Juva Life Inc.

Condensed Consolidated Interim Financial Statements

As at and for the three months ended March 31, 2023

(Unaudited - expressed in US 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 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.

Juva Life Inc.
Condensed Consolidated Interim Statements of Financial Position
(Unaudited - expressed in US dollars)

	Note		March 31, 2023		December 31, 2022
ASSETS					
Current assets					
Cash		$	888,314	$	641,038
Restricted cash	11		245,745		1,167,508
Accounts receivable			425,220		221,518
Inventory	7		327,410		357,401
Biological assets	7		423,088		419,918
Prepaid expenses			215,198		238,301
Total current assets			2,524,975		3,045,684
Non-current assets					
Deposits	6		303,248		303,248
Right of use assets	10		72,564		88,430
Property and equipment	5		17,045,582		16,937,323
Total non-current assets			17,421,394		17,329,001
Total assets			19,946,369		20,374,685
LIABILITIES					
Accounts payable and accrued liabilities	6		2,997,043		2,440,815
Income taxes payable			122,999		167,775
Current portion of lease liabilities	10		106,753		124,803
			3,226,795		2,733,393
Non-current liability					
Note payable	11		8,219,962		7,896,979
			11,446,757		10,630,372
SHAREHOLDERS' EQUITY					
Share capital	4		49,574,397		49,574,397
Share proceeds receivable	4		(770,677)		(770,677)
Reserves	4		11,509,558		11,287,306
Other comprehensive loss			80,793		81,241
Deficit			(51,894,459)		(50,427,954)
Total shareholders' equity			8,499,612		9,744,313
Total liabilities and shareholders' equity		$	19,946,369	$	20,374,685

Nature of operations (Note 1)
Going concern (Note 2)
Commitments and contingencies (Note 12)

These condensed consolidated interim financial statements were authorized for issue by the Board of Directors on May 26, 2023.

Approved by the Board of Directors:

"Doug Chloupek" Director *"Kari Gothie"* Director

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

Juva Life Inc.
Condensed Consolidated Interim Statements of Loss and Comprehensive Loss
(Unaudited - expressed in US dollars)

	Note	Three Months Ended March 31, 2023	Three Months Ended March 31, 2022
Sales		$ 1,725,323	$ 1,156,765
Cost of goods sold		1,358,494	947,874
Gross profit before unrealized items		366,829	208,891
Realized fair value amounts included in inventory sold		-	-
Unrealized fair value change on biological assets	7	3,119	76,649
Gross profit		369,948	285,540
Expenses			
Accretion expense	11	261,615	-
Depreciation	5,10	153,520	155,393
Marketing and promotion		47,071	157,639
Office and administration		228,552	398,233
Permits		126,497	56,901
Professional fees		87,265	182,662
Rent		36,001	(1,489)
Research and development		83,709	65,639
Salaries and benefits	6	792,816	889,924
Share-based payments	4,6	222,252	1,180,447
Transfer agent fees		7,239	12,158
Operating expenses		2,046,537	3,097,507
Other Items:			
Change in fair value of warrant liability		-	(33,990)
Government grant		683,904	-
Interest expense	10,11	(492,058)	(166,289)
Recovery of accounts payable		1,302	-
Foreign exchange loss		18,398	(26,198)
Loss before taxes		(1,465,043)	(3,038,444)
Income tax expense			
Current income tax expense (recovery)		1,462	27,066
Net loss for the year		$ (1,466,505)	$ (3,065,510)
Other comprehensive gain			
Foreign currency translation adjustment		(448)	52,590
Total comprehensive loss for the year		$ (1,466,953)	$ (3,012,920)
Basic and diluted loss per common share		$ (0.01)	$ (0.02)
Weighted average number of common shares outstanding		164,070,767	157,725,352

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

Juva Life Inc.
Condensed Consolidated Interim Statements of Cash Flows
(Unaudited - expressed in US dollars)

