



# UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the Three Months Ended October 31, 2023 and 2022

## NOTICE TO READER

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the interim consolidated financial statements, they must be accompanied by a notice indicating that the unaudited condensed interim consolidated financial statements have not been reviewed by an auditor.

The accompanying unaudited condensed interim consolidated financial statements of the Company have been prepared by and are the responsibility of the Company's management.

The Company's independent auditor has not performed a review of these unaudited condensed interim consolidated financial statements in accordance with the standards established by the Chartered Professional Accountants of Canada for a review of the unaudited condensed interim consolidated financial statements by an entity's auditor.

**CANADABIS CAPITAL INC.****UNAUDITED CONDENSED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

As at

*(Expressed in Canadian dollars)*

	October 31, 2023	July 31, 2023
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents (Note 7)	\$ 3,726,428	\$ 3,225,190
Trade accounts receivable and other receivables (Note 20(b))	2,515,802	1,995,536
Prepaid expenses	757,509	582,418
Biological assets (Note 9)	59,277	76,195
Inventory (Note 10)	5,786,891	5,751,874
	<hr/> 12,845,907	<hr/> 11,631,213
Long-term deposit (Note 8)	279,997	275,497
Property, plant and equipment (Note 11)	10,886,193	11,042,239
Due from related parties (Note 19)	14,090	14,090
	<hr/> \$ 24,026,187	<hr/> \$ 22,963,039
<b>LIABILITIES</b>		
Current liabilities		
Trade accounts payable and accrued liabilities	6,830,040	6,434,198
Goods and services tax payable	471,427	232,590
Income tax payable (Note 18)	148,978	119,228
Due to related parties (Note 19)	1,444,240	1,502,955
Current portion of lease obligations (Note 12)	379,993	383,298
Current portion of long-term debt (Note 13)	1,019,351	1,009,649
	<hr/> 10,294,029	<hr/> 9,681,918
Deferred income liability (Note 13(ii))	16,705	20,611
Lease obligations (Note 12)	875,608	951,058
Long-term debt (Note 13)	4,717,630	4,965,299
	<hr/> 15,903,972	<hr/> 15,618,886
<b>SHAREHOLDERS' EQUITY</b>		
Share capital (Note 15)	16,738,875	16,730,866
Share-based payments reserve	3,051,146	2,988,210
Deficit	(11,760,992)	(12,468,109)
Total equity attributed to own shareholders	<hr/> 8,029,029	<hr/> 7,250,967
Non-controlling interest (Note 14)	93,186	93,186
	<hr/> 8,122,215	<hr/> 7,344,153
	<hr/> \$ 24,026,187	<hr/> \$ 22,963,039

Approved by the Board of Directors

**"Travis McIntyre"**

Travis McIntyre

**"Shane Chana"**

Shane Chana

See accompanying notes to the unaudited condensed consolidated financial statements

**CANADABIS CAPITAL INC.****UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF NET INCOME AND COMPREHENSIVE INCOME**

For the Three Month Periods Ended

*(Expressed in Canadian dollars)*

	October 31, 2023	October 31, 2022
<b>REVENUE</b>		
Gross revenue (Note 25)	\$ 9,004,793	\$ 7,812,425
Excise duty (Note 25)	3,261,402	2,664,738
Net revenues (Note 5)	5,743,391	5,147,687
Cost of sales (Note 6)	3,114,741	2,783,725
Gross profit	2,628,650	2,363,962
<b>EXPENSES</b>		
Depreciation and amortization	138,373	75,683
General and administration	1,562,866	1,469,539
Share-based payments (Note 16)	65,945	15,040
	1,767,184	1,560,262
Income from operations	861,466	803,700
<b>Other income and expenses</b>		
Financing costs (Note 23)	(133,692)	(108,920)
Other income (expenses) (Note 20(b)(iii))	9,093	5,533
	(124,599)	(103,387)
Net income before tax for the period	736,867	700,313
Income tax expense - current taxes (Note 18)	29,750	-
Net income and comprehensive income for the period	707,117	700,313
Attributed to:		
Equity holders of the parent	707,117	700,313
Non-controlling interest	-	-
	\$ 707,117	\$ 700,313
Per share amount (Note 22)		
Basic and diluted	\$ 0.01	\$ 0.01

See accompanying notes to the unaudited condensed consolidated financial statements

**CANADABIS CAPITAL INC.****UNAUDITED CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**

For the Three Month Periods Ended

*(Expressed in Canadian dollars)*

	Share capital	Share-based payment reserve	Deficit	Total equity attributable to own shareholders	Non-controlling interest	Total shareholders' equity
Balance, July 31, 2022	\$ 16,145,534	\$ 3,307,556	\$ (16,912,603)	\$ 2,540,487	\$ 93,186	\$ 2,633,673
Share-based payments (Note 16)	-	15,040	-	15,040	-	15,040
Net income and comprehensive income for the period	-	-	700,313	700,313	-	700,313
Balance, October 31, 2022	\$ 16,145,534	\$ 3,322,596	\$ (16,212,290)	\$ 3,255,840	\$ 93,186	\$ 3,349,026
Balance, July 31, 2023	\$ 16,730,866	\$ 2,988,210	\$ (12,468,109)	\$ 7,250,967	\$ 93,186	\$ 7,344,153
Shares issued upon exercise of share options (Note 15(b)(ii))	8,009	(3,009)	-	5,000	-	5,000
Share-based payments (Note 16)	-	65,945	-	65,945	-	65,945
Net income and comprehensive income for the period	-	-	707,117	707,117	-	707,117
Balance, October 31, 2023	\$ 16,738,875	\$ 3,051,146	\$ (11,760,992)	\$ 8,029,029	\$ 93,186	\$ 8,122,215

See accompanying notes to the unaudited condensed consolidated financial statements

**CANADABIS CAPITAL INC.**  
**UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
For the Three Month Periods Ended  
*(Expressed in Canadian dollars)*

	October 31, 2023	October 31, 2022
<b>Cash provided by (used in)</b>		
<b>Operating activities</b>		
Net income before tax for the period	\$ 736,867	\$ 700,313
Items not affecting cash		
Accretion expense	10,332	11,249
Depreciation and amortization (Notes 6, 9 and 11)	228,487	133,473
Realized fair value on inventory sold	-	1,393
Change in fair value of biological asset (Note 9)	(44,070)	8,039
Write down of inventory	28,400	-
Non-cash other income (Note 13(ii))	(3,906)	(4,846)
Non-cash interest expense (Note 19(ii))	3,791	3,791
Share-based payments	65,945	15,040
Changes in non-cash working capital (Note 24)	(66,898)	1,249,950
	958,948	2,118,402
<b>Financing activities</b>		
Issuance of shares (Note 15(b)(iii))	5,000	-
Advances from related parties	19,696	80,674
Repayment of amounts due to related parties	(78,411)	(23,026)
Repayment of on demand line of credit	-	(467,453)
Repayment of long-term debt (Note 13)	(248,299)	(202,901)
Interest earned on long-term deposit	(4,500)	-
Repayment of lease obligation (Note 12)	(78,755)	(42,651)
	(385,269)	(655,357)
<b>Investing activities</b>		
Purchase of property, plant and equipment (Note 11)	(72,441)	(155,200)
	(72,441)	(155,200)
Net change in cash and cash equivalents	501,238	1,307,845
Cash and cash equivalents		
Beginning of the period	3,225,190	144,876
End of the period	\$ 3,726,428	\$ 1,452,721
<b>Supplemental cash flow information</b>		
Interest paid	\$ 119,569	\$ 93,880

See accompanying notes to the unaudited condensed consolidated financial statements

# CANADABIS CAPITAL INC.

## NOTES TO THE UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the Three Months Ended October 31, 2023 and 2022

Canadian dollars)

### 1. Nature of operations

CanadaBis Capital Inc. ("CanadaBis" or the "Company") was incorporated under the Alberta Business Corporations Act ("ABCA") on November 29, 2016 and was classified as a Capital Pool Corporation ("CPC") as defined in Policy 2.4 of the TSX Venture Exchange Inc. (the "Exchange"). On April 26, 2019, the Company completed its Qualifying Transaction and listed on the Exchange. CanadaBis' principal business is the production and sale of recreational cannabis and cannabis extracts. The Company's common shares are listed and traded on the TSX Venture Exchange under the symbol "CANB". The address of the Company's registered office is 255C Clearview Drive, Red Deer County, Alberta, Canada T4E 3B6.

