Vext Science, Inc.

Audited Consolidated Financial Statements

December 31, 2023 and 2022

(Expressed in U.S. Dollars)

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 financial statement of financial position as at December 31, 2023, and the consolidated financial statements of operations and comprehensive income, consolidated financial statements of cash flows, and consolidated financial statements of changes in shareholders' equity and notes to consolidated financial statements, including a summary of material 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, 2023, and its financial performance and its cash flows for the year 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, 2022, were audited by another auditor who expressed an unmodified opinion on those statements on March 22, 2023.

Key Audit Matters

The key audit matters communicated below are matters arising from the current period audit of the financial statements that were communicated or required to be communicated to the audit committee and that: (1) relate to accounts or disclosures that are material to the financial statements and (2) involved especially challenging, subjective, or complex judgments. The communication of key audit matters does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the key audit matters below, providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate.

Valuation in Business Combinations, Goodwill, and Intangible Assets

As disclosed in note 3, the Company accounts for acquisitions of businesses using the acquisition method. The purchase price allocation process resulting from a business combination requires management to estimate the fair value of identifiable assets acquired including intangible assets. In certain situations, goodwill or a bargain purchase gain may result from a business combination. As disclosed in note 8, on January 2, 2023, the Company acquired assets in the business combination of Buckeye Botanicals, LLC, which included a dispensary license valued at $5,489,000, a brand valued at $597,000, and other assets and liabilities, which resulted in goodwill on the acquisition of $1,607,516. On October 3, 2023, the Company acquired assets in the business combination of Appalachian Pharm

Processing, LLC and Appalachian Pharm Products, LLC, which included a cultivation license valued at $22,149,000, a processing license valued at $8,399,000, customer relationships valued at $2,143,000, a purchase option to acquire CannAscend valued at $7,536,995, and other assets and liabilities, which resulted in a gain on bargain purchase of $15,048,075. Management applied significant judgment in estimating the fair value of the acquired licenses, brand, customer relationships, and purchase option. The fair values of the acquired licenses brand, and customer relationships are estimated by management using an income-based discounted cash flow model. Significant assumptions in the model include the forecasted revenues, margins, estimated time to launch adult-use sales in Ohio, and complete cultivation, production, and sales ramp-up. The fair value of the acquired purchase option is estimated using a binomial lattice model. The significant assumption in the model is the equity value of CannAscend.

The valuation of the acquired intangible assets is a critical audit matter and a significant judgment by management when developing the fair value of the intangible assets. This led to the high degree of auditor judgment, subjectivity and effort in performing procedures to evaluate the significant assumptions related to forecasted revenues, margins, estimated time to launch adult-use sales in Ohio, complete cultivation, production, and sales ramp-up, and the audit effort involved evaluating the use of professionals with specialized skill and knowledge.

Addressing the matter involved performing procedures and evaluating audit evidence which included, among others, reading the purchase agreements and testing management’s process for estimating the fair value of the acquired intangible assets. Testing management’s process included evaluating the appropriateness of the valuation approach, testing the completeness and accuracy of the underlying data used in the valuation models, and evaluating the reasonableness of significant assumptions used by management. Evaluating the reasonableness of the significant assumptions used by management related to forecasted assumptions related to revenue and margins, external market and industry data, as well as assessing whether the assumption was consistent with evidence obtained in other areas of the audit. Evaluating the reasonableness of the significant assumptions used by management related to the estimated time to launch adult-use sales in Ohio, completing cultivation, production, and sales ramp-up involved considering past experience in developing licensed facilities and external market and industry data. Professionals with specialized skill and knowledge were evaluated as they were used by management to assist in preparing the Company’s valuation models.

Goodwill and Intangible Assets Impairment

The Company performs impairment testing on an annual basis, or whenever events or changes in circumstances indicate that the carrying value of a cash generating unit (“CGU”) might exceed its recoverable amount. Impairment indicators existed during the year due to changes in consumer behaviour from increased inflation and changes to interest rates resulting in less disposable income. As a result of the Company performing impairment tests for each of its CGUs, no impairment loss on goodwill has been recorded. Refer to Note 13 of the consolidated financial statements for further details.

We identified the impairment of goodwill and intangible assets as a key audit matter. There was a high degree of auditor judgment required to evaluate the significant assumptions used in determining the recoverable amount including but not limited to, forecasted revenue, gross margin, operating expenses, long-term growth rates and discount rates. The sensitivity of reasonable changes to the significant assumptions could have a significant impact on the determination of the recoverable amount of the CGUs and the Company’s determination of impairment.

We responded to this matter by performing audit procedures in relation to the impairment of goodwill and intangible assets. Our audit work in relation to this included, but was not restricted to, evaluating the reasonability of the assumptions applied to key inputs, such as sale forecasts, gross margin, operating expenses, and long-term growth rates, which included comparing these assumptions to historical actual performance and/or external market and industry data; verifying that management's fair value methodology is in compliance with the requirements of IFRS 13 Fair Value Measurement; and evaluating the reasonability of the discount rate and other inputs used in the impairment analysis based on industry data and other benchmarks.

Valuation of Biological Assets
As discussed in note 3 of the consolidated financial statements, the Company measures biological assets, which consist of cannabis plants, at fair value less costs to sell up to the point of harvest, which then becomes the basis for the cost of inventories after harvest. As disclosed in note 11 of the consolidated financial statements, as of December 31, 2023, the carrying value of the Company's biological assets was $1,017,836. The fair value less costs to sell of biological assets is determined using a model which utilizes an estimate of the expected average yield per plant in grams for plants currently being cultivated, multiplied by the average selling price per gram and then adjusted for any additional costs to be incurred, such as post-harvest costs. During the year ended December 31, 2023, the Company recognized an increase of $3,521,452 in fair value less cost to sell due to biological transformation.

We identified the assessment of the significant assumptions used to estimate the fair value less costs to sell of biological assets as a critical audit matter as a high degree of auditor judgement was required to evaluate the significant assumptions. The significant assumptions used to determine the fair value less costs to sell of biological assets are expected average yield per plant and average selling price per gram.

We responded to this matter by performing procedures which included, among others, testing management's process for determining the fair value component; evaluating the appropriateness of the method and model used to calculate the fair value component; testing the completeness and accuracy of the underlying data used in the model; and evaluating the reasonableness of the significant assumptions used by management. Evaluating the reasonableness of the significant assumptions used by management related to expected yields for the cannabis plants, sales price and expected post-harvesting costs involved evaluating whether the assumptions used by management were reasonable by considering actual historical information; consistency with evidence obtained in other areas of the audit; recent market data; and considering sensitivities over significant assumptions.

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 Kwin Grauer.

/s/ Reliant CPA

Chartered Professional Accountants
Licensed Public Accountants
Vancouver, BC
May 9, 2024

Vext Science, Inc.

Table of Contents

Cover & Independent Auditor’s Report	
Table of contents	7
Consolidated Financial Statements of Financial Position	8
Consolidated Financial Statements of Operations and Comprehensive Income	9
Consolidated Financial Statements of Changes in Shareholders’ Equity	10
Consolidated Financial Statements of Cash Flows	11-12
Notes to the Consolidated Financial Statements	13-65

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

	Notes	December 31, 2023	December 31, 2022
ASSETS			
Current assets			
Cash		$ 8,720,132	$ 5,933,837
Amounts receivable, net	4	1,260,551	3,295,537
Inventory	5	12,239,959	12,574,202
Biological assets	11	1,017,836	1,188,499
Prepaid expenses, deposits, and other receivables	6	5,982,500	9,945,716
Notes receivable – current	7	6,689,325	18,111,849
Loans to joint operation	10	470,835	876,258
Purchase option	22	4,903,211	—
Total current assets		**41,284,349**	51,925,898
Non-current assets			
Property, plant and equipment	12	38,542,792	35,650,655
Investment in joint ventures	9	1,714,068	1,758,719
Right-of-use asset	17	2,626,104	796,940
Due from related party	18	1,328,383	1,328,383
Intangible assets	13	61,992,346	27,838,374
Goodwill	13	2,069,268	461,752
Deferred tax asset	24	2,496	756,253
Total Assets		**$ 149,559,806**	$ 120,516,974
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Payables and accrued liabilities	15	$ 6,761,764	$ 9,497,734
Due to related parties	18	961,655	278,866
Notes payable – current portion	16, 18	5,787,177	5,799,834
Lease liability – current portion	17	470,881	156,719
Total current liabilities		**13,981,477**	15,733,153
Long-term liabilities			
Notes payable – non-current portion	16, 18	30,054,393	31,459,356
Lease liability – non-current portion	17	2,284,293	737,030
Deferred tax liabilities	24	8,257,368	668,913
Total liabilities		**54,577,531**	48,598,452
Shareholders' equity			
Subordinated and multiple voting shares		48,207,763	34,473,734
Shares to be issued		4,847,609	—
Reserves		4,344,211	4,260,543
Accumulated other comprehensive loss		(138,036)	(138,036)
Retained earnings		37,720,728	33,322,281
Total shareholders' equity		**94,982,275**	71,918,522
Total liabilities and shareholders' equity		**$ 149,559,806**	$ 120,516,974

Approved on May 9, 2024 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.

