
DELTA 9 CANNABIS INC.
CONSOLIDATED
FINANCIAL STATEMENTS
DECEMBER 31, 2023
(EXPRESSED IN CANADIAN DOLLARS)

DELTA 9 CANNABIS INC.

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December 31, 2023

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Delta 9 Cannabis Inc.

Opinion

We have audited the consolidated financial statements of Delta 9 Cannabis Inc. and its subsidiaries, (the Company), which comprise the consolidated statements of financial position as at December 31, 2023 and December 31, 2022, and the consolidated statements of net loss and comprehensive loss, changes in shareholders' equity and cash flows for the years December 31, 2023 and 2022, and notes to the consolidated financial statements, including a summary of material accounting policies.

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

Material Uncertainty Related to Going Concern

We draw attention to Note 2(e) to the consolidated financial statements, which indicates that the Company had negative working capital and experienced a net loss for the year ended December 31, 2023. These events or conditions along with other matters described in Note 2(e) indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements for the year ended December 31, 2023. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We have determined the matters described below to be the key audit matters to be communicated in our auditor's report.

Fair value less costs to sell inventory and biological assets

As discussed in notes 3 and 9 to the consolidated financial statements, the Company measures biological assets at fair value less costs to sell. The Company's biological assets are comprised of cannabis plants in various stages of growth, up to the point of harvest. On December 31, 2023, biological assets were recorded at \$1,086,182. Biological assets are transferred to work in progress inventory at their fair value at the point of harvest which becomes the cost of the cannabis inventory. Determination of fair value less costs to sell requires management to make significant judgements and assumptions relating to the stage of growth of the cannabis, harvesting costs, processing costs, sales price and expected yields.

We identified fair value less costs to sell inventory and biological assets as a key audit matter as management is required to make significant judgements and assumptions in determining these amounts. In turn, this leads to a high degree of auditor judgement, subjectivity, and effort in performing procedures to evaluate management's estimates.

To address this key audit matter, we evaluated management's process for developing the fair value estimates, evaluated the model for determining costs to sell, undertook sensitivity analysis, tested the completeness, accuracy and relevance of the underlying data used in the calculation, evaluated the significant assumptions used by management in determining the stage of growth of cannabis, harvest costs, processing costs, sales prices and expected yields. We undertook physical observation of the growing cannabis at year end, as well as examined source documentation for sales transactions subsequent to year end and harvest documentation and data with respect to yields.

Impairment of goodwill

As discussed in note 3 to the consolidated financial statements, the Company reviews long-lived assets including goodwill for impairment at each statement of financial position date or whenever events or changes in circumstances indicate that the carrying amount of an asset exceeds the recoverable amount. On December 31, 2023, goodwill was recorded at \$14,198,669.

We identified impairment of long-lived assets as a key audit matter as auditing the Company's goodwill is complex, and management is required to make significant judgements and assumptions in determining the higher of fair value less costs of disposal and value in use. In turn, this leads to a high degree of auditor judgement, subjectivity, and effort in performing procedures to evaluate management's estimates.

Fair value less costs of disposal is determined using a market approach based on market multiples. Value in use is determined using an income approach based on discounted cash flow involving forecasted revenue, gross margin, operating expenses, long-term growth rates and discount rates. The sensitivity of reasonable changes to the significant assumptions could have a significant impact on the determination of impairment.

To address this key audit matter, we evaluated the company's model for determining impairment, evaluated the reasonability of assumptions applied to key inputs involved in the determination of impairment and performed a sensitivity analysis on the key assumptions to assess the impact of reasonable changes on the determination of the recoverable amounts. We evaluated the market multiples by analyzing precedent market transactions and comparable public company multiples and comparing to those selected by management. We assessed the reasonableness of the Company's discount rates as well as forecasts related to revenue growth rates and earnings margins by comparing historical forecasts to actual performance. We also assessed the adequacy of the Company's disclosures in notes 3 and 13 to the consolidated financial statements.

Other Information

Management is responsible for the other information. The other information comprises the information contained in the Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions.

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 audit 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 audit or otherwise appears to be materially misstated. We obtained the information included in the 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 Responsibility 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 consolidated 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 audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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 Brent S. Morrish.

Baker Tilly HMA LLP

Chartered Professional Accountants

Winnipeg, Manitoba
March 31, 2024

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(CANADIAN DOLLARS)

AS AT DECEMBER 31

	2023	2022
ASSETS		
CURRENT		
Cash (Note 6)	\$ 2,153,346	\$ 3,518,994
Trade and other receivables (Note 7)	1,919,339	2,317,486
Inventories (Note 8)	11,000,403	18,378,055
Biological assets (Note 9)	1,086,182	1,442,202
Current portion of notes receivable (Note 11)	85,142	142,244
Prepayments and other current assets (Note 10)	1,891,671	1,289,425
Due from directors, officers and related parties (Note 18)	<u>113,262</u>	<u>112,080</u>
	18,249,345	27,200,486
NOTES RECEIVABLE (Note 11)	137,830	202,915
PROPERTY, PLANT AND EQUIPMENT (Note 12)	21,917,066	27,263,998
RIGHT-OF-USE ASSETS (Note 19)	19,051,865	20,151,153
INVESTMENTS (Note 14)	533,333	533,333
GOODWILL (Note 5, 13)	<u>14,198,669</u>	<u>14,198,669</u>
	\$ 74,088,108	\$ 89,550,554
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities (Note 15)	\$ 13,938,998	\$ 14,904,892
Customer deposits (Note 16)	521,101	327,993
Due to shareholder (Note 18)	48,951	48,951
Current portion of deferred revenue (Note 17)	317,017	267,162
Current portion of lease liabilities (Note 19)	1,961,646	7,455,272
Current portion of borrowings (Note 20)	<u>29,311,297</u>	<u>29,807,260</u>
	46,099,010	52,811,530
LOAN FROM RELATED PARTIES (Note 18)	2,860,248	2,756,404
DEFERRED REVENUE (Note 17)	859,263	926,723
LEASE LIABILITIES (Note 19)	18,407,306	13,285,923
BORROWINGS (Note 20)	3,791,193	5,591,193
CONVERTIBLE DEBENTURES - HOST LIABILITY (Note 21)	8,271,535	7,242,210
CONVERTIBLE DEBENTURES - EMBEDDED DERIVATIVE LIABILITY (Note 21)	<u>226,000</u>	<u>398,000</u>
	80,514,555	83,011,983
SHAREHOLDERS' EQUITY		
SHARE CAPITAL (Note 22)	76,399,543	72,581,938
WARRANTS	144,835	325,814
CONTRIBUTED SURPLUS	7,534,873	7,500,886
ACCUMULATED DEFICIT	(72,085,002)	(54,569,663)
ACCUMULATED OTHER COMPREHENSIVE LOSS	(19,274,154)	(19,274,154)
NON-CONTROLLING INTEREST	<u>853,458</u>	<u>(26,250)</u>
TOTAL SHAREHOLDERS' EQUITY	<u>(6,426,447)</u>	<u>6,538,571</u>
	\$ 74,088,108	\$ 89,550,554
COMMITMENTS (Note 29)		

Approved on behalf of the Board:

"Nitin Kaushal"
Signed: Director

"John William Arbuthnot IV"
Signed: Director

See accompanying notes to consolidated financial statements

CONSOLIDATED STATEMENTS OF NET LOSS AND COMPREHENSIVE LOSS

(CANADIAN DOLLARS)

YEAR ENDED DECEMBER 31

	2023	2022
REVENUE (Note 24)	\$ 71,065,337	\$ 63,228,271
COST OF SALES	(53,091,503)	(50,311,768)
GROSS PROFIT BEFORE UNREALIZED GAIN FROM CHANGES IN BIOLOGICAL ASSETS	17,973,834	12,916,503
Unrealized gain on changes in fair value of biological assets	8,230,742	15,307,184
Fair value changes in biological assets included in inventory sold	(11,759,995)	(17,344,998)
GROSS PROFIT	<u>14,444,581</u>	<u>10,878,689</u>
EXPENSES		
General and administrative (Note 25)	11,236,033	15,073,754
Sales and marketing (Note 25)	15,903,556	14,452,733
Share based compensation	798,156	1,610,463
	<u>27,937,745</u>	<u>31,136,950</u>
LOSS FROM OPERATIONS	(13,493,164)	(20,258,261)
OTHER INCOME (EXPENSES)		
Finance income (expense) - net (Note 26)	(6,784,662)	(6,484,892)
Other income (Note 27)	3,470,195	312,665
Other financing costs	-	(494,466)
Gain (loss) on fair value change in derivative liability	172,000	2,313,609
Impairment of goodwill (Note 13)	-	(3,075,605)
Impairment of intangible assets (Note 13)	-	(150,000)
	(3,142,467)	(7,578,689)
LOSS BEFORE INCOME TAXES	(16,635,631)	(27,836,950)
Current income tax expense (recovery) (Note 30)	-	-
NET LOSS	<u>(16,635,631)</u>	<u>(27,836,950)</u>
Net income (loss) attributable to:		
Delta 9 Cannabis Inc.	(17,515,339)	(27,200,557)
Non-controlling interest (Note 23)	879,708	(636,393)
	<u>(16,635,631)</u>	<u>(27,836,950)</u>
Total comprehensive income (loss)	<u>(16,635,631)</u>	<u>(27,836,950)</u>
Total comprehensive income (loss) attributable to:		
Delta 9 Cannabis Inc.	(17,515,339)	(27,200,557)
Non-controlling interest (Note 23)	879,708	(636,393)
	<u>(16,635,631)</u>	<u>(27,836,950)</u>
Earnings (loss) per share - basic (Note 28)	\$(<u>0.10</u>)	\$(<u>0.22</u>)
Earnings (loss) per share - diluted (Note 28)	\$(<u>0.10</u>)	\$(<u>0.22</u>)

See accompanying notes to consolidated financial statements

DELTA 9 CANNABIS INC.

STATEMENT 3

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(CANADIAN DOLLARS)

YEAR ENDED DECEMBER 31

	Number of shares	Share Capital	Warrants	Contributed Surplus	Accumulated Deficit	Accumulated Other Comprehensive Loss	Non- Controlling Interest	Total Equity
BALANCE, December 31, 2021	105,657,268	\$ 64,080,903	\$ 1,456,415	\$ 5,774,941	\$(27,369,106)	\$(19,274,154)	\$ 610,143	\$ 25,279,142
Net income (loss)	-	-	-	-	(27,200,557)	-	(636,393)	(27,836,950)
Shares issued relating to financing	2,038,217	640,000	-	-	-	-	-	640,000
Shares issued in equity raise	11,300,027	1,578,100	144,836	-	-	-	-	1,722,936
Shares issued to Sundial Cannabis Inc.	1,178,647	255,479	-	-	-	-	-	255,479
Shares issued in business acquisition transactions	24,911,771	4,856,458	-	-	-	-	-	4,856,458
Transfer of warrants to contributed surplus on expiry	-	-	(1,275,437)	1,275,437	-	-	-	-
Share based compensation	-	-	-	1,621,506	-	-	-	1,621,506
Transfer on exercise of restricted stock units (Note 22)	5,171,076	1,170,998	-	(1,170,998)	-	-	-	-
BALANCE, December 31, 2022	<u>150,257,006</u>	<u>\$ 72,581,938</u>	<u>\$ 325,814</u>	<u>\$ 7,500,886</u>	<u>\$(54,569,663)</u>	<u>\$(19,274,154)</u>	<u>\$(26,250)</u>	<u>\$ 6,538,571</u>
BALANCE, December 31, 2022	150,257,006	\$ 72,581,938	\$ 325,814	\$ 7,500,886	\$(54,569,663)	\$(19,274,154)	\$(26,250)	\$ 6,538,571
Net income (loss)	-	-	-	-	(17,515,339)	-	879,708	(16,635,631)
Transfer of warrant to contributed surplus on expiry	-	-	(180,979)	180,979	-	-	-	-
Share issued related to private placement and financing (Note 22)	44,584,664	2,186,866	-	-	-	-	-	2,186,866
Shares issued in business acquisition transactions (Note 5)	1,993,865	319,018	-	-	-	-	-	319,018
Restricted shares issued for services and purchase of equipment (Note 22)	5,609,419	364,612	-	-	-	-	-	364,612
Share based compensation	-	-	-	800,117	-	-	-	800,117
Transfer on exercise of restricted stock units (Note 22)	10,721,941	947,109	-	(947,109)	-	-	-	-
BALANCE, December 31, 2023	<u>213,166,895</u>	<u>\$ 76,399,543</u>	<u>\$ 144,835</u>	<u>\$ 7,534,873</u>	<u>\$(72,085,002)</u>	<u>\$(19,274,154)</u>	<u>\$ 853,458</u>	<u>\$(6,426,447)</u>

