

ARETTO WELLNESS INC.

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(Unaudited)

For the nine months ended March 31, 2023

(Expressed in Canadian Dollars)

NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the 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 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.

ARETTO WELLNESS INC.
CONDENSED CONSOLIDATED INTERIM BALANCE SHEET
(Unaudited - Expressed in Canadian Dollars)

AS AT	Note	(Unaudited) March 31 2023	(Audited) June 30 2022
ASSETS			
Current			
Cash		\$ 52,857	\$ 3,620
Sales tax receivable		2,082	14,328
Prepaid expenses and deposits	5	-	19,427
Total assets		\$ 54,939	\$ 37,375
LIABILITIES			
Current			
Accounts payable and accrued liabilities	6	\$ 1,770,061	\$ 1,622,308
Loans payable	7	70,000	-
Total liabilities		1,840,061	1,622,308
EQUITY			
Share capital	8	14,881,767	14,510,468
Share subscriptions received	8	40,000	-
Reserves	8	2,392,143	2,307,396
Accumulated other comprehensive loss		(85,593)	(16,432)
Deficit		(19,013,439)	(18,386,365)
Total equity (deficiency)		(1,785,122)	(1,584,933)
Total liabilities and equity (deficit)		\$ 54,939	\$ 37,375

Nature and continuance of operations (Note 1)
Commitments and contingencies (Note 14)

Approved on behalf of the Board of Directors and authorized for issuance on May 4, 2023:

“Warren Spence”
Warren Spence, Director

“Nathan Nowak”
Nathan Nowak, Director

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

ARETTO WELLNESS INC.**CONDENSED CONSOLIDATED INTERIM STATEMENT OF OPERATIONS AND COMPREHENSIVE LOSS**

(Unaudited - Expressed in Canadian Dollars)

	Note	Three months Ended		Nine months Ended	
		March 31, 2023	March 31, 2022	March 31, 2023	March 31, 2022
Revenue		\$ -	\$ 33,586	\$ -	\$ 182,738
Cost of goods sold		-	113,396	-	291,055
Gross margin		-	(79,810)	-	(108,317)
Expenses					
General and administrative		19,002	111,495	131,911	299,253
Marketing and promotion		6,848	424,820	84,090	1,460,969
Consulting	10	62,748	511,934	347,021	2,079,728
Professional fees		13,445	47,151	76,870	211,947
Share-based compensation	8 & 10	-	151,107	84,747	563,780
Other income		(30)	-	(7,292)	-
Gain on debt settlement		-	-	(90,273)	-
Impairment - Inventory		-	1,542,325	-	1,542,325
Total expenses		102,013	2,788,832	627,074	6,158,002
Net loss		(102,013)	(2,868,642)	(627,074)	(6,266,319)
Other comprehensive (loss) income					
Foreign currency translation		435	30,632	(69,161)	5,238
Net and comprehensive loss		\$ (101,578)	\$ (2,838,010)	\$ (696,235)	\$ (6,261,081)
Loss per share					
Basic and diluted		\$ (0.01)	\$ (0.64)	\$ (0.09)	\$ (1.65)
Weighted average number of common shares					
Basic and diluted		10,870,363	4,506,367	7,366,440	3,788,551

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

ARETTO WELLNESS INC.**CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY**

(Unaudited - Expressed in Canadian Dollars)

	Number of Common Shares	Share Capital \$	Share Subscriptions Received \$	Reserves \$	Accumulated Other Comprehensive Loss \$	Deficit \$	Total Equity \$
Balance, June 30, 2021	3,111,367	8,430,730	-	878,006	(23,816)	(6,303,006)	2,981,914
Common shares issued - Bought Deal	400,000	3,160,000	-	840,000	-	-	4,000,000
Shares issued for acquisition	1,650,000	2,475,000	-	224,889	-	-	2,699,889
Share issue costs - cash	1,650,000	(436,424)	-	-	-	-	(436,424)
Share issue costs - non cash	-	(62,273)	-	62,273	-	-	-
Exercise of options	91,500	668,859	-	(119,859)	-	-	549,000
Exercise of warrants	3,750	33,750	-	-	-	-	33,750
Conversion of RSUs	8,500	149,600	-	(149,600)	-	-	-
Share-based compensation	-	-	-	560,455	-	-	560,455
Translation adjustment	-	-	-	-	(5,238)	-	(5,238)
Net loss for the period	-	-	-	-	-	(6,266,319)	(6,266,319)
Balance, March 31, 2022	6,915,117	14,419,242	-	2,296,164	(29,054)	(12,569,325)	4,117,027
Balance, June 30, 2022	5,277,617	14,510,468	-	2,307,396	(16,432)	(18,386,365)	(1,584,933)
Common shares issued for debt	5,592,746	371,299	-	-	-	-	371,299
Share subscription received	-	-	40,000	-	-	-	40,000
Share-based compensation	-	-	-	84,747	-	-	84,747
Translation adjustment	-	-	-	-	(69,161)	-	(69,161)
Net loss for the period	-	-	-	-	-	(627,074)	(627,074)
Balance, March 31, 2023	10,870,363	14,881,767	40,000	2,392,143	(85,593)	(19,013,439)	(1,785,122)

