Vext Science, Inc.

Audited Consolidated Financial Statements

December 31, 2022 and 2021

(Expressed in U.S. Dollars)

Vext Science, Inc.

Table of Contents

BFBorgers CPA PC
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

To the Shareholders and the Board of Directors of VEXT Science Inc.:

Opinion
We have audited the consolidated financial statements of VEXT Science Inc. (the "Company"), which comprise the consolidated statement of financial position as at December 31, 2022, and the consolidated statements of loss and comprehensive loss, changes in equity and cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies (collectively referred to as the "financial statements").

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

Basis for Opinion
We conducted our audit in accordance with Canadian generally accepted auditing standards ("Canadian GAAS"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the 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.

Other Matter
The financial statements of the Company for the year ended December 31, 2021, were audited by another auditor who expressed an unmodified opinion on those statements on April 19, 2022.

Other Information
Management is responsible for the other information. The other information comprises:

- Management's Discussion and Analysis

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements
Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the 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 Financial Statements

Our objectives are to obtain reasonable assurance about whether the 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 GAAS will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

Identify and assess the risks of material misstatement of the 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 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 financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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

B F Borgers CPA PC

March 22, 2023
Lakewood, Colorado, USA

VEXT SCIENCE, INC.
Consolidated Statements of Financial Position
(Expressed in U.S. Dollars)

	Notes	December 31, 2022	December 31, 2021
ASSETS			
Current assets			
Cash		$ 5,933,837	$ 6,467,091
Accounts receivable, net	4	3,295,537	21,890,638
Inventory	5	12,574,202	214,859
Biological assets	11	1,188,499	—
Prepaid expenses, deposits, and other receivables	6	9,945,716	497,012
Notes receivable – current	7	18,111,849	1,082,873
Deferred tax asset	14	756,253	—
Due from related parties	19	—	316,251
Loans to joint operations	10	876,258	693,393
		52,682,151	31,162,117
Non-current assets			
Note receivable non-current	7	—	13,272,694
Property, plant and equipment	12	35,650,655	28,817,265
Investment in joint ventures	9	1,758,719	1,722,587
Right-of-use asset	17	796,940	228,835
Due from related parties	19	1,328,383	1,328,383
Intangible assets	13	27,838,374	6,710,475
Goodwill	13	461,752	461,752
Total Assets		$ 120,516,974	$ 83,704,108
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Payables and accrued liabilities	15	$ 7,018,634	$ 3,091,428
Due to related party	19	—	225,000
Notes payable – current portion	16	4,106,487	769,117
Notes payable – RDF current portion	16	1,200,000	1,235,095
Lease liability – current portion	17	156,719	15,372
Loan payable - current portion	18	493,347	4,400,000
Total current liabilities		12,975,187	9,736,012
Long-term liabilities			
Notes payable – non-current portion	16	26,011,498	4,725,484
Notes payable – RDF-non-current portion	16	1,198,598	2,706,357
Lease liability – non-current portion	17	737,030	250,692
Loan payable - non - current portion	18	4,249,260	—
Deferred tax liabilities		3,426,879	6,892,000
Total liabilities		48,598,452	24,310,545
Shareholders' equity			
Subordinated and multiple voting shares		34,473,734	33,852,564
Reserves		4,260,543	3,276,034
Accumulated other comprehensive loss		(138,036)	(138,036)
Retained earnings		33,322,281	22,403,001
Total shareholders' equity		71,918,522	59,393,563
Total liabilities and shareholders' equity		$ 120,516,974	$ 83,704,108

Commitments and Contingencies, (Note 24)

Approved on March 22, 2023 on behalf of the Board of Directors:

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

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

VEXT SCIENCE, INC.
Consolidated Statements of Operations and Comprehensive Income
(Expressed in U.S. Dollars)

	Notes	For the year ended December 31, 2022	December 31, 2021
Sales		**35,410,636**	37,243,709
Cost of Goods Sold		**14,483,834**	20,812,003
Gross Profit before fair value adjustments		**20,926,802**	16,431,706
Unrealized change in fair value of biological assets	11	**(4,839,292)**	—
Realized change in fair value of inventory sold	11	**2,667,646**	—
Gross Profit		**23,098,447**	16,431,706
Operating Expenses			
Amortization	13,17	**3,328,578**	864,828
Depreciation	12	**664,300**	170,164
Share-based compensation	20	**1,452,439**	949,664
Salaries, wages, and commissions		**3,471,062**	1,089,566
General and administrative		**4,898,820**	4,146,918
Total Operating Expenses		**13,815,198**	7,221,140
Other Income (Expense)			
Accretion on debt		**(12,372)**	(1,223,083)
Share of profit (loss) of joint ventures	9	**(466,199)**	(539,557)
Loss on investment		—	(425,350)
Disposal of assets gain / (loss)		**20,397**	—
Gain on derecognition of ROU asset		—	3,195
Foreign exchange gain / (loss)		**1,186**	(10,726)
Other income		—	75,000
Loan payable modification		**(200,170)**	—
Interest (expense)		**(2,040,180)**	(1,009,446)
Interest income		**111,992**	739,487
Total other income (expense)		**(2,585,345)**	(2,390,480)
Net income before tax		**6,697,904**	6,820,086
Income tax (expense) / recovery	25	**4,221,376**	(1,833,367)
Net income after taxes		**$ 10,919,280**	$ 4,986,719
Unrealized gain (loss) on foreign exchange translation		—	145,522
Total comprehensive income		**$ 10,919,280**	$ 5,132,241
Basic earnings per common shares		**$ 0.08**	$ 0.04
Diluted earnings per common shares		**$ 0.08**	$ 0.03
Weighted average number of common share outstanding – basic		**138,853,529**	136,712,624
Weighted average number of common share outstanding - diluted		**139,534,660**	146,414,401

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

VEXT SCIENCE, INC.

Consolidated Statements of Changes in Shareholders' Equity

(Expressed in U.S. Dollars)

	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**	**$ 15,247,882**	**684,471**	**$ 1,934,241**	**$ 1,182,426**	**$ 815,847**	**$ —**	**$ (283,558)**	**$ 17,416,282** [1]	**$ 36,313,120**
Conversion of multiple voting shares to subordinated voting shares	586,200	—	(5,862)	—	—	—	—	—	—	—
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	—	(1,578,176)	—	—	—	—	—	—	—	(1,578,176)
Share-based compensation	—	—	—	—	143,598	741,638	64,428	—	—	949,664
Shares issued from options exercised	250,000	237,524	—	—	—	(90,843)	—	—	—	146,681
Shares issued from warrant exercised	2,438,843	1,484,076	—	—	(583,846)	—	—	—	—	945,230
Other comprehensive income for the year	—	—	—	—	—	—	—	145,522	—	145,522
Net income for the year	—	—	—	—	—	—	—	—	4,986,719	4,986,719
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**	**$ 59,393,563**
Conversion of multiple voting shares to subordinated voting shares	586,200	—	(5,862)	—	—	—	—	—	—	—
Share replacement	300,000	—	—	—	—	—	—	—	—	—
Share-based compensation	—	—	—	—	13,607	396,051	1,011,630	—	—	1,421,288
Shares issued from warrants exercised	369,500	129,845	—	—	23,396	—	—	—	—	153,241
Shares issued from RSUs exercised	1,541,403	491,325	—	—	—	—	(460,175)	—	—	31,151
Shares issued and held in escrow	8,999,989	—	—	—	—	—	—	—	—	—
Net income for the year	—	—	—	—	—	—	—	—	10,919,280	10,919,280
Balance at December 31, 2022	**81,688,526**	**$ 32,539,493**	**672,747**	**1,934,241**	**1,781,967**	**1,862,693**	**615,883**	**(138,036)**	**33,322,281**	**71,918,522**

