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STATEHOUSE

HOLDINGS

# STATEHOUSE HOLDINGS INC.
# (formerly Harborside Inc.)
# Consolidated Financial Statements

**For the Years Ended December 31, 2022 and 2021**
**(Expressed in United States Dollars)**

## STATEHOUSE HOLDINGS INC.
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**Management's Responsibility for Financial Reporting**

To the Shareholders of StateHouse Holdings Inc. (formerly Harborside Inc.) (the "Company"):

The accompanying consolidated financial statements (the "financial statements") were prepared by management of the Company and were reviewed by the Audit Committee of the Company and approved by the Board of Directors of the Company (the "Board").

Management is responsible for the consolidated financial statements and believes that they fairly present the Company's financial condition and results of operations in conformity with International Financial Reporting Standards. Management has included in the Company's consolidated financial statements amounts based on estimates and judgments that it believes are reasonable, under the circumstances.

To discharge its responsibilities for financial reporting and safeguarding of assets, management believes that it has established appropriate systems of internal accounting control which provide reasonable assurance that the financial records are reliable and form a proper basis for the timely and accurate preparation of the financial statements. Consistent with the concept of reasonable assurance, the Company recognizes that the relative cost of maintaining these controls should not exceed their expected benefits. Management further assures the quality of the financial records through careful selection and training of personnel and through the adoption and communication of financial and other relevant policies.

These consolidated financial statements were approved by the Board of the Company and were signed on behalf of Management by:

May 4, 2023

*Edward M. Schmults ("signed")*
*Chief Executive Officer*

*Kavi Bhai ("signed")*
*Chief Financial Officer*

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Shareholders
Statehouse Holdings, Inc. (formerly Harborside, Inc.)
Ontario, Canada

***Opinion***

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

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial positions of the Company as at December 31, 2022 and 2021, and its 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 audit 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 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 consolidated financial statements, which indicates that the Company incurred a net loss of $240,226,029 during the year ended December 31, 2022, and, as of that date, the Company had a working capital deficit of $99,434,112. 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 consolidated financial statements of the current period. These matters were addressed in the context of our audit of the 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.

***Provisions***

*Description of the matter*

We call attention to Note 2 of the consolidated financial statements, whereby the Company describes their policies by which provisions are calculated and recorded on the statements of financial position. Provisions are recognized and calculated in accordance with IAS 37, *Provisions, Contingent Liabilities, and Contingent Assets*. A provision is recognized when the expected benefits to be derived by the Company from a contract or event are lower than the unavoidable cost of meeting its obligations under a contract or event.

*Why the matter is a key audit matter*

We identified the valuation of the Company's provisions as a key audit matter. This matter represented a significant risk of material misstatement given the magnitude of provisions recorded as of the years ended December 31, 2022 and 2021, and the complexity in the calculation of these provisions. The high degree of management estimate and input into the calculations of these provisions required substantial review to validate management's estimates and proper valuation of the provisions.

*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 methodology for determining provisions and the key assumptions and judgements made as a part of the process.
- Validated key assumptions to third-party evidence and recalculated the ending balance.
- We utilized the services of internal tax specialists to review the methodology employed by management in the calculation and estimation of the provision, as well as tested key inputs, as necessary.

***Business Combinations***

*Description of the matter*

We call attention to Note 2 of the 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 consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements, or our knowledge obtained in the audit 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 Consolidated Financial Statements***

Management is responsible for the preparation and fair presentation of these 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing these 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 Consolidated Financial Statements***

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with 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 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 consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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 Ryan Teed.

Armanino LLP

Armanino[LLP]
Certified Public Accountants
San Ramon, California, United States of America

May 4, 2023

# STATEHOUSE HOLDINGS INC.

Consolidated Statements of Financial Position
As At December 31, 2022 and 2021
(Expressed in United States Dollars, except share amounts)

| | Note | December 31, 2022 | December 31, 2021 |
|---|---|---|---|
| **ASSETS** | | | |
| **Current Assets** | | | |
| Cash | | $ 2,812,241 | $ 8,774,941 |
| Restricted cash | 17 | 606,871 | 316,464 |
| Accounts receivable, net | 4 | 5,742,171 | 4,546,357 |
| Inventories | 5 | 9,785,093 | 6,414,150 |
| Biological assets | 6 | 441,144 | 443,839 |
| Prepaid expenses and other current assets | 7 | 5,884,801 | 5,563,221 |
| Notes receivable | 9 | 2,337,987 | 1,065,393 |
| Assets held for sale | 13 | 2,183,880 | - |
| Total current assets | | 29,794,188 | 27,124,365 |
| Investments and advances | 8 | - | 2,458,011 |
| Property, plant and equipment, net | 10 | 86,956,100 | 23,515,610 |
| Right-of-use assets | 12 | 20,273,218 | 4,433,397 |
| Deposits and other assets | | 1,246,311 | 390,325 |
| Due from other entities | | 723,162 | - |
| Intangible assets | 11 | 27,069,000 | 64,692,644 |
| Goodwill | 11 | - | 31,206,577 |
| **TOTAL ASSETS** | | $ 166,061,979 | $ 153,820,929 |
| **LIABILITIES** | | | |
| Current liabilities | | | |
| Accounts payable and accrued liabilities | 14 | $ 44,411,826 | $ 22,391,679 |
| Notes payable - current | 15 | 8,577,312 | - |
| Excise, cultivation and property tax liabilities - current | 18 | 24,717,641 | 1,301,135 |
| Lease liabilities - current | 12 | 1,985,267 | 714,181 |
| Liabilities associated with assets held for sale | 13 | 2,872,796 | - |
| Income taxes payable | | 30,411,289 | 10,156,438 |
| Provisions - current | 20 | 16,252,172 | 36,051,249 |
| Total current liabilities | | 129,228,303 | 70,614,682 |
| Notes payable, net | 15 | 27,303,699 | - |
| Term loan, net | 17 | 75,638,056 | - |
| Revolving credit facility, net | 16 | - | 11,845,678 |
| Provisions | 20 | 4,900,000 | - |
| Excise, cultivation and property tax liabilities | 18 | 1,080,227 | - |
| Derivative liabilities | 19 | 977 | 779,643 |
| Deferred tax liability | 23 | 8,379,705 | 17,363,459 |
| Lease liabilities | 12 | 30,203,326 | 5,614,703 |
| **TOTAL LIABILITIES** | | 276,734,293 | 106,218,165 |
| **Shareholders' Equity (Deficit)** | | | |
| Share capital | 24 | 227,564,822 | 150,373,620 |
| Contributed surplus | 25 | 15,952,820 | 10,553,806 |
| Reserve for warrants | 26 | 1,709,844 | 2,233,556 |
| Accumulated deficit | | (358,801,715) | (118,415,683) |
| Non-controlling interests | 27 | 2,901,915 | 2,857,465 |
| **TOTAL SHAREHOLDERS' EQUITY (DEFICIT)** | | (110,672,314) | 47,602,764 |
| **TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIT)** | | $ 166,061,979 | $ 153,820,929 |

Commitments and contingencies (Note 30)

**Approved on behalf of the Board of Directors:**

*Edward M. Schmults ("signed")* — Director

*Matt Hawkins ("signed")* — Director

The accompanying notes are an integral part of these consolidated financial statements

# STATEHOUSE HOLDINGS INC.

Consolidated Statements of Income (Loss) and Comprehensive Income (Loss)
For the Years Ended December 31, 2022 and 2021
(Expressed in United States Dollars, except share amounts)

| | | 2022 | 2021 |
|---|---|---|---|
| Net revenue | | $ 108,247,727 | $ 60,300,935 |
| Cost of goods sold | | 66,112,683 | 34,209,200 |
| **Gross profit before biological asset adjustments** | | 42,135,044 | 26,091,735 |
| Changes in fair value less costs to sell of biological asset transformation | 6 | (7,752,645) | (3,845,228) |
| Realized fair value amounts included in inventory sold | | 8,171,334 | 95,417 |
| **Gross profit** | | 42,553,733 | 22,341,924 |
| **Operating expenses** | | | |
| General and administrative | 21 | 48,084,923 | 23,464,127 |
| Professional fees | | 9,240,737 | 6,935,770 |
| M&A and transaction expenses | | 8,698,208 | 5,607,925 |
| Share-based compensation | 25 | 4,841,787 | 787,743 |
| Allowance for expected credit losses | | 2,828,654 | 489,467 |
| Write-downs (recovery) of receivables and investments and advances | 8 | - | (116,000) |
| Depreciation and amortization | 10, 11 & 12 | 10,019,855 | 2,164,207 |
| **Total operating expenses** | | 83,714,164 | 39,333,239 |
| **Impairment loss** | | 196,655,965 | 25,233,195 |
| **Operating income (loss)** | | (237,816,396) | (42,224,510) |
| Interest income (expense), net | | (15,935,207) | (3,224,558) |
| Other income (expense), net | | (3,264,960) | 152,141 |
| Provisions | 20 | 16,101,549 | 5,295,602 |
| Loss on sale of business | 22 | (7,167,558) | - |
| Fair value gain in other current assets and derivative liabilities | 7, 8 & 19 | 1,711,394 | 11,582,676 |
| Gain (loss) on debt extinguishment | | (66,436) | 128,417 |
| Foreign exchange gain (loss) | | (1,461,554) | 144,493 |
| **Total other income (expense)** | | (10,082,772) | 14,078,771 |
| **Net income (loss) before income taxes** | | (247,899,168) | (28,145,739) |
| Income tax benefit | 23 | 6,943,813 | 1,778,108 |
| **Net income (loss)** | | (240,955,355) | (26,367,631) |
| Net loss attributable to non-controlling interests | | (569,323) | (209,165) |
| **Net income (loss) attributable to StateHouse Holdings Inc.** | | $ (240,386,032) | $ (26,158,466) |
| **Weighted average number of shares outstanding** | | | |
| Basic and diluted | 28 | 213,813,888 | 68,158,181 |
| **Net income (loss) per share** | | | |
| Basic and diluted | 28 | $ (1.12) | $ (0.38) |
| **Comprehensive income (loss):** | | | |
| Net income (loss) | | $ (240,955,355) | $ (26,367,631) |
| Comprehensive income (loss) attributable to non-controlling interests | | (569,323) | (209,165) |
| **Comprehensive income (loss) attributable to StateHouse Holdings Inc. shareholders** | | $ (240,386,032) | $ (26,158,466) |

The accompanying notes are an integral part of these consolidated financial statements

# STATEHOUSE HOLDINGS INC.

Consolidated Statements of Changes in Shareholders' Equity (Deficit)
For the Years Ended December 31, 2022 and 2021
(Expressed in United States Dollars, except share amounts)

| | Note | Share capital | Contributed Surplus | Warrants | Accumulated Deficit | Subtotal | Non-controlling interests | Equity incl. non-controlling interests |
|---|---|---|---|---|---|---|---|---|
| **Balance, January 1, 2021** | | **$ 97,423,381** | **$ 9,305,199** | **$ 1,093,592** | **$ (92,257,217)** | **$ 15,564,955** | **$ 3,066,630** | **$ 18,631,585** |
| Exercise of stock options | 25 | 200,291 | - | - | - | 200,291 | - | 200,291 |
| Share-based compensation | 25 | - | 787,743 | - | - | 787,743 | - | 787,743 |
| Issuance of SVS and MVS in private offering | 24 | 13,115,086 | - | - | - | 13,115,086 | - | 13,115,086 |
| Private offering issuance costs | | (1,194,390) | - | - | - | (1,194,390) | - | (1,194,390) |
| Issuance of Bank Warrants | 16 | - | - | 466,716 | - | 466,716 | | 466,716 |
| Issuance of Broker Warrants | 26 | - | - | 1,134,112 | - | 1,134,112 | - | 1,134,112 |
| Issuance of shares in acquisitions | 3 | 40,829,252 | - | - | - | 40,829,252 | - | 40,829,252 |
| Expiry of Broker Warrants | 26 | - | 460,864 | (460,864) | - | - | - | - |
| Net income (loss) for the year | | - | - | - | (26,158,466) | (26,158,466) | (209,165) | (26,367,631) |
| **Balance, December 31, 2021** | | **$ 150,373,620** | **$ 10,553,806** | **$ 2,233,556** | **$ (118,415,683)** | **$ 44,745,299** | **$ 2,857,465** | **$ 47,602,764** |
| **Balance, January 1, 2022** | | **$ 150,373,620** | **$ 10,553,806** | **$ 2,233,556** | **$ (118,415,683)** | **$ 44,745,299** | **$ 2,857,465** | **$ 47,602,764** |
| Exercise of stock options | 25 | 15,883 | - | - | - | 15,883 | - | 15,883 |
| Share-based compensation | 25 | - | 4,841,787 | - | - | 4,841,787 | - | 4,841,787 |
| Issuance of restricted share units | 24 | 119,895 | (119,895) | - | - | - | - | - |
| Forfeiture of restricted share units | 26 | 299,738 | (299,738) | - | - | - | - | - |
| Expiry of Broker Warrants | 26 | - | 1,134,112 | (1,134,112) | - | - | | - |
| Bridge financing converted to equity | 15 | 5,973,988 | - | - | - | 5,973,988 | - | 5,973,988 |
| Issuance of shares in acquisitions | 3 | 69,949,622 | - | - | - | 69,949,622 | - | 69,949,622 |
| Settlement of debt with equity | 24 | 832,076 | - | - | - | 832,076 | - | 832,076 |
| Purchases of business - initial equity related to non-controlling interests | 27 | - | - | - | - | - | 896,521 | 896,521 |
| Purchase of remaining non-controlling interests | 27 | - | (157,252) | - | - | (157,252) | (282,748) | (440,000) |
| Issuance of warrants | 3 & 26 | - | - | 610,400 | - | 610,400 | - | 610,400 |
| Net income (loss) for the year | | - | - | - | (240,386,032) | (240,386,032) | (569,323) | (240,955,355) |
| **Balance, December 31, 2022** | | **$ 227,564,822** | **$ 15,952,820** | **$ 1,709,844** | **$ (358,801,715)** | **$ (113,574,229)** | **$ 2,901,915** | **$ (110,672,314)** |

The accompanying notes are an integral part of these consolidated financial statements

# STATEHOUSE HOLDINGS INC.

Consolidated Statements of Cash Flows
For the Years Ended December 31, 2022 and 2021
(Expressed in United States Dollars, except share amounts)

| | Note | For the Years Ended December 31, 2022 | For the Years Ended December 31, 2021 |
|---|---|---|---|
| **Operating Activities** | | | |
| Net income (loss) for the year | | $ (240,955,355) | $ (26,367,631) |
| **Adjustments to reconcile net loss to cash flow:** | | | |
| Share-based compensation | 25 | 4,841,787 | 787,743 |
| Depreciation and amortization | 10, 11 & 12 | 12,005,122 | 4,229,222 |
| Changes in fair value less costs to sell of biological asset transformation | 6 | 7,752,645 | 3,845,228 |
| Fair value gain in other current assets and derivative liabilities | 19 | (1,711,394) | (11,582,676) |
| Loss (gain) on extinguishment of debt | | 66,436 | (128,417) |
| Provision for expected credit losses | 4 | 2,828,654 | 489,467 |
| Interest income on notes receivable - related party, note receivable and investments and advances | 8 & 29 | (286,512) | (679,060) |
| Lease modification | | - | (11,291) |
| Professional fees classified as financing activities - private placement of equity units | | - | 607,245 |
| Amortization of other current assets and debt issuance costs | | 1,479,838 | 288,156 |
| Accrued interest on lease liabilities | 12 | 3,035,930 | 877,906 |
| Loss on disposal of property, plant and equipment | | 433,000 | 65,010 |
| Impairment loss | 8 | 196,655,965 | 25,233,195 |
| Loss from sale of business | | 7,564,818 | - |
| Foreign exchange gain (loss) | | 1,461,554 | (144,493) |
| | | (4,827,512) | (2,490,396) |
| Changes in non-cash working capital: | | | |
| Accounts receivable, net | 4 | 1,667,662 | (125,260) |
| Inventories | 5 | 7,905,554 | 847,797 |
| Biological assets | 6 | (7,648,407) | (2,967,998) |
| Prepaid expenses | 7 | 1,280,573 | (1,779,168) |
| Notes receivable | 9 | (1,166,024) | - |
| Due from other entities | | (626,689) | - |
| Deposits and other assets | | (127,223) | (51,598) |
| Accounts payable and accrued liabilities | 14 | (6,285,127) | (463,642) |
| Due to related parties | | - | (144,000) |
| Excise, cultivation and property tax liabilities | 18 | (3,917,163) | - |
| Income tax payable | 23 | 9,219,069 | 2,774,436 |
| Provisions | 20 | (14,899,077) | (1,707,626) |
| Accrued interest on note payable | | 1,002,226 | (1,491,912) |
| Deferred tax liability | 23 | (18,636,800) | (7,684,678) |
| **Cash Flows used in Operating Activities** | | (37,058,938) | (15,284,045) |

The accompanying notes are an integral part of these consolidated financial statements

# STATEHOUSE HOLDINGS INC.

Consolidated Statements of Cash Flows
For the Years Ended December 31, 2022 and 2021
(Expressed in United States Dollars, except share amounts)

| | Note | For the Years Ended December 31, 2022 | For the Years Ended December 31, 2021 |
|---|---|---|---|
| **Financing Activities** | | | |
| Net proceeds raised in private offering | 24 | - | 26,990,719 |
| Net proceeds (repayment) from revolving credit facility | 16 | (12,000,000) | 11,751,982 |
| Net proceeds from term loan | 17 | 46,656,342 | - |
| Repayments of notes payable | 15 | (1,009,905) | (9,710,000) |
| Payments of principal portion of lease liabilities | 12 | (4,863,838) | (1,525,879) |
| Proceeds from exercise of stock options | 25 | 15,883 | 200,291 |
| **Cash Flows provided by Financing Activities** | | 28,798,482 | 27,707,113 |
| **Investing Activities** | | | |
| Investment in debentures | 8 | - | (5,000,000) |
| Repayment of advance to related party | 29 | - | 102,674 |
| Advances on note receivable | 8 | - | (1,000,000) |
| Settlement of pre-existing relationship | 3 | - | (928,623) |
| Cash paid to acquire Sublime, net of cash received | 3 | - | (374,061) |
| Cash paid to acquire Accucanna LLC, net of cash received | 3 | - | (3,407,679) |
| Cash paid to acquire Loudpack, net of cash received | 3 | 1,345,259 | - |
| Cash received in Urbn Leaf Acquisition | 3 | 3,268,428 | - |
| Purchases of property, plant and equipment | 10 | (725,779) | (3,309,251) |
| **Cash Flows provided by (used in) Investing Activities** | | 3,887,908 | (13,916,940) |
| Increase (decrease) in cash and restricted cash | | (4,372,548) | (1,493,872) |
| Effects of foreign exchange on cash and restricted cash | | (1,299,745) | 126,732 |
| Cash and restricted cash, beginning of year | | 9,091,405 | 10,458,545 |
| **Cash and restricted cash, end of year** | | $ 3,419,112 | $ 9,091,405 |
| **Cash and restricted cash consisted of the following:** | | | |
| Cash | | 2,812,241 | 8,774,941 |
| Restricted cash - interest reserves | 16 | 606,871 | 316,464 |
| | | $ 3,419,112 | $ 9,091,405 |
| **Supplementary Information** | | | |
| Cash paid during the year for: | | | |
| Interest | | $ 3,990,474 | $ 807,099 |
| Income taxes | | 2,597,365 | 2,283,053 |
| **Non-Cash Investing and Financing Activities** | | | |
| Issuance of warrants to Bank | 16 & 26 | $ - | $ 466,716 |
| Issuance of Broker Warrants | 24 & 26 | - | 1,134,112 |
| Expiry of Broker Warrants | 8 | (1,134,112) | (460,864) |
| Conversion of 10% call option in Accucanna LLC | 3 | - | 366,000 |
| Issuance of warrants in Loudpack Acquisition | 3 | 610,400 | - |
| Issuance of shares for the Indebtedness | 25 | 832,076 | - |
| Conversion of Bridge Financing | 15 | 5,973,988 | - |
| Loss on sale of business | 22 | 397,260 | - |

## 1. Nature of Operations

StateHouse Holdings Inc. (formerly Harborside Inc.) ("StateHouse" or the "Company"), through its affiliated entities, is a fully licensed, vertically integrated omni-channel cannabis company, with its business consisting of three primary segments: (i) retail sales, including direct to consumer and delivery, (ii) cannabis processing, extraction and product manufacturing, including "white label" production of consumer packaged cannabis products for other cannabis companies, and (iii) wholesale sales, including the sale of bulk cannabis flower and trim into the wholesale market. The Company operates in and/or has ownership interests in California and Oregon, pursuant to state and local laws and regulations, and is focused on building and maintaining its position as one of California's premier vertically integrated cannabis companies.

As at December 31, 2022, the Company's retail presence includes the following:

- Four owned and operated Harborside-branded retail dispensaries located in Oakland, San Jose, San Leandro and Desert Hot Springs, California;
- Eight owned and operated Urbn Leaf-branded retail dispensaries located in San Diego, San Ysidro, Grover Beach, Seaside, La Mesa, Grossmont, San Jose and Vista, California;
- One owned and operated dispensary located in Eugene, Oregon;
- 21% interest in FGW Haight Inc. ("FGW"), a company which operates a Harborside-branded retail dispensary in the Haight Ashbury district of San Francisco (the "FGW Dispensary"). FGW opened the FGW Dispensary under the Harborside brand in April 2022; and
- Direct to consumer retail delivery services which cover the greater San Francisco Bay Area of California (from its Harborside-branded retail stores in Oakland and San Jose) and the Grover Beach and Bay Park areas (from its Urbn Leaf-branded stores in each of these areas). The Company's direct to consumer offerings include an integrated ecommerce platform offering in-store pickup, curbside pick-up, express delivery and scheduled delivery, allowing the Company to extend its reach beyond physical retail locations and expand interactions with customers.

As at December 31, 2022, the Company owned and operated a cultivation and production facility in Salinas, California (the "Salinas Production Campus"), a cultivation and manufacturing facility in Greenfield, California (the "Greenfield Production Campus"), and a distribution center in San Jose, California.

The Company's high quality integrated seed-to-sale operations are focused on building winning brands which are supported by its omni-channel ecosystem. The Company owns a number of different cannabis brands, including: "Fuzzies", "Loudpack", "King Pen", "King Roll", "Dime Bag", "Harborside", "Harborside Farms", "Key", "Terpene Station", "Sublime", and "Urbn Leaf". In addition, the Company exclusively licenses the "Smokiez" brand in California.

On March 31, 2022, the Company completed the mandatory conversion of all of its issued and outstanding multiple voting shares ("MVS") into subordinate voting shares ("SVS") (the "Mandatory Conversion"). Pursuant to the Mandatory Conversion, each holder of MVS received 100 SVS for each MVS held.

On July 25, 2022, the Company completed its name change from "Harborside Inc." to "StateHouse Holdings Inc." (the "Name Change") and completed the reclassification (the "Reclassification") of all of its issued and outstanding SVS to common shares ("Common Shares") on a one for one basis. The Name Change was approved by shareholders of the Company at a special meeting of shareholders held on February 22, 2022. The Reclassification was approved by shareholders of the Company at the annual and special meeting of shareholders held on June 23, 2022. Effective upon market open on July 25, 2022, the Common Shares began to trade on the Canadian Securities Exchange (the "CSE") under the new ticker symbol "STHZ" and on the OTCQX Best Market under the new ticker symbol "STHZF".

The Company's registered office is located at 40 King St. West, Suite 2100, Toronto, Ontario M5H 3C2, Canada, and the Company's head office is located at 1295 W Morena Blvd., San Diego, California 92110, United States.

**(Expressed in United States Dollars, except share amounts)**

## 2. Summary of Significant Accounting Policies

### 2.1 Statement of Compliance and Basis of Measurement

The Company's consolidated financial statements, including comparatives, have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and Interpretations of the IFRS Interpretations Committee ("IFRIC"). These consolidated financial statements were authorized for issuance by the Company's Board on May 4, 2023.

These consolidated financial statements have been prepared in accordance with accounting principles applicable to a going concern, using the historical cost basis, except for certain financial instruments and biological assets, which are measured at fair value.

For comparative purposes, the Company has reclassified certain items on the comparative Consolidated Statements of Financial Position to conform with the current year's presentation. The items reclassified were as follows:

| | Previously reported | After reclassification |
|---|---|---|
| Accounts payable and accrued liabilities | $ 23,692,814 | $ 22,391,679 |
| Excise, cultivation and property tax liability | $ - | $ 1,301,135 |
| Prepaid expenses | $ 4,332,566 | $ - |
| Other current assets | $ 1,230,655 | $ - |
| Prepaid expenses and other current assets | $ - | $ 5,563,221 |

### 2.2 Going Concern

As at December 31, 2022, the Company had cash and restricted cash of $3,419,112 and a working capital deficit of $99,434,115. Working capital is defined as current assets less current liabilities and provides a measure of the Company's ability to settle liabilities that are due within one year with assets that are also expected to be converted into cash within one year. The Company has experienced recurring operating losses of $240,386,032 and $26,158,466 for the years ended December 31, 2022 and 2021, respectively, and has an accumulated operating deficit of $358,801,715 as at December 31, 2022. In addition, the Company had negative cash flows from operating activities for the year ended December 31, 2022 of $37,058,938. Management anticipates that the Company will continue to incur losses until such time as revenues exceed operating costs and the Company is able to complete its restructuring plans, as further described below. These factors create material uncertainties that may cast significant doubt about the Company's ability to continue as a going concern.

The Company's plan to ensure operational continuity include the implementation of its cost savings plan, and various strategic actions, including the divesture of non-core assets including but not limited to the current assets held for sale, as well as its on-going revenue strategies to increase market share and retail, manufacturing and wholesale revenue. As at April 20, 2023, the Company obtained an extension on its senior secured debt, however, the Company will need to refinance or obtain additional funding in order to pay down the debt at the extended maturity date of May 22, 2023 (Note 15 and 34). The Company's annual operating plan for fiscal year 2023 estimates that the Company will be able to sustain current operations. However, the Company's cash needs are significant and not achievable with the current cash flow. Additionally, management expects to continue to manage the Company's operating expenses and reduce its projected cash requirements through permanently or temporarily closing retail dispensaries that are under performing, and/or implementing other restructuring activities. There are no assurances that the Company will be successful in achieving these goals.

## 2. Summary of Significant Accounting Policies (continued)

### 2.2 Going Concern (continued)

The accompanying consolidated financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classification of liabilities that may result from uncertainty related to the Company's ability to continue as a going concern. The application of the going-concern basis is dependent upon the Company achieving profitable operations to generate sufficient cash flows to fund continuing operations, or, in the absence of adequate cash flows from operations, obtaining additional financing to support operations for the foreseeable future. It is not possible to predict whether financing efforts will continue to be successful in the future.

### 2.3 Functional Currency

The functional currency of the Company and each of its subsidiaries is the United States ("U.S.") dollar. Unless otherwise indicated, these consolidated financial statements are presented in U.S. dollars ($ or "USD"). All references to "C$" or "CAD" pertain to Canadian dollars.

