Steep Hill

STEEP HILL INC. (FORMERLY CANBUD DISTRIBUTION CORPORATION)

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

(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. and its subsidiaries (formerly, Canbud Distribution Corporation) (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2023, and December 31, 2022, and the consolidated statements of income (loss) and comprehensive income (loss), changes in shareholders' equity and cash flows for the years then ended, and notes to the consolidated financial statements, including material accounting policy information.

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, 2023, and December 31, 2022, 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 from continuing operations during the year ended December 31, 2023 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 matter described below to be the key audit matter to be communicated in our report.

Derecognition of Accounts Payable and Accrued Liabilities

Key Audit Matter Description

As described in Note 18 to the consolidated financial statements, during the year ended December 31, 2023 the Company recognized a gain on extinguishment of accounts payable and accrued liabilities. The Company determined that these liabilities, originating from the historical acquisition of Steep Hill, Inc. met the criteria for extinguishment under IFRS 9, *Financial Instruments* due to sufficient time passing such that the liabilities would be considered to be expired.

We considered this to be a key audit matter, as the determination of whether a liability meets the criteria for extinguishment through expiration is an area of considerable judgement, requiring management to obtain the opinion of a legal expert. Performing audit procedures to evaluate the reasonableness of this determination required a high degree of auditor judgment and an increased extent of audit effort.

Audit Response

We responded to this matter by performing audit procedures in relation to the completeness of the accounts payable and accrued liabilities included in the liabilities of discontinued operations, from which the liabilities were derecognized. Our audit work in relation to this included, but was not restricted to, the following:

- We assessed management's memo in relation to the derecognition of the liabilities and assessed the accuracy of the significant assumptions used by management in reaching the conclusion to derecognize.

- We performed corroborative inquiry with management's legal expert, assessed their professional qualifications and assessed key legal concepts derived from the inquiry with the expert against independent information.

- We validated the completeness and accuracy of the listing of liabilities that were derecognized through reconciliation to past audit records and assessment of subsequent bank transactions past the year end date.

- We reviewed certain original agreements with the vendor counterparties to the liabilities to obtain an understanding of the terms and conditions and identify whether those terms and conditions would impact the ordinary conditions of expiry under the legal frameworks applicable to the Company and the vendor counterparties.

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 Darren Rennie.

MNP LLP

Waterloo, Ontario
April 16, 2024

Chartered Professional Accountants
Licensed Public Accountants

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

As at	Note		December 31, 2023		December 31, 2022
Assets					
Current					
Cash	3,18	$	613,412	$	1,912,806
Term deposits	5		2,000,000		-
Prepaids			42,884		11,733
Accounts receivable and other	6		85,266		649,139
Total current assets			**2,741,562**		**2,573,678**
Non-current					
Property, plant and equipment	7		15,370		33,781
Intangible assets	8		-		408,475
Total assets		**$**	**2,756,932**	**$**	**3,015,934**
Liabilities					
Current					
Accounts payable and accrued liabilities	9,18	$	1,067,964	$	1,790,446
Income tax payable			19,254		23,656
Deferred revenue	10		-		279,523
Canada Emergency Business Account ("CEBA") loan	12		-		40,000
Current portion of lease liability	11		18,555		17,443
Total current liabilities			**1,105,773**		**2,151,068**
Non-current					
Lease liability	11		-		22,527
Total liabilities			**1,105,773**		**2,173,595**
Shareholders' Equity					
Share capital	13		12,012,773		12,012,773
Reserves	14		359,324		2,951,055
Accumulated other comprehensive loss			(52,514)		(68,036)
Deficit			(10,668,424)		(14,053,453)
Total Shareholders' Equity			**1,651,159**		**842,339**
Total liabilities and Equity		**$**	**2,756,932**	**$**	**3,015,934**

NATURE OF OPERATIONS AND GOING CONCERN (Note 1)
CONTINGENT LIABILITIES (Note 21)

Approved on behalf of the board of directors:

