CONSOLIDATED FINANCIAL STATEMENTS

ENTOURAGE HEALTH CORP.

December 31, 2023 and 2022

(Expressed in Canadian Dollars)

Independent Auditor's Report

To the Shareholders of Entourage Health Corp.:

Opinion

We have audited the consolidated financial statements of Entourage Health Corp. (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2023 and December 31, 2022 and the consolidated statements of loss and comprehensive loss, changes in shareholders' deficiency and cash flows for the years then ended, and notes to the consolidated financial statements, including material accounting policy information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2023 and December 31, 2022, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

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

Material Uncertainty Related to Going Concern

We draw attention to Note 2(e) in the consolidated financial statements, which indicates that the Company incurred a net loss during the year ended December 31, 2023, and, as of that date, the Company had a working capital deficiency and an accumulated deficit. As stated in Note 2(e), these events or conditions, along with other matters as set forth in Note 2(e), indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Key Audit Matters

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

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

Valuation of Inventory

Key Audit Matter Description

The cost of finished goods cannabis inventory includes (a) cost of dried cannabis, (b) applicable allocation of cost of labour, fixed and variable overheads as part of the production process, and (c) other costs incurred to bring the inventory to its present location and condition. Inventory is subsequently assessed for impairment based on the lower of cost and net realizable value. As described in Note 4 to the consolidated financial statements, the Company recognized impairment of inventory amounting to $2,532,132 during the year ended December 31, 2023. The impairment was based on assumptions including the nature of the product, future demand, selling prices, age and market conditions.

We identified the valuation of inventory as a key audit matter, as a high degree of auditor judgment was required to evaluate the significant judgments made by management in determining the estimated net realizable value of inventory.

Audit Response

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

- Performed a physical observation of the year end inventory on a sample basis;
- Tested the allocation of costs by assessing the appropriateness of the allocation method, cost drivers and other estimates, recalculating the allocation, and verifying source documents used;
- Tested the measurement of finished goods inventory by verifying that the inventory was valued at the lower of cost and net realizable value and by assessing the provision for slow moving inventory based on its age and likelihood of sale; and
- Evaluated the reasonability of the expected net selling prices based on actual sales made and the required costs to sell the inventory.

Other Information

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

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

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

The engagement partner on the audit resulting in this independent auditor's report is Natalie Hope Feldman.

MNP LLP

Toronto, Ontario
April 29, 2024

Chartered Professional Accountants
Licensed Public Accountants

Entourage Health Corp.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(in Canadian dollars)

As at December 31,	**Note**		**2023**		2022
Assets					
Current					
Cash		**$**	**11,153,632**	$	9,075,257
Restricted cash	3(a)		**100,000**		2,100,000
Trade and other receivables	20		**3,701,874**		4,025,494
Inventory	4		**10,010,382**		14,088,980
Biological assets	4		**—**		695,712
Prepaid expenses and deposits	18		**439,901**		1,053,036
Commodity tax receivable			**—**		466,837
			25,405,789		31,505,316
Assets held for sale	7		**—**		8,580,000
Total current assets			**25,405,789**		40,085,316
Prepaid expenses and deposits	18		**1,552,634**		1,717,652
Property, plant and equipment	6		**4,434,311**		4,663,660
Total assets		**$**	**31,392,734**	$	46,466,628
Liabilities					
Current					
Accounts payable and accrued liabilities	19	**$**	**17,105,722**	$	13,170,713
Current portion of lease liabilities	5		**97,599**		284,420
Current portion of loans and borrowings	9		**155,111,429**		128,423,830
Total current liabilities			**172,314,750**		141,878,963
Lease liabilities	5		**579,581**		677,183
Loans and borrowings	9		**4,870,195**		4,263,053
Unsecured convertible debentures	8		**922,860**		886,364
Total liabilities		**$**	**178,687,386**	$	147,705,563
Shareholders' deficiency					
Common shares	10	**$**	**186,225,089**	$	186,140,597
Contributed surplus			**32,016,290**		31,988,489
Accumulated deficit			**(365,536,031)**		(319,368,021)
Total shareholders' deficiency			**(147,294,652)**		(101,238,935)
Total liabilities and shareholders' deficiency		**$**	**31,392,734**	$	46,466,628

Going Concern (Note 2)
Commitments and contingencies (Note 22)
Subsequent events (Note 26)

“George Scorsis” (signed)
Director

“Bruce Croxon” (signed)
Director

See accompanying notes to consolidated financial statements

Entourage Health Corp.
CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS
(in Canadian dollars)

For the years ended December 31,	**Note**		**2023**	2022
Revenue	20	**$**	**54,115,225**	54,535,223
Excise taxes			**(13,402,243)**	(13,643,155)
Revenue, net			**40,712,982**	40,892,068
Cost of goods sold			**(38,323,267)**	(50,080,583)
Gross profit (loss) before changes in fair value			**2,389,715**	(9,188,515)
Realized fair value amounts previously included in inventory			**(3,052,672)**	6,176,880
Unrealized loss on changes in fair value of biological assets	4		**1,734,689**	4,525,559
Gross profit (loss)			**3,707,698**	(19,890,954)
Depreciation and amortization	6		**2,940**	828,269
Selling, general and administrative expenses	14		**26,081,093**	30,291,950
Finance costs	15		**24,464,411**	17,577,417
Share based compensation	12		**71,801**	481,501
Loss before other (expenses) income			**(46,912,547)**	(69,070,091)
Change in provision for credit losses	20		**106,098**	(536,817)
Loss on disposal of property, plant and equipment			**—**	(22,018)
Gain on sale of assets held for sale	7		**114,728**	—
Other income, net	25		**1,568,026**	59,735
Gain on lease modification	5		**—**	805,324
Gain on extinguishment of unsecured convertible debentures	8		**—**	4,640,408
Gain on modification of loan and borrowings	9		**—**	3,619,466
Impairment	6		**(1,044,315)**	(62,642,454)
Loss and comprehensive loss before income tax			**(46,168,010)**	(123,146,447)
Income tax expense (recovery)	13		**—**	**—**
Net loss and comprehensive loss			**(46,168,010)**	(123,146,447)
Basic and diluted loss per share	16	$	**(0.15)**	(0.40)

See accompanying notes to consolidated financial statements

Entourage Health Corp.
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' DEFICIENCY
(in Canadian dollars)

	Note	Number of Shares	Share Capital	Contributed Surplus	Accumulated Deficit	Total
Balance, December 31, 2021		**303,976,702**	**$ 185,813,639**	**$ 31,833,946**	**$ (196,221,574)**	**$ 21,426,011**
Share based compensation	12	—	—	481,501	—	481,501
Shares issued on exercise of deferred stock units	10 (a)	2,767,694	326,958	(326,958)	—	—
Net loss and comprehensive loss		—	—	—	(123,146,447)	(123,146,447)
Balance, December 31, 2022		**306,744,396**	**$ 186,140,597**	**$ 31,988,489**	**$ (319,368,021)**	**$ (101,238,935)**
Balance, December 31, 2022		**306,744,396**	**$ 186,140,597**	**$ 31,988,489**	**$ (319,368,021)**	**$ (101,238,935)**
Share based compensation	12	—	—	71,801	—	71,801
Shares issued on exercise of deferred stock units	10 (b)	220,000	41,800	(41,800)	—	—
Deferred stock units cashed-out	12 (j)	—	—	(2,200)	—	(2,200)
Shares issued to debtholders	10 (c)	1,423,057	42,692	—	—	42,692
Net loss and comprehensive loss		—	—	—	(46,168,010)	(46,168,010)
Balance, December 31, 2023		**308,387,453**	**$ 186,225,089**	**$ 32,016,290**	**$ (365,536,031)**	**$ (147,294,652)**

See accompanying notes to consolidated financial statements

Entourage Health Corp.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in Canadian dollars)

For the years ended December 31,	**Note**		**2023**		2022
Cashflows provided by (used in):					
Operating					
Net loss and comprehensive loss		**$**	**(46,168,010)**	$	(123,146,447)
Adjustments for:					
Depreciation and amortization	6		**384,093**		5,852,230
Impairment of inventory included in cost of goods sold	4		**2,532,132**		14,250,433
Impairment of long-lived assets	6		**1,044,315**		62,642,454
Share based compensation	12		**71,801**		481,501
Finance costs	15		**24,464,411**		17,577,417
Change in provision for credit losses			**106,098**		—
Gain on lease modification	5		**—**		(805,324)
Gain on modification of loan and borrowings	9		**—**		(3,619,466)
Realized fair value amounts previously included in inventory			**(3,052,672)**		6,176,880
Unrealized loss on changes in fair value of biological assets			**1,734,689**		4,525,559
Loss on disposal of property, plant and equipment			**—**		22,018
Gain on sale of assets held for sale	7		**(114,728)**		—
Gain on extinguishment of unsecured convertible debentures	8		**—**		(4,640,408)
Provision for restructuring expenses	19		**—**		521,808
Provision for decommissioning costs			**—**		415,000
			(18,997,871)		(19,746,345)
Change in non-cash working capital	17		**8,757,983**		(10,420,041)
		$	**(10,239,888)**	$	(30,166,386)
Investing					
Purchase of property, plant and equipment	6		**(1,199,059)**		(1,696,968)
Proceeds from disposal of assets held for sale, net of transaction costs	7		**8,859,746**		—
Proceeds from disposal of property, plant and equipment			**—**		380,019
		$	**7,660,687**	$	(1,316,949)
Financing					
Proceeds from loan financing, net of transaction costs	9		**14,773,542**		38,314,858
Payment on cashing-out of deferred stock units	12		**(2,200)**		—
Payment of lease liabilities	5		**(332,482)**		(1,295,022)
Repayment of convertible debentures			**—**		(8,201,669)
Repayment of loans and borrowings	9		**(10,500,907)**		(5,708,810)
Interest paid	9		**(1,280,377)**		(1,966,838)
		$	**2,657,576**	$	21,142,519
Increase (decrease) in cash			**78,375**		(10,340,816)
Cash, beginning of the year			**11,175,257**		21,516,073
Cash, end of the year		**$**	**11,253,632**	$	11,175,257
Cash			**11,153,632**		9,075,257
Restricted cash			**100,000**		2,100,000
		$	**11,253,632**	$	11,175,257

See accompanying notes to consolidated financial statements

1. Nature of Operations

Entourage Health Corp. is the publicly traded parent company of Entourage Brands Corp., a federally licensed producer and distributor of cannabis products through medical, adult-use and bulk sales markets. The Company owns a facility in Aylmer, Ontario (“Aylmer Facility”) which specializes in cannabis processing and manufacturing.

The consolidated financial statements of the Company for the years ended December 31, 2023 and 2022, are comprised of Entourage Health Corp. and its wholly-owned subsidiaries: Entourage Brands Corp., 2686912 Ontario Limited, 2686913 Ontario Inc., CannTx Life Sciences Inc. (“CannTx”), Pioneer Cannabis Corp. (“Pioneer”) (50.1% ownership- inactive Company with no assets and liabilities), Starseed Holdings Inc. and North Star Wellness Inc. (collectively, “Entourage” or the “Company”).

Entourage is a publicly listed company on the TSX Venture Exchange (“TSXV”) that trades under the ticker symbol “ENTG-V”. The Company is also listed on the OTCQX under the ticker symbol “ETRGF” and on the Frankfurt Stock Exchange under the ticker symbol “4WE”. The registered and head office of the Company is located at 250 Elm St, Aylmer, ON N5H 2M8.

2. Basis of Preparation

a) Statement of compliance

These consolidated financial statements have been prepared in accordance with IFRS as adopted by the International Accounting Standards Board (“IASB”) and their interpretations issued by the International Financial Reporting Interpretations Committee (“IFRIC”).

These consolidated financial statements were approved by the Board of Directors for issue on April 29, 2024.

b) Basis of presentation

The consolidated financial statements have been prepared on an historical cost basis except for biological assets, which were measured at fair value and assets held for sale that were measured at the lower of carrying value and fair value less cost to sell. The Company had no biological assets or assets held for sale as of December 31, 2023.

The functional currency of the Company and its subsidiaries is the Canadian Dollar, which is also the presentation currency of the consolidated financial statements.

c) Basis of consolidation

The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date control ceases.

Intercompany balances and transactions, and unrealized gains arising from intercompany transactions are eliminated in preparing the consolidated financial statements.

d) Accounting estimates and judgments

The preparation of these consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of income and expenses during the reporting period. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

Estimates are based on management’s best knowledge of current events and actions the Company may undertake in the future. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements included in the consolidated financial statements are decisions made by Management, based on analysis of relevant information available at the time the decision is made. Judgements relate to the application of accounting policies and decisions applied to the measurement, recognition, and disclosure of financial information.

Information about areas of estimation uncertainty and critical judgements in applying accounting policies, that have the most significant effects on the amounts recognized in the financial statements, are included both below and in the financial statement notes relating to items subject to significant estimation uncertainty and critical judgements.

The following are the critical judgments, apart from those involving estimations, that management has made in the process of applying the Company's accounting policies and that have the most significant effect on the amounts recognized in the financial statements:

1. Going concern

At the end of each reporting period, management exercises judgment in assessing the Company's ability to continue as a going concern and operate in the normal course by reviewing the Company's performance, resources and future obligations. The conclusion that the Company will be able to continue as a going concern is subject to critical judgments of management with respect to assumptions surrounding the short and long-term operating budgets, expected profitability, investment and financing activities and management's strategic planning.

