Combined Consolidated Financial Statements

For the years ended December 31, 2022 and 2021

Expressed in thousands of United States dollars,
except share and per share amounts

Irwin Naturals, Inc.

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Shareholders
Irwin Naturals, Inc.
Los Angeles, California

Opinion

We have audited the combined consolidated financial statements of Irwin Naturals, Inc. and its subsidiaries (the "Company"), which comprise the combined consolidated statements of financial position as at the periods ended December 31, 2022 and 2021 and the combined consolidated statements of profit (loss) and comprehensive income (loss), changes in shareholders' equity and cash flows for the years then ended, and notes to the combined consolidated financial statements, including a summary of significant accounting policies.

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

Basis for Opinion

We conducted our audits in accordance with Canadian generally accepted auditing standards ("CAS") and the auditing standards generally accepted in the United States of America ("US GAAS"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Combined 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 the United States of America, 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.

Emphasis of Matter – Going Concern

We draw attention to Note 2 in the combined consolidated financial statements, which indicates that the Company incurred a net loss of $2,520,000 during the year ended December 31, 2022, and, as of the date which these financial statements were issued, had received a formal default notice from their lender resulting from failure of covenant compliance. As stated in Note 2, these events or conditions, along with other matters as set forth in Note 2, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the combined consolidated financial statements of the current period. These matters were addressed in the context of our audit of the combined consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We have determined the matters described below to be the key audit matters to be communicated in our auditor's report.

Revenue Recognition – Products Revenue

Description of the matter

We call attention to Note 2 of the combined consolidated financial statements, whereby the Company describes their policies by which finished product sales ("Products Revenue") is recognized and recorded on the combined consolidated statements of profit (loss). Products Revenue are recorded and accounted for in accordance with *IFRS 15, Revenue from Contracts with Customers*. Products Revenue is recognized when there is transfer of control at an amount that reflects the consideration to which the Company expects to be entitled in exchange for transferring goods or services to a customer, adjusted for any anticipated variable consideration.

Why the matter is a key audit matter

We identified the accuracy of the Company's Products Revenue as a key audit matter. This matter represented a significant risk of material misstatement given the magnitude of Products Revenue recorded as of the years ended December 31, 2022 and 2021, and the complexity in the estimation of variable consideration of the transaction price related to such revenue. The high degree of management estimate and input into the calculations of variable consideration required substantial testing to validate management's estimates and proper valuation of the accuracy of revenue recognized.

How the matter was addressed

The primary procedures we performed to address this key audit matter included the following:

- We selected a sample of Products Revenue, obtained the invoice, purchase order, customer contract or agreement, packing list, bill of lading, proof of delivery, and evidence of cash collection, to validate no customer acceptance clauses existed that would preclude revenue recognition, and revenue was recognized in the appropriate fiscal year.
- We obtained and assessed the reasonableness of management's period end accrual for the estimation of variable consideration.
- We selected a sample of credit memos during the Company's fiscal year end and from the period immediately subsequent, and obtained the related invoice, return form, and shipping documents, and validated revenue was recognized in the fiscal year ended December 31, 2022 only when control was transferred to the customer and if applicable, the transaction price was either estimated or determined.

Business Combinations

Description of the matter

We call attention to Note 2 of the combined consolidated financial statements, whereby the Company describes their policies by which acquisitions are treated and how acquired assets and liabilities are valued then recorded and held on the statements of financial position. Acquisitions which are considered to be business combinations are recorded and accounted for in accordance with IFRS 3, *Business Combinations*. Once the Company determines that an acquisition qualifies as a business combination, assets and liabilities are adjusted to their respective fair value and goodwill is recorded, if applicable. The process to estimate the fair value of acquired assets and liabilities involves a high degree of management estimation.

Why the matter is a key audit matter

We identified the valuation of the fair value of assets and liabilities acquired as a key audit matter. This matter represented a significant risk of material misstatement given the magnitude of the fair value of such assets and liabilities recorded as of the years ended December 31, 2022 and 2021. The high degree of management estimate and input into the calculation of these fair values required substantial audit evidence to validate management's estimates.

How the matter was addressed

The primary procedures we performed to address this key audit matter included the following:

- We gained an understanding and evaluated the Company's consideration over the treatment of transactions which fell within the scope of IFRS 3, *Business Combinations*.
- We obtained third-party support for all consideration paid to close in-scope acquisitions.
- For material assets and liabilities, we selected a sample of opening balances and transactions to agree to third-party support.
- For material intangible assets, we utilized the services of internal specialists to assist in evaluating the valuation methodology used by management by comparing with methodology commonly used to value similar intangible assets, and we identified and assessed the reasonableness of key inputs such as projected financial information, as necessary.

Other Information

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

Our opinion on the combined 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 combined 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 combined consolidated financial statements, or our knowledge obtained in the audit and remain alert for indications that the other information appears to be materially misstated. We obtained Management's Discussion and Analysis as at 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. We have nothing to report in this regard.

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

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

In preparing these combined consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to a 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 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 Combined Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the combined 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 CAS and US GAAS 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 combined consolidated financial statements.

As part of an audit in accordance with CAS and US GAAS, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the combined 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 combined 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 combined consolidated financial statements, including the disclosures, and whether the combined 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 Company to express an opinion on the 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.

From the matters communicated with those charged with governance, we determined those matters were of the most significance in the audit of the finance statements in the current periods and therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or, when, in extremely rare circumstances, we determine that a matter should not be communication in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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

Armanino LLP

Armanino LLP
Certified Public Accountants
Woodland Hills, California, United States of America

May 24, 2023

Irwin Naturals, Inc.

Combined Consolidated Statements of Financial Position

As of December 31, 2022 and 2021

(Expressed in US Dollars, rounded in thousands except share data)

	December 31, 2022	December 31, 2021
ASSETS		
Current assets:		
Cash	$ 800	$ 625
Trade receivables, net (Note 16)	21,311	16,394
Inventory (Note 9)	22,506	18,652
Prepaid expenses and other current assets (Note 8)	2,932	1,470
Total current assets	47,549	37,141
Non-current assets:		
Property and equipment, net (Note 10)	271	190
Right-of-use assets (Note 12)	4,194	3,722
Notes receivable from shareholders (Note 19)	6,014	3,264
Notes receivable from related parties (Note 14)	255	—
Goodwill (Note 7)	10,215	—
Intangible assets (Note 7)	7,677	87
Deferred tax asset (Note 21)	2,367	2,650
Other non-current assets	259	165
Total non-current assets	31,252	10,078
TOTAL ASSETS	**$ 78,801**	**$ 47,219**
LIABILITIES AND EQUITY		
Current liabilities:		
Trade and other payables (Note 13)	$ 17,997	$ 13,310
Reserve for returns	2,036	814
Lease liabilities, current (Note 12)	1,817	1,366
Line of credit (Note 11)	16,448	6,178
Notes payable, current (Note 15)	36	—
Total current liabilities	38,334	21,668
Non-current liabilities:		
Lease liabilities, non-current (Note 12)	2,529	2,434
Notes payable, non-current (Note 15)	498	—
Contingent consideration (Notes 7 and 23)	6,154	—
Deferred tax liability (Note 21)	983	1
Total non-current liabilities	10,164	2,435
TOTAL LIABILTIES	48,498	24,103
Equity:		
Class B Non-Voting Shares, 320,000,000 shares authorized, issued and outstanding (Note 5)	13,750	13,750
Subordinate Voting Shares, 2,986,347 shares authorized, issued and outstanding (Notes 5 and 7)	7,068	3,000
Multiple Voting Shares, 18,240 shares authorized, issued and outstanding (Note 5)	59	59
Proportionate Voting Shares, 2,085,200 shares authorized, issued and outstanding (Notes 5 and 7)	5,610	—
Warrants reserve (Note 5)	30	—
Accumulated other comprehensive income	3	(9)
Retained (deficit) earnings	(3,324)	681
Total controlling interest	23,196	17,481
Noncontrolling interest (Note 20)	7,107	5,635
TOTAL EQUITY	30,303	23,116
TOTAL LIABILTIES AND EQUITY	**$ 78,801**	**$ 47,219**

Nature of operations (Note 1)
Commitments and contingencies (Note 23)
Subsequent events (Note 24)

Approved on behalf of the Board on May 23, 2023.

The accompanying notes are an integral part of these audited Combined Consolidated Financial Statements.

Irwin Naturals, Inc.

Combined Consolidated Statements of Profit and Comprehensive Income
For the Years Ended December 31, 2022 and 2021
(Expressed in US Dollars, rounded in thousands except share data)

	For the years ended December 31, 2022	2021
Operating revenue	$ 89,470	$ 100,342
Cost of sales	(48,726)	(55,648)
Gross profit	40,744	44,694
Selling, general and administrative expenses	38,904	34,124
Income from operations	1,840	10,570
Other (income) expenses:		
Interest expense, net	767	131
Listing expense	500	2,512
Loss (gain) on foreign currency exchange	1	(1)
Gain on contingent consideration	(1,198)	—
Goodwill impairment	2,479	—
Intangible assets impairment	261	—
Total other (income) expenses	2,810	2,642
Net (loss) income before income taxes	(970)	7,928
Income tax expense (recovery)	1,550	(2,186)
Net (loss) income	(2,520)	10,114
Less: net income attributable to non-controlling interest	1,472	1,499
Net (loss) income attributable to controlling interest	$ (3,992)	$ 8,615
Comprehensive (Loss) Income		
Net (loss) income	$ (2,520)	$ 10,114
Foreign currency translation adjustments	12	(11)
Total comprehensive (loss) income	(2,508)	10,103
Less: net income attributable to non-controlling interest	1,472	1,501
Comprehensive (loss) income attributable to controlling interest	$ (3,980)	$ 8,602
(Loss) earnings per share, controlling interest – basic	$ (2.79)	$ 7.18
(Loss) earnings per share, controlling interest – diluted	$ (2.79)	$ 0.03
Weighted average number of shares outstanding – basic	1,431,319	1,200,001
Weighted average number of shares outstanding – diluted	1,431,319	321,218,241

The accompanying notes are an integral part of these audited Combined Consolidated Financial Statements.

