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CANNARA BIOTECH INC.

Consolidated Financial Statements

Years ended August 31, 2023 and 2022

CANNARA BIOTECH INC.

Table of Contents

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INDEPENDENT AUDITOR’S REPORT

To the Shareholders of Cannara Biotech Inc.

Opinion

We have audited the consolidated financial statements of Cannara Biotech Inc. (the "Entity"), which comprise:

- the consolidated statements of financial position as at August 31, 2023 and August 31, 2022
- the consolidated statements of net income and comprehensive income for the years then ended
- the consolidated statements of changes in equity for the years then ended
- the consolidated statements of cash flows for the years then ended
- and notes to the consolidated financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Entity as at August 31, 2023 and August 31, 2022, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the **"*Auditor’s Responsibilities for the Audit of the Financial Statements*"** section of our auditor’s report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for the year ended August 31, 2023. These matters were addressed in the context of our audit of the financial statements as a whole and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We have determined the matters described below to be the key audit matter to be communicated in our auditor's report.

Measurement of biological assets at fair value less cost to complete and cost to sell.

Description of the matter

We draw attention to Notes 3(a), 3(p) and 4 in the financial statements. The carrying value of the Entity's biological assets was $5,774,121 as at August 31, 2023. The Entity's biological assets consist of cannabis plants which are not yet harvested. These biological assets are measured at fair value less cost to complete and costs to sell ("Fair Value"), which becomes the initial basis for the cost of inventories after harvest. The Entity utilizes an income approach to determine the Fair Value, which is then adjusted by the cannabis plants' stage of completion prior to the point of harvest.

Why the matter is a key audit matter

The Entity's biological assets consist of cannabis plants which are not yet harvested. We identified the measurement of biological assets at Fair Value as a key audit matter. This matter represented an area of higher assessed risk of material misstatement requiring higher degree of auditor attention in evaluating the results of audit procedures related to the significant unobservable inputs used to measure biological assets. The significant unobservable inputs used to measure biological assets were the wholesale and retail selling price, yield per plant, and stage of completion.

How the matter was addressed in the audit

The following are the primary procedures we performed to address this key audit matter:

We evaluated the appropriateness of the wholesale and retail selling price per gram for a selection of stock keeping units (SKUs) by comparing these to the sales price per gram of actual sales transactions during the year and subsequent to year end.

We evaluated the appropriateness of the estimated yield per plant by reperforming weigh-ins of dried grams of cannabis harvested for a selection of lots. We then recalculated the yield per plant in a lot, by dividing dried grams of cannabis harvested by the number of cannabis plants.

We assessed the stage of completion by observing the stage of growth of cannabis plants for a selection of lots.

We performed sensitivity analyses over the Entity's significant unobservable inputs used to determine the Fair Value of biological assets to assess the impact of changes in those significant unobservable inputs on the Entity's determination of Fair Value.

Other Information

Management is responsible for the other information. Other information comprises the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit and remain alert for indications that the other information appears to be materially misstated.

We obtained the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions as at the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditor's report.

We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Entity's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

  The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor’s report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor’s report. However, future events or conditions may cause the Entity to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

- Provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group Entity to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.
- Determine, from the matters communicated with those charged with governance, those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our auditor's report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this auditor's report is Aaron Fima.

KPMG LLP*

Montréal, Canada

December 7, 2023

*CPA auditor, public accountancy permit No. A125211

CANNARA BIOTECH INC.

Consolidated Statements of Financial Position
As at August 31, 2023 and 2022

	2023	2022
Assets		
Current assets		
Cash	$ 4,270,517	$ 12,114,691
Accounts receivable	10,592,705	8,526,918
Lease receivable	–	90,251
Biological assets (note 4)	5,774,121	5,712,456
Inventory (note 5)	27,997,589	13,266,987
Prepaid expenses and other assets	3,060,904	1,277,381
	51,695,836	40,988,684
Deposits	256,434	296,114
Deferred financing costs (note 8)	57,774	–
Deposits on property, plant and equipment	75,496	928,385
Property, plant and equipment (note 6)	89,259,697	83,289,745
Right-of-use asset (note 7)	177,017	114,119
	$ 141,522,254	$ 125,617,047
Liabilities and Shareholders' Equity		
Current liabilities		
Accounts payable and accrued liabilities	$ 13,926,096	$ 9,307,959
Sales tax payable	1,051,026	319,664
Deferred lease revenue	99,108	–
Deferred revenue	23,020	7,087
Revolving credit facilities (note 8)	3,000,000	–
Current portion of convertible debenture (note 8)	1,000,000	–
Current portion of long-term debt	–	2,611
Current portion of deferred grant income (note 11)	38,739	38,101
Current portion of lease liabilities (note 7)	78,877	219,702
Current portion of term loan (note 8)	1,965,961	1,965,961
	21,182,827	11,861,085
Lease liabilities (note 7)	97,143	16,962
Convertible debentures (note 8)	4,753,133	9,590,143
Deferred grant income (note 11)	777,158	816,536
Deferred lease revenue	79,675	–
Term loan (note 8)	34,888,274	36,596,560
	61,778,210	58,881,286
Shareholders' equity		
Share capital (note 9)	88,803,613	83,296,250
Contributed surplus	10,349,568	9,724,114
Deficit	(19,339,846)	(26,299,730)
Accumulated other comprehensive income (loss)	(69,291)	15,127
Total equity	79,744,044	66,735,761
Contingencies (note 17)		
Subsequent events (note 21)		
	$ 141,522,254	$ 125,617,047

See accompanying notes to consolidated financial statements.

On behalf of the Board:

" Zohar Krivorot", Director
"Donald Olds", Director

CANNARA BIOTECH INC.

Consolidated Statements of Net Income and Comprehensive Income
Years ended August 31, 2023 and 2022

	2023	2022
Revenue:		
Revenue from sale of goods (note 18)	$ 71,407,617	$ 36,995,110
Excise taxes	(19,122,306)	(8,486,654)
Net revenue from sale of goods	52,285,311	28,508,456
Lease revenues (note 18)	3,588,468	3,373,198
Service revenues (note 18)	1,194,132	3,600,947
Other income (note 11)	494,891	515,157
	57,562,802	35,997,758
Cost of sales:		
Cost of goods sold (note 5)	35,217,653	18,652,355
Lease operating costs	364,356	307,923
Cost of services	911,254	2,892,612
	36,493,263	21,852,890
Change in fair value of inventory sold	(14,637,819)	(7,830,905)
Unrealized gain on changes in fair value of biological assets (note 4)	21,101,614	11,173,673
	27,533,334	17,487,636
Operating expenses		
General and administrative (note 13)	7,967,384	7,357,475
Research and development (note 12)	1,030,855	1,256,635
Selling, marketing and promotion	2,909,222	1,437,294
Professional fees	889,456	882,265
Share-based compensation (note 10)	1,753,985	349,468
Amortization (notes 6 and 7)	961,551	1,228,827
Gain on sublease agreement (note 7)	–	(12,876)
Loss on disposal of property, plant and equipment	133,088	47,813
	15,645,541	12,546,901
Operating income	11,887,793	4,940,735
Net finance expense (note 14)	4,942,375	2,635,316
Net income	6,945,418	2,305,419
Other comprehensive income:		
Foreign currency translation adjustments	(84,418)	(84,938)
Total comprehensive income	$ 6,861,000	$ 2,220,481
Basic and diluted earnings per share (note 9)	$ 0.08	$ 0.03
Weighted average number of common shares, basic	89,300,448	87,668,954
Weighted average number of common shares, diluted	89,300,448	87,840,476

See accompanying notes to consolidated financial statements.

CANNARA BIOTECH INC.

Consolidated Statements of Changes in Equity
Years ended August 31, 2023 and 2022

	Shares		Share capital		Contributed surplus		Deficit		Accumulated other comprehensive income (loss)		Total equity
As at August 31, 2022	87,698,132	$	83,296,250	$	9,724,114	$	(26,299,730)	$	15,127	$	66,735,761
Net income	–		–		–		6,945,418		–		6,945,418
Other comprehensive income:											
Foreign currency translation adjustment	–		–		–		–		(84,418)		(84,418)
Comprehensive income (loss)	–		–		–		6,945,418		(84,418)		6,861,000
Share-based compensation (note 10):											
Employee compensation	–		–		1,746,659		–		–		1,746,659
Other services	–		–		7,326		–		–		7,326
	–		–		1,753,985		–		–		1,753,985
Exercise of stock options (note 9 and 10)	50,000		88,100		(38,100)		–		–		50,000
Conversion of convertible debenture (note 8)	2,955,414		5,808,214		(1,090,431)		–		–		4,717,783
Repurchase and cancellation of common shares under NCIB (note 9)	(397,694)		(388,951)		–		14,466		–		(374,485)
As at August 31, 2023	90,305,852	$	88,803,613	$	10,349,568	$	(19,339,846)	$	(69,291)	$	79,744,044

See accompanying notes to consolidated financial statements.

CANNARA BIOTECH INC.

Consolidated Statements of Changes in Equity
Years ended August 31, 2023 and 2022

	Shares		Share capital		Contributed surplus		Deficit		Accumulated other comprehensive income (loss)		Total equity
As at August 31, 2021	87,648,132	$	83,208,150	$	9,412,746	$	(28,605,149)	$	100,065	$	64,115,812
Net income	–		–		–		2,305,419		–		2,305,419
Other comprehensive income:											
Foreign currency translation adjustment	–		–		–		–		(84,938)		(84,938)
Comprehensive income (loss)	–		–		–		2,305,419		(84,938)		2,220,481
Share-based compensation (note 10):											
Employee compensation	–		–		322,377		–		–		322,377
Other services	–		–		27,091		–		–		27,091
	–		–		349,468		–		–		349,468
Exercise of stock options (notes 9 and 10)	50,000		88,100		(38,100)		–		–		50,000
As at August 31, 2022	87,698,132	$	83,296,250	$	9,724,114	$	(26,299,730)	$	15,127	$	66,735,761

See accompanying notes to consolidated financial statements.

