

**The Good Shroom Co Inc.
Consolidated Financial Statements
as at July 31, 2022 and 2021**

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Independent Auditor's Report

To the Shareholders of
The Good Shroom Co Inc.

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Opinion

We have audited the consolidated financial statements of The Good Shroom Co Inc. (hereafter "the Company"), which comprise the consolidated statements of financial position as at July 31, 2022 and 2021, and the consolidated statements of comprehensive loss, the consolidated statements of changes in equity and the consolidated statements of cash flows for the years then ended, and notes to consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Company as at July 31, 2022 and 2021, and its financial performance and its 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 "Auditor's responsibilities for the audit of the consolidated financial statements" section of our report. We are independent of the Company 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.

Material uncertainty related to going concern

We draw attention to Note 1 to the consolidated financial statements, which indicates the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Information other than the consolidated financial statements and the auditor's report thereon

Management is responsible for the other information. The other information comprises the information included in Management's Discussion and Analysis.

Our opinion on the consolidated financial statements does not cover the other information and we do 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, or otherwise appears to be materially misstated.

We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's 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 (IFRS), 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 Company'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 Company or to cease operations, or has no realistic alternative but to do so.

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

Auditor's 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 auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these 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 Company'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 Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the 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 auditor's report. However, future events or conditions may cause the Company 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;
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group 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.

We 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.

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

The engagement partner on the audit resulting in this independent auditor's report is Louis Berardi.

Raymond Chabot Grant Thornton LLP¹

Montréal
November 14, 2022

¹ CPA auditor, public accountancy permit no. A115879

The Good Shroom Co Inc.

Consolidated Statements of Comprehensive Loss

For the years ended July 31, 2022 and 2021

(In Canadian dollars)

	Note	2022	2021
		\$	\$
Revenue	5	1,522,134	242,126
Excise taxes		307,008	
Net revenue		1,215,126	242,126
Cost of goods sold		986,488	180,228
Gross margin		228,638	61,898
Selling expenses		269,374	99,744
General and administrative expenses			
Salaries and employee benefits		493,369	454,343
Share-based compensation	15	587,353	579,906
Professional fees		128,507	441,828
Insurance		79,247	20,708
Promotional		25,382	53,333
Marketing and representation		94,941	479,592
Travel		11,941	
Office expenses		8,320	4,214
Reporting issuer costs		35,710	74,283
Subcontractors			
Taxes and permits		11,081	29,912
Loss on foreign exchange		2,790	1,913
Interest and bank fees		4,431	2,101
Depreciation		60,568	57,532
Listing Fees			1,233,438
Other		29,929	8,653
		1,573,569	3,441,756
Operating loss		(1,614,305)	(3,479,602)
Financing expenses	16	14,659	145,666
Changes in fair value of conversion options			224,200
Loss before income taxes		(1,628,964)	(3,849,468)
Current income taxes	17		
Net loss and comprehensive loss		<u>(1,628,964)</u>	<u>(3,849,468)</u>
Basic and diluted earnings per share		<u>(0.034)</u>	<u>(0.098)</u>
Basic and diluted weighted average number of common shares outstanding		<u>48,590,987</u>	<u>39,176,835</u>

The accompanying notes are an integral part of the consolidated financial statements.

The Good Shroom Co Inc.

Consolidated Statements of Changes in Equity

For the years ended July 31, 2022 and 2021

(In Canadian dollars)

	Note	Number	Share capital \$	Contributed surplus \$	Deficit \$	Total equity (deficiency) \$
Balance as at August 1, 2020		4,897,409	50,100	517,771	(665,391)	(97,520)
Shares exchanges in Teonan prior to the reverse takeover			6,199,900		(6,199,900)	-
Reverser takeover	4	25,000,000	900,000	31,000		931,000
Private placement	14	11,500,000	2,108,000	767,000		2,875,000
Conversion of convertible debentures	12	5,491,344	1,263,329			1,263,329
Share issuance costs			(347,296)	84,000		(263,296)
Listing fees paid in shares	4	1,400,000	350,000			350,000
Exercise of options		85,930	26,800	(11,333)		15,467
Share-based compensation				579,906		579,906
Transactions with owners		48,374,683	10,550,833	1,968,344	(6,865,291)	5,653,886
Net loss and comprehensive loss					(3,849,468)	(3,849,468)
Balance as at July 31, 2021		<u>48,374,683</u>	<u>10,550,833</u>	<u>1,968,344</u>	<u>(10,714,759)</u>	<u>1,804,418</u>
Balance as at August 1, 2021		48,374,683	10,550,833	1,968,344	(10,714,759)	1,804,418
Issuance of performance shares		400,000	100,000	(100,000)		
Share-based compensation				587,353		587,353
Transaction with owners		48,774,683	10,650,833	2,455,697	(10,714,759)	2,391,771
Net loss and comprehensive loss					(1,628,964)	(1,628,964)
Balance as at July 31, 2022		<u>48,774,683</u>	<u>10,650,833</u>	<u>2,455,697</u>	<u>(12,343,723)</u>	<u>762,807</u>

The accompanying notes are an integral part of the consolidated financial statements.

The Good Shroom Co Inc.

Consolidated Statements of Financial Position

As at July 31, 2022 and 2021

(In Canadian dollars)

	Note	2022 \$	2021 \$
ASSETS			
Current			
Cash		681,553	1,619,329
Term deposit, 1.4% (0.4% in 2021), maturing in July 2023	7	70,000	70,000
Receivables		236,494	87,929
Inventories	8	386,113	186,887
Current income tax asset			
Prepaid expenses		72,243	76,959
		<u>1,446,403</u>	<u>2,041,104</u>
Long-term			
Right-of-use asset	10	160,190	213,538
Equipment	9	37,762	44,982
		<u>1,644,355</u>	<u>2,299,624</u>
LIABILITIES			
Current			
Trade and other payables		653,773	116,743
Current portion of lease liabilities		52,362	50,689
Due to an officer, 10%			50,000
Due to companies controlled by an officer, 10% payable on demand			50,000
		<u>706,135</u>	<u>267,432</u>
Long-term			
Long-term debt	11	40,000	40,000
Deferred government assistance	11	20,000	20,000
Lease Liability	10	115,413	167,774
		<u>881,548</u>	<u>495,206</u>
EQUITY			
Share capital	14	10,650,833	10,550,833
Contributed surplus		2,455,697	1,968,344
Deficit		<u>(12,343,723)</u>	<u>(10,714,759)</u>
		<u>762,807</u>	<u>1,804,418</u>
		<u>1,644,355</u>	<u>2,299,624</u>

The accompanying notes are an integral part of the consolidated financial statements.

On behalf of the Board,

Director

Director

The Good Shroom Co Inc.

