SLANG WORLDWIDE

Unaudited Interim Condensed Consolidated Financial Statements

For the three months ended March 31, 2023 and 2022

NOTICE TO READER

These interim condensed consolidated financial statements of SLANG Worldwide Inc. have been prepared by management and approved by the Board of Directors of the Company.

In accordance with National Instrument 51-102, Part 4, subsection 4.3(3)(a), released by the Canadian Securities Administrators, the Company discloses that its external auditor has not reviewed these interim condensed consolidated financial statements, notes to the interim condensed consolidated financial statements, or the related Management's Discussion and Analysis.

SLANG Worldwide Inc.

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SLANG Worldwide Inc.
Unaudited Interim Condensed Consolidated Statements of Financial Position
(Expressed in Canadian dollars)

At	Notes	(Unaudited) March 31, 2023	(Audited) December 31, 2022
Assets			
Current			
Cash		**$7,600,048**	$7,848,935
Accounts receivable	5	**2,415,858**	2,658,554
Other receivables	6	**259,519**	174,345
Prepaid and other deposits	9	**1,035,483**	1,464,276
Inventories	7	**6,625,687**	6,468,792
Biological assets	8	**517,501**	610,024
Assets held for sale	23	**533,488**	534,032
Total current assets		**18,987,584**	19,758,958
Restricted cash	4	**4,066,701**	4,070,850
Investments, at fair value	10	**1,136,584**	1,111,635
Right of use assets	15	**4,523,006**	4,674,321
Property, plant and equipment	12	**2,733,601**	2,744,141
Intangible assets	13	**9,236,358**	9,707,838
Goodwill	14	**686,920**	687,621
Total assets		**$41,370,754**	$42,755,364
Liabilities			
Current			
Accounts payable and accrued liabilities	16	**$4,842,704**	$5,622,740
Current portion of notes payable	19	**49,604**	57,168
Current portion of lease liabilities	20	**620,594**	589,228
Contract liability	17	**47,758**	51,680
Deferred cash consideration	18	**-**	339,238
Current portion of contingent consideration	18	**-**	2,851,435
Liabilities held for sale	23	**320,712**	337,275
Income tax payable	29	**538,800**	-
Total current liabilities		**6,420,172**	9,848,764
Notes payable	19	**756,114**	762,296
Lease liabilities	20	**5,098,045**	5,237,676
Derivative liabilities	21	**155,141**	220,559
Convertible debentures	21	**16,203,586**	14,208,893
Total liabilities		**28,633,058**	30,278,188
Shareholders' equity			
Share capital	22	**44,973,198**	44,950,354
Restricted share capital	22	**41,401,910**	38,906,904
Share capital to be issued	22	**414,219**	414,219
Warrants	22	**7,194,772**	7,194,772
Contributed surplus	22	**20,080,474**	20,007,724
Foreign currency translation reserve		**(1,948,219)**	(1,949,470)
Deficit		**(99,378,658)**	(97,047,327)
Total shareholders' equity		**12,737,696**	12,477,176
Total liabilities and shareholders' equity		**$41,370,754**	$42,755,364

SLANG Worldwide Inc.
Unaudited Interim Condensed Consolidated Statements of Loss and Comprehensive Loss
(Expressed in Canadian dollars)

For the three months ended March 31,	Notes	2023	2022
Revenue			
Product and licensing revenue	32	**$10,743,906**	$8,308,160
Interest and other income		**79,185**	65,470
Total revenue		**10,823,091**	8,373,630
Cost of goods sold		**5,141,302**	4,734,551
Gross profit before fair value adjustment of biological assets		**5,681,789**	3,639,079
Realized fair value amounts included in inventory sold	7	**(423,463)**	(513,455)
Unrealized gain on changes in fair value of biological assets	8	**457,077**	529,602
Gross profit		**5,715,403**	3,655,226
Expenses			
Salaries and wages	30	**2,681,272**	2,813,566
General and administrative	26	**990,629**	774,796
Depreciation and amortization	12, 13, 15	**577,393**	1,168,181
Professional fees		**462,454**	377,434
Insurance	27	**379,591**	550,089
Sales and marketing		**315,367**	415,018
Consulting and subcontractors	30	**275,725**	656,080
Share based payments	22, 30	**95,750**	651,446
Expected credit losses	5	**-**	79,688
Total expenses		**5,778,181**	7,486,298
Loss from operations		**(62,778)**	(3,831,072)
Financing cost and fair value adjustment	25	**1,803,294**	(115,074)
Other expense (income)	28	**(73,541)**	473,958
Loss before income taxes		**(1,792,531)**	(4,189,956)
Income tax expense	29	**538,800**	-
Net loss from continuing operations		**(2,331,331)**	(4,189,956)
Net loss from discontinued operations, net of tax	24	**-**	(197,005)
Net loss		**(2,331,331)**	(4,386,961)
Other comprehensive loss for the year			
Amounts that may be reclassified subsequently to profit or loss:			
Currency translation adjustment		**1,251**	(127,525)
Total comprehensive loss for the period		**$(2,330,080)**	$(4,514,486)
Net loss per common and restricted voting share			
Basic and Diluted		**$(0.02)**	$(0.04)
Basic and Diluted - Continuing Operations		**$(0.02)**	$(0.04)
Basic and Diluted - Discontinued Operations		**$-**	**$-**
Weighted average number of common and restricted voting shares outstanding			
Basic and Diluted		152,346,573	94,135,072

SLANG Worldwide Inc.

Unaudited Interim Condensed Consolidated Statements of Changes in Shareholders' Equity

(Expressed in Canadian dollars)

	Common share Capital	Restricted voting share capital	Share capital to be issued	Warrants	Contributed surplus	Foreign currency translation reserve	Deficit	Total
Balance, December 31, 2021	**$31,322,953**	**$48,408,216**	**$1,328,073**	**$7,194,772**	**$19,257,412**	**$(2,564,132)**	**$(66,779,065)**	**$38,168,229**
Net loss for the period	-	-	-	-	-	-	(4,386,961)	(4,386,961)
Exchange differences on translation of foreign operations	-	-	-	-	-	(127,525)	-	(127,525)
Stock based compensation expense	-	-	-	-	63,662	-	-	63,662
Restricted share unit compensation	-	-	-	-	87,944	-	-	87,944
Share exchange of restricted voting shares to common shares	8,109,359	(8,109,359)	-	-	-	-	-	-
Issued pursuant to consulting agreements		507,120	(7,280)	-	-	-	-	499,840
Issued pursuant to conversion of RSUs	858,230	-	(722,616)	-	(147,000)	-	-	(11,386)
Shares issued to employees	9,667	-	(9,667)	-	-	-	-	-
Balance, March 31, 2022	**$40,300,209**	**$40,805,977**	**$588,510**	**$7,194,772**	**$19,262,018**	**$(2,691,657)**	**$(71,166,026)**	**$34,293,803**
Balance, December 31, 2022	**$44,950,354**	**$38,906,904**	**$414,219**	**$7,194,772**	**$20,007,724**	**$(1,949,470)**	**$(97,047,327)**	**$12,477,176**
Net loss for the period	-	-	-	-	-	-	(2,331,331)	(2,331,331)
Exchange differences on translation of foreign operations	-	-	-	-	-	1,251	-	1,251
Stock based compensation expense	-	-	-	-	93,639	-	-	93,639
Restricted share unit compensation	-	-	-	-	2,111	-	-	2,111
Issued pursuant to conversion of RSUs	22,844	-	-	-	(23,000)	-	-	(156)
Issued pursuant to business combinations	-	2,495,006	-	-	-	-	-	2,495,006
Balance, March 31, 2023	**$44,973,198**	**$41,401,910**	**$414,219**	**$7,194,772**	**$20,080,474**	**$(1,948,219)**	**$(99,378,658)**	**$12,737,696**

SLANG Worldwide Inc.
Unaudited Interim Condensed Consolidated Statements of Cash Flows
(Expressed in Canadian dollars)

