# HERBAL DISPATCH INC.

**Condensed Interim Consolidated Financial Statements**

**Three and Six Months Ended June 30, 2024**
(Expressed in Canadian dollars)

## NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the unaudited interim consolidated financial statements, they must be accompanied by a notice indicating that the unaudited interim consolidated financial statements have not been reviewed by an auditor.

The accompanying unaudited condensed interim consolidated financial statements of the Company have been prepared by and are the responsibility of the Company's management. The unaudited condensed interim consolidated financial statements have been prepared using accounting policies in compliance with International Financial Reporting Standards for the preparation of unaudited interim consolidated financial statements and are in accordance with International Accounting Standard 34 - Interim Financial Reporting.

The Company's independent auditor has not performed a review of these unaudited condensed interim consolidated financial statements in accordance with standards established by the Chartered Professional Accountants of Canada for a review of interim financial statements by an entity's auditor.

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## Herbal Dispatch Inc.

### Condensed Interim Consolidated Statements of Financial Position

(unaudited)

*(expressed in Canadian dollars)*

| | June 30, 2024 | Dec 31, 2023 |
|---|---|---|
| **Assets** | | |
| Current assets | | |
| Cash | $ 635,413 | $ 222,392 |
| Trade and other receivables | 950,563 | 704,318 |
| Prepaid expenses and deposits | 159,879 | 139,131 |
| Inventory | 2,022,806 | 1,242,439 |
| Total current assets | 3,768,661 | 2,308,280 |
| Long-term assets | | |
| Property, plant & equipment | 62,909 | 58,533 |
| Intangible assets | 2,976,104 | 3,102,828 |
| Right of use asset *(Note 3)* | 452,355 | 515,474 |
| Loan receivable (*Note 12*) | 467,850 | 453,357 |
| Goodwill | 1,748,458 | 1,748,458 |
| **Total assets** | **$ 9,476,337** | **$ 8,186,930** |
| **Liabilities and shareholders' equity** | | |
| Current liabilities | | |
| Accounts payable and accrued liabilities | $ 3,811,582 | $ 2,197,075 |
| Deferred revenue | 267,118 | 90,900 |
| Income taxes payable | - | 38,598 |
| Current portion of right of use lease *(Note 3)* | 114,910 | 107,114 |
| Loans payable *(Note 4)* | 935,568 | 140,000 |
| Total current liabilities | 5,129,178 | 2,573,687 |
| Long-term liabilities | | |
| Right of use lease *(Note 3)* | 378,409 | 438,357 |
| Loans payable *(Note 4)* | 60,000 | 933,645 |
| Total liabilities | 5,567,587 | 3,945,689 |
| Shareholders' equity | | |
| Share capital *(Note 5)* | 77,167,778 | 76,760,128 |
| Contributed surplus | 3,635,443 | 3,635,443 |
| Accumulated other comprehensive loss | (821,492) | (820,310) |
| Deficit | (76,072,979) | (75,334,020) |
| Total shareholders' equity | 3,908,750 | 4,241,241 |
| **Total liabilities and shareholders' equity** | **$ 9,476,337** | **$ 8,186,930** |

## Herbal Dispatch Inc.
### Condensed Interim Consolidated Statements of Operations
(unaudited)
*(expressed in Canadian dollars)*