CANNARA BIOTECH INC.

Consolidated Statements of Cash Flows
Years ended August 31, 2023 and 2022

	2023	2022
Cash provided by (used in):		
Operating		
Net income	$ 6,945,418	$ 2,305,419
Items not involving cash:		
Change in fair value of inventory sold (note 5)	14,637,819	7,830,905
Unrealized gain on changes in fair value of biological assets (note 4)	(21,101,614)	(11,173,673)
Share-based compensation (note 10)	1,753,985	349,468
Amortization of property, plant and equipment (note 6)	4,815,099	3,803,542
Amortization of right-of-use asset (note 7)	127,047	117,042
Loss on disposal of property, plant and equipment	133,088	47,813
Gain on sublease (note 7)	–	(12,876)
Change in fair value of derivative financial instrument (note 15)	–	(560,000)
Gain on convertible debenture modification (note 8)	(52,664)	–
Interest expense (note 14)	3,647,140	1,853,052
Interest on lease liabilities (note 14)	23,754	65,082
Accretion on financing and amortization of financing costs (notes 8 and 14)	860,472	871,000
Interest income (note 14)	(239,509)	(92,693)
Other	170	225
Net change in non-cash operating working capital items (note 20)	(6,113,302)	(11,483,197)
	5,436,903	(6,078,891)
Financing		
Private placement issuance costs	–	(25,250)
Convertible debenture issuance costs	–	(24,888)
Proceeds from revolving credit facilities (note 8)	3,000,000	–
Net purchase of shares under NCIB (note 10)	(374,485)	–
Stock options exercised (notes 9 and 10)	50,000	50,000
Proceeds from debt financing (note 8)	–	61,319,223
Debt financing issuance costs (note 8)	(57,774)	(920,999)
Repayment of long-term debt (note 8)	(1,965,961)	(34,000,000)
Proceeds from sale of derivative financial instrument (note 15)	–	560,000
Interest paid on debt instruments (note 8)	(4,093,827)	(1,194,133)
Lease payments (note 7)	(274,343)	(296,104)
Repayment of other long-term debt	(2,659)	(3,545)
	(3,719,049)	25,464,304
Investing		
Deposits on property, plant and equipment	(568,225)	(2,986,391)
Acquisition of property, plant and equipment (note 6)	(9,311,244)	(12,480,719)
Disposal of property, plant and equipment	189,921	63,107
Interest received	211,938	58,914
	(9,477,610)	(15,345,089)
Net change in cash	(7,759,756)	4,040,324
Effect of foreign exchange on cash	(84,418)	(84,938)
Cash, beginning of year	12,114,691	8,159,305
Cash, end of year	$ 4,270,517	$ 12,114,691

See accompanying notes to consolidated financial statements.

1. Nature of operations

Cannara Biotech Inc. ("Cannara" or the "Company") is a vertically integrated producer of premium-grade cannabis and cannabis-derivative products for the Canadian market. The Company is domiciled in Canada and was incorporated under the laws of British Columbia on October 19, 2017. Its head office is located at 333 Décarie, Suite 200, Ville St-Laurent, Québec, H4N 3M9. The Company's common shares are listed under the symbol "LOVE.V" on the TSX Venture Exchange (the "TSXV") in Canada, "LOVFF" on the OTCQB Venture Market in the United States and "8CB" on the Frankfurt Stock Exchange in Germany.

Cannara owns and operates two Quebec-based mega cultivation facilities spanning over 1,650,000 square feet. Cannara's first purpose-built, modern indoor cultivation facility is located in Farnham, Quebec and measures 625,000 square feet, comprising 170,000 square feet of operational licensed cultivation area and 414,000 square feet of leased warehouse space ("Farnham Facility"). The second facility, acquired in June 2021, is a hybrid greenhouse facility that is being redesigned to replicate the indoor cultivation environment. The facility is comprised of 24 independent growing zones totaling 600,000 square feet, a 225,000 square feet cannabis 2.0 processing center and a 200,000 square feet rooftop greenhouse located in Valleyfield, Quebec ("Valleyfield Facility"). Cannara operates through its wholly owned subsidiaries, Cannara Biotech (Quebec) Inc. and Cannara Biotech (Valleyfield) Inc., both holding active licenses issued by Health Canada under the Cannabis Act.

The Company continues to invest in capital expenditures at its Valleyfield Facility, redesigning and activating 9 growing zones to-date, measuring a total of 225,000 square feet of active growing capacity. Multiple harvests have occurred since the start of the Valleyfield cultivation operations in November 2021 and have resulted in increased revenues as the harvested cannabis is processed and sold in Canada under the Company's flagship brands, Tribal, Nugz and Orchid CBD.

The Company generated a net income of approximately $7 million during the year ended August 31, 2023 (Year ended August 31, 2022 - $2.3 million) and has a deficit of approximately $19.3 million as at August 31, 2023 (August 31, 2022 - $26.3 million). The Company expects that its existing cash resources of $4.3 million as at August 31, 2023, along with the forecasted cash flows and available undrawn term loan and revolving credit facilities (note 8), will enable it to fund its planned operating expenses for at least the next twelve months from August 31, 2023.

The ability of the Company to ultimately achieve recurrent profits from operations is dependent upon the continued success of its product and brand pipeline in addition to maintaining the consistency of its grow operations and lean cost structure. The Company expects to finance its operations through its sales, existing cash, available undrawn credit facilities, available undrawn term loan and/or a combination of public or private equity and debt financing or other sources.

2. Basis of preparation

(a) Statement of compliance

The consolidated financial statements of the Company have been prepared in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board.

The consolidated financial statements were approved for issuance by the Board of Directors on December 7, 2023.

(b) Basis of measurement

These consolidated financial statements have been prepared on a going concern basis, under the historical cost convention, except for the following:

(i) Equity-based share-based payment arrangements, which have been recorded at fair value at grant date pursuant to IFRS 2, *Share-based Payment*;

(ii) Right-of-use asset, lease receivable and related lease liability, which have been recorded on initial recognition at the present value of the lease payments that are not paid at lease commencement date pursuant to IFRS 16, *Leases*; and

(iii) Biological assets, which have been recorded at the fair value less cost to sell pursuant to IAS 41, *Agriculture*.

(iv) The convertible debenture has been initially recorded at fair value pursuant to IFRS 9, *Financial Instruments*.

(c) Functional currency

All figures presented in the consolidated financial statements are reflected in Canadian dollars.

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

2. Basis of preparation (continued)

(c) Functional currency (continued)

On consolidation, the assets and liabilities of foreign operations reported in their functional currencies are translated into Canadian dollars at year-end exchange rates. Income and expenses, and cash flows of foreign operations are translated into Canadian dollars using average exchange rates. Exchange differences resulting from translating foreign operations are recognized in other comprehensive income and accumulated in equity.

The Company’s and of all of its subsidiaries’ functional currency is the Canadian dollar, with the exception of ShopCBD.com whose functional currency is the U.S. dollar.

(d) Basis of consolidation

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power, directly and indirectly, to govern the financial and operating policies of an entity and be exposed to the variable returns from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of the subsidiary are changed when necessary to align them with the policies adopted by the Company.

All intercompany balances and transactions, revenue and expenses, or any unrealized gains or losses resulting from transactions with jointly controlled entities are eliminated to the extent of the Company’s interest in the entity when preparing the consolidated financial statements.

The table below provides details of subsidiaries of the Company as at August 31, 2023:

Subsidiaries	Principal place of business/ Jurisdiction of incorporation	Ownership Interest
Cannara Biotech (Ops) Inc.	Canada	100%
Cannara Biotech (Quebec) Inc.	Canada	100%
Cannara Biotech (Valleyfield) Inc.	Canada	100%
Global shopCBD.com Inc.	Canada	100%
ShopCBD.com	United States	100%

(e) Share consolidation

During the second fiscal quarter of 2023, the Company obtained approval from shareholders during the Annual General Meeting and from TSX-V for its proposal to consolidate all of the issued and outstanding common shares of the Company on the basis of ten pre-consolidation common shares for every one post-consolidation common share. The Company's authorized share capital is an unlimited number of common shares without par value. At the date of the conversion, on February 13, 2023, the 907,035,460 shares issued and outstanding were converted into 90,703,552 common shares, after rounding for the fractional shares. All the share capital, stock options and RSU numbers were adjusted retrospectively.

3. Significant accounting policies

A summary of the significant accounting policies applied in the preparation of these consolidated financial statements are as follows:

(a) Biological assets

The Company's biological assets consist of cannabis plants which are not yet harvested. These biological assets are measured at fair value less costs to complete and cost to sell, which becomes the initial basis for the cost of inventories after harvest. The Company capitalizes all the direct and indirect costs as incurred related to the biological transformation of the biological assets between the point of initial recognition and the point of harvest including labour for personnel directly and indirectly related to growing cannabis plants, nutrients, supplies, materials, utilities, property taxes, insurance, security, depreciation and overhead costs to the extent it is related to the growing space. Unrealized fair value gains or losses on growth of biological assets are recorded in a separate line on the face of the statements of net income and comprehensive income and subsequently transferred to inventory at the point of harvest.

(b) Inventory

Inventory is valued at the lower of cost and net realizable value. Cost is determined using the first-in, first-out method.

The inventory of harvested cannabis is transferred from biological assets at their fair value amount at harvest date, which becomes the initial deemed cost of the inventory. Any subsequent post-harvest costs are capitalized to inventory to the extent that cost is less than net realizable value. The capitalized cost also includes subsequent costs such as materials, labour and amortization expense on equipment involved in processing, packaging, labelling and inspection of the final product. All direct and indirect costs related to inventory are capitalized as they are incurred, and they are subsequently recorded within cost of good sold in the consolidated statements of net income and comprehensive income at the time cannabis is sold. The realized fair value amounts included in inventory sold are recorded as a separate line in the statements of income and comprehensive income.

