



STEEP HILL INC. (FORMERLY CANBUD DISTRIBUTION CORPORATION)
CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2023 AND 2022
(Expressed in Canadian Dollars)

NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS

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

The accompanying condensed interim consolidated financial statements of the Company have been prepared by and are the responsibility of the Company's management. The Company's independent auditor has not performed an audit or review of these condensed interim consolidated financial statements in accordance with standards established by the Chartered Professional Accountants of Canada.

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

As at	Note	September 30, 2023	December 31, 2022
Assets			
<i>Current</i>			
Cash	3	\$ 520,381	\$ 1,912,806
Term deposits	3	2,656,475	-
Prepays		71,916	11,733
Accounts receivable	5	81,537	649,139
Assets of discontinued operation	18	284,382	-
Total current assets		3,614,691	2,573,678
<i>Non-current</i>			
Property, plant and equipment	7	19,216	33,781
Intangible assets	8	573	408,475
Total assets		\$ 3,634,480	\$ 3,015,934
Liabilities			
<i>Current</i>			
Accounts payable and accrued liabilities	9	\$ 309,423	\$ 1,790,446
Income tax payable		23,656	23,656
Deferred revenue	10	-	279,523
Canada Emergency Business Account ("CEBA") loan	12	40,000	40,000
Current portion of lease liability	11	20,340	17,443
Liabilities of discontinued operation	18	1,615,465	-
Total current liabilities		2,008,884	2,151,068
<i>Non-current</i>			
Lease liability	11	9,001	22,527
Total liabilities		2,017,885	2,173,595
Shareholders' Equity			
Share Capital	13	12,012,773	12,012,773
Reserves	14	1,771,247	2,951,055
Accumulated other comprehensive loss		(56,553)	(68,036)
Deficit		(12,110,872)	(14,053,453)
Total Shareholders' Equity		1,616,595	842,339
Total liabilities and Equity		\$ 3,634,480	\$ 3,015,934

NATURE OF OPERATIONS AND GOING CONCERN (Note 1)
CONTINGENT LIABILITIES (Note 20)

Approved on behalf of the board of directors:

"Ian Morton"
Director

"Anthony Viele"
Director

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

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

	Notes	For the three months ended		For the nine months ended	
		September 30,		September 30,	
		2023	2022	2023	2022
Expenses					
Amortization of property, plant and equipment	7	\$ 3,842	\$ 4,888	\$ 11,877	\$ 15,498
Amortization of intangible assets	8	115	114	343	343
Consulting fees	16	(26,562)	91,890	154,004	315,410
Director fees	16	18,000	21,000	30,000	45,000
Marketing and promotion		-	-	-	1,000
Office and general expenses		17,799	38,069	74,644	122,960
Professional fees		77,128	74,203	137,229	213,519
Regulatory, filing and listing fees		8,851	8,151	19,347	83,213
Salaries and wages		(66,815)	62,317	51,826	153,371
Share-based compensation	14	-	-	-	127,114
Impairment of property, plant and equipment	7	-	-	2,688	-
Loss before other (expenses) income		(32,358)	(300,632)	(481,958)	(1,077,428)
Other (expenses) income					
Finance expense	6,11,12	(351)	(1,339)	(1,204)	(4,555)
Gain on termination of lease	11	-	576	-	576
Interest income		17,999	-	33,640	-
Loss on deconsolidation of subsidiaries	17	-	(50,367)	-	(50,367)
Foreign exchange gain (loss)		(53,674)	30,783	2,108	35,983
Acquisition-related costs	4	-	-	-	(116,164)
Net loss from continuing operation		(68,384)	(320,979)	(447,414)	(1,211,955)
Discontinued operations					
Income (loss) from discontinued operation - Steep Hill US	18	(829,582)	224,280	1,210,187	(244,771)
Loss from discontinued operation - MSC group	18	-	(2,495,407)	-	(3,062,847)
Net Income (loss) for the period		(897,966)	(2,592,106)	762,773	(4,519,573)
Other comprehensive income					
Income on translation of discontinued operation - Steep Hill US		37,455	102,563	11,483	159,844
Total income (loss) and comprehensive income (loss)		\$ (860,511)	\$ (2,489,543)	\$ 774,256	\$ (4,359,729)
Net income (loss) attributable to:					
Equity holders of the Company		\$ (897,966)	\$ (2,592,054)	\$ 762,773	\$ (4,527,040)
Non-controlling interests	15	-	(52)	-	7,467
		\$ (897,966)	\$ (2,592,106)	\$ 762,773	\$ (4,519,573)
Net comprehensive loss attributable to:					
Equity holders of the Company		\$ (1,727,548)	\$ (2,489,491)	\$ 774,256	\$ (4,367,196)
Non-controlling interests	15	-	(52)	-	7,467
		\$ (1,727,548)	\$ (2,489,543)	\$ 774,256	\$ (4,359,729)
Weighted average number of shares outstanding					
- basic and diluted		242,844,610	243,971,493	242,844,610	243,971,493
Basic and diluted net income (loss) per share					
- Continuing operations		\$ (0.00)	\$ (0.00)	\$ (0.00)	\$ (0.00)
- Discontinued operation		(0.00)	(0.01)	0.00	(0.01)
Basic and diluted net income (loss) per share		\$ (0.00)	\$ (0.01)	\$ 0.00	\$ (0.02)

