DELTA 9 CANNABIS INC. CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(UNAUDITED)
MARCH 31, 2023
(EXPRESSED IN CANADIAN DOLLARS)

DELTA 9 CANNABIS INC.

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MARCH 31, 2023

CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION

(UNAUDITED)

(CANADIAN DOLLARS) As AT

		March 31, 2 0 2 3	De	ecember 31, 2 0 2 2
ASSETS				
CURRENT				
Cash (Note 6)	\$	1,738,416	\$	3,518,994
Trade and other receivables (Note 7) Inventories (Note 8)		2,102,455 20,296,172		2,317,486 18,378,055
Biological assets (Note 9)		789,898		1,442,202
Current portion of notes receivable (Note 11)		66,883		142,244
Prepayments and other current assets (Note 10) Due from directors, officers and related parties (Note 18)		1,690,600 114,795		1,289,425 112.080
Bue from directors, officers and related parties (Note 10)	-	26,799,219		27,200,486
NOTES RECEIVABLE (Note 11)		185,817		202,915
PROPERTY, PLANT AND EQUIPMENT (Note 12)		26,267,161		27,263,998
RIGHT-OF-USE ASSETS (Note 19)		19,459,459		20,151,153
INVESTMENTS (Note 14)		533,333		533,333
GOODWILL (Note 5, 13)	=	14,198,669		14,198,669
	\$ _	87,443,658	\$	89,550,554
LIABILITIES				
CURRENT		4= 404 004	•	44.004.000
Accounts payable and accrued liabilities (Note 15) Customer deposits (Note 16)	\$	15,101,004 455,621	\$	14,904,892 327,993
Due to shareholder (Note 18)		48,951		48,951
Current portion of deferred revenue (Note 17)		267,162		267,162
Current portion of lease liabilities (Note 19)		7,385,747		7,455,272
Current portion of borrowings (Note 20)	=	29,553,067 52,811,552		29,807,260 52,811,530
LOAN FROM RELATED PARTIES (Note 18)		2,781,374		2,756,404
DEFERRED REVENUE (Note 17)		935,239		926,723
LEASE LIABILITIES (Note 19)		12,845,728		13,285,923
BORROWINGS (Note 20)		5,591,193		5,591,193
CONVERTIBLE DEBENTURES - HOST LIABILITY (Note 21)		7,474,931		7,242,210
CONVERTIBLE DEBENTURES - EMBEDDED DERIVATIVE LIABILITY (Note 21)	_	754,000	_	398,000
	=	83,194,017		83,011,983
SHAREHOLDERS' EQUITY				
SHARE CAPITAL (Note 22)		73,280,615		72,581,938
WARRANTS		325,814		325,814
CONTRIBUTED SURPLUS ACCUMULATED DEFICIT		7,656,251 57,556,898)	(7,500,886 54,569,663)
ACCUMULATED OTHER COMPREHENSIVE LOSS	ì	19,274,154)		19,274,154)
NON-CONTROLLING INTEREST	Ì	181,987)	Ĺ	26,250)
TOTAL SHAREHOLDERS' EQUITY	-	4,249,641		6,538,571
	\$_	87,443,658	\$	89,550,554

Approved on behalf of the Board:

COMMITMENTS (Note 29)

"Nitin Kaushal"
Signed: Director

"John William Arbuthnot IV"

Signed: Director

See accompanying notes to consolidated interim financial statements

CONSOLIDATED INTERIM STATEMENTS OF NET LOSS AND COMPREHENSIVE LOSS (UNAUDITED)