Raw materials for cultivation and supplies are initially valued at cost.

The Company periodically reviews the cost of items in inventory and provides write-downs or write-offs of inventory based on its net realizable value.

3. Significant accounting policies (continued)

(c) Property, plant and equipment

Property, plant and equipment are carried at the historical cost less accumulated amortization and accumulated impairment losses. Where an item of property, plant or equipment comprises major components with different useful lives, the components are accounted for as separate items of property, plant and equipment. Cost includes expenditures that are directly attributable to the acquisition, the development and the construction of the asset including borrowing costs on qualifying assets. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost can be measured reliably.

Assets under construction are transferred to the appropriate category of property, plant and equipment when the assets are ready for their intended use at which point amortization of these assets commences.

Building or part of a building leased out under an operating lease are considered as investment property. Investment property is accounted for in accordance with the cost model as set detailed above.

Start-up costs are expensed as incurred.

The carrying amount of an asset is derecognized when the asset is replaced. Gains and losses on disposals of property and equipment are determined by comparing the proceeds with the carrying amount of the disposed asset. Gains and losses on disposals are recognized in the statement of net income and comprehensive income.

Residual values, method of depreciation and useful lives of the assets are reviewed at the end of each period and adjusted, if appropriate.

Repair and maintenance costs are expensed as incurred in the consolidated statement of net income and comprehensive income. Costs which increase future benefits associated with the item are allocated to the assets and depreciated over their residual useful lives.

Amortization is calculated using the following useful life method over the estimated useful life of the assets as follows:

Asset type	Useful life method	Term
Land	Indefinite	Indefinite
Building	Straight-line	10-30 years
Facility production equipment	Straight-line	10 years
Computer equipment and software	Straight-line	3-6 years
Vehicles	Straight-line	5 years
Furniture and fixtures	Straight-line	5-10 years

3. Significant accounting policies (continued)

(d) Leases

There is a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less, or the underlying asset has a low monetary value. Lessors classify leases as operating or finance. Under the standard, disclosures are required to meet the objective of enabling users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases.

The Company has a lease for its head office premises, a car and some production equipment. The Company recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which generally comprises the initial amount of the lease liability, less any lease incentives received.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. The Company uses its incremental borrowing rate as the discount rate.

(e) Impairment of financial assets

At each reporting date, the Company assesses whether there is objective evidence that a financial asset is impaired and also whether the credit risk on a financial asset has increased significantly since initial recognition. The Company has adopted the simplified approach for accounts receivable. For accounts receivable that do not contain a significant financing component, the loss allowance is measured at initial recognition and throughout the life of the receivable at an amount equal to the lifetime expected credit losses ("ECL").

ECL is a probability-weighted estimate of credit losses. A credit loss is the difference between the cash flows that are due to the Company in accordance with the contract and the cash flows that the Company expects to receive discounted at the original effective interest rate. Because ECL considers the amount and timing of payments, a credit loss arises even if the entity expects to be paid in full but later than when contractually due.

Losses are recognized as an expense in general and administrative expenses in the statement of net income and comprehensive income and reflected in an allowance account against receivables. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through the statement of net income and comprehensive income.

3. Significant accounting policies (continued)

(f) Impairment of non-financial assets

Non-financial assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

For the purposes of testing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating unit, or "CGU"). An impairment loss is recognized for the amount, if any, by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of the asset's fair value less cost to sell and the value in use (being the present value of expected future cash flows of the asset or CGU). Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the lesser of the revised estimate of recoverable amount and the carrying amount that would have been recorded had no impairment loss been previously recognized.

(g) Revenue recognition

The Company generates revenue from the sale of cannabis and cannabis accessories.

Revenue is recognized when performance obligation under the terms of a contract with a customer is satisfied. The Company uses the following five-step contract-based analysis of transactions to determine if, when and how much revenue can be recognized:

1. Identify the contract with a customer;
2. Identify the performance obligation(s) in the contract;
3. Determine the transaction price;
4. Allocate the transaction price to the performance obligation(s) in the contract; and
5. Recognize revenue when or as the Company satisfies the performance obligation(s). Revenue from the sale of cannabis is generally recognized when control over the goods has been transferred to the customer. The Company generally satisfies its performance obligation and transfers control to the customer upon shipment or upon receipt by the customer. Revenue is recorded at the estimated amount of consideration to which the Company expects to be entitled.

Amounts disclosed as net revenue from sale of goods are net of excise taxes.

In addition to the sale of goods, the Company also generates revenue under a manufacturing services agreement for certain cannabis production services (including both cultivation and processing) within one of the Company's facilities. Revenue is recognized when performance obligations under the terms of a contract with a customer is satisfied. Revenue from manufacturing services agreement is generally recognized over time when the services are provided to the customer.

3. Significant accounting policies (continued)

(h) Financial instruments

Financial assets and liabilities are recognized when the Company becomes party to the contractual provisions of the financial instrument.

Financial assets are derecognized when the contractual rights to the cash flows from the financial asset expire, when the contractual right to receive the cash flows is transferred or when the contractual rights to receive the cash flows are retained but the Company assumes contractual obligation to pay the cash flows to one or more recipients.

Financial liabilities are derecognized when the obligation specified in the contract is discharged, cancelled or expires.

Upon initial recognition, financial assets and financial liabilities are measured at fair value plus or minus, in the case of a financial asset or liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial instrument.

Financial assets are subsequently measured at amortized cost, using the effective interest method and net of any impairment losses of:

- the asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows;
- the contractual terms of the financial asset give rise, on specified dates, to cash flows that are solely payment of principal and for interest.

The classification of financial instruments by the Company is as follows:

Financial instrument	Measurement
Cash	Amortized cost
Accounts receivable	Amortized cost
Lease receivable	Amortized cost
Accounts payable and accrued liabilities	Amortized cost
Revolving credit facilities	Amortized cost
Long-term debt	Amortized cost
Convertible debentures	Amortized cost
Term loan	Amortized cost

3. Significant accounting policies (continued)

(i) Determination of fair values

Certain of the Company's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes as explained below. When applicable, further information about the assumptions made in determining fair values is disclosed in the note specific to that asset or liability.

Fair value is the price that would be received in selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

In estimating the fair value of an asset or a liability, the Company considers the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date.

In addition, for financial reporting purposes, fair value measurements are categorized into Level 1, 2, or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

The fair value hierarchy of the Company's financial instruments is as follows:

Level 1 - quoted market prices in active markets for identical assets or liabilities;

Level 2 - inputs other than quoted market prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices); and

Level 3 - unobservable inputs, such as inputs for the asset or liability, which are not based on observable market data.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. These valuation techniques maximize the use of observable market data and rely as little as possible on the Company's specific estimates. If all significant inputs required to fair value instruments are observable, the instrument is included in Level 2. If one or more of the significant inputs is not based on observable market data, the instrument is included in Level 3.

The fair value of the biological assets, convertible debentures and lease liabilities on initial recognition was determined using Level 3 inputs.

3. Significant accounting policies (continued)

(j) Government grants

Government grants are recognized when there is reasonable assurance that the Company has met the requirements of the approved grant program and there is reasonable certainty based on management's judgment that the government grant will be received. Government grants are recognized in other income on a systematic basis as the Company recognizes the costs that the grants are intended to compensate.

(k) Research and development

Research and development expenditures are recognized as an expense in the year in which they are incurred. Research and development expenditures include employee salaries and benefits, professional fees, materials and attributable indirect costs to the Company's cultivation process as the Company uses the data generated from these plants to adjust various factors in the cultivation process with the objective to maximize yield and streamline the production process.

(l) Finance income and costs

Finance income includes interest income on available cash balances, gain on derivative financial instrument, gain on convertible debenture modification and foreign exchange gains.

Finance costs include interest expense on borrowings related to the term loan, convertible debentures, mortgage payable revolving credit facilities, lease liabilities, fees related to the letter of credit, as well as debt guarantee fees, accretion and amortization of finance costs and other finance expense and foreign exchange losses.

(m) Share-based payments

The Company has share-based payment plans that grant stock options or restricted shares unit ("RSU") to employees, directors and consultants. Accordingly, awards are measured on the grant date at fair value and recorded as a stock-based compensation expense with a corresponding increase to contributed surplus. The expense is recognized over the vesting period of the options or the RSU granted and is recognized as an expense in earnings with a corresponding credit to contributed surplus. Any consideration paid by employees, directors and consultants on exercise of stock options is credited to share capital combined with any related share-based compensation expense originally recorded in contributed surplus. The fair value of awards is measured using the Black-Scholes model. Measurement inputs include the underlying share price, exercise price of the instrument, expected price volatility, expected life of the instrument, expected dividends, and the risk-free interest rate.

3. Significant accounting policies (continued)

(n) Income taxes

Income tax expense represents the sum of the tax currently payable and deferred.

Current tax

Income tax is recognized in the consolidated statement of net income and comprehensive income, except to the extent that it relates to items recognized directly in equity, in which case the income tax is also recognized directly in equity.

Current tax is the expected tax payable on the taxable income for the year using tax rates enacted or substantively enacted at the end of the reporting period and any adjustment to tax payable in respect of previous years, if any.

Deferred tax

Deferred tax is recognized in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined on a non-discounted basis using tax rates and laws that have been enacted or substantively enacted at the date of the statement of financial position and will apply when the deferred tax assets or liabilities are expected to be settled. Deferred tax assets are recognized to the extent that it is probable that the assets can be recovered. In assessing whether deferred tax assets may be realized, management considers the likelihood that some portion or all of the tax assets will be realized. The ultimate use of net deferred tax assets is dependent upon the generation of future taxable income or available tax planning strategies in making this assessment.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

3. Significant accounting policies (continued)

(o) Earnings per share

Earnings per share is determined using the weighted average number of common shares outstanding during the year.