2. Valuation of inventory and biological assets

Determination of the fair value of biological assets requires management to make a number of estimates, including estimating the average selling price per gram and expected average yield per plant. The Company records obsolete and unsaleable inventories at the lower of cost and net realizable value. Adjustments to the carrying value of inventories are based on obsolescence trends, historical experience, forecast demand and average selling price for obsolete and unsaleable inventories (Note 4).

3. Impairment of non-financial assets

The recoverable amount of property and plant is determined based on fair value less costs of disposal and involves the use of capitalization rates, market rentals and market transactions. The recoverable amount of equipment is determined based on fair value less costs of disposal and involves the use of replacement cost assumptions (Note 6).

4. Allowance for credit losses

The recognition of trade and other receivables and loss allowances requires the Company to assess credit risk and collectability. The Company considers historical trends and any available information indicating a customer could be experiencing liquidity or going concern problems and the status of any contractual or legal disputes with customers in performing this assessment. Actual credit losses may significantly differ from this estimate of provision.

Trade and other receivables are written off when the Company has no reasonable expectations of recovering all or any portion thereof, such as when payment arrangements cannot be made with the customer or third-party collection agency. The Company recorded a credit loss provision at December 31, 2023, using the simplified approach.

5. Provision for returns and price adjustments

Government customers typically have the right to return products, and in some cases, the right to pricing adjustments for products. The estimation of potential future returns and pricing adjustments includes the use of management estimates and assumptions that may not be certain given the evolving nature of the industry.

6. Share-based payments

The Company uses the Black-Scholes valuation model to determine the fair value of equity settled share options. Estimates are required for inputs to this model including the fair value of the underlying shares, the expected life of the option, volatility, expected dividend yield and the risk-free interest rate. Variation in actual results for any of these inputs will result in a different value of the share option realized from the original estimate (Note 12).

e) Going concern

These consolidated financial statements have been prepared on a going concern basis which presumes that the Company will continue its operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations. Accordingly, these consolidated financial statements do not reflect adjustments that would be necessary if the going concern assumption were not appropriate. Should the Company be unable to generate sufficient cash flow from financing and operating activities, the carrying value of the Company's assets could be subject to material adjustments and other adjustments may be necessary to these financial statements should such events impair the Company's ability to continue as a going concern.

As reflected in the consolidated financial statements, the Company has material debt obligations that come due within the next twelve months and have covenant breaches. These obligations have been recorded as short-term liabilities. In addition, the Company has suffered recurring losses from operations and requires additional financing to fund its business and operations. If the Company is unable to raise additional capital and renegotiate the payment terms of the outstanding loans and borrowing, it will be unable to meet its financial obligations.

As of December 31, 2023, the Company had a working capital deficiency of $146,908,961 and an accumulated deficit of $365,536,031. For the year ended December 31, 2023, the Company used cash in operating activities of $10,239,888, resulting primarily from the net loss of $46,168,010. The Company's ability to continue as a going concern is dependent upon its ability to obtain sufficient additional funding and to generate sufficient revenues and positive cash flows from its operating activities to meet its obligations and fund its planned investments and operations. These conditions indicate the existence of a material uncertainty that may cast a significant doubt about the Company's ability to continue as a going concern.

In view of these matters, continuation as a going concern is dependent upon continued operations of the Company, which in turn is dependent upon the Company's ability to refinance its financial requirements and to raise additional capital, and the success of its future operations. The consolidated financial statements do not include any adjustments to the amount and classification of assets and liabilities that may be necessary should the Company not continue as a going concern. Such adjustments could be material.

Management plans to fund the operations of the Company through existing cash positions. The Company is also currently evaluating several different strategies with its lender LiUNA Pension Fund of Central and Eastern Canada ("LPF") (Note 9) and intends to pursue actions that are expected to increase its liquidity position, including, but not limited to, pursuing additional actions under the Company's cost-savings plans, seeking additional financing through the issuance of debt securities, and monetizing additional assets. As of the date of release of these consolidated financial statements, the Company has received a forbearance letter from LPF waiving the Company's breached covenants and non-payment of principal and interest until May 3, 2024. There are no assurances that the date of the waiver will be extended.

The Company's management cannot provide assurances that the Company will be successful in accomplishing any of its proposed financing plans. Management also cannot provide any assurance as to unforeseen circumstances that could occur within the next 12 months or, if the

Company raises capital, thereafter, which could increase the Company's need to raise additional capital on an immediate basis, which capital may not be available to the Company.

3. Material Accounting Policies

a) Cash and Restricted Cash

Cash comprises cash at banks. Restricted cash represents security for the Company's corporate credit cards of $100,000. As at December 31, 2022, restricted cash also included a minimum cash balance that the Company was required to maintain as additional security pursuant to the terms of the First Amended and Restated Credit agreement dated December 30, 2022 under the Credit Facility with the Financial Institution (Note 9).

b) Property, plant and equipment, net

Property, plant and equipment is recorded at cost less accumulated depreciation and accumulated impairment. The Company provides for depreciation using the following methods at rates designed to amortize the cost of the property, plant and equipment over their estimated useful lives.

The annual depreciation rates and methods are as follows:

Building	20 years	Straight-line
Equipment	20%	Declining balance
Fence and signage	10%	Declining balance
Furniture and fixtures	20%	Declining balance
Leasehold improvements including Greenhouse	7-20 years	Straight-line
Security equipment	20%	Declining balance

The estimated residual value and useful lives of assets are reviewed by management annually at each reporting date and adjusted if necessary.

Depreciation related to assets used in production is recorded in inventory and cost of goods sold.

Borrowing costs and construction costs that are directly attributable to the acquisition, construction or production of qualifying assets are capitalized.

Assets are not depreciated until they become available for use, which is when they are in the location and condition necessary to be capable of operating in the manner intended by management.

c) Impairment of long-lived assets

The Company reviews long-lived assets such as property and equipment for recoverability whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. The recoverable amount is the higher of an asset's fair value less costs of disposal or its value in use.

Fair value less costs of disposal is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. Costs of disposal are incremental costs directly attributable to the disposal of an asset or CGU, excluding financing costs and income tax expense. Value in use is based on the estimated future cash flows discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount and the impairment loss is recognized in the consolidated statements of loss and comprehensive loss for the year.

Where it is not possible to estimate the recoverable amount of an individual asset, the impairment test is carried out on the cash generating unit ("CGU"). A CGU is the smallest group of assets for which there are separate identifiable cash flows. When an impairment loss is identified pertaining to the CGU, the impairment loss shall be allocated to first reduce the carrying amount of any goodwill allocated to the CGU, and then to other assets of the CGU pro-rata on the basis of the varying amount of each asset in the CGU. In allocating impairment loss, the carrying amount of each asset should not be reduced below the highest of its fair value less costs of disposal, its value in use and zero.

Impairment losses related to long-lived assets recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation and amortization, if no previous impairment loss had been recognized.

d) Biological assets

The Company measures biological assets consisting of cannabis plants not yet harvested at fair value less costs to sell up to the point of harvest. Seeds included in inventory are recorded at cost which was determined to be nil. While the Company's biological assets are within the scope of IAS 41 *Agriculture*, the direct and indirect costs of biological assets are determined using an approach similar to the capitalization criteria outlined in IAS 2 *Inventories.* Production costs related to the transformation of biological assets to the point of harvest, which include direct costs such as growing materials as well as indirect costs such as utilities and supplies used in the growing process, are capitalized. Indirect labour for individuals involved in the growing and quality control process is also included, as well as depreciation on production equipment and overhead costs such as rent to the extent it is associated with the growing space. All direct and indirect costs of biological assets are capitalized as they are incurred. Biological assets are measured at their fair value less costs to sell on the consolidated statements of financial position.

Agricultural produce consisting of cannabis is measured at fair value less costs to sell at the point of harvest, which becomes the basis for the cost of inventory. Gains or losses arising from changes in fair value less costs to sell, excluding capitalized production costs, are included in unrealized loss (gain) on changes in fair value of biological assets on the consolidated statements of loss and comprehensive loss.

When inventory is sold, costs capitalized to biological assets and inventory are expensed through Cost of goods sold and the fair value adjustment to biological assets included in inventory sold is expensed through Realized fair value amounts included in inventory sold on the consolidated statements of loss and comprehensive loss. The Company does not recognize the mother plants used for cloning the production cannabis plants on the consolidated statement of financial position, since such plants are considered as 'bearer plants', which are used in the production or supply of agricultural produce; and are expected to bear produce for more than one period per IAS 16 – Property, Plant and Equipment – having a useful life of less than one year.

e) Inventory

Inventories of harvested cannabis are transferred from biological assets at their fair value less cost to sell at the time of harvest, which becomes deemed cost. Any subsequent direct and indirect post-harvest costs are capitalized to inventory to the extent that its cost is less than its net realizable value. The direct costs capitalized to inventory subsequent to harvest include materials, and indirect costs capitalized include labour and depreciation expense on equipment involved in packaging, labelling and inspection, as well as overhead costs such as rent to the extent it is associated with the post-harvest production, quality control and storage space. In the case of oil inventory, direct costs capitalized to inventory also include costs associated with the extraction process.

Inventory purchased from other licensed producers is recognized at the price paid on purchase of the inventory, plus any subsequent costs capitalized if further processed or packaged. Inventory is measured at the lower of cost and 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 necessary to make the sale. Cost is determined using the average cost basis.

f) Revenue recognition

The Company generates revenue primarily from the sale of cannabis and cannabis related products through medical, adult use and bulk sales channels (Note 20).

The Company uses the following five-step contract-based analysis of transactions to determine if, when and how much revenue can be recognized:

1. Identify the contract with a customer;
2. Identify the performance obligation(s) in the contract;
3. Determine the transaction price;
4. Allocate the transaction price to the performance obligation(s) in the contract; and
5. Recognize revenue when or as the Company satisfies the performance obligation(s).

Revenue is recognized when control of the goods has transferred, accepted by the purchaser and the collectability is reasonably assured. The point at which control transfers is also when the performance obligations have been fulfilled under the terms of the related sales contract. Revenues are recorded net of discounts, price concessions, price protection and appropriate deduction for actual and expected returns.

Gross revenue includes excise taxes, which the Company pays as principal. Excise taxes are a production tax which become payable when a cannabis product is delivered to the customer and are not directly related to the value of revenue. Excise taxes are netted against gross revenue on the consolidated statements of loss and comprehensive loss.

g) Share-based compensation

Where equity-settled share payments are awarded to management, employees and consultants, the fair value of the equity instruments at the date of grant is charged to the consolidated statements of loss and comprehensive loss. Performance vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at each reporting date so that, ultimately, the cumulative amount recognized over the vesting period is based on the number of shares that eventually vest. Non-vesting conditions are factored into the fair value of the common shares (“Shares”) and/or options granted. The cumulative expense is not adjusted where a non-vesting condition is not satisfied. Where the terms and conditions are modified before they vest, any increase in the fair value of the Shares, measured immediately before and after the modification, is also charged to the consolidated statements of loss and comprehensive loss.

The Company records stock-based compensation related to employee stock options and deferred share units granted using the estimated fair value of these equity instruments at the date of grant. The estimated fair value is expensed as employee benefits over the period in which employees unconditionally become entitled to the awards. The amount recognized as an expense is adjusted to reflect the number of awards for which the related service conditions are expected to be met, such that the amount ultimately recognized as an expense is based on the number of awards that meet the related services and non-market performance conditions at the vesting date. Corresponding charges are to contributed surplus. Any consideration paid on the exercise of stock options and restricted or deferred share units is credited to common shares.

The Company estimates the fair value of stock options granted using the Black-Scholes valuation model. This model requires the Company to make estimates and assumptions including, among

other things, estimates regarding the length of time an employee will retain vested stock options before exercising them, the estimated volatility of the Company's common share price and the number of options or restricted share units that will be forfeited prior to vesting. Changes in these estimates and assumptions can materially affect the determination of the fair value of stock-based compensation and consequently, the related amount recognized in the consolidated statements of loss and comprehensive loss.

Where equity instruments are granted to non-employees, they are recorded at the fair value of the goods or services received unless that fair value cannot be estimated reliably in which case they are measured at the fair value of the equity instruments granted. Amounts related to the issuance of Shares are recorded as a reduction of share capital. If the fair value of the goods or services received cannot be estimated reliably, the goods or services received, and the corresponding increase in equity are measured, indirectly, by reference to the fair value of the equity instruments granted, measured at the date the entity obtains the goods or the counterparty renders service.

h) Foreign currency translation

Transactions denominated in foreign currencies are initially recorded in the functional currency using exchange rates in effect at the dates of the transactions. At the end of the reporting period, monetary assets and liabilities denominated in foreign currencies are translated into the functional currency using exchange rates prevailing at the end of the reporting period. All exchange gains and losses are included in the consolidated statements of loss and comprehensive loss.

i) Loss per share

Basic loss per share is computed by dividing the loss for the year by the weighted average number of Shares outstanding. Diluted loss per share is calculated in a similar manner, except that the weighted average number of Shares outstanding is increased to include potentially issuable Shares from the assumed exercise of Share purchase options and warrants, if dilutive. The diluted loss per share calculation excludes any potential conversion of options, warrants, and convertible debt that would increase earnings per share or decrease loss per share.

j) Compound financial instruments

Compound financial instruments issued by the Company comprise units that consist of unsecured convertible debentures and share purchase warrants. The liability component of a compound financial instrument is recognized initially at the fair value of a similar liability that does not have an equity conversion option. The equity component, which consists of the conversion feature related to the convertible debentures and the share purchase warrants, is recognized as the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component.

