LEEF BRANDS INC.
(FORMERLY ICANIC BRANDS COMPANY INC.)

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

(Expressed in United States Dollars)

MGO.
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Shareholders of
Leef Brands Inc.

Opinion

We have audited the consolidated financial statements of Leef Brands Inc. (Formerly Icanic Brands Company, Inc.) (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2022 and 2021, and the statements of loss and comprehensive loss, changes in shareholders' equity 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 financial position of the Company as at December 31, 2022 and 2021, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Basis for Opinion

We conducted our audits in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audits of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

The accompanying consolidated financial statements have been prepared assuming that the entity will continue as a going concern. As discussed in Note 2 to the financial statements, the entity has suffered recurring losses from operations that raise substantial doubt about its ability to continue as a going concern. Management's plans regarding these matters are also described in Note 2. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified in respect of this matter.

Key Audit Matters (KAM)

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

- Leef Holdings, Inc. Reverse Merger and Acquisition Related Assets and Contingent Consideration (Note 4)

  - Key audit matter:

    - On April 20, 2022, the Company acquired all of the common stock of LEEF Holdings, Inc. ("LEEF") pursuant to a merger agreement. Pursuant to the terms of the merger agreement, former LEEF shareholders will also be entitled to receive contingent earn-out payments (the "Earn-Out Payments"). The purchase price was allocated to the assets acquired and liabilities assumed based on their respective fair values, including a trade name intangible asset and other contingent consideration liabilities (the "Other Liabilities"). Management estimated the fair value of the intangible asset using a variation of a discounted cash flow approach. To estimate fair value, management is required to make estimates, and assumptions on the discount rate, rate of future revenue growth and profitability of the acquired business and working capital effects. Also, the Company's Earn-Out Payments and Other Liabilities have fair values based on complex models and unobservable inputs. Under international financial reporting standards, these liabilities are generally classified as Level 3 liabilities and are marked to fair value on a recurring basis.
    - Given the fair value determination of the intangible asset acquired, this required management to make significant estimates and assumptions related to the determination of the rate of future revenue growth and the discount rate. Performing audit procedures to evaluate the reasonableness of these estimates and assumptions requires a high degree of auditor judgment and an increased extent of audit effort, including the need to involve fair value specialists who possess significant quantitative and modeling expertise to audit and evaluate the appropriateness of the valuation model and inputs.
    - Unlike the fair value of other assets and liabilities that are readily observable, and therefore, more easily independently corroborated, the valuation of Level 3 liabilities is inherently subjective, and often involves the use of complex models and unobservable inputs. The Earn-Out Payments are valued using a Monte Carlo simulation that randomly changes revenue growth and other uncertain variables to estimate fair value using a discount rate. The Other Liabilities are valued using a probability weighted discounted cash flow model and the Company's estimated weighted-average cost of capital. We identified these Level 3 liabilities as a key audit matter because of the complex models and unobservable inputs management uses to estimate fair value. This requires a high degree of auditor judgment and an increased extent of effort, including the need to involve our fair value specialists who possess significant quantitative and modeling expertise to audit and evaluate the appropriateness of the models and inputs.

  - How we addressed the key audit matter in our audit:

    - Our audit procedures related to the determination of the rate of future revenue growth and the discount rate used to determine the fair value of the intangible asset acquired included the following, among others:
    - Assessed the reasonableness of the rate of future revenue growth by comparing the projections to historical results and certain peer companies.
    - Evaluated whether the rate of future revenue growth was consistent with evidence obtained in other areas of the audit.
    - With the assistance of our fair value specialists, we evaluated the reasonableness of the discount rate by testing the source information underlying the determination of the discount rate and testing the mathematical accuracy of the calculation, and by developing a range of independent estimates and comparing those to the discount rate selected by management.
    - Our audit procedures related to the complex models and unobservable inputs used by management to estimate the fair value of the Level 3 liabilities included the following, among others:

- Obtained an understanding of the Company's controls over management's valuation of Level 3 liabilities, including those related to the complex models and the significant inputs that are not readily observable.
- Evaluated management's ability to accurately estimate fair value by comparing management's historical estimates to subsequent results, taking into account changes in market conditions.
- Compared management's assumptions to external sources. These assumptions include the discount rates and future revenue growth used in the valuation models.
- With the assistance of our fair value specialists, developed independent fair value estimates and compared our results to the Company's estimates.

- Valuation of Goodwill and Trade Name and Impairment Assessment (Notes 8 and 9)

  - Key audit matter:

    - As of December 31, 2022, the Company has a goodwill balance of $0 and intangible assets valued at $29,300,000 related to cannabis operating subsidiaries. The Company performs impairment testing on an annual basis or whenever events or changes in circumstances indicate that the carrying value of a cash generating unit might exceed its recoverable amount, which is determined using the fair value less costs of disposal method. The significant assumptions were determined to be estimated sales volumes, selling prices, operating costs and discount rates. In connection with its impairment assessment during the year ended December 31, 2022, the Company recorded a loss on impairment of intangibles and goodwill of approximately $12,567,000.
    - We identified the assessment of the fair value of goodwill and the trade name as a key audit matter because of the high degree of auditor judgment required to evaluate the significant assumptions used in determining the recoverable amount, which required the use of professionals with specialized skills and knowledge. The sensitivity of reasonably possible changes to those assumptions could have a significant impact on the determination of the recoverable amount of the cash generating unit and the Company's assessment of impairment.

  - How we addressed the key audit matter in our audit:

    - Addressing the matter involved performing procedures and evaluating audit evidence in connection with forming our overall opinion on the consolidated financial statements. Our audit procedures related to the valuation of goodwill and impairment assessment included the following, among others:
    - Compared the Company's historical forecasts to actual results to assess the Company's ability to accurately estimate sales volumes, selling prices and operating costs.
    - Evaluated the reasonableness of the Company's estimated sales volumes used in estimating the fair value, by comparing the estimated sales volumes to historical actual results of the Company, planned business initiatives, and external industry reports.
    - Tested the estimated selling prices by comparing to actual sales prices realized in the fourth quarter and subsequent to year-end.
    - Assessed the reasonableness of operating costs by comparing the fourth quarter actual operating costs to the forecasted operating costs.
    - With the assistance of our fair value specialists, we evaluated the reasonableness of the discount rates used in the impairment analysis by comparing them to discount rate ranges that were independently developed using publicly available market data for comparable entities, and performing sensitivity analyses over the discount rates to assess their impact on the determination of fair value.

- Fair Value of Derivative Liability (Note 11)

  - Key audit matter:

- As of December 31, 2022, the Company has a derivative liability balance of approximately $1,555,000 and recorded a loss from change in fair value of derivative liabilities of approximately $707,000 during the year ended December 31, 2022. The derivative liability activity comes from convertible notes payable. The Company analyzed the conversion features and warrants of the various note agreements for derivative accounting consideration and determined that the embedded conversion features should be classified as a derivative because the debt instruments are denominated in a currency other than the functional currency of the Company.
- The Company has determined that while the convertible notes payable are denominated in the functional currency of the Company (U.S. Dollars), the conversion ratio (C$0.10 per unit) is denominated in Canadian dollars. Consequently, the conversion feature triggered this requirement and should be measured at its fair value with changes in fair value included in profit or loss. Thus, the Company has bifurcated the conversion feature of the notes and recorded a derivative liability.
- Auditing the Company's valuation of the derivative liability is challenging as the Company uses complex valuation methodologies (discounted cash flow with Monte Carlo simulation) that incorporate significant assumptions which include the discount rate and forecasted volatility of the Company's common stock price. The valuation includes assumptions about economic and market conditions with uncertain future outcomes. Performing audit procedures to evaluate the reasonableness of these estimates and assumptions requires a high degree of auditor judgment and an increased extent of audit effort, including the need to involve fair value specialists who possess significant quantitative and modeling expertise to audit and evaluate the appropriateness of the valuation model and inputs.

o How we addressed the key audit matter in our audit:

- Addressing the matter involved performing procedures and evaluating audit evidence in connection with forming our overall opinion on the consolidated financial statements. Our audit procedures related to the fair value of derivative liability included the following, among others:
- Obtained an understanding of the Company's controls relating to the valuation of the derivative liability, such as management's review of the valuation models, the underlying assumptions used in the model and the related accounting conclusions.
- Evaluated the methodologies used in the valuation model and testing the significant assumptions. For example, we compared the discount rate that was adjusted for the Company's credit risk to the interest rates on comparable debt instruments, and we compared the forecasted volatility of the Company's common stock price to its historical volatility.
- Assessed the completeness and accuracy of the underlying data.
- With the assistance of our fair value specialists, we developed independent fair value estimates and compared our results to the Company's estimates.

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

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

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements. As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

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

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on Other Legal and Regulatory Requirements

The engagement partner on the audit resulting in this independent auditor's report is Simon Dufour, CPA.

MACIAS GINI & O'CONNELL LLP
Irvine, California
May 1, 2023

LEEF BRANDS INC. (FORMERLY ICANIC BRANDS COMPANY INC.)
Consolidated Statements of Financial Position
(Expressed in United States Dollars)

		December 31, 2022	December 31, 2021
Assets			
Current assets:			
Cash		$ 3,305,760	$ 7,513,371
Accounts receivable, net		3,095,841	1,841,421
Inventory	*Note 6*	2,981,938	2,824,532
Prepaid expenses and deposits		833,545	472,863
Acquisition deposit	*Note 7*	1,445,483	-
Deferred costs and other current assets		148,771	726,821
Total current assets		11,811,338	13,379,008
Non-Current Assets:			
Property and equipment, net	*Note 5*	20,035,223	16,693,849
Intangible assets, net	*Note 9*	29,300,000	-
Other assets		779,715	311,017
Total non-current assets		50,114,939	17,004,866
Total Assets		**$ 61,926,276**	**$ 30,383,874**
Liabilities and Shareholders' Equity			
Current liabilities:			
Accounts payable and other accrued liabilities	*Note 10*	$ 3,966,528	$ 2,086,750
Stock subscription payable		-	1,195,356
Related party payables	*Note 17*	167,735	456,075
Current portion of convertible debentures, net of discount	*Note 13*	-	12,666,268
Current portion of notes payable	*Note 12*	43,775	40,571
Lease liabilities, short term	*Note 14*	335,848	82,840
Current portion of finance lease liability, net of discount	*Note 14*	373,070	509,767
Tax payable		5,578,823	2,784,886
Deferred revenue		-	80,589
Total current liabilities		10,465,780	19,903,102
Non-Current Liabilities:			
Lease liabilities, net of current portion	*Note 14*	3,093,110	824,583
Finance lease liability, net of current and discount	*Note 14*	-	373,070
Notes payable, net of current	*Note 12*	505,172	53,888
Derivative liabilities, long term	*Note 11*	1,555,037	2,513,681
Deferred tax liability	*Note 23*	8,764,120	-
Contingent consideration	*Note 15*	3,255,000	-
Convertible debentures, net of current and discount	*Note 13*	6,555,633	-
Total non-current liabilities		23,728,072	3,765,222
Total Liabilities		**34,193,852**	**23,668,324**
Shareholders' Equity:			
Common share capital		58,137	55,410
Contributed surplus		86,350,523	36,243,885
Accumulated other comprehensive loss		(168,889)	-
Accumulated deficit		(62,299,525)	(34,644,658)
Total equity attributable to shareholders' of Leef Brands Inc.		23,940,246	1,654,637
Non-controlling interest		3,792,178	5,060,913
Total Shareholders' Equity		**27,732,424**	**6,715,550**
Total Liabilities and Shareholders' Equity		**$ 61,926,276**	**$ 30,383,874**

Approved on behalf of the board of directors on May 1, 2023

"Micah Anderson, Director"

"Emily Heitman, Director"

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

LEEF BRANDS INC. (FORMERLY ICANIC BRANDS COMPANY INC.)
Consolidated Statements of Loss and Comprehensive Loss
(Expressed in United States Dollars)

	Years ended	
	December 31, 2022	December 31, 2021
Net revenue	$ 27,003,157	$ 33,457,025
Cost of sales	17,449,072	25,042,714
Gross profit	9,554,085	8,414,311
Operating expenses:		
Advertising and promotion	864,770	265,286
Depreciation	1,896,314	1,501,827
Wages and salaries	12,290,342	5,222,932
Office and general expenses	2,836,456	1,799,997
Research and development expenses	1,837,835	279,891
Legal and professional fees	3,838,399	1,038,378
Insurance expenses	694,880	500,026
Excise and other taxes	76,725	132,801
Lease expenses	177,055	155,676
Loss on impairment of goodwill, intangibles and long-lived assets	13,389,650	-
Other gains/losses	859,516	-
Travel and business development	570,723	271,207
Total operating expenses	39,332,664	11,168,021
Loss from operations	(29,778,579)	(2,753,710)
Other expense:		
Interest expenses	4,466,057	3,977,187
Change in fair value of contingent consideration	(2,058,615)	-
Change in fair value of derivative liability	706,808	(215,291)
Gain on Extinguishment of Convertible Debentures	(8,155,893)	-
Other expense (income)	519,347	(466,258)
Total other expense	(4,522,296)	3,295,638
Loss before provision for income taxes	(25,256,283)	(6,049,348)
Provision for income taxes	3,667,318	1,680,798
Net loss and comprehensive loss	(28,923,602)	(7,730,146)
Foreign currency translation	(168,889)	-
Net loss and comprehensive loss attributable to non-controlling interest	(1,268,735)	(403,759)
Net loss and comprehensive loss attributable to shareholders' of Leef Brands Inc.	**$ (27,485,978)**	**$ (7,326,387)**
Basic loss per share attributable to the shareholders' of Leef Brands Inc.	**$ (0.04)**	**$ (0.13)**
Company	**$ (0.04)**	**$ (0.13)**
Diluted loss per share attributable to the Company	**$ (0.04)**	**$ (0.13)**
Weighted average number of common shares outstanding - basic	**731,791,732**	**54,865,718**
Weighted average number of common shares outstanding - diluted	**731,791,732**	**54,865,718**

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

LEEF BRANDS INC. (FORMERLY ICANIC BRANDS COMPANY INC.)
Consolidated Statements of Shareholders' Equity
(Expressed in United States Dollars)

