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CANNARA BIOTECH INC.

Consolidated Financial Statements

Years ended August 31, 2022 and 2021

CANNARA BIOTECH INC.

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KPMG LLP
600 de Maisonneuve Blvd. West
Suite 1500, Tour KPMG
Montréal (Québec) H3A 0A3
Canada

Telephone (514) 840-2100
Fax (514) 840-2187
Internet www.kpmg.ca

INDEPENDENT AUDITORS' 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, 2022 and August 31, 2021
- the consolidated statements of net income (loss) and comprehensive income (loss) 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 "consolidated financial statements").

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Entity as at August 31, 2022 and 2021, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

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 **"*Auditors' Responsibilities for the Audit of the Consolidated Financial Statements*"** section of our auditors' report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the consolidated 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.

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 consolidated 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 consolidated 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 consolidated 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 auditors' 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 auditors' report.

We have nothing to report in this regard.

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

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

In preparing the consolidated 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.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' 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 consolidated 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 consolidated 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 auditors' report to the related disclosures in the consolidated 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 auditors' 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 consolidated financial statements, including the disclosures, and whether the consolidated 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 consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

KPMG LLP*

Montréal, Canada

November 24, 2022

*CPA auditor, public accountancy permit No. A125211

CANNARA BIOTECH INC.

Consolidated Statements of Financial Position
As at August 31, 2022 and 2021

	2022	2021
Assets		
Current assets		
Cash	$ 12,114,691	$ 8,159,305
Accounts receivable	8,526,918	2,847,725
Sales tax receivable	–	47,756
Lease receivable (note 7)	90,251	72,680
Biological assets (note 4)	5,712,456	1,902,206
Inventory (note 5)	13,266,987	5,508,258
Prepaid expenses and other assets	1,277,381	708,803
	40,988,684	19,246,733
Lease receivable (note 7)	–	73,164
Deposits	296,114	396,114
Deposits on property, plant and equipment	928,385	556,803
Property, plant and equipment (note 6)	83,289,745	71,517,251
Right-of-use asset (note 7)	114,119	232,548
	$ 125,617,047	$ 92,022,613
Liabilities and Shareholders' Equity		
Current liabilities		
Accounts payable and accrued liabilities	$ 9,307,959	$ 6,263,201
Sales tax payable	319,664	–
Deferred lease revenue	–	9,564
Deferred revenue	7,087	–
Current portion of long-term debt	2,611	3,348
Current portion of deferred grant income (note 12)	38,101	32,043
Current portion of lease liabilities (note 7)	219,702	225,642
Current portion of term loan (note 9)	1,965,961	–
Current portion of mortgages payable (note 9)	–	300,000
	11,861,085	6,833,798
Long-term debt (note 9)	–	2,611
Lease liabilities (note 7)	16,962	216,854
Convertible debentures (note 9)	9,590,143	8,466,008
Deferred grant income (note 12)	816,536	705,079
Term loan (note 9)	36,596,560	–
Mortgages payable (note 9)	–	11,682,451
	58,881,286	27,906,801
Shareholders' equity		
Share capital (note 10)	83,296,250	83,208,150
Contributed surplus	9,724,114	9,412,746
Deficit	(26,299,730)	(28,605,149)
Accumulated other comprehensive income	15,127	100,065
Total equity	66,735,761	64,115,812
Contingencies (note 18)		
Subsequent events (note 22)		
	$ 125,617,047	$ 92,022,613

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 (Loss) and Comprehensive Income (Loss)
Years ended August 31, 2022 and 2021

	2022	2021
Revenue:		
Revenue from sale of goods (note 19)	$ 36,995,110	$ 15,586,518
Excise taxes	(8,486,654)	(2,417,355)
Net revenue from sale of goods	28,508,456	13,169,163
Service revenues (note 19)	3,600,947	–
Lease revenues (note 19)	3,373,198	3,120,882
Other income (note 12)	515,157	976,960
	35,997,758	17,267,005
Cost of sales:		
Cost of goods sold (note 5)	18,652,355	8,071,681
Cost of services	2,892,612	–
Lease operating costs	307,923	453,840
	21,852,890	8,525,521
Change in fair value of inventory sold (note 5)	(7,830,905)	(4,213,550)
Unrealized gain on changes in fair value of biological assets (note 4)	11,173,673	6,015,165
	17,487,636	10,543,099
Operating expenses		
General and administrative (note 14)	7,357,475	4,648,559
Research and development (note 13)	1,256,635	1,907,071
Selling, marketing and promotion	1,437,294	1,140,695
Professional fees	882,265	1,191,138
Share-based compensation (note 11)	349,468	324,127
Amortization (notes 6 and 8)	1,228,827	1,032,308
Gain on sublease agreement (note 8)	(12,876)	(24,442)
Loss on disposal of property, plant and equipment	47,813	66,360
	12,546,901	10,285,816
Operating income	4,940,735	257,283
Net finance expense (note 15)	2,635,316	1,785,426
Net income (loss)	2,305,419	(1,528,143)
Other comprehensive income (loss):		
Foreign currency translation adjustments	(84,938)	54,340
Total Comprehensive income (loss)	$ 2,220,481	$ (1,473,803)
Basic and diluted earnings (loss) per share (note 10)	$ 0.01	$ (0.01)
Weighted average number of common shares, basic	876,689,540	765,151,586
Weighted average number of common shares, diluted	878,404,763	765,151,586

See accompanying notes to consolidated financial statements.

CANNARA BIOTECH INC.