See accompanying notes to consolidated financial statements

CONSOLIDATED STATEMENT OF CASH FLOWS

(CANADIAN DOLLARS)

YEAR ENDED DECEMBER 31

	2023	2022
CASH FLOW FROM		
OPERATING ACTIVITIES		
Net loss for the year	\$(16,635,631)	\$(27,836,950)
Items not affecting cash:		
Amortization of property, plant and equipment	8,787,343	7,966,408
Unrealized changes in fair value of biological assets	3,529,253	2,037,814
Gain on fair valuation of change in derivative liability	(172,000)	(2,313,609)
Gain on disposal of fixed assets	(15,834)	-
Interest accrued on lease liabilities	1,525,096	1,179,425
Interest accrued on loan from related party	103,845	94,717
Interest accrued on convertible debentures	2,029,366	2,466,118
Interest accrued on borrowings	153,489	91,951
Bad debts	122,434	455,367
Share based compensation and payments	1,314,728	1,621,506
Non-cash revenue- manufacturing rebate	(267,162)	(267,162)
Impairment of goodwill (Note 13)	-	3,075,605
Impairment of intangible assets	-	150,000
Research equipment write down	250,000	-
Forgiveness of debt	(2,241,489)	-
	<u>(1,516,562)</u>	<u>(11,278,810)</u>
Trade and other receivables	275,713	1,796,477
Inventories	3,954,813	1,581,121
Prepayments and other current assets	(649,046)	(217,785)
Accounts payable and accrued liabilities	1,592,328	3,530,771
Customer deposits	193,108	33,826
Notes receivable	122,187	896,940
Deferred revenue	<u>249,567</u>	<u>-</u>
Changes in non cash working capital	<u>5,738,670</u>	<u>7,621,350</u>
	<u>4,222,108</u>	<u>(3,657,460)</u>
INVESTING ACTIVITIES		
Acquisition of property, plant and equipment	(652,231)	(2,363,342)
Proceeds on disposal of fixed assets	20,000	-
Cash payment for retail store acquisitions, net	-	(11,501,800)
	<u>(632,231)</u>	<u>(13,865,142)</u>
FINANCING ACTIVITIES		
Proceeds from share issuances - net	2,036,864	-
Proceeds from convertible debentures - net (Note 21)	-	9,345,555
Proceeds from equity raise	-	1,722,937
Proceeds from borrowings - net (Note 20)	291,686	37,155,648
Repayment of lease liabilities (Note 19)	(3,541,455)	(2,816,647)
Repayment of borrowings	(2,741,138)	(15,828,351)
Interest payments on convertible debentures	(1,000,000)	(12,766,570)
Due to (from) related parties	(1,182)	(11,811)
	<u>(4,955,225)</u>	<u>16,800,761</u>
NET DECREASE IN CASH	(1,365,348)	(721,841)
CASH, beginning of year	<u>3,518,994</u>	<u>4,240,835</u>
CASH, end of year	<u>\$ 2,153,646</u>	<u>\$ 3,518,994</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**December 31 , 2023**

1. NATURE OF BUSINESS

Delta 9 Cannabis Inc. (the "Company") is a licensed cannabis producer regulated by Health Canada under The Cannabis Act. The Company is a publicly traded company on the Toronto Stock Exchange ("TSX") under the symbol DN. The Cannabis license is in the name of Delta 9 Bio-Tech Inc., a wholly owned subsidiary of the Company. On December 4, 2019, Health Canada amended the Cannabis license to allow the Company to sell cannabis oils, extracts and derivative products in addition to the previously granted license for standard cultivation and license for sale for medical purposes with subsequent amendments expiring on August 22, 2027.

The address of the registered office is Suite 2600, 1066 West Hastings Street, Vancouver, British Columbia, V6E 3X1.

On March 31, 2024, the Board of Directors authorized the Consolidated Financial Statements for issue.

2. BASIS OF PRESENTATION**a) Statement of compliance**

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

b) Basis of measurement

These consolidated financial statements have been prepared on a historical cost basis except for biological assets, notes receivable, long term investments, intangibles, borrowings, convertible debentures, loans from related parties, warrants and options which are measured at fair value, as explained in the accounting policies below.

Historical cost is the fair value of the consideration given in exchange for goods and services based on the fair value at the time of the transaction of the consideration given in exchange for assets.

c) Functional and presentation currency

These consolidated financial statements are presented in Canadian dollars, which is the Company's functional and presentation currency.

d) Basis of consolidation

These consolidated financial statements consolidate the accounts of the Company and its subsidiaries. Subsidiaries are all entities over which the Company has control. The Company controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The Company has power over an entity where it has existing rights that give the current ability to direct the activities that most significantly affect the entity's returns (relevant activities). Power may be determined on the basis of voting rights or, in the case of structured entities, other contractual arrangements. The Company consolidates all subsidiaries from the date it obtains control and ceases consolidation when an entity is no longer controlled by it. All transactions and balances from subsidiaries have been eliminated upon consolidation.

These consolidated financial statements include the Company and its wholly owned subsidiaries, Delta 9 Bio-Tech Inc. and Delta 9 Cannabis Store Inc., and the Company's interest in Delta 9 Lifestyle Cannabis Clinic Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**December 31 , 2023**

2. BASIS OF PRESENTATION *(continued)*

In addition to Delta 9 Bio-Tech Inc. (and its subsidiary, Delta 9 Lifestyle Cannabis Clinic Inc.), the Company has four other subsidiaries, 10007705 Manitoba Ltd. which was incorporated under The Corporations Act (Manitoba) on December 14, 2017 and Delta 9 Cannabis Store Inc. which was incorporated under the Canada Business Corporations Act on May 6, 2019. Delta 9 Lifestyle Cannabis Clinic Inc. was awarded its first four Manitoba retail location licenses. The Company now has nineteen retail locations in Manitoba owned by Delta 9 Lifestyle Cannabis Clinic Inc. and twenty-two retail locations in Saskatchewan and Alberta owned by Delta 9 Cannabis Store Inc. In 2020, the Company incorporated a new subsidiary Blue Horseshoe Manufacturing Inc. The Company holds 53% of the issued and outstanding shares, with the remaining shares held by arm's length third parties. On October 5, 2021, Delta 9 Logistics Inc. a wholly owned subsidiary was incorporated by the Company.

No financial transactions were incurred by 10007705 Manitoba Ltd. and Delta 9 Logistics Inc. as of December 31, 2023. There were no material financial transactions incurred by Blue Horseshoe Manufacturing Inc. as of December 31, 2023.

e) Going concern

These consolidated financial statements have been prepared on a going concern basis which assumes that the Company will, in the foreseeable future realize on its assets and discharge its liabilities in the normal course of business as they become due. Accordingly, the consolidated financial statements do not give affect to adjustments 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 and commitments in other than the normal course of business and at amounts different from those in these consolidated financial statements. Such adjustments could be material.

At December 31, 2023, the Company had negative working capital of \$27,849,665 compared to \$25,611,044 at December 31, 2022. The Company incurred a net loss for the year ended December 31, 2023 of \$16,635,631 and earned cash flows from operating activities of \$4,222,108.

The Company anticipates it will have sufficient cash on hand to service its liabilities and fund operating costs for the immediate future. However, without raising additional debt financing or equity in the upcoming fiscal year there is material uncertainty over the Company's ability to continue as a going concern. The company has acted and continues to act on substantial cost cutting initiatives in all aspects of the company operations. The projected result of these initiatives was estimated to be between \$3,000,000 and \$4,000,000 in 2023. The actual cash reductions in 2023 were \$3,800,000. The company will continue cost cutting initiatives in 2024.

As at December 31, 2023 the Company was not compliant with its debt service coverage ratio covenant and its working capital covenant. Continued non-compliance with the financial covenants in the credit facility could result in the debt becoming due and payable on demand. Should the Company anticipate continued non-compliance, management will proactively approach its lender to amend the credit facilities to ensure their continued availability. There is no certainty the Company will be successful in negotiating such amendments.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTSDecember 31 , 2023

3. MATERIAL ACCOUNTING POLICIES

REVENUE RECOGNITION

The Company's policy for the timing and amount of revenue to be recognized is based on the following five-step process described in IFRS 15:

- Identifying the contract with a customer
- Identifying the performance obligations
- Determining the transaction price
- Allocating the transaction price to the performance obligations
- Recognizing revenue when or as performance obligation(s) are satisfied

Revenue from the sale of cannabis, related merchandise and devices and grow pods is recognized when the Company has transferred the significant risks and rewards of ownership to the customer, the amount of the revenue can be reliably measured and it is probable that the Company will receive the previously agreed upon payment. Significant risks and rewards are generally considered to be transferred when the product leaves the Company's premises. Revenue is recognized at the fair value of the consideration received or receivable. Interest and sundry income is recognized at the time the amount is earned, determinable and collectibility is reasonably assured.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash on hand, balances with banks and term deposits having maturity of twelve months or less at acquisition, which are held for the purpose of meeting short-term cash commitments.

TRADE AND OTHER RECEIVABLES

Trade receivables are stated at the amounts billed to customers under normal trade, and are recognized initially at fair value and subsequently measured at amortized cost less an allowance for impairment.

Trade and other receivables are classified as current assets if amounts are due within one year or less. If not, they are presented as non-current assets.

NOTES RECEIVABLE

Notes receivable are recognized initially at fair value and subsequently carried at amortized cost.

Notes receivable are classified as current assets if amounts are due within one year or less. If not, they are presented as non-current assets.

INVENTORIES

Inventories of raw materials, merchandise and devices, grow pods, and finished goods are valued at the lower of cost and net realizable value. Harvested cannabis plants are transferred from biological assets into work in progress inventory at their fair value at harvest less costs to sell which is deemed to be their cost. Any subsequent post-harvest costs are capitalized to inventory to the extent that cost is less than net realizable value. Net realizable value is determined as the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs to sell. Packaging, supplies and seeds are initially valued at cost.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2023

3. MATERIAL ACCOUNTING POLICIES (continued)

BIOLOGICAL ASSETS

The Company's biological assets consist of cannabis clones, mother plants and flowering plants. All the biological assets are presented as current assets on the statement of financial position. The Company measures biological assets at fair value less cost to sell up to the point of harvest which becomes the basis for the cost of work in progress and in turn finished goods inventories after harvest. Average selling prices and expected yield from a flowering cannabis plant has been applied on a strain by strain basis. Gains or losses arising from changes in fair value less cost to sell are included in the results of operations of the related year.

PREPAYMENTS AND OTHER CURRENT ASSETS

Prepayments and other current assets include short-term prepaid expenses and prepayments related to materials and other deposits required in the normal course of business, which are less than one year.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are measured at cost less accumulated amortization and impairment losses. Amortization is provided on a straight-line basis using the following rates:

Building	5%
Leasehold improvements	20%
Containers	10%
Production equipment	20%
Cooling infrastructure	10%
Security equipment	20%
Computer equipment	55%
Computer software	33%
Office furniture and equipment	20%
Vehicles	30%

In the year of acquisition, amortization is taken at one-half of the straight line rate.