Irwin Naturals, Inc.

Combined Consolidated Statements of Changes in Equity

For the Years Ended December 31, 2022 and 2021

(Expressed in US Dollars, rounded in thousands except share data)

	Common Stock		Share Capital										
			Number of Shares										
	Shares	Amount	Class B Non-Voting	Multiple Voting	Subordinate Voting	Proportionate Voting	Amount	Additional Paid In Capital	Accumulated Other Comprehensive Income	Retained Earnings (Deficit)	Restated Total Controlling Interest	Restated Noncontrolling Interest	Total Shareholder's Equity
Balance, as of December 31, 2020	**1,000,000**	**$ 1**	**—**	**—**	**—**	**—**	**$ —**	**$ 14,771**	**$ —**	**$ —**	**$ 14,772**	**$ —**	**$ 14,772**
Shares issued in exchange for notes receivable (Note 5)	52,632	—	—	—	—	—	—	3,240	—	—	3,240	—	3,240
Conversion of notes receivable to noncontrolling interest	—	—	—	—	—	—	—	(3,240)	—	—	(3,240)	3,240	—
Conversion to C-Corp	—	—	320,000,000	—	—	—	13,750	(14,171)	—	(1,857)	(2,278)	2,278	—
Issuance of shares (Note 5)	(1,052,632)	(1)	—	18,240	1,200,001	—	3,059	—	1	—	3,059	—	3,059
Comprehensive income	—	—	—	—	—	—	—	—	—	10,103	10,103	—	10,103
Accumulated other comprehensive income	—	—	—	—	—	—	—	—	(11)	11	—	—	—
Noncontrolling interest allocation (Note 20)	—	—	—	—	—	—	—	—	—	(117)	(117)	117	—
Distribution to shareholders	—	—	—	—	—	—	—	(600)	1	(7,459)	(8,058)	—	(8,058)
Balance, as of December 31, 2021	**—**	**—**	**320,000,000**	**18,240**	**1,200,001**	**—**	**16,809**	**—**	**(9)**	**681**	**17,481**	**5,635**	**23,116**
Issuance of shares (Notes 5 and 7)	—	—	—	—	1,809,546	2,085,200	9,721	—	—	—	9,721	—	9,721
Purchase of shares (Note 5)	—	—	—	—	(23,200)	—	(43)	—	—	(13)	(56)	—	(56)
Comprehensive loss	—	—	—	—	—	—	—	—	—	(2,508)	(2,508)	—	(2,508)
Warrants reserve (Note 5)	—	—	—	—	—	—	—	30	—	—	30	—	30
Accumulated other comprehensive income	—	—	—	—	—	—	—	—	12	(12)	—	—	—
Noncontrolling interest allocation (Note 20)	—	—	—	—	—	—	—	—	—	(1,472)	(1,472)	1,472	—
Balance, as of December 31, 2022	**—**	**$ —**	**320,000,000**	**18,240**	**2,986,347**	**2,085,200**	**$ 26,487**	**$ 30**	**$ 3**	**$ (3,324)**	**$ 23,196**	**$ 7,107**	**$ 30,303**

The accompanying notes are an integral part of these audited Combined Consolidated Financial Statements.

Irwin Naturals, Inc.
Combined Consolidated Statements of Cash Flows
For the Years Ended December 31, 2022 and 2021
(Expressed US Dollars, rounded in thousands)

	For the years ended December 31,	
	2022	2021
Net (loss) income	$ (2,520)	$ 10,114
Adjustments to reconcile to net cash (used in) provided by operating activities:		
Depreciation and amortization	1,806	1,428
Gain on contingent consideration	(1,198)	—
Goodwill impairment	2,479	—
Intangible assets impairment	261	—
Change in warrants reserve	30	—
Change in allowance for doubtful accounts	(12)	—
Change in inventory reserve	(4,349)	(297)
Change in deferred tax asset	1,265	(2,650)
Non-cash share capital from share-based payment transaction	—	3,058
Notes receivable from shareholder	(2,700)	—
Notes receivable from related parties	(255)	—
Interest expense, net	85	132
Income taxes expense (recovery)	—	(2,186)
Changes to working capital:		
Trade receivables	(4,804)	820
Inventory	495	(3,777)
Prepaids expenses and other current assets	(1,391)	187
Trade and other payables	3,296	3,728
Reserve for returns	1,221	427
Other non-current assets	(75)	(29)
Net cash (used in) provided by operating activities	(6,366)	10,955
Cash flows from investing activities:		
Purchases of investments	—	(1)
Purchases of property and equipment	(147)	(51)
Business acquisitions, net of cash acquired	(778)	—
Net cash used in investing activities	(925)	(52)
Cash flows from financing activities:		
Proceeds from line of credit	94,590	34,860
Payments to line of credit	(84,212)	(36,183)
Payments of debt issuance costs	(104)	—
Distributions to shareholders	—	(8,059)
Payments on operating leases	(1,666)	(1,327)
Debt repaid after acquisition	(1,098)	—
Purchase of treasury stock	(56)	—
Net cash provided by (used in) financing activities	7,454	(10,709)
Effect of foreign exchange on cash	12	(11)
Net increase in cash	175	183
Cash at beginning of the year	625	442
Cash at end of the year	$ 800	$ 625

Supplemental Disclosure with Respect to Cash Flow (Note 17)

The accompanying notes are an integral part of these audited Combined Consolidated Financial Statements.

(Expressed in US Dollars, rounded in thousands except share amounts)

1. NATURE OF OPERATIONS

Irwin Naturals, Inc. ("Irwin" and, together with its subsidiaries the "Company") was founded in 1994 and is headquartered in Los Angeles, California. Irwin is a vitamins and other health supplements manufacturing company that also operates twelve mental health clinics in the United States. All amounts presented as of December 31, 2022 and 2021 or for the years ended December 31, 2022 and 2021 include amounts for the subsidiaries (listed below), combined and consolidated. Further detail of the entity's subsidiaries is discussed below.

Subsidiaries	Licensed operators (1)
Irwin Naturals, a Nevada Corporation ("IN Nevada")	New England Ketamine
5310 Holdings, LLC ("5310 Holdings")	Invictus Clinic, LLC
Irwin Naturals Emergence, Inc. ("IN Emergence")	Hobie Fuerstman D O PLC
Midwest Ketafusion LLC	
KHC Capital Group, LLC	
Ketamine Health Centers, LLC	
Ketamine Management, LLC	
Ketamine Health Centers of Weston, LLC	
Ketamine Health Centers of West Palm Beach, LLC	
Ketamine Health Centers of Orlando, LLC	
Ketamine Health Centers at Bonita Springs, LLC	
Irwin Naturals Cannabis, Inc. ("IN Cannabis")	
DAI US HoldCo, Inc. ("US HoldCo")	

(1) Entities contracted with IN Emergence through management service agreements.

For the period January 1, 2021 through August 12, 2021, IN Nevada and 5310 Holdings were commonly controlled privately held companies. On August 13, 2021, these two entities were included in a share-based payment transaction and were consolidated. On August 25, 2021, the Company launched an offering to trade up to 1,200,001 shares of subordinate voting shares (the "Subordinate Voting Shares") on the Canadian Securities Exchange ("CSE") under the ticker "IWIN". On November 26, 2021, the Company began trading on the OTCQB Venture Market under the ticker "IWINF". On October 11, 2021, the Company's shares became listed for trading on the Börse-Frankfurt Exchange under the securities identification code "WKN:A3CVJR" and the stock symbol "97X". Details of the share-based payment transactions are discussed in Note 5.

IN Nevada is a Nevada Corporation based in Los Angeles, California, that develops vitamins and other health supplements and distributes these products in the United States and Canada through two main channels: mass market retailers and health food stores. Prior to April 13, 2021, IN Nevada held a licensing agreement for worldwide licenses to use, market, sell, and promote certain trademarks held by 5310 Holdings.

5310 Holdings is a California limited liability company based in Los Angeles, California that held the intellectual property related to products sold by IN Nevada. On April 13, 2021, the equity for 5310 Holdings, and its assets therein, were contributed to IN Nevada. This entity does not have any current operations.

IN Emergence is a Nevada Corporation based in Los Angeles, California, and was formed on September 17, 2021. This entity was created to facilitate the Company's purchase of the mental health clinics discussed in Note 7. In addition to the wholly owned subsidiaries noted above, this entity also consolidates four clinics where state regulations prevent direct ownership (see Note 4 regarding basis of consolidation).

IN Cannabis is a Nevada Corporation based in Los Angeles, California, and was formed on October 19, 2021. This entity was created to leverage the Irwin Naturals® brand name by selling non-cannabis raw materials to licensed third parties that manufacture products containing tetrahydrocannabinol. There were no revenues earned by IN Cannabis during the year ended December 31, 2022.

US HoldCo is a Nevada Corporation based in Los Angeles, California, and was formed on August 13, 2021 to facilitate the share-based payment transaction noted above. This entity does not have any current operations.

All significant intercompany balances and transactions have been eliminated in consolidation.

During the year ended December 31, 2022, the Company derived approximately 98% of its revenue from vitamins and other health supplements and 2% from the mental health clinics.

2. GENERAL INFORMATION AND STATEMENT OF COMPLIANCE WITH IFRS

These combined consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC").

These combined consolidated financial statements of the Company were authorized for issuance by the Board of Directors on May 23, 2023.

3. NEW, AMENDED, AND FUTURE ACCOUNTING PRONOUNCEMENTS

New Accounting Pronouncements

The Company has applied certain new and revised standards issued by the IASB that are effective for the period beginning on or after January 1, 2022.