	Common Share Capital							
	Number	$ Amount	Contributed surplus	Accumulated deficit	Accumulated other comprehensive loss	Total equity attributable to shareholders' of Leef Brands Inc.	Non-controlling interest	Total shareholders' equity
Balance as of January 1, 2021	**53,511,581**	**$ 53,511**	**$ 32,434,333**	**$ (27,318,271)**	**$ -**	**$ 5,169,573**	**$ (37,381)**	**$ 5,132,192**
Net loss	-	-	-	(7,326,387)	-	(7,326,387)	(403,759)	(7,730,146)
Shares issued for cash	1,898,534	1,899	2,501,105	-	-	2,503,004	-	2,503,004
Stock option expense			1,308,447			1,308,447		1,308,447
Conversion of debentures						-	618,976	618,976
Shares issued for cash to non-controlling interest holders	-	-	-	-	-	-	4,883,077	4,883,077
Balance as of December 31, 2021	**55,410,115**	**$ 55,410**	**$ 36,243,885**	**$ (34,644,658)**	**$ -**	**$ 1,654,637**	**$ 5,060,913**	**$ 6,715,550**
Balance as of January 1, 2022	**55,410,115**	**$ 55,410**	**$ 36,243,885**	**$ (34,644,658)**	**$ -**	**$ 1,654,637**	**$ 5,060,913**	**$ 6,715,550**
Net loss	-	-	-	(27,654,867)		(27,654,867)	(1,268,735)	(28,923,602)
Common shares issued in connection with acquisition of Leef Holdings, Inc.	238,235,950	-	34,606,154	-	-	34,606,154	-	34,606,154
Common shares issued for services	22,748,220	-	3,304,406			3,304,406		3,304,406
Foreign currency translation	-	-	-	-	(168,889)	(168,889)	-	(168,889)
Common shares issued for cash	2,727,272	2,727	3,597,273	-	-	3,600,000	-	3,600,000
Common shares issued for acquisition of entity under common control	-	-	1,195,000	-	-	1,195,000	-	1,195,000
Stock option expense	-	-	1,790,907	-	-	1,790,907	-	1,790,907
Equity based compensation for restricted stock units granted	-	-	460,340	-	-	460,340	-	460,340
Common shares issued for previous acquisitions	43,171,409	-	5,115,077	-	-	5,115,077	-	5,115,077
Common shares issued for conversion of debentures	370,518	-	37,481	-	-	37,481	-	37,481
Re-organization of Leef Holdings, Inc. common shares due to merger	(58,137,387)	-	-	-	-	-	-	-
Re-organization and issuance of common shares for merger with Leef Holdings, Inc.	759,717,003	-	-	-	-	-	-	-
Balance as of December 31, 2022	**1,064,243,100**	**$ 58,137**	**$ 86,350,523**	**$ (62,299,525)**	**$ (168,889)**	**$ 23,940,246**	**$ 3,792,178**	**$ 27,732,424**

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

LEEF BRANDS INC. (FORMERLY ICANIC BRANDS COMPANY INC.)
Consolidated Statements of Cash Flows
(Expressed in United States Dollars)

	Years Ended	
	December 31, 2022	December 31, 2021
Cash flow from operating activities:		
Net loss and comprehensive loss	$ (28,923,602)	$ (7,730,146)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	1,556,855	1,501,827
Share based compensation	5,555,653	1,308,447
Paid in Kind Interest	345,573	-
Change in deferred tax assets	(98,360)	-
Amortization of right-of-use assets	339,459	-
Loss on impairment of goodwill, intangibles, and long-lived assets	13,389,650	-
Amortization of debt discounts	2,286,365	2,209,476
Change in fair value of derivative liability	706,808	(215,291)
Change in fair value of contingent consideration	(2,058,615)	-
Amortization of finance liability discounts	112,960	160,396
Gain on extinguishment of convertible debentures	(8,155,893)	-
Loss on disposal of asset	859,516	145,171
Forgiveness of notes payable	-	(611,429)
Changes in operating assets and liabilities:		
Accounts receivable, net	(343,199)	(210,644)
Prepaid expenses and deposits	(360,682)	290,830
Deferred costs and other current assets	1,280,132	(543,172)
Inventory	1,168,843	3,788,268
Other assets	1,342,528	(10,158)
Accounts payable and other accrued liabilities	2,171,246	(77,382)
Related party payables	(288,340)	113,079
Tax payable	2,793,936	418,288
Deferred revenue	-	(39,394)
Net cash (used in) provided by operating activities	**(6,319,167)**	**498,166**
Cash flows from investing activities:		
Equipment purchase	(120,030)	(1,113,270)
Cash acquired from acquisition	2,350,780	214,916
Net cash provided by (used in) investing activities	**2,230,750**	**(898,354)**
Cash flows from financing activities:		
Issuance of common shares	3,600,000	2,503,004
Issuance of shares to non-controlling holders	-	4,883,077
Repayment of notes	(43,176)	(23,505)
Proceeds from issuance of convertible notes	988,000	-
Repayments of convertible notes	(3,363,559)	-
Repayments on finance liabilities	(728,732)	(528,408)
Repayments on lease liabilities	(402,839)	(40,460)
Net cash provided by financing activities	**49,694**	**6,793,708**
Net (decrease) increase in cash	**(4,038,723)**	**6,393,520**
Effect of foreign exchange translation	(168,889)	-
Cash, beginning of period	7,513,371	1,119,851
Cash, end of period	**$ 3,305,760**	**$ 7,513,371**
Cash paid during the year for:		
Interest	$ 289,294	$ 993,384
Taxes	$ -	$ 449,570
Other non-cash investing and financing activities:		
Interest paid-in-kind	$ -	$ 780,049
Shares issued for previous acquisition	$ 5,115,077	$ -
Conversion of convertible debentures and derivatives	$ 37,481	$ 618,976
Shares issued for acquisition of common control entity	$ 1,195,000	$ -
Stock subscription payable from acquisition of entity	$ -	$ 1,195,356
Shares issued for merger with Icanic Brands Company, Inc.	$ 34,606,154	$ -

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

1. Nature and Continuance of Operations

Leef Brands Inc. (the "Company") (Formerly Icanic Brands Company Inc.) was incorporated on September 15, 2011, under the laws of the province of British Columbia and is registered extra-provincially under the laws of Ontario. The Company is a cannabis branded products manufacturer based in California. The Company is a public company whose common shares are listed for trading on the Canadian Securities Exchange ("CSE"). On December 7, 2022, the Company announced it has changed its name to LEEF Brands, Inc. and would begin trading under the symbol "LEEF" on the Canadian CSE. The head office of the Company is located at Suite 810 - 789 West Pender Street, Vancouver, BC, V6C 1H2, Canada.

These consolidated financial statements have been prepared on a going concern basis, which contemplates continuity of normal business activities and the realization of assets and discharge of liabilities in the normal course of business. As of December 31, 2022, the Company has yet to generate a positive net income. The Company is actively seeking additional sources of financing. In assessing whether the going concern assumption is appropriate, management takes into account all available information about the future, which is at least, but not limited to, twelve months from the end of the reporting period. Management is aware, in making its assessment, of uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern that these uncertainties are material and, therefore, that it may be unable to realize its assets and discharge its liabilities in the normal course of business. Accordingly, they do not give effect to adjustments that would be necessary should the Company be unable to continue as a going concern and therefore to realize its assets and discharge its liabilities and commitments in other than the normal course of business and at amounts different from those in the accompanying consolidated financial statements. See liquidity section of "*Note 2 – Basis of Presentation*" for further discussion on liquidity needs.

Reverse recapitalization

On April 20, 2022, the Company acquired all of the common stock of LEEF Holdings, Inc. ("LEEF") pursuant to a merger agreement dated January 21, 2022, among the Company, its wholly-owned subsidiary, Icanic Merger Sub, Inc. and LEEF. The Company issued an aggregate of 759,717,003 common shares, which were subject to a contractual hold period in accordance with the terms of the merger agreement, with an initial one-eighth of the shares received to be released on the one-year anniversary of closing and the remaining shares to be released in equal one-eighth installments every three months thereafter. In addition the Company issued 238,235,950 common shares with a fair value $34,606,154 as the consideration paid for the acquisition of LEEF.

Pursuant to the terms of the merger agreement, former LEEF shareholders will also be entitled to receive the following contingent earn-out payments (the "Earn-Out Payments"):

1. On July 20, 2023, an amount equal to 10% of (A) the product equal to two times the trailing 12-months ("**TTM**") revenue calculated for the 12-month period immediately following closing minus (B) US$120 million (the "**First Earn-Out Payment**");

2. On July 20, 2024, an amount equal to 10% of (A) the product equal to two times the TTM revenue calculated for the 12-month period immediately following the date that is one year from the closing date minus (B) the US$120 million and minus (C) any amounts paid pursuant to the First Earn-Out Payment (the "**Second Earn-Out Payment**"); and

3. On July 20, 2025, an amount equal to 10% of (A) the product equal to two times the TTM revenue calculated for the 12-month period immediately following the date that is two years from the closing date minus (B) US$120 million, minus (C) any amounts paid pursuant to the First Earn-Out Payment, minus (D) any amounts paid pursuant to the Second Earn-Out Payment.

2. Basis of Presentation

> Each of the Earn-Out Payments will be satisfied in full through the issuance of common shares of the Company based on the 30-day volume weighted average trading price of the shares on the Canadian Securities Exchange for the period ending on the business day prior to the issuance.

LEEF Holdings, Inc. was deemed the accounting acquirer in the Business Combination based on an analysis of the criteria outlined in International Financial Reporting Standard (“IFRS”) 3. This determination was primarily based on LEEF Holdings, Inc.’s stockholders prior to the Business Combination having a majority of the voting interests in the Company following the closing of the Business Combination, LEEF Holdings, Inc.’s operations comprising the ongoing operations of the Company, LEEF Holdings, Inc.’s designees comprising half of the board of directors of Company, and LEEF Holdings, Inc.’s senior management comprising the senior management of the Company. Accordingly, for accounting purposes, the Business Combination was treated as the equivalent of LEEF Holdings, Inc. issuing stock for the net assets of Icanic Brands, Inc. accompanied by a recapitalization. The net assets of Icanic Brands, Inc. are stated at historical cost.

While Icanic Brands, Inc. was the legal acquirer in the Business Combination, because LEEF Holdings, Inc. was deemed the accounting acquirer, the historical financial statements of LEEF Holdings, Inc. became the historical financial statements of the Company upon the consummation of the Business Combination. As a result, the financial statements included in this report reflect (i) the historical operating results of LEEF Holdings, Inc. prior to the Business Combination; (ii) the combined results of the Company and LEEF Holdings, Inc. following the closing of the Business Combination; (iii) the assets and liabilities of LEEF Holdings, Inc. at their historical cost; and (iv) the Company’s equity structure before and after the Business Combination.

Statement of compliance

These consolidated financial statements have been prepared by management in accordance with IFRS, as set out in the CPA Canada Handbook – Accounting (“CPA Handbook”) as issued by the International Accounting Standards Board (“IASB”). The policies set out below have been consistently applied to all periods presented unless otherwise noted.

These consolidated financial statements were approved and authorized for issuance by the Company’s Board of Directors on May 1, 2023.

2. Basis of Presentation (Continued)

Liquidity

Historically, the Company's primary source of liquidity has been its operations, capital contributions made by equity investors and debt issuances. The Company is currently meeting its current operational obligations as they become due from its current working capital and from operations. However, the Company has sustained losses since inception and may require additional capital in the future. As of and for the year ended December 31, 2022, the Company had an accumulated deficit of $62,299,525, a net loss and comprehensive loss attributable to the Company of $28,923,602 and net cash used in operating activities of $6,319,167. The Company estimates that based on current business operations and working capital, it will continue to meet its obligations as they become due in the short term.

The Company is generating cash from revenues and deploying its capital reserves to acquire and develop assets capable of producing additional revenues and earnings over both the immediate and near term. Capital reserves are primarily being utilized for capital expenditures, facility improvements, product development and marketing.

Liquidity risk is the risk that the Company will not be able to meet its financial obligations associated with financial liabilities. The Company manages liquidity risk through the management of its capital structure. The Company's approach to managing liquidity is to ensure that it will have sufficient liquidity to settle obligations and liabilities when due. Additionally, on April 20, 2022, Icanic Brands Company, Inc. acquired 100% of the common stock of the Company. See "*Note 4 – Business Combinations*" for further information.

Basis of presentation and measurement

These consolidated financial statements have been prepared on a historical cost basis except for derivative financial instruments, which are measured at fair value through profit and loss, as explained in the accounting policies below. Historical costs are generally based upon the fair value of the consideration given in exchange for goods and services. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Company takes into account 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.

Change in fiscal year-end

The Company changed its fiscal year-end from a fiscal year ending on July 31 to December 31 year end, effective beginning with year-end December 31, 2022. The change in fiscal year-end of the Company is due to the acquisition of all common stock of LEEF Holdings, Inc. ("LEEF") pursuant to the terms of a merger agreement among the Company, its wholly-owned subsidiary, Icanic Merger Sub, Inc. and LEEF, dated January 21, 2022. See "*Note 4 – Business Combinations*" for further information on the business combination transaction.

The Company made the fiscal year change on a prospective basis and has not adjusted operating results for prior periods The change impacts the prior year comparability of the Company's fiscal quarters in 2021, the fiscal first quarter of 2022 and the fiscal second quarter of 2022, and will result in shifts in the quarterly periods, which will not have a material impact on quarterly and yearly financials results.

2. Basis of Presentation (Continued)

Functional currency

All figures presented in the consolidated financial statements are reflected in United States dollars; however, the functional currency of the Company includes Canadian dollars and United States dollars. the Company's subsidiaries functional currency is the United States dollar.

Transactions in foreign currencies are initially recorded in the Company's functional currency at the exchange rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange at the end of each reporting period. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when fair value is determined.

All gains and losses on translation of these foreign currency transactions are included in profit or loss.

On consolidation, the assets and liabilities of foreign operations reported in their functional currencies are translated into United States dollars, the Company's presentation currency, at period-end exchange rates. Income and expenses, and cash flows of foreign operations are translated into United States dollars using average exchange rates. Exchange differences resulting from translating foreign operations are recognized in accumulated other comprehensive income (loss).

COVID-19

On March 11, 2020, the World Health Organization declared COVID-19 a global pandemic and recommended containment and mitigation measures worldwide. While the ultimate severity of the outbreak and its impact on the economic environment is uncertain, the Company is monitoring this closely. In the event that the Company were to experience widespread transmission of the virus at one or more of the Company's facilities, the Company could suffer reputational harm or other potential liability. Further, the Company's business operations may be materially and adversely affected if a significant number of the Company's employees are impacted by the virus.

2. Basis of Presentation (Continued)

Basis of consolidation

These consolidated financial statements as of and for the years ended December 31, 2022 and 2021 include the accounts of the Company, its wholly-owned subsidiaries. Subsidiaries are entities controlled by the Company. Control exists when the Company has the power, directly and indirectly, to govern the financial and operating policies of an entity and be exposed to the variable returns from its activities. The financial statements of subsidiaries are included in the condensed interim consolidated financial statements from the date that control commences until the date that control ceases. The following is a list of the Company's wholly-owned and partially owned operating subsidiaries:

Name	Purpose	Jurisdiction	Interest
Aya Biosciences, Inc.	(1) Pharmaceutical	US	51%
Anderson Development SB, LLC.	(2) Cultivation	US	100%
Paleo Paw Corp.	CBD Wellness	US	100%
X-Sprays Industries Inc.	CBD Wellness	US	100%
LEEF EC RETAIL LLC	Dispensary	US	100%
Willits Retail, LLC.	Dispensary	US	100%
Cali-Cann Distribution LLC	Distribution	US	100%
DE KROWN ENTERPRISES LLC	Distribution	US	100%
Ganja Gold Inc.	Distribution	US	100%
Payne Distribution, LLC.	Distribution	US	100%
LEEF Brands, Inc.	Holding Company	Canada	100%
LEEF Holdings, Inc.	Holding Company	US	100%
Preferred Brand LLC	Manufacturing	US	100%
Seven Zero Seven, LLC.	Manufacturing	US	100%
LEEF Management, LLC.	Payroll	US	100%
LH Equipment LLC	Payroll	US	100%
LH Management LLC	Payroll	US	100%
LH Packaging LLC	Payroll	US	100%
LH Resources LLC	Payroll	US	100%
1127466 B.C. Ltd.	Real Estate	Canada	100%
1200665 B.C. Ltd.	Real Estate	Canada	100%

(1) As of December 31, 2022 and 2021, the Company owned a 51.01% and 51.01%, respectively, interest in Aya Biosciences, Inc. See "Note 13 – Convertible Debentures" for further information.
(2) The Company acquired Anderson Development SB, LLC effective November 3, 2021. See "Note 17 – Related Party Transactions" for further information.