Diluted earnings per share is determined by adjusting the income and the weighted average number of common shares for the effects of all potential dilutive common shares, related to stock options, RSU's and convertible debentures. The number of additional shares is calculated by assuming that outstanding stock options, RSU's and for convertible debentures, the potential adjustment is based on the additional shares resulting from the assumed conversion. Conversion is assumed to have occurred at the beginning of the period, or, if later, on the date of issuance of the convertible instrument. Potentially dilutive instruments are not included in the calculation of earnings per share if they are anti-dilutive for the periods presented.

(p) Critical accounting estimates and judgments

Estimates and judgments are continually evaluated and are based on experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The preparation of consolidated financial statements in conformity with IFRS requires the use of certain critical accounting estimates, judgments and assumptions. The carrying amounts of assets, liabilities, accruals, provisions, contingent liabilities and other financial obligations, as well as the determination of fair values and reported income and expense in these consolidated financial statements, depend on the use of estimates and judgments. IFRS also require management to exercise judgment in the process of choosing and applying the Company's accounting policies.

These estimates and judgments are based on the circumstances and estimates at the date of the consolidated financial statements and affect the reported amounts of income and expenses during the reporting period.

Given the uncertainty regarding the determination of these factors, actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected. Significant items impacted by such estimates and judgments are outlined below.

3. Significant accounting policies (continued)

(p) Critical accounting estimates and judgments (continued)

Management estimates

Management estimates the useful lives of property, plant and equipment in the period during which the assets become available for use. The amounts and timing of recorded expenses for amortization of property, plant and equipment for any period are affected by these estimated useful lives. The estimates are reviewed each period and are updated if expectations change as a result of physical wear and tear, technical or commercial obsolescence and legal or other limits to use. Changes in these factors may cause significant changes in the estimated useful lives of the Company's property, plant and equipment and the related amortization expense in the future.

Critical accounting judgments and assumptions

Valuation of Biological Assets and Inventory

Biological assets, consisting solely of plants, are measured at fair value less cost to complete and costs to sell up to the point of harvest. Determination of the fair values of the biological assets requires the Company to make a number of estimates, including estimating sales price, cost to complete and cost to sell, the stage of completion in the production process, and expected yield per cannabis plant. As the valuation of biological assets becomes the basis for the cost of finished inventory after harvest, this is also a significant estimate for the valuation of inventory.

Deferred income tax assets

The Company recognizes deferred income tax assets to the extent that it is probable that there will be sufficient estimated future taxable profits and/or taxable temporary differences against which the tax losses can be utilised. The generation of future taxable income is dependent on the ability of management to achieve and sustain profitable operations by, among other means, increasing revenues and growing the products portfolio. Considering the early stage of the Company's profitability, management has determined that it is not "probable" that the benefits of the deferred tax assets will be recovered, and therefore has not recognized its deferred tax assets for accounting purposes.

4. Biological assets

The Company's biological assets consist of cannabis plants up to the point of harvest. The changes in the carrying values of biological assets are as follows:

		August 31, 2023		August 31, 2022
Carrying amount, beginning of year	$	5,712,456	$	1,902,206
Production costs capitalized		17,369,513		10,257,220
Transferred to inventory upon harvest		(38,409,462)		(17,620,643)
Change in fair value due to biological transformation, less cost to sell		21,101,614		11,173,673
Carrying amount, end of year	$	5,774,121	$	5,712,456

The estimates used in determining the fair value of cannabis plants are as follows:

- expected average wholesale and retail selling price per gram of harvested cannabis;
- expected cost to complete and cost to sell;
- expected yield per cannabis plant;
- stage of completion in the production process (days remaining until harvest); and
- expected plant loss based on their various stages of growth.

The valuation of biological assets is based on an income approach in which the fair value at the point of harvesting is estimated based on selling prices less the costs to sell. For in-process biological assets, the fair value at point of harvest is adjusted based on the stage of growth at period-end. Stage of growth is determined by reference to the time incurred as a percentage of total weeks of growth and is applied to estimated total fair value per gram (less costs to complete and costs to sell) to arrive at an in-process fair value for estimated biological assets, which have not yet been harvested.

Because there is no actively traded commodity market for cannabis plants and dried product, the valuation of the biological assets is obtained using valuations techniques where the inputs are based upon unobservable market data and are classified as level 3 in the fair market value hierarchy. There has been no transfer between levels as at August 31, 2023.

4. Biological assets (continued)

Management's identified significant unobservable inputs, their values and sensitivity analysis are presented in the tables below. The Company's estimates are, by their nature, subject to change, and differences from the anticipated yield will be reflected in the gain or loss on biological assets in future periods. The income approach calculates the present value of expected future cash flows from the Company's biological assets using the following inputs for the year ended August 31, 2023:

Unobservable inputs	Input values	Sensitivity analysis
Wholesale and retail selling price Represents the average expected wholesale and retail selling price per gram of dried cannabis, excluding excise taxes, where applicable, which is expected to approximate future wholesale and retail selling prices. The average selling price varies depending on the estimated products.	Weighted average $3.16 per gram (2022 - $3.31 per gram) of dried cannabis packaged $1.50 per gram of dried cannabis unpackaged	An increase or decrease of 5% applied to the selling price would result in a change of approximately $459,000 to the valuation (2022 - $434,000).
Yield per plant Represents the average number of grams of dried cannabis expected to be harvested from each cannabis plant from the two facilities.	77 grams per plant (2022 – 78 grams per plant)	An increase or decrease of 5% applied to the average yield per plant would result in a change of approximately $282,000 to the valuation (2022 - $266,000).
Stage of completion Calculated by taking the average number of days in the cultivation cycle over the total estimated duration of a cultivation cycle which is currently approximately 13 to 14 weeks from clone to harvest.	weighted average stage of completion is 50% (2022 – 49%)	An increase or decrease of 5% applied to the average stage of completion per plant would result in a change of approximately $271,000 to the valuation (2022 - $195,000).

As at August 31, 2023, it is expected that the Company's biological assets will yield approximately 7,716 kilograms of dried cannabis when harvested (2022 – 5,539 kilograms of dried cannabis when harvested).

5. Inventory

	Capitalized cost	Fair value adjustment [1]	August 31, 2023 Total
Raw materials - cultivation and supplies	$ 2,826,027	$ –	$ 2,826,027
Harvested cannabis			
Dried cannabis and work-in-progress	8,782,949	8,407,168	17,190,117
Finished goods	2,440,728	1,059,940	3,500,668
Derivative products			
Derivative products and work-in-progress	3,278,677	144,319	3,422,996
Finished goods	896,098	7,969	904,067
Finished goods - cannabis accessories	153,714	–	153,714
	$ 18,378,193	$ 9,619,396	$ 27,997,589

	Capitalized cost	Fair value adjustment [1]	August 31, 2022 Total
Raw materials - cultivation and supplies	$ 3,007,615	$ –	$ 3,007,615
Harvested cannabis			
Dried cannabis and work-in-progress	5,206,319	2,548,848	7,755,167
Finished goods	880,749	384,699	1,265,448
Derivative products			
Derivative products and work-in-progress	900,252	80,701	980,953
Finished goods	84,680	430	85,110
Finished goods - cannabis accessories	172,694	–	172,694
	$ 10,252,309	$ 3,014,678	$ 13,266,987

[1] Fair value adjustment represents the fair value adjustment transferred from biological assets at harvest.

The amounts of inventory expensed as cost of goods sold during the year ended August 31, 2023 was $35,217,653, including an impairment loss on inventory of $2,612,177 for cannabis that exceeded its net realizable value.

The amounts of inventory expensed as cost of goods sold during the year ended August 31, 2022 was $18,652,355, including an impairment loss on inventory of $301,594 for cannabis that exceeded its net realizable value and an impairment loss on U.S. CBD product of $71,117 as a result of the shutdown of the U.S. online operations during the third quarter of 2022.

6. Property, plant and equipment

	Land	Buildings	Facilities production equipment	Computer equipment and software	Vehicles	Furniture and fixtures	Construction in progress	Total
Cost								
Balance as at August 31, 2022	$ 2,452,085	$ 64,297,845	$ 10,858,550	$ 1,473,919	$ 40,440	$ 1,852,072	$ 11,531,330	$ 92,506,241
Additions	–	2,106,239	2,845,797	152,123	–	138,992	5,864,909	11,108,060
Transfer	–	9,075,310	1,172,470	–	–	416,795	(10,664,575)	–
Disposal	–	–	(386,150)	–	–	–	–	(386,150)
Balance as at August 31, 2023	$ 2,452,085	$ 75,479,394	$ 14,490,667	$ 1,626,042	$ 40,440	$ 2,407,859	$ 6,731,664	$103,228,151
Accumulated amortization								
Balance as at August 31, 2022	$ –	$ (6,465,617)	$ (1,632,112)	$ (661,078)	$ (8,938)	$ (448,751)	$ –	$ (9,216,496)
Amortization	–	(3,038,315)	(1,262,073)	(287,256)	(8,087)	(219,368)	–	(4,815,099)
Disposal	–	–	63,141	–	–	–	–	63,141
Balance as at August 31, 2023	$ –	$ (9,503,932)	$ (2,831,044)	$ (948,334)	$ (17,025)	$ (668,119)	$ –	$ (13,968,454)
Net book value								
Balance as at August 31, 2023	$ 2,452,085	$ 65,975,462	$ 11,659,623	$ 677,708	$ 23,415	$ 1,739,740	$ 6,731,664	$ 89,259,697

For the years ended August 31, 2023 and 2022, the assets included in construction in progress represent the Valleyfield Facility and related capital expenditures incurred to render the facility operational, for the redesign of the remaining growing zones, the construction of warehouse and processing space center. The costs are transferred to other categories as the assets become available or ready for use. As part of its real estate segment, the Company used the non-cannabis licensed area of the Farnham building to generate lease revenues. A value of $10,156,926 related to the Farnham building is recognized as an investment property.

