

**The Good Shroom Co Inc.
Consolidated Financial Statements
as at October 31, 2023 and 2022**

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The Good Shroom Co Inc.

Consolidated Statements of Comprehensive Profit (Loss)

For the quarters ended October 31, 2023 and 2022

(In Canadian dollars)

| | Note | <u>October</u> <u>2023</u> | <u>October</u> <u>2022</u> |
|--|------|-------------------------------|-------------------------------|
| | | \$ | \$ |
| Revenue | 4 | 1,510,586 | 822,569 |
| Excise taxes | | | 152,316 |
| Net revenue | | <u>1,510,586</u> | <u>670,253</u> |
| Cost of goods sold | | <u>1,026,981</u> | <u>488,311</u> |
| Gross margin | | <u>483,605</u> | <u>181,942</u> |
| Selling expenses | | <u>130,923</u> | <u>29,307</u> |
| General and administrative expenses | | | |
| Salaries and employee benefits | | 91,078 | 87,069 |
| Share-based compensation | | 3,630 | 49,028 |
| Professional fees | | 67,826 | 63,447 |
| Quality Assurance | | 44,265 | 1,885 |
| Insurance | | 25,587 | 62,343 |
| Marketing and representation | | 8,731 | 48,796 |
| Travel | | 2,947 | |
| Office expenses | | 8,138 | 11,788 |
| Reporting issuer costs | | 1,149 | 3,855 |
| Loss on foreign exchange | | 1,425 | (229) |
| Depreciation | | 5,321 | 15,142 |
| | | <u>260,097</u> | <u>343,124</u> |
| Operating profit (loss) | | 92,586 | (190,489) |
| Financing expenses | 12 | 460 | 1,080 |
| Net profit (loss) and comprehensive profit (loss) | | <u>92,126</u> | <u>(191,569)</u> |
| Basic and diluted profit (loss) per share | | <u>0.002</u> | <u>(0.004)</u> |
| Basic and diluted weighted average number of common shares outstanding | | <u>50,474,683</u> | <u>48,590,987</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 quarter ended October 31, 2023 and year ended July 31, 2023

(In Canadian dollars)

| | Number | Share capital \$ | Contributed surplus \$ | Deficit \$ | Total equity \$ |
|---------------------------------------|-------------------|---------------------|------------------------------|---------------------|--------------------|
| Balance as at August 1, 2022 | 48,774,683 | 10,650,833 | 2,455,697 | (12,343,723) | 762,807 |
| Issuance of performance shares | 1,700,000 | 425,000 | (425,000) | | |
| Share-based compensation | | | 146,903 | | 146,903 |
| Transaction with owners | 50,474,683 | 11,075,833 | 2,177,600 | (12,343,723) | 909,710 |
| Net loss and comprehensive loss | | | | (452,140) | (452,140) |
| Balance as at July 31, 2023 | <u>50,474,683</u> | <u>11,075,833</u> | <u>2,177,600</u> | <u>(12,795,863)</u> | <u>457,570</u> |
| Balance as at August 1, 2023 | 50,474,683 | 11,075,833 | 2,177,600 | (12,795,863) | 457,570 |
| Share-based compensation | | | 3,630 | | 3,630 |
| Transaction with owners | 50,474,683 | 11,075,833 | 2,181,230 | (12,795,863) | 461,200 |
| Net loss and comprehensive loss | | | | 92,126 | 92,126 |
| Balance as at October 31, 2023 | <u>50,474,683</u> | <u>11,075,833</u> | <u>2,181,230</u> | <u>(12,703,737)</u> | <u>553,326</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 October 31, 2023 and July 31, 2023