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

VEXT SCIENCE, INC.
Consolidated Statements of Cash Flows
(Expressed in U.S. Dollars)

	For the year ended December 31, 2022	For the year ended December 31, 2021
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income for the year	**$ 10,919,280**	$ 4,986,719
Items not affecting cash:		
Amortization	**3,328,578**	835,300
Depreciation	**3,105,870**	2,453,483
Accretion on leases and debt	**12,372**	1,223,083
Interest expense on lease liability non-cash	**7,400**	35,642
Due to / from related parties	**91,251**	762,150
Foreign exchange	—	145,522
Share-based compensation	**1,452,439**	949,664
Share of loss on joint ventures	**466,199**	539,557
Deferred tax liabilities	**(4,221,376)**	1,833,367
Unrealized change in fair value of biological assets	**(4,839,292)**	—
Realized change in fair value of inventory sold	**2,667,646**	—
Gain on derecognition of ROU asset	—	(3,195)
Loan modification on non-convertible debentures	**200,170**	—
Non-cash working capital item changes:		
Accounts receivable	**(1,240,890)**	(4,666,241)
Biological asset (capitalized costs)	**(6,538,507)**	—
Inventory	**861,419**	642,458
Prepaid expenses, deposits and other receivables	**(569,422)**	1,069,134
Payables and accrued liabilities	**219,688**	450,757
Net cash provided by operating activities	**5,922,825**	**11,257,400**
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash acquired from acquisition	**736,538**	—
Cash paid on lawsuit settlement (RDF)	**(622,125)**	(1,758,869)
Loan to joint operations	**(182,865)**	(624,380)
Deposits on Ohio Acquisition	**(8,747,912)**	—
Notes receivable issued	**(12,134,094)**	(5,477,885)
Investment in legacy ventures	—	327,520
Investment in joint ventures	**(502,330)**	(979,546)
Acquisition of property, plant and equipment	**(8,860,383)**	(18,783,656)
Net cash used in investing activities	**(30,313,171)**	**(27,296,816)**
CASH FLOWS FROM FINANCING ACTIVITIES		
Prospectus offerings	—	16,259,725
Private placement	—	1,225,078
Share issuance costs - cash	—	(1,578,176)
Loan payable Ohio acquisition (payments) proceeds	**31,708,944**	—
Loan costs (payments) proceeds	**(1,625,126)**	—
Notes payable (payments) proceeds	**(5,494,602)**	4,575,269
Notes payable RDF payments	**(933,101)**	(764,681)
Reduction in lease liability	**(128,868)**	(129,271)
Issuance of non-convertible debentures	**200,000**	—
Reduction in sublease investment	—	81,271
Exercise of options	—	146,681
Exercise of warrants	**129,845**	945,230
Net cash provided by provided financing activities	**23,857,092**	20,761,126
Net change in cash during the year	**$ (533,254)**	$ 4,721,710
Cash, beginning of the year	**$ 6,467,091**	$ 1,745,381
Cash, end of the year	**$ 5,933,837**	$ 6,467,091

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

(Expressed in U.S. Dollars)

Cash paid for				
Taxes	**$**	**—**	$	—
Interest	**$**	**(2,040,180)**	$	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 RSU non-cash		**483,424**		—
Exercise of Warrants non-cash		**9,701**		183,424

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)

2. BASIS OF PRESENTATION

a) Statement of Compliance

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

b) Basis of Preparation

These 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 consolidated 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 December 31, 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%
New Gen Ohio, LLC	Ohio, 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 consolidated financial statements for the year ended December 31, 2022 and 2021 were approved and authorized for issue by the Board of Directors on March 22, 2023.

e) Significant Accounting Judgements and Estimates

The preparation of the Company's 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 consolidated financial statements and reported revenues and expenses during the reporting period.

Critical Judgements

The preparation of these consolidated 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 December 31, 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.

Asset acquisition vs business combination

Management's determination of whether a transaction constitutes a business combination, or an asset acquisition is determined based on whether the investee constitutes a business, as defined by IFRS 3. If the investee constitutes a business then the acquisition is accounted for as a business combination but if the investee does not meet the definition of a

2. BASIS OF PRESENTATION (*CONTINUED…*)

business, the acquisition is accounted for as an asset acquisition. To be considered a business, an acquisition of an integrated set of activities and assets would have to include an input and a substantive process that together significantly contribute to the ability to create outputs. Judgement is required to determine if an investee meets the definition of a business.

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 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 Expected Credit Losses

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.

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.

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.

2. BASIS OF PRESENTATION (*CONTINUED…*)

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.

Valuation of biological assets and inventory

Determination of the fair value of biological assets requires the Company to make a number of estimates and assumptions, including estimating selling prices, expected yields, wastage, and post-harvest costs of the cannabis plant. These estimates and assumptions are subject to change that could result from volatility of market prices, unanticipated regulatory changes, harvest yields, loss of crops, changes in estimates and other uncontrollable factors that could significantly affect the future fair value of biological assets. Refer to Note 6 for further information.

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

3. SIGNIFICANT ACCOUNTING POLICIES

Cash

Cash consists of cash held at major financial institutions and is subject to insignificant risk of changes in value. As at December 31, 2021 and December 31, 2022, the Company's cash balance is comprised of cash on hand and deposits held with banks.

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 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 consolidated statements of income and comprehensive income in the period that the related product is sold.

Inventory

Inventories are valued at the lower of cost and net realizable value, with cost determined based on a first-in, first-out basis. Net realizable value is the estimated selling price in the ordinary course of business less the estimated cost of completion and the estimated costs necessary to make the sale. Inventories include the cost of materials purchased, as well as other costs required to bring the inventories to their present location and condition.

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 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.

3. SIGNIFICANT ACCOUNTING POLICIES (*CONTINUED…*)

Property, Plant and Equipment

Property, plant and equipment is carried at cost, less accumulated amortization and accumulated impairment losses. The cost of the item of property and equipment consists of the purchase price, financing costs, any costs directly attributable to bringing the asset to the location and condition necessary for its intended use. An item of property, plant and equipment is no longer 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 the consolidated statement of operations and comprehensive income. The cost of repairs and maintenance is expensed as incurred. Amortization 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

Property, plant, and equipment acquired during the year but not placed into use are not amortized until they are placed into use.

Intangible Assets

Intangible assets with finite useful lives are recorded at cost less accumulated amortization and accumulated impairment losses. Amortization is provided on a straight-line basis. The estimated useful life and amortization method are reviewed at the end of each reporting year, with the effect of any changes in estimate being accounted for on a prospective basis. Amortization rates are reviewed annually to ensure they are aligned with estimates of the remaining economic useful lives of the associated intangible assets. The useful life of the intangible assets are as follows:

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

3. SIGNIFICANT ACCOUNTING POLICIES (*CONTINUED…*)

Business Combination and Goodwill

Acquisitions of businesses are accounted for using the acquisition method. At the acquisition date the identifiable assets acquired, and the liabilities assumed are recognized at their fair value, except deferred tax assets or liabilities, which are recognized and measured in accordance with IAS 12 – Income Taxes. Subsequent changes in fair values are adjusted against the cost of acquisition if they qualify as measurement year adjustments. The measurement period is the period between the date of the acquisition and the date where all significant information necessary to determine the fair values is available and cannot exceed 12 months. All other subsequent changes are recognized in the consolidated statements of operations and comprehensive loss.