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

ARETTO WELLNESS INC.
CONDENSED CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS
(Unaudited - Expressed in Canadian Dollars)

	Nine months ended	
	March 31, 2023	March 31, 2022
Operating activities		
Net loss for the period	\$ (627,074)	\$ (6,266,319)
Adjusted for:		
Share-based compensation	84,747	560,455
Gain on debt settlement	(90,273)	-
Impairment - Inventory	-	1,542,325
Changes in non-cash working capital:		
Receivables	-	96,431
Sales tax receivable	12,246	94,413
Inventory	-	(2,777,954)
Prepaid expenses and deposits	19,427	1,319,057
Accounts payable and accrued liabilities	491,817	590,358
Cash flows - operating activities	(109,110)	(4,841,234)
Investing activities		
Cash acquired - Acquisition of JustGo	-	74,059
Cash flows - investment activities	-	74,059
Financing activities		
Common shares issued for cash	-	4,000,000
Share issue costs	-	(436,423)
Share subscription	40,000	
Loans issued	150,000	-
Common shares issued upon exercise of options and warrants	-	582,750
Cash flows - financing activities	190,000	4,146,327
Effect of foreign exchange on cash	(31,653)	29,906
Change in cash	49,237	(590,942)
Cash, beginning of period	3,620	672,365
Cash, end of period	\$ 52,857	\$ 81,423
Supplemental cash flow disclosure:		
Loan settled for shares	\$ 80,000	\$ -
Fair value of broker warrants	\$ -	\$ 62,273
Residual value of bought deal warrants	\$ -	\$ 840,000
Intangible assets acquired for common shares	\$ -	\$ 2,625,830

No cash was paid for interest or income taxes for the periods presented.

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

ARETTO WELLNESS INC.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

Nine months ended March 31, 2023

(Unaudited - Expressed in Canadian Dollars)

1. NATURE AND CONTINUANCE OF OPERATIONS

Aretto Wellness Inc. (the “Company”) was incorporated pursuant to the provisions of the British Columbia Business Corporations Act as 1207645 BC Ltd. on May 6, 2019. On November 24, 2022, the Company changes its name from Rritual Superfoods Inc. to Aretto Wellness Inc. The Company’s registered and records office address is 905 West Pender Street, Vancouver, BC, V6C 1L6. The Company’s head office address is 151 West Hasting Street, Vancouver BC, V6B 1H4.

The Company is engaged in the business of development, marketing, sales, and distribution of proprietary dietary and nutritional supplements and beverages containing herbs and other extracts such as fruits, roots, fungi, and vegetables. The Company sells its suite of products through an omni-channel business strategy direct to consumer and, through distribution partners, to brick-and-mortar retailers.

On February 26, 2021, the Company completed its initial public offering (the “IPO”) of 1,000,000 units. Each unit consisted of one common share and one-half share purchase warrant. The Company listed its common shares on the Canadian Securities Exchange (“CSE”) effective March 5, 2021, under the trading symbol RSF. The IPO warrants are listed on the CSE under the trading symbol ARTO-WT.

On November 24, 2022, the Company completed a consolidation of its common shares (“share consolidation”) on the basis of one post-consolidation common share for every ten pre-consolidation common shares held (20-to-1). All references contained in these consolidated financial statements to issued and outstanding common shares, warrants, per share amounts, and exercise prices, have been retroactively restated to reflect the effect of the share consolidations.

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) with the assumption that the Company will be able to realize its assets and discharge its liabilities in the normal course of business rather than through a process of forced liquidation. The consolidated financial statements do not include adjustments to amounts and classifications of assets and liabilities that might be necessary should the Company be unable to continue operations. The Company has had a history of losses has an accumulated deficit of \$19,013,439. The Company’s ability to continue as a going concern is dependent upon its ability in the future to achieve profitable operations and, obtain the necessary financing to meet its near-term obligations such that it can repay its liabilities when they become due. The inability to achieve these objectives may cast significant doubt about the Company’s ability to continue as a going concern.

ARETTO WELLNESS INC.**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

Nine months ended March 31, 2023

(Unaudited - Expressed in Canadian Dollars)

2. BASIS OF PRESENTATION, USE OF ESTIMATES, ASSUMPTIONS, AND JUDGEMENTS**Statement of compliance**

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") in accordance with International Accounting Standards 34, "Interim Financial Reporting" ("IAS 34") as issued by the International Accounting Standards Board ("IASB"), and interpretations of the IFRS Interpretations Committee ("IFRIC").

Basis of measurement

These consolidated financial statements have been prepared on a historical cost basis, except for financial instruments classified as financial instruments at fair value through profit or loss, which are stated at fair value. In addition, these consolidated financial statements have been prepared using the accrual basis of accounting except for cash flow information.

Presentation and functional currency

The consolidated financial statements of the Company are presented in Canadian dollars.