For the three months ended March 31,	Notes	2023	2022
Cash flows from (used in) operating activities			
Net loss from continuing operations		**$(2,331,331)**	$(4,189,956)
Items not affecting cash			
Fair value adjustment on derivative liabilities	21	**(65,418)**	(1,404,081)
Share based payments	22	**95,750**	651,446
Accretion expense	20, 21, 23	**1,538,676**	650,100
Depreciation and amortization	12, 13, 15	**577,393**	1,168,181
Depreciation - cost of sales	12, 13, 15	**164,502**	303,803
Interest not paid in cash	21	**663,486**	555,657
Income tax expense	29	**538,800**	-
Interest not received in cash		**(26,034)**	(1,512)
Realized gain on changes in fair value of inventory sold	7	**423,463**	-
Unrealized gain on changes in fair value of biological assets	8	**(457,077)**	(529,602)
Unrealized exchange loss		**13,605**	474,187
Fair value adjustment on financial instruments	18	**(356,429)**	(123,746)
Expected credit losses	5	**-**	79,688
Inventory write-off	7	**34,749**	40,959
Gain on sale of Trētap assets	28	**(102,675)**	-
Loss on sale of capital assets	28	**-**	1,083
		711,460	(2,323,793)
Changes in non-cash working capital balances:			
Accounts payable and accrued liabilities		**(765,973)**	(2,084,914)
Accounts receivable		**226,332**	155,750
Prepaid and other deposits		**447,009**	(53,849)
Inventory		**123,367**	1,701,752
Contract liability		**(3,861)**	(520,995)
Other receivables		**(104,291)**	166,233
Income tax receivable		**-**	3,545
Biological assets		**(266,370)**	(222,690)
Cash flows from (used in) operating activities - continuing operations		**367,673**	(3,178,961)
Cash flows used in operating activities - discontinued operations	24	**-**	(200,120)
Net cash from (used in) operating activities		**367,673**	(3,379,081)
Cash flows used in financing activities			
Withholding taxes on RSU issuances and shares issued to employees		**(156)**	(11,386)
Net advances to due to related parties		**-**	(5,379)
Repayment of notes payable		**(12,881)**	(14,179)
Lease payments		**(353,626)**	(122,489)
Cash flows used in financing activities - continuing operations		**(366,663)**	(153,433)
Cash flows used in financing activities - discontinued operations	24	**-**	(49,926)
Net cash used in financing activities		**(366,663)**	(203,359)

SLANG Worldwide Inc.
Unaudited Interim Condensed Consolidated Statements of Cash Flows
(Expressed in Canadian dollars)

For the three months ended March 31,	Notes	2023	2022
Cash flows from (used in) investing activities			
Advances on investments, fair value	10	**-**	(326,785)
Net advances to due from related parties		**-**	(78,907)
Cash paid on acquisitions	18	**(334,201)**	-
Purchase of property, plant and equipment	12	**(117,666)**	(44,529)
Purchase of intangibles	13	**-**	(15,518)
Proceeds on sale of Trētap assets	28	**207,111**	-
Proceeds on disposal of property, plant and equipment	12	**-**	5,632
Cash flows used in investing activities - continuing operations		**(244,756)**	(460,107)
Cash flows used in investing activities - discontinued operations	24	**-**	(25,324)
Net cash used in investing activities		**(244,756)**	(485,431)
Net decrease in cash		**(243,746)**	(4,067,871)
Exchange rate changes on foreign currency cash balances		**(9,290)**	(206,589)
Cash and restricted cash, beginning of period	4	**11,919,785**	20,831,048
Cash and restricted cash, end of period		**11,666,749**	16,556,588
Cash, end of period		**$7,600,048**	$12,807,788
Restricted cash, end of period		**$4,066,701**	$3,748,800

Supplemental cash flow information			
Interest paid		**$196,559**	$163,710
Other non-cash financing and investing activities			
Restricted voting shares issued on business combinations	18	**$2,495,006**	$-

1. Nature of operations

Slang Worldwide Inc. formerly known as Fire Cannabis Inc., (the "Company") was incorporated on May 29, 2017, under the laws of Canada Business Corporations Act. On November 26, 2018, the Company filed articles of amendment to change its name to SLANG Worldwide Inc.

The Company's head office and principal address is located at 50 Carroll Street, Toronto, Ontario, M4M 3G3. The Company's registered and records office is located at 77 King Street West, Suite 400, Toronto, Ontario, M5K 1A2. The Company is listed on the Canadian Securities Exchange ("CSE") under the symbol SLNG and is quoted on the OTC Markets ("OTCMKTS") under the symbol SLGWF. The Company is also quoted on the Frankfurt Stock Exchange under the trading symbol 84S.

The Company invests and operates in the cannabis industry through a portfolio of entities which provide cannabis products, brands, and services to the global market. The Company invests in entities that have a consumer centric product portfolio with brands that have widespread distribution.

The interim condensed consolidated financial statements were approved by the Company's Board of Directors on May 23, 2023.

2. Basis of presentation

a) Statement of compliance

The Company's interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standards ("IAS") 34, "Interim financial reporting". These interim condensed consolidated financial statements do not include all notes of the type normally included within the annual financial report and should be read in conjunction with the audited consolidated financial statements of the Company for the year ended December 31, 2022, which have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and Interpretations of the IFRS Interpretations Committee ("IFRIC"). The same accounting policies are applied in these unaudited interim condensed consolidated financial statements as those disclosed in the notes to the annual consolidated financial statements for the year ended December 31, 2022.

b) Basis of measurement

The Company's interim condensed consolidated financial statements have been prepared on a historical cost basis except for biological assets and certain financial instruments which are measured at fair value.

(Expressed in Canadian dollars)

2. Basis of presentation, continued

c) Basis of consolidation

The interim condensed consolidated financial statements for the three months ended March 31, 2023 comprise of the financial results of the Company and its subsidiaries, which are the entities over which the Company has control. Control exists when the Company has power over an investee, when the Company is exposed, or has rights, to variable returns from the investee and when the Company has the ability to affect those returns through its power over the investee. The financial statements of subsidiaries are fully consolidated from the date that control commences and de-consolidated from the date control ceases. The interim condensed consolidated financial statements of the Company include:

Name	Percentage Control
Slang Colorado RE, Inc. (previously, The Purple Organization, Inc.)	100%
National Concessions Group, Inc. ("NCG")	100%
Slang Investments, Inc.	100%
Slang Colorado Distribution, Inc. ("SCD")	100%
Slang Oregon, Inc.	100%
LBA CBD, LLC ("CBD")	100%
CHC Laboratories, Inc. ("CHC")	100%
Hydra Oregon, LLC (dba, Lunchbox Distribution) ("LBD")	100%
Slang Colorado Cultivation, Inc. ("SCC")	100%
Allied Concessions Group, Inc. ("ACG")	100%
Slang Colorado Manufacturing, Inc. ("SCM")	100%
Slang NonPT Holdco, Inc.	100%
Slang PT Holdco, Inc.	100%
Slang Colorado, Inc.	100%
Slang Colorado RE1, LLC	100%
Slang Oregon Holdings, Inc.	100%
Slang Vermont, Inc.	100%
Champlain Valley Dispensary, Inc. ("CVD")	100%
Ceres, LLC ("Ceres")	100%
Oregon OV, LLC (*)	100%
GNT Oregon, LLC ("GNT") (*)	100%

(*) Acquired on April 12, 2022

The non-operational dormant entities include Slang NonPT Holdco Inc., Slang PT Holdco Inc., Slang Vermont, Inc, and Slang Colorado, Inc.

The functional currency of the Company and Slang Investments, Inc. is the Canadian Dollar which is also the presentation currency of the consolidated financial statements. The functional currency of all other companies is the US dollar.

(Expressed in Canadian dollars)

3. Significant accounting judgements and estimation uncertainties

The preparation of financial statements under IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities and revenue and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

The significant judgements made by management in applying the Company's accounting policies and the key sources of estimation were the same as those described in the last audited consolidated financial statements.

4. Restricted cash

On November 15, 2021, the Company entered into a loan transaction for aggregate gross proceeds of US$17,319,588 (Note 21, SAI Convertible Debenture). Under the terms of the agreement, the Company shall maintain a minimum aggregate cash balance until maturity of US$3,000,000 (equivalent to $4,066,701 and $4,070,850 at March 31, 2023 and December 31, 2022, respectively). The balance has been recorded as a non-current asset on the interim condensed consolidated statement of financial position because the cash is restricted from being used to settle the Company's liabilities for at least 12 months after the reporting period.

