

**Juva Life Inc.**

**Condensed Consolidated Interim Financial Statements**

**As at and for the nine months ended September 30, 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 Loss and Comprehensive Loss****(Unaudited - expressed in US dollars)**

	Note	<u>September 30, 2023</u>	<u>December 31, 2022</u>
<b>ASSETS</b>			
<b>Current assets</b>			
Cash		\$ 952,373	\$ 641,038
Restricted cash	11	-	1,167,508
Accounts receivable		168,175	221,518
Inventory	7	862,354	357,401
Biological assets	7	572,545	419,918
Prepaid expenses		81,914	238,301
<b>Total current assets</b>		<u>2,637,361</u>	<u>3,045,684</u>
<b>Non-current assets</b>			
Deposits	6	271,037	303,248
Right of use assets	10	-	88,430
Property and equipment	5	16,119,575	16,937,323
<b>Total non-current assets</b>		<u>16,390,612</u>	<u>17,329,001</u>
<b>Total assets</b>		<u>19,027,973</u>	<u>20,374,685</u>
<b>LIABILITIES</b>			
Accounts payable and accrued liabilities	6	3,013,056	2,440,815
Taxes payable		779,629	167,775
Current portion of lease liabilities	10	-	124,803
		<u>3,792,685</u>	<u>2,733,393</u>
<b>Non-current liability</b>			
Notes payable	11	10,507,865	7,896,979
		<u>14,300,550</u>	<u>10,630,372</u>
<b>SHAREHOLDERS' EQUITY</b>			
Share capital	4	49,574,397	49,574,397
Share proceeds receivable	4	(770,677)	(770,677)
Reserves	4	11,938,985	11,287,306
Other comprehensive loss		(1,359,533)	81,241
Deficit		(54,655,749)	(50,427,954)
<b>Total shareholders' equity</b>		<u>4,727,423</u>	<u>9,744,313</u>
<b>Total liabilities and shareholders' equity</b>		<u>\$ 19,027,973</u>	<u>\$ 20,374,685</u>

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 November 28, 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 September 30, 2023	Three Months Ended September 30, 2022	Nine Months Ended September 30, 2023	Nine Months Ended September 30, 2022
<b>Sales</b>		\$ 3,173,349	\$ 1,248,054	\$ 6,357,089	\$ 4,187,780
<b>Cost of goods sold</b>		1,881,612	1,367,018	4,394,461	3,741,393
<b>Gross profit before unrealized items</b>		1,291,737	(118,964)	1,962,628	446,387
Realized fair value amounts included in inventory sold		-	-	-	-
Unrealized fair value change on biological assets	7	187,214	243,733	152,576	117,158
<b>Gross profit</b>		1,478,951	124,769	2,115,204	563,545
<b>Expenses</b>					
Accretion expense	11	257,747	-	819,808	-
Depreciation	5,10	266,200	755,897	570,806	1,146,494
Marketing and promotion		66,310	76,063	157,860	322,671
Office and administration		253,828	443,153	860,137	1,291,492
Permits		353,913	128,940	448,808	256,294
Professional fees		117,886	108,928	286,693	526,701
Rent		-	10,141	36,000	223,991
Research and development		47,234	37,223	193,621	136,942
Salaries and benefits	6	753,918	805,370	2,249,296	2,601,853
Share-based payments	4,6	365,368	192,044	591,202	1,603,401
Transfer agent fees		23,827	7,626	45,749	57,407
<b>Operating expenses</b>		2,506,231	2,565,385	6,259,980	8,167,246
<b>Other Items:</b>					
Change in fair value of warrant liability		-	311	-	65,445
Gain on lease expiry		20,579	-	20,579	-
Government grant		184,247	-	868,151	-
Interest expense	10,11	(633,498)	(430,199)	(1,660,847)	(828,207)
Write-off of assets		(3)	6,356	(610,705)	727,692
Foreign exchange loss		762,983	(50)	1,494,648	(152,330)
<b>Loss before taxes</b>		(692,972)	(2,864,198)	(4,032,950)	(7,791,101)
<b>Income tax expense</b>					
Current income tax expense (recovery)		88,898	41,502	194,845	105,365
<b>Net loss for the period</b>		\$ (781,870)	\$ (2,905,700)	\$ (4,227,795)	\$ (7,896,466)
<b>Other comprehensive gain</b>					
Foreign currency translation adjustment		(734,750)	292,700	(1,440,774)	127,645
<b>Total comprehensive loss for the period</b>		\$ (1,516,620)	\$ (2,613,000)	\$ (5,668,569)	\$ (7,768,821)
<b>Basic and diluted loss per common share</b>		\$ (0.00)	\$ (0.02)	\$ (0.03)	\$ (0.05)
<b>Weighted average number of common shares outstanding</b>		164,070,767	164,016,233	164,070,767	164,016,223