Consolidated Statements of Cash Flows

For the years ended July 31, 2022 and 2021

(In Canadian dollars)

	Note	2022 \$	2021 \$
OPERATING ACTIVITIES			
Net loss		(1,628,964)	(3,849,468)
Adjustments for:			
Share-based compensation		587,353	579,906
Listing fees			1,233,438
Changes in fair value of conversion options on convertible debentures			224,200
Interest paid in shares			72,836
Depreciation		60,568	57,532
Presumed interest on convertible debentures			47,293
Presumed interest on lease liability		9,312	11,725
Net change in working capital items	6	193,955	(91,724)
Cash flows from operating activities		(777,776)	(1,714,262)
INVESTING ACTIVITIES			
Net change in term deposit			(70,000)
Acquisition of equipment			(20,672)
Reverse takeover			2,672,600
Cash flows from investing activities		-	2,581,928
FINANCING ACTIVITIES			
Long term debt			20,000
Repayment of dues		(100,000)	
Share issuance costs			(13,334)
Exercise of options			15,467
Repayment lease liabilities		(60,000)	(60,000)
Convertible debentures			285,000
Cash flows from financing activities		(160,000)	247,133
Net change in cash		(937,776)	1,114,799
Cash, beginning of period		1,619,329	504,530
Cash, end of period		681,553	1,619,329
Income taxes paid (received) during the period		-	-
Interests paid during the period		-	2,000

The accompanying notes are an integral part of the consolidated financial statements.

The Good Shroom Co Inc.

Notes to Consolidated Financial Statements

For the years ended July 31, 2022 and 2021

(In Canadian dollars)

1 - GOVERNING STATUTES, NATURE OF OPERATIONS AND GOING CONCERN

The Good Shroom Co Inc. ("TGSC") was incorporated under the Business Corporations Act (Ontario) on August 11, 2011. On April 14, 2021, TGSC filed a certificate of continuance to continue under the Canada Business Corporations Act. Prior to April 15, 2021, TGSC was listed on the TSX Venture Exchange (the "Exchange"), according to the provisions of Policy 2.4 of the TSX Venture Exchange Corporate Finance Manual.

On April 15, 2021, TGSC completed its qualifying transaction (the "Qualifying Transaction") pursuant to the rules and policies of the Exchange by amalgamation of a wholly-owned subsidiary with Teonan Biomedical Inc. ("Teonan"), as part of a three cornered amalgamation. TGSC and its subsidiary (collectively referred to as the "Company") produces and sells wellness beverages and cannabis based products

The Company is granted a Micro-processing license ("MPL") by Health Canada (the "License"). The License allows the Company, under Seul CDB, to manufacture and sale cannabis products in the form of edibles, including beverages, and to package and label the products.

The head office of the Company, which is also the main establishment, is located at 11 Beacon Street, Kirkland, Quebec, Canada, H9J 2E9. The shares of the Company are listed on the Exchange under the symbol "MUSH".

Going Concern

The accompanying consolidated financial statements have been prepared on the basis of the on going concern assumption meaning the Company will be able to realize its assets and discharge its liabilities in the normal course of business. In assessing whether the going concern assumption is appropriate, management takes into account all available information about the future, which is at least, but not limited to, 12 months from the end of the reporting period.

For the year ended July 31, 2022, the Company recorded a net loss of \$1,628,964 (\$3,849,468 for the year ended July 31, 2021) and has an accumulated deficit of \$12,343,723 as at July 31, 2022 (\$10,714,759 as at July 31, 2021). Besides the usual needs for working capital, the Company must achieve profitability, generate positive cash flows from its operations and obtain funds to enable it to pay its overhead and administrative costs. As at July 31, 2022, the Company had a working capital of \$740,268 (\$1,773,672 as at July 31, 2021). Management believes that these funds will not be sufficient to meet the obligations and liabilities of the Company. These uncertainties cast significant doubt regarding the Company's ability to continue as a going concern. Although management was able to raise funds in the past, there is no assurance that it will succeed in obtaining additional financing in the future.

These consolidated financial statements do not reflect the adjustments to the carrying values of assets and liabilities, expenses and financial position classifications that would be necessary if the going concern assumption was not appropriate. These adjustments could be material.

The Good Shroom Co Inc.

Notes to Consolidated Financial Statements

For the years ended July 31, 2022 and 2021

(In Canadian dollars)

2 - SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of presentation and statement of compliance

The Company's consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS).

The Company's consolidated financial statements have been prepared on the historical cost basis.

The financial statements were approved and authorized for issue by the Board of directors of the Company on November 14, 2022.

2.2 Functional and presentation currency

The consolidated financial statements are presented in Canadian dollars, which is also the functional currency of TGSC and its subsidiary.

2.3 Basis of consolidation

The Company's consolidated financial statements consolidate those of TGSC and its wholly-owned subsidiary Teonan Biomedical Inc. All entities have a reporting date of July 31. All transactions and balances between the entities are eliminated on consolidation, including unrealized gains and losses on transactions between companies. Where unrealized losses on intra-group asset sales are reversed on consolidation, the underlying asset is also tested for impairment from a group perspective. Amounts reported in the financial statements of subsidiaries have been adjusted where necessary to ensure consistency with the accounting policies adopted by the Company.

Profit or loss and other comprehensive income of subsidiaries acquired or disposed of during the year are recognized from the effective date of acquisition, or up to the effective date of disposal, as applicable.

2.4 Revenue recognition

Revenue arises mainly from the sale of wellness beverages and cannabis based products in Canada. To determine whether to recognize revenue, the Company follows a five-step process:

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

Sales of products are recognized when control of the goods is transferred to the customer, which generally happens upon delivery to the customer.

The Good Shroom Co Inc.

Notes to Consolidated Financial Statements

For the years ended July 31, 2022 and 2021

(In Canadian dollars)

2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.5 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost includes all expenses directly attributable to the manufacturing process as well as suitable portions of related production overheads, based on normal operating capacity. Costs of ordinarily interchangeable items are assigned using the first in, first out cost formula. Net realisable value is the estimated selling price in the ordinary course of business less any applicable selling expenses.

2.6 Equipment

Equipment is stated at cost less accumulated depreciation and its impairment losses. Equipment is recognized at acquisition cost, including any costs directly attributable to bringing the assets to the location and condition necessary for it to be capable of operating in the manner intended by management. Repairs and maintenance costs are charged to the statement of comprehensive loss during the year in which they are incurred.

Depreciation for equipment and computer equipment is charged against income over the estimated useful lives of the respective assets according to the straight-line method over a 10-year and 3-year periods respectively.

2.7 Impairment of equipment and Right-of-use assets

For the impairment assessment purposes, assets are grouped at the lowest levels for which they are largely independent cash flows ("cash-generating units" or "CGU"). As a result, some assets are tested individually for impairment, while others are tested at cash-generating unit level.