All inter-company transactions and balances have been eliminated in the consolidated financial statement presentation.

3. Significant Accounting Policies

The preparation of the consolidated financial statements requires that the Company's management make judgments and estimates of effects of uncertain future events on the carrying amounts of the Company's assets and liabilities at the end of the reporting period. Actual future outcomes could differ from present estimates and judgments, potentially having material future effects on the Company's consolidated financial statements. Estimates are reviewed on an ongoing basis and are based on historical experience and other facts and circumstances. Revisions to estimates and the resulting effects on the carrying amounts of the Company's assets and liabilities are accounted for prospectively.

The significant accounting policies used by the Company are as follows:

Accounts receivable

Accounts receivable are recognized initially at fair value and subsequently measured at amortized cost, less any provisions for impairment. Financial assets measured at amortized cost are assessed for impairment at the end of each reporting period. Impairment provisions are estimated using the expected credit loss impairment model where any expected future credit losses are provided for, irrespective of whether a loss event has occurred at the reporting date. 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 an allowance for doubtful accounts ("AFDA") provision. Changes in the AFDA provision are recognized in the consolidated statement of loss and comprehensive loss. When the Company determines that no recovery of the amount owing is possible, the amount is deemed irrecoverable and the financial asset is written off. As at December 31, 2022 the Company recorded an allowance for doubtful accounts of $1,023,658 (2021 - $322,045).

Inventory

Inventory is valued at the lower of cost and net realizable value. The Company's inventory is comprised of cannabis related products and derivatives The cost of inventory is calculated using the weighted average method and comprises all costs of purchase necessary to bring the goods to sale. Net realizable value represents the estimated selling price for products sold in the ordinary course of business less the estimated costs necessary to make the sale. Cost of cannabis biomass is comprised of initial third-party acquisition costs, plus analytical testing costs. Costs of extracted cannabis oil inventory are comprised of initial acquisition cost of the biomass and all direct and indirect processing costs including labor related costs, consumables, materials, packaging supplies and analytical testing costs. Packaging and supplies are initially valued at cost and subsequently at the lower of cost and net realizable value.

Management uses the most reliable evidence available in determining the net realizable value of inventories. Actual selling prices may differ from estimates, based on market conditions at the time of sale. Allowances are made against obsolete or damaged inventory and charged to cost of sales. The reversal of any write-down of inventory arising from increase in the net realizable value is recognized as a reduction of cost of sales in the period in which the reversal occurred. As at December 31, 2022 and 2021, the Company recorded a write down of inventory of $78,160 and $nil, respectively.

3. Significant Accounting Policies (continued)

Financial instruments

The Company adopted all the requirements of IFRS 9 Financial Instruments on January 1, 2018. IFRS 9 utilizes a revised model for recognition and measurement of financial instruments in a single, forward-looking "expected loss" impairment model. The following is the Company's accounting policy for financial instruments under IFRS 9: Classification The Company classifies its financial instruments in the following categories: at fair value through profit and loss ("FVTPL"), at fair value through other comprehensive loss ("FVTOCI") or at amortized cost. The Company determines the classification of financial assets at initial recognition. The classification of debt instruments is driven by the Company's business model for managing the financial assets and their contractual cash flow characteristics. Equity instruments that are held for trading are classified as FVTPL. For other equity instruments, on the day of acquisition the Company can make an irrevocable election (on an instrument-by-instrument basis) to designate them as at FVTOCI. Financial liabilities are measured at amortized cost, unless they are required to be measured at FVTPL (such as instruments held for trading or derivatives) or if the Company has opted to measure them at FVTPL

The following table shows the classifications under IFRS 9:

	Classification	Measurement
Financial assets:		
Cash	FVTPL	Fair value
Accounts receivable	Amortized cost	Amortized cost
Financial liabilities:		
Accounts payable and other accrued liabilities	Amortized cost	Amortized cost
Convertible debentures	FVTPL	Fair value
Notes payable	Amortized cost	Amortized cost
Derivative liabilities	FVTPL	Fair value
Lease liabilities	Amortized cost	Amortized cost

Measurement

Financial assets and liabilities at amortized cost
Financial assets and liabilities at amortized cost are initially recognized at fair value plus or minus transaction costs, respectively, and subsequently carried at amortized cost less any impairment.

Financial assets and liabilities at FVTPL
Financial assets and liabilities carried at FVTPL are initially recorded at fair value and transaction costs are expensed in the consolidated statements of loss and comprehensive loss. Realized and unrealized gains and losses arising from changes in the fair value of the financial assets and liabilities held at FVTPL are included in the consolidated statements of loss and comprehensive loss in the period in which they arise. Where management has opted to recognize a financial liability at FVTPL, any changes associated with the Company's own credit risk will be recognized in other comprehensive loss.

3. Significant Accounting Policies (Continued)

Financial instruments (continued)

Financial assets through other comprehensive income ("FVTOCI")
Financial assets that meet the following conditions are measured at FVTOCI:

- The financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The Company does not currently hold any financial instruments designated as FVTOCI.

Equity instruments designated as FVTOCI
On initial recognition, the Company may make an irrevocable election (on an instrument-by-instrument basis) to designate investments in equity instruments that would otherwise be measured at fair value through profit or loss to present subsequent changes in fair value in other comprehensive income. Designation at FVTOCI is not permitted if the equity investment is held for trading or if it is contingent consideration recognized by an acquirer in a business combination. Investments in equity instruments at FVTOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognized in other OCI. The cumulative gain or loss is not reclassified to profit or loss on disposal of the equity instrument, instead, it is transferred to retained earnings. The Company does not currently hold any equity instruments designated as FVTOCI.

Impairment of financial assets at amortized cost
The Company recognizes a loss allowance for expected credit losses on financial assets that are measured at amortized cost. At each reporting date, the Company measures the loss allowance for the financial asset at an amount equal to the lifetime expected credit losses if the credit risk on the financial asset has increased significantly since initial recognition. If at the reporting date, the financial asset has not increased significantly since initial recognition, the Company measures the loss allowance for the financial asset at an amount equal to the twelve month expected credit losses. The Company shall recognize in the consolidated statements of comprehensive loss, as an impairment gain or loss, the amount of expected credit losses (or reversal) that is required to adjust the loss allowance at the reporting date to the amount that is required to be recognized.

Financial assets
The Company derecognizes financial assets only when the contractual rights to cash flows from the financial assets expire, or when it transfers the financial assets and substantially all of the associated risks and rewards of ownership to another entity. Gains and losses on derecognition are generally recognized in the consolidated statements of loss and comprehensive loss.

Financial liabilities
The Company derecognizes financial liabilities only when its obligations under the financial liabilities are discharged, cancelled or expired. Generally, the difference between the carrying amount of the financial liability derecognized and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognized in the consolidated statements of loss and comprehensive loss.

3. Significant Accounting Policies (Continued)

Property and equipment

The Company records property and equipment at cost less accumulated amortization and accumulated impairment losses. It recognizes amortization to write off the cost of assets less their residual values over their useful lives. The depreciation rates applicable to each category of property and equipment are as follows:

Buildings	15 – 20 years
Office furniture and software	3 – 5 years
Machinery and equipment	10 years
Vehicles	8 years
Construction in progress	Not depreciated
Right-of-use assets	Shorter of lease term or economic life
Leasehold improvements	Shorter of lease term or economic life

An item of property and equipment is de-recognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on disposal of the asset, determined as the difference between the net disposal proceeds and the carrying amount of the asset, is recognized in profit or loss. Where an item of property and equipment and deferred costs consist of major components with different useful lives, the components are accounted for as separate items of property and equipment and deferred expenditures. Expenditures incurred to replace a component of an item of property and equipment that is accounted for separately, including major inspection and overhaul expenditures, are capitalized.

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 cash generating unit ("CGU") or group of CGUs which are expected to benefit from the synergies of the combination. Goodwill is not subject to amortization.

The goodwill balance is assessed for impairment annually or when facts and circumstances indicate that it is impaired. Goodwill is tested for impairment at a CGU level by comparing the carrying value to the recoverable amount, which is determined as the greater of fair value less costs of disposal and value in use. Any excess of the carrying amount over the recoverable amount is the impaired amount. The recoverable amount estimates are categorized as Level 3 according to the fair value hierarchy. Impairment charges are recognized in the consolidated statements of loss and comprehensive loss. Goodwill is reported at cost less any accumulated impairment. Goodwill impairments are not reversed.

3. Significant Accounting Policies (Continued)

Intangible assets

The Company's intangible assets consist of trademarks. Intangible assets acquired are measured on initial recognition at cost, while the cost of intangible assets acquired in a business combination is initially recorded at their fair values as at the date of acquisition. It recognizes amortization to write off the cost of assets less their residual values over their useful lives, using certain methods and rates. The intangibles as of December 31, 2022 were a trademark and license which have an indefinite-lived asset so there is no assigned life or amortization method.

An intangible asset is derecognized on disposal or when no future economic benefits are expected from use or disposal. Any gain or loss arising from the derecognition of an intangible asset is measured as the difference between the net disposal proceeds and the carrying amount of the asset and is recognized in profit or loss. Following initial recognition, intangible assets with indefinite useful lives are carried at cost less any accumulated impairment losses.

Impairment of long-lived assets

Goodwill and intangible assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

For the purpose of testing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating unit, or "CGU"). An impairment loss is recognized for the amount, if any, by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of the asset's fair value less cost to sell and the value in use (being the present value of expected future cash flows of the asset or CGU). Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the lesser of the revised estimate of recoverable amount and the carrying amount that would have been recorded had no impairment loss been previously recognized, with the exception of goodwill and indefinite lived intangible assets. For the year ended December 31, 2022 loss on impairment for intangibles, goodwill, and long-lived assets totaled $400,000, $12,167,101, and $822,549, respectively. There losses we determined at December 31, 2022 based on the updated cash flow projections of the cash generating units which held the intellectual property at year end.

Leases

The Company assesses whether a contract is or contains a lease at inception of the contract. A lease is recognized as a right-of-use asset and corresponding liability at the commencement date. Each lease payment included in the lease liability is apportioned between the repayment of the liability and a finance cost. The finance cost is recognized in "finance and other costs" in the consolidated statements of loss and comprehensive loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability. Lease liabilities represent the net present value of fixed lease payments (including in-substance fixed payments); variable lease payments based on an index, rate, or subject to a fair market value renewal condition; amounts expected to be payable by the lessee under residual value guarantees, the exercise price of a purchase option if the lessee is reasonably certain to exercise that option, and payments of penalties for terminating the lease, if it is probable that the lessee will exercise that option.

3. Significant Accounting Policies (Continued)

Leases (continued)

The Company's lease liability is recognized net of lease incentives receivable. The lease payments are discounted using the interest rate implicit in the lease or, if that rate cannot be determined, the lessee's incremental borrowing rate. The period over which the lease payments are discounted is the expected lease term, including renewal and termination options that the Company is reasonably certain to exercise.

Payments associated with short-term leases and leases of low-value assets are recognized as an expense on a straight-line basis in general and administration and sales and marketing expense in the consolidated statements of loss and comprehensive loss. Short term leases are defined as leases with a lease term of 12 months or less.

Variable lease payments that do not depend on an index, rate, or subject to a fair market value renewal condition are expensed as incurred and recognized in costs of goods sold, general and administration or sales and marketing expense, as appropriate given how the underlying leased asset is used, in the consolidated statement of comprehensive loss.

Right-of-use assets are measured at cost, which is calculated as the amount of the initial measurement of lease liability plus any lease payments made at or before the commencement date, any initial direct costs and related restoration costs. The right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the useful life of the underlying asset. The depreciation is recognized from the commencement date of the lease.

Sale and leaseback transactions

Sale and leaseback transactions are assessed to determine whether a sale has occurred under IFRS 15. If a sale is determined not to have occurred, the underlying "sold" assets are not derecognized and a finance liability is established in the amount of cash received. At such time that the lease expires, the assets are then derecognized along with the finance liability, with a gain recognized on disposal for the difference between the two amounts, if any. Refer to "*Note 14 - Lease Liabilities*" for further discussion.

In accordance with IFRS 16, the satisfaction of a performance obligation under IFRS 15 is applied to sale and leaseback transactions. As the seller-lessee, the Company measures the right-of-use asset arising from the transaction at the proportion of the previous carrying amount of the asset that relates to the right of use retained. The Company only recognizes the gain or loss that relates to the rights transferred to the buyer-lessor. Adjustments are made to measure the sale proceeds at fair value in which any below-market terms are accounted for as a prepayment of lease payments and any above-market terms are accounted for as an additional financing cost. Adjustments for any off-market terms are on the more readily determinable basis of the difference between the fair value of the consideration for the sale and the fair value of the asset, and the difference between the present value of the contractual payments for the lease and the present value of lease payments at market rates.

3. Significant Accounting Policies (Continued)

Derivatives

Derivatives are initially measured at fair value and are subsequently measured at FVTPL. If the transaction price does not equal to fair value at the point of initial recognition, management measures the fair value of each component of the investment and any unrealized gains or losses at inception are either recognized in profit or loss or deferred and recognized over the term of the investment, depending on whether the valuation inputs are based on observable market data. The resulting unrealized gain or loss at inception and subsequent changes in fair value are recognized in profit or loss for the period.

The Company evaluates all of its agreements to determine if such instruments have derivatives or contain features that qualify as embedded derivatives. The classification of derivative instruments, including whether such instruments should be recorded as liabilities or as equity, is evaluated at the end of each reporting period. Derivative instrument liabilities are classified in the Consolidated Statement of Financial Position as current or non-current based on whether or not net-cash settlement of the derivative instrument could be required within 12 months of the Consolidated Statements of Financial Position date. Critical estimates and assumptions used in the model are discussed in "*Note 11 – Derivative Liabilities*".

Convertible debentures

Convertible debentures are financial instruments that are accounted for separately dependent on the nature of their components. 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 agreement. 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. The determination of the fair value is also an area of significant judgment given that it is subject to various inputs, assumptions and estimates including contractual future cash flows, discount rates, credit spreads and volatility.

Fees directly attributable to the transactions are apportioned to the financial liability, derivative liability and equity components in proportion to the allocation of proceeds.

Share Capital

Common shares are classified as equity. Transaction costs directly attributable to the issue of common shares and share options are recognized as a deduction from equity, net of any tax effects.

Where share capital is issued, or received, as non-monetary consideration and the fair value of the asset received or given up is not readily determinable, the fair market value of the shares is used to record the transaction. The fair market value of the shares is based on the trading price of those shares on the appropriate stock exchange on the date of the agreement to issue or receive shares as determined by the board of directors.