(CANADIAN DOLLARS) FOR THE THREE MONTH PERIOD ENDED MARCH 31

	2023 2022
REVENUE (Note 24)	\$ 16,902,378 \$ 12,479,577
COST OF SALES	(12,689,181) (9,515,096)
GROSS PROFIT BEFORE UNREALIZED GAIN FROM CHANGES IN BIOLOGICAL ASSETS	4,213,197 2,964,481
Unrealized gain on changes in fair value of biological assets Fair value changes in biological assets included in inventory sold	2,505,059 1,425,911 (369,875) (551,618)
GROSS PROFIT	6,348,381 3,838,774
EXPENSES General and administrative (Note 25) Sales and marketing (Note 25) Share based compensation (Note 22)	3,390,234 3,810,316 4,003,020 2,713,630 167,603 246,944 7,560,857 6,770,890
LOSS FROM OPERATIONS	(1,212,476) (2,932,116)
OTHER INCOME (EXPENSES)	
Finance income (expense) - net <i>(Note 26)</i> Other income <i>(Note 27)</i> Gain (loss) on fair value change in derivative liability	(1,666,388) (1,267,582) 91,892 77,852 (356,000)
NET LOSS	(3,142,972) (4,121,846)
Net income (loss) attributable to: Delta 9 Cannabis Inc. Non-controlling interest (Note 23)	(2,987,235) (4,171,115) (155,737) 49,269 (3,142,972) (4,121,846)
Total comprehensive income (loss)	(<u>3,142,972</u>) (<u>4,121,846</u>)
Total comprehensive income (loss) attributable to:	
Delta 9 Cannabis Inc.	(2,987,235) (4,171,115)
Non-controlling interest (Note 23)	(155,737) 49,269
	(3,142,972) (4,121,846)
Earnings (loss) per share - basic (Note 28)	\$ <u>(0.02)</u> \$ <u>(0.04</u>)
Earnings (loss) per share - diluted (Note 28)	\$ <u>(0.02)</u> \$ <u>(0.04</u>)

CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(UNAUDITED)

(CANADIAN DOLLARS)

FOR THE THREE MONTH PERIOD ENDED MARCH 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)	-	-	-	-	(4,171,115)	-	49,269	(4,121,846)
Shares issued in business acquisition transactions Share based compensation . Transfer on exercise of restricted	6,966,986 -	1,985,293 -	-	- 246,944	-	- -	- -	1,985,293 246,944
stock units	522,050	269,520	-	(269,520			<u>-</u>	
BALANCE, March 31, 2022	113,146,304 \$	66,335,716	1,456,415	\$ <u>5,752,365</u>	\$ <u>(31,540,221</u>)	\$ <u>(19,274,154</u>) \$	659,412	23,389,533
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)	-	-	-	-	(2,987,235)	- ((155,737)	(3,142,972)
Shares issued related to private placement and financing(<i>Note 22</i>) Shares issued in business	5,344,588	365,461	-	-	-	-	-	365,461
acquisition transactions (Note 5) Share based compensation (Note 22) Transfer on exercise of restricted	1,993,865 -	319,018 -	-	- 169,563	- -	- -	- -	319,018 169,563
stock units(Note 22)	89,100	14,198		(14,198		<u> </u>		
BALANCE, March 31, 2023	<u>157,684,559</u> \$	<u>73,280,615</u> \$	325,814	\$ <u>7,656,251</u>	\$ <u>(57,556,898</u>)) \$ <u>(19,274,154</u>) \$ <u>(</u>	<u>(181,987</u>) \$	4,249,641

DELTA 9 CANNABIS INC.

CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS

(UNAUDITED)

(CANADIAN DOLLARS) FOR THE THREE MONTH PERIOD ENDED MARCH 31

		2023	2	2022
CASH FLOW FROM				
OPERATING ACTIVITIES				
Net loss for the period	\$(3,142,972)	\$(4,121,846)
Items not affecting cash:				
Amortization of property, plant and equipment		2,234,697		1,772,034
Unrealized changes in fair value of biological assets	(2,135,184)	(874,293)
Loss on fair valuation of change in derivative liability		356,000		-
Interest accrued on lease liabilities		359,606		217,626
Interest accrued on loan from related party Interest accrued on convertible debentures		24,971		22,536 498,866
Interest accrued on convertible dependires Interest accrued on borrowings		482,721 44,109		15,765
Share based compensation (Note 22)		169,563		246,944
Non-cash revenue	(91,892)	(66,791)
Other	'	90,000	(-
		1,608,381)	_	2,289,159)
	7	1,000,001/		2,209,109)
Trade and other receivables		215,031		974,770
Inventories	_	869,372	(1,569,080)
Prepayments and other current assets	(401,175)	(1,287,582)
Accounts payable and accrued liabilities		515,128		1,337,702
Customer deposits		127,628		49,562
Notes receivable		92,459		235,793
Deferred portion of manufacturing rebate	_	100,408	-	<u>-</u>
Changes in non-cash working capital		<u>1,518,851</u>	(<u>258,835</u>)
	<u>(</u>	89,530)	(2,547,99 <u>4</u>)
INVESTING ACTIVITIES				
Acquisition of property, plant and equipment	(546,166)	(1,382,616)
Cash payment for retail store acquisitions, net	_		(11,067,216)
	<u>(</u>	<u>546,166</u>)	(_	12,449,832)
FINANCING ACTIVITIES				
Proceeds from convertible debentures - net (Note 21)		_		9,345,555
Proceeds from share issuances - net		275,461		, , , -
Proceeds from borrowings - net (Note 20)		291,686		29,631,177
Repayment of lease liabilities (Note 19)	(869,326)	(495,547)
Repayment of borrowings	(589,988)	(14,664,297)
Interest payments on convertible debentures	(250,000)		-
Due to (from) related parties	(_	<u>2,715</u>)		8,121
	(_	<u>1,144,882</u>)		23,825,009
NET INCREASE (DECREASE) IN CASH	(1,780,578)		8,827,183
CASH, beginning of period		3,518,994	_	4,240,835
CASH, end of period	\$	1,738,416	\$	13,068,018