Consolidated Statements of Changes in Equity
Years ended August 31, 2022 and 2021

	Shares	Share capital	Contributed surplus	Deficit	Accumulated other comprehensive income	Total equity
As at August 31, 2021	876,481,321	$ 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 11):						
Employee compensation	–	–	322,377	–	–	322,377
Other services	–	–	27,091	–	–	27,091
	–	–	349,468	–	–	349,468
Exercise of stock options (note 10 and 11)	500,000	88,100	(38,100)	–	–	50,000
As at August 31, 2022	876,981,321	$ 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 Changes in Equity
Years ended August 31, 2022 and 2021

	Shares	Share capital	Contributed surplus	Deficit	Accumulated other comprehensive income	Total equity
As at August 31, 2020	737,738,815	$ 58,361,592	$ 7,034,550	$ (27,077,006)	$ 45,725	$ 38,364,861
Net loss	–	–	–	(1,528,143)	–	(1,528,143)
Other comprehensive income:						
Foreign currency translation adjustment	–	–	–	–	54,340	54,340
Comprehensive income (loss)	–	–	–	(1,528,143)	54,340	(1,473,803)
Share-based compensation (note 11):						
Employee compensation	–	–	242,074	–	–	242,074
Other services	–	–	89,504	–	–	89,504
	–	–	331,578	–	–	331,578
Private placement – common shares issuance (note 10)	135,000,000	24,300,000	–	–	–	24,300,000
Private placement – issuance costs (note 10)	–	(113,442)	–	–	–	(113,442)
Convertible debentures (note 9)	–	–	2,349,235	–	–	2,349,235
Convertible debentures – issuance costs (note 9)	–	–	(16,867)	–	–	(16,867)
Issuance of shares to settle a liability (note 10)	117,506	11,750	–	–	–	11,750
Exercise of stock options (note 10 and 11)	3,625,000	648,250	(285,750)	–	–	362,500
As at August 31, 2021	876,481,321	$ 83,208,150	$ 9,412,746	$ (28,605,149)	$ 100,065	$ 64,115,812

See accompanying notes to consolidated financial statements.

CANNARA BIOTECH INC.

Consolidated Statements of Cash Flows
Years ended August 31, 2022 and 2021

	2022	2021
Cash provided by (used in):		
Operating		
Net income (loss)	$ 2,305,419	$ (1,528,143)
Items not involving cash:		
Change in fair value of inventory sold (note 5)	7,830,905	4,213,550
Unrealized gain on changes in fair value of biological assets (note 4)	(11,173,673)	(6,015,165)
Share-based compensation (note 11)	349,468	331,578
Amortization of property, plant and equipment (note 6)	3,803,542	2,700,589
Amortization of right-of-use asset (note 7)	117,042	167,489
Amortization of intangible asset (note 8)	–	158,211
Loss on disposal of property, plant and equipment	47,813	66,360
Gain on sublease (note 7)	(12,876)	(24,442)
Change in fair value of derivative financial instrument (note 16 b))	(560,000)	–
Interest expense (note 15)	1,853,052	1,462,383
Interest on lease liabilities (note 15)	65,082	103,824
Accretion on financing and amortization of financing costs (notes 9 and 15)	871,000	143,217
Interest income (note 15)	(92,693)	(52,786)
Other	225	225
Net change in non-cash operating working capital items (note 21)	(11,483,197)	(3,819,797)
	(6,078,891)	(2,092,907)
Financing		
Private placement - issuance of common shares (note 10)	–	24,300,000
Private placement issuance costs (notes 10 and 21)	(25,250)	(88,192)
Proceeds from convertible debenture (note 9)	–	5,700,000
Convertible debenture issuance costs (notes 9 and 21)	(24,888)	(51,934)
Proceeds from credit facilities (note 9)	–	5,000,000
Credit facilities issuance costs (note 9)	–	(31,238)
Stock options exercised (notes 10 and 11)	50,000	362,500
Proceeds from debt financing (notes 9 a) and b))	61,319,223	–
Debt financing issuance costs (notes 9 a) and b))	(920,999)	–
Debt financing payments (notes 9 a) and b))	(34,000,000)	(300,000)
Proceeds from sale of derivative financial instrument (note 16)	560,000	–
Interest paid on debt instruments (note 9)	(1,194,133)	(1,322,792)
Lease payments (note 7)	(296,104)	(313,092)
Long-term debt payments	(3,545)	(3,250)
	25,464,304	33,252,002
Investing		
Deposits on property, plant and equipment	(371,582)	(467,484)
Acquisition of property, plant and equipment (note 6)	(15,095,528)	(30,606,292)
Disposal of property, plant and equipment	63,107	217,362
Interest received	58,914	26,994
	(15,345,089)	(30,829,420)
Net change in cash	4,040,324	329,675
Effect of foreign exchange on cash	(84,938)	58,453
Cash, beginning of year	8,159,305	7,771,177
Cash, end of year	$ 12,114,691	$ 8,159,305

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 Quebec and Canadian markets. 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 455,000 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, including growing without utilizing the sun. The facility is comprised of 24 independent growing zones totaling 600,000 square feet, a 200,000 square feet cannabis 2.0 processing center and a 200,000 square feet rooftop greenhouse located in Valleyfield, Quebec ("Valleyfield Facility"). As of August 31, 2022, the redesign of the first six growing zones have been completed and are now operational. 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 commenced its first commercial retail sale in February of last year and is now focusing on operational expansion at its Valleyfield Facility in order to be able to respond to current market demand the Company is receiving for its products in only 2 major Canadian markets: Quebec and Ontario. During 2022, the Company invested heavily in capital expenditures and start-up costs to successfully activate six of its 24 25,000 square foot cultivation zones, each containing approximately 9,600 plants per harvest. Multiple harvests have occurred since the start of the Valleyfield cultivation operations in November 2021 and have resulted in growing revenues as the harvested cannabis is processed and sold. The Company generated a net income of approximately $2.3 million during the year ended August 31, 2022 (2021 - net loss of $1.5 million) and has a deficit of approximately $26.3 million as at August 31, 2022 (2021 - $28.6 million). The Company expects that its existing cash resources of $12.1 million as at August 31, 2022, along with the forecasted cash flows and available undrawn credit facilities (note 9), will enable it to fund its planned operating expenses for at least the next twelve months from August 31, 2022.

