STEEP HILL INC. (FORMERLY CANBUD DISTRIBUTION CORPORATION)

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

(Expressed in Canadian Dollars)

Independent Auditor's Report

To the Shareholders of Steep Hill Inc. (formerly, Canbud Distribution Corporation):

Opinion

We have audited the consolidated financial statements of Steep Hill Inc. (formerly, Canbud Distribution Corporation) (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2022, and December 31, 2021, and the consolidated statements of loss and comprehensive loss, changes in shareholders' equity and cash flows for the years 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 December 31, 2021, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

We conducted our audits 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 the ethical requirements that are relevant to our audits 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 Related to Going Concern

We draw attention to Note 1 in the consolidated financial statements, which indicates that the Company incurred a net loss during the year ended December 31, 2022 and, as of that date, the Company had an accumulated deficit. As stated in Note 1, this event or condition, along with other matters in Note 1, indicates 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.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

In addition to the matter described in the Material Uncertainty Related to Going Concern section, we have determined the matters described below to be the key audit matters to be communicated in our report.

Acquisition of Steep Hill, Inc.

Key Audit Matter Description

As described in Note 4 to the consolidated financial statements, on January 31, 2022, the Company acquired all shares of Steep Hill, Inc. ("Steep Hill US"), a privately-owned cannabis science company, located in California, United States, in the business of providing lab testing, research and development, and consulting services (the "Steep Hill Acquisition"). The Company determined that the Steep Hill Acquisition was a business combination in accordance with the definition in IFRS 3, *Business Combinations*, and as such, has accounted for it in accordance with this standard, with the acquisition date of January 31, 2022. The purchase price was allocated to the assets acquired and liabilities assumed based on their respective fair values, with the excess of the purchase price amount allocated to goodwill.

We considered this to be a key audit matter, as the fair value of assets acquired and liabilities assumed in a business combination are estimated based on information available at the date of acquisition. This involved considerable management judgment in determining the fair values assigned to intangible assets and property acquired. Performing audit procedures to evaluate the reasonableness of these estimates and assumptions required a high degree of auditor judgment and an increased extent of audit effort, including the involvement of internal valuation specialists.

Audit Response

We responded to this matter by performing audit procedures in relation to the valuation of the acquired assets. Our audit work in relation to this included, but was not restricted to, the following:

- We reviewed the signed purchase agreements to obtain an understanding of the key terms and conditions to identify the necessary accounting considerations and identification of assets and liabilities acquired.
- We tested the mathematical accuracy of managements valuation model and supporting calculation.
- With the assistance of internal valuation specialists, we evaluated the Company's model, valuation methodology and the various inputs utilized, including the discount rate by referencing current industry and comparable company information as well as cash flow and company-specific risk.
- We evaluated the reasonableness of significant assumptions and estimates used by management, including revenue growth, and earnings margins by comparing management's past projections to actual and historical performance, as well as available third-party published economic and industry data.
- We performed a sensitivity analysis on significant assumptions, including revenue growth rates, earnings margin and discount rate.

Impairment of Long-lived Assets

Key Audit Matter Description

As described in Note 9 and 10 to the consolidated financial statements, during August 2022, the Company decided to shut down its analytical testing facility in Scarborough, Ontario, which was operating under Molecular Science Corp. Accordingly, property, plant and equipment, intangible assets and goodwill associated with the Molecular Science Corp. cash generating unit (CGU) were written off.

Further, one of the Company's recent acquisitions, Steep Hill US, faced significant deterioration to its revenue. Due to this the continued decline in revenue, management determined that any future license revenue from Steep Hill US's remaining business will be insufficient to support its continued operations in its current form.

As a result of the above, the Company performed an impairment test in accordance with IAS 36 *Impairment of Assets*. An impairment is recognized if the carrying amount of an asset, or its CGU, exceeds its estimated recoverable amount. The recoverable amount of an asset is the greater of its value-in-use and its fair value less costs of disposal. As described in Note 10 to the consolidated financial statements, the Company recorded an impairment loss on write down of intangible assets and goodwill associated with Steep Hill US Inc.

We identified the impairment of long-lived assets as a key audit matter, as there was a high degree of auditor judgment required to evaluate the significant assumptions used by management in determining the recoverable amount of the long-lived assets.

Audit Response

We responded to this matter by performing audit procedures in relation to the impairment of long-lived assets. Our audit work in relation to this included, but was not restricted to, the following:

- We validated the underlying data used in the recoverable amount calculations and tested the mathematical accuracy.

- We assessed management's position papers regarding the identification of CGUs.
- We validated management's plans to shut down the operations through inquiry and review of termination agreements.
- We validated management's impairment assessment with respect to future revenue outlook and expectations for future operations to customer correspondence, actual revenue recorded in the subsequent period and other correspondence with regulators.
- We engaged an internal valuation specialist to assist in our evaluation of management's impairment analysis.
- We tested the reasonability of the costs to sell by comparing to past transactions and agreements with brokers.
- We assessed the appropriateness and completeness of the related disclosures in the consolidated financial statements.

Other Information

Management is responsible for the other information. The other information comprises Management's Discussion and Analysis.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audits of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audits 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. We have nothing to report in this regard.

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 International Financial Reporting Standards, 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
- 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 Company 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 audits and significant audit findings, including any significant deficiencies in internal control that we identify during our audits.

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.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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

MNP LLP

Chartered Professional Accountants
Licensed Public Accountants

Toronto, Ontario
May 1, 2023

Steep Hill Inc. (formerly Canbud Distribution Corporation)
Consolidated Statements of Financial Position
(Expressed in Canadian dollars)

As at	Note	December 31, 2022	December 31, 2021
Assets			
Current			
Cash		$ 1,912,806	$ 2,576,488
Prepaid and deposits	5	11,733	50,496
Accounts receivable	6	649,139	276,224
Investments		-	7,500
Total current assets		**2,573,678**	**2,910,708**
Non-current			
Acquisition-related payments and advances	8	-	633,900
Property, plant and equipment	9	33,781	2,725,742
Intangible assets	10	408,475	991,118
Goodwill	4,10	-	172,526
Total assets		**$ 3,015,934**	**$ 7,433,994**
Liabilities			
Current			
Accounts payable and accrued liabilities	11	$ 1,790,446	$ 1,006,927
Income tax payable	21	23,656	-
Deferred revenue	12	279,523	-
Canada Emergency Business Account ("CEBA") loan	14	40,000	37,233
Loan payable	8	-	146,142
Current portion of lease liability	13	17,443	88,538
Total current liabilities		**2,151,068**	**1,278,840**
Non-current			
Lease liability	13	22,527	446,286
Total liabilities		**2,173,595**	**1,725,126**
Shareholders' Equity			
Share Capital	15	12,012,773	9,877,844
Reserves	16	2,951,055	2,823,941
Accumulated other comprehensive loss		(68,036)	-
Deficit		(14,053,453)	(6,931,866)
Equity attributable to the Company's shareholders		**842,339**	**5,769,919**
Non-controlling interests	17	-	(61,051)
Total Equity		**842,339**	**5,708,868**
Total liabilities and Equity		**$ 3,015,934**	**$ 7,433,994**

NATURE OF OPERATIONS AND GOING CONCERN (Note 1)
CONTINGENT LIABILITIES (Note 22)
SUBSEQUENT EVENTS (Note 23)

Approved on behalf of the board of directors:

“Ian Morton” — Director

“David Walters” — Director

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

Steep Hill Inc. (formerly Canbud Distribution Corporation)
Consolidated Statements of Loss and Comprehensive Loss
(Expressed in Canadian dollars)

For the years ended December 31,	Notes		2022		2021
Revenue	12	$	3,073,244	$	938,573
Expenses					
Amortization of property, plant and equipment	9		364,269		375,246
Amortization of intangible assets	10		461,485		146,651
Allowance for expected credit recovery	6, 7		(12,100)		(31,005)
Business development			7,300		111,360
Consulting fees	18		447,650		1,025,682
Director fees	18		57,000		10,000
Investors relations			-		48,000
Laboratory expenses			535,084		357,005
Marketing and promotion			36,860		217,755
Office and general expenses			554,166		320,629
Professional fees			777,199		393,207
Regulatory, filing and listing fees			115,258		76,654
Salaries and wages			2,504,609		583,382
Share-based compensation	16		127,114		748,547
Impairment of property, plant and equipment	9		1,251,764		227,458
Impairment of intangible assets and goodwill	10		3,485,562		174,903
Loss before other (expenses) income			**(7,639,976)**		**(3,846,901)**
Other (expenses) income					
Finance expense	8,13,14		(45,408)		(52,547)
Realized loss on sale of investments			-		(23,017)
Foreign exchange gain			16,750		2,700
Gain on termination of lease	13		12,110		-
Gain on disposals of property, plant and equipment	9		91,754		
Gain on deconsolidation of subsidiaries	19		211,110		-
Acquisition-related costs	4,8		(104,889)		(624,491)
Other income	6		209,330		-
Net loss before income tax			**(7,249,219)**		**(4,544,256)**
Current income tax expense	21		(23,656)		-
Deferred income tax recovery	21		158,755		-
Net loss			**(7,114,120)**		**(4,544,256)**
Other comprehensive loss					
Foreign currency translation adjustment			(68,036)		-
Total loss and comprehensive loss		**$**	**(7,182,156)**	**$**	**(4,544,256)**
Net loss attributable to:					
Equity holders of the Company		$	(7,121,587)	$	(4,530,535)
Non-controlling interests	17		7,467		(13,721)
		$	**(7,114,120)**	**$**	**(4,544,256)**
Net comprehensive loss attributable to:					
Equity holders of the Company		$	(7,189,623)	$	(4,530,535)
Non-controlling interests	17		7,467		(13,721)
		$	**(7,182,156)**	**$**	**(4,544,256)**
Weighted average number of shares outstanding - basic and diluted			**236,763,356**		**90,799,699**
Basic and diluted net loss per share		**$**	**(0.03)**	**$**	**(0.05)**

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

Steep Hill Inc. (formerly Canbud Distribution Corporation)
Consolidated Statements of Changes in Shareholders' Equity
(Expressed in Canadian dollars)

			RESERVES						
	Number of shares	Share capital	Share based payments	Warrants	Accumulated Other Comprehensive loss	Deficit	Attributable to owners of the Company	Non-controlling interest	Total shareholders' equity
Balance, December 31, 2021	**159,101,493**	**$ 9,877,844**	**$ 1,428,286**	**$ 1,395,655**	**$ -**	**$ (6,931,866)**	**$ 5,769,919**	**$ (61,051)**	**$ 5,708,868**
Issued pursuant to Steep Hill, Inc. (Note 4)	82,000,000	2,062,471	-	-	-	-	2,062,471	-	2,062,471
Issued for services (Note 4)	2,870,000	72,458	-	-	-	-	72,458	-	72,458
Share-based compensation (Note 16)		-	127,114	-	-	-	127,114	-	127,114
Deconsolidation on dissolution of subsidiaries (Note 19)		-	-	-	-	-	-	53,584	53,584
Other comprehensive loss		-	-	-	(68,036)	-	(68,036)	-	(68,036)
Returned to treasury (Note 15)	(1,126,883)	-	-	-	-	-	-	-	-
Net loss		-	-	-	-	(7,121,587)	(7,121,587)	7,467	(7,114,120)
Balance, December 31, 2022	**242,844,610**	**$ 12,012,773**	**$ 1,555,400**	**$ 1,395,655**	**$ (68,036)**	**$ (14,053,453)**	**$ 842,339**	**$ -**	**$ 842,339**
Balance, December 31, 2020	**45,568,000**	**$ 2,917,267**	**$ 682,446.00**	**$ 141,992.00**	**$ -**	**$ (2,543,323)**	**$ 1,198,382**	**$ (47,330)**	**$ 1,151,052**
Issued on private placement, net (Note 15)	39,409,346	3,367,833	-	1,179,807	-	-	4,547,640	-	4,547,640
Issued pursuant to Molecular Science Corp. acquisition (Note 4)	68,212,896	3,137,793	-	215,848	-	-	3,353,641	-	3,353,641
Issued pursuant to settlement agreement (Note 8)	3,040,000	130,466	-	-	-	-	130,466	-	130,466
Issued for services (Note 15)	2,847,251	318,778	-	-	-	-	318,778	-	318,778
Expired warrants (Note 16)	-	-	-	(141,992)	-	141,992	-	-	-
Share-based compensation (Note 16)	-	-	748,547	-	-	-	748,547	-	748,547
Exercise of options (Note 16)	24,000	5,707	(2,707)	-	-	-	3,000	-	3,000
Net loss	-	-	-	-	-	(4,530,535)	(4,530,535)	(13,721)	(4,544,256)
Balance, December 31, 2021	**159,101,493**	**$ 9,877,844**	**$ 1,428,286**	**$ 1,395,655**	**$ -**	**$ (6,931,866)**	**$ 5,769,919**	**$ (61,051)**	**$ 5,708,868**