The purchase price allocation process resulting from a business combination requires management to estimate the fair value of identifiable assets acquired including intangible assets and liabilities assumed including any contingently payable purchase price obligation due over time. The Company uses valuation techniques, such as forecasted future net cash flows discounted to present value and the market approach method. These valuations are closely linked to the assumptions used by management on the future performance of the related assets and the discount rates applied. The determination of fair value involves making estimates relating to acquired property, plant and equipment, intangible assets and contingent consideration.

In certain situations, goodwill or a bargain purchase gain may result from a business combination.

Goodwill is measured as the excess of the consideration transferred over the net amounts of the identifiable assets acquired and the liabilities assumed. Goodwill is measured at historical cost and is evaluated for impairment annually or more often if events or circumstances indicate there may be an impairment. Impairment is determined for goodwill by assessing if the carrying value of a cash-generating unit ("CGU"), including the allocated goodwill, exceeds its recoverable amount determined as the greater of the estimated fair value less costs to sell and the value in use. Impairment losses recognized in respect of a CGU are first allocated to the carrying value of goodwill and any excess is allocated to the carrying amount of assets in the CGU. Any goodwill impairment is recorded in income in the year in which the impairment is identified. Impairment losses on goodwill are not subsequently reversed. Acquisition related costs are recognized in the consolidated statements of comprehensive loss as incurred.

Investments

The Company carries its investments at fair value as financial assets at fair value through profit and loss ("FVTPL"). When a financial instrument is initially recognized, its fair value is generally the value of consideration paid or received. Acquisition costs relating to investments are not included as part of the cost of the investment and are recorded as an expense in the statements of operations and comprehensive income.

In the absence of an active market, the fair value is determined by management using the appropriate valuation methodologies. The process of valuing investments for which no active market exists is inevitably based on inherent uncertainties and the resulting values may differ from values that would have been used had an active market existed.

Joint Arrangements

The Company applies IFRS 11 to all joint arrangements. Under IFRS 11, investments in joint arrangements are classified as either joint operations or joint ventures, depending on the contractual rights and obligations of each investor. The Company has assessed the nature of its joint arrangements and determined them to be either joint ventures or joint operations. Joint ventures are accounted for using the equity method. Under the equity method of accounting, interests in joint ventures are initially recognized at cost and adjusted thereafter to recognize the Company's share of the post-acquisition profits or losses and movements in other comprehensive income. If the Company's share of losses in a joint venture equals or exceeds its interests in the joint ventures (which includes any long-term interests that, in substance, form part of the Company's net investment in the joint ventures), the Company does not recognize further losses, unless it has incurred obligations or made payments on behalf of the joint ventures.

3. SIGNIFICANT ACCOUNTING POLICIES (*CONTINUED…*)

Unrealized gains on transactions between the Company and its joint ventures are eliminated to the extent of the Company's interest in the joint ventures. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Financial Instruments

Financial assets and financial liabilities are recognized on the statements of financial position when the Company becomes a party to the contractual provisions of the financial instrument. The Company follows all of the requirements of IFRS 9 Financial Instruments ("IFRS 9"). IFRS 9 utilizes a revised model for recognition and measurement of financial instruments and 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 assets in the following categories: at fair value through profit and loss ("FVTPL"), at fair value through other comprehensive income (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 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 FVTP.

Measurement

<u>Financial assets and liabilities at amortized cost:</u>
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.

<u>Financial assets and liabilities at FVTPL:</u>
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.

<u>Debt investments at FVOCI:</u>
These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognized in profit or loss. Other net gains and losses are recognized in OCI. On derecognition, gains and losses accumulated in OCI are reclassified to profit or loss.

<u>Equity investments at FVOCI:</u>
These assets are subsequently measured at fair value. Dividends are recognized as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognized in OCI and are never reclassified to profit or loss.

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

3. SIGNIFICANT ACCOUNTING POLICIES (*CONTINUED…*)

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 loss and 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.

Derecognition

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.

Financial Liabilities:

The Company derecognizes a financial liability when its contractual obligations are discharged, cancelled, or expired. The Company also derecognizes a financial liability when the terms of the liability are modified such that the terms and / or cash flows of the modified instrument are substantially different, in which case a new financial liability based on the modified terms is recognized at fair value.

Gains and losses on derecognition are generally recognized in profit or loss.

The Company determines the fair value of financial instruments according to the following hierarchy based on the number of observable inputs used to value the instrument:

Level 1 – Quoted prices are available in active markets for identical assets or liabilities as at the reporting date. Active markets are those in which transactions occur in sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2 – Pricing inputs are other than quoted prices in active markets included in Level 1. Prices in Level 2 are either directly or indirectly observable as at the reporting date. Level 2 valuations are based on inputs, including quoted forward prices for commodities, time value and volatility factors, which can be substantially observed or corroborated in the marketplace.

Level 3 – Valuations in this level are those with inputs for the asset or liability that are not based on observable market data.

3. SIGNIFICANT ACCOUNTING POLICIES (*CONTINUED…*)

The Company's financial assets and liabilities are recorded and measured as follows:

Asset or Liability	Classification
Cash	Fair value
Accounts receivable	Amortized cost
Notes receivable	Amortized cost
Advances to joint operation	Amortized cost
Investment in sublease	Amortized cost
Investment	Fair value
Deposits and other receivables	Amortized cost
Due to related party	Amortized cost
Due to shareholders	Amortized cost
Payables	Amortized cost
Due to Legacy Ventures	Amortized cost
Lease liability	Amortized cost
Notes payable	Amortized cost

Impairment

The Company assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Company estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or CGU's fair value less costs of disposal and its value in use. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. Impairment losses of continuing operations are recognized in the statement of net loss and comprehensive loss in expense categories consistent with the function of the impaired asset.

Goodwill is tested for impairment annually at December 31 and when circumstances indicate that the carrying value may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of each CGU (or group of CGUs) to which the goodwill relates. When the recoverable amount of the CGU is less than its carrying amount, an impairment loss is recognized. Impairment losses relating to goodwill cannot be reversed in future periods.

Intangible assets with indefinite useful lives are tested for impairment annually at December 31 at the CGU level, as appropriate, and when circumstances indicate that the carrying value may be impaired.

Revenue Recognition

The Company earns revenue from; (i) the sale of cannabis products and accessories and (ii) the provision of professional services.

The Company recognizes revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods or services.

In order to recognize revenue, the Company applies the following five (5) steps:
1) Identify the contract with a customer;
2) Identify the performance obligation(s);
3) Determine the transaction price;
4) Allocate the transaction price to the performance obligations(s); and
5) Recognize revenue when/as performance obligations(s) are satisfied.

Sale of Cannabis

Revenue from the sale of cannabis products and accessories consist of retail and wholesale sales, which are recognized at a point in time when control over the goods has transferred to the customer. This corresponds with when the Company satisfies its performance obligation. Revenue is recorded net of any point of sale discounts provided to the customer. The Company's revenues are principally derived from arrangements with fixed consideration. Variable consideration, if any, is not material.

Payment is typically due upon transferring the goods to the customer or within a specified time period permitted under the Company's credit policy. The time period between when revenue is recognized and when payment is due is not significant. The Company estimates and reserves for its bad debt exposure based on its experience with past due accounts and collectability, write-off history, the aging of accounts receivable and an analysis of customer data. Costs associated with goods or services are expensed in the year performance obligations are satisfied.