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 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 International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations of the IFRS Interpretations Committee ("IFRIC").

The consolidated financial statements were approved for issuance by the Board of Directors on November 24, 2022.

(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 was 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 period-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, 2022:

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

3. Significant accounting policies

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

(a) 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.

When the Company is an intermediate lessor, it accounts for its interests in the lease and the sublease separately. It assesses the lease classification of a sublease with reference to the right-of-use asset arising from the lease, not with reference to the underlying asset. A lease is classified as a finance lease if it transfers substantially all the risks and rewards from the right-of-use asset resulting from the lease; otherwise, it is classified as an operating lease.

For sublease classified as finance lease, the Company derecognises the right-of-use asset to the extent that it is subject to the sublease and a lease receivable is recognised to reflect the net investment in the finance lease. Any difference between the right-of-use assets and the net investment in the finance sublease is recognised in the consolidated statement of income (loss) and comprehensive income (loss). On initial recognition, the net investment in the finance lease is measured at an amount equal to the present value of the lease payments for the underlying right-of-use assets during the lease term. The Company recognises finance income over the lease term, based on a pattern reflecting a constant period rate of return on the Company’ net investment in the lease.

3. Significant accounting policies (continued)

(b) 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 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 (loss) and comprehensive income (loss) and subsequently transferred to inventory at the point of harvest.

(c) 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. The total cost of inventory also includes a fair value adjustment which represents the fair value of the biological asset at the time of harvest. 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 (loss) and comprehensive income (loss) 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 (loss) and comprehensive income (loss).

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

The Company periodically reviews the value of items in inventory and provides write-downs or write-offs of inventory based on its assessment of market conditions.

3. Significant accounting policies (continued)

(d) 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.

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 general and administrative expenses in the statement of net income (loss) and comprehensive (income) loss.

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 (loss) and comprehensive income (loss). 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)

(e) 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.

(f) Research and development

Research and development expenditures are recognized as an expense in the period 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.

(g) 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 (loss) and comprehensive income (loss) 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 (loss) and comprehensive income (loss).

3. Significant accounting policies (continued)

(h) 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.

(i) 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)

(j) 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
Lease receivable	Amortized cost
Accounts receivable	Amortized cost
Accounts payable and accrued liabilities	Amortized cost
Long-term debt	Amortized cost
Convertible debentures	Amortized cost
Term loan	Amortized cost
Mortgages payable	Amortized cost

3. Significant accounting policies (continued)

(k) 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)

(l) Finance income and costs

Finance income includes interest income on available cash balances, gain on derivative financial instrument and other finance income as well as foreign exchange gains.

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

(m) 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 (loss) and comprehensive income (loss), 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. The generation of future taxable income is dependent on the successful commercialization of its products. As a result, 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.

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)

(n) Share-based payments

The Company has a share-based payment plan that grants stock options 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 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.

(o) Earnings (loss) per share

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

Diluted earnings (loss) per share is determined by adjusting the income (loss) and the weighted average number of common shares for the effects of all potential dilutive common shares, related to stock options and convertible debentures. The number of additional shares is calculated by assuming that outstanding stock options 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.

3. Significant accounting policies (continued)

(p) Critical accounting estimates and judgments (continued)

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.

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 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, expected plant loss 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.

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, 2022	August 31, 2021
Carrying amount, beginning of year	$ 1,902,206	$ 1,313,370
Production costs capitalized	10,257,220	6,164,853
Transferred to cost of goods sold – sale of clones	–	(72,000)
Transferred to inventory upon harvest	(17,620,643)	(11,519,182)
Change in fair value due to biological transformation, less cost to sell	11,173,673	6,015,165
Carrying amount, end of year	$ 5,712,456	$ 1,902,206

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.

4. Biological assets (continued)

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 as 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, 2022.

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, 2022:

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.	$3.62 per gram (2021 - $3.58 per gram)	An increase or decrease of 5% applied to the selling price would result in a change of approximately $434,000 to the valuation (2021 - $161,000).
Yield per plant Represents the average number of grams of dried cannabis expected to be harvested from each cannabis plant from the two facilities.	78 grams per plant (2021 – 86 grams per plant)	An increase or decrease of 5% applied to the average yield per plant would result in a change of approximately $266,000 to the valuation (2021 - $97,000).
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 49% (2021 – 47%)	An increase or decrease of 5% applied to the average stage of growth per plant would result in a change of approximately $195,000 to the valuation (2021 - $92,000).

As at August 31, 2022, it is expected that the Company's biological assets will yield approximately 5,539 kilograms of dried cannabis when harvested (2021 - 1,926 kilograms of dried cannabis when harvested).

5. Inventory

						August 31, 2022
		Capitalized cost		Fair value adjustment [1]		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

						August 31, 2021
		Capitalized cost		Fair value adjustment [1]		Total
Raw materials - cultivation and supplies	$	656,027	$	–	$	656,027
Harvested cannabis						
Dried cannabis and work-in-progress		2,065,248		2,058,053		4,123,301
Finished goods		247,373		173,180		420,553
Derivative products		349,742		(122,712)		227,030
Finished goods - U.S. hemp-based CBD products for resale		81,347		–		81,347
	$	3,380,856	$	2,127,401	$	5,508,258

[1] Fair value adjustment represent 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, 2022 were $18,652,355, including an impairment loss on inventory of $301,594 for cannabis that exceeds 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.

The amounts of inventory expensed as cost of goods sold during the year ended August 31, 2021 were $8,071,681, including an impairment loss on inventory of $539,790 for cannabis that exceeds its net realizable value.