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

Steep Hill Inc. (formerly Canbud Distribution Corporation)
Consolidated Statements of Cash Flows
(Expressed in Canadian dollars)

For the years ended December 31,		2022	2021
Operating activities			
Net loss for the year		$ (7,114,120)	$ (4,544,256)
Non-cash items:			
Amortization of property, plant and equipment	9	364,269	375,246
Amortization of intangible assets and goodwill	10	461,485	146,651
Allowance for expected credit losses	6	(12,100)	(31,005)
Acquisition-related costs	4,8	104,889	624,491
Consulting fees paid in shares	15	-	200,000
Share-based compensation	16	127,114	748,547
Impairment of property, plant and equipment	9	1,251,764	227,458
Impairment of intangible assets	10	3,485,562	174,903
Gain on termination of lease	13	(12,110)	-
Gain on disposals of property, plant and equipment	9	(91,754)	-
Gain on deconsolidation of subsidiaries	19	(211,110)	-
Finance expense	13,14	45,408	52,547
Realized loss on sale of investments		-	23,017
Other income	6	(209,330)	-
Deferred income tax recovery	21	(158,755)	-
Foreign exchange gain		(2,051)	-
Changes in non-cash working capital items:			
Prepaid and deposits	5	154,678	(31,326)
Accounts receivable	6	194,554	384,494
Income tax payable	21	23,656	-
Accounts payable and accrued liabilities	11	(498,788)	79,405
Deferred revenue	12	279,523	-
Cash used in operating activities		**(1,817,216)**	**(1,569,828)**
Investing activities			
Purchase of property, plant and equipment	9	-	(1,050)
Proceeds from disposals of property, plant and equipment	10	750,000	-
Cash acquired in Molecular Science Corp. acquisition	4	-	496,590
Cash advanced pursuant to Molecular Science Corp. acquisition	4	-	(500,000)
Cash acquired in Steep Hill, Inc. acquisition	4	757,846	-
Promissory note receivable repayments	7	-	3,000
Proceeds from sale of investments		-	60,293
Acquisition-related payments and advances	4,8	(32,431)	(395,797)
Cash generated from (used in) investing activities		**1,475,415**	**(336,964)**
Financing activities:			
Proceeds on equity issuances and private placement	15	-	4,526,449
Loan payable repayments		(160,080)	(350,616)
Exercise of options	16	-	3,000
Payments of lease liability	13	(93,765)	(134,186)
Cash (used in) generated from financing activities		**(253,845)**	**4,044,647**
Increase in cash during the year		**(595,646)**	**2,137,855**
Effects of exchange rate changes on cash		(68,036)	**-**
Cash, beginning of the year		**2,576,488**	**438,633**
Cash, end of the year		**$ 1,912,806**	**$ 2,576,488**

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

1. NATURE OF OPERATIONS AND GOING CONCERN

Steep Hill Inc. (the "Company" or "Steep Hill") (formerly Canbud Distribution Corporation) was incorporated under the *Canadian Business Corporations Act* on October 4, 2018 as Cannabis Clonal Corporation and later changed to Canbud Distribution Corporation. On February 28, 2022, the Company changed its name from Canbud Distribution Corporation to Steep Hill Inc. The Company is a publicly listed company on the Canada Securities Exchange ("CSE") and trades under the ticker symbol "STPH". The Company is domiciled in Canada and its registered office is located at 30 Commercial Road. East York, Ontario. M4G 1Z4.

The Company is a science and technology company focused on providing products and services, including analytical testing services within the hemp and cannabis market sectors in Canada. Beginning January 2022, the Company began its operation in United States, through acquisition of Steep Hill, Inc., a cannabis science company focused on research and development, licensing, and consulting services in United States.

These consolidated financial statements have been prepared on a going concern basis which contemplates the realization of assets and the payment of liabilities in the ordinary course of business. The Company's ability to continue as a going concern is dependent upon its ability to attain profitable operations and generate funds to meet current and future obligations. Should the Company be unable to continue as a going concern, it may be unable to realize the carrying value of its assets and to meet its liabilities as they become due.

The Company has not yet achieved profitable operations and incurred a loss and comprehensive loss of $7,182,156 (2021 - $4,544,256) during the year ended December 31, 2022 and the Company has an accumulated deficit of $14,053,453 (2021 - $6,931,866). As at December 31, 2022, the Company has a working capital of $422,610 (2021 –$1,631,868) and cash flows used in operating activities for the year ended December 31, 2022 was $2,283,315 (2021 - $1,569,828). These conditions along with whether, and when, the Company can attain profitability and positive cash flows from operations has material uncertainty, which may cast doubt upon the Company's ability to continue as going concern. The application of the going concern assumption is dependent upon the Company's ability to generate future profitable operations and by raising capital to fund its operations. Accordingly, these financial statements do not give effect to adjustments, if any, that would be necessary should the Company be unable to continue as a going concern and therefore be required to realize its assets and liquidate its liabilities in other than the normal course of business and at amounts which differ from those shown in these financial statements.

2. BASIS OF PREPARATION

Statement of Compliance

These consolidated financial statements have been prepared in accordance with *International Financial Reporting Standards* ("IFRS") as issued by the *International Accounting Standards Board* ("IASB").

These consolidated financial statements were approved by the Board of Directors and authorized for issue on May 1, 2023.

2. BASIS OF PREPARATION (continued)

Basis of measurement

These consolidated financial statements have been prepared on the historical cost basis except for certain investments measured at fair value.

Basis of consolidation

These consolidated financial statements include the account of the Company and subsidiaries controlled by the Company from the date that control commenced until the date that control ceases. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity and expose itself to the variable returns from the entity's activities. The Company attributes total loss and comprehensive loss of subsidiaries between the shareholders of the Company and the non-controlling ("NCI") interests based on their respective ownership interests.

Non-controlling interests exist in less than wholly owned subsidiaries of the Company and represent the outside interest's share of the carrying values of the subsidiaries. Non-controlling interests are recorded at their proportionate share of the fair value of identifiable net assets acquired as at the date of acquisition and are presented immediately after the equity section of the statement of financial position. When the subsidiary company issues its own shares to outside interests and does not result in a loss of control, a dilution gain or loss arises as a result of the difference between the Company's share of the proceeds and the carrying value of the underlying equity, an equity transaction, is included in equity.

The Company's subsidiaries are as follows:
Canbud D580H124 Inc. ("D580 Inc.") – The Company held 60% (2021 - 60%) interest in D580 Inc., incorporated on July 23, 2019. On June 18, 2020, D580 Inc. issued 480 Class B non-voting common shares to landowners and transaction facilitators, which represents 40% interest in D580 Inc. Pursuant to the resolution of the directors of D580 Inc., D580 Inc. was dissolved on July 19, 2022.

Canbud D2385NR Inc. ("D238 Inc.") - Company held 88.89% (2021 – 88.89%) interest in D238 Inc., incorporated October 22, 2019 D238 Inc. entered into an agreement to lease 55 acres of farmland in Lakefield, Ontario, to grow industrial hemp under a licence from Health Canada which was issued November 15, 2019. On June 18, 2020, D238 Inc. issued 120 Class B non-voting common shares to transaction facilitators, which represents 11.11% interest in D238 Inc. D238 Inc. was dissolved on December 1, 2022.

Canbud D1726KC Inc. ("D172 Inc.") - The Company held 88.89 % (2021 – 88.89%) interest in D172 Inc., incorporated on October 31, 2019. D172 Inc. entered into an agreement to lease 85 acres of farmland in Kettleby, Ontario, to grow industrial hemp under a licence from Health Canada which was issued November 29, 2019. On June 18, 2020 and June 19, 2020, D172 Inc. issued 96 Class B non-voting common shares and 24 Class B non-voting common shares to transaction facilitators, respectively. The combined issuance of 120 class B non-voting common shares represents 11.11% interest in D172 Inc. Pursuant to the resolution of the directors of D172 Inc., D172 Inc. was dissolved on July 19, 2022.

Canbud DEPL Corp ("DEPL Corp.") – The Company held 94.75% (2021 – 94.75%) interest in D238 Inc., incorporated on November 20, 2019. DEPL Corp. was established for distribution of CBD product into Germany and Poland in particular, and Europe in general. On June 18, 2020, DEPL Corp. issued 50 common shares to M. Ciuk, which represents 5.25% interest in DEPL Corp. Pursuant to the resolution of the directors of DEPL Corp., DEPL Corp. Inc. was dissolved on July 19, 2022.

2. BASIS OF PREPARATION (continued)

Empathy Plant Co. – On January 22, 2021, the Company incorporated Empathy Plant Company Inc. ("Empathy"), a wholly owned subsidiary of the Company. Empathy was formed primarily to launch and operate the Company's plant-based protein brand with products that are naturally sweetened, zero sugar added, non-GMO project verified, gluten-free, soy-free with 100% compostable packaging. Pursuant to the resolution of the directors of Empathy, Empathy was dissolved on July 19, 2022.

Molecular Science Corp. – The Company holds 100% interest in Molecular Science Corp., and its wholly-owned subsidiaries Molecular Science Product Corp., Molecular Science Genetics Corp., and Steep Hill Canada Inc. (formerly Molecular Science Labs Corp.) through an acquisition completed on July 8, 2021 (Note 4). On November 25, 2021, the Company dissolved Molecular Science Product Corp. and Molecular Science Genetics Corp. As a result of the filings for bankruptcy (Note 19), the Company has loss of control over Molecular Science Corp., and consequently, deconsolidated Molecular Science Corp. effective October 21, 2022.

Steep Hill, Inc. – The Company holds 100% interest in Steep Hill, Inc. ("Steep Hill US") through an acquisition completed on January 31, 2022 (Note 4).

All of the Company's subsidiaries are located in Ontario, Canada, except Steep Hill, Inc., which operates in California, United States.

Intercompany balances, and any unrealized gains and losses or income and expenses arising from transactions with subsidiaries, are eliminated in preparing these consolidated financial statements. Unrealized losses are eliminated to the extent of the gains, but only to the extent that there is no evidence of impairment.

Functional and presentation currency

The consolidated financial statements and the accompanying notes are presented in Canadian dollars, unless otherwise noted. The Company's and its subsidiaries' functional currency (the currency of the primary economic environment in which the Company and its subsidiaries operate in), with the exception of Steep Hill US, is Canadian dollars. The functional currency of Steep Hill US is U.S. dollars.