Audited Consolidated Financial Statements of Operations and Comprehensive Income

(Expressed in U.S. Dollars)

	Notes	For the year ended December 31, 2023	December 31, 2022
Sales		**$ 34,812,311**	$ 35,410,636
Cost of Goods Sold	5	21,124,352	14,483,833
Gross Profit before fair value adjustments		**13,687,959**	20,926,803
Unrealized gain in fair value of biological assets	11	(3,521,452)	(4,839,292)
Realized loss in fair value of inventory sold	11	5,170,985	2,667,646
Gross Profit		**12,038,426**	23,098,449
Operating Expenses			
Amortization	13,17	4,854,860	3,328,578
Depreciation	12	1,186,153	664,300
Share-based compensation	18	384,611	1,452,439
Salaries, wages, and commissions		5,126,592	3,471,062
General and administrative		8,329,335	4,898,820
Total Operating Expenses		**19,881,551**	13,815,199
Other Income (Expense)			
Accretion on debt		19,003	(12,372)
Share of (loss) in joint ventures	9	(87,550)	(466,199)
Disposal of assets gain/(loss)	12	(810,872)	20,397
Loss on fair value of debt and purchase option	22	(4,805,097)	(200,170)
Foreign exchange gain/(loss)		(5,367)	1,186
Interest expense		(3,811,646)	(2,040,180)
Interest income		157,234	111,992
Gain on acquisition of control and bargain purchase	8	20,550,163	—
Total other income (expense)		**11,205,868**	(2,585,346)
Net income before tax		**3,362,743**	6,697,904
Income tax recovery	24	1,035,704	4,221,376
Net income after taxes		**$ 4,398,447**	$ 10,919,280
Total comprehensive income		**$ 4,398,447**	$ 10,919,280
Basic earnings per subordinate voting share		**$ 0.03**	$ 0.08
Diluted earnings per subordinate voting share		**$ 0.03**	$ 0.08
Weighted average number of subordinate voting shares outstanding – basic		**164,482,827**	138,853,529
Weighted average number of subordinate voting shares outstanding - diluted		**164,735,335**	139,534,660

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

VEXT SCIENCE, INC.

Audited Consolidated Financial Statements of Changes in Shareholders’ Equity

(Expressed in U.S. Dollars)

	Share Capital										
	Number of Subordinated Voting Shares	**Amount: Subordinated Voting Shares**	**Share capital - Shares to be issued**	**Number of Multiple Voting Shares**	**Amount: Multiple Voting Shares**	**Reserves: Compensatory Warrants**	**Reserves: Stock Options**	**Reserves: RSU**	**Accumulated Other Comprehensive 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	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)	—	—	31,150
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**
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	—	—	—	—	—	—	266,318	118,294	—	—	384,612
Shares issued from RSUs exercised	873,525	300,944	—	—	—	—	—	(300,944)	—	—	—
Shares issued from Private Placement	67,647,058	11,499,970	—	—	—	—	—	—	—	—	11,499,970
Share Issuance Costs - Cash	—	(3,284)	—	—	—	—	—	—	—	—	(3,284)
Share Issued for Acquisition of Acquired Companies (Note 8)	—	1,936,399	—	—	—	—	—	—	—	—	1,936,399
Share capital - Shares to be issued	—	—	4,847,609	—	—	—	—	—	—	—	4,847,609
Net income for the year	—	—	—	—	—	—	—	—	—	4,398,447	4,398,447
Balance at December 31, 2023	**150,209,109**	**$ 46,273,522**	**$ 4,847,609**	**672,747**	**$ 1,934,241**	**$ 1,781,967**	**$ 2,129,011**	**$ 433,233**	**$ (138,036)**	**$ 37,720,728**	**$ 94,982,275**

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

	For the year ended December 31, 2023	For the year ended December 31, 2022
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income for the year	**$ 4,398,447**	$ 10,919,280
Items not affecting cash:		
Amortization	4,854,860	3,328,578
Depreciation	4,738,106	3,105,870
Accretion on leases and debt	(19,003)	12,372
Interest expense on lease liability non-cash	—	7,400
Debt transaction costs	741,941	—
Due to / from related parties	—	91,251
Share-based compensation	384,611	1,452,439
Share of loss on joint ventures	87,550	466,199
Deferred tax liabilities	(3,024,836)	(4,221,376)
Change in fair value of purchase option	2,633,784	—
Unrealized change in fair value of biological assets	(3,521,452)	(4,839,292)
Realized change in fair value of inventory sold	5,170,985	2,667,646
Fair value long term debt	2,171,313	—
Amortized debt transaction costs	248,665	—
Bargain purchase gain	(15,048,076)	—
Gain on Acquisition of App Pharms Entities	(3,480,118)	—
Write off notes receivable	110,000	—
Share of income from APP 1803	(2,021,969)	—
Bad debt expense	1,253,347	—
Loss on disposal of property, plant and equipment	341,731	—
Non-cash working capital item changes:		
Amounts receivable	1,438,486	(1,240,890)
Biological asset (capitalized costs)	(185,060)	(6,538,507)
Inventory	2,694,600	861,419
Prepaid expenses, deposits, and other receivables	566,780	(569,422)
Payables and accrued liabilities	(109,988)	219,688
Net cash provided by operating activities	**4,424,704**	5,722,655
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash acquired from acquisition, net of cash paid - dispensary	(27,683)	736,538
Cash acquired from acquisition, net of cash paid - App Pharms entities	(1,235,420)	—
Cash paid on lawsuit settlement (RDF)	—	(622,125)
Loan to joint operations	(1,311,160)	(182,865)
Deposits on Ohio Acquisition	(5,351,476)	(8,747,912)
Notes receivable issued	—	(12,134,094)
Investment in joint ventures	(42,900)	(502,330)
Disposal of property, plant and equipment	5,881,702	—
Acquisition of property, plant and equipment	(2,737,065)	(8,860,383)
Net cash used in investing activities	**(4,824,002)**	(30,313,171)
CASH FLOWS FROM FINANCING ACTIVITIES		
Loan payable due from Ohio ventures	1,000,000	—
Loan payable Ohio acquisition (payments) proceeds	(2,985,000)	31,708,944
Loan costs (payments) proceeds	(5,878,784)	(1,625,126)
Notes payable (payments) proceeds	—	(5,494,602)
Notes payable RDF (payments) additions	(377,016)	(933,101)

Reduction in lease liability		(199,571)		(128,868)
Issuance of non-convertible debentures		—		200,000
Shares issued from private placement		11,496,687		—
Shares to be issued		4,847,610		—
Loan modification on non-convertible debentures		(4,718,336)		200,170
Exercise of warrants		—		129,845
Net cash used in financing activities		**3,185,590**		24,057,262
Net change in cash during the year	**$**	**2,786,292**	$	(533,254)
Cash, beginning of the year	**$**	**5,933,837**	$	6,467,091
Cash, end of the year	**$**	**8,720,129**	$	5,933,837
Cash paid for				
Interest	$	(3,811,646)	$	(2,040,180)
Non-cash investing and financing activities				
Property, plant & equipment received to settle note receivable Ohio	$	9,650,000	$	—
Acquisition of dispensaries in exchange for receivables & notes due from seller (Note 14)	$	—	$	35,435,080
Acquisition of entities in exchange for receivables & notes due from seller (Note 8)	$	27,748,772	$	—
Recognition of new right of use assets (ROU)	$	2,039,864	$	749,152
Exercise of RSU non-cash	$	—	$	483,424
Exercise of warrants	$	—	$	9,701

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

1. NATURE OF OPERATIONS

Vext Science, Inc. (referred to as "the Company" or "Vext") possesses full ownership of two integrated cannabis operations in Arizona. By February 29, 2024, the Company has successfully acquired complete ownership of cultivation, manufacturing, and two (2) dispensaries in Ohio. Furthermore, a binding Letter of Intent (LOI) is in place to procure 100% ownership of two (2) additional dispensaries in Ohio.

The Company extends its services to the cannabis industry by offering management, advisory, cultivation, non-cannabis products, and dispensary services through operating agreements and direct sales to various entities.

Within our dispensaries and markets where we hold a direct presence or operational agreements, the Company develops, manufactures, and distributes a diverse range of cannabis-branded products. The focus of the Vapen Brand primarily revolves around concentrates and edible categories as well as CBD product. Flower products, except for pre-rolls or infused pre-rolls, are predominantly retailed under the Herbal Wellness name in our operations.

The Company's registered office is situated at Suite 1500 – 1055 West Georgia Street, Vancouver, BC V6E 4N7, while its U.S. headquarters is located at 4152 N. 39th Ave, Phoenix, Arizona 85019.

In Arizona, the dispensaries operate under the Herbal Wellness Center brand, with one licensed as Herbal Wellness Center and the other as Organica Patient Group. In Ohio, the cultivation and manufacturing operations are licensed and branded as Appalachian Pharms Cultivation and Appalachian Pharm Processing. The Ohio dispensaries operate under the Herbal Wellness Center brand.

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 audited consolidated 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 December 31, 2023, the Company's subsidiaries and affiliates are listed below.

Name	Jurisdiction	Ownership
Vext Science, Inc.	**BC, Canada**	
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%
Appalachian Pharms Processing, LLC	Ohio, USA	100%
Appalachian Pharms Products, LLC	Ohio, USA	100%
APP 1803, 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 Audited Consolidated Financial Statements

These audited consolidated financial statements for the year ended December 31, 2023 and 2022 were approved and authorized for issue by the Board of Directors on May 9, 2024.

e. Foreign currency

Functional and presentation currency

These consolidated financial statements are presented in US dollars ("USD"). The Company's functional currency is the Canadian dollar, while the functional currency of the subsidiaries has been determined to be USD.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in currencies other than an operation's functional currency are recognized in the consolidated statement of loss and comprehensive loss.

Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to the presentation currency, which is USD, at exchange rates at the reporting date. The income and expenses of foreign operations are translated to USD using average exchange rates for the month during which the transactions occurred. Foreign currency differences are recognized in the consolidated statement of loss and comprehensive loss within other comprehensive loss and are accumulated in the foreign currency translation reserve in the consolidated statement of financial position. When the Company disposes of its entire interest in a foreign operation, or loses control over a foreign operation, the foreign currency gains or losses accumulated in other comprehensive (loss) income related to the foreign operation are recognized in profit or loss.

f. Significant Accounting Judgements and Estimates

In preparing these audited 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 expenses. Actual results may differ from these estimates.

Joint Arrangements

As at December 31, 2023, 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.

2. BASIS OF PRESENTATION (*CONTINUED…*)

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 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.

Business combinations

In determining the fair value of net identifiable assets acquired in a business combination, including any acquisition-related contingent consideration, estimates including market based and appraisal values are used. One of the most significant areas of judgment and estimation relates to the determination of the fair value of these assets and liabilities, including the fair value of contingent consideration, if applicable. If any intangible assets are identified, depending on the type of intangible asset and the complexity of determining its fair value, an independent external valuation expert may develop the fair value, using appropriate valuation techniques, which are generally based on a forecast of the total expected future net cash flows. These valuations are linked closely to the assumptions made by management regarding the future performance of the assets concerned and any changes in the discount rate applied. In addition, determining whether amounts should be included as part of consideration requires judgements. Refer to note 8.

Goodwill

Goodwill impairment testing requires management to estimate the recoverable amount of the cash generating unit ("CGU") to which goodwill has been allocated. On an annual basis, the Company tests whether goodwill is impaired, based on an estimate of its recoverable amount. Refer to Note 13.

Fair value measurement

The Company uses valuation techniques to determine the fair value of financial instruments (where active market quotes are not available) and non-financial assets. This involves developing estimates and assumptions consistent with how market participants would price the instrument. The Company bases its assumptions on observable data as far as possible, but this is not always available. In that case, the Company uses the best information available. Estimated fair values may vary from the actual prices that would be achieved in an arm's length transaction at the reporting date. Refer to Note 22 for further information.

2. BASIS OF PRESENTATION (*CONTINUED…*)

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

To reduce credit risk, cash is only held at major financial institutions. The fair value of the Company's accounts receivable, current notes receivable, advances to joint operation, deposits and other receivables, payables, accrued liabilities, 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 Company records an allowance for doubtful accounts related to accounts receivable that are considered to be non-collectible. The allowance is based on the Company's knowledge of the financial condition of its customers, current business environment, customer and industry concentrations, and historical experience. The Company performed an analysis of the accounts receivable and assessed the aging. A determination was made to create an allowance for doubtful accounts based upon the aging.

The Company has historically viewed its accounts receivables as having minimal risk of credit loss for the following reasons:

(i) For accounts receivables owed by related parties, the Company has the ability to influence the economic decisions of such related parties through the joint venture arrangements or other agreements and, in certain instances, could force a capital call to repay such balances.

(ii) For accounts receivables owed by licensed entities, such liabilities cannot currently be discharged through liquidation proceedings or a sale. Rather, such liabilities attach to the license and the Company maintains the ability to collect on the license to repay such balances.

(iii) The Company routinely obtains personal guarantees from the principals of entities that purchase the Company's products. The Company did record an allowance of $465,583 as at December 31, 2023 related to accounts receivables owed by Happy Travels and a non-licensed arm's length party. Refer to Note 4 for further information.

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 Compensation

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

2. BASIS OF PRESENTATION (*CONTINUED…*)

Leases

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

Current and Deferred Income Taxes

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

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 11 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 net realizable value (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. MATERIAL 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, 2022 and December 31, 2023, 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 audited consolidated financial 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 audited consolidated financial 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. MATERIAL 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 Licenses	Straight line method	12 years
Customer Relationships	Straight line method	5 years
Brand Name	Straight line method	2-5 years
Cultivation License	Straight line method	12 years
Processing License	Straight line method	12 years

3. MATERIAL 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 audited consolidated financial 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 audited consolidated financial statements of comprehensive loss as incurred.

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.

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.

3. MATERIAL ACCOUNTING POLICIES (*CONTINUED…*)

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 FVTPL.

Measurement

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

Financial assets and liabilities at FVTPL:
Financial assets and liabilities carried at FVTPL are initially recorded at fair value and transaction costs are expensed in the audited consolidated financial 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 audited consolidated financial statements of loss and comprehensive loss in the period in which they arise.

Debt investments at FVOCI:
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.

Equity investments at FVOCI:
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.

3. MATERIAL ACCOUNTING POLICIES (*CONTINUED…*)

Impairment of Financial Assets at Amortized Cost

The Company recognizes a loss allowance for expected credit losses on financial assets that are measured at amortized cost. At each reporting date, the Company measures the loss allowance for the financial asset at an amount equal to the lifetime expected credit losses if the credit risk on the financial asset has increased
significantly since initial recognition. If at the reporting date, the financial asset has not increased significantly since initial recognition, the Company measures the loss allowance for the financial asset at an amount equal to the twelve month expected credit losses. The Company shall recognize in the audited consolidated financial 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.

The Company accounts for extinguishments of liabilities via the issuance of shares at the carrying value of the liability where the contract terms did not provide for settlement in shares and where the debtholders are also shareholders.

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. MATERIAL ACCOUNTING POLICIES (*CONTINUED…*)

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

Asset or Liability	Classification
Cash	Fair value
Amounts receivable	Amortized cost
Notes receivable	Amortized cost
Advances to joint operation	Amortized cost
Purchase option	Fair value
Deposits and other receivables	Amortized cost
Due from/to related parties	Amortized cost
Payables	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.

3. MATERIAL ACCOUNTING POLICIES (*CONTINUED…*)

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, 2023 and 2022.

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 expire after twelve (12) months. 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.

3. MATERIAL ACCOUNTING POLICIES (*CONTINUED…*)

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.

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.

3. MATERIAL ACCOUNTING POLICIES (*CONTINUED…*)

Share-Based Compensation

The Company grants stock options 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.

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

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 compensation 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 compensation.

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 audited 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 audited consolidated financial statements and is complying with these new amendments in the audited 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 audited consolidated financial statements.

3. MATERIAL ACCOUNTING POLICIES *(CONTINUED...)*

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 audited consolidated financial statements and is complying with these new amendments in the audited 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 audited consolidated financial statements.

3. MATERIAL ACCOUNTING POLICIES *(CONTINUED...)*

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.

4. AMOUNTS RECEIVABLE

The Company's amounts receivable consists of the following:

		December 31, 2023		December 31, 2022
Amounts receivable	$	1,683,648	$	3,352,706
Allowance for credit losses		(465,583)		(231,237)
GST input tax credits		42,486		174,068
Total Amounts Receivable	**$**	**1,260,551**	$	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:

		December 31, 2023		December 31, 2022
Work in Process				
Capitalized Cost	$	332,321	$	1,448,899
Fair Value Adjustment		994,278		814,726
Carrying Value		**1,326,599**		2,263,625
Finished Goods				
Capitalized Cost		10,751,929		9,426,288
Fair Value Adjustment		161,431		884,289
Carrying Value		**10,913,360**		10,310,577
Total	**$**	**12,239,959**	$	12,574,202

For the year ended December 31, 2023, the Company recognized $21,124,352 of inventory expensed to cost of goods sold (December 31, 2022 - $14,483,833).

6. PREPAID EXPENSES, DEPOSITS AND OTHER RECEIVABLES

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

	December 31, 2023	December 31, 2022
Vendor deposits	$ 173,643	$ 649,333
Deposit on App Pharms entities (1)	—	1,998,914
Deposit on Ohio Dispensary (2)	—	6,748,998
Deposit on Big Perm Dispensaries (3)	5,351,476	—
Prepaid Expense/Insurance/Maintenance	428,888	528,715
Security deposits	28,493	17,686
Employee advances	—	2,070
Total prepaid expenses, deposits, and other receivables	**$ 5,982,500**	$ 9,945,716

(1) As at December 31, 2022, the Company paid $1,998,914 as a down payment to the former members of the App Pharm entities as a cash deposit in addition to the Notes Receivable held of $8,666,427 towards the total purchase of the cultivation and processing center as of the license transfer date October 2, 2023 (Note 8).

(2) As at December 31, 2022, $6,748,998 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 (Note 8).

(3) As at December 31, 2023, $5,351,476 was paid as a deposit on the Ohio dispensaries, Big Perm, to be renamed Herbal Wellness Center Jeffersonville and Herbal Wellness Center Athens in Ohio awaiting the transfer of the licenses by the State of Ohio projected end of 2024 (the "Ohio Expansion Transaction").

Under the terms of the Ohio Expansion Transaction, the Company will pay cash consideration equal to $9.4 million in aggregate, subject to adjustments in certain circumstances, including, but not limited to, amounts funded, or liabilities assumed, by the Company pursuant to the Loan (as defined below) or for construction costs, and inventory adjustments. Subject to regulatory approval by the Ohio Board of Pharmacy, the Company will fund approximately $3.4 million of construction costs related to the dispensaries. In addition, the Company will provide after regulatory approval certain administrative, operational and support services to Big Perm, in compliance with the State of Ohio rules and regulations with respect to medical marijuana, and has agreed to loan up to $3.0 million (the "Loan") to Big Perm for capital expenditures and working capital needs associated with the dispensaries. The Ohio Expansion Transaction remains subject to regulatory approvals and other customary conditions precedent.