MARCH 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 May 11, 2023, the Board of Directors authorized the Consolidated Interim Financial Statements for issue.

BASIS OF PRESENTATION

a) Statement of compliance

These consolidated interim 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.

MARCH 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 Bio-Tech Inc. owns 50% of the issued and outstanding shares of 10007705 Manitoba Ltd. The remaining 50% of the issued and outstanding shares are owned by Canopy Growth Corporation, an arm's length third party. The Manitoba retail license was issued to 10007705 Manitoba Ltd. The retail license allows each of Delta 9 Bio-Tech Inc. and Canopy Growth Corporation to license individual retail store locations to sell recreational cannabis, which are independently owned, operated, and branded by subsidiaries of Delta 9 Bio-Tech Inc. and Canopy Growth Corporation, respectively. 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 March 31, 2023. There were no material financial transactions incurred by Blue Horseshoe Manufacturing Inc. as of March 31, 2023.

e) Going concern

These consolidated interim 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 March 31, 2023, the Company had negative working capital of \$26,012,333 compared to \$25,611,044 at December 31, 2022. The Company incurred a net loss for the period ended March 31, 2023 of \$3,142,972 and used cash flows from operating activities of \$89,530.

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 current 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's operations. The expected results of these initiatives are estimated to reduce operating costs between \$3,000,000 and \$4,000,000 annually.

As at March 31, 2023 the Company was not compliant with its debt service coverage ratio covenant and its working capital covenant. The Company is currently negotiating a waiver from connectFirst. 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.

MARCH 31, 2023

SIGNIFICANT ACCOUNTING POLICIES

REVENUE RECOGNITION

The Company's policy for the timing and amount of revenue to be recognized is based on the following fivestep 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 net of 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.

MARCH 31, 2023

3. SIGNIFICANT 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 period.

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.

MARCH 31, 2023

3. SIGNIFICANT 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 period 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, social responsibility fee, 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:

- Consulting and training services associated with the sale of the Company's products.
- Amortization of manufacturing rebate from the government over the useful life of the related assets.

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 drawdown 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.

MARCH 31, 2023

SIGNIFICANT 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 period. 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.

MARCH 31, 2023

3. SIGNIFICANT 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.

MARCH 31, 2023

3. SIGNIFICANT 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.

MARCH 31, 2023

3. SIGNIFICANT 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. The Company has elected to record the grants, where appropriate, as a reduction of the expenses for which those grants are intended to cover, including within General and Administrative expenses and Sales and Marketing expenses. 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 interim 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,

MARCH 31, 2023

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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 acquire 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.

MARCH 31, 2023

3. SIGNIFICANT 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

Amendments to IAS 1 - Presentation of financial statements: classification of liabilities as current or non-current.

In January 2020, the IASB issued amendments to clarify the requirements for classifying liabilities as current or non-current. The amendments specify that the conditions that exist at the end of a reporting period are those which will be used to determine if a right to defer settlement of a liability exists. The amendments also clarify the situations that are considered a settlement of a liability. The amendments were effective January 1, 2023, with early adoption permitted. The amendments are to be applied retrospectively.

In October 2020, the IASB issued amendments to defer the effective date of the amendment to IAS 1 titled classification of liabilities as current or non-current published in January 2020 by one year to annual reporting periods beginning on or after January 1, 2024. This change is not expected to have a significant impact on the Company.

MARCH 31, 2023

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". The Company expects the acquisition will contribute various synergies including sharing of information technology, marketing strategies, and supply chain efficiencies.

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
Prepaids		434,584
Loyalty program	(76,480)
Goodwill	_	13,400,627
Total purchase consideration	\$	15,374,859

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". The Company expects the acquisition will contribute various synergies including sharing of information technology, marketing strategies, and supply chain efficiencies.

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 period ended March 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).

