



Trees Corporation

Consolidated Financial Statements

March 31, 2023 and December 31, 2021

(Expressed in Canadian Dollars)

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Trees Corporation

Opinion

We have audited the consolidated financial statements of Trees Corporation and its subsidiaries (together, the "Company"), which comprise the consolidated statement of financial position as at March 31, 2023, and the consolidated statements of loss and comprehensive loss, changes in shareholders' equity (deficiency) and cash flows for the fifteen months then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at March 31, 2023 and its consolidated financial performance and its consolidated cash flows for the fifteen months then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

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

Material Uncertainty Related to Going Concern

We draw attention to Note 2 in the consolidated financial statements, which indicates that the Company incurred a net loss of \$12,478,262 for the fifteen months ended March 31, 2023 (net loss of \$13,371,723 for the year ended December 31, 2021) and, as of that date had an accumulated deficit of \$39,134,801 (December 31, 2021 - \$26,656,539) and a working capital deficiency of \$5,103,303 (December 31, 2021 - \$915,447). As stated in Note 2, these events or conditions, along with other matters as set forth in Note 2, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other Matter

The consolidated financial statements of the Company as at and for the year ended December 31, 2021 were audited by another auditor who expressed an unmodified opinion on those statements on March 31, 2022.

Key Audit Matters

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

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

Key audit matters description	How our audit addressed the key audit matters
Acquisition of IPCo <i>Refer to note 1 – Corporate Information, note 3 – Summary of significant accounting policies, judgments and estimates, note 4 – Acquisitions and note 6 – Notes Receivable</i> On March 24, 2022, the Company and 1015712 B.C. Ltd. d/b/a Tree Cannabis (“101”) renegotiated the terms of the previous purchase agreement entered into on October 22, 2019 into two components – a share purchase component and an asset purchase component – whereby the Company purchased all of the shares of 11391461 Canada Ltd. (“IPCo”) in exchange for 5,933,333 common shares valued at \$0.045 per share for a total consideration of \$266,999, and 101 transferred all of the “Trees” registered trademarks, including logos (the “Trees IP”) to IPCo at fair market value. In connection with the 101 acquisition on February 10, 2021, the Company loaned 101 funds for which it received a promissory note (the “101 Note”). The Company accounted for this transaction in accordance with IFRS 2 and IAS 38 respectively by recording the acquisitions of trademarks of \$266,999. No goodwill or additional intangible assets were recognized by the Company. The Company evaluated the 101 Note as at March 31, 2023 and determined that the carrying value exceeded the recoverable value by \$2,154,177. This amount has been recorded as an impairment to the 101 Note. The acquisition of IPCo, transfer of registered trademarks, and valuation of the 101 Note for impairment were considered a key audit matter given the significance of the transaction to the consolidated financial statements, the complexity of accounting for the transaction, and the high estimation uncertainty related to the fair value model of 101 Note, which included the growth margin estimate, inflation rate, revenue growth rate, terminal growth rate, and discount rate.	We responded to this matter by performing procedures in relation to the acquisition of IPCo. Our audit work in relation to this included but was not limited to the following: • We analyzed the purchase agreements to obtain an understanding of the key terms and conditions and to identify the necessary accounting considerations. In addition, consulted with our internal technical accounting specialists on management’s position memo relating to the acquisition of IPCo. • We obtained an understanding of management’s internal control process as it relates to the determination of key inputs and assumptions. • We tested the mathematical accuracy of management’s valuation model related to the Amended 101 Note. • We evaluated the reasonableness of significant assumptions used by management in the valuation model related to the growth margin estimate, inflation rate, revenue growth rate, terminal growth rate, and discount rate. • We performed a sensitivity analysis of the valuation model by developing a range of independent estimates of key assumptions. • we assessed the appropriateness of the disclosures in the notes to the consolidated financial statements including the assumptions used in the acquisition and valuation model.
Convertible debentures <i>Refer to note 3 – Summary of Significant accounting policies, judgments and estimates and note 14 – Convertible debentures</i> In October 2022 and November 2022 the Company completed the closing of a non-brokered private placement of 200 and 745 units (the “Nov Units”), respectively, of the Company at a price of \$1,000 per Nov Unit for gross proceeds of \$945,000. Each Nov Unit consists of (i) one 12.0% per annum secured convertible promissory note bearing a principal amount of \$1,000, convertible into common shares of the Company at a conversion	We responded to this matter by performing procedures in relation to the issuance of convertible debentures. Our audit work in relation to this included but was not limited to the following: • We analyzed the convertible debentures agreement to obtain an understanding of the key terms and conditions and to identify the necessary accounting considerations. • We obtained an understanding of management’s internal control process as it relates to the determination of key inputs and assumptions used in the valuation of the liability

price of C\$0.015 per common share with a maturity of thirty-six months and (ii) 66,667 common share purchase warrants of the Company which entitles the holder to purchase one common share at a price of C\$0.015 per share until October 20, 2025, subject to acceleration. The acceleration includes the conversion or acceleration of the expiry of warrants by the Company when certain conditions are met.

For accounting purposes, the Nov Units were separated into their liability and equity components respectively by first valuing the liability component. The fair value of the liability component at the time of issue was calculated assuming a discount rate of 20% per annum, which was estimated by management to be the rate for similar debentures without a conversion feature. The fair value of the equity components - the conversion feature and the detachable warrants - was determined at issue date as the difference between the face value of the Nov Units and the fair value of the liability component.

The issuance of the Nov Units was considered a key audit matter given the significance of the transaction to the consolidated financial statements, the complexity of the accounting for the transaction, and the separation into liability and equity components.

Impairment of goodwill

Refer to note 3 – Summary of significant accounting policies, judgments and estimates and note 9 – Intangible assets and goodwill

In accordance with IAS 36, *Impairment of Assets*, management is required to test goodwill for impairment annually, or when facts and circumstance suggest they may be impaired. Goodwill arising from business combinations is allocated to each of the Company's cash-generating units ("CGU") that is expected to benefit from the synergies of the combination. The recoverable amount of the CGU to which the goodwill has been allocated is tested for impairment. As at March 31, 2023 the Company had goodwill of \$5,099,050 before the impairment test. An impairment test was performed as of March 31, 2023, and as a result an impairment of \$5,099,050 was recognized for goodwill. For the purpose of the impairment test, the recoverable amount of the Company's CGU has been determined by management based on an assessment of its value in use following a discounted cash flow approach over a period of ten years. Management made certain assumptions in determining the cash flow projections based on its internally approved budgets and include management's best estimate of expected market conditions. The future cash flows used in the model are inherently uncertain and could materially change over time as a result of changes to the key assumptions estimated by management, revenue growth, discount rate, terminal growth rate, costs, future tax, risk premiums applicable to the CGU's operations and future capital expenditure.

We considered this a key audit matter due to the subjectivity and complexity in performing procedures to test the key assumptions

component of the convertible debentures on the date of recognition.

- We evaluated the reasonableness of significant assumptions used by management in the separation of the convertible debentures into the liability and equity components by first valuing the liability component on the initial recognition date..
- We assessed the appropriateness of the disclosures in the consolidated financial statements including the assumptions used in initial recognition of the convertible debentures.

We responded to this matter by performing procedures in relation to the impairment of goodwill assets. Our audit work in relation to this included but was not limited to the following:

- We evaluated the appropriateness of the value-in-use method and discounted cash flow projection models.
- We reviewed the controls and methodology used to develop information for assessing the recoverable amount including the risk assessment process, and the nature and extent of the oversight and governance over financial reporting.
- We evaluated the assumptions applied to key inputs, such as forecasted revenues, gross margin, operating expenses, long-term growth rates and discounted rates used by management in the discounted cash flow projection models.
- We performed a 'retrospective review' to compare management's assumptions in the prior year's expected future cash flows to the actual results to assess the Company's budgeting process.
- We evaluated the reasonableness of the Company's impairment model and the discount rates by comparing the Company's weighted average cost of capital against publicly available market data.
- We tested the mathematical accuracy of management's impairment model and supporting calculations.
- We assessed the appropriateness of the disclosures in the notes to the consolidated financial statements of the assumptions used in the impairment assessment of goodwill.

used by management in determining the recoverable amount of the Company's CGU, which involved significant judgment from management.	
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Other Information

Management is responsible for the other information. The other information comprises the information included in the Management Discussion and Analysis ("MD&A") but does not include the consolidated financial statements and our auditors' report thereon.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the MD&A identified above and, in doing so, consider whether the MD&A is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be misstated.

We obtained the MD&A prior to the date of this auditors' report. If, based on the work we have performed on this MD&A, we conclude that there is a material misstatement of this MD&A, we are required to report that fact in this auditors' report. We have nothing to report in this regard.

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

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

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements. As part of an audit in accordance with GAAS, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purposes of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's



ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

The engagement partner on the audit resulting in this independent auditors' report is Laurence W. Zeifman, CPA, CA.

Zeifmans LLP

Toronto, Ontario
June 29, 2023

Chartered Professional Accountants
Licensed Public Accountants

TREES CORPORATION

Consolidated Statements of Financial Position

(expressed in Canadian dollars)

As at

	Notes	March 31, 2023	December 31, 2021
Assets		\$	\$
Current assets			
Cash		113,605	1,316,517
Trade and other receivables		82,831	12,494
GST/HST net receivable		-	90,293
Inventory	7	299,725	192,279
Prepaid expenses		25,361	22,500
Notes receivable	6	-	300,000
Total current assets		521,522	1,934,083
Non-current assets			
Property and equipment	8	2,731,590	3,234,217
Prepaid lease deposits and rents	5	177,764	248,875
Notes receivable	6	2,543,912	3,202,195
Right-of-use assets, net	11	3,918,783	5,940,273
Intangible assets	9	1,530,113	863,546
Goodwill		-	5,099,050
Total non-current assets		10,902,162	18,588,157
Total assets		11,423,684	20,522,240
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities		2,024,615	1,863,253
Current portion of lease liability	11	512,615	877,734
Current portion of long-term debt	13	1,279,489	43,544
Shareholder loans	15	1,808,106	65,000
Total current liabilities		5,624,825	2,849,530
Non-current liabilities			
Lease liability	11	3,804,371	5,314,369
Long-term debt	13	1,160,000	2,258,000
Convertible debt	14	1,073,630	-
Shareholder loans	15	-	1,551,866
Deferred tax liability		-	257,633
Total non-current liabilities		6,038,001	9,381,868
Total liabilities		11,662,826	12,231,399
Shareholders' equity (deficiency)			
Share capital	16	35,419,666	32,440,717
Contributed surplus	17	3,475,993	2,506,664
Deficit		(39,134,801)	(26,656,539)
Total shareholders' equity (deficiency)		(239,142)	8,290,842
Total liabilities and shareholders' equity (deficiency)		11,423,684	20,522,240

Commitments and Contingencies (Note 19)

Subsequent Events (Note 25)

Approved on Behalf of the Board of Directors

(signed) "Fraser Clarke"

Fraser Clarke
Director
June 29, 2023

(signed) "Jeff Holmgren"

Jeff Holmgren
Director
June 29, 2023

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

TREES CORPORATION

Consolidated Statements of Loss and Comprehensive Loss

(expressed in Canadian dollars)

For the period of	Notes	Fifteen Months Ended	Twelve Months Ended
		31-Mar-23	31-Dec-21
		\$	\$
Revenue			
Cannabis sales		11,277,699	4,297,209
Smoking accessory sales		186,218	84,886
Consulting services		-	21,868
Brand license royalties		544,586	-
Gross revenue		12,008,503	4,403,963
Cost of goods sold		7,905,215	2,994,580
Gross profit		4,103,288	1,409,383
Store level expenses			
Wages expense		1,723,843	910,442
Operating costs		754,495	513,797
Total store level expenses		2,478,338	1,424,239
Net profit/(loss) - store level		1,624,950	(14,856)
Corporate expenses			
Lease expense		204,916	333,263
Amortization and depreciation	12	2,114,076	1,053,882
General and administrative expenses		2,796,995	2,109,174
Lease write-downs and termination expenses	11	101,058	-
Loss on sale of intangible assets	9	435,043	-
Impairment of notes receivable		2,154,177	769,609
Impairment of inventory		29,343	
Impairment of property and equipment	8	153,131	6,306
Impairment of goodwill	9	5,099,050	-
Total corporate expenses		13,087,789	4,272,234
Loss before other items		(11,462,839)	(4,287,090)
Other (income) expenses			
Finance costs	10	963,224	1,603,980
Interest income		(310,131)	(149,490)
Transaction costs	4	713,834	4,656,619
Loss on valuation of convertible debt		-	4,546,365
Gain on debt settlements	22	(556,339)	-
Gain on contract renegotiation		-	(2,500,000)
Share based compensation	16, 17	556,302	927,160
Loss before income taxes		(12,829,729)	(13,371,723)
Deferred income tax recovery		(351,467)	-
Net loss and comprehensive loss		(12,478,262)	(13,371,723)
Loss per share			
Basic & diluted		(0.09)	(1.43)
Weighted-average number of shares outstanding		138,959,956	9,379,423

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

TREES CORPORATION

Consolidated Statements of Cash Flows

(expressed in Canadian dollars)