| | For the three months ended | | For the six months ended | |
|---|---|---|---|---|
| | **June 30 2024** | **June 30 2023** | **June 30 2024** | **June 30 2023** |
| Revenue: | | | | |
| Sales | $ 4,270,034 | $ 1,384,940 | $ 5,907,644 | $ 1,768,041 |
| Excise duties | (622,405) | (226,001) | (988,832) | (313,784) |
| Net revenue: | 3,647,629 | 1,158,939 | 4,918,812 | 1,454,257 |
| Cost of sales | 2,695,068 | 890,224 | 3,852,311 | 1,156,352 |
| Gross profit | 952,561 | 268,715 | 1,066,501 | 297,905 |
| Expenses: | | | | |
| General and administration (Note 10) | 542,514 | 477,358 | 1,086,595 | 937,289 |
| Selling and marketing (Note 10) | 257,050 | 139,890 | 455,427 | 282,994 |
| Depreciation & amortization | 100,997 | 100,322 | 201,530 | 189,595 |
| | 900,561 | 717,570 | 1,743,552 | 1,409,878 |
| Income (loss) from operations | 52,000 | (448,855) | (677,051) | (1,111,973) |
| Other expenses (income) | | | | |
| Interest and other | 45,107 | 34,481 | 93,198 | 48,819 |
| Gain on extinguishment of debt | (39,912) | (103,543) | (19,912) | (103,543) |
| (Gain) loss on foreign exchange | (12,726) | 11,531 | (13,301) | 13,264 |
| Accretion expense | 980 | 10,341 | 1,923 | 16,919 |
| | (6,551) | (47,190) | 61,908 | (24,541) |
| **Net income (loss)** | **58,551** | **(401,665)** | **(738,959)** | **(1,087,432)** |
| Other comprehensive loss | | | | |
| Currency translation adjustment | (382) | (2,012) | (1,182) | (2,671) |
| Comprehensive income (loss) | $ 58,169 | $ (403,677) | $ (740,141) | $ (1,090,103) |
| Basic and diluted loss per share | $ 0.00 | $ (0.01) | $ (0.01) | $ (0.02) |
| Weighted average number of common shares outstanding | 78,465,743 | 64,618,019 | 76,060,086 | 62,995,410 |

## Herbal Dispatch Inc.

### Consolidated Statements of Shareholders' Equity

(unaudited)

*(expressed in Canadian Dollars)*

| | Common Shares | | Contributed Surplus | Accumulated other comprehensive loss | Deficit | Shareholder's Equity |
|---|---|---|---|---|---|---|
| | Number | $ | $ | $ | $ | $ |
| **Balance, December 31, 2022** | **73,354,562** | **76,744,245** | **3,614,977** | **(819,430)** | **(73,262,710)** | **6,277,082** |
| Shares issued - acquisitions | 273,137 | 15,883 | - | - | - | 15,883 |
| Issuance of convertible debenture | - | - | 20,466 | - | - | 20,466 |
| Currency translation adjustment | - | - | - | (880) | - | (880) |
| Net loss for the period | - | - | - | - | (2,071,310) | (2,071,310) |
| **Balance, December 31, 2023** | **73,627,699** | **76,760,128** | **3,635,443** | **(820,310)** | **(75,334,020)** | **4,241,241** |
| Shares issued – private placement | 8,153,000 | 407,650 | - | - | - | 407,650 |
| Currency translation adjustment | - | - | - | (1,182) | - | (1,182) |
| Net loss for the period | - | - | - | - | (738,959) | (738,959) |
| **Balance, June 30, 2024** | **81,780,699** | **77,167,778** | **3,635,443** | **(821,492)** | **(76,072,979)** | **3,908,750** |

## Herbal Dispatch Inc.

### Condensed Interim Consolidated Statements of Cash Flows

(unaudited)

*(expressed in Canadian Dollars)*

| | For the six months ended | |
|---|---|---|
| | **June 30 2024** | **June 30 2023** |
| Cash provided by (used in): | | |
| **Operating activities:** | | |
| Net loss for the period | $ (738,959) | $ (1,087,432) |
| Items not affecting cash: | | |
| Depreciation & amortization | 201,530 | 189,595 |
| Gain on extinguishment of debt | (19,912) | (103,543) |
| (Gain) loss on foreign exchange | (13,301) | 13,264 |
| Accretion expense | 1,923 | 16,919 |
| Changes in non-cash working capital balances: | | |
| Trade and other receivables | (246,245) | 31,724 |
| Prepaid expenses and deposits | (20,749) | (34,188) |
| Inventory | (780,367) | (349,552) |
| Accounts payable and accrued liabilities | 1,614,507 | 581,181 |
| Deferred revenue | 176,218 | 85,248 |
| **Cash provided by (used in) operating activities** | **174,645** | **(656,784)** |
| Investing activities: | | |
| Purchase of property, plant and equipment | (16,063) | (6,337) |
| **Cash used in investing activities** | **(16,063)** | **(6,337)** |
| Financing activities: | | |
| Advances of loans payable | 100,000 | - |
| Repayment of loans payable | (200,000) | - |
| Repayment of acquisition consideration payable | - | (35,920) |
| Issuance of common shares | 407,650 | - |
| Repayment of right of use lease liability | (52,152) | (38,121) |
| **Cash provided by (used in) financing activities** | **255,498** | **(74,041)** |
| Increase in cash | 414,080 | (737,162) |
| Effect of exchange rate changes on cash | (1,059) | (2,081) |
| Cash, beginning of period | 222,392 | 1,203,594 |
| **Cash, end of period** | **$ 635,413** | **$ 464,351** |

