

# **TRANSCANNA HOLDINGS INC.**

**Amended and Restated**

## **Condensed Consolidated Interim Financial Statements**

For the nine month period ended August 31, 2022

(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.

August 31, 2022

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

	<i>Note</i>	<b>August 31, 2022</b>	<b>November 30, 2021</b>
<b>ASSETS</b>			
<b>CURRENT</b>			
Cash	10	\$ 7,958,176	\$ 241,301
Accounts receivable	6	166,753	364,733
Prepaid expenses		39,405	33,890
Biological assets	3	136,466	237,694
Inventory	4	796,408	376,970
<b>TOTAL CURRENT ASSETS</b>		<b>9,097,208</b>	<b>1,254,588</b>
Property, plant and equipment	8	22,905,731	23,666,738
Right-of-use asset	9	503,360	723,448
<b>TOTAL ASSETS</b>		<b>\$ 32,506,299</b>	<b>\$ 25,644,774</b>
<b>LIABILITIES AND EQUITY (DEFICIENCY)</b>			
<b>CURRENT LIABILITIES</b>			
Accounts payable and accrued liabilities	5	\$ 3,055,861	\$ 3,092,585
Current portion of convertible debt	11	1,566,227	1,326,975
Current portion of lease liabilities	9	122,517	219,296
Current portion of loans payable	10	2,856,733	14,252,077
Due to related parties	8	419,565	544,644
<b>TOTAL CURRENT LIABILITIES</b>		<b>8,020,903</b>	<b>19,435,577</b>
Long-term portion of convertible debt	11	-	2,364,099
Long-term portion of lease liabilities	9	601,258	586,254
Long-term portion of loans payable	10	21,822,478	-
<b>TOTAL LIABILITIES</b>		<b>30,444,639</b>	<b>22,385,930</b>
<b>EQUITY (DEFICIENCY)</b>			
Share capital	12	57,334,427	51,469,286
Reserves	13, 14, 15	9,938,783	9,601,117
Deficit		(65,271,200)	(58,355,128)
Accumulated other comprehensive income (loss)		59,650	543,569
<b>TOTAL EQUITY (DEFICIENCY)</b>		<b>2,061,660</b>	<b>3,258,844</b>
<b>TOTAL LIABILITIES AND EQUITY (DEFICIENCY)</b>		<b>\$ 32,506,299</b>	<b>\$ 25,644,774</b>

Operations of the Company and Going Concern (Note 1)

Subsequent Events (Note 16)

Approved on behalf of the Board of Directors on November 22, 2022

*/s/ Travis Heilman*  
\_\_\_\_\_  
Director

*/s/ Bob Blink*  
\_\_\_\_\_  
Director

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

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

For the period ended	Note	Three months ended		Nine months ended	
		August 31, 2022	August 31, 2021	August 31, 2022	August 31, 2021
<b>REVENUES</b>					
Product revenue		\$ 636,629	\$ 849,839	\$ 1,764,040	\$ 2,175,479
Service revenue		47,520	125,290	426,299	125,290
Cost of finished cannabis inventory sold		(829,932)	(933,600)	(2,068,256)	(2,048,669)
<b>GROSS MARGIN BEFORE FAIR VALUE ADJUSTMENTS</b>		<b>\$ (145,783)</b>	<b>\$ 41,529</b>	<b>\$ 122,083</b>	<b>\$ 252,100</b>
Realized gain (loss) in fair value of biological assets	4	314	37,370	67,961	109,190
Unrealized gain (loss) in fair value of biological assets	4	(104,742)	16,007	18,291	299,448
<b>GROSS MARGIN</b>		<b>\$ (250,211)</b>	<b>\$ 94,906</b>	<b>\$ 208,335</b>	<b>\$ 660,738</b>
<b>EXPENSES</b>					
Amortization	8, 9	572,275	68,034	1,687,201	287,966
Bad debt expense		59,512	1,528	59,512	1,528
Selling, general and administrative expenses	15	613,935	81,250	3,075,762	4,637,454
<b>TOTAL EXPENSES</b>		<b>\$ (1,245,722)</b>	<b>\$ (150,812)</b>	<b>\$ (4,822,475)</b>	<b>\$ (4,926,948)</b>
<b>LOSS BEFORE OTHER ITEMS</b>		<b>(1,495,933)</b>	<b>(55,906)</b>	<b>(4,614,140)</b>	<b>(4,266,210)</b>
Accretion expense	10, 11	(27,772)	(1,244,245)	(73,108)	(1,156,798)
Change in fair value of convertible debt	11	(438,983)	940,087	-	921,733
Foreign exchange		(1,422,213)	1,732,673	(1,975,660)	(1,508,104)
Gain (loss) on debt modification		1,297,533	-	1,300,628	100,000
Gain (loss) on legal settlement		-	-	3,095	100,000
Gain (loss) on settlement of accounts payable	12	-	30,595	(700,000)	15,471
Interest expense	9, 10, 11	(229,759)	(244,415)	(856,887)	(734,339)
<b>NET LOSS</b>		<b>\$ (2,317,127)</b>	<b>\$ 1,158,789</b>	<b>\$ (6,916,072)</b>	<b>\$ (6,528,247)</b>
<b>OTHER COMPREHENSIVE INCOME (LOSS)</b>					
(Items that may be subsequently reclassified to profit and loss)					
Foreign currency translation		(659,654)	(1,126,140)	(483,919)	347,550
<b>COMPREHENSIVE LOSS FOR THE PERIOD</b>		<b>\$ (2,976,781)</b>	<b>\$ 32,649</b>	<b>\$ (7,399,991)</b>	<b>\$ (6,180,697)</b>
<b>Loss per share</b>					
Basic and diluted		\$ (0.03)	\$ (0.01)	\$ (0.07)	\$ (0.12)
Weighted average shares outstanding, basic and diluted		105,623,015	53,333,204	105,623,015	53,333,204

