

**The Planting Hope Company Inc.**  
**Condensed Interim Consolidated Financial Statements**  
**For the three months ended March 31, 2023**  
**(Unaudited)**  
**(Stated in United States dollars)**



**Notice of No Auditor Review of  
Condensed Interim Consolidated Financial Statements**

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In accordance with National Instrument 51-102 released by the Canadian Securities Administrators, the Company discloses that its auditors have not reviewed these unaudited condensed interim consolidated financial statements as at and for the three months ended March 31, 2023.



**THE PLANTING HOPE COMPANY INC.**  
**CONDENSED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**  
(Stated in United States dollars)

As at	Note	March 31 2023	December 31 2022
		(Unaudited)	(Audited)
<b>Assets</b>			
<b>Current assets</b>			
Cash		\$ 897,725	\$ 236,532
Trade accounts receivable	4	1,231,476	1,003,526
Inventories	5	2,293,371	2,604,295
Prepaid expenses and deposits		227,878	229,958
<b>Total current assets</b>		<b>4,650,450</b>	4,074,311
<b>Non-current assets</b>			
Goodwill	3	2,243,283	2,243,283
Intangible assets	6	2,835,814	2,973,403
Right-of-use assets	9	418,596	447,783
Property and equipment		89,581	102,092
<b>Total assets</b>		<b>\$ 10,237,724</b>	\$ 9,840,872
<b>Liabilities</b>			
<b>Current liabilities</b>			
Accounts payable and accrued liabilities		\$ 4,240,022	\$ 4,100,413
Short-term debt	7	2,494,320	2,900,290
Convertible debt	8	201,265	144,913
Current portion of lease liability	9	109,194	105,823
Due to related parties	17	5,952	5,952
<b>Total current liabilities</b>		<b>7,050,753</b>	7,257,391
<b>Non-current liabilities</b>			
Convertible debt	8	3,006,407	546,499
Government loans		26,382	26,547
Lease liability	9	342,922	371,661
<b>Total liabilities</b>		<b>10,426,464</b>	8,202,098
<b>Shareholders' (deficit) equity</b>			
Share capital	10	34,307,944	34,307,944
Warrant reserve	11	3,053,709	3,053,709
Contributed surplus		939,250	751,419
Equity component of convertible debt	8	1,392,953	924,099
Accumulated other comprehensive income		135,264	162,122
Accumulated deficit		(40,017,860)	(37,560,519)
<b>Total shareholders' (deficit) equity</b>		<b>(188,740)</b>	1,638,774
<b>Total liabilities and shareholders' (deficit) equity</b>		<b>\$ 10,237,724</b>	\$ 9,840,872

Going concern (Note 1)

Subsequent events (Note 19)

Approved by the Board of Directors: Signed Kay Wong-Alafriz, Director

Signed Julia Stamberger, Director

*The accompanying notes are an integral part of these condensed interim consolidated financial statements.*



**THE PLANTING HOPE COMPANY INC.**  
**CONDENSED INTERIM CONSOLIDATED STATEMENTS OF**  
**LOSS AND COMPREHENSIVE LOSS**  
 (Unaudited)  
 (Stated in United States dollars)

For the three months ended March 31	Note	2023	2022
<b>Revenues</b>	14	<b>\$ 3,236,693</b>	<b>\$ 2,530,743</b>
<b>Trade spend</b>		<b>(608,426)</b>	<b>(495,464)</b>
<b>Spoilage and cash discounts</b>		<b>(189,423)</b>	<b>(34,755)</b>
<b>Net revenues</b>	14	<b>2,438,844</b>	<b>2,000,524</b>
<b>Cost of goods sold</b>		<b>(1,651,233)</b>	<b>(1,221,587)</b>
<b>Gross profit</b>		<b>787,611</b>	<b>778,937</b>
<b>Expenses</b>			
Selling, general and administrative	15	<b>2,550,348</b>	3,222,964
Interest and accretion	16	<b>178,849</b>	356,393
Equity-based compensation	12	<b>187,831</b>	166,019
Discontinued products	5	<b>143,441</b>	–
Amortization	6	<b>137,589</b>	111,710
Depreciation	9	<b>42,898</b>	36,942
<b>Total expenses</b>		<b>3,240,956</b>	<b>3,894,028</b>
<b>Loss before other income (expense)</b>		<b>(2,453,345)</b>	<b>(3,115,091)</b>
<b>Other income (expense)</b>			
Change in value of financial instruments		–	2,461,686
Loss on repayment of promissory note	7	–	(30,821)
Foreign exchange		<b>(3,996)</b>	(37,570)
<b>Total other income (expense)</b>		<b>(3,996)</b>	<b>2,393,295</b>
<b>Loss for the period</b>		<b>(2,457,341)</b>	<b>(721,796)</b>
<b>Currency translation adjustment</b>		<b>(26,858)</b>	<b>35,513</b>
<b>Comprehensive loss</b>		<b>\$ (2,484,199)</b>	<b>\$ (686,283)</b>
<b>Loss per share</b>	13	<b>\$ (0.02)</b>	<b>\$ (0.01)</b>

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**THE PLANTING HOPE COMPANY INC.**  
**CONDENSED INTERIM CONSOLIDATED STATEMENTS OF**  
**CHANGES IN SHAREHOLDERS' (DEFICIT) EQUITY**  
 (Unaudited)  
 (Stated in United States dollars)