	Three Months Ended March 31, 2023	Three Months Ended March 31, 2022
OPERATING ACTIVITIES		
Loss	$ (1,466,505)	$ (3,065,510)
Items not involving cash:		
Change in fair value of warrant liability	-	33,990
Accretion expense	261,615	-
Depreciation	327,728	326,846
Interest expense	2,386	160,538
Share-based payments	222,252	1,180,447
Unrealized fair value change on biological assets	(3,119)	(76,649)
Foreign exchange	(51)	46,823
Changes in non-cash working capital items:		
Restricted cash	(245,745)	-
Accounts receivable	(203,702)	(64,772)
Inventory	29,991	(201,133)
Other receivables	-	200,000
Prepaid expenses	23,103	4,369
Accounts payable and accrued liabilities	556,228	576,909
Taxes payable	(44,776)	26,000
Cash used in operating activities	(540,595)	(852,142)
INVESTING ACTIVITIES		
Purchase of property and equipment	(361,140)	(776,973)
Cash used in investing activities	(361,140)	(776,973)
FINANCING ACTIVITIES		
Repayment of lease liability	(20,436)	(235,651)
Cash used in financing activities	(20,436)	(235,651)
Foreign exchange effect on cash	1,939	-
Increase in cash	(920,232)	(1,864,766)
Cash, beginning of the period	1,808,546	2,681,269
Cash, end of the period	$ 888,314	$ 816,503

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

Juva Life Inc.
Condensed Consolidated Interim Statements of Changes in Shareholders' Equity
(Unaudited - expressed in US dollars)

	Note	Share Capital						
	Note	Number	Amount	Share Proceeds Receivable	Reserves	Other Comprehensive Loss	Deficit	Total Shareholders' Equity
			$	$	$	$	$	$
Balance, December 31, 2021		164,016,223	49,567,593	(770,677)	5,501,876	(19,506)	(39,945,134)	14,334,152
Share-based payments		-	.	-	1,180,447	-	-	1,180,447
Foreign currency translation adjustment		-	-	-	-	52,591	-	52,591
Loss and comprehensive loss for the period		-	-	-	-	-	(3,065,510)	(3,065,510)
Balance, March 31, 2022		164,016,223	49,567,593	(770,677)	6,682,323	33,085	(43,010,644)	12,501,680
Balance, December 31, 2022		164,070,767	49,574,397	(770,677)	11,287,306	81,241	(50,427,954)	9,744,313
Share-based payments	4	-	.	-	222,252	-	-	222,252
Foreign currency translation adjustment		-	-	-	-	(448)	-	(448)
Loss and comprehensive loss for the period		-	-	-	-	-	(1,466,505)	(1,466,505)
Balance, March 31, 2023		164,070,767	49,574,397	(770,677)	11,509,558	80,793	(51,894,459)	8,499,612

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

1. NATURE OF OPERATIONS

Juva Life Inc. (the "Company") was incorporated under the laws of British Columbia on April 3, 2019. The principal business of the Company is to acquire, own, and operate various cannabis business in the state of California. The Company's registered office is 1055 West Georgia Street, 1500 Royal Centre, P.O. Box 11117, Vancouver, BC V6E 4N7. The Company's common shares are listed on the Canadian Securities Exchange under the trading symbol JUVA.

The Company operates in the medical and recreational cannabis sectors in California, USA. As at March 31, 2023, the Company operates in two reportable segments i) the resale of merchandise and cannabis-derived products, and ii) cultivation and sale of trim and flowers. All non-current assets of the Company are located in the USA. While some states in the United States have authorized the use and sale of marijuana, it remains illegal under federal law and the approach to enforcement of U.S. federal laws against marijuana is subject to change. Because the Company is engaged in marijuana-related activities in the US, it assumes certain risks due to conflicting state and federal laws. The federal law relating to marijuana could be enforced at any time and this would put the Company at risk of being prosecuted and having its assets seized.

