STATEHOUSE

HOLDINGS

STATEHOUSE HOLDINGS INC.
Consolidated Financial Statements

For the Years Ended December 31, 2023 and 2022
(Expressed in United States Dollars)

STATEHOUSE HOLDINGS INC.
TABLE OF CONTENTS

PAGE

Management's Responsibility for Financial Reporting	3
Independent Auditor's Report	4
Consolidated Statements of Financial Position	9
Consolidated Statements of Loss and Comprehensive Loss	10
Consolidated Statements of Changes in Shareholders' Deficit	11
Consolidated Statements of Cash Flows	12
Notes to the Consolidated Financial Statements	13

Management's Responsibility for Financial Reporting

To the Shareholders of StateHouse Holdings Inc. (the "Company"):

The accompanying consolidated financial statements were prepared by management of the Company ("Management") and were reviewed by the Audit Committee of the Company and approved by the Board of Directors of the Company (the "Board").

Management is responsible for the consolidated financial statements and believes that they fairly present the Company's financial condition and results of operations in conformity with International Financial Reporting Standards. Management has included in the Company's consolidated financial statements amounts based on estimates and judgments that it believes are reasonable, under the circumstances.

To discharge its responsibilities for financial reporting and safeguarding of assets, management believes that it has established appropriate systems of internal accounting control which provide reasonable assurance that the financial records are reliable and form a proper basis for the timely and accurate preparation of the financial statements. Consistent with the concept of reasonable assurance, the Company recognizes that the relative cost of maintaining these controls should not exceed their expected benefits. Management further assures the quality of the financial records through careful selection and training of personnel and through the adoption and communication of financial and other relevant policies.

These consolidated financial statements were approved by the Board of the Company and were signed on behalf of Management by:

July 31, 2024

/s/ Edward Schmults	/s/ Kavi Bhai
Chief Executive Officer	*Chief Financial Officer*

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Statehouse Holdings Inc.

Opinion

We have audited the accompanying consolidated financial statements of Statehouse Holdings Inc. (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2023, and the consolidated statements of loss and comprehensive loss, changes in shareholders' deficit, and cash flows for the year then ended, and notes to the consolidated financial statements, including material accounting policy information.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2023, and its financial performance and its cash flows for the year then ended in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our 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 in our audit is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 2.2 of the consolidated financial statements, which indicates that the Company incurred a net loss of $49,880,361 during the year ended December 31, 2023, and, as of that date, the Company's current liabilities exceeded its current assets by $103,275,660 the Company's total deficit was $411,069,131. As stated in Note 2.2, these events and conditions 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 Matters

The consolidated financial statements of Statehouse Holdings Inc. for the year ended December 31, 2022, were audited by another auditor who expressed an unmodified opinion on those statements on May 4, 2023.

As part of our audit of the consolidated financial statements of the Company for the year ended December 31, 2023, we also audited the adjustment described in Note 34 that was applied to restate the consolidated financial statements for the year ended December 31, 2022. In our opinion, the adjustment has been appropriately applied. We were not engaged to audit, review or apply any procedures to the consolidated financial statements of Company for the year ended December 31, 2022, other than with respect to the adjustments and, accordingly, we do not express an opinion or any other form of assurance on the consolidated financial statements for the year ended December 31, 2022, taken as a whole.

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Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current year ended. 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 auditor's report.

Income Taxes Payable and Deferred Tax Asset

At December 31, 2023 the Company has Income Taxes Payable (current and non-current) of $43,925,437 and a Deferred Tax Asset of $2,065,637, however this was a result of a restatement for an acquisition which occurred in the fiscal 2022 year end. In the current year the Company identified an error in the current and deferred taxes on this acquisition, which resulted in a reduction of Goodwill for $2,330,700. The Company was then required under IAS 36, Impairment of Assets (IAS 36) to assess whether any further adjustments were required in light of the restatement. We draw your attention to Note 2 – Material Accounting Policy Information and Note 34 to the consolidated financial statements.

The restatement and resulting reduction in goodwill, required management to reassess the impairment over its goodwill and other long-lived assets and at a cash generating unit level. Judgment and significant assumptions and estimates are required by the Company in performing the impairment assessment under IAS 36.

The principal considerations for our determination that performing procedures relating to the judgment, estimates and assumptions used in the restatement and impairment assessment is a key audit matter are (i) significant auditor judgment and subjectivity in performing procedures and evaluating management's impairment assessment which in turn led to (ii) significant effort involved in assessing the reasonableness of the assumptions and estimates used in the impairment assessment, and (iii) the use of auditor experts to assess the reasonableness of certain key assumptions used by management.

Addressing the matter involved performing procedures and evaluating audit evidence in connection with forming our overall opinion on the consolidated financial statements. These procedures included among others:

- Examining the details of the restatement and documentation to support the changes.
- Examining management's analysis of its cash generating units.
- Examining management's impairment assessment for consistency with operations including results of its activities as applicable.
- Performing procedures over the key assumptions and estimates used in the impairment assessment.
- Utilising tax and valuation specialists to review the restatement and the impairment model used as well as the reasonableness of certain assumptions.
- Ensuring consistency of the inputs used in the impairment assessment with information prepared for other aspects of the Company such as budgets and actual results as applicable.
- Examining the disclosures in the financial statements for consistency with the relevant standards.

Impairment of Intangible Assets

At December 31, 2023 the Company recorded and impairment of its indefinite lived intangible assets (intangible asset) for $16,541,000. The Company is required to perform an impairment assessment to determine whether there carrying value of the intangible assets was impaired when compared with the recoverable value. We draw your attention to Material Accounting Policy Information and Note 10 to the consolidated financial statements.

The use of estimates and judgment is required by the Company to determine the recoverable value of the intangible assets and was based on the fair value less cost to dispose model.

The principal considerations for our determination that performing procedures relating to the judgment applied in assessing the Intangible Assets for impairment is a key audit matter are (i) significant auditor judgment and subjectivity in performing procedures and evaluating management's assessment of the impairment indicators which in turn led to (ii) significant effort involved in assessing management's analysis, and (iii) the use of auditor experts to assess the reasonableness of certain key assumptions used by management.

Addressing the matter involved performing procedures and evaluating audit evidence in connection with forming our overall opinion on the consolidated financial statements. These procedures included among others:

- Examining management's analysis of its cash generating units.
- Examining management's impairment assessment for consistency with operations including results of its activities as applicable.
- Performing procedures over the key assumptions and judgements used in the impairment assessment as applicable.
- Ensuring consistency of the inputs used in the models used with information prepared for other aspects of the Company such as budgets and actual results as applicable.
- Utilising valuation specialists to review the impairment model used as well as the reasonableness of certain assumptions.
- Examining the disclosures in the financial statements for consistency with the relevant standards.