All assets or cash-generating units are tested for impairment whenever events or changes in circumstances indicate that their carrying amount may not be recoverable.

An impairment loss equal to the amount by which the carrying amount of an asset or cash-generating unit exceeds its recoverable amount is recognized in profit or loss. The recoverable amount of an asset or cash-generating unit is the higher of its fair value less costs to sell and its value-in-use. To determine the value in use, management makes estimates of future cash flows from each asset or cash-generating unit and determines an appropriate interest rate for the calculation of the present value of these cash flows.

The impairment loss is first recorded to the goodwill, if any, and then to any residual as a reduction of the individual asset or distributed in proportion to the assets of the CGU. Assets are subsequently reassessed for indication that an impairment loss previously recognized may no longer exist. An impairment loss is reversed if the recoverable amount of a CGU exceeds its carrying amount.

The Good Shroom Co Inc.

Notes to Consolidated Financial Statements

For the years ended July 31, 2022 and 2021

(In Canadian dollars)

2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.8 Leases

The Company recognizes a right-of-use asset and a lease liability with respect to a lease on the date the underlying asset is available for use by the Company (hereafter "the commencement date").

The right-of-use asset is initially measured at cost, which includes the initial lease liabilities adjusted for lease payments on or before the commencement date, plus initial direct costs incurred and an estimate of all of the costs for dismantling and removing the underlying asset, less any lease incentives received.

The right-of-use asset is amortized over the shorter of the estimated useful life of the underlying asset or the lease term on a straight-line basis. Additionally, the cost of a right-of-use asset is reduced by any accumulated impairment losses and, as appropriate, adjusted for any remeasurement of the related lease liability.

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

- Fixed payments, including in-substance fixed payments, less any lease incentives receivable;
- Variable payments based on an index or a rate, initially measured using the index or rate as at the commencement date;
- Lease payments relating to extension options that the Company is reasonably certain it will exercise.

The interest expense relating to lease liabilities is recognized in profit or loss using the effective interest method.

2.9 Income taxes

Tax expense recognized in profit or loss comprises the sum of deferred tax and current tax not recognized directly in equity. The calculation of current tax is based on tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period.

Deferred taxes are calculated using the liability method on temporary differences between the carrying amounts of assets and liabilities and their tax bases. However, deferred tax is not recognized at the time of initial recognition of goodwill or on initial recognition of an asset or liability, unless the transaction is a business combination or affects the tax or accounting profit.

The Good Shroom Co Inc.

Notes to Consolidated Financial Statements

For the years ended July 31, 2022 and 2021

(In Canadian dollars)

2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.9 Income taxes (continued)

Deferred tax assets or deferred tax liabilities are calculated, without discounting, at the tax rates that are expected to apply in their respective period of realization when they are enacted or substantively enacted by the end of the reporting period.

The deferred tax assets are recognized to the extent that the underlying fiscal loss or the deductible temporary difference will be used to offset future taxable income. Deferred tax liabilities are always recognized in full.

Deferred tax liabilities and deferred tax assets are offset only when the Company has the right and intention to offset current tax assets and liabilities from the same tax authorities.

Changes in deferred tax assets or deferred tax liabilities are recognized as revenue or deferred tax expense in profit or loss, unless they relate to items that were recognized directly in equity, in which case the related deferred tax is also recognized in equity.

2.10 Financial instruments

Financial assets and liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument. Financial assets and liabilities are initially measured at fair value. If the financial asset or liability is not subsequently accounted for at fair value through profit or loss, then the initial measurement includes transaction costs that are directly attributable to the asset's or liability's acquisition or origination. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership. A financial liability is derecognized when it is extinguished, discharged, cancelled or expired.

Financial assets and liabilities are offset, and the net amount is reported in the statement of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously.

At initial recognition, the Company classifies its financial instruments in the following categories depending on the entity's business model for managing the financial asset and the contractual cash flow characteristics of the financial asset:

<u>Financial assets and liabilities</u>	<u>Classification</u>
Cash	Amortized cost
Term deposit	Amortized cost
Receivables (excluding taxes receivable)	Amortized cost
Trade and other payables (excluding salaries and taxes payable)	Amortized cost
Due to an officer	Amortized cost
Due to companies controlled by an officer	Amortized cost
Long-term debt	Amortized cost

The Good Shroom Co Inc.

Notes to Consolidated Financial Statements

For the years ended July 31, 2022 and 2021

(In Canadian dollars)

2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.10 Financial instruments (Continued)

Financial assets at amortized cost

Assets that are held for collection of their contractual cash flows where those cash flows represent solely payments of principal and interests. These assets are subsequently measured at amortized cost using the effective interest method. Impairment are recognized in profit or loss. Any gain or loss on derecognition is recognized in profit or loss. Discounting is omitted where the effect of discounting is immaterial.

Financial liabilities at amortized cost

Financial liabilities at amortized cost are subsequently measured at amortized cost using the effective interest method.

Fair value through profit or loss (FVTPL)

Financial assets that are held within a different business model other than "hold to collect" or "hold to collect and sell" are categorised at FVTPL. Furthermore, irrespective of business model financial assets whose contractual cash flows are not solely payments of principal and interest are accounted for at FVTPL. All derivative financial instruments fall into this category, except for those designated and effective as hedging instruments, for which the hedge accounting requirements apply.

Impairment of financial assets

Impairment requirements use forward-looking information to recognize expected credit losses, i.e. the "expected credit loss (ECL) model". The Company considers a broader range of information when assessing credit risk and measuring expected credit losses, including past events, current conditions, reasonable and supportable forecasts that affect the expected collectability of the future cash flows of the instrument.

In applying this forward-looking approach, a distinction is made between:

- Financial instruments that have not deteriorated significantly in credit quality since initial recognition or that have low credit risk (Stage 1);
- Financial instruments that have deteriorated significantly in credit quality since initial recognition and whose credit risk is not low (Stage 2);
- Financial assets that have objective evidence of impairment at the reporting date (Stage 3).

"12-month expected credit losses" are recognized for the first category, i.e. Stage 1, while "lifetime expected credit losses" are recognized for the second category, i.e. Stage 2.

Measurement of the expected credit losses is determined by a probability-weighted estimate of credit losses over the expected life of the financial instrument.

The Good Shroom Co Inc.

Notes to Consolidated Financial Statements

For the years ended July 31, 2022 and 2021

(In Canadian dollars)

2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.10 Financial instruments (Continued)

Trade accounts receivable

Based on the Company's business model, expected credit losses over the life of the trade accounts receivable are considered immaterial since the potential for default at any time during the life of the financial instrument is deemed to be nil, based on past experience.

