HERBAL DISPATCH INC.

(formerly Luff Enterprises Ltd.)

Consolidated Financial Statements

Years Ended December 31, 2022 and 2021
(Expressed in Canadian Dollars)

Table of Contents

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April 24, 2023
Edmonton, Alberta

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Herbal Dispatch Inc.

Opinion

We have audited the consolidated financial statements of Herbal Dispatch Inc. (the Company), which comprise the consolidated statements of financial position as at December 31, 2022 and December 31, 2021, and the consolidated statements of operations, shareholders' equity and cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2022, and the consolidated financial performance and consolidated 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. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Company in accordance with ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Relating to Going Concern

We draw your attention to Note 1 in the consolidated financial statements, which indicates that the Company incurred a net loss of $4,615,001 during the year ended December 31, 2022. As stated in Note 1, these events or conditions, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other Information

Management is responsible for the other information. The other information comprises the information, other than the consolidated financial statements and our auditor's report thereon, which includes Management's Discussion and Analysis.

Our opinion on the financial statements does not cover the other information and we do 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.

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Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the consolidated financial statements of the current period. This matter was addressed in the context of the audit of the consolidated financial statements as a whole, and in forming the auditor's opinion thereon, and we do not provide a separate opinion on this matter. For the matter below, our description of how our audit addressed the matter is provided in that context.

Evaluation of Business Acquisition

We refer to financial statement summary of significant accounting policies, Note 2, and related disclosure in Notes 5, 7 and 10.

At the acquisition two dates, the Company reported net assets acquired and total consideration paid of $5,069,848. The acquisitions require an assessment of the IFRS guidance and a thorough assessment of the fair value of the aggregate consideration transferred and net assets received.

Evaluation of acquisitions was considered as a key audit matter, due to the size of the balance and significant management judgment is required for the value assessment. This matter represented an area of significant risk of material misstatement given the magnitude of the balance and high degree of estimation uncertainty in determining the fair value of consideration paid and net assets acquired. Significant auditor judgment and the involvement of professionals with specialized skills and knowledge was required to evaluate the evidence supporting the Company's significant estimates due to the sensitivity of the fair value to minor changes in these estimates.

To address the risk for material misstatement on intangibles, our audit procedures included, amongst other procedures:

Evaluating the analyses and calculations made by management with respect to the fair value assessment at the date of acquisition.

Engaging the involvement of external auditor experts in the valuation at the date of acquisition.

Assessing the compliance of Company's accounting policies with applicable accounting standards.

We assessed the adequacy of the Company's disclosures.

Evaluation of Impairment of Intangible Assets and Goodwill

We refer to financial statement summary of significant accounting policies, Note 2, and related disclosure in Notes 7 and 10.

At the balance sheet date, intangible assets amounted to $3,342,463 and goodwill amounted to $1,748,458. For the purpose of impairment testing, intangible assets and goodwill are allocated to the group of cash generating unites (CGUs), which represent the lowest level within the Company at which these assets are monitored for internal management purposes. The recoverable amount is based on the greater of the CGU group's fair value less cost to sell (FVLCS) and its value-in-use (VIU). The Company's significant estimates used in determining the FVLCS include projected future sales, profit margins and earnings and discount rate.

Evaluation of impairment was considered as a key audit matter, due to the size of the balance and significant management judgment is required for the assessment. This matter represented an area of significant risk of material misstatement given the magnitude of the balance and high degree of estimation uncertainty in determining the recoverable amount. Significant auditor judgment and the involvement of professionals with specialized skills and knowledge was required to evaluate the evidence supporting the Company's significant estimates due top the sensitivity of the recoverable amount to minor changes in these estimates.

To address the risk for material misstatement of goodwill, our audit procedures included, amongst other procedures:

(continues)

Evaluating the analyses and calculations made by management with respect to the impairment at year end and evaluate the possibility of impairment.

Engaging the involvement of external auditor experts in the evaluation of management's analysis.

Assessing the compliance of Company's accounting policies with applicable accounting standards.

We assessed the adequacy of the Company's disclosures.

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

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

(continues)

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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 Justin Rousseau.

Kingston Ross Pasnak LLP

Kingston Ross Pasnak LLP
Chartered Professional Accountants

Herbal Dispatch Inc.

Consolidated Statements of Financial Position

As at December 31, 2022 and 2021

(expressed in Canadian dollars)

	2022	2021
Assets		
Current assets:		
Cash and cash equivalents	$ 1,203,594	$ 3,880,602
Trade and other receivables *(Note 3)*	456,287	359,614
Prepaid expenses and deposits	65,934	35,614
Inventory *(Note 4)*	388,283	344,952
Investments (*Note 8*)	-	754,422
Loan receivable (*Note 9*)	-	686,221
Total current assets	2,114,098	6,061,425
Long-term assets:		
Property held for sale *(Note 6)*	-	1,050,201
Property, plant and equipment *(Note 6)*	73,890	-
Intangible assets *(Note 7)*	3,342,463	34,791
Right of use asset *(Note 11)*	-	105,072
Investments *(Note 8)*	199,012	-
Loan receivable *(Note 9)*	464,237	-
Goodwill *(Note 10)*	1,748,458	-
Total assets	**$ 7,942,158**	**$ 7,251,489**
Liabilities and shareholders' equity		
Current liabilities:		
Accounts payable and accrued liabilities	$ 551,785	$ 229,671
Acquisition consideration payable *(Note 5)*	141,870	-
Income taxes payable	39,524	-
Current portion of right of use lease *(Note 11)*	-	111,062
Loans payable *(Note 12)*	474,864	-
Total current liabilities	1,208,043	340,733
Long-term liabilities:		
Loans payable *(Note 12)*	457,033	427,339
Total liabilities	1,665,076	768,072
Shareholders' equity		
Share capital *(Note 13)*	76,744,245	72,709,115
Contributed surplus	3,614,977	3,244,154
Accumulated other comprehensive loss	(819,430)	(822,143)
Deficit	(73,262,710)	(68,647,709)
Total shareholders' equity	6,277,082	6,483,417
Total liabilities and shareholders' equity	**$ 7,942,158**	**$ 7,251,489**

On behalf of the Board:

"Philip Campbell"
CEO and Director

"Jeremy South"
Director

Herbal Dispatch Inc.
Consolidated Statements of Operations
For the years ended December 31, 2022 and 2021
(expressed in Canadian dollars)

	2022	2021
Revenue:		
Sales	$ 363,798	$ 684,238
Excise duties	(45,035)	-
Net revenue	318,763	684,238
Cost of sales	339,182	444,577
Gross profit	(20,419)	239,661
Expenses:		
General and administration *(Note 21)*	1,692,271	2,089,092
Selling and marketing *(Note 21)*	639,687	806,475
Share based compensation *(Note 15)*	(3,241)	310,943
Depreciation & amortization *(Note 6, 7 and 11)*	227,159	665,268
	2,555,876	3,871,778
Loss from operations	(2,576,295)	(3,632,117)
Other (income) expenses		
Interest and other *(Note 22)*	(53,411)	66,881
Gain on sale of assets *(Note 6)*	(3,483)	(1,062,994)
Loss (gain) on investments *(Note 8)*	573,192	(326,219)
Forgiveness of loan	-	(163,716)
CCAA settlement	-	67,233
Bad debt expense	-	50,035
Impairment losses *(Note 16)*	1,588,224	6,396
(Gain) loss on foreign exchange	(116,314)	85,146
Accretion expense	13,521	26,377
	2,001,729	(1,250,861)
Loss before income taxes	(4,578,024)	(2,381,256)
Income tax expense *(Note 20)*	36,977	14,496
Net loss	**(4,615,001)**	**(2,395,752)**
Other comprehensive income (loss)		
Currency translation adjustment	2,713	(468,357)
Comprehensive loss	$ (4,612,288)	$ (2,864,109)
Basic and diluted loss per share	$ (0.01)	$ (0.01)
Weighted average number of common shares outstanding	500,079,350	404,222,922

Herbal Dispatch Inc.

Consolidated Statements of Shareholders' Equity

As at December 31, 2022 and 2021

(expressed in Canadian Dollars)

	Common Shares		**Contributed Surplus**	**Accumulated other comprehensive loss**	**Deficit**	**Shareholder's Equity**
	Number	$	$	$	$	$
As at December 31, 2020	**390,083,032**	**72,046,643**	**3,004,907**	**(353,786)**	**(66,251,957)**	**8,445,807**
Shares issued – exercise of restricted shares *(Note 13)*	13,300,000	313,500	(313,500)	-	-	-
Shares issued – exercise of stock options *(Note 13)*	500,000	17,100	(7,100)	-	-	10,000
Shares issued – private placement *(Note 13)*	27,656,000	331,872	248,904	-	-	580,776
Share based compensation *(Note 15)*	-	-	310,943	-	-	310,943
Currency translation adjustment	-	-	-	(468,357)	-	(468,357)
Net loss for the period	-	-	-	-	(2,395,752)	(2,395,752)
As at December 31, 2021	**431,539,032**	**72,709,115**	**3,244,154**	**(822,143)**	**(68,647,709)**	**6,483,417**
Shares issued – services *(Note 13)*	983,500	14,752	-	-	-	14,752
Share issued – acquisitions *(Note 13)*	301,025,193	4,020,378	374,064	-	-	4,394,442
Share based compensation *(Note 15)*	-	-	(3,241)	-	-	(3,241)
Currency translation adjustment	-	-	-	2,713	-	2,713
Net loss for the period	-	-	-	-	(4,615,001)	(4,615,001)
Balance, December 31, 2022	**733,547,725**	**76,744,245**	**3,614,977**	**(819,430)**	**(73,262,710)**	**6,277,082**

Herbal Dispatch Inc.

