Vext Science, Inc.

Condensed Consolidated Interim Financial Statements

September 30, 2022 and 2021

(Expressed in U.S. Dollars)

(Unaudited)

Vext Science, Inc.

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VEXT SCIENCE, INC

Condensed Consolidated Interim Statements of Financial Position

(Expressed in U.S. Dollars) (Unaudited)

	Notes	September 30, 2022	December 31, 2021
ASSETS			
Current assets			
Cash		$ 12,005,132	$ 6,467,091
Accounts receivable, net	4	4,250,190	21,890,638
Inventory	5	10,325,284	214,859
Biological assets	11	2,048,975	—
Prepaid expenses, deposits, and other receivables	6	1,709,499	497,012
Notes receivable – current	7	10,244,047	1,082,873
Deferred tax asset	14	2,092,988	—
Due from related parties	19	316,251	316,251
Advances to joint operation	10	842,458	693,393
		43,834,824	31,162,117
Non-current assets			
Note receivable non-current		—	13,272,694
Property, plant and equipment	12	35,448,898	28,817,265
Investment in joint ventures	9	1,688,975	1,722,587
Right-of-use asset	17	843,143	228,835
Due from related parties	19	1,328,383	1,328,383
Intangible assets	13	27,027,672	6,710,475
Goodwill	13	461,752	461,752
Total Assets		$ 110,633,647	$ 83,704,108
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Payables and accrued liabilities	15	$ 7,024,790	$ 3,091,428
Due to related party	19	225,000	225,000
Notes payable – current portion	16	3,120,000	769,117
Notes payable – RDF current portion	16	944,174	1,235,095
Lease liability – current portion	17	149,992	15,372
Loan payable	18	4,400,000	4,400,000
Total current liabilities		15,863,957	9,736,012
Long-term liabilities			
Notes payable – non-current portion	16	17,976,764	4,725,484
Notes payable – RDF-non-current portion	16	1,768,576	2,706,357
Lease liability – non-current portion	17	778,130	250,692
Deferred tax liabilities		9,242,942	6,892,000
Total liabilities		45,630,369	24,310,545
Shareholders' equity			
Subordinated and multiple voting shares		33,990,310	33,852,564
Reserves		4,119,079	3,276,034
Accumulated other comprehensive loss		(138,036)	(138,036)
Retained earnings		27,031,926	22,403,001
Total shareholders' equity		65,003,278	59,393,563
Total liabilities and shareholders' equity		$ 110,633,647	$ 83,704,108

Commitments and Contingencies, (Note 24)

Approved on November 17, 2022 on behalf of the Board of Directors:

"*Jason T. Nguyen*", Director "*Eric J. Offenberger*", Director

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

VEXT SCIENCE, INC.

Condensed Consolidated Interim Statements of Operations and Comprehensive Income
(Expressed in U.S. Dollars) (Unaudited)

	Notes	For the Three Months Ended September 30, 2022	For the Three Months Ended September 30, 2021	For the Nine Months Ended September 30, 2022	For the Nine Months Ended September 30, 2021
Sales		**7,673,101**	9,399,700	**27,230,032**	27,935,765
Cost of Goods Sold		**3,048,671**	5,298,387	**10,396,041**	15,457,350
Gross Profit before fair value adjustments		**4,624,430**	4,101,313	**16,833,991**	12,478,415
Unrealized change in fair value of biological assets	11	**(874,591)**	—	**(3,732,498)**	—
Realized change in fair value of inventory sold	11	**622,550**	—	**1,808,245**	—
Gross Profit		**4,876,471**	4,101,313	**18,758,244**	12,478,415
Operating Expenses					
Accretion on leases and debt		—	785,192	**12,372**	1,052,537
Amortization	13,17	**788,865**	369,349	**2,362,830**	786,999
Depreciation	12	**105,807**	38,647	**307,291**	160,524
Interest		**620,835**	33,840	**1,296,131**	(18,212)
Share-based compensation	20	**660,488**	171,479	**850,946**	816,842
Salaries, wages, and commissions		**954,791**	263,095	**3,213,622**	831,173
General and administrative		**1,076,012**	994,601	**3,680,240**	3,586,343
Total Operating Expenses		**4,206,799**	2,656,203	**11,723,431**	7,216,206
Other Income (Expense)					
Share of profit (loss) of joint ventures	9	**(53,014)**	(2,602)	**(425,942)**	(408,697)
Loss on investment		—	(212,675)	—	(212,675)
Disposal of assets gain / (loss)		**(2,893)**	75,000	**7,270**	75,000
Gain on derecognition of ROU asset		—	—	—	3,195
Foreign exchange gain / (loss)		**45**	29	**836**	(7,858)
Interest income		**148**	203,552	**149**	561,302
Total other income (expense)		**(55,715)**	63,304	**(417,687)**	10,267
Net income before tax		**613,958**	1,508,414	**6,617,126**	5,272,476
Income tax expense		**(190,425)**	(538,308)	**(1,988,200)**	(1,370,844)
Net income after taxes		**$ 423,533**	$ 970,106	**$ 4,628,926**	$ 3,901,632
Unrealized gain (loss) on foreign exchange translation		—	(109,872)	—	238,348
Total comprehensive income		**$ 423,533**	$ 860,234	**$ 4,628,926**	$ 4,139,980
Basic earnings per common shares		**$ —**	$ 0.01	**$ 0.03**	$ 0.04
Diluted earnings per common shares		**$ —**	**$ 0.01**	**$ 0.03**	$ 0.03
Weighted average number of common share outstanding – basic		**138,270,384**	136,712,624	**138,167,803**	111,395,362
Weighted average number of common share outstanding - diluted		**140,006,991**	146,414,401	**140,555,002**	123,810,224

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

VEXT SCIENCE, INC

Condensed Consolidated Interim Statements of Changes in Shareholders' Equity

(Expressed in U.S. Dollars) (Unaudited)

	Share Capital									
	Number of Subordinated Voting Shares	Amount: Subordinated Voting Shares	Number of Multiple Voting Shares	Amount: Multiple Voting Shares	Reserves: Compensatory Warrants	Reserves: Stock Options	Reserves: RSU	Accumulated Other Comprehensive Income	Retained Earnings	Total Shareholder's Equity
Balance at December 31, 2020	**46,706,391**	**$ 15,247,883**	**684,471**	**$ 1,934,241**	**$ 1,182,426**	**$ 815,847**	**$ —**	**$ (283,558)**	**$ 17,416,281**	**$ 36,313,120**
Conversion of multiple voting shares to subordinated voting shares	293,100	—	(2,931)	—	—	—	—	—	—	—
Shares issued upon prospectus offering	18,515,000	16,259,725	—	—	—	—	—	—	—	16,259,725
Shares issued for settlement of debt	1,395,000	1,225,078	—	—	—	—	—	—	—	1,225,078
Share issuance costs – Non Cash warrants	—	(957,786)	—	—	957,786	—	—	—	—	—
Share issuance costs – Cash	—	(1,586,726)	—	—	—	—	—	—	—	(1,586,726)
Share-based compensation	—	—	—	—	103,248	656,474	57,120	—	—	816,842
Shares issued from options exercised	250,000	237,524	—	—	—	(90,843)	—	—	—	146,681
Shares issued from warrant exercised	1,399,133	611,094	—	—	(183,424)	—	—	—	—	427,670
Other comprehensive income for the period	—	—	—	—	—	—	—	238,348	—	238,348
Net income for the period	—	—	—	—	—	—	—	—	3,901,632	3,901,632
Balance at September 30, 2021	**68,558,624**	**31,036,792**	**681,540**	**1,934,241**	**2,060,036**	**1,381,478**	**57,120**	**(45,210)**	**21,317,913**	**57,742,370**
Balance at										
Balance at December 31, 2021	**69,891,434**	**$ 31,918,323**	**678,609**	**$ 1,934,241**	**$ 1,744,964**	**$ 1,466,642**	**$ 64,428**	**$ (138,036)**	**$ 22,403,001**	**$ 59,393,562**
Conversion of multiple voting shares to subordinated voting shares	586,200	—	(5,862)	—	—	—	—	—	—	—
Share replacement	300,000	—	—	—	—	—	—	—	—	—
Share-based compensation	—	—	—	—	10,349	274,516	566,081	—	—	850,947
Shares issued from warrants exercised	369,500	129,845	—	—	—	—	—	—	—	129,845
Shares issued from RSUs exercised	8,333	7,901	—	—	—	—	(7,901)	—	—	—
Net income for the period	—	—	—	—	—	—	—	—	4,628,926	4,628,926
Balance at September 30, 2022	**71,155,467**	**$ 32,056,069**	**672,747**	**1,934,241**	**1,755,313**	**1,741,158**	**622,608**	**(138,036)**	**27,031,926**	**65,003,278**

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

VEXT SCIENCE, INC

Condensed Consolidated Interim Statements of Cash Flows

(Expressed in U.S. Dollars) (Unaudited)

	Nine months ended September 30, 2022	Nine months ended September 30, 2021
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income for the period	**$ 4,628,926**	$ 3,901,632
Items not affecting cash:		
Amortization	**2,362,830**	626,475
Depreciation	**2,296,946**	1,722,838
Accretion on leases and debt	**12,372**	1,052,537
Interest expense on lease liability non-cash	**7,400**	9,122
Foreign exchange	—	235,080
Share-based compensation	**850,946**	816,842
Share of loss on joint ventures	**407,862**	408,697
Deferred tax liabilities	**1,988,200**	1,370,844
Unrealized change in fair value of biological assets	**(3,732,498)**	—
Realized change in fair value of inventory sold	**1,808,245**	—
Gain on derecognition of ROU asset	—	(3,195)
Non-cash working capital item changes:		
Accounts receivable	**(2,195,543)**	(4,874,783)
Biological asset (capitalized costs)	**(4,831,197)**	—
Inventory	**295,159**	518,710
Prepaid expenses, deposits and other receivables	**(1,081,118)**	788,214
Payables and accrued liabilities	**238,355**	141,798
Net cash provided by operating activities	**3,056,885**	**6,714,811**
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash acquired from acquisition	**736,538**	—
Cash paid on lawsuit settlement (RDF)	**(622,125)**	(1,219,618)
Loan to joint operations	**(149,065)**	(261,370)
Notes receivable issued	**(4,266,292)**	(4,288,371)
Investment in legacy ventures	—	114,846
Investment in joint ventures	**(374,250)**	(374,546)
Acquisition of property, plant and equipment	**(7,849,702)**	(15,841,418)
Net cash used in investing activities	**(12,524,896)**	**(21,870,477)**
CASH FLOWS FROM FINANCING ACTIVITIES		
Prospectus offerings	—	16,259,725
Private placement	—	1,225,078
Share issuance costs- cash	—	(1,586,726)
Loan payable proceeds	**21,993,052**	—
Loan costs	**(1,026,249)**	—
Notes payable (payments) proceeds	**(5,692,807)**	4,769,471
Notes payable RDF payments	**(303,292)**	(370,000)
Reduction in lease liability	**(94,495)**	(89,875)
Reduction in sublease investment	—	71,676
Exercise of options	—	146,681
Exercise of warrants	**129,844**	427,670
Net cash provided by provided financing activities	**15,006,052**	20,853,700
Net change in cash during the period	**$ 5,538,041**	$ 5,698,034
Cash, beginning of the period	**$ 6,467,091**	$ 1,745,381
Cash, end of the period	**$ 12,005,132**	$ 7,443,415