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

	Number of common shares	Share Capital	Reserves	Accumulated Other Comprehensive Income	Deficit	Total equity (deficiency)
<b>Balance at November 30, 2020</b>	<b>47,867,080</b>	<b>\$ 46,545,058</b>	<b>\$ 7,596,616</b>	<b>\$ 459,257</b>	<b>\$ (45,262,470)</b>	<b>\$ 9,338,461</b>
Shares issued for cash	2,625,067	2,153,974	-	-	-	2,153,974
Share issuance costs - cash	-	(108,543)	-	-	-	(108,543)
Share issuance costs - broker units	23,600	-	-	-	-	-
Share issuance costs - broker warrants	-	(64,143)	64,143	-	-	-
Shares issued upon exercise of warrants	1,250,200	1,132,651	(32,500)	-	-	1,100,151
Shares issued upon exercise of options	450,000	705,785	(255,785)	-	-	450,000
Shares for settlement of debt	920,388	848,031	-	-	-	848,031
Cancellation of shares	(37,131)	(25,082)	25,082	-	-	-
Warrants issued for cash	-	-	190,000	-	-	190,000
Share-based compensation	-	-	886,083	-	-	886,083
Other comprehensive income	-	-	-	347,550	-	347,550
Net loss for the period	-	-	-	-	(6,528,247)	(6,528,247)
<b>Balance at August 31, 2021</b>	<b>53,099,204</b>	<b>\$ 51,187,731</b>	<b>\$ 8,473,639</b>	<b>\$ 806,807</b>	<b>\$ (51,790,717)</b>	<b>\$ 8,677,460</b>
Shares issued upon exercise of warrants	234,000	243,000	(11,250)	-	-	231,750
Shares for services	71,398	38,555	-	-	-	38,555
Issuance of convertible debt	-	-	29,697	-	-	29,697
Share-based compensation	-	-	1,109,031	-	-	1,109,031
Other comprehensive income	-	-	-	(263,238)	-	(263,238)
Net loss for the period	-	-	-	-	(6,564,411)	(6,564,411)
<b>Balance at November 30, 2021</b>	<b>53,404,602</b>	<b>\$ 51,469,286</b>	<b>\$ 9,601,117</b>	<b>\$ 543,569</b>	<b>\$ (58,355,128)</b>	<b>3,258,844</b>
Shares issued for cash	10,000,000	1,000,000	-	-	-	1,000,000
Share issuance costs - cash	-	(28,350)	-	-	-	(28,350)
Share issuance costs - broker warrants	-	(28,350)	28,350	-	-	-
Shares for settlement of debt	33,427,061	4,042,706	-	-	-	4,042,706
Share-based compensation	-	-	240,741	-	-	240,741
Exercise of convertible debt	8,791,352	879,135	33,121	-	-	912,256
Issuance of convertible debt	-	-	35,454	-	-	35,454
Other comprehensive income	-	-	-	(483,919)	-	(483,919)
Net loss for the period	-	-	-	-	(6,916,072)	(6,916,072)
<b>Balance at August 31, 2022</b>	<b>105,623,015</b>	<b>\$ 57,334,427</b>	<b>\$ 9,938,783</b>	<b>\$ 59,650</b>	<b>\$ (65,271,200)</b>	<b>\$ 2,061,660</b>