3. SIGNIFICANT ACCOUNTING POLICIES

The following significant accounting policies are applied to these consolidated financial statements:

Cash

Cash includes cash on account at banking institutions of $1,848,658 (2021 - $2,128,744) and amounts held in trust of on behalf of the Company of $64,148 (2021 - $447,744).

Business combinations

The Company accounts for business combinations using the acquisition method when control is transferred to the Company. The consideration transferred in the acquisition is measured at fair value, along with identifiable assets acquired, and liabilities and contingent liabilities assumed. Goodwill is initially measured at cost being the excess of the purchase consideration of the business combination over the Company's share in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities. Any gain on a bargain purchase is recognized directly in the statement of loss and comprehensive loss. Transaction costs are expensed as incurred.

Revenue recognition

To determine whether to recognize revenue, the Company follows a 5-step process:

1. Identifying the contract with a customer
2. Identifying the performance obligations
3. Determining the transaction price
4. Allocating the transaction price to the performance obligations

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

5. Recognizing revenue when/as performance obligation(s) are satisfied.

Revenue is recognized when control of a good or services transferred to a customer. Control either transfers "over time" or "at a point in time". When the control transfers "over time" the entity can recognize revenue with a counterpart in percentage of completion over the duration of the contract. When the control transfers "at a point in time" the revenue is then recognized only when the performance obligation is fulfilled. The Company will recognize the revenue upon satisfaction of following condition:

- All parties to the contract have approved the contract and are committed to perform their respective obligations;
- Each party's rights in relation to the goods or services to be transferred can be identified;
- The payments can be identified;
- The contract has commercial substance (i.e., the entity expects the risks, timing or amount of the entity's future cash flows to change as a result of the contract); and
- It is possible (i.e., more likely than not) that the entity will collect the consideration it is entitled to in exchange for the goods or services.

The Company provides a comprehensive range of testing methods to clients in the regulated cannabis sector.

Revenue recognition from lab testing services rendered

The Company recognizes revenue when certificates of assessment (CoA) are delivered to a customer, or the control of goods are transferred. Revenue is measured at the fair value of the consideration received or receivable from customers for the sale of goods and services provided by the Company, net of sales taxes.

A major part of the Company's business is based on testing samples provided by customers. The sample-based activity is a repetitive business, generally with relatively small transactions with short turnaround times. These transactions do not include multiple performance obligations. The Company considers the input method to measure the progress of services rendered to its customers.

Licensing and royalty fees

The Company provides the right to access software licenses and licensed laboratory procedures (collectively the "Licensing fees "), which are not considered distinct from each other as the customer is unable to receive economic benefit from the utilization of the licensed procedures without using the software license. The Licensing fees for each relevant licensing agreement is recognized over the term of the respective license agreement from the effective date of the agreement. The Company also earns royalty fees once the licensees conduct their first commercial sale of a test, and customers are subject to a minimum royalty as defined in each agreement. The Company recognizes the minimum royalty over the terms of the respective license agreement. Any additional sales-based or usage-based royalties in excess of this guaranteed minimum is recognized in the period that the sales/usage occurs. Advance payments in excess of revenue recognized are recorded as deferred revenue.

Unbilled amounts resulting from minimum royalty being recognized over time where the right to payment is not just subject to the passage of time are recognized as contract assets and included within accounts receivables.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment

Property, plant and equipment are recorded at cost, less accumulated depreciation and accumulated impairment losses. Depreciation is not recorded on property, plant and equipment that is not yet available for use. An asset's residual value, useful life and depreciation method are reviewed on an annual basis and adjusted prospectively.

Gains or losses on disposal of property, plant and equipment are determined by comparing the proceeds with the carrying amount of the asset and are included in the consolidated statements of loss. Depreciation is calculated using the straight-line method over the useful life of property, plant and equipment. The useful life of the property, plant and equipment is as follows:

- Right-of-use assets: term of the lease with ranges from 3 - 6 years
- Leasehold improvements: term plus renewal option of the lease
- Production, processing and lab equipment: 2-8 years
- Office equipment, software and furniture: 3-5 years
- Vehicle: 3-5 years

Intangible assets

The Company capitalizes the cost of intangible assets in accordance with IAS38 – Intangible Assets. Management identifies these acquired or created intangible assets if it determines that a future economic value exists, and the costs are reliably measurable. Intangible assets are recorded at cost less accumulated amortization. They are amortized over their estimated useful lives using the straight-line method and the following rates:

- Intellectual properties: 5 - 7 years
- Brand and customer relationships: 5 years
- Clonal system development: 5 years
- IT Platform development and website: 3-5 years

The estimated useful life and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

Impairment of long-lived assets

At the end of each reporting period, the Company reviews the carrying amounts of its long-lived assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any).

Recoverable amount is the higher of fair value less costs 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 current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

At the end of each reporting period, the Company assesses whether there is any indication that an impairment loss recognized in prior periods for an asset other than goodwill may no longer exist or may have decreased. If any such indication exists, the Company will estimate the recoverable amount of that asset and reverse the impairment loss recognized in prior periods. The reversal of an impairment loss will not exceed the carrying amount that would have been determined, net of amortization or depreciation, had no impairment loss been recognized for the asset in prior years.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Goodwill

Goodwill represents the excess of the price paid for the acquisition of an entity over the fair value of the net identifiable tangible and intangible assets and liabilities acquired. Goodwill is allocated to the Cash Generating Unit (“CGU”) or CGUs to which it relates. Goodwill is measured at historical cost and is evaluated for impairment annually in the fourth quarter or more often if events or circumstances indicate there may be an impairment. Impairment is determined for goodwill by assessing if the carrying value of CGUs, including goodwill, exceeds its recoverable amount determined as the greater of the estimated fair value less costs of disposal and the value in use. Impairment losses recognized in respect of the CGUs are first allocated to the carrying value of goodwill and any excess is allocated to the carrying amount of long-lived assets in the CGUs. Any goodwill impairment is recorded in income in the period in which the impairment is identified. Impairment losses on goodwill are not subsequently reversed.

The Company’s most recent goodwill impairment test at the year ended December 31, 2022 did result in the recognition of an impairment loss (see Note 10).

Leases

The Company assesses whether a contract is a lease based on whether the contract conveys the right to control the use of an underlying asset for a period of time in exchange for consideration.

Leases are recognized as a right-of-use asset (“ROU”) and a corresponding lease liability at the date on which the leased asset is available for use by the Company. Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of fixed payments discounted using the Company’s incremental borrowing rate when the rate implicit in the lease is not readily available.

Lease payments are allocated between the liability and finance costs. The finance cost is charged to the profit or loss using the effective interest rate method and payments are applied against the lease obligation over the lease term. Lease liabilities are remeasured when there is a change in future lease payments arising from a change in an index or rate, or a change in the Company’s assessment of whether it will exercise a purchase, extension or termination option. Then there is a remeasurement, a corresponding adjustment is made to the carrying amount of the ROU or recorded in profit or loss if the ROU has been reduced to zero.

Share capital and warrants

Share capital

Common shares are classified as equity. Incremental costs directly attributable to the issue of common shares are recognized as a deduction from equity, net of any tax effects.

The Company may incur various costs when issuing or acquiring its own equity instruments. Those costs might include registration and other regulatory fees, amounts paid to legal, accounting and other professional advisers, printing costs and stamp duties. The transaction costs of an equity transaction are accounted for as a deduction from equity (net of any related income tax benefit) to the extent they are incremental costs directly attributable to the equity transaction that otherwise would have been avoided. Costs related to a planned equity offering not completed at the financial statement date are recorded as deferred financing costs until the offering is either completed or abandoned. The costs of an equity transaction that is abandoned are recognized as an expense.

Warrants

Warrants may be granted to third parties as partial compensation for services or issued to shareholders are part of unit financings. Share purchase warrants are measured at the fair value of the equity instruments and are recognized as share issue costs with an offsetting credit as an increase to warrant reserve.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Upon exercise of share purchase warrants, the Company issues new shares. The associated fair value amount is reclassified from the warrant reserve to share capital. The proceeds received net of any directly attributable transaction costs are credited to share capital when the share purchase warrants are exercised.

The Company may modify the terms of the share purchase warrants originally granted. The Company has elected to recognize the changes in fair value of the warrants that result from the modification within equity. The fair value change is recorded as a reclassification within equity.

Valuation of equity units issued

When the Company issues equity units that include both common shares and share purchase warrants, the proceeds from the issuance of equity units is allocated between the common shares and common share purchase warrants on a pro-rated basis using the relative fair values of common shares and common share purchase warrants. The fair value of the common shares is determined using the share price at the date of the issuance of the units. The fair value of the share purchase warrants is determined using the Black-Scholes valuation model.

Share-based payments

The Company has an equity-settled share-based compensation plan for granting stock options to management, directors, and consultants. The Company recognizes compensation expense for this plan at fair value so that the fair value of each option grant is estimated on the date of the grant and amortized over the vesting year, with the resulting amortization credited to reserves. The Company uses the accelerated method (also referred to as graded vesting) for allocating stock option expense over the vesting year. Stock option expense incorporates an expected forfeiture rate. The forfeiture rate is based on expectations of future forfeitures rates. Adjustments are made if the actual forfeiture rate differs from the expected rate. The fair value of each grant is determined using the Black-Scholes option-pricing model. Consideration paid upon the exercise of stock options is recorded as share capital.

Research and development

Research costs are expensed as incurred. Development expenditures are capitalized only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Company intends to and has sufficient resources to complete development to use or sell the asset. Other development expenditures are recognized in the statement of loss and comprehensive loss as incurred. To date, no development costs have been capitalized.

Government grant

Government grants are recognized when there is reasonable assurance that the Company will comply with the conditions attached to them and the government grants will be received. Grants are recognized as either income over the period(s) necessary to match them with the related costs or if related to a specific expense, as a reduction to the expenses for which they are intended to compensate, on a systematic basis. Grants receivable for costs already incurred or for immediate financial support, with no future related costs, are recognized as income in the period in which the grant is receivable.

If a grant becomes repayable, it is treated as a change in estimate. Where the original grant related to income, the repayment would be applied first against any related unamortized deferred credit, and any excess would be expensed. Where the original grant related to an asset, the repayment would be treated as increasing the carrying amount of the asset or reducing the deferred income balance. The cumulative depreciation which would have been charged had the grant not been received would be charged as an expense.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Government grants include wage subsidies under Canada Emergency Wage Subsidy ("CEWS") program and the benefit of the below-market interest rate and partial loan forgiveness from the Canada Emergency Business Account ("CEBA") loan. Government grants related to wages subsidies is presented in the consolidated statements of loss and comprehensive losses as a reduction of the corresponding operating expenses.

Related party transactions

A related party is a person or entity that is related to the Company; that has control or joint control over the Company; that has significant influence over the Company; or is a member of the key management personnel of the Company.

An entity is related to a Company if the entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

A related party transaction is a transfer of resources, services or obligations between a Company, and a related party, regardless of whether a price is charged. All transactions with related parties are in the normal course of business and are measured at fair value.

Income taxes

Income taxes expense comprises current and deferred income taxes. Income taxes expense is recognized in the consolidated statements of loss except to the extent that it relates to items recognized directly in equity.

Current tax
Current taxes are the expected taxes payable or recoverable on the taxable income or loss, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to income taxes payable in respect of previous years.

Deferred tax
The Company accounts for income taxes under the asset and liability method. Under this method of tax allocation, deferred income tax assets and liabilities are determined based on differences between the financial statement carrying values and their respective income tax basis (temporary differences).