Completeness and accuracy of retail revenues

The Company offers its products across California and over fourteen dispensaries during the year ended December 31, 2023 and recorded total retail revenues of $53,647,319 and included in revenues. In light if the high volume of cash and small value of transactions, the Company is required to determine the completeness and accuracy of retail revenue recognized.

The principal considerations for our determination that performing procedures relating to the completeness and accuracy of revenues is a key audit matter are (i) the use of auditor experts to assess the reliability of the data used and obtained from the dispensaries to support completeness and accuracy of the retail revenues recognised, which in turn led to (ii) significant effort involved in assessing the completeness of the transactions and the accuracy of revenues recognized.

Addressing the matter involved performing procedures and evaluating audit evidence in connection with forming our overall opinion on the consolidated financial statements. These procedures included among others:

- Obtaining and understanding of the key applications used in management's process including the key reports.
- Professionals with specialized skill and knowledge were used to assist in testing the completeness and accuracy of the retail revenues.
- Testing of detailed reconciliations of the revenues recognized to various source documents.

Other Information

Management is responsible for the other information. The other information obtained at the date of this auditor's report includes Management's Discussion and Analysis.

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

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

We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- 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 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 year ended and are therefore the key audit matters. We describe these matters in our auditor’s report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Reshma Mahase.

/s/ DAVIDSON & COMPANY LLP

Vancouver, Canada | Chartered Professional Accountants

July 31, 2024

STATEHOUSE HOLDINGS INC.

Consolidated Statements of Financial Position
As At December 31, 2023, and December 31, 2022
(Expressed in United States Dollars, except share amounts)

	Note	December 31, 2023	December 31, 2022 (Restated – Note 34)
ASSETS			
Current Assets			
Cash		$ 2,429,973	$ 2,812,241
Restricted cash		-	606,871
Accounts receivable, net	4	7,458,146	5,742,171
Inventories	5	7,127,259	9,785,093
Biological assets	6	859,165	441,144
Prepaid expenses and other current assets	7	2,161,347	5,884,801
Notes receivable	8	1,991,265	2,337,987
Assets held for sale	12	7,186,649	2,183,880
Total current assets		29,213,804	29,794,188
Property, plant and equipment, net	9	76,426,735	86,956,100
Right-of-use assets	11	12,180,020	20,273,218
Deposits and other assets		872,286	1,246,311
Due from other entities		2,325,070	723,162
Intangible assets	10	-	16,541,000
Deferred tax asset	22	2,065,637	-
TOTAL ASSETS		$ 123,083,552	$ 155,533,979
LIABILITIES			
Current liabilities			
Accounts payable	13	$ 24,340,272	$ 20,369,595
Accrued liabilities, payroll and loyalty rewards program	13	14,937,313	18,368,412
Accrued local and sales taxes	13	4,771,732	5,673,819
Notes payable - current	14	703,943	8,577,312
Accrued excise, cultivation and property tax liabilities - current	13 & 16	17,884,700	24,717,641
Lease liabilities - current	11	1,402,097	1,985,267
Liabilities associated with assets held for sale	12	8,610,746	2,872,796
Income taxes payable - current		39,625,437	25,466,874
Provisions - current	18	20,213,224	16,252,172
Total current liabilities		132,489,464	124,283,888
Notes payable, net of current portion	14	44,258,598	27,303,699
Term loan, net of current portion	15	75,351,031	75,638,056
Provisions, net of current portion	18	-	4,900,000
Income taxes payable, net of current portion		4,300,000	-
Excise, cultivation and property tax liabilities	13 & 16	3,024,000	1,080,227
Derivative liabilities	17	4,215,509	977
Deferred tax liability	22	-	5,238,150
Lease liabilities	11	21,126,920	30,203,326
TOTAL LIABILITIES		284,765,522	268,648,323
SHAREHOLDERS' DEFICIT			
Share capital	23	228,219,589	227,564,822
Contributed surplus	24	18,267,913	15,952,820
Reserve for warrants	25	1,709,844	1,709,844
Accumulated deficit		(411,069,131)	(361,243,745)
Non-controlling interests	26	1,189,815	2,901,915
TOTAL SHAREHOLDERS' DEFICIT		(161,681,970)	(113,114,344)
TOTAL LIABILITIES AND SHAREHOLDERS' DEFICIT		$ 123,083,552	$ 155,533,979

Going concern (Note 2.2)

Commitments and contingencies (Note 29)

Subsequent events (Note 33)

Approved on behalf of the Board of Directors:

Director Director

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

STATEHOUSE HOLDINGS INC.

Consolidated Statements of Loss and Comprehensive Loss
(Expressed in United States Dollars, except share amounts)
For the Years Ended December 2023, and 2022

		For the Twelve Months Ended	
		December 31, 2023	December 31, 2022 (Restated – Note 34)
Total revenue, net		$ 100,541,928	$ 108,247,727
Total cost of goods sold		55,419,501	69,112,683
Gross profit before biological asset adjustments		45,122,427	39,135,044
Changes in fair value less costs to sell of biological asset transformation	6	(1,619,201)	(7,752,645)
Realized fair value amounts included in inventory sold		1,819,582	8,171,334
Gross profit		45,322,808	39,553,733
Operating expenses			
General and administrative	19	41,135,690	48,084,923
Professional fees		7,063,229	9,240,737
Mergers, acquisitions and transaction expenses	3	-	8,698,208
Share-based compensation	24	2,455,687	4,841,787
Allowance for expected credit losses	4	2,826,003	2,828,654
Depreciation and amortization	9, 10 & 11	4,983,290	7,019,855
Total operating expenses		58,463,899	80,714,164
Impairment loss for intangible assets and goodwill		16,541,000	204,853,265
Operating loss		(29,682,091)	(246,013,696)
Interest expense, net		(18,835,866)	(14,354,311)
Other income (expense), net		11,061,953	(3,264,960)
Provisions	18	-	16,101,549
Gain (loss) on sale of business	20	253,923	(7,167,558)
Fair value (loss) gain in other current assets and derivative liabilities	7 & 17	(1,723,206)	1,711,394
Loss on debt extinguishment		-	(66,436)
Foreign exchange gain (loss)		1,704,188	(1,461,554)
Total other expense		(7,539,008)	(8,501,876)
Net loss before income taxes		(37,221,099)	(254,515,572)
Income tax (expense) benefit	22	(12,792,412)	11,118,187
Net loss		(50,013,511)	(243,397,385)
Net loss attributable to non-controlling interests	26	(133,150)	(569,323)
Net loss attributable to StateHouse Holdings Inc.		$ (49,880,361)	$ (242,828,062)
Weighted average number of shares outstanding			
Basic and diluted	27	253,369,754	213,813,888
Net loss per share			
Basic and diluted	27	$ (0.20)	$ (1.14)
Comprehensive loss:			
Net loss		$ (50,013,511)	$ (243,397,385)
Comprehensive loss attributable to non-controlling interests	26	(133,150)	(569,323)
Comprehensive loss attributable to StateHouse Holdings Inc. shareholders		$ (49,880,361)	$ (242,828,062)