The functional currency of the Company is the Canadian dollar. The functional currency of the Company's wholly owned subsidiaries is detailed below:

Name of subsidiary	Abbreviation	Country of Incorporation	Percentage Ownership	Functional Currency	Principal Activity
Ritual USA Inc.	Ritual USA	USA	100%	USD	Dietary Supplements
JustGo Juice Nutrition Ltd.	JustGo	Canada	100%	CAD	Smoothie Mixes
JustGo Plant Nutrition Ltd.	JustGo Plant	Canada	100%	CAD	Smoothie Mixes

Use of estimates, assumptions, and Judgements

The preparation of financial statements in conformity with IFRS requires the use of judgments and/or estimates that affect the amounts reported and disclosed in these consolidated financial statements and related notes. These judgments and estimates are based on management's best knowledge of the relevant facts and circumstances, having given regard to previous experience, but actual results may differ materially from the amounts included in the consolidated financial statements.

2. BASIS OF PRESENTATION (Continued)

Use of estimates, assumptions, and Judgements (Continued)

Business combinations

Judgement is used in determining whether an acquisition is a business combination or an asset acquisition. Management determines whether assets acquired, and liabilities assumed constitute a business. A business consists of inputs and processes applied to those inputs that have the ability to create outputs. Management determines whether assets acquired, and liabilities assumed constitute a business. In examining processes and potential outputs, management considers the ability of the acquired and existing processes to adequately be capable of producing the potential outputs; where the processes are insufficient and/or incomplete to produce potential outputs, the Company considers the acquisition to be an asset acquisition.

The Company measures all the assets acquired, and liabilities assumed at their acquisition-date fair values. Non-controlling interests in the acquiree are measured on the basis of the non-controlling interests' proportionate share of the equity in the acquiree's identifiable net assets. Acquisition-related costs are recognized as expenses in the periods in which the costs are incurred, and the services are received (except for the costs to issue debt or equity securities which are recognized according to specific requirements). The excess of the aggregate of (a) the consideration transferred to obtain control, the amount of any non-controlling interest in the acquiree over (b) the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed, is recognized as goodwill as of the acquisition date.

Determination of asset fair values and allocation of purchase consideration

Significant asset acquisitions and business combinations require judgements and estimates to be made at the date of acquisition in relation to determining the relative fair value of property and equipment, as well as the allocation of the purchase consideration over the fair value of the assets. The information necessary to measure the fair values as at the acquisition date of assets acquired requires management to make certain judgements and estimates about future events, including but not limited to future production potential, and future market prices of products, and the ability to effectively distribute products. In certain circumstances, such as the valuation of property and equipment, intangible assets and goodwill acquired, the Company may rely on independent third-party valuers. Provisional purchase price allocations are subject to review by management upon integration of the acquired businesses and will be adjusted as necessary where circumstances indicate it is appropriate to do so.

Share-based compensation

The Company utilizes the Black-Scholes Option Pricing Model ("Black-Scholes") to estimate the fair value of warrants and stock options granted to directors, officers, employees, consultants. The use of Black-Scholes requires management to make various estimates and assumptions that impact the value assigned to the stock options including the forecast future volatility of the stock price, the risk-free interest rate, dividend yield and the expected life of the stock options. Any changes in these assumptions could have a material impact on the Share-based compensation calculation value, however the most significant estimate is volatility. The Company estimated volatility based on historic share prices of companies operating in the regulated cannabis industry as it presented a reasonable analogy of an emerging consumer product segment. Historical volatility is not necessarily indicative of future volatility.

The Performance Share Units ("PSUs") include the use of an estimate that revenue milestones are achieved by a specified date, which can affect the fair value estimate.

ARETTO WELLNESS INC.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

Nine months ended March 31, 2023

(Unaudited - Expressed in Canadian Dollars)

2. BASIS OF PRESENTATION (Continued)**Use of estimates, assumptions, and Judgements (Continued)***Carrying value of inventory*

The Company records valuation adjustments for inventory by comparing the inventory cost to its net realizable value. The process requires the use of estimates and assumptions related to future market demand, costs and prices. Such assumptions are reviewed and may have a significant impact on the valuation adjustments for inventory.

3. SIGNIFICANT ACCOUNTING POLICIES**Consolidation**

These consolidated financial statements include the accounts of the Company and its subsidiaries, which are controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity and be exposed to the variable returns from its activities. All intercompany transactions are eliminated upon the preparation of these consolidated financial statements.

Foreign currencies*Functional and presentation currency*

The functional currency is the currency of the primary economic environment in which the entity operates. The functional currency of the Company and its subsidiaries was determined by conducting an analysis of the consideration factors identified in IAS 21, "The Effects of Changes in Foreign Exchange Rates" ("IAS 21"). The functional currency of the Company and its subsidiaries is included within Note 2.

Translation of foreign transactions and balances into the functional currency

Foreign currency transactions are translated into the functional currency of the Company at rates of exchange prevailing on the dates of the transactions. At each reporting date, all monetary assets and liabilities that are denominated in foreign currencies are translated to the functional currency of the Company at the rates prevailing at the date of the balance sheet. Foreign exchange gains and losses resulting from the settlement of such transactions are recognized in profit or loss.

Translation of the functional currency into the presentation currency

The results of operations which have a different presentation currency than the Company are translated to Canadian dollars at appropriate average rates of exchange during the period. The assets and liabilities of these operations are translated to Canadian dollars at rates of exchange in effect at the end of the period. Gains or losses arising on translation of these operations to Canadian dollars at period end are recognized in accumulated other comprehensive loss as a translation adjustment.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Share-based payments

The Company makes periodic grants of share-based awards to selected directors, officers, employees and others providing similar services under the Company's omnibus long-term incentive plan ("Plan").