### 2.4 Basis of Consolidation

These consolidated financial statements incorporate the accounts of the Company and its wholly-owned subsidiaries as follows:

| Name | Jurisdiction | Purpose | Percentage Owned (%) December 31, 2022 | Percentage Owned (%) December 31, 2021 |
|---|---|---|---|---|
| Statehouse Holdings Inc. (formerly Harborside Inc.) | Ontario, Canada | Parent | 100 | 100 |
| 658 East San Ysidro Blvd LLC | California, U.S. | Real Estate Holding Company | 100 | - |
| 680 Broadway Master, LLC | California, U.S. | Operating Company | 100 | - |
| 909 West Vista Way LLC | California, U.S. | Real Estate Holding Company | 100 | - |
| Accucanna Holdings Inc. | California, U.S. | Holding Company | 100 | 100 |
| Accucanna LLC | California, U.S. | Operating Company | 100 | 100 |
| Accucanna RE, LLC | California, U.S. | Operating Company | 100 | 100 |
| Auric Valley, Inc. | California, U.S. | Holding Company | 100 | - |
| Banana LLC | California, U.S. | Operating Company | 75 | - |
| Belling Distribution, Inc. | California, U.S. | Operating Company | 100 | - |
| Benmore LPFN, LLC | Delaware, U.S. | Holding Company | 100 | - |
| Calgen Trading Inc. | California, U.S. | Operating Company | 100 | - |
| CDRS Investor LLC | California, U.S. | Holding Company | 100 | - |
| CDRS Owner LLC | Delaware, U.S. | Holding Company | 100 | - |
| Encinal Productions RE, LLC | California, U.S. | Operating Company | 100 | 100 |
| Evergreen LPFN, LLC | Delaware, U.S. | Holding Company | 100 | - |
| FFC1, LLC | California, U.S. | Holding Company | 100 | 100 |
| FGW Haight Inc. | California, U.S. | Operating Company | 21 | 21 |
| FLRish Farms Cultivation 2, LLC | California, U.S. | Operating Company | 100 | 100 |
| FLRish Farms Management & Security Services, LLC | California, U.S. | Management Company | 100 | 100 |
| FLRish, Inc. | California, U.S. | Management Company | 100 | 100 |
| FLRish IP, LLC | California, U.S. | Holding Company | 100 | 100 |
| FLRish Retail, LLC | California, U.S. | Holding Company | 100 | 100 |
| FLRish Retail Management & Security Services, LLC | California, U.S. | Management Company | 100 | 100 |
| Gilded Creek Partners Inc. | California, U.S. | Holding Company | 100 | - |
| Greenfield Organix, Inc. | California, U.S. | Operating Company | 100 | - |

**(Expressed in United States Dollars, except share amounts)**

## 2. Summary of Significant Accounting Policies (continued)

### 2.4 Basis of Consolidation (continued)

| Name | Jurisdiction | Purpose | Percentage Owned (%) December 31, 2022 | Percentage Owned (%) December 31, 2021 |
|---|---|---|---|---|
| Greenfield Prop Owner, LLC | Delaware, U.S. | Real Estate Holding Company | 100 | - |
| Greenfield Prop Owner II, LLC | Delaware, U.S. | Real Estate Holding Company | 100 | - |
| Haight Acquisition Corporation | Delaware, U.S. | Holding Company | 100 | 100 |
| JLM Investment Group, LLC | California, U.S. | Holding Company | 67 | - |
| Lafayette Street Property Management LLC | California, U.S. | Operating Company | 90 | - |
| LGC Holdings USA, Inc. | Nevada, U.S. | Holding Company | 100 | 100 |
| LGC LOR DIS 1, LLC | Oregon, U.S. | Operating Company | 100 | 100 |
| LGC LOR DIS 2, LLC | Oregon, U.S. | Operating Company | 100 | 100 |
| Lineage GCL California, LLC | California, U.S. | Holding Company | 100 | 100 |
| Lineage GCL Oregon Corporation | Oregon, U.S. | Holding Company | 100 | 100 |
| LPF 4th Street, LLC | Delaware, U.S. | Holding Company | 100 | - |
| LPF Bellflower, LLC | Delaware, U.S. | Holding Company | 100 | - |
| LPF Consulting Group, LLC | California, U.S. | Holding Company | 100 | - |
| LPF Michigan LLC | Delaware, U.S. | Holding Company | 100 | - |
| LPF Ohio, LLC | Delaware, U.S. | Holding Company | 100 | - |
| LPF RE Manager, LLC | California, U.S. | Management Company | 100 | - |
| LP-KP IP Holdings, LLC | California, U.S. | Holding Company | 100 | - |
| Lunar Management, LLC | New York, U.S. | Holding Company | 100 | - |
| Oakland Machining Supply SLB LLC | California, U.S. | Holding Company | 100 | 100 |
| Ocean Ranch LPFN, LLC | Delaware, U.S. | Holding Company | 100 | - |
| Patients Mutual Assistance Collective Corporation | California, U.S. | Operating Company | 100 | 100 |
| Redhunt Corporation | California, U.S. | Holding Company | 100 | - |
| San Jose Wellness Solutions Corp. | California, U.S. | Operating Company | 100 | 100 |
| San Leandro Wellness Solutions Inc. | California, U.S. | Operating Company | 100 | 100 |
| SaVaCa, LLC | California, U.S. | Holding Company | 100 | 100 |
| Savature Inc. | California, U.S. | Operating Company | 100 | 100 |
| SBC Management LLC | California, U.S. | Management Company | 100 | - |
| Sublime Machining Inc. | California, U.S. | Operating Company | - | 100 |
| Sublimation Inc. | Delaware, U.S. | Holding Company | 100 | 100 |
| ULBP Inc. | California, U.S. | Operating Company | 100 | - |
| ULRB LLC | California, U.S. | Operating Company | 80 | - |
| UL Benicia LLC | California, U.S. | Operating Company | 70 | - |
| UL Chula Two LLC | California, U.S. | Operating Company | 51 | - |
| UL Holdings Inc. | California, U.S. | Holding Company | 100 | - |
| UL Kenamar LLC | California, U.S. | Operating Company | 100 | - |
| UL La Mesa LLC | California, U.S. | Operating Company | 60 | - |
| UL Management LLC | California, U.S. | Management Company | 100 | - |
| UL San Jose LLC | California, U.S. | Operating Company | 100 | - |
| UL Visalia LLC | California, U.S. | Operating Company | 80 | - |
| Unite Capital Corp. | Ontario, Canada | Holding Company | 100 | 100 |
| Uprooted, Inc. | California, U.S. | Operating Company | 100 | - |
| Uprooted LM LLC | California, U.S. | Operating Company | 100 | - |

## 2. Summary of Significant Accounting Policies (continued)

### 2.4 Basis of Consolidation (continued)

The consolidated financial statements as at December 31, 2022 and 2021 include the accounts of the Company, its wholly-owned subsidiaries and entities over which the Company has "control", as such term is defined in IFRS 10, *Consolidated Financial Statements* ("IFRS 10"). Entities over which the Company has control are presented on a consolidated basis from the date control commences. Control, as defined by IFRS 10 for purposes of determining the consolidated basis of financial statement presentation exists when the Company is exposed to, or has right to, variable returns as well as the ability to affect those returns through the power to direct the relevant activities of the entity. All of the Company's consolidated entities were under control, as defined in IFRS 10, by the Company, for purposes of determining the consolidated basis of financial statement presentation, during the entirety of the periods for which their respective results of operations were included in the consolidated financial statements. The consolidated financial statements include all the assets, liabilities, revenues, expenses and cash flows of the Company and its subsidiaries that it controls after eliminating intercompany balances and transactions.

### 2.5 COVID-19 Estimation Uncertainty

The global pandemic outbreak of the novel strain of coronavirus ("COVID-19") resulted in governments worldwide enacting emergency measures to combat the spread of the virus. In response to the outbreak, governmental authorities in the United States, Canada and internationally introduced various recommendations and measures to try to limit the pandemic, including travel restrictions, border closures, non-essential business closures, quarantines, self-isolations, shelters-in-place and social distancing. While COVID-19 restrictions have loosened, COVID-19 has negatively impacted many industries directly or indirectly, including the regulated cannabis industry. The Company has taken responsible measures with respect to COVID-19 to maximize the safety of employees working at its facilities and continues to closely monitor the impacts of COVID-19, with a focus on the health and safety of both its employees and customers and business continuity. COVID-19 has cast uncertainty on the assumptions used by management in making its judgments and estimates. At this point, the extent to which COVID-19 will or may impact the Company is uncertain and these factors are beyond the Company's control; however, it is possible that COVID-19 may have a material adverse effect on the Company's business, results of operations and financial condition.

### 2.6 Cash

Cash and restricted cash are comprised of funds held in banks, funds held in short term (less than one year) Certificates of Deposits with the Bank (with restrictions), and cash held at the Company's operating premises in Oregon and California. Cash equivalents include investments and deposits that mature within three months. The Company did not have any cash equivalents as at December 31, 2022 and 2021.

### 2.7 Inventories

Inventories are measured at the lower of cost or net realizable value ("NRV"), which is determined as the estimated selling price in the ordinary course of business less estimated costs to sell. The Company measures inventory using the weighted average cost method.

Inventories of harvested cannabis are transferred from biological assets to inventories at their fair value at harvest less cost to sell, which is deemed to be their cost. Any subsequent post-harvest costs are capitalized to inventories to the extent that their cost is less than NRV. Packaging and supplies are initially valued at cost. All direct and indirect costs related to inventories are capitalized as they are incurred and expensed when the related item is sold.

## 2. Summary of Significant Accounting Policies (continued)

### 2.7 Inventories (continued)

With respect to the Company's operations for its white label manufacturing and wholesale distribution lines of business, the Company has certain raw materials and finished goods on consignment. Certain white label manufacturing customers provide packaging, labels, and other raw materials at no cost to the Company to be incorporated into the white label manufactured products. In accordance with certain distribution arrangements that the Company is a party to, the Company maintains a consignment of inventory. Such distribution arrangements are deemed to be consignment arrangements because the supplier controls the products until the Company takes title immediately before delivery to the end customer. The supplier can require return or transfer of the products and the Company does not have an unconditional obligation to pay for the products. The Company's obligation to pay for the products occurs when they are sold to the dispensaries, as the end customer.

### 2.8 Biological Assets

The Company's biological assets consist of cannabis plants in various stages of growth prior to harvest. The Company measures biological assets at fair value less costs to complete and sell up to the point of harvest. Unrealized gains or losses arising from the changes in fair value, less costs to complete and sell during the period, are separately recorded in the Consolidated Statements of Income (Loss) and Comprehensive Income (Loss) for the related period. At the point of harvest, the biological assets are transferred to inventories at their fair value less costs to complete and sell. All direct and indirect costs related to biological assets are capitalized as they are incurred, and they are expensed when the related items are sold.

While the Company's biological assets are within the scope of IAS 41 - *Agriculture* ("IAS 41"), the direct and indirect costs of biological assets are determined using an approach similar to the capitalization criteria outlined in IAS 2 - *Inventories*. These include the direct cost of labor, seeds and growing material, as well as other indirect costs such as utilities and supplies used in the growing process. Indirect labor for individuals involved in the growing and quality control process is also included, as well as certain overhead costs related to the growing facility. All direct and indirect costs of biological assets are capitalized as they are incurred, and they are subsequently recorded within cost of goods sold in the period that the related products are sold.

### 2.9 Property, Plant and Equipment

Property, plant and equipment are measured at cost, net of accumulated depreciation and amortization and any impairment losses. Depreciation is calculated on a straight-line basis over the following estimated useful lives:

| | |
|---|---|
| Land | Not depreciated |
| Retail and agricultural buildings | 15 - 40 years |
| Agricultural and manufacturing equipment | 5 years |
| Furniture and fixtures | 7 years |
| Vehicles | 5 years |
| Office and computer equipment | 3 - 5 years |
| Security equipment | 5 years |
| Leasehold improvements | Remaining life of lease |

An asset's residual value, useful life and depreciation method are reviewed during each financial year and adjusted if appropriate. When parts of an item of equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

**(Expressed in United States Dollars, except share amounts)**

## 2. Summary of Significant Accounting Policies (continued)

### 2.9 Property, Plant and Equipment (continued)

Expenditures for repairs and maintenance are charged to general and administrative expenses as incurred. For assets sold or otherwise disposed of, the cost and related accumulated depreciation and amortization are removed from the accounts, and any related gain or loss is reflected in income for the period.

### 2.10 Intangible Assets

Intangible assets are recorded at cost less accumulated amortization and any impairment losses. Intangible assets acquired in a business combination are measured at fair value at the acquisition date. Amortization of definite-lived intangible assets is calculated on a straight-line basis over the following estimated useful lives:

| | |
|---|---|
| Trademark | 4 - 15 years |
| Developed technology | 5 years |
| Customer relationships | 5.5 years |

The Company's licenses are assigned an indefinite life based on the expected use by the Company, as there are no legal, regulatory or economic factors that limit the useful life of these licenses.

The estimated useful lives, residual values and amortization methods are reviewed annually and any changes in estimates are accounted for prospectively. Intangible assets with an indefinite life are not subject to amortization, but are tested for impairment annually.

### 2.11 Impairment of Long-Lived Assets

Long-lived assets, including property, plant and equipment and intangible assets are reviewed for impairment at the end of each reporting period or whenever events or changes in circumstances indicate that the carrying amount of an asset exceeds its recoverable amount. For the purposes of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the cash-generating unit, or "CGU"). The recoverable amount of an asset or a CGU is the higher of its fair value, less cost of disposal, and its value in use. If the carrying amount of an asset or a CGU exceeds its recoverable amount, an impairment charge is recognized immediately in profit or loss by the amount by which the carrying amount of the asset or a CGU exceeds the recoverable amount. Where an impairment loss subsequently reverses, the carrying amount of the asset or a CGU is increased to the lesser of the revised estimate of recoverable amount, and the carrying amount that would have been recorded if no impairment loss had been recognized previously. For the years ended December 31, 2022 and 2021, the Company recorded an impairment loss of $80,371,408 and $24,698,151, respectively.

### 2.12 Goodwill

Goodwill represents the excess of the purchase price paid for the acquisition of an entity over the fair value of the net tangible and intangible assets acquired. Goodwill is allocated to the CGU or group of CGUs which are expected to benefit from the synergies of the combination. Goodwill is not subject to amortization.

**2. Summary of Significant Accounting Policies (continued)**

**2.12 Goodwill (continued)**

Goodwill is measured at historical cost and is evaluated for impairment annually in the fourth quarter of each fiscal year, or more often if events or circumstances indicate there may be an impairment. Impairment is determined for goodwill by assessing if the carrying value of an operating segment, being the lowest CGU level within the entity at which goodwill is monitored, including goodwill, exceeds the recoverable amount determined as the greater of the estimated fair value less costs of disposal and the value in use. Impairment losses recognized in respect of the CGU are first allocated to the carrying value of goodwill and any excess is allocated to the carrying amount of assets in the CGU. Any goodwill impairment is recorded in profit or loss in the reporting year in which the impairment is identified. Impairment losses on goodwill are not subsequently reversed.

For the years ended December 31, 2022 and 2021, the Company recorded an impairment loss on goodwill of $116,284,557 and $535,044, respectively.

**2.13 Loans and Borrowings**

Loans and borrowings are classified as other financial liabilities and are measured at fair value at initial recognition and subsequently at amortized cost. Transactions costs are deferred and amortized over the term of the liability.

**2.14 Leases**

The Company primarily leases office, manufacturing, distribution and retail space. The Company assesses whether a contract is, or contains, a lease at the inception of the contract.

If a contract is determined to be a lease, a right-of-use asset is initially measured at cost, which is primarily comprised of the initial amount of the lease liability, plus initial direct costs and lease payments at or before the lease commencement date, less any lease incentives received, and is amortized on a straight-line basis over the remaining lease term. All right-of-use assets are reviewed periodically for impairment. A corresponding lease liability is initially measured at the present value of lease payments, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise (a) fixed payments, including in-substance fixed payments; (b) variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date; (c) amounts expected to be payable under a residual value guarantee; and (d) the exercise price under a purchase option that the Company is reasonably certain to exercise, lease payments in an optional renewal period if the Company is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Company is reasonably certain not to terminate early. At inception or reassessment of a contract that contains lease and non-lease components, the Company allocates the consideration in the contract to each lease component on the basis of their relative stand-alone prices.

The Company has elected to recognize expenses for leases with a term of 12 months or less and leases of low-value assets as expenses when incurred. Leases have varying terms with remaining lease terms of up to approximately 15 years.

## 2. Summary of Significant Accounting Policies (continued)

### 2.15 Convertible Debentures

Convertible debentures are financial instruments which are accounted for separately dependent on the nature of their components: a financial liability and an equity instrument. The identification of such components embedded within a convertible debenture requires significant judgment given that it is based on the interpretation of the substance of the contractual arrangement. Where the conversion option has a fixed conversion rate, the financial liability, which represents the obligation to pay coupon interest on the convertible debentures in the future, is initially measured at its fair value and subsequently measured at amortized cost. The residual amount is accounted for as an equity instrument at issuance. Where the conversion option has a variable conversion rate, the conversion option is recognized as a derivative liability measured at fair value through profit and loss. The residual amount is recognized as a financial liability and subsequently measured at amortized cost.

Given that it is subject to various inputs, assumptions and estimates including contractual future cash flows, discount rates, credit spreads and volatility, the determination of the fair value of convertible debentures is also an area of significant judgment. Transaction costs are apportioned to the debt and equity components in proportion to the allocation of proceeds.

### 2.16 Provisions

A provision is recognized when the Company has a present obligation (legal or constructive) which has arisen as the result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation, and the amount of the obligation can be reliably estimated. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate which reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

A provision for onerous contracts is recognized when the expected benefits to be derived by the Company from a contract are lower than the unavoidable cost of meeting its obligations under the contract.

### 2.17 Income Taxes

The Company uses the liability method to account for income taxes. Deferred income tax assets and liabilities are recognized for the future tax consequences attributable to differences between the carrying amounts of existing assets and liabilities for accounting purposes and their respective tax bases. Deferred income tax assets and liabilities are measured using tax rates that have been enacted or substantively enacted and applied to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred income tax assets and liabilities of a change in statutory tax rates is recognized in profit or loss in the year of change. Deferred income tax assets are recorded when their recoverability is considered probable and are reviewed at the end of each reporting period.

As the Company operates in the cannabis industry, it is subject to the limits of Internal Revenue Code §280E ("IRC §280E"), under which the Company is only allowed to deduct expenses which are directly related to the costs of production. This results in permanent income tax differences caused by ordinary and necessary business expenses which are deemed unallowable deductions under IRC §280E.

Provisions for taxes are made using the best estimate of the amount expected to be paid based on a qualitative assessment of all relevant factors. The Company reviews the adequacy of these provisions at the end of each reporting period. However, it is possible that at some future date an additional liability could result from audits by taxing authorities. Where the outcome of these tax related matters is different from the amounts that were initially recorded, such differences will affect the tax provisions in the period in which such determination is made.

## 2. Summary of Significant Accounting Policies (continued)

### 2.17 Income Taxes (continued)

The Company is treated as a United States corporation for United States federal income tax purposes under §7874 of the U.S. Tax Code and is subject to the United States federal income tax on its worldwide income. However, for Canadian tax purposes, the Company is expected, regardless of any application of §7874 of the U.S. Tax Code, to be treated as a Canadian resident company (as defined in the Income Tax Act (Canada) (the "ITA") for Canadian income tax purposes. As a result, the Company will be subject to taxation both in Canada and the United States. Notwithstanding the foregoing, it is Management's expectation that the Company's activities will be conducted in such a manner that income from operations will not be subject to double taxation.

IFRIC Interpretation 23, *Uncertainty over Income Tax Treatments* ("IFRIC 23"), provides guidance on the accounting for current and deferred tax liabilities and assets in circumstances in which there is uncertainty over income tax treatments.

The Company has separately recorded a provision for uncertain tax positions associated with Patients Mutual Assistance Collective Corporate ("PMACC") and San Jose Wellness ("SJW") and uncertain tax positions associated with permanent and temporary tax positions relating the Company's federal income tax returns (Note 20).

### 2.18 Due From Other Entities

Due from other entities represents balances for pre-operating entities for which the Company expects to acquire future interests. The Company, through its affiliated entities, manages pre-operating costs for other entities which include permitting fees, license applications, leasehold improvements and other charges for future retail, manufacturing, production and cultivation operating entities. Those expenses are held as due from the respective operating entity.

### 2.19 Excise, cultivation and property tax liabilities

The Company's distribution of wholesale cannabis products to other licensed retailers in the state of California creates the obligation to collect excise tax from those retailers. Effective January 1, 2023, the remittance of excise tax shifted from distributors to retailers. Prior to July 1, 2022, the Company was also obligated to remit cultivation taxes which were collected from cultivators. If the products purchased from cultivators were sold to another manufacturer or distributor, the cultivation tax was passed to that manufacturer or distributor. If the cultivation products were consumed by the Company in the process of manufacturing or distribution, the Company was obligated to remit the cultivation tax when the manufactured products produced were sold. In instances in which the Company cultivates its own products which are then consumed in the manufacturing process, the Company was obligated to remit the cultivation tax when the manufactured products are sold. Effective July 1, 2022, the state of California eliminated the cultivation tax.

### 2.20 Revenue Recognition

Revenue is recognized at the transaction price, which is the amount of consideration to which the Company expects to be entitled in exchange for transferring promised goods to a customer. Cultivation taxes are a production tax which becomes payable when a cannabis product enters the commercial market and is not directly related to the value of sales. These taxes are netted against gross sales on the Consolidated Statements of Income (Loss) and Comprehensive Income (Loss). Effective July 1, 2022, the state of California eliminated the cultivation tax. Excise duties and taxes collected on behalf of third parties are excluded from revenue. Net revenue from the sale of goods represents revenue from the sale of goods less applicable cultivation taxes (prior to July 1, 2022) and price discounts.

## 2. Summary of Significant Accounting Policies (continued)

### 2.20 Revenue Recognition (continued)

The Company's policy for the timing and amount of revenue to be recognized is based on the following 5-step process in accordance with IFRS 15, *Revenue from Contracts with Customers*:

- Identify the contract with a customer;
- Identify the performance obligations in the contract;
- Determine the transaction price, which is the total consideration provided by the customer;
- Allocate the transaction price among the performance obligations in the contract based on their relative fair values; and
- Recognize revenue when the relevant criteria are met for each unit (at a point in time or over time).

The Company has concluded that revenue from the sale of products should be recognized at the point in time when control is transferred to the customer. The Company transfers control and satisfies its performance obligations upon delivery and acceptance by the customer.

*Dispensary Revenue*

Revenue from the direct sale of cannabis to customers for a fixed price is recognized at the point in time when control is transferred to the customer. The Company transfers control and satisfies its performance obligations upon delivery and acceptance by the customer.

*Cultivation and Wholesale Revenues*

The Company recognizes revenue from the sale of cannabis for a fixed price upon the delivery of cannabis goods. The Company transfers control and satisfies its performance obligations upon delivery and acceptance by the customer.

*Manufacturing Revenue*

The Company's manufacturing revenue includes wholesale product sales to dispensary customers and other distributors, white label manufactured products for other third-party businesses who typically put their own branding on the product, and revenue from the distribution of products for other cannabis companies.

The Company recognizes revenue on a gross basis from the distribution of products because the Company has determined that it is the principal in the transaction. The Company is primarily responsible for fulfilling the promise to transfer the goods, including the responsibility to test the goods in accordance with state requirements in the U.S. Only products that have passed the testing requirements can be sold. Further, the Company takes title of the goods immediately before shipment of the products to the customers. The Company is in control of customer expectations and is responsible for addressing any customer issues with products. The Company also has discretion in establishing the prices of products distributed.

*Loyalty Rewards Program*

The Company's Urbn Leaf-branded retail dispensaries offer a loyalty rewards program to retail customers which allows them to earn reward points to be used for future purchases of goods at a discount from the stand-alone selling price of a product. This program provides retail customers with a material right which is accounted for as a separate performance obligation.

## 2. Summary of Significant Accounting Policies (continued)

### 2.20 Revenue Recognition (continued)

*Loyalty Rewards Program (continued)*

Based on the stand-alone selling price allocation, management allocates a portion of the gross sales revenue generated to the material right. As the reward points are redeemed, a proportionate amount of the material right is recognized as revenue and at each reporting date the amount of the material right represented by the unredeemed reward points is carried forward as a liability until such reward points are redeemed.

As at December 31, 2022, the Company had a loyalty program liability of $2,196,333, which is recorded as a component of accounts payable and accrued liabilities in the accompanying Consolidated Statements of Financial Position.

### 2.21 Share Capital

*Common Shares*

As at December 31, 2022, the voting securities of the Company consist of an unlimited number of Common Shares that are classified as equity. Transaction costs directly attributable to the issuance of Common Shares and options to purchase Common Shares are recognized as a reduction in equity.

*Equity units*

Proceeds received on the issuance of units, comprised of Common Shares and warrants are allocated to Common Shares and warrants based on the residual method.

### 2.22 Assets Held for Sale

The Company classifies assets held for sale in accordance with IFRS 5, *Non-Current Assets Held for Sale and Discontinued Operations* ("IFRS 5"). When the Company makes the decision to sell an asset or to stop some part of its business, the Company assesses if such assets should be classified as an asset held for sale. To classify as an asset held for sale, the asset or disposal group must meet all of the following conditions: i) the asset is available for immediate sale in its present condition, ii) management is committed to a plan to sell, iii) an active program to locate a buyer and complete the plan has been initiated, iv) the asset is being actively marketed for sale at a sales price that is reasonable in relation to its fair value, v) the sale is highly probable within one year from the date of classification, and vi) actions required to complete the plan indicate that it is unlikely that the plan will be significantly changed or withdrawn. An asset held for sale is measured at the lower of its carrying amount or fair value less cost to sell ("FVLCS") unless the asset held for sale meets the exceptions as denoted by IFRS 5. FVLCS is the amount obtainable from the sale of the asset in an arm's length transaction, less the costs of disposal. Once classified as held for sale, any depreciation and amortization cease to be recorded.

### 2.23 Share-Based Payments

*Stock options*

Stock options issued to employees are measured at fair value at the grant date and are recognized as an expense over the relevant vesting periods with a corresponding credit to reserve for share-based payments.

Stock options issued to non-employees are measured at either the fair value of goods or services received, or the fair value of equity instruments issued if it is determined that the fair value of the goods or services cannot be reliably measured. The fair value of non-employee stock options is recorded as an expense at the date the goods or services are received.

## 2. Summary of Significant Accounting Policies (continued)

### 2.23 Share-Based Payments (continued)

*Stock options (continued)*

The fair value of stock options is calculated using the Black-Scholes-Merton option pricing model. When determining the fair value of stock options, management is required to make certain assumptions and estimates related to expected lives, volatility, risk-free rate, future dividend yields and estimated forfeitures at the initial grant date.

The number of options expected to vest is adjusted at the end of each reporting period such that the amount recognized for services received as consideration for the equity instruments granted shall be based on the number of equity instruments that will eventually vest. Amounts recorded for forfeited or expired unexercised stock options are transferred to share capital in the year of forfeiture or expiry.

Upon the exercise of stock options, proceeds received from stock option holders are recorded as an increase to share capital.

*Restricted Share Units ("RSUs")*

RSUs are equity-settled share-based payments. RSUs are measured at their fair value on the date of grant based on the closing price of the Company's shares on the date prior to the grant, and are recognized as share-based compensation expense over the vesting period, with a corresponding credit to reserve for share-based payments. Upon the release of RSUs, the related reserve for share-based payments is transferred to share capital.

The amount recognized for services received as consideration for the RSUs granted is based on the number of equity instruments that eventually vest. Amounts recorded for forfeited RSUs are transferred to deficit in the year of forfeiture or expiry.

### 2.24 Loss Per Share

The Company calculates basic loss per share by dividing net loss by the weighted average number of shares outstanding during the period. Diluted loss per share is determined by adjusting loss attributable to shareholders holding Common Shares and the weighted average number of shares outstanding, for the effects of all dilutive potential shares, which comprise convertible debentures, RSUs, warrants and stock options issued.