5. Accounts receivable

	March 31, 2023	December 31, 2022
Accounts receivable	**$2,554,133**	$2,867,886
Expected credit losses	**(138,275)**	(209,332)
	$2,415,858	$2,658,554

Expected credit losses decreased by $71,057, which is attributable to $70,684 in previously allowed for accounts written off and a gain on translation of foreign operations of $373 recorded in other comprehensive loss.

6. Other receivables

	March 31, 2023	December 31, 2022
Indirect tax receivable	**$62,190**	$154,782
Other receivables	**197,329**	19,563
	$259,519	$174,345

(Expressed in Canadian dollars)

7. Inventories

	March 31, 2023	December 31, 2022
Finished goods - cannabis	**$1,601,427**	$2,044,902
Finished goods - non-cannabis	**924,136**	762,507
Raw materials - cannabis	**447,725**	514,432
Raw materials - non-cannabis	**578,785**	225,597
Work-in-progress - cannabis	**3,073,614**	2,921,354
	$6,625,687	$6,468,792

The Company provides for slow-moving inventory, not expected to be consumed or realized in cash in its normal operating cycle. At March 31, 2023 and December 31, 2022, no slow-moving inventory was recognized. Inventory is also periodically reviewed for potential obsolescence, and the Company writes down inventory based on its assessment of market conditions. During the three months ended March 31, 2023, there were no indications that the net book value of inventories exceeded the net realizable value and no write down was required at March 31, 2023 (December 31, 2022 - $ Nil).

During the three months ended March 31, 2023, the total inventory expensed through cost of goods sold was $4,826,829 from continuing operations (2022 - $3,325,127). Realized fair value adjustments included in inventory sold was $423,463 for the three months ended March 31, 2023 (2022 - $513,455).

8. Biological assets

The Company's biological assets consist of 1,430 (2022 – 1,142) cannabis plants at March 31, 2023. The reconciliation of biological assets is as follows:

	March 31, 2023	December 31, 2022
Opening balance	**$610,024**	$668,149
Increase in fair value due to biological transformation	**457,077**	1,798,832
Capitalized costs	**266,370**	1,257,506
Transferred to inventories upon harvest	**(815,139)**	(3,156,323)
Currency translation	**(831)**	41,860
Ending balance	**$517,501**	$610,024

The Company's biological assets consist of unharvested cannabis plants and are presented at their fair values less costs to sell up to the point of harvest. The fair value measurements for biological assets have been categorized as Level 3 in the fair value hierarchy based on the inputs to the valuation technique used. The fair value was determined using a market approach where fair value at the point of harvest is estimated based on future selling prices less the costs to sell at harvest. For in-process biological assets, the estimated fair value at the point of harvest is adjusted based on the plants' stage of growth, which is determined by reference to days remaining to harvest over the average growth cycle.

The Company's estimates, by their nature, are subject to changes that could result from volatility of market prices, unanticipated regulatory changes, harvest yields, loss of crops, changes in estimates and other uncontrollable factors that could significantly affect the future fair value of biological assets.

(Expressed in Canadian dollars)

8. Biological assets, continued

Dry Bud

The dry bud valuation model utilizes the following significant assumptions.

	Inputs as on	
Significant assumptions	**March 31, 2023**	December 31, 2022
Estimated selling price	**$5.42/gram**	$5.42/gram
Expected yields for cannabis plants (average grams per plant)	**77.75**	77.75
Post-harvest cost to complete and sell	**$0.75/gram**	$0.75/gram

Trim for Extraction

The trim for extraction valuation model utilizes the following significant assumptions:

	Inputs as on	
Significant assumptions	**March 31, 2023**	December 31, 2022
Estimated selling price	**$2.85/gram**	$2.85/gram
Expected yields for cannabis plants (average grams per plant)	**129.68**	129.68
Post-harvest cost to complete and sell	**$0.07/gram**	$0.07/gram

The average selling price per gram, expected yield per plant, and post-harvest cost to complete and sell reflect the associated selling price per gram of dried cannabis flower and trim, the conversion of cannabis plants into dried flower and trim and the post-harvest production and selling costs of dried flower and trim for the three months ended March 31, 2023. During the three months ended March 31, 2023, the Company determined the estimated selling price based on the average selling price of dried cannabis flower and trim in the Vermont market.

The following table presents the potential effect of a 10% change in any of the significant assumptions, on the fair valuation of biological assets at March 31, 2023 and December 31, 2022 which would be reported as part of the gross profit (loss) on the statement of loss and comprehensive loss:

	March 31, 2023	December 31, 2022
Estimated selling price	**$41,737**	$49,149
Expected yields for cannabis plants (average grams per plant)	**$38,176**	$44,956

9. Prepaid and other deposits

At March 31, 2023 and December 31, 2022, prepaid expenses constitute deposits on future purchases of inventory and deposits for goods and services, primarily related to insurance, rent, and software subscriptions, that have yet to be received at period end.

10. Investments, at fair value

On January 11, 2022, the Company entered into a loan in the amount of US$50,000 with Woah Flow, LLC ("Borrower"). The loan was amended on March 2, 2022, updating the loan limit amount to a maximum of US$3,000,000 (the "Amended Grid Note"). The loan is convertible to 70% of the membership interests in the Borrower and as such, has been measured at fair value through profit or loss. During the three months ended March 31, 2023, the Company made principal advances of $Nil (2022 - US$258,419 equivalent to CAD$326,785). Furthermore, during the three months ended March 31, 2023, $26,036 (2022 - $1,512) of interest income, and an $1,084 unrealized foreign exchange loss (2022 - $3,434) was recognized in the consolidated statement of loss and comprehensive loss. At March 31, 2023, the fair value of the convertible loan is $1,136,584 (2022 - $1,111,635).

11. Investment in associate

The Company holds a 20% ownership share in Agripharm Corp. ("Agripharm"), a licensed producer located in Creemore, Ontario. The carrying value of the investment at March 31, 2023 and December 31, 2022 was $Nil.

(Expressed in Canadian dollars)

12. Property, plant and equipment

	Office equipment	Equipment and machinery	Computer equipment and fixtures	Leasehold improvements	Vehicles	Building and land improvements	Construction in progress	Total
Cost								
Balance, December 31, 2022	$205,103	$1,985,199	$85,391	$722,908	$28,348	$989,668	$56,771	$4,073,388
Additions	6,229	81,272	-	30,165	-	-	-	117,666
Transfer	-	-	-	56,585	-	-	(56,585)	-
Currency translation	(195)	(1,839)	(87)	(540)	(29)	(1,009)	(186)	(3,885)
Balance, March 31, 2023	**$211,137**	**$2,064,632**	**$85,304**	**$809,118**	**$28,319**	**$988,659**	**$-**	**$4,187,169**
Accumulated depreciation								
Balance, December 31, 2022	$141,426	$867,428	$56,671	$153,183	$18,032	$92,507	$-	$1,329,247
Depreciation expense	8,082	69,090	4,018	31,729	1,816	10,650	-	125,385
Currency translation	(122)	(725)	(49)	(84)	(14)	(70)	-	(1,064)
Balance, March 31, 2023	**$149,386**	**$935,793**	**$60,640**	**$184,828**	**$19,834**	**$103,087**	**$-**	**$1,453,568**
Net book value, March 31, 2023	**$61,751**	**$1,128,839**	**$24,664**	**$624,290**	**$8,485**	**$885,572**	**$-**	**$2,733,601**

(Expressed in Canadian dollars)

13. Intangible assets

	Notes	Proprietary technology and know how	Brands	Distributor and customer relationships	Licenses	Software	Total
Cost							
Balance, December 31, 2022		$8,941,376	$25,914,368	$10,426,163	$1,175,943	$554,035	$47,011,885
Disposals	28	-	(41,468)	-	(741)	-	(42,209)
Currency translation		(9,112)	(26,506)	(10,626)	(1,200)	-	(47,444)
Balance, March 31, 2023		**$8,932,264**	**$25,846,394**	**$10,415,537**	**$1,174,002**	**$554,035**	**$46,922,232**
Accumulated amortization							
Balance, December 31, 2022		$8,905,121	$21,057,295	$7,137,611	$185,552	$18,468	$37,304,047
Amortization expense		4,517	223,282	136,574	39,427	27,702	431,502
Disposals	28	-	(11,820)	-	(741)	-	(12,561)
Currency translation		(9,066)	(20,982)	(6,965)	(101)	-	(37,114)
Balance, March 31, 2023		**$8,900,572**	**$21,247,775**	**$7,267,220**	**$224,137**	**$46,170**	**$37,685,874**
Net book value, March 31, 2023		**$31,692**	**$4,598,619**	**$3,148,317**	**$949,865**	**$507,865**	**$9,236,358**