Consolidated Statements of Cash Flows

For the years ended December 31, 2022 and 2021

(expressed in Canadian Dollars)

	2022	2021
Cash provided by (used for):		
Operating activities:		
Net loss for the period	$ (4,615,001)	$ (2,395,752)
Items not affecting cash:		
Share based compensation	(3,241)	310,943
Depreciation & amortization	227,159	665,268
Gain on sale of assets	(3,483)	(1,062,994)
Loss (gain) on investments	573,192	(326,219)
Forgiveness of loan	-	(163,716)
Impairment losses	1,588,224	6,396
(Gain) loss on foreign exchange	(42,455)	85,146
Accretion expense	13,521	26,377
Changes in non-cash working capital balances:		
Trade and other receivables	(38,291)	261,820
Prepaid expenses and deposits	1,439	24,839
Inventory	(355,007)	(197,257)
Accounts payable and accrued liabilities	(4,173)	(194,329)
Income taxes payable	37,976	-
Cash used in operating activities	(2,620,140)	(2,959,478)
Investing activities:		
Purchase of intangible assets	(12,535)	(12,535)
Purchase of property, plant and equipment	(33,200)	(82,600)
Proceeds on sale of assets	196,366	6,455,128
Cash assumed from acquisition	6,487	-
Cash provided by investing activities	157,118	6,359,993
Financing activities:		
Repayment of acquisition consideration payable	(82,500)	-
Issuance of common shares	-	590,776
Repayment of right of use lease liability	(131,014)	(168,680)
Payments on note payable	-	(2,000,000)
Proceeds on loan payable	-	163,716
Cash used in financing activities	(213,514)	(1,414,188)
(Decrease) increase in cash and cash equivalents	(2,676,536)	1,986,327
Effect of exchange rate changes on cash and cash equivalents	(472)	(38,089)
Cash and cash equivalents, beginning of period	3,880,602	1,932,364
Cash and cash equivalents, end of period	**$ 1,203,594**	**$ 3,880,602**

Note 1 – Nature of operations and going concern

Herbal Dispatch Inc. (formerly Luff Enterprises Ltd.) ("Herbal Dispatch" or the "Company") owns and operates leading cannabis e-commerce platforms and is dedicated to providing top quality cannabis to informed consumers at affordable pricing. The Company's flagship cannabis marketplace, Herbal Dispatch, is a trusted source for exclusive access to small-batch craft cannabis flower and a wide-array of other product formats.

The Company was incorporated under the Business Corporations Act (British Columbia) on May 30, 2013 under the name Ascent Industries Corp. ("Ascent"). On May 15, 2020 the Company changed its name to Luff Enterprises Ltd. and on January 20, 2023, the Company changed its name to Herbal Dispatch Inc. The Company's head office and principal address is located at Suite 1750 – 1055 West Georgia Street, Vancouver, BC V6E 3P3.

The common shares of the Company trade on the Canadian Securities Exchange (the "Exchange") under the trading symbol "***HERB***"*.*

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") on a going concern basis, which assumes that the Company will continue to operate for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of business. In the year ended December 31, 2022, the Company incurred a net loss of $4,615,001 (net loss of $2,395,752 for the year ended December 31, 2021). However, the Company had a positive cash position of $1,203,594 and positive working capital of $906,055 as at December 31, 2022. The continuation of the Company as a going concern will be dependent on the ability of the Company to achieve positive cash flow from operations and/or obtain necessary equity or other financing. The ability of the Company to be successful in obtaining additional future financing cannot be predicted at this present time.

These consolidated financial statements do not include any adjustments to the amounts and classification of assets and liabilities that might be necessary should the Company be unable to continue as a going concern.

Note 2 – Summary of significant accounting policies

a) Statement of compliance and basis of presentation

These consolidated financial statements have been prepared in accordance with International Reporting Standards (IFRS), as issued by the International Accounting Standards Board on a going concern basis. These consolidated financial statements were approved and authorized for issue by the Board of Directors of the Company on April 24, 2023.

b) Basis of consolidation

These consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries, National Green Biomed Ltd., Rosebud Productions Inc., Coco Pure Beverage Corp., 1192515 BC Ltd., Agrima Botanicals Corp., Pinecone Products Ltd., Wholesome Enterprises Corp., West Fork Holdings Inc., West Fork Holdings NV Inc., Sweet Cannabis Inc., Luff Enterprises LLC., and Wholesome Holdings Inc. All inter-company balances and transactions have been eliminated on consolidation.

Note 2 – Summary of significant accounting policies, continued

c) Basis of measurement

The consolidated financial statements have been prepared on a historical cost basis except for assets classified as held for sale, which are measured at the lower of their carrying amount and fair value less costs to sell, and investment and derivatives, which are measured at fair value through profit or loss.

d) Functional and presentation currency

The consolidated financial statements are presented in Canadian dollars, which is the Company's functional currency. The functional currency of the Company's US subsidiaries is the US Dollar.

Foreign currency transactions are translated into Canadian dollars at exchange rates in effect on the date of the transactions. Monetary assets and liabilities denominated in foreign currencies at the consolidated statement of financial position date are translated to Canadian dollars at the foreign exchange rate applicable at that date. Realized and unrealized exchange gains and losses are recognized in the consolidated statements of operations. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

The assets and liabilities of foreign operations are translated into Canadian dollars at period end exchange rates. Income and expenses, and cash flows of foreign operations are translated into Canadian dollars using average exchange rates. Exchange differences resulting from the translation of foreign operations are recognized in other comprehensive income and accumulated in equity.

e) Cash and cash equivalents

Cash and cash equivalents include cash deposits in financial institutions and other deposits that are readily convertible into cash.

f) Inventory

Inventories of ingredients, purchased cannabis products, finished goods and packaging materials are initially measured at cost and subsequently at the lower of cost and net realizable value. Net realizable value is determined as the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. Cost is determined using the average cost basis.

The Company reviews inventory for obsolete, redundant and slow-moving goods and any such inventories are written down to net realizable value.

Note 2 – Summary of significant accounting policies, continued

g) Property, plant and equipment and right of use asset

Property, plant, and equipment are stated at cost, net of accumulated amortization and/or accumulated impairment losses, if any. Such cost includes the cost of replacing component parts of the property, plant and equipment and borrowing costs for long-term construction projects if the recognition criteria are met.

For the periods ending December 31, 2022 and 2021, depreciation is calculated on a straight-line basis over the estimated useful life of the assets on a pooled basis, as is consistent with industry practice. Management estimates those useful lives to be:

- Computer and mobile equipment - 3 years
- Production equipment - 4 to 5 years
- Software - 3 years
- Lab equipment - 4 to 5 years
- Furniture, fixtures and security equipment - 4 to 5 years

An item of property, plant and equipment and any significant part initially recognized is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated statement of operations when the asset is derecognized. The assets' residual values, useful lives and methods of depreciation are reviewed at each financial year end and adjusted prospectively, if appropriate.

Property, plant and equipment acquired, but not available for use are not amortized until they are available for use.

Right of use assets are recorded on a present value basis and amortized on a straight-line basis over the life of the lease. The cost of asset is adjusted for any re-measurement of the lease liability and is less any accumulated depreciation and accumulated impairment losses, if any.

h) Assets held for sale

Non-current assets classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Once classified as held for sale, intangible assets and property, plant and equipment are no longer amortized or depreciated.

i) Intangible assets and goodwill

Intangible assets are recorded at cost less accumulated amortization and impairment losses, if any. Intangible assets acquired in a business combination are measured at fair value at the acquisition date. Amortization is provided on a straight-line basis over their estimated useful lives, which do not exceed the contractual period, if any. Intangible assets that have indefinite useful lives are not subject to amortization and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. The estimated useful lives, residual values, and amortization methods are reviewed at each year end, and any changes in estimates are accounted for prospectively.

Note 2 – Summary of significant accounting policies, continued

i) Intangible assets and goodwill, continued

Goodwill arises from business combinations and is generally determined as the excess of the fair value of the consideration transferred, plus the fair value of any noncontrolling interests in the acquiree, over the fair value of the net assets acquired and liabilities assumed as of the acquisition date. Goodwill and intangible assets acquired in a business combination and determined to have an indefinite useful life are not amortized, but tested for impairment at least annually or more frequently if events and circumstances exists that indicate that a goodwill impairment test should be performed. The Company has selected December 31 as the date to perform the annual impairment test.