The Company's potentially dilutive securities have been excluded from the computation of diluted net loss per share as the effect would be to reduce the net loss per share. Therefore, the weighted average number of Common Shares outstanding used to calculate both basic and diluted net loss per share attributable to shareholders is the same.

### 2.25 Non-Controlling Interests

Non-controlling interests ("NCI") are recognized either at fair value or at the NCI's proportionate share of the acquiree's net assets, determined on an acquisition-by-acquisition basis at the date of acquisition. Changes in the Company's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

### 2.26 Related Party Transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities. A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties.

## 2. Summary of Significant Accounting Policies (continued)

### 2.27 Fair Value Measurements

The Company measures certain financial and non-financial assets and liabilities at fair value at each reporting date. In addition, fair value measurements are disclosed for certain financial and non-financial assets and liabilities.

Fair value is the price that would either be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In estimating the fair value of an asset or a liability, the Company considers the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and disclosure purposes is determined on such a basis, except for share-based payment transactions, and measurements that have some similarities to fair value but are not fair value, such as net realizable value or value in use.

Assets and liabilities, for which fair value is measured or disclosed in the consolidated financial statements, are classified using a three-level fair value hierarchy that reflects the significance and transparency of the inputs used in making the fair value measurements. Each level is based on the following:

- Level 1 - inputs are unadjusted quoted prices of identical assets or liabilities in active markets;
- Level 2 - inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices from observable market data) from observable market data; and
- Level 3 - one or more significant inputs used in a valuation technique are unobservable in determining fair value of the asset or liability.

Determination of fair value and the resulting hierarchy requires the use of observable market data whenever available. The classification of an asset or liability in the fair value hierarchy is based upon the lowest level of input that is significant to the measurement of fair value.

The Company's biological assets and derivative liabilities are classified within level 3 of the fair value hierarchy.

There have been no transfers between fair value hierarchy levels during the years ended December 31, 2022 and 2021.

### 2.28 Financial Instruments

The Company classifies and measures financial instruments in accordance with IFRS 9, *Financial Instruments* ("IFRS 9"). On initial recognition, a financial asset is classified as fair value through profit or loss ("FVTPL"), fair value through other comprehensive income ("FVTOCI"), or amortized cost. Purchases and sales of financial assets are recorded on a settlement date basis.

Subsequent to initial recognition, all investments are measured at fair value. All gains and losses arising from the changes in fair value of investments are presented in the Consolidated Statements of Income (Loss) and Comprehensive Income (Loss) in the period in which the gains or losses arise. The Company will only reclassify a financial asset when the Company changes its business model for managing the financial asset. All reclassifications are recorded at fair value at the date of reclassification, which becomes the new carrying value.

## 2. Summary of Significant Accounting Policies (continued)

### 2.28 Financial Instruments (continued)

*i. Financial assets classified at FVTPL*

Financial assets are classified as FVTPL if the asset is an equity investment, if the Company has not elected to classify investments as FVTOCI, or if the Company's business model for holding the investment is achieved other than by collecting contractual cash flows and by selling the assets. As at December 31, 2022 and 2021, the Company did not have any financial assets at FVTOCI.

FVTPL assets are initially recorded at fair value with realized gains and losses on disposition and subsequent changes in fair value recorded in net income (loss). Directly attributable transaction costs are recorded in net income (loss) as incurred.

*ii. Non-derivative financial liabilities*

Non-derivative financial liabilities are recognized initially on the date the Company becomes a party to the contractual obligations of the financial instrument. All non-derivative financial liabilities are recognized initially at fair value along with directly attributable transaction costs. Subsequent to initial measurement, non-derivative financial liabilities are measured at amortized cost using the effective interest method.

*iii. Derivative financial instruments - warrants and stock options*

A financial derivative, such as warrants or stock options, which will be settled with Common Shares is classified as an equity instrument if the derivative is to acquire a fixed number of the Company's own equity instruments for a fixed amount of U.S. dollars.

A financial derivative is considered a financial liability at FVTPL if it is used to acquire a variable number of Common Shares and the stock options or warrants were not offered pro-rata to all existing owners of the class of non-derivative equity instruments.

The following table presents the Company's classification of financial assets and financial liabilities as at December 31, 2022:

| Financial assets/financial liabilities | Classification |
|---|---|
| Cash and restricted cash | Amortized cost |
| Accounts receivable, net | Amortized cost |
| Prepaid expenses | Amortized cost |
| Other current assets | FVTPL |
| Investments and advances | FVTPL |
| Deposits and other assets | Amortized cost |
| Due from other entities | Amortized cost |
| Accounts payable and accrued liabilities | Amortized cost |
| Notes payable, net | Amortized cost |
| Term loan, net | Amortized cost |
| Excise, cultivation and property tax liabilities | Amortized cost |
| Derivative liabilities | FVTPL |

## 2. Summary of Significant Accounting Policies (continued)

### 2.28 Financial Instruments (continued)

The Company recognizes a provision for expected credit losses on financial assets that are measured at amortized cost. The Company assumes that the credit risk on a financial asset has increased if it is more than 60 days past due. The Company considers a financial asset to be impaired either when the financial asset is more than 90 days past due, or it is determined that the borrower is unlikely to pay its credit obligations to the Company in full.

The carrying amount of a financial asset is reduced (either partially or in full) if management determines that there is no realistic prospect of recovery. This is generally the case when the Company concludes that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay amounts owed.

The Company assesses information available including, on a forward-looking basis, the expected credit loss associated with its assets carried at amortized cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk. To assess whether there is a significant increase in credit risk, the Company compares the risk of a default occurring on the asset at the reporting date with the risk of default at the date of initial recognition based on all information available and reasonable and supportive forward-looking information. For accounts receivable only, the Company applies the simplified approach as permitted by IFRS 9. The simplified approach to the recognition of expected losses does not require the Company to track the changes in credit risk; rather, from the dates of the trade receivables, the Company recognizes a loss provision based on lifetime expected credit losses at each reporting date.

Expected credit losses are measured as the difference in the present value of the contractual cash flows that are due to the Company under the contract, and the cash flows that the Company expects to receive thereunder. The Company assesses information available, including past due status, credit ratings, the existence of third-party insurance, and forward-looking macro-economic factors in the measurement of the expected credit losses associated with its assets carried at amortized cost. The Company measures expected credit loss by considering the risk of default over the contract period and incorporates forward-looking information into its measurement.

### 2.29 Critical Accounting Estimates and Judgments

The preparation of these consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from those estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised in any future periods affected. Significant judgments, estimates, and assumptions that have the most significant effect on the amounts recognized in the consolidated financial statements are described below.

*Business combinations*

In a business combination, substantially all identifiable assets, liabilities and contingent liabilities acquired are recorded at their respective fair values at the acquisition date. The date on which the acquirer obtains control of the acquiree is generally the date on which the acquirer legally transfers the consideration, acquires the assets and assumes the liabilities of the acquiree, which is the closing date of such transaction. However, the acquirer might obtain control on a date that is either earlier or later than the closing date. Management exercises judgment in considering all pertinent facts and circumstances in identifying the acquisition date.

## 2. Summary of Significant Accounting Policies (continued)

### 2.29 Critical Accounting Estimates and Judgments (continued)

*Business combinations (continued)*

The Company examines three elements to determine whether control exists. When these three elements of control are present, then an investor is considered to control an investee and consolidation is required. When one or more of the elements is not present, an investor will not consolidate but instead be required to determine the nature of its relationship with the investee. The Company exercises its judgment when determining control over an investee, when it has all of the following attributes: (i) power over the investee, such as the ability to direct relevant activities of the investee; (ii) exposure, or rights, to variable returns from its involvement with the investee, such as returns that are not fixed and have the potential to vary with performance of the investee; and (iii) the ability to use its power over the investee to affect the amount of the investor's returns, such as identifying the link between power and returns.

Classification of an acquisition as a business combination or an asset acquisition depends on whether the assets acquired constitute a business, which can be a complex judgment. Whether an acquisition is classified as a business combination or an asset acquisition can have a significant impact on the entries made at and after acquisition. In determining the fair value of all identifiable assets, liabilities and contingent liabilities acquired, the most significant estimates relate to contingent consideration and intangible assets. Contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination.

Management exercises judgment in estimating the probability and timing of when contingent securities are expected to be issued which is used as the basis for estimating fair value. For any intangible asset identified, depending on the type of intangible asset and the complexity of determining its fair value, an independent valuation expert or management may develop the fair value, using appropriate valuation techniques which are generally based on a forecast of the total expected future net cash flows. The evaluations are linked closely to the assumptions made by management regarding the future performance of these assets and any changes in the discount rate applied. Purchase consideration also includes consideration of any pre-existing relationships that are effectively settled at their fair values due to the acquisition.

*Fair value of biological assets and inventories*

Determination of the fair value of biological assets and inventories requires management to make assumptions about how market participants assign fair values to these assets. These assumptions primarily relate to the level of effort required to grow cannabis to the point of harvest, costs to convert the harvested cannabis to finished goods, sales price, risk of loss, expected future yields from the cannabis plants and estimating values during the growth cycle of such biological assets.

The valuation of biological assets at the point of harvest is the cost basis for all cannabis-based inventories and thus any critical estimates and judgments related to the valuation of biological assets are also applicable for inventories.

Significant assumptions used in determining the fair value of biological assets include:

- Estimating the stage of growth of cannabis up to the point of harvest;
- Pre-harvest and post-harvest costs;
- Expected selling prices;
- Expected yields for cannabis plants to be harvested, by strain of plant; and
- Wastage of cannabis plants at various stages.

## 2. Summary of Significant Accounting Policies (continued)

### 2.29 Critical Accounting Estimates and Judgments (continued)

*Fair value of biological assets and inventories (continued)*

The valuation of work in process and finished goods also requires the estimate of conversion costs incurred, which become part of the carrying amount for inventories. The Company must also determine if the cost of any inventories exceeds its NRV, such as instances where prices have decreased, or inventories have spoiled or otherwise been damaged. The Company estimates the NRV of inventories, taking into account the most reliable evidence available at each reporting date. The future realization of these inventories may be affected by market-driven changes that may reduce future selling prices. A change to these assumptions could impact the Company's inventory valuation and impact gross profit.

*Provision for expected credit losses ("ECL")*

Determining a provision for ECLs for accounts receivable held at amortized cost requires management to make assumptions about the historical patterns for the probability of default, timing of collection and the amount of incurred credit losses, which are adjusted based on management's judgment about whether economic conditions and credit terms are such that actual losses may be higher or lower than what the historical patterns suggest.

*Estimated useful lives of depreciation and amortization of property, plant and equipment and intangible assets*

Depreciation and amortization of property, plant and equipment is dependent upon estimates of 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 which considers factors such as economic conditions, market conditions and the useful lives of assets.

Amortization of intangible assets is dependent upon estimates of useful lives and residual values which are determined through the exercise of judgment. Intangible assets that have indefinite useful lives are not subject to amortization and are tested annually for impairment, or more frequently if events or changes in circumstances indicate they might be impaired. The assessment of any impairment of these assets is dependent upon estimates of recoverable amounts which considers factors such as general and industry-specific economic and market conditions.

*Impairment of long-lived assets*

Long-lived assets, including property, plant and equipment and intangible assets, are reviewed for indicators of impairment at each reporting period or whenever events or changes in circumstances indicate that the carrying amount of an asset exceeds its recoverable amount. The recoverable amount of an asset or a CGU is the greater of its fair value less costs to sell or its value in use. If the carrying amount of an asset or a CGU exceeds its recoverable amount, an impairment charge is recognized immediately as a loss for the amount by which the carrying amount of the asset exceeds the recoverable amount.

*Goodwill impairment*

When determining the recoverable amount of the CGU or CGUs to which goodwill is allocated, the Company relies on a number of factors, including historical results, business plans, forecasts and market data. Changes in these judgments and estimates can significantly affect the estimated recoverable amount.

## 2. Summary of Significant Accounting Policies (continued)

### 2.29 Critical Accounting Estimates and Judgments (continued)

*Incremental borrowing rate for leases under IFRS 16*

IFRS 16, *Leases*, requires lessees to discount lease payments using the rate implicit in the lease if that rate is readily available. If that rate cannot be readily determined, the lessee is required to use its incremental borrowing rate. As information from the lessor regarding the fair value of underlying assets and initial direct costs incurred by the lessor related to the leased assets is generally not available, the Company uses its incremental borrowing rate when initially recording real estate leases. The Company determines the incremental borrowing rate as the interest rate the Company would pay to borrow the funds necessary to obtain an asset of a similar value to the right-of-use asset, in a similar economic environment over a similar term.

*Leases*

Each capitalized lease is evaluated to determine if the Company would exercise any renewal options offered. Several material factors are considered in determining if the renewal option would be exercised, such as length of the renewal, renewal rate, and ability to change locations.

*Share-based payment arrangements*

The Company measures the cost of equity-settled grants with officers and directors by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair values of share-based grants requires determining the most appropriate valuation model, which depends on the terms and conditions of the grant. This estimate also requires determining and making assumptions about the most appropriate inputs to the valuation model including the expected life, volatility, dividend yield and forfeiture rate. Similar calculations are made to value warrants. Such judgments and assumptions are inherently uncertain and changes in these assumptions will affect the fair value estimates.

*Compound financial instruments*

The conversion feature and warrants denominated and exercisable in a foreign currency are accounted for as derivative liabilities as their fair value is affected by changes in the fair value of Common Shares and in response to changes in foreign exchange rates. The estimates, assumptions and judgments made in relation to the fair value of derivative liabilities are subject to measurement uncertainty. The conversion feature and warrants denominated and exercisable in a currency other than the Company's functional currency are required to be measured at fair value at each reporting period.

The valuation techniques used to determine fair value require inputs that involve assumptions and judgments such as estimating the future volatility of the Company's stock price, expected dividend yield, and expected life. Such judgments and assumptions are inherently uncertain.

*Income taxes*

Income taxes and tax exposures recognized in the consolidated financial statements reflect management's best estimate of the outcome based on facts known at the reporting date. The Company recognizes a liability when, based on its estimates, it anticipates a future income tax payment. The difference between an expected amount and the final tax outcome has an impact on current and deferred taxes in the period when the Company becomes aware of a difference.

**2. Summary of Significant Accounting Policies (continued)**

**2.29 Critical Accounting Estimates and Judgments (continued)**

*Income taxes (continued)*

In addition, when the Company incurs losses that cannot be associated with current or past profits, it assesses the probability of taxable profits being available in the future based on its budgeted forecasts. These forecasts are adjusted to take into account certain non-taxable income and expenses and specific rules on the use of unused credits and tax losses. When the forecasts indicate that sufficient future taxable income will be available to deduct the temporary differences, a deferred tax asset is recognized for all deductible temporary differences.

In addition, changes in tax laws could limit the ability of the Company to obtain tax deductions in future periods. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the Company to realize the net deferred tax assets recorded at the reporting date could be impacted.

*Provisions*

The Company recognizes provisions if there is a present obligation (legal or constructive) that has arisen as the result of a past event, it is probable that the Company will be required to settle the obligation and the obligation can be reliably estimated. The Company's provision as at December 31, 2022 and 2021 relates to uncertain tax positions under IRC §280E for PMACC and SJW, permanent and temporary differences on the Company's federal income tax returns and underpayments of federal income tax liabilities.

Many of the central issues relating to the interpretations of IRC §280E remain unsettled, and there are critical accounting issues regarding the allocation of expenses to the cost of goods sold (thus avoiding disallowance as deductions under IRC §280E). The Company evaluated these uncertain tax treatments, using a probability-weighted approach to assess the range of possible outcomes as required in its adoption of IFRIC 23 and, although the Company strongly disagrees with the positions taken by the Internal Revenue Service ("IRS") and the findings of the U.S. Tax Court, it has determined that a reserve for uncertain tax position should be recorded for all years subject to statutory review. On July 28, 2022, the Company entered into a partial payment and installment agreement with the IRS (the "IRS Agreement") in relation to a portion of the uncertain tax positions for PMACC (Note 20). The amount recognized as a provision reflects the Company's obligations due under the IRS Agreement and management's best estimate of the consideration required to settle the remaining uncertain tax positions at the reporting date, considering the risks and uncertainties surrounding the obligation.

*Going concern*

At the end of each reporting period, management exercises judgment in assessing the Company's ability to continue as a going concern by reviewing the Company's performance, resources and future obligations. The conclusion that the Company will be able to continue as a going concern is subject to critical judgments of management with respect to assumptions surrounding the short and long-term operating budgets, expected profitability, investment and financing activities and management's strategic planning. The assumptions used in management's going concern assessment are derived from actual operating results along with industry and market trends, and are consistent with those used to evaluate impairment of goodwill and intangible assets as at December 31, 2022.

As indicated in Note 20, the Company has recognized a provision for particular uncertain tax positions which are related to PMACC and SJW. The Company has entered into the IRS Agreement for a portion of the uncertain tax position related to PMACC. The Company will be resolving the uncertain tax position through monthly installment payments of $50,000 beginning August 1, 2022 (Note 20).

## 2. Summary of Significant Accounting Policies (continued)

### 2.29 Critical Accounting Estimates and Judgments (continued)

*Going concern (continued)*

Outside of the Company's IRS Agreement for PMACC, the timing of additional payments arising from these or any future uncertain tax positions is expected to exceed twelve months from the date that these consolidated financial statements were authorized to be issued. The final amount to be paid for all uncertain tax positions is uncertain.

Management continues to monitor the Company's operational performance, progress of the tax litigation and appeals process, and its ability to raise funds.

These consolidated financial statements do not reflect adjustments to the reported carrying values of assets and liabilities; reported revenues and expenses; or, classifications in the Consolidated Statements of Financial Position that would be necessary if the Company were unable to realize its assets and settle its liabilities as a going concern in the normal course of operations.

### 2.30 Adoption of New Accounting Policies

The Company adopted the following standard effective as of January 1, 2022. These changes were made in accordance with the applicable transitional provisions noted below.

*IAS 41 Agriculture*

As part of its 2018-2020 annual improvements to IFRS standards process, the IASB issued an amendment to IAS 41. The amendment removes the requirement in paragraph 22 of IAS 41 for entities to exclude taxation cash flow when measuring fair value of a biological asset using a present value technique. This will ensure consistency with the requirements in IFRS 13, *Fair Value Measurement*. The amendment is effective for annual periods beginning on or after January 1, 2022. The adoption of the standard did not have a material impact on the Company's consolidated financial statements.

### 2.31 New, Amended, and Future IFRS Pronouncements

The Company has implemented all applicable IFRS standards recently issued by the IASB. Pronouncements that are not applicable or where it has been determined do not have a significant impact to the Company have been excluded herein.

The Company is currently assessing the impact that adopting the new standards or amendments will have on its consolidated financial statements.

No material impact is expected upon the adoption of the following new standards issued but not yet effective:

*Amendments to IAS 1 - Classification of Liabilities as Current or Non-current*

In January 2020, the IASB issued amendments to IAS 1, *Classification of Liabilities as Current or Non-current*. The amendment clarifies the requirements relating to determining if a liability should be presented as current or non-current in the statement of financial position. Pursuant to the new requirement, the assessment of whether a liability is presented as current or non-current is based on the contractual arrangements in place as at the reporting date and does not impact the amount or timing of recognition. The amendment applies retrospectively for annual reporting periods beginning on or after January 1, 2023 (extended from January 1, 2022), with earlier application permitted.

## 2. Summary of Significant Accounting Policies (continued)

### 2.31 New, Amended, and Future IFRS Pronouncements (continued)

*IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2 Making Materiality Judgments (Amendments)*

In February 2021, the IASB issued amendments to IAS 1, *Presentation of Financial Statements,* and IFRS Practice Statement 2, *Making Materiality Judgments*. The amendments help entities provide accounting policy disclosure that is more useful to primary users of financial statements by:

- Replacing the requirement to disclose "significant" accounting policies under IAS 1 with a requirement to disclose "material" accounting policies. Under IAS 1, an accounting policy would be material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that primary users of general-purpose financial statements would make on the basis of those financial statements.
- Providing guidance in IFRS Practice Statement 2 to explain and demonstrate the application of the four-step materiality process to accounting policy disclosure.

The amendments shall be applied prospectively. The amendments to IAS 1 are effective for annual periods beginning on or after January 1, 2023, with earlier application permitted.

*IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors (Amendment)*

In February 2021, the IASB issued amendments to IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*. The amendments introduce a new definition of 'accounting estimates' to replace the definition of 'change in accounting estimates' and also include clarifications intended to help entities distinguish changes in accounting policies from changes in accounting estimates. The amendments are effective for annual periods beginning on or after January 1, 2023, with earlier application permitted.

*IAS 12 Income Taxes (Amendment)*

In May 2021, the IASB issued amendments to the recognition exemptions under IAS 12, *Income Taxes*. The amendments narrowed the scope of the recognition exemption to require an entity to recognize deferred tax on the initial recognition of particular transactions, to the extent the transaction gives rise to equal amounts of deferred tax assets and liabilities. These amendments apply to transactions for which an entity recognizes both an asset and liability, for example leases and decommissioning liabilities. The amendments are effective for annual periods beginning on or after January 1, 2023, with earlier application permitted.

**(Expressed in United States Dollars, except share amounts)**

## 3. Business Combinations

### Acquisitions during the year ended December 31, 2022

The Company completed two business combinations during the year ended December 31, 2022. The Urbn Leaf Acquisition (as defined below) and the Loudpack Acquisition (as defined below) were each accounted for in accordance with IFRS 3, *Business Combinations* ("IFRS 3").

The following table summarizes the allocation of purchase consideration exchanged to the estimated fair value of tangible and identifiable intangible assets acquired and liabilities assumed:

| | Urbn Leaf Acquisition | Loudpack Acquisition |
|---|---|---|
| Acquisition date | March 1, 2022 | April 4, 2022 |
| Fair value of: | | |
| Share capital issued | $ 26,283,514 | $ 42,517,795 |
| Warrants issued | - | 610,400 |
| Cash consideration | - | 1,225,000 |
| Settlement of note payable | 1,109,233 | - |
| Settlement of convertible debenture | - | 3,173,471 |
| Receivables and payables assumed | 443,451 | 439,244 |
| Total purchase consideration | $ 27,836,198 | $ 47,965,910 |

| | Urbn Leaf Acquisition | Loudpack Acquisition |
|---|---|---|
| Purchase consideration paid | $ 27,836,198 | $ 47,965,910 |
| Fair value of net assets acquired: | | |
| Cash and restricted cash | 3,268,427 | 2,570,270 |
| Accounts receivable, net | 70,702 | 5,643,919 |
| Inventories | 2,061,304 | 9,271,015 |
| Biological assets (Note 6) | - | 101,543 |
| Due from other entities | 474,028 | - |
| Note receivable | 1,140,901 | - |
| Prepaid expenses and other current assets | 875,975 | 577,434 |
| Property, plant and equipment, net (Note 10) | 23,676,515 | 46,467,535 |
| Right-of-use assets (Note 12) | 16,418,786 | 1,353,489 |
| Deposits and other assets | 724,925 | 308,465 |
| Intangible assets (Note 11) | 8,150,000 | 45,150,000 |
| Accounts payable and accrued liabilities | (14,032,084) | (14,800,822) |
| Excise, cultivation and property taxes | - | (28,455,925) |
| Income taxes payable | (10,060,651) | (1,147,905) |
| Notes payable, net | (14,767,571) | (25,910,587) |
| Term loan, net | (13,005,439) | (15,620,538) |
| Deferred tax liability (note 23) | (699,270) | (8,953,776) |
| Lease liabilities (Note 12) | (26,230,741) | (1,850,962) |
| Total identifiable net assets acquired | (21,934,193) | 14,703,155 |
| Goodwill (Note 11) | 50,666,912 | 33,262,755 |
| Non-controlling interests acquired (Note 27) | (896,521) | - |
| Net assets acquired | $ 27,836,198 | $ 47,965,910 |

**(Expressed in United States Dollars, except share amounts)**

## 3. Business Combinations (continued)

### Acquisitions during the year ended December 31, 2022 (continued)

Goodwill arising from acquisitions consists largely of the synergies and economies of scale expected from combining the operations of the businesses. These synergies include the use of the Company's existing infrastructure to expand operations, sales and profits as well as elimination of redundant facilities and functions. None of the goodwill recognized is expected to be deductible for tax purposes.

Had these acquisitions been made as of the beginning of the 2022 annual reporting period, the Company's consolidated revenue and loss for the year ended December 31, 2022 would have been as shown below:

| | Net revenue | Net loss |
|---|---|---|
| As reported | $ 108,247,727 | $ (240,386,032) |
| Pro forma impact for: | | |
| Urbn Leaf Acquisition | 8,249,237 | (4,487,079) |
| Loudpack Acquisition | 16,198,222 | 18,926,258 |
| Pro forma | $ 132,695,186 | $ (225,946,853) |

The pro forma impact on net loss for the Loudpack Acquisition includes non-cash other income and expenses related to the restructuring and carve out of certain assets prior to the acquisition date.

*The Urbn Leaf Acquisition*

UL Holdings Inc. ("Urbn Leaf") is a leading California cannabis retailer that owns and operates eight retail dispensaries in California, located in San Diego, San Ysidro, La Mesa, Grossmont, Vista, Grover Beach, Seaside and San Jose. Urbn Leaf also operates retail delivery services in California that cover the Grover Beach and San Ysidro areas from its Urbn Leaf-branded retail dispensaries. The Company opened the Urbn Leaf-branded retail dispensary in Grossmont, California in April 2022.

On March 1, 2022, pursuant to the terms of the definitive agreement dated November 29, 2021 between the Company, Urbn Leaf, Saturn Merger Sub Inc. and Momentum Capital Group, LLC, in its capacity as the representative of the shareholders of Urbn Leaf, the Company acquired 100% of the equity interests of Urbn Leaf (the "Urbn Leaf Acquisition") for a total purchase consideration comprised of (a) the issuance of 60,000,000 SVS, valued at approximately $26,284,000, (b) the settlement of the principal and accrued interest of an unsecured promissory note valued at approximately $1,100,000, and (c) a cash payment of approximately $444,000 for the settlement of receivables and payables from the pre-existing relationship between the companies. As a result of the Reclassification, all SVS issued in connection with the Urbn Leaf Acquisition have been reclassified as Common Shares in accordance with the terms of the Reclassification (Note 24).

The estimated fair value of the non-controlling interest assumed was $896,521. The fair value was estimated using a market approach based on the proportionate share of revenues acquired for the non-controlling interest, the implied number of shares issued and a 45% discount for lack of marketability.

The estimated fair value of intangible assets acquired as a result of the Urbn Leaf Acquisition includes $7,120,000 for certain cannabis dispensary licenses and $1,030,000 for a trademark (Note 11). The key assumptions used in estimating fair value of the intangible assets relate to management's five year business projections, estimated long-term growth, and an after-tax discount rate applicable to the intangible assets estimated at approximately 6.9%. The discount rate incorporates the risk-free rate as well as risks and uncertainties associated with the projected operations.

## 3. Business Combinations (continued)

*The Urbn Leaf Acquisition (continued)*

In connection with the Urbn Leaf Acquisition, the Company granted certain officers of the Company (i) stock options (the "Urbn Leaf Options") to purchase an aggregate of 5,758,797 SVS and (ii) RSUs (the "Urbn Leaf RSUs") representing the right to receive up to an aggregate of 912,599 SVS, subject to the satisfaction of certain vesting conditions. Each Urbn Leaf Option is exercisable to acquire one SVS at an exercise price of C$0.70 per SVS for a period of five years following the date of grant, in accordance with the terms of its A&R Plan (as defined in Note 25). As a result of the Reclassification, all Urbn Leaf Options and Urbn Leaf RSUs issued in connection with the Urbn Leaf Acquisition are now exercisable or represent the right to acquire, as applicable, Common Shares (Note 24).