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

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

	Number of shares	Share capital	RESERVES		Accumulated Other Comprehensive income (loss)	Deficit	Attributable to owners of the Company	Non- controlling interest	Total shareholders' equity
			Share based payments	Warrants					
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
Expired warrants (Note 14)	-	-	-	(1,179,808)	-	1,179,808	-	-	-
Other comprehensive income	-	-	-	-	11,483	-	11,483	-	11,483
Net loss from continuing operation	-	-	-	-	-	(447,414)	(447,414)	-	(447,414)
Net income from discontinuing operation	-	-	-	-	-	1,210,187	1,210,187	-	1,210,187
Balance, September 30, 2023	242,844,610	\$ 12,012,773	\$ 1,555,400	\$ 215,847	\$ (56,553)	\$ (12,110,872)	\$ 1,616,595	\$ -	\$ 1,616,595
Balance, December 31, 2021	159,101,493	\$ 9,877,844	\$ 1,428,286.00	\$ 1,395,655.00	\$ -	\$ (6,931,866)	\$ 5,769,919	\$ (61,051)	\$ 5,708,868
Issued pursuant to Steep Hill, Inc. acquisition (Note 4)	84,870,000	1,990,728	-	-	-	-	1,990,728	-	1,990,728
Share-based compensation (Note 14)	-	-	127,114	-	-	-	127,114	-	127,114
De-consolidation on dissolution of subsidiaries (Note 17)	-	-	-	-	-	-	-	50,367	50,367
Other comprehensive income	-	-	-	-	159,844	-	159,844	-	159,844
Net loss from continuing operation	-	-	-	-	-	(1,211,955)	(1,211,955)	7,467	(1,204,488)
Net income from discontinuing operation	-	-	-	-	-	(3,307,618)	(3,307,618)	-	(3,307,618)
Balance, September 30, 2022	243,971,493	\$ 11,868,572	\$ 1,555,400	\$ 1,395,655	\$ 159,844	\$ (11,451,439)	\$ 3,528,032	\$ (3,217)	\$ 3,524,815

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

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

		For the nine months ended September 30,	
		2023	2022
Operating activities			
Net income (loss) for the period		\$ 762,773	\$ (4,519,573)
Net income (loss) from discontinued operations	18	1,210,187	(3,307,618)
Net loss from continuing operation		\$ (447,414)	\$ (1,211,955)
Non-cash items:			
Amortization of property, plant and equipment	7	11,877	15,498
Amortization of intangible assets	8	343	343
Acquisition-related costs	4	-	116,164
Impairment of property, plant and equipment	7	2,688	-
Share-based compensation	14	-	127,114
Finance expense	11	1,204	4,555
Foreign exchange gain		(2,108)	(35,983)
Changes in non-cash working capital items:			
Prepays		(71,916)	9,287
Accounts receivable	5	(56,984)	(42,981)
Accounts payable and accrued liabilities	9	(283,467)	(299,947)
Cash used in operating activities - continuing operation		(845,777)	(1,317,905)
Cash generated from (used in) operating activities - discontinuing operation		2,128,331	(452,612)
Cash generated from (used in) in operating activities		1,282,554	(1,770,517)
Investing activities			
Purchase of term deposits	3	(2,656,475)	-
Cash used in investing activities - continuing operation		(2,656,475)	-
Cash generated from investing activities - discontinuing operation		-	757,846
Cash (used in) generated from investing activities		(2,656,475)	757,846
Financing activities:			
Payments of lease liability	11	(9,425)	(11,157)
Cash used in financing activities - continuing operation		(9,425)	(11,157)
Cash used in investing activities - discontinuing operation		-	(93,470)
Cash used in financing activities		(9,425)	(11,157)
Decrease in cash during the period		(1,383,346)	(1,023,828)
Effects of exchange rate changes on cash		(9,079)	190,497
Cash, beginning of the period		1,912,806	2,320,211
Cash, end of the period		\$ 520,381	\$ 1,486,880