3. Significant Accounting Policies (Continued)

Foreign currency

These consolidated financial statements are presented in U.S. dollars, which is also one of the functional currency of the certain subsidiaries along with Canadian dollars being the functional currency for other subsidiaries. Each subsidiary determines its own functional currency and items included in the financial statements of each subsidiary are measured using that functional currency.

i) Transactions and Balances in Foreign Currencies

Foreign currency transactions are translated into the functional currency of the respective entity, using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the remeasurement of monetary items at year-end exchange rates are recognized in profit or loss. Non-monetary items measured at historical cost are translated using the exchange rates at the date of the transaction and are not retranslated. Non-monetary items measured at fair value are translated using the exchange rates at the date when fair value was determined.

ii) Foreign operations

On consolidation, the assets and liabilities of foreign operations are translated into U.S. dollars at the exchange rate prevailing at the reporting date and their income statements are translated at exchange rates prevailing at the dates of the transactions. The exchange differences arising on the translation are recognized in other comprehensive income and accumulated in the foreign currency translation reserve in equity. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognized in earnings and recognized as part of the gain or loss on disposal.

Income Taxes

Tax expense recognized in profit or loss comprises the sum of current and deferred taxes not recognized in other comprehensive income or directly in equity.

Current Tax

Current tax assets and/or liabilities comprise those claims from, or obligations to, fiscal authorities relating to the current or prior reporting periods that are unpaid at the reporting date. Current tax is payable on taxable profit, which differs from profit or loss in the financial statements. Calculation of current tax is based on tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period.

3. Significant Accounting Policies (Continued)

Income Taxes (continued)

Deferred Tax

Deferred taxes are calculated using the liability method on temporary differences between the carrying amounts of assets and liabilities and their tax bases. Deferred tax assets and liabilities are calculated, without discounting, at tax rates that are expected to apply to their respective period of realization, provided they are enacted or substantively enacted by the end of the reporting period. Deferred tax liabilities are always provided for in full.

Deferred tax assets are recognized to the extent that it is probable that they will be able to be utilized against future taxable income. Deferred tax assets and liabilities are offset only when the Company has a right and intention to offset current tax assets and liabilities from the same taxation authority.

Changes in deferred tax assets or liabilities are recognized as a component of tax income or expense in profit or loss, except where they relate to items that are recognized in other comprehensive income or directly in equity, in which case the related deferred tax is also recognized in other comprehensive income or equity, respectively.

Revenue recognition

The Company generates revenue primarily from the sale of cannabis related. The Company uses the following five-step contract-based analysis of transactions to determine if, when and how much revenue can be recognized:

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

Revenue from the sale of cannabis is generally recognized when control over the goods has been transferred to the customer. Payment for sales is typically due prior to shipment. Payment for wholesale transactions is due within a specified time period as permitted by the underlying agreement and the Company's credit policy upon the transfer of goods to the customer. The Company generally satisfies its performance obligation and transfers control to the customer upon delivery and acceptance by the customer. Revenue is recorded at the estimated amount of consideration to which the Company expects to be entitled.

Bulk product and white label services revenue

The Company recognizes revenue from bulk product sales and white label services. Product sales are generally recognized when the Company satisfies the performance obligations and transfers control over the goods to the customer upon delivery and acceptance by the customer. Revenue is recorded at the estimated amount of consideration to which the Company expects to be entitled. Returns are performed when the product does not meet the requested type, concentration, etc. and ordered by the customer. Returns and exchanges are reported and recorded at the same time as revenue transactions.

3. Significant Accounting Policies (Continued)

Share-based Compensation

As part of its remuneration, the Company grants restricted stock units and also stock options and warrants to buy common shares of the Company to its employees. An individual is classified as an employee when the individual is an employee for legal or tax purposes (direct employee) or provides services similar to those performed by a direct employee, including directors of the Company. The fair value of employee services is determined indirectly by reference to the fair value of the equity instruments granted. This fair value is measured at the grant date, using the Black-Scholes option pricing model, and is recognized over the vesting period, based on the best available estimate of the number of share options expected to vest. Estimates are subsequently revised if there is any indication that the number of share options expected to vest differs from previous estimates.

Equity-settled share-based payment transactions with parties other than employees are measured at the fair value of the goods or services received, except where that fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instrument granted or vested if the option vests over a period. This fair value is measured at the grant date, using the Black-Scholes option pricing model, and is recognized over the vesting period, based on the best available estimate of the number of share options expected to vest. Estimates are subsequently revised if there is any indication that the number of share options expected to vest differs from previous estimates.

All share-based remuneration is ultimately recognized as an expense in the consolidated statements of loss and comprehensive loss with a corresponding credit to contributed surplus. Upon exercise of share options, the proceeds received net of any directly attributable transactions costs and the amount originally credited to contributed surplus are allocated to share capital. When options expire unexercised the related value remains in contributed surplus.

Business combination

A business combination is a transaction or event in which an acquirer obtains control of one or more businesses and is accounted for using the acquisition method. The total consideration paid for the acquisition is the fair value equity instruments issued in exchange for control of the acquiree at the acquisition date. The acquisition date is the date when the Company obtains control of the acquiree. The identifiable assets acquired, and liabilities assumed are recognized at their acquisition date fair values, except for deferred taxes and share-based payment awards where IFRS provides exceptions to recording the amounts at fair value. Goodwill represents the difference between total consideration paid and the fair value of the net-identifiable assets acquired. Acquisition costs incurred are expensed in the consolidated statement of loss and comprehensive loss.

Contingent consideration is measured at its acquisition date fair value and is included as part of the consideration transferred in a business combination, subject to the applicable terms and conditions. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with IFRS 9 Financial Instruments with the corresponding gain or loss recognized in the consolidated statements of loss and comprehensive loss.

3. Significant Accounting Policies (Continued)

Business Combination (continued)

Based on the facts and circumstances that existed at the acquisition date, management will perform a valuation analysis to allocate the purchase price based on the fair values of the identifiable assets acquired and liabilities assumed on the acquisition date. Management has one year from the acquisition date to confirm and finalize the facts and circumstances that support the finalized fair value analysis and related purchase price allocation. Until such time, these values are provisionally reported and are subject to change. Changes to fair values and allocations are retrospectively adjusted in subsequent periods.

In determining the fair value of all identifiable assets acquired and liabilities assumed, the most significant estimates generally relate to contingent consideration and intangible assets. Management exercises judgment in estimating the probability and timing of when earn-outs are expected to be achieved, which is used as the basis for estimating fair value. Identified intangible assets are fair valued using appropriate valuation techniques which are generally based on a forecast of the total expected future net cash flows of the acquiree. Valuations are highly dependent on the inputs used and assumptions made by management regarding the future performance of these assets and any changes in the discount rate applied.

Acquisitions that do not meet the definition of a business combination are accounted for as asset acquisitions. Consideration paid for an asset acquisition is allocated to the individual identifiable assets acquired and liabilities assumed based on the fair value of the goods and services received. Asset acquisitions do not give rise to goodwill. Any consideration paid in excess of the identifiable assets and liabilities assumed is expensed to the statements of loss and comprehensive loss.

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. 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.

Loss per share

The Company calculates basic loss per share by dividing the loss for the year by the weighted average number of common shares outstanding during the year. It calculates diluted loss per share in a similar manner, except that it increases the weighted average number of common shares outstanding, using the treasury stock method, to include common shares potentially issuable from the assumed exercise of stock options and other instruments, if dilutive. In the Company's case, these potential issuances are "anti-dilutive" as they would decrease the loss per share; consequently, the amounts calculated for basic and diluted loss per share are the same.

3. Significant Accounting Policies (Continued)

Significant accounting judgments and estimates

The preparation of interim consolidated financial statements in conformity with IFRS requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported revenues and expenses during the year. Although management uses historical experience and its best knowledge of the amount, events or actions to form the basis for judgments and estimates, actual results may differ from these estimates. Actual future outcomes could differ from present estimates and judgments, potentially having material future effects on the Company's consolidated financial statements. Revisions to estimates and the resulting effects on the carrying amounts of the Company's assets and liabilities are accounted for prospectively.

The following are the critical judgments and estimates that management has made in the process of applying the Company's accounting policies and that have the most significant effect on the amounts recognized in the consolidated financial statements:

Business combinations and asset acquisitions
Judgement is required to determine if the Company's acquisition represented a business combination or an asset purchase.

In a business combination, substantially all identifiable assets, liabilities and contingent liabilities acquired are recorded at the date of acquisition at their respective fair values. One of the most significant areas of judgment and estimation relates to the determination of the fair value of these assets and liabilities, including the fair value of contingent consideration, if applicable. If any intangible assets are identified, depending on the type of intangible asset and the complexity of determining its fair value, an independent external valuation expert may develop the fair value, using appropriate valuation techniques, which are generally based on a forecast of the total expected future net cash flows. These valuations are linked closely to the assumptions made by management regarding the future performance of the assets concerned and any changes in the discount rate applied. In certain circumstances where estimates have been made, the Company may obtain third-party valuations of certain assets, which could result in further refinement of the fair-value allocation of certain purchase prices and accounting adjustments.

Functional Currency Translations
The functional currency of the Company and each of the Company's subsidiaries is the currency of the primary economic environment in which the respective entity operates. Such determination involves certain judgements to identify the primary economic environment. The Company reconsiders the functional currency of an entity if there is a significant change in the events and/or conditions which determine the primary economic environment. In the event of a change of functional currency, the Company revaluates the classification of financial instruments. Upon the change in the parent Company's functional currency during the year, the financing warrants, which were initially classified as a derivative liability on the consolidated statements of financial position, were reassessed and reclassified as equity instruments at the fair value on the date of the functional currency change.

3. Significant Accounting Policies (Continued)

Significant accounting judgments and estimates (continued)

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

Valuation of share-based payments
The Company uses the Black-Scholes Option Pricing Model for valuation of share-based payments. Option pricing models require the input of subjective assumptions including expected price volatility, interest rate, and forfeiture rate. Changes in the input assumptions can materially affect the fair value estimate and the Company's earnings and equity reserves.

The valuation of shares and other equity instruments issued in non-cash transactions. Generally, the valuation of non-cash transactions is based on the value of the goods or services received. When non-cash transactions are entered into with employees and those providing similar services, the non-cash transactions are measured at the fair value of the consideration given up using market prices.

Estimated useful life of long-lived assets
Judgment is used to estimate each component of a long-lived asset's useful life and is based on an analysis of all pertinent factors including, but not limited to, the expected use of the asset and in the case of an intangible asset, contractual provisions that enable renewal or extension of the asset's legal or contractual life without substantial cost, and renewal history. If the estimated useful lives were incorrect, it could result in an increase or decrease in the annual amortization expense, and future impairment charges or recoveries.

Impairment of long-lived assets
Long-lived assets are reviewed for impairment upon the occurrence of events or changes in circumstances indicating that the carrying value of the asset may not be recoverable. For the purpose of measuring recoverable amounts, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). The recoverable amount is the higher of an asset's fair value less costs to sell and value in use (being the present value of the expected future cash flows of the relevant asset or cash-generating unit). An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. Management evaluates impairment losses for potential reversals when events or circumstances warrant such consideration. During the year ended December 31, 2022, the Company along with a third-party valuation professional determined that there was impairment as noted above within this footnote, "*Note 2 – Significant Accounting Policies*".

Income taxes
Income taxes and deferred income tax assets or liabilities. Management uses judgment and estimates in determining the appropriate rates and amounts in recording deferred taxes, giving consideration to timing and probability. Actual taxes could vary significantly from these estimates as a result of future events, including changes in income tax law or the outcome of reviews by tax authorities and related appeals. The resolution of these uncertainties and the associated final taxes may result in adjustment to the Company's tax assets and tax liabilities. The recognition of deferred income tax assets is subject to judgment and estimation over whether these amounts can be realized.

3. Significant Accounting Policies (Continued)

Significant accounting judgments and estimates (continued)

Provisions
Provisions are accrued for liabilities with uncertain timing or amounts, if, in the opinion of management, it is both likely that a future event will confirm that a liability had been incurred at the date of the consolidated financial statements and the amount can be reasonably estimated. In cases where it is not possible to determine whether such a liability has occurred, or to reasonably estimate the amount of loss until the performance of some future event, no accrual is made until that time. In the ordinary course of business, the Company may be party to legal proceedings which include claims for monetary damages asserted against the Company. The adequacy of provisions is regularly assessed as new information becomes available.

Leases
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. The Company generally uses the incremental borrowing rate when initially recording real estate leases as the implicit rates are not readily available 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 not available.

The Company determines the incremental borrowing rate as the interest rate the Company would pay to borrow over a similar term the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The Company used an incremental borrowing rate between 12% - 15%.

Leases requires lessees to estimate the lease term. In determining the period which the Company has the right to use an underlying asset, management considers the non-cancellable period along with all facts and circumstances that create an economic incentive to exercise an extension option, or not to exercise a termination option.

Fair values
The individual fair values attributed to the different components of a financing transaction, notably derivative financial instruments, convertible debentures and loans, are determined using valuation techniques. The Company uses judgment to select the methods used to make certain assumptions and derive estimates. Significant judgment is also used when attributing fair values to each component of a transaction upon initial recognition, measuring fair values for certain instruments on a recurring basis and disclosing the fair values of financial instruments subsequently carried at amortized cost. These valuation estimates could be significantly different because of the use of judgment and the inherent uncertainty in estimating the fair value of instruments that are not quoted or observable in an active market. See "*Note 16 – Financial Instruments and Financial Risk Management*" for summaries of the Company's financial instruments as of December 31, 2022 and 2021.

Allowance for doubtful accounts
The Company makes estimates for allowances that represent its estimate of potential losses in respect of trade receivables. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loss component established for groups of similar assets in respect of losses that may have been incurred but not yet specifically identified. The Company's allowance is determined by historical experiences, and considers factors including the aging of the balances, the customer's creditworthiness, current economic conditions, expectation of bankruptcies and the economic volatility in the markets/locations of customers.

3. Significant Accounting Policies (Continued)

Significant accounting judgments and estimates (continued)

Loss per Share

The Company calculates basic earnings or loss per share by dividing net earnings or loss by the weighted-average number of common shares outstanding during the period. Diluted loss per share is the same as basic loss per share if the issuance of shares on the exercise of convertible debentures, contingency issuable shares, warrants, and share options are anti-dilutive. Diluted earnings per share includes options and warrants if the average market price for the Company's common shares for the period exceeds the exercise price ("in the money"). Contingently issuable shares that are determined to be dilutive and the contingency is satisfied are included in the diluted earnings per share. The Company's convertible debentures are included in the diluted earnings per share if determined to be dilutive. See "Note 22 – Loss Per Share" for further information.

Recently Adopted Accounting Pronouncements

IAS 37 – "*Provisions, Contingent Liabilities and Contingent Assets*" ("IAS 37")

In May 2020, the IASB issued amendments to update IAS 37. The amendments specify that in assessing whether a contract is onerous under IAS 37, the cost of fulfilling a contract includes both the incremental costs and an allocation of costs that relate directly to contract activities. The amendments also include examples of costs that do, and do not, relate directly to a contract. These amendments are effective for annual periods beginning on or after January 1, 2022. The company adopted this amendment as of January 1, 2022, this amendment did not have a material impact on its condensed consolidated financial statements at the time of adoption.

IAS 16 - "*Property, Plant and Equipment*" ("IAS 16")

IAS 16 has been amended to prohibit a company from deducting from the cost of property, plant and equipment amounts received from selling items produced while the company is preparing the asset for its intended use. Instead, a company will recognize such sales proceeds and related cost in profit or loss. The amendments are effective for annual periods beginning on or after January 1, 2022. Earlier application is permitted. The company adopted this amendment as of January 1, 2022, this amendment did not have a material impact on its condensed consolidated financial statements at the time of adoption.