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, 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

For the year ended August 31, 2022 and 2021, 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 cultivation zones, the construction of warehouse, office and processing space center in addition to post-harvest capital improvements at the Farnham Facility to process cannabis that will be received from the Valleyfield Facility. The costs are transferred to other categories as the assets become available or ready for use.

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, 2020	$ 1,104,963	$ 37,629,164	$ 4,660,531	$ 1,191,489	$ 9,940	$ 1,340,126	$ –	$ 45,936,213
Additions [(a)]	1,419,032	7,327,991	1,240,969	70,854	8,500	12,516	21,234,527	31,314,389
Disposal	(71,910)	(164,687)	(68,046)	–	–	–	–	(304,643)
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
Accumulated amortization								
Balance as at August 31, 2020	$ –	$ (2,038,419)	$ (347,506)	$ (211,813)	$ (553)	$ (150,749)	$ –	$ (2,749,040)
Amortization	–	(1,855,733)	(489,536)	(209,840)	(3,218)	(142,262)	–	(2,700,589)
Disposal	–	12,720	8,201	–	–	–	–	20,921
Balance as at August 31, 2021	$ –	$ (3,881,432)	$ (828,841)	$ (421,653)	$ (3,771)	$ (293,011)	$ –	$ (5,428,708)
Net book value								
Balance as at August 31, 2021	$ 2,452,085	$ 40,911,036	$ 5,004,613	$ 840,690	$ 14,669	$ 1,059,631	$ 21,234,527	$ 71,517,251

During the year ended August 31, 2022, the Company recognized $3,803,542 as amortization expense (2021 - $2,700,589), of which $1,111,785 has been recognized in the consolidated statement of net income (loss) and comprehensive income (loss), $27,404 has been included in cost of services and $2,664,353 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 13) (2021 - $706,608, nil and $1,993,981 respectively).

6. Property, plant and equipment (continued)

(a) Valleyfield Facility acquisition

On June 22, 2021, the Company acquired a one million square foot licensed cultivation and manufacturing facility in Valleyfield, Quebec from Medican Organic Inc., a wholly-owned subsidiary of TGOD, for total consideration of $27 million and the funding of certain deposit requirements of $5.7 million by a letter of credit. The guarantee of the deposit was made by a related party. The Company incurred $34,365 in transaction costs for this acquisition. The acquisition was financed through cash and non-brokered private placements of $19.3 million and a $5.7 million convertible debenture (note 9 and 10*)*.

The transaction was accounted for as an asset acquisition. As such, the assets acquired were recognized at cost and the purchase price was allocated based on the relative fair value of each asset acquired at the date of the purchase under IFRS 16, *Property, Plant and Equipment*.

The total consideration was allocated as follows:

Land	$	1,419,032
Building		20,743,548
Production equipment		4,871,785
Total		27,034,365

7. Right-of-use asset and lease liabilities

(a) Right-of-use asset

		2022		2021
Cost				
Balance, beginning of year	$	630,024	$	765,780
Additions		25,190		–
Derecognition of portion related to sublease agreement (i)		(80,038)		(135,756)
Balance, end of year	$	575,176	$	630,024
Accumulated amortization				
Balance, beginning of year	$	(397,476)	$	(308,881)
Amortization		(117,042)		(167,489)
Derecognition of portion related to sublease agreement (i)		53,461		78,894
Balance, end of year	$	(461,057)	$	(397,476)
Net book value				
Balance, end of year	$	114,119	$	232,548

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

(a) Right-of-use asset (continued)

(i) Sublease agreement

On November 1, 2021, the Company and a third party entered into a sublease agreement to lease a portion of the Company's head office location. The Company is entitled to equal monthly payments of $2,480 up to the term of the agreement on May 31, 2023.

On initial recognition, the portion of the original right-of-use asset subleased for a net total of $26,577 has been derecognized and a lease receivable was recognized of $39,453, which resulted in a gain of $12,876.

On June 1, 2021, the Company and a third party entered into a sublease agreement to lease a portion of the Company's head office location. The Company is entitled to equal monthly payments of $4,207 up to the term of the agreement on May 31, 2023.

On initial recognition, the portion of the original right-of-use asset subleased for a net total of $56,862 has been derecognized and a lease receivable was recognized of $81,304, which resulted in a gain of $24,442.

The Company has classified theses subleases as a finance lease because the sub-leases are for the whole of the remaining term on the original lease.

(b) Lease liabilities

	2022	2021
Maturity analysis - contractual undiscounted cash flows:		
Less than one year	$ 238,732	$ 288,306
One to five years	17,574	233,589
Total undiscounted lease liabilities	$ 256,306	$ 521,895
Current	$ 219,702	$ 225,642
Non-current	16,962	216,854
Lease liabilities included in the consolidated statement of financial position	$ 236,664	$ 442,496

	2022	2021
Balance, beginning of year	$ 442,496	$ 651,764
Additions	25,190	–
Lease payments	(296,104)	(313,092)
Interest on lease liabilities	65,082	103,824
Balance, end of year	$ 236,664	$ 442,496

8. Intangible asset

		2022		2021
Net carrying value, beginning of year	$	–	$	162,324
Additions		–		–
Amortization		–		(158,211)
Foreign currency translation adjustments		–		(4,113)
Net carrying value, end of year	$	–	$	–

The intangible asset relates to the e-commerce platform, ShopCBD.com. The intangible asset has been derecognized when the online operations were shut down during the third quarter of fiscal 2022.