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

Steep Hill Inc. (formerly Canbud Distribution Corporation)
Notes to Condensed Interim Consolidated Financial Statements for the Nine
Months Ended September 30, 2023 and 2022
(Expressed in Canadian dollars)

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. 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 was incorporated to provide hemp-based science-backed differentiated 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. In March 2023, the Company terminated all the licensing agreements in Steep Hill, Inc. and subsequently, shut down its operation.

These condensed interim 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 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 from continuing operation of \$447,414 (2022 - \$1,211,955) during the nine months ended September 30, 2023 and the Company has an accumulated deficit of \$12,110,872 (2022 - \$14,053,453). As at September 30, 2023, the Company has a working capital of \$1,605,807 (2022 - \$422,610) and cash flows used in operating activities from continuing operation for the nine months ended September 30, 2023 was \$845,777 (2022 - \$1,317,905). 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 condensed interim consolidated financial statements have been prepared in accordance with IFRS applicable to the preparation of interim financial statements, including International Accounting Standard 34 *Interim Financial Reporting* (“IAS 34”) as issued by the International Accounting Standards Board (“IASB”) and do not include all the information required for full annual consolidated financial statements required by IFRS as issued by the IASB and interpretations issued by the International Financial Reporting Interpretations Committee (“IFRIC”).

These condensed interim consolidated financial statements should be read in conjunction with the Company's audited annual financial statements for the year ended December 31, 2022. These condensed interim consolidated financial statements were approved by the Board of Directors and authorized for issue on November 28, 2023.

Steep Hill Inc. (formerly Canbud Distribution Corporation)
Notes to Condensed Interim Consolidated Financial Statements for the Nine
Months Ended September 30, 2023 and 2022
(Expressed in Canadian dollars)

2. BASIS OF PREPARATION (continued)

Basis of measurement

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

Basis of consolidation

These condensed interim 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.

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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. 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 17), 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 were located in Ontario, Canada, except Steep Hill, Inc., which is registered in Delaware, United States and operated 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 condensed interim 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 condensed interim 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 significant accounting policies followed in the condensed interim consolidated financial statements for the nine months ended September 30, 2023 are consistent with those applied in the Company’s audited consolidated financial statements for the year ended December 31, 2022.

Cash

Cash includes cash on account at banking institutions of \$520,381 (2022 - \$1,848,658) and amounts held in trust of on behalf of the Company of \$Nil (2022 - \$64,148).

Term Deposits

Term deposits are held at a reputable banking institution, bearing interest between 2.5% - 2.75% per annum and have 12-months term.

Significant Estimates and Judgments

The preparation of these condensed interim 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 condensed interim 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 condensed interim 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.

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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 condensed interim 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 willing 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

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Capitalization and write-off of intangible assets

An intangible asset arising from development is recognised on satisfying the following criteria 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.

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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 17).

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.

Adoption of New Accounting Pronouncements

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 amendment applies retrospectively for annual reporting periods beginning on or after January 1, 2023. There were no changes to the Company's current period or comparative period upon adoption.

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. There was no material impact as a result of adopting this amendment.

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.

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Amendments to IAS 16 – Leases

The amendment clarifies how a seller-lessee subsequently measures sale and leaseback transactions that satisfy the requirements in IFRS 15: Revenue to be accounted for as a sale. The amendment is effective for annual period beginning on or after January 1, 2024.

Amendments to IAS 1 – Covenants

The amendment that clarifies how an entity classifies debt and other financial liabilities as current or non-current in particular circumstances. The amendments are effective for annual periods beginning on or after January 1, 2024.

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 liabilities	(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

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4. BUSINESS ACQUISITIONS (continued)

- (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 6) with Steep Hill US entered in 2021.
- (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 condensed interim 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.