Recent Accounting Pronouncements

As at the date of authorization of these financial statements, the IASB and the IFRS Interpretations Committee had issued certain pronouncements that are mandatory for the Company's accounting periods commencing on or after January 1, 2021. Many are not applicable or do not have a significant impact to the Company, have been excluded. The Company had assessed that no material impact is expected upon the adoption of the following amendments on its consolidated financial statements:

Amendments to IAS 8, "*Accounting Policies, Changes in Accounting Estimates and Errors*" ("IAS 8")

IAS 8 has been amended to introduce the definition of an accounting estimate and include other amendments to help entities distinguish changes in accounting estimates from changes in accounting policies. The amendments are effective for annual periods beginning on or after January 1, 2023 and changes in accounting policies and changes in accounting estimates that occur on or after the start of that period. Earlier application is permitted.

3. Significant Accounting Policies (Continued)

Recent Accounting Pronouncements (continued)

Amendments to IAS 1, "*Presentation of Financial Statements*" ("IAS 1")
In January 2020, the IASB issued amendments to IAS 1 which clarify the requirements for classifying liabilities as either current or non-current by: (i) specifying that the conditions which exist at the end of the reporting period determine if a right to defer settlement of a liability exists; (ii) clarifying that settlement of a liability refers to the transfer to the counterparty of cash, equity instruments, other assets or services; (iii) clarifying that classification is unaffected by management's expectation about events after the balance sheet date; and (iv) clarifying the classification requirements for debt an entity may settle by converting it into equity.

The amendments clarify existing requirements, rather than make changes to the requirements, and so are not expected to have a significant impact on an entity's financial statements. However, the clarifications may result in reclassification of some liabilities from current to non-current or vice-versa, which could impact an entity's loan covenants. Because of this impact, the IASB has provided a longer effective date to allow entities to prepare for these amendments. In July 2020, the IASB issued an amendment to defer the effective date of the amendments by one year from its originally planned effective date to annual periods beginning on or after January 1, 2023 due to the impact of COVID-19. Early application is permitted.

4. Business Combination

Merger with LEEF

On April 20, 2022, the Company acquired 100% of the common stock of LEEF pursuant to a merger agreement dated January 21, 2022 among the Company, Icanic Brands Company Inc., its wholly-owned subsidiary, Icanic Merger Sub, Inc. and LEEF. Acquired tangible assets were valued at estimates of their current fair values. The valuation of acquired intangible assets consisting of the intangibles noted above were determined based on management's estimates and consultation with an independent appraiser. The multi-period excess earnings method was used in applying the income approach to determine the fair value of acquired intangible assets. Significant assumptions inherent in the valuation method for acquired intangible assets are employed and included, but are not limited to, prospective financial information, terminal value, and discount rates. When performing the multi-period excess earnings method for acquired intangible assets, the Company incorporates the use of projected financial information and a discount rate that are developed using market participant-based assumptions. The cash-flow projections are based on multi-year financial forecasts developed by management that include revenue projections, capital spending trends, and investment in working capital to support anticipated revenue growth, which are regularly reviewed by management. The selected discount rate considers the risk and nature of the comparative companies and the rates of return market participants would require to investing their capital in the Company.

Management determined the acquisition date fair value of contingent consideration using a discounted cash flow method, with significant inputs that are not observable in the market and thus represents a fair value measurement. The inputs in the measurement not supported by market activity, included probability assessments of expected future cash flows related to the merger with LEEF. Management has considered uncertainties associated with the obligation and calculated according to terms of the agreement. The contingent consideration is established at the time of the acquisition and is evaluated on a quarterly basis as additional information becomes available. Any change in fair value is recorded within other expense on the statements of loss and comprehensive loss. Changes in the fair value of the contingent consideration obligations may result from changes in probability assumptions with respect to the likelihood of achieving the various contingent payment obligations. Significant increases or decreases in the inputs noted above in isolation would result in a significantly lower or higher fair value measurement. See "Note 15 - Contingent Consideration and Consideration Payable" for further discussion of the terms of the $3,972,000 contingent consideration.

4. Business Combination (continued)

The following table summarizes the acquisition-date fair value of the consideration transferred and purchase price allocation for the fair value amounts of the assets acquired and liabilities assumed at the date of acquisition, April 20, 2022:

Total Consideration:	
Stock Issued:	$ 34,606,154
Fair value of Contingent Consideration	3,972,000
Total Consideration	**$ 38,578,154**
Accounting of Net Assets Acquired:	
Cash	$ 2,350,780
Accounts Receivable	991,810
Inventories	1,326,249
Acquisition Deposits	1,640,000
Other current assets	202,082
Note receivable - related party	500,000
Property and Equipment	4,030,552
Right of use asset	1,186,265
Tradename Intangible (indefinite life)	8,700,000
License Intangible (indefinite life)	21,000,000
Accounts Payable and Accrued Liabilities	(518,817)
Lease liabilities	(1,229,207)
Deferred tax liability	(8,862,480)
Notes Payable	(692,181)
Consideration Payable	(3,211,000)
Contingent Consideration	(950,000)
Derivative Liabilities	(53,000)
Total Identifiable Net Assets	26,411,053
Goodwill [(1)]	12,167,101
Total Net Assets Acquired	**$ 38,578,154**

(1) The goodwill arising from the acquisition represents expected synergies, future income and growth, and other intangibles that do not qualify for separate recognition.

Goodwill in the amount of $12.2 million relates to potential synergy with the existing business and is equal to the difference between the fair value of net assets acquired in the business combination and the consideration paid. None of the goodwill recognized is expected to be deductible for income tax purposes. If the Business Combination had been completed on January 1, 2022, the Company estimates it would have recorded increases in revenues and net loss of approximately $2,700,000 and $97,900, respectively.

5. Property and Equipment

As of December 31, 2022 and December 31, 2021, the property and equipment consists of the following:

Cost	Buildings	Office equipment and software	Machinery and equipment	Right-of-use asset (1)	Vehicles	Leasehold Improvements	Construction in progress	Total
Balance as of January 1, 2021	$ 14,278,132	$ 88,299	$ 2,636,739	$ 1,096,950	$ 233,263	$ -	$ 94,050	$ 18,427,433
Additions	104,585	79,192	352,110	-	-	-	1,547,048	2,082,935
Disposals and transfers	(130,378)	-	-	-	-	-	-	(130,378)
Balance as of December 31, 2021	$ 14,252,339	$ 167,491	$ 2,988,849	$ 1,096,950	$ 233,263	$ -	$ 1,641,098	$ 20,379,990
Additions	6,387	26,401	26,370	1,284,850	54,272	6,600	-	1,404,880
Transfers	-	-	1,079,638	-	-	-	(1,079,638)	-
Disposals and transfers	-	-	(822,549)	-	-	-	(561,460)	(1,384,009)
Assumed in business acquisition from LEEF Holdings, Inc.	1,046,229	-	2,298,037	1,186,265	-	686,286	-	5,216,817
Balance as of December 31, 2022	**$ 15,304,955**	**$ 193,892**	**$ 5,570,345**	**$ 3,568,065**	**$ 287,535**	**$ 692,886**	**$ -**	**$ 25,617,678**
Accumulated Depreciation								
Balance as of January 1, 2021	$ (1,563,248)	$ (34,645)	$ (381,365)	$ (255,955)	$ (41,397)	$ -	$ -	$ (2,276,610)
Depreciation	(957,249)	(32,091)	(281,338)	(109,695)	(29,158)	-	-	(1,409,531)
Balance as of December 31, 2021	$ (2,520,497)	$ (66,736)	$ (662,703)	$ (365,650)	$ (70,555)	$ -	$ -	$ (3,686,141)
Depreciation	(1,111,884)	(44,075)	(368,132)	(339,459)	(32,764)	-	-	(1,896,314)
Balance as of December 31, 2022	**$ (3,632,381)**	**$ (110,811)**	**$ (1,030,835)**	**$ (705,109)**	**$ (103,319)**	**$ -**	**$ -**	**$ (5,582,455)**
Net Book Value								
December 31, 2022	**$ 11,672,574**	**$ 83,081**	**$ 4,539,510**	**$ 2,862,956**	**$ 184,216**	**$ 692,886**	**$ -**	**$ 20,035,223**
December 31, 2021	**$ 11,731,842**	**$ 100,755**	**$ 2,326,146**	**$ 731,300**	**$ 162,708**	**$ -**	**$ 1,641,098**	**$ 16,693,849**

(1) See "Note 14 - Lease Liabilities" for further information.

There was depreciation expense and amortization expense for the year ended December 31, 2022 was $1,556,855 and $339,459, respectively. Depreciation expense and amortization expense for the year ended December 31, 2021 was $1,409,531 and $nil, respectively. These amounts were included in as an operating expenses on the consolidated statements of loss and comprehensive loss for the years ended December 31, 2022 and 2021.

As discussed in "*Note 24 – Subsequent Events*", on January 1, 2023, the Company disposed of 100% of its interests in De Krown Enterprises LLC. The consideration for the interests in De Krown includes a total consideration for the membership interests that is significantly lower than the net assets and liabilities that were assumed by the buyer. As such, the Company has decided to record an impairment on the long-lived assets of De Krown as of December 31, 2022 since the acquisition took place one day after year end and as of the date these financial statements were available to be issued, the Company had complete knowledge of their expected loss on the disposal. In accordance with IFRS, long-lived assets are reviewed for impairment upon the occurrence of events or changes in circumstances indicating that the carrying value of the asset may not be recoverable and an impairment loss should be recorded if the recoverable amount is significantly lower than the carrying value. As such Management performed the assessment and has recorded a loss on impairment of De Krown long-lived assets totaling $822,549. See "Note 3 – Significant Accounting Policies" for further discussion on the Company's policy surrounding the impairment of long-lived assets.

6. Inventory

As of December 31, 2022 and 2021, inventory consists of the following:

	2022	2021
Raw materials	$ 566,864	$ 227,454
Work-in-Process	19,734	108,317
Finished goods - cannabis related products	2,395,340	2,488,761
Total inventory	**$ 2,981,938**	**$ 2,824,532**

During the years ended December 31, 2022 and 2021, inventory and inventoriable costs expensed to cost of goods sold were $17,449,072 and $25,042,714, respectively.

7. Acquisition Deposit

On May 21, 2019, the Company entered into a share exchange agreement (the “Definitive Agreement”) among the Company, 1200665 B.C. Ltd., a private British Columbia company (“1200665BC”), whereby the Company will acquire all of the issued and outstanding shares of 1200665BC. 1200665BC, have pending Share Purchase Agreements (“SPA”) with V6E and Sullivan Park, whom are beneficial owners of cannabis cultivation and manufacturing licenses in the state of Nevada. The Company is seeking regulatory approval for the transfer of ownership from the State of Nevada. Upon receipt of regulatory approval, the transaction with 1200665BC will close. As consideration, the Company issued 30,645,161 common shares with a fair value of $11,645,161 and settled the remaining purchase price of $12,500,000 through the issuance of 40,322,580 common shares.

The acquisition deposit represents funds and equity advanced to these Entities. Upon regulatory approval, the Company will assess whether the acquired business meets the definition under IFRS 3 – *Business Combinations* and the acquisition deposit will be the purchase price. The acquisition deposit will be eliminated upon regulatory approval.

In the fourth quarter of 2022, it was determined by Management that certain acquisitions noted above were revalued based on initial expectations of valuations being much higher than determined at December 31, 2022. Although the Management reduced the expected value of certain acquisitions, there were still material value to warrant a deposit asset and this is evidenced by Letters of Intent (“LOI’s”) that are included as an asset on the accompanying statement of financial position as Acquisition Deposits. These deposits total $1.64 million and are based on the LOI’s in place at the time these financial statements were available to be issued. As of December 31, 2022, the acquisition deposit was approximately $1,445,000.

8. Goodwill

As of December 31, 2022 and 2021, goodwill was $nil and nil, respectively. During the year ended December 31, 2022, the Company recorded goodwill of $12,167,101 as a result of a business combination on April 20, 2022. See “*Note 4 – Business Combinations*” for further information. During the year ended December 31, 2022, the Company recorded $12,167,101 to recognize an impairment loss on the entire balance of goodwill. See “*Note 3 – Significant Accounting Policies*” for managements position on impairment of long-lived assets.

9. Intangible Assets

As of December 31, 2022 and 2021, intangible assets was $29,300,000 and nil, respectively. During the year ended December 31, 2022, the Company acquired trademark and license intangible assets of $8,700,000 and $21,000,000, respectively, as a result of a business combination on April 20, 2022. See “*Note 4 – Business Combinations*” for further information. During the year ended December 31, 2022, the Company recorded $400,00 as a loss on impairment for these intangible assets. See “*Note 3 – Significant Accounting Policies*” for managements position on impairment of long-lived assets.

10. Accounts Payable and Other Accrued Liabilities

As of December 31, 2022 and 2021, accounts payable and other accrued liabilities consists of the following:

	2022	2021
Accounts payable	$ 2,743,922	$ 1,049,808
Accrued liabilities	1,222,606	1,036,942
Total accounts payable and other accrued liabilities	**$ 3,966,528**	**$ 2,086,750**

11. Derivative liabilities

During June 2019, the Company entered into a private placement financing by issuing approximately $14,671,000 senior secured convertible debentures (see *"Note 13 - Convertible Debentures"*) and 14,671 share purchase warrants that contain a non-fixed conversion ratio into the Company's shares and exercise price, respectively. During September 2022, 75% of the senior secured convertible debentures balance was modified such that that the conversion price into the Company's common stock was denominated in a currency other than the Company's functional currency. As a result, the conversion options did not have a fixed conversion rate.

In accordance with IAS 32, "*Financial Instruments",* a contract to issue a variable number of equity shares fails to meet the definition of equity. Accordingly, such a contract or instrument would be accounted for as a derivative liability and measured at fair value with changes in fair value recognized in the Condensed Consolidated Statements of Operations and Comprehensive Loss at each period-end.

During the year ended December 31, 2022, the Company acquired a note payable for gross proceeds of $200,000 ("Secured Loan") as a part of a business combination. The Secured Loan bears interest of 6% and the principal and interest are convertible into common stock of the Company at a market rate less an allowable discount ("Conversion Price"). The Secured Loan original maturity date of December 31, 2020 was extended to June 30, 2023. See "*Note 4 – Business Combinations*" for further information.

For the Secured Loan, the variability of the Conversion Price would result in a variable number of shares on conversion. For the Secured Loan, the conversion does not meet the fixed for fixed requirement because a variable number of shares could be issued. The Secured Loan are being accreted to the face value of the debt plus interest to maturity.

The Company used Monte Carlo to estimate the fair value of the derivative liabilities for the senior secured convertible debentures. The Monte Carlo pricing model uses Level 3 inputs in its valuation model.