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

Cash paid for				
Taxes	**$**	**—**	$	—
Interest	**$**	**1,296,131**	$	167,180
Non-cash investing and financing activities				
Acquisition of dispensaries in exchange for receivables and notes due from seller (Note 14)	**$**	**35,435,080**	$	—
Recognition of new right of use assets (ROU)		**749,152**		
Warrants Issued - share issuance costs		**—**		957,786
Exercise of options non-cash		**—**		90,843
Exercise of Warrants non-cash		**9,701**		183,424

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

1. NATURE OF OPERATIONS

Vext Science, Inc. (the "Company") owns 100% interest in two vertically integrated cannabis operations in Arizona. Additionally, the Company provides management, advisory, cultivation, and dispensary services to entities in the cannabis field through joint operations agreements. The Company also is engaged in selling CBD products and branded merchandise. Vapen Brands product is the wholesale product and sold in our dispensaries as well as others. The Vapen Brand is an edible and concentrate brand. Flower, unless as a preroll or infused is sold primarily in our retail operations. Vapen Brands also distributes Wynk and Major beverages. The head office and principal address of the Company is located at Suite 2250 – 1055 W. Hastings St., Vancouver, BC V6E 2E9 and the U.S. headquarters is at 4152 N. 39th Ave, Phoenix, Arizona 85019.

The owned dispensaries are branded as Herbal Wellness Center, with one licensed as Herbal Wellness Center and the other licensed as Organica Patient Group. Prior to passage of Arizona's adult-use of cannabis program; Arizona law required all cannabis licensed dispensaries to operate as nonprofit entities under the state's medical cannabis program. Following the passage of Arizona voter initiative 207 in November 2020, codified as A.R.S. §§ 2850, in addition to allowing for adult use, a cannabis establishment license may operate on a for-profit basis if the licensee promptly notifies the Arizona Department of Health Services ("AZ DHS"), Department of Revenue, and takes all actions necessary to enable its for-profit operation, including converting its corporate form under the Arizona Restructuring Act. See A.R.S. § 36-2858(D)(2).

As referenced above, Effective January 1, 2022, the Company restructured its operations from management to the ownership of dispensaries and cultivation centers. Revenue now represents actual sales from the dispensaries as opposed to management fees, professional fees, equipment and property leasing previously. The characterization, classification, and presentation of operating expenses has changed to reflect the dispensary acquisitions.

(Expressed in U.S. Dollars) (Unaudited)

2. BASIS OF PRESENTATION

a) Statement of Compliance

These interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standard 34 - *Interim Financial Reporting* ("IAS 34") using accounting policies consistent with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). Accordingly, certain disclosures normally included in annual financial statements prepared in accordance with IFRS have been omitted or condensed. These financial statements should be read in conjunction with the Company's audited consolidated financial statements for the year ended December 31, 2021.

b) Basis of Preparation

These interim condensed consolidated financial statements have been prepared on the going concern basis, under historical cost, except for certain financial instruments classified as fair value through profit or loss and biological assets that are measured at fair value less costs to sell. The financial statements, unless otherwise specified, are presented in United States ("U.S.") dollars.

c) Basis of Consolidation

The condensed consolidated interim financial statements include consolidated accounts of the Company and its subsidiaries, including its economic interest in joint operations. Joint ventures is recorded as an investment. Subsidiaries are those entities that the Company controls. The Company controls an entity when the Company is exposed to or has rights to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Company and are de-consolidated from the date that control ceases. All intercompany transactions and balances have been eliminated on consolidation.

Entities as of September 30, 2022, the Company are listed below.

Name	Jurisdiction	Ownership
Vext Science, Inc.	**BC, Canada**	**100%**
Subsidiaries:		
New Gen Holdings, Inc.	Wyoming, USA	100%
Step 1 Consulting, LLC	Delaware, USA	100%
New Gen Admin Services, LLC	Arizona, USA	100%
New Gen Agricultural Services, LLC	Arizona, USA	100%
New Gen Real Estate Services, LLC	Arizona, USA	100%
Hydroponics Solutions, LLC	Arizona, USA	100%
New Gen Phoenix (PHX), LLC	Arizona, USA	100%
New Gen Eloy, LLC	Arizona, USA	100%
New Gen Prescott (PV), LLC	Arizona, USA	100%
Pure Touch Botanicals, LLC	Arizona, USA	100%
Vapen, LLC	Arizona, USA	100%
Vapen CBD, LLC	Arizona, USA	100%
RDF Management, LLC	Arizona, USA	100%
Firebrand, LLC	Arizona, USA	100%
Herbal Wellness Center, LLC	Arizona, USA	100%
Organica Patient Group, LLC	Arizona, USA	100%
Joint Ventures:		
Vapen Kentucky, LLC	Kentucky, USA	50%
Vapen Oklahoma, LLC	Oklahoma, USA	25%
Joint Operations:		
Happy Travels, LLC	California, USA	50%

2. BASIS OF PRESENTATION (*CONTINUED…*)

d) Approval of the Consolidated Financial Statements

These condensed consolidated interim financial statements for the three and nine months ended September 30, 2022 were approved and authorized for issue by the Board of Directors on November 17, 2022.

e) Significant Accounting Judgements and Estimates

The preparation of the Company's condensed interim consolidated financial statements is in conformity with IFRS, which requires management to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the condensed consolidated interim financial statements and reported revenues and expenses during the reporting period.

Critical Judgements

The preparation of these condensed consolidated interim financial statements requires management to make judgements regarding the going concern of the Company, as previously discussed in Note 1, as well as the determination of functional currency, and its classification of joint arrangements. The functional currency is the currency of the primary economic environment in which an entity operates and has been determined for each entity within the Company. Management has determined that the functional currency of the parent is the Canadian dollar, while the functional currency of the subsidiaries has been determined to be the U.S. dollar.

Joint Arrangements

As at September 30, 2022, the Company holds a 50% interest in a Kentucky joint arrangement (Vapen Kentucky) and a 25% interest in an Oklahoma joint arrangement (Vapen Oklahoma). The Company has joint control over these arrangements as under the contractual agreements, unanimous consent is required from all parties to the agreements for certain key strategic, operating, investing and financing policies. The Company's joint arrangements are structured as a limited liability corporation and provide the Company and its partners (parties to the agreements) with rights to the net assets of the limited liability corporations under the arrangements. Therefore, these arrangements are classified as joint ventures and are recorded as investments by the Company. Furthermore, the Company holds 50% interest in a California joint arrangement (Happy Travels), but has equal joint control in a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement on a proportionate basis. The arrangement is therefore recognized as a joint operation. Neither of the parties involved have unilateral control of the joint operation. The Company accounts for its 50% voting interest in joint operations by recognizing separately its share of assets, liabilities, revenues and expenses in accordance with its contractually conferred rights and obligations. The Company records 50% of all operational activity in its financials including 50% of all assets and liabilities. This assessment is to be performed on a continuous basis and is consolidated with the Company financials.

Deferred Tax Assets & Liabilities

The estimation of income taxes includes evaluating the recoverability of deferred tax assets and liabilities based on an assessment of the Company's ability to utilize the underlying future tax deductions against future taxable income prior to expiry of those deductions. Management assesses whether it is probable that some or all the deferred income tax assets and liabilities will not be realized. The ultimate realization of deferred tax assets and liabilities is dependent upon the generation of future taxable income, which in turn is dependent upon the successful management of cannabis operations. To the extent that management's assessment of the Company's ability to utilize future tax deductions changes, the Company would be required to recognize more or fewer deferred tax assets or liabilities, and deferred income tax provisions or recoveries could be affected.

Key Sources of Estimation Uncertainty

Because a precise determination of many assets and liabilities is dependent upon future events, the preparation of consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions that

2. BASIS OF PRESENTATION (*CONTINUED…*)

affect the reported amounts of assets and liabilities and the disclosure of assets and liabilities at the date of these consolidated financial statements and the reported amounts of expenses during the reporting periods. Actual results could differ from those estimates and such differences could be significant.

Significant estimates made by management affecting these consolidated financial statements include:

Allowance for Doubtful Accounts

The Company estimates the amount of accounts receivable that may not be collectable and will allow for a write down of such amounts. Management uses historical information on the recoverability of accounts receivable and also looks at specific account balances in determining the allowance.

Useful Life of Property, Plant and Equipment and Intangible Assets

Property, plant, equipment and intangible assets are amortized over their estimated useful life. Estimated useful lives are determined based on current facts and past management experience and take into consideration the anticipated physical life of the asset, the potential for technological obsolescence, and regulations.

Depreciation is provided on a straight-line basis over the estimated useful lives of the assets as follows:

Asset	Amortization	Rate
Land	No amortization	—
Building	Straight line method	39 years
Equipment and machinery	Straight line method	3-7 years
Leasehold improvements	Straight line method	Over the term of the lease
Building improvements	Straight line method	5 years
Automobile	Straight line method	3-5 years

The useful life of the intangible assets are as follows:

Asset	Amortization	Rate
Patent	Straight line method	15 years
License	Straight line method	12 years
Customer Relationships	Straight line method	5 years
Brand Name	Straight line method	5 years

Share-Based Payments

Estimating fair value for granted stock options and compensatory warrants requires determining the most appropriate valuation model which is dependent on the terms and conditions of the grant. This estimate also requires determining the most appropriate inputs to the valuation model including the expected life of the option or warrant, volatility, dividend yield, and rate of forfeitures and making assumptions about them.

