

LEEF BRANDS, INC.

Reviewed Financial Statements

**As of June 30, 2025 and December 31, 2024 and for the six
months ended June 30, 2025 and 2024**

TABLE OF CONTENTS

<u>Consolidated Balance Sheets – As of June 30, 2025 (unaudited) and December 31, 2024 (Audited)</u>	3
<u>Consolidated Statements of Operations and Comprehensive Income (Loss) – For the six months ended June 30, 2025, and 2024 (Unaudited)</u>	4
<u>Consolidated Statements of Changes in Stockholders' Equity (Deficit) for the six months ended June 30, 2025, and 2024 (Unaudited)</u>	5
<u>Consolidated Statements of Cash Flows for the six months ended June 30, 2025, and 2024 (Unaudited)</u>	6
<u>Notes to Consolidated Financial Statements</u>	8

LEEF BRANDS, INC.
CONSOLIDATED BALANCE SHEETS

	June 30, 2025	December 31, 2024
	(Unaudited)	(Audited)
ASSETS		
Current assets		
Cash	\$ 887,891	\$ 2,731,979
Accounts receivable, net	2,217,770	2,394,542
Inventory	4,346,475	4,222,917
Prepaid and deposits	1,135,672	621,527
Deferred costs and other current assets	505,277	507,186
Total current assets	<u>9,093,085</u>	<u>10,478,151</u>
Non-current assets		
Property and equipment, net	25,975,460	26,042,616
Right of use assets, net	1,978,458	2,439,888
Intangible assets, net	2,458,151	2,232,153
Assets held for sale	1,445,483	1,445,483
Other assets	<u>321,091</u>	<u>338,685</u>
Total assets	<u>\$ 41,271,728</u>	<u>\$ 42,976,976</u>
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)		
Current liabilities		
Accounts payable and other accrued liabilities	\$ 6,937,887	\$ 6,613,793
Holdback liability	-	935,618
Related party payables	2,981,619	1,488,866
Current portion of notes payable	1,798,783	1,337,490
Current portion of consideration payable	500,000	500,000
Lease liabilities, short term	309,608	302,736
Tax payable	14,004,665	12,836,039
Total current liabilities	<u>26,532,562</u>	<u>24,014,542</u>
Non-current liabilities		
Lease liabilities, net of current portion	1,852,189	2,282,743
Notes payable, net of current	9,813,676	9,246,547
Convertible debentures, net of current and discount	10,369,541	9,976,000
Derivative liabilities, long term	4,902,786	9,007,907
Deferred tax liability	<u>883,181</u>	<u>883,181</u>
Total liabilities	<u>54,353,935</u>	<u>55,410,920</u>
Stockholders' equity (deficit)		
Common stock; no par value; unlimited shares authorized; 175,442,330 and 172,984,299 shares issued and outstanding as of June 30, 2025, and December 31, 2024, respectively	-	-
Additional paid-in capital	111,669,530	109,650,027
Accumulated other comprehensive loss	(336,879)	(336,536)
Accumulated deficit	(124,414,858)	(121,747,435)
Total stockholders' deficit	<u>(13,082,207)</u>	<u>(12,433,944)</u>
Total liabilities and stockholders' equity (deficit)	<u>\$ 41,271,728</u>	<u>\$ 42,976,976</u>

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

LEEF BRANDS, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)
(Unaudited)

	For the three months ended		For the six months ended	
	June 30, 2025	June 30, 2024	June 30, 2025	June 30, 2024
Net revenue	\$ 8,691,656	\$ 7,916,653	\$ 18,089,918	\$ 15,742,000
Cost of sales	6,595,481	5,226,760	13,507,145	9,928,058
Gross profit	2,096,175	2,689,893	4,582,773	5,813,942
Operating expenses				
Advertising and promotion	62,061	111,943	201,224	245,841
Depreciation and amortization	569,278	409,067	1,104,515	835,548
Wages and salaries	1,943,497	1,226,217	3,824,256	2,212,994
Office and general expenses	840,023	432,500	1,694,871	794,618
License and compliance	248,035	37,081	375,936	72,327
Research and development expenses	10,570	11,144	19,198	12,971
Legal and professional fees	338,269	326,164	826,207	557,545
Insurance expenses	121,780	104,100	221,352	221,682
Excise and other taxes	59,142	73,414	107,580	100,036
Lease expenses	183,333	170,936	341,735	332,436
Other losses	-	(25,093)	-	(17,281)
Travel and business development	93,346	128,750	146,603	183,977
Total operating expenses	4,469,334	3,006,223	8,863,477	5,552,694
Income (loss) from operations	(2,373,159)	(316,330)	(4,280,704)	261,248
Other (income) expense				
Interest expense	579,387	2,658,175	1,171,889	4,125,387
Loss on extinguishment of debt	-	2,883,245	-	2,883,245
Change in fair value derivative liability	(566,681)	(1,147,371)	(4,105,121)	(259,391)
Other expense	(60,557)	-	(9,053)	-
Total other (income) expense	(47,851)	4,394,049	(2,942,285)	6,749,241
Net income (loss) before provision for income taxes	\$ (2,325,308)	\$ (4,710,379)	\$ (1,338,419)	\$ (6,489,993)
Provision for income taxes	607,891	829,093	1,329,004	1,761,309
Net income (loss) and comprehensive income (loss)	\$ (2,933,199)	\$ (5,539,472)	\$ (2,667,423)	\$ (8,249,302)
Foreign currency translation	343	(205,292)	343	(151,794)
Net income (loss) and comprehensive income (loss) attributable to shareholders of Leef Brands, Inc.	\$ (2,933,542)	\$ (5,334,180)	\$ (2,667,766)	\$ (8,097,508)
Earnings (loss) per common share - basic and diluted	<u>\$ (0.02)</u>	<u>\$ (0.04)</u>	<u>\$ (0.02)</u>	<u>\$ (0.06)</u>
Weighted average common shares outstanding - basic and diluted	<u>175,442,331</u>	<u>133,009,072</u>	<u>175,085,129</u>	<u>126,128,494</u>

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

LEEF BRANDS, INC.
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (DEFICIT)
For the Six Months Ended June 30, 2025 and 2024
(Unaudited)

Activity for the Six Months Ended June 30, 2025

	Common Stock		Additional	Accumulated	Accumulated	Total equity	Non-	Total
	Shares	Amount	Paid-In	Deficit	Other	attributable to	controlling	Stockholders'
			Capital		Comprehensive	of Leef	Interest	Equity
					Income	Brands, Inc.		
Balance, December 31, 2024	172,984,299	\$ -	\$109,650,027	\$(121,747,435)	\$ (336,536)	\$ (12,433,944)	\$ -	\$ (12,433,944)
Net income	-	-	-	(2,667,423)	-	(2,667,423)	-	(2,667,423)
Common shares issued for services	600,000	-	100,000	-	-	100,000	-	100,000
Common shares issued for earnout consideration	1,858,031	-	935,618	-	-	935,618	-	935,618
Foreign currency translation	-	-	-	-	(343)	(343)	-	(343)
Stock compensation expense	-	-	518,297	-	-	518,297	-	518,297
Equity based compensation for restricted stock unit grants	-	-	465,588	-	-	465,588	-	465,588
Balance, June 30, 2025	<u>175,442,330</u>	<u>\$ -</u>	<u>\$111,669,530</u>	<u>\$(124,414,858)</u>	<u>\$ (336,879)</u>	<u>\$ (13,082,207)</u>	<u>\$ -</u>	<u>\$ (13,082,207)</u>

Activity for the Six Months Ended June 30, 2024

	Common Stock		Additional	Accumulated	Accumulated	Total equity	Non-	Total
	Shares	Amount	Paid-In	Deficit	Other	attributable to	controlling	Stockholders'
			Capital		Comprehensive	of Leef	Interest	Equity
					Income	Brands, Inc.		
Balance, December 31, 2023	118,380,930	\$ -	\$ 94,667,939	\$(97,125,921)	\$ (343,850)	\$ (2,801,832)	\$3,649,490	\$ 847,657
Net loss	-	-	-	(8,249,302)	-	(8,249,302)	-	(8,249,302)
Common shares issued for cash	2,161,558	-	429,133	-	-	429,133	-	429,133
Common shares issued for services	1,500,000	-	333,333	-	-	333,333	-	333,333
Foreign currency translation	-	-	-	-	(151,794)	(151,794)	-	(151,794)
Common shares issued for conversion of notes payable and debentures	22,395,498	-	7,083,853	-	-	7,083,853	-	7,083,853
Stock compensation expense	-	-	351,964	-	-	351,964	-	351,964
Equity based compensation for restricted stock unit grants	-	-	57,500	-	-	57,500	-	57,500
Balance, June 30, 2024	<u>144,438,436</u>	<u>\$ -</u>	<u>\$102,923,722</u>	<u>\$105,375,223</u>	<u>\$ (495,644)</u>	<u>\$ (2,947,145)</u>	<u>\$3,649,489</u>	<u>\$ 702,344</u>

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

LEEF BRANDS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	For the six months ended	
	June 30, 2025	June 30, 2024
Cash Flows from Operating Activities		
Net income (loss) and comprehensive income (loss)	\$ (2,667,423)	\$ (8,429,302)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	1,104,515	835,548
Share based compensation	1,083,885	742,797
Lease cost, net of repayment	37,749	43,738
Amortization and extinguishment of debt discounts	498,912	5,834,114
Loss (gain) on crypto assets	(40,337)	-
Change in fair value of derivative liability	(4,105,121)	(259,391)
Loss on extinguishment of convertible debentures	-	2,935,028
Changes in operating assets and liabilities		
Accounts receivable, net	176,772	(1,178,201)
Prepaid expenses and deposits	(514,145)	(306,949)
Inventory	(173,981)	(434,153)
Other assets	19,502	-
Accounts payable and accrued liabilities	885,135	(1,606,000)
Related party payables	492,523	43,538
Tax payable	1,168,626	1,761,309
Net cash provided by (used in) operating activities	<u>(2,033,388)</u>	<u>162,076</u>
Cash Flows from Investing Activities		
Equipment purchase	(487,880)	(3,263,968)
Investment in intangible asset	(300,000)	-
Proceeds from sale of crypto currency	403,622	-
Net cash used in investing activities	<u>(384,258)</u>	<u>(3,263,968)</u>
Cash Flows from Financing Activities		
Issuance of common shares	-	429,133
Proceeds from issuance of notes-related party	749,630	-
Repayment of notes	(165,729)	(52,889)
Cash repayments to related party note payable	(10,000)	-
Loan advances to a third party	-	(541,781)
Net cash provided by financing activities	<u>573,901</u>	<u>(165,537)</u>
Net decrease in Cash	(1,843,745)	(3,267,429)
Effect of foreign exchange translation	(343)	(151,794)
Cash, beginning of period	<u>2,731,979</u>	<u>6,414,587</u>
Cash, end of period	<u>\$ 887,891</u>	<u>\$ 2,995,364</u>
Supplemental disclosure of cash flow information		
Cash paid for interest	<u>\$ 43,204</u>	<u>\$ 20,900</u>
Cash paid for income tax	<u>\$ -</u>	<u>\$ -</u>

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

LEEF BRANDS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)
(Unaudited)

Non-cash investing and financing transactions		
Financed equipment	\$ 433,112	\$ -
Shares issued for earnout consideration	\$ 935,618	\$ -
Non-cash note repayment	\$ 50,423	\$ -
Reclass of accrued interest	\$ 67,500	\$ -
Related party note issued in exchange for crypto currency	\$ 405,650	\$ -
Related party note additions	\$ 245,050	\$ -
Sale of note payable to related party	-	\$ 472,000
Conversion of convertible debentures and notes payable	<u>\$ -</u>	<u>\$ 7,083,852</u>

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

LEEF BRANDS, INC.
Notes to the Consolidated Financial Statements
For the six months ended June 30, 2025

1. Nature and Continuance of Operations

Leef Brands Inc. (the “Company”) (Formerly Icanic Brands Company Inc.) was incorporated on September 15, 2011, under the laws of the province of British Columbia and is registered extra-provincially under the laws of Ontario. The Company is a cannabis branded products manufacturer based in California. The Company is a public company whose common shares are listed for trading on the Canadian Securities Exchange (“CSE”) under the symbol “LEEF” which became effective December 7, 2022. The head office of the Company is located at Suite 2500 Park Place, 666 Burrard Street, Vancouver, BC V6C 2X8.