The following assumptions were used by management to determine the fair value of the derivative liabilities during the year ended December 31, 2022:

	2022	2021
Expected Stock Price Volatility	60.00%	63.00%
Risk-Free Annual Interest Rate	4.51%	0.08%
Expected Life (Years)	1.69	0.43
Share Price	$ 0.04	$ 2.64

11. Derivative liabilities (Continued)

A reconciliation of the beginning and ending balance of derivative liabilities and change in fair value of the derivative liabilities is as follows for the years ended December 31, :

	2022	2021
Balance as of beginning of year	$ 2,513,681	$ 3,185,069
Change in fair value	706,808	(215,291)
Fair value of conversion option at modifcation	6,316,279	
Debentures converted to equity		(569,175)
Conversion of accrued interest to paid-in-kind interest		113,078
Extinguishment of conversion option	(7,981,731)	-
Balance as of end of year	**1,555,037**	**2,513,681**
Less derivative liabilities, short term	-	-
Derivative liabilities, long term	**$ 1,555,037**	**$ 2,513,681**

12. Notes Payable

As of December 31, 2022 and 2021 notes payable consisted of the following:

	2022	2021
Secured promissory notes dated November 2018 through October 2019 issued to finance equipment acquisitions which mature from December 2023 through October 2024, and bear interest of 7.64% to 11.44% with principal and interest payments due monthly.	$ 53,488	$ 84,459
Small Business Administration loan which bears interest at 1% with interest payments due monthly.	10,000	10,000
Secured promissory note dated March 1, 2020, which matures on January 31, 2023, and bears interest of 6%	267,459	-
Secured promissory note dated March 1, 2020, which matures on June 30, 2022, and bears interest of 6% (1).	218,000	-
Total notes payable	548,947	94,459
Less current portion of notes payable	(43,775)	(40,571)
Total notes payable, net of current	**$ 505,172**	**$ 53,888**

(1) As of the date of these financial statements, both parties mutually agreed to convert the note payable due into Company shares at the market rate upon the date of repayment. The Company is currently in process of converting the promissory note due into common shares of the Company stock.

12. Notes Payable (Continued)

A reconciliation of the beginning and ending balances of notes payable for the years ended December 31, is as follows:

	2022	2021
Balance as of beginning of period	$ 94,459	$ 729,393
Assumed in business acquisition from LEEF Holdings, Inc.	485,459	-
Forgiveness of notes	-	(611,430)
Cash repayments	(30,971)	(23,504)
Balance as of end of period	**$ 548,947**	**$ 94,459**

13. Convertible Debentures

As of December 31, 2022 and 2021 convertible debentures consisted of the following:

	2022	2021
Senior secured convertible promissory debentures dated June 2019, which matures on June 6, 2022, and bears interest at a rate of 9.0% with interest paid-in-kind. For holders who selected the interest paid-in-kind option, the interest rate is 10.0%.	$ -	$ 13,859,565
Senior secured convertible promissory debentures dated September 2022, which matures on September 9, 2024, and bears interest at a rate of 11.0%	12,083,290	-
Total convertible debentures	12,083,290	13,859,565
Less unamortized discount	(5,527,657)	(1,193,297)
Total convertible debentures, net of discount	6,555,633	12,666,268
Less current portion of convertible debentures, net of discount	-	(12,666,268)
Total convertible debentures, net of current and discount	**$ 6,555,633**	**$ -**

A reconciliation of the beginning and ending balances of convertible debentures for the years ended December 31, is as follows:

	2022	2021
Balance as of beginning of year	$ 12,666,268	$ 9,839,625
Paid-in-kind interest	345,573	780,049
Cash additions	988,000	-
Repayments	(3,363,559)	-
Derivative component of debentures		(113,806)
Derognition of debt and discount due to conversion		(49,076)
Modification, net of allocation to conversion option	(6,015,980)	-
Cash paid for debt issuance costs	(351,034)	-
Amortization of debt discount	2,286,365	2,209,476
Balance as of end of year	**$ 6,555,633**	**$ 12,666,268**

13. Convertible Debentures (Continued)

Senior Debentures

On June 6, 2019, the Company entered into a convertible senior secured debenture (the "Senior Debentures") in an aggregate principal amount not to exceed $35,000,000 with accredited investors and qualified institutional buyers wherein the Senior Debentures shall mature on June 6, 2022 and bear interest at a rate of 9.0%. The Senior Debentures are to be issued from time to time at the election of the Company pursuant to one or more subscription agreements.

The Senior Debentures contain two conversion features wherein the conversion rate is equal to $1,000 principal amount of debentures divided by the conversion price, which is the lesser of (i) the price that is a 25% discount to the liquidity event price and (ii) the price determined based on a pre-money enterprise value of the Company of $150,000,000. The initial conversion rate shall be determined immediately upon the consummation of a liquidity event and shall be subject to adjustment.

In the event that a liquidity event, as defined in the Senior Debentures agreement, is consummated, holders have the right, at the holder's option, to convert all or any portion of their Senior Debentures into the Company's common shares (the "Optional Conversion"). Additionally, at the Company's election, the Company has the right to convert all outstanding debentures into common shares if all of the following conditions are satisfied, with no further action by the holders (the "Mandatory Conversion"):

- (i) A liquidity event has been consummated;
- (ii) The liquidity event price is at least 100% greater than the conversion price;
- (iii) The common shares are listed on a recognized Canadian stock exchange or a national U.S. stock exchange; and
- (iv) The daily VWAP of the common share is 20% greater than the liquidity event price for at least 10 consecutive trading days immediately prior to the date of the Company's conversion notice.

The Company may issue up to $3,500,000 aggregate principal amount of debentures without the consent of or notice to the holders in the event a Liquidity Event is not consummated on or prior to June 6, 2020. Pursuant to the Agency Agreement, in the event a liquidity event has not occurred by June 6, 2020, the Company will issue additional Debenture Units in an aggregate principal amount equal to 10% of the aggregate number of Debenture Units initially issued to the purchaser as a penalty. In June 2020, the Company issued additional Senior Debentures totaling $1,467,000 as a result of this provision. In connection with the additional debentures issued, the Company recognized a derivative liability of $427,246 and also recorded an offsetting debt discount.

Effective September 9, 2022, the Company amended its Senior Debentures as part of a restructuring support agreement with Icanic Brands (the "Modification"). The Modification provides for 25% of the outstanding principal and accrued unpaid interest to be settled in cash with the remaining 75% settled in new convertible debentures which bear interest at 11% and convert into units at Canadian dollars ("C$") $0.10 with each unit comprised of an Icanic Brands common share and share purchase warrant exercisable into Icanic Brands common share at a price of C$0.15 per share for a period of 24 months from the date of conversion ("Conversion Option"). The Modification was determined to be an extinguishment of the Senior Debentures under IFRS 9, *Financial* Instruments., and recorded a gain on extinguishment of $8,155,893 plus $330,073 of third-party debt issuance costs which were recorded as a debt discount. See "*Note 4 – Business Combinations*" for further information. The Conversion Option was determined to be a derivative under IAS 32*, Financial Instruments*, as the Conversion Option is denominated in a currency other than the Company's functional currency. See "*Note 11 – Derivative Liabilities*" for further details.

13. Convertible Debentures (Continued)

On September 8, 2022, the Company closed a non-brokered private placement of new secured debentures in the aggregate principal amount of C$1,300,000 (the "Additional Secured Debentures"). The Additional Secured Debentures have been issued pursuant to a debenture indenture entered into as of September 8, 2022 (the "Indenture"). Pursuant to the Indenture, the Company can issue up to an aggregate of CAD$4,000,000 in connection with the offering. The Additional Secured Debentures bear interest at a rate of 11.0% per annum and mature 24-months from the date of issue (September 8, 2024). The interest accrued under the Additional Secured Debentures are payable in cash upon maturity. Additional Secured Debentures have the same conversion option as Senior Debentures after the Modification. The conversion option is denominated in a functional currency (CAD) that is different as the issuer (USD) and as such needs to be assessed for derivative treatment. Upon further analysis, it was deemed the instrument had an embedded derivative and as such has been recorded as a component of debt.

In connection with the initial issuance of the Senior Debentures, share purchase warrants ("Senior Warrants") exercisable into common shares based on its issue price divided by its conversion price were also issued. The conversion price is equal to the lesser of: (A) the price that is a 25% discount to the liquidity event price and (B) the price determined based on a certain value. The exercise price is a price per common share which is 50% greater than the conversion price. The exercise price is subject to adjustment in the event of a common share reorganization, rights offering, special distribution, or capital reorganization. The warrants are exercisable upon the occurrence of a liquidity event, as defined in the Senior Warrant agreement, and the exercise period is the 24 months following the liquidity event date, provided that if a liquidity event has not occurred within five (5) years from the initial closing date of this offering, the warrants shall expire. Initially the aggregate value of these warrants included a potentially embedded feature to be treated as a derivative but was determined to be de minimis. The embedded conversion feature of the Senior Debentures has been deemed to be a derivative. See "*Note 11 – Derivative Liabilities*" for further details. Subsequent to the merger with LEEF as discussed in "*Note 4 – Business Combination*", the Senior Warrants were effectively issued as part of the share exchange terms noted in the Merger Agreement between LEEF and Icanic. As such, there were 6,616,800 warrants issued from the original 527,338 warrants of LEEF due to the agreed upon 12.55 conversion ratio. See "*Note 18 – Share Capital*" for further details on warrant activity for the year ended December 31, 2022.

As a result of the non-fixed number of shares the Additional Senior Debentures can be converted or exercised into, these features were recognized as a derivative liability (see "*Note 11 – Derivative Liabilities*").

14. Lease Liabilities

A reconciliation of the beginning and ending balance of lease liabilities for the years ended December 31, is as follows:

	2022	2021
Balance as of beginning of year	$ 907,423	$ 947,883
Assumed in business acquisition from LEEF Holdings,	1,186,265	-
Recognition of lease liability	1,481,470	-
Interest expense accrual	256,639	118,943
Payment of principal and interest	(402,839)	(159,403)
Balance as of end of year	**3,428,958**	**907,423**
Less current portion of lease liabilities	(335,848)	(82,840)
Lease liabilities, net of current portion	**$ 3,093,110**	**$ 824,583**

The Company used an incremental borrowing rate between 12% to 15%. Total future payments under lease agreements are further disclosed in "*Note 16 – Financial Instruments and Financial Risk Management*".

14. Lease Liabilities (Continued)

The undiscounted lease liabilities are as follows:

Year Ending December 31,	
2023	789,369
2024	861,495
2025	886,356
2026	800,881
2027	816,464
Thereafter	1,029,119
Total Future Minimum Lease Payments	5,183,684
Less Interest	(1,754,726)
Present Value of Lease Liabilities	3,428,958
Less Current Portion of Lease Liabilities	(335,848)
Lease Liabilities, Net of Current Portion	**$ 3,093,110**

Finance Liability

In June 2019, the Company sold and subsequently leased back equipment with third parties resulting in total gross proceeds of approximately $2,130,000, fees of $153,800 as well as warrants issued to the lessor for the lease of equipment. The Company determined that this sale did not qualify as a sale under IFRS 15, "*Revenue Contracts with Customers*", due to prohibited continuous involvement in the assets sold by the Company. Accordingly, the "sold" assets remained within equipment for the duration of the lease and a finance liability equal to the amount of the proceeds received, less fees and the fair value of the warrants issued, was recorded as a finance liability on the Condensed Consolidated Statements of Financial Position. See "*Note 18 – Share Capital*" for further discussion on the warrants issued.

14. Lease Liabilities (Continued)

Finance Liability (continued)

A reconciliation of the beginning and ending balance of the finance liability for the years ended December 31, is as follows:

	2022	2021
Balance as of beginning of year	$ 1,007,984	$ 1,536,388
Interest expense accrual	112,960	200,329
Payment of principal and interest	(728,732)	(728,733)
Balance as of end of year	**392,212**	**1,007,984**
Less unamortized discount	(19,142)	(125,147)
Finance liability, net of discount	373,070	882,837
Less current portion of lease liabilities	(373,070)	(509,767)
Finance liability, net of current and discount	**$ -**	**$ 373,070**

The weighted average discount rate applied to the finance leases for the year ended December 31, 2022 was 33.03%. The weighted average remaining terms of the leases as of December 31, 2022 was 0.3 years. Total future payments under finance lease agreements are further disclosed in "*Note 16 – Financial Instruments and Financial Risk Management*".

The undiscounted finance liability is as follows:

Year Ending December 31,	
2023	410,138
Total Future Minimum Lease Payments	410,138
Less Amortization of Discount	(19,142)
Less Interest	(17,926)
Present Value of Lease Liabilities	373,070
Less Current Portion of Lease Liabilities	(373,070)
Lease Liabilities, Net of Current Portion	**-**

15. Contingent Consideration and Consideration Payable

On May 7, 2021, the Company closed on a Share Exchange Agreement to acquire 100% of THC Engineering LLC, ("THC"). As consideration, the Company agreed to issue the following in common shares: (1) $1,750,000 at a price per common share equal to a VWAP. ("Consideration Shares"); (2) $2,750,000 common shares at a price per common share equal to a VWAP upon the satisfaction of certain milestones ("Technology Shares").

The Technology Shares are issuable upon the completion of the following milestones: (1) $500,000 common shares at a price per common equal to a VWAP ("First Technology Target"), (2) $1,750,000 common shares at a price per common share equal to a VWAP ("Second Technology Target"), (3) $500,000 upon the completion of the First and Second Technology Target.

The Consideration Shares and Technology Shares are subject to certain escrow conditions ("Payment Dates") as follows: (1) 6% of Considerations are issuable upon the Closing Date, (2) 25% of Consideration and Technology Share are issuable on January 1, 2022; (3) 25% of Consideration and Technology Share are issuable on April 1, 2022; (4) 25% of Consideration and Technology Share are issuable on July 1, 2022; and, (5) 19% of Consideration and 25% Technology Share are issuable on October 1, 2022.

In the event the First and Second Technology Target is met subsequent to Payment Dates, the Technology Shares will be issued in equal installments over the remaining Payment Dates. See "*Note – 18 Share Capital*" for information on shares issued during the year ended December 31, 2022 in relation to the Share Exchange Agreement.

In October 2021, the Company entered into a Membership Interest Unit Purchase Agreement with Anderson Development SB, LLC ("ADSB") to acquire 100% of the outstanding membership interest units. As consideration for the interest units, the Company agreed to an Earnout Consideration ("Earnout") in the amount equal to 200% of the investment amount in ADSB. The Earnout shall be contingent upon ADSB successfully obtaining a land use permit and a business license to conduct cannabis cultivation by August 31, 2023. As of December 31, 2021 there was a remote probability of this occurring before the Earnout Deadline. During the year ended December 31, 2022, Management determined it became highly probably ADSB would acquire the permit and license within the allotted time. This was based on a large change and turnaround in the cultivation market during the year ended December 31, 2022. As such, the Company has recorded an additional contingent consideration for the Earnout that will be paid out in the form of equity totaling $2,400,000.

Pursuant to the terms of the merger agreement, former LEEF shareholders will also be entitled to receive the following contingent Earn-out Payments, On July 20, 2023, an amount equal to 10% of (A) the product equal to two times the TTM revenue calculated for the 12-month period immediately following closing minus (B) US$120 million; on July 20, 2024, an amount equal to 10% of (A) the product equal to two times the TTM revenue calculated for the 12-month period immediately following the date that is one year from the closing date minus (B) the US$120 million and minus (C) any amounts paid pursuant to the First Earn-Out Payment; and on July 20, 2025, an amount equal to 10% of (A) the product equal to two times the TTM revenue calculated for the 12-month period immediately following the date that is two years from the closing date minus (B) US$120 million, minus (C) any amounts paid pursuant to the First Earn-Out Payment, minus (D) any amounts paid pursuant to the Second Earn-Out Payment. The original value of the total earnout as of April 20, 2022 was $3,972,000; See "*Note 4 – Business Combination*". Each of the Earn-Out Payments will be satisfied in full through the issuance of common shares of the Company based on the 30-day volume weighted average trading price of the shares on the Canadian Securities Exchange for the period ending on the business day prior to the issuance.

