



Greenway
Greenhouse
Cannabis
Corporation

GREENWAY GREENHOUSE CANNABIS CORPORATION

CONDENSED INTERIM FINANCIAL STATEMENTS

For the Three and Nine Months Ended
December 31, 2023 and 2022

(Unaudited - In Canadian Dollars)

NOTICE TO READER

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

The accompanying unaudited 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 interim financial statements in accordance with standards established by the Canadian Institute of Chartered Professional Accountants of Canada for a review of interim financial statements by an entity's auditor

Greenway Greenhouse Cannabis Corporation

Condensed Interim Statements of Financial Position

(Unaudited - in Canadian dollars)

		December 31, 2023	March 31, 2023
	Notes	\$	\$
Assets			
Current assets			
Cash		2,353,096	3,642,109
Accounts receivable		834,209	770,185
Government remittances receivable		24,046	-
Inventory	4	2,053,005	1,493,123
Biological assets	5	396,735	269,310
Prepaid expenses and deposits		219,619	196,019
		5,880,710	6,370,746
Property, plant and equipment	6	28,904,360	28,933,780
		34,785,070	35,304,526
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	11	5,442,565	6,400,778
Current portion of lease liabilities	7	368,394	349,651
Current portion of long-term debt	8	-	40,000
		5,810,959	6,790,429
Lease liabilities	7	8,385,001	8,666,723
Convertible debentures	9	2,440,710	-
Long-term debt	8	4,900,000	4,900,000
		21,536,671	20,357,152
Shareholders' Equity			
Share capital	10	24,043,978	23,697,389
Warrants reserve	15	295,201	165,690
Share-based payments reserve	14	6,289,098	5,537,504
Equity component of convertible debenture	9	463,644	-
Deficit		(17,842,522)	(14,453,209)
		13,248,399	14,947,374
		34,785,070	35,304,526

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

Greenway Greenhouse Cannabis Corporation
Condensed Interim Statements of Loss and Comprehensive Loss
(Unaudited - in Canadian dollars)

	Notes	For the three months ended December 31,		For the nine months ended December 31,	
		2023 \$	2022 \$	2023 \$	2022 \$
Revenue		1,388,200	1,038,402	3,748,000	4,266,330
Cost of sales					
Cost of goods sold	4,11	1,192,135	508,368	2,766,141	2,335,964
Amortization	4,6	386,909	177,267	830,847	680,331
Gross profit before fair value adjustments		(190,844)	352,767	151,012	1,250,035
Fair value adjustment on sale of inventory	4	-	(276,336)	(48,226)	(824,210)
Fair value adjustment on growth of biological assets	5	83,837	417,379	132,063	1,510,298
Gross profit		(107,007)	493,810	234,849	1,936,123
Operating expenses					
General and administration	11,16	323,092	288,463	1,001,273	968,569
Amortization	6	84,191	126,243	244,215	378,729
Share-based compensation	11,14	585,244	231,850	751,594	539,300
Professional fees		78,898	104,199	178,606	203,012
Marketing and sales		46,470	56,097	150,188	193,193
Transaction costs		-	17,126	-	51,654
Investor relations	9,10	120,000	-	390,000	-
Bad debt		-	-	268,237	-
		1,237,895	823,978	2,984,113	2,334,457
Operating loss		(1,344,902)	(330,168)	(2,749,264)	(398,457)
Interest expense	7,8,9,11	(272,417)	(308,793)	(640,049)	(871,438)
Rental income	11	-	62,500	-	187,500
Loss and comprehensive loss		(1,617,319)	(576,461)	(3,389,313)	(1,082,272)
Weighted average number of common shares - basic		131,584,092	130,924,747	131,393,004	130,924,747
Weighted average number of common shares - diluted		131,584,092	130,924,747	131,393,004	130,924,747
Loss per share - basic	17	(0.01)	(0.00)	(0.03)	(0.01)
Loss per share - diluted	17	(0.01)	(0.00)	(0.03)	(0.01)

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

Greenway Greenhouse Cannabis Corporation

Condensed Interim Statements of Changes in Equity

(Unaudited - in Canadian dollars)

For the nine months ended December 31, 2022	Notes	Number of common shares	Share capital amount \$	Warrants reserve \$	Share-based payments reserve \$	Equity component of convertible debenture \$	Deficit \$	Total \$
Balance, March 31, 2022		130,924,747	23,697,389	165,690	4,845,891	-	(11,848,779)	16,860,191
Share-based payments	14	-	-	-	539,300	-	-	539,300
Stock options expired		-	-	-	(1,275)	-	1,275	-
Net loss		-	-	-	-	-	(1,082,272)	(1,082,272)
Balance, December 31, 2022		130,924,747	23,697,389	165,690	5,383,916	-	(12,929,776)	16,317,219

