$ 28,768,604	\$ 1,619,305	\$ 1,393,765	\$ 32,195,450
Additions	-	-	-	93,434	-	736,624	830,058
Foreign exchange adjustments	(111)	(762)	(149)	(399,749)	-	-	(400,771)
Carrying amount, November 30, 2020	\$ 50,709	\$ 241,436	\$ 120,609	\$ 28,462,289	\$ 1,619,305	\$ 2,130,389	\$ 32,624,737
Additions	-	-	-	-	-	-	-
Foreign exchange adjustments	(337)	(15,640)	(8,176)	(1,163,326)	(109,678)	(145,907)	(1,443,064)
Carrying amount, May 31, 2021	\$ 50,372	\$ 225,796	\$ 112,433	\$ 27,298,963	\$ 1,509,627	\$ 1,984,482	\$ 31,181,673

Accumulated amortization and impairment	Computer hardware	Furniture and equipment	Vehicle	Building	Land	Leasehold improvements	TOTAL
Balance, November 30, 2018	\$ (6,293)	\$ -	\$ -	\$ -	\$ -	\$ -	(6,293)
Amortization	(15,639)	(85,770)	(22,278)	-	-	(300,450)	(424,137)
Impairment	-	-	-	(10,833,224)	-	-	(10,833,224)
Foreign exchange adjustments	(36)	(2,603)	(139)	(10,192)	-	(6,273)	(19,243)
Balance, November 30, 2019	\$ (21,968)	\$ (88,373)	\$ (22,417)	\$ (10,843,416)	\$ -	\$ (306,723)	\$ (11,282,897)
Impairment reversal	-	-	-	1,432,132	-	-	1,432,132
Amortization	(11,901)	(49,575)	(24,450)	-	-	(276,982)	(362,908)
Foreign exchange adjustments	(52)	(787)	(1,202)	(95,501)	(36,111)	(19,519)	(153,172)
Balance, November 30, 2020	\$ (33,921)	\$ (138,735)	\$ (48,069)	\$ (9,506,785)	\$ (36,111)	\$ (603,224)	\$ (10,366,845)
Amortization	(8,423)	(23,283)	(11,438)	-	-	(92,324)	(135,468)
Foreign exchange adjustments	(146)	(10,073)	(12,954)	-	-	(96,653)	(119,826)
Balance, May 31, 2021	\$ (42,490)	\$ (172,091)	\$ (72,461)	\$ (9,506,785)	\$ (36,111)	\$ (792,201)	\$ (10,622,139)

Net book value, November 30, 2020	\$ 16,788	\$ 102,701	\$ 72,540	\$ 18,955,504	\$ 1,583,194	\$ 1,527,165	\$ 22,257,891
Net book value, May 31, 2021	\$ 7,882	\$ 53,705	\$ 39,972	\$ 17,792,178	\$ 1,473,516	\$ 1,192,281	\$ 20,559,533

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(Amounts expressed in Canadian dollars, unless otherwise indicated)

10. RELATED PARTY TRANSACTIONS

Key management personnel

Key management personnel include those persons having authority and responsibility for planning, directing and controlling the activities of the Company as a whole. The Company has determined that key management personnel consist of executive and non-executive members of the Company's board of directors and corporate officers and/or companies controlled by those individuals. Remuneration attributed to key management personnel during the period ended November 30, 2020 and November 30, 2019, are summarized in the table below:

	May 31, 2021	May 31, 2020
Salaries, benefits, and management fees	\$ 205,366	\$ 202,765
Share-based compensation	638,076	-
	\$ 843,442	\$ 202,765

As at May 31, 2021, included in accounts payable and accrued liabilities is \$613,635 (2019 - \$275,747) owed to related parties for salaries and benefits with \$113,417 (2018 - \$275,747) receivable for advances for expenses.

During the period ended May 31, 2021, directors and officers participated in the private placements for total subscriptions of \$30,000 (2020 - \$nil).

11. SHARE CAPITAL

Authorized: unlimited number of common voting shares without nominal or par value.