9. Financing

(a) Term loan

		2022		2021
Net carrying value, beginning of year	$	–	$	–
Proceeds from term loan		39,319,223		–
Addition of term loan issuance costs		(822,627)		–
Amortization of deferred financing costs		65,925		–
Net carrying value, end of year	$	38,562,521	$	–
Term loan [(i)]	$	39,319,223	$	–
Less: unamortized financing costs		(756,702)		–
		38,562,521		–
Short-term portion of term loan		(1,965,961)		–
	$	36,596,560	$	–

(i) On May 31, 2022, the Company entered into a new a credit facility agreement with BMO Commercial Banking ("BMO") for a total of $50 million plus an accordion facility for up to an additional $10 million of credit availability. The credit facility is comprised of a three-year term loan for $39.3 million, a $5 million line of credit and $5.7 million for the issuance of a letter of credit. On June 1, 2022, the Company received $39.3 million from the term loan portion of the facility, which was used, in part, to repay the existing $21.8 million loan with CIBC (note 9 b)), and a letter of credit of $5.7 million to cover certain deposit requirements with a provincial supplier that was previously covered by a related party (note 6 a)). As part of this transaction, the Company incurred $822,627 in financing costs, which were deferred against the term loan.

9. Financing (continued)

(a) Term loan (continued)

(i) As at August 31, 2022, the Company had not drawn from the line of credit and has not requested further funding under its accordion facility.

The term loan bears a variable interest rate based on prime and/or banker acceptance rates. As at August 31, 2022, the interest on the term loan was 6.7%. The term loan is reimbursable quarterly based on an amortization schedule of 80 quarters, beginning November 30, 2022. The credit facility is 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 20 b)).

For the year ended August 31, 2022, the Company recognized $617,236 as interest expense for the term loan. As at August 31, 2022, accrued interest of $223,743 was included in account payables 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 $3 million for the fiscal quarter of May 31, 2023 and 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, 2022.

(b) Mortgages payable

		2022		2021
Net carrying value, beginning of year	$	11,982,451	$	12,274,263
Proceeds from mortgage (i)		22,000,000		–
Payments		(34,000,000)		(300,000)
Addition of mortgage issuance costs		(98,372)		–
Amortization of deferred financing costs		115,921		8,188
Net carrying value, end of year	$	–	$	11,982,451
Mortgage payable (i)	$	–	$	6,550,000
Mortgage payable (ii)		–		5,450,000
Less: unamortized financing costs		–		(17,549)
		–		11,982,451
Short-term portion of mortgages payable		–		(300,000)
	$	–	$	11,682,451

9. Financing (continued)

(b) Mortgages payable (continued)

(i) On November 30, 2021, CIBC agreed to increase the Company's current mortgage from $6.55 million to $22 million. The interest rate on the mortgage loan with CIBC is prime rate plus 2% and/or the banker acceptance ("BA") rate. The term of the mortgage loan is 3 years, renewable for additional 3-year terms at the option of the lender. The loan is reimbursable monthly by 35 variable instalments at an average of $54,000 per month plus accrued interest and a 36th installment for the residual balance due at the maturity date if the renewal option is not exercised. The loan is secured by a first ranking mortgage against the Farnham Facility. The mortgage is secured by a guarantee executed by a related party. The mortgage also contains a financial covenant requiring the Company to maintain a debt service ratio of no less than 1.25 to 1.0 at each year-end, relating to its Farnham Real estate segment. For the year ended August 31, 2022, the Company recognized $583,680 as interest expense for this mortgage (2021 - nil). As part of the new debt financing completed in June 2022, this mortgage loan was reimbursed in full (note 9) a)).

(ii) The interest rate on the mortgage is 13% per annum, payable monthly. During the year ended August 31, 2022, the Company recognized $216,958 as interest expense (2021 - $851,500) for this mortgage. The mortgage term was due on March 6, 2023 but it was reimbursed in full on November 30, 2021 as part of the refinancing arrangement (note 9 b) i)).

(c) Credit facilities and conversion into a convertible debenture

During the year ended August 31, 2021, the Company has drawn $5 million on its credit facilities which were subsequently exchanged for a convertible debenture (note 9 d)).

		2022		2021
Net carrying value, beginning of year	$	–	$	–
Credit facilities		–		5,000,000
Addition of credit facilities issuance costs		–		(31,238)
Extinguishment of debt (note 9 d))		–		(5,000,000)
Amortization of deferred financing costs		–		31,238
Net carrying value, end of year	$	–	$	–

9. Financing (continued)

(d) Convertible debentures

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

		2022		2021
Net carrying value, beginning of year	$	8,466,008	$	–
Convertible debenture A		–		4,448,551
Convertible debenture B		–		3,902,214
Issuance costs		–		(59,955)
Interest expense		435,178		71,748
Accretion and amortization of deferred issuance costs		688,957		103,450
Net carrying value, end of year	$	9,590,143	$	8,466,008

On June 21, 2021, the Company entered in a $5.7 million unsecured convertible debenture (“Convertible debenture A”) with a related party for the purpose of the Valleyfield Facility acquisition (note 6 a)). The convertible debenture term is 3 years and bears interest at 4% per annum, compounded semi-annually, payable at term or at conversion. Subject to certain conditions being met, the holder can convert the debenture into common shares at a price of $0.18 per share. The effective rate of this convertible debenture is 12.54%.

On July 12, 2021, the Company renegotiated the terms if its credit facilities with a related party to exchange them for a $5 million unsecured convertible debenture (“Convertible debenture B”). The convertible debenture term is 3 years and bears interest at 4% per annum, compounded semi-annually, payable at term or at conversion. Subject to certain conditions being met, the holder can convert the debenture into common shares at a price of $0.18 per share. The effective rate of this convertible debenture is 12.51%.

In connection with those transactions, the Company incurred a total of $76,822 in transaction costs, of which $16,867 was recognized in contributed surplus in the consolidated statement of equity and $59,955 against the convertible debenture. As at August 31, 2021, transaction costs of $24,888 were recorded in account payable and accrued liabilities.

During the year ended August 31, 2022, the Company recognized $435,178 as interest expense (2021 - $71,748). 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. As at August 31, 2022, accrued interest of $506,926 was included in account payable and accrued liabilities (August 31, 2021 - $71,748).