2.11 Foreign currency translation

Foreign currency transactions are translated into the functional currency of the Company, using the exchange rates prevailing at the dates of the transactions (spot exchange rate). Foreign exchange gains and losses resulting from the settlement of such transactions and from the remeasurement of monetary items denominated in foreign currency at year-end exchange rates are recognized in profit or loss. Non-monetary items are not retranslated at year-end and are measured at historical cost.

2.12 Provisions

Provisions are recognized when the Company has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of economic resources will be required from the Company and amounts can be estimated reliably. The timing or amount of the outflow may still be uncertain.

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the reporting date, including the risks and uncertainties associated with the present obligation. Provisions are discounted when the time value of money is significant.

No liability is recognized if an outflow of economic resources as a result of present obligations is not probable or remote, unless it was assumed in the course of a business combination.

No provision has been recorded for the period presented.

2.13 Loss per share

Basic loss per share is computed by dividing the net loss by the weighted average number of common shares outstanding during the year. The diluted loss per share reflects the potential dilution of common share equivalents, such as outstanding stock options and warrants, in the weighted average number of common shares outstanding during the year, if dilutive. Dilutive potential common shares are deemed to have been converted into common shares at the average market price at the beginning of the period or, if later, at the date of issue of the potential common shares. Stock options and warrants that could potentially dilute earnings per share in the future, but were not included in the calculation of diluted earnings per share because they are antidilutive, and detailed in Note 15.

The Good Shroom Co Inc.

Notes to Consolidated Financial Statements

For the years ended July 31, 2022 and 2021

(In Canadian dollars)

2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.14 Equity

Share capital represents the amount received on the issuance of shares, less issuance costs, net of any underlying income tax benefit from these issuance costs. If shares are issued following the exercise of stock options or warrants, this account also includes the charge previously accounted for the warrants and the stock options within contributed surplus.

The funds from unit placement are allocated between shares and warrants using the relative fair value method. The fair value of the common shares is recognized in equity based on the share price at the date of issue. The fair value of the warrants is determined using the Black-Scholes valuation model.

Other components of equity

Deficit includes all current and prior years' retained profits or losses. Contributed surplus includes additional contributions by existing shareholders as well as charges related to share options and warrants, if any.

2.15 Segment reporting

The Company has one operating segment, which is the production and sale of cannabis based products and beverages. All the assets are in Canada.

2.16 Grants

Grants are recognized as a reduction of the related expenses or assets. The Company records these grants when there is a reasonable assurance that they will be received and the Company will comply with the conditions associated to them.

2.17 Share-based compensation

The Company has granted a share-based compensation plan.

All goods and services received in exchange for the grant of any share-based compensations are measured at their fair value, unless that fair value cannot be estimated reliably. If the Company cannot estimate reliably the fair value of the goods or services received, it must measure their value indirectly by reference to the fair value of the equity instruments granted. For transactions with employees and parties providing similar services, the Company evaluated the fair value of services received by reference to the fair value of the equity instruments granted.

All share-based compensation is ultimately recognized as an expense in profit or loss. If vesting periods or other vesting conditions apply, the expense is allocated over the vesting period, based on the best available estimate of the number of shares expected to vest. Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. Estimates are subsequently revised if there is any indication that the number of share options expected to vest differs from previous estimates. Any adjustments to cumulative share-based compensation resulting from a revision is recognized in the current period.

The Good Shroom Co Inc.

Notes to Consolidated Financial Statements

For the years ended July 31, 2022 and 2021

(In Canadian dollars)

2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.18 Standards, amendments and interpretations to existing standards that are not yet effective and have not been adopted early by the Company

At the date of authorisation of these financial statements, several new, but not yet effective, standards, amendments to existing standards and interpretations have been published. None of these standards or amendments to existing standards have been adopted early by the Company.

Management anticipates that all relevant pronouncements will be adopted for the first period beginning on or after the effective date of the pronouncement. New standards, amendments and interpretations not adopted in the current year have not been disclosed as they are not expected to have a material impact on the Company's consolidated financial statements.

3 - JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

When preparing the consolidated financial statements, management makes a number of judgements estimates and assumptions about the recognition and measurement of assets, liabilities, revenues and expenses. Actual results may differ from judgements, estimates and assumptions made by management and are seldom equal to the estimated results. These estimates are reviewed periodically and when adjustments become necessary, they are recorded in earnings in the year they become known. Information on judgements, estimates and assumptions that have the greatest impact on the recognition and measurement of assets, liabilities, revenues and expenses is presented below.

Estimates

Share-based compensation

The estimation of share-based compensation costs requires the selection of an appropriate valuation model and data and consideration as to the volatility of the Company's own share, the probable life of share options and warrants granted and the time of exercise of those share options and warrants. The model used by the Company is the Black-Scholes valuation model

Judgements

Recognition of deferred tax assets

The extent to which deferred tax assets can be recognized is based on an assessment of the probability that future taxable income against which the deductible temporary differences and tax loss carry-forwards can be utilised. In addition, significant judgement is required in assessing the impact of any legal or economic limits or uncertainties in various tax jurisdictions.

The Good Shroom Co Inc.

Notes to Consolidated Financial Statements

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3 - JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (Continued)

Going concern

The assessment of the Company's ability to continue as a going concern and to raise sufficient funds to pay for its ongoing operating expenditures, meets its liabilities for the ensuing year, and to fund planned development programs involves significant judgements based on historical experience and other factors, including expectation of future events that are believed to be reasonable under the circumstances.

4 - REVERSE TAKEOVER

On November 3, 2020, TGSC and Teonan signed an amalgamation agreement (the Agreement) with the intention to amalgamate Teonan with a newly created wholly-owned subsidiary of TGSC. The Qualifying Transaction closed on April 15, 2021. Upon the amalgamation, TGSC issued 25,000,000 common shares of the Company to the shareholders of Teonan. See note 13 for additional impacts of the amalgamation on equity.

In accordance with IFRS 3, Business Combinations, the substance of the Qualifying Transaction is a reverse acquisition of TGSC by Teonan as the shareholders of Teonan hold the majority of the voting rights of the resulting company. The acquisition of TGSC does not constitute a business combination as TGSC does not meet the definition of a business under that standard. As a result, the transaction is accounted for in accordance with IFRS 2, Share-based Payment, with Teonan being identified as the acquirer and the equity consideration being transferred measured at fair value. The resulting financial statements are presented as a continuation of Teonan.

The transaction is equivalent to the issuance of shares by Teonan which is acquiring the net assets of TGSC and a public listing.

The fair value of the consideration for the net assets acquired by Teonan is as follows:

	\$
4,897,412 shares issued and outstanding of TGSC	900,000
Fair value of 257,790 issued and outstanding options of TGSC	20,000
Fair value of 117,333 issued and outstanding warrants of TGSC	11,000
	<u>931,000</u>

The Good Shroom Co Inc.