For the three months ended March 31	Note	2023		2022
<b>Share capital</b>				
	10			
Balance, beginning of period		\$ 34,307,944	\$	22,636,830
Share issuances		–		6,287,589
Exercise of warrants		–		901
Share issue costs		–		(788,122)
Balance, end of period		<b>34,307,944</b>		28,137,198
<b>Warrant reserve</b>				
	11			
Balance, beginning of period		3,053,709		2,819,127
Exercise of warrants		–		(373)
Balance, end of period		<b>3,053,709</b>		2,818,754
<b>Contributed surplus</b>				
Balance, beginning of period		751,419		20,921
Equity-based compensation	12	187,831		166,019
Balance, end of period		<b>939,250</b>		186,940
<b>Equity component of convertible debt</b>				
Balance, beginning of period		924,099		–
Issuance of convertible debt	8	468,854		–
Balance, end of period		<b>1,392,953</b>		–
<b>Accumulated other comprehensive income (loss)</b>				
Balance, beginning of period		162,122		(8,871)
Currency translation adjustment		(26,858)		35,513
Balance, end of period		<b>135,264</b>		26,642
<b>Accumulated deficit</b>				
Balance, beginning of period		(37,560,519)		(29,754,753)
Net loss		(2,457,341)		(721,796)
Balance, end of period		<b>(40,017,860)</b>		(30,476,549)
<b>Total shareholders' (deficit) equity</b>		<b>\$ (188,740)</b>	<b>\$</b>	<b>692,985</b>

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**THE PLANTING HOPE COMPANY INC.**  
**CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(Unaudited)  
(Stated in United States dollars)

For the three months ended March 31	Notes	2023	2022
<b>Operating activities</b>			
<b>Loss for the period</b>		<b>\$ (2,457,341)</b>	<b>\$ (721,796)</b>
Add back (deduct) non-cash items:			
Amortization	6	137,589	111,710
Depreciation	9	42,898	36,942
Equity-based compensation	12	187,831	166,019
Interest and accretion	16	178,849	356,393
Change in fair value on financial instruments		-	(2,461,686)
Loss on repayment of promissory notes	7	-	30,821
Change in non-cash working capital:			
Trade accounts receivable		(227,950)	(595,619)
Inventories		310,924	34,937
Prepaid expenses and deposits		2,080	9,779
Accounts payable and accrued liabilities		139,609	802,039
<b>Cash flows used in operating activities</b>		<b>(1,685,511)</b>	<b>(2,230,461)</b>
<b>Investing activities</b>			
Business combination	3	-	(4,000,000)
Property and equipment purchases		(1,200)	(5,838)
<b>Cash (used in) provided by investing activities</b>		<b>(1,200)</b>	<b>(4,005,838)</b>
<b>Financing activities:</b>			
Repayment of short-term debt, net	7	(407,066)	(2,000,000)
Proceeds from convertible debt, net of issue costs	8	2,859,798	-
Lease payments	9	(37,083)	(36,378)
Government loan payments		(2,245)	-
Share issuance proceeds, net of issue costs		-	5,499,995
Repayment of due to related parties		-	(10,000)
Interest paid		(67,190)	(47,600)
<b>Cash provided by financing activities</b>		<b>2,346,214</b>	<b>3,406,017</b>
<b>Increase (decrease) in cash</b>		<b>659,503</b>	<b>(2,830,282)</b>
<b>Cash effects of currency translation</b>		<b>1,690</b>	<b>5,810,961</b>
<b>Cash, beginning of period</b>		<b>236,532</b>	<b>150,310</b>
<b>Cash, end of period</b>		<b>\$ 897,725</b>	<b>\$ 3,130,989</b>

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**THE PLANTING HOPE COMPANY INC.**  
**NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE THREE MONTHS ENDED MARCH 31, 2023**  
(Unaudited)  
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**1. NATURE OF OPERATIONS**

The Planting Hope Company Inc. (“TPHC”) was incorporated on November 19, 2020 by Certificate of Incorporation issued pursuant to the provisions of the Business Corporations Act (British Columbia) as Campio Capital Corp. and changed its name to The Planting Hope Company Inc. on May 7, 2021. The principal business of the Company is to develop, launch and scale nutritious, sustainable, and delicious consumer packaged foods and beverages in the natural food products segment of the United States, Canada and internationally. The Company strives to operate as a diverse, ethical and sustainable producer of nutritious, plant-based foods and snacks.

On August 25, 2021, TPHC completed the acquisition of Planting Hope Brands, LLC (“PHB”) (TPHC together with PHB, the “Company”). PHB is a Delaware Company formed on February 8, 2016 and based in Illinois. PHB manufactures and distributes plant-based and sustainable food and beverages. The principal markets for PHB’s products are in North America.

On January 14, 2022, the Company closed the acquisition of RightRice® business assets from Betterer Foods, Inc. (Note 3).

The head office and registered office of TPHC is located at c/o 400 – 725 Granville Street, Vancouver, British Columbia, V7Y 1G5. The corporate and registered office of PHB is 4710 N. Sheridan Road, Chicago, Illinois, 60640.