2. BASIS OF PRESENTATION (*CONTINUED…*)

Leases

Under IFRS 16 the company applies a single lease accounting model under which it recognizes all leases on the balance sheet. The company recognizes a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make payments. The Company estimates the lease term by considering the facts and circumstances that can create an economic incentive to exercise an extension option, or not exercise a termination option by assessing relevant factors such as store profitability. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated). The assessment of the lease term is reviewed if a significant event or a significant change in circumstance occurs, which affects this assessment and that is within the control of the lessee. The Company estimates the incremental borrowing rate used to measure our lease liability for each lease contract. This includes estimation in determining the asset-specific security impact.

Current and Deferred Income Taxes

Current and deferred income tax provisions and obligations are calculated for each of the jurisdictions in which the Company operates. Actual amounts of income tax expense and obligations are not final until tax returns are filed and assessed by the relevant taxation authorities. This occurs subsequent to the issuance of the financial statements, and the final determination of actual amounts may not be completed for a number of years. Therefore, financial results in subsequent periods will be affected by the amount that estimates differ from the final tax return.

3. SIGNIFICANT ACCOUNTING POLICIES

These condensed consolidated interim financial statements follow the same accounting policies and methods of application as the most recent audited annual consolidated financial statements of the Company with the addition of the new inventory and biological asset accounting policies below. These condensed consolidated interim financial statements do not contain all of the information required for full annual financial statements. Accordingly, these condensed consolidated interim financial statements should be read in conjunction with the Company's December 31, 2021 annual consolidated financial statements.

a) Biological Assets

Biological assets, consisting of cannabis plants, are measured at fair value less costs to sell at the point of harvest, which becomes the basis for the cost of inventories after harvest. Gains or losses arising from changes in fair value less costs to sell during the year, including the impact on the carrying amount of inventory, are included in the interim condensed consolidated statement of income (loss) and comprehensive income (loss) of the related year. At the point of harvest, the biological assets are transferred to inventories at their fair value less costs to complete and sell. All direct and indirect costs related to biological assets are capitalized as they are incurred and expensed when the related item is sold.

While the Company's biological assets are within the scope of IAS 41, Agriculture and are measured at fair value less costs to sell, the direct and indirect costs of biological assets are determined using an approach similar to the capitalization criteria outlined in IAS 2, Inventories. The Company capitalizes all the direct and indirect costs as incurred related to the biological transformation of the biological assets between the point of initial recognition and at the point of harvest including labor related costs, grow consumables, utilities, facilities costs including allocation of overhead costs related to production facility, quality and testing costs, and production related depreciation. Capitalized costs are subsequently recorded within cost of sales in the interim condensed consolidated statements of income and comprehensive income in the period that the related product is sold.

b) Inventories

Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs to sell. The Company reviews inventories for obsolete, redundant and slow-moving goods and any such inventories identified are written down to net realizable value. The direct and indirect costs of finished goods inventory that includes internally cultivated flower and trim, includes the fair value of the biological asset at the time of harvest. They also include subsequent costs such as materials, labor and depreciation expense on equipment involved in processing, packaging, labelling and inspection to turn raw materials into finished goods. All direct and indirect costs related to inventory are capitalized as they are incurred, and they are subsequently recorded within cost of sales on the interim condensed consolidated statements of income and comprehensive income at the time cannabis products are sold. The Company measures inventory cost using the first-in first-out method.

Realized fair value amounts from biological assets included in the cost of inventory sold are separately presented for cost of sales as fair value adjustment on sale of inventory in Note 11.

c) New Accounting Pronouncements

The following IFRS standards have been recently issued by the IASB. Pronouncements that are irrelevant or not expected to have a significant impact have been excluded.

3. SIGNIFICANT ACCOUNTING POLICIES (*CONTINUED…*)

Amendments to IFRS 9: Financial Instruments
As part of its 2018-2020 annual improvements to IFRS standards process, the IASB issued amendments to IFRS 9. The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment. The amendment is effective for annual reporting periods beginning on or after January 1, 2022 with earlier adoption permitted. The Company has evaluated the potential impact of these amendments on the Company's consolidated financial statements and is complying with these new amendments in the condensed consolidated financial statements.

Amendments to IAS 1: Classification of Liabilities as Current or Non-current
The amendment clarifies the requirements relating to determining if a liability should be presented as current or non-current in the statement of financial position. Under the new requirement, the assessment of whether a liability is presented as current or non-current is based on the contractual arrangements in place as at the reporting date and does not impact the amount or timing of recognition. The amendment applies retrospectively for annual reporting periods beginning on or after January 1, 2022. The Company is currently evaluating the potential impact of these amendments on the Company's condensed consolidated financial statements.

Amendments to IAS 37: Onerous Contracts and the Cost of Fulfilling a Contract
The amendment specifies that the 'cost of fulfilling' a contract comprises the 'costs that relate directly to the contract'. Costs that relate directly to a contract can either be incremental costs of fulfilling that contract or an allocation of other costs that relate directly to fulfilling contracts. The amendment is effective for annual periods beginning on or after January 1, 2022 with early application permitted. The Company has evaluated the potential impact of these amendments on the Company's consolidated financial statements and is complying with these new amendments in the condensed consolidated financial statements.

Amendments to IAS 41: Agriculture
As part of its 2018-2020 annual improvements to IFRS standards process, the IASB issued amendments to IAS 41. The amendment removes the requirement in paragraph 22 of IAS 41 for entities to exclude taxation cash flow when measuring the fair value of a biological asset using a present value technique. This will ensure consistency with the requirements in IFRS 13. The amendment is effective for annual reporting periods beginning on or after January 1, 2022. The Company has evaluated the potential impact of these amendments on the Company's consolidated financial statements and is complying with these new amendments in the condensed consolidated financial statements.

(Expressed in U.S. Dollars) (Unaudited)

4. ACCOUNTS RECEIVABLE

The Company's accounts receivable consists of the following:

		September 30, 2022		December 31, 2021
Accounts receivable, net of an allowance for doubtful accounts of $(366,994)	**$**	**4,128,598**	$	21,790,830
GST input tax credits		**121,592**		99,808
	$	**4,250,190**	$	21,890,638

5. INVENTORY

Inventory consists of costs directly related to the production or procurement of product sold to customers, or joint operations/ventures. These include; salaries and benefits, cultivation supplies, product packaging, manufacturing costs, included biological assets and other production costs.

The Company's inventory consists of the following:

		September 30, 2022		December 31, 2021
Work in Process				
Capitalized Cost	**$**	**425,154**	$	—
Fair Value Adjustment		**295,030**	$	—
Carrying Value	**$**	**720,184**	$	—
Finished Goods				
Capitalized Cost	**$**	**9,102,871**	$	214,859
Fair Value Adjustment		**502,229**		—
Carrying Value	**$**	**9,605,100**	$	—
Total	**$**	**10,325,284**	$	214,859

For the nine month period ended September 30, 2022 the Company recognized $10,396,041 of inventory expensed to cost of goods sold (September 30, 2021 - $15,457,350).

(Expressed in U.S. Dollars) (Unaudited)

6. PREPAID EXPENSES, DEPOSITS AND OTHER RECEIVABLES

The Company’s prepaid deposits and other receivables consist of the following:

	September 30, 2022	December 31, 2021
Vendor deposits	**$ 17,570**	$ 14,545
Prepaid Expense/Insurance/Property Tax	**1,683,212**	283,556
Interest Receivable	**—**	198,357
Security deposits	**8,140**	—
Employee advances	**577**	554
	$ 1,709,499	$ 497,012

(Expressed in U.S. Dollars) (Unaudited)

7. NOTES RECEIVABLE

As at September 30, 2022, the Company's notes receivable consist of the following:

		Current		Non-current		Total
Due from APP 1803 (acquisition cost of new dispensary and license), an arm's length party, accruing interest at 10% per annum (4)		4,000,000		—		4,000,000
Due from APP 1803 (new dispensary license deposit), an arm's length party, accruing interest at 0% per annum (4)		320,000		—		320,000
Due from APP 1803 (new dispensary working capital), an arm's length party, accruing interest at 0% per annum (5)		836,292		—		836,292
Due from APP 1804 (new dispensary lease commitments), an arm's length party, accruing interest at 0% per annum (6)		110,000		—		110,000
Due from Appalachian Pharm Processing, LLC, (working capital) an arm's length party, accruing interest at 0% per annum (7)		477,755		—		477,755
Due from Appalachian Pharm Processing, LLC, (startup loan) an arm's length party, accruing interest at 0% per annum (8)		500,000		—		500,000
Due from Appalachian Pharm Processing, LLC, (cultivation Build Out) an arm's length party, accruing interest at 0% per annum (9)	$	4,000,000		—		4,000,000
Total	$	10,244,047	$	—	$	10,244,047

As at September 30, 2022 the notes receivables are classified as current as the Company intends on applying for the Ohio cannabis licenses by year end and will have approval within the first half of 2023. Upon being granted the cannabis license, the receivable will become an investment in the Ohio operations.

As at December 31, 2021, the Company's notes receivables consisted of the following:

		Current		Non-current		Total
Due from Herbal Wellness Center Inc. ("HWC"), incurring interest at 10% per annum, due on December 31, 2022 (1) (2)	$	1,082,873	$	4,750,673	$	5,833,546
Due from Organica Patient Group, Inc. ("Organica"), incurring interest as 10% per annum, due on March 20, 2023 (3)		—		2,544,266		2,544,266
Due from APP 1803 (acquisition cost of new dispensary and license), an arm's length party, accruing interest at 10% per annum (4)		—		4,000,000		4,000,000
Due from APP 1803 (new dispensary license deposit), an arm's length party, accruing interest at 0% per annum (4)		—		320,000		320,000
Due from APP 1803 (new dispensary working capital), an arm's length party, accruing interest at 0% per annum (5)		—		570,000		570,000
Due from APP 1804 (new dispensary lease commitments), an arm's length party, accruing interest at 0% per annum (6)		—		110,000		110,000
Due from Appalachian Pharm Processing, LLC, (working capital) an arm's length party, accruing interest at 0% per annum (7)		—		477,755		477,755
Due from Appalachian Pharm Processing, LLC, (startup loan) an arm's length party, accruing interest at 0% per annum (8)		—		500,000		500,000
Total	$	1,082,873	$	13,272,694	$	14,355,567

(1) On December 31, 2019, the Company and HWC entered into a promissory note, whereby $2,933,957 was re-classified from accounts receivable into an interest-bearing note. The note bears an interest rate of 10% per annum, beginning on January 1, 2020. As at December 31, 2021, the remaining outstanding balance is $1,082,873 with accrued interest. This note was forgiven as part of the consideration in the acquisition on January 1, 2022.