Certain of the Company's customer contracts may provide the customer with a right of return. The Company determined that no provision for returns or refunds was necessary as at December 31, 2022 and 2021.

Loyalty program

The Company has a customer loyalty program whereby customers are awarded points with the purchase of cannabis products and accessories. Once a customer achieves a certain point level, points can be used to pay for the purchase of product. The points do not expire. Unredeemed awards are recorded as deferred revenue. At the time customers redeem points, the redemption is recorded as an increase to revenue. Deferred revenue is included in other accrued expenses within accounts payable and accrued liabilities.

Contract manufacturing services

The Company also provides contract manufacturing services. These services represent a single performance obligation that is satisfied at the point in time that the manufactured products are transferred to the customer. The Company is compensated based on costs incurred as well as a fixed margin.

Cost of Sales

Cost of Sales consist of input 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, biological assets and other production costs.

Income Taxes

Income tax on profit or loss for the year comprises of current and deferred tax. Current tax is the expected tax paid or payable on the taxable income for the year, using tax rates enacted or substantively enacted at the statement of financial position date and any adjustment to tax paid or payable in respect of previous years.

Deferred tax is recorded by providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized. The effect on deferred tax assets and liabilities of a change in income tax rates is recognized in the period that includes the date of the enactment or substantive enactment of the change. Deferred tax assets and liabilities are presented separately except where there is a right of set-off within fiscal jurisdictions.

Foreign Currency Translation

The functional currency is the currency of the primary economic environment in which the entity operates and has been determined for each entity within the Company. The functional currency of the Company is the Canadian dollar, and the functional currency of its wholly owned subsidiaries is the U.S. dollar. The statements are presented in U.S dollars.

3. SIGNIFICANT ACCOUNTING POLICIES (*CONTINUED…*)

Accordingly, the accounts of the Company are translated into U.S. dollars as follows:

- all of the assets and liabilities are translated at the rate of exchange in effect on the date of the statement of financial position;
- revenue and expenses are translated at the exchange rate approximating those in effect on the date of the transactions; and
- exchange gains and losses arising from translation are included in accumulated other comprehensive income.

Transactions in currencies other than the functional currency are recorded at exchange rates prevailing on the dates of the transactions. At the end of each reporting period, the monetary assets and liabilities of the Company that are denominated in foreign currencies are translated at the rate of exchange at the date of the statement of financial position while non-monetary assets and liabilities are translated at historical rates. Revenues and expenses are translated at the exchange rates approximating those in effect on the date of the transactions. Exchange gains and losses arising on translation are included in the statement of operations and other comprehensive income.

Share Capital

Subordinated and multiple voting shares are classified as equity. Transaction costs directly attributable to the issue of subordinated and multiple voting shares and subordinated voting share warrants are recognized as a deduction from equity. Subordinated and multiple voting shares issued for non-monetary consideration are measured based on their market value at the date the subordinated voting shares are issued.

Proceeds from the exercise of stock options and warrants are recorded as share capital in the amount for which the option or warrant enabled the holder to purchase a share in the Company. Share capital issued for non-monetary consideration are valued at the closing market price at the date of issuance. The proceeds from the issuance of units are allocated between subordinated and multiple voting shares and warrants based on the residual value method. Under this method, the proceeds are allocated first to share capital based on the fair value of the subordinated voting shares at the time the units are priced, and any residual value is allocated to the warrants reserve. Consideration received for the exercise of options or warrants is recorded in share capital and the related residual value is transferred to share capital.

Earnings Per Share

Basic earnings per share is computed by dividing net earnings available to shareholders by the weighted average number of shares outstanding during the reporting period. For diluted per share computations, assumptions are made regarding potential subordinated voting shares outstanding during the period. The weighted average number of subordinated voting shares is increased to include the number of additional subordinated voting shares that would be outstanding if, at the beginning of the period, or at time of issuance, if later, all options and warrants are exercised. Proceeds from exercise are used to purchase the Company's subordinated voting shares at their average market price during the period, thereby reducing the weighted average number of subordinated voting shares outstanding. If these computations prove to be anti-dilutive, diluted loss per share is the same as basic loss per share.

Share-Based Payments

The Company grants stock options and warrants to buy subordinated voting shares of the Company to directors, officers, employees, and service providers. The Company recognizes share-based compensation expense based on the estimated fair value of the options. A fair value measurement is made for each vesting installment within each option grant and is determined using the Black-Scholes option-pricing model. The fair value of the options is recognized over the vesting period of the options granted as both share-based compensation expense and reserves. This includes a forfeiture estimate, which is revised for actual forfeitures in subsequent periods.

3. SIGNIFICANT ACCOUNTING POLICIES (*CONTINUED…*)

The reserves account is subsequently reduced if the options are exercised and the amount initially recorded is then credited to capital stock.

In situations where equity instruments are issued to non-employees and some or all the goods or services received by the entity as consideration cannot be specifically identified, they are measured at the fair value of the share-based payment. Otherwise, share-based payments are measured at the fair value of the goods or services received.

Warrants Issued in Equity Financing Transactions

The Company engages in equity financing transactions. These equity financing transactions may involve issuance of subordinated voting shares or units. A unit comprises a certain number of subordinated voting shares and a certain number of share purchase warrants. Depending on the terms and conditions of each equity financing agreement, the warrants are exercisable into additional subordinated voting shares prior to expiry at a price stipulated by the agreement. Warrants that are part of units are valued based on the residual value method and included in share capital with the subordinated voting shares that were concurrently issued. Warrants that are issued as payment for an agency fee or other transactions costs are accounted for as share based payments.

Standards Issued but not yet Effective

Other accounting standards and amendments to existing accounting standards that have been issued and have future effective dates are not applicable or are not expected to have a significant impact on the Company's consolidated financial statements.

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.

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 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 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 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 consolidated financial statements.

(Expressed in U.S. Dollars)

4. ACCOUNTS RECEIVABLE

The Company's accounts receivable consists of the following:

		December 31, 2022		December 31, 2021
Accounts receivable, net of an allowance for expected credit losses of $(231,237)	**$**	**3,121,469**	$	21,790,830
GST input tax credits		**174,068**		99,808
	$	**3,295,537**	$	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:

		December 31, 2022		December 31, 2021
Work in Process				
Capitalized Cost	**$**	**1,448,899**	$	—
Fair Value Adjustment		**814,726**	$	—
Carrying Value	**$**	**2,263,625**	$	—
Finished Goods				
Capitalized Cost	**$**	**9,426,288**	$	214,859
Fair Value Adjustment		**884,289**		—
Carrying Value	**$**	**10,310,577**	$	—
Total	**$**	**12,574,202**	$	214,859

For the year ended December 31, 2022 the Company recognized $14,483,834 of inventory expensed to cost of goods sold (December 31, 2021 - $20,812,003).

(Expressed in U.S. Dollars)

6. PREPAID EXPENSES, DEPOSITS AND OTHER RECEIVABLES

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

	December 31, 2022	December 31, 2021
Vendor deposits	**$ 649,333**	$ 14,545
Deposit on APP Pharms, LLC (1)	**1,998,914**	—
Deposit on Ohio Dispensary (2)	**6,748,998**	—
Prepaid Expense/Insurance/Property Tax	**528,715**	283,556
Interest Receivable	**—**	198,357
Security deposits	**17,685**	—
Employee advances	**2,070**	554
	$ 9,945,716	$ 497,012

(1) As at December 31, 2022, the Company sent a $1.99 million down payment to APP Pharm, LLC as a cash deposit in addition to the Notes Receivable held of $17,987,537 towards the total purchase (Note 7) of the cultivation and processing center in Ohio awaiting the transfer of the licenses by the State of Ohio.