10. 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, 2022, a total of 500,000 stock options were exercised at a price of $0.10 per share for a total consideration of $50,000, resulting in the issuance of 500,000 new common shares of the Company.

During the year ended August 31, 2021, a total of 3,625,000 stock options were exercised at a price of $0.10 per share for a total consideration of $362,500, resulting in the issuance of 3,625,000 new common shares of the Company.

On June 18, 2021, the Company closed a $19.3 million private placement with a related party for the purpose of the Valleyfield Facility acquisition (note 4), resulting in the issuance of 107,222,222 common shares at $0.18 per share.

On July 9, 2021, the Company closed a $5 million private placement with a third party, resulting in the issuance of 27,777,778 common shares at $0.18 per share.

In connection with those transactions, the Company incurred transaction costs totalling $113,442, which were recognized as a reduction of equity in the consolidated statement of equity. As at August 31, 2021, transaction costs of $25,250 were recorded in account payable and accrued liabilities.

On February 1, 2021, the Company issued a total of 16,786 shares to settle a liability to a third party in the amount of $1,678.

On November 23, 2020, the Company issued a total of 100,720 shares to settle a liability to a third party in the amount of $10,072.

10. Share capital (continued)

(c) Earnings per share

The calculation of basic earnings per share was calculated based on the net income (loss) attributable to common shareholders of the Company divided by the weighted average number of common shares outstanding during the year, while the diluted earnings (loss) 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, 2022 was as follows:

	2022	2021
Net income (loss)	$ 2,305,419	$ (1,473,803)
Issued common shares as at September 1	876,481,321	737,738,815
Effect of issuance of common shares	–	25,789,141
Effect of stock options exercised for common shares	208,219	1,623,630
Weighted average number of common shares, basic	876,689,540	765,151,586
Impact of dilutive securities:		
Stock options	1,715,223	–
Weighted average number of common shares, diluted	878,404,763	765,151,586
Earning (loss) per share – basic	$ 0.01	$ (0.01)
Earning (loss) per share – diluted	$ 0.01	$ (0.01)

For the year ended August 31, 2022, 16,024,121 share options and 59,444,444 shares as-if the convertible debentures were converted that may potentially dilute earnings per share in the future, were excluded from the weighted average number of diluted common shares calculation as their effect would have been anti-dilutive (2021 - 26,302,054 share options and 59,444,444 shares as-if the convertible debentures were converted).

11. Share-based compensation

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 outstanding balance of shares issued. 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 installments 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 year ended August 31, 2022 was as follows:

			2022			2021
	Number		Weighted average exercise price	Number		Weighted average exercise price
Outstanding, beginning of year	36,539,337	$	0.21	41,929,793	$	0.20
Granted	10,348,333		0.18	2,742,000		0.18
Exercised	(500,000)		0.10	(3,625,000)		0.10
Forfeited	(4,012,100)		0.18	(4,026,413)		0.16
Expired	(17,851,448)		0.28	(481,043)		0.18
Outstanding, end of year	24,524,122		0.15	36,539,337		0.21
Exercisable, end of year	12,901,678	$	0.13	26,302,754	$	0.23

During the year ended August 31, 2022, the Company granted 9,910,000 share options that vest over time in accordance with the employee share option plan (2021 - 2,492,000 share options) and 438,333 share options that vest immediately (2021 - 250,000 share options).

During the year ended August 31, 2022, the Company recorded a share-based compensation expense of $349,468 that was recognized in the consolidated statement of net income (loss) and comprehensive income (loss) and nil was classified in the calculation of the biological assets and inventory valuation (2021 - $331,578, for which $324,127 was recognized in the consolidated statement of net income (loss) and comprehensive income (loss) and $7,451 was classified in the calculation of the biological assets and inventory valuation).

11. Share-based compensation (continued)

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:

		2022		2021
Share price (i)	$	0.13	$	0.11
Exercise price	$	0.18	$	0.18
Risk-free interest rate (ii)		1.79%		0.45%
Expected life (iii)		5 years		5 years
Expected price volatility (iv)		90%		100%
Fair value of the option	$	0.08	$	0.08
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.

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
June 1. 2023	$	0.10	8,000,001	8,000,001
December 17, 2023		0.18	795,000	737,082
May 1, 2024		0.18	694,000	582,625
October 3, 2024		0.18	125,000	88,538
November 25, 2024		0.18	20,000	13,736
January 16, 2025		0.18	420,000	271,250
April 14, 2025		0.18	90,000	52,484
May 4, 2025		0.18	400,000	100,000
July 24, 2025		0.18	3,489,788	1,891,712
November 10, 2025		0.18	250,000	250,000
December 15, 2025		0.18	282,000	117,484
February 1, 2026		0.18	685,000	256,870
July 27, 2026		0.18	375,000	101,563
December 7, 2026		0.18	6,885,000	225,000
April 26, 2027		0.18	600,000	–
May 25, 2027		0.18	213,333	213,333
July 26, 2027		0.18	1,200,000	–
			24,524,122	12,901,678

12. Other income

		2022		2021
Ancillary cannabis revenues [(i)]	$	58,060	$	730,362
Government grants [(ii)]		156,372		246,598
Other revenue		169,341		–
Royalties [(iii)]		131,384		–
	$	515,157	$	976,960

(i) As part of its research and development activities (note 13), the Company had generated ancillary cannabis revenues from the sale of cannabis that was recorded as other income.

(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, during the year-ended August 31, 2021 the Company received the first tranche of $416,458 totalling 75% of the 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 remaining 25% tranche totalling $138,819. In June 2021, as part of the COVID-19 incentives provided to companies, the government of Québec enhanced some of its government grants previously applied for by the Company. As such, the Company had been granted an additional amount of $27,764. 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.