Amendments to IAS 37 ("IAS 37") – Onerous Contracts: Cost of Fulfilling a Contract

These amendments specify which costs an entity needs to include when assessing whether a contract is onerous or loss making. Costs that relate directly to a contract consist of both the incremental costs of fulfilling that contract and an allocation of other costs that relate directly to fulfilling contracts. The amendments apply to contracts for which the entity has not yet fulfilled all its obligations at the beginning of the annual reporting period in which the entity first applies the amendments. The entity shall recognize the cumulative effect of initially applying the amendments as an adjustment to the opening balance of retained earnings or other component of equity, as appropriate, at the date of initial application. The Company adopted these amendments on January 1, 2022 and the adoption did not have an impact on the Company's combined consolidated financial statements.

IFRS 9 Financial Instruments ("IFRS 9") – Fees in the '10 per cent' Test for Derecognition of Financial Liabilities

The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment. The Company adopted this amendment on January 1, 2022 and the adoption did not have an impact on the Company's combined consolidated financial statements.

Amended and Future Accounting Pronouncements

Amendments to IAS 1 ("IAS 1") – Presentation of financial statements

The amendments clarify how to classify debt and other liabilities as current or non-current. The amendments to IAS 1 apply to annual reporting periods beginning on or after January 1, 2024. The Company is currently assessing the impact of these amendments on the combined consolidated financial statements.

Amendments to IAS 12 ("IAS 12") – Income taxes

The amendments clarify that the initial recognition exception does not apply to the initial recognition of transactions that give rise to equal taxable and deductible temporary differences. The amendments to IAS 12 apply to annual reporting periods beginning on or after January 1, 2023. The Company does not anticipate the application of these amendments to result in any impact on the combined consolidated financial statements.

There are currently no other future changes to IFRS with potential impact on the Company.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The Company's combined consolidated financial statements have been prepared on an accrual basis and under the historical cost convention, except for the revaluation of certain financial assets. Certain comparative figures have been reclassified to conform to the current year's presentation. As of December 31, 2021 the Company misallocated the issuance of the Subordinate Voting Shares of $3,000 from controlling to noncontrolling interest (see Note 20). The Company recharacterized this balance as controlling interest as of December 21, 2021 in the current combined consolidated financial statements. Additionally, certain figures from 2021 were adjusted for rounding purposes.

Irwin's functional currency is the Canadian Dollar (CAD); however, the combined consolidated financial statements are expressed in US dollars (USD) using the current exchange rate at the date of recognition for profit and loss amounts and the period-end rate for balance sheet amounts. Conversion adjustments are recognized within accumulated other comprehensive income. Monetary amounts are rounded to the nearest thousands, except for earnings per share.

The Company's operating segments are components of the business for which discrete financial information is reviewed regularly by the Chief Operating Decision Maker (the "CODM") to assess performance and make decisions regarding resource allocation. The Company has assessed the CODM to be the Chief Executive Officer and Chief Financial Officer. The Company reviews the results of operations on a segment basis, consistent with how the CODM manages and views our business. The Company's operating segments are (i) Products, (ii) Clinics, and (iii) corporate and other.

Presentation of Financial Statements - Going Concern

Accounting standards requires management to assess whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the entity's ability to continue as a going concern within one year after the financial statements are issued. If substantial doubt exists, additional disclosures are required.

On May 11, 2023, the Company received a notice of default from its lender resulting from a failure to meet certain covenants. As a result of the notice and the Company's anticipated operating cash outflows the Company believes that substantial doubt exists regarding our ability to continue as a going concern. The lender is currently forbearing its rights related to its notice of default and its rights to accelerate payments or implement the relevant penalty rate, and the Company is continuing to cooperate with the lender. If such demand for repayment were to occur, the Company does not have the financial resources to repay such obligations. The Company is also dependent upon its Credit Facility to fund its operations and satisfy obligations. Accordingly, the Company has taken several actions to continue to support its operations and meet its obligations, including renegotiating payments terms with both our customers and suppliers, exploring options to amend or refinance our debt, and to reduce operating costs and expenditures. Although the Company believes that the actions discussed herein may result in sufficient availability to meet the current covenant requirements, we cannot predict, that such actions will be successful. Based on these factors, the Company believes there is substantial doubt about our ability to continue as a going concern.

Basis of Consolidation

These combined consolidated financial statements include the financial results of the Company and its subsidiaries. This presentation reflects a common-controlled combination of previously existing entities. Subsidiaries include both entities which are wholly owned as well as entities over which the Company has the authority or ability to exert power and make financial and/or operating decisions (i.e., control).

The Company owns its mental health clinics directly or has entered into long-term management services agreements ("MSA") to operate and control certain of its mental clinics by contract. The Company's preference is to own the clinics; however, some state laws restrict the corporate practice of medicine and require a licensed medical practitioner to own the clinic. Accordingly, the managed clinics are owned exclusively by a medical professional within a professional service corporation (formed as a limited liability company or corporation) and are under common control with the Company in order to comply with state laws regulating the ownership of medical practices. Notes 1 and 7 to these combined consolidated financial statements define which mental health clinics were acquired through a management service agreement.

The combined consolidated financial statements include the operating results of acquired entities from the effective date of acquisition.

All transactions and balances between the combined consolidated entities are eliminated in consolidation. Amounts reported in the financial statements of subsidiaries have been adjusted where necessary to ensure consistency with the accounting policies adopted by the Company.

The Company attributes total comprehensive income or loss between the owners of the IN Nevada and the non-controlling interests based on their respective ownership interests.

Business combinations

The Company accounts for business combinations under the acquisition method of accounting, where the total purchase price is allocated to the tangible and identified intangible assets acquired and liabilities assumed based on their estimated fair values. The purchase price is allocated using the information currently available and may be adjusted up to one year from acquisition date. The purchase price in excess of the fair value of the tangible and identified intangible assets acquired, less liabilities assumed, is recognized as goodwill. During the year ended December 31, 2022, the Company acquired six mental health groups which operated twelve mental health clinics (listed below) from unrelated third parties (the “2022 Acquisitions”). As a result of the 2022 Acquisitions, the Company recorded $12,694 in goodwill and $7,852 in identifiable intangible assets on the respective acquisition dates (see Note 7).

The following entities were acquired through a business combination during the year ended December 31, 2022 (see Note 7):

- *Midwest Ketafusion LLC (“MWK”):* On March 14, 2022, the Company completed the acquisition of MWK, a privately held limited liability company that offers ketamine treatments and behavioral and mental health therapy.
- *KHC Capital Group, LLC dba Ketamine Health Centers (“KHC”):* On May 20, 2022, the Company completed the acquisition of KHC (and its related entities), a privately held limited liability company that offers ketamine treatments and behavioral and mental health therapy.
- *New England Ketamine (“NEK”):* On July 27, 2022, the Company completed the acquisition of the assets of NEK, including a finalized management service agreement with NEK, a privately held, professional limited liability company that offers ketamine treatment, as well as behavioral and mental health therapy.
- *Invictus Clinic, LLC (“ICG”):* On August 5, 2022, the Company completed the acquisition of the assets of ICG, including a finalized management service agreement with ICG, a limited liability company that offers ketamine assisted therapy, hydration via IV infusion, and NAD+ therapy, as well as behavioral and mental health therapy.
- *Hobie Fuerstman D O PLC dba Preventive Medicine (“PMV”):* On August 11, 2022, the Company completed the acquisition of the assets of PMV, including a finalized management service agreement with PMV, a privately-held, professional limited liability company that offers ketamine treatment, as well as behavioral and mental health therapy.
- *Care Clinic, Inc. dba Florida Mind Health Center (“FMH”):* On December 8, 2022, the Company completed the acquisition of the assets of FMH and took over the operations of FMH, a privately-held corporation that offers ketamine treatment, behavioral and mental health therapy.

Goodwill

The Company's goodwill represents the excess of the purchase price over the fair value of the net identifiable assets acquired and liabilities assumed in business combinations. The goodwill generated from the business combinations is primarily related to the value placed on the employee workforce and expected synergies. Judgment is involved in determining if an indicator or change in circumstances relating to impairment has occurred. Such changes may include, among others, a significant decline in expected future cash flows, a significant adverse change in the business climate, and unforeseen competition.

For impairment assessment purposes, assets are grouped at the lowest levels for which there are largely independent cash inflows (cash-generating units, or CGU). Goodwill is allocated to those cash-generating units that are expected to benefit from synergies of a related business combination and represent the lowest level within the Company at which management monitors goodwill. These cash-generating units are tested for impairment whenever events or changes in circumstances indicate the carrying amount may not be recoverable.

An impairment loss is recognized for the amount by which the asset's (or CGU's) carrying amount exceeds its recoverable amount, which is the higher of fair value less costs of disposal and value-in-use. To determine the value-in-use, management estimates expected future cash flows from each cash-generating unit and determines a suitable discount rate in order to calculate the present value of those cash flows. Discount factors are determined individually for each cash-generating unit and reflect current market assessments of the time value of money and asset-specific risk factors. Impairment losses for cash-generating units reduce first the carrying amount of any goodwill allocated to the cash-generating unit. Any remaining impairment loss is charged pro rata to the other assets in the cash-generating unit.

The Company notes that within the operating segments there are eight CGUs where the related cash inflows can be individually and reliably identified from other units. The units are as follows: IN Nevada and IN Cannabis, combined in our Products segment, and the six 2022 Acquisitions, combined in our Clinics segment (see Segment discussion above).

During the Company's annual impairment test, the Company compared actual performance to expectations for each CGU. During this analysis, the Company noted no indicators of impairment related to IN Nevada, IN Cannabis, and four of the six acquisitions. The two units where performance did not meet expectations were MWK and KHC. To determine the recoverable amount, the Company estimated expected future cash flows from the units and determined a suitable discount rate in order to calculate the present value of those cash flows. Discount factors are determined individually for each cash-generating unit and reflect current market assessments of the time value of money and asset-specific risk factors. As a result, the Company recorded a noncash impairment of goodwill at MWK and KHC in the amount of $710 and $1,769, respectively, for the year ended December 31, 2022.