(2) As at December 31, 2022, $6.74 million was paid a deposit on the Ohio dispensary Buckeye Botanical, to be Herbal Wellness Center Ohio as of the license transfer date January 2, 2023. (See Note 25)

(Expressed in U.S. Dollars)

7. NOTES RECEIVABLE

As at December 31, 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 (5)	**70,000**		**70,000**
Due from APP 1803 (new dispensary working capital), an arm's length party, accruing interest at 0% per annum (6)	**836,292**	—	**836,292**
Due from APP 1804 (new dispensary lease commitments), an arm's length party, accruing interest at 0% per annum (7)	**110,000**	—	**110,000**
Due from Appalachian Pharm Processing, LLC, (working capital) an arm's length party, accruing interest at 0% per annum (8)	**1,657,259**		**1,657,259**
Due from Appalachian Pharm Processing, LLC, (cultivation Build Out) an arm's length party, accruing interest at 0% per annum (9)	**9,650,000**		**9,650,000**
Due from Appalachian Pharm Processing, LLC, (repay Ohio Partners expenses) an arm's length party, accruing interest at 0% per annum (10)	**656,685**		**656,685**
Due from Appalachian Pharm Processing, LLC, (forgive Ohio accounts receivable) an arm's length party, accruing interest at 0% per annum (11)	**1,007,301**		**1,007,301**
Due from Rinse Repeat Ventures, an arm's length party, accruing interest at 0% per annum	**124,313**		**124,313**
Total	**$ 18,111,849**	**$ —**	**$ 18,111,849**

As at December 31, 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 by December 31, 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**

7. NOTES RECEIVABLE *(CONTINUED…)*

(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.

(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) An additional $70,000 was loaned to APP1803, a dispensary in Ohio for a renewal of the license, under the original LOI with APP1803 as at December 31, 2022.

(6) 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 December 31, 2022.

(7) 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 December 31, 2022.

(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. Interest of $109,500 was charged as of December 31, 2022 when the loan was added to the existing working capital advance of $477,755 and subsequently an additional $570,004 was advanced for a total of $1,657,259 as of December 31, 2022.

(9) Appalachian Pharms Processing was loaned $9,650,000 as at December 31, 2022 as additional working capital per the LOI for cultivation build out.

(10) Appalachian Pharms Processing was paid $656,685 as at December 31, 2022 to reimburse Ohio Partner expenses per the LOI.

(11) Appalachian Pharms Processing Accounts Receivable New Gen Holdings, LLC, was forgiven in the amount of $1,007,301 as at December 31, 2022 per the LOI.

As at December 31, 2022, the Company has loaned to Appalachian Pharms Processing and APP 1803 an aggregate of $17,987,537.

(Expressed in U.S. Dollars)

7. NOTES RECEIVABLE *(CONTINUED…)*

As at December 31, 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**		**December 31, 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		**(250,000)**		**70,000**
	$	5,054,066	**$**	**(147,774)**	**$**	**4,906,292**
APP 1804, LLC						
Deposit for License		110,000		—		**110,000**
	$	110,000	$	—	**$**	**110,000**
APP Pharms, LLC						
Startup Loan	$	500,000	**$**	**(500,000)**	**$**	**—**
Forgive Accounts Receivable				**1,007,301**		**1,007,301**
Reimburse Expenses				**656,685**		**656,685**
Working Capital		477,755		**1,179,504**		**1,657,259**
Working Capital - Build Out		—		**9,650,000**		**9,650,000**
	$	977,755	**$**	**11,993,490**	**$**	**12,971,245**
Total	$	6,141,821	**$**	**11,845,716**	**$**	**17,987,537**

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 licenses held by App Pharms and the assets of APP1803. See subsequent events regarding the acquisition of APP 1803 in 2023.

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)

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 December 31, 2022, the Company loaned Vapen KY $1,697,850 for working capital as a contribution to the joint venture, $392,330 was in the year ended December 31, 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 December 31, 2022, the Company loaned Vapen OK $1,587,426 for working capital as a contribution to the joint venture, $110,000 was in the year ended December 31, 2022. The working capital loan is interest free.

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

	Vapen KY	Vapen OK	Total
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	392,330	110,000	**502,330**
Share of loss of the joint ventures during the year	(392,729)	(73,469)	**(466,198)**
Balance as at December 31, 2022	**727,341**	**1,031,378**	**1,758,719**

Summarized financial information for equity accounted investees for the three months ended December 31, 2022, is as follows:

	Vapen KY	Vapen OK
Ownership %	**50%**	**25%**
Total current assets	$ 1,550,660	$ 798,212
Non-current assets	8,614	139,578
Total Assets	1,559,274	937,790
Total liabilities	(3,500,292)	(3,159,715)
Net Assets	(1,941,018)	(2,221,925)
Revenue	68,448	405,444
Cost of Goods Sold	(200,082)	(209,143)
Total Expenses	(4,011)	(86,038)
Net Profit (loss)	**$ (135,644)**	**$ 110,263**
The Company's equity share of net loss of joint venture	**$ (67,822)**	**$ 27,566**

(Expressed in U.S. Dollars)

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 December 31, 2022, the Company had the following loans to operations:

	December 31, 2022	December 31, 2021
Happy Travels, LLC.	$ 510,626	$ 360,778
Green Goblin, LLC.	365,632	332,615
	$ 876,258	$ 693,393

(Expressed in U.S. Dollars)

11. BIOLOGICAL ASSETS

Biological assets consist of cannabis plants. The changes in the carrying value of biological assets as at December 31, 2022 are as follows:

Balance, December 31, 2021		—
Acquired beginning balance (Note 14)	$	**1,833,126**
Capitalized costs		**6,538,508**
Change in fair value less costs to sell due to biological transformation		**4,839,292**
Transferred into inventory upon harvest		**(12,022,427)**
Balance at December 31, 2022	**$**	**1,188,499**

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		**December 31, 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		**December 31, 2022**
Increase or decrease by $0.50 per gram	$	232,107
Increase or decrease by $0.10 per gram	$	23,919
Increase or decrease of yield by 10%	$	118,850

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

	December 31, 2022
Total expected yield (in grams)	1,480,847

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 year ended December 31, 2022:

		December 31, 2022
Unrealized change in fair value of biological assets	$	4,839,292
Realized change in fair value of inventory sold in the period		(2,667,646)
Net effect of changes in fair value of biological assets and inventory	$	2,171,646

As at December 31, 2022, the Company had 16,042 plants in cultivation with 900 plants greater than 80% grown; 3,988 plants between 60% and 80% grown; and 11,154 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)