## Note 1 – Nature of Operations and Going Concern

Herbal Dispatch Inc. ("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 condensed interim 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. For the six months ended June 30, 2024, the Company incurred a net loss of $738,959 ($1,087,432 net loss for the six months ended June 30, 2023). The Company also had a negative working capital balance of $1,360,517 (December 31, 2023 – negative $265,407). 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 – Basis of Preparation

a) Statement of compliance and basis of presentation

These unaudited condensed interim consolidated financial statements for the three and six months ended June 30, 2024, have been prepared in accordance with International Accounting Standard ("IAS") 34, Interim Financial Reporting, as issued by the International Accounting Standards Board ("IASB"). The unaudited condensed interim consolidated financial statements do not include all of the information required for full annual financial statements and should be read in conjunction with the annual financial statements for the year ended December 31, 2023, which have been prepared in accordance with IFRS.

The condensed interim consolidated financial statements were authorized for issue by the Board of Directors on August 21, 2024.

These unaudited condensed interim consolidated financial statements follow the same accounting policies and methods of application as the consolidated financial statements as at and for the year ended December 31, 2023. These consolidated financial statements are presented in Canadian dollars, which is the Company's functional currency.

(Expressed in Canadian Dollars)

## Note 2 – Basis of Preparation, continued

b) Basis of consolidation

These consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. The Company's current active subsidiaries include Rosebud Productions Inc. and Coco Pure Beverage Corp. All inter-company balances and transactions have been eliminated on consolidation.

## Note 3 - Obligations Under Right-of-Use Lease

During the year ended December 31, 2023, the company entered into a five-year lease agreement for a property, which resulted in a right of use asset and liability of $631,193 being recognized. The Company recognizes its obligations under the right of use lease at the present value of future lease payments due. The obligations under the right of use lease at June 30, 2024 incurs interest at an annual rate of 8.7% per annum and is repayable in current monthly blended principal and interest payments of $12,572, and maturing in January 2028. The lease liability corresponds with a right of use asset with a net book value of $452,355 at June 30, 2024 (December 31, 2023 - $515,474).

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

| | **June 30 2024 $** | December 31 2023 $ |
|---|---|---|
| Within one year | **153,382** | 150,385 |
| Thereafter | **424,667** | 502,616 |
| Total minimum lease payments | **578,049** | 653,001 |
| Less: amount representing interest | **(84,730)** | (107,530) |
| Present value of minimum lease payments | **493,319** | 545,471 |
| Less: current portion | **(114,910)** | (107,114) |
| | **378,409** | 438,357 |

(Expressed in Canadian Dollars)

## Note 4 – Loans Payable

| | **June 30 2024 $** | December 31 2023 $ |
|---|---|---|
| Debenture A | **435,568** | 433,645 |
| Debenture C | **500,000** | 500,000 |
| Other loans | **-** | 100,000 |
| CEBA loan | **60,000** | 40,000 |
| | **995,568** | 1,073,645 |
| Less: current portion | **(935,568)** | (140,000) |
| | **60,000** | 933,645 |

**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 has a coupon rate of 14% per annum, payable monthly, and matures on January 31, 2025. The Debenture A is convertible, at the holder's option into common shares of the Company at $0.50 per share, and at the Company's election, during any period where the trading price of the Company's common shares is $1.00 or greater for a period of 20 consecutive trading days.

The Debenture A was discounted to its net present value using a yield rate of 15%. The debt discount balance of $20,466 is being amortized over the term of the note using the effective interest rate.

**Debenture C**

The company has an outstanding unsecured convertible debenture (the "Debenture C") with a principal amount of $500,000 owing to a director and shareholder of the Company. The Debenture C has an annual coupon rate of 14% per annum, payable monthly, and matures on January 31, 2025. The Debenture C is convertible, at the holder's option into common shares of the Company at $0.50 per share, and at the Company's election, during any period where the trading price of the Company's common shares is $1.00 or greater for a period of 20 consecutive trading days.