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

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

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

<b>For the six month period ended</b>	<b>August 31, 2022</b>	<b>August 31, 2021</b>
<b>OPERATING ACTIVITIES</b>		
Net loss for the period	\$ (6,916,072)	\$ (7,787,036)
Items not affecting cash		
Accretion	73,108	337,189
Amortization	1,687,201	217,466
Change in fair value of biological assets	(18,291)	(283,441)
Change in fair value of convertible debt	-	17,286
Gain on legal settlement	(3,095)	-
Interest expense	856,887	242,007
Loss (gain) on settlement of accounts payable	700,000	(18,354)
Share-based compensation	240,741	1,221,604
Changes in non-cash working capital:		-
Accounts payable and accrued liabilities	3,201,053	1,442,192
Accounts receivable	197,979	(88,714)
Biological assets	122,875	(426,122)
Inventory	(1,101,648)	(348,120)
Prepaid expenses	(5,515)	(2,865)
Due to/from related parties	17,086	2,312,214
<b>CASH FLOWS USED IN OPERATING ACTIVITIES</b>	<b>(947,691)</b>	<b>(3,164,694)</b>
<b>FINANCING ACTIVITIES</b>		
Payment of interest on convertible debt	-	-
Payment of interest on loans payable	-	(239,428)
Payment of lease liabilities	(166,212)	(141,289)
Proceeds from issuance of shares	1,000,000	2,131,974
Proceeds from issuance of warrants	-	110,000
Proceeds from exercise of warrants	-	450,000
Proceeds from exercise of options	-	1,086,553
Share issuance costs - cash	(28,350)	(108,542)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>	<b>805,438</b>	<b>3,289,268</b>
<b>INVESTING ACTIVITIES</b>		
Acquisition of property, plant, and equipment	(1,733,780)	-
Proceeds from issuance of convertible debt	1,677,312	2,415,600
<b>CASH FLOWS USED IN INVESTING ACTIVITIES</b>	<b>1,677,312</b>	<b>2,415,600</b>

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

## **TRANSCANNA HOLDINGS INC.**

Notes to the Condensed Consolidated Financial Statements

For the period ended August 31, 2022

(Amounts expressed in Canadian dollars, unless otherwise indicated)

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### **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 \$65,271,200 with a working capital surplus of \$1,076,305 as at August 31, 2022.

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, 2021. These financial statements do not include all disclosures required for



**TRANSCANNA HOLDINGS INC.**

Notes to the Condensed Consolidated Financial Statements

For the period ended August 31, 2022

(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 October 31, 2022.

**3. 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:

<b>Biological assets</b>	<b>August 31, 2022</b>	<b>November 30, 2021</b>
<b>Carrying amount, beginning</b>	<b>\$ 237,694</b>	<b>\$ 434,984</b>
Production costs capitalized	(122,875)	946,010
Transferred to inventories upon harvest	13,655	(1,199,711)
Changes in fair value less costs to sell due to biological transformation	18,291	66,710
Foreign exchange adjustments	(10,299)	(10,299)
<b>Carrying amount, ending</b>	<b>\$ 136,466</b>	<b>\$ 237,694</b>

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:

- 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 periods ended August 31, 2022, was US\$ 3.86 (2021 – US\$ 6.98) per gram;
- The stage of plant growth at which point of harvest is determined. As of August 31, 2022, the biological assets were on average 46% (2021 - 32%) completed;
- Expected costs to grow were determined by estimating the Company's average cost per gram, which was \$2.48 (2021- \$4.86) per gram and equivalent gram of cannabis sold as of August 31, 2022; and
- Expected yield per plant varies by strain and is estimated through historical growing. The Company's average dry yield per plant as of August 31, 2022 was 65 grams (2021 - 75 grams) per cannabis plant.

**TRANSCANNA HOLDINGS INC.**

Notes to the Condensed Consolidated Financial Statements

For the period ended August 31, 2022

(Amounts expressed in Canadian dollars, unless otherwise indicated)

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:

<b>Significant assumptions</b>	<b>Inputs</b>	<b>Impact of 20% change</b>
Estimated selling price per gram	USD 3.42	\$ 32,487
Stage of growth	46%	\$ 18,746
Expected yield per plant in grams	65 gm	\$ 14,826

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.

**4. INVENTORY**

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

Work in progress	\$ 162,051
Finished goods	214,919
<b>Carrying amount, November 30, 2021</b>	<b>\$ 376,970</b>
Work in progress	316,698
Finished goods	479,710
<b>Carrying amount, August 31, 2022</b>	<b>\$ 796,408</b>

On April 20, 2022, the Company experienced a break-in at its production facility and lost approximately \$479,709 in finished goods inventory to theft. The Company is actively working with their insurance provider towards a resolution to their claim.