Acquisition-related costs in connection with the Urbn Leaf Acquisition of approximately $1,464,000 were included as a component of M&A and transactional expenses in the accompanying Consolidated Statements of Income (Loss) and Comprehensive Income (Loss). A portion of the professional fees were settled with shares (Note 24).

*The Loudpack Acquisition*

LPF JV Corporation ("Loudpack") was a leading manufacturer, cultivator and distributor of award-winning cannabis brands in California. Loudpack owns and operates a facility in Greenfield, California which includes light deprivation greenhouse cultivation, manufacturing and processing along with distribution, storage and office space.

On April 4, 2022, pursuant to the terms of the definitive agreement dated November 29, 2021 between the Company, Loudpack, LPF Merger Sub, Inc. and LPF Holdco, LLC, the Company acquired 100% of the equity interests of Loudpack (the "Loudpack Acquisition") for a total purchase consideration comprised of (a) the issuance of 90,752,140 SVS, valued at approximately $42,518,000, (b) the issuance of 2,000,000 warrants (the "Loudpack Warrants"), valued at approximately $610,000, (c) cash consideration of approximately $1,225,000, (d) the settlement of the 15% senior secured convertible debentures valued at approximately $3,173,000 and (e) approximately $439,000 for the settlement of receivables and payables from the pre-existing relationship between the companies. In addition, the Company paid approximately $3,764,000 of acquisition-related costs on behalf of Loudpack. As a result of the Reclassification, all of the SVS issued in connection with the Loudpack Acquisition have been reclassified as Common Shares in accordance with the terms of the Reclassification (Note 24).

The estimated fair value of intangible assets acquired as a result of the Loudpack Acquisition includes $30,100,000 for the cannabis licenses for manufacturing and distribution, $8,550,000 for a trademark and $6,500,000 for customer relationships (Note 11). The key assumptions used in estimating fair value of the intangible assets relate to management's five year business projections, estimated long-term growth, and an after-tax discount rate applicable to the intangible assets estimated at approximately 11.4%. The discount rate incorporates the risk-free rate as well as risks and uncertainties associated with the projected operations.

The Loudpack Warrants issued were exercisable to purchase SVS at a price of $2.50 per SVS, anytime within five years of the closing date of the Loudpack Acquisition. The Company has the option to accelerate the expiration date of the Loudpack Warrants in the event that the volume weighted average trading price of the SVS is equal to or greater than $5.00. As a result of the Reclassification, all of the Loudpack Warrants issued in connection with the Loudpack Acquisition are now exercisable into Common Shares (Note 24).

Acquisition-related costs in connection with the Loudpack Acquisition of approximately $5,357,000 were included as a component of M&A and transactional expenses in the accompanying Consolidated Statements of Income (Loss) and Comprehensive Income (Loss). A portion of the professional fees were settled with shares (Note 24).

**(Expressed in United States Dollars, except share amounts)**

## 3. Business Combinations (continued)

*Measurement period adjustments*

Provisional changes between the financial statements for the periods ended September 30, 2022 and December 31, 2022 are as follows:

| | December 31, 2022 | September 30, 2022 |
|---|---|---|
| **Urbn Leaf Acquisition:** | | |
| Intangible assets | $ 8,150,000 | $ 8,310,000 |
| Goodwill | $ 50,666,912 | $ 52,277,981 |
| Deferred tax liability | $ (699,270) | $ (2,479,704) |
| Accounts payable and accrued liabilities | $ (14,032,084) | $ (14,022,719) |
| **Loudpack Acquisition:** | | |
| Accounts receivable | $ 5,643,919 | $ 5,658,902 |
| Inventories | $ 9,271,015 | $ 9,274,589 |
| Property, plant and equipment, net | $ 46,467,535 | $ 57,439,850 |
| Intangible assets | $ 45,150,000 | $ 3,375,189 |
| Goodwill | $ 33,262,755 | $ 55,265,552 |
| Accounts payable and accrued liabilities | $ (14,800,822) | $ (18,023,456) |
| Income taxes payable | $ (1,147,905) | $ (597,905) |
| Excise, cultivation and property tax liabilities | $ (28,455,925) | $ (25,955,925) |
| Deferred tax liability | $ (8,953,776) | $ - |

The measurement period adjustments are a result of provisional accounting for the fair values over intangible assets, property, plant and equipment, income taxes payable and deferred tax liabilities being finalized during the three months ended December 31, 2022. In addition, the Company recorded adjustments to accounts receivable, inventories, accounts payable and accrued liabilities and excise, cultivation and property liabilities as a result of procedures performed over the opening balance sheet and reclassifications to conform to the year-end presentation.

The Company did not recognize any gains or losses related to identifiable assets acquired or liabilities assumed during the year ended December 31, 2022.

**Acquisitions during the year ended December 31, 2021**

The Company completed two business combinations during the year ended December 31, 2021. The Sublime Acquisition (as defined below) and the Accucanna Acquisition (as defined below) were accounted for in accordance with IFRS 3.

The following table summarizes the allocation of purchase consideration exchanged to the estimated fair value of tangible and identifiable intangible assets acquired and liabilities assumed:

| | Sublime Acquisition | Accucanna Acquisition |
|---|---|---|
| Acquisition date | July 2, 2021 | September 2, 2021 |
| Fair value of consideration paid: | | |
| Cash | $ 2,000,000 | $ 3,386,039 |
| Fair value of: | | |
| Debt settled with cash | 3,449,692 | - |
| Share capital issued | 39,287,742 | 1,533,617 |
| Conversion of 10% call option (Note 8) | - | 366,000 |
| Receivables and payables assumed | (68,497) | 977,120 |
| Total purchase consideration | $ 44,668,937 | $ 6,282,776 |

**(Expressed in United States Dollars, except share amounts)**

## 3. Business Combinations (continued)

### Acquisitions during the year ended December 31, 2021 (continued)

| | Sublime Acquisition | Accucanna Acquisition |
|---|---|---|
| Purchase consideration paid | $ 44,668,937 | $ 6,282,776 |
| Fair value of net assets acquired: | | |
| Cash | 5,075,631 | (29,533) |
| Accounts receivable, net | 2,973,097 | - |
| Inventory | 3,165,822 | 310,276 |
| Prepaid expenses | 653,403 | 69,080 |
| Deposits and other assets | 34,230 | - |
| Right-of-use asset (Note 12) | 270,810 | - |
| Property, plant and equipment (Note 10) | 1,315,000 | 3,531,519 |
| Intangible assets (Note 11) | 29,700,000 | 2,900,000 |
| Deferred tax asset (Note 23) | 88,000 | - |
| Accounts payable and accrued liabilities | (6,469,756) | (501,909) |
| Notes payable | (130,000) | - |
| Lease liability | (429,042) | - |
| Deferred tax liability (Note 23) | (8,950,481) | - |
| Total identifiable net assets acquired | 27,296,714 | 6,279,433 |
| Goodwill (Note 11) | 17,372,223 | 3,343 |
| Net Assets Acquired | $ 44,668,937 | $ 6,282,776 |

Goodwill arising from acquisitions consists largely of the synergies and economies of scale expected from combining the operations of the businesses. These synergies include eliminations of redundant facilities and functions and the use of the Company's existing infrastructure to expand operations and sales. None of the goodwill recognized is expected to be deductible for tax purposes.

Had these acquisitions been made as of the beginning of the 2021 annual reporting period, the Company's consolidated revenue and loss for the year ended December 31, 2021 would have been as shown below:

| | Net revenue | Net loss |
|---|---|---|
| As reported | $ 60,300,935 | $ (26,158,466) |
| Pro forma impact for: | | |
| Sublime Acquisition | 12,555,061 | (661,010) |
| Accucanna Acquisition | 1,459,908 | (456,481) |
| Pro forma | $ 74,315,904 | $ (27,275,957) |

*The Sublime Acquisition*

Sublimation Inc. ("Sublime") was a licensed manufacturer and distributor of adult-use cannabis products. Sublime is known for its "Fuzzies" brand of infused pre-rolls, as well as other cannabis products, including edibles and vapes, which are sold to licensed retailers and distributors throughout the state of California.

**3. Business Combinations (continued)**

**Acquisitions during the year ended December 31, 2021 (continued)**

*The Sublime Acquisition (continued)*

On July 2, 2021, the Company acquired 100% of the issued and outstanding shares of Sublime, for total purchase consideration of approximately $44,700,000 (the "Sublime Acquisition"). The purchase price for the Sublime Acquisition was comprised of (a) approximately $38,400,000, payable in MVS, representing 207,579.66 MVS (based on the volume-weighted average price of the SVS for the 30-days immediately preceding the date of the definitive agreement to purchase Sublime), (b) approximately $5,400,000 in cash and settlement of debt, and (c) approximately $930,000 attributable to a working capital surplus, reduced by approximately $70,000 for the settlement of receivables and payables from the pre-existing relationship.

In connection with the Sublime Acquisition, the Company granted stock options (the "Sublime Options") to purchase an aggregate of 536,875 SVS to certain employees of Sublime, who were employees of the Company at the time of the Sublime Acquisition, with each Sublime Option being exercisable into one SVS at an exercise price of C$1.78, for a period of five years from the date of grant, all in accordance with the terms of the Plan (as defined in Note 25). In addition, the Company assumed the outstanding options of Sublime at closing of the Sublime Acquisition, with such number of underlying SVS to be issuable upon exercise of such options to be reasonably determined by the Board in accordance with the provisions of the definitive agreement relating to the Sublime Acquisition.

Acquisition-related costs in connection with the Sublime Acquisition of approximately $1,014,000 were included as a component of professional fees in the accompanying Consolidated Statements of Income (Loss) and Comprehensive Income (Loss).

The estimated fair value of intangible assets acquired as a result of the Sublime Acquisition includes $13,400,000 for two cannabis licenses for manufacturing and distribution, $6,800,000 for a trademark, $3,200,000 for developed technology and $6,300,000 for customer relationships (Note 11). The key assumptions used in estimating fair value of the intangible assets relate to management's five year business projections, estimated long-term growth, and an after-tax discount rate applicable to the intangible assets estimated at approximately 18%. The discount rate incorporates the risk-free rate as well as risks and uncertainties associated with the projected operations.

On January 24, 2022, the Company determined that the working capital surplus amounted to approximately $2,085,000 representing 11,289.57 MVS. As a result of the Mandatory Conversion and Reclassification, all of the MVS issued in connection with the Sublime Acquisition were converted to SVS on the basis of 100 SVS for each MVS held and subsequently, in connection with the Reclassification, reclassified as Common Shares in accordance with the terms of the Reclassification (Note 24).

*The Accucanna Acquisition*

Accucanna, LLC ("Accucanna") owns a retail dispensary in Desert Hot Springs, California. In April 2018, the Company entered into a management service agreement with Accucanna to provide services related to the dispensary. In May 2018, the Company entered into a stock purchase agreement between FLRish Farms Cultivation 2, LLC and Accucanna (the "Accucanna Stock Purchase Agreement") pursuant to which the Company had the right to purchase 10% of the equity of Accucanna (the "Equity Call Option"), which was originally valued at $500,000.

Pursuant to the Accucanna Stock Purchase Agreement, the Equity Call Option provided that shares of Accucanna were to be issued at the Company's option, at any time after the Company delivered to Accucanna products equal to $500,000 wholesale value. As at April 2020, the Company had delivered products totaling $500,000, thereby completing the delivery targets stipulated in the Accucanna Stock Purchase Agreement. Prior to September 2, 2021, the Company had not exercised its Equity Call Option.

**(Expressed in United States Dollars, except share amounts)**

## 3. Business Combinations (continued)

### Acquisitions during the year ended December 31, 2021 (continued)

*The Accucanna Acquisition (continued)*

On September 2, 2021, the Company acquired 100% of the issued and outstanding shares of Accucanna and the property related to the Desert Hot Springs retail dispensary for total purchase consideration of approximately $6,300,000, including the exercise of its Equity Call Option under the Stock Purchase Agreement (the "Accucanna Acquisition"). The purchase price for the Accucanna Acquisition was comprised of (a) approximately $1,500,000 payable in MVS, representing 15,793.40 MVS (based on the volume-weighted average price of the SVS at the time of closing), approximately $784,000 in cash for the equity interest of Accucanna, (b) approximately $2,600,000 in cash for the property related to the Desert Hot Springs dispensary, (c) approximately $366,000 for the conversion of the Equity Call Option, and (d) approximately $1,000,000 for the settlement of receivables and payables from the pre-existing relationship.

The estimated fair value of intangible assets acquired as a result of the Accucanna Acquisition includes $2,900,000 for a cannabis dispensary license (Note 11). The key assumptions used in estimating fair value of intangible assets relate to management's five-year projections, estimated long-term growth, and an after-tax discount rate applicable to the intangible assets estimated at approximately 12.2%. The discount rate incorporates the risk-free rate as well as risks and uncertainties associated with the projected operations.

As a result of the Mandatory Conversion and Reclassification, all of the MVS issued in connection with the Accucanna Acquisition were converted to SVS on the basis of 100 SVS for each MVS held and subsequently reclassified as Common Shares in accordance with the terms of the Reclassification (Note 24).

## 4. Accounts receivable, net

The Company's accounts receivable, net was comprised of the following as at December 31, 2022 and 2021:

| | 2022 | 2021 |
|---|---|---|
| Trade receivables | $ 8,640,066 | $ 5,110,877 |
| Sales tax receivables | 10,688 | 53,301 |
| Total | 8,650,754 | 5,164,178 |
| Provision for credit loss | (2,908,583) | (617,821) |
| Total accounts receivable, net | $ 5,742,171 | $ 4,546,357 |

Accounts receivable are recognized initially at fair value and subsequently measured at amortized cost, less any provisions for expected credit losses.

The Company provides trade credit to its wholesale, white label and distribution customers in the normal course of business and has established credit evaluation and monitoring processes to mitigate credit risk. Credit risk for these customers is assessed on a quarterly basis and a provision for expected credit losses is recorded where required. The Company does not offer extended payment terms to its retail customers. Retail transactions are paid for at the point of sale. Accordingly, credit risk from retail customers is limited to outstanding balances due from debit card processors. As at December 31, 2022 and 2021, there was $229,210 and $156,226, respectively, outstanding from debit card processors that is included in trade receivables.

**(Expressed in United States Dollars, except share amounts)**

## 4. Accounts receivable, net (continued)

The Company assesses the risk of collectability of accounts receivable on a quarterly basis. Estimates of expected credit losses take into account the Company's collection history, deterioration of collection rates during the average credit period, as well as observable changes in and forecasts of future economic conditions that affect default risk. Where applicable, the carrying amount of a trade receivable is reduced for any expected credit losses through the use of a provision for expected credit losses. The provision for expected credit losses reflects the Company's best estimate of probable losses in the trade receivables accounts.

Activity in the provision for expected credit losses was as follows:

| | 2022 | 2021 |
|---|---|---|
| Balance, beginning of year | $ 617,821 | $ 242,721 |
| Provision for expected credit losses assumed in acquisitions | 749,553 | 277,224 |
| Current year additions to provision for expected credit losses | 2,303,583 | 499,157 |
| Amounts reversed | (762,374) | (401,281) |
| Balance, end of year | $ 2,908,583 | $ 617,821 |

The Company's aging of accounts receivable was as follows as at December 31, 2022 and 2021:

| | 2022 | 2021 |
|---|---|---|
| Current | $ 2,070,030 | $ 2,132,748 |
| 1 - 30 days | 1,288,714 | 1,033,575 |
| 31 - 60 days | 598,195 | 812,801 |
| 61 - 90 days | 677,243 | 396,747 |
| Over 90 days | 4,016,572 | 788,307 |
| Total | $ 8,650,754 | $ 5,164,178 |

## 5. Inventories

The Company's inventory was comprised of the following items as at December 31, 2022 and 2021:

| | 2022 | 2021 |
|---|---|---|
| Raw materials | $ 910,961 | $ 1,633,803 |
| Work-in-process | 4,161,307 | 1,075,499 |
| Finished goods | 4,712,825 | 3,704,848 |
| Total | $ 9,785,093 | $ 6,414,150 |

During the years ended December 31, 2022 and 2021, inventory expensed to cost of goods sold was approximately $48,917,000 and $26,946,000, respectively. Management determined net realizable value as the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to complete a sale.

There was no impairment recorded during the year ended December 31, 2022. During the year ended December 31, 2021, management assessed that the net book value of inventory exceeded the net realizable value and thus recorded an impairment of $631,234, which was recorded as a component of costs of goods sold.

**(Expressed in United States Dollars, except share amounts)**

## 6. Biological Assets

Biological assets consist of cannabis plants. The Company operates two facilities, the Salinas Production Campus and the Greenfield Production Campus. The Greenfield Production Campus was acquired as part of the Loudpack Acquisition (Note 3). The changes in the carrying value of biological assets was as follows:

| | 2022 | 2021 |
|---|---|---|
| Balance, beginning of year | $ 443,839 | $ 1,321,069 |
| Acquired as part of the Loudpack Acquisition (Note 3) | 101,543 | - |
| Costs capitalized | 14,045,709 | 9,671,956 |
| Changes in fair value less costs to sell due to biological asset transformation | (7,752,644) | (3,845,228) |
| Transferred to inventory upon harvest | (6,397,303) | (6,703,958) |
| Balance, end of year | $ 441,144 | $ 443,839 |

The Company measures its biological assets at their fair value less costs to sell. This is determined using a model which estimates the expected harvest yield in grams for plants currently being cultivated, and the expected selling price less costs to sell per gram.

The Company's method of accounting for biological assets attributes value accretion on a straight-line basis throughout the life of the biological asset from initial cloning to the point of harvest. The following inputs and assumptions are all categorized within Level 3 on the fair value hierarchy and were used in determining the fair value of biological assets:

| Inputs and assumptions | Description | Correlation between inputs and fair value |
|---|---|---|
| Average selling price per gram | Represents the average selling price per gram of dried cannabis net of excise taxes, where applicable, for the period for all strains of cannabis sold, which is expected to approximate future selling prices. | If the average selling price per gram was higher (lower), estimated fair value would increase (decrease). |
| Average attrition rate | Represents the weighted average number of plants culled at each stage of production. | If the average attrition rate was lower (higher) estimated fair value would increase (decrease). |
| Weighted average yield per plant | Represents the weighted average number of grams of dried cannabis inventory expected to be harvested from each cannabis plant. | If the weighted average yield per plant was higher (lower), estimated fair value would increase (decrease). |
| Standard cost per gram to complete production | Based on actual production costs incurred divided by grams produced in the period. | If the standard cost per gram to complete production was lower (higher), estimated fair value would increase (decrease). |
| Weighted average effective yield | Represents the estimated percentage of harvested product that meets specifications in order to be sold as a dried cannabis product. | If the weighted average effective yield was higher (lower), the estimated fair value would increase (decrease). |
| Stage of completion in production process | Calculated by taking the weighted average number of days in production over a total average grow cycle of approximately thirteen weeks. | If the number of days in production was higher (lower), estimated fair value would increase (decrease). |

Biological assets as at December 31, 2022 and 2021 include an allocation of depreciation of $194,385 and $270,484, respectively.

**(Expressed in United States Dollars, except share amounts)**

## 6. Biological Assets (continued)

The following table quantifies each significant unobservable input, and provides the impact that a 10% increase or decrease in each input would have on the fair value of biological assets at the Salinas Production Campus:

| | | As at December 31, 2022 | | As at December 31, 2021 | |
|---|---|---|---|---|---|
| | **Assumptions:** | **Input** | **10% change** | **Input** | **10% change** |
| i | Weighted average of expected loss of plants until harvest [a] | 5% | $ 1,975 | 3% | $ 1,529 |
| ii | Expected yields (dry grams of cannabis per plant) [b] | 71 grams | $ 41,008 | 52 grams | $ 44,454 |
| iii | Weighted average number of growing weeks completed as a percentage of total growing weeks as at year-end | 50% | $ 41,008 | 58% | $ 44,454 |
| iv | Estimated selling price (per gram) [c] | $0.64 per gram dried flower $0.01 per gram dried trim | $ 71,839 | $1.25 per gram dried flower $0.14 per gram dried trim | $ 171,702 |
| v | After harvest cost to complete and sell (per gram) | $0.28 per gram dried flower $0.00 per gram dried trim | $ 30,831 | $0.88 per gram dried flower $0.14 per gram dried trim | $ 127,249 |

The following table quantifies each significant unobservable input, and provides the impact that a 10% increase or decrease in each input would have on the fair value of biological assets at the Greenfield Production Campus:

| | | As at December 31, 2022 | |
|---|---|---|---|
| | **Assumptions:** | **Input** | **10% change** |
| i | Weighted average of expected loss of plants until harvest [a] | 0% | $ - |
| ii | Expected yields (dry grams of cannabis per plant) [b] | 33 grams | $ 3,154 |
| iii | Weighted average number of growing weeks completed as a percentage of total growing weeks as at year-end | 91% | $ 3,154 |
| iv | Estimated selling price (per gram) [c] | $0.49 per gram dried flower $0.04 per gram dried trim | $ 5,514 |
| v | After harvest cost to complete and sell (per gram) | $0.23 per gram dried flower $0.02 per gram dried trim | $ 2,360 |

[a] Weighted average of expected loss of plants until harvest represents loss from plants that do not survive to the point of harvest. It does not include any financial loss on a surviving plant.

[b] Expected average yields for cannabis plants vary based on the mix of strains and number of plants existing at each reporting date. As at December 31, 2022 and 2021, it was expected the Company's biological assets would yield 42 and 21 grams of dried flower per plant, respectively, and 62 and 31 grams of dried trim per plant, respectively.

[c] The estimated selling price (per gram) represents the actual average sales price for the Company's strains sold as bulk products.

**(Expressed in United States Dollars, except share amounts)**

## 6. Biological Assets (continued)

The Company estimates the harvest yields for cannabis at various stages of growth. As at December 31, 2022 and 2021, it is expected that the Company's biological assets will yield approximately 2,305,602 and 2,031,834 grams of dry cannabis flower, respectively, and 3,259,309 and 3,080,842 grams of dry trim, respectively, when harvested. The fair value adjustments on biological assets are presented separately in the Consolidated Statements of Income (Loss) and Comprehensive Income (Loss).

The Company's estimates, by their nature, are subject to changes that could result from volatility of market prices, unanticipated regulatory changes, harvest yields, loss of crops, changes in estimates and other uncontrollable factors that could significantly affect the future fair value of biological assets.

## 7. Prepaid Expenses and Other Current Assets

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

| | 2022 | 2021 |
|---|---|---|
| Excise taxes | $ 675,584 | $ 467,844 |
| Insurance and rent | 2,116,019 | 986,549 |
| Advances made to suppliers and consultants | 382,637 | 1,872,237 |
| Payroll and income taxes | 34,096 | 509,304 |
| Taxes and fees | 150,506 | 11,249 |
| Licenses and other | 1,064,519 | 485,383 |
| Total prepaid expenses | 4,423,361 | 4,332,566 |
| Conversion option embedded in the FGW Note | 1,461,440 | 1,230,655 |
| Total prepaid expenses and other current assets | $ 5,884,801 | $ 5,563,221 |

On August 1, 2021, the Company entered into a prepayment of inventory agreement with Loudpack (the "Loudpack Inventory Agreement") for $1,500,000 of goods at wholesale cost which was accounted for as a component of advances made to suppliers and consultants. Pursuant to the terms of the Loudpack Inventory Agreement, the Company received a minimum discount of 10% on all purchases from Loudpack. The prepayment of inventory was applied as purchase consideration in the Loudpack Acquisition (Note 3).

On December 18, 2020, the Company entered into a securities purchase agreement with FGW (the "FGW Agreement"). Pursuant to the FGW Agreement, the Company agreed to acquire an initial ownership interest of 21% in FGW and the right to acquire an additional 29.1% interest in FGW (the "FGW Transaction"). Upon closing of the FGW Transaction, FGW issued the Company a convertible note, in the principal amount of $1,265,000 (the "FGW Note"). The FGW Note bears interest at 4.0% per annum and matures on June 30, 2031.

On February 15, 2022, the Company entered into a definitive securities purchase agreement with FGW (the "Subsequent FGW Agreement"). Pursuant to the Subsequent FGW Agreement, the Company agreed to acquire a further 29.9% interest in FGW (the "Subsequent Shares"), subject to certain material closing conditions, including approvals from regulatory authorities and converting the FGW Note in accordance with its terms. The acquisition of the Subsequent Shares and conversion of the FGW Note will increase the Company's interest in FGW to 80%. The aggregate purchase price for the Subsequent Shares is equal to $1,300,650. Pursuant to the terms of the Subsequent FGW Agreement, the purchase price for the Subsequent Shares will be satisfied in MVS priced at the greater of: (i) the 30-day volume weighted average price of the SVS on the CSE ending on the day prior to closing of the purchase of the Subsequent Shares, multiplied by 100; (ii) C$150 per MVS; or (iii) such other price as may be approved by the CSE. Prior to the closing of the acquisition of the Subsequent Shares, the Subsequent FGW Agreement will be amended to reflect the occurrence of the Mandatory Conversion and the Reclassification, as applicable, and in particular the issuance of SVS instead of MVS as consideration for the Subsequent Shares.

**(Expressed in United States Dollars, except share amounts)**

## 7. Prepaid Expenses and Other Current Assets (continued)

The Company retains the right of first refusal to purchase, in its discretion, in whole or in part and in one or more closings, the remaining 20% of FGW, subject to regulatory approvals. As at December 31, 2022, the Company had not yet converted the FGW Note. On February 15, 2023, the Company received regulatory approvals for the acquisition of the Subsequent Shares (Note 34).

As at December 31, 2022 and 2021, the Company used the Monte Carlo Simulation option-pricing model (the "Monte Carlo Model") to estimate the fair value of the conversion option embedded in the FGW Note. Changes in fair value of $230,785 and $780,586 for the years ended December 31, 2022 and 2021, respectively are included as a component of fair value gain in other current assets and derivative liabilities in the accompanying Consolidated Statements of Income (Loss) and Comprehensive Income (Loss).

## 8. Investments and Advances

The changes in investments and advances were as follows for the years ended December 31, 2022 and 2021:

| | | Investments FVTPL |
|---|---|---|
| Balance as at December 31, 2020 | | $ 250,000 |
| Conversion of investment with acquisition | (b) | (366,000) |
| Additions | (a) | 5,000,000 |
| Interest accrued | (a) | 612,330 |
| Recovery of investments | (b) | 116,000 |
| Changes in fair value | (a) | (3,154,319) |
| Balance as at December 31, 2021 | | 2,458,011 |
| Conversion of investment with acquisition (Note 3) | (a) | (3,173,471) |
| Interest accrued | (a) | 199,110 |
| Changes in fair value | (a) | 516,350 |
| Balance as at December 31, 2022 | | $ - |

*(a) Convertible Debentures*

On March 5, 2021, the Company, through one of its subsidiaries, purchased $5,000,000 of 15% senior secured convertible debentures (the "Debentures") of Loudpack with an original maturity date of December 31, 2022. The Debentures bore interest at the rate of 15% and were secured by first and second priority liens on assets of Loudpack and its subsidiaries, as well as joint and several guarantees provided by direct and indirect subsidiaries of Loudpack and certain of its members. Prior to maturity, the Debentures were subject to both optional and mandatory conversion features as well as an optional redemption feature and additional restrictions imposed upon Loudpack pertaining to the ultimate use of the proceeds received by Loudpack. The Debentures were also subject to an optional conversion feature at maturity.