The Company’s shares trade on the TSX Venture Exchange (the “TSXV”) under the symbol “MYLK” and on the OTCBQ Venture Market under the symbol “MYLKF”.

*Going concern*

These unaudited condensed interim consolidated financial statements have been prepared on a going concern basis, which implies the Company will continue to realize its assets and discharge its liabilities in the normal course of business. During the three months ended March 31, 2023, the Company reported a net loss of \$2,457,341 (three months ended March 31, 2022 – \$721,796) and \$1,685,511 of cash flows used by operating activities (three months ended March 31, 2022 – \$2,230,461). As at March 31, 2023, the Company had an accumulated deficit of \$40,017,860 (December 31, 2022 – \$37,560,519) and a working capital deficit of \$2,400,303 (December 31, 2022 – \$3,183,080). As such, there is a material uncertainty related to these events and conditions that may cast significant doubt on the Company’s ability to continue as a going concern and therefore, it may be unable to realize its assets and discharge its liabilities in the normal course of business. The continuation of the Company as a going concern is dependent on the ability of the Company to achieve positive cash flow from operations and/or obtain necessary equity or other financing to continue. Subsequent to March 31, 2023, the Company settled \$0.3 million of accounts payable through the issuance of 924,576 SVS to the creditors and received \$0.3 million of proceeds from the issuance of two promissory notes (Note 19).

These unaudited condensed interim consolidated financial statements do not reflect adjustments to the recoverability and classification of recorded asset amounts and classification of liabilities that may be necessary should the Company be unable to continue as a going concern. Such adjustments to the carrying value of assets and liabilities, the reported expenses and their classifications, if required, could be material.



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**FOR THE THREE MONTHS ENDED MARCH 31, 2023**  
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**2. BASIS OF PRESENTATION**

These condensed interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board applicable to the preparation of interim financial statements as set out in International Accounting Standard 34 Interim Financial Reporting.

The Company has consistently applied the same accounting policies throughout all periods presented. These unaudited condensed interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto for the year ended December 31, 2022.

The Company adopted amendments to certain accounting pronouncements effective January 1, 2023, however, the amendments had no impact on the Company’s March 31, 2023 condensed interim consolidated financial statements nor do the amendments relate to accounting policies considered material to the Company. An accounting policy is considered material to the Company if it provides information to facilitate the understanding of other material information reported and disclosed in the Company’s consolidated financial statements.

The condensed interim consolidated financial statements were approved and authorized for issuance by the Board of Directors on May 30, 2023.

These condensed interim consolidated financial statements include the accounts of the following entities:

<u>Name</u>	<u>Place of Business</u>	<u>Ownership</u>
TPHC	Canada	Parent company
PHB	United States (“U.S.”)	100% owned subsidiary

**3. BUSINESS COMBINATION**

On January 14, 2022, the Company closed the arm’s-length acquisition of RightRice® business assets (the “Acquisition”) from Betterer Foods, Inc. (the “Seller”) for total consideration of \$6,875,904 comprised of \$4,000,000 in cash and two unsecured promissory notes bearing interest at 5% per annum valued at \$2,875,904 based on expected cash flows discounted at a rate of 15%.

The Acquisition was accounted for as a business combination and the purchase price was allocated to the fair value of assets acquired and liabilities assumed on the acquisition date as follows:

**Fair value of consideration:**

Cash	\$ 4,000,000
Promissory notes (Note 7(a))	2,875,904
	\$ 6,875,904

**Fair value of net assets:**

Trade accounts receivable	\$ 1,351,906
Inventories	1,322,849
Prepaid expenses and deposits	22,840
Accounts payable and accrued liabilities	(1,574,974)
Intangible assets (Note 6)	3,510,000
Goodwill	2,243,283
	\$ 6,875,904





**THE PLANTING HOPE COMPANY INC.**  
**NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE THREE MONTHS ENDED MARCH 31, 2023**  
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**4. TRADE ACCOUNTS RECEIVABLE**

The Company's trade accounts receivable are aged as follows:

	March 31 2023	December 31 2022
Less than 60 days overdue	\$ 1,202,241	\$ 816,610
Greater than 60 days overdue	32,832	202,197
	1,235,073	1,018,807
Less allowance for expected credit losses	(3,597)	(15,281)
Trade accounts receivable	\$ 1,231,476	\$ 1,003,526

**5. INVENTORIES**

	March 31 2023	December 31 2022
Ingredients	\$ 546,827	\$ 400,746
Packaging	504,620	691,416
Finished goods	1,502,518	1,614,774
Reserve for obsolescence	(117,153)	(102,641)
Discontinued products	(143,441)	-
	\$ 2,293,371	\$ 2,604,295

During the three months ended March 31, 2023, \$1,571,395 (three months ended March 31, 2022 – \$1,119,002) of inventory was expensed to cost of goods sold.