**5. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**

	<b>August 31, 2022</b>	<b>November 30, 2021</b>
Trade payables	\$ 2,907,401	\$ 3,030,678
Accrued liabilities	148,460	61,907
	<b>\$ 3,055,861</b>	<b>\$ 3,092,585</b>

**6. ACCOUNTS RECEIVABLE**

	<b>August 31, 2022</b>	<b>November 30, 2021</b>
Sales tax receivable	\$ 9,019	\$ 79,219
Trade receivables	157,734	285,514
	<b>\$ 166,753</b>	<b>\$ 364,733</b>

**TRANSCANNA HOLDINGS INC.**

Notes to the Condensed Consolidated Financial Statements

For the period ended August 31, 2022

(Amounts expressed in Canadian dollars, unless otherwise indicated)

**7. 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 August 31, 2022, and August 31, 2021, are summarized in the table below:

	<b>August 31, 2022</b>		<b>August 31, 2021</b>	
Salaries, benefits, and management fees	\$	362,406	\$	442,803
Equity-based compensation		16,460		542,066
	\$	<b>378,866</b>	\$	<b>984,869</b>

**TRANSCANNA HOLDINGS INC.**

Notes to the Condensed Consolidated Financial Statements

For the period ended August 31, 2022

(Amounts expressed in Canadian dollars, unless otherwise indicated)

**8. PROPERTY, PLANT AND EQUIPMENT**

<b>Cost</b>	<b>Computer hardware</b>	<b>Furniture and equipment</b>	<b>Vehicle</b>	<b>Building</b>	<b>Land</b>	<b>Leasehold improvements</b>	<b>Total</b>
<b>Balance, November 30, 2020</b>	<b>\$ 50,709</b>	<b>\$ 239,860</b>	<b>\$ 118,065</b>	<b>\$ 28,462,289</b>	<b>\$ 1,583,194</b>	<b>\$ 2,106,152</b>	<b>\$ 32,560,269</b>
Additions	-	6,389	-	-	-	2,081,767	2,088,156
Foreign exchange adjustments	(75)	(3,480)	(1,820)	(292,140)	(24,400)	(32,461)	(354,376)
Balance, November 30, 2021	50,634	242,769	116,245	28,170,149	1,558,794	4,155,458	34,294,049
Additions	-	6,389	-	-	-	1,030,592	1,733,780
Foreign exchange adjustments	(58)	(1,456)	(389)	(158,748)	(8,945)	(17,855)	(187,451)
<b>Carrying amount, August 31, 2022</b>	<b>\$ 50,576</b>	<b>\$ 247,702</b>	<b>\$ 115,856</b>	<b>\$ 28,011,401</b>	<b>\$ 1,549,849</b>	<b>\$ 5,168,195</b>	<b>\$ 34,106,598</b>
<b>Accumulated amortization and impairment</b>	<b>Computer hardware</b>	<b>Furniture and equipment</b>	<b>Vehicle</b>	<b>Building</b>	<b>Land</b>	<b>Leasehold improvements</b>	<b>Total</b>
<b>Balance, November 30, 2020</b>	<b>\$ (33,921)</b>	<b>\$ (137,159)</b>	<b>\$ (45,525)</b>	<b>\$ (9,506,785)</b>	<b>\$ -</b>	<b>\$ (578,988)</b>	<b>\$ (10,302,378)</b>
Impairment reversal	-	-	-	565,704	-	-	565,704
Amortization	(15,139)	(46,430)	(22,806)	(190,742)	-	(610,509)	(885,626)
Foreign exchange adjustments	(5)	1,210	264	(3,666)	-	(2,814)	(5,011)
Balance, November 30, 2021	(49,065)	(182,379)	(68,067)	(9,135,489)	-	(1,192,311)	(10,627,311)
Amortization	(41,916)	(41,637)	(17,349)	(598,047)	-	(1,085,616)	(1,784,565)
Foreign exchange adjustments	13	894	458	157,811	-	14,852	174,028
<b>Balance, August 31, 2022</b>	<b>\$ (90,968)</b>	<b>\$ (223,122)</b>	<b>\$ (84,958)</b>	<b>\$ (9,575,725)</b>	<b>\$ -</b>	<b>\$ (2,263,075)</b>	<b>\$ (12,237,848)</b>
<b>Net book value, November 30, 2021</b>	<b>\$ 1,569</b>	<b>\$ 60,390</b>	<b>\$ 48,178</b>	<b>\$ 19,034,660</b>	<b>\$ 1,558,794</b>	<b>\$ 2,963,147</b>	<b>\$ 23,666,738</b>
<b>Net book value, August 31, 2022</b>	<b>\$ (40,392)</b>	<b>\$ 24,580</b>	<b>\$ 30,898</b>	<b>\$ 18,435,676</b>	<b>\$ 1,549,849</b>	<b>\$ 2,905,120</b>	<b>\$ 22,905,731</b>

**TRANSCANNA HOLDINGS INC.**

Notes to the Condensed Consolidated Financial Statements

For the period ended August 31, 2022

(Amounts expressed in Canadian dollars, unless otherwise indicated)

**9. LEASES**

The Company has lease agreements for its cultivation facilities that carry terms of 5 years with an option to renew on expiration.