For the nine months ended December 31, 2023	Notes	Number of common shares	Share capital amount \$	Warrants reserve \$	Share-based payments reserve \$	Equity component of convertible debenture \$	Deficit \$	Total \$
Balance, March 31, 2023		130,924,747	23,697,389	165,690	5,537,504	-	(14,947,374)	14,947,374
Shares cancelled	10	(1,000,000)	-	-	-	-	-	-
Share-based payments	15	-	-	-	751,594	-	-	751,594
Shares issued for services rendered	10	1,389,777	346,589	-	-	-	-	346,589
Issuance of convertible debentures	9	-	-	129,511	-	462,644	-	592,155
Net loss		-	-	-	-	-	(3,389,313)	(3,389,313)
Balance, December 31, 2023		131,314,524	24,043,978	295,201	6,289,098	462,644	(17,842,522)	13,248,399

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

Greenway Greenhouse Cannabis Corporation
Condensed Interim Statements of Cash Flows
(Unaudited - in Canadian dollars)

	Notes	For the three months ended December 31,		For the nine months ended December 31,	
		2023 \$	2022 \$	2023 \$	2022 \$
Operating activities					
Net loss for the period		(1,617,319)	(576,461)	(3,389,313)	(1,082,272)
Items not affecting cash					
Amortization	6	438,135	303,510	1,268,744	1,059,060
Share-based compensation	14	585,244	231,850	751,594	539,300
Amortization of deferred financing fees		-	9,776	-	29,330
Accretion on lease liabilities	7	93,626	128,476	314,276	388,939
Accretion on convertible debentures	9	19,785	-	19,785	-
Convertible debentures issued for services rendered	9	120,000	-	120,000	-
Shares issued for services rendered	10	76,589	-	346,589	-
Fair value adjustment on sale of inventory		-	276,336	48,226	824,210
Fair value adjustment on growth of biological assets	5	(83,837)	(417,379)	(132,063)	(1,510,298)
Cash provided by (used in) operating activities before net non-cash working capital adjustments		(367,777)	(43,892)	(652,162)	248,269
Changes in non-cash working capital					
Decrease (increase) in:					
Accounts receivable		(307,817)	391,785	(64,024)	(114,356)
Government remittances receivable		6,120	150,883	(24,046)	173,050
Inventory and biological assets		122,892	(145,577)	(603,470)	98,445
Prepaid expenses and deposits		(19,427)	(2,485)	(23,600)	(75,151)
Increase (decrease) in:					
Accounts payable and accrued liabilities		431,218	399,750	100,596	1,758,598
Net cash provided by (used in) operating activities		(134,791)	750,464	(1,266,706)	2,088,855
Investing activities					
Purchase of property, plant and equipment		(1,823,939)	(2,359,194)	(2,337,888)	(5,832,093)
Net cash used in investing activities		(1,823,939)	(2,359,194)	(2,337,888)	(5,832,093)
Financing activities					
Payment of lease liabilities	7	(162,500)	(212,500)	(537,500)	(637,500)
Proceeds from (repayments of) long-term debt	8	(40,000)	(203,333)	(40,000)	(457,500)
Convertible debentures, net of issuance costs	9	2,893,081	-	2,893,081	-
Net cash used in financing activities		2,690,581	(415,833)	2,315,581	(1,095,000)
Net increase (decrease) in cash		731,851	(2,024,563)	(1,289,013)	(4,838,238)
Cash, beginning of period		1,621,245	4,666,407	3,642,109	7,480,082
Cash, end of period		2,353,096	2,641,844	2,353,096	2,641,844

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

Greenway Greenhouse Cannabis Corporation
Notes to the Condensed Interim Financial Statements
For the three and nine months ended December 31, 2023 and 2022
(Unaudited - in Canadian Dollars)

1. Nature of operations

Greenway Greenhouse Cannabis Corporation (the "Company") is licensed to cultivate, process and sell under the Cannabis Act, having obtained both Standard Cultivation and Processing licences. The Company's nursery facility is located in Kingsville, Ontario, and its flowering and processing facility is located in Leamington, Ontario. The business model is to supply bulk packaged, high quality cannabis to the Canadian cannabis industry at prices that ultimately provide a value proposition to the consumers. The Company is a majority-owned subsidiary of Sunrite Greenhouses Ltd. (the "Parent Company")

The address of the Company's registered office is 1478 Seacliff Drive, Kingsville, Ontario N9Y 2M2. The Company is a reporting issuer in the Province of Ontario and its common shares (the "Common Shares") are currently listed on the Canadian Securities Exchange ("CSE") under the symbol "GWAY" and, beginning December 1, 2022, on the OTCQB Venture Market ("OTCQB") under the symbol "GWAYF".