The equity component is allocated to the conversion feature and the share purchase warrants based on their relative fair values. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts. Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortized cost using the effective interest rate method. The equity component of a compound financial instrument is not remeasured subsequent to initial recognition. Upon conversion, the liability component and conversion feature are reclassified to share capital.

In cases of extinguishment of the convertible debt before maturity through an early redemption or repurchase in which the original conversion privileges are unchanged, the Company allocates the consideration paid and any transaction costs for the repurchase or redemption to the liability and equity components at the date of the transaction. The method used in allocating the consideration paid and transaction costs to the separate components is consistent with that used in the original allocation to the separate components of the original proceeds that were received by the Company at the time of initial recognition. Once the allocation of the consideration is made, any resulting gain

or loss relating to the liability component is recognized in profit or loss, and the amount of consideration relating to the equity component is recognised in equity.

In situations where the Company issues warrants, the fair value of warrants as calculated as of the date of issue using the Black-Scholes pricing model, or Monte Carlo method for warrants with accelerated vesting terms, is included in the Company's contributed surplus, as reported on the consolidated statements of changes in shareholders' deficiency.

k) Related party transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities. A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties. Related party transactions are measured at the amounts agreed upon by the parties.

l) Share issuance costs

Costs incurred in connection with the issuance of share capital are netted against the proceeds received net of tax. Costs related to the issuance of share capital and incurred prior to issuance are recorded as deferred share issuance costs and subsequently netted against proceeds when they are received.

m) Warrants

In situations where the Company issues warrants, the fair value of warrants, as calculated as of the date of issue using the Black-Scholes pricing model, or Monte Carlo method for warrants with accelerated vesting terms, is included in the Company's contributed surplus, as reported on the consolidated statements of changes in shareholders' deficiency.

n) Provisions

A provision is recognized in the consolidated statements of financial position when the Company has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

o) Income taxes

Income tax on the consolidated statements of loss and comprehensive loss for the periods presented is comprised of current and deferred tax. Income tax is recognized in the consolidated statements of loss and comprehensive loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted at the end of the reporting period, adjusted for amendments to tax payable with regards to previous years.

Deferred tax is provided using the asset and liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes; the initial recognition of assets or liabilities that affect neither accounting or taxable income; nor differences relating to investments to the extent that they will probably not reverse in the foreseeable future; nor differences that at the time of the transaction, does not give rise to equal taxable and deductible temporary differences. The amount of deferred

tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the end of each financial reporting period.

A deferred tax asset is recognized only to the extent that it is probable that future taxable income will be available against which the asset can be utilized. To the extent that the Company does not consider it probable that a deferred tax asset will be recovered, it provides a valuation allowance.

p) Financial instruments

The Company accounts for financial instruments according to IFRS 9 *Financial Instruments* ("IFRS 9), which requires all recognized financial assets to be measured at amortized cost or fair value in subsequent accounting periods following initial recognition. IFRS 9 also requires a single, forward-looking expected loss impairment model.

Classification

The Company classifies its financial assets and financial liabilities in the following measurement categories: (i) those to be measured subsequently at fair value through profit or loss ("FVTPL"); (ii) those to be measured subsequently at fair value through other comprehensive income (loss) ("FVOCI"); and (iii) those to be measured at amortized cost. The classification of financial assets depends on the business model for managing the financial assets and whether the contractual cash flows represent solely payments of principal and interest ("SPPI"). Financial liabilities are classified as those to be measured at amortized cost unless they are designated as those to be measured subsequently at FVTPL (irrevocable election at the time of recognition). For assets and liabilities measured at fair value, gains and losses are either recorded in profit or loss or other comprehensive income (loss). Financial liabilities are not reclassified.

Financial Assets

Under IFRS 9, financial assets are initially measured at fair value. In the case of a financial asset not categorized as FVTPL, transaction costs are included. Transaction costs of financial assets carried at FVTPL are expensed in net loss. Subsequent classification and measurement of financial assets depends on the Company's business objective for managing the asset and the cash flow characteristics of the asset:

Amortized cost - Assets that are held for collection of contractual cash flows where those cash flows are solely payments of principal and interest are measured at amortized cost. Interest revenue is calculated using the effective interest method and gains or losses arising from impairment, foreign exchange and derecognition are recognized in loss. Financial assets measured at amortized cost are comprised of trade and other receivables.

Fair value through other comprehensive loss - Assets that are held for collection of contractual cash flows and for selling the financial assets, and for which the contractual cash flows are solely payments of principal and interest, are measured at fair value through other comprehensive loss. Interest income calculated using the effective interest method and gains or losses arising from impairment and foreign exchange are recognized in loss. All other changes in the carrying amount of the financial assets are recognized in other comprehensive loss. Upon derecognition, the cumulative gain or loss previously recognized in other comprehensive loss is reclassified to profit or loss. The Company does not hold any financial assets measured at fair value through other comprehensive loss.

Mandatorily at fair value through profit or loss - Assets that do not meet the criteria to be measured at amortized cost, or fair value through other comprehensive income, are measured at fair value through profit or loss. All interest income and changes in the financial assets' carrying amount are recognized in loss. Financial assets mandatorily measured at fair value through profit or loss are comprised of cash.

Designated at fair value through loss – On initial recognition, the Company may irrevocably designate a financial asset to be measured at fair value through loss in order to eliminate or significantly reduce an accounting mismatch that would otherwise arise from measuring assets or liabilities, or recognizing the gains and losses on them, on different bases. All interest income and changes in the financial assets' carrying amount are recognized in loss. The Company does not hold any financial assets designated to be measured at fair value through loss (Note 23).

Contractual cash flow assessment

The cash flows of financial assets are assessed as to whether they are solely payments of principal and interest on the basis of their contractual terms. For this purpose, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money, the credit risk associated with the principal amount outstanding, and other basic lending risks and costs. In performing this assessment, the Company considers factors that would alter the timing and amount of cash flows such as prepayment and extension features, terms that might limit the Company's claim to cash flows, and any features that modify consideration for the time value of money.

Derecognition of Financial Assets

The Company derecognizes a financial asset when its contractual rights to the cash flows from the financial asset expire.

Financial Liabilities

Recognition and Initial Measurement

The Company initially recognizes financial liabilities at fair value on the date at which the Company becomes a party to the contractual provisions of the instrument. At initial recognition, the Company measures financial liabilities at their fair value plus transaction costs that are directly attributable to their issuance, with the exception of financial liabilities subsequently measured at fair value through loss for which transaction costs are immediately recorded in the consolidated statements of loss and comprehensive loss.

The subsequent measurement of financial liabilities is determined based on their classification as either FVTPL or amortized cost.

FVTPL – Derivative financial instruments that do not meet hedge accounting criteria are classified as FVTPL. Gains or losses on these types of financial liabilities are recognized in net loss.
Amortized cost – All other financial liabilities are classified as amortized cost using the effective interest method. Gains and losses are recognized in net loss through the amortization process as well as when the liabilities are derecognized. The Company derecognizes a financial liability when its contractual obligations are discharged, cancelled or expire. Transactions costs are deferred and amortized over the term of the liability.

q) Impairment of financial assets

Under IFRS 9, the Company is required to apply an expected credit loss ("ECL") model to all debt financial assets not held at FVTPL, where credit losses that are expected to transpire in future years are provided for, irrespective of whether a loss event has occurred or not as at the date of consolidated statements of financial position. For trade receivables, the Company has applied the simplified approach under IFRS 9 and has calculated ECLs based on lifetime expected credit losses taking into consideration historical credit loss experience and financial factors specific to the debtors and general economic conditions.

Evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it is becoming probable that the borrower will enter bankruptcy or reorganization.

The carrying amount of financial assets is reduced by any impairment loss directly for all financial assets with the exception of accounts receivable, where the carrying amount is reduced through the use of an allowance account. When an account receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in the consolidated statements of loss and comprehensive loss.

If, in a subsequent period, the amount of the impairment loss decreases, and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through the consolidated statements of loss and comprehensive loss for the period to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

r) Segments

A segment is a distinguishable component of the Company that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. Throughout the years ended December 31, 2023 and December 31, 2022, the Company operated in one segment, the production and sale of cannabis in Canada. During the year ended December 31, 2023, majority of the revenue was derived from Canada, except for $225,394 derived from Australia (for the year ended December 31 2023: all revenue derived from Canada). All of the Company's non-current assets were located in Canada as at December 31, 2023 and 2022.

s) Debt Modification

A substantial debt modification or a debt exchange with substantially different terms is accounted for as an extinguishment of the original liability.

The terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial liability.

If an exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognized as part of the gain or loss on the extinguishment. If the exchange or modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortized over the remaining term of the modified liability.

t) Transaction costs

Transaction costs that are directly attributable to the acquisition or issuance of financial assets and financial liabilities, other than financial assets and financial liabilities classified as FVTPL are added or deducted from the fair value on initial recognition. Transaction costs that are directly attributable to the acquisition or issuance of financial assets and financial liabilities classified as FVTPL are recognized immediately in the consolidated statements of loss and comprehensive loss.

u) Leases

The Company assesses whether a contract is or contains a lease at inception of a contract. Leases are recognized as a right-of-use asset and corresponding liability at the commencement date. Each lease payment included in the lease liability is apportioned between the repayment of the liability and a finance cost. The finance cost is recognized in net finance costs in the consolidated statements of loss and comprehensive loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Lease liabilities include the net present value of fixed payments (including in-substance fixed payments), variable lease payments that are based on an index or a rate or subject to a fair market value renewal, amounts expected to be payable by the lessee under residual value guarantees, the exercise price of a purchase option if the lessee is reasonably certain to exercise that option, and payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option. The Company allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components. The lease liability is net of lease incentives receivable.

The lease payments are discounted using the interest rate implicit in the lease or, if that rate cannot be determined, the lessee's incremental borrowing rate. The period over which the lease payments are discounted is the reasonably certain lease term, including renewal options that the Company is reasonably certain to exercise. Renewal options are included in a number of leases across the Company. Payments associated with short-term leases and leases of low-value assets are recognized as an expense on a straight-line basis in selling, general and administrative expenses in the consolidated statements of loss and comprehensive loss.

Short-term leases are leases with a lease term of 12 months or less. Variable lease payments that do not depend on an index or a rate or subject to a fair market value renewal are expensed as incurred and recognized in selling, general and administrative expenses in the consolidated statements of loss and comprehensive loss. Right-of-use assets are measured at cost which is calculated as the amount of the initial measurement of lease liability plus any lease payments made at or before the commencement date, any initial direct costs and related restoration costs. The right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Company expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

Company discounted lease payments using its incremental borrowing rate at the inception of the lease.

v) Assets held for sale

The Company classifies non-current assets and disposal groups as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. Non-current assets and disposal groups classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Costs to sell are the incremental costs directly attributable to the disposal of an asset (disposal group), excluding finance costs and income tax expense.

The criteria for held for sale classification is regarded as met only when the sale is highly probable, and the asset or disposal group is available for immediate sale in its present condition. Actions required to complete the sale should indicate that it is unlikely that significant changes to the sale will be made or that the decision to sell will be withdrawn. Management must be committed to the plan to sell the asset and the sale expected to be completed within one year from the date of the classification.

Property, plant and equipment, right-of-use assets and license which is part of the intangible assets are not depreciated or amortised once classified as held for sale. Assets and liabilities classified as held for sale are presented separately as current items in the consolidated statements of financial position. A disposal group qualifies as assets held for sale if it is a component of an entity that is classified as held for sale, and is part of a single coordinated plan to dispose of a separate production facility. Results of the assets held for sale are excluded from the results of continuing operations and are presented as a single amount as profit or loss after tax from assets held for sale in the consolidated statements of loss and comprehensive loss.

w) Restructuring Provision

A restructuring provision is recognized when the Company has developed a detailed formal plan for the restructuring and has raised a valid expectation that it will carry out the restructuring by starting to implement the plan or announcing its main features to those individuals who are affected by it. The measurement of a restructuring provision includes only the direct expenditures arising from the restructuring, which reflect amounts that are both necessarily entailed by the restructuring and not associated with the ongoing activities of the entity.

x) Comparative Information

Certain comparative figures have been reclassified to conform with the current year's presentation.

y) New and Amended Accounting Pronouncements

<u>New accounting standards adopted:</u>

Amendments to IAS 1 and IFRS Practice Statement 2

The amendments to IAS 1 and IFRS Practice Statement 2 *Making Materiality Judgements* provide guidance and examples to help entities apply materiality judgements to accounting policy disclosures. The amendments aim to help entities provide accounting policy disclosures that are more useful by replacing the requirement for entities to disclose their 'significant' accounting policies with a requirement to disclose their 'material' accounting policies and adding guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures. The amendments have had an impact on the Company's disclosures of accounting policies, but not on the measurement, recognition or presentation of any items in the Company's financial statements.

IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors ("IAS 8")

In February 2021, the IASB issued Definition of Accounting Estimates, which amends IAS 8. The amendment will require the disclosure of material accounting policy information rather than disclosing significant accounting policies and clarifies how to distinguish changes in accounting policies from changes in accounting estimates. Under the new definition, accounting estimates are "monetary amounts in financial statements that are subject to measurement uncertainty". The amendment provides clarification to help entities to distinguish between accounting policies and accounting estimates.

The amendments are effective for annual reporting periods beginning on or after January 1, 2023. The impact of adopting these amendments on the Company's financial statements was not significant.

IAS 12, Income Taxes ("IAS 12")

In May 2021, the IASB issued Deferred Tax related to Assets and Liabilities arising from a single transaction (Amendments to IAS 12). The amendment narrows the scope of the initial recognition exemption so that it does not apply to transactions that give rise to equal taxable and deductible temporary differences. As a result, companies will need to recognize a deferred tax asset and deferred tax liability for temporary differences arising on initial recognition of transactions such as leases and decommissioning obligations.

The amendments are effective for annual reporting periods beginning on or after January 1, 2023 and are to be applied retrospectively. The impact of adopting these amendments on the Company's financial statements was not significant.

Accounting pronouncements not yet effective

The following new standards, amendments and interpretations have been issued but are not effective for the fiscal year ending December 31, 2023 and, accordingly, have not been applied in preparing these financial statements.

Amendments to IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current

On January 23, 2020, the IASB issued Classification of Liabilities as Current or Non-current (Amendments to IAS 1). The amendments address inconsistencies with how entities classify current and non-current liabilities. The amendments serve to address whether debt and other liabilities with an uncertain settlement date should be classified as current or non-current in the consolidated balance sheets. The amendments also improve the information an entity provides when its right to defer settlement of a liability for at least twelve months is subject to compliance with covenants.

The amendments are effective for annual periods beginning on or after January 1, 2024. The Company intends to adopt the amendments in its consolidated financial statements or the annual period beginning January 1, 2024. The Company is still assessing the impact of adopting these amendments on its financial statements but expects additional disclosure to be included in its future financial statements.

All other IFRSs and amendments issued but not yet effective have been assessed by the Company and are not expected to have a material impact on the financial statements.

4. Inventory and Biological Assets

Inventory

Inventory is comprised of the following and is valued at the lower of cost and net realizable value:

As at December 31,		**2023**		**2022**
Harvested work in progress	$	—	$	350,395
Dried cannabis		7,293,941		10,646,652
Extracts		1,712,550		1,833,078
Non-cannabis inventory		1,003,891		1,258,855
	$	**10,010,382**	$	14,088,980

During the year ended December 31, 2023, the Company recognized impairment of inventory amounting $2,532,132 (2022 - $14,250,433) included in cost of goods sold and $Nil (for the year ended December 31, 2022 - $2,328,249) included in realized fair value amounts previously included in inventory in the consolidated statements of loss and comprehensive loss.

During the year ended December 31, 2022, there was a temporary closure of certain cultivation rooms at the Company's Strathroy Facility to facilitate the necessary remediation. As a result, cost of goods sold for the year ended December 31, 2022 include expenses of $3,304,296 representing costs incurred in connection with the remediation work.

Biological assets

The Company's biological assets consist of cannabis plants.

The changes in carrying value of the Company's biological assets are as follows:

Carrying amount, December 31, 2021	**$**	**607,175**
Changes in fair value less costs to sell due to biological transformation		(4,525,559)
Production costs capitalized		9,175,750
Transferred to inventory upon harvest		(4,561,654)
Carrying amount, December 31, 2022	**$**	**695,712**
Changes in fair value less costs to sell due to biological transformation		(1,734,689)
Production costs capitalized		1,798,207
Transferred to inventory upon harvest		(759,230)
Carrying amount, December 31, 2023	**$**	**—**

All of the plants were harvested as agricultural produce. As at December 31, 2022, plants were up to ten weeks from harvest and the maximum life cycle was estimated to be one hundred and twelve days. The Company did not hold plants to be sold as live plants at December 31, 2022. Biological assets were classified as level 3 in the fair value hierarchy. The Company ceased growing cannabis in March 2023 and sold the cannabis growing facility in May 2023 (Note 7), as such, there were no biological assets as at December 31, 2023.

In accordance with IFRS, the Company is required to record its biological assets at fair value less cost to sell. At each reporting period, unharvested plants are adjusted to fair value less costs to complete and sell based on the estimated yield for harvests in progress. At the point of harvest or before they are transferred to Inventory, biological assets are adjusted to fair value less costs to complete and sell based on the actual yield in grams. At each reporting period, costs incurred up to harvest are capitalized to biological assets when the costs are incurred, fair value adjustments are recorded to reflect the difference between the capitalized costs and fair value less costs to complete and sell. Cannabis which has been harvested is transferred to inventory at the full biological asset carrying value, comprised of capitalized costs and fair value adjustments, for each harvest.

The significant assumptions used in determining the fair value of cannabis plants are as follows:

- Expected yield by plant adjusted for expected wastage;
- Percentage of costs incurred to date compared to the total expected costs to be incurred over the life of the plant;
- Expected weighted average selling price per gram of harvested cannabis based on the weighted average historical selling price adjusted based on expected future sales prices and mix;
- Expected remaining costs to be incurred in order to complete the harvest and bring the harvested product to finished inventory; and
- Expected percentage complete based on number of days remaining over the life of the plant.

The Company estimated harvest yields for the plants at various stages of growth. As of December 31, 2022, it was expected that the Company's biological assets would yield approximately 1,521,850 grams. The weighted average selling price used in the valuation was $0.65 per gram and was based on a normalized historical average selling price, adjusted based on expected future sales prices and mix. The Company estimated percentage of costs incurred based on the stage of growth. The Company estimated that as at December 31, 2022, the Company's plants had achieved 69% of their expected growth.

The Company's estimates are, by their nature, subject to change. Changes in the anticipated yield will be reflected in future changes in the gain or loss on biological assets. The Company performed a sensitivity analysis on the fair value of biological assets using the most sensitive inputs to the fair value methodology. The following table quantifies each significant unobservable input, and also provides the impact of a reasonable increase/decrease that each input would have at 10% sensitivity on the fair value of the Company's greenhouse biological assets.

December 31, 2022	Valuation inputs	Percentage change used in sensitivity analysis	Change resulting for reasonable variance as at December 31, 2022
Increase or decrease of Selling price	0 to 0.81	10%	69,571
Increase or decrease of Yield by plant	64 grams	10%	69,571
Increase in average life cycle	100 days	10%	(64,433)
Decrease in average life cycle	100 days	10%	69,571
Increase in percentage of costs to harvest incurred to date	69%	10%	69,571
Decrease in percentage of costs to harvest incurred to date	69%	10%	(69,571)

5. Lease Liabilities

		Building		Vehicle		Total
Lease liability, December 31, 2021	$	2,940,052	$	15	$	2,940,067
Interest		121,882		-		121,882
Payments		(1,295,022)		-		(1,295,022)
Modification		(805,324)		-		(805,324)
Net assets held for sale		-		-		-
Lease liability, December 31, 2022	$	961,588	$	15	$	961,603
Interest		48,059		-		48,059
Payments		(332,467)		(15)		(332,482)
Lease liability, December 31, 2023	**$**	**677,180**	**$**	**-**	**$**	**677,180**
For the year ended December 31, 2022						
Short Term Portion	$	284,405	$	15	$	284,420
Long Term Portion	$	677,183	$	-	$	677,183
For the year ended December 31, 2023						
Short Term Portion	$	97,599	$	-	$	97,599
Long Term Portion	$	579,581	$	-	$	579,581

The lease commitment schedule for all future lease payments is outlined in the table below:

As at December 31,		2023		2022
Less than one year	$	134,019	$	332,477
1 to 5 years		523,337		522,650
Greater than 5 years		148,746		283,453
Gross lease liabilities		**806,102**		**1,138,580**
Interest on lease liabilities		128,922		176,977
Net lease liabilities	$	**677,180**	$	**961,603**

During the year ended December 31, 2022, the Company decided not to renew the lease related to its Guelph Facility. As the right of use asset was impaired in fiscal 2021, the Company recognized a gain on lease modification of $805,324 in the consolidated statements of loss and comprehensive loss.

6. Property, Plant and Equipment

	Land	Building	Equipment	Fence & signage	Leasehold improvements	Fixed Assets CIP	Total
Cost							
Balance as at December 31, 2021	3,808,002	87,805,209	19,051,346	663,648	4,297,500	284,208	115,909,913
Additions	-	-	1,028,049	-	668,919	-	1,696,968
Transfers	-	-	205,708	-	-	(205,708)	-
Disposal	-	(48,400)	(595,906)	-	-	-	(644,306)
Net held for sale	(3,467,373)	(82,425,768)	(4,973,481)	(467,920)	-	-	(91,334,542)
Balance as at December 31, 2022	**340,629**	**5,331,041**	**14,715,716**	**195,728**	**4,966,419**	**78,500**	**25,628,033**
Additions	-	-	1,105,934	-	93,125	-	1,199,059
Impairment	-	-	(2,488,146)	-	-	-	(2,488,146)
Balance as at December 31, 2023	**340,629**	**5,331,041**	**13,333,504**	**195,728**	**5,059,544**	**78,500**	**24,338,946**
Accumulated Depreciation / Impairment							
Balance as at December 31, 2021	(561,111)	(23,073,373)	(9,484,930)	(252,817)	(795,675)	(41,878)	(34,209,784)
Transfers	-	-	(30,311)	-	-	30,311	-
Depreciation	-	(3,243,221)	(1,842,561)	(36,275)	(1,986,889)	-	(7,108,946)
Disposal	-	6,382	235,887	-	-	-	242,269
Impairment	(135,558)	(54,067,835)	(5,813,717)	(374,556)	(2,183,855)	(66,933)	(62,642,454)
Net held for sale	644,040	77,657,004	3,985,578	467,920	-	-	82,754,542
Balance as at December 31, 2022	**(52,629)**	**(2,721,043)**	**(12,950,054)**	**(195,728)**	**(4,966,419)**	**(78,500)**	**(20,964,373)**
Depreciation	-	(185,249)	(195,904)	-	(2,940)	-	(384,093)
Impairment	-	-	1,443,831	-	-	-	1,443,831
Balance as at December 31, 2023	**(52,629)**	**(2,906,292)**	**(11,702,127)**	**(195,728)**	**(4,969,359)**	**(78,500)**	**(19,904,635)**
Net Book Value							
Balance as at December 31, 2021	3,246,891	64,731,836	9,566,416	410,831	3,501,825	242,330	81,700,129
Balance as at December 31, 2022	288,000	2,609,998	1,765,662	-	-	-	4,663,660
Balance as at December 31, 2023	**288,000**	**2,424,749**	**1,631,377**	**-**	**90,185**	**-**	**4,434,311**

For the year ended December 31, 2023, depreciation of $381,153 and $Nil has been capitalized in inventory and biological assets, respectively (for the year ended December 31, 2022 - $2,974,500 and $3,306,177, respectively).

During the year ended December 31, 2023, the Company recorded impairment, net of $1,044,315 (2022 - $62,642,454) recognized in the consolidated statements of loss and comprehensive loss.

2022 Impairment

a) Asset Held for Sale – As described in Note 7, on November 15, 2022, the Company announced that it would be closing its Strathroy and Guelph Facilities. Immediately before the transfer to asset held for sale, the Company performed an impairment test in accordance with IAS 36 *Impairment of Assets.* As part of this analysis, the Company recorded an impairment loss of $54,593,373 which was the difference between the recoverable amounts (fair value less costs of disposal) and the carrying value related to these Facilities and the remaining balance of $8,580,000 was transferred to asset held for sale.

b) Impairment – For the remaining items of property, plant and equipment, the Company noted impairment indicators existed as at December 31, 2022, due to a decline in the Company's market capitalization, changes in consumer behavior and increased competition in the Canadian cannabis sector. Accordingly, an impairment test was performed resulting in an additional impairment loss of $8,049,081.

As a result, a total impairment of $62,642,454 was recorded during the year ended December 31, 2022.

For the impairment tests summarized above, the Company determined the recoverable amount based on fair value less costs of disposal. The fair value was determined based on a combination of a third-party appraisal using market and cost approaches and sales price based on recent purchase and sale agreement (Note 7). The third party appraisal considered information from published capitalization reports, historical data and industry standards which constitute both observable and unobservable inputs (level 2 and level 3).

The significant assumptions applied in the determination of the fair value less costs of disposal as at December 31 2022, were as follows:

- Weighted average rental rate of $8.25 per square foot.
- Capitalization rate of 7%.
- Used equipment realization rate ranging between 10% to 30%.
- Costs of disposal rate ranging from 5% to 10% (depending on the nature of the assets).

A change of 10% to the above assumptions would not result in a material change to the fair value less costs of disposal.

2023 Impairment

During the year ended December 31, 2023, the Company recorded impairment of $1,044,315, related to equipment no longer in use.

7. Assets Held for Sale

As at December 31,	2023	2022
Property, plant and equipment	$ -	$ 8,580,000

Strathroy and Guelph Facilities

On November 15, 2022, the Company announced it would phase out its Strathroy and Guelph Facilities to align with their strategic priorities and address ongoing business transformation plans.