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	—	—	(13,859)		—		(32,804)	**$ (46,663)**
Additions	—	58,689	2,628,058	661,394	17,024	5,462,072	79,809	**$ 8,907,046**
Additions from acquisition (Note 14)	—	51,083	112,638	1,308,752	604,972	—	—	**$ 2,077,445**
Balance at December 31, 2022	**$ 2,610,779**	**$ 10,675,606**	**$ 13,966,408**	**$ 7,378,905**	**$ 1,024,677**	**$ 9,531,099**	**$ 267,009**	**$ 45,454,483**
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	—	—	(3,108)	—	—	—	(9,557)	**$ (12,665)**
Depreciation	—	318,534	1,608,426	978,661	—	—	56,351	**$ 2,961,972**
Depreciation from acquisition (Note 14)	—	3,485	49,204	925,189	20,690	—	—	**$ 998,568**
Depreciation on acquisition	—	—	91,580	—	64,983	—	—	**$ 156,563**
Balance at December 31, 2022	**$ —**	**$ 841,242**	**$ 4,616,675**	**$ 3,977,303**	**$ 247,276**	**$ —**	**$ 121,333**	**$ 9,803,829**
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 December 31, 2022	**$ 2,610,779**	**$ 9,834,364**	**$ 9,349,733**	**$ 3,401,601**	**$ 777,402**	**$ 9,531,099**	**$ 145,676**	**$ 35,650,655**

Additions during the year ended December 31, 2022 were the assets of two acquisitions on January 1, 2022 (Note 14). Of the total depreciation expense during the year ended December 31, 2022 - $2,441,570 (December 31, 2021 - $2,253,791) was included in the cost of sales and $664,300 (December 31, 2021 - $170,164) 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 December 31, 2022 and smaller other cultivation projects to be finished this year.

(Expressed in U.S. Dollars)

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 December 31, 2022**
Management Service Agreement	$ 7,093,825	$ (766,900)	$ 6,326,925	— $ (6,326,925)	$ —	**$ —**
Firebrand (Brand name)	226,950	(53,400)	173,550	—	(53,400)	**120,150**
Patent	225,000	(15,000)	210,000	—	(15,000)	**195,000**
Licenses (Note 14)	—	—	—	26,068,630	(2,172,386)	**23,896,245**
Brand Name (Note 14)	—	—	—	4,168,344	(833,668)	**3,334,676**
Customer Relationships (Note 14)	—	—	—	365,380	(73,076)	**292,304**
						—
Amortization	—	—	—	—	—	—
Total	$ 7,545,775	$ (835,300)	$ 6,710,475	$ 24,275,429	$ (3,147,529)	$ 27,838,374

On January 1, 2022, the Company completed an acquisition (Note 14) whereby $30,602,354 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 December 31, 2022**
Goodwill	$ 461,752	—	$ 461,752	—	—	**$ 461,752**
Amortization	—	—	—	—	—	—
Total	$ 461,752	—	$ 461,752	—	—	**$ 461,752**

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

(Expressed in U.S. Dollars)

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	26,068,630
Brand name	4,168,344
Customer relationships	365,380
Accounts payable	(257,501)
Sales tax payable	(359,854)
Income tax payable (280e Federal Tax)	(3,006,309)
Net assets acquired	**35,435,080**
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)

15. PAYABLES AND ACCRUED LIABILITIES

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

		December 31, 2022		December 31, 2021
Trade payables	**$**	**1,977,818**	$	1,370,043
Credit card payable		**54,922**		39,102
Sales tax payable		**455,870**		1,029
Interest payable		**10,192**		27,182
Income tax payable (Note 14)		**3,006,309**		—
Payroll liabilities		**1,153,210**		509,477
Accrued liabilities		**360,313**		1,144,595
	$	**7,018,634**	$	3,091,428

(Expressed in U.S. Dollars)

16. NOTES PAYABLE

Current notes payable are made up of the following:

		December 31, 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 9.59% per annum (1)		**1,850,356**	$	—
Maturing July 15, 2027 with an interest rate of 9.75% per annum (1)		**1,269,559**	$	—
Maturing December 19, 2032 with an interest rate of 8.75% per annum (2)		**986,572**	$	—
	$	**4,106,487**	**$**	**769,117**

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

		December 31, 2022		December 31, 2021
Current portion of promissory note from acquisition	**$**	**1,200,000**	$	903,460
Current portion of liabilities settlement from acquisition		—		331,635
	$	**1,200,000**	$	1,235,095

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

		December 31, 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 9.59% per annum (1)		**14,513,521**		—
Maturing July 15, 2027 with an interest rate of 9.75% per annum (1)		**3,219,037**		—
Maturing December 19, 2032 with an interest rate of 8.75% per annum (2)		**8,278,940**		—
	$	**26,011,498**	**$**	**4,725,484**

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

		December 31, 2022		December 31, 2021
Promissory note from acquisition	**$**	**1,198,598**	$	2,543,835
Other notes payable with no maturing date and nil interest		—		162,522
	$	**1,198,598**	$	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 $967,914. The promissory notes are secured by an interest in substantially all of the Company's assets. The first promissory note $5,000,000 is subject to a variable interest rate calculated based on the Wall Street Journal Prime plus a spread of 2.75% (9.75% at December 31, 2022), and are subject to a floor of 6.25%. The second promissory note of $17,185,000 has a fixed rate of 9.59% at December 31, 2022. Blended payments of $259,992 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 December 31, 2022.

16. NOTES PAYABLE (*CONTINUED...*)

(2) On December 16, 2022, the Company completed a financing with gross proceeds of $10,000,000 and financing costs of $733,048 related to its Ohio operations (the "Ohio loan"). The Ohio loan is secured by an interest in certain assets in Ohio. The Ohio loan is subject to an interest rate calculated based on the Constant Maturities Rate published by the Federal Reserve Board plus a spread of 5% (8.75% at December 31, 2022), and is subject to a floor of 7.5%. The interest rate is reset on January 1, 2028 to the Constant Maturities Rate plus a spread of 5% at that date. Blended payments of $82,214 for principal and accrued interest are due on the 15th day of the calendar month and the Ohio loan matures on January 1, 2033. The Company has the right to prepay any or all of the principal balance outstanding at any time subject to a penalty of up to 3% of the loan balance. The Company has accounted for this loan at fair value through or loss as the prepayment option was determined not to be closely related to the loan.

(Expressed in U.S. Dollars)

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 January 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	$ —	$ —	$ 54,598	$ 54,598
Amortization	$ (59,874)	$ (60,272)	$ (60,901)	$ (181,047)
Balance at December 31, 2022	**$ 179,621**	**$ 180,817**	**$ 436,502**	**$ 796,940**

The total amortization expense for the year ended December 31, 2022 was included in operating expenses.

(Expressed in U.S. Dollars)

17. LEASES (*CONTINUED…*)

Lease liability:

Lease liability for the year ended December 31, 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 January 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	27,817	28,014	63,446	119,278
Lease payments	(71,505)	(71,820)	(104,821)	(248,146)
At December 31, 2022	**$ 195,807**	**$ 197,283**	**$ 500,658**	**$ 893,749**
Less: current portion	$ (53,422)	$ (53,706)	$ (49,590)	$ (156,719)
Long-term lease liability	**$ 142,385**	**$ 143,577**	**$ 451,068**	**$ 737,030**

The following table discloses the undiscounted cash flow for the three lease obligations remaining at December 31, 2022

	2022
Less than one year	**$ 248,146**
One to five years	**992,583**
More than five years	**1,261,407**
Total undiscounted lease obligations	**2,502,135**
Less imputed interest	**(1,608,386)**
Total present lease obligations	**$ 893,749**

The following table provides a summary of the lease expenses recognized in the statement of operations for the year ended December 31, 2022 and December 31, 2021.