2. GOING CONCERN

These condensed consolidated interim financial statements have been prepared on the basis of accounting principles applicable to a going concern, which assumes that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations as they come due. In assessing whether the going concern assumption is appropriate, management takes into account all available information about the future, which is at least, but is not limited to, twelve months from the end of the reporting period. The Company incurred a net loss of $1,466,505 during the three months ended March 31, 2023 (2022 - $3,065,510). Management is aware, in making its assessment, of material uncertainties related to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern. Management is actively seeking financing options to address its going concern risk.

3. BASIS OF PRESENTATION

These condensed consolidated interim financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB"), applicable to the preparation of interim financial statements, including International Accounting Standard ("IAS") 34 *Interim Financial Reporting*. The condensed interim consolidated financial statements do not include all of the disclosures required for a complete set of annual financial statements and should be read in conjunction with the audited annual consolidated financial statements for the year ended December 31, 2022, which have been prepared in accordance with IFRS as issued by the IASB.

These condensed consolidated interim financial statements are presented in US dollars and all financial amounts, other than per-share amounts, are rounded to the nearest dollar. The functional currency of the Company and all of its US subsidiaries is the US dollar. The functional currency of the Canadian subsidiary is the Canadian dollar.

The policies applied in these condensed consolidated interim financial statements are based on IFRS issued and effective as of May 26, 2023.

3.1. Basis of measurement

These condensed consolidated interim financial statements have been prepared using the measurement basis specified by IFRS for each type of asset, liability, revenue and expense.

3.2. Significant judgments, estimates and assumptions

The preparation of the Company's condensed consolidated interim financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the condensed consolidated interim financial statements and the reported amounts of revenues and expenses during the reporting period. Estimates and assumptions are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results could differ from these estimates.

Critical adjustments exercised in applying accounting polices that have the most significant effect on the amounts recognized in the condensed consolidated interim financial statements are as follows:

Determination of functional currency

The Company determines the functional currency through an analysis of several indicators such as expenses and cash flow, financing activities, retention of operating cash flows, and frequency of transactions within the reporting entity.

Going concern

The preparation of the condensed consolidated interim financial statements requires management to make judgments regarding the going concern of the Company as previously discussed in Note 2.

Impairment of long-lived assets

The Company performs impairment testing annually for long-lived assets as well as when circumstances indicate that there may be impairment for these assets. Management judgement is involved in determining if there are circumstances indicating that testing for impairment is required, and in identifying cash generating unit ("CGU") for the purpose of impairment testing.

The Company assesses impairment by comparing the recoverable amount of a long-lived asset, CGU, or CGU group to its carrying value. The recoverable amount is defined as the higher of: (i) value in use; or (ii) fair value less cost to sell. The determination of the recoverable amount involves management judgement and estimation. These estimates and assumptions could affect the Company's future results if the current estimates of future performance and fair values change.

Estimation Uncertainty

The following are key assumptions concerning the future and other key sources of estimation uncertainty that have a significant risk of resulting in a material adjustment to the carrying amount of assets and liabilities within the next financial year:

Depreciation and amortization

The Company's equipment and finite-life intangible assets are depreciated and amortized using a straight-line method over the estimated useful lives of the assets and residual values. Leasehold improvements are amortized over the lease term. Changes to these estimates may affect the carrying value of these assets, net earnings, and comprehensive income (loss) in future periods.

Income taxes

Provisions for income taxes are made using the best estimate of the amount expected to be paid based on a qualitative assessment of all relevant factors. The Company reviews the adequacy of these provisions at the end of the reporting period. However, it is possible that at some future date an additional liability could result from audits by taxing authorities. Where the final outcome of these tax-related matters is different from the amounts that were originally recorded, such differences will affect the tax provisions in the period in which such determination is made.