"Ian Morton" — Director

"Anthony Viele" — Director

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

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

	Note		2023		For the years ended December 31 2022
Revenue			-		1,175,475
Expenses					
Amortization of property, plant and equipment	7	$	15,723	$	364,269
Amortization of intangible assets	8		915		135,730
Consulting fees	16		210,806		447,650
Director fees	16		30,000		57,000
Laboratory expenses			-		535,084
Office and general expenses			78,649		311,196
Professional fees			95,164		328,775
Regulatory, filing and listing fees			27,427		115,258
Salaries and wages			68,026		936,963
Share-based compensation	14		-		127,114
Impairment of property, plant and equipment	7		2,688		1,251,764
Impairment of intangible assets and goodwill	8		-		1,027,000
Loss before other (expenses) income			**(529,398)**		**(4,462,328)**
Other (expenses) income					
Finance expense	4,11,12		(1,801)		(45,408)
Gain on termination of lease	11		-		12,110
Government assistance	12		10,000		-
Interest income			51,074		-
Gain on disposals of property, plant and equipment	7		-		91,754
Gain on deconsolidation of subsidiaries	17		-		211,110
Foreign exchange gain			7,032		19,199
Acquisition-related costs	4		-		(104,889)
Net loss before income tax from continuing operations			**(463,093)**		**(4,278,452)**
Current income tax recovery (expense)			23,656		(23,656)
Net loss from continuing operations			**(439,437)**		**(4,302,108)**
Discontinued operations					
Net income (loss) from discontinued operations	18		1,232,735		(2,812,012)
Net income (loss)			**793,298**		**(7,114,120)**
Other comprehensive income (loss)					
Foreign currency translation adjustment from discontinued operations			15,522		(68,036)
Net income (loss) and comprehensive income (loss)		**$**	**808,820**	**$**	**(7,182,156)**
Net income (loss) attributable to:					
Equity holders of the Company		$	793,298	$	(7,121,587)
Non-controlling interests	15		-		7,467
		$	**793,298**	**$**	**(7,114,120)**
Net comprehensive income (loss) attributable to:					
Equity holders of the Company		$	808,820	$	(7,189,623)
Non-controlling interests	15		-		7,467
		$	**808,820**	**$**	**(7,182,156)**
Weighted average number of shares outstanding - basic and diluted			**16,188,643**		**15,784,223**
Basic and diluted net income (loss) per share					
- Continuing operations		$	(0.03)	$	(0.27)
- Discontinued operation			0.08		(0.18)
Basic and diluted net income (loss) per share		**$**	**0.05**	**$**	**(0.45)**

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)

	Number of shares	Share capital	RESERVES Share based payments	RESERVES Warrants	Accumulated other comprehensive loss	Deficit	Attributable to owners of the Company	Non-controlling interest	Total shareholders' equity
Balance, December 31, 2022	**16,189,640**	**$ 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	-	-	-
Expired share-based compensation (Note 14)	-	-	(1,411,923)	-	-	1,411,923	-	-	-
Other comprehensive income	-	-	-	-	15,522	-	15,522	-	15,522
Returned to treasury (Note 13)	(10,600)	-	-	-	-	-	-	-	-
Net loss from continuing operations	-	-	-	-	-	(439,437)	(439,437)	-	(439,437)
Net income from discontinued operations	-	-	-	-	-	1,232,735	1,232,735	-	1,232,735
Balance, December 31, 2023	**16,179,040**	**$ 12,012,773**	**$ 143,477**	**$ 215,847**	**$ (52,514)**	**$ (10,668,424)**	**$ 1,651,159**	**$ -**	**$ 1,651,159**
Balance, December 31, 2021	**10,606,766**	**$ 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. acquisition (Note 4)	5,466,667	2,062,471	-	-	-	-	2,062,471	-	2,062,471
Issued for services	191,333	72,458	-	-	-	-	72,458	-	72,458
Share-based compensation (Note 14)	-	-	127,114	-	-	-	127,114	-	127,114
Deconsolidation on dissolution of subsidiaries (Note 17)	-	-	-	-	-	-	-	53,584	53,584
Other comprehensive loss	-	-	-	-	(68,036)	-	(68,036)	-	(68,036)
Returned to treasury (Note 13)	(75,126)	-	-	-	-	-	-	-	-
Net loss from continuing operations	-	-	-	-	-	(6,652,536)	(6,652,536)	7,467	(6,645,069)
Net loss from discontinued operations	-	-	-	-	-	(469,051)	(469,051)	-	(469,051)
Balance, December 31, 2022	**16,189,640**	**$ 12,012,773**	**$ 1,555,400**	**$ 1,395,655**	**$ (68,036)**	**$ (14,053,453)**	**$ 842,339**	**$ -**	**$ 842,339**

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)