Pursuant to the Company's Plan the fair value of the equity-settled awards is determined at the date of the grant by using the Black-Scholes Option Pricing Model. At each reporting date prior to vesting, the cumulative expense representing the extent to which the vesting period has expired and management's best estimate of the awards that are ultimately expected to vest is computed. The movement in cumulative expense is recognized in the consolidated statement of operations and comprehensive loss with a corresponding entry within equity, against the reserve for equity settled share-based transactions. No expense is recognized for awards that do not ultimately vest.

In situations where equity instruments are issued to non-employees and some or all of the goods or services received by the entity as consideration cannot be specifically identified, they are measured at fair value of the share-based payment. Otherwise, share-based payments are measured at the fair value of goods or services received.

The Company has other share-based compensation plans in the form of Deferred Share Units ("DSUs"), Restricted Share Units ("RSUs") and Performance Share Units ("PSUs"). Units granted under these share-based compensation plans are recorded at fair value on the grant date and are adjusted for changes in fair value each reporting period until settled. The expense, and any changes which arise from fluctuations in the fair value of the grants, is recognized in share-based compensation in the consolidated statement of operations and comprehensive loss.

Income taxes

Income tax on the profit or loss for the periods presented comprises current and deferred tax. Income tax is recognized in profit or loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity. Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at period end, adjusted for amendments to tax payable with regards to previous years.

Deferred tax is recorded by providing for temporary differences, between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes; the initial recognition of assets or liabilities which affect neither accounting nor taxable loss as well as differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the consolidated balance sheet date.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized.

Additional income taxes that arise from the distribution of dividends are recognized at the same time as the liability to pay the related dividend. Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

3. ACCOUNTING POLICIES (Continued)**Loss per share**

The Company presents basic loss per share for its common shares, calculated by dividing the loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the nine months ended March 31, 2023. Diluted loss per share does not adjust the loss attributable to common shareholders or the weighted average number of common shares outstanding when the effect is anti-dilutive.

Financial instrumentsFinancial assets

On initial recognition, financial assets are recognized at fair value and are subsequently classified and measured at: (i) amortized cost; (ii) fair value through other comprehensive income ("FVOCI"); or (iii) fair value through profit or loss ("FVTPL"). The classification of financial assets is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. A financial asset is measured at fair value net of transaction costs that are directly attributable to its acquisition except for financial assets at FVTPL where transaction costs are expensed. All financial assets not classified and measured at amortized cost or FVOCI, are measured at FVTPL. On initial recognition of an equity instrument that is not held for trading, the Company may irrevocably elect to present subsequent changes in the investment's fair value in other comprehensive income.

The classification determines the method by which the financial assets are carried on the balance sheet subsequent to inception and how changes in value are recorded. Cash is classified on the balance sheet at FVTPL. Receivables are recorded on an amortized cost basis.

Impairment

An 'expected credit loss' impairment model applies which requires a loss allowance to be recognized based on expected credit losses. The estimated present value of future cash flows associated with the asset is determined and an impairment loss is recognized for the difference between this amount and the carrying amount as follows: the carrying amount of the asset is reduced to estimated present value of the future cash flows associated with the asset, discounted at the financial asset's original effective interest rate, either directly or through the use of an allowance account and the resulting loss is recognized in profit or loss for the period.

In a subsequent period, if the amount of the impairment loss related to financial assets measured at amortized cost decreases, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

Financial liabilities

Financial liabilities are designated as either: (i) FVTPL; or (ii) other financial liabilities. All financial liabilities are classified and subsequently measured at amortized cost except for financial liabilities at FVTPL. The classification determines the method by which the financial liabilities are carried on the balance sheet subsequent to inception and how changes in value are recorded. Accounts payable and accrued liabilities is classified on the balance sheet at amortized cost.

3. ACCOUNTING POLICIES (Continued)

Share capital

Common shares are classified as shareholders' equity. Incremental costs directly attributable to the issue of common shares and other equity instruments are recognized as a deduction from shareholders' equity. Common shares issued for consideration other than cash, are valued based on their market value at the date the shares are issued.

The Company has adopted a residual value method with respect to the measurement of warrants attached to private placement units. The residual value method first allocates value to the more easily measurable component based on fair value and then the residual value, if any, to the less easily measurable component. The Company considers the fair value of common shares issued in the private placements to be the more easily measurable component and the common shares are valued at their fair value, as determined by the closing market price on the announcement date. The balance, if any, is allocated to the attached warrants. Any fair value attributed to the warrants is recorded as reserves.

Impairment of non-financial assets

The Company reviews the carrying amounts of its non-financial assets, including property and equipment and other non-current assets, when events or changes in circumstances indicate the assets may not be recoverable. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash generating unit to which the asset belongs. Assets carried at fair value are excluded from impairment analysis.

The recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows to be derived from continuing use of the asset or cash generating unit are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Fair value less costs of disposal is the amount obtainable from the sale of an asset or cash generating unit in an arm's length transaction between knowledgeable, willing parties, less the cost of disposal. When a binding sale agreement is not available, fair value less costs of disposal is estimated using a discounted cash flow approach with inputs and assumptions consistent with those of a market participant. If the recoverable amount of an asset or cash generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash generating unit is reduced to its recoverable amount. An impairment loss is recognized immediately in net income. Where an impairment loss subsequently reverses, the carrying amount of the asset or cash generating unit is increased to the revised estimate of its recoverable amount, such that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized.

Inventory

The Company defines inventory as all purchased raw materials and finished goods for resale, consumable supplies, and accessories.

Raw materials and finished goods are initially recognized at cost and subsequently valued at the lower of average cost and net realizable value ("NRV"). The Company reviews for obsolescence, redundancy and slow turnover and any such inventory are written down to net realizable value.

3. ACCOUNTING POLICIES (Continued)

Goodwill and Intangible Assets

Goodwill arising on the acquisition of subsidiaries is measured at cost less accumulated impairment losses. Other intangible assets, comprising licenses, trademarks, technology, and product formulations that are acquired by the Company and have finite useful lives are measured at cost less accumulated amortization and any accumulated impairment losses. Amortization is calculated to write off the cost of intangible assets less their estimated residual values using the straight-line method over the estimated useful lives and is recognized in profit or loss. Goodwill is not amortized. The amortization of product formulations begins when the Company starts to generate revenue from the asset.

Amortization methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

Revenue

The Company's accounting policy for revenue recognition under IFRS 15 is as follows:

To determine the amount and timing of revenue to be recognized, the Company follows a 5-step process:

1. Identifying the contract with a customer
2. Identifying the performance obligations
3. Determining the transaction price
4. Allocating the transaction price to the performance obligations
5. Recognizing revenue when/as performance obligation(s) are satisfied.

Revenue from the sale of dietary supplements is recognized when the risks and rewards of the products have been substantially transferred to the customer (usually on delivery of the goods), which is the Company's sole performance obligation. The Company records a provision obligation for estimated returns based on historical experience and market expectations. Collection of the Company's invoices typically occurs within 90 days of the sale.

Marketing programs provided to customers and operators, including volume rebates, cooperative advertising and other trade marketing programs, are all customer-specific programs to promote the Company's products. Consequently, sales are recorded net of these estimated marketing costs at the time of sale. All other non-customer-specific marketing costs (general advertising, etc.) are expensed as incurred as selling, general and administrative expenses.

Certain customers require payment of listing allowances (or "product listing fees") to obtain space for a new product in their stores. These fees are considered incremental costs of obtaining a contract and, if recovery is expected through sales to the customer in future periods, are capitalized as product listing fees (included in prepaid expenses and deposits) and amortized to contra-revenue over the estimated recovery period. Product listing fees that are insignificant or are not estimated to have future economic benefit are recorded to contra-revenue in the period incurred.

New accounting policies

The Company has not yet adopted certain standards, interpretations to existing standards and amendments which have been issued but have an effective date later than July 1, 2022. Many of these updates are not currently relevant to the Company and are therefore not discussed herein.

ARETTO WELLNESS INC.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

Nine months ended March 31, 2023

(Unaudited - Expressed in Canadian Dollars)

4. INVENTORY

During the nine months ended March 31, 2023, inventory expensed to cost of goods sold was \$Nil (March 31, 2022 - \$291,055), and inventory recovery was \$7,292 (2022 - \$Nil).

5. PREPAID EXPENSES AND DEPOSITS

	March 31 2023	June 30, 2022
Prepaid expenses	\$ -	\$ 8,253
Deposits for others	-	11,174
Total	\$ -	\$ 19,427

6. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	March 31 2023	June 30, 2022
Accounts payable	\$ 1,686,247	\$ 1,570,850
Accrued liabilities	83,814	51,458
Total	\$ 1,770,061	\$ 1,622,308

7. LOANS PAYABLE

On October 5, 2022, the Company entered a \$70,000 unsecured short-term loan agreement with an arm's length British Columbia corporation with 5% interest per annum. The loan and the accrued interest and was repayable in full on December 1, 2022 and remains outstanding.

On October 24, 2022, the Company entered a \$80,000 unsecured short-term loan agreement with an arm's length British Columbia corporation with 5% interest per annum. The loan and the accrued interest and is repayable in full on December 1, 2022. On December 23, 2022, the Company settled the loan in exchange for 1,066,667 common shares.

ARETTO WELLNESS INC.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

Nine months ended March 31, 2023

(Unaudited - Expressed in Canadian Dollars)

8. SHARE CAPITAL AND RESERVES**Authorized**

Unlimited common shares with no par value. As of March 31, 2023, there were 10,870,363 common shares outstanding.

Escrow shares

The Company has shares subject to trading restrictions and escrow which are released in tranches through 2023. As of March 31, 2023, a total of 26,000 common shares were subject to these escrow restrictions.

Issued and Outstanding – Common Shares Fiscal 2023:

During the nine months ended March 31, 2023, the Company issued common shares as follows:

- a) The Company issued 255,245 common shares of the Company at \$0.20 per common share, to reduce an aggregate of \$61,259 in indebtedness of the Company resulting in a gain on debt settlement of \$10,210.
- b) The Company issued 5,337,501 common shares of the Company at \$0.06 per common share, to reduce an aggregate of \$400,313 in indebtedness of the Company resulting in a gain on debt settlement of \$80,063.