**6. INTANGIBLE ASSETS**

	Customer relationships	Brand name	Technology	Total
<b>Cost</b>				
Balance, December 31, 2022 and March 31, 2023	\$ 1,440,000	\$ 1,510,000	\$ 560,000	\$ 3,510,000
<b>Accumulated amortization</b>				
Balance, December 31, 2022	\$ (138,477)	\$ (290,416)	\$ (107,704)	\$ (536,597)
Amortization expense	(35,507)	(74,466)	(27,616)	(137,589)
Balance, March 31, 2023	\$ (173,984)	\$ (364,882)	\$ (135,320)	\$ (674,186)
<b>Net carrying amount</b>				
December 31, 2022	\$ 1,301,523	\$ 1,219,584	\$ 452,296	\$ 2,973,403
March 31, 2023	\$ 1,266,016	\$ 1,145,118	\$ 424,680	\$ 2,835,814



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**NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE THREE MONTHS ENDED MARCH 31, 2023**  
(Unaudited)  
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**7. SHORT-TERM DEBT**

	March 31 2023	December 31 2022
Promissory note (a)	\$ 1,094,386	\$ 1,093,290
Credit facility (b)	1,399,934	1,807,000
	\$ 2,494,320	\$ 2,900,290

A continuity of short-term debt is summarized in the following table:

Balance, December 31, 2022	\$ 2,900,290
Accrued interest	48,153
Interest paid	(47,057)
Cash advances	183,170
Cash repayments	(590,236)
Balance, March 31, 2023	\$ 2,494,320

During the three months ended March 31, 2023, the Company recognized \$48,153 (three months ended March 31, 2022 – \$27,671) of interest expense on short-term debt (Note 16).

(a) Promissory notes

As part of the consideration for the Acquisition completed on January 14, 2022 (Note 3), the Company issued two promissory notes.

The first unsecured promissory note (“Promissory Note 1”) in the amount of \$2,000,000 plus \$17,260 of accrued interest was paid on March 18, 2022 at which time the Company recognized a \$30,821 loss on settlement of promissory notes in the condensed interim consolidated statement of loss and comprehensive loss.

The second unsecured promissory note (“Promissory Note 2”) in the amount of \$1,000,000 was fully due and payable (including all accrued interest) on January 14, 2023. Pursuant to the terms of the Acquisition, the Company has the right to withhold from payment on Promissory Note 2 an amount equal to the Company’s good faith, reasonable estimate of the maximum amount of indemnifiable losses for Seller’s breach of representations and warranties in the Asset Purchase Agreement.

In January 2023, the Company exercised the right of setoff in connection with indemnification claims it has asserted against the Seller and has withheld payment of Promissory Note 2. The Seller disputes the Company’s indemnification claims and the Company’s entitlement to exercise the right of setoff. The Company has commenced legal action, the outcome of which is not yet known.

During the three months ended March 31, 2023, the Company recognized \$1,096 (three months ended March 31, 2022 – \$27,671) of interest expense on the promissory notes.

(b) Credit facility

On May 16, 2022, the Company entered into a non-dilutive revolving line of credit agreement (the “Credit Facility”) with CircleUp Credit Advisors LLC to support the Company’s growth. The Credit Facility has a credit limit of \$2,500,000 at a simple interest rate of 10.25% per annum, offers an advance rate on eligible accounts receivable (75%), purchase orders (65%), and inventory (50%), is secured against certain assets of PHB with a carrying value of \$6.8 million as at March 31, 2023 and is in place for 18 months to November 4, 2023. A fee of \$65,625 equal to 1.75% of the maximum amount of the Credit Facility is assessed annually



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**NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE THREE MONTHS ENDED MARCH 31, 2023**  
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and paid via proceeds from eligible accounts receivable which are first applied against the annual fee until fully repaid and next against accrued and unpaid interest. Proceeds from eligible accounts receivable in excess of the annual fee and accrued interest are paid to the Company. The annual fee is amortized to interest and accretion expense on a straight-line basis.

As at March 31, 2023, the balance drawn on the Credit Facility was \$1,399,934 (December 31, 2022 – \$1,807,000). During the three months ended March 31, 2023, the Company recognized \$47,057 (three months ended March 31, 2022 – \$nil) of interest expense and \$10,937 (three months ended March 31, 2022 – \$nil) of annual fee amortization (Note 16).

**8. CONVERTIBLE DEBT**

	March 31 2023	December 31 2022
Convertible Debentures (a)	\$ 3,103,505	\$ 589,422
Convertible Note Interest (b)	104,167	101,990
	3,207,672	691,412
Current portion	(201,265)	(144,913)
Long-term portion	\$ 3,006,407	\$ 546,499

During the three months ended March 31, 2023, the Company recognized \$64,040 (three months ended March 31, 2022 – \$18,870) of interest expense and \$40,492 (three months ended March 31, 2022 – \$260,623) of accretion on convertible debt (Note 16).

(a) Convertible Debentures

A continuity of convertible debentures is as follows:

	Principal amount (CAD)	Debt portion (USD)	Equity portion (USD)
<b>2022 Convertible Debentures</b>			
Principal amount	2,223,750		
Issue costs	(234,389)		
Balance, December 31, 2022	\$ 1,989,361	\$ 589,422	\$ 924,099
<b>2023 Convertible Debentures</b>			
Principal amount	4,004,600	2,445,188	479,491
Issue costs	(88,838)	(54,244)	(10,637)
	3,915,762	2,390,944	468,854
Accretion	–	40,492	–
Accrued interest	–	61,944	–
Interest paid	–	(7,764)	–
Foreign exchange	–	28,467	–
Balance, March 31, 2023	\$ 5,905,123	\$ 3,103,505	\$ 1,392,953



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**NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE THREE MONTHS ENDED MARCH 31, 2023**  
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2022 Convertible Debentures

As at March 31, 2023 and December 31, 2022, the Company had CAD \$2,223,750 principal amount of convertible debentures (the “2022 Debentures”) outstanding. The principal amount bears interest at 12% per annum, payable semi-annually in arrears and matures on October 20, 2025 (the “maturity date”). The March 31, 2023 face value of the 2022 Debentures is \$1,840,304 (CAD \$2,490,600) representing the \$1,643,129 (CAD \$2,223,750) principal amount plus \$197,175 (CAD \$266,850) of bonus interest.