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

STATEHOUSE HOLDINGS INC.

Consolidated Statements of Changes in Shareholders' Deficit
For the Years Ended December 2023, and 2022
(Expressed in United States Dollars, except share amounts)

	Note	Share capital	Contributed Surplus	Warrants	Accumulated Deficit	Subtotal	Non-controlling interests	Equity incl. non-controlling interests
Balance, January 1, 2022		**$ 150,373,620**	**$ 10,553,806**	**$ 2,233,556**	**$ (118,415,683)**	**$ 44,745,299**	**$ 2,857,465**	**$ 47,602,764**
Exercise of stock options	24	15,883	-	-	-	15,883	-	15,883
Share-based compensation	24	-	4,841,787	-	-	4,841,787	-	4,841,787
Issuance of restricted share units	24	119,895	(119,895)	-	-	-	-	-
Forfeiture of restricted share units	24	299,738	(299,738)	-	-	-	-	-
Expiry of Broker Warrants	22	-	1,134,112	(1,134,112)	-	-	-	-
Bridge financing converted to equity	14	5,973,988	-	-	-	5,973,988	-	5,973,988
Issuance of shares in acquisitions	3	69,949,622	-	-	-	69,949,622	-	69,949,622
Settlement of debt with equity	23	832,076	-	-	-	832,076	-	832,076
Purchases of business - initial equity related to non-controlling interest	26	-	-	-	-	-	896,521	896,521
Purchase of remaining non-controlling interests	26	-	(157,252)	-	-	(157,252)	(282,748)	(440,000)
Issuance of warrants	3 & 25	-	-	610,400	-	610,400	-	610,400
Net loss for the year		-	-	-	(242,828,062)	(242,828,062)	(569,323)	(243,397,385)
December 31, 2022 (Restated – Note 34)		**$ 227,564,822**	**$ 15,952,820**	**$ 1,709,844**	**$ (361,243,745)**	**$ (116,016,259)**	**$ 2,901,915**	**$ (113,114,344)**
Balance, January 1, 2023		**$ 227,564,822**	**$ 15,952,820**	**$ 1,709,844**	**$ (361,243,745)**	**$ (116,016,259)**	**$ 2,901,915**	**$ (113,114,344)**
Share-based compensation	24	-	2,455,687	-	-	2,455,687	-	2,455,687
Assignment of non-controlling interests		-	(140,594)	-	-	(140,594)	140,594	-
Exercise of call option for FGW Haight transaction	7 & 26	(991,232)				(991,232)	(843,570)	(1,834,802)
Conversion of debt for FGW Haight transaction	7 & 26	820,999				820,999	(820,999)	-
Change in ownership of non-controlling interests	7 & 26	825,000	-	-	54,975	879,975	(54,975)	825,000
Net loss for the year		-	-	-	(49,880,361)	(49,880,361)	(133,150)	(50,013,511)
Balance, December 31, 2023		**$ 228,219,589**	**$ 18,267,913**	**$ 1,709,844**	**$ (411,069,131)**	**$ (162,871,785)**	**$ 1,189,815**	**$ (161,681,970)**

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

STATEHOUSE HOLDINGS INC.

Consolidated Statements of Cash Flows
For the Years Ended December 2023, and 2022
(Expressed in United States Dollars, except share amounts)