These consolidated financial statements have been prepared on a going concern basis, which contemplates continuity of normal business activities and the realization of assets and discharge of liabilities in the normal course of business. As of June 30, 2025, the Company has yet to generate a positive net income. The Company is actively seeking additional sources of financing. In assessing whether the going concern assumption is appropriate, management takes into account all available information about the future, which is at least, but not limited to, within one year of the issuance of the financial statements. Management is aware, in making its assessment, of uncertainties related to events or conditions that may cast substantial doubt upon the entity’s ability to continue as a going concern that these uncertainties are material and, therefore, that it may be unable to realize its assets and discharge its liabilities in the normal course of business. Accordingly, they do not give effect to adjustments that would be necessary should the Company be unable to continue as a going concern and therefore to realize its assets and discharge its liabilities and commitments in other than the normal course of business and at amounts different from those in the accompanying consolidated financial statements. See liquidity section of “*Note 2 – Basis of Presentation*” for further discussion on liquidity needs.

Reverse recapitalization

On April 20, 2022, the Company acquired all of the common stock of LEEF Holdings, Inc. (“LEEF”) pursuant to a merger agreement dated January 21, 2022, among the Company, its wholly-owned subsidiary, Icanic Merger Sub, Inc. and LEEF. The Company issued common shares, which at the time were subject to a contractual hold period in accordance with the terms of the merger agreement, with an initial one-eighth of the shares received to be released on the one-year anniversary of closing and the remaining shares to be released in equal one-eighth installments every three months thereafter.

Share Consolidation Plan

On October 29, 2024, the Company announced a 10:1 share consolidation plan. The Consolidation has consolidated the Company’s issued and outstanding common shares based on ten pre-consolidation shares for one post-consolidation share. The Consolidation aims to improve the Company’s capital structure, increase its attractiveness to institutional investors, and provide a more stable trading platform. Upon completion of the Consolidation, the Company had approximately 162,762,651 common shares issued and outstanding, subject to rounding adjustments. The Consolidation took effect November 18, 2024. Accordingly, all periods presented have been adjusted retroactively to reflect the 10:1 share consolidation plan.

2. Basis of Presentation

Statement of compliance

These consolidated financial statements have been prepared by management in accordance with accounting principles generally accepted in the United States of America (“GAAP”). The policies set out below have been consistently applied to all periods presented unless otherwise noted.

2. Basis of Presentation (continued)

Liquidity and going concern

Historically, the Company's primary source of liquidity has been its operations, capital contributions made by equity investors and debt issuances. The Company is currently meeting its current operational obligations as they become due from its current working capital and from operations. However, the Company has sustained losses since inception and may require additional capital in the future. As of and for the six months ended June 30, 2025, the Company had an accumulated deficit of \$124,414,858, a net loss and comprehensive loss attributable to the Company of \$2,667,766, and net cash used in operating activities of \$2,033,388. Such uncertainties related to events and conditions raise substantial doubt about the Company's ability to continue as a going concern.

The Company is generating cash from revenues and deploying its capital reserves to acquire and develop assets capable of producing additional revenues and earnings over both the immediate and near term. Capital reserves are primarily being utilized for capital expenditures, facility improvements, product development and marketing.

Liquidity risk is the risk that the Company will not be able to meet its financial obligations associated with financial liabilities. The Company manages liquidity risk through the management of its capital structure. The Company's approach to managing liquidity is to ensure that it will have sufficient liquidity to settle obligations and liabilities when due.

Basis of presentation and measurement

These consolidated financial statements have been prepared on a historical cost basis except for derivative financial instruments, which are measured at fair value through earnings, as explained in the accounting policies below. Historical costs are generally based upon the fair value of the consideration given in exchange for goods and services. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Company takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date.

Functional currency

All figures presented in the consolidated financial statements are reflected in United States dollars; however, the functional currency of the Company includes Canadian dollars and United States dollars. The Company's subsidiaries functional currency is the United States dollar.

Transactions in foreign currencies are initially recorded in the Company's functional currency at the exchange rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange at the end of each reporting period. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when fair value is determined.

All gains and losses on translation of these foreign currency transactions are included in earnings.

On consolidation, the assets and liabilities of foreign operations reported in their functional currencies are translated into United States dollars, the Company's presentation currency, at period-end exchange rates. Income and expenses, and cash flows of foreign operations are translated into United States dollars using average exchange rates. Exchange differences resulting from translating foreign operations are recognized in accumulated other comprehensive loss.

2. Basis of Presentation (continued)

Basis of consolidation

These consolidated financial statements as of June 30, 2025 and December 31, 2024 include the accounts of the Company, its wholly-owned subsidiaries. Subsidiaries are entities controlled by the Company. Control exists when the Company has the power, directly and indirectly, to govern the financial and operating policies of an entity and be exposed to the variable returns from its activities. The financial statements of subsidiaries are included in the condensed interim consolidated financial statements from the date that control commences until the date that control ceases.

The following is a list of the Company's wholly-owned and partially owned operating subsidiaries:

Name of Consolidated Subsidiary or Entity	Purpose	Jurisdiction	Attributable Interest
Aya Biosciences, Inc.	(1) Pharmaceutical	US	100%
Anderson Development SB, LLC.	Cultivation	US	100%
Paleo Paw Corp.	CBD Wellness	US	100%
Payne Distribution, LLC.	Distribution	US	100%
LEEF Brands, Inc.	Holding Company	Canada	100%
LEEF Holdings, Inc.	Holding Company	US	100%
Preferred Brand LLC.	Manufacturing	US	100%
Seven Zero Seven, LLC.	Manufacturing	US	100%
LEEF Management, LLC.	Payroll	US	100%
1127466 B.C. Ltd.	Real Estate	Canada	100%
1200665 B.C. Ltd.	Real Estate	Canada	100%
SCRCB, LLC.	Cultivation	US	100%
The Leaf at 73740, LLC.	Dispensary	US	100%
Green Cross Nevada LLC.	Manufacturing	US	100%
V6E Holdings, LLC.	Manufacturing	US	100%
LEEF Labs NY LLC.	Manufacturing	US	100%
LEEF Labs NJ, LLC.	Manufacturing	US	100%
Eaton Processing LLC	Manufacturing	US	100%

(1) As of June 30, 2025, the Company owned a 100% interest in Aya Biosciences, Inc. As of June 30, 2024, the Company owned a 55.65% interest in Aya Biosciences, Inc.

All inter-company transactions and balances have been eliminated in the consolidated financial statement presentation.

Recently Adopted Accounting Standards

ASU 2023-07

In November 2023, the FASB issued ASU 2023-07, Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures, which is intended to improve the financial reporting by requiring disclosure of incremental segment information on an annual and interim basis for all public entities. The Company adopted ASU 2023-07 beginning with its 2024 annual report.

ASU 2023-08

In December 2023, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2023-08, Intangibles—Goodwill and Other—Crypto Assets (Subtopic 350-60): Accounting for and Disclosure of Crypto Assets. The ASU requires that crypto assets meeting certain criteria be measured at fair value, with changes in fair value recognized in net income each reporting period. The Company adopted ASU 2023-08 effective January 1, 2024, on a prospective basis.

2. Basis of Presentation (continued)

Upon adoption, crypto assets are measured at fair value, with changes in fair value recorded within other income (expense) in the consolidated statements of operations. Adoption of this standard did not result in a cumulative-effect adjustment to the opening balance of retained earnings as of the adoption date. Disclosures required by the ASU, including information about significant crypto asset holdings and changes therein, have been included in Note 7 – Intangible Asset to the consolidated financial statements.

ASU 2023-09

In December 2023, the FASB issued ASU No. 2023-09, Income Taxes (Topic 740): Improvements to Income Tax Disclosures, which is intended to provide enhancements to annual income tax disclosures. The standard will require more detailed information in the rate reconciliation table and for income taxes paid, among other enhancements. The standard is effective for years beginning after December 15, 2024 and early adoption is permitted. The adoption of this standard is not expected to have a material impact on the Company's consolidated financial statements.

3. Significant Accounting Policies

The preparation of the consolidated financial statements requires that the Company's management make judgments and estimates of effects of uncertain future events on the carrying amounts of the Company's assets and liabilities at the end of the reporting period. Actual future outcomes could differ from present estimates and judgments, potentially having material future effects on the Company's consolidated financial statements. Estimates are reviewed on an ongoing basis and are based on historical experience and other facts and circumstances. Revisions to estimates and the resulting effects on the carrying amounts of the Company's assets and liabilities are accounted for prospectively.

The significant accounting policies used by the Company are as follows:

Accounts receivable

Accounts receivable are recognized initially at fair value and subsequently measured at amortized cost, less any provisions for impairment. Financial assets measured at amortized cost are assessed for impairment at the end of each reporting period. Impairment provisions are estimated using the expected credit loss impairment model where any expected future credit losses are provided for, irrespective of whether a loss event has occurred at the reporting date. Estimates of expected credit losses take into account the Company's collection history, deterioration of collection rates during the average credit period, as well as observable changes in and forecasts of future economic conditions that affect default risk. Where applicable, the carrying amount of a trade receivable is reduced for any expected credit losses through the use of an allowance for doubtful accounts ("AFDA") provision. Changes in the AFDA provision are recognized in the consolidated statement of operations and comprehensive income (loss). When the Company determines that no recovery of the amount owing is possible, the amount is deemed irrecoverable and the financial asset is written off. As of June 30, 2025 the Company recorded an allowance for doubtful accounts of \$1,163,552 (December 31, 2024 - \$1,144,531).

Inventory

Inventory is valued at the lower of cost and net realizable value. The Company's inventory is comprised of cannabis related products and derivatives. The cost of inventory is calculated using the weighted average method and comprises all costs of purchase necessary to bring the goods to sale. Net realizable value represents the estimated selling price for products sold in the ordinary course of business less the estimated costs necessary to make the sale. Cost of cannabis biomass is comprised of initial third-party acquisition costs, plus analytical testing costs. Costs of extracted cannabis oil inventory are comprised of initial acquisition cost of the biomass and all direct and indirect processing costs including labor related costs, consumables, materials, packaging supplies and analytical testing costs. Packaging and supplies are initially valued at cost and subsequently at the lower of cost and net realizable value.