During the period ended May 31, 2021, the Company:

- Issued 1,246,873 units as part of a brokered private placement at \$0.55 for gross proceeds of \$685,780. Each unit is comprised of one common share and one common share purchase warrant entitling the holder to purchase one additional share at an exercise price of \$0.75 per share until December 3, 2022. As part of the financing, the Company paid finder's fees as follows:
 - 3,200 broker units valued at \$1,760;
 - \$42,542 in cash; and
 - 77,350 broker warrants valued at \$42,543 entitling the holder to purchase one additional share at an exercise price of \$0.75 per share until December 3, 2022.
- Issued 1,578,194 units as part of a brokered private placement at \$1.00 for gross proceeds of \$1,578,194. Each unit is comprised of one common share and one common share purchase warrant entitling the holder to purchase one additional share at an exercise price of \$1.00 per share until March 23, 2023. As part of the financing, the Company paid finder's fees as follows:
 - 20,400 broker units valued at \$20,400;
 - \$66,000 in cash; and
 - 21,600 broker warrants valued at \$21,600 entitling the holder to purchase one additional share at an exercise price of \$0.75 per share until March 23, 2023.
- Issued 3,800,000 warrants for proceeds of \$190,000.
- Issued 1,350,000 shares upon the exercise of 1,000,000 warrants and 350,000 options for proceeds of \$1,250,000.

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(Amounts expressed in Canadian dollars, unless otherwise indicated)

- Issued 110,000 shares with a fair value of \$60,500 for the extinguishment of \$82,000 in outstanding debt and recognized a gain on debt settlement of \$21,500.

During the period ended May 31, 2020, the Company:

- Issued 3,600,000 units as part of a brokered private placement at \$0.50 for gross proceeds of \$1,800,000. Each unit is comprised of one common share and one common share purchase warrant entitling the holder to purchase one additional share at an exercise price of \$0.75 per share until May 8, 2022.
- Issued 1,908,750 shares upon the exercise of warrants for proceeds of \$1,908,750.
- Issued 625,000 shares upon the exercise of options for proceeds of \$488,500.
- Issued 1,500,504 shares with a fair value of \$1,424,595 for the extinguishment of \$1,424,595 in outstanding debt.
- Cancelled 750,000 shares with a fair value of \$274,643 pursuant to a settlement agreement with certain contractors and related parties.

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12. STOCK OPTIONS

The Company has adopted a stock option plan (the "Plan") for its directors, officers, employees and consultants to acquire common shares of the Company at a price determined by the fair market value of the shares at the date immediately preceding the date on which the option is granted. The aggregate number of stock options granted shall not exceed 10% of the issued and outstanding common shares of the Company at the time of shareholder approval of the plan, with no one individual being granted more than 5% of the issued and outstanding common shares.

A summary of the Company's options activity is as follows:

	Number of options	Weighted average exercise price	Weighted average remaining life (in years)
Balance, November 30, 2019	1,604,000	\$ 0.50	4.51
Granted	1,578,333	0.92	1.69
Exercised	(625,000)	0.78	-
Forfeited	(310,000)	1.00	-
Balance, November 30, 2020	2,247,333	\$ 1.04	3.12
Granted	1,568,333	1.00	4.61
Exercised	(450,000)	1.00	-
Balance, May 31, 2021	3,365,666	\$ 1.02	3.66

As of May 31, 2021, outstanding and exercisable options to purchase common shares consisted of the following:

Expiry date	Number of options outstanding	Number of options exercisable	Exercise price	Weighted average remaining life (in years)
January 20, 2022	50,000	50,000	\$ 1.37	0.64
January 20, 2022	169,000	169,000	1.37	0.64
November 6, 2024	625,000	725,000	1.00	3.44
November 6, 2024	200,000	200,000	1.00	3.44
February 18, 2025	553,333	553,333	1.00	3.72
September 10, 2021	200,000	200,000	1.00	0.28
December 1, 2025	400,000	400,000	1.00	4.51
January 19, 2026	200,000	200,000	1.00	4.64
January 19, 2026	968,333	968,333	1.00	4.64
	3,365,666	3,465,666	\$ 1.02	3.65