Issued and Outstanding – Common Shares Fiscal 2022:

During the year ended June 30, 2022, the Company issued common shares as follows:

- a) The Company issued 1,650,000 shares with a fair value of \$2,475,000 to complete the acquisition of JustGo. As additional consideration, the Company issued 843,750 warrants to the JustGo shareholders exercisable at a price of \$4.00 for one year from closing. The fair value of the warrants was determined to be \$224,889 and was calculated using the Black-Scholes valuation model with the following assumptions: volatility – 112%, expected life – 1 year, discount rate 1.5%, dividend yield 0%.
- b) The Company closed a \$4,000,000 “bought deal” public offering (the “Offering”) with net proceeds of \$3,578,577. Each Unit consists of one common share of the Company (a “Common Share”) and one-half Common Share purchase warrant. Each whole warrant (a “Warrant”) entitles the holder to purchase one Common Share of the Company at a price of \$12.00 per Common Share until March 5, 2024, subject to an acceleration provision. Pursuant to the Offering, Rritual issued an aggregate of 400,000 Units at a price of \$10.00 per Unit, for total gross proceeds of \$4,000,000. The gross proceeds were allocated to shares and warrants on the basis of \$7.90 per share and \$2.10 per whole Warrant. The Company paid a cash commission of \$240,000 and issued 24,000 brokers warrants with an exercise price of \$12.00 and a term of two years. The broker warrants were valued at \$62,273 based on the following Black Scholes assumptions: 0% dividend yield, 80% expected volatility, 0.92% expected interest and a 2.5-year expected life. The Company also incurred cash share issuance costs of \$181,423 in connection with the Offering.
- c) 21,000 common shares were issued pursuant to the conversion of RSUs.
- d) 91,500 common shares were issued pursuant to the exercise of stock options for gross proceeds of \$549,000. In relation to the exercises of stock options the Company reallocated \$119,859 from reserves to share capital.
- e) 3,750 common shares were issued pursuant to the exercise of warrants for gross proceeds of \$33,750.

ARETTO WELLNESS INC.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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8. SHARE CAPITAL AND RESERVES (Continued)**Long Term Incentive Plan**

The Company has adopted a Plan for its directors, officers, employees, and consultants to acquire common shares of the Company. The plan provides a framework for the Company to grant stock options, RSUs, PSUs, and DSUs. The aggregate number of stock options and other units granted shall not exceed 25% of the issued and outstanding common shares of the Company with no one individual director or officer being granted options or units to acquire more than 10% of the issued and outstanding common shares. In addition, the exercise price of stock options granted under the plan shall not be lower than the market price on the date of grant. The maximum term of an option award under the plan is 10 years. Stock options and other units vest at the discretion of the board of directors.

A summary of stock option activity is as follows:

	Number of Options	Weighted Average Exercise Price \$
Balance at June 30, 2021	364,750	5.68
Exercised	(91,500)	6.00
Granted	210,000	7.00
Balance June 30, 2022	483,250	6.20
Cancelled	(218,250)	5.94
Balance March 31, 2023	265,000	6.40

The following table summarizes stock options outstanding and exercisable as of March 31, 2023:

Expiry date	Number of Options	Number of Exercisable Options	Weighted Average	Weighted Average Remaining Years
June 23, 2025	47,500	47,500	2.00	2.23
June 23, 2025	15,000	15,000	6.00	2.23
October 8, 2025	22,500	22,500	6.00	2.53
February 1, 2026	7,500	7,500	6.00	2.84
March 8, 2026	32,500	32,500	10.80	2.94
November 8, 2026	140,000	140,000	7.00	3.61
	265,000	265,000	6.40	3.09

Share-based compensation expense recognized during the period of \$84,747 (2022 - \$563,780) related to options vested during the nine months ended March 31, 2022. The Option Pricing Model used the following weighted average assumptions:

	March 31 2023	June 30, 2022
Risk-free interest rate	0.92%	0.92%
Expected life of options	4	4
Expected forfeitures	10%	10%
Annualized volatility	91%	91%
Dividend rate	0%	0%
Weighted average fair value per option	\$1.00	\$1.00

Expected annualized volatility was determined using the historic volatility of established comparable publicly traded companies.

ARETTO WELLNESS INC.

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8. SHARE CAPITAL AND RESERVES (Continued)**Restricted Share Units**

A summary of restricted shares unit activity is as follows:

	Number of RSU's	Share price on grant date
Balance at June 30, 2021	14,500	NA
Redeemed for cash	(1,750)	0.88
Cancelled	(2,500)	0.88
Exercised	(21,000)	0.88
Granted	50,000	0.20
Balance at June 30, 2022	39,250	NA
Cancelled	(1,750)	NA
Balance at March 31, 2023	37,500	NA

Share-based compensation expense recognized during the year of \$Nil (2021 - \$211,987) related to Restricted Shares Units.

Performance Stock Units

During the year ended June 30, 2022, the company granted 2,000,000 PSUs to an officer of the Company, each PSU representing the right to receive, once vested, and in accordance with the applicable PSU award milestones, one common share in the capital of the Company. During the nine months ended March 31, 2023, share-based compensation expense recognized was \$NIL (March 31, 2022 - \$50,625) related to PSUs and the PSUs were cancelled in accordance with the termination of a contract.