	Note	For the year ended December 31 2023	2022
Operating activities			
Net income (loss) for the year		$ 793,298	$ (7,114,120)
Net income (loss) from discontinued operations	18	1,232,735	(2,812,012)
Net loss from continuing operations		(439,437)	(4,302,108)
Non-cash items:			
Amortization of property, plant and equipment	7	15,723	364,269
Amortization of intangible assets	8	915	135,730
Acquisition-related costs	4	-	104,889
Impairment of property, plant and equipment	7	2,688	1,251,764
Impairment of intangible assets	8	-	1,027,000
Gain on termination of lease	11	-	(12,110)
Gain on disposals of property, plant and equipment	7	-	(91,754)
Gain on deconsolidation of subsidiaries	17	-	(211,110)
Share-based compensation	14	-	127,114
Government assistance	12	(10,000)	-
Finance expense	11	1,801	45,408
Foreign exchange gain		(7,032)	(2,051)
Changes in non-cash working capital items:			
Prepaids		(31,151)	154,678
Accounts receivable and other		563,874	194,554
Income tax payable		(4,402)	23,656
Accounts payable and accrued liabilities		(702,872)	(498,788)
Deferred revenue		(288,412)	279,523
Cash used in operating activities - continuing operations		(898,305)	(1,409,336)
Cash generated from operating activities - discontinued operations		1,640,642	(407,880)
Cash generated from (used in) in operating activities		**742,337**	**(1,817,216)**
Investing activities			
Proceeds from disposals of property, plant and equipment	7	-	750,000
Acquisition-related payments and advances	4	-	(32,431)
Purchase of term deposits	5	(2,000,000)	-
Cash (used in) generated from investing activities - continuing operations		(2,000,000)	717,569
Cash generated from investing activities - discontinued operations		-	757,846
Cash (used in) generated from investing activities		**(2,000,000)**	**1,475,415**
Financing activities			
Payments of lease liability	11	(23,216)	(93,765)
Loan payable repayments		-	(160,080)
Repayment of CEBA loan	12	(30,000)	-
Cash used in financing activities - continuing operations		**(53,216)**	**(253,845)**
Decrease in cash during the year		**(1,310,879)**	**(595,646)**
Effects of exchange rate changes on cash		11,485	(68,036)
Cash, beginning of the year		**1,912,806**	**2,576,488**
Cash, end of the year		**$ 613,412**	**$ 1,912,806**

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. 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 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 net loss from continuing operations of $439,437 (2022 - $4,302,108) during the year ended December 31, 2023 and the Company has an accumulated deficit of $10,668,424 (2022 - $14,053,453). As at December 31, 2023, the Company has a working capital of $1,635,789 (2022 - $422,610) and cash flows used in operating activities from continuing operations for the year ended December 31, 2023 was $898,305 (2022 - $1,409,336). These conditions along with whether, and when, the Company can attain profitability and positive cash flows from operations has material uncertainty, which may cast significant 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 consolidated 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 consolidated 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 April 16, 2024.

2. BASIS OF PREPARATION (continued)

Basis of measurement

These consolidated financial statements have been prepared on the historical cost basis.

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 held a 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 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.

Reverse share split
References in these consolidated financial statements to share amounts, per share data, share prices, exercise prices, and conversion rates have been adjusted to reflect the effect of the 1-for-15 reverse share split (known as a share consolidation under Canadian law) (the "share consolidation") which became effective on the CSE on December 8, 2023, the share consolidation did not include a change in ticker symbol. The term "share consolidation" is intended to refer to such reverse split and the terms "pre-consolidation" and "post-consolidation" are intended to refer to "pre-reverse split" and "post-reverse split", respectively. In accordance with IFRS, the share consolidation was applied retrospectively to all share and per share figures.

3. MATERIAL ACCOUNTING POLICIES

The material accounting policies followed in the consolidated financial statements for the year ended December 31, 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 $613,412 (2022 - $1,848,658) and amounts held in trust of on behalf of the Company of $Nil (2022 - $64,148).

3. MATERIAL ACCOUNTING POLICIES (continued)

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 income (loss) and comprehensive income (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
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.

<u>Revenue recognition from lab testing services rendered</u>

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.

3. MATERIAL ACCOUNTING POLICIES (continued)

Revenue recognition **(continued)**

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 year 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 and other.

The licensing agreements giving rise to the Licensing fees were terminated during the year. See Note 18.

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 income (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.

3. MATERIAL ACCOUNTING POLICIES (continued)

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.

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 8).

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.

3. MATERIAL ACCOUNTING POLICIES (continued)

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.

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.

3. MATERIAL ACCOUNTING POLICIES (continued)

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.

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 income (loss) and comprehensive income (loss) as a reduction of the corresponding operating expenses. CEBA loan forgiveness is presented as other income within net income (loss) from discontinued operations in the consolidated statements of income (loss) and comprehensive income (loss).

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 income (loss) and comprehensive income (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 at the reporting date, and any adjustment to income taxes payable in respect of previous years.

3. MATERIAL ACCOUNTING POLICIES (continued)

Income taxes

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.

Discontinued operations

A discontinued operation is a component of an entity that either has been disposed of, or is classified as held for sale and:

- Represents a separate major line of business or geographical area of operations;
- Is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations; or
- Is a subsidiary acquired exclusively with a view to resale.

Current and prior year profit or loss from discontinued operations is presented separately in profit or loss. This amount is comprised of the post-tax profit or loss from discontinued operations and post-tax gain or loss on the measurement or disposal of an asset or disposal group classified as held for sale.