(In Canadian dollars)

| | Note | <u>October</u> 2023 \$ | <u>July</u> 2023 \$ |
|---|------|------------------------------|---------------------------|
| ASSETS | | | |
| Current | | | |
| Cash | | 414,800 | 378,424 |
| Term deposit, 1.4% | | | |
| Receivables | | 851,868 | 525,461 |
| Inventories | 6 | 608,753 | 446,412 |
| Current income tax asset | | | |
| Prepaid expenses | | 35,158 | 35,158 |
| | | <u>1,910,578</u> | <u>1,385,455</u> |
| Long-term | | | |
| Right-of-use asset | 8 | 24,535 | 28,050 |
| Equipment | 7 | 28,737 | 30,542 |
| | | <u>1,963,850</u> | <u>1,444,047</u> |
| LIABILITIES | | | |
| Current | | | |
| Trade and other payables | | 1,320,504 | 892,417 |
| Current portion of lease liability | | 14,402 | 14,402 |
| Current portion of long-term debt | | 40,000 | 40,000 |
| Current portion of deferred government assistance | | 20,000 | 20,000 |
| | | <u>1,394,906</u> | <u>966,819</u> |
| Long-term | | | |
| Long-term debt | | 0 | |
| Deferred government assistance | | | |
| Lease Liability | 8 | 15,618 | 19,658 |
| | | <u>1,410,524</u> | <u>986,477</u> |
| EQUITY | | | |
| Share capital | 11 | 11,075,833 | 11,075,833 |
| Contributed surplus | | 2,181,230 | 2,177,600 |
| Deficit | | <u>(12,703,737)</u> | <u>(12,795,863)</u> |
| | | <u>553,326</u> | <u>457,570</u> |
| | | <u>1,963,850</u> | <u>1,444,047</u> |

The accompanying notes are an integral part of the consolidated financial statements (0)

On behalf of the Board,

Director

Director

The Good Shroom Co Inc.

Consolidated Statements of Cash Flows

For the quarters ended October 31, 2023 and July 31, 2023

(In Canadian dollars)

| | October | July |
|---|----------------|-------------|
| | 2023 | 2023 |
| | \$ | \$ |
| OPERATING ACTIVITIES | | |
| Net Profit | 92,126 | (452,140) |
| Adjustments for: | | |
| Share-based compensation | 3,630 | 146,903 |
| Depreciation | 5,321 | 21,245 |
| Presumed interest on lease liability | 460 | 2,400 |
| Net change in working capital items | 5 (60,660) | (73,537) |
| Cash flows from operating activities | 40,876 | (355,129) |
| INVESTING ACTIVITIES | | |
| Net change in term deposit and cash flows from investing activities | | 70,000 |
| FINANCING ACTIVITIES | | |
| Repayment of dues | | |
| Repayment lease liability | (4,500) | (18,000) |
| Cash flows from financing activities | (4,500) | (18,000) |
| Net change in cash | 36,376 | (303,129) |
| Cash, beginning of year | 378,424 | 681,553 |
| Cash, end of year | 414,800 | 378,424 |
| Income taxes paid (received) during the period | — | — |
| Interests paid during the period | — | — |

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

The Good Shroom Co Inc.

Notes to Consolidated Financial Statements

For the quarters ended October 31, 2023 and 2022

(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. 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".

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.

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 quarter ended October 31, 2023, the Company recorded a net profit of \$92,126, (loss of \$172, for the quarter ended October 31, 2022) and has an accumulated deficit of \$12,703,737 as at October 2023 (\$12,515,969 as at October 31, 2022). Besides the usual needs for working capital, it must achieve profitability, generate positive cash flows from its operations and obtain funds to enable it to its overhead and administrative costs. As at October 31, 2023, the Company had a working capital of \$515,672 (\$628,771 as at October 31, 2022). Management believes that these funds may not be sufficient to meet the obligations and liabilities of the Company. These uncertainties cast 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.

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 December 20, 2023.

The Good Shroom Co Inc.

Notes to Consolidated Financial Statements

For the quarters ended October 31, 2023 and 2022

(In Canadian dollars)

2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 October 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.

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.

The Good Shroom Co Inc.

Notes to Consolidated Financial Statements

For the quarters ended October 31, 2023 and 2022

(In Canadian dollars)

2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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 Good Shroom Co Inc.

Notes to Consolidated Financial Statements

For the quarters ended October 31, 2023 and 2022

(In Canadian dollars)

2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.8 Leases (continued)

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.

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.

The Good Shroom Co Inc.

Notes to Consolidated Financial Statements

For the quarters ended October 31, 2023 and 2022

(In Canadian dollars)

2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.9 Income taxes (Continued)

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 |
| Long-term debt | Amortized cost |

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.

The Good Shroom Co Inc.