Guelph Facility: The Guelph Facility was a leased facility and the right of use asset was fully impaired during the year ended December 31, 2021. On November 15, 2022, the Company impaired the Guelph Facility assets to $Nil prior to the transfer to asset held for sale; therefore, assets were reclassified as assets held for sale at a $Nil value as at December 31, 2022. The Company sold certain assets during the year ended December 31, 2023 for proceeds of $359,746.

Strathroy Facility: During the year ended December 31, 2022, the Company committed to a plan to dispose of certain assets comprising property, plant and equipment pertaining to the Strathroy Facility, within the 2023 fiscal year, and accordingly, reclassified these assets with a carrying value of $8,580,000 to assets held for sale. Impairment was recorded prior to the transfer to asset held for sale.

The Company entered into a final agreement to sell the Strathroy Facility to a third party on April 21, 2023 on which date the Company ceased cultivation operations in the Strathroy Facility and the sale was consummated on May 18, 2023. Proceeds of sale of $8,500,000, net of transaction costs of $862,317, were used to repay the associated Senior Credit Facility (Note 9). The Company recorded a loss of $245,018, related to the final closing costs of the Strathroy Facility.

As a result of the sale of the Guelph Facility equipment and Strathroy Facility, during the year ended December 31, 2023, the Company recorded a gain on sale of assets held for sale of $114,728 (for the year ended December 31, 2022 – $Nil).

8. Unsecured Convertible Debentures

	Debentures
Balance, December 31, 2021	$ 12,120,792
Accretion of debentures	1,003,976
Settlement of debentures	(12,218,340)
Gain on modification of debenture	(81,068)
Accretion of acquisition debentures	61,004
Balance, December 31, 2022	$ 886,364
Interest	91,174
Accretion of acquisition debentures	36,496
Interest payments	(91,174)
Balance, December 31, 2023	**$ 922,860**
As at December 31, 2022	
Short Term Portion	—
Long Term Portion	886,364
As at December 31, 2023	
Short Term Portion	—
Long Term Portion	922,860

a) 2019 Convertible Debentures

On September 25, 2019, the Company closed a bought-deal short-form prospectus offering of 13,115 convertible unsecured debentures units (“2019 Unsecured Convertible Debentures”) at a price per 2019 Unsecured Convertible Debenture of $1,000 for gross proceeds of $13,115,000 (“Offering”) with a syndicate of underwriters. The 2019 Unsecured Convertible Debentures bear interest at a rate of 8.5% per annum from the date of issue, payable semi-annually in arrears on June 30 and December 31 of each year. The 2019 Unsecured Convertible Debentures have a maturity date of September 25, 2022.

During the year ended December 31, 2019, $350,000 of the Company’s 2019 Unsecured Convertible Debentures were converted into 218,750 common shares at the option of the holder. There were no debentures converted during the years ended December 31, 2022, 2021 and 2020.

Pursuant to the Supplemental Indentures signed on June 27, 2022, in connection with the unsecured convertible debentures issued on September 25, 2019, the Company accelerated its maturity date from September 25, 2022 to June 30, 2022 and settled its unsecured convertible debentures at a discount of 40% on the principal amount, together with any accrued and unpaid interest earned on the principal amount of the Debentures from the last Interest Payment Date. The settlement was made by obtaining additional loan from LPF at an interest rate 15.25% p.a. (Note 9).

During the year ended December 31, 2022, the Company recorded a gain on extinguishment of 2019 Convertible Debentures amounting to $4,640,408 as final settlement was made at a discount of 40% on the principal amount. This gain was recognized in the consolidated statements of loss and comprehensive loss. As a result of the above, the 2019 Convertible Debenture was extinguished as at December 31, 2022.

b) 2021 Convertible Debentures (CannTX)

As a part of the acquisition of CannTx in 2021, the Company acquired 9% unsecured convertible debentures issued for gross proceeds of $1,013,500 with a maturity date of March 31, 2024 (“2021 Convertible Debentures”). On acquisition date, the 2021 Convertible Debentures were fair valued amounting to $886,035 using a present value technique, by discounting the contractual cash flows using a market interest rate of companies with similar credit risk. The discount rate applied in determining the discounted cash flows of the debentures was 16.6%. The fair value of the conversion feature on acquisition was recorded in the consolidated statements of changes in shareholders’ deficiency amounting to $112,095 using the below assumptions.

On July 26, 2022, the Company amended the terms of the 2021 Convertible Debentures and the amendments included (i) extending the maturity date from March 31, 2024 to December 31, 2025; (ii) in certain cases, allow for the interest accrued under the 2021 Convertible Debentures to be paid in cash or Entourage common shares; and (iii) reduce the conversion price of the Debentures from $0.50 to $0.15 per Entourage common share.

As a result of the modification, during the year ended December 31, 2022, the Company recorded a gain on modification of convertible debentures of $81,068. There was no impact on conversion feature as a result of the amendment.

There were no changes to the 2021 Convertible Debentures during the year ended December 31, 2023.

9. Loans and Borrowings

	Financial Institution			Liuna Pension Fund ("LPF")		1217174 Ontario LTD		
	Senior Credit Agreement							
	Facility 1	Facility 2	Facility 3	Senior Credit Agreement (BMO Transfer)	Subordinated Credit Agreement	Canntx Loan	Canntx short term loan	Total
Balance, December 31, 2021	$ 2,930,157	$ 26,256,609	$ 2,016,621	$ —	$ 55,389,677	$ 3,674,615	$ 31,950	$ 90,299,629
Proceeds, net	—	—	—	—	38,314,858	—	—	38,314,858
Interest	178,289	1,180,543	104,568	—	12,171,855	362,250	—	13,997,505
Gain on loan modification	(45,911)	(167,848)	(23,824)	—	(3,381,883)	—	—	(3,619,466)
Repayment	(1,793,810)	(3,315,000)	(600,000)	—	—	—	—	(5,708,810)
Accretion	32,955	99,224	12,419	—	999,219	226,188	—	1,370,005
Interest payments	(180,625)	(1,659,518)	(126,695)	—	—	—	—	(1,966,838)
Balance, December 31, 2022	$ 1,121,055	$ 22,394,010	$ 1,383,089	$ —	$ 103,493,726	$ 4,263,053	$ 31,950	$ 132,686,883
Proceeds, net	—	—	—	—	14,773,542	—	—	14,773,542
Loan transfer	(1,139,882)	(12,009,189)	(1,401,222)	14,550,293	—	—	—	—
Interest	55,348	1,068,872	64,980	963,337	19,829,826	569,250	—	22,551,613
Repayment	—	(10,500,907)	—	—	—	—	—	(10,500,907)
Accretion	18,828	116,086	18,135	—	1,468,755	37,892	—	1,659,696
Interest payments	(55,349)	(1,068,872)	(64,982)	—	—	—	—	(1,189,203)
Balance, December 31, 2023	**$ —**	**$ —**	**$ —**	**$ 15,513,630**	**$ 139,565,849**	**$ 4,870,195**	**$ 31,950**	**$ 159,981,624**

As at December 31, 2022	
Short Term Portion	128,423,830
Long Term Portion	4,263,053
As at December 31, 2023	
Short Term Portion	155,111,429
Long Term Portion	4,870,195

a) Credit Facility with Financial Institution - Bank of Montreal (BMO)

On March 29, 2019, the Company entered into combined secured credit agreements (collectively, "Credit Facilities" or “Senior Credit Agreement”). The Credit Facilities were comprised of the following:

Facility 1: $3,000,000 committed Revolving Credit Facility (the "Revolver");
Facility 2: $33,150,000 committed term loan;
Facility 3: $3,000,000 committed term loan.
Facility 4: $500,000 for working capital purposes (Expired on December 31, 2021)

The Credit Facilities had an original maturity date of March 29, 2022 ("Maturity Date").

The guarantors are 2686912 Ontario Limited, 2686913 Ontario Inc, Starseed Holdings Inc, North Star Wellness Inc and 2690870 Ontario Inc. The loan is secured against the borrower guarantee, liens on personal property, pledge of shares, lien over real property, leased property, insurance and shareholder loan.

Facility 1 requires interest-only payments with the balance due on the Maturity Date.

Facility 2 requires interest-only payments until December 31, 2020, or such later date agreed upon conversion date, at which point the principal will become payable and will amortize over ten years with the remaining due upon the maturity date.

Facility 3 requires interest-only payments until the Conversion Date (as defined below), at which point the principal will become payable and will amortize over five years with the remaining due upon the Maturity Date.

On December 23, 2021, the Company entered into an amendment. Under the terms of the amendment, certain of its financial covenants were deferred and applicable interest rate margin increased by 0.25 basis points. There was no change in the principal repayment other than the restricted cash of $3 million was applied as a principal repayment.

On March 30, 2022, the Company entered into an amendment and secured an extension of the maturity date of the Credit Facilities from March 28, 2022 to May 31, 2022, and a deferral of certain of its financial covenants to May 31, 2022, subject to certain conditions.

On May 31, 2022, the Company entered into an amendment and secured an extension of the maturity date of the Credit Facility from May 31, 2022 to June 30, 2022.

On June 30, 2022, the Company entered into an amendment to extend the maturity to June 30, 2024. In the amendment, the requirement relating to maintaining a total funded debt to tangible net worth of not more than 1:1 until Conversion Date was replaced by a requirement to maintain a certain minimum quarterly EBITDA targets for the fiscal quarters ending June 30, 2022 to December 31, 2023. Further, under this amendment the Company was required to maintain liquidity coverage of not less than $1,000,000 at all times and was required to settle its unsecured convertible debentures on or before the amendment date.

On October 28, 2022, the Company entered into an amendment which reflected an increase in its interest rate by 0.25%.

On December 30, 2022, the Company entered into an amendment which waived the breach of certain financial covenants for the period ended September 30, 2022 and modified certain of the financial covenants set out in the Credit Facilities. Specifically, the EBITDA target covenant was modified to reflect the Company's updated strategic plan as announced by the Company on November 15, 2022. Additionally, the liquidity covenant was amended to provide that the Company must maintain liquidity coverage of not less than $5,000,000 at all times. This amendment also required additional security in the form of $2,000,000 to be maintained in a blocked account held by the senior lender, to be applied against the Credit Facility in certain events. As a result, as at December 31, 2022, the Company included $2,000,000 as restricted cash.

As these amendments impacted the maturity date and applicable margin (interest rate), the Company assessed whether the amendments were considered extinguishments or modifications. The Company recorded a gain on modification of $237,583 in the consolidated statements of loss and comprehensive loss. The Company was in breach of certain financial covenants as at December 31, 2022.

2023 Activities:

On June 16, 2023, the Company repaid $10,500,907 in outstanding principal ($8,500,000 pertaining to proceeds from sale of assets held for sale (Note 7), $2,000,000 held in restricted cash and $907 from the cash balance) to pay down a significant portion of Credit Facilities. The remaining principal balance of the Credit Facilities of $14,550,293, along with unpaid accrued interest and bank fees of $114,097, for an aggregate of $14,664,390, was assumed by and assigned to LPF, the Company's other secured lender (Note 9(b)). As there were no changes to the contractual terms of the Credit Facilities upon assumption and assignment, the change in lender did not result in a modification or extinguishment. All legal fees incurred by the Company relating to the change in debtholder were expensed as incurred.

On the date of assumption and assignment, June 16, 2023, the Credit Facilities had an aggregate face value of $14,550,390. The Credit Facilities maturity date remained unchanged and the Credit Facilities mature on June 30, 2024.

The Company was in breach of its covenants and repayment terms as at December 31, 2023. See Note 9(b) for details of forbearance letters received from LPF.

b) Credit facility with LiUNA Pension Fund of Central and Eastern Canada (“LPF”)

On September 23, 2020, the Company had entered into a credit facility with LPF. Under the terms, LPF provided the Company $30,000,000, maturing in August 2022 and bearing a 15% interest rate per annum and accruing daily and payable monthly in arrears, with a payment-in-kind option at the Company's discretion, to add interest accrued to the principal loan amount (“Subordinated Credit Agreement” or “Credit Facility”).

The guarantors were 2686912 Ontario Limited, 2686913 Ontario Inc, Starseed Holdings Inc, North Star Wellness Inc and 2690870 Ontario Inc. The loan was secured against the borrower guarantee, liens on personal property, pledge of shares, lien over real property, leased property, insurance and shareholder loan.

On October 28, 2021, the Company entered into an amendment resulting in an interest rate increase of 25 basis points.

On December 23, 2021, the Company entered into an amendment and received additional proceeds of $20,000,000 from LPF maturing in August 2022 and bearing a 15% interest rate per annum and accruing daily and payable monthly in arrears, with a payment-in-kind option at the Company's discretion, to add interest accrued to the principal loan amount. The Subordinated Credit Agreement contained certain financial covenants.

On April 29, 2022, the Company entered into an amendment that included a waiver related to the Total Funded Debt to Tangible Net Worth Ratio covenant violation for the fiscal quarter ended December 31, 2021. In addition, the Company received additional proceeds of $15,000,000 from LPF maturing in August 2022 and bearing a 15.25% interest rate per annum and accruing daily and payable monthly in arrears, with a payment-in-kind option at the Company's discretion, to add interest accrued to the principal loan amount. Total transaction costs associated with the amendment were $115,520.