### 2. Basis of preparation

#### (a) Preparation of condensed consolidated financial statements

The accompanying unaudited condensed consolidated financial statements as at October 31, 2023 and for the three months ended October 31, 2023 and 2022 (the "Financial Statements") were prepared in accordance with International Accounting Standard ("IAS") 34, Interim Financial Reporting, as issued by the International Accounting Standards Board ("IASB") using the accounting policies the Company adopted in its annual consolidated financial statements as at and for the year ended July 31, 2023, except for the new and amended accounting standards adopted as outlined below in Note 3. Certain disclosures that are normally required to be included in the notes to annual audited financial statements have been condensed or omitted. The Company has prepared these Financial Statements on the basis that it will continue to operate as a going concern.

These Financial Statements were approved and authorized for issue by the Board of Directors on December 29, 2023.

#### (b) Basis of consolidation

Subsidiaries are entities controlled by CanadaBis. Control exists when CanadaBis has the power, directly or indirectly, to govern the financial and operating policies of an entity and to be exposed to the variable returns from its activities. The financial statements of the subsidiaries are included in the consolidated financial statements of CanadaBis from the date the control commences until the date the control ceases.

Subsidiaries	Jurisdiction of incorporation	Ownership interest
Stigma Pharmaceuticals Inc.	Alberta, Canada	100%
1998643 Alberta Ltd.	Alberta, Canada	100%
Full Spectrum Labs Ltd.	Alberta, Canada	100%
2103157 Alberta Ltd.	Alberta, Canada	100%
Goldstream Cannabis Inc.	British Columbia, Canada	95%

Intercompany balances and any unrealized gains and losses or income and expenses arising from transactions with subsidiaries are eliminated to the extent of CanadaBis' interest.

#### (c) Non-controlling interest

Non-controlling interest represent equity interests in subsidiaries owned by outside parties. The share of net assets of subsidiaries attributable to non-controlling interests is presented as a component of shareholders' equity. Changes in the Company's ownership interest in subsidiaries that do not result in a loss of control are accounted for as equity transactions. Non-controlling interest consists of the non-controlling interest at the date of the original acquisition plus the non-controlling interest share of changes in equity since the date of acquisition.

The Company owns 95% of the outstanding common shares of its subsidiary, Goldstream Cannabis Inc. These consolidated financial statements include 100% of the assets and liabilities related to Goldstream Cannabis Inc., and include a non-controlling interest representing 5% of Goldstream Cannabis Inc.'s assets and liabilities not owned by the Company.

#### (d) Basis of presentation

These Financial Statements have been prepared on a historical cost basis except for biological assets and certain financial instruments which are measured at fair value. These Financial Statements are presented in Canadian dollars, which is also the functional currency.

### 3. Significant accounting policies

These Financial Statements follow the same accounting policies as the most recent annual audited financial statements. Accordingly, these Financial Statements should be read in conjunction with the Company's audited annual consolidated financial statements for the year ended July 31, 2023.

#### New and amended accounting standards adopted

As at August 1, 2023, the Company adopted the following standards that had no material impact on these Financial Statements either due to not being applicable or limited relevance based on nature and extent of the Company's operations:

(i) IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors" was amended to introduce a definition of accounting estimates that clarifies that these are monetary amounts in the financial statement that are subject to measurement uncertainty, and clarified the relationship between accounting policies and accounting estimates by specifying that the entity develops an accounting estimate to achieve the objective set out by an accounting policy. The amendments to IAS 8 had no material impact on these Financial Statements.

(ii) IAS 1 "Presentation of Financial Statements" was amended to require entities to disclose material accounting policies rather than their significant accounting policies, clarifying that accounting policies related to immaterial transactions, other events or conditions are themselves immaterial and as such need not be disclosed, and clarified that not all accounting policies are necessarily material if related to material transactions, other events or conditions. IFRS Practice Statement 2, Disclosure of Accounting Policies ("IFRS Practice Statement 2") provide non-mandatory guidance on the application of the definition of "material" in context of accounting policy information. The amendments to IAS 1 and IFRS Practice Statement 2 had no material impact on these Financial Statements.

(iii) IAS 12 "Income Taxes" was amended to require recognition of a deferred tax asset and deferred tax liability for temporary differences arising on initial recognition of a lease and decommissioning provision. These amendments to IAS 12 had no impact on these Financial Statements.

### 4. Critical accounting estimates and judgements

The preparation of these Financial Statements requires management to make judgments, estimates and assumptions that affect the reported amount of revenues, expenses, assets, liabilities, and the disclosure of contingent assets and liabilities. These estimates and judgements concern matters that are inherently complex and uncertain. Judgements and estimates are continually evaluated and are based on historical experience and expectation of future events. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the review affects both current and future periods. The critical accounting estimates and judgements used in the preparation of these Financial Statements are consistent with those critical accounting estimates and judgements as disclosed in the audited consolidated financial statements as at and for the year ended July 31, 2023.

### 5. Net revenues

	Three months ended	
	October 31, 2023	October 31, 2022
Extract	\$ 4,754,653	\$ 4,978,901
Retail	134,996	125,407
Cultivation and wholesale	853,742	43,379
	\$ 5,743,391	\$ 5,147,687

**CANADABIS CAPITAL INC.**

**NOTES TO THE UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

For the Three Months Ended October 31, 2023 and 2022

Canadian dollars)

**6. Cost of sales**

	Three months ended	
	October 31, 2023	October 31, 2022
Extract	\$ 2,441,985	\$ 2,675,863
Retail	101,502	89,281
Cultivation and wholesale	571,254	18,581
	\$ 3,114,741	\$ 2,783,725

During the three months ended October 31, 2023 and 2022, the aggregate depreciation charge of \$81,561 and \$45,815, respectively were included in cost of sales - extract.

During the three months ended October 31, 2023 and 2022, the cost of sales - extract included realized fair value included in the packaged extraction inventory (finished goods) produced and wholesale using the Company's own cultivated inventory of \$Nil and \$1,393, respectively that were sold during the period presented.

During the three months ended October 31, 2023, the cost of sales - cultivation and wholesale included an amount of \$28,400 due to stating the harvested cannabis inventory at the lower of cost and net realizable value.

**7. Cash and cash equivalents**

As at October 31, 2023, the cash and cash equivalents balance includes GICs with aggregate value of \$700,000 that each are redeemable without penalties.