Notes to Consolidated Financial Statements

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4 - REVERSE TAKEOVER (Continued)

The fair value of the TGSC shares issued and outstanding has been determined based on the price per share of \$0.18 derived from the private placement completed on February 10, 2021 where each unit was valued at \$0.25, and was estimated using the Black-Scholes option pricing model with the following assumptions :

Exercise price	\$0.50
Risk free interest rate	0.27%
Expected volatility ⁽¹⁾	119%
Expected life	1.82 years

Following the closing of the Qualifying Transaction, the issued and outstanding options and warrants of TGSC continue to be in effect with their original terms and conditions and are deemed to be issued as part of the Qualifying Transaction, however options holders resigned from TGSC as part of the Qualifying Transaction, therefore options will expire 1 year following the closing. The fair value has been estimated using the Black-Scholes option pricing model with the following assumptions:

	Options	Warrants
Exercise price	\$0.18	\$0.15
Risk free interest rate	0.27%	0.27%
Expected dividend yield	Nil	Nil
Expected volatility ⁽¹⁾	115%	115%
Expected life	1 year	1.18 years

(1) The expected volatility was based on comparable traded entities

The estimated fair value of the net assets acquired by Teonan is:

	\$
Cash	2,672,600
Subscription receipts payable, net of issuance costs	(2,625,038)
Listing costs expensed	883,438
	931,000

The Good Shroom Co Inc.

Notes to Consolidated Financial Statements

For the years ended July 31, 2022 and 2021

(In Canadian dollars)

5 - REVENUES

	2022	2021
	\$	\$
Cannabis products	1,329,827	
Wellness beverages	192,307	242,126
	<u>1,522,134</u>	<u>242,126</u>

For the year ended July 31, 2022, one customer represents 83% of revenues.

Revenues are generated in the following geographical markets:

	2022	2021
	\$	\$
Canada	1,446,254	187,599
United States	75,880	54,527
	<u>1,522,134</u>	<u>242,126</u>

6 - INFORMATION INCLUDED IN CASH FLOWS

The net change in working capital items is as follows:

	2022	2021
	\$	\$
Receivables	(148,565)	(62,748)
Inventories	(199,226)	(105,446)
Current income tax asset		23,469
Prepaid expenses	4,716	(11,679)
Trade and other payables	537,030	64,680
	<u>193,955</u>	<u>(91,724)</u>

7 - TERM DEPOSITS

Term deposits are used as a guarantee for a credit facility in the form a credit card with a maximum authorized amount of \$70,000 with a balance of \$15,216 as at July 31, 2022 (\$13,369 in 2021) presented within trade and other payables.

8 - INVENTORIES

	2022	2021
	\$	\$
Raw material	84,310	105,929
Finished goods	301,803	80,958
	<u>386,113</u>	<u>186,887</u>

The amount of inventories recognized as expenses during the year corresponds to the cost of goods sold presented in the consolidated statements of comprehensive loss.

The Good Shroom Co Inc.

Notes to Consolidated Financial Statements

For the years ended July 31, 2022 and 2021

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9 - EQUIPMENT

	<u>Equipment</u>	<u>Computer equipment</u>	<u>Total</u>
	\$	\$	\$
Cost			
Balance, as at July 31, 2020	31,711		31,711
Acquisitions	12,941	7,731	20,672
Balance, as at July 31, 2021	<u>44,652</u>	<u>7,731</u>	<u>52,383</u>
Acquisitions			
Balance, as at July 31, 2022	<u><u>44,652</u></u>	<u><u>7,731</u></u>	<u><u>52,383</u></u>
Accumulated depreciation			
Balance, as at July 1, 2020	3,069		3,069
Depreciation	4,332		4,332
Balance, as at July 31, 2021	<u>7,401</u>	-	<u>7,401</u>
Depreciation	4,643	2,577	7,220
Balance, as at July 31, 2022	<u><u>12,044</u></u>	<u><u>2,577</u></u>	<u><u>14,621</u></u>
Net book value as at July 31, 2021	37,251	7,731	44,982
Net book value as at July 31, 2022	32,608	5,154	37,762

10 - LEASES

	<u>2022</u>	<u>2021</u>
	\$	\$
Right-of-use assets		
Cost		
Opening balance	266,738	
Addition		266,738
Ending balance	<u>266,738</u>	<u>266,738</u>
Accumulated depreciation		
Opening balance	53,200	
Depreciation	53,348	53,200
Ending balance	<u>106,548</u>	<u>53,200</u>
Ending net carrying amount	<u><u>160,190</u></u>	<u><u>213,538</u></u>

The Good Shroom Co Inc.

Notes to Consolidated Financial Statements

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10 - LEASES (Continued)

	<u>2022</u>	<u>2021</u>
	\$	\$
Lease liabilities		
Opening Balance	218,463	
Addition		266,738
Lease payments	(60,000)	(60,000)
Interest	9,312	11,725
Ending balance	<u>167,775</u>	<u>218,463</u>
Current portion	<u>52,362</u>	<u>50,689</u>
Non-current portion	<u><u>115,413</u></u>	<u><u>167,774</u></u>

On August 1, 2022 the lease agreement was amended whereby the monthly rent was reduced to \$1,500. The reduction was based on less processing requirements versus usage of the facility as a flow through for cannabis shipped to retailers. The Company is currently evaluating the impact of this modification on its consolidated financial statements.

Contractual undiscounted payments under lease liabilities are as follows:

	<u>\$</u>
Within one year	18,000
1 to 2 years	18,000
2 to 5 years	<u>36,000</u>
Total	<u><u>72,000</u></u>

The Company leases a facility with a term of five years. The lease does not specify any restrictions and the leased property cannot be used to secure loans.

Each lease is reflected in the statements of financial position as a right-of-use asset and a lease liability.

11 - LONG-TERM DEBT

	<u>2022</u>	<u>2021</u>
	\$	\$
Canada Emergency Business Account, without interest, maturing in December 2023, \$20,000 are eligible for complete forgiveness if \$40,000 are repaid in full before the maturity date (a)	<u>40,000</u>	<u>40,000</u>

(a) As at July 31, 2022, the amount of \$20,000 eligible for complete forgiveness is presented as deferred government assistance. The amount will be presented as revenues once it is probable that the Company will benefit from the forgiveness.

The Good Shroom Co Inc.

Notes to Consolidated Financial Statements

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11 - LONG-TERM DEBT (Continued)

The Company received a \$60,000 loan under the Canada Emergency Business Account program. If the Company repays \$40,000 of the loan by December 31, 2023, no other amount will be payable. Otherwise, the loan balance will bear interest at 5% and will be payable at maturity on December 31, 2025.