For the periods ending December 31, 2022 and 2021, amortization was calculated on a straight-line basis over the following estimated useful lives:

- Cannabis licenses - 20 years
- Customer platforms - 10 years

j) Right of use lease

At inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for considerations. To assess whether a contract conveys the right to control the use of an identified asset, the Company assesses whether:

- The contract involves the use of an identified asset and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified;

- The Company has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and

- The Company has the right to direct the use of the asset. The Company has this right when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used. In rare cases where the decision about how and for what purpose the asset is used is predetermined, the Company has the right to direct the use of the asset if either:

    - The Company has the right to operate the asset; or
    - The Company designed the asset in a way that predetermines how and for what purpose it will be used.

Note 2 – Summary of significant accounting policies, continued

j) Right of use lease, continued

At inception or on reassessment of a contract that contains a lease component, the Company allocates the consideration in the contract to each lease component on the basis of their relative stand-alone prices. However, for the leases of buildings in which it is a lessee, the Company has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

Right of use leases which transfer to the Company substantially all the risks and benefits incidental to ownership of the leased item, are capitalized at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments.

Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognized in finance costs in the statement of operations. A leased asset is amortized over the useful life of the asset. However, if there is no reasonable certainty that the Company will obtain ownership by the end of the lease term, the asset is amortized over the shorter of the estimated useful life of the asset and the lease term.

The Company has elected to recognize the lease payments associated with short term leases and leases for which the underlying asset is of low value as an expense on a straight-line basis over the lease term.

k) Impairment of non-financial assets

The carrying amount of the Company's non-financial assets is reviewed at each financial reporting date to determine whether there is any indication of impairment. If such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. An impairment loss is recognized when the carrying amount of an asset or its cash generating unit ("CGU") exceeds its recoverable amount. Impairment losses are recognized in profit or loss.

The recoverable amount of an asset or CGU is the greater of its fair value less cost to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects the current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is only reversed if there is an indication that the impairment loss may no longer exist and there has been a change in the estimates used to determine the recoverable amount, however, not to an amount higher than the carrying amount that would have been determined had no impairment loss been recognized in previous years. Assets that have an indefinite useful life are not subject to depreciation and are tested annually for impairment.

Note 2 – Summary of significant accounting policies, continued

l) Share capital

Transaction costs directly attributable to the issuance of common shares are recognized as a deduction from equity. The proceeds from the exercise of stock options or warrants together with amounts previously recorded in contributed surplus over the vesting periods are recorded as share capital. Share capital issued for nonmonetary consideration is recorded at an amount based on the fair market value of the shares on the date of issue.

m) Share-based payments

The fair value of options is determined using the Black–Scholes option pricing model which incorporates all market vesting conditions. The number of options expected to vest is reviewed and adjusted at the end of each reporting period such that the amount recognized for services received as consideration for the equity instruments granted shall be based on the number of equity instruments that eventually vest.

n) Comprehensive loss

Comprehensive loss consists of loss and other comprehensive income (loss) (OCI). OCI represents changes in shareholder's equity during a period arising from transactions and other events and circumstances from non-owner sources and includes unrealized gains and losses on financial assets classified as available for sale and foreign currency translation.

o) Loss per share

The Company calculates basic loss per share using the weighted average number of common shares outstanding during the year. Diluted loss per share is the same as basic loss per share, as the issuance of shares on the exercise of stock options and share purchase warrants is anti- dilutive.

p) Business acquisitions

Business acquisitions are accounted for using the acquisition method. The cost of a business acquisition is measured at the fair value of the aggregate consideration transferred, measured at the acquisition date. All acquisition costs are expensed as incurred in general and administration expenses. Any acquisition consideration payable is measured at fair value at the acquisition date. Any subsequent changes to acquisition consideration payable are recognized in profit or loss.

Note 2 – Summary of significant accounting policies, continued

q) Revenue recognition

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

1. Identifying the contract with a customer
2. Identifying the performance obligation(s) in the contract
3. Determining the transaction price
4. Allocating the transaction price to the performance obligation(s) in the contract
5. Recognizing revenue when or as the Company satisfies the performance obligation(s)

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

r) Income taxes

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

Current income taxes

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

Deferred income taxes

Deferred taxes are calculated using the liability method on temporary differences between the carrying amounts of assets and liabilities and their tax bases. Deferred tax assets and liabilities are calculated, without discounting, at tax rates that are expected to apply to their respective period of realization, provided they are enacted or substantively enacted by the end of the reporting period. Deferred tax assets are recognized to the extent that it is probable that they will be able to be utilized against future taxable income. Deferred tax assets and liabilities are offset only when the Company has a right and intention to offset current tax assets and liabilities from the same taxation authority. Changes in deferred tax assets or liabilities are recognized as a component of income tax expense in profit or loss, except where they relate to items that are recognized in other comprehensive income or directly in equity, in which case the related deferred tax is also recognized in other comprehensive income or equity, respectively.

Note 2 – Summary of Significant Accounting Policies, continued

s) Statement of cash flow

The Company is using the indirect method in its presentation of the statement of cash flow.

t) Financial instruments

Financial assets

Initial recognition and measurement

Financial assets are classified at amortized cost, at fair value through other comprehensive income (FVOCI) or fair value profit or loss (FVTPL). The determinant of the classification of the financial asset is based on the entity's business model for managing the financial asset and the contractual cash flow characteristics of the financial asset. The Company determines the classification of its financial assets at initial recognition.

All financial assets are recognized initially at fair value plus, in the case of assets not at fair value through profit or loss, directly attributable transaction costs.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the marketplace (regular way trades) are recognized on the trade date.

The Company’s financial assets include cash and cash equivalents, trade and other receivables, loans receivable, and investments.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at fair value through profit or loss
Financial assets at fair value through profit or loss include financial assets unless it is measured at amortized cost or at fair value through other comprehensive income. The Company can make an irrevocable election at initial recognition for particular investments in equity instruments that would otherwise be measured at fair value through profit or loss to present subsequent changes in fair value in other comprehensive income.

The Company may irrevocably designate a financial asset as measured at fair value through profit or loss if doing so eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognizing the gains and losses on them on a different basis.

The Company has designated investments at fair value through profit or loss.

Note 2 – Summary of Significant Accounting Policies, continued

t) Financial instruments, continued

Amortized cost

Financial assets are measured at amortized cost if the two following conditions are met:

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

The Company has designated cash and cash equivalents, loans receivable, and trade and other receivables at amortized cost.

Fair value through other comprehensive income

Financial assets measured at fair value through other comprehensive income is permitted if the two following conditions are met:

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

The Company has not designated any financial assets at fair value through other comprehensive income upon initial recognition.

Derecognition

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized when one of the following conditions is met:

- The rights to receive cash flows from the asset have expired; or
- The Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a ‘pass-through’ arrangement; and either (a) the Company has transferred substantially all the risks and rewards of the asset, or (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset but has transferred control of the asset.

When the Company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement and has neither transferred nor retained substantially all of the risks and rewards of the asset nor transferred control of it, the asset is recognized to the extent of the Company’s continuing involvement in it. In that case, the Company also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained.

Note 2 – Summary of significant accounting policies, continued

t) Financial instruments, continued

Impairment of financial assets

The Company recognizes a loss allowance for expected credit losses on all financial assets and certain off-balance sheet loan commitments and guarantees. The expected credit loss model requires a loss allowance to be recognized on the financial asset regardless of whether an actual loss event has occurred.

The expected credit loss model presents three stages of credit loss allowances that must be assessed on all financial assets acquired by the Company. At the reporting date, if the credit risk of a financial asset has not significantly changed from initial recognition, an allowance for that financial instrument at an amount equal to a 12-month expected credit losses is recognized (Stage 1). Once the financial assets credit risk significantly increases from initial recognition, a lifetime expected credit loss will be recognized (Stage 2). At Stage 2 the interest revenue from the asset will continue to be calculated on the carrying value of the asset before impairments. If the credit quality of the financial asset deteriorates, the lifetime expected loss will continue to be recognized, however the interest revenue will now be calculated on the net amortized carrying value after deducting the loss allowance (Stage 3).

The assessment of significant increases in credit loss is completed at the reporting date and considers historical events, current market conditions and supportable information about future economic conditions that is available without undue cost or effort, that is indicative of significant increases in credit risk since initial recognition. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in profit or loss. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income in profit or loss. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Company. If in a subsequent year the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to finance costs in profit or loss.

Note 2 – Summary of significant accounting policies, continued

t) Financial instruments, continued

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified as financial liabilities at fair value through profit or loss, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Company determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings, carried at amortized cost. This includes directly attributable transaction costs.

The Company's financial liabilities include accounts payable and accrued liabilities, acquisition consideration payable, loans payable and right of use leases.

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as follows:

Financial liabilities at fair value through profit or loss
Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss. Financial liabilities are classified as measured at fair market value if they are acquired for the purpose of selling in the near term. Gains or losses on liabilities at fair value are recognized in profit or loss.

The Company has not designated any financial liabilities as fair value through profit or loss.

Amortized cost
After initial recognition, interest bearing loans and borrowings are subsequently measured at amortized cost using the effective interest rate method. Gains and losses are recognized in profit or loss when the liabilities are derecognized as well as through the effective interest rate method amortization process. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate method (EIR). The EIR amortization is included in finance costs in profit or loss.