IMPAIRMENT OF LONG-LIVED ASSETS

Long lived assets, including property, plant and equipment and intangible assets are reviewed for impairment at each statement of financial position date or whenever events or changes in circumstances indicate that the carrying amount of an asset exceeds the recoverable amount. For the purposes of impairment-testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generate cash flows from continuing use that are largely independent of cash flows of other assets or groups of the assets (the cash generating unit, or "CGU"). The recoverable amount of an asset or a CGU is the higher of its fair value, less costs of disposal ("FVLCD"), 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 the recoverable amount, and the carrying amount that would have been recorded had no impairment loss been recognized previously.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTSDecember 31 , 2023

3. MATERIAL ACCOUNTING POLICIES *(continued)****BUSINESS ACQUISITIONS***

The Company applies the acquisition method in accounting for business combinations. The Company measures goodwill as the difference between the fair value of the consideration transferred, including the recognized amount of any non-controlling interest in the acquiree, and the net recognized amount (generally fair value) of the identifiable assets acquired and liabilities assumed, all measured as of the acquisition date.

Consideration transferred includes the fair value of the assets transferred (including cash), liabilities incurred by the Company on behalf of the acquiree, and equity interests issued by the Company. Consideration transferred also includes the fair value of any contingent consideration.

Transaction costs that the Company incurs in connection with a business combination, such as finders' fees, legal fees, due diligence fees, and other professional and consulting fees, are expensed in the year as incurred.

TRADE AND OTHER PAYABLES

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Other payables include excise duty, government remittances payable and corporate credit cards. Trade and other payables are classified as current liabilities if payments are due within one year or less. If not, they are presented as non-current liabilities.

DEFERRED REVENUE

Deferred revenue includes amounts related to:

- Amortization of pre-roll machine government rebate.
- Amortization of manufacturing rebate from the government over the useful life of the related assets.
- Amortization of Efficiency Manitoba retrofit grant.

If the revenue recognition associated with these services is expected to take place within twelve months from the balance sheet date, the Company presents the deferred revenue as current; otherwise the deferred revenue is presented as non-current.

BORROWINGS

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in earnings over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognized as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. If so, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalized as a pre-payment for liquidity services and amortized over the period of the facility to which it relates.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTSDecember 31 , 2023

3. MATERIAL ACCOUNTING POLICIES (*continued*)*CONVERTIBLE INSTRUMENTS*

Convertible instruments are compound financial instruments which are accounted for separately by their components, a financial liability and an equity instrument. The financial liability, which represents the obligation to pay coupon interest on the convertible instruments in the future is initially measured at its fair value of a similar liability that does not have an equity conversion option, and subsequently measured at amortized cost using the effective interest method. The residual amount is accounted for as an equity instrument at issuance. The equity component is not remeasured subsequent to initial recognition, except on conversion or expiry. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts.

For compound instruments with non-equity derivatives, the fair value of the embedded derivative is determined based on the contractual terms, and the initial carrying amount of the host instrument is the residual amount after separating the embedded derivative.

DERIVATIVES

The Company measures derivative financial liabilities at fair value through profit or loss at initial recognition and in subsequent reporting periods. Fair value gains or losses are recognized in other gains (losses) on the statement of net loss and comprehensive loss. Transaction costs, which are directly attributable to the offering, are expensed as incurred.

INTANGIBLE ASSETS

Indefinite intangible assets are deemed to have no foreseeable limit over which the asset is expected to generate net cash inflows. Following initial recognition, intangible assets with indefinite useful lives are carried at cost less any accumulated impairment losses and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired.

LEASES

The Company recognizes lease liabilities under the principles of IFRS 16 Leases.

The Company leases various properties for its offices, manufacturing facility and retail stores to sell recreational cannabis. Rental contracts are typically made for fixed periods, but might have extension options. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets cannot be used as security for borrowing purposes.

Leases are recognized as a right-of-use asset and a corresponding liability at the date at 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 (including in-substance fixed payments), less any lease incentives receivable. The lease payments are discounted using the Company's incremental borrowing rate.

The Company recognizes a right-of-use asset and a lease liability at the commencement of the lease. The right-of-use asset is initially measured based on the present value of lease payments, plus initial direct costs and the cost of obligations to refurbish the asset, adjusted for any lease payments made at or before the commencement date less any incentives received.

Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period to produce a constant periodic rate of interest on the remaining balance of the liability for each year. The right-of-use asset is amortized over the shorter of the asset's useful life and the lease term on a straight-line basis. In case of a future purchase option, the right-of-use asset is amortized over the asset's useful life.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**December 31 , 2023**

3. MATERIAL ACCOUNTING POLICIES (continued)

In applying IFRS 16, the Company uses the following practical expedients permitted by the standard:

- The use of a single discount rate to a portfolio of leases with reasonably similar characteristics.
- To account for each lease component of a contract and any associated non-lease components as a single lease component, where non-lease components are not significant when compared with the lease components of a contract.
- The use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Company has elected not to recognize right-of-use assets and liabilities for leases where the total lease term is less than or equal to twelve months, or for leases of low-value assets. Payments associated with short-term leases and leases of low-value assets are recognized on a straight-line basis as an expense. Presently, there are no short-term or low-value leases in effect.

Income from operating leases is recognized on a straight-line basis over the term of the lease.

SHARE-BASED COMPENSATION

The Company has a stock option plan for directors, officers, employees, and consultants. Grants are subject to a service condition by the option holder.

All option grants are initially measured at fair value at the grant date using the Black-Scholes option pricing model. The fair value of the options is amortized over the vesting period and is included in operating expenses with a corresponding increase in contributed surplus, net of an estimated forfeiture credit. Management reassesses the estimated forfeiture credit at each reporting period. Where the terms and conditions of the initial option grant are modified before they vest, the options are remeasured at fair value at the modification date and any increase in fair value is charged to earnings.

When options are exercised, common shares are issued from treasury and the proceeds are credited to share capital in the Consolidated Statement of Financial Position.

The Company also has a performance and restricted share units plan for directors, officers, and employees. All performance and restricted share units are initially measured at fair value at the grant date. The fair value of the performance and restricted share units is amortized over the vesting period and is included in operating expenses with a corresponding increase in contributed surplus, net of an estimated forfeiture credit. Management reassesses the estimated forfeiture credit at each reporting period. When performance and restricted share units are exercised, common shares are issued from treasury and the corresponding fair values are credited to share capital in the Consolidated Statement of Financial Position.

WARRANTS

The Company uses the residual value approach in respect of unit offerings whereby the amount assigned to the warrant is the excess of the unit price over the trading price of the Company's shares at the date of issuance, if any, to a maximum fair value of the warrant determined by using the Black-Scholes option pricing model.

INCOME TAXES

The Company uses the liability method to account for income taxes. Deferred income tax assets and liabilities are recognized for the future tax consequences attributable to differences between the carrying amounts of existing assets and liabilities for accounting purposes and their respective tax bases. Deferred income tax assets and liabilities are measured using tax rates that have been enacted or substantively enacted applied to taxable income in the years in which temporary differences are expected to be reversed or settled. The effect on deferred income tax assets and liabilities of a change in statutory tax rates is recognized in profit or loss in the year of change. Deferred income tax assets are recorded when their recoverability is considered probable and are reviewed at the end of each reporting period.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31 , 2023

3. MATERIAL ACCOUNTING POLICIES (continued)

FINANCIAL INSTRUMENTS

Financial instruments consist of financial assets and liabilities and are initially measured at fair value, and are recognized in the consolidated statements of financial position when the Company has become party to the contractual provisions of the instruments. The accounting policies for financial instruments are described below and the composition of the Company's financial instruments and related risks are disclosed in Notes 31 and 32 .

1) Financial Assets

The Company classifies each financial asset into one of following categories depending on the purpose for which the asset was acquired. The classification of its instruments is driven by the Company's business model for managing the financial assets and their contractual cash flow characteristics.

a) At Fair Value Through Profit or Loss ("FVTPL").

Assets in this category are derivatives, equity instruments which the Company has not irrevocably elected, at initial recognition, to classify at FVTOCI, or other assets classified as held-for-trading (i.e. acquired or incurred principally for the purpose of selling or repurchasing in the near term) or designated as FVTPL upon initial recognition subject to meeting certain conditions. After initial recognition, such assets are measured at fair value with changes therein being recognized in profit or loss. The Company has cash and cash equivalents which are classified as FVTPL.

b) At Fair Value Through Other Comprehensive Income ("FVTOCI")

Equity instruments that are not held-for-trading can be irrevocably designated to have their change in fair value recognized through other comprehensive income instead of through profit or loss. This election can be made on individual instruments and is not required to be made for the entire class of instruments. Attributable transaction costs are included in the carrying value of the instruments. Financial assets at fair value through other comprehensive income are initially measured at fair value and changes therein are recognized in other comprehensive income. The Company has investments in equity instruments of Pure Blue Cannabis Inc. (formerly Vitreous Cannabis Inc.) and Oceanic Releaf Inc. which are classified as FVTOCI.

c) Amortized Cost

Assets in this category are initially recognized at fair value plus or minus transaction costs, respectively, and subsequently carried at amortized cost less impairment. The Company has accounts receivable, notes receivable, and amounts due from related parties which are classified as financial assets at amortized cost.

2) Financial Liabilities

The Company classifies each financial liability into one of following categories depending on the purpose for which the liability was incurred.

a) At FVTPL

Financial liabilities in this category are derivatives or liabilities classified as held-for-trading or designated as FVTPL, upon initial recognition subject to meeting certain conditions. After initial recognition, such liabilities are measured at fair value with changes in fair value being recognized in profit or loss. The Company has an embedded derivative liability classified as FVTPL.

(b) Other Financial Liabilities

Liabilities in this category are non-derivative financial liabilities that are not classified as FVTPL. After initial recognition, such liabilities are measured at amortized cost using the effective interest rate method. The Company has accounts payable and accrued liabilities, customer deposits, lease liabilities, loan from related parties, borrowings, convertible debentures and due to related parties which are classified as other financial liabilities.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31 , 2023

3. MATERIAL ACCOUNTING POLICIES (*continued*)

3) Transaction Costs

For FVTPL financial assets and liabilities, transaction costs on initial recognition, and thereafter, are included directly in profit or loss. For other categories of financial assets and liabilities, transaction costs are capitalized and included in the calculation of the effective interest rate i.e. amortized through profit or loss over the terms of the related instrument.

4) Impairment of Financial Assets

The Company recognizes a loss allowance for expected credit losses on financial assets that are measured at amortized cost. At each reporting date, the Company measures the loss allowance for the financial asset at an amount equal to the lifetime expected credit losses if the credit risk on the financial asset has increased significantly since initial recognition. If at the reporting date, the credit risk on financial assets has not increased significantly since initial recognition, the Company measures the loss allowance for the financial assets at an amount equal to twelve month expected credit losses. The Company recognizes in the statements of net income (loss), as an impairment gain or loss, the amount of expected credit losses (or reversal) that is required to adjust the loss allowance at the reporting date to the amount that is required to be recognized.

5) Fair Value Measurement

Fair value is defined as the price to sell an asset or transfer a liability (i.e. the "exit price") in an orderly transaction between market participants. Management uses a fair value hierarchy that gives the highest priority to quoted prices in active markets and the lowest priority to unobservable data. The fair value hierarchy is broken down into the following three levels:

Level 1: Fair value based on unadjusted quoted prices in active markets for identical assets or liabilities.

Level 2: Fair value based on quoted prices in active markets for similar assets or liabilities, quoted prices for identical assets or liabilities in inactive markets, or for which significant inputs are observable (e.g. interest rates, yield curves, etc.) or can be corroborated by observable market data.

Level 3: Fair value based on inputs that are unobservable and reflecting significant management judgments about assumptions that market participants might use.

The fair value hierarchy requires the use of observable market inputs whenever such inputs exist. A financial instrument is classified to the lowest level of the hierarchy for which a significant input has been considered in measuring fair value.