The prior year disclosures for discontinued operations represent all operations that have been discontinued by the reporting date for the latest period presented. If the Company ceases to classify a component as held for sale, the results of operations of the component previously presented as a discontinued operation is reclassified and included in income from continuing operations for all periods presented. See Note 18 for information on the Company's discontinued operations.

Net income (loss) per share

Net income (loss) per share is calculated by dividing the net income (loss) attributable to common shareholders by the weighted average number of common shares outstanding during the year. Diluted net income (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 year. 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, 2023 and 2022.

3. MATERIAL 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
Trade receivable and other	Amortized cost	Amortized cost
Interest receivable	Amortized cost	Amortized cost
Contract assets	Amortized cost	Amortized cost
Term deposits	Amortized Cost	Amortized cost
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:

Financial instruments

(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.

3. MATERIAL ACCOUNTING POLICIES (continued)

Financial instruments (continued)

(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.

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.

3. MATERIAL ACCOUNTING POLICIES (continued)

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 income (loss) and comprehensive income (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.

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. The estimate of expected credit losses is based on historical information, adjusted for forecasts of future economic conditions and may differ from actual results.

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").

3. MATERIAL ACCOUNTING POLICIES (continued)

Business combination (continued)
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 legal advisors. Actual amounts could differ from those estimates.

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.

Evaluating whether or not costs incurred by the Company meet the criteria for capitalizing as intangible assets involves significant management judgment.

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, 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. The Company applies judgment when determining the CGU in which the non-financial asset(s) belong and in estimating the recoverable amount of the asset or CGU.

3. MATERIAL ACCOUNTING POLICIES (continued)

Impairment of long-lived assets (continued)
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.

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.

Discontinued operations
The Company applies judgment in assessing whether the criterion for discontinued operations is met, specifically whether the operations represent a separate major line of business or geographic area of operations and is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations.

3. MATERIAL ACCOUNTING POLICIES (continued)

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 material changes to the Company's current year or comparative year upon adoption.

Amendments to IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors

In February 2021, the IASB issued amendments to IAS 8 Accounting Policies, Changes in Account Estimates and Errors which were incorporated into Part I of the CPA Canada Handbook – Accounting in June 2021. The amendments introduce a new definition of 'accounting estimates' to replace the definition of 'change in accounting estimates' and also include clarifications intended to help entities distinguish changes in accounting policies from changes in accounting estimates. 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.

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 year 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 years.

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. The Company does not expect to have a material impact as a result of the adoption of the amendment.

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. The Company does not expect to have a material impact as a result of the adoption of the amendment.

(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 6) with Steep Hill US entered in 2021.

4. BUSINESS ACQUISITIONS (continued)

(ii) The Company issued 5,466,667 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 1,366,667 (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 191,333 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.

On February 15, 2021, MSC signed a non-binding LOI for the acquisition of Steep Hill US. 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.

5. TERM DEPOSITS

Term deposits of $2,000,000 (2022 - $Nil) are held at a reputable banking institution, bearing interest between 2.5% - 2.75% per annum and have a term of 12 months, and are redeemable on demand.

(Expressed in Canadian dollars)

6. ACCOUNTS RECEIVABLE AND OTHER

	December 31, 2023	December 31, 2022
Trade receivable and other receivable	**$ 281**	$ 590,748
Expected credit loss	**-**	(101,602)
Interest receivable	**42,945**	-
Contract assets	**-**	135,440
Harmonized Sales Tax recoverable	**42,040**	24,553
Total	**$ 85,266**	$ 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 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 receivables was $Nil (2022 - $38,882 [US$28,708]) comprised of finders' fee receivable in connection with an arrangement with a vendor whereby the Company receives fees based on leads and customer introductions that resulted in sales for the vendor. During the year ended December 31, 2023, the Company earned a total of $Nil (2022 - $209,330 [US$160,360]) of finders' fees from the vendor, which has been recognized as other income within net income (loss) from discontinued operations in the consolidated statements of income (loss) and comprehensive income (loss).

7. PROPERTY, PLANT AND EQUIPMENT

	Right-of-use assets					
	Office lease	Farms	Leasehold improvements	Production processing and lab equipment	Office equipment software and furniture	Total
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 year	**-**	**-**	**-**	**(2,688)**	**-**	**(2,688)**
Balance, December 31, 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 year	**15,372**	**-**	**-**	**-**	**351**	**15,723**
Balance, December 31, 2023	**$ 61,489**	**$ -**	**$ -**	**$ -**	**$ 3,553**	**$ 65,042**
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, December 31, 2023	**$ 15,370**	**$ -**	**$ -**	**$ -**	**$ -**	**$ 15,370**

(Expressed in Canadian dollars)

7. PROPERTY, PLANT AND EQUIPMENT (continued)

During the year ended December 31, 2023, the Company recognized an impairment of production processing and lab equipment of $2,688.