Valuation of share-based compensation

The Company uses the Black-Scholes option pricing model for valuation of share-based compensation. Option pricing models require the input of subjective assumptions including expected price volatility, interest rate, and forfeiture rate. Changes in input assumptions can materially affect the fair value estimate and the Company's earnings and equity reserves.

Inventory

The Company reviews the net realizable value of, and demand for, its inventory regularly to provide assurance that recorded inventory is stated at the lower of cost or net realizable value. Factors that could impact estimated demand and selling prices include competitor actions, supplier prices and economic trends.

Biological assets and inventory

In calculating the value of the biological assets and inventory, management is required to make several estimates, including estimating the stage of growth of the cannabis up to the point of harvest, harvesting costs, average or expected selling prices and list prices, expected yields for the cannabis plants. In calculating final inventory values, management compares the inventory costs to estimated realizable value.

3.3 Basis of consolidation

These condensed consolidated interim financial statements incorporate the financial statements of the Company and its wholly controlled subsidiaries, Juva Life, Inc. ("Juva US") Precision Apothecary Inc. ("Precision"), Juva RWC Inc., Juva Stockton Inc., RWC Retail, and San Juan, LLC, all of which were incorporated in the state of California and 1177988 B.C. Ltd., a company incorporated in British Columbia, Canada. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The condensed consolidated interim financial statements include the accounts of the Company and its direct wholly-owned subsidiaries. All significant intercompany transactions and balances have been eliminated.

Where the Company's interest is less than 100%, the interest attributable to outside shareholders is reflected in non-controlling interest. Non-controlling interests in the net assets of consolidated subsidiaries are identified separately from the Company's equity therein. Non-controlling interests consist of the amount of those interests at the date of the original business combination and the non-controlling interests' share of changes in equity since the date of the combination.

4. EQUITY

4.1 Authorized Share Capital

Unlimited number of common shares with no par value.

4.2 Shares Issued

Shares issued and outstanding as at March 31, 2023 are 164,070,767 (December 31, 2022 – 164,070,767) Class A common shares. As at March 31, 2023, 11,991,751 (December 31, 2022 – 11,991,751) shares are held in escrow.

There were no movements in share capital during the three months ended March 31, 2023 and March 31, 2022.

4.3 Stock Options

The Company adopted a Stock Option Plan (the "Plan") whereby the maximum number of shares reserved for issue under the plan shall not exceed 20% of the issued and outstanding shares. Under the Plan, the Board of Directors may from time to time authorize the grant of options to directors, employees, and consultants of the Company. Under the terms of the Plan, options will be exercisable for periods up to ten years and must have an exercise price not less than the fair market value of a share on the grant date. The term of the options granted to a 10% shareholder shall not exceed ten years. Vesting provision is determined by the Board of Directors at the grant date.

(Unaudited - expressed in US dollars)

A summary of the changes in stock options is presented below:

	Number of options	Weighted average exercise price
		CAD $
Balance, December 31, 2021	3,175,000	0.65
Granted	17,220,000	0.32
Cancelled	(3,175,000)	0.50
Balance, December 31, 2022 and March 31, 2023	17,220,000	0.32

The following stock options were outstanding as at March 31, 2023:

Outstanding	Exercisable		Exercise Price	Expiry Date	Weighted average remaining life (in years)
			$		
17,220,000	9,701,841	CAD$	0.32	March 25, 2032	8.99

4.4 Share Purchase Warrants

A summary of the changes in warrants is presented below:

	Number of warrants	Weighted average exercise price
		CDN $
Balance, December 31, 2021	15,661,290	0.86
Granted	2,500,000	0.18
Cancelled	(10,000,000)	0.67
Expired	(230,002)	0.05
Balance, December 31, 2022	7,931,288	0.78
Expired	(5,431,288)	1.05
Balance, March 31, 2023	2,500,000	0.18

The following share purchase warrants were outstanding as at March 31, 2023:

Outstanding	Exercisable		Exercise Price	Expiry Date
2,500,000	2,500,000	CDN $	0.18	June 15, 2028

4.5 Restricted Share Unit Award Plan

In 2019, the Company adopted an Equity Incentive Plan ("the Plan") whereby the aggregate number of common shares issuable pursuant to the Plan combined with all of the Company's other security based compensation arrangements, including the Company's Stock Option Plan, shall not exceed 20% of the Company's outstanding shares.