**8. Long-term deposit**

In connection with the new debt facility (see Note 13(iii)), a term deposit for commercial hold backs and an interest rate of 0.20% was obtained. The maturity date is July 13, 2024 and this term deposit cannot be redeemed until the lien as stipulated in the commitment letter is removed. The lien is regarding a statement of claim against the Company which the Company deems without merit and filed a counterclaim. As at July 31, 2023, the lien remained in place. As at July 31, 2023, the balance of \$275,497 includes interest earned of \$1,048 that is readily available to the Company. As at October 31, 2023, the balance of \$279,997 includes interest earned of \$4,500 that is readily available to the Company.

**9. Biological Assets**

	October 31, 2023	July 31, 2023
Balance, beginning of the period	\$ 76,195	\$ 61,360
Capitalized cost of biological assets	83,618	380,321
Changes in fair value	44,070	(43,370)
Cash cost transferred to inventory upon harvest	(144,606)	(322,116)
Balance, end of the period	\$ 59,277	\$ 76,195

During the three months ended October 31, 2023, the depreciation charge of \$8,554 related to property, plant and equipment used in the growth and harvesting of biological assets was capitalized to biological assets. For the corresponding period presented, the depreciation charge of \$11,975 was capitalized to biological assets.

During the three months ended October 31, 2023 and 2022, the gross profit included the changes in fair value related to the biological assets of \$44,070 and \$(8,039), respectively.

During the three months ended October 31, 2023, the Company successfully completed its eighteenth harvest. At October 31, 2023, the remaining plants were 52% complete relative to the next expected harvest. During the three months ended October 31, 2023, the selling price of \$3.15 per dry flower gram used in the valuation process remained unchanged from July 31, 2023. As at October 31, 2023, the trim price per gram was decreased from \$1.26 to \$0.80 (Note 6).

The Company measures its biological assets at their fair value less costs to sell. This is determined using a model which estimates the expected harvest yield in grams for flower and trim being cultivated, and then adjust those amounts for selling price per gram and costs to sell. The fair value of biological assets is considered a Level 3 categorization in the IFRS fair value hierarchy, as there is currently no actively traded commodity market in Canada for cannabis plants. The fair value of cannabis plants was determined using a valuation model that estimates the expected harvest yield per crop and applies this to the estimated fair value less costs to sell per gram of dried cannabis flower. Significant unobservable inputs were used by management as part of this model:

- Selling price – calculated based on weighted average selling prices of cannabis of comparable companies in the industry as well as prices paid for bulk cannabis that was acquired from arms-length licensed producers for use in the extraction and tolling operations;
- Yield per plant – represents the expected number of dried cannabis flower which is expected to be obtained from each harvested cannabis plant; and
- Survival rate – represents the percentage of plants that start in the vegetative room that will eventually be harvested.

The following table quantifies each significant unobservable input, and also provides the impact of the percentage increase/decrease as noted in each input independently would have on the fair value of biological assets as at October 31, 2023 and July 31, 2023.

	October 31, 2023 and July 31, 2023	
Selling price (Dry Flowers)	\$3.15 p/gram	\$3,500
Yield per plant	42 grams	\$3,500
Survival rate	95.0%	\$5,300

**10. Inventory**

	October 31, 2023	July 31, 2023
Bulk material and retail	\$ 352,614	\$ 310,688
Harvested cannabis	391,038	224,018
Extraction	5,043,239	5,217,168
	\$ 5,786,891	\$ 5,751,874

**CANADABIS CAPITAL INC.**
**NOTES TO THE UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

For the Three Months Ended October 31, 2023 and 2022

Canadian dollars

**11. Property, Plant and Equipment**

	Land	Building and improvements (i)	Plant and equipment (ii)	Office equipment	Computer hardware	Automobiles	Total
<b>Cost</b>							
Balance, July 31, 2022	\$ 2,425,000	\$ 6,799,493	\$ 1,308,371	\$ 86,169	\$ 32,267	\$ 103,556	\$ 10,754,856
Additions (iii)	-	624,399	1,426,393	68,363	15,332	87,153	2,221,640
Disposals	-	-	(8,385)	-	-	(20,917)	(29,302)
Balance, July 31, 2023	2,425,000	7,423,892	2,726,379	154,532	47,599	169,792	12,947,194
Additions	-	37,716	31,736	2,989	-	-	72,441
Balance, October 31, 2023	\$ 2,425,000	\$ 7,461,608	\$ 2,758,115	\$ 157,521	\$ 47,599	\$ 169,792	\$ 13,019,635
<b>Accumulated depreciation</b>							
Balance, July 31, 2022	\$ -	\$ 768,752	\$ 387,502	\$ 49,384	\$ 21,647	\$ 21,400	\$ 1,248,685
Depreciation	-	273,630	325,780	24,969	13,942	29,749	668,070
Disposals	-	-	(1,446)	-	-	(10,354)	(11,800)
Balance, July 31, 2023	-	1,042,382	711,836	74,353	35,589	40,795	1,904,955
Depreciation (v)	-	64,771	140,876	12,329	2,045	8,466	228,487
Balance, July 31, 2023	\$ -	\$ 1,107,153	\$ 852,712	\$ 86,682	\$ 37,634	\$ 49,261	\$ 2,133,442

**Net book value**

<b>October 31, 2023</b>	<b>\$ 2,425,000</b>	<b>\$ 6,354,455</b>	<b>\$ 1,905,403</b>	<b>\$ 70,839</b>	<b>\$ 9,965</b>	<b>\$ 120,531</b>	<b>\$ 10,886,193</b>
July 31, 2023	\$ 2,425,000	\$ 6,381,510	\$ 2,014,543	\$ 80,179	\$ 12,010	\$ 128,997	\$ 11,042,239

(i) Included in property, plant and equipment is \$940,560 (July 31, 2023 - \$937,844) of building improvements and equipment that is not subject to amortization as it is currently under construction.

(ii) On January 31, 2021, 1998643 Alberta Ltd. entered into a lease arrangement with a company that is owned by two directors and a significant shareholder of CanadaBis to lease an extraction machine over a 72-month term for a monthly payment of \$11,991 plus applicable taxes and residual value of \$1, with first payment due April 30, 2021. Considering the related party nature of this transaction and outside of the normal course of business, the rate implicit to the arrangement approved by the Board of Directors was 11.0% and the original vendor cost of the asset was supported by an arm's length transaction between the lender and the vendor. For accounting purposes, the incremental borrowing rate for the Company (lessee) was assessed as 12.0% supported by an independent financing quote but due to financing constraints the Company entered into this lease arrangement with a related party. As at January 31, 2021, a right-of-use asset of \$629,240 was recognized and a corresponding lease obligation (Note 13). The right-of use asset is depreciated over the lease term on a straight-line basis, which is shorter than the asset's useful life. During the three months ended October 31, 2023 and 2022, the aggregate lease payments for the extraction machine was \$35,974 for both periods.

(iii) During the year ended July 31, 2023, certain plant and equipment and vehicle additions were financed by entering into a lease (Note 12(i) and (ii)) and long-term debt (Note 13(iv)).

(iv) This represents the aggregate depreciation charge for the three months ended October 31, 2023 that is prior to the capitalization of \$8,554 to Biological Assets (Note 9) and reclassification of \$81,561 from the "Depreciation and amortization" financial statement line item to Cost of sales - extract (Note 6) for presentation purposes.