Amounts recognized in the condensed consolidated statement of financial position related to leases for which the Company is a lessee are presented below:

Set out below are the carrying amounts of the Company's right-of-use assets recognized and the movements during the period ended August 31, 2022.

<b>Right-of-use assets</b>	
Carrying amount, November 30, 2020	\$ 1,176,578
Modifications	(2,221)
Foreign exchange adjustments	(18,133)
Carrying amount, November 30, 2021	\$ 1,156,224
Foreign exchange adjustments	29,590
Carrying amount, August 31, 2022	\$ 1,185,814
<b>Accumulated amortization</b>	
Balance, November 30, 2020	\$ (203,259)
Amortization	(228,261)
Foreign exchange adjustments	(1,256)
<b>Balance, November 30, 2021</b>	<b>\$ (432,776)</b>
Amortization	(232,540)
Foreign exchange adjustments	(17,138)
<b>Balance, August 31, 2022</b>	<b>\$ (682,454)</b>
<b>Net book value, November 30, 2021</b>	<b>\$ 723,448</b>
<b>Net book value, August 31, 2022</b>	<b>\$ 503,360</b>

**TRANSCANNA HOLDINGS INC.**

Notes to the Condensed Consolidated Financial Statements

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Set out below are the carrying amounts of lease liabilities and the movements during the period ended August 31, 2022.

<b>Lease liabilities</b>	
<b>Carrying amount, November 30, 2020</b>	<b>\$ 1,010,182</b>
Interest expense	100,557
Payments	(283,876)
Modifications	(2,221)
Foreign exchange adjustments	(19,092)
<b>Carrying amount, November 30, 2021</b>	<b>\$ 805,550</b>
Interest expense	136,701
Payments	(166,212)
Foreign exchange adjustments	(52,264)
<b>Carrying amount, August 31, 2022</b>	<b>\$ 723,775</b>
Less: Current portion	(122,517)
<b>Long-term portion of lease liability</b>	<b>\$ 601,258</b>

**10. LOANS PAYABLE***Lyfted Note*

On November 12, 2019, the Company acquired a 100% interest in Lyfted. Pursuant to the terms of the purchase, the Company provided a non-interest-bearing note payable (the 'Lyfted Note') for the amount with a face value \$5,316,000 due June 30, 2020. This was present valued using a 17.5% discount rate for a fair value of \$4,804,027 due to being a below market rate debt instrument.

Under the terms of the debt agreement if the loan was not converted to shares within 3 business days subsequent to June 30, 2020 the loan would be repayable at 15% of the gross revenue received 30 days subsequent to each quarter end. As the debt was not converted this resulted in a change of estimated cash flows and the debt is reported at the carrying value of the estimated future cash flows of all payments at amortized cost using the original discount rate of 17.5%. This resulted in a carrying value of the debt at November 30, 2020 of \$3,487,612 and a gain on debt modification of \$1,091,942.

As at November 30, 2021 the loan was considered to be in default which resulted in a change of the status of the debt to an on-demand current liability with a carrying value of the debt at November 31, 2021 of \$4,408,065 and a loss on debt modification of \$464,303. The gain on debt modification is reported under "Other items" on the condensed consolidated statements of comprehensive loss.

During the period ended August 31, 2022, the Company recognized accretion expense for the amount of \$nil (2021 - \$289,967).

*Daly Note*

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 (the 'Daly Note') with an interest rate of 7% per annum and an original maturity date of October 15, 2019 secured against the facility.

## TRANSCANNA HOLDINGS INC.

Notes to the Condensed Consolidated Financial Statements

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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.

During the year ended November 30, 2020, the Company, through its wholly owned subsidiary, Dalvi, LLC 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 year ended November 30, 2021, the Company, through its wholly owned subsidiary, Dalvi, LLC entered into an Amendment Agreement to capitalize accrued interest of \$616,019 (US\$ 491,400) to the principal of the note.

During the period ended August 31, 2022, the Company provided a lumpsum payment against the Daly Note for the amount of \$9,919,951 (US\$ 7,570,170). The residual principal of \$655,200 was capitalized alongside accounts payable of \$864,597 into a promissory note. In accordance with *IFRS 9 Financial Instruments*, the conversion of the prior note to a promissory note constituted a substantial change in the cash flows towards the debt. As such, the instrument was derecognized its entirety with the resulting note being recorded as a new debt instrument with a gain on debt modification of \$1,300,628

During the period ended August 31, 2022, the Company recorded interest expense for \$937,736 (2021 - \$803,456 capitalized) and accretion expense of \$44,973 (2021 - \$52,902).