GOVERNMENT GRANTS

The Company recognizes government grants when there is reasonable assurance that the grant will be received and that the conditions of the grant will be met. The Company recognizes government grants in the Consolidated Statements of Net Income (Loss) in the same period as the expense for which the grant is intended to compensate. Grants that are intended as a revenue guarantee are recorded within revenue in the period in which they are earned.

CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The preparation of the consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, revenue and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

1) Biological Assets

Determination of the fair value of biological assets requires the Company to make a number of estimates, including estimating the stage of growth of the cannabis plants up to the point of harvest, harvesting costs, selling costs, sales prices, wastage and expected yields of the cannabis plant. In determining final inventory values, the Company estimates spoiled or expired inventory in determining net realizable value.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTSDecember 31, 2023

3. MATERIAL ACCOUNTING POLICIES (*continued*)

The Company's estimates are, by their nature, subject to change and differences from the anticipated yield of flowering plants will be reflected in the gain or loss on biological assets in future periods.

2) Estimated Useful Lives of Property, Plant and Equipment

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

3) Valuation of Inventory

In calculating the net realizable value ("NRV") of inventory, management determines the selling prices based on current observable market sales prices, selling costs, based on the most reliable evidence available at the time, to record inventory at the lower of cost or net realizable value.

4) Convertible Debentures

Convertible debentures are financial instruments which are accounted for separately dependent on the nature of their components: a financial liability and an equity instrument. The identification of such components embedded within a convertible debenture requires significant estimates including discount rates and future cash flows.

5) Share Based Compensation

The fair value of share-based compensation expenses are estimated using the Black-Scholes option pricing model and relies on a number of estimated inputs, such as the expected life of the option, the volatility of the underlying share price, the risk free rate of return and the estimated rate of forfeiture of options granted. Changes in the underlying estimated inputs may result in materially different results.

6) Warrants

In calculating the fair value of warrants, management relies on estimated inputs, such as the volatility of the Company's stock price and the risk-free rate of return.

7) Business Combinations

Judgement is used in determining whether an acquisition is a business combination or an asset acquisition. In determining the allocation of the purchase price in a business combination, including any acquisition-related contingent consideration, estimates including market based and appraisal values are used. The contingent consideration is measured at its acquisition date fair value and included as part of the consideration transferred in a business combination. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or liability is remeasured at subsequent reporting dates as appropriate, with the corresponding gain or loss being recognized in profit or loss. The Company measures all assets acquired and liabilities assumed at their acquisition-date fair values. Non-controlling interests in the acquiree are measured on the basis of the non-controlling interests' proportionate share of this equity in the acquiree's identifiable net assets. Acquisition-related costs are recognized as expenses in the periods in which the costs are incurred and the services are received (except for the costs to issue debt or equity securities which are recognized according to specific requirements). The excess of the aggregate of (a) the consideration transferred to obtain control, the amount of any non-controlling interest in the acquiree over (b) the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed, is recognized as goodwill as of the acquisition date.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31 , 2023

3. MATERIAL ACCOUNTING POLICIES (*continued*)

8) Determination of CGUs

For the purposes of assessing impairment of non-financial assets, the Company must determine cash generating units ("CGU"). Assets are allocated to CGUs based on the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGUs. Determination of what constitutes a CGU is subject to management judgement. The asset composition of a CGU can directly impact the recoverability of the assets included within the CGU. The determination of the Company's CGUs is the retail store or stores that are included in the group for which goodwill has been established.

9) Impairment of Non-Financial Assets

Property, plant and equipment and definite-life intangible assets, are reviewed for indicators of impairment at each reporting period or whenever events or changes in circumstances indicate that the carrying amount of an asset exceeds its recoverable amount. The recoverable amount of an asset or a CGU is the higher of its FVLCD or 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 for 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 if no impairment loss been recognized previously.

Goodwill and indefinite-life intangible assets are tested for impairment annually and whenever events or changes in circumstances indicate that the carrying amount of goodwill or intangible assets has likely been impaired. Goodwill and indefinite-life intangible asset impairment testing requires management to make estimates in the impairment testing model. Impairment is influenced by judgment in defining a CGU and determining the indicators of impairment, and estimates used to measure impairment losses. The recoverable amount is defined as the higher of: (i) value in use; or (ii) FVLCD. The Company relies on a number of factors including historical results, business plans, forecasts and market data in determining the recoverable amount. Changes in the conditions for these judgments and estimates can significantly affect the assessed value of goodwill and indefinite life intangible assets.

Impairment losses recognized in respect of a CGU are first allocated to the carrying value of goodwill and any excess is allocated to the carrying value of assets in the CGU. Any impairment is recorded in profit and loss in the period in which the impairment is identified. Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the lessor of the revised estimate of recoverable amount and the carrying amount that would have been recorded had no impairment loss been previously recognized, with the exception of goodwill and indefinite lived intangible assets.

4. ACCOUNTING PRONOUNCEMENTS

Future changes in accounting policies

IAS 1 - Presentation of financial statements:.

IAS 1 Presentation of Financial Statements was revised to incorporate amendments issued by the IASB requiring entities to disclose, in specific circumstances, information in the notes that enable financial statement users to understand the risk that non-current liabilities with covenants could become repayable within 12 months after the reporting date.

The amendments specify that covenants to be complied with after the reporting date do not affect the classification of debts as current or non-current at the reporting date. Instead, the amendments require a company to disclose information about these covenants in the notes to the financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTSDecember 31 , 2023

4. ACCOUNTING PRONOUNCEMENTS *(continued)*

IAS 7 Statement of Cashflows

These amendments introduce new disclosure requirements to enhance the transparency of supplier finance arrangements and to provide users of the financial statements with information to enable them to:

- Assess how supplier finance arrangement affect the entity's liability and cash flows; and
- Understand the effect of supplier finance arrangements on an entity's exposure to liquidity risk and how the entity might be affected if the arrangements were no longer available to it.

Required disclosures in relation to supplier finance arrangements include terms and conditions, carrying amounts and related financial statement line items, ranges of payment due dates, information on non cash changes, and liquidity risk

The effective date for these amendments is January 1, 2024.

The company is currently assessing the impact of these amendments.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2023

5. BUSINESS ACQUISITION

1. ACQUISITION OF RETAIL STORES IN ALBERTA:

On March 30, 2022 the Company completed the purchase of 17 retail stores in Alberta. Management believes this acquisition meets the criteria of a business acquisition under IFRS 3 "Business Combinations".

Consideration Transferred:

Under the terms of the acquisition, the Company issued 6,666,667 common shares to the seller at a value of \$1,866,667 (\$0.28 per share) based on a TSX share price at the closing of the transaction on March 30, 2022. In addition to this, \$12,907,274 was paid in cash, \$600,928 in a promissory note, which makes the total purchase consideration on the closing date of \$15,374,859.

The net cash outflow at the closing of the acquisition was \$11,501,800.

The following identifiable assets and liabilities were subject to management's estimates and assumptions after taking into consideration all relevant information available. The fair value amounts represent final balances recorded in the financial statements.

The purchase price allocation to the net assets acquired was determined to be as follows:

	Amount
Cash	\$ 17,000
Inventories	600,928
Leasehold improvements	322,100
Signs	253,500
Security equipment	188,000
Office furniture and equipment	234,600
Prepays	434,584
Loyalty program	(76,480)
Goodwill	<u>13,400,627</u>
Total purchase consideration	<u>\$ 15,374,859</u>

Goodwill:

The residual purchase consideration of \$13,400,627 was assumed goodwill on this acquisition, which was allocated to the cash generating unit consisting of 17 Alberta retail stores.

2. ACQUISITION OF RETAIL STORES IN MANITOBA:

On September 6, 2022 the Company completed the purchase of three Garden Variety branded retail cannabis stores in Manitoba, two in Winnipeg and one in Brandon. Management believes this acquisition meets the criteria of a business acquisition under IFRS 3 "Business Combinations".

Consideration Transferred:

Under the terms of the acquisition, the Company issued 17,944,785 common shares to the seller at a value of \$2,871,166 (\$0.16 per share) based on a TSX share price at the closing of the transaction on September 6, 2022. In addition to this, \$259,798 was paid in cash and \$596,993 was included in accrued liabilities, which makes the total purchase consideration on the closing date of \$4,046,975. During the year ended December 31, 2023, cash in the amount of \$596,993 for inventory was paid.

An additional 1,993,865 common shares were issued to the seller on March 15, 2023 at a value of \$319,018 (\$0.16 per share).

The following identifiable assets and liabilities were subject to management's estimates and assumptions after taking into consideration all relevant information available. The fair value amounts represent final balances recorded in the financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2023

5. BUSINESS ACQUISITION *(continued)*

The purchase price allocation to the net assets acquired was determined to be as follows:

	Amount
Inventory	\$ 596,993
Prepays	103,613
Property, plant, and equipment	2,387,398
Gift card liability	(3,700)
Goodwill	<u>962,671</u>
	<u>\$ 4,046,975</u>

Goodwill:

The residual purchase consideration of \$962,671 was assumed goodwill on this acquisition, which was allocated to the cash generating unit of the Garden Variety retail stores.

6. CASH AND CASH EQUIVALENTS

	December 31, 2023	December 31, 2022
Cash	\$ 2,103,346	\$ 3,468,994
Assignment of deposit instrument with Canadian Western Bank	<u>50,000</u>	<u>50,000</u>
	<u>\$ 2,153,346</u>	<u>\$ 3,518,994</u>

7. TRADE AND OTHER RECEIVABLES

	December 31, 2023	December 31, 2022
Trade receivables	\$ 1,919,339	\$ 2,923,180
Less: Allowance for doubtful accounts	<u>-</u>	<u>(605,694)</u>
	<u>\$ 1,919,339</u>	<u>\$ 2,317,486</u>

The following table provides details on the age of trade receivables:

	December 31, 2023	December 31, 2022
0 - 30 days	\$ 963,691	\$ 1,400,577
31 - 60 days	172,458	503,893
61 - 90 days	120,982	27,023
Greater than 90 days	<u>662,208</u>	<u>991,687</u>
	<u>\$ 1,919,339</u>	<u>\$ 2,923,180</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2023

8. INVENTORIES

	December 31, 2023	December 31, 2022
Raw materials	\$ 100,796	\$ 167,564
Packaging materials	772,272	872,526
Finished goods	7,655,879	11,108,993
Merchandise and devices	426,141	575,567
Work in progress	1,982,315	5,152,629
Grow pods and equipment for resale	<u>63,000</u>	<u>500,776</u>
	<u>\$ 11,000,403</u>	<u>\$ 18,378,055</u>

The amount of inventories recognized as an expense during the year ended December 31, 2023 was \$45,299,922 (\$42,514,891 year ended December 31, 2022). An inventory write down of \$250,000 was recorded in the business to business division during the year ended 2023.

9. BIOLOGICAL ASSETS

Biological assets consist of cannabis plants.

	December 31, 2023	December 31, 2022
Biological assets, beginning	\$ 1,442,202	\$ 2,205,105
Net increase in fair value less cost to sell due to biological transformation	8,230,742	15,307,184
Transferred to inventory upon harvest	<u>(8,586,762)</u>	<u>(16,070,087)</u>
Biological assets, ending	<u>\$ 1,086,182</u>	<u>\$ 1,442,202</u>

Biological assets are valued in accordance with IAS 41 and are presented at their fair values less costs to finish and sell. The Company's biological assets are primarily cannabis clones, mother plants and flowering plants, and because there is no actively traded commodity market for plants or dried product, the valuation of these biological assets is obtained using valuation techniques where the inputs are based upon unobservable market data (Level 3).