These financial statements were approved and authorized for use by the Board of Directors on February 26, 2024.

2. Basis of presentation and going concern

a) Statement of compliance

The Company's condensed interim financial statements have been prepared in accordance with IAS 34, "Interim Financial Reporting". These condensed interim financial statements do not include all notes of the type normally included within the annual financial report and should be read in conjunction with the audited financial statements of the Company for the year ended March 31, 2023, which have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC").

b) Basis of presentation and measurement

These condensed interim financial statements have been prepared on a historical cost basis except for certain financial instruments and biological assets, which are measured at fair value less costs to sell, and inventory which is recorded at the lower of cost and net realizable value, as detailed in the Company's accounting policies.

c) Functional currency

All figures presented in the condensed interim financial statements are reflected in Canadian dollars, which is the Company's functional currency.

Foreign currency transactions are translated to the functional currency of the Company at the exchange rates in effect on the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated to the functional currency at the foreign exchange rate applicable at the statement of financial position date. Non-monetary items carried at historical cost denominated in foreign currencies are translated to the functional currency at the date of the transactions. Non-monetary items carried at fair value denominated in foreign currencies are translated to the functional currency at the date when the fair value was determined. Realized and unrealized exchange gains and losses are recognized through profit and loss.

d) Going concern

These condensed interim financial statements have been prepared on a going concern basis which presumes that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge liabilities in the normal course of its operations. As of December 31, 2023, the Company had a working capital surplus of \$69,751 (March 31, 2023 - working capital deficiency of \$419,683) and an accumulated deficit of \$17,842,522 (March 31, 2023 - accumulated deficit of \$14,453,209). For the nine months ended December 31, 2023, the Company generated (used) cash in operating activities of (\$1,266,706) (2022 - generated \$2,088,855), resulting primarily from the net loss of \$3,389,313 (2022 - net loss of \$1,082,272) offset by items not affecting cash such as amortization, share-based compensation, and accretion on lease liabilities and convertible debentures. The Company has insufficient cash to pay creditors for the current working capital obligations and operations for the next twelve months. The Company's ability to continue as a going concern is dependent upon its ability to obtain sufficient additional funding and to generate sufficient revenues and positive cash flows from its operating activities to meet its obligations and fund its planned investments and operations. These conditions indicate the existence of a material uncertainty that may cast a significant doubt about the Company's ability to continue as a going concern.

Greenway Greenhouse Cannabis Corporation
Notes to the Condensed Interim Financial Statements
For the three and nine months ended December 31, 2023 and 2022
(Unaudited - in Canadian Dollars)

2. Basis of presentation and going concern (continued)

d) Going concern (continued)

The Company will require revenue from its products and new financing to continue as a going concern in its present form. However, there can be no assurance that the Company will achieve such results. These condensed interim financial statements do not include any adjustments related to recoverability and classification of recorded asset amounts, or the amounts and classification of liabilities that discharge its liabilities is dependent on its ability to obtain additional financing.

In assessing whether this assumption is appropriate, management takes into account all available information about the future, which is at least, but not limited to, twelve months from the end of the reporting period. If the going concern assumption was not appropriate for these financial statements, then adjustments would likely be necessary in the carrying amounts of assets and liabilities, expenses, the accumulated deficit and the classification used in the statement of financial position. These adjustments could be material.

3. Significant accounting policies

These condensed interim financial statements have been prepared following the same accounting policies used in the preparation of the audited financial statements of the Company for the year ended March 31, 2023. For comparative purposes, the Company has reclassified certain immaterial items on the condensed interim statements of financial position and the condensed interim statements of income (loss) and comprehensive income (loss) to conform with the current period's presentation.

4. Inventory

The following is a summary of inventory activity for the nine months ended December 31, 2023 and 2022:

	2023	2022
Balance, beginning of period	\$ 1,493,123	\$ 2,325,518
Transferred from biological assets on harvest	1,925,654	3,241,063
Processing costs capitalized	2,279,492	1,320,955
Inventory sold – cash and amortization costs	(3,596,988)	(3,016,295)
Biological transformation adjustment relieved from inventory	(48,226)	(824,210)
Balance, end of period	\$ 2,053,005	\$ 3,047,031

As of December 31, 2023 and March 31, 2023, inventory consisted of:

	December 31, 2023	March 31, 2023
Inventory finished goods, dried flower	983,221	1,581,123
Inventory-in-process, dried flower	1,069,784	266,256
Inventory impairment	-	(354,256)
Balance	\$ 2,053,005	\$ 1,493,123

During the nine months ended December 31, 2023 and 2022, the Company incurred cost of sales consisting of:

	2023	2022
Cash inputs for cultivation and processing	\$ 2,657,783	\$ 2,239,434
Shipping	76,300	61,264
Repairs and maintenance	32,058	35,266
	2,766,141	2,335,964
Amortization	830,847	680,331
Cost of sales	\$ 3,596,988	\$ 3,016,295

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(Unaudited - in Canadian Dollars)

5. Biological assets

Biological assets are comprised of cannabis plants undergoing biological transformation. The changes in the carrying value of biological assets for the nine months ended December 31, 2023 and 2022 are as follows:

	2023	2022
Balance, Beginning of period	\$ 269,310	459,442
Capitalized costs	1,921,016	1,596,895
Increase in fair value due to biological transformation	132,063	1,510,298
Less: transformation into inventory	(1,925,654)	(3,241,063)
Balance, end of period	\$ 396,735	325,572

The Company measures its biological assets at their fair value less costs to sell. This is determined using a model which estimates the expected harvest yield in grams for plants currently being cultivated, and then adjusts that amount for the expected selling price less costs to sell per gram.

The fair value measurements for biological assets have been categorized as Level 3 fair values based on the inputs to the valuation technique used. The Company's method of accounting for biological assets attributes value accretion on a straight-line basis throughout the life of the biological asset from the vegetation stage to the point of harvest and assumes the value of clones is nominal.

As at December 31, 2023, the Company's biological assets was comprised of 11,026 plants (March 31, 2023 – 6,519) which were, on average, 59% (March 31, 2023 – 43%) complete and it was expected that they would yield approximately 1,364 kg (March 31, 2023 - 1,193 kg) of dry flower.

Biological assets as at December 31, 2023 include \$81,219 (March 31, 2023 - \$52,692) of amortization expense. The following table quantifies each significant unobservable input:

	December 31,	
	2023	2022
Weighted average expected loss of plants until harvest	1%	1%
Expected dry-bud yield (average grams per plant)	160 grams	175 grams
Expected average number of growing weeks	14 weeks	14 weeks
Estimated selling price of dry bud (per gram)	\$1.10	\$1.20
Post-harvest cost to complete and sell (per gram)	\$0.45	\$0.35

These estimates, by their nature, 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.

The following table presents the effect of a 10% change in each respective input on the fair valuation of biological assets which would be reported on the statements of loss and comprehensive loss.

	December 31,	
	2023	2022
	\$	\$
Weighted average expected loss of plants until harvest	401	445
Expected dry-bud yield (average grams per plant)	39,674	44,051
Expected number of growing weeks	36,067	40,046
Estimated selling price of dry bud (per gram)	41,563	51,752
Post-harvest cost to complete and sell (per gram)	17,003	15,094

Greenway Greenhouse Cannabis Corporation
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(Unaudited - in Canadian Dollars)

6. Property, plant, and equipment

	Land	Greenhouse	Building	Warehouse equipment	Leasehold improvements	Production equipment	Office furniture and computer equipment	Right-of-use assets	Total
Cost	\$	\$	\$	\$	\$	\$	\$	\$	\$
March 31, 2022	551,299	7,342,332	200,400	100,200	12,001,202	183,925	167,876	6,490,652	27,037,886
Additions	—	—	—	—	8,967,954	85,783	—	3,228,782	12,282,519
Disposals	(551,299)	(7,342,332)	(200,400)	(100,200)	—	—	—	—	(8,194,231)
March 31, 2023	—	—	—	—	20,969,156	269,708	167,876	9,719,434	31,126,174
Additions	—	—	—	—	1,192,368	86,711	—	—	1,279,079
Disposals	—	—	—	—	—	—	—	—	—
Adjustment (note 7)	—	—	—	—	—	—	—	(39,755)	(39,755)
Dec. 31, 2023	—	—	—	—	22,161,524	356,419	167,876	9,679,679	32,365,498
Accumulated amortization									
March 31, 2022	—	1,050,674	35,710	28,568	639,688	15,875	21,864	601,736	2,394,115
Amortization	—	220,270	7,515	6,012	566,024	19,360	3,315	324,532	1,147,028
Disposals	—	(1,270,944)	(43,225)	(34,580)	—	—	—	—	(1,348,749)
March 31, 2023	—	—	—	—	1,205,712	35,235	25,179	926,268	2,192,394
Amortization	—	—	—	—	862,652	17,761	2,486	385,845	1,268,744
Disposals	—	—	—	—	—	—	—	—	—
Dec. 31, 2023	—	—	—	—	2,068,364	52,996	27,665	1,312,113	3,461,138
Net book value									
March 31, 2022	551,299	6,291,658	164,690	71,632	11,361,514	168,050	146,012	5,888,916	24,643,771
March 31, 2023	—	—	—	—	19,763,444	234,473	142,697	8,793,166	28,933,780
Dec. 31, 2023	—	—	—	—	20,093,160	303,423	140,211	8,367,566	28,904,360

Of the amortization incurred in the three and nine months ended December 31, 2023, \$84,191 and \$244,215 (2022 - \$126,243 and \$378,729) respectively, has been expensed in operating expenses and the remainder has been recorded through the Company's biological assets and inventory costing in accordance with IAS 2 Inventories. The adjustment is described in note 7.