Intangible Assets

The Company capitalizes the fair value of intangible assets acquired in business combinations. The Company performs valuations of assets acquired and liabilities assumed on each acquisition accounted for as a business combination and allocates the purchase price of each acquired business to its respective net tangible and intangible assets. The Company records an impairment loss when the carrying amount of the asset is not recoverable and exceeds its fair value.

During the Company's annual impairment test, the Company reviewed past performance to expectations. During this analysis, the Company noted no indicators of impairment related to IN Nevada, IN Cannabis, and four of the six acquisitions. The two units where performance did not meet expectations were MWK and KHC. To determine the recoverable amount, the Company estimated expected future cash flows from the units and determined a suitable discount rate in order to calculate the present value of those cash flows. Discount factors are determined individually for each cash-generating unit and reflect current market assessments of the time value of money and asset-specific risk factors. As a result, the Company recorded a noncash impairment of intangible assets in the amount of $261 at KHC for the year ended December 31, 2022.

Critical accounting estimates and judgments

When preparing the Company's combined consolidated financial statements, management makes a number of judgements, estimates and assumptions about the recognition and measurement of assets, liabilities, revenue and expenses.

The following are the judgements made by management in applying the accounting policies of the Company that have the most significant effect on these combined consolidated financial statements:

i) *Fair value of equity-like instruments:* The fair value of equity-like instruments are determined using a variety of techniques including the use of valuation models. The inputs to these models are derived using observable market data, where possible. Where observable market data is not available, judgment is required to establish fair values. Judgment includes, but is not limited to, consideration of model inputs such as volatility, estimated life, and discount rates.

ii) *Estimating variable consideration for returns and sales promotion incentives*: The Company uses historical customer return data to determine the expected return percentages. To estimate this amount for our trade and incentive programs, the Company reviews (i) the projected level of sales volume; (ii) customer rates for allowances, discounts, and rebates; (iii) historical spending patterns; and (iv) sales lead time.

iii) *Amortization:* Amortization of property and equipment and intangible assets are dependent upon the estimated useful lives, which are determined through the exercise of judgment. The assessment of any impairment of these assets is dependent upon estimates of recoverable amounts that take into account factors such as economic and market conditions and the useful lives of assets.

iv) *Inventory:* Inventory is carried at the lower of cost or net realizable value. The determination of net realizable value involves significant management judgement and estimates, including the estimation of future selling prices.

v) *Goodwill*: Goodwill is the excess of the price paid for the acquisition of an entity over the fair value of the net identifiable assets and liabilities acquired. During the initial assessment of intangible assets and goodwill significant management judgements and estimates are used, including the valuation of acquired trade names and partner relationships.

vi) *Contingent consideration*: Contingent consideration, also known as an earn-out, is a form of consideration in an acquisition in which the acquirer agrees to pay additional cash consideration or equity interests to the former owners (sellers) if certain future events occur. During the initial valuation of contingent consideration significant management judgements and estimates are used, including discounted cash flows analysis during the earn-out period for the acquisitions.

COVID-19 Estimation Uncertainty

The full impact of the COVID-19 outbreak continues to evolve as of the date of these combined consolidated financial statements. As such, it is uncertain as to the full magnitude that the pandemic will have on the Company's combined consolidated financial condition, liquidity and future results of operations. Given the daily evolution of the COVID-19 outbreak, it is possible that estimates in the Company's combined consolidated financial statements may change and the effect of any such changes could be material. The Company is closely monitoring the impact of the pandemic on all aspects of its business.

Segment Reporting

As a result of the 2022 Acquisitions, the Company has three operating segments: vitamins and other health supplements ("Products"), mental health clinics ("Clinics"), and Corporate. In identifying these operating segments, management generally follows the Company's drivers for revenues and expenses. Each of these operating segments is managed separately as each requires different marketing approaches and other resources. During 2022, there was no inter-segment exchange of goods or services.

Refer to Note 22 for further financial information regarding the segments.

Revenue Recognition

Overview

The Company generates revenue primarily from finished product sales ("Products Revenue") and services provided at the Company's mental health clinics ("Clinic Revenue"), the fees for which are billed either to the patient or a third-party payer.

Generally, the Company uses the following five-step contract-based analysis of transactions to determine if, when, and how much revenue can be recognized:

1. Identify the contract with a customer;
2. Identify the obligation(s) in the contract;
3. Determine the transaction price;
4. Allocate the transaction price to the obligation(s) in the contract; and
5. Recognize revenue when or as the Company satisfies the obligation(s).

Products revenue

The Company's Products revenue is derived from the sale of finished goods to customers who are mass-market retailers or via direct shipment to the end consumer. Products revenue is recognized at an amount that reflects the consideration to which the Company expects to be entitled in exchange for transferring goods or services to a customer. The Company recognizes revenue when control of the goods has transferred, which is determined by respective shipping terms and certain additional considerations. Invoices are generally issued at the time of delivery (which is when the Company has satisfied its performance obligations under the arrangement). As such, a receivable is recognized as the consideration is unconditional and only the passage of time is required before payment is due. The Company does not have performance obligations subsequent to delivery of the sale of goods to customers and revenues from sale of goods are recognized upon the passing of control to the customer.

Product revenue represents the amount of consideration to which the Company expects to be entitled through the sale of goods, excluding sales tax, and after the application of the variable consideration constraint. Variable consideration includes estimates for sales allowances, defective products, and returns by customers made based on certain judgments, contractual terms and conditions, and historical data. The Company uses the expected value method to quantify the variable consideration. The Company monitors periodic results against historical data and makes any adjustments to both sales allowances and returns accruals as required (see *Critical accounting estimates and judgments* above).

Clinic revenue

Revenue at the mental health clinics is primarily derived from services performed at our mental health clinics. Clinic revenue is measured based on the consideration specified in the contract with a customer, net of variable consideration, including discounts. The Company does not have performance obligations after delivery of the service to customers. Clinic revenue is recognized when the service is provided to a customer and primarily collected at the time of service.

Trade receivables

Trade receivables consist primarily of receivables from third parties arising from sales of our finished products. The Company considers customer credit-worthiness, past and current transaction history with the customer, contractual terms, current economic industry trends, and changes in customer payment terms when determining whether collectability is reasonably assured and whether to record allowances for its receivables. If the financial condition of the Company's customers deteriorates and adversely affects their ability to make payments, additional allowances will be recorded. As of December 31, 2022 and 2021, the Company's allowance for doubtful accounts was $378 and $389, respectively.

Inventory

Inventory consists primarily of vitamins and other health supplements. Inventory is stated at the lower of cost or net realizable value. Additionally, we adjust the carrying value of our inventory for obsolete and slow-moving inventory. The Company has obsolete and slow-moving inventories which have reduced inventory by $1,724 and $6,073 to present inventory at the lower of cost or net realizable value in our combined consolidated balance sheets as of December 31, 2022 and 2021, respectively.

Cost of sales

Cost of sales primarily consist of expenses related to the manufacturing of our finished goods. The cost of the finished goods is inclusive of all contract manufacturers' tolling costs and raw material costs, as well as component costs. In addition to the cost of the finished goods, the cost of inbound freight, raw material testing fees, vendor rebates, and inventory obsolescence reserve are also included in cost of sales.

Fair value of financial instruments

The carrying amounts of the Company's financial instruments approximate their fair values and include trade receivables, inventory, notes receivable from shareholder, notes payable, and trade and other payables.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or a liability. Fair value measurements are categorized into Levels 1, 2, or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

a) Level 1 are unadjusted quoted prices in active markets for identical assets or liabilities;

b) Level 2 are inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly; and

c) Level 3 are inputs for the asset or liability that are not based on observable market data.

The carrying amounts of cash, other financial assets, trade receivables, notes receivable from shareholders, and trade and other payables approximate their fair values due to their short-term nature.

Leased assets

The Company has leases for the main warehouse, the offices of its principal operations, and medical offices for its mental health clinics. The Company leases its physical properties under operating leases. The Company recognizes rent expense on a straight-line basis for its operating leases. The Company recognizes a right-of-use asset and lease liability within its combined consolidated balance sheets for operating leases with terms greater than twelve months. The initial measurement of the lease liability is measured at the present value of lease payments not yet paid, discounted generally using the Company's incremental borrowing rate at the commencement date. The Company's lease terms may include options to extend or terminate the lease when it is reasonably certain that the Company will exercise that option. Leases with an initial term of twelve months or less are not recorded on the Company's combined consolidated balance sheets, and the Company does not separate non-lease components from lease components.

Property and equipment

Property and equipment are stated at cost at the date of purchase, less accumulated depreciation. Depreciation is calculated using the straight-line method using the estimated useful lives of the related assets, which range from two to seven years. At least annually, the Company reviews the assets for impairment.

Repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) that has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risk specific to the obligation. An amount equivalent to the discounted provision is capitalized within property and equipment and is depreciated over the useful lives of the related assets. The increase in the provision due to the passage of time is recognized as interest expense. For the years ended December 31, 2022 and 2021, the Company did not record any provisions.

Income taxes

The Company uses the balance sheet liability method to account for income taxes. Under this approach, deferred income tax assets and liabilities are recorded for the future tax consequences of differences between the tax basis and financial reporting basis of assets and liabilities, measured using enacted tax rates and laws that will be in effect when the differences are expected to reverse. Deferred tax assets are reduced by a valuation allowance to the extent our management concludes that it is more likely than not that the assets will not be realized. To assess the recoverability of any tax assets recorded on the balance sheet, we consider all available positive and negative evidence, including our past operating results, the existence of cumulative income in the most recent years, changes in the business in which we operate, and our forecast of future taxable income. In determining future taxable income, we make assumptions, including the amount of state and federal pre-tax operating income, the reversal of temporary differences, and the implementation of feasible and prudent tax strategies. These assumptions require significant judgment about the forecasts of future taxable income and are consistent with the plans and estimates we are using to manage our businesses.

