**Vext Science, Inc.**

**Condensed Consolidated Interim Financial Statements**

**March 31, 2023 and 2022**

(Expressed in U.S. Dollars)

(Unaudited)

# Vext Science, Inc.

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

| | Notes | March 31, 2023 | December 31, 2022 |
|---|---|---|---|
| **ASSETS** | | | |
| **Current assets** | | | |
| Cash | | $ 3,446,092 | $ 5,933,837 |
| Accounts receivable, net | 4 | 3,356,309 | 3,295,537 |
| Inventory | 5 | 13,418,406 | 12,574,202 |
| Biological assets | 11 | 1,151,453 | 1,188,499 |
| Prepaid expenses, deposits, and other receivables | 6 | 4,561,192 | 9,945,716 |
| Notes receivable – current | 7 | 18,733,063 | 18,111,849 |
| Due from related parties | 19 | 1,328,383 | — |
| Deferred tax asset | | 756,253 | 756,253 |
| Loans to joint operations | 10 | 926,878 | 876,258 |
| | | 47,678,029 | 52,682,151 |
| **Non-current assets** | | | |
| Property, plant and equipment | 12 | 36,123,280 | 35,650,655 |
| Investment in joint ventures | 9 | 1,710,514 | 1,758,719 |
| Right-of-use asset | 17 | 959,400 | 796,940 |
| Due from related parties | 19 | — | 1,328,383 |
| Intangible assets | 13 | 33,007,975 | 27,838,374 |
| Goodwill | 13 | 2,070,654 | 461,752 |
| **Total Assets** | | $ 121,549,851 | $ 120,516,974 |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | | |
| **Current liabilities** | | | |
| Payables and accrued liabilities | 15 | $ 4,348,134 | $ 7,018,634 |
| Notes payable – current portion | 16 | 4,106,487 | 4,106,487 |
| Notes payable – RDF current portion | 16 | 1,200,000 | 1,200,000 |
| Lease liability – current portion | 17 | 169,901 | 156,719 |
| Loan payable - current portion | 18 | 487,772 | 493,347 |
| **Total current liabilities** | | 10,312,294 | 12,975,187 |
| **Long-term liabilities** | | | |
| Notes payable – non-current portion | 16 | 27,754,321 | 26,011,498 |
| Notes payable – RDF-non-current portion | 16 | 952,568 | 1,198,598 |
| Lease liability – non-current portion | 17 | 898,595 | 737,030 |
| Loan payable - non - current portion | 18 | 4,248,809 | 4,249,260 |
| Deferred tax liabilities | | 5,261,351 | 3,426,879 |
| **Total liabilities** | | 49,427,938 | 48,598,452 |
| **Shareholders' equity** | | | |
| Subordinated and multiple voting shares | | 34,724,760 | 34,473,734 |
| Reserves | | 4,139,849 | 4,260,543 |
| Accumulated other comprehensive loss | | (138,036) | (138,036) |
| Retained earnings | | 33,395,340 | 33,322,281 |
| **Total shareholders' equity** | | 72,121,913 | 71,918,522 |
| **Total liabilities and shareholders' equity** | | $ 121,549,851 | $ 120,516,974 |

Approved on May 23, 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 condensed consolidated interim financial statements

**VEXT SCIENCE, INC.**

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

| | Notes | The Period Ending March 31, 2023 | March 31, 2022 |
|---|---|---|---|
| **Sales** | | **9,110,651** | 10,791,133 |
| Cost of Goods Sold | | **4,468,558** | 2,741,020 |
| **Gross Profit before fair value adjustments** | | **4,642,093** | 8,050,113 |
| Unrealized change in fair value of biological assets | 11 | **(1,063,916)** | (1,316,601) |
| Realized change in fair value of inventory sold | 11 | **1,004,293** | 100,449 |
| **Gross Profit** | | **4,701,716** | 9,266,265 |
| **Operating Expenses** | | | |
| Amortization | 13,17 | **981,070** | 722,521 |
| Depreciation | 12 | **108,034** | 266,877 |
| Share-based compensation | 20 | **130,332** | 85,696 |
| Salaries, wages, and commissions | | **1,617,844** | 1,175,252 |
| General and administrative | | **1,050,538** | 1,570,180 |
| **Total Operating Expenses** | | **3,887,819** | 3,820,526 |
| **Other Income (Expense)** | | | |
| Accretion on debt | | **6,026** | (12,372) |
| Share of profit (loss) of joint ventures | 9 | **(91,205)** | (177,399) |
| Change in fair value of debt | 23 | **(190,984)** | — |
| Debt transaction costs | 23 | **(742,036)** | — |
| Foreign exchange gain/(loss) | | **(2,726)** | 212 |
| Interest (expense) | | **(861,188)** | (322,900) |
| Interest income | | **211** | — |
| **Total other income (expense)** | | **(1,881,902)** | (512,459) |
| **Net income (loss) before tax** | | **(1,068,005)** | 4,933,280 |
| Income tax (expense)/recovery | | **1,141,064** | (1,475,051) |
| **Net income (loss) after taxes** | | **$ 73,059** | $ 3,458,229 |
| **Total comprehensive income (loss)** | | **$ 73,059** | $ 3,458,229 |
| **Basic earnings (loss) per common shares** | | **$ —** | $ 0.03 |
| **Diluted earnings (loss) per common shares** | | **$ —** | $ 0.02 |
| **Weighted average number of common share outstanding – basic** | | **149,514,914** | 138,131,413 |
| **Weighted average number of common share outstanding - diluted** | | **149,744,008** | 143,889,147 |

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

**VEXT SCIENCE, INC.**

## Condensed Consolidated Interim Financial 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 (Loss)** | **Retained Earnings** | **Total Shareholder's Equity** |
| **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 | 293,100 | — | (2,931) | — | — | — | — | — | — | — |
| Share-based compensation | — | — | — | — | 3,494 | 49,379 | 32,823 | — | — | 85,696 |
| Shares issued from warrants exercised | 369,500 | 129,845 | — | — | — | — | — | — | — | 129,845 |
| Shares issued from RSUs exercised | 8,333 | 7,901 | — | — | — | — | (7,901) | — | — | — |
| Net income for the period | — | — | — | — | — | — | — | — | 3,458,229 | 3,458,229 |
| **Balance at March 31, 2022** | **70,562,367** | **32,056,069** | **675,678** | **1,934,241** | **1,748,458** | **1,516,021** | **89,350** | **(138,036)** | **25,861,230** | **63,067,333** |
| | | | | | | | | | | |
| **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** |
| Share-based compensation | — | — | — | — | — | 104,112 | 26,220 | — | — | 130,332 |
| Shares issued from RSUs exercised | 754,034 | 251,026 | — | — | — | — | (251,026) | — | — | — |
| Net income (loss) for the period | — | — | — | — | — | — | — | — | 73,059 | 73,059 |
| **Balance at March 31, 2023** | **82,442,560** | **$ 32,790,519** | **672,747** | **1,934,241** | **1,781,967** | **1,966,805** | **391,077** | **(138,036)** | **33,395,340** | **72,121,913** |