Deferred income taxes are measured using the tax rates that are expected to be in effect when the temporary differences are likely to reverse, based on the laws that have been enacted or substantively enacted by the reporting date. The effect on deferred income tax assets and liabilities of a change in tax rates is included in earnings in the year in which the change is substantively enacted. The amount of deferred income tax assets recognized is limited to the amount that is probable to be realized.

Loss per share

Loss per share is calculated by dividing the net loss available to common shareholders by the weighted average number of common shares outstanding during the period. Diluted loss per share is calculated using the treasury stock method of calculating the weighted average number of common shares outstanding. The treasury stock method assumes that outstanding stock options and warrants with an average exercise price below the market price of the underlying shares are exercised and the assumed proceeds are used to repurchase common shares of the Company at the average price of the common shares for the period. Total shares issuable from stock options and warrants were excluded from the computation of diluted loss per share because they were anti-dilutive for the years ended December 31, 2022 and 2021.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments

Financial assets and financial liabilities are recognized when the Company becomes a party to the contractual provision of the respective instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issuance of financial assets and financial liabilities, other than financial assets and financial liabilities at FVTPL, are included in the initial carrying value of the related instrument and are amortized using the effective interest method. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognized immediately in profit or loss.

	IFRS 9	
	Classification	**Measurement**
Financial assets		
Cash	Amortized cost	Amortized cost
Acccounts receivable	Amortized cost	Amortized cost
Investments	FVTPL	Fair value
Financial liabilities		
Accounts payable and accrued liabilities	Amortized cost	Amortized cost
CEBA loan	Amortized cost	Amortized cost

Fair value estimates are made at the consolidated statement of financial position date based on relevant market information and information about the financial instrument. The Company has made the following classifications:

(i) FVTPL financial assets
Financial assets are classified as FVTPL when the financial asset is held-for-trading or it is designated as FVTPL. Financial assets classified as FVTPL are stated at fair value with any resulting gain or loss recognized in the consolidated statements of loss and comprehensive loss. Transaction costs are expensed as incurred.

(ii) Amortized cost financial assets
Financial assets at amortized cost are non-derivative financial assets which are held within a business model whose objective is to hold assets to collect contractual cash flows and its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. A financial asset is initially measured at fair value, including transaction costs and subsequently at amortized cost.

(iii) Impairment of financial assets
Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

The carrying amount of all financial assets, excluding trade receivables, is directly reduced by the impairment loss. The carrying amount of trade receivables is reduced through the use of an allowance account. When a trade receivable is considered uncollectable, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in the consolidated statements of loss and comprehensive loss. With the exception of FVOCI equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease relates to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through the consolidated statements of loss and comprehensive loss.

(iv) Financial liabilities and other financial liabilities
Financial liabilities are classified as either financial liabilities at FVTPL or at amortized cost. Financial liabilities at FVTPL are stated at fair value, with changes being recognized through the consolidated statements of loss and comprehensive loss. Other financial liabilities are initially measured at fair value, net of transaction costs, and are subsequently measured at amortized cost using the effective interest method, with interest expense recognized on an effective yield basis.

The Company derecognizes financial assets only when the contractual rights to cash flows from the financial assets expire, or when it transfers the financial assets and substantially all of the associated risks and rewards of ownership to another entity

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

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

Expected credit loss impairment model

IFRS 9 – Financial Instruments introduced a single ECL impairment model, which is based on changes in credit quality since initial application. The simplified ECL impairment model had resulted in a provision of ECL recorded on the Company’s consolidated statements of loss and comprehensive loss.

The Company assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due. The Company considers a financial asset to be in default when the borrower is unlikely to pay its credit obligations to the Company in full or when the financial asset is more than 90 days past due.

The carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Company determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts.

Significant Estimates and Judgments

The preparation of these consolidated financial statements requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and reported amounts of expenses during the period. These estimates are, by their nature, uncertain. The impacts of such estimates are pervasive throughout the consolidated financial statements and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and future periods if the revision affects both current and future periods.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

The estimates and underlying assumptions are based on current and future economic conditions and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Significant judgements, estimates, and assumptions that have the most significant effect on the amounts recognized in the consolidated financial statements are described as follows:

Expected credit losses
The Company applies the simplified approach as permitted by IFRS 9 for the expected credit loss (ECL) associated with financial assets. The simplified approach to the recognition of expected losses does not require the Company to track the changes in credit risk; rather, the Company recognizes a loss allowance based on lifetime expected credit losses at each reporting date from the date of the trade receivable.

Business combination
In a business combination, all identifiable assets, liabilities, and contingent liabilities acquired are recorded at their fair values. One of the most significant estimates relates to the determination of the fair value of the equity issued, assets acquired, and liabilities assumed. For any intangible asset identified, depending on the type of intangible asset and the complexity of determining its fair value, an independent valuation expert or management may develop the fair value, using appropriate valuation techniques, which are generally based on a forecast of the total expected future net cash flows. The evaluations are linked closely to the assumptions made by management regarding the future performance of the assets concerned and any changes in the discount rate applied.

The estimate of fair value of the acquired property, plant and equipment assumed at the date of acquisition as well as the useful lives of the acquired property, plant and equipment are based on assumptions estimating the fair value of these items. The fair value of property, plant and equipment recognized in a business combination is based on Fair Market Value -In Use (“FMV-In Use”).

The FMV-In Use of the property, plant and equipment is the estimated amount for which property, plant and equipment would change hands on the acquisition date between a willing buyer and a wiling seller, neither being under any compulsion to buy or to sell and both having reasonable knowledge of relevant facts. See Note 4 – Business Acquisition.

Provisions for lawsuits, claims and litigation cases.
A provision is recognized when there is a present legal or constructive obligation as a result of past events, when it is likely that an outflow of resources will be required to settle the obligation, and when the amount can be reliably estimated. Application of these criteria requires the exercise of significant judgment based on the facts and circumstances specific to each situation. In order to determine the amount necessary for provisions, the Company makes assumptions and estimates mainly with regard to expected costs, including professional and compensation fees, and the anticipated cost schedule. The estimation of this provision is based on internal analyses and consultations with independent experts and

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Capitalization and write-off of intangible assets

An intangible asset arising from development is recognised on satisfying the following criterions by the entity:

- The technical feasibility of completing the intangible asset so that it will be available for use or sale.
- Its intention to complete the intangible asset and use or sell it.
- Its ability to use or sell the intangible asset.
- How the intangible asset will generate probable future economic benefits. Among other things, the entity can demonstrate the existence of a market for the output of the intangible asset or the intangible asset itself or, if it is to be used internally, the usefulness of the intangible asset.
- The availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset.
- Its ability to measure reliably the expenditure attributable to the intangible asset during its development.

Estimated useful lives and amortization of long-lived assets

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

Impairment of long-lived assets

Long-lived assets, including property, plant and equipment, investment properties and intangible assets are reviewed for indicators of impairment at each statement of financial position date or whenever events or changes in circumstances indicate that the carrying amount of an asset exceeds its recoverable amount. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the CGU). The recoverable amount of an asset or a CGU is the higher of its fair value, less costs to sell, and its value in use. If the carrying amount of an asset exceeds its recoverable amount, an impairment charge is recognized immediately in profit or loss by the amount by which the carrying amount of the asset exceeds the recoverable amount. Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the lesser of the revised estimate of recoverable amount, and the carrying amount that would have been recorded had no impairment loss been recognized previously.

Goodwill is tested for impairment annually and whenever events or changes in circumstances indicate that the carrying amount of goodwill has been impaired. In order to determine if the value of goodwill has been impaired, the cash-generating unit to which goodwill has been allocated must be valued using present value techniques. When applying this valuation technique, the Company relies on a number of factors, including historical results, business plans, discount rate, forecasts, and market data. Changes in the conditions for these judgments and estimates can significantly affect the assessed value of goodwill.

Incremental borrowing rate and lease term on leases

The incremental borrowing rates are based on judgments including economic environment, term, currency, and the underlying risk inherent to the asset. The carrying balance of the right-of-use assets, lease obligations, and the resulting interest and depreciation expense, may differ due to changes in the market conditions and lease term. Lease terms are based on assumptions regarding extension terms that allow for operational flexibility and future market conditions.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Loss of control of subsidiary
On October 21, 2022, the Company's wholly owned subsidiary, Molecular Science Corp., and its indirect wholly owned subsidiary, Steep Hill Canada Inc. (formerly Molecular Science Labs Corp.), (collectively, the "MSC group"), appointed an approved Trustee and filed for bankruptcy proceedings ("OSBC filings") with Office of Superintendent of Bankruptcy Canada ("OSBC"). Management applied judgement in assessing whether this event represents a loss of control of MSC group. As a result of OSBC filings, the appointed Trustee became responsible for the business and financial affairs of MSC group. Management concluded that the Company ceased to have the power to direct the relevant activity of MSC group because substantive rights were granted to Trustee through section 49 of the Bankruptcy and Insolvency Act. As a result, the Company accounted for a loss in control and MSC group was deconsolidated on October 21, 2022 (Note 19).

Share-based Compensation
In calculating share-based compensation expense, key estimates such as the rate of forfeiture of awards granted, the expected life of options, the volatility and the risk-free interest rate used.

Deferred tax
The determination of deferred income tax assets or liabilities requires subjective assumptions regarding future income tax rates and the likelihood of utilizing tax loss carry forwards. Changes in these assumptions could materially affect the recorded amounts, and therefore, do not necessarily provide certainty as to their recorded values.

Going concern
The Company's ability to execute its strategy by funding future working capital requirements requires significant judgment. Estimates and assumptions are continually evaluated and are based on historical experience and other factors, such as expectations of future events that are believed to be reasonable under the circumstances.

Accounting standards issued but not yet effective
Certain new accounting standards and interpretations have been published that are not mandatory for the current period and have not been early adopted as follows. The Company is reviewing the new standards but does not expect their future adoption to have a material impact on the Company in the current or future reporting periods.

Amendments to IAS 1 – Presentation of Financial Statements
In January 2020, the IASB issued amendments to IAS 1 Presentation of Financial Statements, to clarify its requirements for the presentation of liabilities as current or non-current in the statement of financial position. This will be effective on and after January 1, 2023.

Amendments to IAS 12 – Income Taxes
In May 2021, the IASB issued an amendment to IAS 12 Income Taxes to clarify the accounting for deferred tax on transactions such as leases and decommissioning obligations. The scope of the recognition exemption in IAS 12 no longer applies to transactions that, on initial recognition, give rise to equal taxable and deductible temporary differences. The amendments are effective for annual periods beginning on or after January 1, 2023, with early adoption permitted.

(Expressed in Canadian dollars)

4. BUSINESS ACQUISITIONS

Steep Hill, Inc.

On January 31, 2022, the Company acquired all shares and control of Steep Hill, Inc. ("Steep Hill US"), a privately-owned company, located in California, United States, in the business of providing lab testing, research and development, and consulting services (the "Steep Hill Acquisition"), through the acquisition of all shares in Steep Hill US. The Company determined that the Steep Hill Acquisition was a business combination in accordance with the definition in IFRS 3, Business Combinations ("IFRS 3"), and as such, has accounted for it in accordance with this standard, with the acquisition date of January 31, 2022 (the "Steep Hill's Acquisition date").

Goodwill arose from the acquisition comprised of assembled workforce, expected revenue growth, and future market development. These benefits were not recognized separately from goodwill as they do not meet the criteria for identifiable intangible assets and are not deductible for tax purposes.

The following table summarizes the fair value of the purchase consideration and the estimated fair values of assets and liabilities acquired at the acquisition date for Steep Hill Acquisition as of the Steep Hill's Acquisition Date. Purchase price allocations have been classified as final based on the status of the work performed by the Company to determine net working capital adjustments and the fair value of the assets acquired and liabilities assumed at the acquisition date.