*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)**

	<b><u>Nine months ended September 30, 2023</u></b>	<b><u>Nine months ended September 30, 2022</u></b>
<b>OPERATING ACTIVITIES</b>		
Loss	\$ (4,227,795)	\$ (7,896,466)
Items not involving cash:		
Change in fair value of warrant liability	-	(73,581)
Accretion expense	819,808	-
Depreciation	992,447	1,540,481
Interest expense	4,087	330,598
Share-based payments	591,202	1,603,401
Unrealized fair value change on biological assets	(152,576)	(117,158)
Gain on lease expiry	(20,579)	-
Write-off of assets	610,702	-
Foreign exchange	(1,382,681)	127,646
Gain on disposition	-	(721,336)
Changes in non-cash working capital items:		
Accounts receivable	53,343	30,658
Inventory	(504,953)	105,914
Biological assets	-	-
Other receivables	-	350,000
Prepaid expenses	156,387	40,954
Accounts payable and accrued liabilities	572,242	(219,475)
Taxes payable	611,854	103,500
<b>Cash used in operating activities</b>	<b><u>(1,876,512)</u></b>	<b><u>(4,794,864)</u></b>
<b>INVESTING ACTIVITIES</b>		
Purchase of property and equipment	(578,789)	(4,946,930)
Deposits paid	-	24,000
<b>Cash used in investing activities</b>	<b><u>(578,789)</u></b>	<b><u>(4,922,930)</u></b>
<b>FINANCING ACTIVITIES</b>		
Proceeds received from note payable	1,640,000	11,162,174
Repayment of lease liability	(40,872)	(594,166)
<b>Cash used in financing activities</b>	<b><u>1,599,128</u></b>	<b><u>10,568,008</u></b>
<b>Increase in cash</b>	<b>(856,173)</b>	<b>850,214</b>
<b>Cash, beginning of the period</b>	<b>1,808,546</b>	<b>2,681,269</b>
<b>Cash, end of the period</b>	<b>\$ <u>952,373</u></b>	<b>\$ <u>3,531,483</u></b>

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

		<b>Share Capital</b>						
	Note	Number	Amount	Share Proceeds Receivable	Reserves	Other Comprehensive Loss	Deficit	Total Shareholders' Equity
			\$	\$	\$	\$	\$	\$
<b>Balance, December 31, 2021</b>		164,016,223	49,567,593	(770,677)	5,501,876	(19,506)	(39,945,134)	14,334,152
Share-based payments	4	-	.	-	1,603,401	-	-	1,603,401
Foreign currency translation adjustment		-	-	-	-	127,645	-	127,645
Loss and comprehensive loss for the period		-	-	-	-	-	(7,896,466)	(7,896,466)
<b>Balance, September 30, 2022</b>		164,016,223	49,567,593	(770,677)	7,105,277	108,139	(47,841,600)	8,168,732
<b>Balance, December 31, 2022</b>		164,070,767	49,574,397	(770,677)	11,287,306	81,241	(50,427,954)	9,744,313
Share-based payments	4	-	.	-	591,202	-	-	591,202
Value attributed to warrants issued for debt	6	-	.	-	60,477	-	-	60,477
Foreign currency translation adjustment		-	-	-	-	(1,440,774)	-	(1,440,774)
Loss and comprehensive loss for the period		-	-	-	-	-	(4,227,795)	(4,227,795)
<b>Balance, September 30, 2023</b>		164,070,767	49,574,397	(770,677)	11,938,985	(1,359,533)	(54,655,749)	4,727,423

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

**Juva Life Inc.**  
**Notes to the Condensed Consolidated Interim Financial Statements**  
**For the nine months ended September 30, 2023**  
**(Unaudited - expressed in US dollars)**

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**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 September 30, 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 \$4,227,795 during the nine months ended September 30, 2023 (2022 - \$7,896,466). 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.

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The policies applied in these condensed consolidated interim financial statements are based on IFRS issued and effective as of September 30, 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 policies 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.



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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.

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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., Juva Retail RWC Inc, 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 September 30, 2023 are 164,070,767 (December 31, 2022 – 164,070,767) Class A common shares. As at September 30, 2023, 5,995,874 (December 31, 2022 – 11,991,751) shares are held in escrow.

There were no movements in share capital during the nine months ended September 30, 2023 and September 30, 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

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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.