On June 27, 2022, the Company entered into an amendment whereby LPF agreed to repay the settlement amount of the 2019 Convertible Debentures, including its transaction costs ($8,201,669 towards repayment of its 2019 Convertible Debentures and $331,333 towards the associated holder transaction costs) and advance additional cash proceeds of $366,998 to the Company. This resulted in an increase to the outstanding Credit Facility balance of $8,900,000. The additional loan had the same terms, including maturity date and interest rate as the April 29, 2022 loan. The unsecured convertible debenture holders, including its related expenses, were directly settled by LPF (Note 8).

On June 30, 2022, the Company entered into an amendment and secured an extension of the maturity date of the Credit Facility from August 2022 to December 31, 2024, and a deferral of certain of its financial covenants to January 1, 2024, subject to certain conditions. The requirement relating to maintaining a total funded debt to tangible net worth of not more than 1:1 was replaced by a requirement to maintain a certain minimum quarterly EBITDA targets for the fiscal quarters ending June 30, 2022 to December 31, 2023. Further, the Company was required to maintain liquidity coverage of not less than $1,000,000 at all times.

As this amendment impacted the maturity date, the Company assessed whether the amendment was considered an extinguishment or a modification. The Company recorded a gain on modification of $3,381,883 in the consolidated statements of loss and comprehensive loss.

On October 31, 2022, the Company entered into an amendment and received the first tranche of funding of $15,000,000. The second tranche of funding of $15,000,000 was received on January 31, 2023. The Credit Facility continues to bear an interest rate of 15.25% with the option, at the Company’s discretion, to capitalize interest in lieu of cash payments of interest and is set to mature on December 31, 2024. Total transaction costs associated with the proceeds received under this amendment was $138,132.

As at December 31, 2022, the Company was in breach of certain financial covenant. Accordingly, the Credit Facility was presented as current liabilities as at December 31, 2022.

On January 31, 2023, the Company entered into an amendment and received the second tranche of funding of $15,000,000 less transaction costs of $226,458. The Credit Facility continues to bear an interest rate of 15.25% with the option, at the Company's discretion, to capitalize interest in lieu of cash payments of interest and is set to mature on December 31, 2024.

On June 16, 2023, LPF assumed the remaining balance under the Senior Credit Agreement with BMO (Note 9(b)) and issued funding of $14,664,390 to BMO. The Senior Credit Agreement assumed by LPF is secured by the assets of the Company and its subsidiaries, including the Company's production facilities, and contains customary financial and other covenants, as well as typical conditions precedent for a transaction of this nature. The Company has not made any interest or principal repayments on the Senior Credit Agreement after assumption by LPF. Any unpaid interest will be added to the carrying amount of the loan and will accrue interest compounded monthly. The total principal and accrued interest outstanding as at December 31, 2023 related to the Subordinated Credit Agreement was $141,859,553.

As both the Senior Credit Agreement and the Subordinated Credit Agreement have a maturity date within twelve months from December 31, 2023, the outstanding loan and borrowing have been classified as current liabilities as at December 31, 2023.

The Company was in breach of certain financial covenants and other obligations under both the Senior Credit Agreement and Subordinated Credit Agreement as at December 31, 2023. The Company began working with LPF collaboratively to reach an agreement on refined debt terms. To this end, the Company received a forbearance letter on December 8, 2023 waiving the Company's breaches until January 15, 2024, subject to the satisfaction or waiver of certain conditions. Subsequent to year end, the Company continued to work with LPF on debt terms and the updated forbearance letters were received on January 15, 2024, March 8, 2024, and April 5, 2024, where the final letter expires on May 3, 2024.

c) 1217174 Ontario LTD

As a part of the acquisition of CannTx in 2021, the Company assumed the Loan agreement with 1217174 Ontario LTD for an aggregate principal balance of $5,000,000 ("CannTx Loan"). The maturity date of the loan is 5 years from the date of acquisition being October 29, 2026. The interest rate of the loan is 6.21% payable on a monthly basis. There is a General Security agreement in place. 1217174 Ontario LTD signed an Assignment, Postponement and Subordinated Agreement on October 13, 2021 as part of the CannTx acquisition, agreeing to postpone all payments and subordinate the loan to the Senior Credit Agreement and Subordinated Credit Agreement. As such, all interest and principal have been recorded as long term liabilities.

Concurrent with the original loan, 1217174 Ontario LTD was granted 3,116,667 warrants with an exercise price of $0.354 per share purchase warrant (Note 11). The expiry date of the warrants is December 15, 2024. The fair value estimate was determined from the perspective of a market participant that holds similar loans without the share purchase warrants attached. The fair value of $3,653,050 on draw down date was estimated using a present value technique, by discounting the contractual cash flows using a market interest rate of companies with similar credit risk.

The discount rate applied in determining the discounted cash flows of the loan was 16.6%.

During the year ended December 31, 2023, the Company incurred $569,250 (2022 - $362,250) in interest and $37,892 (2022 - $226,188) in accretion expense relating to the CannTx loan. The accrued interest has been included in the carrying value of the loan and included in loans and borrowings on the consolidated statements of financial position.

10. Share Capital

	Note	Number of shares		Amount
Balance as at December 31, 2021		303,976,702	$	185,813,639
Issuance of shares on exercise of DSU's	10 (a)	2,767,694		326,958
Balance as at December 31, 2022		306,744,396	$	186,140,597
Issuance of shares on exercise of DSU's	10 (b)	220,000		41,800
Shares issued to debtholders	10 (c)	1,423,057		42,692
Balance as at December 31, 2023		**308,387,453**	**$**	**186,225,089**

a) During the year ended December 31, 2022, the Company settled 2,767,694 deferred stock units ("DSU's") given to certain directors of the Company for one common share each. These DSU's were valued at $326,958 based on the fair market value at the grant date. Accordingly, this fair market value was transferred from contributed surplus to Share Capital on settlement.

b) During the year ended December 31, 2023, the Company settled 220,000 DSUs given to an officer of the Company for one common share each. These DSU's were initially valued at $41,800 based on the fair market value at the grant date. Accordingly, this fair market value was transferred from Contributed Surplus to Share Capital on the issuance of the shares.

c) During the year ended December 31, 2023, the Company issued 1,423,057 common shares to certain employees of the Company in settlement for amounts outstanding. These shares were valued at $42,692 based on the fair market value at the grant date which equalled the total outstanding balance on the date of settlement.

11. Warrants

The change in the number of warrants during the years ended December 31, 2023 and 2022, is as follows:

	Note	Number of Warrants
Balance as at December 31, 2021		36,047,165
less: broker warrants expired	11 (a)	(983,624)
less: warrants expired	11 (b)	(11,196,875)
Balance as at December 31, 2022		23,866,666
less: broker warrants expired	11 (c)	(2,156,250)
less: warrants expired	11 (c)	(17,968,750)
Balance as at December 31, 2023		**3,741,666**

a) During the year ended December 31, 2022, 983,623 broker warrants issued on September 25, 2019 expired unexercised on September 24, 2022

b) During the year ended December 31, 2022, 8,196,875 warrants issued on September 25, 2019 expired unexercised on September 24, 2022 and 3,000,000 warrants issued on November 21, 2017 expired unexercised on November 20, 2022.

c) On March 11, 2023, 17,968,750 warrants and 2,156,250 broker warrants issued on March 12, 2021, expired unexercised.

The table below summarizes the number of warrants outstanding as of as of December 31, 2023:

Exercise price ($)	Expiry Date	Warrants #
2.5	March 28, 2024	625,000
0.35	December 15, 2024	3,116,666
		3,741,666

The table below summarizes the number of warrants outstanding as of as of December 31, 2022:

Exercise price ($)	Expiry Date	Warrants #
0.48 - 0.60	March 11, 2023	20,125,000
2.5	March 28, 2024	625,000
0.35	December 15, 2024	3,116,666
		23,866,666

12. Share-Based Compensation

As a part of its Omnibus Equity Incentive Plan (the "Incentive Plan"), the Company may issue options, DSUs or performance share units ("PSUs").

Total share-based compensation for the year ended December 31, 2023 and 2022 are as follows:

For the years ended December 31,		**2023**	2022
Stock options issued	$	**—**	11,309
Deferred stock units issued		**71,801**	470,192
Total	$	**71,801**	481,501

Options

Options under the Incentive Plan are for directors, officers, employees and consultants, where the Company may grant options from time to time to acquire a maximum of 10% of the issued and outstanding Shares. The Company's Board of Directors determines, among other things, the eligibility of individuals to participate in the Option Plan, the term and vesting periods, and the exercise price of options granted to individuals under the Incentive Plan.

Each stock option converts into one common share of the Company on exercise. No amounts are paid or payable by the individual on receipt of the option, and the options carry no dividend or voting rights. Options may be exercised at any time from the date of vesting to the date of their expiry.

The change in the number of options during the years ended December 31, 2023 and 2022, is as follows:

	Note	Number of options
Balance as at December 31, 2021		**12,090,616**
Stock options granted	12 (a)	50,000
Stock options forfeited		(1,105,338)
Stock options expired		(2,646,638)
Balance as at December 31, 2022		**8,388,640**
Stock options forfeited		(966,688)
Stock options expired		(4,982,452)
Balance as at December 31, 2023		**2,439,500**

a) During the year ended December 31, 2022, the Company granted 50,000 options to an employee. Each option is exercisable into one common share at an exercise price of $0.40, until December 8, 2026. One third options are vested every 6 months. The fair value of the Options has been

estimated using the Black-Scholes option pricing model with the following assumptions: (i) expected dividend yield of 0%; (ii) the expected volatility of 159.49% is based on Company specific historical volatility); (iii) risk-free interest rate of 1.51%; (iv) share price of $0.075; (v) forfeiture rate of nil; and (vi) expected life of 60 months. The total fair value of the options was $3,172.

As at December 31, 2023, 2,439,500 shares have been reserved for stock options as follows:

Exercise price	Number of options outstanding	Number of options exercisable	Remaining life (years)	Weighted average remaining life (years)	Weighted average exercise price
1.53	440,500	440,500	0.02	—	0.28
0.40	434,000	434,000	1.54	0.27	0.07
0.40	125,000	125,000	2.75	0.14	0.02
0.85	600,000	600,000	0.96	0.24	0.21
1.48	440,000	440,000	1.18	0.21	0.27
1.75	250,000	250,000	0.00	—	0.18
1.75	100,000	100,000	0.60	0.02	0.07
0.40	50,000	50,000	2.94	0.06	0.01
	2,439,500	**2,439,500**			**0.18**

As at December 31, 2022, 8,388,640 shares have been reserved for stock options as follows:

Exercise price	Number of options outstanding	Number of options exercisable	Remaining life (years)	Weighted average remaining life (years)	Weighted average exercise price
2.36	1,098,000	1,098,000	0.03	—	0.31
1.80	400,000	400,000	0.38	0.02	0.09
2.07	500,000	500,000	0.68	0.04	0.12
1.95	200,000	200,000	0.78	0.02	0.05
1.53	440,500	440,500	1.02	0.05	0.08
1.52	10,000	10,000	1.52	—	0.00
3.26	142,640	142,640	0.83	0.01	0.06
0.40	1,314,000	1,314,000	2.54	0.40	0.06
0.40	125,000	125,000	3.75	0.06	0.01
0.48	1,010,000	1,010,000	0.24	0.03	0.06
0.50	700,000	700,000	0.70	0.06	0.04
0.84	60,000	60,000	0.20	—	0.01
0.84	48,000	48,000	0.24	—	0.00
0.85	200,000	200,000	0.64	0.02	0.02
0.85	600,000	600,000	1.96	0.14	0.06
0.85	25,000	25,000	0.50	—	0.00
0.85	145,000	145,000	0.45	0.01	0.01
0.85	50,000	50,000	0.50	—	0.01
1.00	20,000	20,000	0.06	—	0.00
1.00	20,500	20,500	0.12	—	0.00
1.00	10,000	10,000	0.91	—	0.00
1.25	5,000	5,000	0.62	—	0.00
1.25	10,000	10,000	0.98	—	0.00
1.48	440,000	440,000	2.18	0.11	0.08
1.75	105,000	105,000	0.73	0.01	0.02
1.75	250,000	250,000	0.73	0.02	0.05
1.75	60,000	60,000	0.97	0.01	0.01
1.75	250,000	250,000	1.00	0.03	0.05
1.75	100,000	100,000	1.60	0.02	0.02
0.40	50,000	33,333	3.94	0.02	0.00
	8,388,640	**8,371,973**			**0.09**

Deferred Share Units

As a part of the Incentive Plan, the Company may also issue DSUs. The DSUs expire on December 31 of the year following the year of termination of employment or directorship and are valued based on the fair market value of the Company's common shares at the date of grant. The fair value of the awards are vested and expensed over the period in which the DSU holders become entitled to the awards.

No amounts are paid or payable by the individual on receipt of the DSUs. Each DSU converts into one common share of the Company at $Nil exercise price. The Company's PSU Plan provides that the number of common shares reserved for issuance may not exceed 10% of the aggregate number of common shares that are outstanding unless the Board has increased such limit by a Board resolution.

As at December 31, 2023, 13,418,655 DSUs were vested (as at December 31 2022: 15,059,235).