<i>For the period of</i>	<i>Notes</i>	Fifteen Months Ended 31-Mar-23	Twelve Months Ended 31-Dec-21
Cash provided by (used in):		\$	\$
Operating activities			
Net loss for the period		(12,478,262)	(13,371,723)
Add (deduct) items not affecting cash:			
Amortization and depreciation	12	2,114,076	1,053,882
Deferred income tax recovery		(352,172)	-
Finance costs	10	422,321	954,159
Share-based compensation	16, 17	556,302	927,160
Loss on valuation of convertible debt		-	4,546,365
Impairment of property and equipment	8	153,131	6,306
Impairment of goodwill	9	5,099,050	-
Impairment of notes receivable	4	2,154,177	769,609
Transaction costs		596,397	4,656,619
Gain on debt settlements	22	(556,339)	-
Gain on contract renegotiation		-	(2,500,000)
Loss on sale of intangible assets	9	435,043	-
Lease write-downs and termination expenses	11	101,058	-
		(1,754,513)	(2,957,623)
Change in non-cash working capital	18	608,809	233,713
Cash flow used in operating activities		(1,145,704)	(2,723,910)
Investing activities			
Property and equipment		(57,937)	(1,009,972)
Intangible assets and goodwill		40,000	-
Corporate acquisitions and reorganizations	4	(2,821)	1,994,555
Refunds/(deposits) on leases		9,608	3,024
Notes receivable		(1,568,894)	791,773
Cash flow provided by (used in) investing activities		(1,580,045)	1,779,380
Financing activities			
Proceeds from issuance of shares	16	1,025,000	2,030,000
Share issue costs	16	(44,445)	(290,693)
Lease liability payments		(366,582)	(320,238)
Long-term debt		(86,027)	644,073
Proceeds from issuance of convertible debt		994,890	-
Shareholder loans		-	65,000
Change in non-cash working capital	18	-	(69,402)
Cash flow provided by financing activities		1,522,836	2,058,740
Net change in cash for the period		(1,202,912)	1,114,210
Cash, beginning of the period		1,316,517	202,307
Cash, end of the period		113,605	1,316,517
Supplementary disclosure			
Cash interest paid		523,153	647,482

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

TREES CORPORATION
Consolidated Statements of Shareholders' Equity (Deficiency)

(expressed in Canadian dollars)

For the 15 months ended March 31, 2022 and the 12 months ended December 31, 2021

	<i>Notes</i>	Share Capital	Contributed Surplus	Deficit	Total Equity (Deficiency)
		\$	\$	\$	\$
Balance at December 31, 2020		8,200,570	2,292,056	(13,284,817)	(2,792,191)
Net loss		-	-	(13,371,722)	(13,371,722)
Share-based compensation		-	927,160	-	927,160
OCH Amalgamation		1,552,921	-	-	1,552,921
Conversion and settlement of debt in Common Shares		18,735,366	-	-	18,735,366
Shares issued in a private placement		2,030,000	-	-	2,030,000
Shared issued upon vesting of PSUs		712,552	(712,552)	-	-
406 Amalgamation		1,500,000	-	-	1,500,000
Share issue costs		(290,693)	-	-	(290,693)
Balance at December 31, 2021		32,440,717	2,506,664	(26,656,539)	8,290,842
Net loss		-	-	(12,478,262)	(12,478,262)
Acquisition of IPCo	4	266,999	-	-	266,999
Common Shares issued pursuant to Miraculo Acquisition	4	818,395	-	-	818,395
Warrants issued pursuant Miraculo Acquisition	4, 16	-	197,777	-	197,777
\$945,000 convertible debenture equity value	4, 14, 16	-	159,250	-	159,250
Broker warrants issued	16	-	56,000	-	56,000
Shared-based compensation	16	-	556,302	-	556,302
Shares issued on settlement of debt	16, 17	951,000	-	-	951,000
Shares issued in a private placement	16	1,025,000	-	-	1,025,000
Shared issued for services	16	74,000	-	-	74,000
Share issue costs		(156,445)	-	-	(156,445)
Balance at March 31, 2023		35,419,666	3,475,993	(39,134,801)	(239,141)

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

TREES CORPORATION

Notes to the consolidated financial statements

March 31, 2023 and December 31, 2021

(expressed in Canadian dollars, unless otherwise noted)

1. Corporate Information

Trees Corporation ("Trees", and, together with its subsidiaries, the "Company") was formed upon the amalgamation of Trees Corporation ("Trees PrivateCo") and 1287406 B.C. Ltd. ("406") on December 22, 2021 under the Canada Business Corporations Act (the "CBCA") pursuant to the terms of an amended and restated amalgamation agreement dated November 10, 2021 (the "406 Amalgamation Agreement"). The 406 Amalgamation Agreement provided for, among other things, the amalgamation of Trees PrivateCo and 406 and the continuation as one corporation under the name Trees Corporation (the "406 Amalgamation"), in accordance with the provisions of the CBCA. The Company's common shares ("Common Shares") are listed on the Cboe under the symbol "CBOE:TREE"

The Company's head office is located at suite 190-7070e Farrell Road SE Calgary, Alberta T2H 0T2 and its registered office is located at 181 Bay Street, Suite 1800, Toronto, ON M5J 2T9.

Trees is as an independent retail cannabis operator that currently operates in the Provinces of Ontario and British Columbia, where as at March 31, 2023, Trees operated eight (8) fully licensed retail cannabis stores in Ontario and five (5) Trees Cannabis stores in British Columbia under a brand license agreement in exchange for a royalty fee. Subsequent to March 31, 2023, the Company closed the acquisition of the 5 stores in BC and opened a ninth store in Ontario increasing Trees' total corporate owned store count to 14 stores (refer to note 4 – *Acquisition of IPCo and note 25 – Subsequent events*). Trees reports its operations under a single operating segment capturing retail sales of cannabis and cannabis related accessories.

All disclosures related to common shares of the Company in these consolidated financial statements and related notes give retroactive effect to the 2021 fifteen pre-consolidation shares for every one post-consolidation share consolidation of Trees PrivateCo.

Ontario Cannabis Holdings Corp. Amalgamation

On January 29, 2021, the Company and Ontario Cannabis Holdings Corp. ("OCH") entered into a merger agreement (the "OCH Amalgamation Agreement") whereby the Company acquired all of the issued and outstanding securities of OCH through the amalgamation (the "OCH Amalgamation") of OCH and a wholly-owned subsidiary of the Company. The agreement closed on March 1, 2021. Refer to Note 4 for additional information on the OCH Amalgamation.

1015712 B.C. Ltd. Purchase Agreement

On October 22, 2019, Trees entered into an initial asset purchase agreement with 1015712 B.C. Ltd. d/b/a Trees Cannabis ("101"), which agreement was ultimately superseded and replaced by a second amended and restated asset purchase agreement between Trees and 101 on February 24, 2020, and further amended and restated on January 26, 2021 (the "101 Purchase Agreement"). The 101 Purchase Agreement contemplated the purchase by Trees of the assets to operate up to eight retail cannabis stores in the province of British Columbia, subject to the receipt by Trees of all requisite licenses and approvals from the provincial regulator, the British Columbia Liquor and Cannabis Regulation Branch (the "LCRB"). 101 currently operates four existing retail cannabis stores in the Province of British Columbia with a fifth store anticipated to open in April 2022 in Victoria, British Columbia.

Pursuant to terms of the 101 Purchase Agreement, the Company agreed to acquire, subject to certain conditions, all or substantially all of the assets of 101 relating to eight unique cannabis retail stores owned and operated by 101 (collectively, the "101 Purchased Stores") located in British Columbia (the "101 Acquisition").

In connection with the 101 Acquisition, on February 10, 2021, 101 issued a secured grid promissory note (the "101 Note") in favour of the Company for the purpose of funding 101's operations until the closing of the transactions contemplated by the 101 Purchase Agreement. Refer to Note 8 for additional information.

On March 24, 2022, The Company completed amendments to the 101 Purchase Agreement and closed the first component of the 101 Acquisition. On April 11, 2023 the Company closed the 101 Acquisition (see note 25 – Subsequent events).

MetroCannabis Acquisition

On May 11, 2021, as amended on October 26, 2021, OCH Ontario Consulting Corp. ("Ontario Consulting"), a wholly-owned subsidiary of the Company, acquired all of the issued and outstanding common shares in the capital of 11819496 Canada Inc. (operating as

TREES CORPORATION

Notes to the consolidated financial statements

March 31, 2023 and December 31, 2021

(expressed in Canadian dollars, unless otherwise noted)

MetroCannabis) ("MetroCannabis") for an aggregate purchase price of \$7,500,000 (the "MetroCannabis Acquisition"). On October 26, 2021, the Company renegotiated the terms of the MetroCannabis Acquisition with a reduction of the purchase price to \$5.0 million. The MetroCannabis Acquisition added a total five licensed retail cannabis stores to the Company's portfolio of retail cannabis stores, four of which are operational as of the date of these Financial Statements. Refer to Note 5 for additional information.

406 Amalgamation and Related Transactions

On December 23, 2021, Trees PrivateCo and 406 completed the 406 Amalgamation pursuant to the terms of the 406 Amalgamation Agreement. The Company is the entity resulting from the 406 Amalgamation.

All disclosures related to equity securities of the Company in the accompanying consolidated Financial Statements and related notes reflect the Trees PrivateCo Consolidation (as defined in Note 6) for all periods presented, unless otherwise noted. Prior period information including numbers of securities and per share amounts has been restated to reflect the Trees PrivateCo Consolidation at the ratio of fifteen pre-consolidation shares for every one post-consolidation share.

Miraculo Inc. Acquisition

On March 15, 2022, the Company completed the acquisition of Miraculo ("Miraculo Acquisition") pursuant to an amalgamation agreement dated February 7, 2022 ("Amalgamation Agreement") whereby Miraculo amalgamated with 1000101203 Ontario Inc., a wholly-owned subsidiary of the Company ("Trees Subco") to form an amalgamated entity ("Amalco") in order to carry out a three-cornered amalgamation whereby the Company acquired all of the issued and outstanding shares of Miraculo.

On closing of the Miraculo Acquisition, Michael Klein, former Chief Executive Officer of Miraculo, was appointed as Chief Executive Officer of the Company. In addition, both Mr. Klein and G. Scott Paterson were also appointed to the board of directors of the Company.

Pursuant to the terms of the Amalgamation Agreement, each common share in the capital of Trees Subco was exchanged for one common share in the capital of Amalco. The Miraculo shares held by the shareholders of Miraculo were exchanged on a pro rata basis for an aggregate of 13,639,917 common shares in the capital of Trees ("Trees Shares") and an aggregate of 6,819,922 warrants to purchase Trees Shares exercisable at a price of \$0.11 per share until December 31, 2024.

Camp Acquisition

On July 13, 2022, the Company completed its acquisition (the "Camp Acquisition") of 100% of the equity interests of 2707461 Ontario Ltd. ("Camp") from Barnard Cann Ltd. (the "Vendor"). Camp operates one licensed retail cannabis store in Burlington, Ontario.

2. Basis of Presentation and Going Concern

A) Statement of compliance

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

The consolidated financial statements were approved and authorized for issue by the board of directors of the Company (the "Board") on June 29, 2023.

The preparation of the consolidated financial statements in compliance with IFRS requires management to make certain critical accounting estimates. It also requires management to exercise judgment in applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 3.

B) Basis of measurement

These consolidated financial statements have been prepared on a historical cost basis, except for financial instruments classified as fair value through profit or loss ("FVTPL"), which are stated at their fair value. The accounting policies set out below have been applied consistently by the Company for the periods presented.

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C) Basis of Consolidation

The consolidated financial statements include the accounts of Trees and its wholly-owned subsidiaries: 11819496 Canada Inc., 2707461 Ontario Inc., OCH Ontario Consulting Corp and Ontario Cannabis Holdings Corp.

Subsidiaries consist of entities over which the Company is exposed to, or has rights to, variable returns as well as the ability to affect those returns through the power to direct the relevant activities of the entity. Subsidiaries are fully consolidated from the date control is transferred to the Company and are deconsolidated from the date control ceases. The consolidated financial statements included all the assets, the liabilities, revenue, expenses and cash flows of Trees and its subsidiaries after eliminating inter-entity balances and transactions.

C) Functional and presentation currency

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

D) Change in fiscal year end

During the twelve months ended December 31, 2022, the Company elected to change its fiscal year end to March 31 from December 31. The transition year presented herein is fifteen months and includes the period from January 1, 2022 to March 31, 2023. The Company's objective was to obtain its annual financial statement audit during a less resource constrained time of the year. The interim and annual reporting periods of the transition year have been changed based on the new fiscal year end date. Comparative periods presented in these financial statements are not entirely comparable due to change in fiscal year end.

E) Going concern

The Company has not yet achieved profitable operations. These consolidated financial statements are prepared on a going concern basis, which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. The Company has incurred a net loss from operations for the fifteen-month period ended March 31, 2023 of \$12.5 million (net loss of \$13.4 million for the twelve months ended December 31, 2021) and as at that date had an accumulated deficit of \$39.1 million (December 31, 2021 - \$26.7 million) and is expected to continue to incur losses in the twelve months ending March 31, 2024. At March 31, 2023, the Company had a working capital deficiency of \$5.1 million (December 31, 2021 - \$0.9 million deficiency). A debt in the amount of \$900,000 is now in default and the Company is currently in discussions to extend the maturity of this debt (see note 12 – long term debt). The Company will continue to have to raise funds in order to finance future development of potential retail stores, and to meet its debt obligations until such time as profitable revenues are achieved. Although the Company has been successful in raising capital in the past, there is no assurance it will be able to do so in the future. These conditions indicate the existence of material uncertainties, which may cast significant doubt on the Company's ability to continue as a going concern. The continuing operations of the Company are dependent upon obtaining, in the short term, the necessary financing to meet the Company's obligations. Should the Company no longer be able to continue as a going concern, certain assets and liabilities may require restatement on a liquidation basis, which may differ materially from the going concern basis. No adjustments to the carrying values of the assets and liabilities have been made in these consolidated financial statements. See note 25 – subsequent events.