**Other loans**

In October 2023, the Company received a short-term loan in the amount of $100,000 from a director and shareholder of the Company to support its working capital needs. The loan incurred interest at an annual rate of 14% per annum, payable monthly, and matured on the earlier of (i) October 31, 2024; and (ii) within 30 days of a redemption notice being issued to the Company by the holder. In May 2024, the loan was extinguished with the proceeds used to subscribe for Units under the Company's May 2024 equity private placement.

(Expressed in Canadian Dollars)

## Note 4 – Loans Payable, continued

In March 2024, the Company received $100,000 from the President & CEO of the Company. This advance was non-interest bearing and had no terms of repayment. The advance was extinguished in May 2024 with the proceeds used to subscribe for Units under the Company's May 2024 equity private placement.

### CEBA loan

In conjunction with a business acquisition, the Company assumed a loan received from the Canada Emergency Business Account ("CEBA"). The CEBA loan bears interest at 5.0% per annum beginning January 18, 2024. The Company had originally recorded the CEBA loan at $40,000, representing its original issue amount of $60,000 less the expected loan forgiveness amount of $20,000. However, in March 2024, the Company decided not to repay the loan by the March 28, 2024 deadline, thereby extending the maturity date until December 31, 2026. As the Company no longer qualifies for partial loan forgiveness, a loss on settlement of debt in the amount of $20,000 was recognized during the six months ended June 30, 2024.

## Note 5 – Share Capital

| *Authorized – Unlimited common shares with no par value* | **Number of shares** | **Amount $** |
|---|---|---|
| Issued and outstanding at December 31, 2023 | 73,627,699 | 76,760,128 |
| Activity during the six months ended June 30, 2024: | | |
| Shares issued – private placement | 8,153,000 | 407,650 |
| **Issued and outstanding at June 30, 2024** | **81,780,699** | **77,167,778** |

### Share consolidation

On February 23, 2024, the Company consolidated the common shares issued in the capital of the Company on the basis of 10 pre-consolidated common shares for 1 post-consolidated common share. As a result, the number of shares outstanding have been adjusted and restated for all periods presented to reflect the effect of the share consolidation.

The Company's outstanding warrants, options, and other convertible securities have also been adjusted on the same basis with respect to the underlying common shares exercisable pursuant to the warrants, options, and other convertible securities, with proportionate adjustments being made to applicable exercise or conversion prices, as applicable.

(Expressed in Canadian Dollars)

## Note 5 – Share Capital, continued

**Equity private placement**

On May 8, 2024, the Company completed a non-brokered equity private placement ("Private Placement") of 8,153,000 units (each a “Unit”) for gross proceeds of $407,650. Each Unit consisted of one common share and one common share warrant (a “Warrant”) with each Warrant entitling the holder thereof to acquire one common share for a period of two years at an exercise price of $0.06 per common share. Proceeds from the Private Placement are being used for working capital in support of the Company’s growth.

## Note 6 – Share Purchase Warrants

| | Amount | Weighted Average Exercise Price per Share $ |
|---|---|---|
| Balance as at December 31, 2023 | 2,765,600 | 0.50 |
| Warrants issued – private placement *(Note 5)* | 8,153,000 | 0.06 |
| **Balance as at June 30, 2024** | **10,918,600** | **0.17** |

The following table summarizes the warrants that were outstanding as at June 30, 2024:

| Exercise Price | Number of Warrants | Expiry Date |
|---|---|---|
| $0.50 | 2,765,000 | October 26, 2024 |
| $0.06 | 8,153,000 | May 8, 2026 |

## Note 7 – 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.

The Company recorded the following activity related to stock options during the six months ended June 30, 2024:

| | Amount | Exercise Price per Share $ |
|---|---|---|
| Balance, December 31, 2023 | 40,000 | 0.20 |
| Stock options activity | - | - |
| **Balance, June 30, 2024** | **40,000** | **0.20** |

The outstanding 40,000 stock options expire on July 28, 2025 and were fully vested at June 30, 2024.