Amount

December 31

March 31

NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)

MARCH 31, 2023

BUSINESS ACQUISITION (continued)

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 provisional balances and the effects of adjustments, if any, in these values will be recorded in the financial statements.

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

		Aillouilt
Inventory	\$	596,993
Prepaids		103,613
Property, plant, and equipment		2,387,398
Gift card liability		(3,700)
Goodwill		962,671
	\$_	4,046,975

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.

CASH AND CASH EQUIVALENTS

		March 31, 2 0 2 3	D	ecember 31, 2 0 2 2
Cash	\$	1,688,416	\$	3,468,994
Assignment of deposit instrument with Canadian Western Bank		50,000		50,000
	\$_	1,738,416	\$_	3,518,994

TRADE AND OTHER RECEIVABLES

		2023	Ο.	2022
Trade receivables	\$	2,708,149	\$	2,923,180
Less: Allowance for doubtful accounts	Ĺ	605,694)	(_	605,694)
	\$	2,102,455	\$	2,317,486

(UNAUDITED) MARCH 31, 2023

7. TRADE AND OTHER RECEIVABLES (continued)

The fellowing table provides details

The following table provides details on the age of trade receivables:			
		March 31,	December 31,
		2023	2022
			2022
0 - 30 days	\$	1,310,494	\$ 1,400,577
31 - 60 days	•	313,562	503,893
61 - 90 days		37,033	27,023
Greater than 90 days		1,047,060	991,687
Greater than 90 days	_	1,047,000	991,001
	\$	2,708,149	\$2,923,180
INVENTORIES			
		March 31,	December 31,
		2023	2022
Raw materials	\$	117,698	\$ 167,564
Packaging materials	·	914,464	872,526
Finished goods		10,192,326	11,108,993
Merchandise and devices		554,953	575,567
Work in progress		8,133,730	5,152,629
Grow pods and equipment for resale		383,001	500,776
Grow pous and equipment for resale	_	303,001	500,770
	\$_	20,296,172	\$ <u>18,378,055</u>

The amount of inventories recognized as an expense during the period ended March 31, 2023 was \$11,140,398 (\$8,387,520 - period ended March 31, 2022)

BIOLOGICAL ASSETS

8.

Biological assets consist of cannabis plants.

		March 31, 2 0 2 3	December 31, 2 0 2 2
Biological assets, beginning Net increase in fair value less cost to sell due to biological	\$	1,442,202	\$ 2,205,105
transformation		2,505,059	15,307,184
Transferred to inventory upon harvest	_(_	<u>3,157,363</u>)	
Biological assets, ending	\$	789,898	\$ <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 (\$1.88 to \$4.49 per gram)
- Estimated yield on a strain-wise basis per cannabis flowering plant (48.3 to 53.4 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 (\$0.96 per gram)

MARCH 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:

Inputs						Impact on fair value				
	Ma	arch 31,	D	ecember		March 31,		December		
Significant inputs & assumptions		2023		31, 2022	Sensitivity	2023		31, 2022		
Average selling price per gram	\$	2.67	\$	2.45	Increase or decrease of \$1.00 per gram	\$ 287,092	\$	700,621		
Weighted average yield (grams per plant)		48.30		43.60	Increase or decrease of 5 grams per plant	\$ 79,352	\$	196,849		
Standard cost per gram to complete production	\$	0.96	\$	1.03	Increase or decrease of \$0.25 per gram	\$ 71,773	\$	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

		March 31, 2 0 2 3	December 31, 2 0 2 2
Advertising and promotion Deposit for purchase of products Deposit for purchase of equipment Excise tax security - Canada Revenue Agency Insurance Deposit for rent Other	\$ \$	77,810 1,226,853 - 283,895 - 31,129 70,913 1,690,600	\$ 83,657 494,644 120,000 283,895 166,943 10,888 129,398 \$ 1,289,425

11. NOTES RECEIVABLE

		March 31, 2 0 2 3	December 31, 2 0 2 2
Notes receivable Less: current portion	\$	252,700 66,883)	\$ 345,159 (142,244)
	\$_	185,817	\$ <u>202,915</u>

Note receivable is interest bearing at 6% and repayable in monthly blended principal and interest payments. The note receivable is due from one counterparty and is secured by equipment sold.