As of December 31, 2022 and 2021, the contingent consideration was $3,255,000 and nil, respectively, which includes $855,000 related to the Earn Out Payments and $2,400,000 related to ADSB. As of December 31, 2022 and 2021, the consideration payable was $nil and nil, respectively. The entire amounts related to THC and De Krown were satisfied in full as of December 31, 2022.

16. Financial Instruments and Financial Risk Management

Financial Instruments

Financial instruments recorded at fair value are classified using a fair value hierarchy that reflects the significance of the inputs to fair value measurements. The three levels of hierarchy are:

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;
Level 2 – Inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly; and
Level 3 – Inputs for the asset or liability that are not based on observable market data.

Financial instruments are measured at amortized cost or at fair value. Financial instruments measured at amortized cost consist of accounts receivable, and accounts payable and accrued liabilities wherein the carrying value approximates fair value due to its short-term nature. Other financial instruments measured at amortized cost include notes payable, lease liabilities, and convertible debentures wherein the carrying value at the effective interest rate approximates fair value as the interest rate for notes payable and the interest rate used to discount the host debt contract for convertible debentures approximate a market rate for similar instruments offered to the Company.

Cash are measured at Level 1 inputs. Derivative assets and derivative liabilities are measured at fair value based on the Monte Carlo or Black-Scholes option-pricing model, which uses Level 3 inputs. Convertible debentures are measured at fair value based on the Monte Carlo and Black-Sholes simulation model, which uses Level 3 inputs.

The following table summarizes the Company's financial instruments as of December 31, 2022:

	Amortized Cost	FVTPL	Total
Financial assets:			
Cash	$ -	$ 3,305,760	$ 3,305,760
Accounts receivable	$ 3,095,841	$ -	$ 3,095,841
Financial liabilities:			
Accounts payable and other accrued liabilities	$ 3,966,528	$ -	$ 3,966,528
Notes payable	$ 548,947	$ -	$ 548,947
Derivative liabilities	$ -	$ 1,555,037	$ 1,555,037
Lease liabilities	$ 3,428,959	$ -	$ 3,428,959
Finance lease liabilities	$ 373,070	$ -	$ 373,070

16. Financial Instruments and Financial Risk Management (continued)

Financial Instruments (continued)

The following table summarizes the Company's financial instruments as of December 31, 2021:

	Amortized Cost	FVTPL	Total
Financial assets:			
Cash	$ -	$ 7,513,371	$ 7,513,371
Accounts receivable	$ 1,841,421	$ -	$ 1,841,421
Financial liabilities:			
Accounts payable and other accrued liabilities	$ 2,086,750	$ -	$ 2,086,750
Convertible debentures	$ -	$ 12,666,268	$ 12,666,268
Notes payable	$ 94,459	$ -	$ 94,459
Derivative liabilities	$ -	$ 2,513,681	$ 2,513,681
Lease liabilities	$ 907,423	$ -	$ 907,423
Finance lease liabilities	$ 882,837	$ -	$ 882,837

The carrying values of the Company's financial instruments carried at amortized cost approximate fair values due to their short duration.

Financial Risk Management Objectives and Policies

The Company is exposed to various financial risks resulting from both its operations and its investments activities. The Company's management, with the Board of Directors oversight, manages financial risks. Where material, these risks will be reviewed and monitored by the Board of Directors. The type of risk exposure and the way in which such exposure is managed is provided as follows:

Credit risk

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

The Company's receivables are comprised of trade accounts receivable, unbilled revenues, and term note receivables. As of December 31, 2022 and 2021, the Company has approximately $2,100,782 and $1,394,000, respectively, $18,700 and $138,500, respectively, $934,928 and $607,000, respectively, in trade accounts receivable outstanding 0-60 days, 61-90 days and over 90 days, respectively. The expected credit loss for overdue balances as of December 31, 2022 and 2021 is estimated to be approximately $434,446 and $322,000, respectively, based on subsequent collections, discussions with associated customers and analysis of the credit worthiness of the customer.

16. Financial Instruments and Financial Risk Management (Continued)

As of December 31, 2022 and 2021, the Company has a promissory note receivable for approximately $75,000 and $326,000, respectively, from a California licensed producer and included as a component of other assets in the Consolidated Statements of Financial Position. As security for the promissory note the Company holds second ranking security interest, to the senior lender, over the licensed producers' assets.

The carrying amount of cash, promissory note receivable, and trade and other receivables represent the maximum exposure to credit risk. As of December 31, 2022 and 2021, the net amount of maximum exposure risk was approximately $7,065,813 and $9,840,000, respectively.

Market and Other Risks

Market risk is the risk of uncertainty arising primarily from possible commodity market price movements and their impact on the future economic viability of the Company's projects and ability of the Company to raise capital. These market risks are evaluated by monitoring changes in key economic indicators and market information on an on-going basis and adjusting operating and exploration budgets accordingly. As of December 31, 2022, the market and other risks are low.

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations associated with financial liabilities. The Company manages liquidity risk through the management of its capital structure. The Company's approach to managing liquidity is to ensure that it will have sufficient liquidity to settle obligations and liabilities when due.

The Company has the following contractual obligations as of December 31, 2022:

	< 1 Year	1 to 3 Years	3 to 5 Years	> 5 Years	TOTAL
Accounts payable and other accrued liabilities	$ 3,966,528	$ -	$ -	$ -	$ 3,966,528
Notes payable	$ 43,775	$ 505,172	$ -	$ -	$ 548,947
Derivative liabilities	$ -	$ 1,555,037	$ -	$ -	$ 1,555,037
Lease liabilities	$ 335,848	$ 2,537,220	$ 362,247	$ 193,643	$ 3,428,958
Finance lease liabilities	$ 373,070	$ -	$ -	$ -	$ 373,070

The Company has the following contractual obligations as of December 31, 2021:

	< 1 Year	1 to 3 Years	3 to 5 Years	> 5 Years	TOTAL
Accounts payable and other accrued liabilities	$ 2,086,750	$ -	$ -	$ -	$ 2,086,750
Convertible debentures, net of discount	$ 12,666,268	$ -	$ -	$ -	$ 12,666,268
Notes payable	$ 40,571	$ 53,888	$ -	$ -	$ 94,459
Derivative liabilities	$ -	$ 2,513,681	$ -	$ -	$ 2,513,681
Lease liabilities	$ 82,840	$ 348,262	$ 339,441	$ 136,880	$ 907,423
Finance lease liabilities	$ 509,767	$ 373,070	$ -	$ -	$ 882,837

16. Financial Instruments and Financial Risk Management (Continued)

Currency risk
The Company is exposed to currency risk related to the fluctuation of foreign exchange rates and the degree of volatility of those rates. Currency risk is limited to the portion of the Company's business transactions and balances denominated in currencies other than the United States dollar.

The United States dollar equivalent carrying amounts of the Company's Canadian denominated current monetary assets and monetary liabilities at December 31, 2022 was as follows:

Cash	$	109,026
Accounts payable and accrued liabilities		(1,034,820)
Net monetary assets	**$**	**(925,794)**

Assuming all other variables remain constant, a fluctuation of +/- 5.0 percent in the exchange rate between the United States dollar and the Canadian dollar would impact the carrying value of the net monetary assets by approximately +/- $390,000. To date, the Company has not entered into financial derivative contracts to manage exposure to fluctuations in foreign exchange rates.

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. Cash bear interest at market rates. The Company's financial liabilities have fixed rates of interest and therefore expose the Company to a limited interest rate fair value risk.

17. Related Party Transactions

Key Management Compensation

Key management personnel are persons responsible for planning, directing and controlling activities of an entity, and include executive and non-executive persons. During the year ended December 31, 2022, the Company recognized approximately $537,000, and $287,000, in compensation and stock-based compensation, respectively, provided to key management.

Related Party Balances

For the year ended December 31, 2022, the Company had accrued approximately $572,000 of expenses to a farming company that is owned by a member of management and shareholder with approximately $167,735, unpaid as of December 31, 2022.

On November 2, 2021, the Company acquired 100% of the outstanding membership interests of Anderson Development SB, LLC ("ADSB") from third parties and a controlling interest holding related party in exchange for approximately $1,440,000 plus up to an additional $2,400,000 of consideration (the "Contingent Consideration") (collectively, the "Consideration"). The Consideration is payable in Common Stock. The Contingent Consideration is subject to ADSB obtaining a land use permit and a business license by August 31, 2023 that permits ADSB to conduct cannabis cultivation operations. ADSB primarily holds an option to acquire certain real property in Santa Barbara County, California. The Company determined that the acquisition of ADSB membership interest was a common control transaction and have elected to record the assets acquired and liabilities assumed at the historical book value rather than fair value with no recognition of goodwill or gain or loss.

17. Related Party Transactions (Continued)

Related Party Balances (continued)

Additionally, the Company has elected to record the equity consideration at par value and will recognize the Contingent Consideration in the consolidated financial statements only when met. During the year ended December 31, 2022, Management determined it became highly probably ADSB would acquire the permit and license within the allotted time. This was based on a large change and turnaround in the cultivation market during the year ended December 31, 2022. As such, the Company has recorded an additional contingent consideration for the Earnout that will be paid out in the form of equity totaling $2,400,000. See "*Note 15 – Contingent Consideration and Consideration Payable*" for further information.

Below are the amounts recognized by the Company for the assets acquired and liabilities assumed:

Cash	$ 214,916
Accounts receivable	11,900
Prepaid expenses and deposits	102,498
Property and equipment	931,583
Accounts payable and other accrued liabilities	(65,541)
Stock subscription payable	**$ 1,195,356**

In connection with the Merger Agreement with LEEF, the Company has approximately a $500,000 note receivable due from a related party that is due 5 years from the date the merger closed on April 20, 2022. The note receivable was executed with Northern Lights Industrial LLC, which is an entity partially owned by the Company's board chairman. The note is included in other assets on the accompanying statement of financial position and will be satisfied in full by March 28, 2027.

18. Share Capital

Authorized capital

The Company's authorized share capital consists of:

- an unlimited number of common shares without par value; and
- an unlimited number of preferred shares issuable in series. No preferred shares are issued as of December 31, 2022.

Common shares

For the year ended December 31, 2022:

In January 2022, the 1,090,908 common shares previously issued related to ADSB were reclassified out of accrued expenses as a stock payable and into equity as they were deemed issued in 2022. See "*Note 17 – Related Party Transactions*" for further information.

On March 4, 2022, the Company issued 2,727,272 common shares for cash in the amount of $3,600,000.

Pursuant to the acquisition of LEEF, the Company issued 759,717,003 common shares for the re-organization of shares, which were subject to a contractual hold period in accordance with the terms of the merger agreement, with an initial one-eighth of the shares received to be released on the one-year anniversary of closing and the remaining shares to be released in equal one-eighth installments every three months thereafter. These shares we issued as part of the exchange of shares with LEEF for its original shares prior to the date of the merger of 58,137,387. See "*Note 1 – Nature and Continuance of Operations*" and "*Note 4 – Business Combinations*" for further information on the business combination.

18. Share Capital (continued)

Common shares

For the year ended December 31, 2022 (continued):

In addition, there were 238,235,950 common shares assumed for the business acquisition of LEEF with a fair value of $34,606,154. Concurrently, on the effective date of the merger and pursuant to the Merger Agreement, there were an additional 22,748,220 shares issued to the chairman of the board for services rendered for a fair value on the date of issuance of $3,304,406.

On May 20, 2022, the Company issued 3,764,858 common shares with a fair value of $2,250,000 pursuant to the payment of 50% of the consideration shares and a portion of the first milestone shares owed with respect to the terms of the Share Exchange Agreement made for the acquisition of THC Engineering. See "*Note 15 – Contingent Consideration and Consideration Payable*" for further information.

On June 20, 2022 and December 5, 2022, the Company issued 370,518 common shares with a total fair value of $37,481. These issuances were pursuant to the debt conversions for two debenture conversions on the respective dates. See "*Note 13 – Convertible Debentures*" for further information.

On November 25, 2022, the Company issued 1,755,078 common shares with a fair value of $500,000 pursuant to the remaining payment of the consideration shares and remaining milestone shares owed with respect to the terms of the Share Exchange Agreement made for the acquisition of THC Engineering. See "*Note 15 – Contingent Consideration and Consideration Payable*" for further information.

On December 29, 2022, the Company issued 37,651,471 common shares with a fair value of $2,365,077 pursuant to the payment of the consideration payable with respect to the terms of the Agreement made for the acquisition of De Krown Enterprises LLC which was an entity assumed as part of the Merger with LEEF. See "*Note 4 – Business Combination*" for further information.

Warrants

On October 28, 2022, in connection with a debenture conversion, a total of 67,735 warrants to purchase the Company's stock were issued. The warrants are exercisable at a price of CAD$0.15 per share (USD $0.11 at December 31, 2022) for a period of 24 months from the date of issuance. In addition, as discussed in "*Note 13 – Convertible Debentures*" on April 20, 2022, in connection with the LEEF merger, there were 6,616,800 warrants issued from the original 527,338 warrants of LEEF due to the agreed upon 12.55 conversion ratio.

A reconciliation of the beginning and ending balance of warrants outstanding is as follows:

	Number of Warrants
Balance as of December 31, 2021	**7,480,000**
Assumed in business acquisition from LEEF Holdings, Inc.	6,616,800
Issued	67,735
Expired	(7,480,000)
Balance as of December 31, 2022	**6,684,535**

18. Share Capital (Continued)

The following table summarizes the warrants outstanding that remain outstanding as of December 31, 2022:

Expiration Date	Number of Warrants		Exercise Price
June 7, 2024	6,414,308	$	0.08
June 6, 2024	202,492	$	0.02
October 28, 2024	67,735	$	0.11
Total warrants outstanding	**6,684,535**		

As of December 31, 2022, 6,414,308 warrants were able to be exercised and all warrants outstanding classified as equity have a weighted-average remaining contractual life of 1.44 years. For the year ended December 31, 2022, the fair value of warrants granted was determined using the Black-Scholes option-pricing model with the following assumptions at the time of grant:

		2022
Expected Stock Price Volatility		106.00%
Risk-Free Annual Interest Rate		2.07%
Expected Life (Years)		4.00
Share Price	$	1.00
Exercise Price	$	1.00

2019 Stock incentive plan

The omnibus 2019 stock incentive plan permits the Board of Directors of the Company to grant options to employees and non-employees to acquire common shares of the Company at fair market value on the date of approval by the Board of Directors. Vesting is determined on an award-by-award basis.