7. NOTES RECEIVABLE *(CONTINUED…)*

(2)As at December 31, 2020, $1,605,970 was drawn by HWC from a line of credit secured promissory note (Note 11). As at December 31, 2021, $4,750,673 was the balance drawn by HWC from the line of credit secured promissory note. This note was forgiven as part of the consideration in the acquisition on January 1, 2022.

(3) During the year ended December 31, 2020, $2,168,383 was included as part of the Organica line of credit (Note 11). As at December 31, 2021 $2,544,266 was the balance drawn by Organica from the line of credit secured promissory note. This note was forgiven in the acquisition on January 1, 2022.

(4) On March 30, 2020, the Company's wholly owned subsidiary, Vapen, LLC ("Vapen"), entered into a non-binding letter of intent (the "LOI"), a convertible loan agreement, with Appalachian Pharms Processing, LLC ("App Pharms") to form a joint venture in Ohio related to the manufacturing, production and sale of medical cannabis products in Ohio, pursuant, and subject to, applicable Ohio state law. On March 15, 2021, the Company entered into a Letter of Intent (the "LOI") with Appalachian Pharms Processing 1803 LLC (APP1803) to acquire an option for dispensary license in Ohio. Through a subsidiary, the Company will have a 50% economic interest and a 48% ownership for the license. The Company's total contribution for the option was $4,000,000 plus accrued interest of $164,066. The convertible loan agreement will transfer the ownership of the license, per Ohio State regulations in 2022.

(5) In addition to the Loan Agreements, the Company loaned a further $836,292 in working capital to APP 1803, LLC pursuant to the LOI as at September 30, 2022.

(6) An additional $110,000 was loaned to APP1804, a second new dispensary in Ohio as a deposit on the license, under the original LOI with APP1803 as at September 30, 2022.

(7) Appalachian Pharms Processing was loaned $477,755 as at September 30, 2022 as additional working capital per the LOI.

(8) March 30, 2020, Vapen agreed, and subsequently advanced to Appalachian Pharms Processing, LLC, $500,000 in two equal installments of $250,000 on April 1, 2020 and April 6, 2020, for the exclusive purpose for the manufacturing and production of cannabis products as well as associated expenses.

(9) Appalachian Pharms Processing was loaned $4,000,000 as at September 30, 2022 as additional working capital per the LOI for cultivation build out.

As at September 30, 2022, the Company has loaned to Appalachian Pharms Processing and APP 1803 an aggregate of $10,244,047.

(Expressed in U.S. Dollars) (Unaudited)

7. NOTES RECEIVABLE *(CONTINUED…)*

As at September 30, 2022, and December 31, 2021, the Company's notes receivables related to Ohio consist of the following by location:

APP 1803, LLC		December 31, 2021		Activity		September 30, 2022
Contributions	$	4,000,000	$	**—**	$	**4,000,000**
Working capital		570,000		**266,292**		**836,292**
Interest		164,066		**(164,066)**		**—**
Deposit for license		320,000		**—**		**320,000**
	$	5,054,066	$	**102,226**	$	**5,156,292**
APP 1804, LLC						
Deposit for license		110,000		**—**		**110,000**
	$	110,000	$	**—**	$	**110,000**
APP Pharms, LLC						
Startup loan		500,000		**—**		**500,000**
Working capital		477,755		**4,000,000**		**4,477,755**
	$	977,755	$	**4,000,000**	$	**4,977,755**
Total	$	6,141,821	$	**4,102,226**	$	**10,244,047**

The members of App Pharms and APP1803 are essentially the same. They are two separate LLCs within the State of Ohio for the purpose of ownership of the separate cannabis licenses. The Loan Agreements are secured against the processing license held by App Pharms and the assets of APP1803.

8. INVESTMENT

On August 2, 2019, the Company entered into Restricted Unit Grant Agreement with Legacy Ventures Hawaii LLC ("Legacy"), whereby the Company subscribed for 350,000 Class B units of Legacy for $350,000. As at December 31, 2021, the Company had paid an additional $75,350 (additional working capital) for a total of $425,350. In addition to the 350,000 units subscribed, the Company will be granted an additional 350,000 Class A units for services to be provided by the Company to Legacy. 175,000 of these Class A units were issued on August 2, 2020, with the remaining 175,000 to be issued during the year ending December 31, 2021. As a result of the subscription and the units received for services, as at December 31, 2021, the Company had a 19.62% interest in Legacy.

At December 31, 2021, the Company determined that its investment in Legacy was 100% impaired due to delays created from COVID restrictions on Molokai (Hawaiian Islands) and changes within the regulatory positions of Hawaii in regards to CBD cultivation and processing. As a result, the Company wrote off the entire investment of $425,350, of its investment in Legacy.

(Expressed in U.S. Dollars) (Unaudited)

9. INVESTMENT IN JOINT VENTURES

Vapen Kentucky, LLC

On February 1, 2020, an operating agreement of Vapen Kentucky, LLC ("Vapen KY") was signed for the purpose of being engaged in commercial hemp processing, manufacturing, extraction, and distribution activities. The Company holds 50% membership ownership of Vapen KY with Emerald Pointe Hemp, LLC ("EPH") owning the other 50%. As at September 30, 2022, the Company loaned Vapen KY $1,697,850 for working capital as a contribution to the joint venture, $374,250 was in the nine months ending September 30, 2022. The working capital loan is interest free.

Vapen-Oklahoma, LLC

On February 12, 2020, the Company entered into a joint venture term sheet with Texoma Processing and Extraction, LLC ("TPE") regarding Vapen-Oklahoma, LLC ("Vapen OK"). The Company is a minority member of Vapen OK holding 25% membership ownership, whereas TPE is a majority member owning 75% membership ownership of Vapen-OK and both parties have equal voting rights. The terms of the initial joint venture will be five years, with automatic successive renewal terms of additional five-year periods each. As at September 30, 2022, the Company loaned Vapen OK $1,477,426 for working capital as a contribution to the joint venture. The working capital loan is interest free.

As at December 31,2020, December 31, 2021 and September 30, 2022 the balance of investments is comprised of the following:

	Vapen KY	Vapen OK	Total
Balance as at December 31, 2019	$ —	$ —	$ —
Contributions	925,974	877,426	1,803,400
Share of loss of the joint ventures during the year	(286,719)	(234,083)	(520,802)
Balance as at December 31, 2020	639,255	643,343	1,282,598
Contributions	379,546	600,000	979,546
Share of loss of the joint ventures during the year	(291,061)	(248,496)	(539,557)
Balance as at December 31, 2021	727,740	994,847	1,722,587
Contributions	374,250	18,080	**392,330**
Share of loss of the joint ventures during the year	(324,907)	(101,035)	**(425,942)**
Balance as at September 30, 2022	**777,083**	**893,812**	**1,688,975**

Summarized financial information for equity accounted investees for the three months ended September 30, 2022, is as follows:

	Vapen KY	Vapen OK
Ownership %	**50%**	**25%**
Current assets	$ 1,648,084	$ 600,118
Non-current assets	9,132	145,313
Total assets	1,657,216	745,431
Total liabilities	(3,462,590)	(3,079,888)
Net assets	(1,805,374)	(2,334,457)
Revenue	59,768	372,545
Cost of goods sold	(130,602)	(365,331)
Expenses	(832)	(75,939)
Net loss	**$ (71,666)**	**$ (68,725)**
Ownership % Loss	**$ (35,833)**	**$ (17,181)**

(Expressed in U.S. Dollars) (Unaudited)

10. LOANS TO JOINT OPERATIONS

Happy Travels, LLC

On June 10, 2020, the Company entered into a joint operation agreement with Green Goblin, Inc. ("GG") to operate Happy Travels, LLC ("Happy Travels"). GG owns 100% of Happy Travels and is managed by a four member board. All revenues, profits and expenses are shared between the Company and Happy Travels. The Company acquired 50% of the voting rights to Happy Travels resulting in the Company and GG having equal voting rights, while GG owns 100% of Happy Travels. All assets, liabilities and obligations are shared between the Company and Happy Travels.

As a 50% partner in this joint operation, the Company 50% controls of Happy Travels, the Company will account 50% of Happy Travel's assets, liabilities, revenue and expenses in the Company's financials.

The terms of the initial joint arrangement will be three years, with automatic successive renewal terms of additional two-year periods.

As at September 30, 2022, the Company had the following loans to operations:

	September 30, 2022	December 31, 2021
Happy Travels, LLC.	**$ 476,744**	$ 360,778
Green Goblin, LLC.	**365,714**	332,615
	$ 842,458	$ 693,393

(Expressed in U.S. Dollars) (Unaudited)

11. BIOLOGICAL ASSETS

Biological assets consist of cannabis plants. The changes in the carrying value of biological assets as at September 30, 2022 are as follows:

Balance, December 31, 2021		**—**
Acquired beginning balance (Note 14)	**$**	**1,833,126**
Capitalized costs		**4,831,199**
Change in fair value less costs to sell due to biological transformation		**3,732,498**
Transferred into inventory upon harvest		**(8,347,848)**
Balance at September 30, 2022	**$**	**2,048,975**

The fair value less costs to sell of biological assets is determined using a market approach where the fair value at the point of harvest is estimated based on spot prices of wholesale cannabis less post-harvest costs and costs to sell. For in process biological assets, the estimated fair value at point of harvest is attributed based on the plants' stage of growth. Stage of growth is determined by reference to days remaining to harvest over average growth cycle.