The significant assumptions used in determining the fair value of biological assets include:

- Selling price on a strain-wise basis less cost to sell (\$1.36 to \$3.83 per gram)
- Estimated yield on a strain-wise basis per cannabis flowering plant (31.10 to 60.06 grams)
- Estimated yield of large flower versus small flower per cannabis flowering plant in flowering and harvest stages
- Fair value of small flower based on end product
- Selling price pro-rated based on the stage of growth of the biological assets at the reporting period, less wastage
- Selling costs are estimated based on post-harvest costs (\$0.64 per gram)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2023

9. BIOLOGICAL ASSETS *(continued)*

The following table highlights the sensitivities and impact of changes in significant assumptions on the fair value of biological assets:

Significant inputs & assumptions	Inputs		Sensitivity	Impact on fair value	
	December 31, 2023	December 31, 2022		December 30, 2023	December 31, 2022
Average selling price per gram	\$ 1.64	\$ 2.45	Increase or decrease of \$1.00 per gram	\$ 426,304	\$ 700,621
Weighted average yield (grams per plant)	48.48	43.60	Increase or decrease of 5 grams per plant	\$ 75,183	\$ 196,849
Standard cost per gram to complete production	\$ 0.64	\$ 1.03	Increase or decrease of \$0.25 per gram	\$ 106,576	\$ 175,155

The Company's estimates are, by their nature, subject to change and differences from the anticipated yield will be reflected in the gain or loss on biological assets in future periods.

10. PREPAYMENTS AND OTHER CURRENT ASSETS

	December 31, 2023	December 31, 2022
Advertising and promotion	\$ 58,328	\$ 83,657
Deposit for purchase of products	1,431,123	494,644
Deposit for purchase of equipment	55,575	120,000
Excise tax security - Canada Revenue Agency	308,800	283,895
Insurance	-	166,943
Deposit for rent	-	10,888
Other	37,845	129,398
	<u>\$ 1,891,671</u>	<u>\$ 1,289,425</u>

11. NOTES RECEIVABLE

	December 31, 2023	December 31, 2022
Notes receivable	\$ 222,972	\$ 345,159
Less: current portion	(85,142)	(142,244)
	<u>\$ 137,830</u>	<u>\$ 202,915</u>

Note receivable is interest bearing at 6%. As per mutual agreement, the note receivable will be settled against accounts payable invoices from the counterparty for purchase of product by Delta 9. The note receivable is due from one counterparty and is secured by equipment sold.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2023

12. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment relate to the infrastructure for cannabis growing production and wholesale and retail operations. A cost continuity of the accounts for the year ended December 31, 2023 is as follows:

	Balance at January 1, 2023	Additions	Disposals/ Transfers	Balance at December 31, 2023
Land	\$ 647,650	\$ -	\$ -	\$ 647,650
Building	8,514,082	-	-	8,514,082
Leasehold improvements	9,298,026	90,759	-	9,388,785
Containers	8,658,325	-	-	8,658,325
Production equipment	9,715,285	546,922	(26,200)	10,236,007
Cooling infrastructure	4,391,697	-	-	4,391,697
Security equipment	1,725,448	67,740	-	1,793,188
Computer equipment	457,900	5,469	-	463,369
Computer software	80,172	-	-	80,172
Office furniture and equipment	1,327,689	47,195	-	1,374,884
Vehicles	119,606	-	-	119,606
Construction in progress	<u>1,106,733</u>	<u>164,994</u>	<u>(224,049)</u>	<u>1,047,678</u>
	<u>\$ 46,042,613</u>	<u>\$ 923,079</u>	<u>\$ (250,249)</u>	<u>\$ 46,715,443</u>

The accumulated amortization continuity for property, plant and equipment for the year ended December 31, 2023 is as follows:

	Balance at January 1, 2023	Additions	Disposals/ Transfers	Balance at December 31, 2023
Building	\$ 1,653,557	\$ 421,497	\$ -	\$ 2,075,054
Leasehold improvements	3,462,008	1,894,210	-	5,356,218
Containers	3,543,538	912,232	-	4,455,770
Production equipment	7,037,902	1,731,022	(24,177)	8,744,747
Cooling infrastructure	1,087,259	438,815	-	1,526,074
Security equipment	970,042	309,698	-	1,279,740
Computer equipment	400,505	38,818	-	439,323
Computer software	80,172	-	-	80,172
Office furniture and equipment	513,621	265,409	-	779,030
Vehicles	<u>30,011</u>	<u>32,238</u>	<u>-</u>	<u>62,249</u>
	<u>18,778,615</u>	<u>\$ 6,043,939</u>	<u>\$ (24,177)</u>	<u>24,798,377</u>
Net book value	<u>\$ 27,263,998</u>			<u>\$ 21,917,066</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2023

12. PROPERTY, PLANT AND EQUIPMENT (continued)

A cost continuity of the accounts for the year ended December 31, 2022 is as follows:

	Balance at January 1, 2022	Additions	Disposals/ Transfers	Balance at December 31, 2022
Land	\$ 647,650	\$ -	\$ -	\$ 647,650
Building	8,472,434	41,648	-	8,514,082
Leasehold improvements	5,985,515	3,312,511	-	9,298,026
Containers	8,658,325	-	-	8,658,325
Production equipment	9,485,014	230,271	-	9,715,285
Cooling infrastructure	4,391,697	-	-	4,391,697
Security equipment	1,416,328	309,120	-	1,725,448
Computer equipment	411,653	46,247	-	457,900
Computer software	80,172	-	-	80,172
Office furniture and equipment	658,053	669,636	-	1,327,689
Vehicles	16,195	103,411	-	119,606
Construction-in-progress	<u>1,069,237</u>	<u>1,042,893</u>	<u>(1,005,397)</u>	<u>1,106,733</u>
	<u>\$ 41,292,273</u>	<u>\$ 5,755,737</u>	<u>\$ (1,005,397)</u>	<u>\$ 46,042,613</u>

The accumulated amortization continuity for property, plant and equipment for the year ended December 31, 2021 is as follows:

	Balance at January 1, 2022	Additions	Disposals/ Transfers	Balance at December 31, 2022
Building	\$ 1,232,875	\$ 420,682	\$ -	\$ 1,653,557
Leasehold improvements	1,985,701	1,476,309	-	3,462,010
Containers	2,672,511	871,027	-	3,543,538
Production equipment	5,149,038	1,888,864	-	7,037,902
Cooling infrastructure	649,367	437,892	-	1,087,259
Security equipment	664,245	305,797	-	970,042
Computer equipment	319,485	81,020	-	400,505
Computer software	80,172	-	-	80,172
Office furniture and equipment	318,660	194,959	-	513,619
Vehicles	<u>12,144</u>	<u>17,867</u>	<u>-</u>	<u>30,011</u>
	<u>13,084,198</u>	<u>\$ 5,694,417</u>	<u>\$ -</u>	<u>18,778,615</u>
Net book value	<u>\$ 28,208,075</u>			<u>\$ 27,263,998</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2023

13 GOODWILL

	December 31, 2023	December 31, 2022
Balance, beginning of year	\$ 14,198,669	\$ 2,910,976
Goodwill from business acquisitions (Note 5)	-	14,363,298
Impairment of goodwill	-	(3,075,605)
Balance, end of year	<u>\$ 14,198,669</u>	<u>\$ 14,198,669</u>

As at 31 December 2023, the Company performed its annual goodwill impairment test by comparing the carrying amount of the assets within the cash generating units (CGU) to their recoverable amount. The recoverable amount is defined as higher of: (i) value in use; or (ii) FVLCD.

Significant assumptions inherent in the valuation methodologies for goodwill are employed and include, but are not limited to, prospective financial information, growth rates, terminal value, discount rate, and comparable multiples from publicly traded companies in the cannabis industry.

The recoverable amount of the CGUs was determined based on fair value less cost of disposal. The Company relied on similar sized peer competitors analysis which assesses relative capital market valuations for similar publicly traded firms when considering the market capitalization, enterprise value, revenue and EBITDA multiple of these firms. The Company has decided to use the revenue multiple category as the core valuation metric as it considers this is the fairest market metric versus the peer group. The fair value less cost of disposal of the CGUs was determined to be greater than the carrying value of respective CGUs

As a result of the analysis, in the year ended December 31, 2023, no goodwill impairment was determined (2022 - \$3,075,605).

14. INVESTMENTS

	December 31, 2023	December 31, 2022
Pure Blue Cannabis Inc. (formerly Vitreous Cannabis Inc.)	\$ 33,333	\$ 33,333
Oceanic Releaf Inc.	<u>500,000</u>	<u>500,000</u>
	<u>\$ 533,333</u>	<u>\$ 533,333</u>

Pure Blue Cannabis Inc. (formerly Vitreous Cannabis Inc.)

The investment consists of an initial strategic investment by subscribing for 333,333 Class A common shares of Pure Blue Cannabis Inc. ("Pure Blue") for gross proceeds of \$33,333. Pure Blue has developed a cannabis cultivation facility in Ontario and has obtained a cultivation license from Health Canada under the Cannabis Act.

The investment was valued based on the fair value of the consideration paid.

Oceanic Releaf Inc.

The investment consists of 5,000 Class A common shares in the capital of Oceanic Releaf Inc. ("Oceanic") in exchange for a promissory note, which shall be assignable to Oceanic and the amount payable by the Company hereunder shall be set off by delivery of certain consulting and training services. The corresponding revenue was recorded on satisfaction of respective performance obligations.

The investment was valued based on the fair value of the consideration paid.

The Company had elected to measure investment in equity instruments Pure Blue Cannabis Inc. and Oceanic Releaf Inc. at FVTOCI on initial recognition as the investments are not held-for-trading, instead long-term and strategic in nature, and net changes in fair value are more suited to be presented in other comprehensive income.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2023

15. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	December 31, 2023	December 31, 2022
Trade payables	\$ 2,693,956	\$ 2,527,778
Accrued liabilities	2,046,466	3,299,159
Excise tax payable	7,746,848	6,168,941
Social responsibility fee payable	-	1,910,967
Government remittances payable	1,241,736	921,567
Loyalty liabilities	<u>209,992</u>	<u>76,480</u>
	<u>\$ 13,938,998</u>	<u>\$ 14,904,892</u>

Effective October 17, 2018, Canada Revenue Agency ("CRA") began levying an excise tax on the sale of medical and consumer cannabis products. The Company becomes liable for these excise duties when cannabis products are delivered to the customer.

The excise tax payable is the higher of (i) a flat-rate duty which is imposed when a cannabis product is packaged, and (ii) an advalorem duty that is imposed when a cannabis product is delivered to the customer. Where the excise tax has been billed to customers, the Company has reflected the excise tax as part of revenue in accordance with IFRS 15. Net revenue as presented on the Consolidated Statements of Net Income and Comprehensive Income, represents revenue from the sale of goods less applicable excise taxes. Given that the excise tax payable/paid to CRA cannot be reclaimed and is not always billed to customers, the Company recognizes that the excise tax is an operating cost that affects gross margin to the extent that it is not recovered from its customers.

Effective January 1, 2019, the Manitoba government began collecting a social responsibility levy at 6% on all retail cannabis sales. On July 1st 2023, the Manitoba government announced that with the passing of Bill 10, The Liquor, Gaming and Cannabis Control Act repealed the requirement for a cannabis store operator to pay to the government a social responsibility fee. Additional to this, the government also forgave social responsibility fee amounts collected and payable related to the 2022 and 2023 years (Note 27).

16. CUSTOMER DEPOSITS

	December 31, 2023	December 31, 2022
Customer deposits	\$ <u>521,101</u>	\$ <u>327,993</u>

These amounts represent deposits by customers in conjunction with business to business purchases.