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

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

| | For the period ended March 31, 2023 | For the period ended March 31, 2022 |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Net income for the period | **$ 73,059** | $ 3,458,229 |
| Items not affecting cash: | | |
| Amortization | **981,070** | 722,521 |
| Depreciation | **863,966** | 748,789 |
| Accretion on leases and debt | **(6,026)** | 12,372 |
| Interest expense on lease liability non-cash | **3,467** | 7,388 |
| Debt transaction costs | **742,036** | — |
| Share-based compensation | **130,332** | 85,696 |
| Share of loss on joint ventures | **91,205** | 177,399 |
| Deferred tax liabilities | **(1,114,490)** | 1,475,051 |
| Unrealized change in fair value of biological assets | **(1,063,916)** | (1,316,601) |
| Realized change in fair value of inventory sold | **1,004,293** | 100,449 |
| Amortized debt transaction costs | **125,451** | — |
| Non-cash working capital item changes: | | |
| Accounts receivable | **(60,772)** | (1,375,114) |
| Biological asset (capitalized costs) | **(1,469,263)** | (2,140,820) |
| Inventory | **823,444** | (1,125,675) |
| Prepaid expenses, deposits, and other receivables | **80,148** | (137,209) |
| Payables and accrued liabilities | **(970,504)** | 2,393,789 |
| **Net cash provided by operating activities** | **397,910** | **3,086,264** |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Cash acquired from acquisition | **8,695** | 736,538 |
| Cash paid on lawsuit settlement (RDF) | — | (286,536) |
| Loan to joint operations | **(50,620)** | 174,813 |
| Notes receivable issued | **(621,213)** | (460,907) |
| Investment in joint ventures | **(43,000)** | (374,250) |
| Acquisition of property, plant and equipment | **(1,077,083)** | (4,589,726) |
| **Net cash used in investing activities** | **(1,783,221)** | **(4,800,068)** |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | |
| Loan payable Ohio acquisition (payments) proceeds | **(1,500,000)** | — |
| Loan costs (payments) proceeds | **(315,553)** | — |
| Notes payable (payments) proceeds | **1,000,000** | (736,328) |
| Notes payable RDF payments | **(246,030)** | (288,472) |
| Reduction in lease liability | **(40,850)** | (9,634) |
| Exercise of warrants | — | 129,845 |
| **Net cash used in financing activities** | **(1,102,434)** | (904,589) |
| **Net change in cash during the period** | **$ (2,487,745)** | $ (2,618,393) |
| **Cash, beginning of the period** | **$ 5,933,837** | $ 6,467,091 |
| **Cash, end of the period** | **$ 3,446,092** | $ 3,848,697 |
| **Cash paid for** | | |
| Interest | **$ (861,188)** | $ 322,900 |
| **Non-cash investing and financing activities** | | |
| Acquisition of dispensaries in exchange for receivables and notes due from seller (Note 14) | **$ —** | $ 35,435,080 |

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

## 1. NATURE OF OPERATIONS

Vext Science, Inc. (the “Company” or “Vext”) 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 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 primarily focused on concentrates and edible categories. Flower, unless as a pre-roll or infused pre-roll is sold primarily in our retail operations under the Herbal Wellness name. Vapen Brands also produces and distributes Wynk and Major beverages. The Company’s registered and records office is located at Suite 1500 – 1055 West Georgia Street., Vancouver, BC V6E 4N7 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 condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard 34 – Interim Financial Reporting ("IAS 34") using accounting policies consistent with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). Accordingly, certain disclosures normally included in annual financial statements prepared in accordance with IFRS have been omitted or condensed. These interim condensed consolidated financial statements should be read in conjunction with the Company's audited consolidated financial statements for the year ended December 31, 2022.

### b) Basis of Consolidation

The condensed consolidated interim financial statements include consolidated accounts of the Company and its subsidiaries, including its economic interest in joint operations. Joint ventures are 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 March 31, 2023, 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% |
| Herbal Wellness Center Ohio, LLC (Jackson Pharm, 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…*)

### c) Approval of the Condensed Consolidated Interim Financial Statements

These condensed consolidated interim financial statements for the three months ended March 31, 2023 and 2022 were approved and authorized for issue by the Board of Directors on May 23, 2023.

### d) Significant Accounting Judgements and Estimates

In preparing these interim condensed consolidated financial statements, management has made judgments and estimates that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

The significant judgments made by management in applying the Company's accounting policies and the key sources of estimation uncertainty were the same as those described in the Company's annual consolidated financial statements for the year ended December 31, 2022 except for as outlined below.

*Fair Value of Ohio Note Payable*

The Company measures the fair value of its Ohio Loan liability using a discounted cash flow method. The most significant input to this model is the market discount rate. Changes to this assumption could have a significant impact on the measurement of the Ohio Loan. Refer to Note 23 for further information.

## 3. SIGNIFICANT ACCOUNTING POLICIES

### New standards and interpretations

**Disclosure of Accounting Policies (Amendments to IAS 1)**
The IASB has issued amendments to IAS 1 Presentation of Financial Statements which require entities to disclose their "material" accounting policy information rather than their "significant" accounting policies.
The amendments explain that accounting policy information is material if omitting, misstating or obscuring that information could reasonably be expected to influence decisions that the primary users of the financial statements make on the basis of those financial statements. The amendments also clarify that accounting policy information may be material because of its nature, even if the related amounts are immaterial. This amendment is effective for annual periods beginning on or after January 1, 2023. Earlier application is permitted. The adoption of these amendments did not have a significant impact on the Company's Financial Statements.

**Definition of Accounting Estimates (Amendments to IAS 8)**
The IASB has issued amendments to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors which introduce a definition of accounting estimates and provide other clarifications to help entities distinguish accounting policies from accounting estimates. Under the amendments, accounting estimates are defined as "monetary amounts in financial statements that are subject to measurement uncertainty". The amendments also emphasize that a change in an accounting estimate that results from new information or new developments is not an error correction, and that changes in an input or a measurement technique used to develop an accounting estimate are considered changes in accounting estimates if those changes in an input or measurement technique are not the result of an error correction. This amendment is effective for annual periods beginning on or after January 1, 2023. Earlier application is permitted. The adoption of these amendments did not have a significant impact on the Company's Financial Statements.

**Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IFRS 1 and IAS 12)**
The IASB has issued amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards and IAS 12 Income Taxes which clarify that the initial recognition exemption set out in IAS 12 does not apply to transactions that give rise to equal taxable and deductible temporary differences. The aim of the amendments is to reduce diversity in the reporting of deferred tax on leases and decommissioning obligations. This amendment is effective for annual periods beginning on or after January 1, 2023. Earlier application is permitted. The adoption of these amendments did not have a significant impact on the Company's Financial Statements.

### Standards not yet adopted

**Classification of Liabilities as Current or Non-Current (Amendments to IAS 1)**
The IASB has published Classification of Liabilities as Current or Non-Current (Amendments to IAS 1) which clarifies the guidance on whether a liability should be classified as either current or non-current.

The amendments:
- clarify that the classification of liabilities as current or non-current should only be based on rights that are in place "at the end of the reporting period"
- clarify that classification is unaffected by expectations about whether an entity will exercise its right to defer settlement of a liability
- make clear that settlement includes transfers to the counterparty of cash, equity instruments, other assets or services that result in extinguishment of the liability.

This amendment is effective for annual periods beginning on or after January 1, 2024. Earlier application is permitted. The adoption of these amendments did not have a significant impact on the Company's Financial Statements.

(Expressed in U.S. Dollars)

## 4. ACCOUNTS RECEIVABLE

The Company's accounts receivable consists of the following:

| | | March 31, 2023 | | December 31, 2022 |
|---|---|---|---|---|
| Accounts Receivable | $ | 3,167,278 | $ | 3,121,469 |
| GST input tax credits | | 189,031 | | 174,068 |
| | $ | 3,356,309 | $ | 3,295,537 |

## 5. INVENTORY

Inventory consists of costs directly related to the production or procurement of products 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:

| | | March 31, 2023 | | December 31, 2022 |
|---|---|---|---|---|
| **Work in Process** | | | | |
| Capitalized Cost | $ | 592,857 | $ | 1,448,899 |
| Fair Value Adjustment | | 281,964 | $ | 814,726 |
| **Carrying Value** | $ | 874,821 | $ | 2,263,625 |
| **Finished Goods** | | | | |
| Capitalized Cost | $ | 11,096,187 | $ | 9,426,288 |
| Fair Value Adjustment | | 1,447,398 | | 884,289 |
| **Carrying Value** | $ | 12,543,585 | $ | 10,310,577 |
| **Total** | $ | 13,418,406 | $ | 12,574,202 |

For the three months ended March 31, 2023 the Company recognized $4,468,558 of inventory expensed to cost of goods sold (March 31, 2022 - $2,741,020).

(Expressed in U.S. Dollars)

## 6. PREPAID EXPENSES, DEPOSITS AND OTHER RECEIVABLES

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

| | | March 31, 2023 | | December 31, 2022 |
|---|---|---|---|---|
| Vendor deposits | $ | **524,546** | $ | 649,333 |
| Deposit on APP Pharms, LLC (1) | | **3,498,914** | | 1,998,914 |
| Deposit on Ohio Dispensary (2) | | **—** | | 6,748,998 |
| Prepaid Expense/Insurance/Maintenance | | **507,168** | | 528,715 |
| Security deposits | | **28,493** | | 17,685 |
| Employee advances | | **2,070** | | 2,070 |
| | $ | **4,561,192** | $ | 9,945,716 |

(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 $18,378,017 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 as a deposit on the Ohio dispensary Buckeye Botanical, to be renamed Herbal Wellness Center Ohio as of the license transfer date January 2, 2023.

(Expressed in U.S. Dollars)

## 7. NOTES RECEIVABLE

As at March 31, 2023, 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 (1) | | **4,821,293** | | **—** | | **4,821,293** |
| Due from APP 1803 (new dispensary license deposit), an arm's length party, accruing interest at 0% per annum (2) | | **70,000** | | **—** | | **70,000** |
| Due from APP 1804 (new dispensary lease commitments), an arm's length party, accruing interest at 0% per annum (3) | | **110,000** | | **—** | | **110,000** |
| Due from Appalachian Pharm Processing, LLC, (working capital) an arm's length party, accruing interest at 0% per annum (4) | | **1,774,194** | | **—** | | **1,774,194** |
| Due from Appalachian Pharm Processing, LLC, (cultivation Build Out) an arm's length party, accruing interest at 0% per annum (5) | | **9,900,000** | | **—** | | **9,900,000** |
| Due from Appalachian Pharm Processing, LLC, (repay Ohio Partners expenses) an arm's length party, accruing interest at 0% per annum (6) | | **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 (7) | | **1,007,301** | | **—** | | **1,007,301** |
| Due from APP 1804 (new dispensary escrow), an arm's length party, accruing interest at 0% per annum (8) | | **38,545** | | **—** | | **38,545** |
| Due from Rinse Repeat Ventures, an arm's length party, accruing interest at 0% per annum | | **355,046** | | | | **355,046** |
| Total | **$** | **18,733,063** | **$** | **—** | **$** | **18,733,063** |

As at March 31, 2023 the notes receivables are classified as current as the Company applied for the Ohio cannabis licenses and will have approval by December 31, 2023. Upon being granted the cannabis licenses, the receivable will become an investment in the Ohio operations.

As at December 31, 2022, the Company's notes receivables consisted 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 (1) | | **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 (2) | | **70,000** | | **—** | | **70,000** |
| Due from APP 1803 (new dispensary working capital), an arm's length party, accruing interest at 0% per annum (1) | | **836,292** | | **—** | | **836,292** |
| Due from APP 1804 (new dispensary lease commitments), an arm's length party, accruing interest at 0% per annum (3) | | **110,000** | | **—** | | **110,000** |
| Due from Appalachian Pharm Processing, LLC, (working capital) an arm's length party, accruing interest at 0% per annum (4) | | **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 (5) | | **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 (6) | | **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 (7) | | **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** |

## 7. NOTES RECEIVABLE *(CONTINUED…)*

(1) 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 a 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 $4,821,293 plus accrued interest of $164,066. The convertible loan agreement will transfer the ownership of the license, per Ohio State regulations in 2022.

(2) 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 March 31, 2023.

(3) 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 March 31, 2023.

(4) 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 $1,774,194 as of March 31, 2023.

(5) Appalachian Pharms Processing was loaned $9,900,000 as at March 31, 2023 as additional working capital per the LOI for cultivation build out.

(6) Appalachian Pharms Processing was paid $656,685 as at March 31, 2023 to reimburse Ohio Partner expenses per the LOI.