12 - CONVERTIBLE DEBENTURES

In August 2020, the Company issued \$285,000 in convertible debentures (\$690,000 issued in July 2020).

The debentures are convertible at the issuer's or holder's option if the Company completes a going public transaction. The conversion price will then be fixed at the going public transaction price less a 25% discount. For accounting purposes, these conversion options are embedded derivatives that must be accounted separately from the debt component into a single financial liability. The value of the debenture was first allocated to the conversions options, while the residual value was allocated to the debt component.

The initial value of the convertible debenture component was determined at the time of issuance using an appropriate discount rate in the market for similar instruments that do not have the conversion options.

The initial value of the conversion options of \$29,465 in 2021 and \$71,335 in 2020 was determined by calculating the difference between the expected diluted value of the shares following the conversion of the debentures compared to the expected value of the conversion right. To this end, the Company determined the expected capital structure of the Company following the going public transaction on a fully diluted basis. The Company also used various probabilities that the going public transaction will be completed within three, six and nine months following the issuance of the debentures. Finally, the Company used the following assumptions in its calculations: concurring private placement of \$2,000,000, risk-free rate of 0.24%, value of conversion right of \$0.1875, expected volatility of 135%. The expected volatility is based on comparable publicly traded companies.

The effective interest rate of the debentures is 16.48%.

On April 13, 2021, the Company converted the principal amount of \$975,000 and unpaid interest of \$72,836 into 1,372,836 class "F" shares of Teonan as per the terms of the debentures agreements. Immediately after the closing of the Qualifying transaction (Note 4), the 1,372,836 class "F" of Teonan were exchanged for 5,491,344 common shares of the Company. Upon conversion, the carrying amount of the convertible debentures of \$865,493, the fair value of the conversion options of \$325,000 and the accrued interest of \$72,836 were credited to the share capital.

The Good Shroom Co Inc.

Notes to Consolidated Financial Statements

For the years ended July 31, 2022 and 2021

(In Canadian dollars)

13 - RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The changes in the Company's liabilities arising from financing activities can be classified as follows:

	2022		
	Long-term	debt	
	\$		
Beginning of the year and End of year	40,000		
	2021		
	Long-term	Convertible	Total
	debt	debentures	Total
	\$	\$	\$
Beginning of the year	30,000	562,665	592,665
Cash			
Proceeds	20,000	285,000	305,000
Non-cash			
Conversion options		(29,465)	(29,465)
Presumed interests on convertible debentures		47,293	47,293
Conversion into common shares		(865,493)	(865,493)
Deferred government assistance	(10,000)		(10,000)
End of year	40,000	-	40,000

14 - SHARE CAPITAL

Authorized share capital of TGSC

TGSC's authorized share capital consists of an unlimited number of common shares without par value. All issued shares are fully paid.

Issuances of share capital of TGSC

- (a) As part of the Qualifying Transaction, the Company issued 25,000,000 common shares (Note 4)

The Good Shroom Co Inc.

Notes to Consolidated Financial Statements

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14 - SHARE CAPITAL (Continued)

(b) In conjunction with the Qualifying transaction, the Company completed a private placement, issuing 11,500,000 subscription receipts in exchange for gross proceeds amounting to \$2,875,000. With the closing of the Qualifying transaction on April 15, 2021, the Company issued 11,500,000 units in exchange for \$2,875,000 in subscription receipts assumed in the reverse takeover (Note 4). The Company also assumed the related issuance costs of \$347,296. Each unit consists of one common share and one warrant, for a total of 11,500,000 common shares and 11,500,000 warrants. Each warrant entitles the holder to acquire one additional common share of the Company at an exercise price of \$0.50 until February 10, 2023. These warrants have been recorded at a value of \$767,000. The warrants may be subject to an accelerated expiry at the discretion of the Company if the volume average closing price of is greater than \$0.60 for a period of 10 consecutive trading days on the Exchange. As part of the private placement, the Company also issued 920,000 broker warrants. Each broker warrant entitles its holder to purchase one common share of the Company at an exercise price of \$0.25 until February 10, 2023. These broker warrants have been recorded at a value of \$84,000 and are recorded as a reduction of the share capital. The fair value has been estimated using the Black-Scholes option pricing model with the following assumptions:

	<u>Warrants</u>	<u>Broker warrants</u>
Share Price	\$0.18	\$0.18
Risk free interest rate	0.27%	0.27%
Expected dividend yield	Nil	Nil
Expected volatility ⁽¹⁾	119%	119%
Expected life	1.82 years	1.82 years

(1) The expected volatility was based on comparable traded entities

(c) Upon closing of the Qualifying Transaction, the Company issued 1,400,000 common shares as a fee to an arm's length finder. The fair value of the price per share is based on the value of the private placement. A listing fee of \$350,000 was recorded.

Issuances of share capital of TGSC (Continued)

(d) In June 2020, TGSC issued 1,466,664 common shares in a private placement. In July 2020, TGSC issued 352,845 common shares upon the conversion of debentures.

Authorized share capital of Teonan

Teonan's authorized share capital consists of an unlimited number of common shares, classes A, "B", "C", "D", "E", "F", "G", "H" shares, all without par value.

On April 2, 2021, Teonan amended its capital to add classes "I" and "J" shares. On April 15, 2021, as part of Qualifying Transaction (note 4), Teonan amalgamated with a newly created wholly-owned subsidiary of TGSC. The amalgamated company kept the name Teonan.

The Good Shroom Co Inc.

Notes to Consolidated Financial Statements

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14 - SHARE CAPITAL (Continued)

The authorized share capital of the amalgamated company consists of an unlimited number of common shares.

Issuances of share capital of Teonan

- (a) On April 2, 2021, Teonan exchanged 102 common shares issued in exchange for 4,089,049 Class "I" shares and 2,160,951 class "J" shares of its share capital. The share exchange was recorded at the retractable price of \$1 per share which resulted in an increase of \$6,199,900 in deficit, an increase in liabilities of \$6,250,000 and a decrease of \$50,100 in share-capital.
- (b) On April 15, 2021, as part of the Qualifying transaction (note 4) and the amalgamation, all outstanding shares of Teonan (including common shares, class "I" shares and class "J" shares) were cancelled, which was recorded as a decrease in liabilities of \$6,250,000 and an increase in share capital of the same amount.

15 - SHARE BASED COMPENSATION

During the year ended July 31, 2021, the Company granted to one of its employees 3,000,000 shares which will vest when financial objectives are met within a 3 year period following the date of grant. Fair value of the shares was estimated based on the value of the private placement, using a value of \$0.25 per share. In 2022, the first two objectived have been met and 400,000 common shares were issued and 1,600,000 common shares are issuable as at July 31, 2022. As at July 31, 2022, the Company estimated at 80% the vesting of the unvested shares (in 2021, the Company estimated the vesting at 75%) \$318,333 was recorded as share-based compensation during the year (\$345,486 in 2021).