The following key inputs are used in determining the fair value of biological assets:

- Average selling price per gram - third-party cannabis spot price for wholesale cannabis.
- Average yield per plant - the number of grams a finished cannabis inventory which are expected to be derived from each harvested cannabis plant.
- Wastage of plants based on their various stages of growth - represents the weighted average percentage of biological assets which are expected to fail to mature into cannabis plants that can be harvested.
- Post-harvest costs - calculated as the cost per gram of harvested cannabis to complete the sale of cannabis plants post-harvest; and
- Stage of completion in the cultivation process - calculated by taking the weighted average number of weeks in productions over a total average grow cycle of approximately 15 weeks.

Significant unobservable inputs		**September 30, 2022**
Average selling price per gram of flower	$	3.53
Weighted average yield of flower per plant (in grams)	$	52.78

Effect on fair value

Sensitivity		**September 30, 2022**
Increase or decrease by $0.50 per gram	$	219,571
Increase or decrease by $0.10 per gram	$	39,540
Increase or decrease of yield by 10%	$	204,897

The Company estimated the harvest yields for the cannabis plants at various stages of growth at the reporting date as follows:

	September 30, 2022
Total expected yield (in grams)	1,926,022

The Company's estimates are, by nature, subject to change and differences from the anticipated yield will be reflected in the gain or loss on biological assets in future periods.

The effect of changes in the fair value of biological assets and inventory during the nine months ended September 30, 2022:

		September 30, 2022
Unrealized change in fair value of biological assets	$	3,732,498
Realized change in fair value of inventory sold in the period		(1,808,245)
Net effect of changes in fair value of biological assets and inventory	$	1,924,253

As at September 30, 2022, the Company had 24,218 plants in cultivation with 3,291 plants greater than 80% grown; 5,262 plants between 60% and 80% grown; and 15,665 plants less than 60% grown. Expected yields of flower and trim per plant were established and extended to the plants currently under cultivation based upon their percent complete. A standard wastage factor is applied to arrive at the net value of the plants.

(Expressed in U.S. Dollars) (Unaudited)

12. PROPERTY, PLANT AND EQUIPMENT

	Land	Building	Equipment and machinery	Building improvements	Leasehold improvements	Construction in progress	Automobile	Total
Cost								
Balance at Balance at December 31, 2020	$ 340,779	$ 1,436,069	$ 9,520,987	$ —	$ 2,911,204	$ 1,433,166	$ 90,796	**$ 15,733,001**
Disposals	—	—	—		(2,911,204)	—	—	**$ (2,911,204)**
Additions	2,270,000	9,129,765	1,718,584	5,408,759	402,682	2,635,861	129,208	**$ 21,694,859**
Balance at Balance at December 31, 2021	**$ 2,610,779**	**$ 10,565,834**	**$ 11,239,571**	**$ 5,408,759**	**$ 402,681**	**$ 4,069,027**	**$ 220,004**	**$ 34,516,654**
Disposals	—	—	—		—		(32,804)	**$ (32,804)**
Additions	—	58,689	1,207,370	363,661	—	6,210,726	32,502	**$ 7,872,948**
Additions from acquisition (Note 14)	—	51,083	113,571	1,308,752	604,972	—	—	**$ 2,078,378**
Balance at September 30, 2022	**$ 2,610,779**	**$ 10,675,606**	**$ 12,560,512**	**$ 7,081,172**	**$ 1,007,653**	**$ 10,279,753**	**$ 219,702**	**$ 44,435,177**
Accumulated Amortization								
Balance at Balance at December 31, 2020	$ —	$ 294,650	$ 1,413,817	$ —	$ 1,522,223	$ —	$ 44,746	**$ 3,275,436**
Disposals	—	—	—	—	(1,522,223)	—	—	**$ (1,522,223)**
Amortization	—	224,572	1,456,757	2,073,453	161,603	—	29,793	**$ 3,946,178**
Balance at Balance at December 31, 2021	**$ —**	**$ 519,222**	**$ 2,870,574**	**$ 2,073,453**	**$ 161,603**	**$ —**	**$ 74,539**	**$ 5,699,391**
Disposals	—	—	—	—	—	—	(9,557)	**$ (9,557)**
Depreciation	—	249,241	1,230,170	617,085	157,522	—	42,928	**$ 2,296,946**
Depreciation from acquisition (Note 14)	—	3,485	50,137	925,189	20,690	—	—	**$ 999,501**
Balance at September 30, 2022	**$ —**	**$ 771,948**	**$ 4,150,882**	**$ 3,615,727**	**$ 339,815**	**$ —**	**$ 107,909**	**$ 8,986,281**
Net Book Value								
December 31, 2020	$ 340,779	$ 1,141,419	$ 8,107,170	$ —	$ 1,388,981	$ 1,433,166	$ 46,050	**$ 12,457,563**
December 31, 2021	**$ 2,610,779**	**$ 10,046,612**	**$ 8,368,997**	**$ 3,335,306**	**$ 241,078**	**$ 4,069,027**	**$ 145,465**	**$ 28,817,265**
Balance at September 30, 2022	**$ 2,610,779**	**$ 9,903,658**	**$ 8,409,631**	**$ 3,465,445**	**$ 667,839**	**$ 10,279,753**	**$ 111,793**	**$ 35,448,898**

Additions during the nine months ended September 30, 2022 were the assets of two acquired dispensaries on January 1, 2022 (Note 14). Of the total depreciation expense during the nine months ended September 30, 2022 - $1,989,656 (September 30, 2021 - $1,562,315) was included in the cost of sales and $307,291 (September 30, 2021 - $138,378) was included in operating expense.

Notable additions and the companies formed during the year ended December 31, 2021 to hold new assets are New Gen Phoenix (Phx), closed May 20, 2021 for $3,100,000 allocated to land at $620,000 and building $2,480,000, New Gen Prescott Valley (PV) closed June 2, 2021 for $3,950,000 allocated to land at $790,000 and building $3,160,000, and New Gen Eloy, closed June 22, 2021 for $4,300,000 allocated to land at $860,000 and building $3,440,000 for a total of $11,350,000 allocated to land at $2,270,000 and building of $9,080,000.

*Construction in process consists of one cultivation project in Eloy, Arizona at this time for $8,580,050 as of September 30, 2022 and smaller other cultivation projects to be finished this year.

(Expressed in U.S. Dollars) (Unaudited)

13. INTANGIBLE ASSETS AND GOODWILL

Identifiable intangible assets consist of the following:

Intangible Assets	Balance as at December 31, 2020	Amortization	Balance as at December 31, 2021	Additions (Disposals)	Amortization	Balance as at September 30, 2022
Management Service Agreement	$ 7,093,825	$ (766,900)	$ 6,326,925	— $ (6,326,925)	$ —	**$** —
Firebrand (Brand name)	226,950	(53,400)	173,550	—	(40,050)	**133,500**
Patent	225,000	(15,000)	210,000	—	(11,250)	**198,750**
Licenses (Note 14)	—	—	—	24,618,630	(1,538,664)	**23,079,966**
Brand Name (Note 14)	—	—	—	3,888,097	(583,214)	**3,304,883**
Customer Relationships (Note 14)	—	—	—	365,380	(54,807)	**310,573** —
Amortization	—	—	—	—	—	—
Total	$ 7,545,775	$ (835,300)	$ 6,710,475	$ 22,545,182	$ (2,227,986)	$ 27,027,672

On January 1, 2022, the Company completed an acquisition (Note 14) whereby $28,872,107 in intangible assets were acquired.

Due to this acquisition, the Management Service Agreement of $6,326,925 has been dissolved.

Goodwill	Balance as at December 31, 2020	Amortization	Balance as at December 31, 2021	Additions	Amortization	Balance as at September 30, 2022
Goodwill	$ 461,752	—	$ 461,752	—	—	**$ 461,752**
Amortization	—	—	—	—	—	—
Total	$ 461,752	—	$ 461,752	—	—	**$ 461,752**

As at September 30, 2022 and December 31, 2021, there was no impairment on goodwill and no change to the balance.

(Expressed in U.S. Dollars) (Unaudited)

14. ACQUISITION

Herbal Wellness Center, Inc. ("HWC"), was formed as an Arizona non-profit corporation on May 6, 2011 and converted to a for-profit corporation effective January 1, 2022 in accordance with the Arizona Restructuring Entity Act (A.R.S. § 29-2401) and the Responsible Adult Use of Marijuana Act (A.R.S. § 36-2858). HWC holds a medical cannabis dispensary certificate ("MMJ License") in the state of Arizona, certain cannabis inventory / biological assets, and other working capital items. On January 1, 2022, upon conversion to a for-profit organization, HWC elected and approved the Company to serve as the initial shareholder holding 100% of the 100,000 outstanding shares of HWC.

Organica Patient Group, Inc. ("Organica"), was formed as an Arizona non-profit corporation on May 6, 2011 and converted to a for-profit corporation effective January 1, 2022 in accordance with the Arizona Restructuring Entity Act (A.R.S. § 29-2401) and the Responsible Adult Use of Marijuana Act (A.R.S. § 36-2858). Organica holds a medical cannabis dispensary certificate ("MMJ License") in the state of Arizona, certain cannabis inventory / biological assets, and other working capital items. On January 1, 2022, upon conversion to a for-profit organization, Organica elected and approved the Company to serve as the initial shareholder holding 100% of the 100,000 outstanding shares of Organica.

The transactions did not constitute a business combination since HWC and Organica did not meet the definition of a business under IFRS 3. As a result, the transactions have been accounted for as an asset acquisition with the Company being identified as the acquirer and HWC and Organica being the acquiree with the transaction being measured at the fair value.