Notes to Consolidated Financial Statements

For the quarters ended October 31, 2023 and 2022

(In Canadian dollars)

2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.10 Financial instruments (continued)

Financial liabilities at amortized cost

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

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.

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.

The Good Shroom Co Inc.

Notes to Consolidated Financial Statements

For the quarters ended October 31, 2023 and 2022

(In Canadian dollars)

2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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.

The Good Shroom Co Inc.

Notes to Consolidated Financial Statements

For the quarters ended October 31, 2023 and 2022

(In Canadian dollars)

2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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.

The Good Shroom Co Inc.

Notes to Consolidated Financial Statements

For the quarters ended October 31, 2023 and 2022

(In Canadian dollars)

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.

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 and contractual exploration 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.

The Good Shroom Co Inc.

Notes to Consolidated Financial Statements

For the quarters ended October 31, 2023 and 2022

(In Canadian dollars)

4 - REVENUES

| | October 31 2023 | October 31 2022 |
|--------------------|--------------------|--------------------|
| | \$ | \$ |
| Cannabis products | 1,501,385 | 742,010 |
| Wellness beverages | 9,201 | 80,559 |
| | <u>1,510,586</u> | <u>822,569</u> |

For the quarter ended October 31, 2023, one customer represents 98% of revenues. Revenues are generated in the following geographical markets:

| | 2023 | 2022 |
|---------------|------------------|----------------|
| | \$ | \$ |
| Canada | 1,506,385 | 759,214 |
| United States | 4,201 | 63,355 |
| | <u>1,510,586</u> | <u>822,569</u> |

5 - INFORMATION INCLUDED IN CASH FLOWS

The net change in working capital items is as follows:

| | October 31 2023 | July 31 2023 |
|--------------------------|--------------------|-----------------|
| | \$ | \$ |
| Receivables | (326,407) | (288,967) |
| Inventories | (162,341) | (60,299) |
| Current income tax asset | | |
| Prepaid expenses | 0 | 37,085 |
| Trade and other payables | 428,087 | 238,644 |
| | <u>(60,660)</u> | <u>(73,537)</u> |

6 - INVENTORIES

| | October 31 2023 | July 31 2023 |
|----------------|--------------------|-----------------|
| | \$ | \$ |
| Raw material | 66,934 | 79,964 |
| Finished goods | 541,819 | 366,448 |
| | <u>608,753</u> | <u>446,412</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 income.

The Good Shroom Co Inc.

Notes to Consolidated Financial Statements

For the quarters ended October 31, 2023 and 2022

(In Canadian dollars)

7 - EQUIPMENT

| | Equipment | Computer equipment | Total |
|---|-----------|-----------------------|--------|
| | \$ | \$ | \$ |
| Cost | | | |
| Balance, as at July 31, 2021, 2022 and 2023 | 44,652 | 7,731 | 52,383 |
| Accumulated depreciation | | | |
| Balance, as at July 31, 2022 | 12,044 | 2,577 | 14,621 |
| Depreciation | 4,643 | 2,577 | 7,220 |
| Balance, as at July 31, 2023 | 16,687 | 5,154 | 21,841 |
| Depreciation | 1,161 | 644 | 1,805 |
| Balance, as at October 31, 2023 | 17,848 | 5,798 | 23,646 |
| Net book value as at July 31, 2023 | 27,965 | 2,577 | 30,542 |
| Net book value as at October 31, 2023 | 26,804 | 1,933 | 28,737 |

8 - LEASES

| | October 31 2023 | July 31 2023 |
|----------------------------|--------------------|-----------------|
| | \$ | \$ |
| Right-of-use assets | | |
| Cost | | |
| Opening balance | 148,623 | 266,738 |
| Lease modification | | (118,115) |
| Ending balance | 148,623 | 148,623 |
| Accumulated depreciation | | |
| Opening balance | 120,573 | 106,548 |
| Depreciation | 3,516 | 14,025 |
| Ending balance | 124,089 | 120,573 |
| Ending net carrying amount | 24,534 | 28,050 |
| | 2023 | 2023 |
| | \$ | \$ |
| Lease liabilities | | |
| Opening Balance | 152,175 | 167,775 |
| Lease modification | | |
| Lease payments | (4,500) | (18,000) |
| Interest | 460 | 2,400 |
| Ending balance | 148,135 | 152,175 |
| Current portion | 14,402 | 14,402 |
| Non-current portion | 133,733 | 137,773 |

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8 - LEASES (Continued)

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.