(7) Appalachian Pharms Processing Accounts Receivable New Gen Holdings, Inc, was forgiven in the amount of $1,007,301 as at March 31, 2023 per the LOI.

(8) Buckeye Botanicals, LLC owes New Gen Holdings, Inc $38,545 from escrow on the purchase (Note 8) for inventory paid for after the sale on behalf of Buckeye Botanicals LLC.

As at March 31, 2023, the Company has loaned to Appalachian Pharms Processing and APP 1803 an aggregate of $18,378,017 (December 31, 2022 - $17,987,537).

(Expressed in U.S. Dollars)

## 7. NOTES RECEIVABLE *(CONTINUED…)*

As at March 31, 2023, and December 31, 2021, the Company's notes receivables related to Ohio consist of the following by location:

| **APP 1803, LLC** | | December 31, 2022 | | Activity | | **March 31, 2023** |
|---|---|---|---|---|---|---|
| Contributions | $ | 4,000,000 | $ | — | **$** | **4,000,000** |
| Working Capital | | 836,292 | | (15,000) | | **821,292** |
| Interest | | — | | — | | **—** |
| Deposit for License | | 70,000 | | — | | **70,000** |
| | $ | 4,906,292 | $ | (15,000) | **$** | **4,891,292** |
| **APP 1804, LLC** | | | | | | |
| Deposit for License | | 110,000 | | — | | **110,000** |
| | $ | 110,000 | $ | 38,545 | **$** | **148,545** |
| **APP Pharms, LLC** | | | | | | |
| Startup Loan | $ | — | $ | — | **$** | **—** |
| Forgive Accounts Receivable | | 1,007,301 | | — | | **1,007,301** |
| Reimburse Expenses | | 656,685 | | — | | **656,685** |
| Working Capital | | 1,657,259 | | 116,935 | | **1,774,194** |
| Working Capital - Build Out | | 9,650,000 | | 250,000 | | **9,900,000** |
| | $ | 12,971,245 | $ | 366,935 | **$** | **13,338,180** |
| **Total** | **$** | **17,987,537** | **$** | **390,480** | **$** | **18,378,017** |

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.

(Expressed in U.S. Dollars)

## 8. OHIO ACQUISITION

On January 2, 2023, the Company's wholly owned subsidiary, Jackson Pharm, LLC, ("Jackson") acquired 100% of the issued and outstanding common shares of Buckeye Botanicals, LLC ("Buckeye Botanicals"), an Ohio limited liability company operating a cannabis dispensary in Jackson, Ohio. The acquisition is a business combination accounted for using the acquisition method in accordance with IFRS 3, Business Combinations ("IFRS 3").

The addition of Buckeye Botanicals gives the Company a second retail storefront in Ohio to further strengthen its vertical position in the state. Subsequent to the acquisition, Buckeye Botanicals will operate under the name Herbal Wellness Center Ohio. Jackson acquired Buckeye Botanicals for a total purchase price of $6,806,156, which consisted of cash consideration of $6,116,156 and cash held in escrow of $690,000. These funds were held as a deposit at December 31, 2022, then the license and ownership transferred on January 2, 2023.

The cash held in escrow consists of an Indemnification Hold back of $690,000 that is retained from the initial purchase price and held in escrow to satisfy a valid indemnification claim, should one arise. An indemnification claim is any loss born by the Company that is greater than $40,000 (and up to a maximum of $345,000) and arises out of any breach by the sellers of any representation, warranty, covenant, or agreement contained in the share purchase agreement. If there are no indemnification claims asserted by the Company, the total Indemnification hold back amount will be paid to the sellers, on a pro-rata basis.

The total consideration was allocated to the net assets acquired based on their acquisition date fair values, and excess of the purchase price over the fair value of the net assets acquired was recorded as goodwill. The transaction can be summarized as follows:

| | | January 2, 2023 |
|---|---|---|
| **Net assets acquired** | | |
| Cash | $ | 8,695 |
| Inventory | | 101,810 |
| Prepaid expenses | | 1,780 |
| Property and equipment | | 259,509 |
| Right-of-use assets | | 212,131 |
| Dispensary license | | 5,504,000 |
| Brand | | 597,000 |
| Lease liabilities | | (212,131) |
| Deferred tax liability | | (1,275,540) |
| Total identifiable net assets acquired | | 5,197,254 |
| Goodwill arising on acquisition | | 1,608,902 |
| Total net assets acquired | **$** | 6,806,156 |
| **Consideration** | | |
| Cash | $ | 6,116,156 |
| Cash held in escrow | | 690,000 |
| | $ | 6,806,156 |

The excess of purchase price over net identifiable assets acquired, and the liabilities assumed resulted in goodwill of $1,608,902, which is largely attributable to the assembled workforce acquired and the synergies from combining operations. Goodwill will not be deductible for tax purposes. The Company recorded $1,275,540 in deferred income taxes from the acquisition.

From the date of acquisition, Herbal Wellness Center Ohio contributed $1,235,697 of revenue and $250,330 to income before income taxes for the three months ended March 31, 2023.The Company expensed $144,517 of acquisition-related costs during the three months ended March 31, 2023 related to this transaction. These costs have been classified as amortization expenses on the condensed consolidated interim financial statements of income and comprehensive income.

(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 March 31, 2023, the Company loaned Vapen KY $1,740,850 for working capital as a contribution to the joint venture, $43,000 was in the three months ended March 31, 2023. 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 March 31, 2023, the Company loaned Vapen OK $1,587,426 for working capital as a contribution to the joint venture, $0 was in the three months ended March 31, 2023. The working capital loan is interest free.

As at December 31, 2022 and March 31, 2023 the balance of investments is comprised of the following:

| | Vapen KY | Vapen OK | Total |
|---|---|---|---|
| **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** |
| Contributions | 43,000 | — | **43,000** |
| Share of loss of the joint ventures during the year | (119,570) | 28,365 | **(91,205)** |
| **Balance as at March 31, 2023** | **650,771** | **1,059,743** | **1,710,514** |

Summarized financial information for equity accounted investees for the three months ended March 31, 2023, is as follows:

| | | Vapen KY | | Vapen OK |
|---|---|---|---|---|
| **Ownership %** | | **50%** | | **25%** |
| Total current assets | $ | 1,388,490 | $ | 917,789 |
| Non-current assets | $ | 8,096 | $ | 133,057 |
| Total Assets | $ | 1,396,586 | $ | 1,050,846 |
| Total liabilities | $ | (3,576,744) | $ | (3,159,309) |
| Net Assets | $ | (2,180,158) | $ | (2,108,463) |
| Revenue | $ | 36,470 | $ | 395,892 |
| Cost of Goods Sold | $ | (273,736) | $ | (206,498) |
| Total Expenses | $ | (1,874) | $ | (75,932) |
| Net Profit (loss) | **$** | **(239,140)** | **$** | **113,463** |
| **The Company's equity share of net loss of joint venture** | **$** | **(119,570)** | **$** | **28,365** |