	December 31, 2022	December 31, 2021
Interest expense (included in cost of good sold – property and equipment leasing)	**$ 83,888**	$ 121,802
Interest expense (included in general and admin in operating expenses)	**$ 35,390**	$ 45,207
Amortization (included in operating expenses)	**$ 181,047**	$ 51,673

(Expressed in U.S. Dollars)

18. LOAN PAYABLE

On November 3, 2022, the Company completed a refinancing (the "Refinancing") of the Company's existing $4,400,000 principal amount of 10% secured non-convertible debentures (the "Refinanced Loan") issued by the Company on December 31, 2019 and maturing December 31, 2022. 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.

Pursuant to the Refinancing, the lenders exchanged all obligations under the Refinanced Loan in consideration for the issuance of: (i) an aggregate of $4,600,000 principal amount of 11.25% secured non-convertible debentures (the "New Loan") maturing on December 31, 2027, including an additional $200,000 principal amount of New Loan; and (ii) an aggregate of 365,909 warrants ("Loan Warrants") to purchase subordinate voting shares at an exercise price of CAD$0.50. The Loan Warrants can be exercised for 30 months after closing, subject to the Company's right to accelerate the expiry of the Loan Warrants if the daily 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 Loan Warrants will expire on the 30th day following the date of notice provided by the Company to the holders of the Loan Warrants.

The Refinanced Loan is secured by 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.

The fair value of the Refinanced Loan was determined to be $4,850,841 using an annual effective interest rate of 10%. The fair value of the Loan Warrants was determined to be $23,396 using the Monte Carlo Simulation methodology and the following assumptions: Share Price: CAD$0.275; Risk-free rate: 3.84% ; Expected Volatility: 85%; Dividend yield: 0%; Discount for lack of marketability: 12%.

The loan payable balance for the year ended December 31, 2022, 2021 and 2020 were as follows:

December 31, 2020	**$**	**4,165,034**
Effect of change in exchange rate		234,966
December 31, 2021	**$**	**4,400,000**
Addition to principal amount		200,000
Less: Transactions Costs		(57,563)
Loss on Loan Modification		200,170
December 31, 2022	**$**	**4,742,607**

Current portion	$	493,347
Non-Current portion	$	4,249,260
December 31, 2022	**$**	**4,742,607**

(Expressed in U.S. Dollars)

19. RELATED PARTY TRANSACTIONS

Related parties and related party transactions impacting the consolidated 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 December 31, 2022 and 2021 is summarized as follows:

	December 31, 2022	December 31, 2021
Share-based compensation	**$ 802,072**	$ 33,925
Salaries and wages included in cost of goods sold	**80,960**	1,044,127
Salaries, wages and commissions included in operating expenses	**192,470**	54,681
Consulting fees included in operating expenses	**12,000**	—
	$ 1,087,503	$ 1,162,491

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 year ended December 31, 2022 and 2021 is summarized as follows:

	December 31, 2022	December 31, 2021
Consulting fees included in operating expenses	**$ 30,143**	$ 36,000
	$ 30,143	$ 36,000

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

	December 31, 2022	December 31, 2021
Share-based compensation	**$ 1,421,288**	$ 146,521
Salaries and wages included in cost of good sold	**416,170**	1,611,412
Salaries, wages and commissions included in operating expenses	**925,561**	84,812
Consulting fees included in operating expenses:	**144,753**	122,018
	$ 2,907,772	$ 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)

19. RELATED PARTY TRANSACTIONS (*CONTINUED…*)

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

		December 31, 2022		December 31, 2021
Consulting fees included in operating expenses	**$**	**168,763**	$	37,936
	$	**168,763**	$	37,936

Balances with related parties:

Due from related parties:

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

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

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

		December 31, 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 December 31, 2022 and December 31, 2021 included the following:

		December 31, 2022		December 31, 2021	
Payables and Accrued Liabilities					
Jason Nguyen, Executive Chairman (Due to related party)	**$**	—	$	225,000	
Jason Nguyen, Executive Chairman		**85,000**		235,000	*
Denise Lok, Former CFO		**3,866**		285	
David Eaton, Former Director		—		9,466	
Mark Opzoomer, Director		**40,000**		—	*
Eric Offenberger, CEO, COO, and Director		**150,000**		90,000	*
Long Term Loan Payable					
Jason Nguyen, Executive Chairman		—		64,763	*
	$	**278,866**	$	624,514	

*Salaries and bonuses were accrued as of December 31, 2022 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.

For the year ended December 31, 2022:

- On December 15, 2022, the Company issued an aggregate of 8,999,989 common shares, upon entering into a definitive agreements to acquire Appalachian Pharm Processing, LLC, an Ohio limited liability company, together with its subsidiaries and affiliated companies. The common shares are held in escrow by the Company and released upon closing conditions are satisfied. There has been no value recorded or assigned to these shares as they are exercised, however held in escrow until the transfer of the licenses in Ohio.

- On December 5, 2022, the Company issued an aggregate of 22,610 common shares upon settlement of 31,250 restricted share units, which were settled for a combination of common 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.

- On November 7, 2022, the Company issued an aggregate of 1,510,460 common shares upon settlement of 2,115,833 restricted share units, which were settled for a combination of common 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.

- 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.

(Expressed in U.S. Dollars)

20. SHARE CAPITAL (*CONTINUED…*)

- 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.

- 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 year ended, December 31, 2021 and December 31, 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**
Issued	365,909	CAD$0.50
Exercised	(369,500)	CAD$0.45
Outstanding, December 31, 2022	**33,538,337**	**CAD$0.76**

(Expressed in U.S. Dollars)

20. SHARE CAPITAL (*CONTINUED…*)

As at December 31, 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	0.84	November 2, 2023
302,483	CAD$0.36	0.84	November 2, 2023
1,357,980	CAD$1.12	1.11	February 8, 2024
9,955,000	CAD$1.40	1.11	February 8, 2024
365,909	CAD$0.50	2.34	May 3, 2025
33,538,337	CAD$0.76	0.95	

(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.

The continuity of stock options for the year ended, December 31, 2021 and December 31, 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	1,765,000	CAD $0.82
Cancelled	(62,000)	CAD $0.86
Outstanding, December 31, 2022	**4,736,334**	**CAD $0.93**

(Expressed in U.S. Dollars)

20. SHARE CAPITAL (*CONTINUED…*)

As at December 31, 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	0.75	October 23, 2023
50,000	25,000	CAD$0.75	4.19	March 8, 2027
698,000	698,000	CAD$1.00	6.02	January 3, 2029
200,000	200,000	CAD$1.00	6.37	May 13, 2029
833,334	833,334	CAD$0.75	7.37	May 12, 2029
375,000	375,000	CAD$0.75	7.91	November 26, 2030
285,000	285,000	CAD$1.22	8.02	January 31, 2031
500,000	300,000	CAD$1.43	8.14	February 19, 2031
310,000	—	CAD$0.58	9.31	April 19, 2032
10,000	—	CAD$0.58	9.48	June 23, 2032
1,000,000	250,000	CAD$1.00	9.65	August 24, 2032
250,000	62,500	CAD$0.60	9.65	August 23, 2032
125,000	125,000	CAD$0.50	9.98	December 22, 2031
4,736,334	**3,253,834**	**CAD$0.93**	**7.93**	

Total share-based compensation for the period ended December 31, 2022 for options was $396,051. Additionally, the Company recognized $13,607 and $1,011,630 of share-based compensation related to warrants and restricted shares units respectively, for a total of $1,452,439 share-based compensation.

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:

	December 31, 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	**1.21 - 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.