### *Construction Note*

During the period ended August 31, 2022, the Company, through its wholly owned subsidiary, Lyfted entered into an agreement to refinance the Daly Note for a promissory note for gross proceeds of \$20,714,803 (US\$ 15,808,000) with an interest rate of 14% per annum and a maturity date of July 29, 2026. The proceeds from the note were used towards payments against the Daly Note and the March 2021 convertible note for the amounts of \$9,919,951 (US\$ 7,570,170) and \$1,310,400 (US\$ 1,000,000) respectively. Included in the proceeds is \$7,730,251 in restricted cash to be used solely for the purposes of financing the Company's capital expenditures and its tax liability.

During the period ended August 31, 2022, the Company recorded interest expense of \$235,531 (2021 - \$nil).

### *Farm Note*

During the period ended August 31, 2022, the Company provided a lumpsum payment against the March 2021 convertible note for the amount of \$1,310,400 (US\$ 1,000,000) and converted the note to a standard interest-bearing promissory note with an interest rate of 12% per annum. In accordance with *IFRS 9 Financial Instruments*, the conversion of the convertible debt to a promissory note constituted a substantial change in the cash flows towards the debt. As such, the instrument was derecognized its entirety and the resulting

During the period ended August 31, 2022, the Company recorded interest expense of \$235,531 (2021 - \$nil).

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<b>Loans payable</b>	<b>Lyfted Note</b>	<b>Daly Note</b>	<b>Construction Note</b>	<b>Farm Note</b>	<b>Total</b>
<b>Balance, November 30, 2020</b>	<b>\$ 3,487,612</b>	<b>\$ 9,091,534</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 12,579,146</b>
Loans received	-	-	-	-	-
Loans and interest repaid	(63,885)	(270,234)	-	-	(334,119)
Interest expense	-	1,079,793	-	-	1,079,793
Accretion expense	554,205	70,036	-	-	624,241
(Gain) loss on debt modification	464,303	-	-	-	464,303
Foreign exchange adjustments	(34,170)	(127,117)	-	-	(161,287)
<b>Balance, November 30, 2021</b>	<b>\$ 4,408,065</b>	<b>\$ 9,844,012</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 14,252,077</b>
Loans received	-	1,519,797	20,714,803	1,310,400	23,545,000
Loans and interest repaid	(1,500,000)	(9,919,951)	-	-	(11,419,951)
Interest expense	-	937,736	235,531	12,771	1,186,038
Accretion expense	-	44,973	-	-	44,973
(Gain) loss on debt modification	-	(1,300,628)	-	-	(1,300,628)
Foreign exchange adjustments	(51,332)	(1,125,939)	1,271,162	333	94,224
<b>Balance, August 31, 2022</b>	<b>2,856,733</b>	<b>-</b>	<b>22,221,496</b>	<b>1,323,504</b>	<b>26,401,733</b>
Less: Current portion	(2,856,733)	-	-	-	(2,856,733)
<b>Long-term portion of loans payable</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 22,221,496</b>	<b>\$ 1,323,504</b>	<b>\$ 23,545,000</b>



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### **11. CONVERTIBLE DEBT**

#### *March 2021*

On March 24, 2021, the Company completed the offering of a secured convertible note ('March 2021') 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 0.75). 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. The note can be repaid in full or part in advance of the maturity date under a 125% early-payment penalty of the principal amount repaid.

The Company has designated these March 2021 convertible notes to be measured at fair value through profit or loss (FVTPL). At inception, the fair value of the instruments was measured at the transaction amounts.

As at August 31, 2022, the March 2021 liability was estimated based on a model that incorporated both Black-Scholes and the estimated borrowing rate, assuming a risk-free rate of 2.62%, a duration of 0.81 years, and based on the USD/CAD exchange rate of 0.79 on that date as having a fair value of \$nil. The debt host contract was estimated based on the Company's unsecured borrowing rate of 30.50%, a duration of 0.81 years, annual coupon payments of \$251,560 resulting in a present value of \$2,051,983.

#### *September 2021*

On September 14, 2021, the Company completed the offering of unsecured convertible notes ('September 2021') for an aggregate principal amount of \$1,156,000. The note can be exchanged into common shares at a conversion price of \$0.85. The convertible notes accrue simple interest at 12% per annum payable monthly with the principal and any accrued interest payable in full on September 14, 2022.

The Company used the residual method to allocate the liability and equity portions of the notes. The fair value of the liability was measured with the discounted cash flow method using a risk-adjusted discount rate of 15%. Upon initial recognition, the Company recorded a liability of \$1,048,919 within other current liabilities in the condensed consolidated statements of financial position and will be amortized over the 1-year term of the convertible notes with an effective accretion rate of 2.81%.