The Company's financial liabilities measured at amortized cost include accounts payable and accrued liabilities, acquisition consideration payable, loans payable, and right of use leases.

Derecognition

Offsetting of financial instruments
Financial assets and financial liabilities are offset, and the net amount reported in the consolidated statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

Note 2 – Summary of significant accounting policies, continued

t) Financial instruments, continued

Fair value of financial instruments
The fair value of financial instruments that are traded in active markets at each reporting date is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. For financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques. Such techniques may include using recent arm's length market transactions, reference to the current fair value of another instrument that is substantially the same, or a discounted cash flow analysis or other valuation models.

An analysis of fair values of financial instruments and further details as to how they are measured are provided in Note 24.

u) Significant accounting judgements, estimates and assumptions

The preparation of the Company's consolidated financial statements in conformity with IFRS requires management to make judgements, estimates, and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised, if the revision affects only that period, or in the period of the revision and future periods, if the revision affects both current and future periods.

Significant judgements estimates and assumptions that have the most significant effect on the amounts recognized in the financial statements are described below.

Significant judgements

a. Fair value of financial instruments

The individual fair values attributed to the different components of a financing transaction, notably convertible debt and loans, are determined using valuation techniques. The Company uses judgement to select the methods used to make certain assumptions and in performing the fair value calculations in order to determine (a) the values attributed to each component of a transaction at the time of their issuance; (b) the fair value measurements for certain instruments that require subsequent measurement at fair value on a recurring basis; and (c) for disclosing the fair value of financial instruments subsequently carried at amortized cost. These valuation estimates could be significantly different because of the use of judgement and the inherent uncertainty in estimating the fair value of these instruments that are not quoted in an active market. The assumptions regarding the derivative liabilities are disclosed in Note 24.

Note 2 – Summary of Significant Accounting Policies, continued

u) Significant accounting judgements, estimates and assumptions, continued

Significant judgements, continued

b. Business acquisitions

In a business acquisition, judgment is exercised in determining whether the transaction meets the definition of a business combination or is an acquisition of assets. The Company evaluates whether the acquired set of activities and assets includes an input, a process and an output as required under IFRS 3.

c. Going concern assumption

The Company exercises judgement in determining its ability to continue to operate for the foreseeable future and to be able to discharge its liabilities in its normal course of business. The Company assesses its current and forecasted cash and working capital balances to make this determination.

Significant estimates

a. Convertible instruments

Convertible notes are compound financial instruments which are accounted for separately by their components: a financial liability and an equity instrument. The financial liability, which represents the obligation to pay coupon interest on the convertible notes in the future, is initially measured at its fair value and subsequently measured at amortized cost. The residual amount is accounted for as an equity instrument at issuance. The identification of convertible notes components is based on interpretations of the substance of the contractual arrangement and therefore requires judgement from management. The separation of the components affects the initial recognition of the convertible debenture at issuance and the subsequent recognition of interest on the liability component. The determination of the fair value of the liability is also based on a number of assumptions, including contractual future cash flows, discount rates and the presence of any derivative financial instruments.

b. Deferred tax assets

Deferred tax assets, including those arising from tax loss carry-forwards, require management to assess the likelihood that the Company will generate sufficient taxable earnings in future periods in order to utilize recognized deferred tax assets. Assumptions about the generation of future taxable profits depend on management's estimates of future cash flows. In addition, future changes in tax laws could limit the ability of the Company to obtain tax deductions in future periods. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the Company to realize the net deferred tax assets recorded at the reporting date could be impacted.

Note 2 – Summary of significant accounting policies, continued

u) Significant accounting judgements, estimates and assumptions, continued

Significant estimates, continuation

c. Share based payments and warrants

All equity-settled, share based awards and share purchase warrants issued by the Company are fair valued using the Black-Scholes option-pricing model or other fair value techniques. In assessing fair value of equity-based compensation, estimates have to be made regarding the expected volatility in share price, option life, dividend yield, risk-free rate and estimated forfeitures at the initial grant date.

d. Leased assets

Leases require assumptions and estimates in order to determine the value of the right of use asset and lease liabilities. Judgement must be applied when determining the implicit and incremental rates of borrowing, as applicable. Judgement must also be applied as to whether renewal options are reasonably certain of being exercised and whether periods covered by an option to terminate are reasonably certain of not being exercised.

e. Inventory valuation

Management has applied judgement in the determination of the net realizable value of its inventory. Management estimates net realizable value by estimating selling prices in the ordinary course of business less estimated cost of completion and estimated cost necessary to make the sale.

f. Estimated useful lives and depreciation of property, plant and equipment, intangible assets and impairment of non-financial assets

Depreciation of property, plant and equipment and intangible assets is dependent upon estimates of useful lives which are determined through the exercise of judgement. The assessment of any impairment of these assets is dependent upon estimates of recoverable amounts that take into account factors such as economic and market conditions and the useful lives of assets.

g. Business acquisitions

In a business acquisition, the Company may acquire assets and assume certain liabilities of an acquired entity. Estimates are made as to the fair value of property, plant and equipment, intangible assets, and goodwill, among other items. In certain circumstances, such as the valuation of property, plant and equipment and intangible assets acquired, the Company may rely on independent third-party valuators. The determination of these fair values involves a variety of assumptions, including revenue growth rates, expected operating income, discount rates, and earnings multiples. For further information on business acquisitions, refer to Note 5.

(Expressed in Canadian Dollars)

Note 2 – Summary of significant accounting policies, continued

u) Significant accounting judgements, estimates and assumptions, continued

h. Impairment of goodwill and intangible assets

Management believes that the methodology used to identify CGU(s) and test impairment of goodwill and intangible assets, involves a significant number of judgments and estimates. Many of the factors used in determining whether or not goodwill and intangible assets is impaired are outside of management's control and inherently uncertain. Therefore, actual results could differ from those estimated. As well, it is reasonably likely that assumptions and estimates will change in future periods that could have a significant impact on the recoverable amount of a CGU, which could result in an impairment loss.

The recoverable amount is most sensitive to the discount rate used in the discounted cash flow model as well as the expected future cash flows and the growth rate used for extrapolation purposes. To arrive at cash flow projections, the Company uses estimates of economic and market information over the projection periods, including growth rates in revenue, estimates of changes in gross margins, cash expenditures, and future changes in working capital requirements. For further information on the Company's assessment of goodwill at December 31, 2022, refer to Note 10.

v) Measurement uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year. The Company based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the control of the Company. Such changes are reflected in the assumptions when they occur.

Note 3 – Trade and other receivables

	December 31 2022 $	December 31 2021 $
Trade receivables	**67,265**	27,299
GST recoverable	**172,169**	271,064
Other receivables	**216,853**	61,251
Total receivables	**456,287**	359,614

In the year ended December 31, 2022, there was no trade receivables recognized as a bad debt expense (December 31, 2021 - $50,035).

Included in other receivables is USD $60,000 (CAD $81,417) related to the sale of certain assets and licenses at the Company's Portland Oregon facility (see Note 6) as well as an indemnity receivable of $90,601 related to the acquisition of NG Biomed (Note 5).

(Expressed in Canadian Dollars)

Note 4 – Inventory

	December 31 2022 $	December 31 2021 $
Packaging	**38,882**	**92,152**
Ingredients and cannabinoids	**22,145**	**46,511**
Finished goods	**327,256**	**206,289**
Total inventory	**388,283**	**344,952**

Inventory expensed in direct costs for the year ended December 31, 2022 was $339,182 (year ended December 31, 2021 - $444,577). For the year ended December 31, 2022, the Company recognized an impairment loss of $323,780 (December 31, 2021 - $nil) related to inventory held in the United States to reduce the carrying value to estimated net realizable value.

Note 5 – Acquisitions

a) Acquisition of NG Biomed

On August 13, 2022, the Company acquired 100% of the issued and outstanding shares of the National Green Biomed group of companies ("NG Biomed"). NG Biomed is a licensed producer of cannabis products for both the recreational and medical consumer markets.

The acquisition of NG Biomed was affected by way of a three-cornered amalgamation in accordance with the provisions of the Business Corporations Act (British Columbia) whereby the securityholders and certain creditors of NG Biomed were issued 161,025,193 common shares in Herbal Dispatch. The Company also agreed to pay cash consideration of up to $224,370 to certain shareholders of NG Biomed that had a right of recission related to their investment in NG Biomed. In conjunction with the acquisition, the Company also issued $500,000 in debt and assumed up to a maximum of $200,000 in other net liabilities. In conjunction with the acquisition, the Company also issued 6,172,001 warrants with each warrant exercisable to acquire one common share of Herbal Dispatch at a price of $0.15 per share until December 31, 2023.