(Unaudited - expressed in US dollars)

During the year ended December 31, 2021, the Company granted 200,000 RSUs to an officer of the Company with a fair value of $82,000. As at March 31, 2023, there were 27,272 (December 31, 2022 – 13,636) and 54,548 (December 31, 2022 – 68,184) RSUs that were exercisable and unvested, respectively.

4.6 Share-based payment expense and reserves

Pursuant to vesting schedules, the share-based payment expense for the stock options that were granted during the year ended December 31, 2022 and recognized during the three months ended March 31, 2023 was $222,252 (2022 – $1,180,447) and was recorded in the condensed consolidated interim statements of loss and comprehensive loss using the following weighted average assumptions:

	2023	2022
Risk-free interest rate	0.30%	0.30%
Expected stock price volatility	100%	100%
Expected dividend yield	0.0%	0.0%
Expected option life in years	10.0	10.0

The fair value of stock options granted were CAD$0.28 per option (2022 - CAD$0.28).

4.7 Share proceeds receivable

During the year ended December 31, 2019, the Company issued 8,400,000 shares upon the exercise of stock options with exercise prices ranging from CAD 0.02 to CAD 0.35 per share for gross proceeds of $804,112. The Company also cancelled 600,000 shares with a value of $33,435. These shares were issued upon the exercise of 600,000 stock options. The net balance of $770,677 is recorded as share proceeds receivable on the condensed consolidated interim statement of financial position.

(Unaudited - expressed in US dollars)

5. PROPERTY AND EQUIPMENT

Cost	Automotive	Equipment	Furniture and Office Equipment	Leasehold Improvements	Building	Total
Balance, December 31, 2021	$ 187,573	$ 3,022,009	$ 138,145	$ 9,905,769	$ -	$ 13,253,496
Additions	85,823	136,391	40,637	1,070,356	4,017,872	5,351,079
Disposals	(39,048)	-	-	(7,040)	-	(46,088)
Balance, December 31, 2022	234,348	3,158,400	178,782	10,969,085	4,017,872	18,558,487
Additions	-	-	38,332	324,348	-	362,680
Disposals	-	(1,540)	-	-	-	(1,540)
Balance, March 31, 2023	$ 234,348	$ 3,156,860	$ 217,114	$ 11,293,433	$ 4,017,872	$ 18,919,627
Accumulated Amortization						
Balance, December 31, 2021	$ 77,307	$ 201,118	$ 44,025	$ 379,499	$ -	$ 701,949
Additions	65,216	332,225	55,786	401,148	87,054	941,429
Disposals	(22,214)	-	-	-	-	(22,214)
Balance, December 31, 2022	120,309	533,343	99,811	780,647	87,054	1,621,164
Additions	12,710	83,479	14,199	102,314	40,179	252,881
Balance, March 31, 2023	$ 133,019	$ 616,822	$ 114,010	$ 882,961	$ 127,233	$ 1,874,045
Net Book Value						
Balance, December 31, 2022	$ 114,039	$ 2,625,057	$ 78,971	$ 10,188,438	$ 3,930,818	$ 16,937,323
Balance, March 31, 2023	$ 101,329	$ 2,540,038	$ 103,104	$ 10,410,472	$ 3,890,639	$ 17,045,582

Incluced in cost of goods sold is depreciation of $174,208 (2022 - $171,453).