Of the $5,351,476 deposit as of December 31, 2023, $2.7 million was an advance payment of the purchase price, $2.4 million was advanced for construction costs related to the dispensaries and $0.3 million was advanced for capital expenditures and working capital needs with the dispensaries.

7. NOTES RECEIVABLE

As at December 31, 2023, the Company's notes receivable consist of the following:

	Current	Non-current	Total
Due from CannAscend (acquisition cost of new dispensary and license), an arm's length party, accruing interest at 10% per annum (1)	$ 4,891,292	$ —	$ **4,891,292**
Due from Rinse Repeat Ventures, an arm's length party, accruing interest at 0% per annum	481,028	—	**481,028**
Due from Green Goblin, an arm's length party, accruing interest at 0% per annum	1,193,454	—	**1,193,454**
Allowance for Credit Loss - Green Goblin	(664,289)	—	**(664,289)**
Due from Vapen Oklahoma, an arm's length party, accruing interest at 0% per annum	455,538	—	**455,538**
Due from Vapen Kentucky, an arm's length party, accruing interest at 0% per annum	332,302	—	**332,302**
Total	**$ 6,689,325**	**$ —**	**$ 6,689,325**

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	124,312	—	124,312
Total	**$ 18,111,849**	**$ —**	**$ 18,111,849**

Upon completion of the Ohio Acquisition on October 3, 2023, the related receivables became an investment in the Ohio operations (Note 8).

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") and 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 APP 1803, LLC (APP1803) to acquire an option for a dispensary license in Ohio (CannAscend). Through a subsidiary, the Company will have a 50% economic interest and a 48% ownership of the license. The Company's total contribution for the option was $4,836,292 plus accrued interest of $164,066. This receivable was converted as due from APP1803 to due from CannAscend in October 2023 when APP 1803 was acquired (Note 8). The convertible loan agreement will transfer the ownership of the license, per Ohio State regulations in 2024 as disclosed in Note 26.

(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 December 31, 2022.

(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 December 31, 2022.

(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 $1,657,259 as of December 31, 2022.

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

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

(7) Appalachian Pharms Processing accounts receivable was transferred to note receivable as part of the future purchase in the amount of $1,007,301 as at December 31, 2022 per the LOI.

7. NOTES RECEIVABLE *(CONTINUED…)*

As at December 31, 2023, and December 31, 2022, the Company's notes receivables related to Ohio consist of the following by location:

APP 1803, LLC	December 31, 2021	Activity	December 31, 2022	Activity	**December 31, 2023**
Contributions	$ 4,000,000	$ —	$ 4,000,000	$ (4,000,000)	**$** —
Working Capital	570,000	266,292	836,292	(836,292)	—
Interest	164,066	(164,066)	—	—	—
Deposit for License	320,000	(250,000)	70,000	(70,000)	—
Total APP 1803, LLC	$ 5,054,066	$ (147,774)	$ 4,906,292	$ (4,906,292)	**$** —
APP 1804, LLC					
Deposit for License	$ 110,000	$ —	$ 110,000	$ (110,000)	**$** —
Total APP 1804, LLC	$ 110,000	$ —	$ 110,000	$ (110,000)	**$** —
APP Pharms, LLC					
Startup Loan	$ 500,000	$ (500,000)	$ —	**$** —	**$** —
Forgive Amounts Receivable	—	1,007,301	1,007,301	(1,007,301)	—
Reimburse Expenses	—	656,685	656,685	(656,685)	—
Working Capital	477,755	1,179,504	1,657,259	(1,657,259)	—
Working Capital - Build Out*	—	9,650,000	9,650,000	(9,650,000)	—
Total APP Pharms, LLC	$ 977,755	$ 11,993,490	$ 12,971,245	$ (12,971,245)	**$** —
CannAscend LLC					
Note Receivable due to acquisition	$ —	$ —	$ —	$ 4,891,292	$ 4,891,292
Total CannAscend LLC	$ —	$ —	$ —	$ 4,891,292	$ 4,891,292
Total	$ 6,141,821	$ 11,845,716	$ 17,987,537	$ (13,096,245)	**$ 4,891,292**

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

8. OHIO ACQUISITIONS

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 $6,787,156, which consisted of cash consideration of $6,097,156 and cash held in escrow of $690,000. These funds were held as a deposit at December 31, 2022, until 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		101,716
Prepaid expenses		1,780
Property and equipment		259,509
Right-of-use assets		212,131
Dispensary license		5,489,000
Brand		597,000
Lease liabilities		(212,131)
Deferred tax liability		(1,278,060)
Total identifiable net assets acquired		5,179,640
Goodwill arising on acquisition		1,607,516
Total net assets acquired	**$**	**6,787,156**
Consideration		
Cash	$	6,097,156
Cash held in escrow		690,000
Total consideration	**$**	**6,787,156**

The excess of purchase price over net identifiable assets acquired, and the liabilities assumed resulted in goodwill of $1,607,516, 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 $1,278,060 in deferred income taxes from the acquisition.

From the date of acquisition, Herbal Wellness Center Ohio contributed $4,377,030 of revenue and $419,066 to income before income taxes for the year ended December 31, 2023.

8. OHIO ACQUISITIONS (CONTINUED...)

On October 3, 2023, the Company acquired the remaining outstanding equity interests of APP1803, as well as 100% of the outstanding equity interests of Appalachian Pharm Processing, LLC and Appalachian Pharm Products, LLC (collectively, the "Acquired Companies"), Ohio based companies. The acquisition is a business combination accounted for using the acquisition method in accordance with IFRS 3, Business Combinations ("IFRS 3").

The addition of the Acquired Companies gives the Company access to processing and cultivation licenses in Ohio to further strengthen its position in the state. The Company acquired the Acquired Companies for a total purchase price of $27,748,772, which consisted of cash consideration of $2,000,000, shares of $1,936,399 and promissory notes of $8,418,869 as well as non-cash consideration as outlined below. As the Company had pre-existing investments in Appalachian Pharm Processing, LLC, and APP1803, the acquisition of these entities was accounted for as step acquisitions whereby the Company is deemed to dispose of its existing interests at their fair value which is included in consideration transferred. A gain on acquisition of control of $3,480,118 was recognized as the difference between the carrying value of the investments of $7,391,018 and their fair value of $10,871,136. During the year ended, December 31, 2023, the Company recorded $2,021,969 related to its share of income related to these investments. Pre-existing relationships in the form notes receivable and other loans were settled as part of the acquisition and were included in the consideration transferred. As part of the acquisition, the Company acquired the right to purchase the membership interests of a cannabis dispensary in Columbus Ohio (see also Note 26).

The acquisition was completed at a favorable price due to a strategic alignment between the anticipated future growth of the adult-use market, which at the time of negotiation in 2022 was not anticipated being on the November 2023 ballot and being implemented in 2024.

8. OHIO ACQUISITION (CONTINUED...)

The transaction can be summarized as follows:

		October 3, 2023
Net assets acquired		
Cash	$	161,790
Accounts receivable		613,985
Notes receivable		4,891,293
Biological assets		908,018
Inventory		2,992,078
Prepaid expenses		282,754
Property and equipment		864,725
Right-of-use assets		1,848,862
Cultivation license		22,149,000
Processing license		8,399,000
Customer relationships		2,143,000
Purchase Option to acquire CannAscend		7,536,995
Accounts payable		(846,423)
Lease liabilities		(1,848,862)
Deferred income tax liability		(7,299,368)
Total identifiable net assets acquired (a)	$	42,796,847
Consideration		
Cash		2,000,000
Promissory notes		8,418,869
Shares consideration		1,936,399
Settlement of pre-existing relationship		4,522,368
Fair value of pre-existing investment		10,871,136
Total consideration (b)	$	27,748,772
Gain on bargain purchase (b) - (a)		(15,048,075)
Gain on acquisition of control		(3,480,118)
Share of income from investments		(2,021,970)
Net benefit related to acquisition	$	**(20,550,163)**

From the date of acquisition, the Acquired Companies contributed $1,298,949 of revenue and $984,900 to income before income taxes for the year ended December 31, 2023.

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, 2023, the Company loaned Vapen KY $1,803,750 (2022 - $1,697,850) for working capital as a contribution to the joint venture, $105,901 was in the year ended December 31, 2023 (2022 - $392,330). 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 company has a 50% economic interest in the venture until the working capital loan is repaid. 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, 2023, the Company loaned Vapen OK $1,524,426 for working capital as a contribution to the joint venture, with an aggregate of $63,001 having been repaid by Vapen OK in the year ended December 31, 2023. The working capital loan is interest free.