(UNAUDITED) MARCH 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 period ended March 31, 2023 is as follows:

	Ja	Balance at anuary 1, 2023	3	Additions		Disposals/ Transfers		Balance at arch 31, 2023
Land	\$	647,650	\$	-	\$	-	\$	647,650
Building		8,514,082		-		-		8,514,082
Leasehold improvements		9,298,026		-		-		9,298,026
Containers		8,658,325		-		-		8,658,325
Production equipment		9,715,285		471,710		-		10,186,995
Cooling infrastructure		4,391,697		-		-		4,391,697
Security equipment		1,725,448		-		-		1,725,448
Computer equipment		457,900		-		-		457,900
Computer software		80,172		-		-		80,172
Office furniture and equipment		1,327,689		-		-		1,327,689
Vehicles		119,606		-		-		119,606
Construction in progress	_	1,106,733	_	74,456	_	-	_	1,181,189
	\$	46,042,613	\$_	546,166	\$_		\$	46,588,779

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

	Janu	Balance at ary 1, 2023	Additions		isposals/ ransfers		alance at ch 31, 2023
Building	\$	1,653,557	\$	105,375	\$ -	\$	1,758,932
Leasehold improvements		3,462,010		472,487	-		3,934,497
Containers		3,543,538		228,057	-		3,771,595
Production equipment		7,037,902		458,734	-		7,496,636
Cooling infrastructure		1,087,259		109,703	-		1,196,962
Security equipment		970,042		80,961	-		1,051,003
Computer equipment		400,505		13,506	-		414,011
Computer software		80,172		-	-		80,172
Office furniture and equipment		513,619		66,171	-		579,790
Vehicles	_	30,011		8,009	 		38,020
	_	18,778,615	\$	1,543,003	\$ <u>-</u>	_	20,321,618
Net book value	\$	27,263,998				\$	<u> 26,267,161</u>

(UNAUDITED) MARCH 31, 2023

13 GOODWILL

		March 31, 2 0 2 3	December 31, 2 0 2 2
Balance, beginning of period Goodwill from business acquisitions (Note 5)	\$	14,198,669 -	\$ 2,910,976 14,363,298
Impairment of goodwill	_		(3,075,605)
Balance, end of period	\$ _	14,198,669	\$ 14,198,669

As at March 31, 2023 the Company assessed the goodwill of its CGUs and there was no indication of impairment.

14. INVESTMENTS

	March 31, 2 0 2 3		December 31, 2 0 2 2
Pure Blue Cannabis Inc. (formerly Vitreous Cannabis Inc.) Oceanic Releaf Inc.	\$ 33,333 500,000	\$_	33,333 500,000
	\$ 533,333	\$_	533,333

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 will develop a cannabis cultivation facility in Ontario once they obtain a license from Health Canada under the Cannabis Act. Pure Blue is also pursuing options to raise further equity.

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 obligation.

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.

(UNAUDITED) MARCH 31, 2023

15. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	March 31	December 31,
	2023	2022
Trade payables	\$ 2,903,788	\$ 2,527,778
Accrued liabilities	1,861,224	3,375,639
Excise tax payable	6,807,410	6,168,941
Social responsibility fee payable	2,432,689	1,910,967
Government remittances payable	1,095,893	921,567
	\$ 15,101,004	\$ 14,904,892

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.

16. CUSTOMER DEPOSITS

	March 31,	December 31,
	2023	2022
Customer deposits	\$ 455,621 S	327,993

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

17. DEFERRED REVENUE

Deferred manufacturing rebate -beginning balance	\$ March 31, 2 0 2 3 1,193,885	December 31, 2 0 2 2 \$ 1,461,047
Transferred to revenue Transferred from government remittances payable	 91,892 (100,408)	267,162
Current portion	 1,202,401 267,162 935,239	1,193,885 267,162 \$ 926,723

(UNAUDITED) MARCH 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.

	Marc	•
	2	023 2022
Advance to (from) directors for expenses	\$ 6	5,269 \$ 3,554
Due from related parties		, 531 89,531
Receivable from directors and officers	18	3 ,995 18,995
	\$ <u>114</u>	\$ <u>112,080</u>
	Marc	ch 31, December 31,
		023 2022
Due to shareholder	\$ <u>48</u>	8 ,951 \$48,951

Due to shareholder

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.

	March 31, 2 0 2 3	December 31, 2 0 2 2
Due to related party	\$ 2,781,374	\$ <u>2,756,404</u>

Due to related party

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.

MARCH 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.