F) Reclassifications

Certain comparative figures have been reclassified to conform to the presentation adopted in the current period including the following;

- \$149,490 was reclassified from Trade and Other Receivables to Notes Receivable in the comparative year on the Consolidated Statements of Financial Position. This amount relates to accrued interest earned on the 101 Note (see Note 6 – Notes receivable) and has been reclassified to align with current period presentation to include accrued interest with the principle balance receivable pursuant to the 101 Note.
- \$510,113 was reclassified from store level expenses-wages expense to general and administrative expense in the comparative year on the Consolidated Statements of loss and comprehensive loss. The reclassification was made to align with Current Period presentation of the classification of certain corporate employees.

3. Summary of Significant Accounting Policies, Judgments and Estimates

A. Critical Accounting Judgments and Estimates

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The preparation of the consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities and shareholders' equity at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the year. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results ultimately may differ from those estimates.

Significant accounting judgments, estimates and assumptions

The Company makes estimates and assumptions about the future that affect the reported amounts of assets and liabilities. Estimates and judgments are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the future, actual events may differ from these estimates and assumptions.

The effect of a change in an accounting estimate is recognized prospectively by including it in loss/income in the year of the change, if the change affects that year only, or in the year of the change and future years, if the change affects both.

Information about critical judgments and estimates in applying accounting policies that have the most significant risk of causing material adjustment to the carrying amounts of assets and liabilities recognized in the financial statements within the next financial year are discussed below:

Going concern

Determining if the Company has the ability to continue as a going concern is dependent on its ability to achieve to raise additional financing and/achieve profitable operations. Certain judgments are made when determining if the Company will achieve profitable operations. At each reporting period, management assesses the basis of preparation of the consolidated financial statements. The assumption that the Company will be able to continue as a going concern is subject to critical judgements of management with respect to assumptions surrounding the short and long-term operating budget, expected profitability, investment and financing activities and management's strategic planning.

Fair value measurements

The estimated fair value of financial assets, by their very nature, are subject to measurement uncertainty. The Company estimates fair value using valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs. Such valuation techniques include the market approach and the cost approach.

Application of IFRS 16 – Leases

The Company applies judgment in determining whether the contract contains an identified asset, whether the Company has the right to control the asset and the lease term. The lease term reflects the period over which the lease payments are reasonably certain including renewal options that the Company is reasonably certain to exercise. The determination of the lease term involves significant judgment with respect to assumptions of whether lease extensions will be utilized. Management makes assumptions about long-term industry outlook and store operating performances and growth which relate to future events and circumstances. Actual results could vary from these assumptions, and the differences could be material to the carrying value of the lease liabilities and right of use assets, for which the lease term is the basis for determining useful life.

Impairment of property and equipment, intangible assets and goodwill

At the end of each reporting period, the Company reviews the carrying amounts of its long-lived assets to determine whether there is any indication that the carrying amount is not recoverable. The determination of whether any such indication exist requires significant management judgment. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). When an individual asset does not generate independent cash flows, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. Assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs of disposal and value in use. Fair value is determined as the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. Many factors are used in assessing recoverable amounts and are outside of the control of management and it is reasonably likely that assumptions and estimates will change from period to period. These changes may result in future impairments.

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Asset acquisitions versus business combinations

Management had to apply judgment with respect to whether acquisitions during the period were asset acquisitions or business combinations. The assessments required management to assess the inputs, processes and outputs of the companies acquired at the time of acquisition.

Determination of purchase price allocations and contingent consideration

Estimates are made in determining the fair value of assets and liabilities, including the valuation of separately identifiable intangibles acquired as part of an acquisition. Management exercises judgment in estimating the probability and timing of when cash flows are expected to be achieved, which is used as the basis for estimating fair value. Future performance results that differ from management's estimates could result in changes to liabilities recorded, which are recorded as they arise through profit or loss. The fair value of identified intangible assets is determined 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 their relative fair values. Asset acquisitions do not give rise to goodwill.

Income taxes

Deferred tax assets, including those arising from tax loss carry-forwards, require management to assess the likelihood that the Company will generate sufficient taxable earnings in future periods in order to utilize recognized deferred tax assets. Assumptions about the generation of future taxable profits depend on management's estimates of future cash flows. In addition, future changes in tax laws could limit the ability of the Company to obtain tax deductions in future periods. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the Company to realize the net deferred tax assets recorded at the reporting date could be impacted.

Segmented information

Operating segments are determined based on internal reports used in making strategic decisions that are reviewed by the Chief Operating Decision Makers (CODMs). The Company's CODMs are the Chief Financial Officer, Chief Executive Officer and the directors. For the fifteen months ended March 31, 2023, the Company operated in one operating segment: cannabis retail sales.

Contingencies

Management uses judgment to assess the existence of contingencies. By their nature, contingencies will only be resolved when one or more future events occur or fail to occur. Management also uses judgment to assess the likelihood of the occurrence of one or more future events.

Areas of judgment and estimation that have the most significant effect on the amounts recognized in these consolidated financial statements include:

Expected credit losses

The Company's accounts receivables are typically short-term in nature and the Company recognizes an amount equal to the lifetime expected credit losses ("ECL"). The Company measures lifetime ECLs based on historical experience and including forecasted economic conditions. The amount of ECLs is sensitive to changes in circumstances of forecast economic conditions.

Inventory valuation

Inventory is carried at the lower of cost and net realizable value. In estimating net realizable value, the Company makes estimates related to obsolescence, future selling prices, seasonality, customer behavior, and fluctuations in inventory levels.

Estimated useful lives, residual values and depreciation of property and equipment

Depreciation of property and equipment is dependent upon estimates of useful lives and residual values, which are determined through the exercise of judgment.

Estimated useful lives of Intangibles

Amortization of intangible assets is dependent upon estimates of useful lives, lease terms and residual values, which are determined through the exercise of judgment.

Fair value of financial instruments

The individual fair values attributed to different components of a financing transaction are determined using valuation techniques. The Company uses judgment to select the methods used to make certain assumptions and in performing the fair value calculations in order to determine: (a) the values attributable to each component of a transaction at the time of their issuance; (b) the fair value measurement for certain instruments that require subsequent measurement at fair value on a recurring basis; and (c) for disclosing the fair value of financial instruments subsequently carried at amortized cost. These valuation estimates could be significantly

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different because of the use of judgment and the inherent uncertainty in estimating the fair value of these instruments that are not quoted in an active market.

Impairment of non-financial assets

Impairment exists when the carrying value of an asset or cash generating unit ("CGU") exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use ("VIU"). The fair value less costs of disposal calculation is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. The VIU calculation is based on a discounted cash flow model. The estimated future cash flows are derived from management estimates, budgets and past performance and do not include activities that the Company is not yet committed to or significant future investments that will enhance the asset's performance of the cash generating unit being tested. The recoverable amount is sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash flows and the growth rate used for extrapolation purposes.

Business combinations

In a business combination, all identifiable assets, liabilities and contingent liabilities acquired are recorded at their fair values. One of the most significant estimates relates to the determination of the fair value of these assets and liabilities. For any intangible asset identified, depending on the type of intangible asset and the complexity of determining its fair value, an independent valuation expert or management develop the fair value, using approximate valuation techniques, which are generally based on a forecast of the total expected future cash flows. The evaluations are linked closely to the assumptions made by management regarding the future performance of the assets concerned and the discount rate applied. Certain fair values may be estimated at the acquisition date pending confirmation or completion of the valuation process. When provisional values are used in accounting for a business combination, they may be adjusted retrospectively in subsequent periods. However, the measurement period will last for up to one year from the acquisition date.

Taxation

The calculations for current and deferred taxes require management's interpretation of tax regulations and legislation in the various tax jurisdictions in which the Company operates, which are subject to change. The measurement of deferred tax assets and liabilities requires estimates of the timing of the reversal of temporary differences identified and management's assessment of the Company's ability to utilize the underlying future tax deductions against future taxable income before they expire, which involves estimating future taxable income.

The Company is subject to assessments by various taxation authorities in the tax jurisdictions in which it operates, and these taxation authorities may interpret the tax legislation and regulations differently. In addition, the calculation of income taxes involves many complex factors. As such, income taxes are subject to measurement uncertainty and actual amounts of taxes may vary from the estimates made by management.

Measurement of share-based payments, warrants and stock options

In calculating the value of share-based payments, common share purchase warrants ("Warrants") and options to purchase common shares ("Options"), key estimates such as the value of the common shares, the rate of forfeiture, the expected life, the volatility of the value of the common shares and the risk-free interest rate are used.

B. Summary of Significant Accounting Policies

Cash

Cash consists of bank balances and highly liquid short-term investments with a maturity date of 90 days or less which are convertible to known amounts of cash at any time by the Company without penalties.

Inventory

Inventories are measured at the lower of cost and net realizable value. The cost of inventories is calculated on a weighted average cost basis and includes expenditures incurred in acquiring the inventories and other costs incurred in bringing them to their existing location and condition. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. The Company reviews inventory for obsolete, redundant and slow-moving goods and any such inventory are written down to net realizable value. Any write-downs of inventory to net realizable value are recorded in the Consolidated Statement of Loss and Comprehensive Loss of the related period.

Property and equipment

Property and equipment are measured at cost less accumulated depreciation and impairment losses and are depreciated to their residual values. Residual value is the amount that could currently be received from disposal of the asset, after deducting the estimated costs of disposal, if the asset were already of the age and in the condition that it will be in at the end of its useful life. Residual value is an estimate, and therefore is subject to review it at each annual reporting date as a minimum. Property and

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equipment cost includes expenditures that are directly attributable to the acquisition of the asset. During the construction of leasehold improvements, items are classified as construction in progress. When the asset is available for use, it is transferred from construction in progress to the appropriate category of property and equipment and depreciation on the item commences.

Depreciation is provided using the following methods at rates intended to depreciate the costs of the assets over their estimated use lives:

Asset	Method	Useful Life
Office equipment and computers	Declining balance	3 to 5 years
Furniture and fixtures	Declining balance	3 to 5 years
Leasehold improvements	Straight-line	Term of lease

When a property and equipment asset includes significant components with different useful lives, each significant component is depreciated separately. The estimated useful lives and depreciation methods are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis. An item of property and equipment is derecognized 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 the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in the Consolidated Statements of Loss and Comprehensive Loss of the related year. Assets under construction are not ready for use and are not depreciated. Repairs and maintenance costs that do not improve or extend productive life are recognized in the Consolidated Statements of Loss and Comprehensive Loss in the period in which the costs are incurred.

Impairment of non-financial assets

At each reporting date, the Company reviews the carrying amounts of its non-financial assets (other than inventories and deferred tax assets) to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

Goodwill and indefinite life intangible assets are tested annually for impairment by comparing the carrying value of each cash-generating unit ("CGU") to which goodwill has been allocated to its recoverable amount. For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGUs.

The recoverable amount of an asset or CGU is the greater of its VIU and its fair value less costs of disposal. VIU is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. The fair value less costs of disposal is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. An impairment loss is recognized if the carrying amount of an asset or CGU exceeds its recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

Intangible assets

Intangible assets, either acquired as a result of an acquisition or developed internally, are assets that can be identified, are controlled by the Company and provide future economic benefits to the Company.

Intangible assets are recorded at cost less accumulated amortization and accumulated impairment losses. Intangible assets acquired as a result of an acquisition or in a business combination are measured at fair value at the acquisition date.

The useful lives of intangible assets are assessed as either finite or indefinite. Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). If the recoverable amount of the asset is estimated to be less than the carrying amount, the carrying amount is reduced to its recoverable amount. The Company derecognizes the carrying amount of intangible assets on disposal or when no future economic benefits are expected from its use.

Goodwill and intangible assets with indefinite useful lives are not amortized, but are tested for impairment annually, either individually or at the cash-generating unit level.

The estimated useful life and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

Intangible assets include business licenses and intellectual property. Business licenses are amortized on a straight-line basis over the terms of related store leases, while intellectual property is amortized on a straight-line basis over a range of five to ten years.

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Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that the Company will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material). When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Revenue recognition

Revenue recognition is based on a 5-step approach, under IFRS 15, which includes identifying the contract with the customer, identifying the performance obligations, determining the individual transaction price, allocating the transaction price to the performance obligations in the contract and recognizing revenue when the relevant performance obligations are satisfied. Revenue is recognized when the entity satisfies the performance obligation upon delivery and acceptance by the customer. Revenue in the consolidated financial statements is disaggregated into cannabis, smoking accessories sales, brand license royalties and consulting services.

Recognition

The nature, timing of recognition of satisfied performance obligations, and payment terms for the Company's goods and services are described below:

For performance obligations related to merchandise sales, the Company typically transfers control, completes the performance obligation, and recognizes revenue at the point in time when delivery of the items to the customer occurs. Upon delivery the customer can obtain substantially all of the benefits from the items purchased.

For performance obligations related to brand license royalties, the Company satisfies its performance obligation in accordance with the timing of the merchandise sales recognized by the brand licensee pursuant to the terms of the brand license contract, and applying the same revenue recognition policy as the Company.

For performance obligations related to consulting services, the Company typically satisfies its performance obligations throughout the period of the consulting contract, depending on the specifics of the contract.