17. DEFERRED REVENUE

	December 31, 2023	December 31, 2022
Deferred manufacturing rebate -beginning balance	\$ 1,193,885	\$ 1,461,047
Additional manufacturing rebate	100,408	-
Deferred provincial grant	195,346	-
Transferred to revenue	<u>(313,359)</u>	<u>(267,162)</u>
	1,176,280	1,193,885
Current portion	<u>317,017</u>	<u>267,162</u>
	<u>\$ 859,263</u>	<u>\$ 926,723</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31 , 2023

18 DUE FROM/TO RELATED PARTIES, DIRECTORS AND SHAREHOLDERS

Related entities have advanced funds to the Company through various loans, some of which were secured by a promissory note and other amounts which were unsecured with no specified terms of repayment. These transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

	December 31, 2023	December 31, 2022
Advance to (from) directors for expenses	\$ 3,205	\$ 3,554
Due from related parties	89,531	89,531
Receivable from directors and officers	<u>20,526</u>	<u>18,995</u>
	<u>\$ 113,262</u>	<u>\$ 112,080</u>

	December 31, 2023	December 31, 2022
Due to shareholder	<u>\$ 48,951</u>	<u>\$ 48,951</u>

On April 1, 2017, a unanimous shareholders' agreement was signed by the shareholders of Delta 9 Lifestyle Cannabis Clinic Inc. It was agreed that the initial fixturing of the leased premises by the Clinic shall be financed by shareholder loans amounting to \$51,000 (received in July 2017) from Delta 9 Bio-Tech Inc. and \$49,000 from 7217804 Manitoba Ltd. These loans are unsecured, non-interest bearing and with no specific date of repayment.

	December 31, 2023	December 31, 2022
Due to related party	<u>\$ 2,860,248</u>	<u>\$ 2,756,404</u>

Over the years 2018-2021, Delta 9 Lifestyle Cannabis Clinic Inc. received advances from its shareholders, 7217804 and Delta 9 Bio-Tech, in the principal amounts of \$3,014,500 and \$4,035,500 respectively (the "Shareholder Advances"). These Shareholder Advances were evidenced by promissory notes issued by Delta 9 Lifestyle to 7217804 and Delta 9 Bio-Tech. The promissory notes accrue and bear interest at a rate in accordance with the following:

- From January 1, 2019 to June 30, 2019, the principal sum, bore interest at a rate equal to 3% per annum, calculated and payable monthly;
- From July 1, 2019 until repayment in full, the principal sum and all interest thereon the promissory notes shall bear interest at a rate of 6% per annum, calculated and payable monthly.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2023

18. DUE FROM/TO RELATED PARTIES, DIRECTORS AND SHAREHOLDERS *(continued)*

Pursuant to the terms of the promissory notes, at any time after June 30, 2019, but no later than 90 days prior to the maturity date of the promissory notes, 7217804 and/or Delta 9 Bio-Tech may convert all or any part of the then-principal sums under the promissory notes into Class A common shares of Delta 9 Lifestyle at the price of \$60,000 per Class A common share of Delta 9 Lifestyle, subject to adjustments in accordance with the promissory notes.

The promissory notes were initially recorded at their fair value, discounted at a market interest rate of 10.50%. The estimated fair value of the equity component of the promissory notes were recorded as part of Delta 9 Lifestyle Cannabis Clinic Inc.'s equity.

As of September 30, 2021, Delta 9 Bio-Tech Inc. exercised its option and converted \$4,035,500 principal amount of the promissory notes into Class A common shares of Delta 9 Lifestyle. As a result, Delta 9 Bio-Tech Inc.'s shareholding in Delta 9 Lifestyle Cannabis Clinic Inc. was increased from 51% to 68.78%.

During the year ended December 31, 2021, Delta 9 Bio-Tech and the minority shareholder in Delta 9 Lifestyle Cannabis Clinic Inc. also invested additional amounts of \$535,500 and \$514,500, respectively.

Key management compensation

Key management personnel are those persons having the authority and responsibility for planning, directing, and controlling activities of the Company. The key management personnel of the Company are the executive management team and the Board of Directors.

The remuneration and other payments to the Company's directors and other key management personnel for the year ended December 31, 2023 are as follows:

	Salaries	Share based compensation	Total
Key management	\$ 956,458	\$ 65,564	\$ 1,022,022
Directors	137,618	572,242	709,860
Other related parties	-	97,500	97,500
	<u>\$ 1,094,076</u>	<u>\$ 735,306</u>	<u>\$ 1,829,382</u>

19. LEASE LIABILITIES

	December 31, 2023	December 31, 2022
Current	\$ 1,961,646	\$ 7,455,272
Non-current	<u>18,407,306</u>	<u>13,285,923</u>
	<u>\$ 20,368,952</u>	<u>\$ 20,741,195</u>

The right-of-use assets at December 31, 2023 and the amortization charge for the year then ended are shown below by the underlying class of asset:

	Carrying Value December 31, 2023	Amortization Charge Year Ended December 31, 2023
Properties	<u>\$ 19,051,865</u>	<u>\$ 2,743,403</u>

During the year ended December 31, 2023, the Company did not enter into any new leases.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2023

19. LEASE LIABILITIES (continued)

The lease liability for an office space was remeasured on July 1, 2023 due to a change in judgement of timing of the purchase option for another thirty months. The incremental borrowing rate of 9.31% was determined to be relevant as the risk-free rate plus the borrowing rate. The corresponding amount of the resulted adjustment was recorded under right-of-use assets.

The lease liabilities for retail store leases were remeasured on March 1, 2023 and September 30, 2023 due to exercising of a renewal options. The incremental borrowing rate of 7.81% - 9.42% was determined to be relevant as the risk-free rate plus the borrowing rate. The corresponding amount of the resulted adjustment was recorded under right-of-use assets.

The lease liability at December 31, 2023 was \$20,368,952. The corresponding interest expense for the year ended December 31, 2023, amounted to \$1,525,096. The portion of the lease payments recognized as a reduction of the lease liabilities was \$2,017,083 and a total cash outflow from financing activities for the year ended December 31, 2023 amounted to \$3,542,180. An amount of \$181,984 was recorded in other operating expenses for variable lease payments.

20. BORROWINGS

	December 31, 2023	December 31, 2022
Demand revolving loan for purchase of production facility - beginning balance	\$ -	\$ 3,550,000
Non-revolving loan for purchase of equipment - beginning balance	-	401,038
Non-revolving equipment masterline - beginning balance	-	2,214,599
Overdraft - beginning balance	3,984,207	3,297,570
Borrowings - beginning balance	25,823,053	-
Promissory notes - beginning balance	5,591,193	-
Non-revolving demand loan - beginning balance	-	2,848,819
Non-revolving equipment masterline - beginning balance	-	1,706,250
	35,398,453	14,018,276
Add: Proceeds from borrowings	291,686	26,910,939
Add: Proceeds from promissory notes	-	5,591,193
Add: Accretion	144,206	91,951
Add: Proceeds from overdraft	9,283	4,564,445
Less: Repayments of overdraft	-	3,877,808
Less: Repayments made	2,741,138	11,900,543
Less: Current portion of borrowings	29,311,297	29,807,260
	\$ 3,791,193	\$ 5,591,193

On January 9, 2023, Delta 9 Bio-Tech Inc. entered into a short-term equipment financing arrangement with Solid Packaging Robotik Group Inc. The financing arrangement is repayable in blended monthly payments of principal and interest over six months and bears interest at 12% per annum. At December 31, 2023 the short-term equipment financing was fully repaid.

On March 30, 2022, Delta 9 Cannabis Inc. (the "Borrower") entered into a credit facility with connectFirst Credit Union Ltd. (the "Credit Union"). On the same date, Delta 9 Bio-Tech Inc. repaid all of the existing loans to Canadian Western Bank, with the exception of a business Visa facility of \$50,000 for corporate credit cards.

The credit facility with the Credit Union consists of:

1) A commercial mortgage loan of \$23,000,000 which was intended to assist in repayment of the CWB loans and convertible debentures. The loan is repayable in blended monthly payments of principal and interest at 4.55% over 144 months. The current fixed rate of 4.55% will be for a term of five years.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2023

20. BORROWINGS (continued)

2) A commercial mortgage loan of \$5,000,000 which was intended to assist in the acquisition of 17 retail stores in Alberta. The loan is repayable in blended monthly payments of principal and interest at 4.55% over 144 months. The current fixed rate of 4.55% will be for a term of five years.

As the fixed interest rate was negotiated at arm's length and the loan is secured by a first line on the Company's assets, the financing cost reflects market rate and therefore the estimated fair value of this loan fairly approximates its carrying value. However factoring in the transaction fees, the effective interest rate on the above loans is 5.29%. The carrying value of the loan is calculated based on this effective rate.

3) An overdraft facility of \$4,000,000 to be used to finance day-to-day operations. Interest floats at a rate of 1.50% per annum above the Credit Union's prime lending rate. The loan is repayable on demand. As of December 31, 2023, \$3,993,667 had been drawn down on this segment of the credit facility.

The Company was in breach of its debt service coverage ratio covenant and its working capital covenant as at December 31, 2023. Accordingly the entire loan balance of \$28,111,297 has been classified as current liabilities as at December 31, 2023.

The loans are secured by:

A first charge demand collateral mortgage of a freehold interest in the amount of \$28,000,000 over the property 770 Pandora Ave, Winnipeg, MB, and 760 Pandora Ave, Winnipeg, MB.

- A General Security Agreement comprising a first charge security interest over all present and after-acquired personal property located at or on or related to the Property, registered at Personal Property Registry.

Unlimited Guarantee and Postponement of Claim granted by Delta 9 Cannabis Store Inc. and Delta 9 Lifestyle Cannabis Clinic Inc, supported by:

- A General Security Agreement comprising a first charge security interest over all present and after-acquired personal property located at or on or related to the Property, registered at Personal Property Registry.

A formal Assignment and Postponement of Shareholders' Loan/Affiliated Company Loans/Debentures in the amount of \$2,459,856 acknowledged by the Borrower, registered at Personal Property Registry.

On April 25, 2022, the Company obtained an unsecured loan from a shareholder in the amount of \$4,990,264 that is due on July 20, 2025. The loan bears interest at 6% per annum and is payable monthly.

On April 25, 2022, the Company obtained an unsecured loan from a shareholder in the amount of \$600,929 that is due on July 20, 2025. The loan bears interest at 6% per annum and is payable monthly.

On June 16, 2023, the Company entered into an Amending Agreement with Uncle Sam's Cannabis Ltd. Pursuant to the Amending Agreement, for a period of six (6) months, beginning on July 1, 2023 and concluding on December 31, 2023, (the "Prepayment Incentive period"): (i) if the Purchaser, in a calendar month throughout the Prepayment Incentive period, makes prepayment(s) against the principal amount of the VTB Amount which are, in the aggregate, equal to or greater than one hundred thousand (\$100,000.00) dollars in the aggregate; and (ii) the Purchaser has made, in each prior calendar month throughout the Prepayment Incentive period, prepayment(s) against the principal amount of the VTB Amount which are, in the aggregate, equal to or greater than one hundred thousand (\$100,000.00) dollars, then, for such calendar month, and notwithstanding the terms of the Promissory Note, no interest shall be calculated, accrue or be payable by the Purchaser to the Vendor on the VTB Amount then outstanding. The Company intends to enter into a new Amending Agreement with Uncle Sam's Cannabis Ltd. prior to the end of the Prepayment Incentive period.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2023

21. CONVERTIBLE DEBENTURES

	December 31, 2023	December 31, 2022
Balance - beginning of year	\$ 7,242,210	\$ 12,429,975
Debentures issued	-	6,888,391
Interest payments made	(1,000,000)	(1,305,884)
Accretion	2,029,325	2,559,601
Transaction costs	-	(254,445)
Debenture repayment and cancellation of warrants on expiry	-	(13,075,428)
Balance - end of year	<u>\$ 8,271,535</u>	<u>\$ 7,242,210</u>

2022 Convertible Debentures

On March 30, 2022, the Company completed a private placement of a \$10,000,000 principal amount 3 year 10% senior second-lien secured convertible debenture of the Company (the "Sundial Debenture") to SNDL Inc., formerly Sundial Growers Inc. ("Sundial") for a subscription price of \$9,600,000, representing an original discount of 4.0% (the "Sundial Convertible Debenture Offering").