5. ACCOUNTS RECEIVABLE

	September 30, 2023	December 31, 2022
Trade receivable and other receivable	\$ 33,938	\$ 590,748
Expected credit loss	-	(101,602)
Contract assets	-	135,440
Harmonized Sales tax recoverable	47,599	24,553
Total	\$ 81,537	\$ 649,139

Contract assets represented 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 provided for expected credit losses (“ECL”) is based on its assessment of probability of specific losses and estimates of future individual exposures and provisions.

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6. LOAN PAYABLE

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 the remaining \$160,080 of loan principal, interest and due diligence fees to the lenders. Pursuant to the LOI, MSC, in turn, advanced \$318,525 (US\$250,000) to Steep Hill (the "Advance").

Following the completion of the Acquisition with MSC, 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 (the "Secured Loan"). Both the Advance and Secured loan (the "Bridge Loan") were due on demand and became a part of purchase price consideration when the acquisition of Steep Hill US was completed on January 31, 2022 (Note 4).

7. PROPERTY, PLANT AND EQUIPMENT

	Right-of-use assets			Leasehold improvements	Production, processing and lab equipment	Office equipment, software and furniture	Total
	Office lease	Farms					
Cost							
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 11)	(502,434)	(30,085)	-	-	-	(532,519)	
Disposals during the year	-	-	-	(860,000)	-	(860,000)	
Impairment during the year	-	-	(1,520,000)	-	(25,000)	(1,545,000)	
Balance, December 31, 2022	\$ 76,859	\$ -	\$ -	\$ 2,688	\$ 3,553	\$ 83,100	
Impairment during the period	-	-	-	(2,688)	-	(2,688)	
Balance, September 30, 2023	\$ 76,859	\$ -	\$ -	\$ -	\$ 3,553	\$ 80,412	
Accumulated amortization							
Balance, December 31, 2021	\$ 71,483	\$ 10,026	\$ 123,243	\$ 86,000	\$ 4,125	\$ 294,877	
Additions during the year	76,479	3,345	164,324	115,376	4,746	364,270	
Leases terminated/expired during the year (Note 11)	(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	\$ -	\$ -	\$ -	\$ 3,202	\$ 49,319	
Additions during the period	11,526	-	-	-	351	11,877	
Balance, September 30, 2023	\$ 57,643	\$ -	\$ -	\$ -	\$ 3,553	\$ 61,196	
Net book value							
Balance, December 31, 2021	\$ 507,810	\$ 20,059	\$ 1,396,757	\$ 776,688	\$ 24,428	\$ 2,725,742	
Balance, December 31, 2022	\$ 30,742	\$ -	\$ -	\$ 2,688	\$ 351	\$ 33,781	
Balance, September 30, 2023	\$ 19,216	\$ -	\$ -	\$ -	\$ -	\$ 19,216	

In 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 17 and 18).

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8. 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, 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
Transferred to discontinued operation	-	(407,560)	-	-	(407,560)	-	(407,560)
Balance September 30, 2023	\$ -	\$ 83,131	\$ 26,250	\$ 2,292	\$ 111,673	\$ -	\$ 111,673
Accumulated amortization							
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
Additions during the period	-	-	-	342	342	-	342
Impairment during the period	-	-	-	-	-	-	-
Balance September 30, 2023	\$ -	\$ 83,131	\$ 26,250	\$ 1,719	\$ 111,100	\$ -	\$ 111,100
Net book value							
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
Balance September 30, 2023	\$ -	\$ -	\$ -	\$ 573	\$ 573	\$ -	\$ 573

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 17). 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.

9. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	September 30, 2023	December 31, 2022
Accounts payable	\$ 189,161	\$ 676,744
Accrued liabilities	120,262	1,113,702
Total	\$ 309,423	\$ 1,790,446

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10. REVENUE FROM CONTRACTS WITH CUSTOMERS

The Company's only contract-related liability was deferred revenue generated in Steep Hill, Inc., which reflected the timing difference between the receipt of cash and the recognition of revenue. The following table reflects the movement in deferred revenue:

	September 30, 2023	December 31, 2022
Balance, beginning of the period/year	\$ 279,523	\$ -
Increases due cash received during the year	-	321,855
Revenue recognized during the period/year	(279,523)	(56,939)
Foreign currency translation	-	14,607
Balance, ending of the period/year	\$ -	\$ 279,523

11. LEASE LIABILITY

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.