Milestones:

- 500,000 vested upon Company achieving \$3,500,000 in cumulative revenue;
- 500,000 vested upon Company achieving \$5,000,000 in cumulative revenue;
- 500,000 vested upon Company achieving \$7,500,000 in cumulative revenue; and
- 500,000 vested upon Company achieving \$10,000,000 in cumulative revenue.

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8. SHARE CAPITAL AND RESERVES (Continued)**Share Purchase Warrants**

The Company enters into agreements for various services for which all or partial consideration is comprised of warrants. As the fair value of the provision of services is difficult to measure, the Company measures the fair value of services received or to be received by reference to the fair value of warrants granted using the Black-Scholes Model as described in the Company's Financial Statements.

A summary of warrant activity is as follows:

	Number of Warrants	Weighted Average Exercise Price \$
Balance at June 30, 2021	818,488	11.20
Granted	1,043,750	5.60
Exercised	(3,750)	9.00
Balance at June 30, 2022	1,858,488	0.40
Expired	(1,138,108)	2.53
Balance at March 31, 2023	720,380	12.00

The following table summarizes the warrants outstanding as of March 31, 2023:

Expiry date	Number of Warrants	Weighted Average	Weighted Average Remaining Years
March 5, 2024	720,380	0.60	0.93
	720,380	12.00	0.93

ARETTO WELLNESS INC.

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8. SHARE CAPITAL AND RESERVES (Continued)**Broker Warrants**

A summary of broker warrants outstanding is as follows:

	Number of Warrants	Weighted Average Exercise Price \$
Balance at June 30, 2021	70,000	6.00
Granted	24,000	12.00
Balance at June 30, 2022 and March 31, 2023	94,000	7.60

The following table summarizes the broker warrants outstanding as of March 31, 2023:

Expiry date	Number of Warrants	Weighted Average	Weighted Average Remaining Years
March 5, 2024	70,000	6.00	0.93
March 5, 2024	24,000	12.00	0.93
	94,000	7.60	0.93

Each broker warrant is exercisable into units which consist of one common share and one-half common share purchase warrant exercisable until March 5, 2024. Upon conversion each full warrant shall be exercisable at a price of \$12.00 expiring on March 5, 2024.

9. CONVERTIBLE NOTES

On September 30, 2020, the Company completed a financing of Qualifying Convertible Notes in the aggregate Principal Amount of \$950,402. The Qualifying Convertible Notes automatically convert into Convertible Note Units upon the earlier of: (i) the Company receiving a receipt for its final Prospectus from the securities regulatory authorities in each of the jurisdictions in which the Company files the Prospectus; or (ii) the Maturity Date of the Qualifying Convertible Notes being March 31, 2021. Upon conversion, each Convertible Note Unit will be comprised of one Convertible Note Unit Share and one-half of one non-transferable Convertible Note Unit Warrant. Each whole Convertible Note Unit Warrant entitles the holder thereof to purchase one additional Convertible Note Unit Warrant Share at an exercise price of \$12.00 for a period of 24 months from the date of issuance. The Company did not receive any additional proceeds upon the automatic conversion of the Qualifying Convertible Notes upon the closing of its IPO. No commission or fee was paid by the Company with respect to the issue of the Qualifying Convertible Notes and no commission or fee was paid by the Company in connection with the issuance of the Convertible Note Units.

Upon closing of the IPO, the Qualifying Convertible Notes automatically converted into 159,154 units at a price of \$6.00 per share. Each unit consists of one common share and one half of one common share purchase warrant (79,577 warrants in total). Each full warrant was exercisable at a price of \$12.00 until September 30, 2022. Of the total shares issued, 158,400 related to the conversion of the principal balance 755 share were issued for \$4,527 in accrued interest.

ARETTO WELLNESS INC.**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

Nine months ended March 31, 2023

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10. RELATED PARTY TRANSACTIONS**Key management personnel**

Key management personnel include those persons having authority and responsibility for planning, directing, and controlling the activities of the Company as a whole. The Company has determined that key management personnel consist of executive and non-executive members of the Company's Board of Directors and corporate officers and/or companies controlled by those individuals.

During the nine months ended March 31, 2023, the Company entered the following key management transactions:

	March 31	March 31
	2023	2021
Consulting services, Nathan Nowak, CEO	\$ 7,500	\$ -
Consulting services - David Kerbel, former CEO	-	60,485
Consulting services - Robert Payment, former CFO	40,500	51,500
Consulting services - Company with common Director, Robert Payment	30,000	90,000
Consulting services - Gregy McCauley, Former COO	-	75,606
Salary - Warren Spence, Former CEO	-	72,000
Consulting services (director fees) - Scott Eldridge	6,250	31,250
Consulting services (director fees) - David Lubotta	18,750	31,250
Consulting services (director fees) - Warren Spence	18,750	31,250
Total	\$ 121,750	\$ 443,341
Stock based compensation - David Kerbel, former CEO	-	11,090
Stock based compensation - Robert Payment, former CFO	4,587	43,737
Stock based compensation - Scott Eldridge, Director	28,613	89,384
Stock based compensation - David Lubotta, Director	28,613	88,383
Stock based compensation - Warren Spence, director	22,935	112,796
Total	\$ 84,747	\$ 345,390
	March 31	June 30
	2023	2022
Accounts payable or accrued liabilities owing to related parties		
Companies which Robert Payment is a common director	\$ 108,500	\$ 102,988
Company which Warren Spence is a common director	-	37,700
Director Fees - Scott Eldridge	18,750	12,500
Director Fees - David Lubotta	25,000	12,500
Director Fees - Warren Spence	25,000	12,500
	\$ 177,250	\$ 178,188