6. Property, plant and equipment (continued)

	Land	Buildings	Facilities production equipment	Computer equipment and software	Vehicles	Furniture and fixtures	Construction in progress	Total
Cost								
Balance as at August 31, 2021	$ 2,452,085	$ 44,792,468	$ 5,833,454	$ 1,262,343	$ 18,440	$ 1,352,642	$ 21,234,527	$ 76,945,959
Additions	–	1,871,176	3,536,542	166,522	22,000	117,321	9,973,395	15,686,956
Transfer	–	17,634,201	1,615,228	45,054	–	382,109	(19,676,592)	–
Disposal	–	–	(126,674)	–	–	–	–	(126,674)
Balance as at August 31, 2022	$ 2,452,085	$ 64,297,845	$ 10,858,550	$ 1,473,919	$ 40,440	$ 1,852,072	$ 11,531,330	$ 92,506,241
Accumulated amortization								
Balance as at August 31, 2021	$ –	$ (3,881,432)	$ (828,841)	$ (421,653)	$ (3,771)	$ (293,011)	$ –	$ (5,428,708)
Amortization	–	(2,584,185)	(819,025)	(239,425)	(5,167)	(155,740)	–	(3,803,542)
Disposal	–	–	15,754	–	–	–	–	15,754
Balance as at August 31, 2022	$ –	$ (6,465,617)	$ (1,632,112)	$ (661,078)	$ (8,938)	$ (448,751)	$ –	$ (9,216,496)
Net book value								
Balance as at August 31, 2022	$ 2,452,085	$ 57,832,228	$ 9,226,438	$ 812,841	$ 31,502	$ 1,403,321	$ 11,531,330	$ 83,289,745

During the year ended August 31, 2023, the Company recognized $4,815,099 as amortization expense (2022 - $3,803,542), of which $834,504 has been recognized in the consolidated statement of net income and comprehensive income, $16,959 has been included in cost of services and $3,963,636 has been included in the calculation of the biological assets and inventory valuation and for which some lots were ultimately used for research and development (note 12) (2022 - $1,111,785, $27,404 and $2,664,353 respectively).

7. Right-of-use asset and lease liabilities

(a) Right-of-use asset

		2023		2022
Cost				
Balance, beginning of year	$	575,176	$	630,024
Additions		189,945		25,190
Derecognition of portion related to sublease agreement [(i)]		–		(80,038)
Derecognition of fully amortized assets		(452,147)		–
Balance, end of year	$	312,974	$	575,176
Accumulated amortization				
Balance, beginning of year	$	(461,057)	$	(397,476)
Amortization		(127,047)		(117,042)
Derecognition of portion related to sublease agreement		–		53,461
Derecognition of fully amortized assets		452,147		–
Balance, end of year	$	(135,957)	$	(461,057)
Net book value				
Balance, end of year	$	177,017	$	114,119

[(i)] Sublease agreement

In 2022, the Company and a third party entered into a sublease agreement to lease a portion of the Company's head office location. The Company has classified this sublease as a finance lease because the sub-lease is for the whole of the remaining term on the original lease.

7. Right-of-use asset and lease liabilities (continued)

(b) Lease liabilities

		2023		2022
Maturity analysis - contractual undiscounted cash flows:				
Less than one year	$	87,157	$	238,732
One to five years		101,842		17,574
Total undiscounted lease liabilities	$	188,999	$	256,306
Current	$	78,877	$	219,702
Non-current		97,143		16,962
Lease liabilities included in the consolidated statement of financial position	$	176,020	$	236,664

		2023		2022
Balance, beginning of year	$	236,664	$	442,496
Additions		189,945		25,190
Lease payments		(274,343)		(296,104)
Interest on lease liabilities		23,754		65,082
Balance, end of year	$	176,020	$	236,664

8. Financing

(a) Revolving credit facilities

		2023		2022
Net carrying value, beginning of year	$	–	$	–
Proceeds from revolving credit facilities		3,000,000		–
Net carrying value, end of year	$	3,000,000	$	–

		2023	Expiry date
Revolving credit facility A	$	2,000,000	2023-09-17
Revolving credit facility B		600,000	2023-10-29
Revolving credit facility C		400,000	2023-09-04
Net carrying value, end of year	$	3,000,000	

8. Financing (continued)

(a) Revolving credit facilities (continued)

The Company has access to the revolving credit facility that was increased from $5 million to $10 million during the third quarter of 2023. This facility is for general working capital purposes. Each tranche drawn on the revolving credit facility has a 60-day term and can be renewed by the Company at the end of the period (see note 21). The revolving credit facilities bear a variable interest rate based on prime rate or banker's acceptance rate plus an applicable margin based on the credit agreement. As at August 31, 2023, the average interest on the revolving credit facilities were 8.86%. The Company has to respect certain covenants (note 8 b)), which were respected as at August 31, 2023. The revolving credit facility matures 3 years from closing date and has the same securities and guarantees as the term loan (note 8 b) (i)). The revolving credit facility is classified as a current liability as it is being managed and expected to be settled by the Company in its normal operating cycle.

During the year ended August 31, 2023, the Company recognized $78,554 as interest expense for the revolving credit facilities. As at August 31, 2023, prepaid interest of $17,270 were included in prepaid expenses and other assets.

(b) Term loan

	2023	2022
Net carrying value, beginning of year	$ 38,562,521	$ –
Proceeds from term loan	–	39,319,223
Repayment of term loan	(1,965,961)	–
Addition of term loan issuance costs	–	(822,627)
Amortization of deferred financing costs	257,675	65,925
Net carrying value, end of year	$ 36,854,235	$ 38,562,521
Term loan (i)	$ 37,353,262	$ 39,319,223
Less: unamortized financing costs	(499,027)	(756,702)
	36,854,235	38,562,521
Short-term portion of term loan	(1,965,961)	(1,965,961)
	$ 34,888,274	$ 36,596,560

(i) The term loan bears a variable interest rate based on prime and/or banker acceptance rates. As at August 31, 2023, the interest on the term loan was 8.9%. The term loan is reimbursable quarterly based on an amortization schedule of 80 quarters, beginning November 30, 2022. The credit facilities are secured by a first ranking mortgage against the Farnham and Valleyfield Facility, and is guaranteed with limited recourse, in part, by a related party for a fee based on the amount of the outstanding term loan (note 19 b)).

8. Financing (continued)

(b) Term loan (continued)

(i) On May 4, 2023, the Company secured approval to draw an additional $5 million term loan, which has not yet been drawn. In connection with this new term loan, the Company incurred financing costs totalling $57,774 which were presented in deferred financing costs as at August 31, 2023. The new term loan proceeds will be used to fund the completion of the construction of a 44,950 sq. ft. building adjacent to the Valleyfield facility which was previously pre-leased to a new non-cannabis tenant (note 21).

For the year ended August 31, 2023, the Company recognized $3,237,898 as interest expense for the term loan (2022 - $617,236). As at August 31, 2023, prepaid interest of $536,362 was included in prepaid expenses and other assets (August 31, 2022 - accrued interest of $223,743 was included in account payable and accrued liabilities).

The Company has to respect financial covenants including (a) maintaining a certain liquidity coverage at all the times, and, starting on September 2023, to maintain (b) a fixed charge coverage ratio equal to or more than 1.25 to 1.0, (c) a funded debt to EBITDA ratio equal to or less than 3.0 to 1.0 at each quarter-end; and (d) a minimum EBITDA of $4 million for the fiscal quarter ending August 31, 2023 and thereafter. The Company was in compliance with the covenants as at August 31, 2023.

(c) Mortgages payable

		2023		2022
Net carrying value, beginning of year	$	–	$	11,982,451
Proceeds from mortgage [(i)]		–		22,000,000
Payments		–		(34,000,000)
Addition of mortgage issuance costs		–		(98,372)
Amortization of deferred financing costs		–		115,921
Net carrying value, end of year	$	–	$	–

[(i)] For the year ended August 31, 2023, the Company recognized nil as interest expense for this mortgage (2022 - $583,680). As part of the new debt financing completed in June 2022, this mortgage loan was reimbursed in full (note 8 b)).

8. Financing (continued)

(d) Convertible debentures

The roll forward of the financial liability component of the convertible debentures is as follows:

	2023	2022
Net carrying value, beginning of year	$ 9,590,143	$ 8,466,008
Conversion of debenture	(4,717,783)	–
Gain on modification of convertible debenture	(52,664)	–
Interest expense	330,688	435,178
Accretion and amortization of deferred issuance costs	602,749	688,957
Net carrying value, end of year	$ 5,753,133	$ 9,590,143
Short-term portion of term loan	(1,000,000)	–
	$ 4,753,133	$ –

The convertible debentures bear interest at 4% per annum and interest is payable, in cash or shares, at term or at conversion if it occurs. The convertible debentures and its accrued interests are convertible into common shares at a value of $1.80 per share at the request of the holder.

On February 7, 2023, the Company received a notice of conversion to convert the principal and accrued interest totalling $5,319,745 into 2,955,414 common shares of the Company. On February 9, 2023, the Company issued shares from treasury in relation to the conversion. The net carrying balance of convertible debenture of $4,717,783 and the initial equity portion of $1,090,431 recorded in contributed surplus were reclassed to common shares on the conversion date.

During the year ended August 31, 2023, the Company recognized $330,688 as interest expense (2022 - $435,178). As at August 31, 2023, accrued interest of $517,870 was included in convertible debenture (August 31, 2022 - $506,926).

On August 31, 2023, the Company modified the term of the $5,700,000 convertible debenture from June 21, 2024 to January 31, 2025 with the increased interest rate from 4% to 9.25% per annum between June 2024 to January 2025. The impact of the convertible debenture modification resulted in a gain of $52,664 which was recognized in net finance expense. As part of the extension, the holder has the right to demand the payment up to $1,000,000 in principal on the initial maturity date being June 21, 2024.