The acquisition of NG Biomed was accounted for using the purchase method in accordance with IFRS 3 Business Acquisitions, with the results of the acquired business being included in the consolidated financial statements from its effective acquisition date. The fair value of the net assets acquired and aggregate consideration given were as follows:

(Expressed in Canadian Dollars)

Note 5 – Acquisitions, continued

a) Acquisition of NG Biomed, continued

Fair value of net assets acquired	$
Cash	6,487
Trade and other receivables	48,734
Indemnity receivable	90,601
Inventory	16,465
Prepaid expenses and deposits	33,786
Property, plant and equipment	84,390
Intangible assets	1,832,000
Goodwill	1,748,458
Total assets	3,860,921
Accounts payable and accrued liabilities	(356,073)
Loans payable	(40,000)
Total liabilities	(396,073)
Net assets acquired	**3,464,848**

Consideration given	$
Common shares	2,415,378
Debentures – debt portion	451,036
Debentures – equity portion	300,000
Warrants	74,064
Acquisition consideration payable	224,370
Total consideration	**3,464,848**

The Company was indemnified by a former principal of NG Biomed for any working capital deficiency in excess of $200,000 at closing. The Company recognized an indemnification receivable of $90,601 related to this indemnity, which was settled subsequent to year-end.

Goodwill acquired with the above business acquisition comprised the value of expected synergies arising from the acquisition and the expertise and reputation of the assembled workforce acquired. None of the goodwill acquired is expected to be deductible for income tax purposes.

The debentures issued in conjunction with the NG Biomed acquisition consisted of a principal amount of $500,000, bear interest at an annual rate of 10.0% and mature on December 31, 2024. The debentures are also convertible into common shares at the option of the holder, at a price of $0.025 per share. Should the trading price of the Company’s common shares be at or above $0.05 per share for a period of at least 20 consecutive trading days, the Company shall also have the option to force a conversion of the debentures into common shares.

Note 5 – Acquisitions, continued

a) Acquisition of NG Biomed, continued

The fair value of the debt component of the debentures was calculating using an estimated market discount rate of 15% per annum. The fair value of the equity portion of the debentures was calculated using the Black-Scholes option pricing model using the following assumptions: stock price volatility – 292%, risk free interest rate – 3.24%, dividend yield - $0.00%, and expected life of 28.5 months.

The fair value of the warrants issued in conjunction with the NG Biomed acquisition were calculated using the Black-Scholes option pricing model using the following assumptions: stock price volatility – 292%, risk free interest rate – 3.24%, dividend yield - $0.00%, and expected life of 16.5 months.

The Company integrated the operations of NG Biomed immediately after the acquisition date; therefore, it was impracticable for the Company to disclose the acquiree's revenue and earnings in its consolidated financial statements since the acquisition date.

b) Acquisition of 1192515 BC Ltd.

On August 23, 2022, the Company acquired 100% of the outstanding shares of 1192515 BC Ltd., the owner of herbaldispatch.com, a leading Canadian online dispensary brand ("1192515"). Assets included in the acquisition were 1192515's website domains, trademarks, and user database. This database contains age-verified, Canadian-resident cannabis consumers, and has more than a 100,000+ profiles, including over 60,000 active subscribers. Pursuant to the terms of the acquisition, the Company acquired 100% of the issued and outstanding shares of 1192515 (the "Transaction") in exchange for Herbal Dispatch common shares, based on a milestone structure linked to quarterly revenue targets.

1192515 did not meet the definition of a business under IFRS 3 Business Combinations prior to the acquisition. The acquisition is therefore accounted for in accordance with IFRS 2 Share-based Payments, whereby the Company acquired the assets of 1192515 in exchange for commons shares in Herbal Dispatch.

Consideration for the acquisition consisted of the issuance of 140,000,000 common shares of Herbal Dispatch with 20,000,000 of those common shares distributed to the shareholders of 1192515 at closing. The remaining 120,000,000 common shares are being held in escrow and will be distributed following the achievement of certain milestone events during the four-year period after completion of the Transaction as follows:

- 30,000,000 common shares of Herbal Dispatch upon gross sales in Canada reaching $300,000 in a three-month consecutive period;
- 40,000,000 common shares of Herbal Dispatch upon gross sales in Canada reaching $750,000 in a three-month consecutive period; and
- 50,000,000 common shares of Herbal Dispatch upon gross sales in Canada reaching $1,500,000 in a three-month consecutive period.

The value of the common shares issued and assets acquired of 1192515 was $1,605,000. The assets acquired primarily consisted of the 1192515's customer platform and were measured at the estimated fair value of the common shares issued. The common shares were initially measured at a deemed price of $0.015 per share, but then discounted for the uncertainty that certain of the milestone events related to the share consideration being held in escrow may not be achieved.

Subsequent to December 31, 2022, the $300,000 gross sales in a three-month consecutive period milestone was achieved.

(Expressed in Canadian Dollars)

Note 5 – Acquisitions, continued

b) Acquisition of 1192515 BC Ltd, continued

The Transaction was a related party transaction and not an arm's length transaction for purposes of the policies of the Exchange as certain directors and officers of Herbal Dispatch are minority shareholders in 1192515 BC Ltd. Therefore, the Transaction was a related party transaction under Multilateral Instrument 61-101. For the Transaction, the Company relied on the exemptions contained in sections 5.5(a) and 5.7(a), respectively, of Multilateral Instrument 61-101 from the valuation and minority shareholder requirements of that instrument as they apply to related party transactions since the fair market value of the acquisition was less than 25% of the market capitalization of the Company. The acquisition of 1192515 was approved by the board upon recommendation of the independent director in accordance with the Company's related-party transaction policy. Those certain directors and officers of the Company who are also minority shareholders of 1192515 did not vote on the Transaction.

Legal fees of $118,000 were incurred in conjunction with the acquisitions of NG Biomed and 1192515. All acquisition costs were expensed as incurred in general and administrative expenses.

Note 6 – Property, plant and equipment

Cost	December 2021 $	Additions $	Acquisition (Note 5) $	Disposals $	Foreign Exchange $	**December 2022** $
Computer equipment	44,413	6,106	1,500	(47,161)	2,748	**7,606**
Production equipment	-	27,094	82,890	(36,742)	-	**73,242**
Software	6,694	-		(7,108)	414	**-**
Mobile equipment	30,865	-		(32,774)	1,909	**-**
Furniture and fixtures	27,983	-		(29,712)	1,729	**-**
Security equipment	73,891	-		(78,462)	4,571	**-**
Lab equipment	1,211,178	-		(1,286,111)	74,933	**-**
Leasehold improvements	1,724,823	-		(1,831,534)	106,711	**-**
	3,119,847	33,200	84,390	(3,349,604)	193,015	**80,848**

Accumulated Depreciation	December 31 2021 $	Depreciation $	Disposals $	Foreign Exchange $	**December 31 2022** $
Computer equipment	(44,413)	(798)	47,161	(2,749)	**(799)**
Production equipment		(8,215)	2,056	-	**(6,159)**
Software	(6,694)	-	7,108	(414)	**-**
Mobile equipment	(30,865)	-	32,774	(1,909)	**-**
Furniture and fixtures	(22,532)	-	23,926	(1,394)	**-**
Security equipment	(67,937)	-	72,141	(4,204)	**-**
Lab equipment	(1,131,535)	-	1,201,540	(70,005)	**-**
Leasehold improvements	(765,670)	-	813,040	(47,370)	**-**
	(2,311,149)	(9,013)	2,199,746	(128,045)	**(6,958)**

(Expressed in Canadian Dollars)

Note 6 – Property, plant and equipment, continued

Cost	December 31 2020 $	Additions $	Disposals $	Foreign Exchange $	**December 31 2021 $**
Land	666,159	-	(624,013)	(42,146)	**-**
Building	4,301,602	-	(4,029,449)	(272,153)	**-**
Computer equipment	74,259	-	(25,034)	(4,812)	**44,413**
Software	7,146	-	-	(452)	**6,694**
Mobile equipment	32,950	-	-	(2,085)	**30,865**
Furniture and fixtures	52,653	-	(21,341)	(3,329)	**27,983**
Security equipment	185,359	-	(99,741)	(11,727)	**73,891**
Lab equipment	1,419,637	42,082	(164,769)	(85,772)	**1,211,178**
Leasehold improvements	2,355,748	42,124	(524,006)	(149,043)	**1,724,823**
	9,095,513	84,206	(5,488,353)	(571,519)	**3,119,847**

Accumulated Depreciation	December 31 2020 $	Depreciation $	Disposals $	Foreign Exchange $	**December 31 2021 $**
Building	(331,924)	-	310,603	21,321	**-**
Computer equipment	(69,403)	(4,383)	25,034	4,339	**(44,413)**
Software	(6,253)	(820)	-	379	**(6,694)**
Mobile equipment	(26,772)	(5,677)	-	1,584	**(30,865)**
Furniture and fixtures	(30,690)	(9,638)	16,081	1,715	**(22,532)**
Security equipment	(169,757)	(8,496)	99,741	10,575	**(67,937)**
Lab equipment	(1,026,707)	(326,719)	163,441	58,450	**(1,131,535)**
Leasehold improvements	(777,791)	(208,012)	174,971	45,162	**(765,670)**
	(138,869)	(100,793)	-	(1,841)	**(241,503)**
	(2,578,166)	(664,538)	789,871	141,684	**(2,311,149)**

Net Book Value	**December 31 2022 $**	December 31 2021 $
Computer equipment	**6,807**	-
Production equipment	**67,083**	-
Furniture and fixtures	**-**	5,451
Security equipment	**-**	5,954
Lab equipment	**-**	79,643
Leasehold improvements	**-**	959,153
	73,890	1,050,201

In July 2022, the Company entered into a definitive agreement to sell certain assets and licenses that were classified as held for sale for cash consideration of USD $120,000. An impairment loss was recognized on the remaining assets held for sale as a result of this transaction as discussed in *Note 16*.