(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 controls 50% 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 March 31, 2023, the Company had the following loans to operations:

| | | **March 31, 2023** | | December 31, 2022 |
|---|---|---|---|---|
| Happy Travels, LLC. | **$** | **561,246** | $ | 510,626 |
| Green Goblin, LLC. | | **365,632** | | 365,632 |
| | **$** | **926,878** | $ | 876,258 |

(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 March 31, 2023 are as follows:

| | | March 31, 2023 |
|---|---|---|
| **Balance, December 31, 2022** | $ | 1,188,499 |
| Capitalized Costs | | 1,469,263 |
| Change in fair value less costs to sell due to biological transformation | | 1,063,916 |
| Transferred into inventory upon harvest | | (2,570,225) |
| **Balance at March 31, 2023** | **$** | **1,151,453** |

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 production over a total average grow cycle of approximately 15 weeks.

| **Significant unobservable inputs** | | **March 31, 2023** | | December 31, 2022 |
|---|---|---|---|---|
| Average selling price per gram of flower | **$** | **3.53** | $ | 3.53 |
| Weighted average yield of flower per plant (in grams) | **$** | **53.46** | $ | 52.78 |
| **Effect on fair value** | | | | |
| **Sensitivity** | | **March 31, 2023** | | December 31, 2022 |
| Increase or decrease by $0.50 per gram | **$** | **137,116** | $ | 232,107 |
| Increase or decrease by $0.10 per gram | **$** | **26,497** | $ | 23,919 |
| Increase or decrease of yield by 10% | **$** | **115,145** | $ | 118,850 |

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

| | **March 31, 2023** | December 31, 2022 |
|---|---|---|
| **Total expected yield (in grams)** | **1,387,742** | 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 three months ended March 31, 2023 and 2022:

| | | **March 31, 2023** | | March 31, 2022 |
|---|---|---|---|---|
| Unrealized change in fair value of biological assets | **$** | **(1,063,916)** | $ | 1,316,601 |
| Realized change in fair value of inventory sold in the period | | **1,004,293** | | (100,449) |
| Net effect of changes in fair value of biological assets and inventory | **$** | **(59,623)** | $ | 1,216,152 |

As at March 31, 2023, the Company had 13,917 (December 31, 2022 - 16,042) plants in cultivation with 905 (December 31, 2022 - 900) plants greater than 80% grown; 3,091 (December 31, 2022 -3,988) plants between 60% and 80% grown; and 9,921 (December 31, 2022 - 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, 2021 | $ 2,610,779 | $ 10,565,834 | $ 11,239,571 | $ 5,408,759 | $ 402,681 | $ 4,069,027 | $ 220,004 | **$ 34,516,655** |
| 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 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** |
| Disposals | — | — | — | — | — | — | — | **$ —** |
| Additions | — | — | 453,463 | 107,530 | — | 516,090 | — | **$ 1,077,083** |
| Additions from acquisition (Note 8) | — | — | 80,448 | — | 179,061 | — | — | **$ 259,509** |
| **Balance at March 31, 2023** | **$ 2,610,779** | **$ 10,675,606** | **$ 14,500,319** | **$ 7,486,435** | **$ 1,203,738** | **$ 10,047,189** | **$ 267,009** | **$ 46,791,075** |
| | | | | | | | | |
| **Accumulated Amortization** | | | | | | | | |
| 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 on acquisition | — | — | 91,580 | | 64,983 | — | — | **$ 156,563** |
| Depreciation from acquisition (Note 14) | | 3,485 | 49,204 | 925,189 | 20,690 | — | — | **$ 998,568** |
| Balance at Balance at December 31, 2022 | $ — | $ 841,242 | $ 4,616,675 | $ 3,977,303 | $ 247,276 | $ — | $ 121,333 | **$ 9,803,829** |
| Disposals | — | — | — | — | — | — | — | **$ —** |
| Depreciation | — | 69,293 | 393,297 | 208,387 | (79,739) | — | 9,692 | **$ 600,930** |
| Depreciation on acquisition | | | 91,580 | | 64,983 | | | **$ 156,563** |
| Depreciation from acquisition (Note 14) | — | — | 22,459 | 50,483 | 26,263 | — | — | **$ 99,205** |
| Depreciation from acquisition (Note 8) | — | — | 2,842 | — | 4,428 | — | — | **$ 7,270** |
| **Balance at March 31, 2023** | **$ —** | **$ 910,535** | **$ 5,126,853** | **$ 4,236,173** | **$ 263,211** | **$ —** | **$ 131,025** | **$ 10,667,797** |
| | | | | | | | | |
| **Net Book Value** | | | | | | | | |
| December 31, 2021 | $ 2,610,779 | $ 10,046,612 | $ 8,368,997 | $ 3,335,306 | $ 241,078 | $ 4,069,027 | $ 145,465 | **$ 28,817,264** |
| December 31, 2022 | $ 2,610,779 | $ 9,834,365 | $ 9,349,733 | $ 3,401,602 | $ 777,401 | $ 9,531,099 | $ 145,676 | **$ 35,650,656** |
| **Balance at March 31, 2023** | **$ 2,610,779** | **$ 9,765,072** | **$ 9,373,467** | **$ 3,250,262** | **$ 940,527** | **$ 10,047,189** | **$ 135,984** | **$ 36,123,280** |

Additions during the three months ended March 31, 2023 were the assets of one acquisition on January 2, 2023 (Note 8). Of the total depreciation expense during the three months ended March 31, 2023 - $755,933 (March 31, 2022 - $481,912) was included in the cost of sales and $108,035 (March 31, 2022 - $266,877) was included in operating expense.

Additions during the year ended December 31, 2022 were the assets of two acquisitions on January 1, 2022 (Note 14).