9. Share capital

The share capital represents the amount received upon issuance of common shares. Incremental costs directly attributable to the issuance of shares are recognized as a deduction from the proceeds in equity in the period in which the transaction occurs.

(a) Authorized

The Company has an unlimited number of voting and participating common shares authorized for issuance without par value.

(b) Transactions on share capital

During the year ended August 31, 2023, a total of 50,000 stock options were exercised at a price of $1.00 per share for a total consideration of $50,000, resulting in the issuance of 50,000 new common shares of the Company.

During the year ended August 31, 2022, a total of 50,000 stock options were exercised at a price of $1.00 per share for a total consideration of $50,000, resulting in the issuance of 50,000 new common shares of the Company.

On November 11, 2022, the Company received approval from the Toronto Stock Exchange to commence the Normal Course Issuer Bid (“NCIB”). Under the NCIB, the Company may acquire up to a maximum of 1,500,000 of its shares, or approximately 1.5% of its float for cancellation over the following 12 months.

During the year ended August 31, 2023, the Company purchased 397,694 common shares having an average book value of $388,951 for cash consideration of $374,485. The excess of the book value over the purchase price value of the shares of $14,466 was credited to deficit. All shares purchased were cancelled.

In connection with the NCIB, the Company has established a securities purchase plan with its designated broker to facilitate the purchase of shares under the NCIB at times when the Company would ordinarily not be permitted to purchase its shares due to regulatory restrictions or self-imposed blackout periods. Under the plan, before entering a self-imposed blackout period, the Company may, but is not required to, ask the designated broker to make purchases under the NCIB within specific parameters.

9. Share capital (continued)

(c) Earnings per share

The calculation of basic earnings per share was calculated based on the net income attributable to common shareholders of the Company divided by the weighted average number of common shares outstanding during the year, while the diluted earnings per share was adjusted for the effects of potential dilutive common shares such as options and convertible debentures.

The calculations for basic and diluted earnings per share for the years ended August 31, 2023 was as follows:

	2023	2022
Net income	$ 6,945,418	$ 2,305,419
Issued common shares as at September 1	87,698,132	87,648,132
Effect of stock options exercised for common shares	1,602,316	20,822
Weighted average number of common shares, basic	89,300,448	87,668,954
Impact of dilutive securities:		
Stock options	–	171,522
Weighted average number of common shares, diluted	89,300,448	87,840,476
Earning per share – basic	$ 0.08	$ 0.03
Earning per share – diluted	$ 0.08	$ 0.03

For the year ended August 31, 2023, excluded from the weighted average number of diluted common shares calculation as their effect would have been anti-dilutive was 3,831,945 share options and RSU's of 789,183 and 3,166,667 shares potentially to be issued under the convertible debentures that may potentially dilute earnings per share in the future (2022 – 1,602,412 share options and 5,944,444 shares as-if the convertible debentures were converted).

10. Share-based compensation

(a) Stock option plan

The Company has established a share option plan whereby certain personnel may be granted options to acquire shares under the terms of the employee share option plan or shares may be granted to third parties in exchange for services. The number and characteristics of share options granted under the employee share option plan are determined by the Board of Directors of the Company but cannot exceed 10% of the Corporation's issued and outstanding common shares, including previously granted stock options; and such number of common shares as, when combined with all other common shares subject to grants made under the Company's other share compensation arrangements (including the RSU Plan) would not exceed 10% of the outstanding common shares. The characteristics of share options granted to third parties for services are determined on a case-by-case basis.

The share options granted under the employee share option plan vest 25% after the first anniversary of the grant date with the remainder vesting in 36 monthly consecutive equal instalments or as approved by the Board of Directors and expire five years from the date of issue. The plan provides for the issuance of common shares at an exercise price determined by the Board of Directors which is not lower than the fair value of the common shares on the grant date. Outstanding options under the plan are granted with service requirements (or service conditions) and become exercisable upon vesting. The share options granted to third parties for services have vesting terms determined on a case-by-case basis.

The activity of outstanding share options for the years ended August 31, 2023 and 2022 was as follows:

		2023		2022
	Number	Weighted average exercise price	Number	Weighted average exercise price
Outstanding, beginning of year	2,452,414	$ 1.50	3,653,934	$ 2.10
Granted	2,440,300	1.54	1,034,835	1.80
Exercised	(50,000)	1.00	(50,000)	1.00
Forfeited	(198,380)	1.80	(401,210)	1.80
Expired	(812,389)	1.06	(1,785,145)	2.80
Outstanding, end of year	3,831,945	1.65	2,452,414	1.50
Exercisable, end of year	1,832,114	$ 1.65	1,290,168	$ 1.30

During the year ended August 31, 2023, the Company granted 2,417,800 share options that vest over time in accordance with the employee share option plan (2022 - 991,000 share options) and 22,500 share options that vest immediately (2022 – 43,833 share options).

10. Share-based compensation (continued)

(a) Stock option plan (continued)

During the year ended August 31, 2023, the Company recorded a share-based compensation expense of $1,557,018 that was recognized in the consolidated statement of net income and comprehensive income (2022 - $349,468).

The share options forfeited relate to the share options held by directors and/or employees that are no longer part of the Company and by consultants that do not continue to provide services to the Company. The estimated fair value of the share options at the grant date was measured using the Black-Scholes option pricing model and the following weighted average inputs and assumptions:

		2023		2022
Share price (i)	$	1.12	$	1.25
Exercise price	$	1.55	$	1.80
Risk-free interest rate (ii)		3.43%		1.79%
Expected life (iii)		5 years		5 years
Expected price volatility (iv)		89%		90%
Fair value of the option	$	0.74	$	0.79
Expected dividend yield (v)		Nil		Nil

(i) The share price is based on the market price on the date of the grant.

(ii) The risk-free interest rate was based on the Bank of Canada government bonds rates in effect at grant date for time periods approximately equal to the expected life of the option.

(iii) The expected life of the options reflects the assumption of future exercise patterns that may occur.

(iv) Expected price volatility was estimated based on historical volatility of the Company’s shares.

(v) The expected dividend yield has been estimated at nil as the Company has never paid cash dividends and does not expect to do so in the foreseeable future.

10. Share-based compensation (continued)

(a) Stock option plan (continued)

The number of outstanding stock options that could be exercised for an equal number of common shares is as follows:

Expiry date		Exercise price $	Number outstanding	Number exercisable
December 17, 2023	$	1.80	79,500	79,500
May 1, 2024		1.80	69,400	69,400
October 3, 2024		1.80	12,500	11,978
November 25, 2024		1.80	2,000	1,874
January 16, 2025		1.80	42,000	37,624
April 14, 2025		1.80	8,645	7,309
July 24, 2025		1.80	347,500	271,336
November 10, 2025		1.80	25,000	25,000
December 15, 2025		1.80	26,600	17,750
February 1, 2026		1.80	50,000	31,241
July 27, 2026		1.80	22,500	11,722
December 7, 2026		1.80	586,000	257,279
April 26, 2027		1.80	7,500	2,499
May 4, 2025		1.80	40,000	40,000
July 26, 2027		1.80	105,000	28,437
September 29, 2027		1.80	1,400,000	595,415
September 29, 2027		1.00	750,000	343,750
November 24, 2027		1.80	10,000	–
January 20, 2028		1.80	25,300	–
April 21, 2028		1.80	12,500	–
July 26, 2028		1.80	210,000	–
			3,831,945	1,832,114

10. Share-based compensation (continued)

(b) Restricted Share Units ("RSU")

During the second quarter of 2023, the Company obtained approval from shareholders during the Annual General Meeting and from TSX-V to implement a RSU Plan. The RSU Plan provides for a maximum number of common shares available and reserved for issuance to 10% of the aggregate number of common shares issued and outstanding from time to time; and (ii) such number of common shares as, when combined with all other common shares subject to grants made under the Company's other share compensation arrangements (including the Stock Option Plan) would not exceed 10% of the outstanding common shares. The RSUs are time-based awards and can contain performance conditions. All the amount of RSUs granted will vest upon the continuous employment of the Participants on the second anniversary of the RSU grant or if the performance conditions are met, starting from the date of the grant or such other period not exceeding five years determined by the Board of Directors. Pursuant to the terms of the RSU Plan, Participants will receive for no consideration, upon vesting of the RSUs, common shares of the Company issued from treasury.

The outstanding RSUs for the years ended August 31, 2023 and 2022 are as follows:

	Number	2023 Weighted average fair value	Number	2022 Weighted average fair value
Outstanding, beginning of year	–	$ –	–	$ –
Granted	789,183	0.90	–	–
Outstanding, end of year	789,183	$ 0.90	–	$ –

During the year ended August 31, 2023, the Company granted 789,183 RSUs without performance conditions and exercisable for no consideration.

For the year ended August 31, 2023, the Company recorded a share-based compensation expense of $196,967 in the consolidated statement of income and comprehensive income.

11. Other income

		2023		2022
Ancillary cannabis revenues [(i)]	$	107,288	$	58,060
Government grants [(ii)]		302,609		156,372
Other revenue		13,329		169,341
Royalties [(iii)]		71,665		131,384
	$	494,891	$	515,157

(i) As part of its research and development activities (note 12), the Company had generated ancillary cannabis revenues from the sale of cannabis that was recorded as other income. As part of its cannabis operations, the Company generated $107,288 ancillary cannabis revenue from the sale of cannabis lot that was initially used for R&D purpose.

(ii) The Company has received various government grants related to the matters described below.

As part of its environmental initiatives incorporated into the operations at the Farnham facility, the Company received in 2021 a government grant for assets purchased in exchange for a 10-year commitment on its environmental footprint reduction initiatives. During the year-ended August 31, 2022, the Company was granted the last tranche totalling $138,819. The amount has been recognized as deferred income and is being recognized as other income based on the useful life of the assets related to this grant.

For the year ended August 31, 2023, total of deferred income recognized as other income along with other government incentives, including various tax credits, recognized directly as other income amounted to $302,609 (2022 - $156,372). There are no remaining unfulfilled conditions regarding any of the grants recognized directly as other income.