During the period ended May 31, 2021, the Company recorded share-based compensation of \$1,211,605 with respect to 1,568,333 stock options granted. The weighted average fair value of these options was \$0.67 per option and was estimated using the Black-Scholes option pricing model. The weighted average assumptions used in calculating the fair value are as follows:

	May 31, 2021
Risk-free interest rate	0.41% - 0.46%
Expected life	5 years
Annualized volatility	133.20% - 152.91%
Dividend rate	0%
Weighted average fair value per option	\$ 0.78

TRANSCANNA HOLDINGS INC.

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13. WARRANTS

A summary of the Company's warrant activity is as follows:

	Number of warrants	Weighted average exercise price	Weighted average remaining life (in years)
Balance, November 30, 2019	9,673,082	\$ 2.72	1.23
Granted	10,501,040	0.88	1.60
Exercised	(1,908,750)	1.00	-
Expired	(4,577,050)	2.75	-
Balance, November 30, 2020	13,688,322	\$ 2.72	1.23
Granted	5,420,194	1.00	1.71
Exercised	(1,232,070)	0.89	-
Balance, May 31, 2021	17,876,446	\$ 1.46	1.38

As of May 31, 2021, outstanding equity-classified warrants to purchase common shares consisted of the following:

Expiry date	Number of warrants	Exercise price	Weighted average remaining life (in years)
February 21, 2024	1,200,000	\$ 2.60	2.73
April 4, 2022	207,083	\$ 3.00	0.84
April 4, 2022	640,000	\$ 2.00	0.84
June 7, 2022	1,000,175	\$ 6.00	1.02
June 7, 2022	140,024	\$ 6.00	1.02
May 8, 2022	2,772,000	\$ 0.75	0.94
June 25, 2022	428,000	\$ 1.00	1.07
June 25, 2022	4,350,000	\$ 1.00	1.07
November 18, 2022	1,695,430	\$ 0.75	1.47
November 18, 2022	23,540	\$ 0.75	1.47
January 29, 2023	3,800,000	\$ 1.00	1.67
March 21, 2023	1,578,194	\$ 1.00	1.67
March 21, 2023	42,000	\$ 1.00	1.67
	17,876,446	\$ 1.42	1.38

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14. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

	Three months ended		Six months ended	
	May 31, 2021	May 31, 2020	May 31, 2021	May 31, 2020
Advertising and promotion	\$ 93,820	\$ 223,357	\$ 135,329	\$ 481,844
Consulting	(44,375)	335,714	41,613	767,128
Insurance	140,167	109,848	412,375	210,246
Investor relations	41,245	198,111	868,715	480,977
Legal fees	(29,331)	220,327	24,112	402,946
Management fees	<i>10</i> 30,000	36,043	30,000	130,706
Meals and entertainment	(15,383)	38	6,298	754
Office and miscellaneous	(394,075)	37,896	(382,252)	91,772
Professional fees	20,274	19,800	20,274	62,455
Regulatory and transfer fees	154,924	5,306	161,827	14,484
Rent and utilities	69,471	44,825	144,053	99,074
Repairs and maintenance	113,509	12,522	116,643	12,522
Salaries and benefits	878,127	787,154	1,589,927	1,446,445
Share-based compensation	<i>11</i> -	201,997	1,221,605	925,615
Excise tax	74,225	52,189	152,608	140,910
Travel	8,840	18,239	13,077	30,620
Total selling, general and administrative expenses	\$ 1,141,438	\$ 2,303,366	\$ 4,556,204	\$ 5,298,498

TRANSCANNA HOLDINGS INC.