Stock Options

The Company has a stock option plan whereby the Board of Directors may grant to directors, officers or consultants of the Company options to acquire common shares. The Board of Directors has the authority to determine the terms and conditions of the grant of options. The number of stock options granted to a beneficiary and the vesting period are determined by the Board of directors. The number of common shares that may be reserved for issuance under the plan is equal to 10% of the issued common shares of the Company. Issued options vest at various rates over periods of one or two years.

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Notes to Consolidated Financial Statements

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15 - SHARE BASED COMPENSATION (Continued)

The changes to the number of outstanding stock options granted by the Company are as follows :

	July 31, 2022		July 31, 2021	
	Number outstanding stock options	Weighted average exercise price \$	Number outstanding stock options	Weighted average exercise price \$
Opening Balance				
Continued through the reverse takeover (Note 4)	2,076,860	0.30	257,790	0.18
Granted	2,100,000	0.10	1,905,000	0.31
Expired	621,860	0.26		
Forfeited	200,000	0.22		
Exercised			85,930	0.18
Closing balance	<u>3,355,000</u>	<u>0.19</u>	<u>2,076,860</u>	<u>0.30</u>
Exercisable	<u>1,720,000</u>	<u>0.21</u>	<u>831,860</u>	<u>0.28</u>

An expense of \$269,020 was recognized during the year ended July 31, 2022.

An expense of \$234,420 was recognized during the year ended July 31, 2021. The share price at the date of exercise was \$0.27.

The following table provides outstanding share options information as at July 31, 2022

Expiry date	Outstanding stock options		
	Number outstanding stock options	Exercise price	Remaining life (years)
March 30, 2025	800,000	0.10	2.66
April 30, 2028	1,455,000	0.30	5.75
January 25, 2029	<u>1,100,000</u>	<u>0.10</u>	<u>6.49</u>
Outstanding as at July 31, 2021	<u>3,355,000</u>	<u>0.19</u>	<u>5.26</u>

In 2021, the weighted average fair value of \$0.25 per option has been estimated using the Black-Scholes option pricing model with the following weighted average assumptions:

Share price	\$0.30
Exercise price	\$0.31
Risk free interest rate	1.00%
Expected dividend yield	Nil
Expected volatility ⁽¹⁾	107%
Expected life	6.76 years

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15 - SHARE BASED COMPENSATION (Continued)

In 2022, the weighted average fair value of \$0.07 per option has been estimated using the Black-Scholes option pricing model with the following weighted average assumptions:

Share price	\$	0.09
Exercise price	\$	0.10
Risk free interest rate		1.87%
Expected dividend yield		Nil
Expected volatility ⁽¹⁾		108%
Expected life		5,5 years

(1) The expected volatility was based on comparable traded entities

Warrants

The changes to the number of outstanding warrants, including broker warrants, granted by the Company are as follows:

	July 31, 2022		July 31, 2021	
	Number outstanding warrants	Weighted average exercise price \$	Number outstanding warrants	Weighted average exercise price \$
Opening Balance	12,537,333	0.48		
Continued through the reverse takeover (Note 4)			117,333	0.15
Expired	117,333	0.15		
Granted			12,420,000	0.48
Closing balance	<u>12,420,000</u>	<u>0.48</u>	<u>12,537,333</u>	<u>0.48</u>

The following table provides outstanding warrants information as at July 31, 2022

<u>Expiry date</u>	Outstanding warrants		
	Number outstanding warrants	Exercise price \$	Remaining life (years)
February 10, 2023	11,500,000	0.50	0.53
February 10, 2023	920,000	0.25	0.53
Outstanding as at July 31, 2021	<u>12,420,000</u>	<u>0.48</u>	<u>0.53</u>

The Good Shroom Co Inc.

Notes to Consolidated Financial Statements

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15 - SHARE BASED COMPENSATION (Continued)

The following table provides outstanding warrants information as at July 31, 2021

	Outstanding warrants		
	Number outstanding warrants	Exercise price	Remaining life (years)
		\$	
June 22, 2022	117,333	0.15	0.88
February 10, 2023	11,500,000	0.50	1.53
February 10, 2023	920,000	0.25	1.53
	<u>12,537,333</u>	<u>0.48</u>	<u>1.78</u>

16 - FINANCIAL EXPENSES

	2022	2021
	\$	\$
Interest on Dues	5,347	10,000
Interest on convertible debentures		72,836
Presumed interest on convertible debentures		47,293
Presumed interest on lease liability	9,312	11,725
Other		3,812
	<u>14,659</u>	<u>145,666</u>

17 - INCOME TAXES

Difference between expected tax expense and tax expense accounted in net income

The difference between the Company's expected tax expense based on the combined federal and provincial rate in Canada and the tax expense presented in the combined statement of comprehensive loss is attributable to the following:

	2022	2021
	\$	\$
Expected tax expense (recovery) calculated using the combined federal and provincial tax rate in Canada of 26.5% (26.5% in 2021)	(431,675)	(1,020,109)
Adjustments for the following items:		
Tax impact of unrecognized temporary differences	275,607	560,271
Listing fees		234,111
Change in fair value of conversion options		59,413
Share based compensation	155,649	153,675
Gain on settlement of dues		
Non-deductible expenses and other	419	12,639
Total tax expense	<u>-</u>	<u>-</u>

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17 - INCOME TAXES (Continued)

Recognized deferred tax assets and liabilities

The following differences between the carrying amounts and tax bases from timing differences, unused tax losses and unused tax credits give rise to the following recognized deferred income tax assets and liabilities:

	2021	Profit or loss	2022
	\$	\$	\$
Equipment	(64,692)	22,614	(42,078)
Lease liabilities	57,892	(15,814)	42,078
Non-capital losses	6,800	(6,800)	
	<u>–</u>	<u>–</u>	<u>–</u>
	2020	Profit or loss	2021
	\$	\$	\$
Equipment	(7,181)	(57,511)	(64,692)
Lease liabilities		57,892	57,892
Non-capital losses	7,181	(381)	6,800
	<u>–</u>	<u>–</u>	<u>–</u>

As at July 31, 2022, the Company has the following temporary differences for which no deferred tax assets are recognized for a value of \$1,207,691.

	Federal	Quebec	Ontario
	\$	\$	\$
Lease liabilities	8,989	8,989	
Non-capital losses	4,224,298	3,326,585	1,092,100
Financing fees	239,683	239,683	
	<u>4,472,970</u>	<u>3,566,268</u>	<u>1,092,100</u>

These losses expire as follows:

2033	108,622		108,622
2034	57,972		57,972
2035	100,322		100,322
2036	208,435		208,435
2037	108,410		108,410
2038	122,195		122,195
2039	138,629		138,629
2040	435,195	257,817	175,425
2041	1,827,693	1,955,432	72,090
2042	1,116,825	1,113,336	
	<u>4,224,298</u>	<u>3,326,585</u>	<u>1,092,100</u>

The Good Shroom Co Inc.