The Company allocated the purchase price of the HWC and Organica acquisition as follows, the fees incurred to acquire HWC and Organica are included in the total purchase price below:

	January 1, 2022
Cash	736,538
Accounts receivable	810,498
Prepaid expenses	131,370
Biological assets	1,833,126
Inventory	3,865,981
Fixed assets	1,078,877
Licenses	24,618,630
Brand name	3,888,097
Customer relationships	365,380
Deferred tax assets (US Federal NOL's)	2,092,988
Accounts payable	(257,501)
Deferred tax liabilities	(362,741)
Sales tax payable	(362,554)
Income tax payable (280e Federal Tax)	(3,006,309)
Net assets acquired	**35,432,380**
Total non-cash consideration*	35,351,227
Transaction costs	83,853
Total purchase consideration	**35,435,080**

The purchase of HWC and Organica required exchanging the following assets due to the Company:

	January 1, 2022
HWC Notes receivable	5,833,546
HWC Accounts receivable	13,276,119
OPG Notes receivable	2,544,266
OPG Accounts receivable	7,370,371
Intangible Asset (MSA - See Note 13)	6,326,925
Net assets allocated*	**35,351,227**

(Expressed in U.S. Dollars) (Unaudited)

15. PAYABLES AND ACCRUED LIABILITIES

The Company's payables and accrued liabilities consist of the following:

	September 30, 2022	December 31, 2021
Trade payables	**$ 1,319,866**	$ 1,370,043
Credit card payable	**133,203**	39,102
Sales tax payable	**389,147**	1,029
Interest payable	—	27,182
Income tax payable (Note 14)	**3,006,309**	—
Payroll liabilities	**1,084,515**	509,477
Accrued liabilities	**1,091,750**	1,144,595
	$ 7,024,790	$ 3,091,428

(Expressed in U.S. Dollars) (Unaudited)

16. NOTES PAYABLE

Current notes payable are made up of the following:

	September 30, 2022	December 31, 2021
Maturing on January 5, 2022 with an interest rate of 15% per annum	$ —	$ 175,000
Maturing on February 1, 2022 with an interest rate of 12% per annum	—	272,000
Maturing on March 1, 2022 with an interest rate of 12% per annum	—	280,000
Maturing on June 1, 2026 with an interest rate of 8.5% per annum	—	42,117
Maturing July 15, 2027 with an interest rate of 9% per annum (1)	**3,120,000**	—
	$ 3,120,000	$ 769,117

Current notes payable from the acquisition of RDF are made up of the following:

	September 30, 2022	December 31, 2021
Current portion of promissory note from acquisition	**$ 903,460**	$ 903,460
Current portion of liabilities settlement from acquisition	**40,715**	331,635
	$ 944,174	$ 1,235,095

Non-current notes payable are made up of the following:

	September 30, 2022	December 31, 2021
Maturing on June 1, 2026 with an interest rate of 12.0% per annum (Interest Only)	$ —	$ 2,700,000
Maturing on June 1, 2026 with an interest rate of 8.5% per annum	—	2,025,484
Maturing July 15, 2027 with an interest rate of 9% per annum (1)	**17,976,764**	—
	$ 17,976,764	$ 4,725,484

Non-current notes payable from the acquisition of RDF are made up of the following:

	September 30, 2022	December 31, 2021
Promissory note from acquisition	**$ 1,768,576**	$ 2,543,835
Other notes payable with no maturing date and nil interest	—	162,522
	$ 1,768,576	$ 2,706,357

(1) On July 8, 2022, the Company completed a financing comprised of two promissory notes with gross proceeds of $22,185,000 and financing costs of $944,304. The promissory notes are secured by an interest in substantially all of the Company's assets. The promissory notes are subject to a variable interest rate calculated based on the Wall Street Journal Prime plus a spread of 2.75% (9% at September 30, 2022), and are subject to a floor of 6.25%. Blended payments of $240,081 for principal and accrued interest are due on the 15th day of the calendar month and the promissory notes mature on July 15, 2027. The Company has the right to prepay any or all of the principal balance outstanding at any time. The promissory notes require the company to maintain certain financial covenants including a debt coverage ratio and a debt to tangible net worth ratio. The Company is in compliance with its covenants as at September 30, 2022.

(Expressed in U.S. Dollars) (Unaudited)

17. LEASES

In accordance with IFRS 16, the Company had three lease agreements at December 31, 2020 for its leased premises, consisting of office and warehouse space. Of these three leases, two had terms expiring April 30, 2024, while the third expires September 30, 2029. The two leases ending April 30, 2024 were being subleased by the Company as at December 31, 2020. On May 20, 2021 the Company acquired these two sublease properties which resulted in a derecognition (termination) of a lease liability and net investment in subleases during the year ended December 31, 2021.

As at January 1, 2022 the Company acquired two new leases when it acquired Organica Patient Group (OPG) Dispensary, the ROU asset and lease liability schedules are below:

Right-of-use asset:

	OPG #1	OPG #2	Office	Total
At Opening balance as at January 1, 2020			$ 287,890	$ 287,890
Amortization			(29,528)	(29,528)
At December 30, 2020			$ 258,363	$ 258,363
Amortization			(29,527)	(29,527)
Balance at December 31, 2021			**$ 228,835**	**$ 228,835**
Additions (Step rent increase as at 1/1/2022)			242,539	242,539
Amortization			(28,568)	(28,568)
Balance at January 1, 2022	$ 239,495	$ 241,089	$ 442,806	$ 923,390
Additions Q3	—	—	54,598	54,598
Amortization Q1	(14,968)	(15,068)	(14,284)	(44,321)
Amortization Q2	(14,968)	(15,068)	(14,284)	(44,321)
Amortization Q3	(14,968)	(15,068)	(16,167)	(46,203)
Balance at September 30, 2022	**$ 194,590**	**$ 195,885**	**$ 452,669**	**$ 843,143**

The total amortization expense for the nine months ended September 30, 2022 and December 31, 2021 was included in operating expenses.

(Expressed in U.S. Dollars) (Unaudited)

17. LEASES (*CONTINUED…*)

Lease liability:

Lease liability for the nine months ended September 30, 2022 and year ended December 31, 2021 were as follows:

	OPG #1	OPG #2	Office	Total
Opening balance as at January 1, 2020			$ 991,158	$ 991,158
Lease payments			253,944	253,944
Interest expense (included in cost of sales – property and equipment leasing)			(93,669)	(93,669)
Interest expense (included in bank charges and interest in operating expenses)			(27,621)	(27,621)
At Balance at December 31, 2020			858,504	858,504
Lease payments			129,271	129,271
Interest expense (included in cost of good sold – property and equipment leasing)			(28,133)	(28,133)
Interest expense (included in general and admin in operating expenses)			(35,487)	(35,487)
Termination of Leases at 4210 N 39th and 4215 N 40th			(526,789)	(526,789)
At Balance at December 31, 2021			**$ 266,064**	**$ 266,064**
Additions (Step rent increase as at 1/1/2022)			221,371	221,371
At January 1, 2022	**$ 239,495**	**$ 241,089**	**$ 487,435**	**$ 968,019**
Additions Q3			54,598	54,598
Interest Expense	21,398	21,547	47,226	90,171
Lease payments	(53,628)	(53,865)	(77,173)	(184,667)
At September 30, 2022	**$ 207,265**	**$ 208,772**	**$ 512,086**	**$ 928,123**
Less: current portion	$ (50,869)	$ (51,110)	$ (48,013)	$ (149,992)
Long-term lease liability	**$ 156,395**	**$ 157,662**	**$ 464,073**	**$ 778,130**

The following table discloses the undiscounted cash flow for the three lease obligations remaining at September 30, 2022

		2022
Less than one year	$	**246,222**
One to five years		**698,239**
More than five years		**205,795**
Total undiscounted lease obligations		**1,150,256**
Less imputed interest		**(222,133)**
Total present lease obligations	$	**928,123**

The following table provides a summary of the lease expenses recognized in the statement of operations for the nine months ended September 30, 2022 and September 30, 2021.

	September 30, 2022	September 30, 2021
Interest expense (included in cost of good sold – property and equipment leasing)	**$ 63,829**	$ 121,802
Interest expense (included in general and admin in operating expenses)	**$ 26,342**	$ 45,207
Amortization (included in operating expenses)	**$ 134,844**	$ 51,673

(Expressed in U.S. Dollars) (Unaudited)

18. LOAN PAYABLE

During the year ended December 31, 2021, the Company received a 1 year extension on the loan resulting in a new maturity date of December 31, 2022. The loan is payable interest only and carried an interest rate of 10% ($110,000) through June 30, 2022 and the rate increases to 11.25%, ($123,750) paid quarterly starting July 1, 2022 through December 31, 2022. See Note 25 for renewal extension to December 31, 2023 which is a subsequent event.

The loan payable balance as at December 31, 2021 and September 30, 2022 is as follows:

December 31, 2021	**$**	**4,400,000**
September 30, 2022	**$**	**4,400,000**

(Expressed in U.S. Dollars) (Unaudited)

19. RELATED PARTY TRANSACTIONS

Related parties and related party transactions impacting the condensed consolidated interim financial statements not disclosed elsewhere in these financial statements are summarized below and include transactions with the following individuals or entities:

Key management personnel

Key management personnel include those persons having authority and responsibility for planning, directing and controlling the activities of the Company as a whole. The Company has determined that key management personnel consist of members of the Company's Board of Directors and corporate officers, including the Company's Executive Chairman, Chief Executive Officer, Chief Operating Officer, President, Chief Financial Officer, and Corporate Secretary.

Remuneration attributed to key management personnel for the three months ended September 30, 2022 and 2021 is summarized as follows:

	September 30, 2022	September 30, 2021
Share-based compensation	**$ 591,370**	$ 40,984
Salaries and wages included in cost of goods sold	**83,530**	171,942
Salaries, wages and commissions included in operating expenses	**180,185**	9,050
Consulting fees included in operating expenses	**44,205**	—
	$ 899,290	$ 232,770

Other related parties include close family members of the Company's Executive Chairman, President, Corporate Secretary and Director and a company that is controlled by a Director.

Remuneration attributed to key management personnel for the three months ended September 30, 2022 and 2021 is summarized as follows:

	September 30, 2022	September 30, 2021
Consulting fees included in operating expenses	**$ 37,890**	$ 36,000
	$ 37,890	$ 36,000

Remuneration attributed to other related parties for the nine months ended September 30, 2022 and December 31, 2021 is summarized as follows:

	September 30, 2022	December 31, 2021
Share-based compensation	**$ 619,216**	$ 146,521
Salaries and wages included in cost of good sold	**241,280**	1,611,412
Salaries, wages and commissions included in operating expenses	**510,052**	84,812
Consulting fees included in operating expenses:	**132,753**	122,018
	$ 1,503,301	$ 1,964,763

Other related parties include close family members of the Company's Executive Chairman, President, Corporate Secretary and Director and a company that is controlled by a Director.