(Expressed in U.S. Dollars)

20. SHARE CAPITAL (*CONTINUED…*)

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 December 31, 2022, the Company issued an aggregate of 1,429,000 Subordinated Voting Shares upon the exercise of 2,000,000 RSUs, 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 RSU plan for the remittance of tax related to the settlement of such RSUs.

As of December 31, 2022, the Company recognized $1,452,439 as share-based compensation.

The continuity of RSU for the years ended December 31, 2022 and December 31, 2021 is as follows:

	Number of RSU's
Outstanding, December 31, 2020	—
Granted	140000
Cancelled	(30,000)
Outstanding, December 31, 2021	110,000
Granted	3,406,025
Exercised	(2,155,416)
Cancelled	(23,334)
Outstanding, December 31, 2022	**1,337,275**
Exercisable, December 31, 2022	—

(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.

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 $13,607 as share-based compensation during the period ended December 31, 2022 for the Advisory Warrants vested.

(f) Escrow Securities

As at December 31, 2022, the Company had 8,999,989 (APP Pharms, LLC) 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 December 31, 2022, 60 wholesale business customers were responsible for the $3,295,537 outstanding receivable balance. The Company is of the opinion that it is not exposed to significant credit risk from these customers as at December 31, 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 expected credit losses 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 December 31, 2022, the Company had cash, accounts receivable and short-term notes receivable of $27,341,223 to settle its current liabilities of $12,975,187. 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 December 31, 2022, $14,664,943 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 December 31, 2022, a hypothetical 100 basis point increase in the variable interest rate would increase the annual interest expense by approximately $146,649. There was no variable interest rate debt outstanding for the period ended December 31, 2022.

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 December 31, 2022, the Company had $53,392 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 $3,986 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.

(Expressed in U.S. Dollars)

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. INCOME TAXES

(a) Income tax expense (recovery)

		December 31, 2022		December 31, 2021
Current tax expense (recovery)				
Current period	**$**	**2,757,964**	$	—
Deferred tax expense (recovery)				
Origination and reversal of temporary differences		**1,087,763**		1,833,367
Change in unrecognized temporary differences		**2,642,560**		—
Adjustment for prior period		**(10,709,663)**		—
Income tax expense (recovery)	**$**	**(4,221,376)**	$	1,833,367

The actual income tax provision differs from the expected amount calculated by applying the Canadian combined federal and provincial corporate tax rates to income before tax. These differences result from the following:

(Expressed in U.S. Dollars)

25. INCOME TAXES (*CONTINUED…*)

	December 31, 2022	December 31, 2021
Net income for the year before taxes	$ 6,905,939	$ 6,280,086
Federal statutory tax rate - US	27 %	21 %
Expected income tax expense (recovery)	1,864,603	1,318,818
Increase (decrease) resulting from:		
Change in unrecognized temporary differences	2,642,560	—
Non-taxable items	2,063,283	—
Other	—	113,400
Tax rate differences and tax rate changes	(82,160)	401,149
Adjustment for prior period	(10,709,663)	$ —
Income tax expense (recovery)	$ (4,221,376)	$ 1,833,367

(b) Recognized deferred tax assets and liabilities

	December 31, 2022	December 31, 2021
Deferred tax assets are attributable to the following:		
Loss carryforwards	$ 1,342,597	$ —
Deferred tax assets	1,342,597	—
Set-off of tax	(586,344)	—
Net deferred tax asset	756,253	—
Deferred tax liabilities are attributable to the following:		
Inventory and biological assets	(586,344)	—
Intangibles	—	—
Property, plant and equipment	(668,913)	—
Other	—	(6,892,000)
Deferred tax liabilities	(1,255,257)	(6,892,000)
Set-off of tax	586,344	—
Net deferred tax liability	$ (668,913)	$ (6,892,000)

(Expressed in U.S. Dollars)

25. INCOME TAXES (*CONTINUED…*)

(c) Movement in deferred tax assets and liabilities

	December 31, 2021	Comprehensive Income (Loss)	Acquired in Acquisition	**December 31, 2022**
Loss carryforwards	$ —	$ 1,342,597	$ —	**$ 1,342,597**
Inventory and biological assets	—	(586,344)	—	**(586,344)**
Property, plant and equipment	—	(668,913)	—	**(668,913)**
Other	(6,892,000)	6,892,000	—	
Net deferred tax asset (liability)	$ (6,892,000)	$ 6,979,340	$ —	**$ 87,340**

	December 31, 2021	Comprehensive Income (Loss)	Acquired in a Business Combination	**December 31, 2022**
Loss carryforwards	$ —	$ —	$ —	**$ —**
Inventory and biological assets	—	—	—	**—**
Property, plant and equipment	—	—	—	**—**
Other	(5,013,000)	(1,879,000)	—	**(6,892,000)**
Net deferred tax asset (liability)	$ (5,013,000)	$ (1,879,000)	$ —	**$ (6,892,000)**

(d) Unrecognized deferred tax assets and liabilities

	December 31, 2022	December 31, 2021
Deductible temporary differences	**423,531**	—
Tax losses	**19,105,283**	—
	$ 19,528,814	$—

The Company has Canadian non-capital loss carryforwards of $4,972,582. The Company also US net operating losses of $19,105,283 available for carryforward. Certain of the Company's deferred tax assets have not been recognized as management has determined that it is more likely than not that the Company will be unable to realize the economic benefit of these assets.

26. SUBSEQUENT EVENTS

- Effective January 1, 2023, the Company issued an aggregate of $9,008,626 of unsecured promissory notes (the "Closing Promissory Notes") to the vendors of Appalachian Pharm Processing, LLC, Appalachian Pharm Products, LLC and APP1803, LLC (collectively, the "App Pharm Entities") pursuant to the membership interest purchase agreements with respect to the App Pharm Entities. The Closing Promissory Notes bear interest, from the date of issuance, at a rate of 8% per annum and are subject to quarterly interest only payments for a period of two years from the date of issuance, and thereafter, require quarterly payments of principal and interest on a 20 year amortization schedule, and will mature on December 31, 2026. In the event that the Company's acquisition of the App Pharm Entities fails to close as a result of a denial of a required regulatory consent or otherwise, the Closing Promissory Notes shall be cancelled and all amounts paid to the holders thereof pursuant to the Closing Promissory Notes shall be returned to the Company.

- Effective January 2, 2023, the Company and Appalachian Pharm Processing, LLC,closed on the purchase of Buckeye Botanicals, LLC, an Ohio limited liability company operating a dispensary in Jackson, Ohio operating under the name Buckeye Botanicals, giving the Company a retail storefront in Ohio to further strengthen its vertical position in the state. A cash payment of approximately $6.74 million was paid upon closing of the Proposed Jackson Acquisition. The Company has already received approval from the Ohio Board of Pharmacy to transfer ownership of the license, and is operating under the name Herbal Wellness Center Ohio. These funds were held as a deposit as of December 31,2022.

- On February 23, 2023 The Company has been granted a Certificate of Occupancy by the City of Eloy for its 17,000 square foot cultivation space in Eloy. The Company expects to begin planting during the second quarter of 2023, with a first harvest estimated in the third quarter of 2023.

- As of March 20, 2023, the Company issued an aggregate of 754,034 subordinate voting shares upon settlement of 1,131,025 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.

- As of March 21, 2023, the Company received its final funding on the Wright Pratt Credit Union loan processed relating to the acquisitions in Ohio of $1M. All terms and conditions remain the same as the original loan outlined in Note 16 with an interest rate of 8.75%.