(Expressed in Canadian Dollars)

## Note 8 – Segmented Information

The Company generates revenue in one reportable segment: cannabis and cannabis related products. All of the Company's business activities, property and equipment, intangible assets and goodwill are located in Canada. Disaggregated revenue information by sales channel is disclosed as follows:

| | Three months ended | | Six months ended | |
|---|---|---|---|---|
| | **June 30 2024 $** | **June 30 2023 $** | **June 30 2024 $** | **June 30 2023 $** |
| **Net revenue** | | | | |
| Direct to consumer medical sales | 336,588 | 322,991 | 706,352 | 501,470 |
| Recreational cannabis sales | 1,319,800 | 439,291 | 2,102,346 | 551,345 |
| Export sales | 1,765,800 | 364,700 | 1,765,800 | 364,700 |
| Other revenue | 225,441 | 31,957 | 344,314 | 36,742 |
| **Total net revenue** | **3,647,629** | 1,158,939 | **4,918,812** | 1,454,257 |

## Note 9 – 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:

| | Three months ended | | Six months ended | |
|---|---|---|---|---|
| | **June 30 2024 $** | June 30 2023 $ | **June 30 2024 $** | June 30 2023 $ |
| Salaries, benefits and management fees | **53,432** | 85,511 | **121,053** | 163,581 |
| Directors' fees | **26,000** | 30,000 | **56,000** | 60,000 |
| Total compensation to key management | **79,432** | 115,511 | **177,053** | 223,581 |

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 three and six months ended June 30, 2024, the Company incurred interest expense of $33,997 and $70,328 (three and six months ended June 30, 2023 - $8,759 and $15,327), respectively, related to convertible debentures owing to directors and shareholders of the Company.

(Expressed in Canadian Dollars)

### Note 10 – Operating Expenses

| | Three months ended | | Six months ended | |
|---|---|---|---|---|
| | **June 30 2024 $** | June 30 2023 $ | **June 30 2024 $** | June 30 2023 $ |
| **General and Administrative** | **542,514** | 477,358 | **1,086,595** | 937,289 |
| Personnel | **364,582** | 280,189 | **702,822** | 546,407 |
| Professional service fees | **86,805** | 131,534 | **217,084** | 266,433 |
| Other operating expenses | **91,127** | 65,635 | **166,689** | 124,449 |
| **Sales and Marketing** | **257,050** | 139,890 | **455,427** | 282,994 |
| Advertising, promotions and selling costs | **204,492** | 97,390 | **336,119** | 197,994 |
| Personnel | **52,558** | 42,500 | **119,308** | 85,000 |

### Note 11 – 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:

| | **June 30 2024 $** | **December 31 2023 $** |
|---|---|---|
| Current portion of loans payable | **935,568** | 140,000 |
| Loans payable | **60,000** | 933,645 |
| Funded debt | **995,568** | 1,073,645 |
| Shareholders' equity | **3,908,750** | 4,241,241 |
| Total capital | **4,904,318** | 5,314,886 |

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 12 – Financial Instruments

The financial instruments recognized on the consolidated statement of financial position are comprised of cash, trade and other receivables, loan receivable, accounts payable and accrued liabilities, right of use lease liabilities and loans payable.

***Fair value***

The carrying values of cash, trade and other receivables, accounts payable and accrued liabilities, 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 loan receivable and loans payable are as follows:

| | | Fair Value Measurements | | |
|---|---|---|---|---|
| | Carrying Amount | Level 1 | Level 2 | Level 3 |
| | $ | $ | $ | $ |
| **June 30, 2024** | | | | |
| Loan receivable | **467,850** | **-** | **-** | **467,850** |
| Loans payable | **995,568** | **-** | **995,568** | **-** |
| **December 31, 2023** | | | | |
| Loan receivable | 453,357 | - | - | 453,357 |
| Loans payable | 1,073,645 | - | 1,073,645 | - |

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.

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 June 30, 2024 and December 31, 2023, the Company measured its loans payable at Level 2 fair value as there is no active market for these items.

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 in Enhanced Pet Sciences Corp. ("EPS") is measured at fair value, but as the investment is privately held and there is no quoted market price for its common shares, fair value was estimated using Level 3 inputs.

There were no transfers between levels 1, 2 and 3 inputs during the three and six months ended June 30, 2024.

## Note 12 – Financial Instruments, continued

***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's exposure to credit risk from its cash is very limited as it holds its cash with highly rated financial institutions.