3. Significant Accounting Policies (continued)

Management uses the most reliable evidence available in determining the net realizable value of inventories. Actual selling prices may differ from estimates, based on market conditions at the time of sale. Allowances are made against obsolete or damaged inventory and charged to cost of sales. As of June 30, 2025 and December 31, 2024, the Company recorded a reserve inventory in the amount of \$108,111 and \$143,115, respectively.

Financial instruments

The Company applies fair value accounting for all financial assets and liabilities that are recognized or disclosed at fair value in the financial statements on a recurring basis. Fair value is defined as the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining the fair value measurements for assets and liabilities that are required to be recorded at fair value, the Company considers all related factors of the asset by market participants in which the Company would transact and the market-based risk measurements or assumptions that market participants would use in pricing the asset or liability, such as inherent risk, transfer restrictions, and credit risk.

The Company applies the following fair value hierarchy, which prioritizes the inputs used to measure fair value into three levels, and bases the categorization within the hierarchy upon the lowest level of input that is available and significant to the fair value measurement:

- Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 – Inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly; and
- Level 3 – Inputs for the asset or liability that are not based on observable market data.

For further details, see Note 15 – Financial Instruments and Financial Risk Management

Property and equipment

The Company records property and equipment at cost less accumulated amortization and accumulated impairment losses. It recognizes amortization to write off the cost of assets less their residual values over their useful lives. The depreciation rates applicable to each category of property and equipment are as follows:

Buildings	15 – 20 years
Office furniture and software	3 – 5 years
Machinery and equipment	10 years
Vehicles	8 years
Construction in progress	Not depreciated
Leasehold improvements	Shorter of lease term or economic life

An item of property and equipment is de-recognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on disposal of the asset, determined as the difference between the net disposal proceeds and the carrying amount of the asset, is recognized in income (loss) from operations. Where an item of property and equipment and deferred costs consist of major components with different useful lives, the components are accounted for as separate items of property and equipment and deferred expenditures. Expenditures incurred to replace a component of an item of property and equipment that is accounted for separately, including major inspection and overhaul expenditures, are capitalized.

Goodwill

Goodwill represents the excess of the purchase price paid for the acquisition of an entity over the fair value of the net tangible and intangible assets acquired. Goodwill is allocated to the reporting unit or group of reporting units which are expected to benefit from the synergies of the combination. Goodwill is not subject to amortization.

3. Significant Accounting Policies (continued)

The goodwill balance is assessed for impairment annually or when facts and circumstances indicate that it is impaired. Goodwill is tested for impairment at a reporting unit level by comparing the carrying value to the recoverable amount, which is determined as the fair value less costs of disposal. Any excess of the carrying amount over the recoverable amount is the impaired amount. The recoverable amount estimates are categorized as Level 3 according to the fair value hierarchy. Impairment charges are recognized in the consolidated statements of operations and comprehensive income (loss). Goodwill is reported at cost less any accumulated impairment. Goodwill impairments are not reversed. As of December 31, 2024, the Company determined that its remaining goodwill balance of \$1,567,485 was fully impaired.

Intangible assets

The Company's intangible assets consist of trademarks and licenses. Intangible assets acquired are measured on initial recognition at cost, while the cost of intangible assets acquired in a business combination is initially recorded at their fair values as at the date of acquisition. It recognizes amortization to write off the cost of assets less their residual values over their useful lives, using certain methods and rates. The intangible assets as of June 30, 2025 and December 31, 2024 were a trademark and license which have been determined to have a 10-year useful life.

An intangible asset is derecognized on disposal or when no future economic benefits are expected from use or disposal. Any gain or loss arising from the derecognition of an intangible asset is measured as the difference between the net disposal proceeds and the carrying amount of the asset and is recognized in income (loss) from operations. Following initial recognition, intangible assets with indefinite useful lives are carried at cost less accumulated amortization and any accumulated impairment losses.

Digital assets

Effective January 1, 2024, the Company adopted ASU 2023-08, *Intangibles—Goodwill and Other—Crypto Assets (Subtopic 350-60): Accounting for and Disclosure of Crypto Assets*. Crypto assets are initially recorded at cost, including any transaction fees. This update requires entities to subsequently measure certain crypto assets at fair value, with changes in fair value recognized in net income each reporting period. Fair value is determined using prices quoted in active markets at the reporting date.

The Company holds digital assets that meet the scope of this guidance. These assets are:

- Intangible in nature
- Do not provide enforceable rights to goods or services
- Are created or reside on a distributed ledger
- Are secured through cryptography
- Are fungible
- Are not issued by the reporting entity or its related parties

Impairment of long-lived assets

Goodwill and intangible assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

For the purpose of testing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (reporting unit). An impairment loss is recognized for the amount, if any, by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the asset's fair value less cost to sell. The Company will assess for further impairment on an annual basis or as unexpected events happen.

3. Significant Accounting Policies (continued)

Leases

The Company assesses whether a contract is or contains a lease at inception of the contract, as well as whether each lease represents an operating lease or a finance lease in accordance with ASC 842, *Leases*. A lease is recognized as a right-of-use asset and corresponding liability at the commencement date. The Company has operating leases for certain facilities. Operating lease right-of-use assets and operating lease liabilities are recognized based on the present value of future minimum lease payments over the lease term at commencement date. Each finance 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 “interest expense” in the consolidated statements of operations and comprehensive income (loss) over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability. Lease liabilities represent the net present value of fixed lease payments (including in-substance fixed payments); variable lease payments based on an index, rate, or subject to a fair market value renewal condition; 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 it is probable that the lessee will exercise that option.

The Company’s lease liability is recognized 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 expected lease term, including renewal and termination options that the Company is reasonably certain to exercise.

Payments associated with short-term leases and leases of low-value assets are recognized as an expense on a straight-line basis in general and administration and sales and marketing expense in the consolidated statements of operations and comprehensive income (loss). Short-term leases are defined as leases with a lease term of 12 months or less.

Variable lease payments that do not depend on an index, rate, or subject to a fair market value renewal condition are expensed as incurred and recognized in costs of goods sold, general and administration or sales and marketing expense, as appropriate given how the underlying leased asset is used, in the consolidated statement of 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. The depreciation is recognized from the commencement date of the lease.

Derivatives

Derivatives are initially measured at fair value and are subsequently remeasured at fair value. If the transaction price does not equal to fair value at the point of initial recognition, management measures the fair value of each component of the investment and any unrealized gains or losses at inception are either recognized in comprehensive income (loss) or deferred and recognized over the term of the investment, depending on whether the valuation inputs are based on observable market data. The resulting unrealized gain or loss at inception and subsequent changes in fair value are recognized in profit or loss for the period.

The Company evaluates all of its agreements to determine if such instruments have derivatives or contain features that qualify as embedded derivatives. The classification of derivative instruments, including whether such instruments should be recorded as liabilities or as equity, is evaluated at the end of each reporting period. Derivative instrument liabilities are classified in the Consolidated Balance Sheets as current or non-current based on whether or not net-cash settlement of the derivative instrument could be required within 12 months of the Consolidated Statements of Financial Position date. Critical estimates and assumptions used in the model are discussed in “*Note 10 – Derivative Liabilities*”.

3. Significant Accounting Policies (continued)

Convertible debentures

Convertible debentures are financial instruments that are accounted for separately dependent on the nature of their components. The identification of such components embedded within a convertible debenture requires significant judgment given that it is based on the interpretation of the substance of the contractual agreement. Where the conversion option has a fixed conversion rate, the financial liability, which represents the obligation to pay coupon interest on the convertible debentures in the future, is initially measured at its fair value and subsequently measured at amortized cost. The residual amount is accounted for as an equity instrument at issuance. Where the conversion option has a variable conversion rate, the conversion option is recognized as a derivative liability measured at fair value. The determination of the fair value is also an area of significant judgment given that it is subject to various inputs, assumptions and estimates including contractual future cash flows, discount rates, credit spreads and volatility.

Fees directly attributable to the transactions are apportioned to the financial liability, derivative liability and equity components in proportion to the allocation of proceeds.

Additional Paid-In Capital

Common shares are classified as equity. Transaction costs directly attributable to the issue of common shares and share options are recognized as a deduction from equity, net of any tax effects.

Where additional paid-in capital is issued, or received, as non-monetary consideration and the fair value of the asset received or given up is not readily determinable, the fair market value of the shares is used to record the transaction. The fair market value of the shares is based on the trading price of those shares on the appropriate stock exchange on the date of the agreement to issue or receive shares as determined by the board of directors.

Foreign currency

These consolidated financial statements are presented in U.S. dollars, which is also one of the functional currencies of the certain subsidiaries along with Canadian dollars being the functional currency for other subsidiaries. Each subsidiary determines its own functional currency and items included in the financial statements of each subsidiary are measured using that functional currency.

i) Transactions and Balances in Foreign Currencies

Foreign currency transactions are translated into the functional currency of the respective entity, using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the remeasurement of monetary items at year-end exchange rates are recognized in income (loss) from operations. Non-monetary items measured at historical cost are translated using the exchange rates at the date of the transaction and are not retranslated. Non-monetary items measured at fair value are translated using the exchange rates at the date when fair value was determined.

ii) Foreign operations

On consolidation, the assets and liabilities of foreign operations are translated into U.S. dollars at the exchange rate prevailing at the reporting date and their income statements are translated at exchange rates prevailing at the dates of the transactions. The exchange differences arising on the translation are recognized in other comprehensive income and accumulated in the foreign currency translation reserve in equity. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognized in earnings and recognized as part of the gain or loss on disposal.

3. Significant Accounting Policies (continued)

Income Taxes

Tax expense recognized in income (loss) from operations comprises the sum of current and deferred taxes not recognized in other comprehensive income or directly in equity.

Current Tax

Current tax assets and/or liabilities comprise those claims from, or obligations to, fiscal authorities relating to the current or prior reporting periods that are unpaid at the reporting date. Current tax is payable on taxable profit, which differs from income (loss) from operations in the financial statements. Calculation of current tax is based on tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period.

Deferred Tax

Deferred taxes are calculated using the liability method on temporary differences between the carrying amounts of assets and liabilities and their tax bases. Deferred tax assets and liabilities are calculated, without discounting, at tax rates that are expected to apply to their respective period of realization, provided they are enacted or substantively enacted by the end of the reporting period. Deferred tax liabilities are always provided for in full.

Deferred tax assets are recognized to the extent that it is probable that they will be able to be utilized against future taxable income. Deferred tax assets and liabilities are offset only when the Company has a right and intention to offset current tax assets and liabilities from the same taxation authority.

Changes in deferred tax assets or liabilities are recognized as a component of tax income or expense in net income (loss), except where they relate to items that are recognized in other comprehensive income or directly in equity, in which case the related deferred tax is also recognized in other comprehensive income or equity, respectively.