The change in the number of DSUs during the years ended December 31, 2023 and 2022, is as follows:

	Note	Number of units #	Weighted average fair value $
Outstanding as at December 31, 2021		7,005,634	0.24
Granted	12 (b,c,d,e,f)	10,821,295	0.04
Converted to common shares	10 (a)	(2,767,694)	(0.12)
Outstanding as at December 31, 2022		15,059,235	**0.16**
Granted	12 (g,h,i,k,l)	7,050,000	0.02
Converted to common shares	10 (b)	(220,000)	(0.19)
Cashed-out	12 (j)	(220,000)	(0.01)
Expired		(1,780,580)	(0.38)
Outstanding as at December 31, 2023		**19,888,655**	**0.17**

b) On March 31, 2022, the Company granted an aggregate of 1,911,290 DSUs to certain directors and employees of the Company based on the fair value of the services provided. The DSUs will vest immediately and are granted in lieu of cash compensation for services rendered during the first quarter of 2022. The grant date fair value of the DSUs equals the fair market value of the corresponding shares at the grant date. Management estimates the total fair value of the DSUs to be $204,155.

c) On June 10, 2022, the Company granted an aggregate of 788,793 DSUs to directors of the Company based on the fair value of the services provided. The DSUs will vest immediately and are granted in lieu of cash compensation for services rendered during the second quarter of 2022. The grant date fair value of the DSUs equals the fair market value of the corresponding shares at the grant date. Management estimates the total fair value of the DSUs to be $43,384.

d) On June 30, 2022, the Company granted an aggregate of 1,454,544 DSUs to directors of the Company based on the fair value of the services provided. The DSUs will vest immediately and are granted in lieu of cash compensation for services rendered during the second quarter of 2022. The grant date fair value of the DSUs equals the fair market value of the corresponding shares at the grant date. Management estimates the total fair value of the DSUs to be $95,938.

e) On September 30, 2022, the Company granted an aggregate of 2,666,668 DSUs to directors of the Company based on the fair value of the services provided. The DSUs will vest immediately and are granted in lieu of cash compensation for services rendered during the third quarter of 2022. The grant date fair value of the DSUs equals the fair market value of the corresponding shares at the grant date. Management estimates the total fair value of the DSUs to be $82,079.

f) On December 31, 2022, the Company granted of an aggregate of 4,000,000 DSUs to directors of the Company based on the fair value of the services provided. The DSUs will vest immediately and are granted in lieu of cash compensation for services rendered during the third quarter of 2022. The grant date fair value of the DSUs equals the fair market value of the corresponding shares at the grant date. Management estimates the total fair value of the DSUs to be $44,636.

g) On March 31, 2023, the Company granted of an aggregate of 1,600,000 DSUs to certain directors of the Company based on the fair value of the services provided. The DSUs will vest one year after the grant date and are granted in lieu of cash compensation for services rendered during the first quarter of 2023. The grant date fair value of the DSUs equals the fair market value of the

corresponding shares at the grant date. Management estimates the total fair value of the DSUs to be $32,678.

h) On June 30, 2023, the Company granted of an aggregate of 1,600,000 DSUs to certain directors of the Company based on the fair value of the services provided. The DSUs will vest one year after the grant date and are granted in lieu of cash compensation for services rendered during the second quarter of 2023. The grant date fair value of the DSUs equals the fair market value of the corresponding shares at the grant date. Management estimates the total fair value of the DSUs to be $24,686.

i) On September 30, 2023, the Company granted of an aggregate of 1,600,000 DSUs to certain directors of the Company based on the fair value of the services provided. The DSUs will vest one year after the grant date and are granted in lieu of cash compensation for services rendered during the third quarter of 2023. The grant date fair value of the DSUs equals the fair market value of the corresponding shares at the grant date. Management estimates the total fair value of the DSUs to be $32,000.

j) On December 15, 2023, a former employee cashed-out 220,000 DSUs at $0.01 per share for a total fair value of $2,200.

k) On December 31, 2023, the Company granted of an aggregate of 1,600,000 DSUs to certain directors of the Company based on the fair value of the services provided. The DSUs will vest one year after the grant date and are granted in lieu of cash compensation for services rendered during the fourth quarter of 2023. The grant date fair value of the DSUs equals the fair market value of the corresponding shares at the grant date. Management estimates the total fair value of the DSUs to be $24,000.

l) During the year ended December 31, 2023, the Company granted of an aggregate of 650,000 DSUs to certain senior management of the Company based on the fair value of the services provided. 440,000 DSUs will vest one year after the grant date and 210,000 DSUs will vest over a period of 24 months. The grant date fair value of the DSUs equals the fair market value of the corresponding shares at the grant date. Management estimates the total fair value of the DSUs to be $28,000.

Performance Share Units (“PSU”)

In May 2023, the Company added PSUs to the Incentive Plan for directors, offers, employees and consultants of the Company. The PSUs do not have an expiration date and are valued based on the fair market value of the Company’s common shares at the date of grant. The fair value of the awards are expensed over a vesting period of one-year and they can only be settled in shares of the Company.

No amounts are paid or payable by the individual on receipt of the PSUs. Each PSU converts into one common share of the Company at $Nil exercise price. The Company’s PSU Plan provides that the number of common shares reserved for issuance may not exceed 10% of the aggregate number of common shares that are outstanding unless the Board has increased such limit by a Board resolution.

On May 27, 2023, the Company granted an aggregate of 6,200,000 PSUs to certain members of the Company’s management team. The PSUs granted vest based on the amount of earnings before interest, taxes, depreciation, and amortization (“EBITDA”) from continuing operations for the year ended December 31, 2023. All PSUs vest once EBITDA from continuing operations of $1.5 million is achieved, and no PSUs vest if EBITDA from continuing operations is $Nil or below. The PSUs vest on May 31, 2024. As of the grant date, management estimated the total fair value to be $Nil as no awards were expected to vest. As of December 31, 2023, no units met the performance target, and the Company recognized share-based compensation of $Nil in the consolidated statements of loss and comprehensive loss. No PSUs were vested as at December 31, 2023, and given the EBITDA targets were note met by December 31, 2023, as required, no PSUs will vest by the vesting end date.

The change in the number of PSUs during the years ended December 31, 2023, is as follows:

	Number of units #	Weighted average fair value $
Outstanding as at December 31, 2022	-	-
Granted	6,200,000	0.03
Outstanding as at December 31, 2023	**6,200,000**	**0.03**

13. Income Taxes

Income Tax Rate Reconciliation

As at December 31,		**2023**		**2022**
Net loss before income taxes	$	(46,168,010)	$	(123,146,447)
Combined Federal and Provincial statutory income tax rate		26.50%		26.50%
Expected recovery at statutory rate		(12,234,523)		(32,633,808)
Gain on modification of loan and convertible debentures		-		(980,642)
Non-deductible expenses and other permanent differences		35,967		935,143
Adjustments relating to inventory provision and others		(352,446)		163,781
Book to return adjustments		(2,622,231)		(3,577,658)
Capital loss on the sale of land		(84,427)		-
Change in deferred tax assets not recognized		15,257,660		36,093,184
Expected deferred income tax expense (recovery)	$	—	$	—

Deferred tax assets and liabilities have been offset where they relate to income taxes levied by the same taxation authority and the Company has the legal right and intent to offset.

As at December 31,		**2023**		**2022**
Reserves and loss carry-forwards	$	97,346,133	$	63,962,112
Inventory		172,281		256,909
Biological assets		-		372,811
Share issue costs		176,769		332,142
Property, plant and equipment		7,501,354		24,817,196
Lease liabilities		179,453		254,825
Intangible assets		163,472		326,698
Others		42,506		1,615
Deferred tax assets not recognized		(105,581,968)		(90,324,308)
	$	—	$	—

The Canadian non-capital loss carry forwards expire as noted in the table below:

The net capital losses may be carried forward indefinitely, but can only be used to reduce capital gains.

Share issue and financing costs will be fully amortized in 2025. The remaining deductible temporary differences may be carried forward indefinitely.

Deferred tax assets of $105,581,968 (2022: $90,324,309) have not been recognized because it is not probable that future taxable profits will be available against which the company can utilize the benefits therefrom.

Loss Carry Forwards

The Company's unrecognized non-capital income tax losses expire as follows:

As at December 31,	2023	2022
2034	$ 1,836,959	$ 447,996
2035	4,110,300	791,102
2036	3,486,530	3,139,307
2037	8,014,429	7,417,411
2038	15,264,168	10,211,295
2039	35,817,369	35,817,369
2040	71,739,666	71,781,610
2041	61,918,452	59,429,215
2042	56,648,356	50,997,745
2043	107,335,540	-
	$ 366,171,769	$ 240,033,050

Net Capital loss expiry:

	2023	2022
Indefinite	$ 1,482,821	$ 845,636
	$ 1,482,821	$ 845,636

14. Selling, General and Administrative Expenses

For the years ended December 31,	2023	2022
Salaries and benefits	$ **10,478,208**	$ 12,613,312
Office & Administrative	**3,255,894**	5,378,533
Professional fees	**5,145,686**	3,883,585
Consulting fees	**759,350**	1,738,213
Selling, marketing and promotion	**5,422,330**	5,539,892
Provision for restructuring expenses	**964,042**	521,808
Provision for decommissioning costs	**55,404**	415,000
Research and development	**179**	201,607
Total	$ **26,081,093**	$ 30,291,950

15. Finance Costs

For the years ended December 31,	2023	2022
Accretion cost	**$ 1,696,192**	$ 2,434,985
Interest expense on loans and borrowings	**22,551,613**	13,997,505
Interest expense on unsecured convertible debentures	**91,174**	635,429
Interest expense on lease liabilities	**48,059**	121,882
Foreign exchange loss and other charges	**77,373**	387,616
Total	**$ 24,464,411**	$ 17,577,417

16. Loss per Share

For the years ended December 31,	2023	2022
Basic and diluted loss per share:		
Loss attributable to holders of shares	**$ (46,168,010)**	$ (123,146,447)
Weighted average number of shares outstanding	**307,848,704**	305,061,031
	$ (0.15)	$ (0.40)

For periods where the Company records a loss, the Company calculates diluted loss per share using the basic weighted average number of shares. If the diluted weighted average number of shares were used, the result would be a reduction in the loss, which would be anti-dilutive. Consequently, for the year ended December 31, 2023, the Company calculated loss per share using 307,848,704 (for the year ended December 31, 2022: 305,061,031) common shares. The effect of options, DSUs, PSUs, warrants and conversion feature was anti-dilutive.

17. Change in Non-cash Operating Working Capital

For the years ended December 31,		2023		2022
Trade and other receivables	$	**217,522**	$	3,651,716
Prepaid expenses and deposits		**613,135**		(741,312)
Inventory		**1,546,466**		(748,321)
Biological assets		**2,013,695**		(7,484,799)
Commodity tax receivable		**466,837**		586,475
Accounts payable and accrued liabilities		**3,900,328**		(5,683,800)
Net Changes in Non-Cash Working Capital	$	**8,757,983**	$	(10,420,041)

18. Prepaid Expenses and Deposits

As at December 31,		2023		2022
Deposits	**$**	**1,552,634**	$	1,793,642
Supplier advances		**156,485**		387,468
Prepaid Insurance		**278,970**		300,597
Other prepaid expenses		**4,446**		288,981
Total	**$**	**1,992,535**	$	2,770,688
Current portion		**439,901**		1,053,036
Non-current portion		**1,552,634**		1,717,652

19. Accounts Payable and Accrued Liabilities

As at December 31,		2023		2022
Trade payables	**$**	**1,958,450**	$	2,667,241
Accrued employee benefits		**528,343**		862,192
Accrued excise taxes		**9,228,599**		1,940,049
Restructuring accrual		**—**		521,808
Accrued and other payables		**5,390,330**		7,179,423
Total	**$**	**17,105,722**	$	13,170,713

Restructuring accrual - On November 15, 2022, the Company announced the phasing out of its Strathroy and Guelph Facilities to align with their strategic priorities and address ongoing business transformation plans (Note 7). The restructuring also included a reduction to the number of employees across the organization in an effort to reduce spending.

During the year ended December 31, 2022, the Company recorded restructuring expenses of $254,308 relating to workforce retention and reductions associated with the planned closure of these facilities and $267,500 related to professional services required to execute on the restructuring in the statement of loss and comprehensive loss. These amounts were not paid as at December 31, 2022 in relations to workforce retention and reductions.

The provisions for restructuring represent the present value of the best estimate of the future outflow of economic benefits that will be required to settle the expected liabilities and may vary as a result of new events affecting the amounts that will need to be paid.

During the year ended December 31, 2023, additional expenses of $964,042 related to the sale of the Strathroy Facility were incurred $292,919 related to workforce retention and reductions associated with the planned closure of these facilities and $671,123 related to utilities and other costs required to execute on the restructuring in the statement of loss and comprehensive loss. These amounts have been recorded in selling, general and administrative expenses as restructuring costs (Note 14). There is no restructuring provision as of December 31, 2023.

20. Revenue and Trade and Other Receivables

a) Revenue

For the years ended December 31,		2023		2022
Medical	**$**	**19,126,216**	$	19,798,486
Adult Use		**33,892,743**		34,518,675
Bulk		**1,096,266**		218,062
Total Revenue	**$**	**54,115,225**	$	54,535,223

For the year ended December 31, 2023, 83% (December 31, 2022: 58%) of Adult Use revenue is from 3 customers (December 31, 2022: 3 customers), representing 37%, 36% and 10% of the Company's Adult Use revenue, respectively.