*Construction in process consists of one cultivation project in Eloy, Arizona at this time for $9,338,731 as of March 31, 2023 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, 2021 | Additions (Disposals) | Amortization | Balance as at December 31, 2022 | Additions (Disposals) | Amortization | **Balance as at March 31, 2023** |
|---|---|---|---|---|---|---|---|
| **Management Service Agreement** | 6,326,925 | (6,326,925) | — | — | — | — | — |
| **Firebrand (Brand name)** | 173,550 | — | (53,400) | 120,150 | — | (13,350) | **106,800** |
| **Patent** | 210,000 | — | (15,000) | 195,000 | — | (3,750) | **191,250** |
| **Licenses - Ohio (Note 8)** | — | — | — | — | 5,504,000 | (114,667) | **5,389,333** |
| **Licenses - Arizona (Note 14)** | — | 26,068,630 | (2,172,386) | 23,896,245 | — | (543,097) | **23,353,148** |
| **Brand Name - Ohio (Note 8)** | — | — | — | — | 597,000 | (29,850) | **567,150** |
| **Brand Name - Arizona (Note 14)** | — | 4,168,344 | (833,668) | 3,334,676 | — | (208,417) | **3,126,258** |
| **Customer Relationships - Arizona (Note 14)** | — | 365,380 | (73,076) | 292,304 | — | (18,269) | **274,035** |
| **Total** | 6,710,475 | 24,275,429 | (3,147,529) | 27,838,374 | 6,101,000 | (931,399) | **33,007,975** |

On January 1, 2022, the Company completed an acquisition (Note 14) whereby $30,602,354 of intangible assets were acquired.
Due to this acquisition, the Management Service Agreement of $6,326,925 has been dissolved.

On January 2, 2023, the Company completed an acquisition (Note 8) whereby $7,709,902 of intangible assets were acquired.

| **Goodwill** | Balance as at December 31, 2021 | Additions | Balance as at December 31, 2022 | Additions | **Balance as at March 31, 2023** |
|---|---|---|---|---|---|
| **Goodwill - Arizona** | 461,752 | — | 461,752 | — | **461,752** |
| **Goodwill - Ohio (Note 8)** | — | — | — | 1,608,902 | **1,608,902** |
| **Total** | 461,752 | — | 461,752 | 1,608,902 | **2,070,654** |

As at March 31, 2023 and December 31, 2022, there was no impairment on goodwill and no change to the balance.

(Expressed in U.S. Dollars)

## 14. ARIZONA 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 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) |
| Deferred tax liability & contingency | (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:

| | March 31, 2023 | December 31, 2022 |
|---|---|---|
| Trade payables | **$ 1,187,402** | $ 1,977,818 |
| Credit card payable | **32,209** | 54,922 |
| Sales tax payable | **517,262** | 455,870 |
| Income tax payable | **1,306,313** | — |
| Interest payable | **10,192** | 10,192 |
| Deferred tax liability & contingency (Note 14) | **—** | 3,006,309 |
| Payroll liabilities | **1,095,118** | 1,153,210 |
| Accrued liabilities | **199,639** | 360,313 |
| | **$ 4,348,134** | $ 7,018,634 |

(Expressed in U.S. Dollars)

## 16. NOTES PAYABLE

Current notes payable are made up of the following:

| | | March 31, 2023 | | December 31, 2022 |
|---|---|---|---|---|
| Maturing July 15, 2027 with an interest rate of 10% per annum (1) | | **1,850,356** | $ | 1,850,356 |
| Maturing July 15, 2027 with an interest rate of 10.5% per annum (1) | | **1,269,559** | $ | 1,269,559 |
| Maturing December 19, 2032 with an interest rate of 8.75% per annum (2) | | **986,572** | $ | 986,572 |
| | **$** | **4,106,487** | **$** | **4,106,487** |

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

| | | March 31, 2023 | | December 31, 2022 |
|---|---|---|---|---|
| Current portion of promissory note from acquisition | **$** | **1,200,000** | $ | 1,200,000 |
| Current portion of liabilities settlement from acquisition | | **—** | | — |
| | **$** | **1,200,000** | $ | 1,200,000 |

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

| | | March 31, 2023 | | December 31, 2022 |
|---|---|---|---|---|
| Maturing July 15, 2027 with an interest rate of 10% per annum (1) | | **14,471,388** | | 14,513,521 |
| Maturing July 15, 2027 with an interest rate of 10.5% per annum (1) | | **3,101,565** | | 3,219,037 |
| Maturing December 19, 2032 with an interest rate of 8.75% per annum (2) | | **9,169,731** | | 8,278,940 |
| Maturing December 19, 2032 with an interest rate of 8.75% per annum (2) | **$** | **1,011,637** | **$** | — |
| | **$** | **27,754,321** | $ | 26,011,498 |

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

| | | March 31, 2023 | | December 31, 2022 |
|---|---|---|---|---|
| Promissory note from acquisition | **$** | **952,568** | $ | 1,198,598 |
| Other notes payable with no maturing date and nil interest | | **—** | | — |
| | **$** | **952,568** | $ | 1,198,598 |

(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 March 31, 2023.

(2) On December 16, 2022, the Company completed a financing with gross proceeds of $10,000,000 and financing costs of $733,024 related to its Ohio operations (the "Ohio loan"). On March 17, 2023 the Company received an additional $1,000,000 on the same terms and conditions with net additional closing costs of $8,987. 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.

(Expressed in U.S. Dollars)

## 17. LEASES

**Right-of-use asset:**

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:

| | OPG #1 | OPG #2 | OFFICE | AZ Total |
|---|---|---|---|---|
| At Opening balance as at January 1, 2020 | | | $ 287,890 | |
| Amortization | | | (29,528) | |
| At December 30, 2020 | | | $ 258,363 | |
| Amortization | | | $ (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 |
| Additions | | | | — |
| Amortization Q1 | (14,968) | (15,068) | (16,167) | (46,203) |
| **Balance at March 31, 2023** | **$ 164,653** | **$ 165,749** | **$ 420,335** | **$ 750,737** |

As at January 2, 2023 the Company acquired one new lease when it acquired Herbal Wellness Center Ohio Dispensary, the ROU asset and lease liability schedules are below:

| | HWC OH | OH Total |
|---|---|---|
| **Balance at December 31, 2022** | — | — |
| Acquisition (Note 8) | $ 212,131 | $ 212,131 |
| Amortization Q1 | (3,467) | (3,467) |
| **Balance at March 31, 2023** | **$ 208,663** | **$ 208,663** |

The total amortization expense for the three months ended March 31, 2023 was included in operating expenses.