Notes to the Condensed Consolidated Financial Statements

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15. INTANGIBLE ASSETS AND GOODWILL

Cost	License	Brand	Total intangibles	Goodwill
Balance, November 30, 2018	\$ -	\$ -	\$ -	\$ -
Acquisition of Tres Ojos Naturals, LLC (Note 9)	-	140,545	140,545	-
Acquisition of Lyfted Farms, Inc. (Note 10)	460,495	557,857	1,018,352	6,068,526
GF Group - 'Daly' Brand	-	132,890	132,890	-
Foreign exchange adjustments	-	17,148	17,148	-
Balance, November 30, 2019	\$ 460,495	\$ 848,440	\$ 1,308,935	\$ 6,068,526
Foreign exchange adjustments	\$ (7,632)	\$ (55,644)	\$ (63,276)	\$ 130,453
Balance, November 30, 2020	\$ 452,863	\$ 792,796	\$ 1,245,659	\$ 6,198,979
Foreign exchange adjustments	\$ (30,133)	\$ (10,346)	\$ -	\$ -
Balance, May 31, 2021	\$ 422,730	\$ 782,450	\$ 1,245,659	\$ 6,198,979
Accumulated amortization and impairment	License	Brand	Total	Goodwill
Balance, November 30, 2018 and 2017	\$ -	\$ -	\$ -	\$ -
Amortization	(5,512)	(27,069)	(32,581)	-
Foreign exchange adjustments	(2)	(5)	(7)	-
Balance, November 30, 2019	\$ (5,514)	\$ (27,074)	\$ (32,588)	\$ -
Amortization	(113,977)	(211,874)	(325,851)	-
Impairment	-	(241,239)	(241,239)	(6,198,979)
Foreign exchange adjustments	(35,007)	122,181	87,174	-
Balance, November 30, 2020	\$ (154,498)	\$ (358,006)	\$ (512,504)	\$ (6,198,979)
Amortization	(78,398)	(56,988)	(135,386)	-
Foreign exchange adjustments	(16,843)	(20,228)	(37,071)	-
Balance, May 31, 2020	\$ (249,739)	\$ (435,222)	\$ (684,961)	\$ (6,198,979)
Net book value, November 30, 2020	\$ 298,365	\$ 434,790	\$ 733,155	\$ -
Net book value, May 31, 2021	\$ 172,991	\$ 347,228	\$ 560,698	\$ -

TRANSCANNA HOLDINGS INC.

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Goodwill from a business combination is allocated to CGUs or groups of CGUs expected to benefit from the business combination. The carrying amounts of goodwill are allocated to the following CGUs:

	May 31, 2021	May 31, 2020
Lyfted	\$ 1,325,640	\$ 905,801

Amortization

Amortization of intangible assets is included in “cost of finished cannabis inventory sold” in the condensed consolidated statements of comprehensive loss.

16. LOANS PAYABLE

During the year ended November 30, 2019, the Company, through its wholly owned subsidiary, Dalvi, entered into an agreement to purchase a 196,000 square foot facility in Modesto California for US\$15,000,000 (\$CAD \$20,100,000). The Company paid a US\$250,000 deposit followed by a cash payment of US\$8,000,000 (\$CAD \$10,700,000). The balance of US\$6,750,000 (\$CAD \$8,970,075) was financed by a promissory note with an interest rate of 7% per annum and an original maturity date of October 15, 2019 secured against the facility. On October 10, 2019, the Company exercised an option to extend the maturity date of the loan to April 15, 2020 by issuing 500,000 shares valued at \$305,000.

As consideration for the seller's agreement to accept the promissory note, and to provide an additional month extension for closing, the Company agreed to pay the seller US\$200,000 immediately and issue to the seller an aggregate of 500,000 common shares valued at \$ 1,695,000 and 1.2 million share purchase warrants valued at \$ 2,201,215 upon closing of the acquisition. Each warrant will be exercisable to acquire one common share of the Company at an exercise price of \$2.60 per share for a five-year period from the date of issuance, vesting quarterly in equal portions over the initial 12 months of the five-year term commencing on the date of the original extension, being February 21, 2019, notwithstanding the warrants were issued upon closing of the acquisition of the Property. Additionally, the company issued 2,000,000 shares (valued at \$4,740,000) for consulting services related to due diligence on the purchase of the property. (Note 13)

During the year ended November 30, 2020, the Company, through its wholly owned subsidiary, Dalvi, LLC “Dalvi”) entered into an Amendment Agreement to further extend the maturity date of the Promissory Note in the amount of US \$6,750,000, previously issued by Dalvi with a maturity date of April 2020 to April 2022. Pursuant to the terms of the Agreement dated January 2, 2020, Dalvi agreed to pay an extension fee of \$176,247 (US\$135,000) as well as, increase the interest rate from 7% to 12% per annum.