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 17).

During the year ended December 31, 2022, the Company disposed of production processing and lab equipment with a carrying value of $669,246 for in exchange for cancellation of loan payable with a carrying value of $750,000 resulting in a gain on disposals of property, plant and equipment of $91,574 which has been recognized in the consolidated statements of income (loss) and comprehensive income (loss).

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
Impairment during the year	**-**	**(407,560)**	**-**	**-**	**(407,560)**	**-**	**(407,560)**
Balance, December 31, 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 year	**-**	**-**	**-**	**915**	**915**	**-**	**915**
Balance, December 31, 2023	**$ -**	**$ 83,131**	**$ 26,250**	**$ 2,292**	**$ 111,673**	**$ -**	**$ 111,673**
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, December 31, 2023	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**

MSC group

In August 2022, the Company closed 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 years, and consequently, the Company recognized a full impairment of intangibles and goodwill related to MSC group CGU of $1,027,000.

Steep Hill US

During the year ended December 31, 2023, Steep Hill US was considered to be a discontinued operation as described in Note 18, as a result the Company identified indicators of impairment on the brand and customer relationships held by Steep Hill US due to the termination of Licensing fee agreements, which resulted in significant revisions to management's on forecasts of future net cash inflows and earnings from previous forecasts. As such the Company's management concluded that the carrying value of the Steep Hill US CGU was higher than the recoverable amount and recorded aggregate impairment losses of $408,142 on the brand and customer relationships, recognized within net income (loss) from discontinued operations.

(Expressed in Canadian dollars)

8. INTANGIBLE ASSETS AND GOODWILL (continued)

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 in impairment of intangible assets and goodwill within net income (loss) from discontinued operations in the consolidated statements of income (loss) and comprehensive income (loss).

9. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

		December 31, 2023		December 31, 2022
Accounts payable	$	**970,526**	$	676,744
Accrued liabilities		**97,438**		1,113,702
Total	$	**1,067,964**	$	1,790,446

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:

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

The balance of deferred revenue was settled during the year ended December 31, 2023 as a result of the termination of licensing agreements as described in Note 18. Of the $279,523 of deferred revenue outstanding as at December 31, 2022, $22,909 was recognized as revenue, and $256,614 as other income. Both revenue and other income are included within net income (loss) from discontinued operations in the consolidated statements of income (loss) and comprehensive income (loss). The revenue was recognized in accordance with the ordinary amortization of the contract-related liability over the life of the contract, while the other income was recognized as a result of the termination of the contract as described in Note 18.

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. At the point of termination the carrying value of the lease liability exceeded the carrying value of the right of use asset by $12,110 resulting in a gain on termination in this amount, recognized in other (expenses) income in the consolidated statements of income (loss) and comprehensive income (loss) for the year ended December 31, 2022.

(Expressed in Canadian dollars)

11. LEASE LIABILITY (continued)

Office leases
The Company leases an office space in Mississauga, Ontario, which commenced on January 1, 2020 for a term of five years. Upon the completion of acquisition of MSC, the Company assumed 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		December 31, 2023		December 31, 2022
Balance, beginning of the year	$	**39,970**	$	534,824
Leases expired during the year		**-**		(412,123)
Leases terminated during the year		**-**		(17,669)
Interest lease expense		**1,801**		28,703
Lease payments		**(23,216)**		(93,765)
Balance, end of the year	**$**	**18,555**	$	39,970

The future minimum lease payments due are as follows:

		December 31, 2023		December 31, 2022
No more than a year	$	**19,070**	$	18,946
1-5 years		**-**		21,833
Total future minimum lease payments		**19,070**		40,779
Less: amount representing interest		**(515)**		(809)
Present value of minimum lease payments		**18,555**		39,970
Less: current portion		**(18,555)**		(17,443)
Non-current portion	**$**	**-**	$	22,527

<u>Lease 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.

(Expressed in Canadian dollars)

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 provided 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. During the year ended December 31, 2023, the Company repaid the CEBA loan and received $10,000 of loan forgiveness, which has been recognized as other income in the consolidated statements of income (loss) and comprehensive income (loss).

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 - $2,767) in the consolidated statements of income (loss) and comprehensive income (loss) for the year ended December 31, 2023.