6. RELATED PARTY TRANSACTIONS AND BALANCES

Relationships	**Nature of the relationship**
Key management	Key management are those personnel having the authority and responsibility for planning, directing and controlling the Company and include the President and Chief Executive Officer, Chief Financial Officer, Chief Operating Officer, VP Finance, VP Cultivation, and the directors of the Company.

(Unaudited - expressed in US dollars)

During the three months ended March 31, 2023 and 2022, key management compensation included the following:

	Three Months Ended March 31, 2023	Three Months Ended March 31, 2022
	$	$
Management compensation	208,199	254,107
Share-based payments	50,536	284,112
Total	258,735	538,219

During the three months ended March 31, 2023, the Company had the following related party transactions:

a) The Company paid $Nil (2022 - $210,927) in lease payments to Best Leasing Services, Inc., a company 100% owned by the CEO and a shareholder of the Company.

Included in accounts payable and accrued liabilities as of March 31, 2023 is $549,204 (December 31, 2022 - $920,568) owed to officers of the Company.

Included in deposits as of March 31, 2023 and December 31, 2022 is $24,000 with Best Leasing Services, Inc.

7. INVENTORY AND BIOLOGICAL ASSETS

The Company maintains three classes of inventory: merchandise and cannabis-derived products for resale (2023 - $92,855; 2022 - $128,710)), work in process ("WIP") (2023 - $234,555; 2022 - $228,691) and dried trim/flowers (2023 - $Nil; 2022 - $Nil). For the three months ended March 31, 2023, the amount included in cost of goods sold was $1,358,494 (March 31, 2022 - $947,874).

While the Company's biological assets are within the scope of IAS 41 Agriculture, the direct and indirect costs of biological assets are determined using an approach that is similar to the capitalization criteria outlined in IAS 2 Inventories. They include the direct cost of seeds and growing materials as well as other indirect costs such as utilities and supplies and labor used in the growing process.

Balance, December 31, 2022	$	419,867
Fair value change due to biological transformation		3,119
Production costs capitalized		1,098,716
Transferred to inventory upon harvest		(1,098,614)
Balance, March 31, 2023	$	423,088

Biological assets are measured at their fair value less costs to sell in the consolidated statement of financial position. 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 initial vegetative state to the point of harvest. All direct and indirect costs of biological assets are capitalized as they are incurred, and they are all subsequently recorded within the line item 'cost of goods sold' on the consolidated statement of loss and comprehensive loss in the period that the related product is sold.

(Unaudited - expressed in US dollars)

Unrealized fair value gains/losses on the growth of biological assets are recorded in a separate line in the consolidated statement of loss and comprehensive loss.

The following significant unobservable inputs, all of which are classified as level 3 on the fair value hierarchy and are subject to volatility and several uncontrollable factors which could significantly affect the fair value of biological assets in future periods, were used by management as part of this model:

- Growth cycle - the average growing cycle is 120 days from propagation to harvest;
- Stage of growth – represents the weighted average number of days out of the 93-day growing cycle that biological assets have reached as at the measurement date;
- Yield by plant – represents the expected number of grams of finished cannabis inventory which are expected to be obtained from each harvested cannabis plant. The average harvest yield of whole flower used is 90 grams per plant
- Survival rate – the estimated survival rate of cannabis plants as they move from one stage of growth to the next (from germination to vegetative to flowering) based on the Company's historical results. As plants mature at each stage, their survival rate increases;
- Wholesale selling price – the average price used is $1.43 per gram
- Post harvest costs – calculated as the cost per gram of harvested cannabis to complete the sale of cannabis plants after harvest, consisting of the cost of direct and indirect materials and labor related to labelling and packaging. The Company expenses such subsequent expenditures directly to cost of goods sold.