(Expressed in Canadian Dollars)

Note 6 – Property, plant and equipment, continued

During the year ended December 31, 2021, the Company sold its Nevada, USA facility and associated licenses for proceeds of $6,455,128 and recognized a gain on sale of $1,062,994. At December 31, 2021, property, plant and equipment with a carrying value of $1,050,201 related to the Company's facility in Oregon, USA were reclassified to assets held for sale.

Note 7 – Intangible assets

	Licenses $	Customer Platform $	**Total** **$**
Cost			
December 31, 2020	1,131,475	-	**1,131,475**
Additions	12,779	-	**12,779**
Disposals	(1,043,888)	-	**(1,043,888)**
Foreign exchange	(64,202)	-	**(64,202)**
December 31, 2021	36,164	-	**36,164**
Business acquisition *(Note 5)*	1,832,000	1,605,000	**3,437,000**
Additions	13,570	-	**13,570**
Disposals	(51,971)	-	**(51,971)**
Foreign exchange	2,237	-	**2,237**
December 31, 2022	**1,832,000**	**1,605,000**	**3,437,000**
Accumulated depreciation			
December 31, 2020	77,895	-	**77,895**
Depreciation	26,329	-	**26,329**
Disposals	(104,930)	-	**(104,930)**
Foreign exchange	2,079	-	**2,079**
December 31, 2021	1,373	-	**1,373**
Depreciation	34,878	60,187	**95,065**
Disposals	(2,023)	-	**(2,023)**
Foreign exchange	122	-	**122**
			-
December 31, 2022	**34,350**	**60,187**	**94,537**
Net book value			
December 31, 2021	34,791	-	**34,791**
December 31, 2022	**1,797,650**	**1,544,813**	**3,342,463**

(Expressed in Canadian Dollars)

Note 8 – Investments

	December 31 2022 $	December 31 2021 $
Enhanced Pet Sciences Corp.	**199,012**	740,000
Golden Ridge Resources Ltd.	**-**	14,422
Total investments	**199,012**	754,422

The Company holds an equity investment in Enhanced Pet Sciences Corp. ("EPS"), a privately held, startup company that is developing consumer packaged goods incorporating cannabinoid extracts. The Company does not have significant influence or control over the investee. The investee is privately held and there is no quoted market price for its common shares. EPS issued an additional 20,000 shares to the Company at the price of $0.50 per share (on a post-share rollback basis) in May 2021 and 50,880 shares at the price of $0.50 per share in March 2022 pursuant to a loan receivable agreement (see Note 9). The investment in EPS is recognized at fair value through profit or loss. During the year ended December 31, 2022, the Company recognized an unrealized loss of $566,426 related to this investment (2021 – gain of $326,219).

The Company held an investment in Golden Ridge Resources Ltd. ("Golden Ridge"), a publicly traded company on the TSX Venture Exchange. The investment in Golden Ridge was recognized at fair value through profit or loss and incurred a loss of $6,766 during the year ended December 31, 2022 (2021 - $17,279). The Company sold this investment in September 2022 for net proceeds of $7,657.

Note 9 – Loan receivable

	December 31 2022 $	December 31 2021 $
Opening balance	**686,221**	727,925
Accrued interest capitalized to principal balance	**-**	47,123
Gain (loss) on foreign exchange	**104,766**	(88,827)
Impairment	**(326,750)**	-
Ending balance	**464,237**	686,221

On January 28, 2020 the Company entered into a secured loan agreement with EPS for USD $500,000 (CAD $728,676). The loan bears interest at 8% per annum, is secured by collateral security as well as guarantees from certain principals of EPS and was initially due on December 31, 2020.

(Expressed in Canadian Dollars)

Note 9 – Loan receivable, continued

On April 15, 2021, the loan agreement was revised and the maturity date extended to December 31, 2021. Outstanding interest of USD $36,995 (CAD $47,123) was rolled into the principal balance of the loan making the new outstanding loan balance USD $536,995 (CAD $686,221 at December 31, 2021). The revised agreement also provided the option for the Company to convert the loan into common shares of EPS at a fixed value of $0.20 per common share with 10 days written notice at any time up to the maturity date. The interest and security collateral terms remained the same.

On November 24, 2021, the Company signed an additional extension agreement for the loan receivable. Under the terms of the extension, the loan now matured on December 31, 2022. EPS made a USD $40,000 (CAD $51,116) prepayment and agreed to an additional USD $40,000 payment to be made by June 30, 2022. In addition, EPS agreed to pay to the Company either a USD $10,000 payment or an additional USD $20,000 in common shares of the Borrower at CAD $0.20 per share by February 28, 2022, at the election EPS. On February 28, 2022, EPS elected to issue the Company 50,880 common shares at a deemed price of CAD $0.50 per share (post 2.5 to 1 share consolidation).

The loan receivable is now past due and in default. The Company continues to work with EPS to obtain a mutually satisfactory settlement of the outstanding balance. During the year ended December 31, 2022, an impairment loss of CAD $326,750 *(Note 16)* was recognized to adjust the carrying value of the loan receivable to its estimated fair value of CAD $464,237 at December 31, 2022 (see Note 24).

During the year ended December 31, 2022, a gain of CAD $104,766 (2021 – loss of $88,827) was recognized on the loan receivable related to the foreign exchange impact on changes in the US dollar.

Note 10 – Goodwill

	December 31 2022 $	December 31 2021 $
Balance, beginning of year	-	-
Acquisition *(Note 5)*	**1,748,458**	-
Balance, end of year	**1,748,458**	-

In accordance with its accounting policies, the Company conducts a goodwill impairment test in the fourth quarter of each fiscal year, or more frequently if circumstances indicate that impairment may have occurred. The Company allocates goodwill to its CGU(s). The CGU(s) are defined as the smallest identifiable group of assets that generate cash inflows that are largely independent of the cash inflows from other assets or groups of assets. Other factors are also considered, including how management monitors the Company's operations. The Company has determined that it currently operates in one CGU.

Note 10 – Goodwill, continued

At December 31, 2022, the Company performed its annual impairment tests for goodwill and concluded that there was no impairment of goodwill as the recoverable amounts of its CGU(s) were higher than the carrying amounts. Herbal Dispatch determines the recoverable amount for its CGU(s) on the basis of fair value less costs to sell (FVLCS). The FVLCS was determined by discounting the expected future cash flows generated from the Company's continuing use of its CGU(s). The discounted cash flow model calculates the present value of the estimated future cash flows of the CGU(s).

Estimating future cash flows requires judgment, considering past and actual performance as well as expected developments in the Company's market and in the overall macro-economic environment. The calculation of FVLCS was based on the following key assumptions:

- Cash flows were projected based on experience, actual operating results and the business plan forecasts for the next four years;
- The terminal growth rate was estimated to be 2.0% and was based on management's best estimate of the long-term growth rate of its CGU after the forecast period, considering future economic forecasts;
- The discount rate of 27.8% reflects the size, risk profile and circumstances of the Company and is based on experience and the industry-weighted average cost of capital; and
- The tax rates used in determining the future cash flows are those substantively enacted at the valuation date.

Management believes that the methodology used to identify CGU(s) and test impairment of goodwill, which involves a significant number of judgments and estimates, provides a reasonable basis for determining whether an impairment loss has occurred. Many of the factors used in determining whether or not goodwill is impaired are outside of management's control and inherently uncertain. Therefore, actual results could differ from those estimated. As well, it is reasonably likely that assumptions and estimates will change in future periods that could have a significant impact on the recoverable amount of a CGU, which could result in an impairment loss.

Note 11 – Obligations under right-of-use lease

The Company recognizes obligations under right of use leases, which represent the present value of future lease payments due pursuant to real property leases. At December 31, 2022, there were no obligations under right of use leases as the applicable lease expired. At December 31, 2021, obligations under right of use leases had interest at annual rates of 4.25% per annum and were repayable in monthly blended principal and interest payments of $12,680, which matured December 2022. These lease liabilities correspond with right of use assets with a net book value of $nil at December 31, 2022 (December 31, 2021 - $105,072). During the year ended December 31, 2022, the Company recognized $123,081 of depreciation related to right of use assets (December 31, 2021 - $138,869).

(Expressed in Canadian Dollars)

Note 11 – Obligations under right-of-use lease, continued

Future minimum lease payments required over the five years for obligations under right of use leases were as follows:

	December 31 2022 $	December 31 2021 $
Within one year	**-**	115,782
Thereafter	**-**	-
Total minimum lease payments	**-**	115,782
Less: amount representing interest	**-**	(4,720)
Present value of minimum lease payments	**-**	111,062
Less: current portion	**-**	(111,062)
	-	-

Note 12 – Loans payable

	December 31 2022 $	December 31 2021 $
Debenture A	**434,864**	427,339
Debenture B	**457,033**	-
CEBA loan	**40,000**	-
	981,897	427,339
Less: current portion	**(474,864)**	-
	457,033	427,339

Note 12 – Loans payable, continued

Debenture A

The Company has an outstanding unsecured convertible debenture in the principal amount of $438,000 (the "Debenture A") owing to a company controlled by a director and shareholder of the Company. The Debenture A matures on May 23, 2023 and is convertible into 17,520,000 Common shares of the Company at the election of the shareholder at any time, and at the Company's election, during any period where the 20-day weighted average trading price of the Company's common shares is $0.10 or greater.