The Company has moderate exposure to credit risk related to its trade and other receivables. The risk exposure is limited to its carrying amount at the balance sheet date. The Company provides credit to its business customers in the normal course and has established credit evaluation and monitoring processes to mitigate this credit risk. The Company's exposure to credit risk related to direct-to-consumer sales is limited as the majority of these sales are transacted with credit cards at the time the sale is completed.

***Loan receivable from Enhanced Pet Sciences Corp. ("EPS")***

At June 30, 2024, the Company had a loan receivable owing from EPS, which consisted of a principal balance of USD $536,995 plus accrued interest, incurred at a rate of 8% per annum. At June 30, 2024, the company recognized the loan receivable at is estimated fair value of $467,850. This represented a substantial discount against the full balance owing, given the significant credit risk associated with the loan receivable and the expected time it will take to successfully collect the loan receivable from EPS. The full loan balance outstanding including accrued interest at June 30, 2024 approximated $636,000 USD ($861,000 CAD).

The loan receivable has been past due and in default since December 31, 2022. In the first quarter of 2024, the Company commenced litigation against EPS and the guarantors of the loan. As part of EPS's defence strategy, EPS then filed a counter suit against the Company in the State of Kentucky for unspecified damages pertaining to an unfulfilled lease agreement and failed negotiations related to a potential plan of arrangement between the two companies in early 2020. EPS has also alleged that the loan should be considered an advance of funds for transition steps in the plan of arrangement and not be enforceable against EPS or its guarantors.

Subsequent to June 30, 2024, the Company settled all litigation claims between the Company and EPS regarding its outstanding loan receivable owing from EPS as well as all other matters of dispute between the parties. As part of the settlement, the Company's loan receivable was replaced by a royalty agreement whereas the Company will receive royalty payments in an amount equal to five percent of all of EPS's gross sales until the Company has received total payments equal to CAD $850,000 (the Target Amount"). The royalty payments shall be made on a quarterly basis within 30 days of the end of each calendar quarter.

In conjunction with the settlement agreement, EPS also granted to the Company the right (the "Call Option") to convert any portion of the remaining royalty payments owing into up to a maximum of 1,700,000 common shares (the "Target Shares") of EPS at a deemed price of $0.50 per share (the "Strike Price"). The number of Target Shares shall be reduced by one share of stock for every Strike Price EPS has paid to the Company in royalty payments. The Strike Price may be adjusted downwards in certain circumstances, including if EPS issues new common shares at a price lower than the Strike Price that exceeds 5% of its outstanding common shares at the time. The Call Option shall expire upon full repayment of the Target Amount by EPS.

## Note 12 – Financial Instruments, continued

***Loan receivable from Enhanced Pet Sciences Corp. ("EPS"), continued***

Any remaining unpaid balance of the Target Amount shall be paid by EPS on or before July 19, 2027, unless extended, at the option of EPS, for an additional three years. If EPS exercises its option to extend the payment deadline, the outstanding balance owing at the time the deadline is extended shall be increased by 10% and an additional 250,000 common shares of EPS shall be added to the original amount of the Target Shares. EPS may prepay the Target Amount at any time.

***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 June 30, 2024 the undiscounted contractual obligations related to financial liabilities were as follows:

| | Less than 1 year $ | 1-5 Years $ | Total $ |
|---|---|---|---|
| Accounts payable and accrued liabilities | 3,811,582 | - | **3,811,582** |
| Loans payable | 938,000 | 60,000 | **998,000** |
| Right of use lease | 153,382 | 424,667 | **578,049** |

***Foreign Currency Risk***

The Company is exposed to foreign currency risk in relation to its loan receivable and a portion of its cash, which are denominated in USD. Based on the balances of cash and loan receivables denominated in USD at June 30, 2024, a 5% increase or decrease in the exchange rate would result in a foreign currency gain or loss of $24,832. As at June 30, 2024, the Company held cash denominated in USD of USD $21,054.

## Note 13 – Subsequent Events

***Stock Option Grant***

On August 21, 2024, the Company granted a total of 6,100,000 stock options of the Company to certain directors, officers, employees and consultants of the Company in accordance with the Company's stock option plan. Each option is exercisable to acquire one common share of the Company at an exercise price of $0.05 per share. The options shall vest in equal annual tranches over a period of 3 years from the date of grant and will expire on August 21, 2029. Of the stock options granted, 1,200,000 options were granted to independent directors and 1,300,000 options were granted to executive officers of the Company.