Identification of performance obligations

Where contracts contain multiple promises for goods or services, management exercises judgement in determining whether goods or services constitute distinct goods or services or a series of distinct goods that are substantially the same and that have the same pattern of transfer to the customer. The determination of a performance obligation affects whether the transaction price is recognized at a point in time or over time. Management considers both the mechanics of the contract and the economic and operating environment of the contract in determining whether the goods or services in a contract are distinct.

Transaction price

In determining the transaction price and estimates of variable consideration, management considers the history of the customer in estimating the goods and services to be provided to the customer as well as other variability in the contract.

Allocation of transaction price to performance obligations

The Company's contracts generally outline a specific amount to be invoiced to a customer associated with each performance obligation in the contract. The Company allocates the transaction price to the individual performance obligations based on their standalone selling price, which is primarily estimated based on the amounts that would be charged to customers under similar market conditions.

Satisfaction of performance obligations

The satisfaction of performance obligations requires management to make judgment as to when control of the underlying good or service transfers to the customer. Determining when a performance obligation is satisfied affects the timing of revenue recognition. Management considers both customer acceptance of the good or service, and the impact of laws and regulations, in determining when this transfer occurs.

Merchandise sales

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Revenue consists of sales to customers through the Company's network of retail stores. Merchandise sales through retail stores are recognized at the time of delivery to the customer, which is generally at the point of sale.

Consignment and principal versus agent considerations

IFRS 15 focuses on recognizing revenue as an entity transfers control of a good or service to a customer which could affect how an entity evaluates its position in a transaction as either a principal or an agent. The standard provides that an entity is a principal in a transaction if it controls the specified goods or services before they are transferred to the customer.

Government assistance

Government assistance from the Canada Emergency Business Account loans under federal COVID-19 response programs are recorded as a liability until there is reasonable assurance that the forgivable portion of the assistance will not be repayable.

Share capital

Equity instruments are contracts that give a residual interest in the net assets of the Company. Financial instruments issued by the Company are classified as equity only to the extent that they do not meet the definition of a financial liability or financial asset. Common shares, Warrants and Options are classified as equity instruments. The Company uses the residual value method with respect to the measurement of common shares and Warrants issued as private placement units ("Units"). The proceeds from the issuance of Units are allocated between common shares and Warrants on a residual value basis, wherein the fair value of the common shares is based on the market trading price on the date the Units are issued and the balance, if any, is allocated to the Warrants. Common Share issuance costs are recorded against share proceeds.

Contributed surplus

Contributed surplus consists of the fair value of Options and Warrants granted since inception, less amounts transferred to share capital for exercised Options and Warrants. If granted Options vest and then subsequently expire, no reversal of contributed surplus is recognized.

Share-based payments

The fair value, at the grant date, of equity-settled share awards including common share options and performance share units ("PSU") and restricted share units ("RSU"), here-after referred to collectively as "options" is charged to income or loss over the period for which the services of employees and others providing similar services are expected to be received. The corresponding accrued entitlement is recorded in contributed surplus. The amount recognized as an expense is adjusted to reflect the number of Options expected to vest. The fair value of awards is calculated using the Black-Scholes option pricing model, which considers the following factors:

- Exercise price;
- Current market price of the underlying common shares;
- Expected life;
- Risk-free interest rate;
- Expected volatility;
- Dividend yield; and
- Forfeiture rate.

For equity-settled share-based payments to non-employees, the Company measures the equity awards issued as the fair value of the goods or services received, and the corresponding increase in equity, unless that fair value cannot be estimated reliably. When the value of goods or services received in exchange for the share-based payment cannot be reliably estimated, the fair value of the equity award is measured by use of a valuation model. The expected life used in the model is adjusted, based on management's best estimate, for the effects of nontransferability, exercise restrictions and behavioral considerations.

Earnings/loss per common share

Basic earnings/loss per Common Share is computed by dividing the net income or loss applicable to common shares by the weighted average number of common shares outstanding for the relevant year. Diluted earnings/loss per Common Share is computed by dividing the net income or loss applicable to common shares by the sum of the weighted average number of common shares issued and outstanding and all additional common shares that would have been outstanding, if potentially dilutive instruments were converted, unless the effect is antidilutive.

Leases

At the lease possession date, the Company recognizes a lease liability reflecting its obligation for future lease payments and a right of use asset representing its right to use the underlying asset.

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Right of use assets and lease liabilities are presented in the Consolidated Statement of Financial Position and are measured at the present value of future lease payments discounted at the Company's incremental borrowing rate. Lease payments included in the measurement of the lease liability are made up of fixed payments and variable lease payments that are based on an index or rate.

Right of use assets are amortized on a straight-line basis over the lease term and accretion expense is recognized on lease liabilities using the effective interest method. The Company also assesses the right of use asset for impairment when such indicators exist.

The Company has elected to apply the short-term lease recognition exemption to account for short-term leases that have a lease term of 12-months or less from the commencement date and do not contain a purchase option. The Company has also elected to apply the lease of low value assets recognition exemption to leases that are considered to be of low value. Instead of recognizing a right-of-use-asset and lease, the payments in relation to these are recognized as an expense in profit or loss on a straight-line basis over the lease term.

Asset acquisitions

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

Financial instruments

The Company classified its financial instruments as follows:

Financial Instrument	IFRS 9 Classification
Cash	Amortized cost
Trade and other receivables	Amortized cost
Deposits	Amortized cost
Notes receivables	Amortized cost
Shareholder loans	Amortized cost
Convertible debt	Financial liabilities at fair value through profit or loss or amortized cost
Accounts payable and accrued liabilities	Amortized cost
Long-term debt	Amortized cost

The fair values of these financial instruments at March 31, 2023 approximate carrying values, as stated in the Consolidated Statement of Financial Position.

Financial Assets

(a) Recognition and measurement of financial assets

The Company recognizes a financial asset when it becomes a party to the contractual provisions of the instrument.

(b) Classification of financial assets

The Company classifies financial assets at initial recognition as financial assets: measured at amortized cost, measured at fair value through other comprehensive income or measured at FVTPL.

i) Financial assets at amortized cost

A financial asset that meets both of the following conditions is classified as a financial asset measured at amortized cost.

- The Company's business model for such financial asset is to hold the assets in order to collect contractual cash flows;

and

- The contractual terms of the financial asset gives rise on specified dates to cash flows that are solely payments of principal and interest on the amount outstanding.

A financial asset measured at amortized cost is initially recognized at fair value plus transaction costs directly attributable to the asset. After initial recognition, the carrying amount of the financial asset measured at amortized cost is determined using the effective interest method, net of impairment loss, if necessary.

ii) Financial assets at fair value through other comprehensive income ("FVTOCI")

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A financial asset measured at FVTOCI is recognized initially at fair value plus transaction costs directly attributable to the asset. After initial recognition, the asset is measured at fair value with changes in fair value included as "financial asset at fair value through other comprehensive income" in other comprehensive income.

iii) FVTPL

A financial asset measured at FVTPL is recognized initially at fair value with any associated transaction costs being recognized in profit or loss when incurred. Subsequently, the financial asset is re-measured at fair value, and a gain or loss is recognized in profit or loss in the reporting period in which it arises.

(c) Derecognition of financial assets

The Company derecognizes a financial asset if the contractual rights to the cash flows from the asset expire, or the Company transfers substantially all the risks and rewards of ownership of the financial asset. Any interests in transferred financial assets that are created or retained by the Company are recognized as a separate asset or liability. Gains and losses on derecognition are generally recognized in the Consolidated Statements of Loss and Comprehensive Loss. However, gains and losses on derecognition of financial assets classified as FVTOCI remain within accumulated other comprehensive income.

(d) Impairment

An 'ECL' impairment model applies which requires a loss allowance to be recognized based on ECLs. The estimated present value of future cash flows associated with the asset is determined and an impairment loss is recognized for the difference between this amount and the carrying amount as follows: the carrying amount of the asset is reduced to estimated present value of the future cash flows associated with the asset, discounted at the financial asset's original effective interest rate, either directly or through the use of an allowance account and the resulting loss is recognized in profit or loss for the period. In a subsequent period, if the amount of the impairment loss related to financial assets measured at amortized cost decreases, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

Financial liabilities

(a) Recognition and measurement of financial liabilities

The Company recognizes financial liabilities when it becomes a party to the contractual provisions of the instruments.

(b) Classification of financial liabilities

The Company classifies financial liabilities at initial recognition as financial liabilities: measured at amortized cost or measured at FVTPL.

i) Financial liabilities at amortized cost

A financial liability at amortized cost is initially measured at fair value less transaction costs directly attributable to the issuance of the financial liability. Subsequently, the financial liability is measured at amortized cost based on the effective interest rate method.

ii) Financial liabilities at FVTPL

A financial liability measured at FVTPL is initially measured at fair value with any associated transaction costs being recognized in profit or loss when incurred. Subsequently, the financial liability is remeasured at fair value, and a gain or loss is recognized in profit or loss in the reporting period in which it arises unless such change is attributable to the Company's credit risk in which case such changes are recorded to other comprehensive income.

(c) Derecognition of financial liabilities

The Company derecognizes a financial liability when the financial liability is discharged, cancelled or expired. Generally, the difference between the carrying amount of the financial liability is derecognized and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognized in the Consolidated Statements of Loss and Comprehensive Loss.

Offsetting financial assets and liabilities

Financial assets and liabilities are offset and the net amount is presented in the Consolidated Statement of Financial Position only when the Company has a legally enforceable right to set off the recognized amounts and intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously.

Definition of default:

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For internal credit risk management purposes, the Company considers a financial asset not recoverable if the customer balance owing is 180 days past due and information obtained from the customer and other external factors indicate that the customer is unlikely to pay its creditors in full.

Write-off

Financial assets are written off (either partially or in full) where there is no realistic prospect of recovery. This is generally the case when the Company determines that the counterparty does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Company's procedures for recovery of amounts due.

Fair value hierarchy

Fair value measurements of financial instruments are required to be classified using a fair value hierarchy that reflects the significance of inputs used in making the measurements. The levels of the fair value hierarchy are defined as follows:

Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 - Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 - Inputs for assets or liabilities that are not based on observable market data.

Taxes

Tax expense is comprised of current and deferred tax. Tax is recognized in the Consolidated Statements of Loss and Comprehensive Loss except to the extent that it relates to items recognized in other comprehensive income (loss) or equity on the Consolidated Statement of Financial Position.

Current tax

Current tax is calculated using tax rates which are enacted or substantively enacted at the end of the reporting period. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulations are subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to taxation authorities.

Deferred tax

Deferred tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred tax is determined using tax rates which are enacted or substantively enacted at the end of the reporting period and are expected to apply when the related deferred tax asset is realized or the deferred tax liability is settled. Deferred tax liabilities are generally recognized for all taxable temporary differences, except for temporary differences that arise from goodwill, which is not deductible for tax purposes. Deferred tax liabilities are also recognized for taxable temporary differences arising on investments in subsidiaries except where the reversal of the temporary difference can be controlled and it is probable that the difference will not reverse in the foreseeable future. Deferred tax assets are recognized to the extent it is probable that taxable profits will be available against which the deductible balances can be utilized. All deferred tax assets are analyzed at each reporting period and reduced to the extent that it is no longer probable that the asset will be recovered. Deferred tax assets and liabilities are not recognized with respect to temporary differences that arise on initial recognition of assets and liabilities acquired other than in a business combination.

Related party transactions

Related parties to the Company are considered to be key management personnel including persons having the authority and responsibility for planning, directing, and controlling the activities of the Company as a whole, either directly or indirectly. The Company has determined that key management personnel include the Company's executive officers and directors. Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly.

C. Risk Management

The Company has identified a number of risks that could adversely affect the Company's operations. These risks include credit risk, liquidity risk and interest rate risk. Management reviews and develops policies for managing each of these risks which are summarized below.

Credit risk

Credit risk is the risk of loss associated with a counterparty's ability to fulfil its payment obligations. The Company's primary exposure to credit risk is attributable to its cash, other receivables and notes receivable. This risk relating to cash is considered low since the Company only invests its cash in major banks which are high credit quality financial institutions. A concentration of credit risk as at

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March 31, 2023 in the amount of \$2.5 million exists and is related to accrued brand license royalties and unpaid interest, owing pursuant to the 101 Note (see Note 6 – Notes receivable). This indebtedness will be settled in conjunction with the closing of the 101 Acquisition and does give rise to significant credit risk as at March 31, 2023 (see Note 25 – Subsequent events).

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting financial obligations as they come due. To manage liquidity risk, the Company uses a detailed cash flow forecast model to regularly monitor its near and long-term cash flow requirements. The Company's detailed cash forecasting also assists the Company in optimizing its working capital and evaluating long-term investment and funding strategies. In 2022, the common shares began trading on the NEO. The Company's liquidity and operating results may be adversely affected if the Company's access to the capital markets is hindered, whether as a result of a downturn in stock market conditions generally or related to matters specific to the Company.

Interest rate risk

Interest rate risk refers to the risk that the fair values or future cash flows of a financial instrument will fluctuate due to changes in market interest rates. As at March 31, 2023, the Company is not exposed to material interest rate risk.

D. Recent Accounting Pronouncements and Changes to Accounting Policies

Effective January 1, 2022, the Company retrospectively adopted amendments to IAS 16, Property, Plant and Equipment dealing with accounting for proceeds before intended use. The amendments prohibit a company from deducting from the cost of property, plant and equipment amounts received from selling items produced while the company is preparing the asset for its intended use. Instead, such sale proceeds and related cost are recognized in profit or loss. The impact of adoption was not material to these consolidated financial statements.