The following table summarizes the purchase price allocation based on the fair value of the consideration transferred as of the Steep Hill's Acquisition date:

Total purchase price consideration	
Pre-existing loan (i)	$ 635,950
Issued shares (ii)	2,062,471
Cash (iii)	37,753
	2,736,174
Identified tangible assets and liabilities assumed	
Cash	757,846
Accounts receivable, net of allowance for expected credit loss of $107,203	75,910
Advances and other receivable	512,825
Prepaid expenses	115,916
Investments	5,516
Accounts payable and accrued liabillities	(1,764,960)
Deferred tax liabilities	(158,755)
Identified intangible assets	
Intellectual property	1,000,985
Brand	300,168
Customer Relationships	475,691
Goodwill	1,415,032
	$ 2,736,174

(i) The Company advanced a total non-interest-bearing loans in the amount of $635,950 (US$500,000) pursuant to the Letter of intent ("LOI") and new LOI (Note 8) with Steep Hill US entered in 2021.

4. BUSINESS ACQUISITIONS (continued)

(ii) The Company issued 82,000,000 common shares on Steep Hill's Acquisition date to the former shareholders of Steep Hill US. Pursuant to the acquisition agreement, the common shares can not be traded in the open market immediately after Steep Hill's Acquisition date. A total of 20,500,000 (25% of total common share issued on Acquisition date) each are freed for trading after four months, seven months, ten months, and thirteen months following the Steep Hill's Acquisition date.

The fair value of the common shares of $2,062,471 was determined based on a combination of Chaffe, Finnerty Modified and Longstaff Transformed option pricing models, after applying the discounts for lack of marketability due to the regulatory release period of four months with volatility of 174.1%.

(iii) A total of $37,753 in cash, payable to the certain former holders of common stock in the capital of Steep Hill US.

In connection with the Steep Hill Acquisition, the Company issued 2,870,000 common shares, valued at $72,458, for advisory fees and $32,431 of legal fees. The fair value of these common shares was determined based on a combination of Chaffe, Finnerty Modified and Longstaff Transformed option pricing models, after applying the discounts for lack of marketability due to the regulatory release period with volatility of 174.1%. has been included in the acquisition-related costs in the consolidated statements of loss and comprehensive loss.

For the year ended December 31, 2022, Steep Hill US accounted for $1,897,769 in revenue and $2,679,391 in net loss since January 31, 2022, Steep Hill's Acquisition date. If the acquisition had been completed on January 1, 2022, the Company estimates it would have recorded an increase of approximately $160,000 in revenue and an increase of $150,000 in the net loss for the year ended December 31, 2022.

Molecular Science Corp.

On July 8, 2021, the Company acquired all shares of Molecular Science Corp. ("MSC"), a privately-owned based in Ontario, carrying on the business of testing cannabis and related pharmaceutical products. The Company acquired MSC to expand its focus into complementary areas of analytical science and testing service market. The Company determined that the Acquisition was a business combination in accordance with the definition in IFRS 3, Business Combinations ("IFRS 3"), and as such, has accounted for it in accordance with this standard, with the acquisition date of July 8, 2021 (the "Acquisition date").

Goodwill arose from the acquisition comprised of assembled workforce, expected revenue growth, and future market development. These benefits were not recognized separately from goodwill as they do not meet the criteria for identifiable intangible assets and are not deductible for tax purposes.

(Expressed in Canadian dollars)

4. BUSINESS ACQUISITIONS (continued)

The following table summarizes the purchase price allocation based on the fair value of the consideration transferred as of the Acquisition date:

Total purchase price consideration		
Cash (i)	$	500,000
Issued shares (ii)		3,137,793
Issued warrants (iii)		215,848
		3,853,641
Identified tangible assets and liabilities assumed		
Cash		496,590
Accounts receivable		445,106
Advances and other receivable		396,796
Prepaid expenses		9,170
Investments		90,811
Property, plant and equipment		2,907,434
Accounts payable and accrued liabillities		(818,155)
Loan payable		(444,582)
Lease liability		(493,250)
Identified intangible assets		
Licenses		757,000
Intellectual property		328,000
Website		6,195
Goodwill		172,526
	$	**3,853,641**

(i) The Company advanced $500,000 bridge loan in June 2021, pursuant to the Acquisition Agreement entered on June 17, 2021, with MSC, was settled on Acquisition date.

(ii) The Company issued 68,212,896 common shares on Acquisition date. Pursuant to the Acquisition Agreement, the common shares can not be traded in the open market immediately after Acquisition date. A total of 17,053,224 (25% of total common share issued on Acquisition date) each are freed for trading after four months, seven months, ten months, and thirteen months following the Acquisition date ("Trading release periods"). The fair value of the common shares of $3,137,793 was determined based on a combination of Chaffe, Finnerty Modified and Longstaff Transformed option pricing models, after applying the discounts for lack of marketability due to the trading release periods with volatility in the range of 122.1% to 159.4%.

(iii) The Company issued 3,958,800 warrants for a purchase price of $0.30 per share until July 8, 2024 on Acquisition date. The fair value of the warrants of $215,848 was determined based on the Black -Scholes option pricing model using the following assumptions: expected volatility of 155.3%, expected life of 3 years, risk-free interest rate of 0.65%, and expected dividend yield of 0%.

In connection with the Acquisition, the Company issued 1,765,000 common shares for advisory fees on Acquisition date. The fair value of these common shares was $118,778, determined based on the share price on Acquisition date less discount related to the trading restriction. The fair value of these shares along a total of $12,350 incurred related to professional fees have been included in the acquisition-related costs in the consolidated statements of loss and comprehensive loss.

(Expressed in Canadian dollars)

4. BUSINESS ACQUISITIONS (continued)

For the year ended December 31, 2021, MSC accounted for $938,573 in revenue and $522,482 in net loss since July 8, 2021. If the acquisition had been completed on January 1, 2021, the Company estimates it would have recorded an increase of approximately $1,250,000 in revenue and an increase of $620,000 in the net loss for the year ended December 31, 2021.

In August 2022, the Company decided to shut down the MSC and filed for bankruptcy proceedings with Office of Superintendent of Bankruptcy Canada in October 2022 (Note 19).

5. PREPAID AND DEPOSITS

		December 31, 2022		December 31, 2021
Deposits on rental	$	**-**	$	21,061
Prepayment on insurance and services		**11,733**		29,435
Total	$	**11,733**	$	50,496

6. ACCOUNTS RECEIVABLE

		December 31, 2022		December 31, 2021
Trade receivable and other receivable	**$**	**590,748**	$	308,780
Expected credit loss		**(101,602)**		(100,194)
Contract assets		**135,440**		-
Harmonized Sales tax recoverable		**24,553**		67,638
Total	**$**	**649,139**	$	276,224

Contract assets represents unbilled amounts resulting from minimum royalty being recognized over time where the right to payment is not just subject to the passage of time.

The Company provides for expected credit losses ("ECL") is based on its assessment of probability of specific losses and estimates of future individual exposures and provisions.

Included in the trade receivable and other receivable was $38,882 (US$28,708) (2021 - $Nil) comprised of finders' fee receivable in connection with an arrangement with a vendor whereby the Company receives fees based on leads and customers introduction that resulted in sales for the vendor. During the year ended December 31, 2022, the Company earned a total of $209,330 (US$160,360) (2021 - $Nil) of finders' fees from the vendor, which has been recognized as other income in the consolidated statements of loss and comprehensive loss.

(Expressed in Canadian dollars)

7. PROMISSORY NOTE RECEIVABLE

	HIP Beverages (i)	Alami (ii)	Total
Balance, December 31, 2020	**-**	**11,000**	**11,000**
Repayments during the year	(3,000)		(3,000)
Recovery from (allowance from) expected credit losses	3,000	(11,000)	(8,000)
Balance, December 31, 2021 and 2022	**$ -**	**$ -**	**$ -**

(i) The promissory note is a short-term non-interest-bearing loan to HIP Beverages Corporation ("HIP loan") with a maturity date of November 16, 2019. Given the HIP loan was not collected by the maturity date and the uncertainty of the recoverability of the HIP loan, the Company had recognized a full allowance or expected credit losses on the HIP loan in 2020. The Company received $3,000 repayment from HIP Beverages Corporation in 2021.

(ii) On June 2, 2020, the Company entered into a share purchase agreement with the holder of non-controlling interest (the "purchaser") of Alami Beauty Corporation to sell 5,100 Class A shares ("Alami shares"), representing 51% interest for $22,000. Pursuant to the share purchase agreement, the purchaser paid $11,000 upon signing and the remainder of $11,000, included in the other assets, is due before or on December 31, 2021. The share purchase agreement was closed on June 4, 2020, the same day that the Company issued Alami shares to purchaser. Due to the uncertainty of the recoverability of the payment, the Company had recognized a full allowance on the payment in 2021.

8. ACQUISITION-RELATED PAYMENTS AND ADVANCES

<u>2688453 Ontario Ltd.</u>

On December 4, 2020 ("Effective date"), the Company entered into a definitive agreement to acquire 100% of the issued and outstanding shares of 2688453 Ontario Ltd. ("268 Ltd.") in exchange for 7,600,000 common shares ("Consideration shares") of the Company ("Acquisition") to be issued in tranches. On December 4, 2020, the Company issued 1,520,000 common shares to the shareholders of 2688453 Ontario Ltd. valued at $296,400. In 2021, the Company advanced a total of $66,497 to 268 Ltd. to be used for build-out and operation of psilocybin cultivation facility in Jamaica.

On October 5, 2021, the Company and 2688453 Ontario Ltd. mutually agreed to terminate the definite agreement entered into on December 4, 2020 ("Termination Agreement"). As consideration of the termination, in addition to the 1,520,000 common shares already issued and settlement of $66,497 cash advance, the Company agreed to issue 3,040,000 common shares to 2688453 Ontario Ltd. The common shares issued are in escrow and were released in three different tranches as follows: 1,246,667 to be released on February 6, 2022, 896,667 on June 6, 2022 and 896,667 on December 6, 2022. The fair value of the common shares was determined at $130,466.

On initial recognition of the common shares issued, there is a discount for lack of marketability ("DLOM") as a result of share specific trading restriction on each tranche, which was determined using a Finnerty Model with terms of 4 months, 8 months and 14 months and volatility between 132% to 150%. The hold periods expire February 2, 2022, June 6, 2022, and December 6, 2022.

<u>Steep Hill US</u>

On February 15, 2021, MSC signed a non-binding LOI for the acquisition of Steep Hill US (Note 4). In accordance with the LOI, MSC was advanced a loan of $400,000 with a six-month maturity date and bearing an interest rate of 18% per annum from MSC's former director and officer of the Company ("The lenders"). During the year ended December 31, 2022, the Company repaid $160,080 (2021 - $350,616) of loan principal, interest and due diligence fees to the lenders and as of December 31, 2022, the balance of the loan was $Nil (2021 - $146,142). Pursuant to the LOI, MSC, in turn, advanced $318,525 (US$250,000) to Steep Hill (the "Advance").

(Expressed in Canadian dollars)

8. ACQUISITION-RELATED PAYMENTS AND ADVANCES (continued)

Following the completion of the Acquisition with MSC (Note 4), the Company entered into a non-binding Letter of Intent ("new LOI") with Steep Hill US on August 6, 2021 to acquire 100% of issued and outstanding shares of Steep Hill US. Pursuant to the new LOI, the Company provided a secured and senior loan of $318,525 (US$250,000) to Steep Hill US ("Secured loan"). Both the Advance and Secured loan are due on demand. the Company completed the acquisition of Steep Hill US on January 31, 2022 (Note 4).