**12. Lease obligations**
**Right-of-use assets**

The cost and accumulated depreciation related to the right-of-use assets have been included in property, plant and equipment (see Note 11). The changes in the net book value for the Company's right-of-use assets during the three months ended October 31, 2023 and the year ended July 31, 2023 were as follows:

	Plant and equipment	Vehicle	Total
<b>Cost</b>			
Balance, July 31, 2022	\$ 629,240	\$ 82,639	\$ 711,879
Additions (Note 11(iii))	1,159,516	-	1,159,516
Balance, July 31, 2023 and October 31, 2023	\$ 1,788,756	\$ 82,639	\$ 1,871,395
<b>Accumulated depreciation</b>			
Balance, July 31, 2022	\$ 137,047	\$ 20,224	\$ 157,271
Depreciation	195,538	16,755	212,293
Balance, July 31, 2023	332,585	36,979	369,564
Depreciation	106,443	4,165	110,608
Balance, October 31, 2023	\$ 439,028	\$ 41,144	\$ 480,172
<b>Net book value</b>			
<b>Balance, October 31, 2023</b>	<b>\$ 1,349,728</b>	<b>\$ 41,495</b>	<b>\$ 1,391,223</b>
Balance, July 31, 2023	\$ 1,456,171	\$ 45,660	\$ 1,501,831

**Lease liabilities**

	October 31, 2023	July 31, 2023
Balance, beginning of the year	\$ 1,334,356	\$ 589,607
Plant and equipment (Note 12(i) and (ii))	-	1,159,516
Lease payments	(123,423)	(503,027)
Interest expense	44,668	88,260
Balance, end of the year	1,255,601	1,334,356
Less current portion	(379,993)	(383,298)
	\$ 875,608	\$ 951,058

**CANADABIS CAPITAL INC.**

**NOTES TO THE UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

For the Three Months Ended October 31, 2023 and 2022

Canadian dollars)

**12. Lease obligations (Continued)**

- (i) The Company entered into a lease arrangement with a company to lease a pre-roll machine over a 36-month term for a monthly payment of \$9,826 plus applicable taxes and a residual value of \$1. A one-time payment of \$95,664 was made and monthly payments commenced on November 1, 2022 for an aggregate payment of \$184,095 during the year ended July 31, 2023. The rate implicit to the lease was 15.0%. As at November 1, 2022, a right-of-use asset of \$386,296 was recognized and a corresponding lease obligation. The right-of-use asset is depreciated over the lease term on a straight-line basis, which is shorter than the asset's useful life.
- (ii) During March 2023, the Company entered into a lease arrangement with a company to lease a pre-roll machine over a 48-month term for a monthly payment of \$16,881 plus applicable taxes. A one-time payment of \$189,326 inclusive of tax was made and an amount of \$172,445 is included in lease payments for the year ended July 31, 2023. On July 31, 2023, the lease commenced as the machine was fully commissioned and made available for use by the lessor to the Company (lessee). A right-of-use asset and corresponding lease obligation of \$773,220 was recognized for this equipment lease upon commencement of the lease. Monthly lease payments commenced on August 1, 2023. This right-of-use asset is depreciated over the lease term on a straight-line basis, which is the shorter than the asset's useful life.

**Amounts recognized in profit and loss**

	Three months ended	
	October 31, 2023	October 31, 2022
Lease expense on short-term lease	\$ 6,084	\$ 2,870
Interest expense on lease liabilities	44,668	15,953
Amounts expensed in profit and loss	\$ 50,752	\$ 18,823

**Lease payments**

The required undiscounted cash flows of lease payments of the lease liability as at October 31, 2023, are as follows:

	2024
Less than 1 year	\$ 491,221
1-5 years	1,037,941
More than 5 years	-
	\$ 1,529,162

**13. Long-term debt**

	Commercial				Total
	CEBA loan (i)	RRRF Loan (ii)	Mortgage Loan (iii)	Vehicle Loan (iv)	
Balance, July 31, 2022	\$ 120,000	\$ 354,083	\$ 6,284,574	\$ -	\$ 6,758,657
Additional funding	-	-	-	81,604	81,604
Repayment of principal	-	(76,510)	(827,279)	(5,697)	(909,486)
Accretion	-	18,736	25,437	-	44,173
Balance, July 31, 2023	120,000	296,309	5,482,732	75,907	5,974,948
Less current portion	-	(131,160)	(864,070)	(14,419)	(1,009,649)
	\$ 120,000	\$ 165,149	\$ 4,618,662	\$ 61,488	\$ 4,965,299

	Commercial				Total
	CEBA loan (i)	RRRF Loan (ii)	Mortgage Loan (iii)	Vehicle Loan (iv)	
Balance, July 31, 2023	\$ 120,000	\$ 296,309	\$ 5,482,732	\$ 75,907	\$ 5,974,948
Repayment of principal	-	(32,790)	(212,005)	(3,504)	(248,299)
Accretion	-	3,906	6,426	-	10,332
Balance, October 31, 2023	120,000	267,425	5,277,153	72,403	5,736,981
Less current portion	-	(131,160)	(873,501)	(14,690)	(1,019,351)
	\$ 120,000	\$ 136,265	\$ 4,403,652	\$ 57,713	\$ 4,717,630

- (i) On April 9, 2020, the Government of Canada announced the Canada Emergency Business Account ("CEBA") loan program to small Canadian businesses to assist these businesses with working capital requirement during the COVID-19 pandemic. The maximum amount available under the program is \$40,000, of which \$10,000 is forgiven if the loan is repaid prior to December 31, 2022. The Company, through its two wholly owned subsidiaries, have applied for and received \$80,000 under the CEBA loan program. During the year ended July 31, 2021, additional funding of \$20,000 was secured by each of these entities with same repayment terms as initial funding received. The loan is non-interest bearing until December 31, 2022. An annual interest rate of 5% accrues from January 1, 2023 until December 31, 2025, the maturity date. Subsequent to July 31, 2022, the Government of Canada extended the repayment deadline for partial loan forgiveness from December 31, 2022 to December 31, 2023. Thereby, the interest-free period was extended by one year, effectively a two-year terms to repay the outstanding balance on or prior to December 31, 2025. If these CEBA loans remain outstanding on January 1, 2024, interest at a rate of 5% per annum will then commence on the balance outstanding.
- (ii) On February 23, 2021, the Company through one of its wholly-owned subsidiaries secured funding of \$393,428 under the Regional Relief and Recovery Fund ("RRRF"), an economic relief program under Canada's overall COVID-19 Economic Response Plan to fund ongoing non-capital operations. Repayment of this loan commenced on February 1, 2023 with 35 consecutive monthly installments of \$10,930 and one final payment of \$10,878 due on December 31, 2025. Interest is charged at an average bank rate plus 3% from commencement of repayment to December 31, 2025. Considering the interest free period and that received funding at an interest rate below market, the funding was deemed a government grant resulting in a deferred income liability recognized representing the benefit received. As at October 31, 2023, the deferred income liability outstanding was \$16,705 net of \$3,906 recognized during the three months ended October 31, 2023 as other income representing recognition of this benefit over the term of the funding agreement. An annual effective interest rate of 5.45% was considered reflective of a market rate available at a financial institution under similar terms of repayment. Therefore, resulting in a net impact of \$Nil to net income for the three months ended October 31, 2023. A corresponding accretion expense of \$4,846 was recognized to accrete the loan outstanding during the corresponding period presented. Therefore, resulting in a net impact of \$Nil to net income for the three months ended October 31, 2023 and 2022.