On April 4, 2022, the Company completed the Loudpack Acquisition (Note 3). Upon closing of the Loudpack Acquisition, the Debentures were converted into 2,932,388 Class B units of LPF Waterfall I, LLC and LPF Waterfall II, LLC (together the "Waterfall Subs"), representing an approximate 7.9176% interest in each of the Waterfall Subs. In addition, 1,820,306 SVS were allocated to the Company as a result of its holding of the Debentures. The SVS (now reclassified as Common Shares in accordance with the Reclassification) are to be held in escrow subject to specified lock-up periods and post-closing escrow calculations. Such lock-ups fully expire 18 months after closing of the Loudpack Acquisition, at which time any SVS which would have been allocated to the Company will instead be returned to treasury for cancellation. The Debentures were included in the purchase consideration associated with the Loudpack Acquisition (Note 3). Effective July 25, 2022, the Company completed the Reclassification of its SVS to Common Shares.

**(Expressed in United States Dollars, except share amounts)**

## 8. Investments and Advances (continued)

*(a) Convertible Debentures (continued)*

For the years ended December 31, 2022 and 2021, the Company accrued interest income of $199,110 and $612,330, respectively, related to the Debentures.

The Company used the Monte Carlo Model to estimate the fair value of the Debentures at issuance and at each reporting date. The Monte Carlo Model uses certain Level 2 inputs in its valuation model. The key Level 2 inputs used by management to determine the fair value are: (i) the expected future volatility in the price of the Company's Common Shares, (ii) the risk-free interest rate, and (iii) the expected life of the instruments. The risk-free interest rate is based on data from the Federal Reserve Statistical Release and is extrapolated for interim periods. The expected lives are based on the anticipated date of public listing. Volatility was calculated using the stock price returns from the comparable public companies as there was insufficient trading history in the Company's shares.

The following assumptions were used to value the Debentures as at March 31, 2022 and December 31, 2021:

| | March 31, 2022 | December 31, 2021 |
|---|---|---|
| Risk-free interest rate | 1.95% | 0.64% |
| Share price - U.S. $ | $ 0.61 | $ 0.36 |
| Expected volatility | 71.25% | 89.6% |
| Expected remaining life | 1.50 years | 1.75 years |
| Fair value | $ 3,173,471 | $ 2,458,011 |

For the years ended December 31, 2022 and 2021, the Company recorded fair value changes of $516,350 and $3,154,319, respectively, which was recorded as a component of fair value gain in other current assets and derivative liabilities in the accompanying Consolidated Statements of Income (Loss) and Comprehensive Income (Loss).

*(b) Accucanna, LLC*

Accucanna owns a retail dispensary in Desert Hot Springs, California. In April 2018, the Company entered into a management service agreement with Accucanna (the "Accucanna Service Agreement") to provide services related to the dispensary. The initial term of the Accucanna Service Agreement was for five years, and was subject to automatic renewals for two additional five-year terms, unless, on or before the date of each renewal, the Company or Accucanna determined, in their sole discretion, they would not renew the Accucanna Service Agreement. The Company recognized management service revenue under the Accucanna Service Agreement of $146,224 for the year ended December 31, 2021, which was recorded as a component of other income in the accompanying Consolidated Statements of Income (Loss) and Comprehensive Income (Loss).

In May 2018, the Company entered into the Accucanna Stock Purchase Agreement, pursuant to which the Company acquired the Equity Call Option, originally valued at $500,000, pursuant to which 10% of the equity of Accucanna would be issued at the Company's option after completion of delivery of cannabis and cannabis related product totaling $500,000 in wholesale value. As at April 2020, the Company had delivered products totaling $500,000, thereby completing the delivery targets stipulated in the Accucanna Stock Purchase Agreement. The Company had not exercised the Equity Call Option prior to the closing of the Accucanna Acquisition.

During the year ended December 31, 2020, management reviewed current market conditions and industry values from when the original investment in Accucanna was made and recorded an impairment loss of $250,280.

## 8. Investments and Advances (continued)

*(b) Accucanna, LLC (continued)*

On September 2, 2021, the Company completed the Accucanna Acquisition (Note 3) and concurrently exercised its Equity Call Option. Prior to closing of the Accucanna Acquisition, the fair value of the Equity Call Option was determined to be $366,000, representing 10% of the purchase price payable in connection with the Accucanna Acquisition, resulting in a gain of $116,000 which was recorded as a component of write-downs (recovery) of receivables and investments and advances in the accompanying Consolidated Statements of Income (Loss) and Comprehensive Income (Loss).

## 9. Notes Receivable

On April 16, 2021, Urbn Leaf entered into a membership interest repurchase agreement (the "Membership Interest Repurchase Agreement") with 2220 NBC, LLC ("NBC"). Pursuant to the terms of the Membership Interest Repurchase Agreement, NBC agreed to repurchase Urbn Leaf's 33.3% membership interest for $1,150,000. The note receivable associated with the Membership Interest Repurchase Agreement was assumed as part of the Urbn Leaf Acquisition (Note 3). The note receivable accrues interest at a rate of 10% per annum on the outstanding daily unpaid principal amount. Initial payments on the note receivable began on January 1, 2022. Payments are to be made following a five-year amortization schedule of equal monthly payments following the initial payment date. As at December 31, 2022, principal and accrued interest amounted to $1,053,987.

On March 24, 2022, the Company entered into a settlement agreement (the "Altai Settlement Agreement") with Altai Partnership, LLC ("Altai"). Pursuant to the terms of the Altai Settlement Agreement, Altai agreed to pay an aggregate of $1,250,000 to the Company to settle amounts owed by Altai in connection with advances that had been made by the Company in relation to a binding letter of intent for the Company's acquisition of Lucrum Enterprises Inc. d/b/a LUX Cannabis Dispensary ("LUX") in 2019. In April 2022, the Company received the first installment payable by Altai pursuant to the terms of the Altai Settlement Agreement, in the amount of $500,000. On May 1, 2022, the Company and Altai entered into a convertible secured promissory note (the "Altai Note") for the remaining $750,000 owed pursuant to the terms of the Altai Settlement Agreement. The principal owed under the Altai Note is payable over 36 months beginning on May 15, 2022. As at December 31, 2022, the outstanding principal owed under the Altai Note amounted to $734,000.

Subsequent to year-end, the Company entered into a settlement agreement (the "Fang Settlement Agreement") with Alexander Fang ("Mr. Fang") and Sublime Concentrates, Inc. Pursuant to the terms of the Fang Settlement Agreement, Mr. Fang is required to make certain cash payments in the amount of $550,000 to the Company in exchange for the release of any claims in connection with Alexander Fang v. Sublime Machining, Inc. and Sublime Concentrates, Inc. v. Sublime Machining Inc. (the "Fang Release") (Note 30 and 34). The amounts owed pursuant to the terms of the Fang Settlement Agreement are payable by Mr. Fang on the following schedule: $50,000 paid within 45 days of the release, $425,000 payable in installments of $7,083.33 beginning on April 15, 2023 until March 15, 2028 and a $75,000 balloon payment due on April 15, 2028. Late payments bear interest at 10% per annum. As at December 31, 2022, the Company adjusted its notes receivable to recognize the $550,000 owed for the Fang Settlement Agreement and recorded a gain on settlement of $800,000 which was recorded as a component of other income (expense), net in the accompanying Consolidated Statements of Income (Loss) and Comprehensive Income (Loss).

**(Expressed in United States Dollars, except share amounts)**

## 10. Property, Plant and Equipment, net

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

| | Land | Retail and Agricultural Buildings | Agricultural and Manufacturing Equipment | CIP | Furniture, Fixtures, and Equipment | Leasehold Improvements | Total |
|---|---|---|---|---|---|---|---|
| **At Cost** | | | | | | | |
| As at December 31, 2020 | $ 3,404,572 | $ 11,068,493 | $ 5,964,202 | $ 835,706 | $ 2,097,842 | $ 405,102 | $ 23,775,917 |
| Additions | - | 2,995 | 125,721 | 2,998,291 | 113,922 | 68,322 | 3,309,251 |
| Business acquisitions (Note 3) | 310,000 | 2,290,000 | 326,178 | 517,524 | 278,129 | 1,124,688 | 4,846,519 |
| Disposals and transfers | - | - | (72,210) | (25,994) | (29,312) | 129 | (127,387) |
| Reclass on completed phase of construction | - | 1,684,336 | 641,997 | (2,343,381) | 17,048 | - | - |
| As at December 31, 2021 | 3,714,572 | 15,045,824 | 6,985,888 | 1,982,146 | 2,477,629 | 1,598,241 | 31,804,300 |
| Additions | - | - | 76,102 | 342,297 | 71,238 | 236,141 | 725,778 |
| Business acquisitions (Note 3) | 16,448,146 | 35,454,332 | 4,849,940 | 1,456,832 | 4,948,421 | 6,986,379 | 70,144,050 |
| Reclassification* | - | - | - | - | (59,558) | (151,522) | (211,080) |
| Disposals and transfers | - | - | (879,257) | (131,504) | (368,076) | (216,691) | (1,595,528) |
| Reclass on completed phase of construction | - | - | - | (2,827,201) | 306,636 | 2,520,565 | - |
| As at December 31, 2022 | $ 20,162,718 | $ 50,500,156 | $11,032,673 | $ 822,570 | $ 7,376,290 | $ 10,973,113 | $ 100,867,520 |
| **Accumulated depreciation** | | | | | | | |
| As at December 31, 2020 | $ - | $ 1,946,969 | $ 2,782,406 | $ - | $ 982,358 | $ 154,577 | $ 5,866,310 |
| Disposals and transfers | - | 35,242 | (26,120) | - | (9,746) | (31,753) | (32,377) |
| Depreciation expense | - | 805,892 | 1,178,227 | - | 398,340 | 72,298 | 2,454,757 |
| As at December 31, 2021 | - | 2,788,103 | 3,934,513 | - | 1,370,952 | 195,122 | 8,288,690 |
| Disposals and transfers | - | - | (108,520) | - | (61,925) | (21,646) | (192,091) |
| Reclassification* | - | - | - | - | (11,831) | (7,916) | (19,747) |
| Depreciation expense | - | 1,641,007 | 2,156,792 | - | 1,084,491 | 952,278 | 5,834,568 |
| As at December 31, 2022 | $ - | $ 4,429,110 | $ 5,982,785 | $ - | $ 2,381,687 | $ 1,117,838 | $ 13,911,420 |
| **Net Book Value** | | | | | | | |
| As at December 31, 2021 | 3,714,572 | 12,257,721 | 3,051,375 | 1,982,146 | 1,106,677 | 1,403,119 | 23,515,610 |
| As at December 31, 2022 | $ 20,162,718 | $ 46,071,046 | $ 5,049,888 | $ 822,570 | $ 4,994,603 | $ 9,855,275 | $ 86,956,100 |

* Reclassification includes the amounts transferred to assets held for sale as at December 31, 2022 (Note 13).

Depreciation expense relating to property, plant and equipment, net for the years ended December 31, 2022 and 2021 was as follows:

| | 2022 | 2021 |
|---|---|---|
| Cost of goods sold - wholesale | $ 1,985,266 | $ 2,065,015 |
| Expenses | 3,849,302 | 389,742 |
| Total depreciation and amortization relating to property, plant and equipment, net | $ 5,834,568 | $ 2,454,757 |

**(Expressed in United States Dollars, except share amounts)**

## 11. Intangible Assets and Goodwill

During the year ended December 31, 2022, the Company acquired $53,300,000 and $83,929,667 of intangible assets and goodwill, respectively, as a result of the Urbn Leaf Acquisition and Loudpack Acquisition (Note 3).

During the year ended December 31, 2021, the Company acquired $32,600,000 and $17,375,566 of intangible assets and goodwill, respectively, as a result of the Sublime Acquisition and Accucanna Acquisition (Note 3).

A reconciliation of the beginning and ending balances of intangible assets and goodwill for the years ended December 31, 2022 and 2021 was as follows:

| | Intangible Assets | | | | | |
|---|---|---|---|---|---|---|
| | **Licenses** | **Trademark** | **Developed technology** | **Customer relationships** | **Total** | **Goodwill** |
| **At Cost** | | | | | | |
| Balance as at December 31, 2020 | $ 57,874,884 | $ 46,666 | $ - | $ - | $ 57,921,550 | $ 14,366,055 |
| Additions: | | | | | | |
| Sublime Acquisition | 13,400,000 | 6,800,000 | 3,200,000 | 6,300,000 | 29,700,000 | 17,372,223 |
| Accucanna Acquisition | 2,900,000 | - | - | - | 2,900,000 | 3,343 |
| Impairment | (24,674,884) | (23,267) | - | - | (24,698,151) | (535,044) |
| Balance as at December 31, 2021 | 49,500,000 | 6,823,399 | 3,200,000 | 6,300,000 | 65,823,399 | 31,206,577 |
| Additions (Note 3): | | | | | | |
| Urbn Leaf Acquisition | 7,120,000 | 1,030,000 | - | - | 8,150,000 | 50,666,912 |
| Sublime Acquisition | - | - | - | - | - | 1,148,313 |
| Loudpack Acquisition | 30,100,000 | 8,550,000 | - | 6,500,000 | 45,150,000 | 33,262,755 |
| Write off from sale of business | (6,700,000) | - | - | - | (6,700,000) | - |
| Impairment | (52,951,000) | (16,403,399) | (3,200,000) | (12,800,000) | (85,354,399) | (116,284,557) |
| Balance as at December 31, 2022 | $ 27,069,000 | $ - | $ - | $ - | $ 27,069,000 | $ - |
| **Accumulated Amortization** | | | | | | |
| As at December 31, 2020 | $ - | $ 13,659 | $ - | $ - | $ 13,659 | $ - |
| Amortization expense | - | 233,969 | 316,558 | 566,569 | 1,117,096 | - |
| As at December 31, 2021 | - | 247,628 | 316,558 | 566,569 | 1,130,755 | - |
| Amortization expense | - | 1,180,419 | 640,000 | 2,031,817 | 3,852,236 | - |
| Impairment | - | (1,428,047) | (956,558) | (2,598,386) | (4,982,991) | - |
| As at December 31, 2022 | $ - | $ - | $ - | $ - | $ - | $ - |
| **Net book value** | | | | | | |
| As at December 31, 2021 | 49,500,000 | 6,575,771 | 2,883,442 | 5,733,431 | 64,692,644 | 31,206,577 |
| As at December 31, 2022 | $ 27,069,000 | $ - | $ - | $ - | $ 27,069,000 | $ - |

Amortization expense of $3,852,236 and $1,117,096 was recorded for the years ended December 31, 2022 and 2021, respectively.

As at December 31, 2022 and 2021, the Company performed its annual impairment tests for goodwill and intangible assets. The recoverable amount of all CGUs was determined based on fair value less costs of disposal ("FVLCD") using Level 3 inputs in a discounted cash flow model, as the FVLCD was higher than the CGUs value in use. The key assumptions used in these estimates of the recoverable amounts are described as follows:

- Cash flows: Estimated cash flows were projected based on the Company's business plans, which are based on actual operating results as well as industry and market trends. The forecast was extended to a total of five years (with a terminal year thereafter);

**(Expressed in United States Dollars, except share amounts)**

**11. Intangible Assets and Goodwill (continued)**

- Terminal value growth rate: The terminal growth rate of 3.2% for 2021 and 2022, was based on historical and projected customer price inflation, historical and projected economic indicators, and projected industry growth; and

- Discounted rate: The post tax discount rate for the California operating segment was 16.5% and 21.5% in both 2021 and 2022.

As at December 31, 2022, management determined that there should be impairment charges of $80,371,408 on the intangible assets, and that the carrying value exceeded the recoverable amount of goodwill by $116,284,557 for the California reporting unit. These impairment charges totaling $196,655,965 are recognized in impairment loss in the accompanying Consolidated Statements of Income (Loss) and Comprehensive Income (Loss).

As at December 31, 2021, management determined that there should be impairment charges of $24,698,151 on the intangible assets, and that the carrying value exceeded the recoverable amount of goodwill by $535,044 for the Oregon reporting unit. These impairment charges totaling $25,233,195 are recognized in impairment loss in the accompanying Consolidated Statements of Income (Loss) and Comprehensive Income (Loss).

**12. Right-of-use Assets and Lease Liabilities**

*Right-of-use Assets*

As at December 31, 2022 and 2021, the Company's right-of-use assets consisted of the following:

| | Right-of-use Assets - Buildings |
|---|---|
| **Cost** | |
| Balance as at December 31, 2020 | $ 5,718,370 |
| Additions | 112,122 |
| Acquired leases | 270,810 |
| Balance as at December 31, 2021 | 6,101,302 |
| Additions | 1,909,970 |
| Write-off from lease modification | (16,970) |
| Reclassification* | (1,946,316) |
| Acquired leases | 17,772,275 |
| Balance as at December 31, 2022 | $ 23,820,261 |
| **Accumulated amortization** | |
| Balance as at December 31, 2020 | $ 1,010,536 |
| Amortization expense | 657,369 |
| Balance as at December 31, 2021 | 1,667,905 |
| Reclassification* | (439,179) |
| Amortization expense | 2,318,317 |
| Balance as at December 31, 2022 | $ 3,547,043 |
| **Net book value** | |
| As at December 31, 2021 | 4,433,397 |
| As at December 31, 2022 | $ 20,273,218 |

* Reclassification includes the amounts transferred to assets held for sale as at December 31, 2022 (Note 13).

**(Expressed in United States Dollars, except share amounts)**

## 12. Right-of-use Assets and Lease Liabilities (continued)

*Lease Liabilities*

The Company's lease liabilities consist of various real property leases. The lease liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate. The incremental borrowing rate for additions during the year ended December 31, 2022 ranged from 9.5% to 18.0%. The incremental borrowing rate for additions during the year ended December 31, 2021 was 10%.

The following is a summary of the activity in the Company's lease liabilities for the years ended December 31, 2022 and 2021:

| | |
|---|---|
| Balance as at December 31, 2020 | $ 6,446,981 |
| Acquired leases | 359,615 |
| Lease payments | (1,456,450) |
| Lease modification | 100,832 |
| Interest expense | 877,906 |
| Ending lease liabilities as at December 31, 2021 | 6,328,884 |
| Acquired leases | 28,081,703 |
| Additions | 1,909,970 |
| Lease payments | (4,863,838) |
| Write-offs from lease modification | (32,558) |
| Reclassification* | (2,271,498) |
| Interest expense | 3,035,930 |
| Ending lease liabilities as at December 31, 2022 | 32,188,593 |
| Less: current portion | (1,985,267) |
| Non-current lease liabilities | $ 30,203,326 |

* Reclassification includes the amounts transferred to liabilities held for sale as at December 31, 2022 (Note 13).

The maturity of contractual undiscounted lease obligation payments are as follows:

| | |
|---|---|
| Due within one year | $ 6,331,195 |
| Due within one to five years | 21,631,491 |
| Due after five years | 28,558,852 |
| Total undiscounted lease liabilities | 56,521,538 |
| Less interest | (24,332,945) |
| Total present value of minimum lease payments | $ 32,188,593 |

The Company also leases office and other retail space from related parties (Note 29). The Company recognized no material expenses related to short-term leases and leases of low-value assets for the years ended December 31, 2022 and 2021.

(Expressed in United States Dollars, except share amounts)

**13. Assets and Liabilities Held for Sale**

The Company has been actively marketing certain rights and interests in non-core assets of the Company, including cannabis licenses in non-core geographies within California and selected retail operations in Oregon and California. The Company classified the assets as held for sale and valued such assets at their fair value less costs to sell. The Company did not recognize any impairment loss associated with assets held for sale as at December 31, 2022.

Changes in the carrying amount of assets and liabilities held for sale was as follows:

| | |
|---|---|
| **Assets held for sale** | |
| Balance as at December 31, 2021 | $ - |
| Transferred in/(out) | 2,183,880 |
| Total assets held for sale as at December 31, 2022 | $ 2,183,880 |
| **Liabilities associated with assets held for sale** | |
| Balance as at December 31, 2021 | $ - |
| Transferred in/(out) | 2,872,796 |
| Total liabilities held for sale as at December 31, 2022 | $ 2,872,796 |

On March 13, 2023, the Company entered into a membership interest assignment and settlement agreement (the "Lafayette Membership Assignment"). Pursuant to the terms of the Lafayette Membership Assignment, the Company has agreed to assign its 90% interest in Lafayette Street Property Management LLC ("Lafayette") back to the existing partners and make a $120,000 payment for back rent owed on the property held by Lafayette, located in Stockton, California, in exchange for the satisfaction and cancellation of the Lafayette Note (Note 15, 27 and 34).

The assets and liabilities held for sale were comprised of the following as at December 31, 2022:

| | |
|---|---|
| Accounts receivable, net | $ 4,017 |
| Inventories | 55,822 |
| Prepaid expenses and other current assets | 35,086 |
| Property, plant and equipment, net | 191,333 |
| Right-of-use assets | 1,507,137 |
| Deposits and other assets | 12,930 |
| Due from other entities | 377,555 |
| Assets held for sale | $ 2,183,880 |
| | |
| Accounts payable and accrued liabilities | $ 386,495 |
| Excise, cultivation and property tax liabilities | 42,029 |
| Income taxes payable | 172,774 |
| Lease liabilities | 2,271,498 |
| Liabilities associated with assets held for sale | $ 2,872,796 |

**(Expressed in United States Dollars, except share amounts)**

## 14. Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities of the Company are principally comprised of amounts outstanding for trade purchases incurred in the normal course of business.

The Company's accounts payable and accrued liabilities consist of the following as at December 31, 2022 and 2021:

| | 2022 | 2021 |
|---|---|---|
| Accounts payable | $ 20,369,595 | $ 9,752,220 |
| Accrued local and sales taxes | 5,673,819 | 7,569,657 |
| Accrued liabilities | 12,776,055 | 2,954,185 |
| Accrued payroll | 3,396,024 | 2,115,617 |
| Accrued loyalty rewards program | 2,196,333 | - |
| Total accounts payable and accrued liabilities | $ 44,411,826 | $ 22,391,679 |

## 15. Notes payable

The Company assumed notes payable through the Urbn Leaf Acquisition and the Loudpack Acquisition (Note 3). The notes payable consists of the following as at December 31, 2022:

| | Total outstanding |
|---|---|
| Carryover Notes | $ 26,676,712 |
| Senior Secured Debt | 7,479,000 |
| ACS Agreements | 555,392 |
| Seaside Note | 340,000 |
| Urbn Leaf - Lafayette Street | 304,139 |
| Urbn Leaf - UL Visalia LLC | 247,943 |
| SBC Private loans | 150,000 |
| Vehicle financings | 127,825 |
| Total notes payable, net | $ 35,881,011 |

The loan fees associated with obtaining the notes payable are recorded as a reduction to the carrying amount and are being amortized as interest expense. As at December 31, 2022, there were no unamortized deferred financing costs.

*Carryover Notes*

In connection with the Loudpack Acquisition, the Company assumed the Senior Carryover Notes and the Junior Carryover Notes (collectively, the "Carryover Notes"). The Carryover Notes were a result of the amended and restated master debenture supplement agreement (the "Supplement Agreement") dated April 4, 2022 between Loudpack and Acquiom Agency Services, LLC as Collateral Agent and Administrative Agent. The Supplement Agreement amended and restated the original agreement for the remaining existing debentures leaving a remaining principal amount of $17,000,000 for the Senior Carryover Notes and $8,000,000 for the Junior Carryover Notes. The Carryover Notes bear interest at 9%. Interest and principal owed under the Carryover Notes are due on April 4, 2025.

*Senior Secured Debt*

In December 2020, Urbn Leaf received a loan ("Senior Secured Debt") in the amount of $5,400,000. The Senior Secured Debt originally matured on December 21, 2022, at which time all outstanding principal plus an additional fee of $2,079,000 was due. Monthly payments were interest only with a variable interest rate of the higher of 12.5% or the prime rate plus 9%.

## 15. Notes payable (continued)

*Senior Secured Debt (continued)*

The Senior Secured Debt was secured by certain collateral, pursuant to the terms of a credit and guaranty agreement dated December 21, 2021, between Urbn Leaf and Seventh Avenue Investments, LLC.

On December 21, 2022, the Company entered into the first omnibus amendment of the loan agreement to extend the maturity date of the Senior Secured Debt to January 20, 2023. On January 20, 2023, the Company entered into the second omnibus amendment of the loan agreement to further extend the maturity date of the Senior Secured Debt to February 28, 2023. On February 28, 2023, the Company entered into the third omnibus amendment of the loan agreement to further extend the maturity date of the Senior Secured Debt to April 20, 2023. Additionally, the lenders assigned a portion of the Senior Secured Debt to Pelorus Fund Reit, LLC ("Pelorus") pursuant to the terms of a loan purchase agreement dated February 9, 2023. On April 20, 2023, the Company entered into the fourth omnibus amendment of the loan agreement to further extend the maturity date of the Senior Secured Debt to May 22, 2023 (Note 34).

The Company intends to refinance the Senior Secured Debt with Pelorus.

*Urbn Leaf Note*

On July 23, 2021, Urbn Leaf completed a bridge financing whereby it issued a $5,200,000 secured promissory note (the "Urbn Leaf Note") to SUB CCP Urbn, LLC. The Urbn Leaf Note bore interest at a rate of 15% per annum with principal and accrued interest due and payable on December 31, 2021, or earlier, depending on timing of certain events as set out in the Urbn Leaf Note, but subject to certain extension provisions set out in the promissory note. Urbn Leaf had the option to extend the maturity date of the Urbn Leaf Note by 60 days which extended the maturity date of the Urbn Leaf Note to February 28, 2022 (the "Initial Extension"). The Initial Extension triggered an extension fee equal to 1% of the outstanding principal amount plus all accrued interest thereon for every 30 days that the maturity date was extended. Following the Initial Extension, Urbn Leaf exercised its option to extend the maturity date of the Urbn Leaf Note by an additional 60 days, which extended the maturity date of the Urbn Leaf Note to April 30, 2022 (the "Second Extension"). The Second Extension triggered an extension fee equal to 1% of the outstanding principal amount plus all accrued interest for every 30 days that the maturity date was extended.

On April 29, 2022, the Company repaid the Urbn Leaf Note as follows: (i) a cash payment in the amount of $358,541; and (ii) the issuance of approximately $5,870,000 worth of SVS at a price of C$0.45 per SVS (16,660,993 SVS). The Company recorded a loss on debt extinguishment of $105,324 in the accompanying Consolidated Statements of Income (Loss) and Comprehensive Income (Loss).

*ACS Agreements*

On November 1, 2019 and February 27, 2022, Loudpack entered into certain secured promissory notes (collectively, the "ACS Agreements"). The November 1, 2019 note was in the amount of $1,100,065, payable over 60 monthly installments of $24,749 beginning on or before December 1, 2019 until the principal and interest have been paid in full. Any unpaid principal and interest are due and payable on December 1, 2024. The February 27, 2022 note was in the amount of $276,650, payable over 60 monthly installments of $6,213 beginning on or before March 1, 2020 until the principal and interest have been paid in full. Any unpaid principal and interest are due and payable on March 1, 2025. The ACS Agreements were assumed by the Company in connection with the Loudpack Acquisition, which closed on April 4, 2022. The ACS Agreements bear interest at a rate of 12.5%.

## 15. Notes payable (continued)

*Seaside Note*

On May 18, 2022, the Company entered into an agreement with the Company's former partner (the "Seaside Agreement") to acquire a further 50% ownership interest in its Seaside, California retail dispensary (Note 27). The Seaside Agreement and the additional interest acquired by the Company was the result of a legal settlement with the Company's former partner in the Seaside retail dispensary. As a result, the total cost of the additional interest was $440,000, with $100,000 to be paid upfront (the "First Installment") and the balance payable over seven years, with $50,000 being paid on the first and sixth anniversaries of the First Installment and $40,000 being paid on the seventh anniversary of the First Installment.