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

	Vapen KY	Vapen OK	Total
Balance as at December 31, 2021	$ 727,741	$ 994,847	$ **1,722,588**
Contributions	392,330	110,000	**502,330**
Share of loss of the joint ventures during the year	(392,729)	(73,470)	**(466,199)**
Balance as at December 31, 2022	**727,342**	**1,031,377**	**1,758,719**
Contributions (repayments)	105,901	(63,001)	**42,900**
Share of income (loss) of the joint ventures during the year	(273,416)	185,865	**(87,551)**
Balance as at December 31, 2023	**$ 559,827**	**$ 1,154,241**	**$ 1,714,068**

Summarized financial information for equity accounted investees for the year ended December 31, 2023, is as follows:

	Vapen KY	Vapen OK
Ownership %	**50%**	**25%**
Total current assets	$ 1,299,064	$ 1,082,108
Non-current assets	6,542	135,261
Total Assets	1,305,606	1,217,369
Total liabilities	3,793,754	3,067,608
Net Assets	(2,488,148)	(1,850,239)
Revenue	116,663	1,316,080
Cost of Goods Sold	677,698	886,674
Total Expenses	(14,203)	57,676
Net income (loss)	**(546,832)**	**371,730**
The Company's equity share of income (loss) of joint venture	**$ (273,416)**	**$ 185,865**

10. LOANS TO JOINT OPERATION

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 and the Company will account for 50% of Happy Travel's assets, liabilities, revenue and expenses in the Company's financials.

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

As at December 31, 2023, the Company had the following loans to operations:

	December 31, 2023	**December 31, 2022**
Happy Travels, LLC.	**$ 694,290**	$ 510,626
Green Goblin, LLC.	**365,632**	365,632
Allowance for Credit Losses Joint Operations	**(589,087)**	—
Total	**$ 470,835**	$ 876,258

11. BIOLOGICAL ASSETS

Biological assets consist of cannabis plants. The changes in the carrying value of biological assets as at December 31, 2023 are as follows:

Balance, December 31, 2022	$	1,188,499
Acquired in a business combination		908,018
Capitalized costs		6,169,276
Change in fair value less costs to sell due to biological transformation		3,521,392
Transferred into inventory upon harvest		(10,421,704)
Sold as part of facility sale		(347,645)
Balance at December 31, 2023	**$**	**1,017,836**

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		**December 31, 2023**		**December 31, 2022**
Average selling price per gram of flower	**$**	**2.87**	$	3.53
Weighted average yield of flower per plant (in grams)		**54.35**		52.78
Effect on fair value				
Sensitivity		**December 31, 2023**		**December 31, 2022**
Increase or decrease by $0.50 per gram	**$**	**168,388**	$	232,107
Increase or decrease by $0.10 per gram	**$**	**27,790**	$	23,919
Increase or decrease of yield by 10%	**$**	**101,784**	$	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, 2023	**December 31, 2022**
Total expected yield (in grams)	**954,456**	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:

	For the Year Ended			
		December 31, 2023		**December 31, 2022**
Unrealized change in fair value of biological assets	**$**	**3,521,452**	$	4,839,292
Realized change in fair value on inventory sold in the period		**(5,170,985)**		(2,667,646)
Net effect of changes in fair value of biological assets and inventory	**$**	**(1,649,533)**	$	2,171,646

As at December 31, 2023, the Company had 10,940 (December 31, 2022 - 16,042) plants in cultivation with 1,888 (December 31, 2022 - 900) plants greater than 80% grown; 1,474 (December 31, 2022 -3,988) plants between 60% and 80% grown; and 7,578 (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.

12. PROPERTY, PLANT AND EQUIPMENT

	Land	Building	Equipment and machinery	Building improvements	Leasehold improvements	Construction in progress*	Automobile	Total
Cost								
Balance at December 31, 2021	$ 2,610,779	$ 10,565,834	$ 11,239,571	$ 5,408,759	$ 402,682	$ 4,069,027	$ 220,004	**$ 34,516,656**
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	$ 1,024,678	$ 9,531,099	$ 267,009	**$ 45,454,484**
Disposals	(790,000)	(3,160,000)	(2,234,992)	(1,127,697)	—	—	(100,976)	**$ (7,413,665)**
Additions	—	—	3,406,137	759,437	7,297,260	924,229	—	**$ 12,387,063**
Additions from CIP	—	—	3,350,078	6,662,446	73,119	(10,085,643)	—	**$ —**
Additions from acquisition (Note 8)	—	40,235	149,585	—	891,914	—	42,500	**$ 1,124,234**
Balance at December 31, 2023	**$ 1,820,779**	**$ 7,555,841**	**$ 18,637,216**	**$ 13,673,091**	**$ 9,286,971**	**$ 369,685**	**$ 208,533**	**$ 51,552,116**
Accumulated Amortization								
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 December 31, 2022	$ —	$ 841,241	$ 4,616,676	$ 3,977,303	$ 247,276	$ —	$ 121,333	**$ 9,803,829**
Disposals	—	(199,207)	(1,026,635)	(233,588)	—	—	(73,180)	**$ (1,532,610)**
Depreciation	—	265,773	2,288,754	1,147,375	991,343	—	44,860	**$ 4,738,105**
Balance at December 31, 2023	**$ —**	**$ 907,807**	**$ 5,878,795**	**$ 4,891,090**	**$ 1,238,619**	**$ —**	**$ 93,013**	**$ 13,009,324**
Net Book Value								
December 31, 2021	$ 2,610,779	$ 10,046,612	$ 8,368,997	$ 3,335,306	$ 241,079	$ 4,069,027	$ 145,465	**$ 28,817,265**
December 31, 2022	$ 2,610,779	$ 9,834,365	$ 9,349,732	$ 3,401,602	$ 777,402	$ 9,531,099	$ 145,676	**$ 35,650,655**
Balance at December 31, 2023	**$ 1,820,779**	**$ 6,648,034**	**$ 12,758,421**	**$ 8,782,001**	**$ 8,048,352**	**$ 369,685**	**$ 115,520**	**$ 38,542,792**

Additions during the year ended December 31, 2023 were the assets of one acquisition on January 2, 2023 and two acquisitions on October 3, 2023 (Note 8).

Disposals of $5,853,259 NBV during the year ended December 31, 2023 were the assets of our Prescott Valley Cultivation (PV) sold on November 16, 2023. The sale of PV resulted in a loss on sale of $813,246. Disposals of $27,796 NBV during the year ended December 31, 2023 were disposals of vehicles. The sale of these other assets resulted in a gain on sale of $2,374. Disposals of $33,998 NBV during the year December 31, 2022 were disposals of vehicles and sundries. The sale of these assets resulted in a gain on sale of $20,397.

Of the total depreciation expense during the year ended December 31, 2023 - $3,551,953 (December 31, 2022 - $2,441,570) was included in the cost of sales and $1,186,153 (December 31, 2022 - $664,300) 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).

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	Amortization	Balance as at December 31, 2023
Management Service Agreement	$ 6,326,925	$ (6,326,925)	$ —	$ —	$ —	$ —	**$ —**
Firebrand (Brand name)	173,550	—	(53,400)	120,150	—	(53,400)	**66,750**
Patent	210,000	—	(15,000)	195,000	—	(15,000)	**180,000**
Dispensary License - Ohio (Note 8)	—	—	—	—	5,489,000	(457,418)	**5,031,582**
Dispensary Licenses - Arizona (Note 14)	—	26,068,630	(2,172,387)	23,896,243	—	(2,172,384)	**21,723,859**
Brand Name - Ohio (Note 8)	—	—	—	—	597,000	(298,500)	**298,500**
Brand Name - Arizona (Note 14)	—	4,168,344	(833,668)	3,334,676	—	(833,669)	**2,501,007**
Customer Relationships - Arizona (Note 14)	—	365,380	(73,075)	292,305	—	(73,076)	**219,229**
Customer Relationships (Note 8)	—	—	—	—	2,143,000	(103,694)	**2,039,306**
Processing License (Note 8)	—	—	—	—	8,399,000	(169,335)	**8,229,665**
Cultivation License (Note 8)	—	—	—	—	22,149,000	(446,552)	**21,702,448**
Total	$ 6,710,475	$ 24,275,429	$ (3,147,530)	$ 27,838,374	$ 38,777,000	$ (4,623,028)	**$ 61,992,346**

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 $6,086,000 of intangible assets were acquired.

On October 3, 2023, the Company completed an acquisition (Note 8) whereby $32,691,000 of intangible assets were acquired. Impairment testing was performed on these intangible assets and it was determined that these assets were not impaired as at the year end date.

13. INTANGIBLE ASSETS AND GOODWILL (CONTINUED...)

Goodwill	Balance as at December 31, 2021	Additions	Balance as at December 31, 2022	Additions	**Balance as at December 31, 2023**
Goodwill - Arizona	$ 461,752	$ —	$ 461,752	$ —	**$ 461,752**
Goodwill - Ohio (Note 8)	—	—	—	1,607,516	**1,607,516**
Total	$ 461,752	$ —	$ 461,752	$ 1,607,516	**$ 2,069,268**

At acquisition, goodwill is allocated to the CGUs expected to benefit from the synergies of the business combination in which the goodwill arises. The annual impairment test date is December 31. The recoverable amount of the Company's goodwill was calculated based on its fair value less costs of disposal, determined using the income approach based on discounted cash flows projected over a period of five years. No impairment was recognized as a result of the annual goodwill impairment test.

Key assumptions

	Discount Rate	**Revenue Growth Rate**	**Terminal Growth Rate**
Buckeye Botanicals	26.5%	23%-74%	2.0%

Growth rates and EBITDA margin

The assumptions around the CGU's revenue growth rates and EBITDA margin were based on management's best estimates, considering historical and expected operating plans, strategic plans, economic considerations, and the general outlook for the industry and markets in which the CGU operates.

Discount rate

The discount rate reflects appropriate adjustments relating to market risk and specific risk factors of the CGU.

Sensitivity to changes in assumptions

No reasonable changes to the key assumptions would result in impairment of goodwill.