# CANADABIS CAPITAL INC.

## NOTES TO THE UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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### 13. Long-term debt (Continued)

(iii) On June 3, 2021, the Company announced that a binding commitment letter was signed on May 24, 2021 with Connect First Credit Union (the "Credit Union") for a new credit facility of \$9.6 million to be comprised of a 5-year term, \$8,850,000 commercial mortgage loan bearing interest at a fixed rate of 4.35% per annum (calculated daily and payable monthly in arrears) (the "Commercial Mortgage Loan") and a \$750,000 on demand line of credit bearing interest at a rate of the lender's prime lending rate plus 1.00% per annum (calculated daily and payable monthly in arrears) (collectively, the "New Credit Facility"). On July 23, 2021, the first tranche of \$7,210,000 was released upon meeting customary closing conditions and was used to settle the existing long-term debt (vendor takeback mortgage and demand mortgage). Aggregate financing costs associated with the New Credit Facility incurred was \$225,000 that was allocated against the Commercial Mortgage Loan. The costs associated with the loan form part of the amortized costs of the loan used to determine the effective interest rate of 3.63%. The monthly payable of principal and accrued interest of the Commercial Mortgage Loan is \$91,081. The second tranche of \$1,640,000 shall be available to be advanced upon completion and delivery of the Company's July 31, 2023 year-end audited financial statements, and compliance with externally imposed covenants. Upon receipt of the second tranche, this funding will be used to settle the related party debt (Note 19). As of date of approval of these Financial Statements, the receipt of these funds remains outstanding. As at October 31, 2023, the demand line of credit was not drawn down.

The New Credit Facility is secured through the First Coverage Demand Collateral Mortgages over the properties held by 1998643 Alberta Ltd. and 2103157 Alberta Ltd. in the amounts of \$8,850,000 and \$750,000, respectively. Also, first charge security interest over all present and acquired personal property, unlimited guarantees and postponement of claims by Goldstream Cannabis Inc. and 1926360 Alberta Ltd., and the assignment and postponement of all related party debt to the amount of \$1,640,000 is in place.

The commitment letter requires that the Company maintains the following debt covenants as defined: 1) a debt service coverage ratio not less than 1.40:1 to be tested annually; 2) a debt-to-equity ratio not greater than 1.00:1.00 to be tested annually; and 3) a current ratio not less than 1.25:1.00 to be tested monthly. As at October 31, 2023, the Company was in compliance with all these debt covenants as the debt service coverage ratio was 3.69:1, the debt-to-equity ratio factoring in an appraisal surplus as included in the defined term of the commitment letter was 0.69:1 and the current ratio was 1.48:1.

(iv) Effective February 16, 2023, the Company entered into a loan agreement to finance the purchase of a vehicle for an amount of \$81,603, net of a cash down payment of \$10,000. The loan is repayable over a 60-month term at \$1,635 per month bearing an interest rate of 7.49% per annum. Repayment commenced on March 18, 2023.

### 14. Non-controlling interests

The changes in non-controlling interests are as follows for the periods presented:

Balance, July 31, 2022	\$	93,186
Share of net loss for the year		-
Balance, July 31, 2023		93,186
Share of net loss for the period then ended		-
Balance, October 31, 2023	\$	93,186

On August 13, 2019, the Company acquired 95% of the outstanding shares of Goldstream Cannabis Inc. ("Goldstream") for \$3,500,000 payable in 11,666,666 common voting shares of CanadaBis, at a price of \$0.30 per common voting share. At October 31, 2023, the Company held a 95% ownership interest (July 31, 2023 – 95%) in Goldstream, located in British Columbia, Canada. The following table represents the summarized information for Goldstream before intercompany eliminations.

	October 31, 2023	July 31, 2023
Current assets	\$ 4,284	\$ 4,284
Non-current assets	1,972,460	1,972,460
Current liabilities	111,384	111,384
Non-current liabilities	-	-
Net revenues for the three month periods ended October 31, 2023 and 2022	-	-
Net income for the three months periods ended October 31, 2023 and 2022	\$ -	\$ -

### 15. Share capital

#### (a) Authorized

The Company is authorized to issue an unlimited number of voting common, non-voting common and preferred shares.

#### (b) Issued and outstanding

	Number of shares	Amount
Balance, July 31, 2022	137,136,380	\$ 16,145,534
Proceeds from shares issued upon exercise of options Note 15(b)(ii)	1,075,000	215,000
Reclassification of contributed surplus to share capital upon exercise of options (Note 15(b)(ii))	-	370,332
Balance, July 31, 2023	138,211,380	16,730,866
Proceeds from shares issued upon exercise of options Note 15(b)(iii)	25,000	5,000
Reclassification of contributed surplus to share capital upon exercise of options (Note 15(b)(iii))	-	3,009
Balance, October 31, 2023	138,236,380	16,738,875

(i) On November 5, 2021, the Company announced that it is proceeding with the previously announced amended private placement (the "Amended Private Placement") and withdrew its previously announced short-form prospectus offering of units. The Amended Private Placement of 11,538,462 units (the "Units") of the Corporation at a price of \$0.13 per unit for gross proceeds of \$1,500,000 (collectively, the "Amended Private Placement"). Each Unit shall be comprised of one (1) common share of the Company ("Common Share") and one (1) common share purchase warrant ("Warrant"). Each Warrant will entitle the holder thereof to purchase one (1) Common Share ("Warrant Share") at an exercise price of \$0.25 per Warrant Share for three years from the date of issuance of such Warrants. The Common Shares and Warrants comprising the Units are subject to a hold period of four months and one day.

On December 1, 2021, the Company closed the first tranche of its previously announced non-brokered private placement consisting of 1,153,846 Units at a price of \$0.13 per Unit to raise gross proceeds of \$150,000. Each unit consisted of one common share and one common share warrant. Each Warrant entitles the holder to purchase one additional share at a price of \$0.25 per share for a period of three years following closing or until December 1, 2024 (Note 17(b)). As at the date of approval of these Financial Statements, the second tranche of the Amended Private Placement has not closed.

(ii) On June 5, 2023, an ex-director of the Company exercised 400,000 options at an exercise price of \$0.20 per option for gross cash proceeds of \$80,000 and a reclassification of \$187,942 from contributed surplus to share capital. On July 17, 2023, an ex-director of the Company exercised 650,000 options at an exercise price of \$0.20 per share for gross cash proceeds of \$130,000 and a reclassification of \$179,380 from contributed surplus to share capital. On July 20, 2023, an employee of the Company exercised 25,000 options at an exercise price of \$0.20 per share for gross cash proceeds of \$5,000 and a reclassification of \$3,009 from contributed surplus to share capital. The reclassification of contributed surplus to share capital represents the previously recognized share-based payments recognized based on the fair value at the date of grant determined using Black-Scholes model.

(iii) On August 11, 2023, an employee of the Company exercised 25,000 options at an exercise price of \$20 per share for gross cash proceeds of \$5,000 and a reclassification of \$3,009 from contributed surplus to share capital.

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**16. Share-based payments**

(a) Option plan details

The Company has established a stock option program for its officers, directors, employees, and certain consultants under which the Company may grant options to acquire common voting shares at the market price of the shares, at the grant date. With the exception of \$0.10 options, which vest immediately, all options granted before April 30, 2020 under the stock option plan have a five-year term and vest over 3 years. For options issued subsequent to April 30, 2020, one-half vest immediately while remaining one-half vest on the first anniversary, unless otherwise stated.