(Expressed in Canadian dollars)

14. Goodwill

	CBD CGU	SCM CGU	CVD & Ceres CGU	Total
Balance, December 31, 2021	$299,907	$342,538	$1,938,857	$2,581,302
Impairment	-	-	(1,989,780)	(1,989,780)
Currency translation	21,089	24,087	50,923	96,099
Balance, December 31, 2022	320,996	366,625	-	687,621
Currency translation	(327)	(374)	-	(701)
Balance, March 31, 2023	**$320,669**	**$366,251**	**$-**	**$686,920**

Goodwill is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it may be impaired. At March 31, 2023, there were no events or changes in circumstances that indicate goodwill is impaired.

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(Expressed in Canadian dollars)

15. Right-of-use assets

	March 31, 2023	December 31, 2022
Opening balance	**$4,674,321**	$4,487,126
Additions from asset acquisition	**-**	423,942
Additions due to modifications	**-**	598,111
Additions	**38,790**	-
Depreciation	**(185,008)**	(791,713)
Termination of leases	**-**	(3,112)
Impairment	**-**	(368,286)
Currency translation	**(5,097)**	328,253
Closing balance	**$4,523,006**	$4,674,321

16. Accounts payable and accrued liabilities

Accounts payable and accrued liabilities consist of the following:

	March 31, 2023	December 31, 2022
Accounts payable	**$2,654,469**	$2,607,365
Accrued liabilities	**1,666,751**	2,441,199
Government remittances	**521,484**	574,176
	$4,842,704	$5,622,740

17. Contract liability

At March 31, 2023, the contract liability of $47,758 (2022 - $51,680) is a result of contracts with customers whereby the Company has an obligation to transfer goods to the customers for which consideration has been received. Contract liabilities are recognized as revenue as (or when) the Company performs under the contract.

18. Contingent and deferred cash consideration

Contingent consideration is summarized as follows:

	Notes	**March 31, 2023**	December 31, 2022
Opening balance		**$2,851,435**	$7,140,250
Issuance of restricted voting shares	22	**(2,495,006)**	-
Fair value gain	25	**(356,429)**	(4,288,815)
		$-	$2,851,435

On February 13, 2023, the Company issued an aggregate of 100,167,654 restricted voting shares at a fair value of $2,495,006 to the former shareholders of High Fidelity, Inc. (“HiFi”), as post-closing additional consideration in connection with the Vermont regulators issuing a retail marijuana license to the Company on September 28, 2022.

(Expressed in Canadian dollars)

18. Contingent and deferred cash consideration, continued

Deferred cash consideration is summarized as follows:

	March 31, 2023	December 31, 2022
Opening balance	**$339,238**	$2,493,332
Payment	**(334,201)**	(2,382,438)
Foreign currency exchange (gain) loss	**(5,037)**	228,344
	$-	$339,238

On January 25, 2023, the Company paid US$250,000 (CAD - $334,201) in deferred cash consideration related to the acquisition of High Fidelity, Inc.

19. Notes payable

The following transactions occurred on the notes for the period ended March 31, 2023 and year ended December 31, 2022:

	Notes	March 31, 2023	December 31, 2022
Opening balance		**$819,464**	$1,767,106
Notes assumed on asset acquisition		**-**	559,300
Settlement of pre-existing relationship on asset acquisition		**-**	(927,263)
Repayments		**(12,881)**	(572,215)
Gain on extinguishment	25	**-**	(117,342)
Accrued interest		**-**	66,693
Currency translation		**(865)**	43,185
		805,718	819,464
Less: current portion		**(49,604)**	(57,168)
		$756,114	$762,296

Estimated principal repayments are as follows:

Less than 1 year	**$49,604**
One year	**38,429**
Two years	**717,685**
	$805,718

HiFi

Prior to the acquisition of HiFi by the Company, HiFi entered into various note agreements, which were assumed by the Company on the acquisition of HiFi. These notes are outlined below:

Convertible promissory note agreements with two third parties for a total principal amount of US$50,000. The conversion options expired March 12, 2021. The notes are unsecured, bear interest at 10% per annum, and mature on March 9, 2025. The balance of these notes total $44,516 at March 31, 2023 (2022 - $44,562) with $21,911 (2022 - $21,936) presented in current portion of notes payable.

(Expressed in Canadian dollars)

19. Notes payable, continued

Convertible promissory note agreement with a third party for a total principal amount of US$50,000. The conversion option expired March 12, 2021. The note is unsecured, bears interest at 10% per annum, and matures March 11, 2026. The balance of this note is $44,630 at March 31, 2023 (2022 - $47,832), with $13,422 (2022 - $13,106), presented in current portion of notes payable.

Promissory note agreement with a third party for a total principal amount of US$50,000. The note is secured by equipment of the Company, bears interest at 10% per annum, and matures July 1, 2023. The balance of this note is $4,249 at March 31, 2023 (2022 - $9,763), which is presented in current portion of notes payable.

Promissory note agreement with a third party for a total principal amount of US$41,456. The note is secured by equipment of the Company, bears interest at 6% per annum, and matures June 14, 2023. The balance of this note is $2,436 at March 31, 2023 (2022 - $4,843), which is presented in current portion of notes payable.

Promissory note agreement with a third party for a total principal amount of US$27,232. The note is unsecured, bears interest at 3.75% per annum, and matures June 15, 2025. The balance of this note is $17,959 at March 31, 2023 (2022 - $19,829), with $7,586 (2022 - $7,520) presented in current portion of notes payable.

On November 11, 2021, the Company amended four unsecured promissory note agreements with a former majority shareholder of HiFi. The amendment combined the outstanding balance to one agreement and modified various loan terms. Under the new terms of the note, the maturity date was extended to June 30, 2025 and the outstanding interest of 10% per annum and the principal amount is due at maturity. On amendment, the outstanding principal and interest was US$510,435 and US$9,219, respectively. As at March 31, 2023, the outstanding balance of the loan was $691,929 (2022 - $692,635). During the three months ended March 31, 2023, interest expense of $17,061 (2022 - $15,936) was recorded in the interim condensed consolidated statement of loss and comprehensive loss.

20. Lease liabilities

	March 31, 2023	December 31, 2022
Opening balance	**$5,826,904**	$4,952,295
Additions from asset acquisition	**-**	417,073
Additions due to modifications	**-**	586,661
Additions	**38,790**	-
Lease payments	**(325,038)**	(1,174,318)
Accretion expense	**184,153**	670,681
Termination of leases	**-**	(8,413)
Currency translation	**(6,170)**	382,925
Closing balance	**$5,718,639**	$5,826,904

(Expressed in Canadian dollars)

20. Lease liabilities, continued

Current and long-term portions of the lease liabilities and the contractual undiscounted maturity analysis at March 31, 2023 are as follows:

Current	$620,594
Long-term	$5,098,045
Maturity analysis - undiscounted cash flows	
Less than one year	$1,314,477
One year	1,342,647
Two years	1,333,444
Three years	1,169,357
Four years	1,124,656
Five years and beyond	2,227,949
	$8,512,530

21. Derivative liabilities

Purple Note 1

On April 30, 2018, the Company issued a 4-year, 4% unsecured convertible promissory note to The Purple Company Inc. in the amount of US$1,843,031 (CAD$2,364,849) (the “Purple Note 1”) to exchange an existing loan to Slang Colorado RE, Inc. The Company has the right to prepay all or a portion of the amount due under the Purple Note 1 any time. The Purple Company Inc. has the right to convert the principal amount outstanding under the Purple Note 1 into common shares of the Company, at a conversion price of CAD$1.20 per share, on thirty (30) days’ written notice.