		December 31, 2023		December 31, 2022
Opening	$	40,000	$	37,233
Finance expense		-		2,767
Other income		(10,000)		-
Repayment		(30,000)		-
Closing	$	-	$	40,000

13. SHARE CAPITAL

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

	Number of shares		Amount
Balance December 31, 2021	**10,606,766**	**$**	**9,877,844**
Issued pursuant to Steep Hill US acquisition (Note 4)	5,466,667		2,062,471
Issued for services (Note 4)	191,333		72,458
Returned to treasury (i)	(75,126)		-
Balance December 31, 2022	**16,189,640**		**12,012,773**
Returned to treasury (ii), (iii)	(10,987)		-
Balance December 31, 2023	**16,178,653**	**$**	**12,012,773**

(i) In 2022, the Company's former shareholders transferred a total of 75,126 shares to the Company without any repayment of capital or consideration.
(ii) In 2023, the Company's former shareholders transferred a total of 10,600 shares to the Company without any repayment of capital or consideration.
(iii) In 2023, in connection with the share consolidation carried out, 387 shares were cancelled. These shares represented the fractional remainder of the pre-consolidation shares outstanding where a given shareholder's common shares held were not evenly divisible by the share consolidation basis (15:1) in determining the post-consolidation shares outstanding.

(Expressed in Canadian dollars)

13. SHARE CAPITAL

Net income (loss) per share

Basic net income (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 income (loss) per share is calculated by adjusting the income (loss) for the year 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, 2023 (2022 – Nil). Thus, the diluted net income (loss) per share was the same as the calculated basic net income (loss) per share.

The weighted average number of shares outstanding used in the computation of net income (loss) per share for the years ended December 31, 2023 was 16,188,643 (2022 – 15,784,223).

For the years ended December 31,		2023		2022
Loss from continuing operations attributable to common shareholders	$	(439,437)	$	(4,302,108)
Income (loss) from discontinued operations attributable to common shareholders	$	1,232,735	$	(2,812,012)
Basic and diluted net income (loss) per share				
- Continuing operations	**$**	**(0.03)**	**$**	**(0.27)**
- Discontinued operations		**0.08**		**(0.18)**
Total basic and diluted net income (loss) per share	**$**	**0.05**	**$**	**(0.45)**

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.

The following table summarizes the continuity of stock options:

	Number of options	Weighted average exercise price $
Outstanding, December 31, 2021	**968,400**	**1.80**
Issued [(i)]	600,000	1.20
Outstanding, December 31, 2022	**1,568,400**	**1.65**
Expired [(ii)]	(1,354,733)	1.63
Outstanding, December 31, 2023	**213,667**	1.38

(i) On May 3, 2022, the Company granted 600,000 options valued at $127,114 to certain directors, officers, employees and consultants of the Company. The options are exercisable at a price of $1.20 with each option exercisable to purchase one common share of the Company. The options expire on May 3, 2025. Included in the 600,000 options issued were 100,000 options issued pursuant to the settlement agreement entered on March 24, 2022 (Note 21).

(Expressed in Canadian dollars)

14. RESERVES (continued)

(ii) During the year ended December 31, 2023 1,354,733 options expired as a result of the option holders no longer holding an active position within the Company. As a result, these options have been reclassified from share-based payments reserve to deficit within the consolidated statements of changes in shareholders' equity.

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 December 31, 2023:

Options outstanding and exercisable			
Exercise price $	Number of Options	Remaining contractual life in years	Weighted average exercise price $
1.88	33,333	1.90	0.29
1.50	57,000	2.60	0.40
1.20	123,334	1.34	0.69
	213,667	**1.76**	**1.38**

WARRANTS
Warrant activity is presented below:

	Number of warrants	Weighted average exercise price $
Outstanding, December 31, 2021 and 2022	**2,975,366**	**3.45**
Expired	(2,711,446)	2.40
Outstanding, December 31, 2023	**263,920**	**4.50**

The following warrants are outstanding and exercisable as at December 31, 2023:

Warrants outstanding and exercisable			
Exercise price $	Number of Warrants	Remaining contractual life in years	Weighted average exercise price $
4.50	263,920	0.52	4.50

(Expressed in Canadian dollars)

15. NON-CONTROLLING INTERESTS

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

	December 31, 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 years ended December 31,	**2023**	2022
Salaries, benefits and consulting fees	**$** 521,381	$ 365,699
Director fees	30,000	57,000
Share-based compensation	-	30,366
	$ 551,381	$ **453,065**

As of December 31, 2023, the Company had $136,930 (2022 - $12,000) of unpaid consulting fees to key management personnel and directors' fees to directors included in accounts payable and accrued liabilities.

During the year ended December 31, 2023, the Company incurred document storage fees of $30,000 (2022 - $16,350) and consulting fees of $174,713 (2022 - $59,075) 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, 2023, $Nil (2022 - $46,246) was due to SGI.

During the year ended December 31, 2023, the Company incurred consulting fees of $16,087 (2022 - $63,994) from Eco Generation Home Services Inc. ("EGHS"). EGHS is a company in which Ian Morton has a 100% ownership interest. As of December 31, 2023, $Nil (2022 - $1,526) was due to EGHS.