5. EQUITY TRANSACTIONS

On August 13, 2021, Irwin Naturals, Inc. (formerly Datinvest International Ltd.) completed a share-based payment transaction of IN Nevada (the “Transaction"), whereby the Company amended its articles to (i) create the proportionate voting shares (the “Proportionate Voting Shares”) and multiple voting shares (the "Multiple Voting Shares"); (ii) add special rights and restrictions to the Common Shares and change the identifying name of the Common Shares to "Subordinate Voting Shares"; and (iii) change its name from "Datinvest International Ltd." to "Irwin Naturals, Inc."

On the date of this transaction IN Nevada issued 320,000,000 of Class B Non-Voting Shares (the "Class B Shares") to various executives (effectively exchanging the IN Nevada shares of 1,052,632 Common Shares on a proportionate basis), issued 18,240 Multiple Voting Shares to the CEO, and issued 1,200,001 Subordinate Voting Shares on the CSE. The Class B Shares and Multiple Voting Shares are exchangeable into Subordinate Voting Shares on a 1:1 basis. The Proportionate Voting Shares are exchangeable into Subordinate Voting Shares on a 100:1 basis. (The Subordinate Voting Shares, Proportionate Voting Shares and Multiple Voting shares shall be referred to collectively as “Shares”).

Prior to the completion of the Transaction, the CEO did not own or exercise control or direction over any securities of the Company. After the completion of the Transaction, the CEO had voting control of an approximately 99.5% of the outstanding Shares.

As of December 31, 2022 and 2021, IN Nevada had 320,000,000 Class B Shares issued and outstanding. Noncontrolling interests in combined consolidated financial statements represent the equity interests held by third parties at IN Nevada (see Note 20). Net income attributable to noncontrolling interest is allocated based on their relative ownership percentage of IN Nevada during the reported period. The noncontrolling interest ownership percentage is determined by dividing the number of noncontrolling Class B Shares by the total number of Class B Shares. The issuance or redemption of additional shares of Class B Shares may result in a change to the noncontrolling interest percentage.

During the year ended December 31, 2022, the Company issued an additional 1,809,546 Subordinate Voting Shares as a result of the 2022 Acquisitions (see Note 7). Additionally, during the year ended December 31, 2022, the Company repurchased 23,200 Subordinate Voting Shares as a result of a stock buyback program. As of December 31, 2022 and 2021, the Company had 2,986,347 and 1,200,001 Subordinate Voting Shares issued and outstanding, respectively.

During the year ended December 31, 2022, the Company issued 20,000 warrants for the right to receive Subordinate Voting shares. These warrants have an exercise price of $3.00, expiring on December 19, 2025. No warrants were exercised during the year ended December 31, 2022.

During the year ended December 31, 2022, the Company issued 20,852, or 2,085,000 exchangeable, Proportionate Voting Shares as a result of the 2022 Acquisitions (see Note 7). As of December 31, 2022, the Company had 2,085,200 Subordinate Voting Shares reserved for issuance pursuant to the conversion rights attached to the Proportionate Voting Shares issued and outstanding. There were no Proportionate Voting Shares issued and outstanding as of December 31, 2021.

6. NET (LOSS) EARNINGS PER SHARE

Basic (loss) earnings per share is computed by dividing net income by the weighted average number of Subordinate Voting Shares outstanding during the period. Diluted net earnings per share, controlling interest, is determined by using the weighted average number of shares on conversion or exchange, as applicable, of the Class B Shares, Multiple Voting Shares, and Proportionate Voting Shares.

(Expressed in US Dollars, rounded in thousands except share amounts)

The calculations of shares used to compute net (loss) earnings per share were as follows:

	December 31,	
	2022	2021
Weighted average shares outstanding – basic	1,431,319	1,200,001
Potential dilutive Class B Non-Voting Shares	320,000,000	320,000,000
Potential dilutive Multiple Voting Shares	18,240	18,240
Potential dilutive Proportionate Voting Shares	1,384,342	—
Weighted average shares outstanding - diluted	322,833,901	321,218,214

The total number of potential Subordinate Voting Shares, or 321,402,582, as of December 31, 2022 were excluded from the calculation of diluted net loss per share attributable to common stockholders because their effect would have been anti-dilutive.

For the year ended December 31, 2022, the Company had basic and diluted loss per controlling interest share of ($2.79). For the year ended December 31, 2021, the Company had basic and diluted earnings per controlling interest share of $7.18 and $0.03, respectively.

7. ACQUISITIONS

During the year ended December 31, 2022, the Company acquired six mental health groups that operated twelve mental health clinics (listed below) from unrelated third parties, the 2022 Acquisitions. The Company funded the acquisitions principally with the issuance of Subordinate Voting Shares (Note 5), the issuance of Proportionate Voting Shares (Note 5), and borrowings under the line of credit (Note 11). Upon completion of the acquisitions, the Company assigned the acquired assets to IN Emergence by way of a capital contribution and the entities became a wholly owned indirect subsidiary of the Company through IN Emergence (see Note 22 for Segment information). The Company accounted for the acquisitions as business combinations. Prior to each acquisition, the entities operated medical treatment facilities, utilizing inputs and advanced processes, and received fees for treatments. The Company will operate the facilities without substantial change to the acquired business.

The table below summarizes the total consideration, net of debt assumed and cash acquired, for the 2022 Acquisitions:

	Type of Acquisition	Date of Acquisition	Number of Clinics	Purchase Price
Midwest Ketafusion (“MWK”) (1)	Wholly owned	March 14, 2022	1	$ 2,284
Ketamine Health Centers (“KHC”) (2)	Wholly owned	May 20, 2022	4	5,974
New England Ketamine (“NEK”) (3)	MSA	July 27, 2022	1	676
Invictus (“ICG”) (4)	MSA	August 5, 2022	2	1,195
Preventive Medicine (“PMV”) (5)	MSA	August 11, 2022	1	3,264
Care Clinic (“FMH”) (6)	Wholly owned	December 8, 2022	3	7,438
Total consideration	Wholly owned		12	$ 20,831

(1) The purchase price includes the issuance of 7,500 Proportionate Voting Shares and $141 of debt assumed, less $105 cash acquired.
(2) The purchase price includes the issuance of 10,660 Proportionate Voting Shares and 667 Subordinate Voting Shares, $1,778 of debt assumed, and $1,553 contingent consideration, less $56 net cash acquired. The contingent consideration is dependent upon the future performance of the clinics acquired.
(3) The purchase price includes the issuance of 2,692 Proportionate Voting Shares and 31 Subordinate Voting Shares and $50 in cash, less $40 cash acquired.
(4) The purchase price includes the issuance of $1,000 in Subordinate Voting Shares to be issued in January 2023, $250 in cash, and $6 of debt assumed, less $61 cash acquired. In January 2023, the Company issued 427,377 Subordinate Voting Shares to the sellers of ICG.
(5) The purchase price includes the issuance of 284,848 Subordinate Voting Shares, $36 of debt assumed, and $2,579 contingent consideration, less $38 cash acquired. The contingent consideration is dependent upon the future performance of the clinics acquired.
(6) The purchase price includes the issuance of 1,500,000 Subordinate Voting Shares, $800 in cash, $17 of debt assumed, and $3,220 contingent consideration, less $21 cash acquired. The contingent consideration is dependent upon the future performance of the clinics acquired.

(Expressed in US Dollars, rounded in thousands except share amounts)

Purchase Price Allocation

The related assets, liabilities, and results of operations of the acquired (either directly or via management service agreements) mental health clinics are included in the combined consolidated financial statements as of the date of acquisition. Under the purchase method of accounting, the 2022 Acquisitions were valued for accounting purposes at $20,831 which was the fair value at the time of acquisition. The assets and liabilities were recorded at their respective fair values as of the date of acquisition. Any difference between the cost and the fair value of the assets acquired and liabilities assumed is recorded as goodwill. The acquisition date estimated fair value of the consideration transferred consisted of the following:

	MWK	KHC	NEK	ICG	PMV	FMH
Fair value of net assets acquired:						
Current assets	$ 141	$ 179	$ 40	$ 61	$ 38	$ 44
Goodwill (1)	2,203	1,769	241	668	1,697	6,116
Intangible assets (1)	—	4,075	397	511	1,574	1,295
Right-of-use assets	24	1,135	92	237	15	275
Other non-current assets	21	—	38	10	—	4
Contingent consideration (2)	—	(1,554)	—	—	(2,578)	(3,220)
Lease liabilities	(23)	(1,128)	(92)	(231)	(14)	(275)
Other liabilities	(119)	(1,778)	—	(6)	(36)	(16)
Total fair value of net assets acquired	$ 2,247	$ 2,698	$ 716	$ 1,250	$ 696	$ 4,223

(1) The Company is in the process of completing its formal valuation analysis to identify and determine the fair value of identifiable intangible assets acquired related to the 2022 Acquisitions. Thus, the final allocation of the purchase price may differ from the preliminary allocation at December 31, 2022 based on the completion of the valuation of the identifiable intangible assets.

(2) Contingent consideration refers to additional amounts that management believes may be realized at a future date as future events occur. The terms of these milestones are defined in the purchase agreements of the acquired entities and are based on EBITDA performance over a specified period of time. The amount of the consideration ultimately paid may vary depending on whether future milestone events occur.

During the year ended December 31, 2022, the Company recorded total transaction costs related to the 2022 Acquisitions of $421. These expenses were accounted for separately from the net assets acquired and are included in general and administrative expenses for the year ended December 31, 2022.