In May 2020, the IASB issued Onerous Contracts — Cost of Fulfilling a Contract (Amendments to IAS 37). The amendments clarify that both incremental costs and an allocation of other costs that relate directly to fulfilling the contract should be included in assessing whether a contract is onerous. The amendments became effective January 1, 2022. The impact of adoption was not material to these consolidated financial statements.

Listed below are the standards, amendments, and interpretations that the Company reasonably expects to be applicable at a future date and intends to adopt when they become effective. The Company does not expect that the impact of adopting these standards, amendments, and interpretations would be material to the consolidated financial statements.

- In January 2020, the IASB issued *Classification of Liabilities as Current or Non-current (Amendments to IAS 1)*. The amendments aim to promote consistency in applying the requirements by helping companies determine whether, in the statement of financial position, debt and other liabilities with an uncertain settlement date should be classified as current (due or potentially due to be settled within one year) or noncurrent. The amendments include clarifying the classification requirements for debt a company might settle by converting it into equity. The amendments are effective for annual reporting periods beginning on or after January 1, 2023, with earlier application permitted.
- In February 2021, the IASB issued *Definition of Accounting Estimates (Amendments to IAS 8)*. The amendments define accounting estimates and clarify the distinction between changes in accounting estimates and changes in accounting policies. The amendments are effective for annual reporting periods beginning on or after January 1, 2023, with earlier application permitted.
- In February 2021, the IASB issued *Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2)*. The amendments provide guidance to help entities disclose their material (previously "significant") accounting policies. The amendments are effective for annual reporting periods beginning on or after January 1, 2023, with earlier application permitted.
- In May 2021, the IASB issued *Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12)*. The amendments narrow the scope of the recognition exemption so that companies would be required to recognize deferred tax for transactions that give rise to equal amounts of taxable and deductible temporary differences, such as leases. The amendments are effective for annual reporting periods beginning on or after January 1, 2023, with earlier application permitted, applied retrospectively.
- In September 2022, the IASB issued *Lease Liability in a Sale and Leaseback (Amendments to IFRS 16)*. The amendments address the measurement requirements for sale and leaseback transactions. The amendments require a seller-lessee to subsequently measure lease liabilities arising from a leaseback in a way that it does not recognize any amount of the gain or loss that relates to the right of use it retains. The amendments are effective for annual reporting periods beginning on or after January 1, 2024, with earlier application permitted, applied retrospectively.

4. Acquisitions

a) Miraculo Inc. ("Miraculo")

On March 15, 2022, the Company completed the acquisition of Miraculo ("Miraculo Acquisition") pursuant to an amalgamation agreement dated February 7, 2022 ("Amalgamation Agreement") whereby Miraculo amalgamated with 1000101203 Ontario Inc., a wholly-owned subsidiary of the Company ("Trees Subco") to form an amalgamated entity ("Amalco") in order to carry out a three-cornered amalgamation whereby the Company acquired all of the issued and outstanding shares of Miraculo.

On closing of the Miraculo Acquisition, Michael Klein, former Chief Executive Officer of Miraculo, was appointed as Chief Executive Officer of the Company. In addition, both Mr. Klein and G. Scott Paterson were also appointed to the board of directors of the Company.

Pursuant to the terms of the Amalgamation Agreement, each common share in the capital of Trees Subco was exchanged for one common share in the capital of Amalco. The Miraculo shares held by the shareholders of Miraculo were exchanged on a pro rata basis for an aggregate of 13,639,917 common shares in the capital of Trees ("Trees Shares") and an aggregate of 6,819,922 warrants to purchase Trees Shares exercisable at a price of \$0.11 per share until December 31, 2024.

The Miraculo Acquisition does not constitute a business combination since Miraculo does not meet the definition of a business under IFRS 3. As a result, the Miraculo Acquisition is accounted for in accordance with IFRS 2.

The consideration received pursuant to the Miraculo Acquisition was the fair value of the net assets of Miraculo. The value of the net assets acquired was provisionally estimated at the acquisition date as follow:

Fair value of 13,639,917 common shares of the Company at \$0.06 per share	\$818,395
Fair value of 6,819,922 share purchase warrants of the Company valued at \$0.029 per warrant	<u>\$197,777</u>
Total consideration	\$1,016,172
Cash	\$3,928
Inventory	\$29,343
HST receivable	\$8,891
Intangible assets	\$525,492
Accounts payable	(\$11,481)
Bank loan	<u>(\$40,000)</u>
Net assets acquired	\$516,173
Transaction costs related to the acquisition	\$500,000

Refer to Note 9 – *Intangible Assets*, for details relating to the subsequent disposition of certain Miraculo intellectual property rights on October 21, 2022.

b) IPCo

As disclosed in the consolidated financial statements of the Company for the twelve months ended December 31, 2021, the Company will enter the British Columbia market upon the closing of the acquisition of assets to be acquired from 1015712 B.C. Ltd. d/b/a Trees Cannabis ("101").

On October 22, 2019, Trees entered into an initial asset purchase agreement with 101, which agreement was ultimately superseded and replaced by a second amended and restated asset purchase agreement between Trees and 101 on February 24, 2020, and further amended and restated on January 26, 2021 (the "101 Purchase Agreement"). The 101 Purchase Agreement contemplated the purchase by Trees of the assets to operate up to eight retail cannabis stores in the province of British Columbia, subject to the receipt by Trees of all requisite licenses and approvals from the provincial regulator, the British Columbia Liquor and Cannabis Regulation Branch (the "LCRB"). 101 currently operates five existing retail cannabis stores in the Province of British Columbia.

Pursuant to the terms of the 101 Purchase Agreement, the Company agreed to acquire, subject to certain conditions, all or substantially all of the assets of 101 relating to five unique cannabis retail stores owned and operated by 101 (collectively, the "101 Purchased Stores") located in British Columbia (the "101 Acquisition").

On March 24, 2022 the Company and 101 renegotiated the terms of the 101 Purchase Agreement into two components: a share purchase component (the "101 Share Purchase"), which is governed by the terms of the share purchase agreement dated March 24, 2022 among the Company, 101 and 11391461 Canada Ltd. ("IPCo") (the "101 Share Purchase Agreement") and an asset purchase

component (the "101 Asset Purchase") which is governed by the terms of the third amended and restated asset purchase agreement entered into on the closing of the 101 Share Purchase (the "101 Asset Purchase Agreement").

Pursuant to the 101 Share Purchase Agreement, 101 transferred all of the "Trees" registered trademarks, including logos ("Trees IP") to IPCo at fair market value and, on March 24, 2022, the Company purchased all of the shares of IPCo in exchange for 5,933,333 common shares valued at \$0.045 per share, for a total consideration of \$266,999.

The 101 Share Purchase does not constitute a business combination since the acquired assets do not meet the definition of a business under IFRS 3. As a result, 101 Share Purchase is accounted for in accordance with IFRS 2.

On closing of the 101 Share Purchase, 101 and IPCo entered into a brand licensing agreement pursuant to which IPCo has agreed to license, until the closing of the 101 Asset Purchase, the Trees IP to 101 in exchange for an accruing royalty recorded as Brand License Royalties on the Company's statement of loss and comprehensive loss. In addition, the 101 Note was amended to encompass all indebtedness owing by 101 to the Company, to add additional covenants, guarantees and default provisions and to provide that the 101 Note was no longer forgivable (the "Amended 101 Note").

The 101 Asset Purchase Agreement contemplates, upon the satisfaction of all conditions precedent, including receipt of all required consents and approvals, including regulatory approval from the LCRB for the change of control, that the Company will acquire all of the remaining assets of 101 used to operate licenced retail cannabis businesses at five locations in British Columbia. The purchase price paid for the assets will be equal to the amount outstanding (inclusive of interest) under the Amended 101 Note on the date of closing of the 101 Asset Purchase, and will be satisfied by the issuance by IPCo of a note in favour of 101.

In September 2022, the Company received its provincial license to operate in British Columbia from the British Columbia Liquor and Cannabis Regulation Branch and in April 2023 the Company satisfied all remaining conditions precedent allowing for the closing of the 101 Asset Purchase on April 11, 2023 (refer to note 25 – Subsequent Events).

c) Camp Cannabis

On July 13, 2022, the Company completed its acquisition (the "Camp Acquisition") of 100% of the equity interests of 2707461 Ontario Ltd. ("Camp") from Barnard Cann Ltd. (the "Vendor"). Camp operates one licensed retail cannabis store in Burlington, Ontario.

The purchase price payable in connection with the Camp Acquisition was paid as follows: a) \$25,000 in cash to the Vendor; b) assumption of debt in the amount of \$343,000 owing to Trees pursuant to a grid promissory note dated March 11, 2020, as amended; and c) issuance by the Company of an unsecured convertible debenture in the amount of \$180,000 payable to the Creditor (the "Camp Debenture"). The Camp Debenture bears interest at 7.5% compounding annually, payable monthly in cash, matures on the second anniversary of the closing date, and allows for the principal owing thereunder to be convertible into common shares in the capital of Trees ("Debenture Shares") at the option of the Creditor, no sooner than the first anniversary of the closing date, at a conversion price being the greater of (X) \$0.15, and (Y) the closing price of Trees' common shares at the close of trading on the date prior to the conversion date, less a 10% discount. For accounting purposes, the Camp Debenture was evaluated for the liability and equity components under IFRS 9, which included the imbedded derivative as the Camp Debenture is not converted into the fixed number of common shares. Management determined the value of an imbedded derivative to be trivial on the day of issue and as at March 31, 2023.

Camp contributed \$0.7 million of revenue and \$0.2 million of losses before tax from the closing date of the Camp Acquisition to March 31, 2023. If the acquisition occurred on January 1, 2022, Camp would have contributed \$1.3 million of revenue and \$0.2 million of losses before tax for the fifteen months ended March 31, 2023. During the fifteen months ended March 31, 2023, the Company incurred \$117,437 in legal fees related to the Acquisition, which have been recorded as transaction costs in consolidated statement of loss and comprehensive loss.

The Camp Acquisition meets the definition of a business combination under IFRS 3 and has been accounted for as a corporate acquisition. Management is in the process of gathering the relevant information that existed at the date of closing of the Camp Acquisition to determine the fair value of the net identifiable assets acquired. As such, the fair values of assets acquired and liabilities assumed were provisionally allocated, and preliminary and subject to change.

The following table summarizes the fair values of the purchase consideration, assets acquired and liabilities assumed as at July 13, 2022:

Cash consideration	\$25,000
Convertible debenture	\$180,000
Pre-existing indebtedness with Camp	<u>\$340,000</u>
Total consideration	\$548,000
Cash	\$18,251
Inventory	\$39,586
Lease deposits	\$17,892
Right-of-use assets	\$669,626
Intangible assets	\$356,758
Property, plant and equipment	\$453,998
Accounts payable	(\$85,941)
Sales taxes payable	(\$3,715)
Lease liabilities	(\$757,432)
Long-term debt	(\$66,483)
Deferred taxes	<u>(\$31,225)</u>
Net assets acquired	\$548,000

5. Prepaid lease deposits and rents

	Lease Deposits
	\$
Balance at December 31, 2020	123,279
Additions	3,107
Deposit utilization	(12,631)
MetroCannabis Acquisition	<u>135,120</u>
Balance at December 31, 2021	248,875
Write-down	(33,444)
Camp Acquisition (Note 4)	17,892
Deposit utilization	<u>(55,559)</u>
Balance at March 31, 2023	177,764

The Company records deposits paid in accordance with conditional lease agreements and binding lease agreements, which are typically utilized as payment of rent for the first and last month of the lease term. Lease write-downs are recorded for forfeiture of non-refundable deposits paid in accordance with conditional lease agreements that the Company has elected to terminate during the period.

6. Notes Receivable

	March 31, 2023	December 31, 2021
	\$	\$
101 Note	2,543,912	3,186,495
Other	-	315,700
	2,543,912	<u>3,502,195</u>
Note receivable - current	-	300,000
Note receivable – long term	2,543,912	<u>3,202,195</u>

On February 10, 2021, in connection with the 101 Acquisition, 101 issued the 101 Note in favour of the Company for the purpose of funding 101's operations until the closing of the 101 Acquisition. The 101 Note may also be used by 101 for leasehold improvement costs relating to the operation of the 101 Purchased Stores. The outstanding principal amount of the 101 Note bears interest at the rate of 8.5% per annum. The 101 Note shall mature on the date of closing of the 101 Acquisition. On March 24, 2022, the terms of the 101 Note were amended to encompass all indebtedness owing by 101 to the Company, to add additional covenants, guarantees and default provisions and to provide that the 101 Note was no longer forgivable (refer to Note 4 – Acquisition of IPCo). As of the date of these consolidated financial statements, the Company has advanced an aggregate of \$4,238,492 to 101 under the terms of the 101

Note and the total indebtedness, including accrued and unpaid interest, owing under the 101 Note is \$4,698,090. The Company recorded \$310,125 in interest income on the 101 Note for the fifteen months ended March 31, 2023.

The 101 Note includes brand license royalties receivable of \$544,586 from 101 pursuant to the Brand License Royalty Agreement (refer to note 4b – IPCo)

As at March 31, 2023, the Company evaluated the 101 Note, accrued interest on the 101 Note and the accrued brand license royalties and determined that the carrying value exceeded the recoverable value by \$2,154,177. This amount has been recorded as an impairment to Notes Receivable. Refer to note 25 - Subsequent events, for details on the closing of the 101 Acquisition on April 11, 2023.

7. Inventory

	March 31, 2023	December 31, 2021
	\$	\$
Cannabis	284,284	167,303
Cannabis accessories	15,441	24,976
Total inventory	299,725	192,279

Inventory relates to cannabis and cannabis accessories that are anticipated to be sold within the next 12 months.