At any time prior to the maturity date, holders of the 2022 Debentures may convert all or a portion of the principal amount into units of the Company at CAD \$0.55 per unit where each unit is comprised of one SVS and one warrant exercisable into one subordinated voting share (“SVS”) at an exercise price of CAD \$0.80 at any time prior to the maturity date. Any units, SVS and warrants issued in respect of the conversion of 2022 Debentures may not be transferred or sold until April 21, 2023.

Interest may be paid at the election of the Company in cash or converted into SVS at a conversion price (the “Interest Conversion Price”) equal to the maximum Discounted Market Price (as defined under the policies of the TSX-V) based on the closing price of the Company’s shares on the date immediately preceding the interest payment due date.

On the maturity date, the Company has the option to:

- repay in cash the principal amount plus all bonus interest and accrued and unpaid interest; or
- convert the principal amount into units at CAD \$0.55 per unit and repay all bonus interest and accrued and unpaid interest in cash or convert into SVS at the Interest Conversion Price.

At any time after April 21, 2023, the Company may provide a redemption notice to the 2022 Debenture holders to redeem, by cash payment, the face value of the 2022 Debentures and all accrued and unpaid interest plus a redemption penalty of 8% of the face value (the “Redemption Amount”). After receipt of the redemption notice, holders may elect to convert all or a portion of the principal amount into units at CAD \$0.55 per unit and convert all or a portion of related bonus interest and accrued and unpaid interest into SVS at the Interest Conversion Price. The Redemption Amount shall be paid in cash.

During the three months ended March 31, 2023, the Company recognized \$44,048 (three months ended March 31, 2022 – \$nil) of interest expense on the 2022 Debentures and paid \$7,764 of accrued interest.

2023 Debentures

In February and March 2023, the Company closed two tranches of a private placement of unsecured, non-transferable convertible debentures (the “2023 Debentures”) for aggregate gross proceeds of \$2,924,679 (CAD \$4,004,600) representing the principal amount. The March 31, 2023 face value of the 2023 Debentures is \$2,958,999 (CAD \$4,004,600) representing the principal amount.

The 2023 Debentures bear interest at 10% per annum, payable semi-annually in arrears and mature three years from the date of issuance. Interest may be paid at the election of the Company in cash or converted into SVS at the Interest Conversion Price.

At any time prior to the maturity date, holders of the 2023 Debentures may convert all or a portion of the principal amount into units of the Company at CAD \$0.50 per unit where each unit is comprised of one SVS and one warrant exercisable into one SVS at an exercise price of CAD \$0.80 at any time prior to the maturity date.

At any time that is one year after the date of issuance and prior to the maturity date, the Company may provide a redemption notice to the 2023 Debenture holders to redeem, by cash payment, the principal amount of the 2023 Debentures and all accrued and unpaid interest plus a Redemption Penalty. After



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**FOR THE THREE MONTHS ENDED MARCH 31, 2023**  
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receipt of the redemption notice, holders may elect to convert all or a portion of the principal amount into units at CAD \$0.50 per unit and convert all or a portion of accrued and unpaid interest into SVS at the Interest Conversion Price. The Redemption Penalty shall be paid in cash.

On the maturity date, the Company has the option to:

- repay in cash the principal amount plus all accrued and unpaid interest; or
- convert the principal amount into units at the lesser of (i) CAD \$0.50 per unit and (ii) the maximum Discounted Market Price (as defined under the policies of the TSX-V) based on the closing price of the Company's shares on the date immediately preceding the maturity date (the "Principal Conversion Price"); and
- repay all accrued and unpaid interest in cash or convert into SVS at the Interest Conversion Price.

The 2023 Debentures, SVS, warrants and underlying securities of the Company issuable on conversion or exercise are subject to a four-month hold period. In addition, the SVS, warrants and underlying securities will not be transferable or saleable until August 29, 2023.

At issuance, the principal amount of the 2023 Debentures is considered to be a financial liability because although there is no contractual obligation to settle in cash, it is convertible into a variable number of units based on the Principal Conversion Price, if and when converted. The interest payable on the 2023 Debentures, is also considered to be a financial liability as it is convertible into a variable number of SVS based on the Interest Conversion Price, if and when converted. The estimated fair value of the principal amount and interest payable was determined to be \$2,445,188 (CAD \$3,348,060) based on the present value of expected cash flows discounted at 18% and the \$479,491 (CAD \$656,540) the residual portion of 2023 Debenture proceeds was allocated to equity. At issuance, the estimated fair value of the Redemption Amount was determined to be nominal and therefore no amount has been recognized in the consolidated financial statements.