Changes to Goodwill, Intangible Assets, and Contingent Consideration

Changes in goodwill, intangible assets, and contingent consideration since acquisition for the year ended December 31, 2022, are provided in the following table:

	MWK	KHC	NEK	ICG	PMV	FMH
Goodwill:						
Balance at acquisition date	$ 2,203	$ 1,769	$ 241	$ 668	$ 1,697	$ 6,116
Impairment charges	(710)	(1,769)	—	—	—	—
Balance at December 31, 2022	$ 1,493	$ —	$ 241	$ 668	$ 1,697	$ 6,116
Intangible Assets:						
Balance at acquisition date	$ —	$ 4,075	$ 397	$ 511	$ 1,574	$ 1,295
Impairment charges	—	(261)	—	—	—	—
Balance at December 31, 2022	$ —	$ 3,814	$ 397	$ 511	$ 1,574	$ 1,295
Contingent Consideration:						
Balance at acquisition date	$ —	$ 1,554	$ —	$ —	$ 2,578	$ 3,220
(Gain) loss recorded	—	(1,554)	1,099	—	(743)	—
Balance at December 31, 2022	$ —	$ —	$ 1,099	$ —	$ 1,835	$ 3,220

During the Company's annual goodwill impairment test, management updated the estimates of the expected future cash flows for MWK and KCH. As a result, the Company recorded a noncash impairment of goodwill of $710 and $1,769, respectively, for the year ended December 31, 2022.

(Expressed in US Dollars, rounded in thousands except share amounts)

During the Company's annual intangible asset impairment test, management updated the estimates of the expected future cash flows for KHC. As a result, the Company recorded a noncash impairment of $261 for the year ended December 31, 2022.

Contingent consideration refers to additional amounts that management believes may be realized at a future date as future events occur. The terms of these milestones are defined in the purchase agreements of the acquired entities. The amount of the consideration ultimately paid may vary depending on whether future milestone events occur. The Company reviewed the milestones for each acquisition as of December 31, 2022 and recorded a noncash gain on contingent consideration of $1,554 at KCH, a loss on contingent consideration of $1,099 at NEK, and a gain on contingent consideration of $743 at PMV.

Pro Forma Information (Unaudited)

The results of operations for the 2022 Acquisitions since their respective closing dates have been included in our December 31, 2022 combined consolidated financial statements and include approximately $1,969 of total revenue. The following unaudited pro forma financial information represents a summary of the combined consolidated results of operations for the year ended December 31, 2022, assuming the acquisition had been completed as of January 1, 2022. The pro forma financial information includes certain non-recurring pro forma adjustments that were directly attributable to the business combination. The proforma adjustments include the elimination of 2022 Acquisitions transaction expenses totaling $421 incurred in 2022, and adjustments to recognize amortization of fixed assets and other accruals. The pro forma financial information is not necessarily indicative of the results of operations that would have been achieved if the acquisition had been effective as of these dates, or of future results.

	Year ended December 31, 2022					
	MWK	KHC	NEK	ICG	PMV	FMH
Revenue	$ 582	$ 2,514	$ 439	$ 499	$ 679	$ 1,289
Cost of sales	(81)	(155)	(5)	(9)	(95)	(58)
Operating expenses	(405)	(3,155)	(301)	(437)	(360)	(548)
Income (loss) from operations	$ 96	$ (796)	$ 133	$ 53	$ 224	$ 683

8. PREPAID EXPENSES AND OTHER CURRENT ASSETS

As of December 31, 2022 and 2021, prepaid expenses and other current assets consisted of the following:

	December 31,	
	2022	2021
Prepaid expenses	$ 823	$ 723
Prepaid insurance	221	78
Prepaid marketing	127	126
Prepaid inventory	156	270
Prepaid taxes	1,306	39
Other receivables	299	234
Total prepaid expenses and other current assets	$ 2,932	$ 1,470

(Expressed in US Dollars, rounded in thousands except share amounts)

9. INVENTORY

As of December 31, 2022 and 2021, the Company's inventory consisted of the following:

	December 31, 2022	December 31, 2021
Raw materials	$ 2,460	$ 3,794
Finished goods	20,046	14,858
Inventory, net of reserves	$ 22,506	$ 18,652

During the years ended December 31, 2022 and 2021, the Company recognized additional provisions and disposals as follows:

	December 31, 2022	December 31, 2021
Beginning balance	$ 6,073	$ 6,032
Provisions made during the period	1,815	2,196
Disposals and sales during the period	(6,164)	(2,155)
Ending balance	$ 1,724	$ 6,073

10. PROPERTY AND EQUIPMENT

As of December 31, 2022 and 2021, the Company's net property and equipment consisted of the following:

	Furniture & Fixtures	Computers & Equipment	Machinery & Equipment	Vehicles	Leasehold Improvement	Total
Cost						
Balance, January 1, 2021	$ 406	$ 856	$ 137	$ 135	$ 1,192	$ 2,726
Additions	—	36	—	—	16	52
Disposals	—	(60)	—	—	—	(60)
Balance, December 31, 2021	$ 406	$ 832	$ 137	$ 135	$ 1,208	$ 2,718
Balance, January 1, 2022	$ 406	$ 832	$ 137	$ 135	$ 1,208	$ 2,718
Additions	13	152	42	—	—	207
Disposals	—	—	—	—	—	—
Balance, December 31, 2022	$ 419	$ 984	$ 179	$ 135	$ 1,208	$ 2,925
Accumulated depreciation						
Balance, January 1, 2021	$ 397	$ 723	$ 128	$ 26	$ 1,189	$ 2,463
Additions	4	66	8	44	2	124
Disposals	—	(59)	—	—	—	(59)
Balance, December 31, 2021	$ 401	$ 730	$ 136	$ 70	$ 1,191	$ 2,528
Balance, January 1, 2022	$ 401	$ 730	$ 136	$ 70	$ 1,191	$ 2,528
Additions	1	83	8	26	8	126
Disposals	—	—	—	—	—	—
Balance, December 31, 2022	$ 402	$ 813	$ 144	$ 96	$ 1,199	$ 2,654
Net book value						
Balance, December 31, 2021	$ 5	$ 102	$ 1	$ 65	$ 17	$ 190
Balance, December 31, 2022	$ 17	$ 171	$ 35	$ 39	$ 9	$ 271

(Expressed in US Dollars, rounded in thousands except share amounts)

11. CREDIT FACILITY

In December 2021, the Company entered into an agreement for a two-year line of credit in the amount of the lesser of $20,000 or the Company's borrowing base, as defined in the agreement (the "Credit Facility"). The Credit Facility has a minimum rate of 4.25%. As of December 31, 2022 and 2021, the interest rate was 8.50% and 4.25%, respectively, and was calculated based on the Wall Street Journal Prime Rate plus 1%. The line of credit is secured by all the Company's assets and matured on December 22, 2023. The Credit Facility was subsequently amended in February 2023 (see Note 24).

As of December 31, 2022 and 2021, the balance outstanding on the Credit Facility was $16,448, net of debt issuance costs of $104, and $6,178, respectively.

The Company intends to borrow amounts under the Credit Facility from time to time for general corporate purposes and to fund potential acquisitions.

On May 11, 2023, the Company received a notice of default from its lender resulting from a failure to meet certain covenants. See Note 24 for further information.

12. LEASES

The Company has leases for the main warehouse, the offices of its principal operations, and medical offices for its mental health clinics. The main warehouse and principal office building's lease expires in July 2024. The mental health clinics vary in length and extend up to 2032. The Company recognizes a right-of-use asset and lease liability within its combined consolidated balance sheets for operating leases with terms greater than twelve months. The Company's lease assets and liabilities recognized within its combined consolidated balance sheets were as follows:

	December 31, 2022	December 31, 2021
Right-of-use asset		
Balance, beginning of period	$ 3,722	$ 2,047
Lease additions	1,970	2,981
Right-of-use amortization	(1,498)	(1,306)
Balance, end of period	$ 4,194	$ 3,722
Lease liabilities		
Lease liabilities, beginning of period	$ 3,800	$ 2,146
Lease additions or adjustments	2,077	2,981
Lease payments	(1,666)	(1,383)
Interest expense on lease liabilities	135	56
	$ 4,346	$ 3,800
Lease liabilities, current	$ 1,817	$ 1,366
Lease liabilities, non-current	$ 2,529	$ 2,434

(Expressed in US Dollars, rounded in thousands except share amounts)

The following is a maturity schedule of leases as of December 31, 2022.

Maturity analysis for lease liabilities		Scheduled Payments
One year or less	$	1,617
One to five years		1,239
More than five years		529
Total undiscounted lease liability	$	3,385
Impact of discount		961
Lease liability at period end	$	4,346
Less: current portion of lease liability		(1,817)
Lease liability, net of current portion	$	2,529

The majority of the Company's leases do not provide information about the rate implicit in the lease. Because the Company is not able to determine the rate implicit in its leases, it instead generally uses its incremental borrowing rate to determine the present value of lease liabilities. In determining its incremental borrowing rate, the Company reviewed the terms of its leases, its credit facility, and other factors. The weighted average remaining lease term for the years ended December 31, 2022 and 2021 were 4.28 and 2.58, respectively. The weighted-average discount rate used to calculate the present value of lease liabilities for the years ended December 31, 2022 and 2021 were 6.18% and 3.11%, respectively.

The Company recorded rent expense of $1,861 and $1,622 for the years ended December 31, 2022 and 2021, respectively, which included expenses for short-term leases for the years ended December 31, 2022 and 2021 of $637 and $317, respectively.

13. TRADE AND OTHER PAYABLES

Trade and other payables consist of the following as of December 31, 2022 and 2021:

	December 31,			
		2022		2021
Trade payables	$	8,209	$	6,025
Accrued compensation		1,960		1,652
Customer refunds		211		223
Interest payable		125		8
Accrued promotions		5,830		4,456
Other accrued expenses		1,662		946
Total trade and other payables	$	17,997	$	13,310

14. RELATED PARTY TRANSACTIONS

Key management of the Company includes the executive members, consisting of the directors, CEO, CFO, COO, and President. For the years ended December 31, 2022 and 2021, remuneration and other payments to the Company's directors and other key management personnel were as follows:

	December 31,			
		2022		2021
Wages and salaries	$	2,073	$	2,420

Several notes receivable were issued to various executives during the years ended December 31, 2022 and 2021 (see Note 19). As of December 31, 2022 and 2021, the balances of the notes receivable were $6,014 and $3,264, respectively.