9. PROPERTY, PLANT AND EQUIPMENT

	Right-of-use assets						
	Office lease	Farms	Leasehold improvements	Production, processing and lab equipment	Office equipment, software and furniture	Vehicle	Total
Cost							
Balance December 31, 2020	$ 76,859	$ 420,344	$ -	$ 280,709	$ 2,503	$ 15,619	$ 796,034
Additions from business acquisition (Note 4)	502,434	-	1,520,000	860,000	25,000	-	2,907,434
Additions during the year	-	-	-	-	1,050	-	1,050
Leases terminated during the year (Note 14)	-	(390,259)	-	-	-	-	(390,259)
Disposals during the year	-	-	-	(278,021)	-	(15,619)	(293,640)
Balance, December 31, 2021	579,293	30,085	1,520,000	862,688	28,553	-	3,020,619
Leases terminated/expired during the year (Note 14)	(502,434)	(30,085)	-	-	-	-	(532,519)
Disposals during the year	-	-	-	(860,000)	-	-	(860,000)
Impairment during the eyear	-	-	(1,520,000)		(25,000)	-	(1,545,000)
Balance December 31, 2022	**$ 76,859**	**$ -**	**$ -**	**$ 2,688**	**$ 3,553**	**$ -**	**$ 83,100**
Accumulated amortization							
Balance December 31, 2020	$ 15,372	$ 73,177	$ -	$ 21,165	$ 486	$ 3,141	$ 113,341
Additions during the year	56,111	64,375	123,243	123,537	3,639	4,341	375,246
Leases terminated during the year (Note 14)	-	(127,526)	-	-	-	-	(127,526)
Disposals during the year	-	-	-	(58,702)	-	(7,482)	(66,184)
Balance, December 31, 2021	$ 71,483	$ 10,026	$ 123,243	$ 86,000	$ 4,125	$ -	$ 294,878
Additions during the year	76,479	3,345	164,324	115,375	4,746	-	364,269
Leases terminated/expired during the year (Note 14)	(101,845)	(13,371)	-	-	-	-	(115,216)
Disposals during the year	-	-	-	(201,376)	-	-	(201,376)
Impairment during the year	-	-	(287,567)		(5,669)	-	(293,236)
Balance December 31, 2022	**$ 46,117**	**$ -**	**$ -**	**-$ 1**	**$ 3,202**	**$ -**	**$ 49,319**
Net book value							
Balance December 31, 2020	**$ 61,487**	**$ 347,167**	**$ -**	**$ 259,544**	**$ 2,017**	**$ 12,478**	**$ 682,693**
Balance December 31, 2021	**$ 507,810**	**$ 20,059**	**$ 1,396,757**	**$ 776,688**	**$ 24,428**	**$ -**	**$ 2,725,741**
Balance December 31, 2022	**$ 30,742**	**$ -**	**$ -**	**$ 2,689**	**$ 351**	**$ -**	**$ 33,781**

During the year ended December 31, 2022, the Company recognized an impairment of leasehold improvements of $1,232,433 and office furniture of $19,331 in connection with a lease which expired in August 2022. The Company did not renew the lease as the Company's management decided to shut down its analytical testing facility in Scarborough, Ontario, which operated under MSC group (Note 19).

(Expressed in Canadian dollars)

10. INTANGIBLE ASSETS AND GOODWILL

	Intellectual property	Brand and Customer relationships	Clonal system development	IT Platform development and website	Total Intangible assets	Goodwill	Total Intangible assets and goodwill
Cost							
Balance December 31, 2020	$ -	$ -	$ 244,050	$ 2,292	$ 246,342	$ -	$ 246,342
Additions from business acquisition (Note 4)	757,000	328,000	-	6,195	1,091,195	172,526	1,263,721
Additions during the year	-	-	-	-	-	-	-
Impairment during the year	-	-	(217,800)	-	(217,800)	-	(217,800)
Balance December 31, 2021	757,000	328,000	26,250	8,487	1,119,737	172,526	1,292,263
Additions from business acquisition (Note 4)	1,000,985	775,859	-	-	1,776,844	1,415,032	3,191,876
Impairment during the year	(1,757,985)	(613,168)	-	(6,195)	(2,377,348)	(1,587,558)	(3,964,906)
Balance December 31, 2022	**$ -**	**$ 490,691**	**$ 26,250**	**$ 2,292**	**$ 519,233**	**$ -**	**$ 519,233**
Accumulated amortization							
Balance December 31, 2020	$ -	$ -	$ 24,405	$ 458	$ 24,863	$ -	$ 24,863
Additions during the year	75,700	23,428	44,742	2,781	146,651	-	146,651
Impairment during the year	-	-	(42,897)	-	(42,897)	-	(42,897)
Balance December 31, 2021	75,700	23,428	26,250	3,239	128,617	-	128,617
Additions during the year	284,447	173,479	-	3,559	461,485	-	461,485
Impairment during the year	(360,147)	(113,776)	-	(5,421)	(479,344)	-	(479,344)
Balance December 31, 2022	**$ -**	**$ 83,131**	**$ 26,250**	**$ 1,377**	**110,758**	**$ -**	**$ 110,758**
Net book value							
Balance December 31, 2020	**$ -**	**$ -**	**$ 219,645**	**$ 1,834**	**$ 221,479**	**$ -**	**$ 221,479**
Balance December 31, 2021	**$ 681,300**	**$ 304,572**	**$ -**	**$ 5,248**	**$ 991,120**	**$ 172,526**	**$ 1,163,646**
Balance December 31, 2022	**$ -**	**$ 407,560**	**$ -**	**$ 915**	**$ 408,475**	**$ -**	**$ 408,475**

MSC group

In August 2022, the Company closed of its analytical testing facility operated under MSC group. On October 21, 2022, MSC group filed for bankruptcy (Note 19). As a result, the Company has not forecasted any cash flows for future periods, and consequently, the Company recognized a full impairment of intangibles and goodwill related to MSC group CGU of $1,027,000.

Steep Hill US

On December 31, 2022, the Company identified indicators of impairments due to continued decline in revenue, which resulted in significant revisions to management's own forecasts of future net cash inflows and earnings from previous forecasts. As such, the Company's management concluded that the carrying value of Steep Hill US CGU was higher than the recoverable amount. and recorded aggregate impairment losses of $2,458,562 on intangible assets and goodwill.

11. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	December 31, 2022	December 31, 2021
Accounts payable	$ **676,744**	$ 483,021
Accrued liabilities	**1,113,702**	523,906
Total	$ **1,790,446**	$ 1,006,927

(Expressed in Canadian dollars)

12. REVENUE FROM CONTRACTS WITH CUSTOMERS

The following table presents components of revenue:

	December 31, 2022	December 31, 2021
Royalty fees	$ **1,840,830**	$ –
Licensing	**56,939**	–
Lab testing services	**1,175,475**	938,573
Total	$ **3,073,244**	$ 938,573

The Company's only contract related liability is deferred revenue, which reflects the timing difference between the receipt of cash and the recognition of revenue. The following table reflects the movement in deferred revenue:

	December 31, 2022	December 31, 2021
Balance, beginning of the year	$ –	$ –
Increases due cash received during the year	**321,855**	–
Revenue recognized during the year	**(56,939)**	–
Foreign currency translation	**14,607**	–
Balance, ending of the year	$ **279,523**	$ –

13. LEASE LIABILITY

Canbud D580H124 Inc.
The Company leased 50 acres of farmland in McKellar, Ontario, to grow industrial hemp under a license from Health Canada which was issued August 16, 2019 and expired in August 2021. The lease commenced January 1, 2020 for a term of five years at an initial lease cost of $21,000 per annum. The Company terminated the lease effective December 31, 2021.

Canbud D2385NR Inc.
The Company leases 55 acres of farmland in Lakefield, Ontario, to grow industrial hemp under a license from Health Canada which was issued November 15, 2019. The lease commenced January 1, 2020 for a term of three years at an initial lease cost of $6,000 per annum. The Company terminated the lease effective July 31, 2022.

Canbud D1726KC Inc.
The Company leased 85 acres of farmland in Kettleby, Ontario, to grow industrial hemp under a license from Health Canada which was issued November 29, 2019. The lease commenced January 1, 2020 for a term of three years at an initial lease cost of $60,000 per annum. The Company terminated the lease effective November 30, 2021.

Office leases
The Company leases an office space which commenced on January 1, 2020 for a term of five years. Upon the completion of acquisition of MSC (Note 4), the Company assume another office lease which expired in August 2022.

The Company's incremental rates at the commencement of the above leases range from 4% - 10%.

(Expressed in Canadian dollars)

13. LEASE LIABILITY (continued)

The following is a continuity schedule for leases:

As at		December 31, 2022		December 31, 2021
Balance, beginning of the year	$	**534,824**	$	407,823
Leases assumed on business acquisition (Note 4)		**-**		493,250
Leases expired during the year		**(412,123)**		-
Leases terminated during the year		**(17,669)**		(269,022)
Interest lease expense		**28,703**		36,960
Lease payments		**(93,765)**		(134,187)
Balance, end of the year	**$**	**39,970**	$	534,824

The future minimum lease payments due are as follows:

		December 31, 2022		December 31, 2021
No more than a year	$	**18,946**	$	126,522
1-5 years		**21,833**		467,885
More than 5 years		**-**		60,137
Total future minimum lease payments		**40,779**		654,554
Less: amount representing interest		**(809)**		(119,730)
Present value of minimum lease payments		**39,970**		534,824
Less: current portion		**(17,443)**		(88,538)
Non-current portion	**$**	**22,527**	$	446,286

For the years ended		December 31, 2022		December 31, 2021
Principal payments	$	**65,062**	$	97,226
Lease expense		**28,703**		36,960
Lease payments	**$**	**93,765**	$	134,186

<u>Leases' payments not recognised as a liability</u>
The Company has elected not to recognise a lease liability for short term leases (leases with an expected term of 12 months or less) or for leases of low value assets. Payments made under such leases are expensed on a straight-line basis. In addition, certain variable lease payments are not permitted to be recognised as lease liabilities and are expensed as incurred.

14. CANADIAN EMERGENCY BUSINESS ACCOUNT ("CEBA") LOAN

On June 10, 2020, the Company received a loan of $40,000 through the Canadian Emergency Business Account Program ("CEBA loan"), which provides financial relief for Canadian small businesses during the COVID-19 pandemic. The CEBA loan has an initial term date on December 31, 2022 (the "Initial Term Date") and may be extended to December 31, 2025. The CEBA loan is non-revolving, with an interest rate being 0% per annum prior to the Initial Term Date and 5% per annum thereafter. Repaying the balance of the CEBA loan on or before December 31, 2023 will result in a loan forgiveness of $10,000.

(Expressed in Canadian dollars)

14. CANADIAN EMERGENCY BUSINESS ACCOUNT ("CEBA") LOAN (continued)

To estimate the fair value, the debt component was estimated first at $33,242, using a 7.5% effective rate which corresponds to a rate that the Company would have obtained for a similar loan. The Company recognized a finance expense of $2,767 (2021 - $2,576) in the consolidated statements of loss and comprehensive loss for the year ended December 31, 2022 .

		December 31, 2022		December 31, 2021
Opening	$	**37,233**	$	34,657
Finance expense		**2,767**		2,576
Ending total	$	**40,000**	$	37,233

15. SHARE CAPITAL

The Company is authorized to issue an unlimited number of common shares.