The conversion option represents an embedded derivative which meets the definition of a financial liability as the transaction is denominated in a currency other than the Company’s functional currency.

Accordingly, the embedded derivative was bifurcated and recorded at fair value on initial recognition and at the end of each reporting period. The host contract is a financial liability that is stated at amortized cost using the effective interest method.

On November 1, 2021, the Company entered into an amended agreement to modify Purple Note 1. Under the terms of the agreement, the maturity date is extended to January 31, 2025, and all amounts owing, including interest, is due at maturity.

At March 31, 2023 the Company estimated the fair value of the derivative liability as $10,385 (2022 - $15,693). The amortized cost of the host contract at March 31, 2023 is $1,872,662 (2022 - $1,806,364). The loan is accreted using an effective interest rate of 20.87%. The fair value adjustment to the derivative liability for the three months ended March 31, 2023 resulted in a fair value gain of $5,308 (2022 - $93,508) recorded in financing cost and fair value adjustment in the interim condensed consolidated statement of loss and comprehensive loss, bringing the fair value of the derivative to $10,385 (2022 - $15,693) (Note 25).

Interest and accretion expense on the convertible note for the three months ended March 31,2023 of $25,851 and $68,014 respectively, (2022 - $23,189 and $52,460) was recorded in the interim condensed consolidated statement of loss and comprehensive loss (Note 25). At March 31, 2023, accrued interest totalled $144,810 (2022 - $119,032).

(Expressed in Canadian dollars)

21. Derivative liabilities, continued

The fair value of the derivative liability at March 31, 2023 and December 31, 2022, was estimated using Black-Scholes valuation model based on the following assumptions:

	March 31, 2023	December 31, 2022
Share price	**$0.03**	$0.04
Stock price volatility	**159%**	147%
Expected life of the derivative liability	**1.84 years**	2.09 years
Risk free rate	**3.74%**	4.06%

Inter-relationship between key unobservable inputs and fair value measurement at March 31, 2023:
- If the share price was lower (higher) by 10%, the fair value would decrease (increase) by $1,671 ($1,767).
- If the volatility was lower (higher) by 10%, the fair value would decrease (increase) by $4,086 ($4,822).

Convertible Note Financing

On November 15, 2021, the Company entered into a convertible note for aggregate gross proceeds of US$17,319,588. The convertible note was subject to an original issue discount of 3% and has a three-year term and a paid in kind (“PIK”) interest rate of 9.75%, compounded quarterly, with the entire outstanding balance, including interest, becoming due and payable on third anniversary of the transaction. Additionally, the Company will pay the lenders a maturity fee in an amount equal to US$3,637,113 on the earlier of: (i) the maturity date; and (ii) any date of prepayment of the initial loan amount. In addition, the Company has granted the lenders an option to, at any time on or prior to the maturity date, convert any portion of the convertible note or maturity fee into common shares at a price per common share equal to US$0.7638. The convertible note is secured by a first secured ranking on the assets of the Company, guaranteed on a senior secured basis by certain Company subsidiaries.

The conversion option represents an embedded derivative which meets the definition of a financial liability as the transaction is denominated in a currency other than the Company’s functional currency. Accordingly, the embedded derivative was bifurcated and recorded at fair value on initial recognition and at the end of the reporting period. The host contract is a financial liability that is stated at amortized cost using the effective interest method.

The Company estimated the fair value of the conversion option as $15,402,032 on November 15, 2021 (issuance date) and assigned a value of $5,626,537 to the host contract, net of debt issuance costs of $236,466. The amortized cost of the host contract at March 31, 2023 is $10,816,434 (2022 - $9,549,868). The loan is accreted using an effective interest rate of 77.01%. During the three months ended March 31, 2023, a fair value gain of $60,110 (2022 - $1,310,573) was recorded in financing cost and fair value adjustments in the interim condensed consolidated statement of loss and comprehensive loss, bringing the fair value of the derivative to $144,756 (2022 - $204,866). (Note 25).

Interest and accretion expense on the convertible note for the three months ended March 31, 2023 of $637,635 and $1,274,103 (2022 - $532,468 and $597,640), was recorded in the interim condensed consolidated statement of loss and comprehensive loss (Note 25). At March 31, 2023, accrued interest totaled $3,369,680 (2022 - $2,733,629).

(Expressed in Canadian dollars)

21. Derivative liabilities, continued

The fair value of the derivative liability at March 31, 2023 and December 31, 2022, was estimated using Black-Scholes valuation model based on the following assumptions:

	March 31, 2023	December 31, 2022
Share price	**$0.03**	$0.04
Stock price volatility	**168%**	151%
Expected life of the derivative liability	**1.63 years**	1.88 years
Risk free rate	**3.74%**	4.06%

Inter-relationship between key unobservable inputs and fair value measurement at March 31, 2023:

- If the share price was lower (higher) by 10%, the fair value would decrease (increase) by $23,184 ($50,226).
- If the volatility was lower (higher) by 10%, the fair value would decrease (increase) by $64,155 ($55,176).

22. Share capital

Authorized

Unlimited number of Class A preferred shares

Unlimited number of common shares

Unlimited number of restricted voting shares

There are no outstanding Class A preferred shares at March 31, 2023 and December 31, 2022.

Each restricted voting share may be converted to one common share, without payment of additional consideration if the following conditions are met: (a) conversion is not during a restricted period as determined by the Board; (b) following the date that is the three-year anniversary of the date of issuance of such restricted voting shares; and (c) with the consent of the Board. The restricted voting shares carry no entitlement for the holder thereof to vote for the election or removal of directors of the Company.

(Expressed in Canadian dollars)

22. Share capital, continued

The continuity of common and restricted voting shares are as follows:

	Notes	Number of common shares	Common share capital	Number of restricted voting shares	Restricted voting share capital
Balance, December 31, 2021		**69,128,391**	**$31,322,953**	**23,753,299**	**$48,408,216**
Issued pursuant to consulting agreements		6,759,855	587,966	14,948,720	2,103,520
Share exchange of restricted voting shares to common shares		5,519,339	11,871,194	(5,519,339)	(11,871,194)
Issued pursuant to asset acquisition		708,326	166,457	1,062,490	177,692
Issued pursuant to conversion of RSUs		360,092	971,784	-	-
Shares issued to employees		237,777	30,000	-	-
Issued pursuant to business combinations		-	-	109,649	88,670
Balance, December 31, 2022		**82,713,780**	**$44,950,354**	**34,354,819**	**$38,906,904**
Issued pursuant to conversion of RSUs		3,873	22,844	-	-
Issued pursuant to business combinations	18	-	-	100,167,654	2,495,006
Balance, March 31, 2023		**82,717,653**	**$44,973,198**	**134,522,473**	**$41,401,910**

2023

Issued pursuant to business combinations

On February 13, 2023, the Company issued an aggregate of 100,167,654 restricted voting shares at a fair value of $2,495,006 to the former shareholders of High Fidelity, Inc. (“HiFi”), as post-closing additional consideration in connection with the Vermont regulators issuing a retail marijuana license to the Company on September 28, 2022.

2022

Issued pursuant to consulting agreements

On January 7, 2022, the Company issued 851,158 restricted voting shares under a consulting agreement with a third party. The shares had been recorded as share capital to be issued totalling $507,120 at December 31, 2021. An equal amount was recorded as share-based payments in the consolidated statement of loss and comprehensive loss for the year ended December 31, 2021. Under the same consulting agreement, on April 12, 2022 and October 17, 2022, the Company issued 1,748,914 restricted voting shares at a fair value of $499,840 and 12,348,648 restricted voting shares at a fair value of $1,096,560, respectively. The shares were recorded as share based payments in the consolidated statement of loss and comprehensive loss. As of December 31, 2022, the consulting agreement had ended and no further restricted voting shares are issuable under the contract.

On May 15, 2022 and November 15, 2022, pursuant to a consulting agreement with a third party, the Company issued 579,562 and 6,180,293 common shares at a fair value of $129,530 and $458,436, respectively. The shares were recorded as share based payments in the consolidated statement of loss and comprehensive loss.

Shares issued pursuant to business combinations and asset acquisitions

On April 12, 2022 and as part of the consideration for the acquisition of NS Holdings, Inc., the Company issued 708,326 common shares and 1,062,490 restricted voting shares at a fair value of $166,457 and $177,692 respectively.