(Expressed in US Dollars, rounded in thousands except share amounts)

Notes receivable from related parties as of December 31, 2022 and 2021 was $255 and $nil, respectively. In March 2022, the Company issued an employee a 4.5% secured promissory note receivable in the amount of $200 due January 2024. Additionally, as a result of the 2022 Acquisitions, during 2022 there were expenses incurred that are to be repaid by the pre-acquisition owners totaling $55.

During the years ended December 31, 2022 and 2021, the Company issued payments to members of the board totaling $35 and $nil, respectively.

Related Party Contribution

On April 1, 2021, the CEO contributed his interest in 5310 Holdings and all assets owned by 5310 Holdings to IN Nevada. Prior to the contribution, IN Nevada held a licensing agreement for worldwide licenses to use, market, sell and promote certain trademarks held by 5310 Holdings. 5310 Holdings had been determined to be a "related party" of IN Nevada. During the year ended December 31, 2021, the combined consolidated financial statements include the operations of both IN Nevada and 5310 Holdings since the entities were under common control. IN Nevada was the primary beneficiary of the assets held by 5310 Holdings and 5310 Holdings had no other operations apart from IN Nevada's licensing agreement. All significant transactions between the two entities were eliminated in consolidation. After the contribution, these intangibles were fully integrated into the operations of IN Nevada.

15. NOTES PAYABLE

As a part of the acquisition of MWK, the Company acquired an outstanding Small Business Administration ("SBA") loan with an annual interest of 3.75% which is scheduled to mature on April 18, 2050. The outstanding balance as of the date of the acquisition was included in the purchase accounting and is described above in Note 7. Installment payments are due monthly for principal and interest.

As part of the acquisition of KHC, the Company acquired outstanding SBA loans with an annual interest rate of 3.75% which are scheduled to mature on June 24, 2050. The outstanding balance as of the date of the acquisition was included in the purchase accounting and is described above in Note 7. Installment payments are due monthly for principal and interest.

As of December 31, 2022 and 2021, the outstanding balance related to the SBA loans were $534 and $nil, respectively, due within the following schedule:

	Carrying Amount	< 1 year	1 - 2 years	2 - 5 years	> 5 years
Notes payable	534	36	31	94	373

16. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Fair value of financial instruments is the price that would be received to sell an asset or paid to transfer a liability in an orderly fashion between market participants. The Company records certain financial instruments at fair value. The Company's financial instruments include cash, trade receivables, and trade and other payables.

The Company is exposed to various risks related to financial instruments. The Board of Directors approves and monitors the risk management processes, inclusive of counterparty limits, controlling, and reporting structures. The type of risk exposure and the way in which such exposure is managed is provided as follows:

(Expressed in US Dollars, rounded in thousands except share amounts)

Credit risk

Credit risk is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations. Financial instruments that potentially subject the Company to significant concentrations of credit risk consist primarily of cash and trade receivables. The Company's cash is held in large American financial institutions and no losses have been incurred in relation to these items.

The aging of the Company's trade receivables as of December 31, 2022 and 2021 is as follows:

	Current	1 - 30 Days past due	31 - 60 Days past due	61 - 90 Days past due	91 + Days past due	Expected Loss	Trade Receivables, Net
December 31, 2022	$ 15,353	2,351	3,030	428	527	(378)	$ 21,311
December 31, 2021	$ 14,050	2,068	(215)	431	449	(389)	$ 16,394

The carrying amount of cash and trade receivables represent the maximum exposure to credit risk, and as of December 31, 2022 and 2021, this amounted to $22,111 and $17,019, respectively.

Two customers accounted for approximately 41% of the Company's sales within the Products segment for the year ended December 31, 2022. Three customers represented approximately 56% of the trade receivables balance as of December 31, 2022.

Three customers accounted for approximately 39% of the Company's sales for the year ended December 31, 2021. Three customers represented approximately 59% of the trade receivables balance as of December 31, 2021.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to pay financial instrument liabilities as they come due. The Company manages its liquidity risk by reviewing its capital requirements on an ongoing basis. As of December 31, 2022 and 2021, the Company has $800 and $625 of cash, respectively. The Company is obligated to pay trade and other payables, line of credit, and the notes payable with a carrying amount of $35,083 and $19,488 as of December 31, 2022 and 2021, respectively.

	Carrying Amount	< 1 year	1 - 2 years	2 - 5 years	> 5 years
Trade payables	$ 8,209	$ 8,209	$ —	$ —	$ —
Accrued liabilities	9,788	9,788	—	—	—
Line of credit	16,552	16,552	—	—	—
Notes payable	534	36	31	94	373
Total	$ 35,083	$ 34,585	$ 31	$ 94	$ 373

(Expressed in US Dollars, rounded in thousands except share amounts)

17. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

	December 31, 2022	December 31, 2021
Supplemental disclosure of cash flow information:		
Cash paid for interest	$ 430	$ 115
Cash paid for income taxes	1,284	216
Supplemental disclosure of non-cash investing and financing activities:		
Stock issued in exchange for promissory notes receivable (see Note 20)	—	3,240
Stock issued in 2022 Acquisitions (see Note 7)	9,721	—
Property and equipment acquired	55	—
Trade receivables acquired	102	—
Prepaids expenses and other current assets acquired	72	—

18. EMPLOYEE BENEFIT PLAN

The Company has a 401(k) plan (the "Plan") which allows all employees meeting the minimum service eligibility requirement to defer up to the maximum amount allowed by the Internal Revenue Code limits on a pre-tax or post-tax basis, or a combination thereof. The Company currently contributes via a discretionary matching contribution equal to the lesser of $2 per employee or 50% of an employee's contribution capped at 4% of their compensation. The Plan also allows for discretionary profit-sharing contributions and no such contributions were made during the years ended December 31, 2022 and 2021. Employer matching contributions totaled $794 and $612 for the years ended December 31, 2022 and 2021, respectively.

19. NOTES RECEIVABLE FROM SHAREHOLDERS

Notes receivable from shareholders as of December 31, 2022 and 2021 were $6,014 and $3,264, respectively. The balance consisted of the following notes:

On April 1, 2021, the Company issued two executives separate promissory notes receivable in the amount of $1,620 each, in exchange for shares in IN Nevada. At the time of the Transaction (see Note 5), these shares were subsequently converted to Class B Shares at IN Nevada. The notes receivable are due and payable on April 1, 2030, and bear interest on their respective unpaid principal, at a rate per annum equal to one percent simple interest. The total value of the notes, including accrued interest, are due and payable in a balloon payment upon maturity. The notes are secured by the shares issued and owned by the executives.

On April 8, 2022, IN Nevada issued a grid promissory note receivable to the CEO that allows for an amount up to but not exceeding $1,800 to be drawn down in increments of no more than $300 per month through September 2022, of which $1,800 was drawn down during the year ended December 31, 2022. The note receivable is due and payable in full on April 8, 2024, and bears interest on the unpaid principal outstanding, at a rate per annum equal to 1.3% simple interest. The accrued interest on the unpaid balance of the note is due and payable upon demand. The note is secured by a pledge of Irwin Naturals, Inc. stock (common, or otherwise) owned by the executive.

On October 14, 2022, IN Nevada issued a grid promissory note receivable to the CEO that allows for an amount up to but not exceeding $1,800 to be drawn down in increments of no more than $300 per month through March 2023, of which $900 was drawn down during the year ended December 31, 2022. The note receivable is due and payable in full on October 14, 2024, and bears interest on the unpaid principal outstanding, at a rate per annum equal to 3.4% simple interest. The accrued interest on the unpaid balance of the note is due and payable upon demand. The note is secured by a pledge of Irwin Naturals, Inc. stock (common, or otherwise) owned by the executive.

(Expressed in US Dollars, rounded in thousands except share amounts)

There were no principal or interest payments made by the executives for the years ended December 31, 2022 and 2021. During the years ended December 31, 2022 and 2021, total interest earned by the Company was $50 and $24, respectively.

20. NONCONTROLLING INTEREST

The non-controlling interest of the Company represents the equity of IN Nevada owned by various executives. The following table presents the components of non-controlling interest as of December 31, 2022 and December 31, 2021.

	December 31,	
	2022	2021
Class B Non-Voting Shares	$ 5,518	$ 5,518
Retained earnings	117	—
Current year net income allocation	1,472	117
Total noncontrolling interest (as restated)	$ 7,107	$ 5,635

21. INCOME TAXES

Income Tax Provision

The components of income tax expense for the year ended December 31, 2022 and 2021, were as follows:

	December 31,	
	2022	2021
Current tax on profits for the year	$ 1,427	$ 635
Adjustment for current tax of prior periods	123	22
Total income tax expense	$ 1,550	$ 657

We paid income taxes, net of refunds, of $1,890 and $216 during the years ended December 31, 2022 and 2021, respectively.

Deferred Taxes

For the years ended December 31, 2022 and 2021, the tax effects of significant temporary differences creating deferred tax assets and liabilities were:

	December 31,	
	2022	2021
Inventory	$ 1,007	$ 2,089
Returns and allowances	515	218
Trade receivables	96	104
Compensation	231	213
Net operating loss carryforward	962	—
Interest expense	152	—
State income tax	37	26
Total deferred tax assets	3,000	2,650
Valuation allowance	(633)	—
Total deferred tax assets, after valuation allowance	$ 2,367	$ 2,650
Property and equipment	$ 590	$ 1
Contingent consideration	393	—
Total deferred tax liabilities	$ 983	$ 1

(Expressed in US Dollars, rounded in thousands except share amounts)

The Company periodically reviews the need for valuation allowances against deferred tax assets and recognizes the deferred tax assets to the extent that their realization is more likely than not. As part of this review, the Company considers all positive and negative evidence, including earnings history, the future reversal of deferred tax liabilities, and the relevant expirations of carryforwards. If future years' earnings differ from the estimates used to establish these valuation allowances, or other objective positive or negative evidence arises, the Company may record an adjustment to the valuation allowance resulting in an impact on tax provision (benefit) for that period.