The following quantifies each significant unobservable input, and also provides the impact a 10% increase/decrease in each input would have on the reported fair value of biological assets:

			10% change as at	
	March 31, 2023	March 31, 2022	March 31, 2023	March 31, 2022
Stage of growth	65%	80%	41,997	8,224
Yield by plant (grams)	79.38	42.59	52,996	36,767
Survival rate	90%	90%	16,545	16,545
Sale price	$ 1.43	$ 2.31	154,375	36,767

8. MANAGEMENT OF CAPITAL

The Company defines the capital that it manages as components within its shareholders' equity.

The Company's objective when managing capital is to maintain corporate and administrative functions necessary to support the Company's operations and corporate functions; and to seek out and acquire new projects of merit.

The Company manages its capital structure in a manner that provides sufficient funding for operational and capital expenditure activities. Funds are secured, when necessary, through debt funding or equity capital raised by means of private placements. There can be no assurances that the Company will be able to obtain debt or equity capital in the case of working capital deficit.

The Company does not pay dividends and has no bank credit facility. The Company is not subject to any externally imposed capital requirements. There were no changes in the Company's approach to capital management during the three months ended March 31, 2023.

9. RISK MANAGEMENT

9.1 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) Capital Risk
The Company manages its capital to ensure that there are adequate capital resources for the Company to maintain operations. The capital structure of the Company consists of items in shareholders' equity.

b) Credit Risk
Credit risk is the risk that a counter party will be unable to pay any amounts owed to the Company. The Company is not exposed to significant credit risk.

c) Liquidity Risk
Liquidity risk is the risk that the Company is not able to meet its financial obligations as they fall due. As at March 31, 2023, the Company had a working capital deficit of $701,820 (excluding the warrant liability) (December 31, 2022 – $312,391). The Company may seek additional financing through debt or equity offerings, but there can be no assurance that such financing will be available on terms acceptable to the Company or at all. Any equity offering will result in dilution to the ownership interests of the Company's shareholders and may result in dilution to the value of such interests. The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As at March 31, 2023, the Company had cash of $888,314 (December 31, 2022 – $641,038) and accounts payable and accrued liabilities of $2,997,043 (December 31, 2022 - $2,440,815).

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.

9.2 Fair Values

The carrying values of cash, receivables, accounts payable and accrued liabilities, and note payable approximate their fair values due to their short-term to maturity.

Assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

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 are not observable, either directly or indirectly, for substantially the full term of the asset or liability.

(Unaudited - expressed in US dollars)

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).

The fair value of warrant liability is based on level 2 inputs of the fair value hierarchy.

10. RIGHT-OF-USE ASSETS AND LEASE LIABILITIES

	Property Leases
Cost:	$
At December 31, 2021	5,361,510
Additions	-
Disposals	(3,249,549)
At December 31, 2022 and March 31, 2023	2,111,961
Depreciation:	
At December 31, 2021	1,644,884
Charge for the year	415,920
Less: accumulated depreciation	(34,886)
At December 31, 2022	2,025,918
Charge for the year	13,479
At March 31, 2023	2,039,397
Net Book Value:	
At December 31, 2022	86,043
At March 31, 2023	72,564

	$
Lease liabilities at December 31, 2021	4,305,763
Lease payments made	(717,509)
Interest expense on lease liabilities	337,002
Disposals	(3,800,453)
	124,803
Less: current portion	124,803
At December 31, 2022	-
Lease liabilities at December 31, 2022	124,803
Lease payments made	(20,436)
Interest expense on lease liabilities	2,386
	106,753
Less: current portion	106,753
At March 31, 2023	-

(Unaudited - expressed in US dollars)

Depreciation of right-of-use assets is calculated using the straight-line method of the remaining lease term.

11. NOTE PAYABLE

On June 15, 2022, the Company issued a note payable for gross proceeds of $11,827,000. The note payable is secured by the assets of the Company. The note payable bears a variable interest rate of 11.5% plus SOFR (minimum of 1.5%) over the 36-month term of the note payable. It also includes the issuance of 2,500,000 warrants, each convertible into one common share of the Company, exercisable at CAD$0.18 per share for a period of 3 years post loan maturity. Additional terms include holdbacks for interest, build-out of the Company's facilities, and research and development projects. Included in the Company's cash balance is $245,745 (December 31, 2022 - $1,167,508) held for reserve. The Company incurred cash costs of $603,458, which have been capitalized against the balance of the note payable on the consolidated statement of financial position.