The residual amount of \$32,019 was allocated to the equity component and presented net of \$2,322 of transaction costs for a net value of \$29,697 in the statement of changes in equity.

During the period ended August 31, 2022, the Company recognized accretion expense of \$231,515, related to the convertible notes. During the period ended August 31, 2022, the fair value of the convertible debt decreased by \$438,983 and is recorded in other expense in the condensed consolidated statement of comprehensive loss.

#### *July 2022*

During the period ended August 31, 2022, the Company completed the offering of unsecured convertible notes ('July 2022') for an aggregate principal amount of \$1,677,312. The notes can be exchanged into common shares at a conversion price of \$0.15. The convertible notes accrue simple interest at 7% per annum payable monthly.

The Company used the residual method to allocate the liability and equity portions of the notes. The fair value of the liability was measured with the discounted cash flow method using a risk-adjusted discount rate of 15%. Upon initial

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recognition, the Company recorded a liability of \$1,641,858 within other current liabilities in the condensed consolidated statements of financial position.

The residual amount of \$35,454 was allocated to the equity component.

During the period ended August 31, 2022, the Company recognized accretion expense of \$4,257, related to the convertible notes.

<b>Convertible debt</b>	<b>March 2021</b>	<b>September 2021</b>	<b>July 2022</b>	<b>Total</b>
<b>Balance, November 30, 2021</b>	\$ -	\$ -	\$ -	\$ -
Loans received	2,515,600	1,156,000	-	3,671,600
Allocated to equity reserves, net of transaction costs	-	(32,019)	-	(32,019)
Transaction costs	-	(75,062)	-	(75,062)
Debt component	2,515,600	1,048,919	-	3,564,519
Amortization of transaction costs	-	15,835	-	15,835
Loans and interest repaid	-	(29,285)	-	(29,285)
Interest expense	171,867	29,285	-	201,152
Accretion expense	-	6,681	-	6,681
Change in fair value	(108,840)	-	-	(108,840)
Foreign exchange adjustments	41,012	-	-	41,012
<b>Balance, November 30, 2021</b>	2,619,639	1,071,435	-	3,691,074
Loans received	-	-	1,677,312	1,677,312
Allocated to equity reserves, net of transaction costs	-	-	(35,454)	(35,454)
Amortization of transaction costs	-	37,428	-	37,428
Loans and interest repaid	(1,310,400)	(69,360)	-	(1,379,760)
Interest expense	127,710	69,360	9,536	206,606
Accretion expense	216,568	15,947	4,257	236,772
Conversion to shares upon exercise	-	(912,256)	-	(912,256)
Conversion to promissory note	(1,310,400)	-	-	(1,310,400)
Change in fair value	-	-	-	-
Foreign exchange adjustments	(343,117)	-	(301,978)	(645,095)
<b>Balance, August 31, 2022</b>	-	212,554	1,353,673	1,566,227
Less: Current portion	-	(212,554)	(1,353,673)	(1,566,227)
<b>Long-term portion of convertible debt</b>	\$ -	\$ -	\$ -	\$ -

**12. SHARE CAPITAL**

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

During the period ended August 31, 2022, the Company:

- Issued 10,000,000 Units at \$0.10 per Unit for gross proceeds of \$1,000,000. 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 \$0.15 per share until April 1, 2023.
- \$28,350 in cash;

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- 283,500 broker warrants with a fair value of \$28,350.
- Issued 15,000,000 shares with a fair value of \$2,200,000 for the extinguishment of CAD\$ 1,500,000 (US\$ 1,200,000) in outstanding debt to an officer of the Company and recognized a loss on debt settlement of \$700,000.
- Issued 8,791,352 shares upon the conversion of its September 2021 debentures.
- Issued 18,427,061 shares with a fair value of \$1,842,706 for the extinguishment of \$1,842,706 in outstanding debt to officers, employees, and consultants of the Company.

During the period ended August 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 1,934,200 shares upon the exercise of 1,484,200 warrants and 450,000 options for proceeds of \$1,781,900.
- Issued 310,000 shares with a fair value of \$170,500 for the extinguishment of \$192,000 in outstanding debt and recognized a gain on debt settlement of \$21,500.
- Returned 37,131 shares to treasury with a fair value of \$25,082.