In accordance with IFRS, 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 period ended March 31, 2023 are as follows:

		Salaries	(Share based compensation		Total
	Key management Directors	\$ 256,074 33,077	\$_	29,855 32,238	\$	285,929 65,315
		\$ 289,151	\$_	62,093	\$	351,244
19.	LEASE LIABILITIES			March 31, 2 0 2 3	De	ecember 31, 2022
	Current Non-current		\$_	7,385,747 12,845,728	\$_	7,455,272 13,285,923
			\$_	20,231,475	\$_	20,741,195

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

	Carrying Value	Amortization Charge Period Ended
	March 31,	March 31,
	2 0 2 3	2023
Properties	\$ <u>19,459,459</u>	\$ <u>691,694</u>

During the period ended March 31, 2023, the Company did not enter into any new leases.

MARCH 31, 2023

19. LEASE LIABILITIES (continued)

The lease liability at March 31, 2023 was \$20,231,275. The corresponding interest expense for the period ended March 31, 2023, amounted to \$359,606. The portion of the lease payments recognized as a reduction of the lease liabilities was \$509,702 and a total cash outflow from financing activities for the period ended March 31, 2023 amounted to \$869,326. An amount of \$38,880 was recorded in other operating expenses for variable lease payments.

20. BORROWINGS

		March 31,		December 31,
		2023		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		44,109		91.951
Add: Proceeds from overdraft		_		4,564,445
Less: Repayments of overdraft		_		3,877,808
Less: Repayments made		589,988		11,900,543
Less: Current portion of borrowings		29,553,067		29,807,260
2000. Garron portion of borronnings	_	20,000,001	_	20,007,200
	\$_	<u>5,591,193</u>	\$_	<u>5,591,193</u>

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.

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.
- 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.

MARCH 31, 2023

20. BORROWINGS (continued)

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 March 31, 2023, \$3,987,637 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 March 31, 2023. Accordingly the entire loan balance of \$25,405,110 has been classified as current liabilities as at March 31, 2023. The Company is currently negotiating a waiver from the lender that they do not intend to take any action and demand repayment of the loan balance under the agreement.

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 afteracquired 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 afteracquired 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.

MARCH 31, 2023

21. CONVERTIBLE DEBENTURES

		March 31, 2023	L	December 31, 2022
Balance - beginning of period	\$	7,242,210	\$	12,429,975
Debentures issued		-		6,888,391
Interest payments made	(250,000)	(1,305,884)
Accretion		482,721		2,559,601
Transaction costs		-	(254,445)
Debenture repayment and cancellation of				
warrants on expiry		-	(13,075,428)
Balance - end of period	\$	7,474,931	\$_	7,242,210

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.

MARCH 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 current period. The fair value of the derivative liability was \$754,000 at March 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 feature which allows the issuer to repay the principal plus interest at any time during the three-year term, with the repayment being equal to the amortized cost of the host liability. Under the exemption of IAS 39, the call option feature is closely related to the debt host contract and is not required to be accounted for separately.

22. SHARE CAPITAL

Authorized:

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

Issued share capital		2 0 2 3	ļ	2 0 2 2
157,684,559 (December 31, 2022 - 150,257,006) Common Shares	\$_	73,280,615	\$_	72,581,938

The increase of \$698,677 in the value of common shares during the period ended March 31, 2023 is represented by the following:

Shares issued in business acquisition transactions	\$ 319,018
Shares issued relating to private placement and financing - net	365,461
Shares issued on exercise of restricted stock units	 14,198
	\$ 698,677

On November 3, 2021, the Company announced that the TSX has approved the Company's normal course issuer bid (the "NCIB"). Under the NCIB, the Company can purchase up to an aggregate of 6,827,032 common shares and up to an aggregate of \$1,180,000 principal amount of 8.5% unsecured convertible debentures of the Company. Purchases of common shares and convertible debentures pursuant to the NCIB may be made through the facilities of the TSX and alternative Canadian trading systems from November 5, 2021 and to November 4, 2022, or an earlier date in the event that the Company purchases the maximum number of common shares and convertible debentures available under the NCIB. The Company will pay the market price at the time of acquisition for any common shares and debentures purchased through the facilities of the TSX. All common shares and debentures acquired directly by the Company under the NCIB will be cancelled. The Company sought approval of the NCIB because it believes that, from time to time, the market price of the common shares and convertible debentures may not fully reflect the value of the common shares and convertible debentures. The Company believes that, in such circumstances, the purchase of common share and convertible debentures represents an accretive use of capital.

MARCH 31, 2023

22. SHARE CAPITAL (continued)

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.

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 period ended March 31, 2023, the Company issued 3,849,000 common shares under the ATM program for net proceeds of \$275,461.

MARCH 31, 2023

22. SHARE CAPITAL (continued)

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 March 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 March 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 March 31, 2023.