As at March 31, 2023, the note payable was fair valued using a discount rate of 20% over a three-year term. Accordingly, the value attributed to the note payable is $8,219,962 (December 31, 2022 - $7,836,199). The remaining balance of $3,917,100 was allocated to the warrants granted.

The following is a reconciliation of the note payable as at March 31, 2023 and December 31, 2022:

	Note Payable **$**
Balance, December 31, 2021	-
Additions	7,909,900
Borrowing costs	(603,458)
Interest accrued	770,861
Interest paid	(770,861)
Accretion	489,777
Amortized costs	100,760
Balance, December 31, 2022	7,896,979
Borrowing costs	-
Interest accrued	489,672
Interest paid	(489,672)
Accretion	273,429
Amortized costs	49,554
Balance, March 31, 2023	8,219,962

12. COMMITMENTS AND CONTINGENCIES

a) The Company has entered into the following agreements:

The commercial premises from which the Company carries out its operations are leased from multiple groups, some of which are related parties (see note 6). The minimum rent payable under the leases are as follows:

		Total
Within one year	$	106,753
Between two and five years		11,827,000
	$	11,933,753

b) The Company is involved in various claims and legal actions in the ordinary course of business. In the opinion of management, the ultimate disposition of these matters will not have a material adverse effect on the Company.

13. SEGMENTED INFORMATION

Reportable segments are defined as components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources, and in assessing performance.

During the three months ended March 31, 2023 and the year ended December 31, 2022 the Company operates in two reportable segments, being cultivation and sale of dried trim/flowers and resale of merchandise and cannabis-derived products in the United States within the State of California. All of the Company's revenue were generated through sales in the State of California, and all of the Company's non-current assets are located in California.

(Unaudited - expressed in US dollars)

Information by segment is as follows:

	Resale of merchandise and cannabis-derived products		**Cultivation and sale of trim and flowers**		**Total**	
	Three Months Ended March 31, 2023	Three Months Ended March 31, 2022	Three Months Ended March 31, 2023	Three Months Ended March 31, 2022	Three Months Ended March 31, 2023	Three Months Ended March 31, 2022
	$	$	$	$	$	$
Sales	610,307	927,148	1,115,016	229,617	1,725,323	1,156,765
Cost of goods sold	259,894	508,260	1,098,600	439,614	1,358,494	947,874
Gross margin before fair value changes on biological assets	350,413	418,888	16,416	(209,997)	366,829	208,891
Net change in fair value less costs to sell due to biological transformation	-	-	3,119	76,649	3,119	76,649
Gross profit	350,413	418,888	13,297	(286,646)	369,948	285,540

March 31, 2023	Cannabis	Corporate	Total
	$	$	$
Sales	1,725,323	-	1,725,323
Cost of goods sold	(1,358,494)	-	(1,358,494)
Gross profit	366,829	-	366,829
Net loss	(1,215,737)	(253,938)	(1,469,675)
Non-current assets:			
Deposits	303,248	-	303,248
Right of use assets	72,564	-	72,564
Property and equipment	17,045,582	-	17,045,582

December 31, 2022	Cannabis	Corporate	Total
	$	$	$
Sales	45,016	-	45,016
Cost of goods sold	(5,282,164)	-	(5,282,164)
Gross profit	(5,237,148)	-	(5,237,148)
Net loss	(7,652,758)	(2,830,062)	(10,482,820)
Non-current assets:			
Deposits	303,248	-	303,248
Right of use assets	88,430	-	88,430
Property and equipment	16,937,323	-	16,937,323