During the year ended August 31, 2022, the Company was also granted a total of $15,969 in government grants for the assets purchased in relation to other energy savings initiatives (2021 - $233,844). 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, 2022, total of deferred income recognized as other income along with other government incentives, including various tax credits, recognized directly as other income amounted to $156,372 (2021 - $246,598). 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 the term is 18 months. The monthly payment that the Company is entitled is $11,944.

13. Research and development

As part of its Cannabis Operations (note 19), 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.

14. General and administrative

	2022	2021
Salaries and benefits	$ 2,968,879	$ 2,056,357
Facilities expense	2,566,120	1,363,316
Administrative and regulatory expenses	1,822,476	1,228,886
	$ 7,357,475	$ 4,648,559

15. Net finance expense

	2022	2021
Interest income	$ 92,693	$ 52,786
Gain of derivative financial instrument (note 16 b))	560,000	–
Foreign exchange gain	26,345	–
Finance income	679,038	52,786
Interest on mortgages payable	800,638	1,086,114
Interest on term loan	617,236	–
Debt financing guarantee fees	230,563	–
Interest on convertible debentures	435,178	71,748
Fees related to letter of credit	253,592	–
Interest on credit facilities	–	304,521
Interest on lease liabilities	65,082	103,824
Accretion and amortization of financing costs	871,000	143,217
Other finance expense	41,065	16,173
Foreign exchange loss	–	112,615
Finance expense	3,314,354	1,838,212
Net finance expense	$ 2,635,316	$ 1,785,426

16. Financial instruments

(a) Capital management

The Company defines capital as total equity and any other financing instrument it has issued, principally its term loan, mortgages payable 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 long-term debt, term loan and mortgages payable approximates their carrying amounts, as the interest rate approximates the current market rate.

The fair value on the convertible debentures is approximately $9.2 million.

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.

16. 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, 2022, none of the receivables were past due. The allowance for expected credit loss was nominal as at August 31, 2022 and 2021. 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. During the year ended August, 31 2022, the Company had used a derivative financial instrument to reduce its interest rate exposure (note 16 (b)).

16. 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.

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, 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	9,590,143	10,700,000	–	10,700,000
Term loan	38,562,521	39,319,223	1,965,961	37,353,262
	$ 57,699,898	$ 59,586,147	$ 11,515,311	$ 48,070,836

The contractual maturities of financial liabilities as at August 31, 2021 were as follows:

	Carrying amount	Contractual cash flows	Less than 1 year	1 to 5 years
Financial liabilities				
Accounts payable and accrued liabilities	$ 6,263,201	$ 6,263,201	$ 6,263,201	$ –
Lease liabilities	442,496	521,895	288,306	233,589
Convertible debentures	8,466,008	10,700,000	–	10,700,000
Mortgages payable	11,982,451	12,000,000	300,000	8,050,000
	$ 27,154,156	$ 29,485,096	$ 6,851,507	$ 18,983,589

17. Income taxes

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

	2022	2021
Income (loss) before income taxes	$ 2,305,419	$ (1,528,143)
Statutory income tax rate	27 %	27 %
Combined federal and provincial income tax	622,463	(412,598)
Adjustment in income taxes resulting from:		
Unrecorded tax benefits on tax losses and other deductible temporary differences	(711,410)	325,765
Accounting charges not deducted for tax and other	88,947	86,833
Income taxes	$ –	$ –

As at August 31, 2022, 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.

		2022
	Federal	Provincial/State
Canadian		
Non capital losses carried forward, expiring:		
August 31, 2036	$ 1,054,115	$ 1,057,306
August 31, 2037	2,224,941	2,089,499
August 31, 2039	4,607,849	4,607,849
August 31, 2040	15,722,110	15,699,571
August 31, 2041	4,419,431	4,413,033
August 31, 2042	2,625,312	2,625,312
	30,653,757	30,492,569
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
	3,896,803	3,896,803
	$ 34,550,560	$ 34,389,372
Canadian		
Other tax attributes carried forward, expiring:		
August 31, 2024	$ 401,668	$ 401,668
August 31, 2025	67,375	67,375
August 31, 2026	150	150
August 31, 2027	53,725	53,725
	$ 522,918	$ 522,918

17. Income taxes (continued)

The Company also had unclaimed scientific research and experimental development expenditures that do not expire that can be carried forward totalling $653,744.

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, 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

	Unrecognized in profit or loss	Unrecognized in equity	Balance August 31, 2021
Net operating loss carryforwards	$ 33,907,659	$ –	$ 33,907,659
Financing costs	205,933	1,274,863	1,480,796
Other tax attributes	3,150	–	3,150
Biological assets and inventory	(3,562,706)	–	(3,562,706)
Property, plant and equipment	(5,681,708)	–	(5,681,708)
Lease liabilities	209,948	–	209,948
Deferred grant income	737,122	–	737,122
	$ 25,819,398	$ 1,274,863	$ 27,094,261

18. 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, 2022, there are no material claims in favor of or against the Company.

19. 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 exclusively for the Québec and 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 (loss) 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.