The Company paid \$8,284 (CAD \$11,343) of finders' and broker fees and incurred \$56,597 (CAD \$77,495) of other direct costs in connection with the private placement which have been attributed to debt and equity issue costs based on the relative values of the debt and equity portions.

The debt portion, net of attributed issue costs, is accreted using an effective interest rate of approximately 1.4% per month. Accretion expense is included in accretion and interest expense in the consolidated statement of loss and comprehensive loss.

During the three months ended March 31, 2023, the Company recognized \$17,897 of interest expense on the convertible debentures.

(b) Convertible Note Interest

As at December 31, 2022, the Company had \$101,990 of accrued and unpaid interest due in respect of unsecured convertible notes (the "Notes") issued in 2021 for which the principal portion was converted to 17,303,571 SVS of the Company in November 2022.

During the three months ended March 31, 2023, the Company recognized \$2,096 of interest on the accrued and unpaid interest based on a simple rate of 10% per annum (three months ended March 31, 2022 – \$18,870 of interest on Notes).

On March 31, 2023, the Company issued a promissory note for a portion of the accrued and unpaid interest in the principal amount of \$99,475 (CAD \$134,625). The promissory note bears interest at 10% per annum commencing on November 14, 2022 until the full and final payment of the principal amount on or before March 31, 2024. The remaining portion of accrued and unpaid interest will continue to accrue interest at



**THE PLANTING HOPE COMPANY INC.**  
**NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE THREE MONTHS ENDED MARCH 31, 2023**  
(Unaudited)  
(Stated in United States dollars)

10% per annum until paid.

As at March 31, 2023, the Company the aggregate balance of accrued and unpaid interest due in respect the Notes was \$104,167.

**9. RIGHT-OF-USE ASSETS AND LEASE LIABILITY**

Right-of-use assets	Cost	Accumulated depreciation	Carrying amount
Balance, December 31, 2022	\$ 583,786	\$ (136,003)	\$ 447,783
Depreciation expense	–	(29,187)	(29,187)
<b>Balance, March 31, 2023</b>	<b>\$ 583,786</b>	<b>\$ (165,190)</b>	<b>\$ 418,596</b>

During the three months ended March 31, 2023, the Company recognized \$42,898 of depreciation expense comprised of \$29,187 on right-of-use assets and \$13,711 on other property and equipment (three months ended March 31, 2022 – \$36,942 comprised of \$29,187 on right-of-use assets and \$7,755 on other property and equipment).

Lease liability	
Balance, December 31, 2022	\$ 477,484
Lease payments	(37,083)
Imputed interest	11,715
<b>Balance, March 31, 2023</b>	<b>452,116</b>
Current portion	(109,194)
<b>Non-current portion</b>	<b>\$ 342,922</b>

As at March 31, 2023, the remaining expected annual undiscounted lease payments are as follows:

	2023 (Remainder)	2024	2025	2026	Total
Annual lease payments	111,728	151,321	150,126	127,180	540,355

**10. SHARE CAPITAL**

The Company's authorized share capital is comprised of an unlimited number of SVS and multiple voting shares ("MVS"), with each MVS equivalent to 100 SVS.

Equivalent SVS Issued	Number of shares	Amount
Balance, December 31, 2022 and March 31, 2023	111,968,971	\$ 34,307,944



**THE PLANTING HOPE COMPANY INC.**  
**NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE THREE MONTHS ENDED MARCH 31, 2023**  
(Unaudited)  
(Stated in United States dollars)

Escrowed equity instruments

Pursuant to an escrow agreement dated October 29, 2021 in connection with the Company's initial public offering completed on November 12, 2021, the following equity instruments are held in escrow:

	SVS	MVS	Performance warrants exercisable into SVS	Performance warrants exercisable into MVS	Stock options exercisable into SVS
Balance, March 31, 2023	51,217	130	81,000	247,500	365,815
Scheduled release:					
May 12, 2023	10,243	26	16,200	49,500	73,163
November 12, 2023	10,243	26	16,200	49,500	73,163
May 12, 2024	10,243	26	16,200	49,500	73,163
November 12, 2024	20,488	52	32,400	99,000	146,326

**11. WARRANTS**

As at December 31, 2022 and March 31, 2023, the Company had 13,216,897 warrants exercisable into SVS and 180,000 warrants exercisable into MVS outstanding. Information about warrants outstanding as at March 31, 2023 is summarized below:

Exercise price (CAD)	Number outstanding	Weighted average life remaining (years)	Number exercisable
Exercisable into SVS			
\$ 0.80	2,000,272	2.7	2,000,272
0.40	2,516,625	1.7	2,516,625
0.25	8,700,000	3.6	8,700,000
\$ 0.36	13,216,897	3.1	13,216,897
Exercisable into MVS			
\$ 1.00	180,000	3.4	—





**THE PLANTING HOPE COMPANY INC.**  
**NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE THREE MONTHS ENDED MARCH 31, 2023**  
(Unaudited)  
(Stated in United States dollars)

**12. STOCK OPTIONS AND RESTRICTED SHARE UNITS**

(a) Stock options

As at December 31, 2022 and March 31, 2023, the Company had 1,816,287 stock options exercisable into SVS outstanding. Information about stock options outstanding as at March 31, 2023 is summarized below:

Exercise price (CAD)	Number outstanding	Weighted average life remaining (years)	Number exercisable
\$ 0.44	801,287	3.7	188,156
0.65	785,000	3.2	255,500
0.87	230,000	1.8	220,000
\$ 0.59	1,816,287	3.2	663,656

(b) Restricted share units

As at December 31, 2022 and March 31, 2023, the Company had 2,516,434 restricted share units (“RSUs”) outstanding. The RSUs vest in three equal tranches on July 29, 2023, 2024 and 2025 and expire on July 29, 2027.