The Debenture A was discounted to its net present value using a coupon rate of 6% and a yield rate of 8%. The original debt discount balance of $22,576 is being amortized over the term of the note using the effective interest rate.

Debentures B

In August 2022, the Company issued new convertible debentures (the "Debentures B") with a principal amount of $500,000 in conjunction with the acquisition of NG Biomed (*Note 5*). The Debentures B have an annual coupon rate of 10% per annum, payable monthly, and mature on December 31, 2024. The Debentures B are also convertible, at the holder's option, into common shares of the Company at $0.025 per share, and at the Company's election, during any period where the trading price of the Company's common shares is $0.05 or greater for a period of 20 consecutive trading days.

The Debentures B were discounted to their net present value using a coupon rate of 10% and a yield rate of 15%. The original debt discount balance of 48,964 is being amortized over the term of the debentures using the effective interest rate.

CEBA loan

In conjunction with the NG Biomed acquisition, the Company assumed a loan received from the Canada Emergency Business Account ("CEBA"). The CEBA loan bears no interest until January 1, 2024 and then at 5.0% per annum thereafter. The CEBA loan matures on December 31, 2025. Assuming the CEBA loan is repaid prior to December 31, 2023, the Company anticipates that a portion of the CEBA loan will be forgiven. The Company has recorded the CEBA loan at $40,000, representing its original issue amount of $60,000 less expected loan forgiveness amount of $20,000 as the Company expects to repay the CEBA loan prior to December 31, 2023.

(Expressed in Canadian Dollars)

Note 13 – Share capital

Authorized – Unlimited common shares with no par value	Number of shares	Amount $
Issued and outstanding at December 31, 2020	390,083,032	72,046,643
Activity during the year ended December 31, 2021:		
Shares issued – exercise of restricted shares	13,300,000	313,500
Shares issued – exercise of stock options	500,000	17,100
Shares issued – private placement	27,656,000	331,872
Issued and outstanding at December 31, 2021	431,539,032	72,709,115
Activity during the year ended December 31, 2022:		
Shares issued – services rendered	983,500	14,752
Shares issued – NG Biomed (*Note 5*)	161,025,193	2,415,378
Shares issued – Herbal Dispatch (*Note 5*)	140,000,000	1,605,000
Issued and outstanding at December 31, 2022	**733,547,725**	**76,744,245**

During the year ended December 31, 2022, the Company issued 983,500 common shares at a deemed price of $0.015 per share to Camilla Advisory Group Inc., as payment for past services rendered to the Company by the Company's Chief Financial Officer.

In November 2021, the Company completed a non-brokered private placement of 27,656,000 units at a price of $0.021 per unit for gross proceeds of $580,776. Each unit consisted of one common share of the Company and one common share purchase warrant. Of the total gross proceeds, $331,872 was allocated to the common shares with the remainder allocated to the value of the share purchase warrants.

During the year ended December 31, 2021, 13,300,000 common shares were issued pursuant to the exercise of restricted share units and 500,000 common shares were issued pursuant to the exercise of stock options (*Note 15*).

(Expressed in Canadian Dollars)

Note 14 – Share purchase warrants

	Amount	Weighted Average Exercise Price per Share $
Balance as at December 31, 2020	100,428,742	0.038
Warrants issued	27,656,000	0.050
Warrants expired	(88,428,742)	0.050
Balance as at December 31, 2021	39,656,000	0.042
Warrants issued – NG Biomed (*Note 5*)	6,172,001	0.150
Warrants expired	(12,000,000)	(0.025)
Balance as at December 31, 2022	**33,828,001**	**0.068**

Pursuant to the completion of the NG Biomed acquisition, the Company granted to the vendors 6,172,001 share purchase warrants, each entitling the holder to acquire one common share at an exercise price of $0.15 per common share. The share purchase warrants expire on December 31, 2023. The fair value of the warrants issued were calculated using the Black-Scholes option pricing model using the following assumptions: stock price volatility – 292%, risk free interest rate – 3.24%, dividend yield - $0.00%, and expected life of 16.5 months.

In November 2021, the Company completed a non-brokered private placement of 27,656,000 units for gross proceeds of $580,776. Each unit consisted of one common share of the Company and one common share purchase warrant. Each warrant will entitle the holder thereof to acquire a common share of the Company at a price of $0.05, expiring on October 26, 2024. The fair value of the warrants at the date of grant was estimated to be $248,904 based on the following weight average assumptions: stock price volatility – 100%, risk free rate – 1.39%, dividend yield – 0.00% and expected life of 36 months.

The following table summarizes the warrants that were outstanding as at December 31, 2022:

Exercise Price	Number of Warrants	Expiry Date
$0.05	27,656,000	October 26, 2024
$0.15	6,172,001	December 31, 2023

(Expressed in Canadian Dollars)

Note 15 – Share-based compensation

The Company has adopted a stock option plan and a restricted share unit ("RSU") plan for the benefit of its directors, officers, employees and other key personnel. The stock option plan provides that the option terms and price shall be fixed by the directors subject to the price restrictions and other requirements of the Exchange. Common shares reserved for issuance pursuant to the RSU plan and the stock option plan, on a combined basis, shall not exceed 10% of the Company's issued and outstanding common shares, from time to time.

Stock options

The Company recorded the following activity related to stock options during the year ended December 31, 2022:

	Amount	Exercise Price per Share $
Balance, December 31, 2020	4,000,000	0.02
Stock options forfeited	(1,500,000)	0.02
Stock options exercised	(500,000)	0.02
Balance, December 31, 2021	2,000,000	0.02
Stock options forfeited	(1,600,000)	0.02
Balance, December 31, 2022	**400,000**	**0.02**

The outstanding 400,000 stock options expire on July 28, 2025. Of this amount, 300,000 stock options were vested and exercisable at December 31, 2022.

Restricted share units

During the year ended December 31, 2022, the Board of Directors cancelled all of the outstanding RSUs, which resulted in a net recovery of previously recognized share-based compensation expense of $3,241 (2021 - $317,570 expense). As at December 31, 2022, no RSUs were outstanding (December 31, 2021 – 900,000 RSUs outstanding).

(Expressed in Canadian Dollars)

Note 16 – Impairment

	December 31 2022 $	December 31 2021 $
Impairment of loan receivable	**326,750**	
Impairment of assets held for sale	**937,694**	-
Impairment of inventory	**323,780**	-
Impairment of assets	**1,588,224**	-

During the year ended December 31, 2022, an impairment loss of $326,739 was recognized to adjust the carrying value of the EPS loan receivable *(Note 9)* to its estimated fair value.

In July 2022, the Company entered into a definitive agreement to sell certain assets and licenses at its Portland Oregon facility for cash consideration of USD $120,000. As a result, during the year ended December 31, 2022, the Company recognized an impairment loss of $937,694 to reduce the carrying amount of the disposed assets to their estimated net realizable value. In addition, the Company recognized an impairment to inventory of $323,780 to reduce the value of its inventory located in the United States to its net realizable value.

Note 17 – Supplemental cash flow information

	December 31 2022 $	December 31 2021 $
Income taxes paid	**-**	14,496
Interest paid	**47,878**	258,274

Note 18 – Segmented information

The Company generates revenue in one reportable segment: cannabis and cannabis related products, and its activities were conducted in two geographic locations: Canada and the United States. All activities in both geographical locations as well as all material assets and liabilities are related to cannabis and cannabis related products. In the comparative periods ended December 31, 2021, the Company only generated revenue in the United States. All property, plant and equipment (classified as held for sale) in December 31, 2021 was held in the United States. The Company expanded its sales into Canada in September 2022 following the acquisition of NG Biomed (*Note 5*).

(Expressed in Canadian Dollars)

Note 18 – Segmented information, continued

Selected financial information by geographic location is disclosed as follows:

	December 31 2022 $	December 31 2021 $
Net revenue		
Canada	**192,593**	-
United States	**126,170**	684,238
	318,763	684,238

As at December 31, 2022	**Canada $**	**United States $**	**Total $**
Property, plant and equipment	73,890	-	**73,890**
Intangible assets	3,342,463	-	**3,342,463**
Goodwill	1,748,458	-	**1,748,458**

Subsequent to December 31, 2022, the Company discontinued sales in the United States.

Note 19 – Related party transactions

Balances and transactions between the Company and its wholly owned and controlled subsidiaries have been eliminated on consolidation and are not disclosed in this note. Details of the transactions between the Company and other related parties are disclosed below:

	December 31 2022 $	December 31 2021 $
Salaries, benefits and management fees	**241,129**	683,609
Directors' fees	**105,184**	114,000
Share based compensation	**-**	317,570
Total compensation to key management	**346,313**	1,115,179

The amounts disclosed in the table are the amounts recognized as an expense related to key management personnel and directors during the respective reporting periods.