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 on deconsolidation of subsidiaries of $264,694 in the consolidated statements of loss and comprehensive loss for the year ended December 31, 2022.

(Expressed in Canadian dollars)

17. 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 on deconsolidation of subsidiaries of $53,584 in the consolidated statements of income (loss) and comprehensive income (loss) for the year ended December 31, 2022.

18. DISCONTINUED OPERATIONS

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 $2,724,748 (US$2,014,452). 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 year comparative information has been reclassified to present Steep Hill, Inc. as a discontinued operation.

As the operation has been discontinued through abandonment, the assets and liabilities of the discontinued operations have not been reclassified on the consolidated statements of financial position as at December 31, 2023 and December 31, 2022.

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

As at		**December 31, 2023**
Assets		
Cash	$	58,741
Accounts receivable and other		281
Total assets of discontinued operations	**$**	**59,022**
Liabilities		
Accounts payable and accrued liabilities	$	867,819
Income tax payable		19,254
Total liabilities of discontinued operations	**$**	**887,073**

(Expressed in Canadian dollars)

18. DISCONTINUED OPERATIONS (continued)

Net income (loss) of the discontinued operations is as follows:

	For the years ended December 31 2023	2022
Revenue	$ 99,216	$ 1,897,769
Expenses		
Amortization of intangible assets	-	325,755
Allowance for expected credit recovery	(235)	(12,100)
Consulting, salaries and wages	842,824	1,567,646
Marketing and promotion	9,824	36,860
Office and general expenses	93,548	250,270
Professional fees	203,776	448,424
Impairment of intangible assets and goodwill (i)	408,142	2,458,562
Loss before other income	(1,458,663)	(3,177,648)
Other income (expense)		
Foreign exchange loss	-	(2,449)
Other income (i)	2,724,748	209,330
Gain on extinguishment of accounts payable and accrued liabilities (ii)	432,064	-
Litigation settlement (iii)	(446,160)	-
Net income (loss) before income tax from discontinued operations	1,251,989	(2,970,767)
Deferred income tax recovery	-	158,755
Current income tax expense	(19,254)	-
Net income (loss) from discontinued operations	1,232,735	(2,812,012)
Other comprehensive income (loss)		
Foreign currency translation adjustment	15,522	(68,036)
Net income (loss) and comprehensive income (loss) from discontinued operations	**$ 1,248,257**	**(2,880,048)**

(i) In March 2023, the Company received total proceeds of $2,724,748 (US$2,014,452) in connection with the settlement agreements from the licensees, which has been included in other income within net income (loss) from discontinued operations for the year ended December 31, 2023. Of this balance $256,614 was previously recognized as a contract liability prior to termination, and subsequently recognized in other income within net income (loss) from discontinued operations for the year, on termination of the licenses. An impairment loss of $408,142 corresponding with the carrying value of the intangible assets (brand and customer relationships) associated with the licenses terminated has been recognized in impairment of intangible assets and goodwill within net income (loss) from discontinued operations for the year ended December 31, 2023. See Note 8.

(ii) During the year ended December 31, 2023, the Company recognized a gain on extinguishment of accounts payable and accrued liabilities in the amount of $432,064 (US$326,678), which has been included in other income within net income (loss) from discontinued operations.

(iii) 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 reached a settlement in the amount of $446,160 (US$330,000) which resolves the initial complaint and releases all claims between the parties, which has been included in litigation settlement within net income (loss) from discontinued operations for the year ended December 31, 2023.

18. DISCONTINUED OPERATIONS (continued)

Net cashflows from discontinued operations:

	For the years ended December 31			
		2023		2022
Operating activities				
Cash generated from (used in) operating activities - discontinued operations	$	1,640,642	$	(407,880)
Investing activities				
Cash generated from investing activities - discontinued operations	$	-	$	757,846

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 December 31, 2023, the Company's total managed capital comprised of equity attributable to the equity holders of the Company $1,670,413 (December 31, 2022 - $842,339). There were no changes in the Company's approach to capital management during the year.

(a) Fair value
Financial instruments included in the consolidated statement of financial position as at December 31, 2023 and December 31, 2022 consist of cash, term deposits, accounts receivable and other, and accounts payables and accrued liabilities with year-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, 2023. As at December 31, 2022 the sole debt or borrowing from a bank or institutional lender was the CEBA loan as described in Note 12, the loan bore no interest, and as such was subject to negligible interest rate risk.

(c) Currency risk
As the Company operated in the United States (U.S.) during the year, 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.