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 March 31, 2023.

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

		<u>\</u>	Veighted Average
	Number of warrants		Exercise Price
Outstanding, beginning of period	15,375,120	\$	0.42
Issued	-	\$	-
Exercised	-	\$	-
Expired		\$_	
Outstanding, end of period	<u> 15,375,120</u>	\$_	0.42

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.

MARCH 31, 2023

22. SHARE CAPITAL (continued)

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

	Number of options	Weighted Averag Exercise Price	<u>e</u>
Outstanding, beginning of period	3,116,868	\$ 0.56	
Granted	-	\$ -	
Exercised	-	\$ -	
Forfeited	37,392	\$ 0.57	
Cancelled	<u>-</u>	<u>\$ -</u>	
Outstanding, end of period	3,079,476	\$ <u>0.56</u>	

The following table provides a summary of currently active stock options at March 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 50% each:	\$ 0.60 50% each:
Vesting dates	May 13, 2020 November 13, 2020	May 30, 2021 November 30, 2021
Options forfeited	789,865	359,141
Options outstanding	2,210,135	869,341

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 May 12, 2022.

MARCH 31, 2023

22. SHARE CAPITAL (continued)

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

Date of approval	September 15, 2021	July 22, 2022
Number of RSUs awarded	1,846,150	6,666,495
Vesting dates	50% each: March 31, 2022 September 30, 2022	50% each: September 30, 2022 March 31, 2023
RSUs forfeited	375,875	14,374
RSUs redeemed	<u>847,225</u>	1,061,202
RSUs outstanding	623,050	5,590,919
Period ended March 31, 2023 share- based compensation expense	\$ <u> - </u>	\$ <u>169,563</u>

23. NON-CONTROLLING INTEREST

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

24. REVENUE

		March 31,		March 31,
		2023		2022
Revenue from sale of cannabis:				
Wholesale	\$	2,207,169	\$	2,820,571
Retail		14,103,688		9,793,954
Medicinal		6,939		27,621
Business to business		576,797		121,970
Merchandise and devices		450,812		322,660
Other	_	146,240		98,667
		17,491,645		13,185,443
Excise tax	Ĺ	<u>589,267</u>)	(705,866)
Net Revenue	\$_	16,902,378	\$_	12,479,577

MARCH 31, 2023

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.

identified the major functions as general and administra	ive and sales and i	narketing.	
Three month period ended March 31, 2023	General and administrative	Sales and marketing	Total
Amortization Insurance Legal, professional, consulting and investor relations Other operating expenses Personnel expenditures Utilities Site renovation	\$ 982,707 252,016 320,477 347,087 1,377,442 93,831	\$ 1,209,759 18,918 50,239 322,210 2,219,244 107,657	\$ 2,192,466 270,934 370,716 669,297 3,596,686 201,488
Supplies and materials	16,674	74,993	91,667
	\$ <u>3,390,234</u>	\$ <u>4,003,020</u>	\$ <u>7,393,254</u>
Three month period ended March 31, 2022	General and administrative	Sales and marketing	Total
Amortization	\$ 1,004,144	\$ 737,929	\$ 1,742,073
Insurance	91,595 417,336	45,267 47,885	136,862 465,221
Legal, professional, consulting and investor relations Other operating expenditures	384,814	241,374	626,188
Personnel expenditures	1,487,967	1,497,354	2,985,321
Utilities	238,445	44,256	282,701
Site renovation	69,655	-	69,655
Supplies and materials	116,360	99,565	<u>215,925</u>
	\$ <u>3,810,316</u>	\$ <u>2,713,630</u>	\$ <u>6,523,946</u>
. FINANCE INCOME (EXPENSE)			

26.

		March 31, 2 0 2 3		March 31, 2 0 2 2
Interest revenue	\$	4,474	\$	23,704
Interest expense:				
Interest and bank charges	(330,493)	(104,946)
Interest on loans	į	498,042)	Ì	375,183)
Interest on leases	ì	359,606)	ì	217,626)
Interest on debentures	ì	482,721)	ì	498,866)
Transaction costs related to embedded derivatives	<u> </u>		Ĺ	94,665)
	\$ <u>(</u>	1,666,388)	\$ <u>(</u>	1,267,582)

(UNAUDITED) MARCH 31, 2023

27. OTHER INCOME

	March 31, 2 0 2 3		March 31, 2 0 2 2
Amortization of manufacturing rebate Other income	\$ 91,892 <u>-</u>	\$ _	66,791 11,061
	\$ 91,892	\$	77,852

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.