During the year ended December 31, 2022, the Company issued 109,649 restricted voting shares towards the consideration for the acquisition of NS Holdings, Inc. These shares had been recorded in share capital to be issued at December 31, 2021 at a fair value of $88,670, as determined on the acquisition date.

(Expressed in Canadian dollars)

22. Share capital, continued

Shares issued to employees

Under an employment agreement with an executive of the Company, the Company recorded $508,097 in share capital to be issued during year ended December 31, 2022. Of this amount, the Company issued 214,760 common shares at a value of $20,333, net of withholding taxes of $73,545, during the year ended December 31, 2022.

On January 7, 2022, the Company issued 23,017 common shares to executives in lieu of 2020 deferred salaries at a value of $9,667. The shares were recorded as share based payments in the consolidated statement of loss and comprehensive loss. These shares had been recorded in share capital to be issued at December 31, 2021.

Share-based payments

On April 27, 2022, the Board approved a new share compensation plan (the Plan). Stock options granted under the Plan (options) are equity settled, are non-transferable and will be exercisable for a period not to exceed ten years. Stock options vest evenly over the related service period between one to four years. Under the Plan the maximum number of shares of the Company that are reserved pursuant to the Plan is limited to 15% (2021 – 10%) of all issued and outstanding common shares of the Company at any given time.

The following provides a summary of the status of the Plan at March 31, 2023:

	Number of options	**Weighted average exercise price**
Balance outstanding, December 31, 2021	3,219,562	1.66
Forfeited	(670,912)	0.93
Granted	11,837,203	0.10
Expired	(919,000)	1.25
Cancelled	(5,546,096)	0.25
Balance outstanding, December 31, 2022	**7,920,757**	**0.42**
Forfeited	(52,778)	0.07
Granted	36,667	0.05
Balance outstanding, March 31, 2023	**7,904,646**	**0.42**

(Expressed in Canadian dollars)

22. Share capital, continued

Grant date	Expiry date	Exercise price	Number outstanding	Weighted average remaining contractual life	Number exercisable
November 2, 2017	November 2, 2027	0.30	41,666	4.59	41,666
July 6, 2018	July 6, 2023	4.50	66,667	0.27	66,667
July 16, 2018	July 16, 2023	4.50	16,667	0.29	16,667
January 28, 2019	January 28, 2024	9.00	16,667	0.83	16,667
November 26, 2019	November 26, 2024	2.94	66,667	1.66	50,000
August 14, 2020	July 6, 2023	0.90	62,498	0.27	3,125
August 14, 2020	January 28, 2024	0.90	8,333	0.83	6,250
February 2, 2021	August 2, 2023	3.03	675,287	0.34	675,287
September 27, 2022	September 27, 2027	0.07	1,163,334	4.49	393,343
October 3, 2022	October 3, 2027	0.08	1,000,000	4.51	-
December 1, 2022	December 1, 2027	0.06	4,750,193	4.67	1,583,399
January 9, 2023	January 9, 2028	0.05	20,000	4.78	6,667
January 30, 2023	January 30, 2028	0.05	16,667	4.83	5,556
		0.42	**7,904,646**	**4.13**	**2,865,294**

On January 9, 2023, the Company approved the grant of options to an employee. A total of 20,000 options were granted of which 1/3 vest immediately and 1/3 vest each year thereafter. These options were valued at the grant date using the Black-Scholes option pricing model with the following assumptions: risk free interest rate: 3.22%; stock price: $0.05; volatility: 125%; Dividend yield: 0%; and expected life: 5 years

On January 30, 2023, the Company approved the grant of options to an employee. A total of 16,667 options were granted of which 1/3 vest immediately and 1/3 vest each year thereafter. These options were valued at the grant date using the Black-Scholes option pricing model with the following assumptions: risk free interest rate: 3.04%; stock price: $0.05; volatility: 125%; Dividend yield: 0%; and expected life: 5 years

Compensation expense related to stock options is recognized over the years in which entitlement to the compensation vests. During the three months ended March 31, 2023, the Company recorded $93,639 in share-based payments in its interim condensed consolidated statement of loss and comprehensive loss (2022 - $63,662).

The expected volatility is based on the historical volatility of the Company, which may not necessarily be the actual outcome.

Restricted share units

On April 27, 2022, the Board approved a new share compensation plan, replacing the previous share compensation plan that was introduced on January 15, 2019. RSUs granted under the share compensation plan are equity settled and non-transferable. The maximum number of shares of the Company that are reserved pursuant to the share compensation plan is limited to 10,000,000 shares, provided that the aggregate number of shares available for issuance under this share compensation plan together with all other share compensation arrangements may not exceed 15% of all issued and outstanding common shares at any given time.

(Expressed in Canadian dollars)

22. Share capital, continued

The following provides a summary of the status of the Plan at March 31, 2023:

	Number of unvested RSUs
Balance outstanding, December 31, 2021	308,330
Vested	(216,666)
Balance outstanding, December 31, 2022	**91,664**
Vested	(8,332)
Balance outstanding, March 31, 2023	**83,332**

On August 31, 2020, the Company provided key management personnel with 375,000 RSUs to vest in equal annual amounts over a two-year period and contingent on continued employment at the Company. During the year ended December 31, 2021, 250,000 of the RSUs vested, resulting in the issuance of 162,357 common shares issued at a value of $111,230, net of withholding taxes of $83,770. Of these vested RSUs, 62,500 were subject to accelerated vesting on the termination of a member of management. During the year ended December 31, 2022 the remaining 125,000 RSUs vested as per the terms, resulting in the issuance of 64,107 common shares issued at a value of $92,074, net of withholding taxes of $5,426.

On March 8, 2021, the Company provided employees with 41,666 RSUs to vest in equal amounts over a two-year period, contingent on continued employment at the Company. During the year ended December 31, 2022, 33,333 of the RSUs vested, resulting in the issuance of 18,484 common shares issued at a value of $86,312, net of withholding taxes of $5,688. The vesting of 25,000 of these RSUs were related to the termination and severance of an employee. An additional 8,332 of the RSUs vested during the three months ended March 31, 2023, resulting in the issuance of 3,873 common shares issued at a value of $292, net of withholding taxes of $156.

On August 3, 2021, the Company provided key management personnel and employees with 58,333 RSUs to vest in equal amounts over a two-year period, contingent on continued employment at the Company. During the year ended December 31, 2022, 41,667 of the RSUs vested, resulting in the issuance of 27,417 common shares issued at a value of $49,303, net of withholding taxes of $5,698. The vesting of the RSUs were related to the termination and severance of a member of executive management. In addition, 16,666 vested in relation to the termination and severance of an employee for who 12,328 common shares were issued at a value of $2,000, net of withholding taxes of $521.

During the three months ended March 31, 2023, the Company recorded a share-based payments expense of $2,111 for the RSUs in its interim condensed consolidated statement of loss and comprehensive loss (2022 - $87,944), based on the vesting period and fair value of $2.76 per share (2022 - ranging from $0.78 to $9 per share). Fair values are determined by the Company’s share price on the RSU grant date.

(Expressed in Canadian dollars)

22. Share capital, continued

Warrants

The following provides a summary of the status of the warrants at March 31, 2023 and December 31, 2022:

Issuance date	Number of warrants	Weighted average exercise price	Weighted average remaining contractual life (Years)	Warrants reserve
December 5, 2019	57,870	5.34	1.93	104,808
November 26, 2019	5,153,760	3.10	1.91	6,358,985
December 5, 2019	595,064	3.12	1.93	730,979
	5,806,694	**3.14**	**1.91**	**7,194,772**

23. Held for Sale

The following provides a summary of assets and liabilities classified as held for sale:

	Right of use assets	Property, plant and equipment	Total
Balance, December 31, 2022	$372,743	$161,289	$534,032
Currency translation	(380)	(164)	(544)
Balance, March 31, 2023	**$372,363**	**$161,125**	**$533,488**

	Lease liability
Balance, December 31, 2022	$337,275
Lease payments	(28,588)
Accretion expense for the year	12,406
Currency translation	(381)
Balance, March 31, 2023	**$320,712**

(Expressed in Canadian dollars)

24. Discontinued operations

During the year ended December 31, 2021, the Company entered a plan to sell certain assets and abandon the operations of SCC's and CHC's CGU. Revenues, expenses, and gains or losses relating to the discontinuance of SCC and CHC have been eliminated from net loss from continuing operations and are shown as a single line item in the interim condensed consolidated statement of loss and comprehensive loss. During 2022, the Company completed its plan to sell assets and abandon the operations of the SCC and CHC CGUs.