Contractual undiscounted payments under lease liabilities are as follows:

| | \$ |
|-----------------|---------------|
| Within one year | 18,000 |
| 1 to 2 years | 18,000 |
| Total | <u>36,000</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.

With the exception of short-term leases and leases of low-value underlying assets, each lease is reflected in the statements of financial position as a right-of-use asset and a lease liability.

9 - LONG-TERM DEBT

| | 2023 | 2022 |
|--|---------------|---------------|
| | \$ | \$ |
| 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, 2023, 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 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 may either be repaid in 36 monthly instalments of capital and interest or repaid on maturity on December 31, 2025.

10 - RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

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

| | 2023 | 2022 |
|---------------------------------------|----------------|----------------|
| | Long-term debt | Long-term debt |
| | \$ | \$ |
| Beginning of the year and End of year | <u>40,000</u> | <u>40,000</u> |

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11 - SHARE CAPITAL

Authorized share capital

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

12 - FINANCIAL EXPENSES

| | 2023 | 2022 |
|--------------------------------------|--------------|---------------|
| | \$ | \$ |
| Interest on Dues | | 5,347 |
| Presumed interest on lease liability | 1,468 | 9,312 |
| | <u>1,468</u> | <u>14,659</u> |

13 - FINANCIAL ASSETS AND LIABILITIES

Classification of financial assets and liabilities

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

| | 2023 | | 2022 | |
|--|------------------|------------------|-----------------|----------------|
| | Carrying amount | Fair value | Carrying amount | Fair value |
| | \$ | \$ | \$ | \$ |
| Financial assets at amortized cost | | | | |
| Cash | 414,800 | 414,800 | 378,424 | 378,424 |
| Term deposit | | | | |
| Receivables (excluding taxes receivable) | 812,089 | 812,089 | 196,196 | 196,196 |
| | <u>1,226,889</u> | <u>1,226,889</u> | <u>574,620</u> | <u>574,620</u> |
| Financial liabilities at amortized cost | | | | |
| Trade and other payables | 1,200,907 | 1,200,907 | 452,515 | 452,515 |
| Long term-debt | 40,000 | 40,000 | 40,000 | 40,000 |
| | <u>1,240,907</u> | <u>1,240,907</u> | <u>492,515</u> | <u>492,515</u> |

Financial assets and financial liabilities measured at fair value in the consolidated 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:

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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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14 - 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:

| | <u>2023</u> | <u>2022</u> |
|----------------|-----------------------|-----------------------|
| | \$ | \$ |
| Long-term debt | 0 | |
| Equity | <u>553,326</u> | <u>457,570</u> |
| Total capital | <u><u>553,326</u></u> | <u><u>457,570</u></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.

15 - 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 as at October 31, 2023 and 2022.

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 October 31, 2023, 98% of receivables are from a single customer which is a government entity in Quebec and risk of default is considered low.

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16 - FINANCIAL INSTRUMENTS RISKS (continued)

Market risk

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

– 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 October 31, 2023 and 2022, exposure to this risk is not significant.

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:

| | 2023 | | |
|-------------------------------------|---------------------|--------------|---------------------|
| | Less than 1 year | 1 to 5 years | 5 years and more |
| | \$ | \$ | \$ |
| Trade and other payables | 1,200,907 | | |
| Long-term debt (including interest) | | | |
| Total | <u>1,200,907</u> | <u>–</u> | <u>–</u> |
| | | | |
| | 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>492,515</u> | <u>–</u> | <u>–</u> |

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17 - 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 and Chief Financial Officer for the quarters ending:

| | 2023 | 2022 |
|---|----------------------|-----------------------|
| | \$ | \$ |
| Salaries and expenses for employee benefits | 80,102 | 72,688 |
| Shared base compensation | <u>3,630</u> | <u>49,028</u> |
| | <u><u>83,732</u></u> | <u><u>121,716</u></u> |

Also, the Company incurred expenses of \$15,651 (\$2,536 in 2022) with companies controlled by an officer.