Notes to Consolidated Financial Statements

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17 - INCOME TAXES (Continued)

As at July 31, 2021, the Company has the following temporary differences for which no deferred tax assets are recognized for a value of \$1,002,166.

	Federal	Quebec	Ontario
	\$	\$	\$
Non-capital losses	3,510,818	1,877,382	1,631,483
Financing fees	278,836	33,469	245,367
	<u>3,789,654</u>	<u>1,910,851</u>	<u>1,876,850</u>
These losses expire as follows:			
2033	108,622		108,622
2034	57,972		57,972
2035	100,322		100,322
2036	208,435		208,435
2037	108,410		108,410
2038	122,195		122,195
2039	138,629		138,629
2040	409,537	232,159	175,425
2041	2,256,696	1,645,223	611,473
	<u>3,510,818</u>	<u>1,877,382</u>	<u>1,631,483</u>

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18 - FINANCIAL ASSETS AND LIABILITIES

Classification of financial assets and liabilities

The carrying amount and fair value of financial instruments presented in the statement of financial position are as follows:

	2022		2021	
	Carrying amount	Fair value	Carrying amount	Fair value
	\$	\$	\$	\$
Financial assets at amortized cost				
Cash	681,553	681,553	1,619,329	1,619,329
Term deposit	70,000	70,000	70,000	70,000
Receivables (excluding taxes receivable)	196,196	196,196	16,394	16,394
	<u>947,749</u>	<u>947,749</u>	<u>1,705,723</u>	<u>1,705,723</u>
Financial liabilities at amortized cost				
Trade and other payables (excluding (salaries and taxes payable)	452,515	452,515	80,329	80,329
Due to an officer			50,000	50,000
Due to companies controlled by an officer			50,000	50,000
Long term-debt	40,000	40,000	40,000	40,000
	<u>492,515</u>	<u>492,515</u>	<u>220,329</u>	<u>220,329</u>

Financial assets and financial liabilities measured at fair value in the statement of financial position are grouped into three levels of a fair value hierarchy. The three levels are defined based on the observability of significant inputs to the measurement as follows:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2: inputs other than quoted prices included within Level 1 that observable for the asset or liability, either directly or indirectly;

Level 3: unobservable inputs for the asset or liability.

The fair value of the long-term debt (Level 2) is not significantly different from its carrying value because there was no material change during the period in the assumptions used for the fair value determination at inception. The carrying values of other financial assets and liabilities are considered to be a reasonable approximation of their fair value because of their short-term maturity.

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19 - CAPITAL MANAGEMENT POLICIES AND PROCEDURES

The Company's objective with respect to capital management is to ensure that it has the ability to continue its operations. It defines its capital as follows:

	2022	2021
	\$	\$
Long-term debt	40,000	40,000
Equity	762,807	1,804,418
Total capital	<u>802,807</u>	<u>1,844,418</u>

The Company manages its capital structure and makes adjustments in light of changes in economic conditions. To maintain or adjust the capital structure, the Company may need to raise capital, issue new shares or sell assets to reduce the long-term debt.

The Company is not subject to external restrictions on its capital.

No changes were made in terms of objectives, procedures or capital management processes for the period presented.

20 - FINANCIAL INSTRUMENTS RISKS

Risk management objectives and policies

The Company is exposed to various risks related to financial instruments. The main types of risks to which the Company is exposed are credit risk, market risk and liquidity risk. The Company does not use derivative financial instruments for speculative purposes.

Credit risk

The maximum exposure to credit risk is limited to the carrying amount of cash, term deposit and receivables (excluding taxes receivable) as at July 31, 2022 and 2021.

The Company monitors customer and other counterparty defaults on an individual basis regularly and credit risk controls reflect this information. The Company has a policy of only dealing with creditworthy parties. Credit risk is considered negligible.

As at July 31, 2022, 76% of receivables are from a single customer.

Market risk

The Company is exposed to market risk through its use of financial instruments and specifically to interest rate risk and foreign currency risk, which results from its operating activities:

– Interest rate risk

The Company's policy is to minimize interest rate cash flow risk exposures on long-term financing. As at July 31, 2021, the Company is exposed to changes in fair value through due to an officer, due to companies controlled by an officer and convertible debentures at fixed rates.

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20 - FINANCIAL INSTRUMENTS RISKS (continued)

– Foreign currency risk

The Company is exposed to foreign exchange risks arising from the fluctuation of exchange rates between US dollar and the Canadian dollar. The Company does not enter into arrangements to hedge its foreign exchange risk.

As at July 31, 2022, \$6,762 in cash, \$56,127 in receivables and \$10,688 in accounts payable exposed the Company to currency risk (no exposure in 2021). A 10% fluctuation of the exchange rate would not have a significant impact.

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting its obligations associated with financial liabilities that are settled by delivering cash or another financial asset. The Company manages liquidity risk by establishing cash flow forecasts to determine its financing needs and by ensuring that it has sufficient cash and credit facilities to meet its needs and satisfy its commitments on their maturity.

The following table presents the contractual maturities (including interest payments, if any) of the Company's financial liabilities:

	2022		
	Less than 1 year	1 to 5 years	5 years and more
	\$	\$	\$
Trade and other payables	452,515		
Long-term debt (including interest)		40,000	
Total	<u>452,515</u>	<u>40,000</u>	<u>–</u>
			2021
	Less than 1 year	1 to 5 years	5 years and more
	\$	\$	\$
Trade and other payables	80,329		
Due to an officer	50,000		
Due to companies controlled by an officer	50,000		
Long-term debt (including interest)		40,000	
Total	<u>180,329</u>	<u>40,000</u>	<u>–</u>

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21 - RELATED PARTY TRANSACTIONS

Transactions with key management and members of the Board of Directors

The remuneration of key management, that is the President and Chief Executive Office, Chief Financial Officer, Chief Marketing Officer and the directors includes the following expenses for the quarter ending:

	<u>2022</u>	<u>2021</u>
	\$	\$
Salaries and expenses for employee benefits	290,000	287,884
Shared base compensation	<u>564,128</u>	<u>274,420</u>
	<u>854,128</u>	<u>562,304</u>

Also, the Company incurred selling expenses of \$70,211 (cost of goods sold of \$41,062 in 2021) and interest of \$5,347 (5,000 in 2021) with companies controlled by an officer and \$5,000 in interest with an officer.

Furthermore, during the year the Company incurred professional fees of \$31,719 (\$32,289 in 2021) with a law firm controlled by a director.