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, 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%.

The following is a continuity schedule for leases:

As at	September 30, 2023	December 31, 2022
Balance, beginning of the period/year	\$ 39,970	\$ 534,824
Leases expired during the year	-	(412,123)
Leases terminated during the year	-	(17,669)
Interest lease expense	1,204	28,703
Lease payments	(9,425)	(93,765)
Balance, end of the period/year	\$ 29,341	\$ 39,970

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11. LEASE LIABILITY (continued)

The future minimum lease payments due are as follows:

	September 30, 2023		December 31, 2022	
No more than a year	\$	20,340	\$	18,946
1-5 years		9,941		21,833
Total future minimum lease payments		30,281		40,779
Less: amount representing interest		(940)		(809)
Present value of minimum lease payments		29,341		39,970
Less: current portion		(20,340)		(17,443)
Non-current portion	\$	9,001	\$	22,527

For the nine months ended	September 30, 2023		September 30, 2022	
Principal payments	\$	7,036	\$	8,526
Lease interest		853		2,631
Lease payments	\$	9,425	\$	11,157

Leases' payments not recognised as a liability

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.

12. 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. Subsequent to September 30, 2023, the Company repaid the CEBA loan and received \$10,000 of loan forgiveness.

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 \$Nil (2022 - \$1,254) in the condensed interim consolidated statements of loss and comprehensive loss for the nine months ended September 30, 2023.

	September 30, 2023		December 31, 2022	
Opening	\$	40,000	\$	37,233
Finance expense		-		2,767
Ending total	\$	40,000	\$	40,000

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13. SHARE CAPITAL

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

	Number of shares	Amount
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 ⁽ⁱ⁾	(1,126,883)	-
Balance December 31, 2022 and September 30, 2023	242,844,610	\$ 12,012,773

(i) In 2022, the Company's former shareholders transferred a total of 1,126,883 (2022 – 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 September 30, 2023 (2022 – nil). Thus, the diluted net loss per share was the same as the calculated basic net loss per share.

The weighted average number of shares outstanding used in the computation of loss per share for the nine months ended September 30, 2023 was 242,844,610 (2022 – 243,971,493).

For the nine months ended September 30,	2023	2022
Loss from continuing operation attributable to common shareholders	\$ (447,414)	\$ (1,211,955)
Income (loss) from discontinuing operation attributable to common shareholders	\$ 1,210,187	\$ (3,307,618)
Basic and diluted income (loss) per share		
- Continuing operation	\$ (0.00)	\$ (0.00)
- Discontinued operation	0.00	(0.01)
Total basic and diluted income (loss) per share	\$ 0.00	\$ (0.02)

14. 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 September 30, 2023, the Company had 25,042,922 (2022 – 25,042,922) options reserved on common shares.

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14. RESERVES (continued)

The following table summarizes the continuity of stock options:

	Number of options	Weighted average exercise price \$
Outstanding, December 31, 2021	14,526,000	0.12
Issued ⁽ⁱ⁾	9,000,000	0.08
Outstanding, December 31, 2022 and September 30, 2023	23,526,000	0.11

- (i) 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 20).

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
Volatility	123%
Expected life	3 years
Risk-free interest rate	2.84%
Forfeiture rate	0%
Expected dividend yield	0%

The following stock options are outstanding and exercisable as at September 30, 2023:

Options outstanding and exercisable			
Exercise price \$	Number of Options	Remaining contractual life in years	Weighted average exercise price \$
0.125	6,026,000	2.15	0.03
0.22	300,000	1.30	0.00
0.22	300,000	1.30	0.00
0.22	300,000	1.31	0.00
0.22	600,000	1.50	0.01
0.10	7,000,000	2.85	0.03
0.08	9,000,000	1.59	0.03
	23,526,000	2.10	0.11

WARRANTS

Warrant activity is presented below:

	Number of warrants	Weighted average exercise price \$
Outstanding, December 31, 2021 and 2022	44,630,491	0.23
Expired	(40,671,691)	0.16
Outstanding, September 30, 2023	3,958,800	0.30

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14. RESERVES (continued)

The following warrants are outstanding and exercisable as at September 30, 2023:

Warrants outstanding and exercisable			
Exercise price \$	Number of Warrants	Remaining contractual life in years	Weighted average exercise price \$
0.30	3,958,800	0.77	0.03

15. NON-CONTROLLING INTERESTS

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

	September 30, 2022		
	D580 Inc.	D238 Inc.	D172 Inc.
Net income (loss) and comprehensive income (loss) attributable to shareholders of the Company	\$ 11,834	\$ (3,268)	\$ (110)
Net income (loss) and comprehensive income (loss) attributable to NCI	\$ 7,889	\$ (408)	\$ (14)

D580 Inc., D238 Inc, and D172 Inc. were dissolved in 2022 (Note 2).