The following table summarizes the Company's consolidated discontinued operations for the three months ended March 31, 2022:

For the three months ended March 31,	Notes	2022
Revenue		$-
Cost of goods sold		30,840
Gross loss		(30,840)
Expenses		
Salaries and wages		5,833
Selling, general, administrative	26	64,051
Insurance		15,443
Professional fees		38
Expected credit loss		21,018
Total expenses		106,383
Loss from operations		(137,223)
Financing cost and fair value adjustment	25	59,782
Net loss from discontinued operations, net of tax.		$(197,005)

25. Financing cost and fair value adjustment

The Company's financing cost and fair value adjustment for the three months ended March 31, 2023 and 2022 was as follows:

	Notes	**March 31, 2023**	March 31, 2022
Fair value adjustment on derivative liabilities	21	**$(65,418)**	$(1,404,081)
Accretion on lease liabilities	20, 23	**196,559**	166,723
Accretion expense	21	**1,342,117**	650,100
Interest on convertible notes	21	**663,486**	555,657
Other interest expense		**22,979**	40,273
Fair value adjustment on financial instruments	18	**(356,429)**	(123,746)
		1,803,294	(115,074)
Discontinued operations	24	**-**	59,782
		$1,803,294	$(55,292)

(Expressed in Canadian dollars)

26. Expenses by nature

Included within cost of goods sold for the three months ended March 31, 2023 were direct production staff costs amounting to $1,178,826 (2022 - $789,009) and depreciation and amortization charges amounting to $164,502 (2022 - $303,803).

The Company's selling, general and administrative expenses for the three months ended March 31, 2023 and 2022 were as follows:

	Notes	**March 31, 2023**	March 31, 2022
Office and general		**$658,592**	$428,521
Software and subscriptions		**272,029**	262,252
Rent and variable lease payments		**59,795**	76,651
Product development		**213**	7,372
		990,629	774,796
Discontinued operations	24	**-**	64,051
		$990,629	$838,847

27. Insurance

During the year ended December 31, 2021, the Company entered into a group captive insurance policy, whereby a Series was formed to insure certain enterprise risks of the Company. Under the insurance policy, the Company entered into a Surplus Note and a Demand Promissory Note to address obligations arising from any self-insured retention losses incurred if the Company has a covered claim under the policy.

Under the Surplus Note, the series promises to pay to the Company the principal sum of US$2,000,000 bearing interest of 2.5% per annum. Under the Demand Promissory Note, the Company promises to pay to the series the principal sum of US$2,000,000, bearing interest at 2.5% per annum. The Company has a legally enforceable right to set off the amounts under both agreements and the amounts are intended to be settled on a net basis. As such, the net amount presented in the consolidated statement of financial position is $Nil. For the three months ended March 31, 2023 the insurance expense associated with this group captive insurance policy amounted to $192,070 (2022 - $378,294) recorded in insurance expense in the interim condensed consolidated statement of loss and comprehensive loss.

28. Other expense (income)

	Notes	**March 31, 2023**	March 31, 2022
Unrealized exchange loss		**$29,134**	$472,875
Loss on sale of capital assets		-	1,083
Gain on sale of Trētap assets	13	**(102,675)**	-
		$(73,541)	$473,958

In January 2023 the Company sold its Trētap branded assets to a third party for cash consideration of $207,111 resulting in a gain on disposal of $102,675.

(Expressed in Canadian dollars)

29. Income taxes

Income taxes are measured at the amount expected to be paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the date of the interim condensed consolidated statement of financial position. For the three months ended March 2023, the Company recognized the amount of $538,800 (March 31, 2022 – $Nil) as income tax expense in the interim condensed consolidated statement of loss and comprehensive loss.

Inversion

The Company is treated as a U.S corporation for U.S. federal income tax purposes under U.S. Internal Revenue Code ("IRC") Section 7874 and is subject to U.S. federal income tax. However, for Canadian tax purposes, the Company is expected, regardless of any application of IRC Section 7874, to be treated as a Canadian resident company (as defined in the Income Tax Act (Canada)) for Canadian income tax purposes. As a result, the Company will be subject to taxation both in Canada and the U.S. Notwithstanding the foregoing, it is management's expectation that the Company's activities will be conducted in such a manner that income from operations will not be subjected to double taxation.

IRC Section 280E

As the Company operates in the cannabis industry and taking into account the potential impact of ongoing US tax cases that interpret the application of IRC Section 280E, the Company is subject to the limits of IRC Section 280E under which the Company is only allowed to deduct expenses directly related to the cost of producing the products or cost of production. This results in permanent differences between ordinary and necessary business expenses deemed unallowable under IRC Section 280E. This results in permanent differences between ordinary and necessary business expenses deemed non-allowable under IRC Section 280E.

30. Related party transactions

Key Management Compensation

Key management compensation includes the Company's directors and members of the executive team. Key management compensation for the three months ended March 31, 2023 and 2022 is detailed below.

Type of expense	Notes	**March 31, 2023**	March 31, 2022
Management compensation and directors' expense		**$327,634**	$512,157
Restricted share unit compensation expense	22	**2,111**	12,021
Stock-based compensation expense	22	**79,645**	21,071
		$409,390	$545,249

Management compensation and directors' expense are included in salaries and wages, and restricted share unit and stock-based compensation expense are included in share-based payments in the interim condensed consolidated statement of loss and comprehensive loss.

Included in management compensation and directors' expense for the three months ended March 31, 2022 is $195,128 in severance and termination accruals related to the termination of the Company's Chief Revenue Officer in January 2022.

30. Related party transactions, continued

In November 2021, Drew McManigle was appointed as Interim CEO and Chairman of the Board. McManigle is the founder and CEO of MACCO Restructuring Group, LLC (“MACCO”), which provided financial advisory and consulting services to the Company. For the three months ended March 31, 2023, MACCO provided financial advisory and consulting services amounting to $Nil (2022 - $480,721) recorded in consulting and subcontractors expense in the interim condensed consolidated statement of loss and comprehensive loss. On September 30, 2022, Drew McManigle stepped down as Interim CEO and Chairman of the Board and the Company’s relationship with MACCO was terminated. John Moynan was promoted to CEO as replacement and Ruth Chun was appointed Chairman of the Board.

31. Commitments

On June 30, 2021, the Company entered into a Cloud Agreement for SAP ByDesign, a cloud subscription service, with Navigator Business Solutions, Inc. The initial term of the agreement is for 5 years. Under the agreement, the Company is committed to remaining payments of $694,436 (2022 - $695,145) as of March 31, 2023. The remaining payments are due in equal instalments over the next three years with the contract concluding on June 30, 2026.

32. Segmented information

Operating Segment

The Company operates in 2 reportable segments, which include 1) Core Markets, and 2) Emerging Markets, Distribution, and CBD, plus corporate and other. The Company defines core markets as those with the following characteristics: i) mature regulatory structure, ii) favorable tax regime, iii) low capital barrier to entry and access to licenses iv) demonstrated supply of raw material, v) multiple point of (retail) distribution, vi) demonstrated operational leadership in place and vii) a demonstrable ROI. Emerging Markets is defined as those that the Company views as markets with regulatory or commercial environments in which profitability and high-margin sales are more challenging for consumer product-focused companies currently, or barriers to entry are too cost prohibitive or onerous. Distribution and CBD include non-plant touching hardware and CBD sales to distributors and through e-commerce platforms.

Information related to each operating segment is set out below. Operating segment revenue and net income (loss) is used to measure performance because management believes that this information is the most relevant in evaluating the results of the respective segments relative to other entities that operate in the same industries. Asset information by segment is not provided to, or reviewed by, the Company’s chief operating decision maker as it is not used to make strategic decisions, allocate resources, or assess performance.