### **13. 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.

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

	Number of options	Weighted average exercise price	Weighted average remaining life (in years)
<b>Balance, November 30, 2021</b>	<b>2,247,333</b>	<b>\$ 1.04</b>	<b>3.12</b>
Granted	3,816,667	1.00	3.93
Exercised	(450,000)	1.00	-
Expired	(345,000)	1.03	-
<b>Balance, November 30, 2021</b>	<b>5,269,000</b>	<b>\$ 1.04</b>	<b>3.12</b>
Expired/cancelled	(456,500)	1.03	-
<b>Balance, August 31, 2022</b>	<b>4,812,500</b>	<b>\$ 1.02</b>	<b>3.05</b>

As of August 31, 2022, outstanding and exercisable options to purchase common shares consisted of the following:

	Number of options outstanding	Number of options exercisable	Exercise price	Weighted average remaining life (in years)
January 19, 2023	600,000	600,000	1.00	0.39
November 6, 2024	400,000	400,000	1.00	2.19
November 6, 2024	200,000	200,000	1.00	2.19
February 18, 2025	515,833	515,833	1.00	2.47
December 1, 2025	300,000	300,000	1.00	3.25
January 19, 2026	558,333	558,333	1.00	3.39
July 9, 2026	1,050,000	1,050,000	1.00	3.86
July 9, 2026	688,334	688,334	1.00	3.86
July 9, 2026	400,000	300,000	1.00	3.86
July 9, 2026	100,000	75,000	1.00	3.86
	<b>4,812,500</b>	<b>4,687,500</b>	<b>\$ 1.02</b>	<b>2.95</b>

**14. 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)
<b>Balance, November 30, 2020</b>	<b>17,688,322</b>	<b>\$ -</b>	<b>1.63</b>
Granted	6,857,617	0.95	1.37
Exercised	(1,484,200)	0.90	-
<b>Balance, November 30, 2021</b>	<b>23,061,739</b>	<b>\$ -</b>	<b>1.63</b>
Granted	148,983,280	0.20	2.34
Expired	(13,308,282)	2.03	-
<b>Balance, August 31, 2022</b>	<b>158,736,737</b>	<b>\$ 0.94</b>	<b>1.61</b>

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As of August 31, 2022, outstanding equity-classified warrants to purchase common shares consisted of the following:

	<b>Number of warrants</b>	<b>Exercise price</b>	<b>Weighted average remaining life (in years)</b>
November 18, 2022	1,632,800	0.75	0.22
November 18, 2022	63,040	0.75	0.22
January 29, 2023	3,800,000	1.00	0.41
March 21, 2023	1,578,194	1.00	0.55
March 21, 2023	42,000	1.00	0.55
December 3, 2023	1,356,873	0.75	1.26
December 3, 2023	80,550	0.75	1.26
February 21, 2024	1,200,000	2.60	1.48
April 1, 2024	10,000,000	0.20	1.59
April 1, 2024	283,500	0.20	1.59
April 1, 2024	15,000,000	0.20	1.59
August 2, 2024	51,208,682	0.15	1.92
July 20, 2027	8,791,352	0.10	4.89
July 29, 2027	16,666,666	0.12	4.91
July 29, 2027	15,412,605	0.12	4.91
July 29, 2027	18,426,061	0.12	4.91
August 2, 2027	13,194,414	0.14	4.92
	<b>158,736,737</b>	<b>\$ 0.20</b>	<b>3.16</b>

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**15. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES**

	<b>Three months ended</b>		<b>Nine months ended</b>	
	<b>August 31, 2022</b>	<b>August 31, 2021</b>	<b>August 31, 2022</b>	<b>August 31, 2021</b>
Advertising and promotion	\$ (1,422)	\$ 16,250	\$ 4,904	\$ 151,579
Consulting	31,719	877,182	131,997	918,795
Insurance	(2,699)	(401,676)	125,859	10,699
Investor relations	19,075	19,689	49,630	888,404
Legal fees	56,518	77,909	122,107	102,021
Management fees	7 5,000	15,000	35,000	45,000
Meals and entertainment	(57)	3,201	383	9,499
Office and miscellaneous	25,191	696,679	62,600	314,427
Professional fees	-	61,220	-	81,494
Regulatory and transfer fees	27,601	(120,954)	36,179	40,873
Rent and utilities	108,685	(24,667)	492,954	119,386
Repairs and maintenance	(432)	(76,751)	93,050	39,892
Salaries and benefits	7 227,373	(599,775)	1,474,270	990,152
Share-based compensation	54,337	(304,016)	240,741	917,589
Taxes and licenses	62,656	(199,244)	203,769	(46,636)
Travel	390	41,203	2,319	54,280
<b>Total selling, general and administrative expenses</b>	<b>\$ 613,935</b>	<b>\$ 81,250</b>	<b>\$ 3,075,762</b>	<b>\$ 4,637,454</b>

**16. SUBSEQUENT EVENTS**

Subsequent to the period ended August 31, 2022, the Company issued 10,901,165 shares upon the exercise of its convertible debentures.