19. Segment disclosures (continued)

(a) Reportable segments (continued)

	2022				2021			
	Cannabis operations	Real estate operations	Other	Total	Cannabis operations	Real estate operations	Other	Total
Revenue								
Revenue from sale of goods	$ 36,977,512	$ –	$ 17,598	$ 36,995,110	$ 15,407,596	$ –	$ 178,922	$ 15,586,518
Excise taxes	(8,486,654)	–	–	(8,486,654)	(2,417,355)	–	–	(2,417,355)
Net revenue from sale of goods	28,490,858	–	17,598	28,508,456	12,990,241	–	178,922	13,169,163
Services revenues	3,600,947	–	–	3,600,947	–	–	–	–
Lease revenue	–	3,373,198	–	3,373,198	–	3,120,882	–	3,120,882
Other income (note 12)	515,157	–	–	515,157	976,960	–	–	976,960
	32,606,962	3,373,198	17,598	35,997,758	13,967,201	3,120,882	178,922	17,267,005
Cost of revenues								
Cost of goods sold	18,566,057	–	86,298	18,652,355	7,925,024	–	146,657	8,071,681
Cost of services	2,892,612	–	–	2,892,612	–	–	–	–
Lease operating costs	–	307,923	–	307,923	–	453,840	–	453,840
Segment gross profit before fair value adjustments	11,148,293	3,065,275	(68,700)	14,144,868	6,042,177	2,667,042	32,265	8,741,484
Changes in fair value of inventory sold	(7,830,905)	–	–	(7,830,905)	(4,213,550)	–	–	(4,213,550)
Unrealized gain on changes in fair value of biological assets	11,173,673	–	–	11,173,673	6,015,165	–	–	6,015,165
Segment gross profit (loss)	14,491,061	3,065,275	(68,700)	17,487,636	7,843,792	2,667,042	32,265	10,543,099
Operating expenses	10,850,797	–	82,872	10,933,669	8,464,756	–	422,707	8,887,463
Segment operating income (loss)	3,640,264	3,065,275	(151,572)	6,553,967	(620,964)	2,667,042	(390,442)	1,655,636
Share-based compensation	–	–	349,468	349,468	–	–	324,127	324,127
Amortization	–	–	1,228,827	1,228,827	–	–	1,032,308	1,032,308
Net finance expense	–	–	2,635,316	2,635,316	–	–	1,785,426	1,785,426
Gain on sublease agreement	–	–	(12,876)	(12,876)	–	–	(24,442)	(24,442)
Loss on disposal of property, plant and equipment	–	–	47,813	47,813	–	–	66,360	66,360
Net income (loss)	$ 3,640,264	$ 3,065,275	$ (4,400,120)	$ 2,305,419	$ (620,964)	$ 2,667,042	$ (3,574,221)	$ (1,528,143)

19. 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, 2022, the Company leased 419,586 square feet of the total 625,000 available square feet at its Farnham Facility to third parties. For the year ended August 31, 2022, the Company 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, 2022 amounted to $269,940.
- 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, 2022 amounted to $3,019,924.

In addition, the Company leased 80,000 square feet at its Valleyfield facility to a third party from June 2021 to September 2021. For the year ended August 31, 2022, lease revenues amounted to $83,333.

Income is generated from customers domiciled in Canada.

(d) Source of cannabis and cannabis accessories revenues

	2022	2021
Revenue from Canadian retailers	$ 36,024,072	$ 10,222,574
Excise taxes	(8,486,654)	(2,417,355)
	27,537,418	7,805,219
Revenue from wholesale	953,440	5,185,022
	$ 28,490,858	$ 12,990,241

For the years ended August 31, 2022, the Company has generated 97% of its cannabis revenues from two provincial distributors.

(e) Source of service revenues

The Company generated services revenues from cannabis production services. For the year-ended August 31, 2022, the Company has generated all its management services-related revenues with one customer.

20. 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, 2022, was as follows:

	2022	2021
Salaries and benefits	$ 526,250	$ 323,583
Share-based compensation	189,550	138,810
Board of director fees	70,000	63,750
	$ 785,800	$ 526,143

(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:

	2022	2021
Nature of transactions		
Management fees and other expenses (i)	$ –	$ 11,343
Acquisition of property, plant and equipment (i)	39,566	291,125
Other debt financing expenses (i)	387,855	–
Interest on financing instruments (i)	652,136	1,227,769
	1,079,557	1,530,237
Balance with related parties are as follows:		
Accounts payable and accrued interests (i)	(894,781)	(434,609)
Accounts payable to key management personnel (ii)	(52,614)	(27,867)
Accounts payable to Board of Directors	(15,230)	(15,189)
Convertible debentures (i)	(10,700,000)	(10,700,000)
Mortgage payable (i)	–	(6,550,000)

20. 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 completed during the year ended August 31, 2022 (note 9 a) and b)) and charged the Company a total of $230,563 in fees in exchange. The fees are being calculated monthly based on the debt outstanding amount. The interests on the letter of credit and the fees on the debt guarantee were included in account payable and accrued liabilities as at August 31, 2022.

(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.

21. Cash flow information

Net change in non-cash working capital items:

	2022	2021
Accounts receivable	$ (5,675,216)	$ (2,818,973)
Sales tax receivable	367,420	203,972
Lease receivable	124,623	61,957
Biological assets	(10,257,220)	(6,164,853)
Inventory	2,031,009	2,797,725
Prepaid expenses and other assets	(568,578)	(496,075)
Deposits	100,000	(43,961)
Accounts payable and accrued liabilities	2,279,727	2,453,823
Deferred lease revenue	(9,564)	(18,640)
Deferred revenue	7,087	–
Deferred grant income	117,515	205,228
	$ (11,483,197)	$ (3,819,797)

21. Cash flow information (continued)

Supplemental information in the statement of cash flows:

	2022	2021
Variation of property, plant and equipment included in accounts payable and accrued liabilities	$ (591,428)	$ (708,097)
Addition to right-of-use assets and lease liabilities	25,190	–
Issuance costs on private placement included in account payables and accrued liabilities	–	25,250
Issuance costs on convertible debentures included in account payables and accrued liabilities	–	24,888

22. Subsequent events

Share options

Subsequent to year-end, the Company granted a total of 7,500,000 stock options at an exercise price of $0.10 and 14,000,000 stock options at an exercise price of $0.18 to employees and 225,000 stock options to board members at an exercise price of $0.18, subject to certain vesting conditions in accordance with the Company's employee share option plan.

Subsequent to year-end, a total of 500,000 stock options were exercised at a price of $0.10 per share for a total consideration of $50,000, resulting in the issuance of 500,000 new common shares of the Company.