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	17,220,000	0.32
Granted	19,250,000	0.05
Cancelled	(17,220,000)	0.32
Balance, September 30, 2023	19,250,000	0.05

The following stock options were outstanding as at September 30, 2023:

Outstanding	Exercisable	Exercise Price	Expiry Date	Weighted average remaining life (in years)
		\$		
19,250,000	12,075,165	CAD\$ 0.05	23-Aug-33	9.90

On June 5, 2023, the Company cancelled all of its outstanding stock options.

#### **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
Granted	2,186,666	0.05
Expired	(5,431,288)	1.05
Balance, September 30, 2023	4,686,666	0.18

**Juva Life Inc.**  
**Notes to the Condensed Consolidated Interim Financial Statements**  
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The following share purchase warrants were outstanding as at September 30, 2023:

Outstanding	Exercisable	Exercise Price	Expiry Date
2,186,666	2,500,000	CDN \$ 0.05	June 1, 2028
<u>2,500,000</u>	<u>2,500,000</u>	CDN \$ 0.18	June 15, 2028
<u><u>4,686,666</u></u>			

#### **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.

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 September 30, 2023, there were 40,908 (December 31, 2022 – 13,636) and 81,820 (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 nine months ended September 30, 2023 was \$225,834 (2022 – \$1,180,447) and was recorded in the condensed consolidated interim statements of loss and comprehensive loss using the following weighted average assumptions:

	<u>2023</u>	<u>2022</u>
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).

On August 23, 2023, the Company granted a total of 19,250,000 stock options to directors, officers, employees, and consultants of the Company. These stock options have varying vesting terms. The stock options will expire after 10 years from the date of grant and have an exercise price of \$0.05 CAD. Pursuant to vesting schedules, the share-based payment expense for these stock options that were recognized during the nine months ended September 30, 2023 was \$365,758 (2022 – \$Nil) and was recorded in the condensed consolidated interim statements of loss and comprehensive loss using the following weighted average assumptions:

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	<u>2023</u>
Risk-free interest rate	5.25%
Expected stock price volatility	100%
Expected dividend yield	0.0%
Expected option life in years	10.0

**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.

**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	-	45,679	99,023	434,087	-	578,789
Disposals	-	-	-	(583,613)	-	(583,613)
Balance, September 30, 2023	\$ 234,348	\$ 3,204,079	\$ 277,805	\$ 10,819,559	\$ 4,017,872	\$ 18,553,663
<b>Accumulated Amortization</b>						
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	33,250	261,957	47,548	349,632	120,537	812,924
Balance, September 30, 2023	\$ 153,559	\$ 795,300	\$ 147,359	\$ 1,130,279	\$ 207,591	\$ 2,434,088
<b>Net Book Value</b>						
Balance, December 31, 2022	\$ 114,039	\$ 2,625,057	\$ 78,971	\$ 10,188,438	\$ 3,930,818	\$ 16,937,323
Balance, September 30, 2023	\$ 80,789	\$ 2,408,779	\$ 130,446	\$ 9,689,280	\$ 3,810,281	\$ 16,119,575

Included in cost of goods sold is depreciation of \$327,583 (2022 - \$393,387).

**Juva Life Inc.**  
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**(Unaudited - expressed in US dollars)**

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**6. RELATED PARTY TRANSACTIONS AND BALANCES**

<b>Relationships</b>	<b>Nature of the relationship</b>
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, VP Finance, VP Cultivation, and the directors of the Company.

During the nine months ended September 30, 2023 and 2022, key management compensation included the following:

	Nine Months Ended September 30, 2023	Nine Months Ended September 30, 2022
	\$	\$
Management compensation	625,221	762,798
Share-based payments	58,316	386,203
<b>Total</b>	<b>683,537</b>	<b>1,149,001</b>

During the nine months ended September 30, 2023, the Company had the following related party transactions:

- a) The Company paid \$Nil (2022 - \$615,748) 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 is \$232,121 (December 31, 2022 - \$Nil) owed to Best Leasing Services, Inc.
- b) Douglas Chloupek, CEO, and Kari Gothie, VP Finance, loaned the Company \$250,000 with interest at 10%.

Included in accounts payable and accrued liabilities as of September 30, 2023 is \$777,866 (December 31, 2022 - \$920,568) owed to officers of the Company.

Included in deposits as of September 30, 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 - \$862,354; 2022 - \$128,710), work in process (“WIP”) (2023 - \$Nil; 2022 - \$228,691) and dried trim/flowers (2023 - \$Nil; 2022 - \$Nil). For the nine months ended September 30, 2023, the amount included in cost of goods sold was \$2,512,849 (September 30, 2022 - \$3,741,393).

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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		152,576
Production costs capitalized		1,098,716
Transferred to inventory upon harvest		<u>(1,098,614)</u>
Balance, September 30, 2023	\$	<u>572,545</u>

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.