8. Property and Equipment

	Leasehold improvements	Furniture & fixtures	Technology equipment	Total
	\$	\$	\$	\$
Cost - balance at December 31, 2020	1,076,180	8,817	58,335	1,143,332
Additions	919,296	29,270	61,406	1,009,972
MetroCannabis Acquisition	1,459,345	-	93,150	1,552,495
Impairment	-	-	(6,306)	(6,306)
Cost - balance at December 31, 2021	3,454,821	38,087	206,586	3,699,493
Additions	39,228	6,148	12,562	57,937
Camp Acquisition (Note 4)	409,477	4,043	40,479	453,998
Impairment	(190,156)	-	(3,400)	(193,556)
Cost - balance at March 31, 2023	3,713,370	48,277	256,226	4,017,873
Accumulated depreciation – balance at December 31, 2020	(58,691)	(11,323)	(12,232)	(82,246)
Depreciation expense	(339,032)	(6,756)	(37,242)	(383,030)
Accumulated depreciation – balance at December 31, 2021	(397,723)	(18,079)	(49,474)	(465,276)
Depreciation expense	(752,676)	(265)	(68,066)	(821,007)
Accumulated depreciation – balance at March 31, 2023	(1,150,399)	(18,344)	(117,540)	(1,286,283)
Net book value				
December 31, 2021	3,057,098	20,008	157,112	3,234,217
March 31, 2023	2,562,971	29,934	138,686	2,731,590

The bulk of capital assets of the Company relate to investments in store design and construction. Depreciation of capital costs associated with each retail store begins on the first day of store operations.

For the fifteen months ended March 31, 2023, the Company recorded an impairment of \$193,556 for leasehold improvements related to terminated leases (refer to Note 11).

9. Intangible Assets and Goodwill

	Business License	Intellectual Property and Other	Total
	\$	\$	\$
Balance at December 31, 2020	-	20,712	20,712
MetroCannabis Acquisition	972,202	-	972,202
Amortization	(122,465)	(6,904)	(129,369)
Balance at December 31, 2021	849,738	13,808	863,546
Acquisition of IPCo (Note 4)	-	266,999	266,999
Miraculo Acquisition (Note 4)	-	525,492	525,492
Camp Acquisition (Note 4)	356,758	-	356,758
Write off of Miraculo Intangibles	-	(467,010)	(467,010)
Participation Agreement	-	724,145	724,145
Amortization	(640,252)	(99,565)	(739,817)
Balance at March 31, 2023	566,244	963,869	1,530,113

For the fifteen months ended March 31, 2023, an amortization charge of \$640,252 and \$99,565 was recorded on the Company's business license, and intellectual property and other assets, respectively.

On May 24, 2022, the Company completed the Miraculo Acquisition, resulting in the recognition of \$525,492 of intangible value of websites and an e-commerce platform. Refer to Note 4 for additional details on the Miraculo Acquisition. The intangibles were amortized over 5 years. On September 19, 2022, Michael Klein resigned from his role as chief executive officer and director of the Company. On October 21, 2022, pursuant to a settlement agreement between Mr. Klein and the Company, the Company conveyed to Mr. Klein, ownership of the intellectual property rights to the cannabisMD, askCMD and God's Greenery brands in lieu of payment obligations pursuant to his employment agreement. As a result, the Company de-recognized the unamortized value of Miraculo intangible assets of \$467,010, and recognized a loss on sale of intangible assets of \$435,043 in the consolidated statements of loss and comprehensive loss for the fifteen months ended March 31, 2023.

On July 13, 2022, the Company completed the Camp Acquisition, resulting in the recognition of \$356,758 of intangible assets related to the AGCO license. Refer to Note 4 for additional details on the Camp Acquisition. The license is amortized over 12 years.

On December 9, 2022 the Company entered into a Participation Agreement with 1000321689 Ontario Ltd. ("10003"), whereas it transferred approximately \$0.2 million of liabilities relating to the Company's Rexdale and Bloor stores (the "Retail Locations"), as well as remaining future obligations related to the construction and operations of the Retail Locations, in exchange for a 49% participating interest (the "Participating Interest") in the Retail Locations. The agreement provides that, in the event of a change of control, the Company is to be required at the time of the change of control to repurchase the Participating Interest for the aggregate Mandatory Repayment Price of \$1.0 million, which at the election of 10003, may be settled in cash or common shares of the Company. The Company has recognized the obligation to make payments under this agreement on the consolidated balance sheet as at March 31, 2023, as a non-current financial liability initially measured at \$1.0 million. The Company subsequently measures the liability at amortized cost and will record Participating Interest payments as finance charges in the consolidated statements of loss and comprehensive loss. As a result of this agreement, the Company recognized an intangible asset of \$764,145 to reflect its right to future payments related to the construction and operation of the Retail Locations. As tangible or intangible assets are acquired, the Company will transfer the associated value to the respective assets and will amortize them in accordance with its usual amortization and depreciation policies. During the three months ended March 31, 2023, the Company received a \$40,000 payment representing cost related to the completion of the Bloor St. location, which reduced the intangible asset value.

On March 31, 2023, the Company completed impairment testing over the group of CGUs to which goodwill had been allocated totalling \$5,099,050. The recoverable amount of the group of CGUs, was first assessed based on a FVLCD model. The model was built using 10-year cash flows projections expected to be generated based on historical performance, financial forecasts, and growth expectations. Cash flows beyond 10 years used a terminal growth rate of 1%; and Cash flows were discounted at an after-tax discount of 15.0%. The Company's significant decline in market capitalization since December 31, 2021 was also factored into the determination of impairment. As a result of the impairment test performed, the recoverable amount was determined to be higher than the carrying value of the group of CGUs and therefore the Company recognized goodwill impairment in the amount of \$5,099,050.

10. Finance Costs

Finance costs are comprised of the following:

	Fifteen Months Ended March 31, 2023	Twelve Months Ended December 31, 2021
	\$	\$
Accretion of lease liability (Note 11)	446,071	435,920
Interest on debt and shareholder loans (Notes 13,14,15)	517,153	517,153
Total	963,224	1,603,980

11. Right-of-Use Asset and Lease Liability

Right-of-Use Asset

	\$
Balance at December 31, 2020	3,822,433
Lease additions	434,076
Lease addition from MetroCannabis Acquisition	2,869,394
Dispositions	(644,147)
Depreciation expense for the twelve months ended	(541,483)
Balance at December 31, 2021	5,940,273
Terminations	(2,137,865)
Lease addition from Camp Acquisition (Note 4)	669,626
Depreciation expense for the period	(553,251)
Balance at March 31, 2023	3,918,783

Lease Liability

	\$
Balance at December 31, 2020	3,860,623
Lease additions	434,076
Lease addition from MetroCannabis Acquisition	2,870,628
Dispositions	(652,986)
Lease payments	(756,158)
Interest (finance costs)	435,920
Balance at December 31, 2021	6,192,103
Terminations	(2,265,966)
Lease addition from Camp Acquisition (Note 4)	757,431
Lease payments	(812,653)
Interest (finance costs) (Note 10)	446,071
Balance at March 31, 2023	4,316,986

	As at March 31, 2023	As at December 31, 2021
	\$	\$
Current portion of lease liability	512,615	877,734
Non-current portion of lease liability	3,804,371	5,314,369
Total Lease Liability	4,316,986	6,192,103

For the fifteen months ended March 31, 2023, the Company recognized \$227,416 (twelve months ended December 31, 2021 – \$333,263) of rent expenses related to short-term leases in the consolidated statements of loss and comprehensive loss. Short-term leases relate to non-operational short-term conditional lease agreements.

During the fifteen months ended March 31, 2023, the Company terminated several leases that no longer fit the Company's strategic location criteria, resulting in \$101,058 of lease deposit write-downs and termination expenses and a reduction in the right-of-use asset and lease liability of \$2,137,865 and \$2,265,966 respectively.

The following is a summary of the contractual undiscounted cash outflows for lease obligations:

	As at March 31, 2023
	\$
Less than one year	653,997
Between one and five years	2,939,380
Greater than five years	2,856,046
Total	6,449,424

12. Amortization and Depreciation

Amortization and depreciation costs are comprised of the following:

	Fifteen Months Ended March 31, 2023	Twelve Months Ended December 31, 2021
	\$	\$
Property and equipment depreciation (Note 8)	821,007	383,030
Intangible asset amortization (Note 9)	739,817	129,369
Right-of-use asset depreciation (Note 11)	553,251	541,483
Total	2,114,076	1,053,882

13. Long-Term Debt

Changes in Long-term debt during the following periods;

	Fifteen Months Ended March 31, 2023	Twelve Months Ended December 31, 2021
	\$	\$
Balance, beginning of period	2,301,544	2,097,470
Additions	106,483	5,060,000
Repayments	(86,027)	(65,926)
Non-cash debt settlements	(1,052,000)	-
Non-converted portion of September 2021 Convertible Debentures (Note 14)	-	210,000
Interest	169,489	-
Participation Agreement liability (note 9)	1,000,000	-
Conversions	-	(5,000,000)
Balance, end of period	2,439,489	2,301,544

Long-term debt is comprised of the following balances at each period end;

	Fifteen Months Ended March 31, 2023	Twelve Months Ended December 31, 2021
Government relief	160,000	120,000
September 2021 Debentures (note 14)	379,489	210,000
Licensed producer	900,000	900,000
Participation agreement liability	1,000,000	-
MHC acquisition	-	1,064,000
Other	-	7,544
Balance, end of period	2,439,489	2,301,544
Current portion of long-term debt	1,279,489	43,544
Non-current portion of long-term debt	1,160,000	2,258,000

Acquisition of MetroCannabis: On May 11, 2021, the Company completed the MetroCannabis Acquisition, and in consideration of the MetroCannabis Acquisition, issued the MetroCannabis Note. The MetroCannabis Note was converted contemporaneously with the 406 Amalgamation.

Licensed Producer: The Company received debt funding from a Canadian licensed cannabis producer (the “Licensed Producer”) for the purpose of constructing and opening stores in the province of Ontario. The debt is a first secured loan by way of a general collateral agreement over all of the Company’s operating assets. Each tranche of debt funding has a term of three years, is callable on the first anniversary of its issuance, and accrues interest at a rate of 8.5% per annum. As at March 31, 2023 the balance outstanding on the debt was \$900,000. The loan matures in equal installments of \$300,000 on each March 17, 2023, May 29, 2023, and June 24, 2023 and is in default. The Company is currently in discussions with the Licensed Producer to extend the maturity of this debt. Refer to note 25 – subsequent events.

MHC Acquisition: In 2019, the Company completed the MHC Acquisition and issued a promissory note to the vendor (“MHC Vendor”) in the amount of \$1.1 million. The Company was obligated to repay this amount beginning with a payment of \$50,000 upon licensing of the store located in Squamish, British Columbia, and monthly payments calculated to be the greater of: a) 85% of the cash earnings from operations of the store, or b) \$3,000 per month beginning on January 1, 2021, in either case until such time as the debt is fully repaid.

On May 7, 2022, \$800,000 of this debt was acquired by 1361535 B.C. Ltd (“535BC”), an arms length entity, and together with the remaining \$252,000 held by the MHC Vendor, was settled in exchange for the issuance of 20,400,000 common shares of the Company at fair market value on June 16, 2022. \$236,000 was forgiven by 535BC, which has been recorded as a gain on debt settlements.

Government Relief: During 2020, the Company received a \$60,000 government assistance COVID-19 loan to provide working capital support through the COVID-19 crisis. The loan is an extendible revolving facility, with any outstanding balance convertible to a reducing term facility on December 31, 2020. If the Company repays the loan in full on or before December 31, 2023, it shall be entitled to a credit in the amount of 25% of the converted loan balance. If the loan is not repaid in full on or before December 31, 2023, the Company may extend the term from January 1, 2024 to December 31, 2025. Monthly interest payments commence on any unpaid balance beginning on January 1, 2024 at a rate of 5.0% per annum. In connection with the OCH Amalgamation, the Company assumed \$60,000 government assistance COVID-19 loan on the same terms. In connection with the Miraculo acquisition, the Company assumed \$40,000 government assistance COVID-19 loan on the same terms. As at March 31, 2023 the aggregate balance outstanding was \$160,000 from all three loans.

Participation Agreement Liability: As described in Note 9 – *Intangible Assets*, the Company entered into a Participation Agreement on Dec 9, 2022 and recognized a related obligation measured at \$1.0 million. The liability provides for Participating Interest payments from the Company’s Retail Locations, calculated and accrued on a calendar monthly basis with the first payment to be made upon the later of (a) 30 days following the end of the first calendar month that is six months from the Closing Date, or (b) 30 days following the end of the first calendar month upon achievement of three (3) consecutive months of corporate Adjusted EBITDA of \$50,000 or greater. The agreement further provides that, in the event of a change of control, the Company is required at the time of the change of control to repurchase the Participating Interest for the aggregate Mandatory Repayment Price of \$1.0 million, which at the election of 10003, may be settled in cash or common shares of the Company. The Company has recognized the obligation to make payments under this agreement on the consolidated balance sheet as at March 31, 2023, as a non-current financial liability initially measured at \$1.0 million. The Company subsequently measures the liability at amortized cost and will record Participating Interest payments as finance charges in the consolidated statements of loss and comprehensive loss. Refer to note 25 – subsequent events.