(b) The following is a summary of changes in options from July 31, 2022 to October 31, 2023:

	Number of options	Weighted average exercise price
Outstanding, July 31, 2022	7,055,000	\$ 0.22
Granted	1,100,000	\$ 0.24
Exercised (Note 15(ii))	(1,075,000)	\$ 0.20
Outstanding, July 31, 2023	7,080,000	\$ 0.23
Exercised (Note 15(iii))	(25,000)	\$ 0.20
Cancelled and forfeited	(400,000)	\$ 0.20
Outstanding, October 31, 2023	6,655,000	\$ 0.23
Options exercisable as at October 31, 2023	5,655,000	\$ 0.22

The following table summarizes information about the stock options as at October 31, 2023:

Range of exercise prices	Options Outstanding			Options Exercisable		
	Number outstanding	Weighted average remaining life	Weighted average exercise price	Number exercisable	Weighted average exercise price	
\$0.20	5,160,000	1.74	\$ 0.20	5,160,000	\$	0.20
\$0.24	1,000,000	4.63	\$ 0.24	-	\$	0.24
\$0.29	45,000	1.11	\$ 0.29	45,000	\$	0.29
\$0.50	450,000	0.50	\$ 0.50	450,000	\$	0.50
	6,655,000	2.09	\$ 0.23	5,655,000	\$	0.22

(b) The following table summarizes information about the stock options as at July 31, 2023:

Range of exercise prices	Options Outstanding			Options Exercisable		
	Number outstanding	Weighted average remaining life	Weighted average exercise price	Number exercisable	Weighted average exercise price	
\$0.20	5,585,000	2.03	\$ 0.20	5,585,000	\$	0.20
\$0.24	1,000,000	4.88	\$ 0.24	-	\$	0.24
\$0.29	45,000	1.36	\$ 0.29	45,000	\$	0.29
\$0.50	450,000	0.75	\$ 0.50	450,000	\$	0.50
	7,080,000	2.34	\$ 0.23	6,080,000	\$	0.22

(c) Fair value of options issued during the years ended

The follow table summarizes the assumptions used in the Black-Scholes option-pricing model for purposes of determining the fair value of the options granted during the three months ended October 31, 2023 and for the year ended July 31, 2023:

	October 31, 2023	June 16, 2023	August 5, 2022
Dividend yield	-	0.00%	0.00%
Expected volatility	-	93.65%	97.05%
Risk-free interest rate	-	3.65%	3.12%
Forfeiture rate	-	2.00%	2.00%
Expected life (years)	-	5.00	2.91
Weighted average fair value of options	\$ -	\$ 0.18	\$ 0.12

(c) On August 5, 2022, the Company granted 100,000 options to an employee that vested immediately. On June 16, 2023, the Company granted 1,000 000 options with an exercise price of \$0.24 per share and a 5-year term to two directors and senior member of management. One-half of the options granted vested six months from date of grant and the remaining one-half vest on first year anniversary from the date of grant. During the year ended July 31, 2023, no options expired and 1,075,000 options were exercised (See Note 15(b)(ii)). During the three months period ended October 31, 2023, 400,000 options were cancelled and forfeited and 25,000 options were exercised, as disclosed in Note 15(b)(iii). During the three months period ended October 31, 2023, no options were granted and expired.

**17. Warrants**

From time to time, the Company may issue warrants in connection with a financing as an incentive to participate in such offerings.

(a) During the year ended July 31, 2020, the original expiry of the following common share purchase warrants was extended for additional 24 months with reduction of the exercise price from \$1.00 per common share purchase warrant to \$0.50 per common share purchase warrant.

On November 9, 2018, the Company completed non-brokered private placements of 5,222,286 units, each unit comprising of one common voting share and one-half common voting share purchase warrant. Each whole warrant entitles its holder to acquire one common voting share for \$1.00 per common voting share for a period of 12 months from the closing date. In accordance with the Company's accounting policy, the full value of the unit proceeds was allocated to common shares. These warrants expired on November 9, 2021 unexercised.

On February 11, 2019, the Company completed a non-brokered private placement, to members of the management team, of 554,000 units, each unit comprising of one common voting share and one-half common voting share purchase warrant. Each whole warrant entitles its holder to acquire one common voting share for \$1.00 per common voting share for a period of 12 months from the closing date. In accordance with the Company's accounting policy, the full value of the unit proceeds was allocated to common shares. These warrants expired on February 11, 2022 unexercised.

On April 24, 2019, the Company issued 2,000,000 units, each unit comprising of one common voting share and one-half common voting share purchase warrant. Each whole warrant entitles its holder to acquire one common voting share for \$1.00 per common voting share for a period of 12 months from the closing date. In accordance with the Company's accounting policy, the full value of the unit proceeds was allocated to common shares. These warrants expired on April 24, 2022 unexercised.

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**17. Warrants (Continued)**

- (b) On December 1, 2021, the Company closed the first tranche of its previously announced non-brokered private placement consisting of 1,153,846 Units at a price of \$0.13 per Unit to raise gross proceeds of \$150,000. Each unit consisted of one common share and one common share warrant. Each Warrant entitles the holder to purchase one additional share at a price of \$0.25 per share for a period of three years following closing or until December 1, 2024, the expiry date. In accordance with the Company's accounting policy, the full value of the unit proceeds was allocated to common shares.

- (c) The following warrants are outstanding as at the following dates:

	Number of warrants	Weighted average exercise price
Outstanding, July 31, 2022	3,888,143	\$ 0.50
Expired (Note 17(a))	(3,888,143)	\$ 0.50
Issued (Note 17(b))	1,153,846	\$ 0.25
Outstanding, July 31, 2023 and October 31, 2023	1,153,846	\$ 0.25
Exercisable, July 31, 2023 and October 31, 2023	-	\$ 0.25

The following table summarizes information about the Company's outstanding warrants as at October 31, 2023:

Issuance date	Expiry date	Warrants outstanding			Warrants exercisable	
		Number outstanding	Weighted average remaining life	Weighted average exercise price	Number exercisable	Weighted average exercise price
December 1, 2021	December 1, 2024	1,153,846	1.09	\$ 0.25	-	\$ 0.25

**18. Income taxes**

The total income taxes for the three months ended October 31, 2023 and 2022, consists of current income taxes of \$29,750 and \$Nil, respectively.

**19. Related party transactions**

- (a) The following is a summary of the Company's related party balances:

Amount due from related party	October 31, 2023	July 31, 2023
890859 Alberta Ltd.	\$ 14,090	\$ 14,090

890859 Alberta Ltd. is a company owned by a shareholder and officer of the Company. 890859 Alberta Ltd. that sold non-cannabis balms and creams produced by the Company used to sublease space from the Company's retail location for rental income. No rental income was earned as this space was not subleased for the three months ended October 31, 2023 and 2022.

Amount due to related parties	October 31, 2023	July 31, 2023
SS Pipelines Ltd. (i)	\$ 689,745	\$ 689,745
Runaway Developments Ltd. (ii)	653,791	653,791
Director and shareholders (iii)	100,704	159,419
	\$ 1,444,240	\$ 1,502,955

(i) SS Pipelines Ltd. is a company owned by shareholders, a director and officer of the Company. The amounts due to related parties are non-interest bearing, unsecured and have no fixed terms of repayment. Accordingly, the amounts have been presented as being all current on the consolidated statements of financial position.