As at December 31, 2023, the Company recognized a contract liability of $927,201, included in accounts payable and accrued liabilities, pertaining to potential customer returns (December 31, 2022 - $565,781). During the ended December 31, 2023, actual returns amounted to $904,144 (December 31, 2022 - $636,320) recorded net of revenue in the consolidated statements of loss and comprehensive loss.

b) Trade and other receivables

As at December 31,		2023		2022
Gross trade receivables	**$**	**3,230,985**	$	4,206,662
Less: allowance for expected credit losses		**307,906**		414,004
Net trade receivables		**2,923,079**		3,792,658
Other receivables		**778,795**		232,836
Total	**$**	**3,701,874**	$	4,025,494

The ageing of outstanding trade receivables as at December 31, 2023 and 2022 are detailed as below:

As at December 31,		2023		2022
0-30 days	**$**	**1,040,601**	$	3,159,328
30-60 days		**1,881,667**		156,537
90 days and above		**308,717**		890,797
Total	**$**	**3,230,985**	$	4,206,662

Trade receivables are from sale of cannabis sold directly to medical patients ("Medical"), wholesale of finished products to provinces and provincially regulated distributors ("Adult Use"), and wholesale of bulk to other Licensed Producers and Provincially regulated distributors ("Bulk").

Trade receivables for Medical are mostly paid upfront or settled by Insurance providers through direct billing, Adult Use receivables are generally received within 90 days of sale from the provincial boards or licensed distributors and Bulk receivables are outstanding as at period end but do not exceed aging above 30 days. Other receivables largely represents recivable from insurance companies to settle amounts due related to medical sales. Any amounts due from insurance companies were collected subsequent to December 31, 2023 and 2022.

As at December 31, 2023, the Company recorded expected credit losses of $307,906 (December 31, 2022- $414,004) towards trade receivables and $Nil (December 31, 2022- $89,579) towards other receivables.

21. Related Party Transactions

The Company's related parties include senior management and all directors. Transactions with related parties include salaries, share based compensation and service fees.

The amounts due to related parties are recorded at the exchange amounts as agreed upon by the related parties under contracts signed with them, non-interest bearing, unsecured and have no fixed repayment terms, other than the loans and borrowing with LPF (Note 9). LPF is a significant shareholder of the Company.

As at December 31, 2023 and 2022, the amounts due to related parties are as follows:

As at December 31,		**2023**		2022
Accounts payable and accrued liabilities	**$**	**64,975**	$	—

For the year ended December 31, 2023 and 2022, amounts expensed pertaining to the key management personnel are as follows:

For the years ended December 31,		**2023**		2022
Salaries and bonus	**$**	**1,492,205**	$	2,231,706
Share based Compensation		**71,801**		481,501
Directors fee		**520,000**		401,511
Other compensation		**694,623**		120,311
Total	**$**	**2,778,629**	$	3,235,029

During the year ended December 31, 2023, no stock options were issued to related parties, 7,050,000 DSUs were granted to related parties with a fair value of $141,364 and 5,100,000 PSUs were granted to related parties with a fair value of $Nil.

During the year ended December 31, 2022, 50,000 stock options were issued with fair value of $3,172. 10,883,650 DSUs were granted to related parties with a fair value of $470,192.

During the year ended December 31, 2023, the Company issued 743,460 common shares with a fair value of $22,304 to settle outstanding balances with certain related parties (Note 10).

22. Commitments and Contingencies

Commitments

On November 15, 2022, the Company entered into a long-term supply agreement with Hexo Operations Inc. ("Hexo"). On July 1, 2023, the agreement was amended. The agreement for the supply of cannabis products has an initial term of four years, expiring on February 15, 2027. The supply agreement requires the Company to purchase a minimum quantity of product (the "Annual Minimum Amount") from the supplier during each 12-month period for which the contract is in effect for. Should the Company not purchase the minimum quantity (within a 5% margin) during any 12-month period under the supply agreement then the Company shall be obligated to pay a non-completion fee equal to the purchase commitment short-fall multiplied by the purchase price per unit. At the end of the initial term the Company can exercise an option to renew the supply agreement for an additional three (3) year term. As the Company has purchased more than the annual minimum purchase commitment for the first contract year in 2023, the Company is not subject to any non-completion fee and therefore does not have a provision or a contingent liability to recognize as at December 31, 2023.

In the ordinary course of business, the Company enters into various supply agreements with third party vendors. These contracts contain general provisions related to contract terminations, none of which indicates any financial implication in terms of payout to the vendors.

Contingencies

On July 2, 2021, Pioneer, an investee of the Company, commenced legal proceedings against a former licensee of Pioneer (the “Retailer”) to seek, among other things, damages in the amount of $1,235,292 in relation to a promissory note for development loan. On November 22, 2021, Pioneer received a counterclaim from the Retailer, amounting to $1,000,000 for, among other things, breach of contract, misrepresentation, and breach of franchise disclosure obligations. A mediator and an arbitrator have been selected; however, the timing of the dispute resolution is still to be determined as the parties are proceeding through the discovery stage. As at December 31, 2023, there have been no further updates to the proceedings. The Company believes that the outcome of this claim and counterclaim will not have any material effect on its consolidated financial statements.

On January 26, 2023, the Company was served with a statement of claim, as co-defendant with the Retailer, by the Retailer’s landlord, Desjardins Financial Security Life Assurance Company. The claim is for damages resulting from the Retailer’s abandonment of the leased premises and failure to pay rent and an indemnity agreement signed among the landlord, the Company and the Retailer upon the Retailer entering into a lease for the premises, and is in an amount of $1,500,000. The Company filed its statement of defence and a crossclaim against the Retailer on April 21, 2023. The damages claimed in the statement of claim are subject to the landlord’s recourse to the retailer, and accordingly the Company believes that the outcome of this claim and counterclaim will not have any material effect on its consolidated financial statements. As a result, no amount has been accrued in the consolidated financial statements for this claim as at December 31, 2023.

23. Financial Instruments

Transactions in financial instruments may result in an entity assuming or transferring to another party one or more of the financial risks described below. The required disclosures provide information that assists users of financial statements in assessing the extent of risk related to financial instruments.

(a) Fair value

Fair value measurement is disaggregated into three hierarchical levels: Level 1, 2 or 3. Fair value hierarchical levels are directly based on the degree to which the inputs to the fair value measurement are observable. The levels are as follows:

Level 1 – Inputs are unadjusted, quoted prices in active markets for identical assets or liabilities at the measurement date.

Level 2 – Inputs (other than quoted prices included in Level 1) are either directly or indirectly observable for the asset or liability through correlation with market data at the measurement date and for the duration of the asset or liability’s anticipated life.

Level 3 – Inputs are unobservable and reflect management’s best estimate of what market participants would use in pricing the asset or liability at the measurement date. Consideration is given to the risk inherent in the valuation technique and the risk inherent in the inputs in determining the estimate.

There are no financial instruments measured at fair value as at December 31, 2023 and 2022.

The carrying values of cash, restricted cash, trade and other receivables, accounts payable and accrued liabilities, and current portion of loan and borrowings approximate their fair values because of the short-term nature of these financial instruments. Loans and borrowings and unsecured convertible debentures are recorded at amortized cost. The carrying value of loans and borrowings as at December 31, 2023 approximate their fair value as the loans and borrowing mature within twelve months from the balance sheet date. Refer to Note 9 for the principal balance outstanding under the Subordinated and Senior Credit Facilities.

(b) Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations.

The Company is exposed to credit risk on its trade receivables which has a balance of $2,923,079 (December 31, 2022: $3,792,658).

As at December 31, 2023, 85% (December 31, 2022: 83%) of the Company's trade receivables balance, is owing from 3 customers (December 31, 2022: 3 customer), each representing more than 10% of trade receivables.

Cash is generally invested in cash accounts held in Canadian chartered banks. As at December 31, 2023, restricted cash was held as collateral to repay any outstanding balances related to the Company's credit cards. Management believes the risk of loss associated with these assets to be remote. Management believes that the credit risk concentration with respect to financial instruments included in assets has been reduced to the extent presently practicable.

The definition of items that are past due is determined by reference to payment terms agreed to with individual customers, which are normally within 0 to 90 days. Credit risk is low as receivables are from government bodies and insurance agencies which generally have a low default risk. Credit risk for non-government wholesale customers is assessed on a case-by-case basis and represents 9% of trade receivables and comprises of 14% of the revenue of the Company as at December 31, 2023. Management expects credit risk to be minimal and has recorded an allowance for expected credit loss to cover any exposure.

(c) Foreign exchange risk

The Company is exposed to foreign exchange risk in United States dollars. Foreign exchange risk is the risk that the exchange rate that was in effect on the date that an obligation in a foreign currency was made to the Company by a customer or lender, or that an obligation in a foreign currency was made by the Company to a supplier or partner, is different at the time of settlement than it was at the time that the obligation was determined. The Company reduces its exposure to foreign exchange risk by carefully monitoring exchange rates on obligations that are made to the Company. The Company did not have any hedges at the time that the financial statements were issued. The Company does not utilize financial instruments to manage its foreign exchange risk.

(d) Liquidity risk

Liquidity risk is the risk that the Company cannot repay its obligations when they become due to its creditors. The Company manages its exposure to liquidity risk by ensuring that it documents when authorized payments become due and actively manages its working capital to repay trade creditors as they become due.

The Company has total current liabilities of $172,314,750 (December 31, 2022: $141,878,963) with cash on hand of $11,153,632 (December 31, 2022: $9,075,257).

As at December 31, 2023, the Company was in breach of certain financial covenants and obligations under its credit facilities with LPF. The Company has received forbearance letters from LPF noting the Company is in default of the credit facilities and temporarily waiving the Company's breaches until May 3, 2024, subject to the satisfaction or waiver of certain conditions. The Company is working collaboratively with LPF to reach an agreement on the terms of a new forbearance letter; however, there are no assurances as to the timeline LPF will grant the Company in waiving the covenant breach.

The contractual maturities of all liabilities and lease obligations as at December 31, 2023 is as follows:

	2024 (Year 1)	2025 (Year 2)	2026 (Year 3)	2027 (Year 4)	2028 and later	TOTAL
Lease liabilities	$ 134,019	$ 126,962	$ 129,543	$ 132,125	$ 283,453	$ 806,102
Loans and borrowings	181,510,901	621,000	5,284,625	—	—	187,416,526
Unsecured convertible debentures	91,175	1,104,225	—	—	—	1,195,400
Accounts payables and accrued liabilities	17,105,722	—	—	—	—	17,105,722
Total	**$ 198,841,817**	**$ 1,852,187**	**$ 5,414,168**	**$ 132,125**	**$ 283,453**	**$ 206,523,750**

The contractual maturities of all liabilities and lease obligations as at December 31, 2022 is as follows:

	2023 (Year 2)	2024 (Year 3)	2025 (Year 4)	2026 and later	2027 and later	TOTAL
Lease liabilities	$ 332,477	$ 134,019	$ 126,962	$ 129,544	$ 415,578	$ 1,138,580
Loans and borrowings	25,499,354	310,500	145,035,514	5,284,625	—	176,129,993
Unsecured convertible debentures	91,175	91,175	1,104,225	—	—	1,286,575
Other commitments	9,833	6,051	550	—	—	16,434
Accounts payables and accrued liabilities	13,170,713	—	—	—	—	13,170,713
Total	**$ 39,103,552**	**$ 541,745**	**$ 146,267,251**	**$ 5,414,169**	**$ 415,578**	**$ 191,742,295**

(e) Cash flow risk

Cash flow risk is the risk that future cash flows associated with a monetary financial instrument will fluctuate in amount, such as a debt instrument held with a floating interest rate, or investments. Floating rate debt exposes the Company to fluctuations in cash flows and net earnings due to changes in market interest rates. In the opinion of management, the cash flow risk exposure to the Company is low.

(f) Concentration Risk

Eighty-nine percent (2022: 88%) of medical revenue is comprised of orders from members of affiliates of LPF (Note 21).

24. Capital Management

The Company includes shareholders' deficiency, comprised of common shares, warrants reserve, conversion feature, contributed surplus and accumulated deficit, in the definition of capital. The Company's objectives when managing capital are as follows:

(i) To safeguard the Company's assets and ensure the Company's ability to continue as a going concern; and

(ii) To raise sufficient capital to achieve the ongoing business objectives including funding of future growth opportunities and meeting its general administrative expenditures.

The Company manages its capital structure and makes adjustments to it, based on general economic conditions, the Company's short-term working capital requirements, and its planned capital requirements and strategic growth initiatives.

The Company's principal source of capital is from the issuance of common shares. In order to achieve its objectives, the Company expects to spend its working capital, when applicable, and raise additional funds as required.

25. Other Income

During the year ended December 31, 2023, other income of $1,568,026 mainly consists of $1,500,000 proceeds from insurance claims received during the year related to the Strathroy Facility.

26. Subsequent Events

The Company's management has evaluated subsequent events up to April 29, 2024, the date the consolidated financial statements were issued and determined the following events:

On January 30, 2024, the Company granted 131,507 DSUs to a former director of the Company based on the fair value of the services provided prior to the termination of directorship. The DSUs will vest one year after the grant date and will expire on December 31, 2025.

On March 31, 2024, the Company granted 1,200,000 DSUs to directors of the Company based on the fair value of the services provided. The DSUs will vest one year after the grant date and will expire on December 31, 2025.

Subsequent to the year ended December 31, 2023, the Company received forbearance letters from LPF waiving the Company's breached covenants and non-payment of principal and interest until May 3, 2024 (Note 9(b)).