During the period ended May 31, 2021, the Company recorded interest expense for \$529,659 (2020 - \$1,078,817) and accretion expense of \$35,030 (2020 - \$302,624).

	May 31, 2021	November 30, 2020
Balance, beginning	\$ 9,091,534	\$ 8,734,763
Loans received	-	-
Interest accrued	529,659	1,078,817
Loan extension fee	-	(176,247)
Accretion	35,030	302,624
Loans and interest repaid	(176,553)	(628,889)
Foreign exchange adjustments	397,684	(219,534)
Balance, ending	\$ 9,877,354	\$ 9,091,534

On November 12, 2019, the Company acquired a 100% interest in Lyfted (Note 10). Pursuant to the terms of the purchase, the Company provided a non-interest bearing note payable for the amount with a face value \$5,316,000 due June 30, 2020. This was present valued using the discount rate method for a fair value of \$4,804,027 due to being a below market rate debt instrument.

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During the year ended November 30, 2020, the Company issued 550,504 shares with a fair value of \$880,806 as a payment of \$649,595 (US\$500,000) against the promissory note.

During the period ended May 31, 2021, the Company recognized accretion expense for the amount of \$289,967 (2020 - \$429,544).

	May 31, 2021	November 30, 2020
Balance, beginning	\$ 3,487,612	\$ 4,884,988
Loans received	-	-
Loans repaid	(62,875)	(649,595)
Accretion	289,967	429,544
Gain on debt modification	-	(1,091,942)
Foreign exchange adjustments	(238,654)	(85,383)
Carrying amount, November 30, 2020	3,476,050	3,487,612
Less: Current portion	(768,726)	(578,774)
Balance, ending	\$ 2,707,324	\$ 2,908,838

17. CONVERTIBLE DEBT

On March 24, 2021, the Company completed the offering of a secured convertible note for an aggregate principal amount of US\$ 2,000,000 (\$CAD 2,518,020). The note can be exchanged into common shares at a conversion price of US\$ 0.59 (\$CAD 0.74). For the purposes of determining the number of common shares issuable upon conversion, the principal amount of the convertible notes surrendered for conversion shall be deemed converted from U.S. Dollars into Canadian Dollars, using the end-of day exchange rate published by the Bank of Canada on the data immediately preceding the date that the convertible note is surrendered for conversion. The convertible notes accrue simple interest at 10% per annum payable annually on each anniversary of the closing date of the transaction with the principal and any accrued interest payable in full on March 23, 2023.

	Debt component
Balance, beginning	\$ -
Loans received	2,415,600
Equity portion of convertible debt	(402,600)
Issuance costs	(152,374)
Accretion	45,939
Accrued interest	46,840
Foreign exchange adjustments	(378,094)
Balance, ending	\$ 1,575,311

18. CAPITAL MANAGEMENT

The Company defines its capital as shareholders' equity. The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company, in order to support the growth of the business and finance future expansion while maintaining strong creditor relationships and shareholder return. The Board of Directors do not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business. Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable. The Company is not subject to externally imposed capital requirements and there has been no change with respect to the capital management strategy during the period ended May 31, 2021.

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19. SUBSEQUENT EVENTS

On June 2, 2021, the Company received proceeds of \$13,598 through the exercise of 18,130 warrants at \$0.75.

On July 14, 2021, the Company received proceeds of \$6,750 through the exercise of 9,000 warrants at \$0.75.

On July 16, 2021, the Company received proceeds of \$225,000 through the exercise of 225,000 warrants at \$1.00.