Until June 29, 2022, the Sundial Debenture was convertible by Sundial into Common Shares (the "Conversion Shares") at a conversion price equal to the lesser of: (i) \$0.35 per Conversion Share; and (ii) a share price equal to a 20.0% premium to the issuance price of an offering of equity securities of the Company completed in the six months from the date of issuance, provided that such price is not less than the 5-day volume weighted average trading price of the Common Shares (the "5-Day VWAP") as of the date of the conversion of the Sundial Debenture (the "Floor Price"). The Company may, at its option, also convert 100% of the interest accrued and payable for the first quarter ending June 30, 2022 and 50% of the interest accrued and payable for the second quarter ending September 30, 2022 into Common Shares at a price equal to the 5-Day VWAP as to the date of issuance. During an event of default that is ongoing, Sundial may, at its option, convert 100% of the interest accrued and payable into Common Shares at a price equal to the 5-Day VWAP as to the date of the interest payment. The current conversion price per unit is \$0.15 Conversion Share and is fixed for the remaining term of the agreement.

On June 29, 2022, in connection with the Sundial Convertible Debenture Offering, the Company received the approval of the shareholders of the Company for the ratification of the Sundial Convertible Debenture Offering and specifically the approval of: (i) the issuance to Sundial (or any person acting in combination or in concert with the Sundial) of more than 19,953,242 Shares pursuant to the Sundial Debenture, representing 25% of the issued and outstanding Common Shares, on a non-diluted basis as of the issuance of the Sundial Debenture on March 30, 2022, less the 6,666,667 Shares issued to Uncle Sam pursuant to the Uncle Sam Transaction; (ii) the issuance to Sundial (and any person acting in combination or in concert with Sundial) of that number of Common Shares that would result in Sundial (and any person acting in combination or in concert with Sundial) holding greater than 19.99% of the outstanding Common Shares, and accordingly becoming a control person of the Company, after giving effect to any conversion of the Sundial Debenture or any other issuance of Common Shares to Sundial pursuant to the terms of the Sundial Debenture, including the payment of interest thereon; (iii) the payment of interest on the Sundial Debenture in Common Shares at a price per Share equal to 85% of the 5-Day VWAP of the Common Shares on the terms set out in the Sundial Debenture; and (iv) removing the Floor Price for the issuance of Common Shares on any conversion of the Sundial Debenture.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2023

21. CONVERTIBLE DEBENTURES (continued)

The gross proceeds of \$9,600,000 was apportioned between the host loan and the embedded derivative liability by first determining the fair value of the derivative, which was \$2,711,609 on March 30, 2022. Transaction costs of \$254,445 associated with the host liability were capitalized to the liability whereas transaction costs of \$94,665 associated with the embedded derivative liability were expensed in the year ended 31st December 2022. The fair value of the derivative liability was \$226,000 at December 31, 2023.

The effective interest rate of the host liability was calculated at 26.38%. The carrying value of the host liability was \$6,888,391 at March 30, 2022.

The Sundial Debentures contain a call option which allows the issuer to repay the principal plus interest at any time during the three-year term, at a redemption price equal to par plus premium. The redemption right was not separated but accounted for as a single embedded derivative along with conversion feature.

22. SHARE CAPITAL

Authorized:

The authorized share capital of the Company consists of an unlimited number of common shares without par value.

	December 31, 2023	December 31, 2022
Issued share capital		
213,166,895 (December 31, 2022 - 150,257,006) Common Shares	<u>\$ 76,399,542</u>	<u>\$ 72,581,938</u>

The increase of \$3,817,604 in the value of common shares during the year ended December 31, 2023 is represented by the following:

Shares issued in business acquisition transaction	\$ 319,017
Shares issued relating to private placement and financing - net	2,186,866
Shares issued relating to services and equipment purchases	364,612
Shares issued on exercise of restricted stock units	<u>947,109</u>
	<u>\$ 3,817,604</u>

Equity raise

On June 16, 2022, the Company completed a bought deal public offering of 8,800,027 units for aggregate gross proceeds of \$1,936,006 at an offering price of \$0.22 per unit. Each unit consisted of one common share of the Company and one common share purchase warrant of the Company. Each warrant is exercisable to acquire one common share for a period of 36 months at an exercise price of \$0.255.

The Company uses the residual approach in respect of equity offerings whereby the amount assigned to the warrant is the excess of the unit price over the trading price for the Company's shares at the date of issuance, if any, to a maximum fair value of the warrant determined by using the Black-Scholes option pricing model. Using this approach a fair value of \$88,000 was assigned to warrants.

The Company incurred costs in the amount of \$448,063 related to this equity raise.

Equity raise

On September 9, 2022, the Company completed a private placement of 1,650,000 shares for aggregate gross proceeds of \$206,250 at an offering price of \$0.125 per share.

The Company incurred costs in the amount of \$26,390 related to this equity raise.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2023

22. SHARE CAPITAL (continued)

At-the-Market Equity Offering ("ATM Program")

On December 6, 2022, the Company announced that it had established an ATM equity program that allows the Company to issue up to \$5,000,000 of Common Shares from treasury to the public from time to time, at the Company's discretion. Distributions of the Common Shares through the ATM Program will be made pursuant to the terms of an equity distribution agreement (the "Equity Distribution Agreement") dated December 6, 2022 between the Corporation and Haywood Securities Inc ("Haywood").

Pursuant to the Equity Distribution Agreement, the Common Shares may be offered and sold by Haywood: (a) in privately negotiated transactions with the consent of the Company and, if required, by the TSX; (b) as block transactions; (c) by Haywood, on the TSX or on any other "marketplace" (as such term is defined in National Instrument 21-101 – Marketplace Operation) in Canada; or (d) by any method permitted by law that constitutes an "at-the-market distribution" under National Instrument 44-102 – Shelf Distributions.

The offering under the ATM Program was made pursuant to the prospectus supplement of the Company dated December 6, 2022 to the amended and restated short form base shelf prospectus of the Company dated November 25, 2022, for all of the provinces of Canada, except Québec and the short form base shelf prospectus of the Company dated November 25, 2022, for Québec and the territories of Canada in respect of the ATM Program.

During the year ended December 31, 2023, the Company issued 42,166,000 common shares under the ATM program for net proceeds of \$2,186,866.

New ATM Program

On October 23, 2023, the Company announced that it had established the New ATM Program that allows the Company to issue up to \$5,000,000 of Common Shares from treasury to the public from time to time, at the Company's discretion. Distributions of the Common Shares through the New ATM Program will be made pursuant to the terms of an equity distribution agreement (the "New Equity Distribution Agreement") dated October 23, 2023 between the Corporation and Haywood.

Pursuant to the New Equity Distribution Agreement, the Common Shares may be offered and sold by Haywood: (a) in privately negotiated transactions with the consent of the Company and, if required, by the TSX; (b) as block transactions; (c) by Haywood, on the TSX or on any other "marketplace" (as such term is defined in National Instrument 21-101 – Marketplace Operation) in Canada; or (d) by any method permitted by law that constitutes an "at-the-market distribution" under National Instrument 44-102 – Shelf Distributions.

The offering under the New ATM Program was made pursuant to the prospectus supplement of the Company dated October 23, 2023 to the short form base shelf prospectus of the Company dated October 12, 2023, for all of the provinces and territories of Canada in respect of the New ATM Program.

Warrants

On June 16, 2022, the Company completed a bought deal public offering of 8,800,027 units for aggregate gross proceeds of \$1,936,006 at an offering price of \$0.22 per unit. Each unit consists of one common share of the Company and one common share purchase warrant of the Company. Each warrant is exercisable to acquire one common share for a period of 36 months at an exercise price of \$0.255. No warrants were exercised as of December 31, 2023.

In connection with the bought deal equity financing 616,002 brokers' warrants were issued. Each warrant entitles the holder to acquire one share at the issue price of \$0.22 until June 16, 2025. No broker warrants were exercised as of December 31, 2023.

On December 21, 2020, the Company completed a bought deal public offering of 10,454,546 units for aggregate gross proceeds of \$5,750,000 at an offering price of \$0.55 per unit. Each unit consists of one common share of the Company and one half of one common share purchase warrant of the Company. Each warrant is exercisable to acquire one common share for a period of 36 months at an exercise price of \$0.70. No warrants were exercised as of December 31, 2023 and they expired on December 21, 2023.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2023

22. SHARE CAPITAL (continued)

In connection with the bought deal equity financing 731,818 brokers' warrants were issued. Each warrant entitles the holder to acquire one share at the issue price of \$0.55 until December 21, 2023. No broker warrants were exercised as of December 21, 2023 and they expired on December 21, 2023.

The following table provides a summary of warrants activity for the year ended December 31, 2023:

	<u>Number of warrants</u>	<u>Weighted Average Exercise Price</u>
Outstanding, beginning of year	15,375,120	\$ 0.42
Issued	-	\$ -
Exercised	-	\$ -
Expired	<u>5,959,091</u>	<u>\$ 0.68</u>
Outstanding, end of year	<u>9,416,029</u>	<u>\$ 0.25</u>

Stock Option plan

On May 2, 2017, the Board of Directors approved the 2017 Stock Option Plan ("2017 Plan") to retain and attract directors, officers, and key employees. This replaces and terminates the former option plan, which had no outstanding options. On June 25, 2020, the shareholders of the Company approved, the amended and restated stock option plan (the "2020 Plan"). The 2020 Plan amended the 2017 Plan to comply with the policies of the TSX.

The following table provides a summary of stock option activity for the year ended December 31, 2023:

	<u>Number of options</u>	<u>Weighted Average Exercise Price</u>
Outstanding, beginning of year	3,116,868	\$ 0.56
Granted	-	\$ -
Exercised	-	\$ -
Forfeited	866,458	\$ 0.57
Cancelled	<u>-</u>	<u>\$ -</u>
Outstanding, end of year	<u>2,250,410</u>	<u>\$ 0.56</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2023

22. SHARE CAPITAL *(continued)*

The following table provides a summary of currently active stock options at December 31, 2023:

Date of approval	November 13, 2019	November 27, 2020
Expiry date	November 13, 2024	November 27, 2025
Number of stock options	3,000,000	1,228,482
Exercisable price	\$ 0.55	\$ 0.60
Vesting dates	50% each: May 13, 2020 November 13, 2020	50% each: May 30, 2021 November 30, 2021
Options forfeited	<u>1,299,968</u>	<u>678,104</u>
Options outstanding	<u>1,700,032</u>	<u>550,378</u>

Restricted Share Units

On June 25, 2020, the shareholders approved the performance and restricted share unit plan of the Company, which is an equity incentive plan of equity-based instruments that do not have option-like features, including shares, restricted shares, performance share units, restricted share units, deferred share units, phantom shares, phantom share units, share equivalent units, and stock. The plan was amended on May 12, 2022.

The following table provides a summary of currently active restricted share units at December 31, 2023:

Date of approval	September 15, 2021	July 22, 2022	Nov 15, 2023
Number of RSUs awarded	1,846,150	6,666,495	13,102,456
Vesting dates	50% each: March 31, 2022 September 30, 2022	50% each: September 30, 2022 March 31, 2023	50% each: March 15, 2024 July 15, 2024
RSUs forfeited	419,175	2,028,931	-
RSUs cancelled	244,750		
RSUs redeemed	<u>907,225</u>	<u>3,828,845</u>	<u>-</u>
RSUs outstanding	<u>275,000</u>	<u>808,719</u>	<u>13,102,456</u>
Year ended December 31, 2023 share-based compensation expense	\$ <u>-</u>	\$ <u>169,563</u>	\$ <u>123,552</u>

23. NON-CONTROLLING INTEREST

At December 31, 2023, the non-controlling interest represented a 31.22% interest in Delta 9 Lifestyle Cannabis Clinic Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2023

24. REVENUE

	December 31, 2023	December 31, 2022
Revenue from sale of cannabis:		
Wholesale	\$ 10,099,372	\$ 12,126,163
Retail	59,307,104	50,327,604
Medicinal	7,551	110,419
Business to business	1,396,748	1,730,399
Merchandise and devices	1,804,074	1,866,664
Other	444,599	419,829
	<u>73,059,448</u>	<u>66,581,078</u>
Excise tax	(1,994,111)	(3,352,807)
Net Revenue	<u>\$ 71,065,337</u>	<u>\$ 63,228,271</u>

25. EXPENSES

The Company presents its Consolidated Statements of Net Income and Comprehensive Income on a functional basis in which expenditures are aggregated to the function to which they relate. The Company has identified the major functions as general and administrative and sales and marketing.