16. 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 in the continued and discontinued operations are as follows:

For the nine months ended September 30,	2023	2022
Salaries, benefits and consulting fees	\$ 397,956	\$ 328,736
Director fees	30,000	15,000
	\$ 427,956	\$ 343,736

Included in the salary, benefits and consulting fees was \$Nil (2022 - \$30,366) of share-based compensation. As of September 30, 2023, the Company had \$122,390 (2022 - \$58,276) of unpaid consulting fees to key management personnel and directors' fees to directors included in accounts payable and accrued liabilities.

Related party transactions (continued and discontinued operations)

During the nine months ended September 30, 2023, the Company incurred rental fees of \$12,000 (2022 - \$10,350) and consulting fees of \$51,737 (2022 - \$21,225) 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 September 30, 2023, \$50,370 (2022 - \$46,246) was due to SGI.

During the nine months ended September 30, 2023, the Company incurred consulting fees of \$16,087 (2022 - \$46,283) from Eco Generation Home Services Inc. ("EGHS"). EGHS is a company in which Ian Morton has a 100% ownership interest. As of September 30, 2023, \$Nil (2022 - \$3,475) was due to EGHS.

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17. 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 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 in the consolidated statements of loss and comprehensive loss for the year ended December 31, 2022.

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 \$50,367 in the condensed interim consolidated statements of loss and comprehensive loss for the nine months ended September 30, 2022.

18. DISCONTINUED OPERATION

Steep Hill US

In March 2023, the Company, through Steep Hill, Inc., entered into settlement and release agreements with various licensees to terminate the license agreements (the “settlement agreements”) in effect and settled for a combined termination fees of \$2,459,080 (US\$1,824,988). Following the settlement agreements, the Company determined that Steep Hill, Inc.’s operation was no longer commercially sustainable and decided to cease its US operation.

Accordingly, the operating results and operating cash flows for the previously reported subsidiary are presented as discontinued operations separate from the Company’s continuing operations. Prior period information has been reclassified to present Steep Hill, Inc. as a discontinued operation.

The assets and liabilities of the discontinued operation are as follows:

<u>As at</u>	<u>September 30, 2023</u>
Assets	
Cash	\$ 277,326
Prepays	1,192
Accounts receivable	5,864
Total assets of discontinued operation	\$ 284,382
Liabilities	
Accounts payable and accrued liabilities	\$ 1,615,465
Total liabilities of discontinued operation	\$ 1,615,465

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18. DISCONTINUED OPERATION (CONTINUED)

Net income (loss) from discontinued operation:

	For the nine months ended September 30,	
	2023	2022
Revenue	\$ 353,581	\$ 1,778,967
Expenses		
Amortization of intangible assets	-	206,289
Allowance for expected credit recovery	(6,070)	4,935
Office and general expenses	77,316	314,538
Professional fees	108,023	324,792
Consulting, salaries and wages	567,857	1,173,184
Loss before other income	(393,545)	(244,771)
Other Income (expense)		
Other Income ⁽ⁱ⁾	2,047,699	-
Litigation settlement ⁽ⁱⁱ⁾	(443,967)	-
Income (loss) from discontinued operation	1,210,187	(244,771)
Other comprehensive income		
Foreign currency translation adjustment	11,483	159,844
Income (loss) and comprehensive income (loss) from discontinuing operation	\$ 1,221,670	\$ (84,927)

(i) In March 2023, the Company received total proceeds of \$2,455,257 (US\$1,824,988) in connection with the settlement agreements from the licensees. The carrying value of intangibles (customer relationships) of \$407,558 has been deducted from the total proceeds and the Company recognized \$2,047,699 as other income in income (loss) from discontinued operation for the nine months ended September 30, 2023.