Greenway Greenhouse Cannabis Corporation
Notes to the Condensed Interim Financial Statements
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(Unaudited - in Canadian Dollars)

7. Lease liabilities

The Company leases a greenhouse facility from Via Verde Hydroponics Ltd., a company related by way of common ownership with the majority shareholders of the Company. The initial lease term for the greenhouse was 20 years, maturing on April 30, 2039. In April 2022, the Company exercised its right to expand the leased space to an aggregate of approximately 167,000 square feet. The Company also leases a nursery facility from Sunrite Greenhouses Ltd., the majority shareholders of the Company. The initial lease term for the greenhouse was 18 years, maturing on April 30, 2039.

March 31, 2022	6,121,370
Additions	3,228,782
Lease payments	(850,000)
Interest expense	516,222
March 31, 2023	\$ 9,016,374
Additions	-
Adjustment	(39,755)
Lease payments	(537,500)
Interest expense	314,276
December 31, 2023	\$ 8,753,395

For the three and nine months ended December 31, 2023, the Company recognized an interest expense on lease liabilities in the amount of \$93,627 and \$314,277 (2022 - \$128,476 and \$388,939), respectively, in the statements of loss and comprehensive loss.

The Company recognized cash outflow for lease payments of \$162,500 and \$537,500 for the three month and nine months ended December 31, 2023 (2022 - \$212,500 and \$637,500), respectively, in the statements of cash flows.

The Company used an incremental borrowing rate of 5.50% at the date of the initial application, for both the greenhouse and nursery leases. For the new square footage leased as of April 2022, the Company used an incremental borrowing rate of 5.95%. The square footage expansion was complete and operational as of May 2023. As the new square footage was not complete or operational for the month of April 2023, \$35,653 of interest expenses were capitalized to leasehold assets in the three months ended June 30, 2023. Commencing July 1, 2023, the Company has allowed Via Verde Hydroponics to utilize a portion of the unutilized square footage expansion, in exchange for temporary relief of prorated rental expenses. Due to the reduced rent, the Company assessed the long-term lease liability and decreased it and the corresponding right-of-use assets by \$39,755 and will assess the balance on an ongoing basis.

A maturity analysis of lease liabilities as at December 31, 2023 is as follows:

\$	
Year ending March 31, 2024	212,500
Year ending March 31, 2025	850,000
Year ending March 31, 2026	850,000
Year ending March 31, 2027	850,000
Year ending March 31, 2028	850,000
Thereafter	9,445,833
	13,058,333
Interest due over the term of the lease	4,304,938
	8,753,395
Less: Current portion	368,394
	8,385,001

Greenway Greenhouse Cannabis Corporation
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8. Long-term debt

	December 31, 2023	March 31, 2023
	\$	\$
Subordinated Credit Facility - \$4,900,000 – 5.50%, interest accrues and no current terms for repayment	4,900,000	4,900,000
Other	-	40,000
	4,900,000	4,940,000
Deduct		
Principal portion included in current liabilities	-	40,000
	4,900,000	4,900,000

Total long-term debt repayments are outlined in note 18.

The subordinated credit facility of \$4,900,000 is owed to the majority shareholder, Sunrite Greenhouses Ltd. and is secured by a charge on all assets of the Company. Interest accrues on the subordinated facility and there are no current terms for repayment.

During the three and nine months ended December 31, 2023, interest expense on long-term debt of \$67,375 and \$202,125 (2022 – \$179,170 and \$484,712), respectively, and deferred financing fees of \$nil and \$nil (2022 - \$9,776 and \$29,330), respectively, were recognized in the statements of loss and comprehensive loss.