Year ended December 31, 2023	General and administrative	Sales and marketing	Total
Amortization	\$ 3,815,536	\$ 4,801,588	\$ 8,617,124
Insurance	639,994	84,516	724,510
Legal, professional, consulting and investor relations	1,294,085	152,875	1,446,960
Other operating expenses	1,746,358	1,484,053	3,230,411
Personnel expenditures	3,611,219	8,728,427	12,339,646
Utilities	22,167	329,726	351,893
Supplies and materials	<u>106,674</u>	<u>322,371</u>	<u>429,045</u>
	<u>\$ 11,236,033</u>	<u>\$ 15,903,556</u>	<u>\$ 27,139,589</u>

Year ended December 31, 2022	General and administrative	Sales and marketing	Total
Amortization	\$ 3,996,030	\$ 3,850,174	\$ 7,846,204
Insurance	605,708	120,711	726,419
Legal, professional, consulting and investor relations	1,547,417	369,619	1,917,036
Other operating expenditures	1,793,325	1,623,649	3,416,974
Personnel expenditures	5,866,079	7,828,544	13,694,623
Utilities	563,799	227,363	791,162
Site renovation	7,201	-	7,201
Supplies and materials	<u>694,195</u>	<u>432,673</u>	<u>1,126,868</u>
	<u>\$ 15,073,754</u>	<u>\$ 14,452,733</u>	<u>\$ 29,526,487</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31 , 2023

26. FINANCE INCOME (EXPENSE)

	December 31, 2023	December 31, 2022
Interest revenue	\$ 21,254	\$ 116,710
Interest expense:		
Interest and bank charges	(1,498,376)	(1,055,209)
Interest on loans	(1,753,119)	(1,698,045)
Interest on leases	(1,525,096)	(1,179,425)
Interest on debentures	(2,029,325)	(2,574,258)
Transaction costs related to embedded derivatives	-	(94,665)
	<u>\$(6,784,662)</u>	<u>\$(6,484,892)</u>

27. OTHER INCOME

	December 31, 2023	December 31, 2022
Amortization of manufacturing rebate	\$ 313,359	\$ 267,162
Other income	417,525	45,503
Social responsibility fee forgiveness (Note 15)	2,989,311	-
	<u>3,720,195</u>	<u>312,665</u>
Write down of research equipment	(250,000)	-
	<u>\$ 3,470,195</u>	<u>\$ 312,665</u>

28. EARNINGS PER SHARE

Basic earnings per share

Basic EPS is calculated by dividing net income attributable to common shareholders by the weighted average number of common shares outstanding during the year.

	December 31, 2023	December 31, 2022
Net income (loss) attributable to common shareholders	\$(17,515,339)	\$(27,200,557)
Weighted average number of common shares	<u>178,944,150</u>	<u>126,067,044</u>
	<u>\$(0.10)</u>	<u>\$(0.22)</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2023

28. EARNINGS PER SHARE *(continued)*Diluted earnings per share

Diluted EPS was calculated by dividing the applicable net income by the weighted average number of common shares outstanding, adjusted for the effects of all dilutive potential common shares, which comprise warrants and share options issued. However, the calculation of diluted earnings per share excludes the effects of various conversions and exercise of options or warrants that would be anti-dilutive.

	December 31, 2023	December 31, 2022
Net income attributable to common shareholders	\$(17,515,339)	\$(27,200,557)
Weighted average number of common shares for diluted EPS	<u>178,944,150</u>	<u>126,067,044</u>
	<u>\$(0.10)</u>	<u>\$(0.22)</u>

29. COMMITMENTS

On March 19, 2018, Delta 9 Bio-Tech entered into a binding letter of intent (the "Delta LOI") dated March 19, 2018 with 6599362 Canada Inc. setting out the terms and conditions pursuant to which it is anticipated that Delta 9 Bio-Tech would purchase property including the Expansion Properties. On July 17, 2018, the Delta LOI was amended and on April 28, 2021 a binding letter of intent was signed with 6599362 Canada Inc. replacing and superseding the Delta LOI in respect of revised terms governing the purchase of the Expansion Properties and defining the area of the Expansion Properties. The final purchase price and date is yet to be determined.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2023

30. INCOME TAXES

	December 31, 2023	December 31, 2022
Net loss before income taxes	\$(16,635,631)	\$(27,836,950)
Statutory rates:	<u>26.90%</u>	<u>26.90%</u>
Expected income tax recovery based on statutory rate	(4,474,985)	(7,488,140)
Deferred income tax asset not recognized	<u>\$ 4,474,985</u>	<u>\$ 7,488,140</u>

As at December 31, 2023, the Company has \$81,999,280 of non-capital losses that expire as follows:

2030	\$ 587
2031	73,021
2032	643,155
2033	1,004,283
2034	1,305,720
2035	37
2036	2,301,408
2037	11,147,707
2038	19,815,387
2039	6,966,868
2040	6,593,870
2041	18,287,056
2042	<u>14,080,568</u>
	<u>\$ 81,999,280</u>

Deferred tax assets are not recognized in these consolidated interim financial statements because the realization of these deferred tax assets is contingent on future profits.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2023

31. FINANCIAL INSTRUMENTS

As at December 31, 2023, the Company's financial instruments consist of cash and cash equivalents totaling \$2,153,346, trade and other receivables totaling \$1,919,339, notes receivable totaling \$222,972, net amount due from related parties totaling \$113,262, accounts payable and accrued liabilities totaling \$13,938,998, loan from related parties totaling \$48,951, lease liability totaling \$20,368,952, borrowings totaling \$33,102,490, convertible debentures totaling \$8,271,535, and derivative liabilities totaling \$226,000.

As at December 31, 2023 there were no significant differences between the carrying values of these items and their estimated fair values.

The Company records its financial instruments at fair value using a fair value hierarchy that gives the highest priority to quoted prices in active markets and the lowest priority to unobservable data. The fair value hierarchy is broken down into the following three levels:

	Level 1	Level 2	Level 3	December 30, 2023
Cash	\$ 2,153,346	\$ -	\$ -	\$ 2,153,346
Investment in Pure Blue Cannabis Inc. (formerly Vitreous Cannabis Inc.)	-	-	33,333	33,333
Investment in Oceanic Releaf Inc.	-	-	500,000	500,000
	<u>\$ 2,153,346</u>	<u>\$ -</u>	<u>\$ 533,333</u>	<u>\$ 2,686,679</u>
	Level 1	Level 2	Level 3	December 31, 2022
Cash	\$ 3,518,994	\$ -	\$ -	\$ 3,518,994
Investment in Pure Blue Cannabis Inc. (formerly Vitreous Cannabis Inc.)	-	-	33,333	33,333
Investment in Oceanic Releaf Inc.	-	-	500,000	500,000
	<u>\$ 3,518,994</u>	<u>\$ -</u>	<u>\$ 533,333</u>	<u>\$ 4,052,327</u>

32. FINANCIAL RISK AND CAPITAL MANAGEMENT

In the normal course of business, the Company is exposed to a variety of financial risk: market risk, price risk, credit risk, and liquidity risk.

Financial Risk Factors*Market Risk*

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises two types of risk: currency risk and interest rate risk.

1. Currency risk is the risk to the Company's earnings that arise from fluctuations of foreign exchange rates. The Company is not exposed to foreign currency exchange risk as it has no financial instruments denominated in a foreign currency.

2. Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Borrowings issued at variable interest rates expose Company to cash flow interest rate risk. The remaining outstanding demand revolving loan is subject to variable interest rate. In 2023 the Company has not entered into any interest rate swap to mitigate this cash flow interest rate risk.

An increase of 1% in the floating interest rate with all other variables held constant, would result in an insignificant increase to interest expense for the period.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2023

32. FINANCIAL RISK AND CAPITAL MANAGEMENT (continued)

Price Risk

Price risk relates to the possibility that the fair value of future cash flows from financial instruments will change due to market fluctuations (other than due to currency or interest rate movements).

Credit Risk

Credit risk arises from deposits with banks, short-term investments and outstanding receivables. For trade receivables, the Company does not hold any collateral as security but mitigates this risk by dealing only with what management believes to be financially sound counterparties and accordingly does not anticipate significant loss from non-performance. There is no material exposure to credit risk on cash and cash equivalents as cash balances are held by highly reputable, large financial institutions.

Liquidity Risk

The Company's liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company controls liquidity risk by management of working capital, cash flows and the issuance of share capital. The Company is in the process of finalizing a number of large contract agreements for sales of wholesale cannabis which will improve overall company liquidity once completed. Further to this, the Company is currently negotiating with various levels of Government to provide grant contributions under various programs.

The following table analyses the Company's financial liabilities, including commitments, based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

Payment due:	Total	Within 1 year	1 - 3 years	3 - 5 years	Over 5 years
Trade payables and other payables	\$ 13,938,998	\$ 13,938,998	\$ -	\$ -	\$ -
Loan from related parties	2,860,248	-	2,860,248	-	-
Lease liabilities	20,368,952	1,961,646	9,534,861	4,587,761	4,284,684
Convertible debentures	8,271,535	-	8,271,535	-	-
Borrowings	<u>33,102,490</u>	<u>29,311,297</u>	<u>3,791,193</u>	<u>-</u>	<u>-</u>
Total contractual obligations	<u>\$ 78,542,223</u>	<u>\$ 45,211,941</u>	<u>\$ 24,457,837</u>	<u>\$ 4,587,761</u>	<u>\$ 4,284,684</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2023

32. FINANCIAL RISK AND CAPITAL MANAGEMENT *(continued)*Capital Management

The Company's key objectives when managing capital are to maintain a strong capital base in order to:

- maintain investor, creditor and market confidence;
- advance the Company's corporate strategies to generate attractive risk-adjusted return over the long-term for the shareholders;
- sustain the Company's operations and growth through all cycles; and
- ensure compliance with the covenants of any applicable credit facility and other financing facilities.

Management monitors the Company's capital and capital structure on an ongoing basis to ensure it is sufficient to achieve the Company's short-term and long-term objectives.

33. SEGMENTED INFORMATION

The Company's operating results have been divided into three reportable operating segments plus corporate. All property, plant and equipment are located in Canada. All revenues were principally generated in Canada. The chief operating decision maker (the Company's chief executive officer) evaluates the operating performance of the segments and allocates resources based on information provided at gross margin level.

	Wholesale Cannabis	Retail Cannabis and Merchandise and Devices	Business to Business	December 31, 2023
Revenue	\$ <u>8,114,436</u>	\$ <u>61,220,975</u>	\$ <u>1,729,926</u>	\$ <u>71,065,337</u>
Gross Profit	\$ <u>(748,582)</u>	\$ <u>17,819,673</u>	\$ <u>902,743</u>	\$ <u>17,973,834</u>

	Wholesale Cannabis	Retail Cannabis and Merchandise and Devices	Business to Business	December 31, 2022
Revenue	\$ <u>8,891,674</u>	\$ <u>52,362,045</u>	\$ <u>1,974,552</u>	\$ <u>63,228,271</u>
Gross Profit	\$ <u>31,604</u>	\$ <u>12,558,537</u>	\$ <u>326,362</u>	\$ <u>12,916,503</u>

34. NON-CASH TRANSACTIONS IN CASH FLOW STATEMENT

Following are the non-cash transactions in the statement of cash flows for the year ended December 31, 2023:

- Issuance of additional shares related to the acquisition of Garden Variety of \$319,018 transferred to share capital.
- Fair value component of inventory amounting to \$3,172,839.