Revenue recognition

The Company generates revenue primarily from the sale of cannabis related activities. 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 from the sale of cannabis is generally recognized when control over the goods has been transferred to the customer. Payment for sales is typically due prior to shipment. Payment for wholesale transactions is due within a specified time period as permitted by the underlying agreement and the Company's credit policy upon the transfer of goods to the customer. The Company generally satisfies its performance obligation and transfers control to the customer upon delivery and acceptance by the customer. Revenue is recorded at the estimated amount of consideration to which the Company expects to be entitled.

3. Significant Accounting Policies (continued)

Bulk product and white label services revenue

The Company recognizes revenue from bulk product sales and white label services. Product sales are generally recognized when the Company satisfies the performance obligations and transfers control over the goods to the customer upon delivery and acceptance by the customer. Revenue is recorded at the estimated amount of consideration to which the Company expects to be entitled. Returns are performed when the product does not meet the requested type, concentration, etc. and ordered by the customer. Returns and exchanges are reported and recorded at the same time as revenue transactions.

Share-based Compensation

As part of its remuneration, the Company grants restricted stock units and also stock options and warrants to buy common shares of the Company to its employees. An individual is classified as an employee when the individual is an employee for legal or tax purposes (direct employee) or provides services similar to those performed by a direct employee, including directors of the Company. The fair value of employee services is determined indirectly by reference to the fair value of the equity instruments granted. This fair value is measured at the grant date, using the Black-Scholes option pricing model, and is recognized over the vesting period.

Equity-settled share-based payment transactions with parties other than employees are measured at the fair value of the goods or services received, except where that fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instrument granted or vested if the option vests over a period. This fair value is measured at the grant date, using the Black-Scholes option pricing model, and is recognized over the vesting period.

All share-based remuneration is ultimately recognized as an expense in the consolidated statements of operations and comprehensive income (loss) with a corresponding credit to contributed surplus. Upon exercise of share options, the proceeds received net of any directly attributable transactions costs and the amount originally credited to contributed surplus are allocated to share capital. When options expire unexercised the related value remains in additional paid-in capital.

Business combination

A business combination is a transaction or event in which an acquirer obtains control of one or more businesses and is accounted for using the acquisition method. The total consideration paid for the acquisition is the fair value equity instruments issued in exchange for control of the acquiree at the acquisition date. The acquisition date is the date when the Company obtains control of the acquiree. The identifiable assets acquired, and liabilities assumed are recognized at their acquisition date fair values, except for deferred taxes and share-based payment awards where GAAP provides exceptions to recording the amounts at fair value. Goodwill represents the difference between total consideration paid and the fair value of the net-identifiable assets acquired. Acquisition costs incurred are expensed in the consolidated statement of operations and comprehensive income (loss).

Contingent consideration is measured at its acquisition date fair value and is included as part of the consideration transferred in a business combination, subject to the applicable terms and conditions. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with ASC 825, *Financial Instruments*, with the corresponding gain or loss recognized in the consolidated statements of operations and comprehensive income (loss).

Based on the facts and circumstances that existed at the acquisition date, management will perform a valuation analysis to allocate the purchase price based on the fair values of the identifiable assets acquired and liabilities assumed on the acquisition date. Management has one year from the acquisition date to confirm and finalize the facts and circumstances that support the finalized fair value analysis and related purchase price allocation. Until such time, these values are provisionally reported and are subject to change. Changes to fair values and allocations are retrospectively adjusted in subsequent periods.

3. Significant Accounting Policies (continued)

In determining the fair value of all identifiable assets acquired and liabilities assumed, the most significant estimates generally relate to contingent consideration and intangible assets. Management exercises judgment in estimating the probability and timing of when earn-outs are expected to be achieved, which is used as the basis for estimating fair value. Identified intangible assets are fair valued using appropriate valuation techniques which are generally based on a forecast of the total expected future net cash flows of the acquiree. Valuations are highly dependent on the inputs used and assumptions made by management regarding the future performance of these assets and any changes in the discount rate applied.

Acquisitions that do not meet the definition of a business combination are accounted for as asset acquisitions. Consideration paid for an asset acquisition is allocated to the individual identifiable assets acquired and liabilities assumed based on the fair value of the goods and services received. Asset acquisitions do not give rise to goodwill.

Any consideration paid in excess of the identifiable assets and liabilities assumed is expensed to the consolidated statements of operations and comprehensive income (loss).

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. 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.

Earnings (loss) per share

The Company calculates basic earnings (loss) per share by dividing the loss for the period by the weighted average number of common shares outstanding during the year. It calculates diluted earnings (loss) per share in a similar manner, except that it increases the weighted average number of common shares outstanding, using the treasury stock method, to include common shares potentially issuable from the assumed exercise of stock options and other instruments, if dilutive. For the periods ended June 30, 2025 and June 30, 2024, these potential issuances are “anti-dilutive” as they would decrease the earnings (loss) per share; consequently, the amounts calculated for basic and diluted loss per share are the same.

Significant accounting judgments and estimates

The preparation of consolidated financial statements in conformity with US GAAP requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported revenues and expenses during the year. Although management uses historical experience and its best knowledge of the amount, events or actions to form the basis for judgments and estimates, actual results may differ from these estimates. Actual future outcomes could differ from present estimates and judgments, potentially having material future effects on the Company’s consolidated financial statements. Revisions to estimates and the resulting effects on the carrying amounts of the Company’s assets and liabilities are accounted for prospectively.

The following are the critical judgments and estimates 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 consolidated financial statements:

Business combinations and asset acquisitions

Judgement is required to determine if the Company’s acquisition represented a business combination or an asset purchase.

3. Significant Accounting Policies (continued)

In a business combination, substantially all identifiable assets, liabilities and contingent liabilities acquired are recorded at the date of acquisition at their respective fair values. One of the most significant areas of judgment and estimation relates to the determination of the fair value of these assets and liabilities, including the fair value of contingent consideration, if applicable. If any intangible assets are identified, depending on the type of intangible asset and the complexity of determining its fair value, an independent external valuation expert may develop the fair value, using appropriate valuation techniques, which are generally based on a forecast of the total expected future net cash flows. These valuations are linked closely to the assumptions made by management regarding the future performance of the assets concerned and any changes in the discount rate applied. In certain circumstances where estimates have been made, the Company may obtain third-party valuations of certain assets, which could result in further refinement of the fair-value allocation of certain purchase prices and accounting adjustments.

Functional Currency Translations

The functional currency of the Company and each of the Company's subsidiaries is the currency of the primary economic environment in which the respective entity operates. Such determination involves certain judgements to identify the primary economic environment. The Company reconsiders the functional currency of an entity if there is a significant change in the events and/or conditions which determine the primary economic environment. In the event of a change of functional currency, the Company reevaluates the classification of financial instruments. Upon the change in the parent Company's functional currency during the year, the financing warrants, which were initially classified as a derivative liability on the consolidated statements of financial position, were reassessed and reclassified as equity instruments at the fair value on the date of the functional currency change.

Inventory

Inventory is carried at the lower of cost or net realizable value. The determination of net realizable value involves significant management judgement and estimates, including the estimation of future selling prices.

Valuation of share-based payments

The Company uses the Black-Scholes Option Pricing Model for valuation of share-based payments. Option pricing models require the input of subjective assumptions including expected price volatility, and interest rate. The Company determines the term of share-based payments in accordance with ASC 718, *Stock Compensation* (the "plain vanilla" method). Changes in the input assumptions can materially affect the fair value estimate and the Company's earnings and equity reserves.

The valuation of shares and other equity instruments issued in non-cash transactions. Generally, the valuation of non-cash transactions is based on the value of the goods or services received. When non-cash transactions are entered into with employees and those providing similar services, the non-cash transactions are measured at the fair value of the consideration given up using market prices.

Estimated useful life of long-lived assets

Judgment is used to estimate each component of a long-lived asset's useful life and is based on an analysis of all pertinent factors including, but not limited to, the expected use of the asset and in the case of an intangible asset, contractual provisions that enable renewal or extension of the asset's legal or contractual life without substantial cost, and renewal history. If the estimated useful lives were incorrect, it could result in an increase or decrease in the annual amortization expense, and future impairment charges or recoveries.

3. Significant Accounting Policies (continued)

Impairment of long-lived assets

Long-lived assets are reviewed for impairment upon the occurrence of events or changes in circumstances indicating that the carrying value of the asset may not be recoverable. For the purpose of measuring recoverable amounts, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). The recoverable amount is the higher of an asset's fair value less costs to sell and value in use (being the present value of the expected future cash flows of the relevant asset or cash-generating unit). An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount.

Contingent liability

Contingent liabilities are accrued for liabilities with uncertain timing or amounts, if, in the opinion of management, it is both probable that a future event will confirm that a liability had been incurred at the date of the consolidated financial statements and the amount can be reasonably estimated. In cases where it is not possible to determine whether such a liability has occurred, or to reasonably estimate the amount of loss until the performance of some future event, no accrual is made until that time. In the ordinary course of business, the Company may be party to legal proceedings which include claims for monetary damages asserted against the Company. The adequacy of provisions is regularly assessed as new information becomes available.

Fair values

The individual fair values attributed to the different components of a financing transaction, notably derivative financial instruments, convertible debentures and loans, are determined using valuation techniques. The Company uses judgment to select the methods used to make certain assumptions and derive estimates. Significant judgment is also used when attributing fair values to each component of a transaction upon initial recognition, measuring fair values for certain instruments on a recurring basis and disclosing the fair values of financial instruments subsequently carried at amortized cost. These valuation estimates could be significantly different because of the use of judgment and the inherent uncertainty in estimating the fair value of instruments that are not quoted or observable in an active market. See "*Note 15 – Financial Instruments and Financial Risk Management*" for summaries of the Company's financial instruments as of June 30, 2025 and December 31, 2024.

Allowance for doubtful accounts

The Company makes estimates for allowances that represent its estimate of potential losses in respect of trade receivables. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loss component established for groups of similar assets in respect of losses that may have been incurred but not yet specifically identified. The Company's allowance is determined by historical experiences, and considers factors including the aging of the balances, the customer's creditworthiness, current economic conditions, expectation of bankruptcies and the economic volatility in the markets/locations of customers.

Segmented Information

The Company currently operates in only one reportable segment: wholesale concentrates. Wholesale concentrates include the propagation, nursery, flowering canopy, drying, processing, manufacturing and distribution of cannabis concentrates. Operating segments are defined as components of an enterprise for which separate financial information is evaluated regularly by the Chief Operating Decision Maker ("CODM"), who is the Company's chief executive officer and chief financial officer, in deciding how to allocate resources and assess the Company's financial and operational performance. As of June 30, 2025 and December 31, 2024, all of the Company's operations are in the United States of America in the State of California and New York. Intercompany sales and transactions are eliminated in consolidation.