(ii) 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. In September 2023, the Company and the former officer settled on the indemnification of legal fees and costs of \$443,967 (US\$330,000).

Net cashflows from discontinued operation:

	For the nine months ended September 30,	
	2023	2022
Operating activities		
Cash generated from (used in) operating activities - discontinuing operation	\$ 2,128,331	\$ (367,145)
Investing activities		
Cash generated from investing activities - discontinuing operation	\$ -	\$ 757,846

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18. DISCONTINUED OPERATION (CONTINUED)

MSC Group

In August 2022, the Company determined that due to the significant price discounting pressure stemming for the excess capacity felt by licensed producers (growers) and increased operating costs, the Company decided to shut down its analytical testing facility in Scarborough, Ontario, which was operating under Molecular Science Corp.

Accordingly, the operating results and operating cash flows for the previously reported subsidiary were presented as discontinued operations separate from the Company's continuing operations in the comparative period.

Net loss from discontinued operation:

	For the nine months ended September 30, 2022	
Revenue	\$	1,175,475
Expenses		
Amortization of property, plant and equipment		344,720
Amortization of intangible assets		135,269
Business development		7,300
Consulting fees		98,268
Laboratory expenses		564,866
Office and general expenses		127,307
Professional fees		13,947
Salaries and wages		731,263
Unrealized loss on investments		-
Finance expense		39,245
Foreign exchange gain		660
Gain on termination of lease		(11,533)
Impairment of property, plant and equipment		1,160,010
Impairment of intangible assets		1,027,000
Net loss from discontinuing operation	\$	(3,062,847)

Net cashflows from discontinued operation:

	For the nine months ended September 30, 2022	
Operating activities		
Cash used in operating activities - discontinuing operation	\$	(85,467)
Financing activities:		
Cash used in financing activities - discontinuing operation	\$	(93,470)

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19. 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 September 30, 2023, the Company's total managed capital comprised of equity attributable to the equity holders of the Company \$1,616,595 (December 31, 2022 - \$842,339). There were no changes in the Company's approach to capital management during the period.

(a) Fair value

Financial instruments included in the condensed interim consolidated statement of financial position as at September 30, 2023 consist of cash, term deposits, accounts receivable, accounts payables and accrued liabilities, 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 September 30, 2023, except for CEBA loan (Note 12), which is non-interest bearing until December 31, 2023.

(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 September 30, 2023, the Company had net monetary liability denominated in the U.S. funds of approximately \$1,615,465 (US\$1,194,870). Based upon the balance as at September 30, 2023, 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 \$199,841, and a reduction of 15% would result in an increase in the net loss and comprehensive loss of \$199,841. 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, term deposits and trade receivables. All of the Company's cash and term deposits are 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.

As at September 30, 2023, the aggregate credit risk exposure related to trade and other receivables were \$Nil (2022 - \$622,927).

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19. FINANCIAL RISK MANAGEMENT (continued)

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 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 September 30, 2023 and December 31, 2022, which are expected to be payable in the following respective periods:

September 30, 2023	Within 1 year	Over 1 year	Total
Accounts payable and accrued liabilities	\$ 309,423	\$ -	\$ 309,423
Income tax payable	23,656	-	23,656
CEBA loan	40,000	-	40,000
Lease liability	20,340	9,941	30,281
Total	\$ 393,419	\$ 9,941	\$ 403,360

December 31, 2022	Within 1 year	Over 1 year	Total
Accounts payable and accrued liabilities	\$ 1,790,446	\$ -	\$ 1,790,446
Income tax payable	23,656	-	23,656
CEBA loan	40,000	-	40,000
Lease liability	18,946	21,833	40,779
Total	\$ 1,873,048	\$ 21,833	\$ 1,894,881

As of September 30, 2023, the Company had cash of \$520,381 (2022 - \$1,912,806), term deposits of \$2,656,475 (2022 - \$Nil) and total equity attributable to the equity holders of the Company was \$1,616,595 (2022 - \$842,339). 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.

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20. 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 13). The settlement amount was included in the accounts payable and accrued liabilities assumed on acquisition of Steep Hill US (Note 4). During the nine months ended September 30, 2023, the Company paid \$40,554 (US\$30,000) (2022 - \$101,872 (US\$80,000)) and as of September 30, 2023, a total of \$Nil (2022 - \$40,632 (US\$30,000)) is included in the accounts payable and accrued liabilities.