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 114 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 \$1.83 per gram; and
- 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.

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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:

	September 30, 2023		September 30, 2022		10% change as at	
	September 30, 2023	September 30, 2022	September 30, 2023	September 30, 2022	September 30, 2023	September 30, 2022
Stage of growth	66%	80%	41,997	8,224		
Yield by plant (grams)	114.37	77.22	92,150	68,237		
Survival rate	90%	90%	16,545	16,545		
Sale price	\$ 1.83	\$ 1.72	282,543	67,314		

## **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 nine months ended September 30, 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.



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**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 September 30, 2023, the Company had a working capital deficit of \$1,155,324 (excluding the warrant liability) (December 31, 2022 – surplus of \$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 September 30, 2023, the Company had cash of \$952,373 (December 31, 2022 – \$641,038) and accounts payable and accrued liabilities of \$3,013,056 (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.

**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.

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**10. RIGHT-OF-USE ASSETS AND LEASE LIABILITIES**

	<b>Property Leases</b>
<b>Cost:</b>	<b>\$</b>
At December 31, 2021	5,361,510
Additions	-
Disposals	(3,249,549)
At December 31, 2022	2,111,961
Lease expiration	(2,111,961)
At September 30, 2023	-
<b>Depreciation:</b>	
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 period	28,658
Less: accumulated depreciation	(2,054,576)
At September 30, 2023	-
<b>Net Book Value:</b>	
At December 31, 2022	86,043
At September 30, 2023	-
	<b>\$</b>
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	(40,872)
Interest expense on lease liabilities	4,087
Lease expiration	(88,018)
	-
Less: current portion	-
At September 30, 2023	-

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

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**11. NOTES PAYABLE**

On June 15, 2022, the Company issued a note payable for gross proceeds of \$11,827,000 (the “Note”). 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 September 30, 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 \$8,908,098 (December 31, 2022 - \$7,896,979). The remaining balance of \$3,917,100 was allocated to the warrants granted.

On June 21, 2023, the Company issued convertible unsecured notes for CAD\$2,230,400 (\$1,640,000 USD) bearing interest at 30% per annum due and payable on December 1, 2024 (the “Unsecured Notes”). In the event of default or nonpayment, the Unsecured Notes are convertible into common shares of the Company by dividing (i) the Converted Amount and (ii) the Conversion Price then in effect, rounded down to the nearest whole number of shares. The Company also issued a total of 2,186,666 warrants in connection with the transaction, each convertible into one share of the Company, exercisable at \$0.054 per warrant until June 1, 2028.

As at September 30, 2023, the Unsecured Notes payable were fair valued using a discount rate of 20% over an 18-month term. Accordingly, the value attributed to the Unsecured Notes payable is \$1,599,767 (December 31, 2022 - \$Nil). The remaining balance of \$40,233 was allocated to the warrants granted.

The following is a reconciliation of the notes payable as at September 30, 2023 and December 31, 2022:

	<b>Notes Payable</b>
	<b>\$</b>
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
Additions	1,579,523
Borrowing costs	-
Interest accrued	1,656,760
Interest paid	(1,656,760)
Accretion	880,499
Amortized costs	150,865
Balance, September 30, 2023	10,507,865

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**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	\$	-
Between two and five years		11,827,000
	\$	11,827,000

- 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 nine months ended September 30, 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.

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Information by segment is as follows:

	Resale of merchandise and cannabis-derived products		Cultivation and sale of trim and flowers		Total	
	Nine Months Ended September 30, 2023	Nine Months Ended September 30, 2022	Nine Months Ended September 30, 2023	Nine Months Ended September 30, 2022	Nine Months Ended September 30, 2023	Nine Months Ended September 30, 2022
	\$	\$	\$	\$	\$	\$
Sales	3,060,890	2,702,592	3,296,199	1,485,188	6,357,089	4,187,780
Cost of goods sold	1,479,376	1,433,567	2,915,085	2,307,826	4,394,461	3,741,393
Gross margin before fair value changes on biological assets	1,581,514	1,269,025	381,114	(822,638)	1,962,628	446,387
Net change in fair value less costs to sell due to biological transformation	-	-	152,576	117,158	152,576	117,158
Gross profit	1,581,514	1,269,025	228,538	(939,796)	2,115,204	563,545

September 30, 2023	Cannabis	Corporate	Total
	\$	\$	\$
Sales	6,357,089	-	6,357,089
Cost of goods sold	(4,394,461)	-	(4,394,461)
Gross profit	1,962,628	-	1,962,628
Net loss	(3,520,008)	(707,787)	(4,227,795)
Non-current assets:			
Deposits	271,037	-	271,037
Property and equipment	16,119,575	-	16,119,575

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