4. Property and Equipment

As of June 30, 2025 and December 31, 2024, the property and equipment consists of the following:

Cost	Buildings and land	Office equipment and software	Machinery and equipment	Vehicles	Leasehold improvements	Total
Balance as of January 1, 2024	\$21,928,937	\$ 230,323	\$ 5,231,077	\$ 287,535	\$ 692,886	\$28,370,758
Additions	4,042,955	-	1,582,988	293,398	-	5,919,341
Disposals and transfers	1,682,826	(10,885)	(1,202,765)	16,217	(687,886)	(202,493)
Balance as of December 31, 2024	\$27,654,718	\$ 219,438	\$ 5,611,300	\$ 597,150	\$ 5,000	\$34,087,606
Additions	123,181	10,603	605,096	182,112	-	920,992
Disposals and transfers	-	-	-	-	-	-
Balance as of June 30, 2025	\$27,777,899	\$ 230,041	\$ 6,216,396	\$ 779,262	\$ 5,000	\$35,008,598
Accumulated Depreciation						
Balance as of January 1, 2024	\$ (4,234,199)	\$ (156,130)	\$(1,958,989)	\$(133,853)	\$ -	\$ (6,483,171)
Depreciation	(1,504,289)	(27,854)	52,013	(77,132)	(4,557)	(1,561,819)
Balance as of December 31, 2024	\$ (5,738,488)	\$ (183,984)	\$(1,906,976)	\$(210,985)	\$ (4,557)	\$ (8,044,990)
Depreciation	(643,594)	(6,058)	(295,040)	(43,013)	(443)	(988,148)
Balance as of June 30, 2025	\$ (6,382,082)	\$ (190,042)	\$(2,202,016)	\$(253,998)	\$ (5,000)	\$ (9,033,138)
Net Book Value						
June 30, 2025	\$21,395,817	\$ 39,999	\$ 4,014,380	\$ 525,264	\$ -	\$25,975,460
December 31, 2024	\$21,916,231	\$ 35,454	\$ 3,704,324	\$ 386,165	\$ 443	\$26,042,616

There was depreciation expense and amortization expense for the six months ended June 30, 2025 and 2024 of \$988,148 and \$743,048, respectively. These amounts were included as operating expenses on the consolidated statements of operations and comprehensive income (loss) for the six months ended June 30, 2025 and 2024.

5. Inventory

As of June 30, 2025 and December 31, 2024, inventory consists of the following:

	June 30, 2025	December 31, 2024
Raw materials	\$ 852,052	\$ 1,349,923
Work-in-process	1,650,019	1,243,542
Finished goods – cannabis related products	1,844,404	1,629,452
Total inventory	<u>\$ 4,346,475</u>	<u>\$ 4,222,917</u>

6. Goodwill

As of June 30, 2025 and December 31, 2024, goodwill was \$0, respectively. During the year ended December 31, 2023, the Company recorded goodwill of \$2,494,485 as a result of a business combination in January 2023. For the year ended December 31, 2024, the Company recorded a \$1,567,485 impairment loss on the balance of goodwill. See “Note 3 – Significant Accounting Policies” for managements position on impairment of long-lived assets.

7. Intangible Assets

As of June 30, 2025 and December 31, 2024, intangible assets were \$1,155,501 and \$2,232,153, respectively. During the year ended December 31, 2024, the Company acquired Bitcoin cryptocurrency at a cost of \$346,777. In accordance with ASC 350-50, Intangible Assets — Digital Assets, the Company accounts for Bitcoin at fair value, recognizing both increases and decreases in value in the statement of operations, and has determined that Bitcoin has an indefinite useful life. As of December 31, 2024, management determined that a \$847,000 impairment was deemed necessary for trademark intangible assets.

As of June 30, 2025 and December 31, 2024, intangible assets consisted of the following:

Cost	Tradenames	Licenses	Crypto Currency	Total
Balance as of January 1, 2024	\$ 1,540,000	\$ 1,850,000	\$ -	\$ 3,390,000
Additions	-	-	346,777	346,777
Change in value	-	-	20,376	20,376
Impairment	(847,000)	-	-	(847,000)
Balance as of December 31, 2024	\$ 693,000	\$ 1,850,000	\$ 367,153	\$ 2,910,153
Additions	-	300,000	405,650	705,650
Change in value	-	-	40,337	40,337
Disposal	-	-	(403,622)	(403,622)
Balance as of June 30, 2025	\$ 653,000	\$ 2,150,000	\$ 409,518	\$ 3,252,518

Accumulated Depreciation				
Balance as of January 1, 2024	\$ (154,000)	\$ (185,000)	\$ -	\$ (339,000)
Amortization	(154,000)	(185,000)	-	(339,000)
Balance as of December 31, 2024	\$ (308,000)	\$ (370,000)	\$ -	\$ (678,000)
Amortization	(23,865)	(92,502)	-	(169,502)
Balance as of June 30, 2025	\$ (331,865)	\$ (462,502)	\$ -	\$ (794,367)

Net Book Value				
				\$
June 30, 2025	\$ 361,135	1,687, 498	\$ 409,518	\$ 2,458,151
December 31, 2024	\$ 385,000	\$ 1,480,000	\$ 367,153	\$ 2,232,153

Future amortization of intangible assets are as follows:

Year Ending December 31,	
2025	\$ 134,102
2026	263,125
2027	263,125
2028	263,125
2029	263,125
Thereafter	862,033
Total Future Amortization	\$ 2,048,635

8. Assets Held for Sale

As of June 30, 2025 and December 31, 2024, the Company has classified certain long-lived assets as held for sale in accordance with ASC 360-10-45-9. These assets met the criteria for classification as held for sale, including management's commitment to a plan to sell, active marketing at a price reasonable in relation to fair value, and the expectation that the sale will be completed within one year. The asset held for sale consists of a cultivation and processing cannabis license located in Clark County, Nevada, with a carrying value of \$1,445,483. These licenses are not currently being utilized in the Company's operations, and management is actively pursuing a sale to a third party. In the previous years, the licenses were included in the acquisition deposit line item on the balance sheet, as the transfer of the licenses had not yet been completed. Following the successful transfer in 2024, the assets were reclassified to assets held for sale.

No impairment loss was recognized upon reclassification, as the estimated fair value less costs to sell exceeds the carrying amount.

9. Accounts Payable and Other Accrued Liabilities

As of June 30, 2025 and 2024, accounts payable and other accrued liabilities consists of the following:

	June 30, 2025	December 31, 2024
Accounts payable	\$ 4,379,420	\$ 3,511,303
Accrued liabilities	2,558,467	3,102,490
Total accounts payable and other accrued liabilities	<u>\$ 6,937,887</u>	<u>\$ 6,613,793</u>

10. Derivative liabilities

During June 2019, the Company entered into a private placement financing by issuing approximately \$14,671,000 senior secured convertible debentures (see "Note 11 - Convertible Debentures") and 14,671 share purchase warrants that contain a non-fixed conversion ratio into the Company's shares and exercise price, respectively. During September 2022, 75% of the senior secured convertible debentures balance was modified such that the conversion price into the Company's common stock was denominated in a currency other than the Company's functional currency. As a result, the conversion options did not have a fixed conversion rate.

In accordance with ASC 825, *Financial Instruments*, a contract to issue a variable number of equity shares fails to meet the definition of equity. Accordingly, such a contract or instrument would be accounted for as a derivative liability and measured at fair value with changes in fair value recognized in the Condensed Consolidated Statements of Operations and Comprehensive Loss at each period-end.

During the year ended December 31, 2024, the Company has issued additional warrants that contain a non-fixed conversion ratio in that the conversion price into the Company's stock was denominated in a currency other than the Company's functional currency.

The Company used Monte Carlo to estimate the fair value of the derivative liabilities for the senior secured convertible debentures. The Company used the Black-Scholes model to estimate the fair value of the derivative liabilities for the warrants. The Monte Carlo and Black-Scholes pricing models use Level 3 inputs in their valuation models.

10. Derivative liabilities (continued)

The following assumptions were used by management to determine the fair value of the derivative liabilities as of June 30, 2025 and December 31, 2024:

	June 30, 2025	December 31, 2024
Expected stock price volatility	72.62% - 181.30%	104.62% - 186.74%
Risk-free annual interest rate	3.68% - 4.41%	3.99% - 5.42%
Expected life (years)	0.36 – 2.90	0.28 – 3.39
Share price	\$ 0.15	\$ 0.07 - \$0.21

A reconciliation of the beginning and ending balance of derivative liabilities and change in fair value of the derivative liabilities is as follows for the six months ended June 30, 2025 and the year ended December 31, 2024:

	June 30, 2025	December 31, 2024
Balance as of beginning of period	\$ 9,007,907	\$ 1,094,316
Change in fair value	(4,105,121)	6,113,485
Loss from extinguished liability	-	2,895,140
Conversion to common stock and warrants	-	(3,149,687)
Initial recognition of debenture warrants	-	824,427
Initial recognition of new warrants	-	1,230,226
Balance as of end of the period	4,902,786	9,007,907
Less: Derivative liabilities, short term	-	-
Derivative liabilities, long term	\$ 4,902,786	\$ 9,007,907

11. Notes Payable

As of June 30, 2025 and December 31, 2024 notes payable consisted of the following:

	<u>June 30, 2025</u>	<u>December 31, 2024</u>
Secured promissory notes dated November 2018 through September 2024 issued to finance equipment acquisitions which mature from December 2023 through October 2030, and bear interest of 3.12% to 10.99% with principal and interest payments due monthly.	\$ 310,014	\$ 225,140
Small Business Administration loan which bears interest at 1% with interest payments due monthly.	11,000	11,000
Secured promissory note dated May 25, 2023, which matures in May 2028	5,343,627	4,846,714
Secured promissory note dated September 19, 2023, which matures in September 2028 and bears interest of 4%	4,199,000	4,199,000
Secured promissory note dated July 8, 2024, which matures in June 2025 and bears interest of 15%	-	249,900
Secured promissory note dated July 3, 2024, which matures in July 2026 and bears interest of 10%	1,000,000	1,000,000
Secured promissory note dated September 20, 2024, which matures on September 19, 2025 and bears interest of 19%	52,284	52,283
Secured promissory note dated April 2025, which matures in March 2026 and bears interest of 12%	199,577	-
Secured promissory note dated April 2025, which matures in August 2025 and bears interest of 15%	287,400	-
Secured promissory note dated April 2025, which matures in March 2026 and bears interest of 15%	148,230	-
Secured promissory note dated May 2025, which matures in April 2027 and bears interest of 16%	61,327	-
Total Notes payable	\$ 11,612,459	\$ 10,584,037
Less current portion	(1,798,783)	(1,337,490)
Total notes payable, net of current	\$ 9,813,676	\$ 9,246,547

A reconciliation of the beginning and ending balances of notes payable for six months ended June 30, 2025 and the year ended December 31, 2024 is as follows:

	<u>June 30, 2025</u>	<u>December 31, 2024</u>
Balance as of beginning of period	\$ 10,584,037	\$ 8,884,513
Proceeds from notes payable	-	1,325,574
Non-cash note additions	245,050	-
Financed equipment	433,112	-
Financing arrangements	-	241,898
Amortization of debt discount	498,912	993,823
Resale of note payable to related party	-	(472,000)
Interest classified to debt	67,500	80,058
Non-cash note repayment	(50,423)	-
Cash repayments	(165,729)	(469,829)
Balance as of end of period	\$ 11,612,459	\$ 10,584,037

11. Notes Payable (continued)

On May 25, 2023, the Company entered into a Loan Agreement with ADSB for a total of \$7,000,000 which is zero-interest bearing. The loan was issued in connection with 56,875,000 detached warrants which are immediately exercisable at a price of CAD\$0.08 per share (USD \$0.06) for a period of 60 months from the date of issuance. Upon full repayment of the loan, which is expected in February 2027 the Company will transfer 720,000 Class A Units of ADSB to the lender. Both the warrants and the ADSB transfer were determined to create a debt discount totaling \$3,809,659 that is amortized over the term of the loan. During the six months ended June 30, 2025 and the year ended December 31, 2024, amortization of the debt discount of \$498,912 and \$993,824, respectively, were recorded.