14. Convertible Debt

	March 31, 2023	December 31, 2021
	\$	\$
Camp Debenture	180,000	-
November 2022 Secured Convertible Debentures	893,630	-
Convertible debt	1,073,630	-

September 2021 Debentures (principal value \$1.2 million): On September 10, 2021, October 28, 2021, and November 5, 2021, the Company closed private placements of 58.8% per year secured convertible debentures (the "September 2021 Debentures") for aggregate gross proceeds of \$710,000. \$500,000 of the face value of the September 2021 Debentures were converted to common shares upon the completion of the 406 Amalgamation. September 2021 Debentures with a face value of \$210,000 were not converted and are no longer eligible to be converted and have therefore been reclassified as long-term debt. The unconverted portion of the September 2021 Debentures mature on the two-year anniversary of the date of issuance. The Company has the right, but not the obligation, to elect to prepay the principal amount and all accrued interest thereon up to a date of prepayment determined by the Company at any time, in the Company's sole discretion. The principal amount of \$210,000 along with accrued interest in the amount of \$169,489 are due in November of 2023 and are included in the current portion of long-term debt on the consolidated statement of financial position as of March 31, 2023. Refer to note 25 – subsequent events.

Camp Debenture (principal value \$0.2 million): In connection with the Camp Acquisition, the Company issued the Camp Debenture in the amount of \$180,000. The Camp Debenture bears interest at 7.5% per annum compounding annually, payable monthly in cash, matures on the second anniversary of the closing date, and allows for the principal owing thereunder to be convertible into common shares in the capital of Trees ("Debenture Shares") at the option of the holder, no sooner than July 13, 2023 (the first anniversary of the closing date), at a conversion price being the greater of (X) \$0.15 per share, and (Y) the closing price of Trees' common shares at the close of trading on the date prior to the conversion date, less a 10% discount. Refer to note 25 – subsequent events.

November 2022 Secured Convertible Debentures (principal value \$0.9 million): On October 21, 2022 and November 28, 2022 the Company completed the closing of a non-brokered private placement (the "November 2022 Convertible Debenture Financing") of 200 and 745 units ("Nov Units"), respectively, of the Company at a price of \$1,000 per Nov Unit for gross proceeds of \$945,000. Each Nov Unit consists of (i) one 12.0% per annum secured convertible promissory note bearing a principal amount of \$1,000 (each, a "Nov Convertible Note"), convertible into common shares of the Company at a conversion price of \$0.015 per common share (the "Nov Conversion Price") and maturing thirty-six (36) months from the closing of the November 2022 Convertible Debenture Financing; and (ii) 66,667 common share purchase warrants of the Company (each, a "Nov Warrant"). Each Nov Warrant entitles the holder thereof to purchase one common share at a price of \$0.015 per share until October 20, 2025, subject to Acceleration. If, during the term of the November 2022 Convertible Debentures, the volume weighted-average share price of the common shares on the Neo Exchange Inc. (the "NEO") for twenty (20) consecutive trading days equals or exceeds \$0.06, the Company may, upon 30 days' prior notice, convert the Nov Convertible Notes into common shares at the conversion price of \$0.015 (subject to customary adjustments), in whole or in part. In the event that the volume-weighted average price of the common Shares on the NEO for twenty (20) consecutive trading days equals or exceeds \$0.06, the Company may, upon 30 days' prior notice, accelerate the expiry of the Nov Warrants to a date that is 30 days from the date of the notice (the "Acceleration").

For accounting purposes, the November 2022 Convertible Debentures were separated into their liability and equity components (\$785,750 and \$159,250 respectively) by first valuing the liability component. The fair value of the liability component at the time of issue was calculated as the discounted cash flows for the Debentures assuming a 20% discount rate, which was the estimated rate for a similar debenture without a conversion feature. The fair value of the equity component (both the conversion feature and the detachable warrants) was determined at the time of issue as the difference between the face value of the November 2022 Convertible Debentures and the fair value of the liability component.

On January 3, 2023, the Company granted \$60,000 of Convertible Debentures on the same terms and conditions as the November 2022 Convertible Debenture Financing, to executives of the Company in recognition of their services to the Company. The equity (\$10,110 and \$49,890 respectively) were calculated using the methodology described above. Refer to note 25 – subsequent events.

15. Shareholders Loans

On December 31, 2019, certain shareholders of the Company provided short-term bridge financing arrangements to the Company in the amount of \$270,000 and a further \$650,000 during the twelve months ended December 31, 2020, for a total of \$920,000. These shareholder loans accrue interest at 10% per annum. Shareholder loans are subordinate to long-term debt funding provided by the Licensed Producer (Note 13 – *Long Term Debt*). No repayments of shareholder loans or accruing interest was permitted prior to June 1, 2021 unless the debt provided by the Licensed Producer and related accruing interest were repaid in full. On December 31, 2021, the repayment terms of the loans were amended to provide that all unpaid principal amounts together with accrued and unpaid interest thereon would become immediately due and payable on the earlier of (i) January 1, 2023; (ii) upon the occurrence of an Event of Default (as defined therein); or (iii) upon the closing of a Change of Control. The amount of the loans including accrued interest as at March 31, 2023 is \$1,237,571.

On January 29, 2021, the Company and Ontario Cannabis Holdings Corp. (“OCH”) entered into a merger agreement (the “OCH Amalgamation”), whereby the Company assumed loans from shareholders in the amount of \$409,960 to fund operating and capital expenditures during the development phase of the business. The shareholder loans accrue interest at a rate of 8% per annum and were to mature on January 1, 2023 subject to extension by mutual agreement. The amount of the loans including accrued interest as at March 31, 2023 is \$494,369.

The above shareholder loans in the aggregate amount of \$1,731,939 as of March 31, 2023, became due and payable on January 1, 2023. The Company is in discussions with each of the shareholder lenders and no action has been taken by any shareholder lender to demand repayment. The loans, along with accrued interest, are classified as current liabilities on the consolidated statements of financial position at March 31, 2023. Refer to note 25 – subsequent events.

In 2021, the Company obtained loans from a director in the amount of \$65,000 and has accrued interest totalling \$11,167 to March 31, 2023. The loans bear interest at 10% per annum and are due on demand.

During the three months ended September 30, 2022, certain shareholders of the Company provided \$185,000 in bridge financing loans, bearing interest at 12% per annum, which were repaid through the issuance of units of the November 2022 Convertible Debenture placement (refer to note 14 – *Convertible Debt*). Refer to note 25 – subsequent events.

Composition of Shareholder loans;

	March 31, 2023	December 31, 2021
	\$	\$
Shareholders individually holding 5% or more shares in the Company	-	-
Shareholders individually holding less than 5% shares in the Company	1,808,106	1,616,866
Total debt	1,808,106	1,616,866
debt – current portion	1,808,106	65,000

16. Share Capital

(a) Authorized Common Shares

The Company is authorized to issue an unlimited number of common shares with no par value. As of March 31, 2023, there were 162,715,492 common shares issued and outstanding.

The holders of common shares are entitled to the following: (i) one vote per Common Share at meetings of shareholders of the Company; (ii) dividends as and when declared by the Board, and, (iii) upon liquidation, to receive such assets of the Company as are distributable to the holders of common shares after payment of the Company's creditors.

Common shares, issued and outstanding

	Fifteen Months Ended March 31, 2023		Year Ended December 31, 2021	
	Number of Shares (#)	Amount (\$)	Number of Shares (#)	Amount (\$)
Balance, beginning of period	82,733,911	32,440,717	6,633,300	8,200,570
Issued pursuant to the acquisition of IPCo (Note 4)	5,933,333	266,999	-	-
Issued pursuant to Miraculo Acquisition (Note 4)	13,639,917	818,395	-	-
Issued pursuant to a private placement ^(a)	34,166,665	1,025,000	-	-
Issued to brokers pursuant to a private placement ^(a)	1,866,666	56,000	-	-
Issued pursuant to the settlement of debt (Note 13) ^(b)	20,400,000	816,000	-	-
Issued for contract services ^(c)	600,000	18,000	-	-
Issued pursuant to settlement of liabilities ^(d)	3,375,000	135,000	-	-
Issued pursuant to OCH Amalgamation	-	-	1,219,384	1,552,921
Conversions and settlement of debt in common	-	-	62,451,201	18,735,366
Issued pursuant to Subscription Receipt Financing	-	-	6,766,660	2,030,000
Issued pursuant to 406 Amalgamation	-	-	5,000,000	1,500,000
Issued upon vesting of PSUs	-	-	663,366	712,552
Share issue costs	-	(156,445)	-	(290,693)
Balance, end of period	162,715,492	35,419,666	82,733,911	32,440,717

- a) On May 6, 2022 the Company completed the closing of a non-brokered private placement (the “May 2022 Financing”) of 34,166,665 units (“May Units”) of the Company at a price of \$0.03 per May Unit for gross proceeds of approximately \$1,025,000. Each May Unit is comprised of one common share (each, a “Common Share”) and one-half of one common share purchase warrant (each whole warrant, (a “May Warrant”) of the Company. Each May Warrant entitles the holder thereof to purchase one Common Share at a price of \$0.05 per Common Share for a period of two years from the date of issuance, subject to an accelerated expiry date at the option of the Company in the event that the closing price of the common shares on the facilities of the Neo Exchange Inc. is greater than \$0.20 for ten non-consecutive trading days (the “Acceleration Provision”). In connection with the closing of the May 2022 Financing, the Company paid a finder \$14,000 in cash commission, issued certain finders an aggregate of 1,866,666 May Units in lieu of a cash commission (valued at \$56,000), and issued an aggregate of 1,866,666 Broker Warrants of the Company (valued at \$56,000), for the aggregate share issue costs of \$126,000.
- b) On June 16, 2022, \$816,000 of debt was settled in exchange for the issuance of 20,400,000 common shares of the Company at fair market value. Refer to Note 13 – *Long Term Debt*.
- c) On May 9, 2022, 600,000 units at \$0.03 per unit were issued to a shareholder and former director of the Company in settlement of a debt in the amount of \$18,000 relating to contract services provided. The units were issued on the same terms as the May 2022 May Units discussed above.
- d) In December 2022, the Company settled \$135,000 in accounts payable for 3,375,000 common shares at a price of \$0.04 per share.

(b) Share Purchase Warrants

The following table summarizes the outstanding Share Purchase Warrants and activity:

	Number of warrants (#)	Weighted-Average Exercise Price (\$)
Balance, December 31, 2020 and 2021	-	-
Warrants issued pursuant to Miraculo Acquisition ⁽¹⁾	6,819,922	0.11
Warrants issued pursuant to May'22 Financing ⁽²⁾	17,083,333	0.05
Warrants issued pursuant to contract services ⁽³⁾	300,000	0.05
Warrants issued pursuant to November'22 Financing ⁽⁴⁾	63,000,000	0.015
Warrants issued pursuant to November'22 Financing ⁽⁵⁾	4,000,000	0.015
Balance, March 31, 2023	91,203,255	0.029

- (1) On March 15, 2022, in conjunction with the closing of the Miraculo Acquisition, the Company issued 6,819,922 warrants to purchase common shares exercisable at a price of \$0.11 per share until December 31, 2024 (refer to Note 4 - *Acquisitions*). The fair value of

the warrants was determined using the Black-Scholes option pricing model with the following assumptions: weighted average expected life of 2.8 years; expected volatility of 100%; and risk-free interest rate of 1.82%.

- (2) As described in (16a) above, in connection with the closing of the May 2022 Financing, 17,083,333 May Warrants were issued to subscribers of the offering. Each May Warrant entitles the holder thereof to acquire one share at a price of \$0.05 for a period of two years from the date of issuance, subject to acceleration in accordance with the Acceleration Provisions. The Company issued certain insiders an aggregate of 1,866,666 May Units in lieu of a cash commission and issued an aggregate of 1,866,666 broker warrants ("Broker Warrants") of the Company. Each Broker Warrant entitles the holder thereof to acquire one May Unit at a price of \$0.03 for a period of two years from the date of issuance, subject to acceleration in accordance with the Acceleration Provision. Each Unit underlying the Broker Warrants is identical to the May Units issued under the Private Placement. The fair value of the warrants was determined using the Black-Scholes option pricing model with the following assumptions: weighted average expected life of 2.0 years; expected volatility of 100%; and risk-free interest rate of 2.60%.
- (3) In connection with the closing of the May 2022 Financing, the Company also issued an aggregate of 600,000 May Units to a former director of the Company in settlement of an aggregate of \$18,000 in indebtedness resulting in the issuance of 300,000 warrants on the same terms as the May Warrants.
- (4) In connection with the November 2022 Convertible Debenture Financing, the Company issued an aggregate of 63.0 million Nov Warrants of the Company. Each Nov Warrant entitles the holder thereof to acquire one common share at a price of \$0.015 per share until October 20, 2025, subject to the Acceleration Provision. Refer to Note 14 - *Convertible Debt*, for further details on the valuation of Nov Warrants (refer to note 25 - Subsequent events for exercise of a portion of these warrants in April 2023.)
- (5) In connection with the grant of \$60,000 convertible debentures to executives on January 2, 2023 (Refer to Note 14 - *Convertible Debt*), the Company issued an aggregate of 4.0 million warrants on the same terms and conditions as the warrants issued in connection with the November 2022 Convertible Debenture Financing. The warrants were allocated a total value of \$10,110.