19. FINANCIAL RISK MANAGEMENT (continued)

As at December 31, 2023, the Company had net monetary liability denominated in U.S. funds of approximately $828,051 (US$626,078). Based upon the balance as at December 31, 2023, an increase of 15% in the U.S. to Canadian dollar exchange would result in an increase in the net loss and comprehensive loss of $124,208, and a reduction of 15% would result in a decrease in the net loss and comprehensive loss of $124,208. 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 December 31, 2023, the aggregate credit risk exposure related to trade and other receivables was $Nil (2022 - $622,927).

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.

(Expressed in Canadian dollars)

19. FINANCIAL RISK MANAGEMENT (continued)

The Company has the following undiscounted contractual obligations as at December 31, 2023 and December 31, 2022, which are expected to be payable in the following respective periods:

December 31, 2023	Within 1 year	Over 1 year	Total
Accounts payable and accrued liabilities	$ 1,067,964	$ −	$ 1,067,964
Lease liability	19,070	−	19,070
Total	$ 1,087,034	$ −	$ 1,087,034

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

As of December 31, 2023 , the Company had cash of $613,412 (2022 - $1,912,806), term deposits of $2,000,000 (2022 - $Nil) and total equity attributable to the equity holders of the Company of $1,651,159 (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.

(Expressed in Canadian dollars)

20. INCOME TAX

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

		December 31, 2023		December 31, 2022
Net income (loss) before income tax from discontinued operations		**1,251,989**		**(2,970,767)**
Net loss before income tax – continuing operations		**(463,093)**		**(4,278,452)**
Net income (loss) before tax	**$**	**788,896**	**$**	**(7,249,219)**
Expected tax rate		**26.50%**		**26.50%**
Expected tax benefit resulting from loss	$	209,057	$	(1,921,043)
Impairment of goodwill		-		420,703
Permanent differences		(114,411)		19,606
Effect of losses not recognized and other deductible temporary differences not recognized		74,718		(2,095,880)
Effects of foreign exchange differences		38		-
True up		(155,853)		-
Effects of difference in tax inclusion and jurisdiction rates		(558)		-
Deconsolidation of subsidiaries		-		3,483,443
Other		(17,393)		(41,928)
Income tax expense (recovery)	**$**	**(4,402)**	**$**	**(135,099)**
Income tax expense (recovery) – discontinued operations		**19,254**		**(158,755)**
Income tax expense (recovery) – continuing operations		**(23,656)**		**23,656**
Current income tax expense (recovery)	$	(4,402)	$	23,656
Deferred income tax recovery		-		(158,755)
Income tax expense (recovery)	**$**	**(4,402)**	**$**	**(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, 2023		December 31, 2022
Deferred tax asset	$	13,836	$	133,563
Deferred tax liability		(13,836)		(133,563)
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 2022		Recognized in profit and loss		December 31 2023
Deferred tax asset						
Non-capital loss carryforward - Canada	$	485	$	(485)	$	-
Net operating loss carryforward - US		121,493		(121,493)		-
Capital loss carryforward		3,438		6,325		9,763
Lease liability		8,147		(4,074)		4,073
		133,563		(119,727)		13,836
Deferred tax liability						
Right of use assets		(8,147)		4,074		(4,073)
Intangible assets		(121,978)		121,978		-
Unrealized foreign exchange gain on intercompany loans		(3,438)		(6,325)		(9,763)
		(133,563)		119,727		(13,836)
Net deferred tax liability	**$**	**-**	**$**	**-**	**$**	**-**

(Expressed in Canadian dollars)

20. 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, 2023		December 31, 2022
Property, plant and equipment	$	507	$	778
Intangible assets		-		916
Non-capital loss carryforward - Canada		6,072,990		5,202,258
Net operating loss carryforward - US		33,587,932		724,786
Capital loss carryforward		581,515		629,251
Share issuance costs		77,595		135,481
Reserve		-		318,756
Other		18,683		34,725
Total	**$**	**40,339,222**	**$**	**7,046,951**

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:

2038	$	12
2039		488,240
2040		1,100,217
2041		2,985,075
2042		926,279
2043		573,167
	$	**6,072,990**

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:

2034	$	1,102,480
2035		41,256
2036		41,256
2037		41,256
Indefinite		16,417,484
Indefinite		6,891,386
Indefinite		6,080,139
Indefinite		2,877,320
Indefinite		95,355
	$	**33,587,932**

21. 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”) of which $98,194 (US$72,500) was paid immediately on settlement, and grant a total of 100,000 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 $1.20. The options were issued, as part of the 600,000 options granted on May 2022 (Note 14). The settlement amount was included in the accounts payable and accrued liabilities assumed on acquisition of Steep Hill US (Note 4). During the years ended December 31, 2023, the Company paid $40,554 (US$30,000) (2022 - $101,872 (US$80,000)) and as of December 31, 2023, a total of $Nil (2022 - $40,632 (US$30,000)) is included in the accounts payable and accrued liabilities.