(ii) Runaway Developments Ltd. is a company owned by a shareholder of the Company. The amounts due to Runaway Developments Ltd. bears interest at 7% per annum and matured on September 30, 2020. Subsequent to July 31, 2020 year-end, the maturity was extended to December 31, 2021. Subsequent to July 31, 2021, additional funds of \$277,193 advanced for operational purposes during the year were repaid in the year ended July 31, 2022. As at October 31, 2023 and July 31, 2023, the outstanding balances included accrued interest of \$3,791.

(iii) As at October 31, 2023, an aggregate amount of \$100,704 (July 31, 2023 - \$159,419) was due to a Director and shareholders of the Company. These amounts are due on demand, unsecured and interest free. Majority of this amount outstanding pertained to the vape filling machine rental fee, of which approximately \$30,000 was repaid subsequent to October 31, 2023. During the year ended July 31, 2023, the Company entered into separate agreements to rent for a twelve-month period a vape filling machine from a director and shareholder of the Company. During the three months ended October 31, 2023 and 2022, aggregate equipment rental expenses of \$19,696 and \$77,359, respectively were incurred representing a rental fee of \$1 per vape filled.

- (b) The Company is leasing an extraction machine from a company that is owned by three directors of CanadaBis. See Notes 11(ii) and 12 for further details. On June 27, 2022, the Board of Directors approved a consulting agreement with a director to provide certain legal, corporate and administration consulting services for a period from May 1, 2022 and an end date of April 30, 2023. The terms and conditions of this consulting agreement is within normal course of business and payable immediately. The renewal of this contract effective May 1, 2023 was approved by the Board on October 5, 2023 under the same terms and conditions. Amounts outstanding in accordance with this agreement is included in trade accounts payable.

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**20. Financial instruments and risk management**

(a) Fair value

The carrying values of cash and cash equivalents, demand line of credit, trade accounts payable and accrued liabilities, due to related parties, current portion of lease liabilities and current portion of long-term debt approximate their fair values due to the short-term nature of these financial instruments.

The carrying amounts and fair values of the Company's remaining financial assets and liabilities are as follows:

	October 31, 2023		July 31, 2023	
	Carrying amount	Fair value	Carrying amount	Fair value
<b>Financial assets</b>				
Fair value through profit and loss				
Cash and cash equivalents	\$ 3,726,428	\$ 3,726,428	\$3,225,190	\$3,225,190
Loans and receivables				
Trade accounts receivables and other receivables	2,515,802	2,515,802	1,995,536	1,995,536
Due from related party	14,090	14,090	14,090	14,090
<b>Financial liabilities</b>				
Other financial liabilities				
Trade accounts payable and accrued liabilities	6,830,040	6,830,040	6,434,198	6,434,198
Due to related parties	1,444,240	1,444,240	1,502,955	1,502,955
Long-term debt	5,736,981	5,736,981	5,974,948	5,974,948
Deferred income liability	16,705	16,705	20,611	20,611
Lease liability	1,255,601	1,255,601	1,334,356	1,334,356

Fair value hierarchy

The financial instruments of the Company that are recorded at fair value have been classified into levels using the fair value hierarchy based on the degree to which the fair value is observable:

- Level 1: Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions occur in sufficient frequency and volume to provide pricing information on an ongoing basis.
- Level 2: Pricing inputs are other than quoted prices in active markets included in Level 1. Prices in Level 2 are either directly or indirectly observable as of the reporting date. Level 2 valuations are based on inputs, including quoted forward prices for commodities, time value and volatility factors, which can be substantially observed or corroborated in the marketplace.
- Level 3: Valuations in this level are those with inputs for the asset or liability that are not based on observable market data.

(b) Risk management

The Company's activities expose it to a variety of financial risks that arise as a result of its development, production and financing activities. CanadaBis has exposure to credit, liquidity and interest risk. CanadaBis' risk management policies are established to:

- Identify and analyze the risks faced by the Company;
- Set appropriate limits and controls; and
- To monitor risks and adherence to market conditions and the Company's activities.

This narrative presents information about the Company's risk exposure, the Company's objectives, policies and processes for measuring and managing risk and the Company's management of capital.

*Liquidity risk*

Liquidity risk is the risk that the Company will not be able to meet financial obligations at the point at which they are due. The Company's operating cash requirements are continuously monitored by management. As factors impacting cash requirements change, liquidity risks may necessitate the need for the Company to raise capital by issuing equity or obtaining debt financing.

The following table sets out the contractual maturities (representing undiscounted contractual cash flows) of financial liabilities:

	<1 Year	1-2 Years	3-5 Years	> 5 years
Accounts payable and accrued liabilities	\$ 6,830,040	\$ -	\$ -	\$ -
Due to related parties	1,444,240	-	-	-
Lease obligations	491,221	824,100	213,841	-
Long-term debt	1,019,351	2,181,798	2,728,792	-
Deferred income liability	-	16,705	-	-
	\$ 9,784,852	\$ 3,022,603	\$ 2,942,633	\$ -

*Credit risk*

Credit risk is the risk of loss associated with the counterparty's inability to fulfill its payment obligations. Financial instruments that would potentially subject the Company to concentrations of credit risks consist principally of cash and accounts receivable. All of the Company's cash was held at three financial institutions as at October 31, 2023, all of which are Canadian Chartered Banks.

*Trade accounts receivable and other receivables*

- (i) For trade accounts receivable, the Company does not hold any collateral as security but mitigates this risk by dealing only with what management believes to be financially sound counterparties. As at October 31, 2023, approximately 98.9% of the trade accounts receivable balances were with four parties. The Company has a credit concentration risk as it deals with counterparties that are in the licensed cannabis industry. The Company's expected credit loss allowance is determined based on 1% of not past due amounts, 5% for 1-30 days, 10% for 31- 60 days, 25% up to 90 days and 50% up to 90 days.

The Company's aging of trade receivables was as follows:

	October 31, 2023	July 31, 2023
Trade accounts receivable		
Not past due	\$ 2,458,972	\$ 1,755,814
1-30 days	55,067	77,913
31-90 days	296	(922)
90+ days	(979)	526,820
Total gross carrying amount	2,513,356	2,359,625
Loss allowance	(27,679)	(548,274)
Total carrying amount	\$ 2,485,677	\$ 1,811,351

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**20. Financial instruments and risk management (Continued)**

## (b) Risk management (Continued)

*Credit risk (Continued)*

## (i) Reconciliation of the loss allowance

The following table shows a reconciliation of the opening to the closing balance of the loss allowance by the class of financial instrument. All classes of financial instruments shown are assessed for impairment in the current year using the simplified approach permitted under IFRS 9, whereby the loss allowance is always measured at an amount equal to lifetime expected credit losses.

	October 31, 2023	July 31, 2023
Loss allowance		
Balance, beginning of the period	\$ 548,274	\$ 584,142
Increase (decrease) in loss allowance for the period	6,225	(20,860)
Written off during the period	(526,820)	(15,008)
Balance, end of the period	\$ 27,679	\$ 548,274

## (ii) The trade accounts receivable and other receivables include the following categories:

	October 31, 2023	July 31, 2023
Trades receivables, net (Note 20(i))	\$ 2,485,677	\$ 1,811,351
Insurance receivable (Note 20(iii))	-	139,185
Other receivable	30,125	45,000
	\$ 2,515,802	\$ 1,995,536

## (iii) As at July 31, 2023, the remaining balance of the trade accounts receivables and other receivables relates to an amount of \$139,185 to be received from a third-party shipping company for reimbursement of the Company for loss of revenue due to theft of inventory in-transit during the quarter ended April 30, 2023. During the year ended July 31, 2023, the other income (expenses) for this period presented included a net amount of \$311,787 that represents the insurance proceeds of \$439,185 offset by \$127,398, the cost of inventory stolen. During the three months ended July 31, 2023, the Company received \$300,000 with the remaining approved balance of \$139,185 that was received subsequent to July 31, 2023.