On September 30, 2023, the Company entered into a Loan Agreement with the Salisbury Canyon Ranch, LLC for a total of \$4,199,000 which bears interest at 4% per annum. The Company will make interest-only payments for a period of three years at which point blended interest and principal payments will be made for an additional two years, with a balloon payment due at that time.

12. Convertible Debentures

A reconciliation of the beginning and ending balances of convertible debentures for the six months ended June 30, 2025 and the year ended December 31, 2024 is as follows:

	June 30, 2025	December 31, 2024
Balance as of beginning of period	\$ 9,976,000	\$ 8,937,666
Conversions of debt and accrued interest (1)	-	(4,718,705)
Accrual of interest	393,541	-
Extinguishment of debt discount	-	1,322,533
Amortization of debt discount	-	4,434,506
Balance as of end of period	\$ 10,369,541	\$ 9,976,000

(1) Upon conversion, both common stock and warrants were issued. The value of the conversion feature and warrants recorded to equity was \$3,189,575, with \$824,427 recorded as a derivative liability for warrants issued and netted against the transaction recorded to equity.

Senior Debentures

On June 6, 2019, the Company entered into a convertible senior secured debenture (the “Senior Debentures”) in an aggregate principal amount not to exceed \$35,000,000 with accredited investors and qualified institutional buyers wherein the Senior Debentures shall mature on June 6, 2022 and bear interest at a rate of 9.0%. The Senior Debentures are to be issued from time to time at the election of the Company pursuant to one or more subscription agreements.

The Senior Debentures contain two conversion features wherein the conversion rate is equal to \$1,000 principal amount of debentures divided by the conversion price, which is the lesser of (i) the price that is a 25% discount to the liquidity event price and (ii) the price determined based on a pre-money enterprise value of the Company of \$150,000,000. The initial conversion rate shall be determined immediately upon the consummation of a liquidity event and shall be subject to adjustment.

12. Convertible Debentures (continued)

In the event that a liquidity event, as defined in the Senior Debentures agreement, is consummated, holders have the right, at the holder's option, to convert all or any portion of their Senior Debentures into the Company's common shares (the "Optional Conversion"). Additionally, at the Company's election, the Company has the right to convert all outstanding debentures into common shares if all of the following conditions are satisfied, with no further action by the holders (the "Mandatory Conversion"):

- (i) A liquidity event has been consummated;
- (ii) The liquidity event price is at least 100% greater than the conversion price;
- (iii) The common shares are listed on a recognized Canadian stock exchange or a national U.S. stock exchange; and
- (iv) The daily VWAP of the common share is 20% greater than the liquidity event price for at least 10 consecutive trading days immediately prior to the date of the Company's conversion notice.

The Company may issue up to \$3,500,000 aggregate principal amount of debentures without the consent of or notice to the holders in the event a Liquidity Event is not consummated on or prior to June 6, 2020. Pursuant to the Agency Agreement, in the event a liquidity event has not occurred by June 6, 2020, the Company will issue additional Debenture Units in an aggregate principal amount equal to 10% of the aggregate number of Debenture Units initially issued to the purchaser as a penalty. In June 2020, the Company issued additional Senior Debentures totaling \$1,467,000 as a result of this provision. In connection with the additional debentures issued, the Company recognized a derivative liability of \$427,246 and also recorded an offsetting debt discount.

Effective September 9, 2022, the Company amended its Senior Debentures as part of a restructuring support agreement with Icanic Brands (the "Modification"). The Modification provides for 25% of the outstanding principal and accrued unpaid interest to be settled in cash with the remaining 75% settled in new convertible debentures which bear interest at 11% and convert into units at Canadian dollars ("C\$") \$0.10 with each unit comprised of an Icanic Brands common share and share purchase warrant exercisable into Icanic Brands common share at a price of C\$0.15 per share for a period of 24 months from the date of conversion ("Conversion Option"). The Conversion Option was determined to be a derivative under ASC 825, *Financial Instruments*, as the Conversion Option is denominated in a currency other than the Company's functional currency. See "Note 10 – Derivative Liabilities" for further details.

On September 8, 2022, the Company closed a non-brokered private placement of new secured debentures in the aggregate principal amount of C\$1,300,000 (the "Additional Secured Debentures"). The Additional Secured Debentures have been issued pursuant to a debenture indenture entered into as of September 8, 2022 (the "Indenture"). Pursuant to the Indenture, the Company can issue up to an aggregate of CAD\$4,000,000 in connection with the offering. The Additional Secured Debentures bear interest at a rate of 11.0% per annum and mature 24-months from the date of issue (September 8, 2024). The interest accrued under the Additional Secured Debentures is payable in cash upon maturity. Additional Secured Debentures have the same conversion option as Senior Debentures after the Modification. The conversion option is denominated in a functional currency (CAD) that is different as the issuer (USD) and as such needs to be assessed for derivative treatment. Upon further analysis, it was deemed the instrument had an embedded derivative and as such has been recorded as a component of debt.

12. Convertible Debentures (continued)

In connection with the initial issuance of the Senior Debentures, share purchase warrants (“Senior Warrants”) exercisable into common shares based on its issue price divided by its conversion price were also issued. The conversion price is equal to the lesser of: (A) the price that is a 25% discount to the liquidity event price and (B) the price determined based on a certain value. The exercise price is a price per common share which is 50% greater than the conversion price. The exercise price is subject to adjustment in the event of a common share reorganization, rights offering, special distribution, or capital reorganization. The warrants are exercisable upon the occurrence of a liquidity event, as defined in the Senior Warrant agreement, and the exercise period is the 24 months following the liquidity event date, provided that if a liquidity event has not occurred within five (5) years from the initial closing date of this offering, the warrants shall expire. Initially the aggregate value of these warrants included a potentially embedded feature to be treated as a derivative but was determined to be de minimis. The embedded conversion feature of the Senior Debentures has been deemed to be a derivative. See “*Note 10 – Derivative Liabilities*” for further details. Subsequent to the merger with LEEF, the Senior Warrants were effectively issued as part of the share exchange terms noted in the Merger Agreement between LEEF and Icanic. As such, there were 6,616,800 warrants issued from the original 527,338 warrants of LEEF due to the agreed upon 12.55 conversion ratio. See “*Note 17 – Share Capital*” for further details on warrant activity for the year ended December 31, 2024. As a result of the non-fixed number of shares the Additional Senior Debentures can be converted or exercised into, these features were recognized as a derivative liability (see “*Note 10 – Derivative Liabilities*”).

On April 19, 2024, the Company amended its Indenture Agreement by restructuring its debentures through a conversion of the balance due to certain debenture holders and extinguishment debt. Per the amendments, the remaining balance due under the updated agreement is due September 9, 2027. The Company converted debenture balances totaling approximately \$4.9 million into 22,395,948 common shares at a conversion price of approximately \$0.02 per share, which also triggered the issuance of 22,395,950 warrants to purchase the Company’s common stock, together valued at \$7.9 million. The Company has recorded a loss on extinguishment of debt as part of this transaction.

13. Lease Liabilities

The Company’s facilities are leased under a number of leases, all of which have been classified as operating leases in accordance with ASC 842, *Leases*. Operating lease right-of-use assets and operating lease liabilities are recognized based on the present value of future minimum lease payments over the lease term at commencement date.

The Company used an incremental borrowing rate between 12% to 15%. Total future payments under lease agreements are further disclosed in Note 14 – Financial Instruments and Financial Risk Management.

The undiscounted lease liabilities are as follows:

Year Ending December 31,	
2025	\$ 312,365
2026	625,828
2027	437,483
2028	374,218
2029	236,577
Thereafter	2,118,968
Total Future Minimum Lease Payments	\$ 4,105,439
Less: Interest	(1,943,642)
Present Value of Lease Liabilities	2,161,797
Less: Current Portion of Lease Liabilities	(309,608)
Lease Liabilities, Net of Current Portion	\$ 1,852,189

14. Contingent Consideration and Consideration Payable

In October 2021, the Company entered into a Membership Interest Unit Purchase Agreement with Anderson Development SB, LLC (“ADSB”) to acquire 100% of the outstanding membership interest units. As consideration for the interest units, the Company agreed to an Earnout Consideration (“Earnout”) in the amount equal to 200% of the investment amount in ADSB. The Earnout shall be contingent upon ADSB successfully obtaining a land use permit and a business license to conduct cannabis cultivation by February 28, 2025. As of December 31, 2021 there was a remote probability of this occurring before the Earnout Deadline. During the year ended December 31, 2022, Management determined it became highly probable ADSB would acquire the permit and license within the allotted time. This was based on a large change and turnaround in the cultivation market during the year ended December 31, 2022. As such, the Company recorded an additional contingent consideration for the Earnout that will be paid out totaling \$2,400,000.

Pursuant to the terms of the merger agreement, former LEEF shareholders will also be entitled to receive the following contingent Earn-out Payments, On July 20, 2023, an amount equal to 10% of (A) the product equal to two times the TTM revenue calculated for the 12-month period immediately following closing minus (B) US\$120 million; on July 20, 2024, an amount equal to 10% of (A) the product equal to two times the TTM revenue calculated for the 12-month period immediately following the date that is one year from the closing date minus (B) the US\$120 million and minus (C) any amounts paid pursuant to the First Earn-Out Payment; and on July 20, 2025, an amount equal to 10% of (A) the product equal to two times the TTM revenue calculated for the 12-month period immediately following the date that is two years from the closing date minus (B) US\$120 million, minus (C) any amounts paid pursuant to the First Earn-Out Payment, minus (D) any amounts paid pursuant to the Second Earn-Out Payment. The original value of the total earnout as of April 20, 2022 was \$3,972,000. Each of the Earn-Out Payments will be satisfied in full through the issuance of common shares of the Company based on the 30-day volume weighted average trading price of the shares on the Canadian Securities Exchange for the period ending on the business day prior to the issuance.

By the beginning of 2024, the contingent consideration was \$1,355,000, which includes \$855,000 related to the Earn Out Payments and classified as a long term liability and \$500,000 related to ADSB, which is classified as a current liability. As of December 31, 2024, the \$855,000 in contingent consideration related to the Earn Out Payments was released, leaving a balance of \$500,000 outstanding.

15. Financial Instruments and Financial Risk Management

Financial Instruments

Financial instruments recorded at fair value are classified using a fair value hierarchy that reflects the significance of the inputs to fair value measurements. The three levels of hierarchy are:

- Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 – Inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly; and
- Level 3 – Inputs for the asset or liability that are not based on observable market data.