(Expressed in U.S. Dollars)

## 17. LEASES (*CONTINUED…*)

**Lease liability:**

Lease liability for the three months ended March 31, 2023 and year ended December 31, 2022 were as follows:

| | | OPG #1 | | OPG #2 | | Office | | HWC OH | | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| **At Balance at December 31, 2021** | | | | | | **266,064** | | **—** | | **266,064** |
| At January 1, 2022 | **$** | **239,495** | **$** | **241,089** | **$** | **487,435** | | **—** | | **968,019** |
| Additions | | | | | | 54,598 | | — | | 54,598 |
| Interest Expense | | 27,817 | | 28,014 | | 63,446 | | — | | 119,278 |
| Lease payments | | (71,505) | | (71,820) | | (104,821) | | — | | (248,146) |
| **Balance at December 31, 2022** | **$** | **195,807** | **$** | **197,283** | **$** | **500,658** | | **—** | | **893,749** |
| At January 2, 2023 | | | | | | | | 212,131 | | 212,131 |
| Additions | | | | | | | | | | — |
| Interest Expense | $ | 6,024 | $ | 6,070 | $ | 15,845 | | 5,258 | | 33,197 |
| Lease payments | $ | (18,739) | $ | (18,853) | $ | (27,648) | | (5,341) | | (70,580) |
| **Balance at March 31, 2023** | **$** | **183,092** | **$** | **184,500** | **$** | **488,855** | **$** | **212,048** | **$** | **1,068,496** |
| **Less: current portion** | $ | (56,103) | $ | (56,434) | $ | (51,220) | $ | (6,144) | | (169,901) |
| **Long-term lease liability** | **$** | **126,989** | **$** | **128,066** | **$** | **437,636** | **$** | **205,904** | **$** | **898,595** |

The following table discloses the undiscounted cash flow for the four lease obligations remaining at March 31, 2023:

| | | 2023 |
|---|---|---|
| Less than one year | **$** | **288,076** |
| One to five years | | **1,152,302** |
| More than five years | | **1,464,384** |
| **Total undiscounted lease obligations** | | **2,904,762** |
| Less imputed interest | | **(2,006,167)** |
| **Total present lease obligations** | **$** | **898,595** |

The following table provides a summary of the lease expenses recognized in the statement of operations for the three months ended March 31, 2023 and March 31, 2022:

| | | March 31, 2023 | | March 31, 2022 |
|---|---|---|---|---|
| Interest expense (included in cost of good sold – property and equipment leasing) | **$** | **24,359** | $ | — |
| Interest expense (included in general and admin in operating expenses) | **$** | **8,838** | $ | 14,430 |
| Amortization (included in operating expenses) | **$** | **95,874** | $ | 7,388 |

(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 three months ended March 31, 2023, December 31, 2022 and December 31, 2021 were as follows:

| | | |
|---|---|---|
| **December 31, 2021** | **$** | **4,400,000** |
| Addition to principal amount | | 200,000 |
| Less: Transactions Costs | | (57,563) |
| Loss on Loan Modification | | 250,841 |
| Accretion of Interest | | (50,671) |
| **December 31, 2022** | **$** | **4,742,607** |
| Accretion of Interest | | (6,026) |
| **March 31, 2023** | **$** | **4,736,581** |
| | | |
| Current portion | $ | 487,772 |
| Non-Current portion | $ | 4,248,809 |
| **March 31, 2023** | **$** | **4,736,581** |

(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 March 31, 2023 and March 31, 2022 is summarized as follows:

| | | **March 31, 2023** | | March 31, 2022 |
|---|---|---|---|---|
| Share-based compensation | **$** | **130,332** | $ | 12,718 |
| Salaries and wages included in cost of goods sold | | **83,021** | | 81,528 |
| Salaries, wages and commissions included in operating expenses | | **177,665** | | 114,354 |
| Consulting fees included in operating expenses: | | **—** | | 40,989 |
| | **$** | **391,017** | $ | 249,589 |

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

Remuneration attributed to key management personnel for the three months ended March 31, 2023 and March 31, 2022 is summarized as follows:

| | | **March 31, 2023** | | March 31, 2022 |
|---|---|---|---|---|
| Consulting fees included in operating expenses | | **47,462** | | 37,890 |
| | **$** | **47,462** | $ | 37,890 |

Balances with related parties:

**Due from related parties:**

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

| | | **March 31, 2023** | | March 31, 2022 |
|---|---|---|---|---|
| Non-interest bearing, due on December 31, 2022 from Jason T. Nguyen, Executive Chairman | **$** | **—** | $ | 316,251 |
| | **$** | **—** | $ | 316,251 |

| | | **March 31, 2023** | | March 31, 2022 |
|---|---|---|---|---|
| Non-interest bearing, due on December 31, 2023 from Jason T. Nguyen, Executive Chairman | **$** | **1,328,383** | $ | 1,328,383 |

(Expressed in U.S. Dollars)

## 19. RELATED PARTY TRANSACTIONS (*CONTINUED…*)

**Due to related parties:**

Amounts due to related parties as at March 31, 2023 and March 31, 2022 included the following:

| | | **March 31, 2023** | | March 31, 2022 |
|---|---|---|---|---|
| Payables and Accrued Liabilities | | | | |
| Jason T. Nguyen, Executive Chairman (Due to Related Party) | | — | | 225,000 |
| Jason T. Nguyen, Executive Chairman | | — | | 235,000 |
| David Eaton, Director | | — | | 1,000 |
| Mark Opzoomer, Director | | **35,477** | | 6,666 |
| Eric Offenberger, CEO, COO, and Director | | — | | 87,885 |
| | **$** | **35,477** | $ | 555,551 |

## 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 three months ended March 31, 2023:

- During the period, the Company issued an aggregate of 754,034 common shares upon settlement of 1,131,025 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.

Fiscal 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 $129,845 (CAD 166,275).

(Expressed in U.S. Dollars)

## 20. SHARE CAPITAL (*CONTINUED…*)

### (b) Warrants

The following table reflects the continuity of warrants for the period ending March 31, 2023:

| | Number of warrants | Weighted average exercise price |
|---|---|---|
| **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** |
| **Outstanding, March 31, 2023** | **33,538,337** | **CAD 0.76** |

As at March 31, 2023 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 | 0.59 | November 2, 2023 |
| 302,483 | CAD 0.36 | 0.59 | November 2, 2023 |
| 1,357,980 | CAD 1.12 | 0.86 | February 8, 2024 |
| 9,955,000 | CAD 1.40 | 0.86 | February 8, 2024 |
| 365,909 | CAD 0.50 | 2.09 | May 3, 2025 |
| 33,538,337 | CAD 0.76 | 0.70 | |

### (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 period ended March 31, 2023 is as follows:

| | Number of options | Weighted average exercise price |
|---|---|---|
| **Outstanding, December 31, 2021** | **3,033,334** | **CAD 0.99** |
| Granted | 1,765,000 | CAD 0.82 |
| Forfeited | (62,000) | CAD 0.86 |
| **Outstanding, December 31, 2022** | **4,736,334** | **CAD 0.93** |
| Granted | 465,000 | CAD 0.50 |
| **Outstanding, March 31, 2023** | **5,201,334** | **CAD 0.89** |

(Expressed in U.S. Dollars)