During the year ended December 31, 2022, the Company incurred interest expense of $26,270 (year ended December 31, 2021 - $26,270) related to a convertible debenture owing to a director and shareholder of the Company.

(Expressed in Canadian Dollars)

Note 20 – Income taxes

Deferred income taxes reflect the tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax values. The unrecognized deductible temporary differences were as follows:

	December 31 2022 $	December 31 2021 $
Property, plant and equipment and intangible assets	**(460,222)**	213,670
Investments	**-**	(81,555)
Loan receivable	**-**	21,287
Right of use assets and other	**6,788**	(1,167)
Losses carried forward	**19,968,123**	15,750,840
	19,514,689	15,903,075
Unrecognized deferred tax asset	**(19,514,689)**	(15,903,075)
Deferred tax asset	**-**	-

The Company had non-capital loss carry-forwards of approximately $70.5 million at December 31, 2022 ($56.6 million at December 31, 2021), which may be carried forward to apply against future year income tax for Canadian income tax purposes, subject to final determination by taxation authorities, expiring between 2036 and 2042.

The Company had non-capital loss carry-forwards of approximately $9.4 million at December 31, 2022 ($6.4 million at December 31, 2021), which may be carried forward to apply against future year income tax for US income tax purposes, subject to final determination by taxation authorities, expiring between 2036 and 2042.

(Expressed in Canadian Dollars)

Note 20 – Income taxes, continued

The following table reconciles the expected income tax expense (recovery) at the estimated effective tax rate to the amounts recognized in the consolidated statements of operations for the years ended December 31, 2022 and 2021.

	December 31 2022 $	December 31 2021 $
Loss before income taxes	**(4,578,024)**	(2,381,256)
Statutory tax rate	**25.00%**	25.00%
Expected income tax expense (recovery)	**(1,144,506)**	(595,314)
Increase (decrease) related to:		
Non-deductible items	**28,866**	141
Other	**36,977**	14,496
Deferred income tax assets not recognized	**1,115,640**	595,173
Total income tax expense	**36,977**	14,496

Note 21 – Operating Expenses

	December 31 2022 $	December 31 2021 $
General and Administrative	**1,692,271**	2,089,092
Personnel	**714,593**	1,087,638
Professional service fees	**615,113**	594,907
Other operating expenses	**362,565**	406,547
Sales and Marketing	**639,687**	806,475
Advertising, promotions and selling costs	**563,173**	691,007
Personnel	**76,514**	115,468

(Expressed in Canadian Dollars)

Note 22 – Interest and Other

	December 31 2022 $	December 31 2021 $
Interest revenue	**(83,968)**	(125,458)
Interest expense	**52,894**	296,826
Other	**(22,337)**	(104,487)
Total interest and other	**(53,411)**	66,881

Note 23 – Capital Management

The Company's objectives when managing capital are to ensure that there are adequate capital resources to safeguard the Company's ability to continue as a going concern and to maintain adequate levels of funding to support its ongoing operations and development. The Company's capital consists of items included in shareholders' equity and debt, which was as follows:

	December 31 2022 $	December 31 2021 $
Current portion of right of use lease	**-**	111,062
Current portion of loans payable	**474,864**	-
Loans payable	**457,033**	427,339
Funded debt	**931,897**	538,401
Shareholders' equity	**6,277,082**	6,483,417
Total capital	**7,208,979**	7,021,818

The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the Company's underlying assets. In order to maintain or adjust its capital structure, the Company may issue new shares or seek additional debt financing to ensure that it has sufficient working capital to meet its short-term business requirements.

(Expressed in Canadian Dollars)

Note 24 – Financial Instruments

The financial instruments recognized on the consolidated statement of financial position are comprised of cash and cash equivalents, trade and other receivables, investments, loan receivable, trade and other payables, acquisition consideration payable, right of use lease liabilities and loans payable.

Fair value

The carrying values of cash and cash equivalents, trade and other receivables, trade and other payables and acquisition consideration payable approximate their fair values due to the short-term nature of these instruments.

In evaluating fair value information, considerable judgment is required to interpret the market data used to develop the estimates. The use of different market assumptions and different valuation techniques may have a material effect on the estimated fair value amounts. Accordingly, the estimates of fair value presented herein may not be indicative of the amounts that could be realized in a current market exchange.

Fair value measurements of investments, loan receivable, and loans payable are as follows:

		Fair Value Measurements		
	Carrying Amount	Level 1	Level 2	Level 3
	$	$	$	$
December 31, 2022				
Investments	199,012	-	-	199,012
Loan receivable	464,237	-	-	464,237
Loans payable	931,897	-	931,897	-
December 31, 2021				
Investments	754,422	14,422	-	740,000
Loan receivable	686,221	-	686,221	-
Loans payable	427,339		427,339	-

Level 1 – unadjusted quoted prices in active markets for identical assets or liabilities. An active market for an asset or liability is a market in which transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an ongoing basis.

> As at December 31, 2021, the Company measured its investment in Golden Ridge Resources Ltd. at Level 1 fair value. The company sold this investment during the year ended December 31, 2022 for net proceeds of $7,657.

Level 2 – quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

> As at December 31, 2022 and December 31, 2021, the Company measured its loans payable at Level 2 fair value as there is no active market for these items. The Company also measured its loan to EPS at Level 2 fair value at December 31, 2021. At December 31, 2022, the Company transferred is loan receivable to Level 3 fair value.

Note 24 – Financial Instruments, continued

Level 3 – unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

> The loan receivable and investment in EPS are measured at fair value, but as the investments are privately held and there is no quoted market price for its common shares, fair value was estimated using Level 3 inputs.

At December 31, 2022, the Company transferred its loan receivable from Level 2 to Level 3 due to the change in circumstances pertaining to the loan receivable and less financial information being available to the Company. At December 31, 2022, EPS was in default of the loan receivable and the uncertainty related to the timing and amount of collection of this loan receivable has increased.

The fair value of the investment in EPS was estimated based on data related to the valuation of the investee's intellectual property and the Company's pro-rata share of its investment pertaining to the intellectual property, net of all liabilities. The fair value of the loan receivable from EPS was measured utilizing several assumptions related to the uncertainty of collection and the time it will take to eventually collect the loan receivable from either EPS or its guarantors. The loan receivable, net of collection costs, was discounted to its fair value utilizing an estimated discount rate of 18.0% per annum.

Risk Management
The Company is exposed to risks of varying degrees of significance from its use of financial instruments which could affect its ability to achieve its strategic objectives for growth and stakeholder returns. The principal risks to which the Company is exposed, and the actions taken to manage them, are described below.

Credit Risk
Credit risk is the risk of a potential loss to the Company if a customer or third party to a financial instrument fails to meet its contractual obligations. The Company is moderately exposed to credit risk from its cash and cash equivalents and trade and other receivables. The risk exposure is limited to their carrying amounts at the balance sheet date. The risk is mitigated by holding cash and cash equivalents with highly rated financial institutions. The Company does not invest in asset-backed deposits or investments and does not expect any credit losses. Trade and other receivables primarily consist of trade accounts receivable and Goods and Services Tax recoverable ("GST").

The Company provides credit to its customers in the normal course of business and has established credit evaluation and monitoring processes to mitigate credit risk but has limited risk as the majority of sales are transacted with credit cards.

The Company is exposed to significant credit risk associated with its loan receivable from EPS. As discussed above, EPS was in default of the loan receivable at December 31, 2022 and the loan is now past due. The Company continues to work with EPS to obtain a mutually satisfactory settlement of the outstanding balance.

Note 24 – Financial Instruments, continued

Interest Rate Risk

Interest rate risk is the risk that the value of a financial instrument and associated cash flows might be adversely affected by a change in interest rates. In seeking to minimize the risks from interest rate fluctuations, the Company manages exposure through its normal operating and financing activities. The Company has obtained primarily fixed rate debt which limits its exposure to interest rate fluctuations.

Liquidity Risk

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

At December 31, 2022 the undiscounted contractual obligations related to financial liabilities were as follows:

	Less than 1 year $	1-5 Years $	Total $
Accounts payable and accrued liabilities	551,785	-	**551,785**
Acquisition consideration payable	141,870	-	**141,870**
Loans payable	478,000	500,000	**978,000**

Foreign Currency Risk

The Company is exposed to foreign currency risk in relation to its loan receivable and a portion of its cash and cash equivalents, which are denominated in USD. Based on the balances of cash and loan receivables denominated in USD at December 31, 2022, a 5% increase or decrease in the exchange rate would result in a foreign currency gain or loss of $31,300. As at December 31, 2022, the Company held cash and cash equivalents denominated in USD of USD $106,265.

Note 25 – Subsequent events

Subsequent to December 31, 2022, the Company entered into a new five-year lease agreement for a property, commencing February 1, 2023, which resulted in a right of use asset and liability of $631,193 being recognized.

In April 2023, the Company completed the acquisition of certain assets related to the Golden Spruce cannabis brand. The Company issued 2,250,000 common shares in consideration for the acquisition. An additional 750,000 common shares are contingently issuable should certain future revenue targets be achieved from the sale of Golden Spruce branded cannabis products.