(iii) As part of its cannabis operations, the Company entered into a royalty agreement with a customer for the sale of a genetic. The royalty started following the commercialization of the genetic by the customer in October 2021 and ended in February 2023.

12. Research and development

As part of its Cannabis Operations (note 18), the Company had conducted certain activities related to research and development.

The Company is pursing its research and development activities in parallel with its commercial activities. The Company's cultivation and compliance staff continuously research, test and develop new and improved cultivation methodologies that are expected to generate increased yield and quality which will facilitate the commercialization of a premium cannabis product in addition to product innovation.

13. General and administrative

	2023	2022
Salaries and benefits	$ 3,498,973	$ 2,968,879
Facilities expense	1,442,430	2,566,120
Administrative and regulatory expenses	3,025,981	1,822,476
	$ 7,967,384	$ 7,357,475

14. Net finance expense

	2023	2022
Interest income	$ 239,509	$ 92,693
Gain of derivative financial instrument	–	560,000
Gain on convertible debenture modification	52,664	–
Foreign exchange gain	65,103	26,345
Finance income	357,276	679,038
Interest on mortgages payable	–	800,638
Interest on term loan	3,237,898	617,236
Debt financing guarantee fees	375,000	230,563
Interest on convertible debentures	330,688	435,178
Fees related to letter of credit	212,446	253,592
Interest on revolving credit facilities	78,554	–
Interest on lease liabilities	23,754	65,082
Accretion and amortization of financing costs	860,472	871,000
Other finance expense	180,839	41,065
Finance expense	5,299,651	3,314,354
Net finance expense	$ 4,942,375	$ 2,635,316

15. Financial instruments

(a) Capital management

The Company defines capital as total equity and any other financing instrument it has issued, principally its revolving credit facilities, term loan and convertible debentures. The Company's primary objective when managing capital is to ensure its ability to continue as a going concern in order to pursue the development of its businesses and products. The Company is not subject to externally imposed capital requirements.

Cash in excess of immediate working capital requirements is invested in accordance with the Company's investment policy, primarily with a view to liquidity and capital preservation. The Company monitors its cash requirements and market conditions to anticipate the timing of requiring additional capital to finance the development of its businesses and products.

The ability of the Company to ultimately achieve future recurrent profits from operations is dependent upon the continued success of its product and brand pipeline in addition to maintaining the consistency of its grow operations and lean cost structure. The Company expects to finance its operations through its sales, existing cash, available undrawn credit facilities and/or a combination of public or private equity and debt financing or other sources.

(b) Fair value measurements

The fair value of cash, accounts receivable, lease receivable, accounts payable and accrued liabilities approximate their carrying amounts due to the short-term maturity of those instruments.

The fair value of the revolving credit facilities, long-term debt, convertible debentures and term loan approximate their carrying amounts, as the interest rate approximates the current market rate.

Financial instrument measured at fair value

In January 2022, the Company entered into an off-balance sheet interest rate swap with a notional amount of $22,000,000 to pay a fixed rate of 4.8% for the first year and 6% for the four subsequent years and receive an amount based on the variable interest rate as defined in the swap contract. The notional amount is reduced monthly based on the balance of the mortgage debt. The interest rate swap originally matured on April 21, 2025 but, in April 2022, the Company decided to settle its interest rate swap, which resulted in a gain of $560,000 that was recognized within net finance expense.

The fair value of derivative instruments quoted in an active market is determined using reported bid prices. When evaluation based on observable market inputs is not possible, the fair value of the derivative instrument is estimated using valuation techniques based on observable market inputs, in particular current market prices, the contractual prices of the underlying instruments and interest rate yield curves.

15. Financial instruments (continued)

(c) Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Company's cash balances, prepaid expenses, lease and accounts receivables and deposits.

Cash balances in an asset position expose the Company to credit risk arising from the potential default by counterparties that carry the Company's cash balances or agree to deliver currencies. The Company attempts to mitigate this risk by dealing only with large financial institutions with good credit ratings. All of the financial institutions that the Company deals with meet these qualifications.

The carrying amount of the accounts receivable in the consolidated statement of financial position is presented net of an allowance for expected credit losses, estimated by the Company's management based, in part, on the age of the specific receivable balance and the current and expected collection trends. As at August 31, 2023, none of the receivables were past due. The allowance for expected credit loss was nominal as at August 31, 2023 and 2022. The Company's maximum credit exposure corresponds to the carrying amount of these financial assets.

(d) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

15. Financial instruments (continued)

(e) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its obligations as they become due or can only do so at an excessive cost. The Company manages this risk by reviewing its capital requirements on an ongoing basis and by maintaining cash flow forecasts and long-term operating and strategic plans.

The contractual maturities of financial liabilities as at August 31, 2023 were as follows:

	Carrying amount	Contractual cash flows	Less than 1 year	1 to 5 years
Financial liabilities				
Accounts payable and accrued liabilities	$ 13,926,096	$ 13,926,096	$ 13,926,096	$ –
Revolving credit facilities	3,000,000	3,000,000	3,000,000	–
Lease liabilities	176,020	188,999	87,157	101,842
Convertible debenture[1]	5,753,133	6,217,870	1,000,000	5,217,870
Term loan	36,854,235	37,353,262	1,965,961	35,387,301
	$ 59,709,484	$ 60,686,227	$ 19,979,214	$ 40,707,013

The contractual maturities of financial liabilities as at August 31, 2022 were as follows:

	Carrying amount	Contractual cash flows	Less than 1 year	1 to 5 years
Financial liabilities				
Accounts payable and accrued liabilities	$ 9,307,959	$ 9,307,959	$ 9,307,959	$ –
Long-term debt	2,611	2,659	2,659	–
Lease liabilities	236,664	256,306	238,732	17,574
Convertible debentures[1]	9,590,143	11,206,926	–	11,206,926
Term loan	38,562,521	39,319,223	1,965,961	37,353,262
	$ 57,699,898	$ 60,093,073	$ 11,515,311	$ 48,577,762

[1] Included in this amount is the convertible debenture carrying amount and accrued interests on the convertible debentures.

16. Income taxes

The effective tax rate on the Company’s net income differs from the expected amount that would arise using the statutory income tax rates. A reconciliation of the difference is as follows:

	2023	2022
Income before income taxes	$ 6,945,418	$ 2,305,419
Statutory income tax rate	27 %	27 %
Combined federal and provincial income tax	1,875,263	622,463
Adjustment in income taxes resulting from:		
Unrecorded tax benefits on tax losses and other deductible temporary differences	(2,268,917)	(711,410)
Accounting charges not deducted for tax and other	393,654	88,947
Income taxes	$ –	$ –

As at August 31, 2023, the Company had the following loss carryforwards and other tax attributes available for carryforward. Loss carryforwards and other tax attributes are based on management estimates and are subject to verification by taxation authorities. Accordingly, the actual amounts may vary from management’s estimates.

		2023
	Federal	Provincial/State
Canadian		
Non capital losses carried forward, expiring:		
August 31, 2036	$ 1,051,484	$ 1,098,558
August 31, 2037	2,224,941	2,089,499
August 31, 2039	2,861,474	2,861,474
August 31, 2040	15,722,110	15,699,571
August 31, 2041	4,401,813	4,395,416
August 31, 2042	1,557,737	9,066,940
August 31, 2043	10,266,881	10,266,881
	38,086,440	45,478,339
Non-Canadian		
Non capital losses carried forward, expiring:		
August 31, 2039	1,535,266	1,535,266
August 31, 2040	1,800,860	1,800,860
August 31, 2041	497,330	497,330
August 31, 2042	63,347	63,347
August 31, 2043	10,207	10,207
	3,907,010	3,907,010
	$ 41,993,450	$ 49,385,349

16. Income taxes (continued)

		2023
	Federal	Provincial/State
Canadian		
Other tax attributes carried forward, expiring:		
August 31, 2024	$ 393,772	$ –
August 31, 2025	67,375	–
August 31, 2026	150	–
August 31, 2027	53,725	–
August 31, 2028	30,075	–
August 31, 2037	–	123,755
August 31, 2039	–	401,668
August 31, 2040	–	67,375
August 31, 2041	–	150
August 31, 2042	–	53,725
August 31, 2043	–	30,075
	$ 545,097	$ 676,748

The Company also had unclaimed scientific research and experimental development expenditures that do not expire that can be carried forward totalling $1,207,085.

Deferred tax assets (liabilities) have not been recognized in respect of the following tax attributes and temporary differences:

	Unrecognized in profit or loss	Unrecognized in equity	Balance August 31, 2023
Net operating loss carryforwards	$ 41,993,450	$ –	$ 41,993,450
Financing costs	614,810	70,067	684,877
Other tax attributes	1,752,182	–	1,752,182
Biological assets and inventory	(13,071,318)	–	(13,071,318)
Property, plant and equipment	(17,600,097)	–	(17,600,097)
Lease liabilities	(138,278)	–	(138,278)
Deferred grant income	800,178	–	800,178
	$ 14,350,927	$ 70,067	$ 14,420,994

16. Income taxes (continued)

	Unrecognized in profit or loss	Unrecognized in equity	Balance August 31, 2022
Net operating loss carryforwards	$ 34,550,560	$ –	$ 34,550,560
Financing costs	1,014,460	610,333	1,624,793
Other tax attributes	1,176,662	–	1,176,662
Biological assets and inventory	(7,501,587)	–	(7,501,587)
Property, plant and equipment	(6,606,419)	–	(6,606,419)
Lease liabilities	122,545	–	122,545
Deferred grant income	823,623	–	823,623
	$ 23,579,844	$ 610,333	$ 24,190,177

17. Contingencies

In the normal course of business, the Company may be involved in various legal and regulatory proceedings, the outcomes of which cannot be determined, or outflow of economic benefit is not probable, and, accordingly, no provision has been recorded. The Company believes that the resolution of these proceedings will not have a material favourable or unfavourable effect on its consolidated financial position or financial performance. As at August 31, 2023, there are no material claims in favor of or against the Company.