Financial instruments are measured at amortized cost or at fair value. Financial instruments measured at amortized cost consist of accounts receivable, and accounts payable and accrued liabilities wherein the carrying value approximates fair value due to its short-term nature. Other financial instruments measured at amortized cost include notes payable, lease liabilities, and convertible debentures wherein the carrying value at the effective interest rate approximates fair value as the interest rate for notes payable and the interest rate used to discount the host debt contract for convertible debentures approximate a market rate for similar instruments offered to the Company.

Cash are measured at Level 1 inputs. Derivative assets and derivative liabilities are measured at fair value based on the Monte Carlo or Black-Scholes option-pricing model, which uses Level 3 inputs. Convertible debentures are measured at fair value based on the Monte Carlo and Black-Sholes simulation model, which uses Level 3 inputs.

15. Financial Instruments and Financial Risk Management (continued)

The following table summarizes the Company's financial instruments as of June 30, 2025:

Financial assets:	Amortized		Total
	Cost	Fair Value	
Cash	\$ -	\$ 877,891	\$ 877,891
Accounts receivable	\$ 2,217,770	\$ -	\$ 2,217,770
Financial liabilities:			
Accounts payable and other accrued liabilities	\$ 6,937,887	\$ -	\$ 6,937,887
Notes payable	\$11,612,459	\$ -	\$11,612,459
Derivative liabilities	\$ -	\$ 4,902,786	\$ 4,902,786
Lease liabilities	\$ 2,161,797	\$ -	\$ 2,161,797

The following table summarizes the Company's financial instruments as of December 31, 2024:

Financial assets:	Amortized		Total
	Cost	Fair Value	
Cash	\$ -	\$ 2,731,979	\$ 2,731,979
Accounts receivable	\$ 2,394,542	\$ -	\$ 2,394,542
Financial liabilities:			
Accounts payable and other accrued liabilities	\$ 6,613,793	\$ -	\$ 6,613,793
Convertible debentures	\$ -	\$ 9,976,000	\$ 9,976,000
Notes payable	\$10,584,037	\$ -	\$10,584,037
Derivative liabilities	\$ -	\$ 9,007,907	\$ 9,007,907
Lease liabilities	\$ 2,585,479	\$ -	\$ 2,585,479

The carrying values of the Company's financial instruments carried at amortized cost approximate fair values due to their short duration.

Financial Risk Management Objectives and Policies

The Company is exposed to various financial risks resulting from both its operations and its investments activities. The Company's management, with the Board of Directors oversight, manages financial risks. Where material, these risks will be reviewed and monitored by the Board of Directors. The type of risk exposure and the way in which such exposure is managed is provided as follows:

Credit risk

Credit risk is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations. Financial instruments that potentially subject the Company to significant concentrations of credit risk consist primarily of cash, and receivables. The Company's cash is held through United States financial institutions and no losses have been incurred in relation to these items.

The Company's receivables are comprised of trade accounts receivable, unbilled revenues, and term note receivables. As of June 30, 2025, the Company has \$1,904,813, \$5,223, \$227,030, respectively, in trade accounts receivable outstanding 0-60 days, 61-90 days and over 90 days, respectively. The expected credit loss for overdue balances as of June 30, 2025 is estimated to be approximately \$1.2 million based on subsequent collections, discussions with associated customers and analysis of the credit worthiness of the customer.

The carrying amount of cash, promissory note receivable, and trade and other receivables represent the maximum exposure to credit risk. As of June 30, 2025 and December 31, 2024, the net amount of maximum exposure risk was \$3,105,660 and \$5,126,521, respectively.

15. Financial Instruments and Financial Risk Management (continued)

Market and Other Risks

Market risk is the risk of uncertainty arising primarily from possible commodity market price movements and their impact on the future economic viability of the Company's projects and ability of the Company to raise capital. These market risks are evaluated by monitoring changes in key economic indicators and market information on an on-going basis and adjusting operating and exploration budgets accordingly. As of June 30, 2025, the market and other risks are low.

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations associated with financial liabilities. The Company manages liquidity risk through the management of its capital structure. The Company's approach to managing liquidity is to ensure that it will have sufficient liquidity to settle obligations and liabilities when due.

The Company has the following contractual obligations as of June 30, 2025:

	<1 Year	1 to 3 Years	3 to 5 Years	> 5 Years	Total
Accounts payable and other accrued liabilities	\$ 6,937,887	\$ -	\$ -	\$ -	\$ 6,937,887
Related party payables	\$ 2,981,619	\$ -	\$ -	\$ -	\$ 2,981,619
Tax payable	\$14,004,666	\$ -	\$ -	\$ -	\$14,004,666
Convertible debentures	\$ -	\$10,369,541	\$ -	\$ -	\$10,369,541
Notes Payable	\$ 1,798,783	\$ 9,813,676	\$ -	\$ -	\$11,612,459
Derivative liabilities	\$ -	\$ 4,902,786	\$ -	\$ -	\$ 4,902,786
Lease liabilities	\$ 309,608	\$ 609,248	\$ 212,291	\$ 1,035,650	\$ 2,161,797

The Company has the following contractual obligations as of December 31, 2024:

	<1 Year	1 to 3 Years	3 to 5 Years	> 5 Years	Total
Accounts payable and other accrued liabilities	\$ 6,613,793	\$ -	\$ -	\$ -	\$ 6,613,793
Related party payables	\$ 1,488,866	\$ -	\$ -	\$ -	\$ 1,488,866
Tax payable	\$12,836,039	\$ -	\$ -	\$ -	\$12,836,039
Convertible debentures	\$ -	\$ 9,976,000	\$ -	\$ -	\$ 9,976,000
Notes Payable	\$ 1,337,490	\$ 9,246,547	\$ -	\$ -	\$10,584,037
Derivative liabilities	\$ -	\$ 9,007,907	\$ -	\$ -	\$ 9,007,907
Lease liabilities	\$ 302,736	\$ 819,457	\$ 405,096	\$ 1,058,190	\$ 2,585,479

Currency risk

The Company is exposed to currency risk related to the fluctuation of foreign exchange rates and the degree of volatility of those rates. Currency risk is limited to the portion of the Company's business transactions and balances denominated in currencies other than the United States dollar.

Assuming all other variables remain constant, a fluctuation of +/- 5.0 percent in the exchange rate between the United States dollar and the Canadian dollar would impact the carrying value of the net monetary assets by approximately +/- \$390,000. To date, the Company has not entered into financial derivative contracts to manage exposure to fluctuations in foreign exchange rates.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Cash bear interest at market rates. The Company's financial liabilities have fixed rates of interest and therefore expose the Company to a limited interest rate fair value risk.

15. Financial Instruments and Financial Risk Management (continued)

Crypto Currency Risk

We hold Bitcoin as part of our treasury assets. The value of Bitcoin is highly volatile and can be influenced by various factors, including market demand, regulatory developments, technological changes, and broader economic conditions. A significant decline in Bitcoin's market price could adversely affect our financial condition and results of operations. Additionally, the evolving regulatory landscape for digital assets may impose new compliance requirements or restrictions, potentially impacting our ability to hold or transact in Bitcoin. Security risks, such as cyberattacks or loss of private keys, could also result in the loss of our Bitcoin holdings. These factors collectively pose risks to our business and financial performance.

Key Management Compensation

Key management personnel are persons responsible for planning, directing and controlling activities of an entity, and include executive and non-executive persons. During the six months ended June 30, 2025 and the year ended December 31, 2024, the Company recognized approximately \$912,000 and \$1,350,000, respectively, in compensation and stock-based compensation, respectively, provided to key management.

Related Party Balances

As of June 30, 2025, the Company had accrued approximately \$313,000 of expenses to a farming company that is owned by a member of management and shareholder with approximately \$481,000, unpaid as of period end.

On November 2, 2021, the Company acquired 100% of the outstanding membership interests of Anderson Development SB, LLC ("ADSB") from third parties and a controlling interest holding related party in exchange for approximately \$1,440,000 plus up to an additional \$2,400,000 of consideration (the "Contingent Consideration") (collectively, the "Consideration"). The Consideration is payable in Common Stock. The Contingent Consideration is subject to ADSB obtaining a land use permit and a business license by February 28, 2025 that permits ADSB to conduct cannabis cultivation operations. ADSB primarily holds an option to acquire certain real property in Santa Barbara County, California. The Company determined that the acquisition of ADSB membership interest was a common control transaction and have elected to record the assets acquired and liabilities assumed at the historical book value rather than fair value with no recognition of goodwill or gain or loss.

Additionally, the Company has elected to record the equity consideration at par value and will recognize the Contingent Consideration in the consolidated financial statements only when met. During the year ended December 31, 2022, Management determined it became highly probable ADSB would acquire the permit and license within the allotted time. This was based on a large change and turnaround in the cultivation market during the year ended December 31, 2022. As such, the Company has recorded an additional contingent consideration for the Earnout that will be paid out in the form of equity and totaled \$2,400,000 and was reduced to \$500,000 as of December 31, 2024. See Note 13 – Contingent Consideration and Consideration Payable for further information.

During the year ended December 31, 2024, a note payable with a principal balance of \$400,000 and accrued interest of \$72,000 were resold to a related party. The Company also borrowed \$200,000 and \$39,000 from two additional related parties during the year ended December 31, 2024. During the six months ended June 30, 2024, the Company also entered into a note payable with a principal balance of \$445,000 with annual interest of 10% that matures on April 6, 2026. The note is collateralized by the Company's crypto currency. In the event the crypto currency is sold prior to the maturing of the note, the collateral will shift to the SCRSB, LLC cultivation licenses and inventory to a value of 2.5 times the principal amount of the note.

16. Share Capital

Authorized capital

The Company's authorized share capital consists of:

- an unlimited number of common shares without par value; and
- an unlimited number of preferred shares issuable in series. No preferred shares are issued as of June 30, 2025.

Common shares

For the six months ended June 30, 2025:

On January 13, 2025, the Company issued 1,858,031 common shares at an average price of \$0.6660 CAD per share totaling \$935,618 to the former shareholders of The Leaf at 73740 LLC. per the Membership Interest Purchase Agreement dated January 11, 2023.

On March 12, 2025, the Company issued 600,000 common shares for services, with a grant date fair value of \$100,000.

For the six months ended June 30, 2024:

On February 26, 2024, the Company issued 1,500,000 common shares for services, with a grant date fair value of \$333,333.

During the six months ended June 30, 2024, there were 2,161,558 common shares issued for cash of \$429,133.

In June 2024, in connection with the conversion of convertible debentures, the Company issued 22,395,948 common shares and warrants valued at \$7,083,853.

Warrants

In April 2024, in connection with the settlement of certain convertible debentures, a total of 22,395,950 warrants to purchase the Company's stock were issued. The warrants are exercisable at a price of CAD\$1.50 per share (USD \$1.00) for a period of 24 months from the date of issuance. The Company recorded a derivative liability of \$824,427 related to the issuance of these warrants during the year ended December 31, 2024.

In August 2024, in connection with the equity issuance in 2024, a total of 2,742,519 warrants to purchase the Company's stock were issued. The warrants are exercisable at a price of CAD\$0.60 per share (USD \$0.42) for a period of 24 months from the date of issuance. The Company recorded a derivative liability of \$70,824 related to the issuance of these warrants during the year ended December 31, 2024.