*Urbn Leaf - Lafayette Street*

The membership interests of Lafayette were acquired using an unsecured, non-interest bearing note payable in the amount of $2,500,000 (the "Lafayette Note"). Pursuant to the terms of the Lafayette Note, Urbn Leaf paid $500,000 in the form of a down payment, with the remaining $2,000,000 to be paid in equal installments over a period of 24 months. On March 13, 2023, the Company entered into the Lafayette Membership Assignment. Pursuant to the terms of the Lafayette Membership Assignment, the Company has agreed to assign its 90% interest in Lafayette Street Property Management LLC back to the existing partners and make a $120,000 payment for back rent owed on the property held by Lafayette, located in Stockton, California, in exchange for the satisfaction and cancellation of the Lafayette Note (Note 13, 27 and 34).

*Urbn Leaf - UL Visalia LLC*

On July 30, 2019, Urbn Leaf acquired a 80% membership interest in UL Visalia LLC ("UL Visalia"), and Urbn Leaf satisfied the consideration payable for such acquisition with two initial payments of $250,000 each, and the remaining $500,000 being an unsecured and non-interest bearing loan to be paid by Urbn Leaf pursuant to the terms of a second amendment to the memorandum of understanding, which does not specify a definitive repayment date.

*SBC Private loans*

In December 2016, SBC Management LLC ("SBC") repurchased the stock it had previously issued to a legacy partner for a total consideration of $950,000, and such consideration was satisfied with the issuance of an unsecured loan (the "SBC Loan"). The SBC Loan bore interest at a rate of 10% per annum and matured on January 26, 2022. The SBC Loan was assumed by the Company in connection with the Urbn Leaf Acquisition, which closed on March 1, 2022, in the amount of $280,265. On May 11, 2022, the Company repaid the principal and accrued interest under the SBC Loan totaling $250,665.

In May 2017, SBC borrowed $100,000 from an individual at an interest rate of 12% per annum, pursuant to the terms of an unsecured loan (the "Second SBC Loan"). Pursuant to the terms of the Second SBC Loan, Urbn Leaf was required to make interest payments of $1,000 per month until May 9, 2022, at which time the principal balance owed under the Second SBC Loan would become due. The Second SBC Loan was assumed by the Company in connection with the Urbn Leaf Acquisition, which closed on March 1, 2022. On May 19, 2022, the Company entered into a third amendment to the promissory note extending the maturity date and principal repayment to May 9, 2023.

In August 2017, SBC borrowed $50,000 from the same individual at an interest rate of 12% per annum, pursuant to the terms of an unsecured loan (the "Third SBC Loan"). Pursuant to the terms of the Third SBC Loan, Urbn Leaf was required to make interest payments of $500 per month until August 16, 2022, at which time the full principal balance owed under the Third SBC Loan would become due. The Third SBC Loan was assumed by the Company in connection with the Urbn Leaf Acquisition, which closed on March 1, 2022. On May 19, 2022, the Company entered into a third amendment to the promissory note extending the maturity date and principal repayment to May 9, 2023.

**(Expressed in United States Dollars, except share amounts)**

## 15. Notes payable (continued)

*SBC Private loans (continued)*

In April 2018, SBC borrowed $89,000 from an individual for an equipment purchase, with 3% simple interest, pursuant to the terms of an unsecured loan (the "Fourth SBC Loan"). The Fourth SBC Loan had an original maturity date of May 2020. Pursuant to a verbal agreement between the parties, the Company was required to repay the Fourth SBC Loan following the closing of the Urbn Leaf Acquisition. The Fourth SBC Loan was assumed by the Company in connection with the Urbn Leaf Acquisition, which closed on March 1, 2022 in the amount of $77,010. On May 18, 2022, the Company repaid the principal and accrued interest totaling $77,010.

*Vehicle financings*

In connection with the Loudpack Acquisition, the Company assumed six vehicle financing notes (the "Vehicle Financing Notes") for its distribution operations. The Vehicle Financing Notes mature at various dates through October 2024, with interest rates of up to 6.34%.

## 16. Revolving Credit Facility

On March 19, 2021, the Company entered into a $12,000,000 senior secured revolving credit facility (the "Facility") with a federally regulated commercial bank (the "Bank"), as amended on June 29, 2021 and December 6, 2021. The Facility included a maturity date of March 2023, and featured a variable interest rate based on the prime rate charged by the Bank plus 2.5%, with a minimum rate of 5.75%. In conjunction with the Term Loan (Note 17), the Facility was paid in full and terminated in February 2022.

As consideration for the Facility, the Company issued 4,100 warrants to the Bank to purchase MVS (the "Bank Warrants"), each of which entitled the Bank to purchase one MVS of the Company at a price of C$369, at any time prior to March 19, 2023. As a result of the Mandatory Conversion and Reclassification, the Bank Warrants are now exercisable to acquire Common Shares on economically equivalent terms.

The fair value of the Bank Warrants was determined using a Black-Scholes-Merton option pricing model with the following assumptions as at March 19, 2021:

| | | |
|---|---|---|
| Risk-free interest rate | | 0.17% |
| Exercise price - U.S. $ | $ | 2.95 |
| Share price - U.S. $ | $ | 1.98 |
| Expected volatility | | 131% |
| Expected remaining life | | 2 years |
| Fair value | $ | 466,716 |

The Bank Warrants were included as a component of deposits and other assets in the accompanying Consolidated Statements of Financial Position. The Bank Warrants were amortized on a straight-line basis over the two-year term of the Facility. In connection with the payoff and termination of the Facility, during the year ended December 31, 2022, the Company amortized the remaining Bank Warrants and deferred financing costs of approximately $230,000 and $136,000, respectively.

## 17. Term Loan

On November 29, 2021, in connection with the intended acquisitions of Urbn Leaf and Loudpack, the Company announced that it had signed a non-binding term sheet with Pelorus and on February 10, 2022, the Company and Pelorus entered into a loan and security agreement (the "Pelorus Loan Agreement") whereby Pelorus agreed to provide an aggregate of approximately $77,300,000 of debt financing (the "Term Loan") which would be used primarily to retire certain existing loans, including the Facility, and provide additional working capital to the Company, Urbn Leaf and Loudpack.

Pursuant to the terms of the Pelorus Loan Agreement, the Term Loan was funded in two tranches, with the first occurring prior to closing of the Urbn Leaf Acquisition and the Loudpack Acquisition, and the second tranche funded to the Company post-closing of the Loudpack Acquisition. The first tranche was funded in three separate loans, with a loan to each of Urbn Leaf, Loudpack and the Company. The Company received approximately $15,500,000, Loudpack received approximately $16,400,000 and Urbn Leaf received approximately $13,500,000 of the aggregate funds under the first tranche. From its share of the proceeds of the Term Loan, the Company repaid the $12,000,000 outstanding under the Facility (Note 16). On April 8, 2022, the Company received approximately $31,950,000 from the second tranche.

The Term Loan contains a nominal interest rate of 10.25% and requires monthly interest payments until the maturity date. The Company is obligated to make principal payments in the amount of 7.5% of the then outstanding balance on both the 36th and 48th payment dates. The remaining principal of the Term Loan is due on the maturity date of February 10, 2027.

The Term Loan is subject to debt service ratio requirements, interest reserves, certain cross-corporate guarantees and defaults, subordination agreements and intercreditor agreements, along with a general corporate guaranty from the Company and is secured by certain real estate assets, cannabis licenses and other assets of the Company, Urbn Leaf and Loudpack. As at December 31, 2022, the Company was in compliance with these covenants.

The interest reserve as at December 31, 2022 amounted to $606,871 and is recorded as restricted cash in the accompanying Consolidated Statements of Financial Position.

The loan fees associated with the Term Loan are recorded as a reduction to the carrying amount and are being amortized as interest expense within the consolidated financial statements over the five-year term.

As at December 31, 2022, the outstanding balance less unamortized deferred financing costs was $75,638,056. As at December 31, 2022, unamortized deferred financing costs amounted to $1,661,944.

## 18. Excise, Cultivation and Property Tax Liabilities

The Company has various payment plans with the California Department of Tax and Fee Administration ("CDTFA") related to excise and cultivation taxes. As at December 31, 2022, the Company had $24,261,110 accrued for the excise and cultivation tax liabilities, of which approximately $16,900,000 related to penalties. The Company will apply with the CDTFA for relief of related penalties when the balance of principal and interest is paid in full.

In July 2022, Greenfield Organix entered into a term sheet with the City of Greenfield (the "City of Greenfield Note") for $2,500,000 related to prior year property tax obligations. The City of Greenfield applied credits for tax amounts already paid amounting to $388,182 and the Company paid $260,000 in July 2022 upon executing such term sheet. The remaining tax amount of $2,000,000 is payable over 36 equal monthly installments beginning on July 1, 2022. The first 12 monthly payments on the outstanding balance are interest free after which time, the balance will bear interest at a rate of 3% per annum. As at December 31, 2022, the City of Greenfield Note amounted to $1,536,758.

**(Expressed in United States Dollars, except share amounts)**

## 19. Derivative Liabilities

The following table provides a reconciliation of the beginning and ending balance of derivative liabilities and the change in fair value of derivative liabilities:

| | Series D Warrant Liability | Secured Convertible Notes Conversion Feature | SVS Warrants and MVS Warrants Liability | Total |
|---|---|---|---|---|
| Balance as at December 31, 2020 | $ 16,842 | $ 4,338 | $ - | $ 21,180 |
| Fair value of derivative liabilities on issuance | - | - | 14,532,072 | 14,532,072 |
| Change in fair value of derivative liabilities | (16,842) | (4,338) | (13,935,229) | (13,956,409) |
| Effects of foreign exchange | - | - | 182,800 | 182,800 |
| Balance as at December 31, 2021 | - | - | 779,643 | 779,643 |
| Change in fair value of derivative liabilities | - | - | (964,259) | (964,259) |
| Effects of foreign exchange | - | - | 185,593 | 185,593 |
| Balance as at December 31, 2022 | $ - | $ - | $ 977 | $ 977 |

### *Private Placement Offering of SVS Warrants and MVS Warrants*

On February 18, 2021, the Company issued warrants to purchase SVS ("SVS Warrants") and warrants to purchase MVS ("MVS Warrants"), in connection with an upsized brokered private placement of units. The SVS Warrants and MVS Warrants are classified as a liability based on the fixed-for-fixed criterion under IAS 32, *Financial Instruments: Presentation*. As a result of the Mandatory Conversion and Reclassification, the MVS Warrants are now exercisable to acquire Common Shares using the corresponding amount of Common Shares using a ratio of 100 Common Shares per MVS. As a result of the Reclassification, the SVS Warrants are now exercisable to acquire Common Shares using the corresponding amount of Common Shares.

The Company used the Monte Carlo Model to estimate the fair value of the derivative liabilities at issuance and at each reporting date. The Monte Carlo Model uses certain Level 2 inputs in its valuation model. The key Level 2 inputs used by management to determine the fair value are: (i) the expected future volatility in the price of the Company's Common Shares, (ii) the risk-free interest rate, and (iii) the expected life of the instruments. The risk-free interest rate is based on data from the Federal Reserve Statistical Release and is extrapolated for interim periods. The expected lives are based on the expected lives of the instrument. Volatility was calculated by using the stock price returns from comparable public companies as there was insufficient trading history in the Company's shares.

The following assumptions were used to value the SVS Warrants as at December 31, 2022 and 2021:

| | 2022 | 2021 |
|---|---|---|
| Risk-free interest rate | 4.46% | 0.92% |
| Exercise price - CAD | C$3.69 | C$3.69 |
| Share price - CAD | C$0.10 | C$0.46 |
| Expected volatility | 114.16% | 108.74% |
| Expected remaining life | 1.13 years | 2.13 years |
| Fair value | $977 | $328,867 |

**(Expressed in United States Dollars, except share amounts)**

## 19. Derivative Liabilities (continued)

***Private Placement Offering of SVS Warrants and MVS Warrants (continued)***

The following assumptions were used to value the MVS Warrants as at December 31, 2021:

| | 2021 |
|---|---|
| Risk-free interest rate | 0.92% |
| Exercise price - CAD | C$369 |
| Expected volatility | 108.74% |
| Expected remaining life | 2.13 years |
| Fair value | $450,776 |

## 20. Provisions

***IRC §280E***

Certain subsidiaries of the Company operate in the cannabis industry and are subject to IRC §280E, which prohibits businesses engaged in the trafficking of controlled substances (including cannabis as specified in Schedule I of the Controlled Substances Act) from deducting ordinary and necessary business expenses. This can result in permanent tax differences resulting from normal business expenses which are deemed non-allowable under IRC §280E. Many of the central issues relating to the interpretation of IRC §280E remain unsettled, and there are critical tax accounting issues regarding the allocation of expenses to the cost of goods sold (thus avoiding disallowance as deductions under IRC §280E). IFRIC 23 provides guidance that adds to the requirements in IAS 12 by specifying how to reflect the effects of uncertainty in accounting for income taxes. The Company evaluated these uncertain tax treatments, using a probability-weighted approach to assess the range of possible outcomes as required in its adoption of IFRIC 23 and, although it strongly disagrees with the positions taken by the IRS and the findings of the U.S. Tax Court, the Company has determined that a reserve for an uncertain tax position should be recorded for all years subject to statutory review.

The Company engaged external counsel in an attempt to successfully negotiate the settlement and subsequent payment of its potential liabilities under IRC §280E. On July 28, 2022, the Company entered into the IRS Agreement for PMACC's corporate tax returns for the fiscal years ended July 31, 2007 through July 31, 2012, described below, and the year ended December 31, 2020.

The Company does not expect any liabilities or payments resulting from the fiscal year 2016 case or SJW cases to be resolved within 12 months of the issuance of these consolidated financial statements. The Company has recorded an uncertain tax position based on the unknown outcome of the settlement discussions.

As at December 31, 2022 and 2021, the reserve totaled $21,152,172 and $36,051,249, respectively, a sum which includes the IRS Agreement and the separate tax proceedings described below.

**20. Provisions (continued)**

***PMACC***

PMACC was involved in two separate tax proceedings. The first, *PMACC v. Commissioner*, was an appeal to the United States Court of Appeals for the Ninth Circuit of an adverse U.S. Tax Court decision that was issued on November 29, 2018. In that decision, the U.S. Tax Court disallowed PMACC's allocation of certain expenses to cost of goods sold, holding that they were instead deductions barred by IRC §280E. At issue were PMACC's corporate tax returns for the fiscal years ended July 31, 2007 through July 31, 2012. The U.S. Tax Court held that the expenses were ordinary and substantiated business expenses but, because PMACC's business consists of trafficking in a Schedule I controlled substance, the expenses must be disallowed. On October 21, 2019, after a review process under Rule 155, the U.S. Tax Court determined that PMACC's total liability was $11,013,237 plus accrued interest. In its ruling, the U.S. Tax Court rejected the assertion of penalties by the IRS, finding that the unsettled state of the law and the fact that PMACC acted reasonably and in good faith, meant that penalties under IRC §6661(a) would be inappropriate. Accordingly, management had not included penalties in the estimated provision. In December 2019, PMACC appealed the U.S. Tax Court decision to the United States Court of Appeals for the Ninth Circuit (the "Ninth Circuit"), which heard oral arguments in the case on February 9, 2021 and affirmed the U.S. Tax Court decision on April 22, 2021.

Through the IRS Agreement, the Company is resolving the tax proceeding described above and the uncertain position for the year ended December 31, 2021, through the payment of approximately $5,800,000 to be made through $50,000 per month payments over an expected period of 116 months, beginning in August 2022. The monthly payment amount is subject to IRS review every two years. With each review, the payments may adjust up or down depending on PMACC's ability to pay at that time. The Company does not anticipate that these biennial reviews will result in a material increase to the payment plan pursuant to the IRS Agreement. During the year ended December 31, 2022, the Company reduced the related provision and recorded a gain of $16,101,549 in the accompanying consolidated financial statements and adjusted its provision to reflect the long term nature of the uncertain tax positions subject to the IRS Agreement.

In a second U.S. Tax Court proceeding related to deductions barred by IRC §280E, the IRS issued a notice of deficiency disallowing all deductions taken in their entirety and asserting that PMACC owed $16,035,218 in additional taxes and penalties for fiscal 2016. The Company filed its initial petition in this case to the U.S. Tax Court on February 13, 2020. The IRS proposed a deficiency in tax of $13,362,682. The U.S. Tax Court had stayed active litigation in this matter pending the Ninth Circuit's rendering a decision referenced above. With the adverse decision in the Ninth Circuit in April 2021, the stay is no longer in effect. External counsel for PMACC is in discussions with the IRS in respect to this matter.

***SJW***

SJW is involved in two separate tax proceedings. The first involves the 2010, 2011, and 2012 tax years, and in this case, the IRS asserted a tax deficiency of $2,120,215. The second proceeding involves the 2014 and 2015 tax years and in the second case the IRS asserted that SJW owed an additional $2,064,363 in taxes and penalties. Both of these proceedings involve substantially the same issues as the PMACC cases.

On February 17, 2021, the U.S. Tax Court ruled in favor of the Commissioner of Internal Revenue with respect to the cases for SJW. The Company appealed the U.S. Tax Court decisions on May 14, 2021. In an effort to resolve the matter as part of a global settlement, the Company has withdrawn its appeal.

(Expressed in United States Dollars, except share amounts)

## 20. Provisions (continued)

Changes in the carrying amount of the provision for the years ended December 31, 2022 and 2021 was as follows:

| | |
|---|---|
| Balance as at December 31, 2020 | $ 37,758,875 |
| Interest accrued | 1,783,112 |
| Change in estimate | (5,295,602) |
| Additions for underpayments of federal tax liability | 1,804,864 |
| Balance as at December 31, 2021 | 36,051,249 |
| Interest accrued | 1,502,472 |
| Settlement for IRS Agreement | (16,101,549) |
| Less payments made on IRS Agreement | (300,000) |
| Ending provision as at December 31, 2022 | 21,152,172 |
| Less: current portion | (16,252,172) |
| Non-current provision | $ 4,900,000 |

## 21. General and Administrative Expenses

For the years ended December 31, 2022 and 2021, general and administrative expenses consisted of the following:

| | 2022 | 2021 |
|---|---|---|
| Advertising and promotion | $ 1,492,345 | $ 1,619,414 |
| Banking and processing fees | 2,504,236 | 1,128,102 |
| Other general administrative | 162,158 | 111,699 |
| Office and general expenses | 13,179,854 | 5,555,518 |
| Salaries and benefits | 25,365,988 | 11,319,889 |
| Sales and marketing | 1,141,874 | 1,202,564 |
| Taxes and licenses | 3,532,394 | 2,176,263 |
| Travel and entertainment | 706,074 | 350,678 |
| Total | $ 48,084,923 | $ 23,464,127 |

## 22. Loss on Sale of Business

On May 13, 2022, the Company entered into a letter of intent to sell certain assets of Sublime Machining, including its California state manufacturing license, all necessary permits from the City of Oakland and Alameda County to conduct a cannabis business and all "as is" equipment and furnishings located in the Oakland facility needed to produce pre-rolls, vape cartridges and gummies.

As part of the integration with Loudpack, in May 2022 the Company moved Sublime's manufacturing operations from Oakland to Greenfield, California. In June 2022, the agreement was modified and the Company entered into a stock purchase agreement for the sale of all issued and outstanding common stock, $0.01 par value, of Sublime Machining for total consideration of $200,000 (the "Sublime Machining Transaction").

As at December 31, 2022, the Company recognized a loss on sale of business in connection with the Sublime Machining Transaction in the amount of $7,167,558 for the write off of the property, plant and equipment, the intangible asset license value and intercompany balances.

**(Expressed in United States Dollars, except share amounts)**

## 23. Income Taxes

StateHouse is treated as a U.S. corporation for U.S. federal income tax purposes under IRC §7874 and is subject to U.S. federal income tax. However, for Canadian tax purposes, the Corporation is expected, regardless of any application of IRC §7874, to be treated as a Canadian resident company (as defined in the ITA) for Canadian income tax purposes. As a result, the Corporation will be subject to taxation both in Canada and the U.S. Notwithstanding the foregoing, it is management's expectation that StateHouse's activities will be conducted in such a manner that income from operations will be not subject to double taxation.

The Company's income tax benefit allocated for the years ended December 31, 2022 and 2021 was follows:

| | 2022 | 2021 |
|---|---|---|
| Current tax | $ 11,692,987 | $ 5,906,570 |
| Deferred tax | (18,636,800) | (7,684,678) |
| Income tax benefit | $ (6,943,813) | $ (1,778,108) |

The net tax provision differs from that expected by applying the U.S. federal tax rate of 21.0% to net loss before income taxes mainly due to limitations on the deductibility of certain expenses for tax purposes under IRC §280E as well as fair value adjustments for biological assets and derivative liabilities.

The net tax provision differs from that expected by applying the U.S. federal tax rate of 21.0% to net loss before income taxes for the following reasons:

| | 2022 | 2021 |
|---|---|---|
| Net loss before income taxes | $ (247,899,168) | $ (28,145,739) |
| Expected income tax benefit based on statutory rate | (52,025,225) | (5,910,605) |
| Adjusted to expected income tax expense | | |
| Difference due to state rate | (7,884,365) | (2,397,963) |
| Share-based compensation | 1,016,775 | 165,426 |
| §280E adjustment | 16,211,473 | 7,145,549 |
| Fair value change in derivative liability | (359,393) | (2,146,110) |
| Other expense not deductible for tax | 25,623,804 | - |
| Changes in benefit of tax asset not recognized | 10,473,118 | 1,365,595 |
| Income tax expense | $ (6,943,813) | $ (1,778,108) |

**(Expressed in United States Dollars, except share amounts)**

## 23. Income Taxes (continued)

Deferred taxes reflect the tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax values. The following table summarizes the components of deferred taxes for the years ended December 31, 2022 and 2021:

| | 2022 | 2021 |
|---|---|---|
| **Deferred tax assets** | | |
| Non-deductible interest | $ 87,095 | $ 232,576 |
| Right-of-use assets | 68,436 | - |
| Inventories | - | 705,138 |
| Biological assets | 537,418 | 284,251 |
| Total deferred tax assets | 692,949 | 1,221,965 |
| Deferred tax liabilities | | |
| Intangible assets | (8,125,132) | (18,170,365) |
| Property, plant and equipment | (870,044) | (298,753) |
| Right-of-use assets | - | (116,306) |
| Inventories | (77,478) | - |
| Total deferred tax liabilities | (9,072,654) | (18,585,424) |
| Net deferred tax liabilities | $ (8,379,705) | $ (17,363,459) |

Deferred taxes reflect the tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax values.

Deferred tax assets and liabilities have been offset where they relate to income taxes levied by the same taxation authority and the Company has the legal right and intent to offset.

Movements in the net deferred tax liabilities during the years ended December 31, 2022 and 2021 were as follows:

| | 2022 | 2021 |
|---|---|---|
| Balance, beginning of year | $ 17,363,459 | $ 16,185,657 |
| Recognized in loss | (18,636,800) | (7,684,678) |
| Net deferred tax liability from acquisitions (Note 3) | 9,653,046 | 8,862,480 |
| Balance, end of year | $ 8,379,705 | $ 17,363,459 |

**(Expressed in United States Dollars, except share amounts)**

## 23. Income Taxes (continued)

Deferred tax assets have not been recognized in respect of the following deductible temporary differences because it is not probable that future taxable profit will be available against which the Company can use the benefits:

| | 2022 | 2021 |
|---|---|---|
| Provision for expected credit losses | $ 6,037,040 | $ 4,296,055 |
| Non-capital losses carryforward - Canada | 30,731,480 | 16,815,850 |
| Federal net operating loss | 44,700,583 | 31,812,335 |
| State net operating loss | 61,553,745 | 36,931,312 |
| Intangibles | (27,221,046) | 8,694 |
| Property, plant and equipment | 6,991,290 | 2,153,263 |
| Non-deductible interest | 3,534,476 | 170,079 |
| Other assets | 194,498 | 219,327 |
| Investments, capital gain (Canada) | 74,610 | 74,610 |
| Inventories | (368,941) | 106,473 |
| Capital losses | 2,137,574 | 2,137,574 |
| Right of usage | 6,022,999 | 553,412 |
| Resource pools - Mineral Properties | 620,742 | 620,742 |
| Discount on loans payable | 1,890,570 | 1,890,570 |
| Charitable contribution carryover | 29,694 | 43,174 |
| Stock options expense NQSO | 1,285,536 | 1,285,536 |
| Interest not deductible | 2,041,518 | 1,965,263 |
| Investment lineage Canadian entity | 417,314 | 934,059 |
| Biological assets | 2,080,424 | - |
| Start-up costs | 1,062,266 | - |
| | $ 143,816,372 | $ 102,018,328 |

The U.S. net capital losses in the amount of $2,137,574 will start expiring in 2023.

Utilization of U.S. net operating loss carryforwards may be subject to limitations in the event of a change in ownership as defined under U.S. IRC §382 and similar state provisions. An "ownership change" is generally defined as a cumulative change in the ownership interest of significant stockholders over a three-year period of more than 50 percentage points. The Company believes a change in ownership, as defined by U.S. IRC §382, has occurred. This will limit the Company's ability to reduce future income by net operating loss carryforwards. A formal §382 study has not been prepared, so the exact effects of the ownership change are not known at this time.

**(Expressed in United States Dollars, except share amounts)**

## 23. Income Taxes (continued)

The Company has income tax loss carryforwards that, if unused, will expire as at December 31:

| | U.S. | Canada | Total |
|---|---|---|---|
| 2030 | $ - | $ 2,098,296 | $ 2,098,296 |
| 2034 | 517,250 | - | 517,250 |
| 2035 | 286,602 | - | 286,602 |
| 2036 | 5,015,992 | 175,746 | 5,191,738 |
| 2037 | 2,782,368 | 159,769 | 2,942,137 |
| 2038 | - | 883,293 | 883,293 |
| 2039 | 14,486,997 | 3,306,885 | 17,793,882 |
| 2040 | 8,957,733 | 4,255,288 | 13,213,021 |
| 2041 | 14,274,443 | 2,749,686 | 17,024,129 |
| 2042 | 10,468,800 | 17,102,517 | 27,571,317 |
| Indefinite life | 49,464,144 | - | 49,464,144 |
| Total | $ 106,254,329 | $ 30,731,480 | $ 136,985,809 |

## 24. Share Capital

The following is a reconciliation of the issued and outstanding shares of the Company as at December 31, 2022 and 2021:

| | Common Shares (formerly SVS) | MVS |
|---|---|---|
| Balance, December 31, 2020 | 26,535,608 | 179,096.42 |
| Conversion of MVS to SVS | 5,769,075 | (57,690.75) |
| Issuance of new shares | 5,806,700 | 302,965.06 |
| Issuance on exercise of stock options | 1,414,024 | - |
| Issuance on settlement of RSUs | - | 1,600.00 |
| Balance, December 31, 2021 | 39,525,407 | 425,970.73 |
| Issuance of new shares | 168,856,565 | 11,289.57 |
| Issuance on settlement of RSUs | 190,202 | - |
| Issuance on exercise of stock options | 291,407 | - |
| Shares surrendered | (101,175) | - |
| Conversion of MVS to SVS | 43,726,030 | (437,260.30) |
| Balance, December 31, 2022 | 252,488,436 | - |

**24. Share Capital (continued)**

On February 18, 2021, the Company closed an upsized brokered private placement of units at a price of C$2.55 per SVS Unit (as defined below) and C$255.00 per MVS Unit (as defined below) for aggregate gross proceeds of C$35,103,045 (the "Offering"). Beacon Securities Limited and ATB Capital Markets acted as co-lead agents in connection with the Offering (the "Agents").