	Note	For the Twelve Months Ended December 31, 2023	December 31, 2022 (Restated – Note 34)
Operating Activities			
Net loss for the year		$ (50,013,511)	$ (243,397,385)
Adjustments to reconcile net loss to cash flow:			
Share-based compensation	24	2,455,687	4,841,787
Depreciation and amortization	9, 10 & 11	8,743,414	12,005,122
Amortization of debt discount		2,084,752	(1,507,622)
Changes in fair value less costs to sell of biological asset transformation	6	1,619,201	7,752,645
Fair value gain in other current assets and derivative liabilities	7 & 17	1,723,206	(1,711,394)
Loss on extinguishment of debt		372,913	66,436
Provision for expected credit losses, net of recoveries	4	2,826,003	2,828,654
Interest income on notes receivable - related party, note receivable and investments and advances	8	(536,628)	(286,512)
Amortization of other current assets and debt issuance costs		502,237	2,987,460
Accrued interest on lease liabilities	11	3,323,497	3,035,930
Loss on disposal of business and property, plant and equipment		(335,878)	433,000
Impairment loss for intangible assets and goodwill		16,541,000	204,853,265
Gain from sale of business	20	(253,923)	7,564,818
Impairment of Notes Receivable from NBC, LLC		(1,345,735)	-
Foreign exchange (gain) loss		(1,704,188)	1,461,554
Allowance for inventory obsolescence		858,894	-
Changes in non-cash working capital:			
Accounts receivable, net	4	(4,668,819)	1,667,662
Inventories	5	1,324,479	7,905,554
Biological assets	6	(2,037,222)	(7,648,407)
Prepaid expenses and other current assets	7	2,165,805	1,280,573
Deposits and other assets		206,975	(127,223)
Accounts payable	13	6,616,234	(6,285,127)
Accrued liabilities, payroll and loyalty rewards program	13	(2,299,809)	-
Accrued local and sales taxes	13	(902,952)	-
Excise, cultivation and property tax liabilities	16	(4,918,352)	(3,917,163)
Income tax payable	22	18,285,789	3,463,799
Provisions	18	(938,948)	(14,899,077)
Accrued interest on note payable		2,190,815	1,002,226
Deferred tax asset	22	(2,065,637)	-
Deferred tax liability	22	(5,162,287)	(18,636,800)
Cash Flows provided by (used in) Operating Activities		(5,342,988)	(35,266,225)
Financing Activities			
Net proceeds (repayment) from revolving credit facility		-	(12,000,000)
Net proceeds from term loan		7,521,000	46,656,342
Repayments of notes payable		(1,798,405)	(1,009,905)
Payments of principal portion of lease liabilities	11	(5,970,736)	(4,863,838)
Issuance of warrants		2,084,752	-
Notes receivable	8	2,229,085	(1,166,024)
Due from other entities		(1,224,353)	(626,689)
Proceeds from sale of fixed assets		(55,955)	-
Change in ownership of non-controlling interests	26	825,000	15,883
Cash Flows (used in) provided by Financing Activities		3,610,388	27,005,769
Investing Activities			
Cash paid to acquire Loudpack, net of cash received		-	1,345,259
Cash received in Urbn Leaf Acquisition		-	3,268,428
Purchases of property, plant and equipment	9	(1,157,976)	(725,779)
Cash Flows (used in) provided by Investing Activities		(1,157,976)	3,887,908
Increase in cash and restricted cash		(2,890,577)	(4,372,548)
Effects of foreign exchange on cash and restricted cash		1,901,438	(1,299,745)
Cash and restricted cash, beginning of year		3,419,112	9,091,405
Cash and restricted cash, end of year		$ 2,429,973	$ 3,419,112
Cash and restricted cash consisted of the following:			
Cash		2,429,973	2,812,241
Restricted cash		-	606,871
		$ 2,429,973	$ 3,419,112
Supplementary Information			
Cash paid during the year for:			
Interest		$ 2,781,062	$ 3,990,474
Income taxes		$ 2,009,000	$ 2,597,365
Non-Cash Operating Activities			
Exercise of call option for FGW Haight transaction	7&26	$ (991,232)	$ -
Non-Cash Investing and Financing Activities			
Conversion of debt for FGW Haight transaction	7&26	$ 820,999	$ -
Share of loss in non-controlling interest for the year	7&26	$ (950,451)	$ -
Assignment of membership interest	7&26	$ 140,594	
Expiry of Broker Warrants	22	$ -	$ (1,134,112)
Issuance of warrants in Loudpack Acquisition	3 & 25	$ -	$ 610,400
Issuance of shares for the Indebtedness	23	$ -	$ 832,076
Conversion of Bridge Financing	14	$ -	$ 5,973,988
Loss on sale of business	20	$ -	$ 397,260

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

1. Nature of Operations

StateHouse Holdings Inc. ("StateHouse" or the "Company"), through its affiliated entities, is a fully licensed, vertically integrated omni-channel California cannabis company, with its business consisting of three primary revenue streams: (i) retail, including direct to consumer and delivery, (ii) branded wholesale and manufacturing revenue, including wholesale product sales to dispensary customers and other distributors, "white label" manufactured products for other third-party businesses who typically put their own branding on the product, and revenue from the distribution of products for other cannabis companies, and (iii) cultivation, including the sale and delivery of cannabis in the wholesale market and cultivation management services. The Company operates in and/or has ownership interests in California and Oregon, pursuant to state and local laws and regulations, and is focused on building and maintaining its position as one of California's premier vertically integrated cannabis companies.

As at December 31, 2023, the Company owned and operated a cultivation and production facility in Salinas, California (the "Salinas Production Campus"), and a manufacturing facility in Greenfield, California (the "Greenfield Production Campus").

The Company's integrated seed-to-sale operations are focused on building winning brands which are supported by its omni-channel ecosystem. The Company owns a number of cannabis brands, including: "Dime Bag", "Fuzzies", "Harborside", "Harborside Farms", "Key", "Kingpen", "Kingroll", "Loudpack", "Sublime", "Terpene Station", and "Urbn Leaf". In addition, the Company is exclusively licensed to distribute and sell the "Smokiez" brand in California.

As at December 31, 2023, the Company's retail presence includes the following:

* Four owned and operated Harborside-branded retail dispensaries located in Oakland, San Jose, San Leandro and Desert Hot Springs, California. San Leandro and Desert Hot Springs were listed as held for sale as of December 31, 2023;
* Six owned and operated Urbn Leaf-branded retail dispensaries located in San Diego, San Ysidro, Grover Beach, La Mesa, San Jose and Vista, California. San Jose and La Mesa were listed as held for sale as of December 31, 2023;
* One owned and operated dispensary, LCGLORDIS2 LLC (Lordis 2), is a dispensary located in Eugene, Oregon, which was classified as held for sale as of December 31, 2023;
* An 80% interest in FGW Haight Inc. ("FGW"), a company which operates a Harborside-branded retail dispensary in the Haight Ashbury district of San Francisco (the "FGW Dispensary"). FGW opened the FGW Dispensary under the Harborside brand in April 2022. On October 27, 2023 (the "Conversion Day"), the Company exercised its call option related to acquire an additional 29.9% interest in FGW. Additionally, the Company converted its $1,265,000 convertible note into an additional ownership of 29.1%. The issuance and conversion increased the Company's interest in FGW to 80%;
* Direct to consumer retail delivery services which cover the greater San Francisco Bay Area of California (from its Harborside-branded retail stores in Oakland and San Jose) and the Grover Beach and Bay Park areas (from its Urbn Leaf-branded stores in each of these areas).

In addition, on January 9, 2023, the Company entered into a management services agreement with UL Management LLC and PDLP JV, LLC (the "Urbn Leaf WeHo Service Agreement") to manage and operate a dispensary under the Urbn Leaf brand in West Hollywood, California ("Urbn Leaf WeHo"). The Urbn Leaf WeHo Service Agreement has an initial term of five years and is subject to three automatic renewals of five years for a total of 20 years. The Company had a right to acquire a 50% ownership in PDLP JV, LLC for no additional consideration. On December 30, 2022, the Company exercised its right to acquire a 50% ownership in PDLP JV, LLC and is awaiting final approval from the City of West Hollywood (Note 33), and the Company expects for approval to be finalized during the year ended December 31, 2024.

1. Nature of Operations (continued)

The Company's common shares transitioned to the OTCQB Venture Market (the "OTCQB") after market close of markets on August 18, 2023, from the QTCQX. The Common Shares continued to trade under the symbol "STHZF" on the QTCQB and on the CSE under the symbol "STHZ".

The Company's registered office is located at 40 King St. West, Suite 2100, Toronto, Ontario M5H 3C2, Canada, and the Company's head office is located at 1028 Buenos Ave., San Diego, California 92110, United States.