	Number of shares		Amount
Balance December 31, 2020	**45,568,000**	**$**	**2,917,267**
Private placement, net (i)	21,992,333		1,891,817
Private placement, net (ii)	17,417,013		1,476,016
Issued for services (iii)	1,082,251		200,000
Issued pursuant to MSC acquisition (Note 4)	68,212,896		3,137,793
Issued for services (Note 4)	1,765,000		118,778
Issued on exercise of options	24,000		5,707
Issued pursuant to Termination Agreement (Note 8 (i))	3,040,000		130,466
Balance December 31, 2021	**159,101,493**		**9,877,844**
Issued pursuant to Steep Hill US acquisition (Note 4)	82,000,000		2,062,471
Issued for services (Note 4)	2,870,000		72,458
Returned to treasury (iv)	(1,126,883)		-
Balance December 31, 2022	**242,844,610**	**$**	**12,012,773**

(i) On February 23, 2021, the Company closed the first tranche of non-brokered financing with gross proceeds of $2,639,080 through issuance of 21,992,333 units at a price of $0.12 per Unit. Each unit is comprised of one common share and one warrant of the Company. Each warrant entitles the holder to purchase one additional Common Share at an exercise price of $0.22 on or before February 23, 2023, provided, however if the closing price of the common shares is $0.25 or greater per common share for a period of five (5) consecutive trading days at any time after the closing date of the private placement, the Company may accelerate the warrant term such that the warrants shall expire on the date which is 30 business days following the date a press release is issued by the Company announcing the reduced warrant terms.

The allocation of the $0.12 per Unit issue price to the common shares and warrants was determined based on the relative fair values of the common shares and warrants. The fair value of the warrants was determined using the Barrier model. The common shares issued were allocated a price of $0.091 per share and the warrants were allocated a price of $0.0290. Assumptions used to determine the value of the common share warrant were: risk-free interest rate of 0.23%; dividend yield of nil%; weighted average expected volatility of 138.5%; and expected life of 2 years.

15. SHARE CAPITAL (continued)

The Company paid total of $99,532 of issuance costs and issued 689,920 of broker warrants, which includes $53,595 of issuance costs paid and 446,623 broker warrants issued to Florence Wealth Management Inc. (“Florence”). Raj Ravindran, CFO and director of the Company is the ultimate designated person and CEO of Florence. The brokers warrants have the same terms as the warrants issued in the private placement. The net proceeds of the private placement have been allocated as $1,891,817 to share capital and $647,732 to warrant reserve (Note 16).

(ii) March 8, 2021, the Company closed the second and final tranche of non-brokered financing with gross proceeds of $2,090,042 through issuance of 17,417,013 units at a price of $0.12 per Unit. Each unit is comprised of one common share and one warrant of the Company. Each warrant entitles the holder to purchase one additional Common Share at an exercise price of $0.22 on or before March 8, 2023, provided, however that if the closing price of the common shares is $0.25 or greater per common share for a period of five (5) consecutive trading days at any time after the closing date of the private placement, the Company may accelerate the warrant term such that the warrants shall expire on the date which is 30 business days following the date a press release is issued by the Company announcing the reduced warrant terms.

The allocation of the $0.12 per Unit issue price to the common shares and warrants was determined based on the relative fair values of the common shares and warrants. The fair value of the warrants was determined using the Barrier model. The common shares issued were allocated a price of $0.090 per share and the warrants were allocated a price of $0.030. Assumptions used to determine the value of the warrants were: risk-free interest rate of 0.29%; dividend yield of nil%; weighted average expected volatility of 139.1%; and expected life of 2 years.

The Company paid total of $81,950 of issuance costs and issued 572,425 of broker warrant, which includes $33,831 of issuance costs paid and 281,925 broker warrants issued to Florence. The brokers warrants have the same terms as the warrants issued in the private placement.

The net proceeds of the private placement have been allocated as $1,476,016 to share capital and $532,076 to warrant reserve (Note 16).

(iii) The Company issued a total of 1,082,251 common shares to a consultant of the Company on January 4, 2021 and March 8, 2021 valued at $200,000 based on the fair value of the services provided.

(iv) During the year ended December 31, 2022, the Company’s former shareholders transferred a total of 1,126,883 (2021 – Nil) shares to the Company without any repayment of capital or consideration.

Net loss per share

Basic net loss per share is calculated by dividing the loss attributable to shareholders of the Company by the weighted average number of shares outstanding, made up of common shares. Diluted net loss per share is calculated by adjusting the loss for the period and number of shares for the effects of dilutive options and other dilutive potential ordinary shares. However, there were no options, warrants or financial instruments with dilutive potential ordinary shares as at December 31, 2022 (2021 – nil). Thus, the diluted net loss per share was the same as the calculated basic net loss per share.

(Expressed in Canadian dollars)

15. SHARE CAPITAL (continued)

The weighted average number of shares outstanding used in the computation of loss per share for the year ended December 31, 2022 was 236,763,356 (2021 – 90,799,699).

For the years ended December 31,		2022		2021
Loss attributable to common shareholders	$	(7,121,587)	$	(4,530,535)
Weighted average number of common shares outstanding		236,763,356		90,799,699
Basic and diluted net loss per share	$	(0.03)	$	(0.05)

16. RESERVES

Reserves include (i) the accumulated fair value of stock options recognized as share-based compensation, and (ii) the fair value of warrants issued in private placements and for share issue costs. Reserves are increased by the fair value of these items as they vest and are reduced by corresponding amounts when the options or warrants expire or are exercised or cancelled.

SHARE-BASED COMPENSATION

The Company has a common share 20% Rolling Plan (the “Plan”) for designated directors, officers, employees, and consultants. Pursuant to the Plan, option awards are recommended by the Compensation Committee of the Board and then reviewed by the Board of Directors. Under the Plan, options on common shares may be issued for up to a cumulative amount that may not exceed 10% of shares outstanding at any given time. As at December 31, 2022 , the Company had 25,042,922 (2021 – 17,294,299) options reserved on common shares.

The following table summarizes the continuity of stock options:

	Number of options	Weighted average exercise price $
Outstanding, December 31, 2020	**6,050,000**	**0.13**
Issued (i) (ii) (iii) (iv) (v)	8,500,000	0.07
Exercised	(24,000)	0.13
Outstanding, December 31, 2021	**14,526,000**	**0.12**
Issued (vi)	9,000,000	0.08
Outstanding, December 31, 2022	**23,526,000**	**0.11**

(i) On January 15, 2021, the Company granted 300,000 stock options valued at $58,025 to a consultant with exercise price of $0.22 for 4 years, expiring on January 15, 2025.

(ii) On January 18, 2021, the Company granted 300,000 stock options valued at $58,025 to a consultant with exercise price of $0.22 for 4 years, expiring on January 18, 2025.

(iii) On January 20, 2021, the Company granted 300,000 stock options valued at $45,399 to a consultant with exercise price of $0.22 for 4 years, expiring on January 20, 2025.

(iv) On March 30, 2021, the Company granted 600,000 stock options valued at $88,114 to consultants with exercise price of $0.22 for 4 years, expiring on March 30, 2025.

(Expressed in Canadian dollars)

16. RESERVES (continued)

(v) On August 9, 2021, the Company granted 7,000,000 stock options valued at $498,987 to directors, employees, officers, and consultants of the Company. The options have an exercise price of $0.10 and a term of 5 years expiring on August 5, 2026.

(vi) On May 3, 2022, the Company granted 9,000,000 options valued at $127,114 to certain directors, officers, employees and consultants of the Company. The options are exercisable at a price of $0.08 with each option exercisable to purchase one common share of the Company. The options expire on May 3, 2025. Included in the 9,000,000 options issued were 1,500,000 options issued pursuant to the settlement agreement entered on March 24, 2022 (Note 22).

During the year ended December 31, 2022, the Company recognized at a total $127,114 (2021 - $748,547) of share-based compensation.

The fair value of the options granted was estimated on the date of the grant using the Black-Scholes option pricing model, with the following assumption ranges:

	Year ended December 31, 2022	Year ended December 31, 2021
Volatility	123%	114-155%
Expected life	3 years	4 - 5 years
Risk-free interest rate	2.84%	0.34 - 0.88%
Forfeiture rate	0%	0%
Expected dividend yield	0%	0%

The following stock options are outstanding and exercisable as at December 31, 2022:

Options outstanding and exercisable			
Exercise price $	Number of Options	Remaining contractual life in years	Weighted average exercise price $
0.125	6,026,000	2.90	0.03
0.22	300,000	2.04	0.00
0.22	300,000	2.05	0.00
0.22	300,000	2.06	0.00
0.22	600,000	2.24	0.01
0.10	7,000,000	3.60	0.03
0.08	9,000,000	2.34	0.03
	23,526,000	**2.85**	**0.11**

WARRANTS

Warrant activity is presented below:

	Number of warrants	Weighted average exercise price $
Outstanding, December 31, 2020	**5,000,000**	**0.20**
Issued (Note 15 (i))	22,682,253	0.22
Issued (Note 15 (ii))	17,989,438	0.22
Issued (Note 4)	3,958,800	0.30
Expired	(5,000,000)	0.20
Outstanding, December 31, 2021 and 2022	**44,630,491**	**0.23**

(Expressed in Canadian dollars)

16. RESERVES (continued)

The fair value of the warrants was estimated on the date of the issuance using either with the Black-Scholes option pricing model or Barrier model, with the following assumption ranges:

	Year ended December 31, 2021
Volatility	155.3 - 169%
Expected life	2 -3 years
Risk-free interest rate	0.23 – 0.65%
Forfeiture rate	0%
Expected dividend yield	0%

The following warrants are outstanding and exercisable as at December 31, 2022:

Warrants outstanding and exercisable			
Exercise price $	Number of Warrants	Remaining contractual life in years	Weighted average exercise price $
0.22	21,992,333	0.15	0.11
0.22	689,920	0.15	0.00
0.22	17,417,013	0.18	0.09
0.22	572,425	0.18	0.00
0.30	3,958,800	1.52	0.03
	44,630,491	**0.28**	**0.23**

17. NON-CONTROLLING INTERESTS

Summarized financial information, before intragroup eliminations, is set out as below:

For the period ended	July 19, 2022 D580 Inc.	December 1, 2022 D238 Inc.	July 19, 2022 D172 Inc.
Net income (loss) and comprehensive income (loss) attributable to shareholders of the Company	$ 11,834	$ (3,268)	$ (109)
Net income (loss) and comprehensive income (loss) attributable to NCI	$ 7,889	$ (408)	$ (14)

	December 31, 2021		
	D580 Inc.	D238 Inc.	D172 Inc.
Current assets	$ 120	$ 80	$ 80
Non-current assets	-	22,746	-
Total assets	**120**	**22,826**	**80**
Current liabilities	19,723	20,381	-
Non-current liabilities	26,260	27,715	301,303
Total liabilities	**45,983**	**48,096**	**301,303**
Equity attributable to shareholders of the Company	(26,918)	(22,462)	(260,925)
Non-controlling interests	**$ (17,945)**	**$ (2,808)**	**$ (40,298)**

(Expressed in Canadian dollars)

17. NON-CONTROLLING INTERESTS (continued)

	December 31, 2021		
	D580 Inc.	D238 Inc.	D172 Inc.
Net loss and comprehensive loss attributable to shareholders of the Company	$ (10,728)	$ (4,455)	$ (48,887)
Net loss and comprehensive loss attributable to NCI	$ (7,152)	$ (556)	$ (6,111)

18. RELATED PARTY TRANSACTIONS

Compensation awarded to key management personnel
The Company has defined key management personnel as senior executive officers, as well as the Board of Directors. The total remuneration of key management personnel and the Board of Directors are as follows:

For the years ended December 31,	**2022**	2021
Salaries, benefits and consulting fees	**$** 365,699	$ 360,500
Director fees	57,000	10,000
Share-based compensation	30,366	209,502
	$ 453,065	$ **580,002**

As of December 31, 2022, the Company had $12,000 (2021 - $24,000) of unpaid consulting fees to key management personnel and directors' fees to directors included in accounts payable and accrued liabilities.