(c) Equity-based compensation

During the three months ended March 31, 2023, the Company recognized \$187,831 (three months ended March 31, 2022 – \$166,019) of equity-based compensation related to stock options and RSUs. The remaining unrecognized fair value at March 31, 2023 is \$667,199.

**13. PER SHARE AMOUNTS**

For the three months ended March 31	2023	2022
Net loss	\$ (2,457,341)	\$ (721,796)
Weighted average number of shares outstanding	111,968,971	82,742,316
Loss per share	\$ (0.02)	\$ (0.01)

The effect of convertible debt, warrants, stock options and RSUs is anti-dilutive in loss periods.

**14. REVENUES AND SEGMENT REPORTING**

The Company earns revenue from product sales to Canadian and U.S. customers, which is derived from one reportable operating segment. All of the Company’s non-current assets are located in the U.S.

Gross revenue by geographical area is summarized as follows:

For the three months ended March 31	2023	2022
Canada	\$ 28,719	\$ 2,862
U.S.	3,207,974	2,527,881
	\$ 3,236,693	\$ 2,530,743





**THE PLANTING HOPE COMPANY INC.**  
**NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE THREE MONTHS ENDED MARCH 31, 2023**  
(Unaudited)  
(Stated in United States dollars)

During the three months ended March 31, 2023, the Company derived approximately 56% of its gross revenues from four direct customers and direct-to-consumer e-commerce platforms (three months ended March 31, 2022 – 67% from three direct customers and direct-to-consumer e-commerce platforms), each with gross revenues of 10% or greater.

For the three months ended March 31	2023	2022
Customer 1	10%	15%
Customer 2	12%	17%
Customer 3	14%	35%
Customer 4	20%	–
	56%	67%

Net revenues by sales channel are summarized as follows:

For the three months ended March 31	2023	2022
Wholesale	\$ 1,108,824	\$ 1,638,343
Non-traditional	–	52,056
e-Commerce	1,330,020	310,125
	\$ 2,438,844	\$ 2,000,524

**15. SELLING, GENERAL AND ADMINISTRATIVE**

For the three months ended March 31	2023	2022
Advertising and marketing	\$ 1,056,208	\$ 639,284
Payroll and recruiting	850,914	859,301
Professional fees	221,706	1,184,634
Outbound freight and fulfillment	308,749	345,336
General office expenses	112,771	194,409
	\$ 2,550,348	\$ 3,222,964

**16. INTEREST AND ACCRETION**

For the three months ended March 31	2023	2022
Short-term debt interest (Note 7)	\$ 48,153	\$ 27,671
Convertible debt interest (Note 8)	64,040	18,870
Government loan interest	1,406	1,387
Imputed interest on lease liability (Note 9)	11,715	14,050
Accretion of short-term debt (Note 7)	10,937	33,279
Accretion of convertible debt (Note 8)	40,492	260,623
Accretion of government loans	674	841
Other interest, net of minor interest income	1,432	(328)
	\$ 178,849	\$ 356,393



**THE PLANTING HOPE COMPANY INC.**  
**NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE THREE MONTHS ENDED MARCH 31, 2023**  
(Unaudited)  
(Stated in United States dollars)

**17. RELATED PARTY TRANSACTIONS**

Transactions with related parties are incurred in the normal course of business and initially measured at fair value.

- (a) As at March 31, 2023, due to related parties was comprised of \$5,952 (December 31, 2022 – \$5,952) of reimbursable corporate expenses.
- (b) During the three months ended March 31, 2023, the Company incurred \$18,000 (three months ended March 31, 2022 – \$17,542) of consulting fees charged by the sibling of a founding member. As at March 31, 2023, accounts payable and accrued liabilities included \$43,000 (December 31, 2022 – \$30,000) due to this related party.

**18. RISK MANAGEMENT**

- (a) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company's approach to managing liquidity is to ensure it will have sufficient liquidity to meet its liabilities when due. The Company's ongoing liquidity is impacted by various external events and conditions, including commodity price fluctuations and global economic conditions. The Company manages this risk through detailed monitoring of budgeted and projected operating results and cash requirements. Senior management regularly reviews levels of sales and monitors obligations and customer credit facilities.

The Company's liabilities as at March 31, 2023 include obligations relating to the 2022 Debentures with a face value of \$1,840,304 (CAD \$2,490,600) which mature on October 20, 2025 and the 2023 Debentures with a face value of \$2,958,999 (CAD \$4,004,600) which mature in February 28, 2026 and March 13, 2026. On the maturity dates, the Company has the option to make a cash settlement offer to the debenture holders should it have sufficient cash and if the Company considers such payment to be in the best interests of the Company taking into account the Company's liquidity risk management strategy, or to convert the principal amount of 2022 Debentures into units at CAD \$0.55 per unit and the principal amount of the 2023 Debentures into units at the Principal Conversion Price per unit. See Note 8(a).