2. Material Accounting Policy Information

2.1 Statement of Compliance and Basis of Measurement

The Company's consolidated financial statements, including comparatives, have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board ("IFRS Accounting Standards").

The preparation of consolidated financial statements in conformity with IFRS Accounting Standards requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the accounting policies. Those 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 2. The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented. These accompanying financial statements have been prepared assuming that the Company will continue as a going concern.

The Board of Directors approved these consolidated financial statements on July 31, 2024.

2.2 Going Concern

As at December 31, 2023, the Company had cash of $2,429,973 and a working capital deficit of $(103,275,660). Working capital is defined as current assets less current liabilities and provides a measure of the Company's ability to settle liabilities that are due within one year with assets that are also expected to be converted into cash within one year. The Company has experienced recurring operating losses of $(49,880,361) and $(242,828,062) for the twelve months ended December 31, 2023, and 2022, respectively, and has an accumulated operating deficit of $(411,069,131) as at December 31, 2023. Management anticipates that the Company will continue to incur cash deficits until such time as revenues exceed operating costs, cash interest expense, creditor obligations, capital expenditures, and working capital requirements and the Company is able to complete its restructuring plans, as further described below. These factors create material uncertainties that may cast significant doubt about the Company's ability to continue as a going concern.

The Company's plan for operational continuity includes the implementation of its cost savings plan, and various strategic actions, including (i) discussing terms of its debt agreements with the Company's lenders, (ii) the divesture of non-core assets including but not limited to the current assets held for sale, and (iii) its ongoing revenue strategies to increase market share and retail, branded wholesale and manufacturing, and cultivation revenue.

During the third quarter of 2023, the Company announced that it had entered into an agreement to extend the repayment date of the Senior Secured Debt (as defined below) and to increase the amount of the Senior Secured Debt (Note 14).

The Company's annual operating plan for fiscal year 2024 estimates that the Company will be able to sustain current operations. However, the Company's cash needs are significant and not achievable with current cash flow. Additionally, management expects to continue to manage the Company's operating expenses and reduce its projected cash requirements through permanently or temporarily closing retail dispensaries that are under performing, and/or implementing other restructuring activities. There are no assurances that the Company will be successful in achieving these goals.

2. Material Accounting Policy Information (continued)

2.2 Going Concern (continued)

The accompanying consolidated financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classification of liabilities that may result from uncertainty related to the Company's ability to continue as a going concern. The application of the going-concern basis is dependent upon the Company achieving profitable operations to generate sufficient cash to fund continuing operations, or, in the absence of adequate cash flows from operations, obtaining additional financing to support operations for the foreseeable future. It is not possible to predict whether financing efforts will be successful in the future.

2.3 Functional Currency

The functional currency of the Company and each of its subsidiaries is the United States ("U.S.") dollar. Unless otherwise indicated, these consolidated financial statements are presented in U.S. dollars ("$" or "USD"). All references to "C$" or "CAD" pertain to Canadian dollars.

2.4 Basis of Consolidation

These consolidated financial statements incorporate the accounts of the Company and its wholly-owned subsidiaries as follows:

Name	Jurisdiction	Purpose	Percentage Owned (%) December 31, 2023	Percentage Owned (%) December 31, 2022
Statehouse Holdings Inc.	Ontario, Canada	Parent	100	100
658 East San Ysidro Blvd LLC	California, U.S.	Real Estate Holding Company	100	100
680 Broadway Master, LLC	California, U.S.	Operating Company	100	100
909 West Vista Way LLC	California, U.S.	Real Estate Holding Company	100	100
Accucanna Holdings Inc.	California, U.S.	Holding Company	100	100
Accucanna LLC	California, U.S.	Operating Company	100	100
Accucanna RE, LLC	California, U.S.	Operating Company	100	100
Auric Valley, Inc.	California, U.S.	Holding Company	100	100
Banana LLC	California, U.S.	Operating Company	75	75
Belling Distribution, Inc.	California, U.S.	Operating Company	100	100
Benmore LPFN, LLC	Delaware, U.S.	Holding Company	100	100
Calgen Trading Inc.	California, U.S.	Operating Company	100	100
CDRS Investor LLC	California, U.S.	Holding Company	100	100
CDRS Owner LLC	Delaware, U.S.	Holding Company	100	100
Encinal Productions RE, LLC	California, U.S.	Operating Company	100	100
Evergreen LPFN, LLC	Delaware, U.S.	Holding Company	100	100
FFC1, LLC	California, U.S.	Holding Company	100	100
FGW Haight Inc.	California, U.S.	Operating Company	80	21
FLRish Farms Cultivation 2, LLC	California, U.S.	Operating Company	100	100
FLRish Farms Management & Security Services, LLC	California, U.S.	Management Company	100	100
FLRish, Inc.	California, U.S.	Management Company	100	100
FLRish IP, LLC	California, U.S.	Holding Company	100	100
FLRish Retail, LLC	California, U.S.	Holding Company	100	100
FLRish Retail Management & Security Services, LLC	California, U.S.	Management Company	100	100