**20. SHARE CAPITAL (*CONTINUED…*)**

As at March 31, 2023 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 | 0.51 | October 2, 2023 |
| 50,000 | 50,000 | CAD 0.75 | 3.94 | March 8, 2027 |
| 698,000 | 698,000 | CAD 1.00 | 5.77 | January 3, 2029 |
| 200,000 | 200,000 | CAD 1.00 | 6.12 | May 13, 2029 |
| 833,334 | 833,334 | CAD 0.75 | 7.12 | May 12, 2029 |
| 375,000 | 375,000 | CAD 0.75 | 7.66 | November 26, 2030 |
| 285,000 | 285,000 | CAD 1.22 | 7.78 | January 31, 2031 |
| 500,000 | 500,000 | CAD 1.43 | 7.90 | February 19, 2031 |
| 310,000 | — | CAD 0.58 | 9.06 | April 19, 2032 |
| 10,000 | — | CAD 0.58 | 9.24 | June 23, 2032 |
| 1,000,000 | 500,000 | CAD 1.00 | 9.41 | August 24, 2032 |
| 250,000 | 125,000 | CAD 0.60 | 9.41 | August 24, 2032 |
| 125,000 | 125,000 | CAD 0.50 | 9.74 | December 22, 2032 |
| 465,000 | 154,996 | CAD 0.50 | 9.98 | March 22, 2033 |
| **5,201,334** | **3,946,330** | **CAD 0.89** | **7.88** | |

Total share-based compensation for the period ended March 31, 2023 for options was $104,112. Additionally, the Company recognized $26,220 of share-based compensation related to restricted shares units respectively, for a total of $130,332 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:

| | **March 31, 2023** | December 31, 2022 |
|---|---|---|
| Expected volatility | **124.51 - 131.65%** | 124.51 - 131.65% |
| Expected option life (years) | **5-10** | 5-10 |
| Risk-free interest rate | **1.21 - 3.29%** | 1.21 - 3.29% |
| 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 (53,334 RSUs were cancelled as at December 31, 2022.

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.

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.

On March 22, 2023, the Company granted 225,908 RSUs to a Director of the Company, in which the full amount can be exercised into Subordinated Voting Shares on March 22, 2024 and expire on March 22, 2026.

As of March 31, 2023, the Company recognized $26,220 as share-based compensation, compared to $32,823 for March 31, 2022.

The continuity of RSU for the period ended March 31, 2023 is as follows:

| | Number of RSU's |
|---|---|
| **Outstanding, December 31, 2021** | 110,000 |
| Granted | 3,436,025 |
| Exercised | (2,155,416) |
| Cancelled | (53,334) |
| **Outstanding December 31, 2022** | **1,337,275** |
| Granted | 225,908 |
| Exercised | (1,131,025) |
| **Outstanding, March 31, 2023** | **432,158** |
| **Exercisable, March 31, 2023** | **31,250** |

**(e) Special Advisory Warrants**

As of March 31, 2023, the Company has 1,000,000 special advisory warrants (the "Advisory Warrants") outstanding. The Advisory Warrants are exercisable at CAD 1.00 and expire on December 31, 2024. As of March 31, 2023, the Advisory Warrants were fully vested and nil was recorded as share-based compensation

**(f) Escrow Securities**

As at March 31, 2023, the Company had 8,999,989 (APP Pharms, LLC) Subordinated Voting Shares (2022 – nil) 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 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.

(Expressed in U.S. Dollars)

## 22. SEGMENTED REPORTING

For the period ending March 31, 2023, the Company recognized sales of $9,110,651 (2022 - $10,791,133) of which approximately 86% (2022 - 100%) were derived from the Company's operation in Arizona.

For quarter ended March 31, 2023 and March 31, 2022

| | Arizona<br>$ | Ohio<br>$ | **Total**<br>**$** |
|---|---|---|---|
| **Balance at March 31, 2022** | | | |
| Total Sales | 10,791,133 | — | **10,791,133** |
| Cost of Goods Sold | 1,524,868 | — | **1,524,868** |
| Gross Profit (loss) | 9,266,265 | — | **9,266,265** |
| **Balance at March 31, 2023** | | | |
| Total Sales | 7,874,954 | 1,235,697 | **9,110,651** |
| Cost of Goods Sold | 3,651,006 | 757,929 | **4,408,935** |
| Gross Profit (loss) | 4,223,948 | 477,768 | **4,701,716** |

| | Arizona<br>$ | Ohio<br>$ | **Total**<br>**$** |
|---|---|---|---|
| **Balance at March 31, 2022** | | | |
| Property, plant, and equipment | 33,736,009 | — | **33,736,009** |
| Intangible Assets | 28,512,996 | — | **28,512,996** |
| Goodwill | 461,752 | — | **461,752** |
| **Balance at March 31, 2023** | | | |
| Property, plant, and equipment | 33,962,850 | 2,160,430 | **36,123,280** |
| Intangible Assets | 27,051,492 | 5,956,483 | **33,007,976** |
| Goodwill | 461,752 | 1,608,902 | **2,070,654** |

## 23. FAIR VALUE MEASUREMENT

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.

(Expressed in U.S. Dollars)

## 23. FAIR VALUE MEASUREMENT (*CONTINUED...*)

The Ohio Note was recognized at its estimated fair value at the initial recognition of $11,000,000 using a discounted cash flow approach. At March 31, 2023, the fair value of the Ohio Loan is $11,167,941. The fair value of the Secured Note was estimated using Level 3 inputs and is most sensitive to changes in market discount rates.

***Sensitivity Analysis:***

The key inputs used in determining the fair value of the Ohio loan is as follows:

| | March 31, 2023 | December 31, 2022 |
|---|---|---|
| Key unobservable inputs | | |
| Discount rate | 9.74% | 8.94% |

Assuming all other inputs remain constant, a 2% change in the discount rate used will have the following impact on the fair value of the Ohio Loan at March 31, 2023:

| | 2% | (2%) |
|---|---|---|
| Discount rates | ($1,250,000) | $1,250,000 |

The reconciliation of the carrying amounts of financial instruments classified within Level 3 is as follows:

| | | |
|---|---|---|
| Balance at December 31, 2022 | $ | 10,000,000 |
| Issuance of new loan | | 1,000,000 |
| Repayments | | (164,428) |
| Interest | | 141,385 |
| Change in fair value | | 190,984 |
| Balance at March 31, 2023 | $ | **11,167,941** |

## 24. CONTINGENCIES

As at March 31, 2023 the Company has no known contingencies.

## 25. SUBSEQUENT EVENTS

- On May 11, 2023, the Company issued an aggregate of 42,719 subordinate voting shares upon settlement of 62,500 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.
- The Company received $2,100,991 related to the federal ERC program related to past COVID-19 payroll tax expense credits on April 3, 2023.