Each unit issued to non-residents of the U.S. (each, an "SVS Unit") was comprised of one SVS and one warrant. Each SVS Warrant is exercisable to acquire one SVS of the Company for a period of 36 months following the closing of the Offering at an exercise price of C$3.69 per SVS, subject to adjustment and acceleration in certain events. A total of 5,806,700 SVS Units were issued in connection with the Offering.

All investors that are considered residents of the U.S. were issued units (each, an "MVS Unit") comprised of MVS of the Company and MVS Warrants, based on the same economic equivalency of each MVS converting into 100 SVS. The holders of MVS were entitled to one vote in respect of each SVS into which such MVS could be converted. A total of 79,592 MVS Units were issued, in connection with the Offering. As a result of the Mandatory Conversion, all MVS issued have been converted into SVS, and holders of MVS Warrants were then entitled to receive, upon exercise of such MVS Warrants, one hundred (100) SVS per MVS Warrant at an exercise price of $369 per MVS Warrant. As a result of the Mandatory Conversion and Reclassification, completed on March 31, 2022 and July 25, 2022, respectively, the SVS Warrants and MVS Warrants are now exercisable to acquire Common Shares on economically equivalent terms using a ratio of one Common Share per SVS and 100 Common Shares per MVS.

The SVS Warrants and MVS Warrants were valued on February 18, 2021 at $6,128,298 and $8,403,774, respectively, based on an implied share price of C$1.34 and C$134.06, respectively, valued based on the Monte Carlo Model. The key assumptions used are discussed in Note 19.

In consideration for their services, the Company paid the Agents a cash commission equal to C$1,451,340 and issued the Agents an aggregate of 569,154 Broker Warrants ("Broker Warrants"). Each Broker Warrant was exercisable until February 18, 2022 into one SVS Unit at an exercise price of C$2.55 per SVS Unit. Upon exercise of a Broker Warrant, each underlying SVS Warrant was exercisable at C$3.69 per SVS Warrant until February 18, 2024. The Broker Warrants were not exercised and expired during February 2022.

The Broker Warrants were valued on February 18, 2021 at $1,134,112 based on an implied share price of C$2.53 based on the Monte Carlo Model. The key assumptions used are discussed in Note 26.

The total share issuance costs related to the Offering was C$1,756,873, which includes the commission noted above and other professional fees.

On March 31, 2022, the Company completed the Mandatory Conversion of all MVS into SVS at a ratio of 100 SVS for each MVS outstanding. In addition, each holder of MVS Warrants became entitled to acquire 100 SVS for each MVS underlying its MVS Warrants, upon exercise of such MVS Warrants.

On April 4, 2022, the Company agreed to issue an aggregate of 1,443,493 SVS at a deemed issuance price of approximately C$0.72 per SVS to settle an aggregate of C$1,034,647 owing to certain advisors (the "Indebtedness") for advisory services provided to the Company in connection with the Urbn Leaf Acquisition and the Loudpack Acquisition.

Effective July 25, 2022, the Company completed the Reclassification of its SVS to Common Shares.

**(Expressed in United States Dollars, except share amounts)**

## 25. Contributed Surplus

*Stock Options*

Prior to June 30, 2020, the Company maintained an equity incentive plan (the "Old Plan") whereby certain key employees, officers, directors, consultants and advisors could be granted stock options, RSAs, RSUs, share appreciation rights, performance compensation awards, dividend equivalents and other share-based awards of the Company.

The stock options which were awarded under the Old Plan vest on a graded-vesting schedule, generally, over a two-year period and expire 10 years after the grant date. The Company uses a graded vesting schedule to record compensation expense, which results in greater compensation expense earlier in the vesting period after an award is granted. All stock options granted are settled in Common Shares. If an employee terminates employment with the Company prior to awards vesting, the unvested awards are forfeited and the historical compensation expense for unvested options is reversed in the period of termination.

On June 30, 2020, the Company adopted an equity incentive plan (the "Plan") whereby certain key employees, officers, directors, consultants and advisors may be granted stock options, RSAs, RSUs, share appreciation rights, performance compensation awards, dividend equivalents and other share-based awards of the Company.

The stock options awarded under the Plan vest in accordance with the terms established by the Board at the time of grant. The Plan was ratified by the Company's shareholders on November 24, 2020.

On January 17, 2022, the Company adopted an amended and restated equity incentive plan (the "A&R Plan") to amend and restate the Plan in order to increase the maximum number of SVS which may be allocated for issuance pursuant to Incentive Stock Options (as defined in the A&R Plan) to up to 23,355,026 SVS or such lesser amount as determined by the Board. The A&R Plan was ratified by the Company's shareholders on February 22, 2022.

The following table summarizes the stock option activities for the years ended December 31, 2022 and 2021:

| | **Number of options outstanding** | **Weighted average exercise price $** |
|---|---|---|
| Balance, December 31, 2020 | 6,635,898 | 1.47 |
| Options exercised | (1,414,024) | 0.14 |
| Options expired/forfeited/cancelled | (1,819,582) | 1.81 |
| Options granted | 1,221,860 | 0.62 |
| Balance, December 31, 2021 | 4,624,152 | 1.51 |
| Options exercised | (291,407) | 0.05 |
| Options expired/forfeited/cancelled | (4,558,190) | 1.02 |
| Options granted | 21,700,000 | 0.49 |
| Replacement options recognized | 84,420 | 3.43 |
| Balance, December 31, 2022 | 21,558,975 | 0.61 |

During the years ended December 31, 2022 and 2021, the Company recorded aggregate share-based compensation of \$3,983,121 and \$787,743, respectively, for all stock options vesting during the year.

During the years ended December 31, 2022 and 2021, the Company received cash consideration of \$15,883 and \$200,291, respectively, for the exercise of 291,407 and 1,414,024 vested options, respectively.

(Expressed in United States Dollars, except share amounts)

## 25. Contributed Surplus (continued)

*Stock Options (continued)*

On February 4, 2022, the Company issued 84,420 replacement options (the "Sublime Replacement Options") to certain existing holders of Sublime options in connection with the Sublime Acquisition. The Company accounted for the Sublime Replacement Options in accordance with IFRS 2 and IFRS 3 and recognized post-acquisition costs for share-based compensation of $916,112 related to the issuance of the Sublime Replacement Options.

On March 1, 2022, following closing of the Urbn Leaf Acquisition, the Company granted the Urbn Leaf Options to purchase an aggregate of 5,758,797 SVS to certain members of management and the Board. Each option is exercisable to acquire one SVS at an exercise price of C$0.70 per SVS for a period of five years following the date of grant.

On April 4, 2022, following the closing of the Loudpack Acquisition, the Company granted options to purchase an aggregate of 9,401,203 SVS to certain members of the Board, management, employees and consultants. Each option is exercisable to acquire one SVS at an exercise price of C$0.75 per SVS for a period of five years following the date of grant.

On April 29, 2022, the Company granted options to purchase up to an aggregate 1,540,000 SVS to certain members of management and employees. Each option is exercisable to acquire one SVS at an exercise price of C$0.75 per SVS for a period of five years following the date of the grant.

On June 29, 2022, the Company granted options to purchase up to an aggregate 3,400,000 SVS to certain members of management and employees. Each option is exercisable to acquire one SVS at an exercise price of C$0.37 per SVS for a period of five years following the date of grant.

On July 25, 2022, the Company completed the Reclassification of its SVS to Common Shares. As a result of the Reclassification, each stock option to acquire SVS is now exercisable to acquire Common Shares.

On October 10, 2022, the Company granted options to purchase up to an aggregate 800,000 Common Shares to certain members of management and employees. Each option is exercisable to acquire one Common Share at an exercise price of C$0.25 per Common Share for a period of five years following the date of grant.

On November 24, 2022, the Company granted options to purchase up to an aggregate 800,000 Common Shares to certain members of management and employees. Each option is exercisable to acquire one Common Share at an exercise price of C$0.16 per Common Share for a period of five years following the date of grant.

The fair value of stock options granted by the Company during the years ended December 31, 2022 and 2021, under the A&R Plan, were estimated on the grant date using the Black-Scholes-Merton option pricing model with the relevant assumptions outlined in the table below. The expected volatility was estimated based on volatility ranges acceptable in practice. The expected life in years represents the period of time that options granted are expected to be outstanding. The risk-free rate was based on the Bank of Canada three-year bond yield rate at the time of the grant of the award. Expected annual rate of dividends was assumed to be zero based on the fact that the Company has never paid cash dividends and does not expect to pay cash dividends in the foreseeable future.

| | For the years ended | |
|---|---|---|
| | **December 31, 2022** | **December 31, 2021** |
| Stock price at grant date | CAD 0.20 - 5.39 | CAD 1.78 - 2.21 |
| Exercise price at grant date | CAD 0.20 - 5.39 | CAD 1.78 - 2.21 |
| Expected life in years | 1.5 to 6.5 years | 3 to 4 years |
| Expected volatility | 100% | 100% |
| Expected annual rate of dividends | 0% | 0% |
| Risk-free annual interest rate | 0.25% - 3.92% | 0.48% - 0.82% |

**(Expressed in United States Dollars, except share amounts)**

## 25. Contributed Surplus (continued)

*Stock Options (continued)*

As at December 31, 2022, the options outstanding and exercisable for SVS and with the corresponding exercise price and weighted average remaining life was as follows:

| Date of grant | Expiry date | Number of options outstanding | Number of options exercisable | | Exercise price (USD) | Weighted average remaining life |
|---|---|---|---|---|---|---|
| September 1, 2020 | September 1, 2025 | 650,000 | 551,389 | $ | 0.749 | 2.67 |
| December 23, 2020 | December 23, 2025 | 765,000 | 25,000 | $ | 1.444 | 2.98 |
| June 11, 2021 | June 11, 2026 | 414,060 | 103,516 | $ | 1.743 | 2.21 |
| July 2, 2021 | July 2, 2026 | 43,750 | 43,750 | $ | 1.404 | 3.50 |
| August 1, 2016 | August 1, 2026 | 32,631 | 32,631 | $ | 0.050 | 3.59 |
| March 1, 2022 | March 1, 2027 | 5,758,797 | - | $ | 0.552 | 4.17 |
| April 4, 2022 | April 4, 2027 | 7,601,203 | 400,000 | $ | 0.592 | 4.26 |
| April 29, 2022 | April 29, 2027 | 1,540,000 | - | $ | 0.592 | 4.33 |
| June 29, 2022 | June 29, 2027 | 2,600,000 | - | $ | 0.292 | 4.50 |
| October 10, 2022 | October 10, 2027 | 800,000 | - | $ | 0.170 | 4.78 |
| November 24, 2022 | November 24, 2027 | 800,000 | - | $ | 0.126 | 4.90 |
| April 25, 2018 | April 25, 2028 | 440,000 | 440,000 | $ | 4.150 | 5.32 |
| May 15, 2018 | May 15, 2028 | 43,000 | 43,000 | $ | 4.150 | 5.38 |
| June 25, 2018 | June 25, 2028 | 10,000 | 10,000 | $ | 4.150 | 5.49 |
| February 4, 2022* | August 22, 2028 | 409 | 409 | $ | 3.375 | 5.65 |
| September 12, 2018 | September 12, 2028 | 50,000 | 50,000 | $ | 4.150 | 5.70 |
| February 4, 2022* | December 31, 2028 | 8,610 | 8,610 | $ | 3.375 | 6.00 |
| February 4, 2022* | July 16, 2029 | 1,286 | 1,286 | $ | 4.250 | 6.55 |
| February 4, 2022* | July 16, 2029 | 229 | 229 | $ | 3.375 | 6.55 |
| Total | | 21,558,975 | 1,709,820 | | | 4.23 |

*Replacement options issued as part of the Sublime Acquisition.

The weighted average remaining contractual life of outstanding options as at December 31, 2022 was 4.23 years.

*RSUs*

On March 1, 2022, the Company granted an aggregate of 912,599 RSUs (Note 3). The fair value on the grant date of the RSUs was valued at $489,627 (or $0.54 per RSU) based on the intrinsic value on the grant date.

On April 4, 2022, the Company granted an aggregate of 2,737,401 RSUs. The fair value on the grant date of the RSUs was valued at $1,641,003 (or $0.60 per RSU) based on the intrinsic value on the grant date.

On May 26, 2022, the Company granted an aggregate 450,000 RSUs to certain board members. The fair value on the grant date of the RSUs was valued at $129,837 (or $0.29 per RSU) based on the intrinsic value on the grant date.

On November 24, 2022, the Company granted an aggregate 400,000 RSUs to certain board members. The fair value on the grant date of the RSUs was valued at $47,966 (or $0.12 per RSU) based on the intrinsic value on the grant date.

On December 22, 2022, the Company granted an aggregate 150,000 RSUs to certain board members. The fair value on the grant date of the RSUs was valued at $12,000 (or $0.08 per RSU) based on the intrinsic value on the grant date.

During the years ended December 31, 2022 and 2021, the Company recorded share-based compensation expense of $858,666 and $nil, respectively, as a result of vested RSUs.

**(Expressed in United States Dollars, except share amounts)**

## 25. Contributed Surplus (continued)

*RSUs (continued)*

During the year ended December 31, 2022, 200,000 RSUs were settled, resulting in the issuance of 190,202 Common Shares. During the year ended December 31, 2022, 500,000 RSUs were forfeited. As at December 31, 2022, the Company had an aggregate of 3,875,000 RSUs outstanding which includes grants prior to March 1, 2022.

## 26. Reserve for Warrants

The activity for warrants outstanding for the years ended December 31, 2022 and 2021 is summarized as follows:

| | Common Shares (formerly Subordinate Voting Shares) | | |
|---|---|---|---|
| | Number of warrants outstanding | Weighted average exercise price CAD $ | Weighted average exercise price USD $ |
| Balance, December 31, 2020 | 3,279,300 | 8.49 | 6.10 |
| Warrants expired | (2,806,981) | 8.75 | 6.88 |
| Broker Warrants expired | (160,775) | 7.00 | 5.50 |
| Broker Warrants expired | (311,544) | 6.90 | 5.42 |
| Issuance of SVS Warrants | 5,806,700 | 3.69 | 2.91 |
| Issuance of Broker Warrants | 569,154 | 2.55 | 2.01 |
| Balance, December 31, 2021 | 6,375,854 | 3.59 | 2.54 |
| Conversion of MVS Warrants to Common Shares in connection with the Reclassification | 7,959,200 | 3.69 | 2.91 |
| Conversion of Bank Warrants to Common Shares in connection with the Reclassification | 410,000 | 3.69 | 2.91 |
| Issuance of warrants (Loudpack Acquisition) | 2,000,000 | 3.12 | 2.46 |
| Broker Warrants expired | (569,154) | 2.55 | 2.01 |
| Balance, December 31, 2022 | 16,175,900 | 3.62 | 2.74 |

| | Multiple Voting Shares | | |
|---|---|---|---|
| | Number of warrants outstanding | Weighted average exercise price CAD $ | Weighted average exercise price USD $ |
| Balance, December 31, 2020 | - | - | - |
| Issuance of MVS Warrants | 79,592 | 369.00 | 291.00 |
| Issuance of Bank Warrants | 4,100 | 369.00 | 291.00 |
| Balance, December 31, 2021 | 83,692 | 369.00 | 291.00 |
| Conversion of MVS Warrants to SVS in connection with the Reclassification | (79,592) | 369.00 | 269.00 |
| Conversion of Bank Warrants to SVS in connection with the Reclassification | (4,100) | 369.00 | 269.00 |
| Balance, December 31, 2022 | - | - | - |

**(Expressed in United States Dollars, except share amounts)**

**26. Reserve for Warrants (continued)**

***Warrants***

On February 18, 2021, the Company issued 5,806,700 SVS and 79,592 MVS Warrants in connection with the Offering (Note 24). Each SVS Warrant entitles the holder thereof to purchase one SVS of the Company at an exercise price of C$3.69 per share until February 18, 2024. Each MVS Warrant entitles the holder thereof to purchase one MVS of the Company at an exercise price of C$369 per share until February 18, 2024. Following the Mandatory Conversion, all MVS Warrants previously exercisable into MVS, were exercisable into SVS. In particular, each holder of MVS Warrants was then entitled to receive, upon exercise of the MVS Warrants, one hundred SVS per MVS Warrant at an exercise price of $369 per MVS Warrant. As a result of the Mandatory Conversion and Reclassification the MVS Warrants are now exercisable to acquire Common Shares on economically equivalent terms using a ratio of one Common Share per SVS.

The SVS Warrants and MVS Warrants are being accounted for as a derivative liability (Note 19).

On March 19, 2021, the Company issued 4,100 Bank Warrants to purchase MVS to the Bank in connection with the Facility (Note 16), exercisable at a price of C$369 per MVS, at any time prior to March 19, 2023. As a result of the Mandatory Conversion and Reclassification, the Bank Warrants are now exercisable to acquire Common Shares on economically equivalent terms.

The Bank Warrants were accounted for as other assets and were amortized on a straight-line basis over the two-year term of the Facility. The Company amortized the remaining balance of the Bank Warrants in connection with repayment of the Facility (Note 16).

On April 4, 2022, the Company issued the Loudpack Warrants as partial consideration for the Loudpack Acquisition, which are exercisable to purchase SVS at a price of $2.50 per SVS, any time prior to April 4, 2027 (Note 3).

As a result of the Reclassification, the Loudpack Warrants are now exercisable to acquire Common Shares on economically equivalent terms.

***Broker Warrants***

As detailed in Note 24, the Company issued 569,154 Broker Warrants to the Agents as compensation in connection with the Offering. Each Broker Warrant was exercisable until February 18, 2022 into one SVS Unit (each comprised of one SVS and one SVS Warrant) at an exercise price of C$2.55 per SVS Unit. Upon exercise of a Broker Warrant, each underlying SVS Warrant would have been issued and been exercisable at C$3.69 per share until February 18, 2024. All of the Broker Warrants expired on February 18, 2022, and no underlying SVS or SVS Warrants were issued.

The Broker Warrants were valued based on the Monte Carlo Model at the date of measurement with the following assumptions:

| | February 18, 2021 |
|---|---|
| Risk-free interest rate | 0.35% |
| Exercise price - CAD | C$2.55 |
| Share price - CAD | C$2.65 |
| Expected volatility | 111.40% |
| Expected remaining life | 1 year |
| Fair value - CAD | C$1,439,960 |
| Fair value - U.S. | $1,134,112 |

**(Expressed in United States Dollars, except share amounts)**

## 26. Reserve for Warrants (continued)

The following table summarizes information of warrants outstanding as at December 31, 2022:

| Date of expiry | Number of warrants outstanding | Weighted Average Exercise price (CAD) | Weighted Average Exercise price (USD) | Weighted average remaining life |
|---|---|---|---|---|
| March 19, 2023 | 410,000 | 3.69 | 2.91 | 0.21 |
| February 18, 2024 | 5,806,700 | 3.69 | 2.91 | 1.13 |
| February 18, 2024 | 7,959,200 | 3.69 | 2.91 | 1.13 |
| November 29, 2026 | 2,000,000 | 3.12 | 2.46 | 3.92 |
| Total | 16,175,900 | 3.62 | 2.74 | 1.45 |

## 27. Non-controlling interests

On February 15, 2022, the Company entered into the Subsequent FGW Agreement, pursuant to which the Company agreed to acquire the Subsequent Shares, subject to certain material closing conditions, including approvals from regulatory authorities. Upon closing of the transaction, the acquisition of the Subsequent Shares will increase the Company's interest in FGW to 80%, subject to obtaining the Specified Approval and converting the FGW Note. The Company also retains a right of first refusal to purchase, in its discretion, in whole or in part and in one or more closings, the remaining 20% of FGW, subject to regulatory approvals. Pursuant to the Subsequent FGW Agreement, the Company will pay an aggregate purchase price of $1,300,650 for the Subsequent Shares to be satisfied in MVS priced at the greater of: (i) the 30-day volume weighted average price of the SVS on the CSE ending on the day prior to closing of the purchase of the Subsequent Share multiplied by 100; (ii) C$150 per MVS; or (iii) such other price as may be approved by the CSE. Prior to closing the acquisition of the Subsequent Shares, the Subsequent FGW Agreement will be amended to reflect the occurrence of the Mandatory Conversion and Reclassification. As at December 31, 2022, there were no changes in the ownership for FGW.

On March 1, 2022, the Company acquired several non-controlling interests through the Urbn Leaf Acquisition (Note 3).

On May 18, 2022, the Company entered into the Seaside Agreement pursuant to which the Company acquired the remaining 50% ownership interest in its Seaside, California retail dispensary (the "Seaside Acquisition"). The Seaside Acquisition was a result of a legal settlement (Note 15). The Seaside Acquisition resulted in the Company owning all of the issued and outstanding securities of 680 Broadway Master, LLC, which owns the Seaside retail dispensary, bringing the Company's ownership interest in the Seaside retail dispensary to 100%.

On March 13, 2023, the Company entered into the Lafayette Membership Assignment. Pursuant to the terms of the Lafayette Membership Assignment, the Company has agreed to assign its 90% interest in Lafayette back to the existing partners and make a $120,000 payment for back rent owed on the property held by Lafayette, located in Stockton, California, in exchange for the satisfaction and cancellation of the Lafayette Note (Note 13, 15 and 34).

**(Expressed in United States Dollars, except share amounts)**

## 27. Non-controlling interests (continued)

As at December 31, 2022, the Company held the following ownership interests:

| | |
|---|---|
| FGW Haight Inc. | 21.00% |
| UL Chula Two LLC | 51.00% |
| UL La Mesa LLC | 59.56% |
| JLM Investment Group, LLC | 66.66% |
| Banana LLC | 75.00% |
| UL Benicia LLC | 70.00% |
| UL Visalia LLC | 80.00% |
| ULRB LLC | 80.00% |
| Lafayette Street Property Management LLC | 90.00% |

The change in non-controlling interests for the years ended December 31, 2022 and 2021 was as follows:

| | |
|---|---|
| Balance, December 31, 2020 | $ 3,066,630 |
| Share of loss for the year | (209,165) |
| Balance, December 31, 2021 | 2,857,465 |
| Purchases of businesses - initial equity related to non-controlling interests (Note 3) | 896,521 |
| Purchase of remaining interest of Seaside in connection with the Seaside Acquisition | (282,748) |
| Share of loss for the year | (569,323) |
| Balance, December 31, 2022 | $ 2,901,915 |

## 28. Net income (loss) per share

Basic loss per share is calculated by dividing net profit or loss attributable to ordinary equity holders of the Company (the numerator) by the weighted average number of ordinary shares outstanding (the denominator) during the period. For purposes of calculating loss per share, the dilutive effect of outstanding MVS is converted into 100 SVS on a weighted-average basis for the number of days the MVS are outstanding.

On March 31, 2022, the Company completed the Mandatory Conversion of all MVS into SVS at a ratio of 100 SVS for each MVS outstanding. On July 25, 2022, the Company completed the Reclassification whereby the Company reclassified its SVS to Common Shares (Note 24).

The following is a reconciliation for the calculation of basic and diluted loss per share for the years ended December 31, 2022 and 2021:

| | 2022 | 2021 |
|---|---|---|
| Net income (loss) attributable to the Company | $(240,386,032) | $ (26,158,466) |
| Diluted weighted average number of shares outstanding | 213,813,888 | 68,158,181 |
| Basic and diluted loss per share | $ (1.12) | $ (0.38) |

**(Expressed in United States Dollars, except share amounts)**

## 29. Related Party Transactions and Key Management and Director Compensation

### (a) Key Management and Director Compensation

Key management includes directors and officers of the Company. Total compensation (comprised of salaries, benefits, one-time bonuses and share-based compensation) awarded to key management for the years ended December 31, 2022 and 2021 was as follows:

| | 2022 | 2021 |
|---|---|---|
| Short-term employee benefits, including salaries and director fees | $ 2,311,690 | $ 1,387,122 |
| Executive bonus | - | 246,250 |
| Share-based compensation - Directors and Executives | 3,486,067 | 570,285 |
| Total | $ 5,797,757 | $ 2,203,657 |

On July 19, 2021, Matt Hawkins ("Mr. Hawkins"), Chairman of the Board, assumed the position of Interim Chief Executive Officer ("CEO") of the Company. In connection with the Urbn Leaf Acquisition, the Company announced the resignation of Mr. Hawkins as Interim CEO and the appointment of Edward Schmults as CEO. As at December 31, 2022 and 2021, $45,000 and $31,984, respectively, was payable to Mr. Hawkins' as consideration for Mr. Hawkins' services as Interim CEO of the Company (the "Hawkins Payables"). The Hawkins Payables were payable to Cresco Capital Management II, LLC d/b/a Entourage Effect Capital ("Entourage"), the company through which Mr. Hawkins provides services to the Company. Entourage is controlled and directed by Mr. Hawkins and Andrew Sturner ("Mr. Sturner"), a former director of the Company. Mr. Sturner resigned from the Board effective April 4, 2022.

As at December 31, 2022 and 2021, $3,000 and $34,720, respectively, was payable to Newhouse Development LLC ("Newhouse"), a company controlled by Tom DiGiovanni ("Mr. DiGiovanni"), the former Chief Financial Officer ("CFO"), through which Mr. DiGiovanni was compensated for his services as CFO of the Company. Mr. DiGiovanni resigned as CFO of the Company effective December 31, 2022 and Kavi Bhai was appointed to the role of CFO.

As at December 31, 2022, $202,540 was payable to Will Senn ("Mr. Senn"), Chief Corporate Development Officer, for deferred compensation.

As at December 31, 2022 and 2021, $164,567 and $161,198, respectively, was payable to the directors for quarterly director fees.

All amounts outstanding are unsecured, non-interest bearing and due on demand.

**(Expressed in United States Dollars, except share amounts)**

## 29. Related Party Transactions and Key Management and Director Compensation (continued)

### (b) Related Parties

| | | Transactions for the year ended | | Balance outstanding | |
|---|---|---|---|---|---|
| | | December 31, 2022 | December 31, 2021 | December 31, 2022 | December 31, 2021 |
| **Purchases of goods or services from related parties:** | | | | | |
| Sublime | Matthew Hawkins and Andrew Sturner, directors of the Company are partners at Entourage Effect Capital which was an investor in Sublime. As at July 2, 2021, Sublime was acquired by the Company. | $ - | $ 292,084 | $ - | $ - |
| Flow Cannabis Co. | Kevin Albert, a former director of the Company, serves as a director on the board of Flow Cannabis Co. As at April 4, 2022, Mr. Albert resigned from the Board. | $ - | $ 833 | $ 1,517 | $ 1,517 |
| Branson Corporate Services Ltd. ("Branson") | Branson provided finance, accounting and administrative services to the Company. Peter Bilodeau holds a 16% ownership interest in Branson. As at July 2021, Peter Bilodeau is no longer a related party of the Company. As at October 2021, the Company no longer purchases goods or services from Branson. | $ - | $ 154,680 | $ - | $ - |
| Black Oak Ventures ("Black Oak") | Black Oak provided certain investor relations services to the Company. Black Oak's principal is an immediate family member of Mr. Bilodeau. As at July 2021, Mr. Bilodeau is no longer a related party of the Company. As at July 2021, the Company no longer uses Black Oak. | $ - | $ 40,379 | $ - | $ - |
| **Sales to related parties:** | | | | | |
| Sublime | Matthew Hawkins and Andrew Sturner, directors of the Company are partners at Entourage which was an investor in Sublime. As at July 2, 2021, Sublime was acquired by the Company. | $ - | $ 566,472 | $ - | $ - |

All purchases of goods and services noted above were at arm's length market rates. All sales of goods noted above were at arm's length market rates. Effective April 4, 2022, Mr. Sturner and Mr. Albert resigned from the Board.