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 (Total non-cash consideration*)	$	35,351,227

15. PAYABLES AND ACCRUED LIABILITIES

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

	December 31, 2023	December 31, 2022
Trade payables	$ 2,042,348	$ 1,698,952
Credit card payable	24,974	54,922
Sales tax payable	423,511	455,870
Income tax payable	3,243,334	5,764,275
Interest payable	—	10,192
Payroll liabilities	614,679	1,153,210
Accrued liabilities	412,918	360,313
Total Payables and Accrued Liabilities	**$ 6,761,764**	$ 9,497,734

16. NOTES PAYABLE

Current notes payable are made up of the following:

	December 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
Current portion of promissory note from RDF Acquisition	1,200,000	1,200,000
Promissory Note - App Pharms Products (3)	181,618	—
Promissory Note - App Pharms Processing (3)	299,072	—
Non-convertible debentures (4)	—	493,347
Total	**$ 5,787,177**	$ 5,799,834

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

	December 31, 2023	December 31, 2022
Maturing July 15, 2027 with an interest rate of 10% per annum (1)	$ 9,732,161	$ 14,513,521
Maturing July 15, 2027 with an interest rate of 10.5% per annum (1)	2,492,232	3,219,037
Maturing December 19, 2032 with an interest rate of 8.75% per annum (2)	10,881,218	8,278,940
Maturing December 19, 2032 with an interest rate of 8.75% per annum (2)	1,189,022	—
Promissory Note - App Pharms Products (3)	2,088,609	—
Promissory Note - App Pharms Processing (3)	2,849,569	—
Promissory Note - RDF Acquisition	821,582	1,198,598
Non-convertible debentures (4)	—	4,249,260
Total	**$ 30,054,393**	$ 31,459,356

(1) On July 8, 2022, the Company completed a financing with East West Bank 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 of $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 obtained a waiver on the debt covenants prior to December 31, 2023.

(2) On December 16, 2022, the Company completed a financing with Wright-Patt with gross proceeds of $10,000,000 and financing costs of $733,024 related to its Ohio operations (the "Ohio loan 1"). 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 2"). The Ohio loans are secured by an interest in certain assets in Ohio. The Ohio loans are 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 $90,579 for principal and accrued interest are due on the 15th day of the calendar month and the Ohio loans mature 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.

(3) On January 1, 2023, the Company issued unsecured promissory notes (collectively and, as amended from time to time, the "App Pharms Products and App Pharms Processing Promissory Notes") to (i) the sellers of Appalachian Pharms Products, LLC, in the aggregate principal amount of $2,270,228 and (ii) the sellers of APP1803, LLC, in the aggregate principal amount of $3,148,641.

16. NOTES PAYABLE (CONTINUED...)

(4) 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. 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.

As at December 31, 2023, and December 31, 2022, the Company's notes payable consist of the following by location:

	December 31, 2021	Activity	December 31, 2022	Activity	December 31, 2023
Notes Payable due to acquisition					
Note - Prescott Valley	$ 2,700,000	$ (2,700,000)	$ —	$ —	$ —
Note - SCF - 4210 N 39th	2,067,602	(2,067,602)	—	—	—
Note- Phx Fund 4223	280,000	(280,000)	—	—	—
Note- Roy NG	272,000	(272,000)	—	—	—
2nd Mtg - 4126 & 4223	175,000	(175,000)	—	—	—
Wright-Patt Ohio Loan 1 & 2	—	10,003,536	10,003,536	3,053,276	13,056,812
Promissory Note - App Pharms Products	—	—	—	2,270,228	2,270,228
Promissory Note - App Pharms Processing	—	—	—	3,148,641	3,148,641
Wright-Patt Ohio Loan Closing Costs	—	(738,024)	(738,024)	738,024	—
East West Bank Closing Costs Note 1	—	(680,123)	(680,123)	145,980	(534,143)
East West Bank Closing Costs Note 2	—	(172,811)	(172,811)	100,973	(71,837)
Subtotal Notes Payable due to acquisition	$ 5,494,602	$ 2,917,976	$ 8,412,578	$ 9,457,122	$ 17,869,700
Notes Payable					
Promissory Note- East West Bank 1	$ —	$ 17,044,001	$ 17,044,001	$ (4,927,343)	$ 12,116,658
Promissory Note- East West Bank 2	—	4,661,407	4,661,407	(827,777)	3,833,630
Promissory Note - HSD	3,447,295	(1,048,697)	2,398,598	(377,016)	2,021,582
Note - HSD Settlement	331,635	(331,635)	—	—	—
Note- C-Invest	62,522	(62,522)	—	—	—
Note- Nora Noviello	100,000	(100,000)	—	—	—
Subtotal Notes Payable	3,941,452	20,162,554	24,104,006	(6,132,136)	17,971,870
Total Notes Payable	**$ 9,436,054**	**$ 23,080,530**	**$ 32,516,584**	**$ 3,324,986**	**$ 35,841,570**

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. Upon receipt of regulatory approval, the Company will complete a debenture conversion transaction as disclosed in Note 26.

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:

	AZ Dispensary	AZ Dispensary Parking	Corporate Office	Cultivation Lease	Processing Lease	OH Dispensary	Total
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	(59,875)	(60,272)	(60,901)	—	—	—	(181,048)
Balance at December 31, 2022	179,620	180,817	436,503	—	—	—	796,940
Additions	—	—	—	916,724	932,138	212,131	2,060,993
Amortization	(59,873)	(60,272)	(8,761)	(61,479)	(27,573)	(13,871)	(231,829)
Balance at December 31, 2023	**$ 119,747**	**$ 120,545**	**$ 427,742**	**$ 855,245**	**$ 904,565**	**$ 198,260**	**$ 2,626,104**

As at January 2, 2023 the Company acquired one new lease when it acquired Herbal Wellness Center Ohio Dispensary, and as at October 3, 2023 the Company acquired two new leases when it acquired Appalachian Pharm entities, the ROU asset and lease liability schedules are below:

The total amortization expense for the year ended December 31, 2023 was included in operating expenses.

17. LEASES (*CONTINUED…*)

Lease liability:

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

		Total
Balance at December 31, 2021	**$**	**266,064**
At January 1, 2022	$	968,019
Additions		54,598
Interest Expense		119,278
Lease payments		(248,146)
Balance at December 31, 2022	**$**	**893,749**
January 2, 2023 Additions	$	212,131
October 2, 2023 Additions		1,848,862
Interest Expense		208,967
Lease payments		(408,535)
Balance at December 31, 2023	**$**	**2,755,174**
Less: current portion		(470,881)
Long-term lease liability	**$**	**2,284,293**

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

		2023
Less than one year	**$**	**776,690**
One to five years		**3,106,759**
More than five years		**3,948,173**
Total undiscounted lease obligations		**7,831,622**
Less imputed interest		**(5,547,329)**
Total present lease obligations	**$**	**2,284,293**

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

		December 31, 2023		December 31, 2022
Interest expense (included in cost of good sold – property and equipment leasing)	**$**	**160,552**	$	83,888
Interest expense (included in general and admin in operating expenses)		**48,415**		35,390
Amortization (included in operating expenses)	**$**	**231,829**	$	181,047

18. 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, Chief Financial Officer, and Corporate Secretary.

Remuneration attributed to key management personnel for the years ended December 31, 2023 and December 31, 2022 is summarized as follows:

	December 31, 2023	December 31, 2022
Share-based compensation	**$ 252,042**	$ 1,150,812
Salaries and wages included in cost of goods sold	**383,497**	416,170
Salaries, wages and commissions included in operating expenses	**775,818**	925,561
Consulting fees included in operating expenses:	**84,750**	144,753
Total	**$ 1,496,107**	$ 2,637,296

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

Related Party Relationships:

Product Sales	**December 31, 2023**	December 31, 2022
Vapen Kentucky	**$ 54,844**	$ 60,495
Appalachian Pharm Processing, LLC	—	352,533
Happy Travel LLC	**23,725**	133,200
Vapen Oklahoma - Processing	**137,277**	277,204
Total	**$ 215,846**	$ 823,432

Cash Contributions for Operating Expenses		
Vapen Kentucky	**$ 227,664**	$ 449,502
Appalachian Pharm Processing, LLC	—	1,200,393
Happy Travel LLC	**905,425**	1,183,695
Vapen Oklahoma - Processing	**1,749**	165,475
Total	**$ 1,134,838**	$ 2,999,065

18. RELATED PARTY TRANSACTIONS (*CONTINUED…*)

Related party relationships include joint ventures and joint operations. Appalachian Pharms Processing and Appalachian Pharm Cultivation were an arm's length related party prior to acquisition (Note 8). Cash from contributions for operation expenses include cash advances, payroll, health insurance, and other miscellaneous expenses. Amounts are valued at historical cost.

Due from related party:

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

		December 31, 2023		December 31, 2022
11.5% interest bearing, due on December 31, 2025 from Jason T. Nguyen, Executive Chairman and Director	**$**	**1,328,383**	$	1,328,383

Effective December 31, 2023, Jason T. Nguyen has transitioned out of his executive positions with the Company, including resigning from all positions with the Company's subsidiaries and affiliates. Mr. Nguyen will continue to serve the Company through his position as a director of the Company and Chairman of the board of directors. Concurrently with Mr. Nguyen's resignation, the Company has amended the terms of the existing promissory note issued by Mr. Nguyen in favour of the Company, in the principal amount of $1,328,383 (the "Promissory Note"), to provide for, among other things, the following: (i) an extension to the maturity date of the Promissory Note to the earlier of (x) December 31, 2025, (y) the date in which Mr. Nguyen sells any shares of the Company (subject to limited exceptions), and (z) any change of control of the Company; (ii) an increased interest rate equal to 11.5% per annum, compounded quarterly; (iii) quarterly scheduled interest payments; (iv) a mandatory prepayment of no less than 50% of the Promissory Note in the event the volume weighted average trading price of the common shares of the Company reaches a specified threshold, enforceable at the discretion of the Company; and (v) the pledge by Mr. Nguyen of all shares of the Company legally or beneficially owned by Mr. Nguyen as security for the obligations of Mr. Nguyen under the Promissory Note.