9. Convertible debentures

	Debt component	Equity conversion feature
Balance, March 31, 2023	-	-
Issued at fair value	2,420,925	462,644
Accretion during the nine month period	19,785	-
Balance, December 31, 2023	2,440,710	462,644

On October 27, 2023, the Company issued 3,500 13% secured convertible debentures (the “Debentures”), with each Debenture being in the principal amount of \$1,000 for gross proceeds of \$3,500,000, maturing 5 years from the issuance date. The principal amount of each Debenture is convertible into Common Shares at the option of the holder at any time prior to the close of business on the last business day immediately preceding the Maturity Date at a conversion price of \$0.20 per Common Share. Following the date that is 36 months from the date of issue, the Company shall have the right, but not the obligation, upon prior written notice to the holders of the Debenture of not less than 30 days, to accelerate the Maturity Date of the Debentures. Issuance costs related to the transaction total \$486,919, as well as 1,183,000 Finders’ warrants of \$129,511 as described in note 15. In connection with the above transaction, \$120,000 of investor relation services were rendered in exchange for 120 of the secured convertible debentures.

Semi-annual interest payments will be comprised of a cash payment at a rate of 10% per annum and a payment-in-kind at a rate of 3% per annum, which shall be fulfilled by delivering Common Shares at an issuance price per Common Share equal to the five-day volume-weighted average price of the Common Shares on the CSE immediately preceding the date which is two trading days prior to the date that the interest payment is due, subject to such deemed issuance price being no less than the maximum allowable discount permitted by the CSE.

At issuance, the fair value of the liability component of the Debentures was calculated using a discount rate of 18%, estimating the rate for the Debentures without the equity conversion feature attached.

Greenway Greenhouse Cannabis Corporation
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10. Share capital

Authorized

An unlimited number of common shares

Issued

There are 131,314,524 common shares issued and outstanding at December 31, 2023 (March 31, 2023 – 130,924,747).

Escrow

As at December 31, 2023, there are 30,469,550 shares held in escrow to be released as follows:

- 15,234,775 on March 22, 2024
- 15,234,775 on September 22, 2024

Activity

During the nine months ended December 31, 2023, the Company issued 964,285 common shares at \$0.28 per share for investor relations services rendered of \$270,000, 320,000 common shares at \$0.25 per share for construction services of \$57,600 (valued at \$0.18 per share at issuance) regarding the recently completed facility expansion, resulting in a gain on issuance of \$22,400 that was netted against costs in property, plant, and equipment, and 105,492 common shares at \$0.18 for interest of \$18,989 related to the convertible debenture offering as disclosed in note 9.

On December 5, 2023, 1,000,000 common shares were returned to the Company for cancellation for no consideration by the Company's largest shareholder, Sunrite Greenhouses Ltd.

During the nine months ended December 31, 2022, there was no activity.

11. Related party transactions

Key management personnel are the officers and directors of the Company. Management and directors' fees and share-based compensation for the three and nine months ended December 31, 2023 and 2022 are summarized as follows:

	For the three months ended		For the nine months ended	
	December 31,		December 31,	
	2023	2022	2023	2022
	\$	\$	\$	\$
Management and directors' fees	103,750	119,552	311,250	351,537
Share-based compensation	312,500	134,750	414,500	361,950
	416,250	254,302	725,750	713,487

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11. Related party transactions (continued)

The Company identifies the following as related parties:

Related party	Description	Relationship
Sunrite Greenhouses Ltd.	Hydroponic Cultivation	Majority Shareholder of the Company
Via Verde Hydroponics Ltd.	Hydroponic Cultivation	Common Ownership with Majority Shareholder
Del Fresco Produce Ltd.	Produce Marketer	Common Ownership with Majority Shareholder
Delfresco Express Ltd.	Produce Distribution	Common Ownership with Majority Shareholder

The Company shares certain economic resources with related parties resulting in the following expenses billed in the three and nine months ended December 31, 2023 and 2022 from related parties:

Description	Related Party	For the three months ended December 31,		For the nine months ended December 31,		
		2023	2022	2023	2022	
		\$	\$	\$	\$	
General Labour	Via Verde Hydroponics Ltd.	Cost of sales	110,468	36,575	394,976	242,830
General Labour	Sunrite Greenhouses Ltd.	Cost of sales	49,291	38,515	128,577	109,285
Utilities	Via Verde Hydroponics Ltd.	Cost of sales	79,742	53,816	226,900	204,803
Administrative Wages	Del Fresco Produce Ltd.	General and admin	18,600	13,611	56,480	65,636
Insurance	Via Verde Hydroponics Ltd.	General and admin	4,600	-	6,440	12,437
Executive Wages	Del Fresco Produce Ltd.	General and admin	15,000	27,500	44,231	82,500
Interest	Sunrite Greenhouses Ltd.	Interest expense	67,375	67,375	202,125	202,125

The Company has entered into a lease for approximately 57,000 square feet of greenhouse and warehouse space with Via Verde Hydroponics Ltd. The lease agreement commenced May 1, 2019 and the annual rent is \$250,000. As of April 1, 2022, the Company expanded the leased greenhouse space to an additional 125,000 square feet for an incremental annual rent of \$300,000. The Company has also entered into a lease for approximately 10,000 square feet of warehouse space with Sunrite Greenhouses Ltd. for an indoor nursery. The lease agreement commenced May 1, 2021 and the annual rent is \$300,000. The corresponding leased assets has been recorded as right-of-use assets as described in Note 6.