### (c) Other Related Parties

On June 1, 2020, the Company entered into an additional consulting agreement with Newhouse to provide financial and accounting services, related to one of the Company's management services agreements, in exchange for cash compensation. The services provided by Newhouse were provided by an immediate family member of Mr. DiGiovanni. The Company terminated the additional consulting agreement in November 2022. As at December 31, 2022, a total of $3,000 was payable to Newhouse which was related to the June 1, 2020 agreement.

On July 19, 2021, the Company entered into two consulting agreements with Entourage in exchange for cash compensation. Pursuant to the terms of the first consulting agreement with Entourage, Mr. Hawkins agreed to provide management services as Interim CEO of the Company. Pursuant to the terms of the second consulting agreement with Entourage, Entourage agreed to provide business and executive management services related to the Company's retail, wholesale and manufacturing operations. As at December 31, 2022, a total of $45,000 was payable to Entourage, of which $nil was related to Mr. Hawkins' services as Interim CEO described in section (a) above.

## 29. Related Party Transactions and Key Management and Director Compensation (continued)

### (c) Other Related Parties (continued)

An immediate family member of Mr. Senn is employed by the Company. Short term employee benefits including salary expense was $88,427 for the year ended December 31, 2022. As at December 31, 2022, a total of $94,087 was payable for deferred compensation.

Lafayette Street Property Management LLC leases a building in Stockton, California in which an officer of the Company owns a 45% interest in the entity that owns the building. The Company paid $120,000 during the year ended December 31, 2022 for rent expense.

UL La Mesa LLC leases a building in La Mesa, California in which an immediate family member of an officer of the Company owns a 36.25% interest in the entity that owns the building. The Company paid $130,000 during the year ended December 31, 2022 for rent expense.

ULBP Inc. leases a building in La Mesa, California in which an officer of the Company owns a 50% interest in the entity that owns the building. The Company paid $63,469 during the year ended December 31, 2022 for rent expense.

## 30. Commitments and Contingencies

From time to time, the Company may become defendants in legal actions and the Company intends to take appropriate action with respect to any such legal actions, including defending itself against such legal claims as necessary. As the Company continues to operate, it may become party to additional litigation matters and claims. The outcomes of litigation and claims cannot be predicted with certainty, and the resolution of any future matters could materially affect the Company's financial position, results of operations or cash flows.

*IRC §280E*

Many of the central issues relating to the interpretation of IRC §280E remain unsettled and there are critical tax accounting issues regarding the allocation of expenses to the cost of goods sold (thus avoiding disallowance as deductions under IRC §280E) that have never been addressed by any Treasury regulation or court case. IFRIC 23 provides guidance that adds to the requirements in IAS 12, *Income Taxes*, by specifying how to reflect the effects of uncertainty in accounting for income taxes. The Company evaluated its uncertain tax treatments using a probability-weighted approach to assess the range of possible outcomes as required in its adoption of IFRIC 23 and, although it strongly disagrees with the findings of the IRS and the U.S. Tax Court, determined that a reserve for an uncertain tax position should be recorded.

On February 17, 2021, the U.S. Tax Court ruled in favor of the Commissioner of Internal Revenue with respect to SJW to disallow all of SJW's deductions pursuant to IRC §280E for all the years at issue. On May 14, 2021, the Company appealed the U.S. Tax Court ruling. In an effort to resolve the matter as part of a global settlement, the Company withdrew its appeal.

On June 28, 2022, the Company entered into the IRS Agreement related to certain federal tax returns of PMACC (Note 20).

**30. Commitments and Contingencies (continued)**

*Michael Adams, Andrew Coleman, and Other Individuals Similarly Situated v. Patients Mutual Assistance Collective Corp dba Harborside Health et al.*

On or about January 10, 2020, PMACC was served with a complaint filed by plaintiff and putative class representative Mr. Michael Adams. The complaint, filed on January 7, 2020 in Superior Court of the State of California for Alameda County, alleges violations of the California Business and Professions Code §17200 with respect to PMACC's employee wage payment practices, and seeks class certification with respect to a group of individual plaintiffs alleged to be similarly situated to Mr. Adams. At a May 4, 2021 mediation, the parties did not reach a settlement agreement, however, the parties agreed to continue discovery. On March 4, 2022, PMACC received a notice pursuant to the Labor Code Private Attorneys General Act ("PAGA") from former employee Andrew Coleman, a similar claim to Mr. Adams. Both matters have been assigned to counsel. It is the intent of the Company to prevail or settle the matter, however, given the fact that this matter is in the motions and discovery phase, it is not possible to determine or predict the scope of any resolution at this time.

*Gia Calhoun and Other Individuals Similarly Situated v. FLRish, Inc.*

On January 6, 2020, the Company's subsidiary FLRish, Inc. was served with a complaint filed by plaintiff and putative class representative Ms. Gia Calhoun. The complaint, filed on December 17, 2019 in the U.S. Federal District Court for the Northern District of California, alleges violations of the Telephone Consumer Protection Act (47 USC §227 et seq.) and sought class certification with respect to a group of individual plaintiffs alleged to be similarly situated to Ms. Calhoun. On December 9, 2022, the Company agreed to a settlement to resolve the matter. Settlement payments begin on February 1, 2023. The Company has accrued the settlement as part of accounts payable and accrued liabilities in the accompanying Consolidated Statements of Financial Position.

*John Doe and Other Individuals Similarly Situated v. FLRish, Inc.*

On December 13, 2021, the Company received a summons and complaint filed in the Alameda Superior Court by a John Doe plaintiff, alleging a violation of the California Confidentiality of Medical Information Act and two violations of the California Business & Professions Code by PMACC, FLRish and FLRish RMCo. On December 9, 2022, the Company agreed to a settlement to resolve the matter. Settlement payments begin on February 1, 2023. The Company has accrued the settlement as part of accounts payable and accrued liabilities in the accompanying Consolidated Statements of Financial Position.

*Sublime Concentrates, Inc. v. Sublime Machining, Inc.*

On September 18, 2018, Sublime Machining, Inc. entered into a trademark assignment agreement with Sublime Concentrates, Inc. (the "Counterparty") for use of certain trademarks. The Counterparty filed suit against Sublime Machining, Inc. alleging breach of contract regarding the nonpayment for the transfer of the trademark assets. Subsequent to year-end, the Company entered into the Fang Settlement Agreement, which calls for certain cash payments to be made to the Company in exchange for the release of any claims (Note 9 and 34).

*Alexander Fang v. Sublime Machining, Inc.*

On August 27, 2021, the Company was served with a Demand for Arbitration by Mr. Alexander Fang, a former employee and founder of Sublime Machining, Inc. The Company filed its counterclaim alleging breach of fiduciary duty and fraudulent misrepresentation. Subsequent to year-end, the Company entered into the Fang Settlement Agreement, which calls for certain cash payments to be made to the Company in exchange for the release of any claims (Note 9 and 34).

**30. Commitments and Contingencies (continued)**

*Tony Banks, individually and on behalf of the aggrieved employees pursuant to the Private Attorneys General Act v. Sublime Machining, Inc. dba Sublime Canna*

On November 3, 2021, the Company received a summons and complaint filed in the Alameda Superior Court on behalf of Sublime. The plaintiff, Tony Banks, a former employee of the Company, filed a complaint alleging wage and hour violations on behalf of himself and all aggrieved employees pursuant to PAGA. It is the intent of the Company to prevail or settle the matter, however, given the fact that this matter is in the discovery phase, it is not possible to determine or predict the scope of any resolution at this time.

*Lilu Financials LLC v. UL Holdings Inc., UL Management LLC and Will Senn*

On September 24, 2021, Urbn Leaf received a summons and compliant alleging violations of the contract between the parties, under which Lilu Financials, LLC ("Lilu") and its principal, Roopal Patel, performed CFO services for the Company. This matter is in the discovery phase, which is stayed by order of the court pending a ruling on a motion for Lilu to post an undertaking pursuant to the Code of Civil Procedure. Lilu has filed a motion to amend the complaint. The matter remains in discovery. It is the intent of the Company to prevail in this matter, however, it is not possible to determine or predict the scope of any resolution at this time.

*Jeffery Stillwell v. 680 Broadway Master, LLC*

On December 23, 2021, Urbn Leaf received a summons and complaint filed by the Company's former employee Jeffery Stillwell ("Stillwell") in Monterey County Superior Court alleging certain violations of labor and employment law. 680 Broadway Master LLC entered into a stipulation with Stillwell to refer the matter to binding arbitration. On September 21, 2021, Stillwell refiled the matter in arbitration. Subsequent to year-end, mediation was held and the parties agreed to settle the matter. As at December 31, 2022, the Company had accrued the settlement as part of accounts payable and accrued liabilities in the accompanying Consolidated Statements of Financial Position.

*Bubba Likes Tortillas, LLC v. New Origins Management, Inc., San Diego Alternative Treatment Center Cooperative d.b.a. Southwest Patient Group, Wayne Alexander Scherer, Rezwan H. Kwan*

In 2021, Urbn Leaf received a summons and complaint filed by Bubba Likes Tortillas, LLC alleging violations of the contract between the parties. Southwest Patient Group changed its name to Uprooted Inc. and was subsequently acquired by Urbn Leaf. These claims occurred prior to Urbn Leaf acquiring Uprooted Inc. It is the intent of the Company to prevail or settle this matter, however, it is not possible to determine or predict the scope of any resolution at this time.

*Jeffery Rivera and Natasha Heacock on behalf of the State of California as Private Attorney Generals v. ULBP Inc. et al*

On April 19, 2022, former employees of Urbn Leaf filed a Representative Action Claim in Superior Court, County of Santa Clara, against ULBP Inc. ("ULBP"), a subsidiary of Urbn Leaf and other parties. The complaint alleges a violation of PAGA by ULBP and the former employees are seeking an award of attorneys' fees and costs. It is the intent of the Company to prevail or settle this matter, however, it is not possible to determine or predict the scope of any resolution at this time.

*Joshua Bubeck v. StateHouse Holdings Inc., Harborside Inc., UL Management LLC, UL Holdings Inc., Edward Schmults, and Will Senn*

On August 25, 2022, the Company received a complaint on behalf of a former executive and Urbn Leaf co-founder, Joshua Bubeck. The complaint alleges various wage and hour claims, as well as breach of contract. This matter has been referred to the Company's insurance carrier and counsel. It is the intent of the Company to prevail or settle the matter, however, it is not possible to determine or predict the scope of any resolution at this time.

**30. Commitments and Contingencies (continued)**

*Denise M. Harbison v. Twyla Williams; and Uprooted, Inc.*

On or about September 9, 2022, the Company received a complaint that was filed August 26, 2022 related to a vehicle accident. The complaint alleges two claims: negligence, and negligence per se. This matter has been tendered to the Company's insurance provider. It is the intent of the Company to prevail or settle the matter, however, it is not possible to determine or predict the scope of any resolution at this time.

*Norguard Insurance Company v. Calgen Trading, Inc. dba Urbn Leaf and 909 West Vista Way LLC*

On September 15, 2022, the Company received a complaint alleging that one of the Company's contracted security guards was injured on the job in May of 2020. The plaintiff, who is the worker's compensation insurance carrier for the contracted security company, is seeking compensatory damages in connection with this complaint. This matter has been referred to the Company's insurance carrier. It is the intent of the Company to prevail or settle the matter, however, it is not possible to determine or predict the scope of any resolution at this time.

*Global Alliance for Cannabis Commerce v. UL Holdings Inc.*

On December 30, 2022, the Company received a summons and compliant from the Global Alliance for Cannabis Commerce alleging breach of contract and accounts stated. Subsequent to year-end, the Company entered into the GACC settlement, which calls for certain cash payments to be made to the Company in exchange for the release of any claims (Note 34).

*Martin Jauregui and Other Individuals Similarly Situated v. LPF RE Manager, LLC*

In October 2019, Loudpack received a summons regarding wage and hour claims related to Loudpack's security screening procedures. The parties have executed a class action settlement agreement and have agreed to a maximum settlement amount. The settlement payments in connection with such settlement agreement must be paid over biweekly payments starting 30 days after final approval from the court is obtained, which is expected to be in late 2023. On June 29, 2022, the court granted preliminary approval of the settlement. The settlement is now moving into the claims administration process. The Company has accrued the settlement as part of accounts payable and accrued liabilities in the accompanying Consolidated Statements of Financial Position.

*Maria Adan on behalf of herself and all other similarly situated v. LPF RE Manager, LLC*

In October of 2020, LPF RE Manager, LLC received a summons alleging a second wage and hour claim related to Loudpack's security screening procedures. The parties executed a class action settlement agreement and on June 29, 2022, the trial court granted preliminary approval of the class and PAGA settlement. The settlement is now moving into the claims administration process. It is the intent of the Company to prevail or settle this matter, however, it is not possible to determine or predict the scope of any resolution at this time.

*Jose Zamudio and Sandra Gasca v. LPF RE Manager, LLC et al*

In February 2020, LPF RE Manager, LLC was served with a summons for a third wage and hour claim related to Loudpack's security screening procedures. This case is currently stayed pending the outcome of the two above mentioned wage and hour cases related to Loudpack's security screenings. It is the intent of the Company to prevail or settle the matter, however, it is not possible to determine or predict the scope of any resolution at this time.

**30. Commitments and Contingencies (continued)**

*Abigail O'Flaherty v. Greenfield Prop Owner II, LLC and Greenfield Organix*

In September 2020, Greenfield Prop Owner II, LLC received a complaint alleging personal injury damages arising from a car accident on May 24, 2019 involving a Company owned vehicle. Loudpack tendered a claim with its insurance provider and is being defended by panel counsel retained through such insurance provider. Discovery is ongoing. It is the intent of the Company to prevail or settle the matter, however, it is not possible to determine or predict the scope of any resolution at this time.

*Gregory Bannon v. Steven Swanson; Greenfield Prop Owner II, LLC*

On November 23, 2021, Loudpack was served a complaint alleging personal injury and property damage. On July 18, 2022, plaintiff's counsel sent a statutory offer to compromise, and the parties are in process of negotiating a settlement amount. The Company was notified that the matter was settled as of September 19, 2022. The court had scheduled a Compliance Hearing regarding Dismissal for December 12, 2022. The compliance hearing was subsequently moved to March 9, 2023 and was continued by the court until May 16, 2023.

*Elliot Espinoza v. Loud Pack Farms, Loudpack Inc., Loud Pack Legendx LLC, Loud Pack Legendz Inc., Greenfield Organix*

In September 2021, Loudpack was served with a complaint for compensatory damages alleging claims for product liability, misrepresentation and negligence. This matter is in discovery. It is the intent of the Company to prevail or settle the matter, however, it is not possible to determine or predict the scope of any resolution at this time.

*Robby Castillo Ordonez and Jessica Carolina Hernandez Rodriguez de Castillo v. Holistic Healing Alternative, Inc., LP-KP IP Holdings, LLC and Greenfield Organix*

On July 25, 2022, the Company was served with a summons and complaint alleging a breach of statutory obligation, negligent exercise of retained control, premises liability, civil harassment, Bane civil rights act and loss of consortium. The Company denies any direct or indirect involvement with the plaintiff's claims, or any potential liability in this matter. This matter has been referred to the Company's external counsel and insurance carrier. It is the intent of the Company to prevail or settle the matter, however, it is not possible to determine or predict the scope of any resolution at this time.

*Monterey County Office of the Assessor v. Greenfield Prop Owner II, LLC*

On or about October 4, 2021, Loudpack received a letter from the Monterey County Office of the Assessor regarding an appeal of supplemental assessments due to an increased assessed value for the Company's Cherry Avenue property in Greenfield. This matter has been referred to the Company's external counsel. It is the intent of the Company to prevail or settle the matter, however, it is not possible to determine or predict the scope of any resolution at this time.

*Fusion LLF, LLC v. StateHouse Holdings Inc., formerly known as Harborside Inc.; Greenfield Organix; and ULBP Inc.*

On or about August 26, 2022, the Company received a demand letter from Fusion LLF, LLC regarding a receivable for entities Greenfield Organix and Humboldt Partner Group, Inc. The letter demands immediate payment for a past due balance. Subsequent to year-end, the Company received a summons and complaint from Fusions LLF, LLC alleging breach of contract, account stated and right to attach order and writ of attachment regarding an unpaid balance. It is the intent of the Company to prevail or settle the matter, however, it is not possible to determine or predict the scope of any resolution at this time.

**30. Commitments and Contingencies (continued)**

*Rocky Willeford, individually and on behalf of all others similarly situated v. Greenfield Organix and LPF JV Corporation*

On November 2, 2022, the Company received a summons and complaint alleging that Greenfield Organix and LPF JV Corporation had mislabeled product and that a claimant is seeking damages. It is the intent of the Company to prevail or settle the matter, however, it is not possible to determine or predict the scope of any resolution at this time.

*Employment Agreements*

Certain of the Company's employees have employment agreements under which the Company is obligated to make severance payments, accelerate vesting of stock options and provide other benefits in the event of the employee's termination, change in role or a change in control as defined in such agreements.

**31. Capital Management**

The Company's objectives when managing its capital are to ensure that there are adequate capital resources to safeguard the Company's ability to continue as a going concern, meet capital expenditures required for its continued operations, and to maintain a flexible capital structure which optimizes the cost of capital within a framework of acceptable risk. The Company manages its capital structure and adjusts it as appropriate given changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust its capital structure, the Company may issue new shares, issue new debt or acquire or dispose of assets. With the exception of certain restrictive covenants included in the Carryover Notes, Senior Secured Debt and Term Loan (Note 15 and 17), the Company is not subject to externally imposed capital requirements. The Board does not establish quantitative criteria related to a return on capital for management, but rather relies on the management team's expertise to sustain future development of the business.

Management has chosen to mitigate the risk and uncertainty associated with raising additional capital within current economic conditions by:

(i) minimizing discretionary disbursements;

(ii) reducing operating expenditures throughout the Company; and

(iii) exploring alternative sources of liquidity.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable. There have been no material changes to the Company's capital management approach during the years ended December 31, 2022 and 2021.

**32. Financial Risk Management**

The Company is exposed to a variety of financial instrument related risks. Management, in conjunction with the Board, mitigates these risks by assessing, monitoring and approving the Company's risk management processes.

**(a) Liquidity Risk**

Liquidity risk is the risk that the Company will not have sufficient cash resources to meet its financial obligations as they become due. The Company manages its liquidity risk by reviewing its capital requirements on an ongoing basis. The Company's liquidity and operating results may be adversely affected if the Company's access to capital markets is hindered, whether as the result of a downturn in stock market conditions generally or related to matters specific to the Company. The Company generates cash flow primarily from its operating and financing activities.

## 32. Financial Risk Management (continued)

### (a) Liquidity Risk (continued)

As at December 31, 2022 and 2021, the Company had a cash and restricted cash balance of $3,419,112 and $9,091,405, respectively, to settle current liabilities of $129,228,303 and $70,614,682, respectively. The higher amount of current liabilities as at December 31, 2022 is primarily due to debt assumed as part of the Urbn Leaf Acquisition and Loudpack Acquisition (Note 3 and 15) and the Company's excise, cultivation and property tax liabilities (Note 18).

In addition to the commitments outlined in Note 12, *Right-of-use Assets and Lease Liabilities*, and Note 30, *Commitments and Contingencies*, the Company has the following contractual obligations as at December 31, 2022:

| | Less than 1 Year | 1 to 3 Years | 4 to 5 Years | > 5 Years | Total |
|---|---|---|---|---|---|
| Accounts payable and accrued liabilities | $ 44,411,826 | $ - | $ - | $ - | $ 44,411,826 |
| Notes payable | 8,577,312 | 27,163,699 | 100,000 | 40,000 | 35,881,011 |
| Excise, cultivation and property tax liabilities | 24,717,641 | 1,080,227 | - | - | 25,797,868 |
| IRS Agreement | 600,000 | 1,800,000 | 1,200,000 | 1,350,000 | 4,950,000 |
| Term Loan | - | 5,797,500 | 5,362,688 | 66,139,812 | 77,300,000 |
| | $ 78,306,779 | $ 35,841,426 | $ 6,662,688 | $ 67,529,812 | $ 188,340,705 |

The Company manages liquidity risk by maintaining adequate cash reserves and by continuously monitoring forecasted and actual cash flows. If insufficient liquidity exists, the Company may pursue various debt and equity instruments for either short or long-term financing of its operations.

### (b) Credit Risk

Credit risk is the risk of potential loss to the Company if a customer or third party to a financial instrument fails to meet its contractual obligations. The Company's credit risk is primarily attributable to cash, accounts receivable, and investments and advances, which expose the Company to credit risk should the borrower default upon maturity of the instruments. Cash and restricted cash are primarily held with reputable banks, and at secure facilities controlled by the Company. Management believes that the credit risk concentration with respect to financial instruments included in cash, restricted cash and accounts receivable is minimal.

### (c) Market Risk

*(i) Interest Rate Risk*

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company is exposed to interest rate volatility as certain of its notes payable have variable interest rates (Note 15).

*(ii) Foreign Exchange Risk*

Foreign exchange risk is the risk that the Company will be subject to foreign currency fluctuations in satisfying obligations related to its foreign activities. The Company's main operations are based in the U.S., and the majority of its business is transacted in U.S. Dollars. The Company's primary exposure to foreign exchange risk and rate fluctuations relates to bank deposits held in Canada and transactions denominated in Canadian dollars.

**32. Financial Risk Management (continued)**

**(c) Market Risk (continued)**

*(iii) Equity Price Risk*

The Company is exposed to price risk with respect to equity prices. Equity price risk is defined as the potential adverse impact on the Company's earnings due to movements in individual equity prices or general movements in the level of the stock market or the cannabis sub-market. The Company's investments are subject to fluctuations in fair value arising from changes in the equity markets.

**(d) Asset Forfeiture Risk**

As the cannabis industry remains illegal under U.S. federal law, any property owned by participants in the cannabis industry which is used in the course of conducting such business, or is derived from the proceeds of such business, could be subject to seizure by law enforcement and subsequent civil asset forfeiture. Even if the owner of the property were never charged with a crime, the property in question could still be seized and subject to an administrative proceeding by which, with minimal due process, it could be subject to forfeiture.

**(e) Banking Risk**

Notwithstanding that a majority of states in the United States have legalized cannabis for either adult or medical use, and the passage of the SAFE Banking Act by the U.S. House of Representatives, there has been no change in U.S. federal banking laws related to the deposit and holding of funds derived from activities related to the cannabis industry. Given that U.S. federal law provides that the production and possession of cannabis is illegal under the Controlled Substances Act, there is a valid argument that banks cannot accept funds for deposit from businesses involved in the cannabis industry.

Accordingly, due to the present state of the laws and regulations governing financial institutions in the U.S., only a small percentage of banks and credit unions offer financial services to the cannabis industry. Although the Company has strong relationships with several banking partners, regulatory restrictions make it extremely difficult for any cannabis company to maintain or enter into banking relationships with U.S. federally regulated entities. Additionally, U.S. federal prohibitions on the sale of cannabis may result in cannabis manufacturers and retailers being restricted from accessing the U.S. banking system and they may be unable to deposit funds in federally chartered banking institutions. While the Company does not anticipate material impacts from dealing with banking restrictions, additional banking restrictions could nevertheless be imposed that would result in existing deposit accounts being closed and/or the inability to make further bank deposits. The inability to open bank accounts would make it more difficult for the Company to operate and would substantially increase operating costs and risk.

**33. Segmented Information**

The Company's operations comprise one reportable segment comprised of multiple operating segments engaged in the cultivation, branding, manufacturing, wholesale distribution and retail sale of cannabis and cannabis products within the U.S. All revenues were generated in the United States for the years ended December 31, 2022 and 2021 and all property, plant and equipment and intangible assets are located in the United States.

## 34. Subsequent Events

The Company has evaluated subsequent events through May 4, 2023.

*Gia Calhoun, individually and on behalf of all others similarly situated v. FLRish, Inc.*

On January 6, 2020, FLRish, Inc. ("FLRish") was served with a complaint filed by plaintiff and putative class representative Ms. Gia Calhoun. The complaint, filed on December 17, 2019 in the U.S. Federal District Court for the Northern District of California, alleges violations of the Telephone Consumer Protection Act (47 USC §227 et seq.) ("TCPA") and sought class certification with respect to a group of individual plaintiffs alleged to be similarly situated to Ms. Calhoun. On December 9, 2022, the parties agreed to resolve this matter and the matter of John Doe v. FLRish Inc. The parties executed a settlement agreement on January 31, 2023.

*New dispensary*

On January 9, 2023, the Company opened a dispensary under the Urbn Leaf brand in West Hollywood, California ("Urbn Leaf WeHo"). The Company will operate Urbn Leaf WeHo pursuant to the terms of a management service agreement between UL Management LLC and PDLP JV, LLC (the "Urbn Leaf WeHo Service Agreement"). The Urbn Leaf WeHo Service Agreement has an initial term of five years, and is subject to three automatic renewals of five years for a total period of 20 years.

*Customer Loyalty Program TOPS*

On January 26, 2023, the Company announced a new customer loyalty program (the "TOPS Program"). The TOPS Program, which replaced the Company's previous loyalty rewards program offered at its Urbn Leaf-branded retail dispensaries, is available to customers of the Company's retail dispensaries in California.

*Senior Secured Debt Extensions*

On January 26, 2023, the Company entered into an agreement to extend the maturity date of the Senior Secured Debt to February 28, 2023. On February 28, 2023, the Company entered into an agreement to further extend the maturity date of the Senior Secured Debt to April 20, 2023. On April 20, 2023, the Company entered into the fourth omnibus amendment of the loan agreement to further extend the maturity date of the Senior Secured Debt to May 22, 2023 (Note 15). The Company continues to engage in discussions related to potential future financing options.

*Subsequent FGW Agreement*

On February 15, 2023, the Company received regulatory approvals for the Subsequent Shares under the Subsequent FGW Agreement (Note 7). The Company intends to convert the FGW Note in accordance with its terms and acquire the Subsequent Shares in FGW during the second quarter of 2023.

*Alexander Fang v. Sublime Machining, Inc. and Sublime Concentrates, Inc. v. Sublime Machining Inc. Settlement Agreement*

On February 23, 2023, the Company entered into the Fang Settlement Agreement. Pursuant to the terms of the Fang Settlement Agreement, Mr. Fang is required to make certain cash payments to the Company in exchange for the release of any claims against Mr. Fang (Note 9 and 30).

**34. Subsequent Events (continued)**

*Membership Assignment*

On March 13, 2023, the Company entered into the Lafayette Membership Assignment. Pursuant to the Lafayette Membership Assignment, the Company will assign its 90% interest in Lafayette back to the existing partners and make a $120,000 payment for back rent owed on the property in exchange for satisfaction of the Lafayette Note (Note 13, 15 and 27).

*Global Alliance for Cannabis Commerce v. UL Holdings Inc. Settlement*

On March 23, 2023, the Company entered into a settlement agreement, pursuant to which the Company agreed to make settlement payments over time.

*Employee Retention Credit ("ERC")*

Subsequent to year-end, the Company received approximately $5,300,000 of ERC funds through the Coronavirus Aid, Relief and Economic Security ("CARES") Act. The ERC was established to provide eligible employers with a credit against certain employment taxes for qualified wages paid to employees who were retained during the COVID-19 pandemic. The ERC program requires the Company to comply with certain conditions, including maintaining certain levels of employment and not reducing wages of certain employees.