Tax Reconciliation

The following table reconciles the expected income tax expense (recovery) at the Canadian statutory income tax rates to the amounts recognized in the combined consolidated statement of profit and comprehensive income (loss) for the years ended December 31, 2022 and 2021:

	December 31, 2022	December 31, 2021
(Loss) income before taxes	$ (970)	$ 7,928
Statutory tax rate	26.5%	26.5%
Expected income tax expense (recovery)	(257)	2,101
Foreign rate differential	105	(20)
Exclusions from taxable income	(20)	—
Nondeductible items	123	708
Difference in tax rates as S-Corporation	—	(2,265)
Difference in tax rates in TX and WA	52	(108)
Change in prior year tax expense	282	47
Valuation allowance	633	—
2022 Acquisitions – MSA entities	(91)	—
Contingent consideration	412	—
Other adjustments	311	—
Deferred tax liability	—	1
Deferred tax asset	—	(2,650)
Total income tax expense (recovery)	$ 1,550	$ (2,186)

By statute, the Company's federal and state income tax returns generally remain subject to examination by taxing authorities for three and four years, respectively, from the date the return is filed.

Uncertain Tax Positions

The Company evaluates its tax positions and recognizes a liability for any positions that would not be considered "more likely than not" to be upheld under a tax authority examination. If such issues exist, the Company's policy will be to recognize any tax liability, including applicable interest and penalties, as a component of income tax expense. The Company has evaluated its tax positions and management believes there are no uncertain positions required to be recorded or disclosed for the years ended December 31, 2022 and 2021.

22. SEGMENT INFORMATION

During 2022, the Company acquired six mental health groups that operated twelve mental health clinics from unrelated third parties (see Note 7). As a result of these acquisitions, the Company has three operating segments: vitamins and other health supplements ("Products"), mental health clinics ("Clinics"), and Corporate.

(Expressed in US Dollars, rounded in thousands except share amounts)

Segment information for the year ended December 31, 2022 is as follows:

	Products (1)	Clinics (2)	Corporate	Total
Operating revenue	$ 87,501	$ 1,969	$ —	$ 89,470
Cost of sales	(48,550)	(176)	—	(48,726)
Operating expenses	(31,641)	(5,221)	(2,042)	(38,904)
Segment operating income (loss)	$ 7,310	$ (3,428)	$ (2,042)	$ 1,840

(1) Includes the operations from the legal entities for IN Nevada and IN Cannabis.
(2) Includes the operations from the 2022 Acquisitions. See Note 7.

Prior to the 2022 Acquisitions, the Company had no reportable segments. Results for the year ended December 31, 2021 reflect only the results from the Company's Products segment.

23. COMMITMENTS AND CONTINGENCIES

Commitments

The Company had no guaranteed contracts, derivative instruments, or off-balance sheet arrangements as of December 31, 2022 and 2021.

Contingencies

The Company is from time to time engaged in routine litigation. The Company regularly reviews all pending litigation matters in which it is involved and establishes reserves deemed appropriate by management for these litigation matters when a probable loss estimate can be made.

The matter(s) described in this Note may take several years to resolve. The Company may reserve amounts, net of insurance reimbursements, for certain matters that the Company believes represent the most likely outcome of the resolution of these related disputes. If the Company is incorrect in its assessment, the Company may have to record additional expenses when it becomes probable that an increased potential liability is warranted.

Reese v Irwin Naturals (IN Nevada)
Herman and Jasmine Reese ("Reese") filed a products liability lawsuit in Los Angeles County, California on July 8, 2021, alleging that Reese sustained certain injuries caused by his use of an IN Nevada product. IN Nevada was served with the complaint on July 23, 2021. Reese did not enumerate a specific amount to be sought in the complaint. The Company believes the defendant's claims are without merit and will vigorously defend itself. The Company is currently unable to reasonably estimate the amount of the loss that may result from an unfavorable outcome and does not believe a loss is probable, as such no loss or reserve was recorded as of December 31, 2021 and 2022, respectively, and would otherwise be limited by the Company's $25 self-insured retention.

Contingent Considerations

Contingent consideration refers to the recognition and measurement of an obligation to transfer additional assets or equity interests to the former owners of an acquired entity, depending on the subsequent performance or achievement of certain milestones. As a result of the 2022 Acquisitions (see Note 7), the Company recorded $6,154 due to the pre-acquisition owners. These amounts may be realized at a future date as future events occur. The terms of these milestones are defined in the purchase agreements of the acquired entities. On the acquisition date, the contingent consideration is recorded at its fair value as a liability. The amount of the consideration ultimately paid may vary depending on whether the future milestone events occur, and any adjustments are recorded as a gain or loss in the combined consolidated financial statements. At least quarterly, the Company reviews contingent consideration for adjustment. During the Company's quarterly evaluation of the contingent considerations, management updated the estimates of the contracted milestones, and, as a result, the Company recorded a noncash gain of $1,198 for the year ended December 31, 2022.

24. SUBSEQUENT EVENTS

On September 2, 2022, the Company entered into an agreement to acquire Happier You, LLC, a clinic operation based in central Ohio ("Happier You"). Happier You terminated the agreement on or around November 17, 2022. The Company continued to assess the potential acquisition, however, the Company has decided not to pursue an amended agreement with Happier You.

On September 30, 2022, the Company entered into an agreement to acquire the assets of Ketamine Infusions of Idaho, PLLC ("KII"), which operates a clinic in Idaho Falls, Idaho. As of the release of this document, KII terminated the agreement on or around November 21, 2022. The Company continued to assess the potential acquisition, however, the Company has decided not to pursue an amended agreement with KII.

On October 28, 2022 the Company reached an agreement to acquire Dura Medical, LLC, a clinic in Naples, Florida, which offers ketamine-infusion therapy among its options for cutting-edge treatment of mental health disorders. As of March 30, 2023 the agreement was terminated by the Company.

On November 5, 2022 the Company reached a binding agreement to acquire the assets of Tri-Cities Infusion & Wellness Clinic, PLLC which is located in Kennewick, Washington. As of May 2, 2023 the agreement was terminated by the Company.

On January 26, 2023, the Company signed a Letter of Intent entering into a partnership with Braxia Scientific Corp. On March 16, 2023, the Company terminated the Letter of Intent.

On February 1, 2023, the Company secured a credit facility for $40,000 (in two equal parts, a $20,000 revolver and a $20,000 delayed -draw term loan facility), with the potential of being up to $60,000. The credit facility is secured by all the Company's assets. The rate shall be variable based on the margins of the credit facilities. The delayed-draw term loan facility is in place until August 2024, with a maturity date of February 2028, while the revolver is designed to support day-to-day operations and is in place until February 2028.

On February 16, 2023, the Company completed the acquisition of the membership interest in Serenity Health, LLC, ("SHK") one of the leading ketamine clinics in Louisville, KY, initially announced November 30, 2022. The acquisition will be treated as a business combination and consolidated into the Clinics segment. SHK's management team will remain in place following the acquisition. The total consideration paid in exchange for the membership interest consisted of $3,000 in cash paid at closing of the transaction and $11,000 payable over the course of three years in cash. The pre-acquisition owner of SHK is also eligible to receive additional consideration based on certain financial metrics. The Company is currently assessing the fair value of the contingent consideration to be accrued, if any.

On March 17, 2023, the Company completed the acquisition of the membership interest in Keta Media, LLC dba Ketamine Media ("KM") an advertising platform that specializes in raising awareness about the clinical use of ketamine. The total consideration paid in exchange for the membership interest consisted of $1,500 in cash paid at closing of the transaction and $1,500 payable within one year in cash. The pre-acquisition owner of KM is also eligible to receive additional consideration based on certain financial metrics. The Company is currently assessing the fair value of the contingent consideration to be accrued, if any.

On May 1, 2023 Marc-David Bismuth tendered his resignation as a director of the Company effective immediately. Sheri Orlowitz was elected as director effective May 12, 2023.

On May 11, 2023, the Company initiated an arbitration against the former owners of a recently acquired mental health clinic. The dispute arises from the sellers' material misrepresentation of the financial condition, economic value, and actual and potential contract and legal liabilities of the clinic resulting in an agreed-upon purchase price significantly higher than the clinic's actual value. The sellers also failed to disclose a material adverse event significantly impacting the future performance of the clinic. The Company seeks to rescind and reform the purchase agreement, refund any amounts paid to date to the sellers, and refund costs incurred by the Company for the acquisition and attorney fees.

On May 11, 2023, the Company received a notice of default from its lender resulting from a failure to meet certain covenants. As a result of the notice and the Company's anticipated operating cash outflows the Company believes that substantial doubt exists regarding our ability to continue as a going concern. The lender is currently forbearing its rights related to its notice of default and its rights to accelerate payments or implement the relevant penalty rate, and the Company is continuing to cooperate with the lender. If such demand for repayment were to occur, the Company does not have the financial resources to repay such obligations. The Company is also dependent upon its Credit Facility to fund its operations and satisfy obligations. Accordingly, the Company has taken several actions to continue to support its operations and meet its obligations, including renegotiating payments terms with both our customers and suppliers, exploring options to amend or refinance our debt, and reducing operating costs and expenditures. Although the Company believes that the actions discussed herein may result in sufficient availability to meet the current covenant requirements, we cannot predict, that such actions will be successful. Based on these factors, the Company believes there is substantial doubt about our ability to continue as a going concern.