The table below summarizes the maturity profile of the Company's financial liabilities based on contractual payments:

As at March 31, 2023	Carrying amount \$	Less than 1 year \$	1 to 2 Years \$	3 to 5 Years \$	5 years + \$	Total contractual amount \$
Accounts payable and accrued liabilities	4,240,022	4,240,022	–	–	–	4,240,022
Promissory note (Note 7(a))	1,094,386	1,094,386	–	–	–	1,094,386
Credit facility (Note 7(b))	1,399,934	1,399,934	–	–	–	1,399,934
2022 Debentures (Note 8(a))	644,297	79,214	–	1,840,304	–	1,919,518
2023 Debentures (Note 8(a))	2,459,208	17,884	–	2,958,999	–	2,976,883
Convertible Note Interest (Note 8(b))	104,167	104,167	–	–	–	104,167
Government loans	26,382	–	–	8,360	141,640	150,000
Lease liability (Note 9)	452,116	111,728	151,321	277,306	–	540,355
Due to related parties (Note 17)	5,952	5,952	–	–	–	5,952
	<b>10,426,464</b>	<b>7,053,287</b>	<b>151,321</b>	<b>5,084,969</b>	<b>141,640</b>	<b>12,431,217</b>



**THE PLANTING HOPE COMPANY INC.**  
**NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE THREE MONTHS ENDED MARCH 31, 2023**  
 (Unaudited)  
 (Stated in United States dollars)

(b) Currency risk

Currency risk is the risk that changes in foreign exchange rates may have an effect on future cash flows associated with financial instruments. The Company is exposed to foreign currency risk on the following USD equivalent of financial instruments denominated in CAD:

	March 31 2023	December 31 2022
Cash	\$ 637,732	\$ 117,892
Trade accounts receivable	48,991	36,286
Accounts payable and accrued liabilities	(835,171)	(859,875)
Convertible debt	(3,207,672)	(691,412)
<b>Net monetary liabilities</b>	<b>\$ (3,356,120)</b>	<b>\$ (1,397,109)</b>

Assuming all other variables remain constant, a fluctuation of +/- 1% in the Bank of Canada CAD to USD exchange rate would increase or decrease net loss for the three months ended March 31, 2023 by approximately \$335,600.

To date, the Company has not entered into financial derivative contracts to manage exposure to fluctuations in foreign exchange rates.

**19. SUBSEQUENT EVENTS**

- (a) On April 14, 2023, the Company granted the following stock options exercisable at CAD \$0.62 per SVS and 645,363 RSUs:
- 48,387 stock options to an officer of the Company for a five-year term from the grant date and vesting annually in three equal tranches over three years from the grant date;
  - 592,993 stock options to employees and contractors of the Company for a five-year term from the grant date of which 36,129 stock options vest immediately and 556,864 stock options vest quarterly in 12 equal tranches over three years from the grant date; and
  - 353,428 RSUs to certain officers of the Company and 241,935 RSUs to employees of the Company, all of which vest annually in three equal tranches over three years from the grant date.
- (b) In April 2023, the Company entered into binding agreements to settle eleven outstanding debts (the "Debt Settlements") for a total amount of \$243,297 and CAD\$107,560 (for combined amount of approximately \$323,327 (CAD \$434,551)). Subject to the approval of the TSXV, the Debt Settlements will consist of the issuance of 924,576 SVS to the creditors at a deemed price of CAD \$0.47 per SVS. The SVS issued in connection with the Debt Settlements will bear a statutory four-month hold period from the date of issuance in accordance with applicable securities legislation and will also be subject to restrictions on transfer and will be released from such restrictions in tranches of 15% on the dates that are six months, seven months, eight months, nine months, 10 months and 11 months from the date of issuance, and a remaining tranche of 10% on the date that is 12 months from the date of issuance.
- (c) In April 2023, the Company retained a third-party securities dealer to provide market-making services in accordance with TSXV policies. The securities dealer will trade the Company's SVS on the TSXV to maintain an orderly market and improve the liquidity and depth of the SVS. As consideration for the services provided, the Company will pay the securities dealer a fee of \$7,500 per month for an initial minimum term of 12 months, after which the agreement may be terminated by the Company at any time upon 30 days' written notice.



**THE PLANTING HOPE COMPANY INC.**  
**NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE THREE MONTHS ENDED MARCH 31, 2023**  
(Unaudited)  
(Stated in United States dollars)

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- (d) In May 2023, the Company executed two promissory note agreements (the “Notes” or “Note”) with third-party individuals (the “Holders” or “Holder”) for aggregate proceeds of \$315,960 (CAD \$450,000). The Notes bear interest at 10% per annum and mature two months from the date of issue (the “Maturity Date”). Unless paid earlier, the unpaid principal amount of the Notes and accrued interest shall be payable on the earliest of (1) fifteen days following the demand of the Holder which may not be made earlier than the Maturity Date (2) one business day following the completion of a qualified financing for gross proceeds of \$1 million or CAD \$1.4 million and (3) an event of default as defined in the Note agreement. The unpaid principal amount of the Notes and accrued interest is convertible, at the option of the Holder, into SVS of the Company at the lowest price per SVS of the Company’s next equity financing.