Previously, the Company had an operating lease agreement with its majority shareholder, Sunrite Greenhouses Ltd., to whom it leased approximately 667,000 square feet of greenhouse and warehouse space. The annual rent was \$250,000 and payable monthly. The lease agreement was terminated on January 19, 2023 in conjunction with the sale of the greenhouse. During the three and nine months ended December 31, 2023, the Company recognized \$nil and \$nil of rental income (2022 - \$62,500 and \$187,500), respectively, under this agreement.

As at December 31, 2023, there was a balance owing to related parties noted above of \$3,500,198 (March 31, 2023 - \$3,008,378) included in accounts payable and accrued liabilities.

Related party transactions were made in the normal course of business and have been recorded at the exchange amounts.

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12. Income taxes

No deferred tax provision is required for the three and nine months ended December 31, 2023 as the Company continues to sustain losses and deductible temporary differences remain unrecognized.

13. Capital management

The Company's objective is to maintain a sufficient capital base so as to maintain investor and creditor confidence and to sustain future development of the business and safeguard the ability to continue as a going concern. Management defines capital as the Company's shareholders' equity and debt. Since inception, the Company has primarily been financed through long-term debt and the issuance of share capital.

The Board of Directors does not establish quantitative return on capital criteria for management; but, rather promotes year over year sustainable growth. The Company is not subject to externally imposed capital requirements.

The Company currently has not paid any dividends to its shareholders.

14. Stock options

During the nine months ended December 31, 2023, the Company granted options subject to certain performance and time-based vesting conditions to directors, officers, employees, and consultants as follows:

	Number of Options	Weighted average exercise price \$
March 31, 2022	8,938,000	0.35
Granted during the year	1,400,000	1.20
Cancelled during the year	—	—
Exercised during the year	—	—
Expired during the year	(45,000)	1.03
Outstanding at March 31, 2023	10,293,000	0.54
Exercisable at March 31, 2023	9,874,444	0.51
March 31, 2023	10,293,000	0.54
Granted during the nine month period	5,325,000	0.46
Cancelled during the nine month period	(7,725,000)	0.60
Exercised during the nine month period	—	—
Expired during the nine month period	—	—
Outstanding at December 31, 2023	7,893,000	0.43
Exercisable at December 31, 2023	7,893,000	0.43

The following lists the options outstanding and exercisable at December 31, 2023:

Expiry Date	Options Outstanding	Remaining Life (Years)	Options Exercisable	Exercise Price
Options				\$
September 22, 2024	1,775,000	0.73	1,775,000	0.25
September 22, 2024	743,000	0.73	743,000	0.50
April 14, 2025	50,000	1.29	50,000	1.65
November 30, 2028	775,000	4.92	775,000	0.26
November 30, 2028	4,550,000	4.92	4,550,000	0.50
Balance, December 31, 2023	7,893,000		7,893,000	0.43

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14. Stock options (continued)

The fair value of options was determined using the following Black-Scholes Option Pricing Model assumptions:

	December 31, 2023	December 31, 2022
Share price (\$)	0.25 - 0.26	0.86 - 0.96
Exercise price (\$)	0.26 - 1.65	1.10 - 1.65
Expected life	1 - 5 years	3 - 5 years
Volatility*	98%	70%
Dividend yield	0%	0%
Risk-free interest rate	3.64% - 4.68%	2.47% - 2.90%

*Current volatility is determined by actual results from the date of public listing. Volatility at December 31, 2022 was determined by reference to the volatilities of several comparable entities.

During the three and nine months ended December 31, 2023, the Company recognized \$585,244 and \$751,594 (2022 - \$231,850 and \$539,300), respectively, in share-based compensation in connection with the options granted. On October 30, 2023, the Company cancelled options to acquire up to 7,725,000 Common Shares at a weighted average exercise price of \$0.60. On November 30, 2023, the Company granted options to acquire up to 5,325,000 Common Shares at a weighted average exercise price of \$0.46.

15. Warrants

The Company's warrants and finders' warrants as at December 31, 2023 are as follows:

	Number of Warrants	Exercise Price \$	Number of Finders' Warrants	Exercise Price \$
March 31, 2022	7,272,728	1.65	502,090	1.65
Issued during the twelve month period	-	-	-	-
Expired during the twelve month period	7,272,728	1.65	-	-
March 31, 2023	-	-	502,090	1.65
Issued during the nine month period	-	-	1,183,000	0.20
Expired during the nine month period	-	-	(502,090)	1.65
Outstanding at December 31, 2023	-	-	1,183,000	0.20

The finder's warrants issued at an exercise price of \$1.65 expired on December 24, 2023. The remaining finders' warrants expire on October 27, 2026.