		March 31, 2 0 2 3		March 31, 2 0 2 2
Net income (loss) attributable to common shareholders	\$(2,987,235)	\$(4,171,115)
Weighted average number of common shares		<u> 152,837,751</u>	_	106,295,524
	\$ <u>(</u>	0.02)	\$ <u>(</u>	0.04)

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.

		March 31, 2 0 2 3		March 31, 2 0 2 2
Net income attributable to common shareholders	\$(2,987,235)	\$(4,171,115)
Weighted average number of common shares for diluted EPS		<u>152,837,751</u>	_	106,295,524
	\$ <u>(</u> _	0.02)	\$ <u>(</u>	0.04)

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.

MARCH 31, 2023

30. INCOME TAXES

		March 31, 2 0 2 3	December 31, 2 0 2 2
Net loss before income taxes	\$(3,142,972)	\$(27,836,950)
Statutory rates:		26.90%	26.90%
Expected income tax recovery based on statutory rate	(845,459)	(7,488,140)
Deferred income tax asset not recognized	\$	845,459	\$ <u>7,488,140</u>

As at March 31, 2023, the Company has \$71,594,915 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		7,110,025
2040		6,593,870
2041	_	21,599,715
	\$_	71,594,915

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.

(UNAUDITED) MARCH 31, 2023

31. FINANCIAL INSTRUMENTS

As at March 31, 2023, the Company's financial instruments consist of cash and cash equivalents totaling \$1,738,416, trade and other receivables totaling \$2,102,455, notes receivable totaling \$252,700, net amount due from related parties totaling \$65,844, accounts payable and accrued liabilities totaling \$15,101,004, loan from related parties totaling \$2,781,374, lease liability totaling \$20,231,475, borrowings totaling \$35,144,260, convertible debentures totaling \$7,474,931, and derivative liabilities totaling \$754,000.

As at March 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		March 31, 2 0 2 3
Cash Investment in Pure Blue Cannabis	\$ 1,738,416	\$	-	\$	-	\$	1,738,416
Inc. (formerly Vitreous Cannabis	-		-		33,333		33,333
Inc.) Investment in Oceanic Releaf Inc.	 	_		_	500,000	_	500,000
	\$ 1,738,416	\$_		\$_	533,333	\$	2,271,749
	Level 1		Level 2		Level 3	D	ecember 31, 2 0 2 2
Cash	\$ Level 1 3,518,994	\$	Level 2	\$	Level 3	\$	
Investment in Pure Blue Cannabis Inc. (formerly Vitreous Cannabis	\$ 	\$	Level 2 - -	\$	Level 3 - 33,333		2022
Investment in Pure Blue Cannabis	\$ 	\$	Level 2 - -	\$	-		2 0 2 2 3,518,994

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.

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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	W	ithin 1 year		1 - 3 years	3	- 5 years	Ove	er 5 years
Trade payables and other payables	\$	15,101,004	\$	15,101,004	\$	-	\$	-	\$	-
Loan from related parties		2,781,374		-		2,781,374		-		-
Lease liabilities		20,231,475		7,385,747		3,598,720		4,082,270		5,164,738
Convertible debentures		7,474,931		-		7,474,931		-		-
Borrowings	_	35,144,260	-	29,553,067	-	5,591,193	_		_	
Total contractual obligations	\$_	80,733,044	\$	52,039,818	\$_	19,446,218	\$_	4,082,270	\$_	5,164,738

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 longterm 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.

(UNAUDITED) MARCH 31, 2023

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	March 31, 2 0 2 3
Revenue	\$ <u>1,625,718</u>	\$ 14,580,342	\$ 696,318	\$ <u>16,902,378</u>
Gross Profit	\$ (72,169)	\$ 3,885,180	\$ <u>400,186</u>	\$ <u>4,213,197</u>
	Wholesale Cannabis	Retail Cannabis and Merchandise and Devices	Business to Business	March 31, 2 0 22
Revenue	\$ <u>2,144,276</u>	\$ <u>10,171,852</u>	\$ 163,449	\$ 12,479,577
Gross Profit	\$ <u>228,404</u>	\$ <u>2,698,515</u>	\$ <u>37,562</u>	\$2,964,481

34. NON-CASH TRANSACTIONS IN CASH FLOW STATEMENT

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

- Issuance of additional shares related to the acquisition of Garden Variety of \$319,018 (\$0.16 per share) transferred to share capital.
- Fair value component of inventory amounting to \$(2,787,488).