(c) Broker Warrants

The following table summarizes the outstanding Broker Warrants and activity:

	Number of warrants (#)	Weighted-Average Exercise Price (\$)
Balance, December 31, 2020	29,085	5.70
Additions ⁽¹⁾⁽²⁾⁽³⁾	1,120,794	0.20
Expired ⁽¹⁾⁽⁴⁾	(33,085)	5.01
Balance, December 31, 2021	1,116,794	0.20
Broker warrants issued pursuant to May'22 Financing ⁽⁵⁾	1,866,666	0.03
Balance, March 31, 2023	2,983,460	0.09

- (1) Prior to the completion of the OCH Amalgamation, and in connection with the January 2020 Offering, the Company granted 4,000 Broker Warrants with a nil strike price, which immediately vested and expired on December 31, 2021.
- (2) On February 16, 2021, the Company issued 1,105,128 Broker Warrants to certain brokers as partial compensation for their engagement in the completion of the February 2021 Offering. The Broker Warrants are exercisable at a price equal to the conversion price of the February 2021 Debentures (\$0.20 per warrant) until February 16, 2024.
- (3) On December 21, 2021 and in conjunction with a subscription receipts financing, the Company issued 11,666 Broker Warrants with a strike price of \$0.30 per share and a term of two years from the date of completion of the 406 Amalgamation.
- (4) Broker Warrants granted on March 8, 2019 with a strike price of \$5.70 per share expired without exercise on March 9, 2021.
- (5) As described in (a) above, in connection with the closing of the May 2022 Financing, 17,383,333 May Warrants were issued to subscribers of the offering. Each May Warrant entitles the holder thereof to acquire one share at a price of \$0.05 for a period of two years from the date of issuance, subject to acceleration in accordance with the Acceleration Provisions. The Company issued certain insiders an aggregate of 1,866,666 May Units in lieu of a cash commission and issued an aggregate of 1,866,666 broker

warrants ("Broker Warrants") of the Company. Each Broker Warrant entitles the holder thereof to acquire one May Unit at a price of \$0.03 for a period of two years from the date of issuance, subject to acceleration in accordance with the Acceleration Provision. Each Unit underlying the Broker Warrants is identical to the May Units issued under the Private Placement. The fair value of the Broker Warrants was determined using the Black-Scholes option pricing model with the following assumptions: weighted average expected life of 2.0 years; expected volatility of 100%; and risk-free interest rate of 2.60%.

(d) Share Based Compensation

i. Stock Options

The following table summarizes the Options grants and activity:

	Number of options (#)	Weighted-Average Exercise Price (\$)
Balance, December 31, 2020 and 2021	211,013	2.55
Granted	9,193,982	0.03
Forfeited/Cancelled	(850,000)	0.03
Balance, March 31, 2023	8,554,995	0.09

Outstanding Options			Exercisable Options	
Options Outstanding	Weighted-Average Remaining Contractual Life (Years)	Weighted-Average Exercise Price (\$/share)	Number Exercisable	Weighted-Average Exercise Price (\$/share)
8,554,995	4.2	0.09	2,992,341	0.21

Of the total of 8,554,995 options outstanding at March 31, 2023, 2,153,286 expire on June 16, 2027; 6,190,696 expire on May 19, 2027; and 211,013 expire on August 1, 2030.

On May 19 and June 16, 2022, the Company granted an aggregate of 9,193,982 stock options to employees of the Company. The options vest equally at the end of each of the three years from the dates of grant, have an exercise price of \$0.03 per share, and expire on May 19, 2027 and June 16, 2027, respectively. 850,000 of the options were forfeited in the fourth quarter of 2022 upon departure of an employee.

The fair value of the options was determined using the Black-Scholes option pricing model with the following assumptions: weighted average expected life of 5 years; expected volatility of 100%; no forfeitures, and risk-free interest rates between 2.75% and 3.31%, respectively, per annum.

ii. Performance and Restricted Share Unit Plan

The following table summarizes the PSU and RSU grants and activity:

	Number of PSUs/RSUs (#)	Weighted-Average Exercise Price (\$)
Balance, December 31, 2020	-	-
PSUs issued to contractors	376,666	\$0.00
Granted	860,102	\$0.00
Exercised	(663,366)	\$0.00
Balance, December 31, 2021	573,402	\$0.00
Granted ⁽¹⁾	20,471,085	\$0.00
Forfeited/Cancelled ⁽²⁾	(4,409,604)	\$0.00
Balance, March 31, 2023	16,634,883	\$0.00

Outstanding PSUs				Exercisable PSUs	
Exercise Price (\$/share)	Options Outstanding	Weighted-Average Remaining Contractual Life (Years)	Weighted-Average Exercise Price (\$/share)	Number Exercisable	Weighted-Average Exercise Price (\$/share)
-	16,634,883	4.1	-	4,094,217	-

- On May 19 and June 16, 2022, the Company granted an aggregate of 20,471,085 restricted share units to Senior Managements and Directors of the Company. Each unit entitles the holder to receive one common share of the Company for no consideration upon the satisfaction of the following performance conditions:
 - 25% of the units upon the Company opening the 15th retail location in Canada, inclusive of both corporate-owned stores and brand-licensed location (Tranche 1)
 - 25% of the units upon the Company achieving \$15,000,000 annualized revenue based on the trailing three months, inclusive of revenue from both corporate-owned stores and brand-licensed location (Tranche 2). The Company achieved this vesting hurdle in the three-month period ended December 31, 2022.
 - 25% of the units upon the Company opening the 20th retail location in Canada, inclusive of both corporate-owned stores and brand-licensed location (Tranche 3)
 - 25% of the units upon the Company achieving \$20,000,000 annualized revenue based on the trailing three months, inclusive of revenue from both corporate-owned stores and brand-licensed location (Tranche 4).
- 315,387 PSUs allocated to Mr. Conquergood were cancelled upon his resignation on February 7, 2022. During the three months ended September 30, 2022, 1,364,739 PSUs granted to Ms. Lisa Dea were cancelled upon her resignation as Director, and 2,729,478 PSUs granted to Mr. Michael Klein were cancelled upon his resignation as the Company's Chief Executive Officer and Director.

17. Contributed Surplus

The following table summarizes the changes in contributed surplus:

	Fifteen Months Ended March 31, 2023	Twelve Months Ended December 31, 2021
	\$	\$
Balance, beginning of period	2,506,664	2,292,056
Issuance of Purchase Warrants ⁽¹⁾	197,777	
Issuance of Broker Warrants	56,000	-
Share-based compensation expense	556,302	927,160
Shares to be issued on settlement of debts	135,000	
Shares issued upon vesting of PSUs	-	(712,552)
\$945,000 Debenture option and warrants (note 14)	159,250	
Shares issued on satisfaction of the debt settlement agreement	(135,000)	
Balance, end of period	3,475,994	2,506,664

- Pursuant to the Miraculo Acquisition.
- The Company recorded \$556,302 in share-based compensation expense for the fifteen months ended March 31, 2023 (twelve months ended December 31, 2021: \$927,160).
- In December 2022, the Company settled \$135,000 in accounts payable for 3,375,000 common shares.

18. Change in Non-Cash Working Capital

The net change in working capital is comprised of:

	Fifteen Months Ended March 31, 2023	Twelve Months Ended December 31, 2021
	\$	\$
Trade and other receivables	(70,337)	(275,940)
GST/HST net receivable	95,469	(40,559)
Inventory	(38,517)	(135,172)
Prepaid expenses	(2,861)	(22,500)
Accounts payable and accrued liabilities	625,055	638,482
Change in non-cash working capital	608,809	164,311
Related to operating activities	608,809	233,713
Related to investing activities	-	-
Related to financing activities	-	(69,402)

19. Commitments and Contingencies

The Company has entered into numerous cash commitments pertaining to payments on retail leases that are payable over the next five years, as follows:

(\$ thousands)	Total	2023	2024	2025	2026	2027
Retail leases	3,030	654	668	581	563	563

20. Key Management and Personnel Compensation

Compensation for key management and personnel, including Company officers, directors, and private companies controlled by officers and directors, was as follows:

	Fifteen Months Ended March 31, 2023	Twelve Months Ended December 31, 2021
Executive earnings	\$372,500	\$450,000

21. Related Party Transactions

The key management personnel of the Company for the fifteen months ended March 31, 2023 were Campbell Becher (CEO effective September 19, 2022) and Jeff Holmgren (President and CFO) along with members of the non-executive Board.

As at March 31, 2023, the Company had the following transactions with related parties, except those pertaining to transactions with key management personnel in the ordinary course of their employment and/or directorship arrangements. Transactions with related parties were conducted in the normal course of operations.

Shareholder loans

Certain shareholders of the Company have provided loans to the Company in the amount of \$1,808,106 (including accrued interest) as at March 31, 2023. These shareholder loans accrue interest at rates between 8% and 10% per annum. See Note 15 - *Shareholder Loans*, for additional information.

As at March 31, 2023, the Company owed \$175,000 to Mr. Conquergood (previous CEO), being a combination of severance (\$136,875) and unpaid wages (\$23,125) in connection with his resignation on February 7, 2022. Repayment terms pursuant to a settlement agreement included a lump sum payment of \$23,125 in January 2023 with the remaining obligation of payable in monthly installments beginning in November 2022 until December 2023. The Company has not paid the installment payment of \$23,125 which was due on January 30, 2023. The Company is therefore in breach of the settlement agreement. Pursuant to the settlement agreement, the Company agreed to a consent judgement order, providing Mr. Conquergood with the right to obtain court judgement for collection of the unpaid balance of debts owing totalling \$175,000 as at March 31, 2023. Mr. Conquergood exercised

his right to consent judgement in March 2023, however no further action has been taken to collect due to ongoing settlement negotiations. Refer to note 25 – subsequent events.

In January 2023, the Company issued \$60,000 in secured convertible debentures on the same terms and conditions as the November 2022 Convertible Debentures unit offering (refer to note 14 – Convertible Debt), as repayment of debts owing to executives of the Company. Refer to note 25 – subsequent events.

101 Note

See note 4 above for details regarding the 101 Note. Certain shareholders of the Company are non-controlling shareholders of 101.

22. Debt Settlement Agreements

During the fifteen months ended March 31, 2023, the Company settled debts with various creditors resulting in a net write-off of accounts payable totalling \$320,339 which has been recorded as a resulting gain on debt settlements in the consolidated statements of loss and comprehensive loss for the fifteen months ended March 31, 2023. In addition, as described in Note 13 – *Long Term Debt*, the Company settled a promissory note in the amount of \$1,052,000 owing to the MHC Vendor which resulted in a gain on settlement of \$236,000.

23. Capital Management

The Company manages its capital to ensure that it will be able to continue as a going concern, while also maximizing the Company's business and value creation opportunities for the benefit of its shareholders. The Company's capital structure is adjusted based on management's decisions to issue debt or equity to fund expenditures. The Board has not yet established quantitative returns on capital criteria, but rather relies on the expertise of management and other professionals to sustain the future development of the business. The capital of the Company consists of equity comprised of common shares, Warrants, Options, and PSUs.

The Company's principal operating activities are focused on the development and operation of recreational retail cannabis in the province of Ontario. The Company currently has negative operating cash flows, which is expected to transition into positive operating cash flows by mid 2023.

Management forecasts its financing requirements in advance and on an ongoing basis and believes that this approach is reasonable considering the early stage of development and continuing uncertainties surrounding the Ontario retail cannabis legislation and licensing timelines. The Company's investment policy is to hold cash in interest-bearing accounts at high credit quality financial institutions to minimize risk and maximize liquidity.

24. Taxes

	Fifteen Months Ended March 31, 2023	Year Ended December 31, 2021
	\$	\$
Loss before income taxes	(12,829,730)	(13,371,723)
Combined provincial and federal tax rate	25.9%	25.9%
Computed expected income tax recovery	(3,322,900)	(3,463,276)
Share-based compensation and other	840,021	1,977,733
Goodwill impairment	2,495,989	-
Change in unrecognized deferred tax asset	338,357	1,485,543
Deferred income tax recovery	351,467	-

Taxation in the Company's operational jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

The difference between tax expense for the period and the expected income taxes based on the statutory tax rates arises as follows:

Deferred tax assets and liabilities

The Company recognizes tax benefits on losses or other deductible amounts where it is probable the Company will generate sufficient taxable income to utilize its deferred tax assets.

The tax effected items that give rise to significant portions of the deferred income tax liabilities is presented below:

	March 31, 2023	December 31, 2021
Deferred tax assets (liabilities):	\$	\$
Property, plant and equipment	310,391	47,417
Intangible assets	(350,482)	(257,633)
Non-capital losses	4,366,920	3,941,138
Other	(18,075)	(18,158)
Unrecognized deferred tax asset	(4,308,754)	(3,970,397)
Deferred income tax asset (liability)	-	(257,633)

At March 31, 2023, the Company has determined it is not probable that future taxable profits will be available against which the tax benefits will be utilized.

Unrecognized temporary differences:

The Company's unrecognized temporary differences and unused tax losses for which no deferred tax asset is recognized consist of the following amounts:

	March 31, 2023	December 31, 2021
Non-capital losses and other unrecognized temporary differences	\$16,973,664	\$15,329,718

The non-capital losses begin to expire in 2038.

25. Subsequent Events

a) Closing of 101 Asset Acquisition

On April 11, 2023 the Company closed the 101 Acquisition (see note 4(b)).

b) Opening of Toronto location

On May 4, 2023, the Company opened its ninth location in Ontario at 3812A Bloor St W, Toronto increasing the Company's combined corporate store count to 14.

c) Exercise of warrants

On April 5, 2023, warrant were exercised for 16,666,666 common shares for gross proceeds of \$250,000. The Company provided an additional incentive share for each warrant converted, resulting in an additional 16,666,666 common shares being granted, combined a total of 33,333,333 commons shares were issued in connection with the early exercise of these warrants. Proceeds from the warrant exercise are to be used for general working capital purposes.