(Expressed in U.S. Dollars) (Unaudited)

19. RELATED PARTY TRANSACTIONS (*CONTINUED…*)

Remuneration attributed to key management personnel for the nine months ended September 30, 2022 and December 31, 2021 is summarized as follows:

		September 30, 2022		December 31, 2021
Consulting fees included in operating expenses	**$**	**138,620**	$	37,936
	$	**138,620**	$	37,936

<u>Balances with related parties:</u>

Due from related parties:

The current portion of balances due from related parties is as follows:

		September 30, 2022		December 31, 2021
Non-interest bearing, due on December 31, 2022 from Jason Nguyen, Executive Chairman	**$**	**316,251**	$	316,251
	$	**316,251**	$	316,251

The non-current portion of balances due from related parties is as follows:

		September 30, 2022		December 31, 2021
Non-interest bearing, due on December 31, 2023 from Jason Nguyen, Executive Chairman	**$**	**1,328,383**	$	1,328,383
	$	**1,328,383**	$	1,328,383

Due to related parties:
Amounts due to related parties as at September 30, 2022 and December 31, 2021 included the following:

		September 30, 2022		December 31, 2021	
Payables and Accrued Liabilities					
Jason Nguyen, Executive Chairman (Due to related party)	**$**	**225,000**	$	225,000	
Jason Nguyen, Executive Chairman		—		235,000	*
Denise Lok, Former CFO		—		285	*
David Eaton, Director		—		9,466	*
Mark Opzoomer, Director		—		—	
Eric Offenberger, CEO, COO, and Director		—		90,000	*
				0	
Long Term Loan Payable				0	
Jason Nguyen, Executive Chairman		—		64,763	*
	$	**225,000**	$	624,514	

*Salaries and bonuses were accrued as of December 31, 2021 and were included in the Payables and accrued liabilities line on the Statement of Financial Position.

20. SHARE CAPITAL

(a) Share Capital

The Company is authorized to issue the following shares:

- Unlimited subordinated voting common shares ("Subordinated Voting Shares" or "Common Shares") without par value; and
- Unlimited super voting shares with multiple voting rights ("Multiple Voting Shares"), each convertible into 100 Subordinated Voting Shares.

Nine month period ended September 30, 2022:

- On August 18, 2022, the Company issued 300,000 common shares to a shareholder in replacement of 300,000 common shares (the "Original Shares") that are subject to special administration proceedings with respect to the financial services firm holding the Original Shares. As of the date hereof, the Original Shares cannot be traded and will be returned to treasury for cancellation if and when they become tradable.
- On June 10, 2022, 2,931 Multiple Voting Shares were converted into 293,100 Subordinated Voting Shares.
- On February 18, 2022, 8,333 RSUs were exercised into 8,333 Subordinated Voting Shares, for a total value of $7,901.
- On January 11, 2022, 2,931 Multiple Voting Shares were converted into 293,100 Subordinated Voting Shares.
- On January 6, 2022, 369,500 warrants were exercised at $0.36 (CAD$0.45) for a total of USD$129,845 (CAD$166,275).

Fiscal year ended December 31, 2021:

- On February 8, 2021, the Company closed a public offering of 18,515,000 units of the Company (the "Units") at a price of $0.89 (CAD$1.12) per Unit for aggregate gross proceeds of $16,259,725 (CAD$20,736,800) (the "Offering"). Each Unit is comprised of one Subordinated Voting Share and one-half of one share purchase warrant (each whole warrant, a "Warrant"). Each Warrant entitles the holder to purchase one Subordinated Voting Share at an exercise price of $1.11 (CAD$1.40) until February 8, 2024. As compensation, the Company paid to the Agents a cash fee of $1,121,767 (CAD$1,420,138) and issued to the Agents an aggregate of 1,357,980 share purchase warrants (the "Agents' Warrants"). Each Agents' Warrant entitles the holder thereof to purchase one Subordinated Voting Share at an exercise price of $0.89 (CAD$1.12) per Subordinated Voting Share until February 8, 2024. The Agents' warrants were valued at $957,786 (CAD$1,212,540) using the Black-Scholes Option Pricing Model with the following assumption at the issue date: risk free interest rate of 0.24%; dividend yield of 0%; expected volatility of 94.12% and expected life of three years.

  In addition, the Company closed a concurrent non-brokered private placement of 1,395,000 units (the "Units") at a price of $0.89 (CAD$1.12) per Unit for a total of $1,225,078 (CAD$1,562,400) (the "Concurrent Private Placement"). Each Unit is comprised of one Subordinated Voting Share and one-half of one share purchase warrant (each whole warrant, a "Warrant"). Each Warrant entitles the holder to purchase one Subordinated Voting Share at an exercise price of $1.11 (CAD$1.40) until February 8, 2024.

  The fair values of the Warrants issued pursuant to the Offering and Concurrent Private Placement have been estimated at the issue date using the residual method valuation. Given the market price of the Company's Subordinated Voting Shares on the date of closing of the Offering and Concurrent Private Placements was in excess of the unit offering price, the residual value assigned to the Warrants is $nil.

  In addition to the amounts above, a further $456,409 was incurred in share issuance costs for the above transactions.

(Expressed in U.S. Dollars) (Unaudited)

20. SHARE CAPITAL (*CONTINUED…*)

- During the fiscal year ended December 31, 2021, 980,210 warrants, 478,700 warrants and 979,933 warrants were exercised at $0.50 (CAD$0.64), $0.36 (CAD$0.45) and $0.29 (CAD$0.36) respectively for a total of $945,230 (CAD$1,195,525). In relation to the exercise of the 980,210 warrants, and 979,933 warrants, the proportionate fair value of $355,422 (CAD$449,116) and $183,424 (CAD$231,362) respectively was relieved from reserves.

- During the fiscal year ended December 31, 2021, 250,000 stock options were exercised at $0.60 (CAD$0.75) for a total of $146,681 (CAD$187,500). The options had a share value of $237,524 of which $90,843 was relieved from the options reserve to net $146,681.

- On May 5, 2021, 2,931 Multiple Voting Shares were converted into 293,100 Subordinated Voting Shares.

- On July 29, 2021, 2,931 Multiple Voting Shares were converted into 293,100 Subordinated Voting Shares.

(b) Warrants

The following table reflects the continuity of warrants for the period ended December 31, 2020, December 31, 2021 and September 30, 2022:

	Number of warrants	Weighted average exercise price
Outstanding, December 31, 2020	**24,667,791**	**CAD$0.47**
Issued	11,312,980	CAD$1.37
Exercised	(2,438,843)	CAD$0.49
Outstanding, December 31, 2021	**33,541,928**	**CAD$0.77**
Exercised	(369,500)	CAD$0.45
Outstanding, September 30, 2022	**33,172,428**	**CAD$0.76**

As at September 30, 2022 the Company had the following share purchase warrants outstanding:

Outstanding	Exercise Price	Weighted Average Remaining Life (Years)	Expiry Date
21,556,965	CAD$0.45	1.34	November 2, 2023
302,483	CAD$0.36	1.34	November 2, 2023
1,357,980	CAD$1.12	1.61	February 8, 2024
9,955,000	CAD$1.40	1.61	February 8, 2024
33,172,428	CAD$0.76	1.48	

(c) Stock options

The Company has adopted a Stock Option Plan (the "Plan") pursuant to which options may be granted to directors, officers, employees, and consultants of the Company. Under the terms of the Plan, the Company can issue a maximum of 10% of the issued and outstanding Common Shares at the time of the grant, and the exercise price of each option is equal to or above the market price of the Common Shares on the grant date. Options granted under the Plan including vesting and the term, are determined by, and at the discretion of, the Board of Directors.

(Expressed in U.S. Dollars) (Unaudited)

20. SHARE CAPITAL (*CONTINUED…*)

The continuity of stock options for the period ended December 31, 2020, December 31, 2021 and September 30, 2022 is as follows:

	Number of options	Weighted average exercise price
Outstanding, December 31, 2020	**2,435,334**	**CAD $0.85**
Granted	885,000	CAD $1.31
Exercised	(250,000)	CAD $0.75
Cancelled	(37,000)	CAD $1.00
Outstanding, December 31, 2021	**3,033,334**	**CAD $0.99**
Granted	1,640,000	CAD $0.84
Cancelled	(52,000)	CAD $0.92
Outstanding, September 30, 2022	**4,621,334**	**CAD $0.94**

As at September 30, 2022 the Company had the following stock options outstanding:

Number Outstanding	Number Exercisable	Exercise Price	Weighted Average Life (years)	Expiry Date
100,000	100,000	CAD$0.96	1.01	October 23, 2023
50,000	—	CAD$0.75	4.44	March 8, 2027
698,000	698,000	CAD$1.00	6.27	January 3, 2029
200,000	200,000	CAD$1.00	6.62	May 13, 2029
833,334	833,334	CAD$0.75	7.62	May 12, 2029
375,000	375,000	CAD$0.75	8.16	November 26, 2030
285,000	285,000	CAD$1.22	8.27	January 31, 2031
500,000	300,000	CAD$1.43	8.39	February 19, 2031
320,000	—	CAD$0.58	9.56	April 19, 2032
10,000	—	CAD$0.58	9.74	June 23, 2032
1,000,000	250,000	CAD$1.00	9.91	August 24, 2032
250,000	62,500	CAD$0.60	9.91	August 23, 2032
4,621,334	**3,103,834**	**CAD$0.95**	**8.12**	

Total share-based compensation for the period ended September 30, 2022 for options was $274,516. Additionally, the Company recognized $10,350 and $566,081 of share-based compensation related to warrants and restricted shares units respectively, for a total of $850,946 share-based compensation.

(Expressed in U.S. Dollars) (Unaudited)

20. SHARE CAPITAL (*CONTINUED…*)

The fair value of the options granted during the year was estimated on the date of the grant using the Black-Scholes option pricing model with the following weighted average assumptions:

	September 30, 2022	December 31, 2021
Expected volatility	**124.51 - 131.65%**	113.45%-114.05%
Expected option life (years)	**5-10**	10
Risk-free interest rate	**1.61 - 3.29%**	0.75%-1.45%
Expected dividend yield	**0**	0

(d) Restricted Share Units

The Company approved the implementation of a restricted share units (the "RSU") plan on November 12, 2020, which RSU is designed to provide certain directors, officers, consultants and other key employees of the Company and its related entities with the opportunity to acquire restricted share of the Company. RSUs may be exercised by any holder of RSU to receive an award payout of either: (a) Subordinated Voting Share of the Company for each whole vested RSU; or (b) a cash amount equal to the defined date value of such vested RSU.