Due to related parties:

David Johns (General Manager Ohio Operations) was one of the sellers of the App Pharma entities and as such holds a portion of the promissory notes payable for App Pharms Products and App Pharms Processing (Note 16). During the year ended December 31, 2023 $0 in interest was accrued on these notes payable. Interest begins January 1, 2024. During the year ended December 31, 2023 and December 31, 2022 the portion of the promissory notes payable due is as follows:

		December 31, 2023		December 31, 2022
Promissory Note - App Pharms Products (current)	$	45,372	$	—
Promissory Note - App Pharms Processing (current)		16,587		—
Total Current Promissory Note Payable (General Manager Ohio Operations)	**$**	**61,959**	$	—
Promissory Note - App Pharms Products (non-current)	$	521,778	$	—
Promissory Note - App Pharms Processing (non-current)		158,046		—
Total Non-current Promissory Note Payable (General Manager Ohio Operations)	**$**	**679,824**	$	—
Total Promissory Note Payable (General Manager Ohio Operations)	**$**	**741,783**	**$**	**—**

Amounts due to related parties (or former related parties) as at December 31, 2023 and December 31, 2022 included the following:

18. RELATED PARTY TRANSACTIONS (*CONTINUED…*)

	December 31, 2023	December 31, 2022
Payables and Accrued Liabilities		
Jason T. Nguyen, Executive Chairman and Director	$ 948,314	$ 85,000
Denise Lok, CFO (former)	—	3,866
Mark Opzoomer, Director	13,341	40,000
Eric Offenberger, CEO, COO, and Director	—	150,000
Total	**$ 961,655**	$ 278,866

The Company will pay Mr. Nguyen a severance in an amount equal to $948,314 amount equal to 24 months of base compensation with such payments to be completed in equal monthly payments. The Company paid Mr. Opzoomer $13,341 on January 2, 2024 related to reimbursements of expenses incurred.

19. SHARE CAPITAL

(a) Share Capital

The Company is authorized to issue the following shares:

- Unlimited common shares (“Subordinated Voting Shares”) without par value; and
- Unlimited Class A common shares with multiple voting rights (“Multiple Voting Shares”), each convertible into 100 Subordinated Voting Shares.

Fiscal year ended December 31, 2023:

- During the year, the Company issued an aggregate of 873,525 subordinate voting shares upon settlement of 1,934,241 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.

- On October 12, 2023, the Company closed a private placement financing of 67,647,058 subordinate voting shares at a price of $0.17 per share for aggregate gross proceeds of $11.5 million. In connection with such private placement, the Company entered into a shareholders agreement (the "Shareholders Agreement") with certain management shareholders and other subscribers under the private placement (collectively, the “Subject Shareholders”), pursuant to which the Company and the Subject Shareholders agreed to a number of rights and restrictions applicable to the Company and the Subject Shareholders. In connection with the private placement, the Company paid a cash finder's fee $3,284.

- On October 3, 2023, upon the Company completing the acquisition of Appalachian Pharm Processing, LLC, an Ohio limited liability company, together with its subsidiaries and affiliated companies. On February 4, 2024, 8,999,989 subordinate voting shares were released from escrow and were valued at $1,936,399 (Note 8).

- On December 12, 2023, the Company entered into definitive agreements (the "Conversion Agreements") with the holders (the "Debenture holders") of the Company's existing 11.25% secured non-convertible debentures (the "Debentures"), pursuant to which the Debenture holders will convert all of the outstanding $4.6 million principal amount of Debentures, together with accrued and unpaid interest up to December 31, 2023 and a 2.5% conversion incentive fee of $129,375, for an aggregate of 27,700,625 subordinate voting shares of the Company (the "Conversion Transaction"). The subordinate voting shares were measured at the carrying amount of the financial liability extinguished. As the Conversion Fee is settled in the Company's subordinate voting shares, it is classified as an equity-settled share-based payment. As at December 31, 2023, the issuance of the shares relating to the Conversion Transaction remains subject to regulatory approval; therefore, 27,700,625 subordinate voting shares were not issued until March 6, 2024 upon receiving regulatory approval and were classified as shares to be issued.

Fiscal year ended December 31, 2022:

- On December 15, 2022, the Company issued an aggregate of 8,999,989 subordinate voting 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 subordinate voting 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 subordinate voting shares upon settlement of 31,250 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.

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

19. SHARE CAPITAL (*CONTINUED…*)

- On August 18, 2022, the Company issued 300,000 subordinate voting shares to a shareholder in replacement of 300,000 subordinate voting 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).

(b) Warrants

The following table reflects the continuity of warrants for year ended December 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**
Expired	(21,859,448)	CAD 0.45
Outstanding, December 31, 2023	**11,678,889**	**CAD 1.34**

As at December 31, 2023, the Company had the following share purchase warrants outstanding:

Outstanding	Exercise Price	Weighted Average Remaining Life (Years)	Expiry Date
1,357,980	CAD 1.12	0.11	February 8, 2024
9,955,000	CAD 1.40	0.11	February 8, 2024
365,909	CAD 0.50	1.34	May 3, 2025
11,678,889	CAD 1.34	0.15	

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	

19. SHARE CAPITAL (*CONTINUED…*)

(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 subordinate voting shares at the time of the grant, and the exercise price of each option is equal to or above the market price of the subordinate voting 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, 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	665,000	CAD 0.55
Forfeited	(374,000)	CAD .74
Outstanding, December 31, 2023	**5,027,334**	**CAD 0.89**

As at December 31, 2023 the Company had the following stock options outstanding:

Number Outstanding	Number Exercisable	Exercise Price	Weighted Average Life (years)	Expiry Date
50,000	50,000	CAD 0.75	3.19	March 8, 2027
694,000	694,000	CAD 1.00	5.02	January 4, 2029
200,000	200,000	CAD 1.00	5.37	May 13, 2029
833,334	833,334	CAD 0.75	6.37	May 12, 2029
375,000	375,000	CAD 0.75	6.91	November 26, 2030
235,000	235,000	CAD 1.22	7.02	January 31, 2031
500,000	500,000	CAD 1.43	7.14	February 19, 2031
225,000	74,997	CAD 0.58	8.31	April 19, 2032
10,000	3,333	CAD 0.58	8.48	June 23, 2032
1,000,000	750,000	CAD 1.00	8.65	August 24, 2032
250,000	187,500	CAD 0.60	8.65	August 24, 2032
125,000	125,000	CAD 0.50	8.98	December 22, 2032
330,000	109,997	CAD 0.50	9.23	March 22, 2033
200,000	50,000	CAD 0.68	9.70	September 11, 2033
5,027,334	**4,188,161**	**CAD 0.89**	**7.31**	

19. 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 year ended December 31, 2023 for options was $266,318. Additionally, the Company recognized $118,293 of share-based compensation related to restricted shares units respectively, for a total of $384,611 share-based compensation.

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, 2023	December 31, 2022
Expected volatility	**113.78 - 131.65%**	124.51 - 131.65%
Expected option life (years)	**5-10**	5-10
Risk-free interest rate	**1.21 - 3.69%**	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.

19. 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 each of 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 each of 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.

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.

On October 31, 2023, the Company granted 25,000 RSUs to the CFO of the Company, in which the full amount can be exercised into Subordinated Voting Shares immediately and expire on October 31, 2026.

As of December 31, 2023, the Company recognized $118,294 as share-based compensation, compared to $1,452,439 for December 31, 2022.

The continuity of RSU for the year ended December 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	250,908
Exercised	(1,306,025)
Outstanding, December 31, 2023	**282,158**
Exercisable, December 31, 2023	**—**

(e) Special Advisory Warrants

As of December 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 December 31, 2023, the Advisory Warrants were fully vested and nil was recorded as share-based compensation.

(f) Escrow Securities

As at December 31, 2023, the Company had 8,999,989 subordinate voting shares (2023 – 8,999,989 related to the APP Pharms acquisition) held in escrow. On February 4, 2024, all such shares were released from escrow.

20. 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 subject to externally imposed capital requirements as disclosed in Note 16. There were no changes in the Company's approach to capital management during the year.

21. SEGMENTED REPORTING

The Company's operations consist of a single operating segment engaged in the cultivation, manufacturing, distribution and sale of cannabis within the United States. All revenues are generated in the United States for the years ended December 31, 2023 and 2022 and all material property and equipment and intangible assets are located in the United States.

The Company defines its major geographic operating segments as Arizona and Ohio. Due to jurisdictional cannabis compliance issues ever-present in the industry, each state operation is by nature operationally segmented.

Key decision makers primarily review revenue, cost of goods sold, and gross profit (loss) as the primary indicators of segment performance. As the Company continues to expand via acquisition, the segmented information will expand based on management's agreed upon allocation of costs beyond gross margin.