Related party transactions
During the year ended December 31, 2022, the Company incurred rental fees of $16,350 (2021 - $Nil) and consulting fees of $59,075 (2021 - $Nil) from Summerhill Group Inc ("SGI"). SGI is a company in which the Company's Chairman and director, Ian Morton, is the majority shareholder. As of December 31, 2022, $46,246 (2021 - $Nil) was due to SGI.

During the year ended December 31, 2022, the Company incurred consulting fees of $63,994 (2021 - $Nil) from Eco Generation Home Services Inc. ("EGHS"). EGHS is a company in which Ian Morton has a 100% ownership interest. As of December 31, 2022, $1,526 (2021 - $Nil) was due to EGHS.

See also Note 8

19. DECONSOLIDATION OF SUBSIDIARIES

MSC group

On October 21, 2022, MSC group appointed an approved Trustee and filed for bankruptcy proceedings ("OSBC filings") with Office of Superintendent of Bankruptcy Canada ("OSBC"). As a result of the OSBC filings and the result of loss of control over the MSC group, the Company deconsolidated the assets and liabilities of MSC group and its operating results starting from October 21, 2022. and recorded a gain of $264,694.

Following the deconsolidation, the carrying value of assets and liabilities of MSC group were removed from the Company's consolidated statements of financial position and the Company recorded a gain of deconsolidation of $264,694.

19. DECONSOLIDATION OF SUBSIDIARIES (continued)

D580 Inc, D238 Inc., D172 Inc., DEPL Corp, and Empathy (collectively "Canbud group")

The Company dissolved the above subsidiaries on July 19, 2022, with the exception of D238 Inc., which was dissolved on December 1, 2022. Following the deconsolidation, the carrying value of assets and liabilities of Canbud group were removed from the Company's consolidated statements of financial position and the Company recognized a loss of deconsolidation of $53,584.

20. FINANCIAL RISK MANAGEMENT

The Company's objective is to maintain sufficient capital to maintain investor, creditor and customer confidence and to sustain future development of the business and to provide the ability to continue as a going concern. Management defines capital as the Company's shareholders' equity. The Board of Directors does not establish quantitative return on capital criteria for management. The Company has not paid any dividends to its shareholders. The Company is not subject to any externally imposed capital requirements.

As at December 31, 2022 , the Company's total managed capital comprised of equity attributable to the equity holders of the Company $842,339 (December 31, 2021 - $5,769,919). There were no changes in the Company's approach to capital management during the period.

(a) Fair value
Financial instruments included in the consolidated statement of financial position as at December 31, 2022 consist of cash, accounts receivable, accounts payables and accrued liabilities, loan payable and CEBA loan with period-end carrying amounts which approximates their respective fair values.

(b) Interest rate risk
The Company does not have any debts or borrowings from any banks or institutional lenders as at December 31, 2022 , except for CEBA loan (Note 14), which is non-interest bearing until December 31, 2022 and loan payable with a fixed interest rate.

(c) Currency risk
As the Company operates in the United States (U.S.), some of the company's assets, liabilities, and transactions are denominated in United States funds. Fluctuation in the exchange rates between the U.S. dollar and the Canadian dollar could have a material effect on the Company's business, financial condition, and results of operations.

As at December 31, 2022, the Company had net monetary liabilities denominated in the U.S. funds of approximately 230,600 (US$170,300). Based upon the balance as at December 31, 2022, an increase of 15% in the U.S. to Canadian dollar exchange would result in a decrease in the net loss and comprehensive loss of $34,600 , and a reduction of 15% would result in an increase in the net loss and comprehensive loss of $34,600. Management believes that it is not likely, but it is possible that the exchange rate could fluctuate by more than 15% within the next 12 months.

(d) Credit risk
Credit risk is the risk of loss associated with the counterparty's inability to fulfil its payment obligations. Financial instruments that potentially subject the Company to concentrations of credit risks consist principally of cash and cash equivalents and trade receivables. All of the Company's cash is held at financial institutions which are Canadian Chartered Banks or fund held in trust with legal counsel in which management believes that the risk of loss is minimal, but the Company is subject to concentration of credit risk.

(Expressed in Canadian dollars)

20. FINANCIAL RISK MANAGEMENT (continued)

As at December 31, 2022, the aggregate credit risk exposure related to trade and other receivables were $590,748 (2021 - $308,780).

The Company applies the simplified approach to providing for expected credit losses as prescribed by IFRS 9, which permits the use of the lifetime expected loss provision for all trade receivables and contract assets. The loss allowance provision is based on the Company's historical collection and loss.

The Company considers an impairment if any of the following indicators are present:

- significant financial difficulties of the debtor;
- probability that the debtor will enter bankruptcy or financial reorganization; and/or
- default or delinquency in payments

(e) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivery of cash or another financial asset. The Company enters into transactions to purchase services on credit, for which repayment is required at various maturity dates.

The Company manages the liquidity risk resulting from accounts payable and accrued liabilities, leases and CEBA loan by ensuring that it documents when authorized payments are due and maintaining adequate cash reserves to meet its obligations as they come due.

The Company has the following undiscounted contractual obligations as at December 31, 2022 and 2021 , which are expected to be payable in the following respective periods:

December 31, 2022	Within 1 year	Over 1 year	Total
Accounts payable and accrued liabilities	$ 1,790,446	$ –	$ 1,790,446
CEBA loan	40,000	–	40,000
Lease liability	18,946	21,833	40,779
Total	$ 1,849,392	$ 21,833	$ 1,871,225

December 31, 2021	Within 1 year	Over 1 year	Total
Accounts payable and accrued liabilities	$ 1,006,927	$ –	$ 1,006,927
CEBA loan	40,000	–	40,000
Loan payable	146,142	–	146,142
Lease liability	126,552	528,022	654,574
Total	$ 1,319,621	$ 528,022	$ 1,847,643

As of December 31, 2022 , the Company had cash of $1,912,806 (2021 - $2,576,488) and total equity attributable to the equity holders of the Company was $842,339 (2021 - $5,769,919). The Company manages its capital structure and makes adjustments in light of changes in its economic environment and the risk characteristics of the Company's assets. To effectively manage the entity's capital requirements, the Company has in place a planning, budgeting, and forecasting process to help determine the funds required to ensure the Company has the appropriate liquidity to meet its operating and growth objectives. There are no externally imposed capital requirements to which the Company has not complied.

(Expressed in Canadian dollars)

21. INCOME TAX

Income tax expense varies from the amount that would be computed by applying the basic tax rates to income (loss) from operations before income taxes, shown as follows:

	December 31, 2022	December 31, 2021
Expected Tax Rate	**26.50%**	**26.50%**
Expected tax Benefit Resulting From Loss	$ (1,920,909)	$ (1,204,228)
Impairment of goodwill	420,703	-
Permanent Differences	19,606	416,052
Effect of losses not recognized and other deductible temporary differences not recognized	(2,095,880)	852,376
Financing costs recorded to equity	-	(62,455)
Deconsolidation of subsidiaries	3,483,443	-
Other	(42,062)	(1,745)
Income tax expense (recovery)	**$ (135,099)**	**$ -**
Current tax expense	$ 23,656	$ -
Deferred tax recovery	(158,755)	-
Income tax expense (recovery)	**$ (135,099)**	**$ -**

Deferred income taxes reflect the impact of loss carry forwards and of temporary differences between amounts of assets and liabilities for financial reporting purposes and such amounts as measured by tax laws. The following deferred tax assets and liabilities have been recognized for accounting purposes:

	December 31, 2022	December 31, 2021
Deferred tax asset	$ 133,564	$ 294,507
Deferred tax liability	(133,564)	(294,507)
Net deferred tax liability	**$ -**	**$ -**

The effect of temporary differences and loss carry forwards that give rise to significant portions of the deferred tax liability, which has been recognized during the year are as follows:

	December 31, 2021	Recognized in goodwill	Recognized in profit and loss	December 31, 2022
Deferred tax asset				
Non Capital Loss Carryforward - Canada	$ 261,669	$ -	$ (261,184)	$ 485
Net Operating Loss Carryforward - US	-	338,437	(216,944)	121,493
Capital loss Carryforward	-	-	3,438	3,438
Lease liability	32,838	-	(24,691)	8,147
	294,507	338,437	(499,381)	133,563
Deferred tax liability				
ROU assets	(32,327)	-	24,180	(8,147)
Intangibles	-	(497,192)	375,214	(121,978)
Unrealized foreign exchange gain on intercompany loans	-	-	(3,438)	(3,438)
Prepaid and deposits	(262,180)	-	262,180	-
	(294,507)	(497,192)	658,136	(133,563)
Net deferred tax liability	**$ -**	**$ (158,755)**	**$ 158,755**	**$ -**

(Expressed in Canadian dollars)

21. INCOME TAX (continued)

The deductible temporary differences and unused tax losses for which no deferred tax asset is recognized, are approximately as follows:

	December 31, 2022	December 31, 2021
Property, plant and equipment	$ 778	$ 1,616,294
Intangible assets	916	916
Non-capital losses - Canada	5,202,258	12,480,692
Net operating loss - US	724,786	-
Capital loss Carryforward	629,251	139,707
Share issuance costs	135,481	236,788
SR&ED pool balance	-	266,803
Reserve	318,756	-
Other	34,725	28,382
Total	**$ 7,046,951**	**$ 14,769,582**

The Company has the following Canadian non-capital losses, the benefits of which has not been recognized on the consolidated financial statements, which expire as follows:

2039	$ 367,181
2040	548,159
2041	2,985,075
2042	1,301,843
	$ 5,202,258

The Company has the following US net operating losses, the benefits of which has not been recognized on the consolidated financial statements, which expire as follows:

2031	$ 185,412
2033	137,909
2034	401,465
	$ 724,786

22. CONTINGENT LIABILITIES

On March 24, 2022, the Company entered into a settlement agreement related to a complaint against Steep Hill US filed on March 14, 2018. Pursuant to the settlement agreement, the Company is required to pay a total of $247,178 (US$182,500) ("settlement amount") and grant a total of 1,500,000 options (issued), with each option entitling the holder to acquire a common share of the Company, at any time in the next 3 years at an exercise price of no higher than $0.08. The options were issued, as part of the 9,000,000 options granted on May 2022 (Note 16). The settlement amount was included in the accounts payable and accrued liabilities assumed on acquisition of Steep Hill US (Note 4). During the year ended December 31, 2022, the Company paid $206,546 (US$152,500) (2021 - $Nil) and as of December 31, 2022, a total of $40,632 (US$30,000) (2021 - $Nil) is included in the accounts payable and accrued liabilities.

In January 2022, a Steep Hill US's former officer (the "former officer") filed a complaint seeking indemnification of legal fees and costs incurred of approximately US$900,000 in connection with a previously filed complaint ("initial complaint") brought by the former officer. The stipulation and order of dismissal of the initial complaint was granted by the Court of Chancery of the State of Delaware in April 2022. The Company believes the complaint is without merit and intends to vigorously defend against it.

23. SUBSEQUENT EVENTS

In March and April 2022, the Company, through Steep Hill, Inc., entered into settlement and release agreements with various licensees to terminate the license agreements in effect and settled for a combined termination fees of $2,471,764 (US$1,824,988). In addition, the Company also entered into a trademark purchase agreement with its former licensees to sell "Steep Hill" trademarks for $20,316 (US$15,000).