The Company uses the fair value method to recognize the obligation and compensation expense associated with the RSUs. The fair value of RSUs issued is determined on the grant date based on the market price of the Subordinated Voting Share on the grant date multiplied by the number of RSUs granted and taking into account market conditions. The fair value is expensed over the vesting term. Upon conversion of the RSU, the carrying amount is recorded as an increase in common share capital and a reduction in the RSU reserve.

On January 6, 2021, the Company granted 140,000 RSUs to employees of the Company, in which one-third can be exercised into Subordinated Voting Shares on January 1, 2022, 2023, and 2024. The RSUs will expire on January 6, 2024 and during the fiscal year ended December 31, 2021, 30,000 RSUs were cancelled. During the period ended June 30, 2022, 8,333 RSUs were exercised into 8,333 Subordinated Voting Shares, for total value of $7,901, and 16,667 RSUs were cancelled.

On February 23, 2022, the Company granted a total of 331,025 RSUs to a Director and an employee of the Company, in which 250,000 RSUs can be exercised into Subordinated Voting Shares every three months starting from February 11, 2022 and expires on February 11, 2024 and 81,025 RSUs can be exercised into Subordinated Voting Shares on February 23, 2023 and expires on February 23, 2023.

On June 23, 2022, the Company granted 75,000 RSUs to an officer of the Company, in which one-third can be exercised into Subordinated Voting Shares on the grant date, January 1, 2023 and July 1, 2023. The RSUs will expire on June 23, 2025.

As at June 30, 2022, the Company recognized $78,760 as share based compensation and 491,025 RSUs are issued and outstanding.

On August 24, 2022, the Company granted 3,000,000 RSUs to an officer and director of the Company, in which two-third can be exercised into Subordinated Voting Shares on the grant date and one-third on February 24, 2023. The RSUs will expire on August 24, 2025.

As at September 30, 2022, the Company recognized $566,081 as share-based compensation and 3,491,025 RSUs are issued and outstanding. As at September 30, 2022, there were 2,115,833 RSUs exercisable.

(e) Special Advisory Warrants

On May 13, 2019, the Company granted 1,000,000 special advisory warrants (the "Advisory Warrants") to consultants of the Company. The Advisory Warrants are exercisable at CAD$1.00 and expire on December 31, 2024. The fair value of the Advisory Warrants was calculated to be CAD$0.82 per warrant. The Company used the Black-Scholes Option Pricing Model to estimate the fair value of the Advisory Warrants using the following assumptions: risk free interest rate of 1.54%; dividend yield of 0%; expected volatility of 111.51%; and expected life of 5.5 years.

20. SHARE CAPITAL (*CONTINUED…*)

During the fiscal year ended December 31, 2021, 465,000 Advisory Warrants were changed from vesting to fully vested and all terms remained the same. The Company recorded $6,960 as share-based compensation during the period ended September 30, 2022 for the Advisory Warrants vested.

(f) Escrow Securities

As at September 30, 2022, the Company had nil Subordinated Voting Shares (2021 – 275,831), nil Multiple Voting Shares (2021 – 93,794), and nil stock options (2021 – 22,500) held in escrow.

21. CAPITAL MANAGEMENT

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to support the growth and development of its operations and to maintain a flexible capital structure which optimizes the costs of capital at an acceptable risk. In the management of capital, the Company includes its components of equity.

The Company manages the capital structure and adjusts it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue new shares, issue debt, acquire or dispose of assets.

In order to maximize ongoing development efforts, the Company does not pay out dividends. Management reviews its capital management approach on an ongoing basis and believes that this approach is reasonable given the relative size of the Company.

The Company currently is not subject to externally imposed capital requirements. There were no changes in the Company's approach to capital management during the year.

23. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

The fair value of the Company's accounts receivable, short-term notes receivable, advances to joint operation, deposits and other receivables, payables, approximate their carrying value , due to their short-term nature. The fair value of other financial assets and financial liabilities at amortized cost is determined in accordance with generally accepted pricing models based on discounted cash flow analysis or using prices from observable current market transactions. The fair value of notes payable approximate their carrying value due to variable interest rates which represent market value.

The Company's cash and investment are measured at fair value under the fair value hierarchy based on level 1 quoted prices in active markets for identical assets and liabilities.

The Company's financial instruments are exposed to certain financial risks, including credit risk, liquidity risk, interest rate risk, price risk, and currency risk.

<u>Credit risk</u>

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.

The Company is subject to credit risk on its receivables. As at September 30, 2022, 80 wholesale business customers were responsible for the $4,128,598 outstanding receivable balance. The Company is of the opinion that it is not exposed to significant credit risk from these customers as at September 30, 2022 as it continues to routinely collect accounts receivable.

The Company has no investments in asset-backed commercial paper.

23. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (*CONTINUED…*)

The Company records an allowance for doubtful accounts related to accounts receivable that are considered to be non-collectible. The allowance is based on the Company's knowledge of the financial condition of its customer, current business environment, customer and industry concentrations, and historical experience. To reduce credit risk, cash is only held at major financial institutions.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due.

The Company manages liquidity risk through its capital management as outlined in Note 21. As at September 30, 2022, the Company had cash, accounts receivable and short-term notes receivable of $26,499,368 to settle its current liabilities of $15,863,957. Management believes the Company has sufficient funds to support ongoing operating expenditures and meet its liabilities as they fall due.

Market risk

Market risk is the risk of loss that may arise from changes in market factors such as interest rates, commodity and equity prices, and foreign exchange rates.

a) Interest rate risk

Interest rate risk is the risk the fair value or future cash flows of a financial instrument will fluctuate because of changes in market rates.

As of September 30, 2022, $21,096,764 of the Company's borrowings include a variable interest rate component. As a result, the Company is subject to interest rate risk with respect to such floating-rate debt. For the period ended September 30, 2022, a hypothetical 100 basis point increase in the variable interest rate would increase the annual interest expense by approximately $222,000. There was no variable interest rate debt outstanding for the period ended September 30, 2021.

b) Price risk

The Company is not exposed to significant price risk as it does not hold investments in publicly traded securities.

(c) Currency risk

The Company's expenditures are predominantly in U.S. dollars, and any future equity raised is expected to be predominantly in Canadian dollars. As at September 30, 2022, the Company had $115,484 in financial liabilities denominated in Canadian dollars. A 10% change in the foreign exchange rate between the U.S. dollar and the Canadian dollar would have a $2,310 effect on the Company at this time.

24. CONTINGENCIES

As part of the acquisition of RDF and Firebrand, the Company agreed to assist in settling and fund the following lawsuits that were against RDF:

a) RDF was named as a defendant in a lawsuit in the Yavapai County Superior Court. The plaintiff alleged that he is an owner of RDF, and other entities. The Company and the plaintiff have agreed to resolve all claims and causes of action related to the lawsuit. During the year, the Company settled the claim for $340,000 on behalf of RDF and the case was dismissed.

24. CONTINGENCIES (*CONTINUED…*)

b) RDF was named as a defendant in a lawsuit in Superior Court of Arizona, County of Pima for certain loan agreement and promissory note. The Company and the plaintiff have agreed to resolve all claims and causes of action related to the lawsuit and settled the claim for $425,000 on behalf of RDF. During the year, the Company paid $200,000 for the settlement and the Company entered a secured promissory note with the defendant for the remainder $225,000 with nil interest rate and due on October 10, 2021. As at December 31, 2021 this obligation has been settled and paid in full for a total of $425,000.

c) As at December 31, 2021 RDF was named as a defendant in a lawsuit in Yavapai County Superior Court, for certain loan agreement and promissory note with a total due of $340,000. At December 31,2021 the Company has paid on behalf of RDF from the legal settlement allowance a total of $200,000. The Company and the plaintiff have agreed to resolve all claims and causes of action related to the lawsuit and settled the claim for a balance $69,786 as of April 1, 2022 which was paid on May 1, 2022.

d) As at December 31, 2021 RDF was named as a defendant in a lawsuit in Maricopa County Superior Court, for certain loan agreement and promissory note. The Company and the plaintiff have agreed to resolve all claims and causes of action related to the lawsuit and settled the claim for the balance of $250,000 which was paid on March 1, 2022.

25. SUBSEQUENT EVENTS

- On November 3, 2022, the Company announced the refinancing (the “Refinancing”) of the Company’s existing $4,400,000 principal amount of 10% secured non-convertible debentures (the “Refinanced Debentures”) issued by the Company on December 31, 2019 and maturing December 31, 2022. Pursuant to the Refinancing, holders of the Refinanced Debentures exchanged all obligations under the Refinanced Debentures in consideration for the issuance of: (i) an aggregate of $4,600,000 principal amount of 11.25% subordinated non-convertible debentures of the Company (the “New Debentures”) maturing December 31, 2027, including the additional purchase of $200,000 principal amount of New Debentures; and (ii) an aggregate of 365,909 warrants (“Warrants”) to purchase subordinate voting shares. The New Debentures accrue interest at the rate of 11.25% per annum, payable quarterly beginning January 1, 2023, are secured over all present and after acquired personal property of the Company and its subsidiaries located in Arizona or Ohio or otherwise utilized by the Company or its subsidiaries for the purpose of business operations in Arizona or Ohio, and are subordinate to the Company’s senior secured lenders. Each Warrant entitles the holder thereof to purchase one subordinated voting share at an exercise price of CAD$0.50 for 30 months from the date of issuance of such Warrants, subject to the Company’s right to accelerate the expiry date of such Warrants if the volume weighted average trading price of the subordinated voting shares on the Canadian Securities Exchange is greater than or equal to CAD$1.50 for a period of five consecutive trading days, in which case the Warrants will expire on the 30th day following the date of notice provided by the Company to the holders of the Warrants.

- On November 7, 2022, the Company issued an aggregate of 1,510,460 subordinate voting shares upon settlement of 2,115,833 restricted share units, which were settled for a combination of subordinate voting shares and cash equivalent to the amount the Company was permitted to withhold under the Company’s restricted share unit plan for the remittance of tax related to the settlement of such restricted share units.