The following table summarizes 2019 stock incentive plan activity during the year ended December 31, 2022:

	Number of Stock Options		Weighted - Average Exercise
Balance as of December 31, 2021	**10,903,033**	**$**	**0.35**
Granted	7,508,259	$	0.19
Assumed in business acquisition from LEEF Holdings, Inc.	125,295,889	$	0.07
Forfeited	(3,642,141)	$	(1.06)
Balance as of December 31, 2022	**140,065,040**	**$**	**0.16**

18. Share Capital (Continued)

For the year ended December 31, 2022, the fair value of stock options granted was determined using the Black-Scholes option-pricing model with the following assumptions at the time of grant:

	2022
Weighted-Average Risk-Free Annual Interest Rate	2.74%
Weighted-Average Expected Annual Dividend Yield	0.00%
Weighted-Average Expected Stock Price Volatility	101.48%
Weighted-Average Expected Life of Stock Options (Years)	5.00
Weighted-Average Expected Forfeiture Rate	0.00%

The intrinsic value of the aggregate outstanding options as of December 31, 2022 was $440,921.

The following table summarizes the stock options that remain outstanding as of December 31, 2022:

Exercise Price	Expiration Date	Stock Options Outstanding	Stock Options Exercisable	Vesting Condition
$ 0.06	March 2030	3,136,888	3,136,888	Performance based
$ 0.06	February 2029	2,648,361	2,648,361	Performance based
$ 0.06	October 2023	390,542	390,542	Three year vesting
$ 0.06	April 2023	12,548	12,548	Immediate vesting
$ 0.06	January 2030	882,795	882,795	Immediate vesting
$ 0.06	June 2029	18,821,325	6,273,775	Performance based
$ 0.81	February 2029	10,718,917	10,718,917	Performance based
$ 0.06	July 2029	28,249,178	28,249,178	Immediate vesting
$ 0.06	February 2029	1,112,428	1,112,428	Three year vesting
$ 0.06	February 2029	125,476	125,476	One year vesting
$ 0.06	February 2029	941,066	941,066	Two year vesting
$ 0.06	February 2029	22,943,866	22,943,866	25% on initial date, 25% over 3 years
$ 0.06	February 2029	195,453	195,453	Immediate vesting
$ 0.06	February 2029	2,643,907	2,643,907	Three year vesting
$ 0.00	October 2030	8,871,118	8,871,118	One year vesting
$ 0.10	October 2030	1,254,755	1,254,755	Performance based
$ 0.10	January 2031	94,107	70,580	Two year vesting
$ 0.10	June 2031	2,509,510	2,509,510	Three year vesting with performance acceleration
$ 0.11	July 2031	1,090,796	545,398	Three year vesting
$ 0.11	October 2031	10,765,583	5,382,791	Two year vesting
$ 0.11	October 2031	313,689	313,689	Immediate vesting
$ 0.10	December 2030	125,476	125,476	Performance based
$ 0.40	June 2023	2,750,000	2,750,000	Immediate
$ 0.33	July 2024	3,750,000	3,750,000	Immediate
$ 0.33	July 2024	1,650,000	1,650,000	Six months vesting
$ 0.33	July 2024	390,000	245,000	Four years vesting
$ 0.33	July 2024	850,000	340,000	Five years vesting
$ 0.35	October 2025	3,619,000	1,581,733	Thirty months vesting
$ 0.35	October 2025	250,000	233,333	Two year vesting
$ 0.35	October 2025	650,000	393,333	Immediate
$ 0.70	February 2026	100,000	100,000	Immediate
$ 0.55	March 2026	500,000	250,000	Thirty months vesting
$ 0.35	June 2026	199,998	79,999	Thirty months vesting
$ 0.19	April 2027	7,508,259	1,668,502	Three year vesting
		140,065,040	**112,390,416**	

18. Share Capital (Continued)

Restricted Share Unit Plan

In December 2022, the Company formally adopted the Restricted Share Unit Plan ("RSU Plan"). The RSU Plan permits the Board of Directors of the Company to grant Restricted Share Units ("RSU's") to employees and non-employees to acquire common shares of the Company at fair market value on the date of approval by the Board of Directors. Vesting is determined on an award-by-award basis. During the year ended December 31, 2022, the Company granted 8,926,947 units to certain individuals. As of December 31, 2022, 6,615,836 units were vested, 652,015 were forfeited, and no units were exercised. For the year ended December 31, 2022, the Company recognized share-based compensation expense of $460,340 for units that were vested. The average grant-date fair value of the RSU's during the year was $0.07.

Reserves

Reserves includes accumulated foreign currency translation adjustments and the accumulated fair value of share-based compensation and warrants transferred from share-based payment reserve and warrant reserve upon cancellation or expiry of the share options and warrants.

19. Segmented Information

The assets and operations of the Company are located in Canada and the United States. The Company has one reportable business segments in the cannabis sector.

	Canada	USA	Total
Year ended December 31, 2022			
Revenues	$ -	$ 27,003,157	$ 27,003,157
Total expenses	787,768	51,471,672	52,259,440
Loss before provision for income taxes	**$ (787,768)**	**$ (24,468,515)**	**$ (25,256,283)**
As of December 31, 2022			
Total current assets	$ 7,806,325	$ 4,005,012	$ 11,811,338
Total assets	$ 5,140,457	$ 56,785,820	$ 61,926,276
Total liabilities	$ 12,013,578	$ 22,180,274	$ 34,193,852

20. Non-controlling interest

Non-controlling interest represents the net assets of the subsidiaries the Company does not directly own. The net assets of the non-controlling interest are represented by equity holders outside of the Company. As of December 31, 2022 and 2021, the Company holds a 51.01% and 51.01% interest, respectively, in an investment subsidiary and the third party holds a 48.99% and 48.99% minority interest, respectively. This entity is included in the financial statements with a resulting non-controlling interest reflected therein. Non-controlling interests are included as a component of shareholders' equity.

A reconciliation of the beginning and ending balances for non-controlling interest for the year ended December 31, 2022 is as follows:

	2022
Balance as of beginning of year	$ 5,060,913
Share of loss	(1,268,735)
Balance as of end of year	**$ 3,792,178**

As of December 31, 2022, non-controlling interest included the following amounts before intercompany eliminations:

	2022
Balance as of beginning of year	$ 5,060,913
Share of loss	(1,268,735)
Balance as of end of year	**$ 3,792,178**

	2022
Current assets	$ 1,035,479
Non-current assets	13,139
Total assets	**$ 1,048,619**
Current liabilities	$ 51,002
Non-current liabilities	510
Total liabilities	**$ 51,512**
Revenues	**$ -**
Net loss and comprehensive loss attributable to non-controlling interest	**$ (1,268,735)**

21. Commitments and contingencies

Contingencies

The Company's operations are subject to a variety of local and state regulations. Failure to comply with one or more of these regulations could result in fines, restrictions on its operations, or losses of permits that could result in the Company ceasing operations. While management of the Company believes that the Company is in compliance with applicable local and state regulations as of December 31, 2022 and 2021, marijuana regulations continue to evolve and are subject to differing interpretations. In addition, the use, sale, and possession of cannabis in the United States, despite state laws, is illegal under federal law. However, individual states have enacted legislation permitting exemptions for various uses, mainly for medical and industrial use but also including recreational use. As a result of the differing state and federal laws, the Company may be subject to regulatory fines, penalties or restrictions in the future.

Claims and Litigation

From time to time, the Company may be involved in litigation relating to claims arising out of operations in the normal course of business. As of December 31, 2022 and 2021, there were no pending or threatened lawsuits that could reasonably be expected to have a material effect on the results of the Company's operations. As of December 31, 2022 and 2021, there are also no proceedings in which any of the Company's directors, officers or affiliates is an adverse party to the Company or has a material interest adverse to the Company's interest.

22. Loss Per Share

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

	Years Ended	
	2022	**2021**
Net Loss Attributable to the Company	$ (27,485,978)	$ (7,326,387)
Plus interest expense of convertible debentures	1,521,125	-
Net Loss Attributable to the Company	$ (25,964,854)	$ (7,326,387)
Weighted-Average Shares Outstanding - Basic	731,791,732	54,865,718
Weighted-Average Shares Outstanding - Diluted	731,791,732	54,865,718
Loss Per Share Attributable to the Company - Basic	**$ (0.04)**	**$ (0.13)**
Loss Per Share Attributable to the Company -Diluted	**$ (0.04)**	**$ (0.13)**

Net income attributable to the Company, as reported, is adjusted for dividends and various other adjustments as defined in IAS 33 "Earnings Per Share".

22. Earnings (Loss) Per Share (Continued)

After adjustments as defined in IAS 33, if the Company is in a net loss position, diluted loss per share is the same as basic loss per share when the issuance of shares on the exercise of convertible debentures, warrants, share options are anti-dilutive. After adjustments, as defined in IAS 33, if the Company is in a net income position, diluted earnings per share includes options, warrants, convertible debt and contingently issuable shares that are determined to be dilutive using the treasury stock method for all equity instruments issuable in equity units and the "if converted" method for the Company's convertible debt.

23. Income Taxes

A reconciliation of total income tax expense and the amount computed by applying the federal statutory income tax rate of 21% to loss before provision from income taxes for the years ended:

	December 31, 2022	December 31, 2021
Expected income tax recovery (Domestic)	$ (5,632,745)	$ (1,270,081)
Expected income tax recovery (Foreign)	(408,372)	-
State taxes (net of federal tax benefits)	(512,084)	(244,068)
Increase in valuation allowance (Domestic)	1,071,379	772,986
Increase in valuation allowance (Foreign)	408,372	-
Interest and penalties	669,000	-
Impairment of goodwill	2,811,827	-
Share-based compensation	1,106,573	274,774
Debt discount and interest	-	506,207
Change in fair value	280,442	-
Permanent non-deductible IRS Section 280E	3,164,725	1,769,131
Acquisition expenses	420,699	-
Other	287,502	(128,151)
Income tax expense	$ 3,667,318	$ 1,680,798

The provision from income taxes for the years ended:

	December 31, 2022	December 31, 2021
Current income tax expense	$ 3,755,257	$ 1,682,695
Deferred income tax recovery	(87,939)	(1,897)
Income tax expense	$ 3,667,318	$ 1,680,798

23. Income Taxes (continued)

The unrecognized temporary differences of the Company that give rise to significant portions of the Company's deferred tax assets and liabilities are set forth below:

	December 31, 2022	December 31, 2021
Deferred Tax Assets:		
Non-capital loss carry forwards	$ 10,155,129	$ -
Accrued expenses	35,760	-
Reserves	90,426	10,421
Other	7,375	-
Valuation allowance	(10,288,690)	-
Total Deferred Tax Assets	-	10,421
Deferred Tax Liabilities:		
Fixed assets and intangibles	(8,764,120)	-
Net deferred tax (liability) asset	$ (8,764,120)	$ 10,421

The net change in the deferred balance for December 31, 2022 was $8,774,541. In assessing the realizability of deferred tax assets and liabilities, management considers whether it is more likely than not that some portion or all will not be realized. The Company is recognizing a net deferred tax liability balance in the current year.

The difference between the statutory tax rate of 21.00% and the effective tax rate of 33.94% is attributable to certain permanent differences. This permanent differences include adjustments for meals and entertainment, change in fair value of contingent consideration, share-based compensation expense, U.S. IRC Section 280E non-deductible expenses, change in fair value of derivative liabilities, loss on impairment of long-lived assets and intangibles, acquisition related expenses, and interest and penalties.

As the Company operates in the cannabis industry, it is subject to the limits of U.S. IRC Section 280E under which the Company is only allowed to deduct expenses directly related to sales of product. This results in permanent differences between ordinary and necessary business expenses deemed non-allowable under U.S. IRC Section 280E.

Federal and California tax laws impose significant restrictions on the utilization of net operating loss carryforwards in the event of a change in ownership of the Company, as defined by Internal Revenue Code Section 382 (Section 382). The Company has not completed a formal analysis of a change in ownership, as defined by Section 382, but believe any such change would be immaterial for the year ended December 31, 2022. The Company has net operating loss carryforwards for federal, California, and foreign income tax purposes of approximately $10,547,000, $22,511,000, and $22,849,000, respectively, as of December 31, 2022. The federal net operating loss carryforwards, if not utilized, will carryover indefinitely. The state net operating loss carryforwards, if not utilized, will expire beginning in 2041. The foreign non-capital loss carryforwards of Canada, if not utilized, will expire beginning in 2043.

As of the date these financial statements were available to be issued, the Company has not yet filed its federal income tax return for the 2021 calendar year. The Company has computed interest and penalties of approximately $669,000 on its current income tax payable and it is included within its current income tax provision expense on the statement of loss and comprehensive loss in the accompanying financial statements. The Company has recorded as a liability on the statement of financial position as of December 31, 2022. The company has full intention on becoming compliant with the latest filings during the second quarter of the 2023 calendar year. Any losses that will contribute to an additional net operating loss carryforward for the 2021 tax year have not been included in the above. The timing for expiration of these losses will not commence until the 2021 federal return has been filed.

24. Subsequent events

On January 1, 2023, the Company signed a Licensing and Reseller Agreement with Buddies Brands, Inc. Buddies is a multi-state operator that currently ranks as a top ten brand in California for vapes and concentrate products. The agreement will provide alignment of Buddies and Leef and combine the sales expertise of both companies allowing for expanded opportunities and increased sell through.

On January 1, 2023, the Company entered into a Membership Interest Assignment Agreement with States Top Packager LLC ("STP") to assign 100% of its interests in De Krown Enterprises LLC ("De Krown") to STP. The consideration for the interests in De Krown includes a credit for the purchase of goods or services from De Krown from time to time in the aggregate amount of $523,319. In addition, the Company has the rights to receive any cash collected on the outstanding accounts receivable of De Krown as of the date of the Agreement which totals $440,578. Further, the Company will retain possession of the remaining cash in bank of $209,631 as of the date of the Agreement.

Subsequent to the above agreement, on March 17, 2023 the Company has entered into an additional Member Interest Assignment Agreement with STP and De Krown to assign 100% of the membership interests of Cali-Cann Distribution LLC. Under the Agreement, STP and De Krown have taken over as guarantor of certain lease agreements and obligations. As consideration for the assumption of these liabilities, the Company has transferred its rights to receive certain accounts receivable totaling $210,000 that existed as of January 1, 2023.

On January 11, 2023, the Company entered into a Membership Interest Purchase Agreement with The Leaf at 73740, LLC ("The Leaf"), a dispensary in Palm Desert, California, to acquire 100% of the outstanding interest in The Leaf. For the consideration of the interests, the Company issued 76,336,969 common shares valued at approximately $4.6 million in addition to a working capital adjustment consideration of approximately $0.3 million, subject to closing adjustments. At the time these financial statements were available to be issued, the Company was still determining the purchase accounting for the acquisition of The Leaf and expects to finalize the accounting for the acquisition by August 2023. The primary areas of the preliminary purchase price allocation that are not yet finalized relate to the fair values of certain tangible assets, the valuation of intangible assets acquired, and residual goodwill. The Company expects to continue to obtain information to assist in determining the fair value of the net assets acquired at the acquisition date during the measurement period. On April 18, 2023, there was an additional 5,083,983 shares with a fair value of $253,945 and was related to the working capital adjustment for the total consideration noted above.

On January 27, 2023, the Company issued 3,973,081 common shares, with a fair value of $238,362 related to the conversion of certain notes payable.

On January 27, 2023, the Company issued 53,700 common shares, with a fair value of $4,000. This issuance was pursuant to the debt conversion of the convertible debentures.

On March 6, 2023, Company director and former CEO Brandon Kou resigned from the board of directors of LEEF Brands, Inc.

From January 1, 2023 through May 1, 2023, the Company issued a total of 6,074,932 shares related to the exercise of RSU's for three individuals.