*Interest rate risk*

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate as a result of changes in market interest rates. The Company is exposed to interest rate risk through its long-term debt (Note 13). A 1% increase to the interest rate would have an approximate impact of \$13,193 on pre-tax earnings for the three months ended October 31, 2023.

**21. Capital management**

The Company's capital management objectives are:

- To safeguard the Company's ability to continue as going concern;
- To meet its capital expenditures for its continued operations;
- To maintain a flexible capital structure which optimizes the cost of capital within a framework of acceptable risk.

In the management of capital, the Company includes share capital and net debt (defined as current assets and amounts due from related parties less current liabilities and any long-term debt). At October 31, 2023, the Company had net debt of \$3,043,975 (July 31, 2023 - \$3,973,583).

The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust its capital structure, the Company may issue new shares, issue new debt, or acquire or dispose of assets.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable.

**22. Per share amounts**

	Three months ended	
	October 31, 2023	October 31, 2022
Weighted average number of common shares		
Basic	138,258,391	137,136,380
Diluted -in -the-money warrants and share options	139,570,462	137,136,380

**23. Financing costs**

	Three months ended	
	October 31, 2023	October 31, 2022
Interest on long-term debt	\$ 78,692	\$ 81,718
Interest on lease liabilities	44,668	15,953
Accretion expense	10,332	11,249
	\$ 133,692	\$ 108,920

**24. Changes in non-cash working capital**

	Three months ended	
	October 31, 2023	October 31, 2022
<i>Operating activities</i>		
Trade accounts receivable and other receivables	\$ (520,266)	\$ 365,629
Inventory	(2,430)	331,091
Prepaid expenses	(175,091)	(262,769)
Trade accounts payable and accrued liabilities	392,052	756,941
Goods and services tax payable	238,837	59,058
	\$ (66,898)	\$ 1,249,950

**CANADABIS CAPITAL INC.**
**NOTES TO THE UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**
**For the Three Months Ended October 31, 2023 and 2022**
*Canadian dollars*
**25. Segmented information**

For management purposes, the Company is organized into operating segments based on its products, services, locations and distribution methods. Four operating segments have been identified. These segments have been aggregated into three reportable segments: wholesale, retail and extract. The wholesale segment, which cultivates and distributes cannabis and cannabis products to and through, provincial liquor and cannabis boards which is subsequently sold onto end consumers. Retail segment involves sale of cannabis and cannabis related products to end consumers on premise owned and operated by the Company. Extract segment provides cannabinoid extraction services for the Company and also, to other licensed producers. Prior to August 1, 2022, this segment was referred to "Extraction and Tolling". Gross revenue earned includes excise taxes, which the Company pays as principal, but excludes duties and taxes collected on behalf of third parties. Net revenue is gross revenue less excise taxes. Excise taxes are effectively a production tax which becomes payable when the product is removed from the Company's premises and may or may not be directly related to the revenue depending on the province of sale. It is generally not included as a separate item on external invoices; increases in excise tax are not always passed on to the customer and where a customer fails to pay for product received the Company cannot reclaim the excise tax. The Company therefore recognizes excise tax, unless it regards itself as an agent of the regulatory authorities, as a cost and reduction to revenue for the Company. Therefore, excise duty as reduction to revenue is treated as production tax and presented as a reduction of gross revenue generated from the "Cultivation and wholesale", and "Extract" segments. Under the Excise Tax Act, the Company is required to maintain a security deposit of \$757,919 that is due on March 9, 2024.

Management monitors the results of its operating segments separately for making decisions about resource allocation and performance assessment. Segment performance is evaluated on a number of measures, the most significant being profit and loss, which is measured consistently with the definition of profit and loss in the Consolidated Financial Statements. Transfer prices between operating segments are on an arm's length basis in a manner similar to transactions with third parties. For segment information presentation purposes, the change to fair value on biological assets and realized fair value on finished goods sold (See Note 6) are usually included in "Extract" segment as to date the Company used its own harvested cultivations substantially in the extraction process.

Operating assets and liabilities are managed on a corporate basis. General and administrative expenses, current taxes, deferred taxes and capital expenditures are not allocated to segments as they are also managed on a corporate basis. Inter-segment revenues are eliminated on consolidation and are reflected in the "eliminations" column. All other adjustments and eliminations are part of a detailed reconciliation presented below.

<b>For the three months ended October 31, 2023</b>	<b>Cultivation and wholesale</b>		<b>Retail</b>	<b>Extract</b>		<b>Eliminations</b>	<b>Consolidated</b>
Gross revenue (external customers)	\$	1,543,176	\$ 134,996	\$	7,326,621	\$ -	\$ 9,004,793
Excise duty		689,434	-		2,571,968	-	3,261,402
Net revenue (external customers)		853,742	134,996		4,754,653	-	5,743,391
Cost of sales		571,254	101,502		2,441,985	-	3,114,741
Gross profit		282,488	33,494		2,312,668	-	2,628,650
General and administrative							1,562,866
Depreciation and amortization							138,373
Share-based payments							65,945
Income from operations							861,466
Financing costs							(133,692)
Other income (expenses)							9,093
Net income before taxes							736,867
Income tax expense - current income tax							29,750
Net income and comprehensive income						\$	707,117

<b>For the three months ended October 31, 2022</b>	<b>Cultivation and wholesale</b>		<b>Retail</b>	<b>Extract</b>		<b>Eliminations</b>	<b>Consolidated</b>
Gross revenue (external customers)	\$	68,240	\$ 125,407	\$	7,618,778	\$ -	\$ 7,812,425
Excise duty		24,861	-		2,639,877	-	2,664,738
Net revenue (external customers)		43,379	125,407		4,978,901	-	5,147,687
Cost of sales		18,581	89,281		2,675,863	-	2,783,725
Gross profit		24,798	36,126		2,303,038	-	2,363,962
General and administrative							1,469,539
Depreciation and amortization							75,683
Share-based payments							15,040
Income from operations							803,700
Financing costs							(108,920)
Other income (expense)							5,533
Net income before taxes							700,313
Income tax expense - current income tax							-
Net income and comprehensive income						\$	700,313

**26. Subsequent event**

An asset purchase agreement dated December 1, 2023 was entered into between 2103157 Alberta Ltd., a wholly-owned subsidiary of the Company (the "Vendor") that operates a retail cannabis store (the "Business"), and a third-party (the "Purchaser") to sell the Vendor's inventory and assumed contracts of its retail operations, as stipulated in this agreement for a purchase price of \$125,000 plus GST, subject to an adjustment to the purchase price due to an additional amount arising from the count of the inventory (the "Asset Purchase Agreement"). The Vendor owns the business premises and the Purchaser agreed to lease this premises from the Vendor to operate the Business. As of the date of the approval of these Financial Statements, all the conditions were not met to close the Asset Purchase Agreement.