2. Material Accounting Policy Information (continued)

2.4 Basis of Consolidation (continued)

Name	Jurisdiction	Purpose	Percentage Owned (%) December 31, 2023	Percentage Owned (%) December 31, 2022
Gilded Creek Partners Inc.	California, U.S.	Holding Company	100	100
Greenfield Organix, Inc.	California, U.S.	Operating Company	100	100
Greenfield Prop Owner, LLC	California, U.S.	Real Estate Holding Company	100	100
Greenfield Prop Owner II, LLC	California, U.S.	Real Estate Holding Company	100	100
Haight Acquisition Corporation	Delaware, U.S.	Holding Company	100	100
JLM Investment Group, LLC	California, U.S.	Holding Company	67	67
Lafayette Street Property Management LLC	California, U.S.	Operating Company	-	90
LGC Holdings USA, Inc.	Nevada, U.S.	Holding Company	100	100
LGC LOR DIS 1, LLC	Oregon, U.S.	Operating Company	100	100
LGC LOR DIS 2, LLC	Oregon, U.S.	Operating Company	100	100
Lineage GCL California, LLC	California, U.S.	Holding Company	100	100
Lineage GCL Oregon Corporation	Oregon, U.S.	Holding Company	100	100
LPF 4th Street, LLC	California, U.S.	Holding Company	100	100
LPF Bellflower, LLC	California, U.S.	Holding Company	100	100
LPF Consulting Group, LLC	California, U.S.	Holding Company	100	100
LPF Michigan LLC	California, U.S.	Holding Company	100	100
LPF Ohio, LLC	California, U.S.	Holding Company	100	100
LPF RE Manager, LLC	California, U.S.	Operating Company	100	100
LP-KP IP Holdings, LLC	California, U.S.	Holding Company	100	100
Lunar Management, LLC	California, U.S.	Holding Company	100	100
Oakland Machining Supply SLB LLC	California, U.S.	Holding Company	100	100
Ocean Ranch LPFN, LLC	California, U.S.	Holding Company	100	100
Patients Mutual Assistance Collective Corporation	California, U.S.	Operating Company	100	100
Redhunt Corporation	California, U.S.	Holding Company	100	100
San Jose Wellness Solutions Corp.	California, U.S.	Operating Company	100	100
San Leandro Wellness Solutions Inc.	California, U.S.	Operating Company	100	100
SaVaCa, LLC	California, U.S.	Holding Company	100	100
Savature Inc.	California, U.S.	Operating Company	100	100
SBC Management LLC	California, U.S.	Management Company	100	100
Sublimation Inc.	Delaware, U.S.	Holding Company	100	100
ULBP Inc.	California, U.S.	Operating Company	100	100
ULRB LLC	California, U.S.	Operating Company	-	80
UL Benicia LLC	California, U.S.	Operating Company	70	70
UL Chula Two LLC	California, U.S.	Operating Company	51	51
UL Holdings Inc.	California, U.S.	Holding Company	100	100
UL Kenamar LLC	California, U.S.	Operating Company	100	100
UL La Mesa LLC	California, U.S.	Operating Company	-	60
UL Management LLC	California, U.S.	Management Company	100	100
UL San Jose LLC	California, U.S.	Operating Company	100	100
UL Visalia LLC	California, U.S.	Operating Company	-	80
Unite Capital Corp.	Ontario, Canada	Holding Company	100	100
Uprooted, Inc.	California, U.S.	Operating Company	100	100
Uprooted LM LLC	California, U.S.	Operating Company	100	100

The consolidated financial statements as at December 31, 2023 and December 31, 2022 include the accounts of the Company, its wholly-owned subsidiaries and entities over which the Company has "control", as such term is defined in IFRS 10 - *Consolidated Financial Statements* ("IFRS 10"). Entities over which the Company has control are presented on a consolidated basis from the date control commences. Control, as defined by IFRS 10 for purposes of determining the consolidated basis of financial statement presentation exists when the Company is exposed to, or has right to, variable returns as well as the ability to affect those returns through the power to direct the relevant activities of the entity. All of the Company's consolidated entities were under control, as defined in IFRS 10, by the Company, for purposes of determining the consolidated basis of financial statement presentation, during the entirety of the periods for which their respective results of operations were included in the consolidated financial statements. The consolidated financial statements include all the assets, liabilities, revenues, expenses and cash flows of the Company and its subsidiaries that it controls after eliminating intercompany balances and transactions.

2. Material Accounting Policy Information (continued)

2.4 Basis of Consolidation (continued)

On March 13, 2023, the Company entered into a membership interest assignment and settlement agreement (the "Lafayette Membership Assignment"). Pursuant to the Lafayette Membership Assignment, the Company assigned its 90% interest in Lafayette Street Property Management LLC ("Lafayette") back to the other remaining partners and made a $120,000 payment for back rent owed on the property in exchange for satisfaction of an unsecured, non-interest bearing note payable in the amount of $2,500,000 (the "Lafayette Note") (Note 14 and 26).

On June 30, 2023, the Company entered into an agreement to sell its interest in ULRB LLC for $500,000, with the agreement stating that the sale would close upon payment of the ownership interest. Payment of the ownership interest was received by the Company on October 7, 2023, therefore, October 7, 2023 is the date that the ownership interest transferred.

On October 27, 2023, the Company exercised its call option to acquire an additional 29.9% interest in FGW. Additionally, the Company converted its $1,265,000 convertible note into an additional ownership of 29.1%. The issuance and conversion increased the Company's interest in FGW to 80%.

On August 21, 2023, the Company entered into an agreement to sell the ownership interest in UL Visalia, of which the Company owned an 80% ownership interest. UL Visalia holds a Cannabis Retailer License in the State of California and a local authorization to conduct a cannabis business in the unincorporated area of Tulare County, California. The sale of the 80% ownership interest of UL Visalia closed on December 22, 2023 for a total of $400,000 of which $15,000 was paid in cash and the remaining consideration of $385,000 is held in a note receivable by UL Holdings.

2.5 Cash

Cash and restricted cash are comprised of funds held in banks, funds held in short term (less than one year) Certificates of Deposits with the Bank (with restrictions), and cash held at the Company's operating premises in Oregon and California. Cash equivalents include investments and deposits that mature within three months. The Company did not have any cash equivalents as at December 31, 2023 and 2022.

2.6 Inventories

Inventories are measured at the lower of cost or net realizable value ("NRV"), which is determined as the estimated selling price in the ordinary course of business less estimated costs to sell. The Company measures inventory using the weighted average cost method.

Inventories of harvested cannabis are transferred from biological assets to inventories at their fair value at harvest less cost to sell, which is deemed to be their cost. Any subsequent post-harvest costs are capitalized to inventories to the extent that their cost is less than NRV. Packaging and supplies are initially valued at cost. All direct and indirect costs related to inventories are capitalized as they are incurred and expensed when the related item is sold.

With respect to the Company's operations for its white label manufacturing and wholesale sales agency lines of business, the Company has certain raw materials and finished goods on consignment. Certain white label manufacturing customers provide packaging, labels, and other raw materials at no cost to the Company to be incorporated into the white label manufactured products. In accordance with certain wholesale sales agency arrangements that the Company is a party to, the Company maintains a consignment of inventory. Such wholesale sales agency arrangements are deemed to be consignment arrangements because the supplier controls the products until the Company takes title immediately before delivery to the end customer.

The supplier can require return or transfer of the products and the Company does not have an unconditional obligation to pay for the products. The Company's obligation to pay for the products occurs when they are sold to the dispensaries, as the end customer.