18. Segment disclosures

(a) Reportable segments

The Company operates in two segments: (1) Indoor cannabis operations which encompasses the cultivation, processing and sale of dried cannabis and cannabis derivatives for the Canadian market ("Cannabis operations") and (2) Real estate operations related to the Farnham and Valleyfield building ("Real estate operations").

The chief operating decision-maker assesses performance based on segment operating results which were defined as segment operating income before share-based compensation, amortization, net finance expense, gain on sublease initial recognition, loss on disposal of property, plant and equipment and income tax. Categorized as "Other" are items related to U.S. hemp-based CBD products revenues and related operating costs. The accounting policies of the segments are the same as those described in Note 3 of these consolidated financial statements.

18. Segment disclosures (continued)

(a) Reportable segments (continued)

	2023				2022			
	Cannabis operations	Real estate operations	Other	Total	Cannabis operations	Real estate operations	Other	Total
Revenue								
Revenue from sale of goods	$ 71,407,617	$ –	$ –	$ 71,407,617	$ 36,977,512	$ –	$ 17,598	$ 36,995,110
Excise taxes	(19,122,306)	–	–	(19,122,306)	(8,486,654)	–	–	(8,486,654)
Net revenue from sale of goods	52,285,311	–	–	52,285,311	28,490,858	–	17,598	28,508,456
Lease revenue	–	3,588,468	–	3,588,468	–	3,373,198	–	3,373,198
Services revenues	1,194,132	–	–	1,194,132	3,600,947	–	–	3,600,947
Other income (note 11)	494,891	–	–	494,891	515,157	–	–	515,157
	53,974,334	3,588,468	–	57,562,802	32,606,962	3,373,198	17,598	35,997,758
Cost of revenues								
Cost of goods sold	35,217,653	–	–	35,217,653	18,566,057	–	86,298	18,652,355
Lease operating costs	–	364,356	–	364,356	–	307,923	–	307,923
Cost of services	911,254	–	–	911,254	2,892,612	–	–	2,892,612
Segment gross profit (loss) before fair value adjustments	17,845,427	3,224,112	–	21,069,539	11,148,293	3,065,275	(68,700)	14,144,868
Changes in fair value of inventory sold	(14,637,819)	–	–	(14,637,819)	(7,830,905)	–	–	(7,830,905)
Unrealized gain on changes in fair value of biological assets	21,101,614	–	–	21,101,614	11,173,673	–	–	11,173,673
Segment gross profit (loss)	24,309,222	3,224,112	–	27,533,334	14,491,061	3,065,275	(68,700)	17,487,636
Operating expenses	12,796,917	–	–	12,796,917	10,850,797	–	82,872	10,933,669
Segment operating income (loss)	11,512,305	3,224,112	–	14,736,417	3,640,264	3,065,275	(151,572)	6,553,967
Share-based compensation	–	–	1,753,985	1,753,985	–	–	349,468	349,468
Amortization	–	–	961,551	961,551	–	–	1,228,827	1,228,827
Net finance expense	–	–	4,942,375	4,942,375	–	–	2,635,316	2,635,316
Gain on sublease initial recognition	–	–	–	–	–	–	(12,876)	(12,876)
Loss on disposal of property, plant and equipment	–	–	133,088	133,088	–	–	47,813	47,813
Net income (loss)	$ 11,512,305	$ 3,224,112	$ (7,790,999)	$ 6,945,418	$ 3,640,264	$ 3,065,275	$ (4,400,120)	$ 2,305,419

18. Segment disclosures (continued)

(b) Entity-wide disclosures

All property, plant and equipment are located in Canada.

(c) Sources of lease revenues

As at August 31, 2023, the Company leased 414,114 square feet of the total 625,000 available square feet at its Farnham Facility and realized 100% of its lease revenue with two lessees:

- On May 16, 2022, the agreement with Tenant A was extended for an additional five years, and the new lease term is now September 30, 2027. Lease revenues from this tenant for the year ended August 31, 2023 amounted to $546,443.
- On May 10, 2022, the agreements with Tenant B was extended for an additional 2 years, and the new leases term are now October 31, 2024, with options to extend. Lease revenues from this tenant for the year ended August 31, 2023 amounted to $3,009,629.

Income is generated from customers domiciled in Canada.

In addition, the Company signed a lease agreement with a new tenant for a building that is under construction at its Valleyfield site. Subsequent to year-end, the lease was mutually terminated with the future tenant (note 21).

The Company also realised $32,396 of non-recurring lease revenue with another tenant during the three-month period ended August 31, 2023.

(d) Source of cannabis and cannabis accessories revenues

	2023	2022
Revenue from Canadian retailers	$ 69,584,262	$ 36,024,072
Excise taxes	(19,122,306)	(8,486,654)
	50,461,956	27,537,418
Revenue from wholesale	1,684,178	953,440
Revenue from online merchandise	139,177	–
	$ 52,285,311	$ 28,490,858

For the year ended August 31, 2023, the Company has generated 90% of its cannabis revenues from two provincial distributors (Quebec and Ontario) (2022 – 97%).

(e) Source of service revenues

The Company generated services revenues from cannabis production services. For the year-ended August 31, 2023, the Company has generated all its management services-related revenues with one customer.

19. Related parties

(a) Key management personnel compensation

Key management personnel are those people having the authority and responsibility for planning, directing and controlling the business activities of the Company and include all of its directors and its chief executives.

The compensation of key management personnel, including directors' fees, salaries and benefits and share-based compensation for the year ended August 31, 2023, was as follows:

	2023	2022
Salaries and benefits	$ 840,000	$ 526,250
Share-based compensation	1,565,568	189,550
Board of director fees	70,000	70,000
	$ 2,475,568	$ 785,800

(b) Other transactions with related parties

Related parties include entities related by virtue of key management personnel and directors exercising significant influence or control over the entities' financial and operating policies.

The following provides the transaction amounts by nature with related parties:

	2023	2022
Nature of transactions		
Other expenses	5,824	–
Acquisition of property, plant and equipment (i)	17,246	39,566
Other debt financing expenses (i)	375,000	387,855
Interest on financing instruments (i)	330,688	652,136
	728,758	1,079,557
Balance with related parties are as follows:		
Accounts payable and accrued interests (i)	(343,750)	(387,855)
Accounts payable to key management personnel (ii)	(65,799)	(52,614)
Accounts payable to Board of Directors	(15,269)	(15,230)
Convertible debentures, including accrued interest (i)	(6,217,870)	(11,206,926)

19. Related parties (continued)

(b) Other transactions with related parties (continued)

(i) The Company has Board of Directors member who is a shareholder in an entity with which the Company entered into various transactions with for the financing of the Farnham and Valleyfield Facilities, including the acquisition of property, plant and equipment. Along with the Valleyfield Facility acquisition in June 2021, a related party funded certain deposit requirements by a provincial service provider of approximately $5.7 million by the issuance of a letter of credit and charged interest to the Company for a total of $157,292 during the year ended August 31, 2022. On June 1, 2022, the letter of credit of approximately $5.7 million was replaced by a letter of credit issued by BMO. Another related party also provided certain guarantees to the lenders on the debt financing (note 8 b)) and charged the Company a total of $375,000 in fees in exchange (2022 - $230,563). The fees are being calculated monthly based on a certain amount of the debt outstanding amount. As at August 31, 2023, a total of $343,750 fees on the debt guarantee were included in account payable and accrued liabilities (2022 – $230,563).

(ii) Accounts payable relate to accrued salary and vacation for key management personnel. Related party transactions have been recorded at the exchange amount, which is the amount agreed to and established by the related parties.

Related party transactions have been recorded at the exchange amount, which is the amount agreed to and established by the related parties.

20. Cash flow information

Net change in non-cash working capital items:

	2023	2022
Accounts receivable	$ (2,045,323)	$ (5,675,216)
Sales tax receivable	731,362	367,420
Lease receivable	97,188	124,623
Biological assets	(17,369,513)	(10,257,220)
Inventory	9,041,041	2,031,009
Prepaid expenses and other assets	(1,766,253)	(568,578)
Deposits	39,680	100,000
Accounts payable and accrued liabilities	5,002,540	2,279,727
Deferred lease revenue	178,783	(9,564)
Deferred revenue	15,933	7,087
Deferred grant income	(38,740)	117,515
	$ (6,113,302)	$ (11,483,197)

20. Cash flow information (continued)

Supplemental information in the statement of cash flows:

		2023		2022
Variation of property, plant and equipment included in accounts payable and accrued liabilities	$	(375,702)	$	(591,428)
Addition to right-of-use assets and lease liabilities		189,945		25,190
Issuance of shares upon conversion of convertible debentures		4,717,783		–

21. Subsequent events

Stock options

Subsequent to year-end, the Company granted a total of 625,000 stock options at an exercise price of $1.20 and 89,000 stock options at an exercise price of $1.80 to employees subject to certain vesting conditions in accordance with the Company's employee share option plan.

The Company also extend the term of 55,000 stock options for two years.

RSUs

Subsequent to year-end, the Company granted a total of 625,000 RSUs to certain employees and 90,000 RSUs to board members, without performance conditions and exercisable for no consideration.

Revolving credit facilities

Subsequent to year-end, the Company extended all tranches of the revolving credit facilities for a 60-day term and drew an additional $2,500,000 on the revolving credit facilities. Funds were used for working capital purposes.

Lease agreement

Subsequent to year-end, the lease relating to the new building in construction at the Valleyfield site was mutually terminated with the future tenant and the deferred lease revenue of $79,675 was reimbursed. The Company has revised its plans to now use the building as a future cannabis processing site.

NCIB

Subsequent to year-end, the Company purchased 286,900 common shares having an average book value of $280,588 for cash consideration of $277,140. All shares purchased were cancelled.