For year ended December 31, 2023, the Company recognized sales of $34,812,311 (2022 - $35,410,636) of which approximately 84% (2022 - 100%) were derived from the Company's operation in Arizona.

For the year ended December 31, 2023 and December 31, 2022

	Arizona	Ohio	Total
	$	$	$
Balance at December 31, 2022			
Total Sales	35,410,636	—	**35,410,636**
Cost of Goods Sold	14,483,833	—	**14,483,833**
Gross Profit	20,926,803	—	**20,926,803**
Balance at December 31, 2023			
Total Sales	29,136,332	5,675,979	**34,812,311**
Cost of Goods Sold	17,118,824	4,005,528	**21,124,352**
Gross Profit	12,017,508	1,670,451	**13,687,959**

	Arizona	Ohio	Total
	$	$	$
Balance at December 31, 2022			
Property, plant, and equipment	35,650,655	—	**35,650,655**
Intangible Assets	27,838,374	—	**27,838,374**
Goodwill	461,752	—	**461,752**
Balance at December 31, 2023			
Property, plant, and equipment	25,911,635	12,631,157	**38,542,792**
Intangible Assets	24,690,843	37,301,503	**61,992,346**
Goodwill	461,752	1,607,516	**2,069,268**

22. FAIR VALUE MEASUREMENT

The fair value of the Company's accounts receivable, short-term notes receivable, loans to joint operation, deposits and other receivables and 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.

Ohio Note

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 December 31, 2023, the fair value of the Ohio Loan is $13,056,812. 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 Note is as follows:

	December 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 December 31, 2023:

Discount rates	2%	(2%)
Increase (decrease)	$ 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	(971,275)
Interest	856,774
Change in fair value	2,171,313
Balance at December 31, 2023	**$ 13,056,812**

Purchase Option:

The purchase option acquired in the October 3, 2023 acquisition (Note 8) is recognized both initially and subsequently at fair value with fair value determined using a binomial lattice model. The fair value was estimated using Level 3 inputs and is most sensitive to changes in the equity value of the underlying entity.

22. FAIR VALUE MEASUREMENT (*CONTINUED…*)

The reconciliation of the purchase option is as follows:

Balance at October 3, 2023	$	7,536,995
Change in fair value		2,633,784
Balance at December 31, 2023	$	**4,903,211**

Sensitivity Analysis:

The key inputs used in determining the fair value of the purchase option is as follows:

		December 31, 2023		October 3, 2023
Equity value	$	12,537,000	$	15,149,000

Assuming all other inputs remain constant, a $500,000 change in the equity value will have the following impact on the fair value of the purchase option at December 31, 2023:

Equity Value	$	500,000	$	(500,000)
Increase (decrease)	$	445,000	$	(445,000)

Non-convertible Debentures (Note 16):

The fair value of the Refinanced Loan was determined to be $4,742,607 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 and 2021 were as follows:

December 31, 2021	**$**	**4,400,000**
Addition to principal amount		200,000
Less: Transactions Costs		(57,563)
Loss on Loan Modification		200,170
December 31, 2022	**$**	**4,742,607**
Current portion	**$**	**493,347**
Non-Current portion	**$**	**4,249,260**
December 31, 2022	**$**	**4,742,607**

23. CONTINGENCIES

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

24. INCOME TAXES

(a) Income tax (recovery)

	December 31, 2023	December 31, 2022
Current tax (recovery)		
Current year	$ 2,542,862	$ 2,757,964
Prior year	(3,343,350)	—
Deferred tax expense (recovery)		
Origination and reversal of temporary differences	(2,590,129)	1,087,763
Change in unrecognized temporary differences	4,381,759	2,642,560
Adjustment for prior year	(2,026,846)	(10,709,663)
Income tax (recovery)	$ (1,035,704)	$ (4,221,376)

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:

	December 31, 2023	December 31, 2022
Net income for the year before taxes	$ 3,362,742	$ 6,697,904
Federal statutory tax rate - US	27 %	27 %
Expected income tax expense	907,941	1,808,434
Increase (decrease) resulting from:		
Change in unrecognized temporary differences	4,381,758	2,642,561
Non-taxable items	(811,575)	2,119,452
Tax rate differences and tax rate changes	(143,633)	(82,160)
Adjustment for prior year	(5,370,195)	(10,709,663)
Income tax (recovery)	$ (1,035,704)	$ (4,221,376)

(b) Recognized deferred tax assets and liabilities

	December 31, 2023	December 31, 2022
Deferred tax assets are attributable to the following:		
Loss carryforwards	$ 954,542	$ 1,342,597
Property, plant and equipment	2,496	—
Deferred tax assets	957,038	1,342,597
Set-off of tax	(954,542)	(586,344)
Net deferred tax asset	**$ 2,496**	**$ 756,253**
Deferred tax liabilities are attributable to the following:		
Inventory and biological assets	$ (994,715)	$ (586,344)
Intangibles	(6,682,688)	—
Property, plant and equipment	(1,534,507)	(668,913)
Deferred tax liabilities	(9,211,910)	(1,255,257)
Set-off of tax	954,542	586,344
Net deferred tax liability	**$ (8,257,368)**	**$ (668,913)**

24. INCOME TAXES (*CONTINUED…*)

(c) Movement in deferred tax assets and liabilities

	December 31, 2022	Comprehensive Income (Loss)	Acquired in Acquisition	December 31, 2023
Loss carryforwards	$ 1,342,597	$ (388,055)	$ —	$ 954,542
Inventory and biological assets	(586,344)	25,887	(434,258)	(994,715)
Property, plant and equipment	(668,913)	(863,098)	—	(1,532,011)
Intangibles	—	1,460,482	(8,143,170)	(6,682,688)
Net deferred tax asset (liability)	$ 87,340	$ 235,216	$ (8,577,428)	$ (8,254,872)

	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

(d) Unrecognized deferred tax assets and liabilities

	December 31, 2023	December 31, 2022
Deductible temporary differences	$ 859,496	$ 423,531
Tax losses	32,049,259	19,105,283
Total	$ 32,908,755	$ 19,528,814

The Company has Canadian non-capital loss carryforwards of $13,585,743 (2022 - $4,972,582). The Company also has US net operating losses of $21,998,856 (2022 - $18,229,375) available for carryforward. Certain of the Company's deferred tax assets have not been recognized as management has determined that it is not probable that the Company will be unable to realize the economic benefit of these assets.

25. COMPARATIVE FIGURES

Certain of the comparative figures have been reclassified to conform with current year presentation.

26. SUBSEQUENT EVENTS

- Subsequent to December 31, 2023, 11,312,980 warrants were expired and 135,000 stock options were forfeited.
- Subsequent to December 31, 2023, the Company issued an aggregate of 266,132 subordinate voting shares upon settlement of 282,158 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 restricted share unit plan for the remittance of tax related to the settlement of such restricted share units.
- The App Pharms Products and App Pharms Processing Promissory Notes accrue interest, from after January 1, 2024, at the rate of 8.00% per annum, payable quarterly until maturity. The principal amount on the Ohio Promissory Notes is repayable in equal quarterly installments commencing on January 1, 2025, based on a 20 year amortization schedule as of such initial repayment date and matures on December 31, 2026. The Company has the right to prepay any or all of the principal balance under the Ohio Promissory Notes, plus accrued and unpaid interest, at any time without penalty or bonus.
- On February 28, 2024, the Company granted an aggregate of 641,673 RSUs to non-executive directors of the Company, of which 25% vest immediately and 25% every six months after the grant date.
- On March 1, 2024, the Company announced that it has completed the acquisition of a cannabis dispensary in Columbus, Ohio (the "Columbus Dispensary"), as part of the previously disclosed acquisition of the Acquired Companies (Note 8). As part of the closing, Vext will pay to CannAscend Ohio Columbus, LLC, additional aggregate consideration of approximately $2,879,322 plus approximately $148,000 for certain pre-closing tax liability of the Columbus Dispensary, subject to adjustments based on pre-closing operations. The purchase option asset on the Company’s consolidated statement of financial position will be recognized as part of the transaction as will the note receivable from CannAscend (Note 7). A preliminary estimate of the consideration paid and net assets acquired is as follows:

Net assets acquired		
Cash	$	88,538
Inventory		336,537
Prepaid expenses		23,831
Property and equipment		910,175
Accounts payable		(379,509)
Total identifiable net assets acquired	$	979,572
Consideration		
Cash	$	3,027,322
Settlement of pre-exisisting relationships		5,089,480
Fair value of purchase option [1]		7,536,995
		15,653,797
Goodwill and other intangible assets	$	14,674,225

[1] Fair value of the purchase option represents the October 3, 2023 value, as the valuation at the transaction date has not been completed.

26. SUBSEQUENT EVENTS (CONTINUED...)

- On March 6, 2024, upon receipt of regulatory approval, the Company completed the previously announced debenture conversion transaction. The Company issued to the holders of the non-convertible debentures an aggregate of 27,700,625 subordinate voting shares in full satisfaction of the outstanding $4.6 million principal amount, together with accrued and unpaid interest up to December 31, 2023 and a 2.5% conversion incentive fee, at a deemed price of $0.175 per share.

- On April 8, 2024, the Company completed the acquisition of real property associated with a cannabis dispensary in Athens, Ohio. The Company paid an aggregate consideration of $2,600,000, consisting of $900,000 in cash and the issuance of a promissory note in the principal amount of $1,700,000 (the “Promissory Note”). The Promissory Note bears interest at the rate of 7.0% per annum and is repayable over a period of 10 years, maturing on April 4, 2034.