2. Material Accounting Policy Information (continued)

2.7 Biological Assets

The Company's biological assets consist of cannabis plants in various stages of growth prior to harvest. The Company measures biological assets at fair value less costs to complete and sell up to the point of harvest. Unrealized gains or losses arising from the changes in fair value, less costs to complete and sell during the period, are separately recorded in the Consolidated Statements Loss and Comprehensive Loss for the related period. At the point of harvest, the biological assets are transferred to inventories at their fair value less costs to complete and sell. All direct and indirect costs related to biological assets are capitalized as they are incurred, and they are expensed when the related items are sold.

While the Company's biological assets are within the scope of IAS 41 - Agriculture ("IAS 41"), the direct and indirect costs of biological assets are determined using an approach similar to the capitalization criteria outlined in IAS 2 - Inventories. These include the direct cost of labor, seeds and growing material, as well as other indirect costs such as utilities and supplies used in the growing process. Indirect labor for individuals involved in the growing and quality control process is also included, as well as certain overhead costs related to the growing facility. All direct and indirect costs of biological assets are capitalized as they are incurred, and they are subsequently recorded within cost of goods sold in the period that the related products are sold.

2.8 Property, Plant and Equipment

Property, plant and equipment are measured at cost, net of accumulated depreciation and amortization and any impairment losses. Depreciation is calculated on a straight-line basis over the following estimated useful lives: An asset's residual value, useful life and depreciation method are reviewed during each financial year and adjusted if appropriate. When parts of an item of equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Land	Not depreciated
Retail and agricultural buildings	15-40 years
Agricultural and manufacturing equipment	5 years
Furniture and fixtures	7 years
Vehicles	5 years
Office and computer equipment	3-5 years
Security equipment	5 years
Leasehold improvements	Remaining life of lease

Expenditures for repairs and maintenance are charged to general and administrative expenses as incurred. For assets sold or otherwise disposed of, the cost and related accumulated depreciation and amortization are removed from the accounts, and any related gain or loss is reflected in income for the period.

2.9 Intangible Assets

Intangible assets are recorded at cost less accumulated amortization and any impairment losses. Intangible assets acquired in a business combination are measured at fair value at the acquisition date. Amortization of definite-lived intangible assets is calculated on a straight-line basis over the following estimated useful lives:

Trademark	4-15 years
Developed technology	5 years
Customer relationships	5.5 years

The Company's licenses are assigned an indefinite life based on the expected use by the Company, as there are no legal, regulatory or economic factors that limit the useful life of these licenses.

The estimated useful lives, residual values and amortization methods are reviewed annually and any changes in estimates are accounted for prospectively. Intangible assets with an indefinite life are not subject to amortization, but are tested for impairment annually.

2. Material Accounting Policy Information (continued)

2.10 Impairment of Long-Lived Assets

Long-lived assets, including property, plant and equipment and intangible assets are reviewed for impairment at the end of each reporting period or whenever events or changes in circumstances indicate that the carrying amount of an asset exceeds its recoverable amount. For the purposes of impairment testing, assets that cannot be tested individually 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 (the cash-generating unit, or "CGU"). The recoverable amount of an asset or a CGU is the higher of its fair value, less cost of disposal, and its value in use. If the carrying amount of an asset or a CGU exceeds its recoverable amount, an impairment charge is recognized immediately in profit or loss by the amount by which the carrying amount of the asset or a CGU exceeds the recoverable amount. Where an impairment loss subsequently reverses, the carrying amount of the asset or a CGU is increased to the lesser of the revised estimate of recoverable amount, and the carrying amount that would have been recorded if no impairment loss had been recognized previously. For the years ended December 31, 2023 and 2022, the Company recorded an impairment loss of its intangible assets of $16,541,000 and $90,899,408, respectively.

2.11 Goodwill

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

Goodwill is measured at historical cost and is evaluated for impairment annually in the fourth quarter of each fiscal year, or more often if events or circumstances indicate there may be an impairment. Impairment is determined for goodwill by assessing if the carrying value of an operating segment, being the lowest CGU level within the entity at which goodwill is monitored, including goodwill, exceeds the recoverable amount determined as the greater of the estimated fair value less costs of disposal and the value in use. Impairment losses recognized in respect of the CGU are first allocated to the carrying value of goodwill and any excess is allocated to the carrying amount of assets in the CGU. Any goodwill impairment is recorded in profit or loss in the reporting year in which the impairment is identified. Impairment losses on goodwill are not subsequently reversed.

For the years ended December 31, 2023 and 2022, the Company recorded an impairment loss on goodwill of $0 and $113,953,857, respectively.

2.12 Loans and Borrowing (Term loan and notes payable)

Loans and borrowings are classified as other financial liabilities and are measured at fair value at initial recognition and subsequently at amortized cost. Transactions costs are deferred and amortized over the term of the liability.

2.13 Leases

The Company leases office, manufacturing, distribution and retail space. The Company assesses whether a contract is, or contains, a lease at the inception of the contract.

If a contract is determined to be a lease, a right-of-use asset is initially measured at cost, which is primarily comprised of the initial amount of the lease liability, plus initial direct costs and lease payments at or before the lease commencement date, less any lease incentives received, and is amortized on a straight-line basis over the remaining lease term. All right-of-use assets are reviewed periodically for impairment. A corresponding lease liability is initially measured at the present value of lease payments, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the incremental borrowing rate.

2. Material Accounting Policy Information (continued)

2.13 Leases (continued)

Lease payments included in the measurement of the lease liability comprise (a) fixed payments, including in-substance fixed payments; (b) variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date; (c) amounts expected to be payable under a residual value guarantee; and (d) the exercise price under a purchase option that the Company is reasonably certain to exercise, lease payments in an optional renewal period if the Company is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Company is reasonably certain not to terminate early. At inception or reassessment of a contract that contains lease and non-lease components, the Company allocates the consideration in the contract to each lease component on the basis of their relative stand-alone prices.

The Company has elected to recognize expenses for leases with a term of 12 months or less and leases of low-value assets as expenses when incurred. Leases have varying terms with remaining lease terms of up to approximately 15 years.

2.14 Convertible Debentures

Convertible debentures are financial instruments which are accounted for separately dependent on the nature of their components: a financial liability and an equity instrument. The identification of such components embedded within a convertible debenture requires significant judgment given that it is based on the interpretation of the substance of the contractual arrangement. Where the conversion option has a fixed conversion rate, the financial liability, which represents the obligation to pay coupon interest on the convertible debentures in the future, is initially measured at its fair value and subsequently measured at amortized cost. The residual amount is accounted for as an equity instrument at issuance. Where the conversion option has a variable conversion rate, the conversion option is recognized as a derivative liability measured at fair value through profit and loss. The residual amount is recognized as a financial liability and subsequently measured at amortized cost.