In December 2024, in connection with the equity issuance in Q4 2024, a total of 10,815,100 warrants to purchase the Company's stock were issued. The warrants are exercisable at a price of CAD\$0.40 per share (USD \$0.29) for a period of 24 months from the date of issuance. The Company recorded a derivative liability of \$1,159,402 related to the issuance of these warrants during the year ended December 31, 2024.

16. Share Capital (continued)

The following table summarizes the warrants outstanding that remain outstanding as June 30, 2025:

Expiration Date	Outstanding	Exercise Price
November 9, 2025	94,834	\$ 0.37
April 19, 2026	22,395,950	\$ 1.10
August 19, 2026	2,742,519	\$ 0.44
December 9, 2026	8,473,500	\$ 0.29
December 15, 2026	2,341,600	\$ 0.29
May 24, 2028	5,687,500	\$ 0.59
Total warrants outstanding	41,735,903	

There were a total of 503,077 and 6,180,833 options granted during the six months ended June 30, 2025 and the year ended December 31, 2024, respectively. As of June 30, 2025 and December 31, 2024, there were 14,318,125 and 13,815,048, respectively, options outstanding. For the six months ended June 30, 2025 and the year ended December 31, 2024, there was \$493,337 and \$428,017, respectively, of share-based compensation expense related to the 2019 stock incentive plan.

Stock option activity is summarized as follows:

	Number of Stock Options	Weighted- Average Exercise Price	Weighted- Average Remaining Contractual Life	Aggregate Intrinsic Value
Balance as of December 31, 2023	13,479,874	\$ 0.72	\$ 4.21	\$ -
Granted	6,180,833	\$ 0.16	\$ 3.37	\$ -
Forfeited	(5,845,659)	\$ 0.96	\$ 4.18	\$ -
Balance as of December 31, 2024	13,815,048	\$ 0.39	\$ 3.71	\$ -
Granted	503,077	\$ 0.19	\$ 9.06	\$ -
Forfeited	-	\$ -	\$ -	\$ -
Balance as of June 30, 2025	14,318,125	\$ 0.38	\$ 3.90	\$ -

The Company used the Black-Scholes Option Pricing model to estimate the fair value of the options granted during the six months ended June 30, 2025 and the year ended December 31, 2024, using the following range of assumptions:

	June 30, 2025	December 31, 2024
Expected stock price volatility	156.11% - 239.57%	156.11% - 239.57%
Risk-free annual interest rate	4.11% - 5.23%	4.11% - 5.23%
Expected life (years)	1.5 – 9.8	1.5 – 6.5
Expected annual dividend yield	0.00%	0.00%

16. Share Capital (continued)

The following table summarizes the stock options that remain outstanding as of June 30, 2025:

Exercise Price	Date	Outstanding	Exercisable	Vesting Condition
\$ 0.65	February 2029	12,548	12,548	One year vesting
\$ 0.65	February 2029	76,009	76,009	Immediate vesting
\$ 0.65	February 2029	3,531,148	3,531,148	Three year vesting
\$ 0.65	February 2029	6,274	6,274	Immediate vesting
\$ 0.65	July 2029	2,824,918	2,824,918	Immediate vesting
\$ 0.65	February 2029	264,836	264,836	Immediate vesting
\$ 0.01	October 2030	887,112	887,112	One year vesting
\$ 1.05	October 2031	31,369	31,369	Immediate vesting
\$ 0.15	July 2034	66,667	66,667	Immediate vesting
\$ 0.15	July 2034	66,667	55,556	One year vesting
\$ 0.15	July 2034	200,000	55,556	Three year vesting
\$ 0.25	October 2026	300,000	33,333	One year vesting
\$ 0.15	November 2029	3,290,000	1,919,167	One year vesting
\$ 0.15	October 2029	60,000	15,000	One year vesting
\$ 0.20	January 2035	443,077	221,539	Immediate vesting
\$ 0.15	November 2029	1,957,500	1,141,875	One year vesting
\$ 0.25	November 2029	300,000	175,000	One year vesting
		<u>14,318,125</u>	<u>11,317,907</u>	

Restricted Share Unit Plan

In December 2022, the Company formally adopted the Restricted Share Unit Plan (“RSU Plan”). The RSU Plan permits the Board of Directors of the Company to grant Restricted Share Units (“RSU’s”) to employees and non-employees to acquire common shares of the Company at fair market value on the date of approval by the Board of Directors. Vesting is determined on an award-by-award basis. During the six months ended June 30, 2025 and the year ended December 31, 2024, 0 and 6,939,253 units were granted, 3,065,844 and 1,330,852 units were vested, 0 and 0 were forfeited, and 0 and 0 were exercised, respectively. For the six months ended June 30, 2025 and the year ended December 31, 2024, the Company recognized share-based compensation expense of \$465,588 and \$539,772, respectively, for units that were vested. The average grant-date fair value of the RSU’s during the year ended December 31, 2024 was \$0.14.

Restricted share unit activity is summarized as follows:

	Number of Restricted Share Units	Weighted- Average Exercise Price	Weighted- Average Remaining Contractual Life	Aggregate Intrinsic Value
Balance as of December 31, 2023	253,333	\$ 0.71	\$ 3.96	\$ -
Granted	6,939,253	\$ 0.15	\$ 4.29	\$ -
Forfeited	-	\$ -	\$ -	\$ -
Balance as of December 31, 2024	7,192,586	\$ 0.17	\$ 4.23	\$ -
Granted	-	\$ -	\$ -	\$ -
Forfeited	-	\$ -	\$ -	\$ -
Balance as of June 30, 2025	7,192,586	\$ 0.17	\$ 4.23	\$ -

16. Share Capital (continued)

The Company used the Black-Scholes Option Pricing model to estimate the fair value of the restricted share units granted during the years ended December 31, 2024, using the following range of assumptions:

	<u>December 31, 2024</u>
Expected stock price volatility	175.40% - 190.53%
Risk-free annual interest rate	4.10% - 4.20%
Expected life (years)	2.5 – 3.0
Expected annual dividend yield	0.00%

Reserves

Reserves includes accumulated foreign currency translation adjustments and the accumulated fair value of share-based compensation and warrants transferred from share-based payment reserve and warrant reserve upon cancellation or expiry of the share options and warrants.

17. Income tax expense

The following table summarizes the Company's income tax expense and effective tax rates for the six months ended June 30, 2025 and 2024:

	<u>2025</u>	<u>2024</u>
Loss before income taxes	\$ (1,338,419)	\$ (6,487,993)
Income tax expense	1,329,004	1,761,309
Effective tax rate	(99.3%)	(27.1%)

The effective tax rates for the six months ended June 30, 2025 and 2024 were based on the Company's forecasted annualized effective tax rates and were adjusted for discrete items that occurred within the periods presented.

Due to its cannabis operations, the Company is subject to the limitations of the U.S. Internal Revenue Code of 1986, as amended ("IRC") Section 280E under which the Company is only allowed to deduct expenses directly related to sales of product. This results in permanent differences between ordinary and necessary business expenses deemed non-allowable under IRC Section 280E. Therefore, the effective tax rate can be highly variable and may not necessarily correlate with pre-tax income and provides for effective tax rates that are well in excess of statutory tax rates.

18. Non-controlling interest

Non-controlling interest represents the net assets of the subsidiaries the Company does not directly own. The net assets of the non-controlling interest are represented by equity holders outside of the Company. As of June 30, 2025 and December 31, 2024 the Company held a 100.00% interest, respectively, in an investment subsidiary Aya Biosciences, Inc. During the year ended December 31, 2024, the Company acquired the remaining interest. This entity is included in the financial statements with a resulting non-controlling interest reflected therein. Non-controlling interests are included as a component of shareholders' equity.

18. Non-controlling interest (continued)

A reconciliation of the beginning and ending balances for non-controlling interests for the year ended December 31, 2024 is as follows:

	2024
Balance as of beginning of period	\$ 3,649,489
Acquisition of remaining interest in Aya Biosciences	(3,649,489)
Share of loss	-
Balance as of end of period	\$ -

As of June 30, 2025 and December 31, 2024, there were no remaining non-controlling interests outstanding.

19. Commitments and contingencies

Contingencies

The Company's operations are subject to a variety of local and state regulations. Failure to comply with one or more of these regulations could result in fines, restrictions on its operations, or losses of permits that could result in the Company ceasing operations. While management of the Company believes that the Company is in compliance with applicable local and state regulations as of June 30, 2025 and December 31, 2024, marijuana regulations continue to evolve and are subject to differing interpretations. In addition, the use, sale, and possession of cannabis in the United States, despite state laws, is illegal under federal law. However, individual states have enacted legislation permitting exemptions for various uses, mainly for medical and industrial use but also including recreational use. As a result of the differing state and federal laws, the Company may be subject to regulatory fines, penalties or restrictions in the future.

Claims and Litigation

From time to time, the Company may be involved in litigation relating to claims arising out of operations in the normal course of business. As of June 30, 2025 and December 31, 2024, there were no pending or threatened lawsuits that could reasonably be expected to have a material effect on the results of the Company's operations. As of June 30, 2025 and December 31, 2024 there are also no proceedings in which any of the Company's directors, officers or affiliates is an adverse party to the Company or has a material interest adverse to the Company's interest.

20. Earnings (Loss) Per Share

The following is a reconciliation for the calculation of net income (loss) attributable to the Company and the basic and diluted earnings (loss) per share for the six months ended June 30, 2025 and 2024:

	Six Months Ended	
	June 30, 2025	June 30, 2024
Net Income (Loss) Attributable to the Company	\$ (2,667,766)	\$ (8,097,508)
Weighted-Average Shares Outstanding – Basic and Dilutes	175,085,129	126,128,494
Earnings (Loss) Per Share Attributable to the Company – Basic and Diluted	\$ (0.02)	\$ (0.06)

Net loss attributable to the Company, as reported, is adjusted for dividends and various other adjustments as defined in ASC 260, *Earnings Per Share*.

20. Earnings (Loss) Per Share (continued)

After adjustments as defined in ASC 360, if the Company is in a net loss position, diluted loss per share is the same as basic loss per share when the issuance of shares on the exercise of convertible debentures, warrants, share options are anti-dilutive. After adjustments, as defined in ASC 360, if the Company is in a net income position, diluted earnings per share includes options, warrants, convertible debt and contingently issuable shares that are determined to be dilutive using the treasury stock method for all equity instruments issuable in equity units and the “if converted” method for the Company’s convertible debt.

21. Subsequent Events

The Company has evaluated subsequent events for adjustment to or disclosure in its consolidated financial statements through the date of this report, and has not identified any recordable or disclosable events, not otherwise reported in these consolidated financial statements or the notes thereto, except those noted below.

Subsequent to June 30, 2025, the Company has raised gross proceeds of C\$2,090,890 through the issuance of 8,363,560 units (the "Units") at a price of C\$0.25 per Unit, representing approximately twice the size of the original offering.

Each Unit consists of one common share and one common share purchase warrant (a "Warrant"). Each Warrant entitles the holder to purchase one additional common share of the Company at a price of C\$0.30 for a period of 24 months from the closing date of the offering.