(Expressed in Canadian dollars)

32. Segmented information, continued

The following tables presents the Company's operating segments for the three months ended March 31, 2023 and 2022:

2023	Core markets	Emerging markets, CBD, and distribution	Corporate and other	Total
Revenue	$11,500,272	$2,693,327	$36,183	$14,229,782
Inter-segment revenue	(2,242,183)	(1,154,359)	(10,149)	(3,406,691)
Net revenue	9,258,089	1,538,968	26,034	10,823,091
Share based payments	-	-	95,750	95,750
Depreciation and amortization	264,982	284,709	27,702	577,393
Financing cost and fair value adjustment	133,931	82,188	1,587,175	1,803,294
Loss before income tax	2,843,462	(1,382,879)	(3,253,114)	(1,792,531)
Income tax expense	538,800	-	-	538,800
Net income (loss)	2,304,662	(1,382,879)	(3,253,114)	(2,331,331)

2022	Core markets	Emerging markets, CBD, and distribution	Corporate and other	Total
Revenue	$6,432,923	$2,976,808	$15,563	$9,425,294
Inter-segment revenue	-	(1,037,614)	(14,050)	(1,051,664)
Net revenue	6,432,923	1,939,194	1,513	8,373,630
Share based payments	-	-	651,446	651,446
Depreciation and amortization	147,518	1,020,663	-	1,168,181
Expected credit losses	4,770	74,918	-	79,688
Financing cost and fair value adjustment	122,983	81,207	(319,264)	(115,074)
Net loss from continuing operations	995,061	(2,742,531)	(2,442,486)	(4,189,956)
Loss on discontinued operations, net of tax	(197,005)	-	-	(197,005)
Net income (loss)	$798,056	$(2,742,531)	$(2,442,486)	$(4,386,961)

(Expressed in Canadian dollars)

32. Segmented information, continued

Geographical Information

The Company operates in two geographical locations: Canada and the USA. The following tables present the Company's revenues for the three months ended March 31, 2023 and 2022, and non-current assets by location on March 31, 2023 and December 31, 2022.

	March 31, 2023	March 31, 2022
Revenue		
Canada	**$26,034**	$1,513
USA	**10,797,057**	8,372,117
	$10,823,091	$8,373,630

Non-current assets	**March 31, 2023**	December 31, 2022
Canada	**$1,644,449**	$1,647,202
USA	**20,738,721**	21,349,204
	$22,383,170	$22,996,406

33. Financial instruments and capital management

Fair value

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. Fair value measurements for invested assets are categorized into levels within a fair value hierarchy based on the nature of valuation inputs (Level 1, 2 or 3).

The fair value of other financial assets and financial liabilities is considered to be the carrying value when they are of short duration or when the instrument's interest rate approximates current observable market rates.

Where other financial assets and financial liabilities are of longer duration, then fair value is determined using the discounted cash flow method using discount rates based on adjusted observable market rates.

The table below summarizes the assets and liabilities that are included at their fair values in the Company's interim condensed consolidated statement of financial position at March 31, 2023 and December 31, 2022.

These assets and liabilities have been categorized into hierarchical levels, according to the reliability of the inputs used in determining fair value measurements. During the three months ended March 31, 2023, no transfers between fair value hierarchy levels occurred. The fair value hierarchy has the following levels:

Level 1 – quoted prices
Represents unadjusted quoted prices for identical instruments exchanged in active markets.

Level 2 – significant other observable inputs
Includes directly or indirectly observable inputs, other than quoted prices for identical instruments exchanged in active markets.

Level 3 – significant unobservable inputs
Includes inputs that are not based on observable market data.

33. Financial instruments and capital management, continued

				At March 31, 2023
	Level 1	**Level 2**	**Level 3**	**Total**
Cash	$7,600,048	$-	$-	$7,600,048
Restricted cash	4,066,701	-	-	4,066,701
Investments	-	-	1,136,584	1,136,584
Derivative liabilities			(155,141)	(155,141)
	$11,666,749	$-	$981,443	$12,648,192

				At December 31, 2022
	Level 1	**Level 2**	**Level 3**	**Total**
Cash	$7,848,935	$-	$-	$7,848,935
Restricted cash	$4,070,850	-	-	4,070,850
Investments	-	-	1,111,635	1,111,635
Derivative liabilities	-	-	(220,559)	(220,559)
Contingent consideration	-	-	(2,851,435)	(2,851,435)
	$11,919,785	$-	$(1,960,359)	$9,959,426

Foreign currency risk

The operating results and financial position of the Company are reported in CAD. As the Company operates in an international environment, some of the Company's financial instruments and transactions are denominated in currencies other than the CAD. The results of the Company's operations are subject to currency transaction and translation risks. The Company holds cash in US dollars. The Company's main risk is associated with fluctuations in the US dollar. At March 31, 2023 and December 31, 2022, the Company had no hedging agreements in place with respect to foreign exchange rates. The Company has not entered into any agreements or purchased any instruments to hedge possible currency risks. The Company has estimated that the effect of a 10% increase or decrease in the US dollar against the Company's functional currency (CAD) on the financial assets and liabilities, as at March 31, 2023, including cash, restricted cash, notes receivable, accounts payable and convertible debentures would result in an increase or decrease of approximately $1,524,000 in the net loss for the three months ended March 31, 2023 (2022 - $372,000).

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. Interest rate risk exposure is minimal because interest rates on notes receivable, notes payable and convertible notes are fixed.

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with its financial liabilities. The Company typically settles its financial obligations in cash. The ability to settle obligations in cash is dependent on the Company raising financing in a timely manner and by maintaining sufficient cash in excess of anticipated needs. At March 31, 2023, the Company had a cash balance of $7,600,048 (2022 - $7,848,935), net of restricted cash of $4,066,701 (2022 - $4,070,850) and current liabilities of $6,420,172 (2022 - $9,848,764). All of the Company's current liabilities are expected to be settled within the next 12 months.

(Expressed in Canadian dollars)

33. Financial instruments and capital management, continued

In addition to the commitments outlined in Note 31, the Company has the following estimated future contractual payment obligations, excluding interest payments, at March 31, 2023:

	< 1 year	1 to 2 years	3 to 5 years	> 5 years	Total
Accounts payable and accrued liabilities	$4,842,704	$-	$-	$-	$4,842,704
Notes payable	$49,604	$756,114	$-	$-	$805,718
Lease liabilities	$1,314,477	$2,676,091	$2,294,013	$2,227,949	$8,512,530
Convertible debentures	$-	$28,408,212	$2,498,352	$-	$30,906,564

Credit risk

The Company’s financial instruments exposed to concentrations of credit risk consist primarily of cash, restricted cash, accounts receivable, other receivables and notes receivable. The carrying amounts for these financial assets represent their maximum credit exposure to the Company. The Company minimizes the credit risk of cash by depositing with only reputable financial institutions. The Company’s objective with regard to credit risk in its operating activities is to reduce its exposure to losses. At March 31, 2023, the overdue accounts receivable balance, net of provision, is $1,247,776 (2022 - $2,052,265). The Company believes that the balance is collectable and that no additional allowance is required.

The Company applies the simplified approach to providing for expected credit losses as prescribed by IFRS 9, which permits the use of the lifetime expected loss provision for all trade receivables. The loss allowance is based on the Company’s historical collection and loss experience and incorporates forward-looking factors, where appropriate.

Management of capital

The Company’s objective of managing capital, comprising shareholders’ equity of, $12,737,696 is to ensure its continued ability to operate as a going concern. The Company manages its capital structure and makes changes to it based on economic conditions. With approval from the Board, management will adjust its capital structure through the issue of new shares, convertible debentures, debt or other activities deemed appropriate under the specific circumstances. Management and the Board review the Company’s capital management approach on an ongoing basis and believe this approach, given the relative size of the Company, is reasonable. The Company is not subject to externally imposed capital requirements and the Company’s strategy with respect to capital risk management has not changed since the year ended December 31, 2022.

34. Subsequent events

The Company evaluated subsequent events through to May 23, 2023, the date these interim condensed consolidated financial statements were issued.

On May 15, 2023, pursuant to an employment agreement with an executive officer, the Company issued 1,949,723 common shares at a value of $57,107, net of withholding taxes.