The fair value of finders' warrants related to the convertible debenture offering was determined using the following Black-Scholes Warrant Pricing Model assumptions:

Share price	\$	0.18
Exercise price	\$	0.20
Expected life		3 years
Volatility		98%
Dividend yield		0%
Risk-free interest rate		4.45%

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16. General and administrative expenses

	For the three months ended December 31, 2023		For the nine months ended December 31, 2023	
	2023	2022	2023	2022
	\$	\$	\$	\$
Management and directors' fees	103,750	119,552	311,250	351,537
Office and general	105,468	70,253	345,793	292,702
Salaries and wages	85,221	78,256	261,039	251,821
Insurance	28,653	20,402	83,191	72,509
	323,092	288,463	1,001,273	968,569

17. Loss per share

Income (loss) per share for the nine month period ended December 31, 2023 and 2022 is calculated as follows:

	2023	2022
Basic loss per share:		
Net loss for the period	\$ (3,389,313)	\$ (1,082,272)
Average number of common shares outstanding during the period	131,393,004	130,924,747
Loss per share - basic	\$ (0.03)	\$ (0.01)
Diluted loss per share:		
Net loss for the period	\$ (3,389,313)	\$ (1,082,272)
Average number of common shares outstanding during the year	131,393,004	130,924,747
"In the money" options outstanding during the period (i) and (ii)	-	-
Loss per share - diluted	\$ (0.03)	\$ (0.01)

- (i) Nil in-the-money stock options (2022 – 4,550,000) have not been included in the calculation of diluted loss per share as their impact would be anti-dilutive.
- (ii) 1,183,000 finders' warrants (2022 – 502,090) have not been included in the calculation of diluted loss per share as their impact would be anti-dilutive.

18. Risk Management

18.1 Financial Risk Management

The Company may be exposed to risks of varying degrees of significance which could affect its ability to achieve its strategic objectives. The main objectives of the Company's risk management processes are to ensure that risks are properly identified and that the capital base is adequate in relation to those risks. The principal risks to which the Company is exposed are described below.

a) *Interest rate risk*

The Company may invest surplus cash in highly liquid investments with short terms to maturity that would accumulate interest at prevailing rates for such investments. As at December 31, 2023, the Company had invested no such funds in liquid investments.

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18. Risk Management (continued)

18.2 Financial Risk Management (continued)

b) Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Company's accounts receivable. The Company is exposed to credit-related losses in the event of non-performance by the counterparties. The Company holds its cash with AAA rated financial institutions and considers the credit risk on its cash to be remote. The Company assesses the credit risk of each individual customer and adjusts payment terms as appropriate.

During the nine months ended December 31, 2023, 47% of revenue resulted from product sold to the top 3 customers, of which these customers represented an aggregate of \$255,111 of the accounts receivable balance at December 31, 2023.

c) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company manages its liquidity risk by reviewing on an ongoing basis its cash requirements. As at December 31, 2023, the most significant financial liabilities are accounts payable and accrued liabilities, long-term debt, and convertible debentures.

As at December 31, 2023, the Company's financial instruments have contractual maturities as summarized below:

December 31, 2023	Due within <1 year	Due within 1-2 years	Due Within 2-3 years	Due Within 3-4 years	Due Within >4 Years	Total
Accounts payable and accrued liabilities	\$ 5,442,565	\$ -	\$ -	\$ -	\$ -	\$ 5,442,565
Long-term debt	-	-	-	-	4,900,000	4,900,000
Convertible debentures	-	-	-	-	3,500,000	3,500,000
Total	5,442,565	-	-	-	8,400,000	13,842,565

d) Market risk

Market risk incorporates a range of risks. Movements in risk factors, such as market price risk and currency risk, affect the fair values of financial assets and liabilities. The Company is not exposed to these risks.

18.2 Fair Values

The carrying values of cash, accounts receivable, and accounts payable and accrued liabilities approximate their fair values due to their short-term maturity. For long-term liabilities, fair value approximates their carrying value at the fiscal year end as the interest rates used to discount these contracts approximate market rates.

Assets and liabilities are classified in their entirety based on the lowest level in input that is significant to the fair value measurement. The Company has classified cash as level 1.

Level 1 – Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.

Level 2 – Quoted prices in markets that are not active, or inputs that not observable, either directly or indirectly, for substantially the full term of the asset or liability.

Level 3 – Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (supported by little or no market activity).