11. FINANCIAL INSTRUMENTS

Fair value

Financial instruments measured at fair value are classified into one of three levels in the fair value hierarchy according to the relative reliability of the inputs used to estimate the fair values. The three levels of the fair value hierarchy are:

- Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and
- Level 3 – Inputs that are not based on observable market data.

Cash is carried at fair value using a level 1 fair value measurement. The recorded values of receivables, accounts payable and accrued liabilities approximate their fair values due to their short-term to maturity.

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 objective 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.

Credit risk

Credit risk is the risk of potential loss associated with a counterparty's inability to fulfill its payment obligations. The Company's credit risk is primarily attributable to cash and trade receivables. Cash is held with reputable Canadian financial institutions, from which management believes the risk of loss is remote. The Company's maximum credit risk exposure is equivalent to the carrying value of cash and the trade receivables.

Interest rate risk

Interest rate risk is the risk arising from the effect of changes in prevailing interest rates on the Company's financial instruments. The Company is exposed to interest rate risk to the extent that the cash maintained at the financial institutions is subject to a floating rate of interest. The interest rate risk on cash is not considered significant by management.

Liquidity risk

Liquidity risk is the risk that the Company is not able to meet its financial obligations as they fall due. The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As of March 31, 2023, the Company's financial liabilities consist of accounts payable and accrued liabilities. Accounts payable and accrued liabilities have contractual maturities within one year. The Company manages liquidity risk by reviewing its capital requirements on an ongoing basis.

Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign currency rates. An increase (decrease) of 10% in the foreign exchange rate between the USD and Canadian dollar will increase (decrease) net comprehensive income by \$110,000. The Company does not undertake currency hedging activities to mitigate its foreign currency risk.

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12. CAPITAL MANAGEMENT

The Company defines capital as equity. The Company manages its capital structure and makes adjustments in order to have the funds available to support its operating activities.

The Company's objective when managing capital is to safeguard the Company's ability to continue as a going concern and to pursue the development of its business. The Company manages its capital structure and adjusts it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust its capital structure, the Company may issue new equity instruments, new debt, or acquire and/or dispose of assets. As discussed in Note 1, the Company's ability to continue as a going concern is uncertain and dependent upon the continued financial support of its shareholders, future profitable operations, and securing additional financing.

Management reviews its capital management approach on an ongoing basis. There were no changes in the Company's approach to capital management during the period presented. The Company is not subject to externally imposed capital requirements.

13. SEGMENTED INFORMATION

The Company operates in one reportable business segment, the marketing and distribution of dietary supplements containing functional mushrooms. The Company defines its reportable segments based on geographical locations – Canada, and USA. 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. All sales during the period occurred in the United States.

14. COMMITMENTS AND CONTINGENCIES*Litigation Claim*

On July 26, 2021, Force One Marketing Corporation and Force One Capital (together, "Force One"), filed a Statement of Claim against the Company in Ontario with respect to an alleged breach of a stock option agreement granting Force One 50,000 stock options exercisable at \$0.40. Force One alleges that it was a former consultant of the Company and says the stock options were granted to it for capital raising and corporate advisory services. Force One is seeking an order for delivery of 50,000 common shares of the Company and general damages against the Company in the amount of \$3,500,000. The Company views the Force One's claim as largely devoid of merit and the Company will vigorously defend it. The Company has filed a Statement of Defense however no court dates have been set.

Although management believes that the claim by Force One is without merit, defending the claim may be costly. If Force One's action is successful against the Company, it could result in the Company's business, operating results and financial condition being materially adversely affected.

Trademark Dispute

The Company received a letter from a natural health products company in the United States (the "Claimant") requesting the Company cease and desist from using the RRitual Trademark and the U.S. Trademark Application for "MENTAL FITNESS IS A DAILY RRITUAL" (Serial No. 90138515) on the basis of claims that it would cause consumer confusion with respect to products of the Claimant. During the period ended March 31, 2023, there was no further communication regarding the matter from the party who sent the cease and desist letter.

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14. COMMITMENTS AND CONTINGENCIES (Continued)

Although management believes that the trademark claims are without merit, the claims may be time-consuming and costly to defend and divert management's attention and resources away from the business. These claims of intellectual property infringement also might require the Company to redesign affected products, enter into costly settlement or license agreements (if such licenses can be obtained on commercially reasonable terms, or at all) or pay costly damage awards, or face a temporary or permanent injunction prohibiting the marketing or selling certain of our products, which could result in the Company's business, operating results and financial condition being materially adversely affected.

15. SUBSEQUENT EVENT

Subsequent to March 31, 2023, the Company completed the following transactions:

None.