Given that it is subject to various inputs, assumptions and estimates including contractual future cash flows, discount rates, credit spreads and volatility, the determination of the fair value of convertible debentures is also an area of significant judgment. Transaction costs are apportioned to the debt and equity components in proportion to the allocation of proceeds.

2.15 Provisions

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

A provision for onerous contracts is recognized when the expected benefits to be derived by the Company from a contract are lower than the unavoidable cost of meeting its obligations under the contract.

2.16 Income Taxes

The Company uses the liability method to account for income taxes. Deferred income tax assets and liabilities are recognized for the future tax consequences attributable to differences between the carrying amounts of existing assets and liabilities for accounting purposes and their respective tax bases. Deferred income tax assets and liabilities are measured using tax rates that have been enacted or substantively enacted and applied to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred income tax assets and liabilities of a change in statutory tax rates is recognized in profit or loss in the year of change. Deferred income tax assets are recorded when their recoverability is considered probable and are reviewed at the end of each reporting period.

2. Material Accounting Policy Information (continued)

2.16 Income Taxes (continued)

As the Company operates in the cannabis industry, it is subject to the limits of Internal Revenue Code §280E ("IRC §280E"), under which the Company is only allowed to deduct expenses which are directly related to the costs of production. This results in permanent income tax differences caused by ordinary and necessary business expenses which are deemed unallowable deductions under IRC §280E.

Provisions for taxes are made using the best estimate of the amount expected to be paid based on a qualitative assessment of all relevant factors. The Company reviews the adequacy of these provisions at the end of each reporting period. However, it is possible that at some future date an additional liability could result from audits by taxing authorities. Where the outcome of these tax related matters is different from the amounts that were initially recorded, such differences will affect the tax provisions in the period in which such determination is made.

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

IFRIC Interpretation 23, Uncertainty over Income Tax Treatments ("IFRIC 23"), provides guidance on the accounting for current and deferred tax liabilities and assets in circumstances in which there is uncertainty over income tax treatments (Note 22).

2.17 Due From Other Entities

Due from other entities represents balances for pre-operating entities for which the Company expects to acquire future interests. The Company, through its affiliated entities, manages pre-operating costs for other entities which include permitting fees, license applications, leasehold improvements and other charges for future retail, manufacturing, production and cultivation operating entities. Those expenses are held as due from the respective operating entity.

2.18 Excise, Cultivation, and Property Tax Liabilities

The Company's distribution of wholesale cannabis products to other licensed retailers in the state of California creates the obligation to collect excise tax from those retailers. Effective January 1, 2023, the remittance of excise tax shifted from distributors to retailers. Prior to July 1, 2022, the Company was also obligated to remit cultivation taxes which were collected from cultivators. If the products purchased from cultivators were sold to another manufacturer or distributor, the cultivation tax was passed to that manufacturer or distributor.

If the cultivation products were consumed by the Company in the process of manufacturing or distribution, the Company was obligated to remit the cultivation tax when the manufactured products produced were sold, which is recognized in the cost of goods sold account on the Consolidated Statements of Loss and Comprehensive Loss. In instances in which the Company cultivates its own products which are then consumed in the manufacturing process, the Company was obligated to remit the cultivation tax when the manufactured products are sold. Effective July 1, 2022, the state of California eliminated the cultivation tax.

Effective January 1, 2023, the remittance of excise tax shifted from distributors to retailers. The Company has applied the prepaid excise tax of $528,535 for the year ended December 31, 2023 against the tax liability.

2. Material Accounting Policy Information (continued)

2.19 Revenue Recognition

Revenue is recognized at the transaction price, which is the amount of consideration to which the Company expects to be entitled in exchange for transferring promised goods to a customer.

Cultivation taxes are a production tax which becomes payable when a cannabis product enters the commercial market and is not directly related to the value of sales. These taxes are netted against gross sales on the Consolidated Statements of Loss and Comprehensive Loss. Effective July 1, 2022, the state of California eliminated the cultivation tax. Excise duties and taxes collected on behalf of third parties are excluded from revenue. Net revenue from the sale of goods represents revenue from the sale of goods less applicable cultivation taxes (prior to July 1, 2022) and price discounts.

The Company's policy for the timing and amount of revenue to be recognized is based on the following 5-step process in accordance with IFRS 15, *Revenue from Contracts with Customers*:

- Identify the contract with a customer;
- Identify the performance obligations in the contract;
- Determine the transaction price, which is the total consideration provided by the customer;
- Allocate the transaction price among the performance obligations in the contract based on their relative fair values; and,
- Recognize revenue when the relevant criteria are met for each unit (at a point in time or over time).

The Company has concluded that revenue from the sale of products should be recognized at the point in time when control is transferred to the customer. The Company transfers control and satisfies its performance obligations upon delivery and acceptance by the customer.

Retail

Revenue from the direct sale of cannabis to customers for a fixed price is recognized at the point in time when control is transferred to the customer. The Company transfers control and satisfies its performance obligations upon delivery and acceptance by the customer. Additionally, the Company recognizes revenue from management services provided to customers for a percentage of monthly revenue. The Company satisfies its performance obligations each month and recognizes revenue accordingly.

Cultivation Revenue

The Company recognizes revenue from the sale of cannabis for a fixed price upon the delivery of cannabis goods. The Company transfers control and satisfies its performance obligations upon delivery and acceptance by the customer. Additionally, the Company recognizes revenue from management services provided to customers for a percentage for a fixed fee, and is recorded in other income. The Company satisfies its performance obligations each month and recognizes revenue accordingly.

Branded Wholesale and Manufacturing Revenue

The Company's branded wholesale and manufacturing revenue includes wholesale product sales to dispensary customers and other distributors, white label manufactured products for other third-party businesses who typically put their own branding on the product, and revenue from the distribution of products for other cannabis companies.

The Company recognizes revenue on a gross basis from the distribution of products because the Company has determined that it is the principal in the transaction. The Company is primarily responsible for fulfilling the promise to transfer the goods, including the responsibility to test the goods in accordance with state requirements in the U.S.

2. Material Accounting Policy Information (continued)

2.19 Revenue Recognition (continued)

Only products that have passed the testing requirements can be sold. Further, the Company takes title of the goods immediately before shipment of the products to the customers. The Company is in control of customer expectations and is responsible for addressing any customer issues with products. The Company also has discretion in establishing the prices of products distributed.

Loyalty Rewards Program

The Company's retail dispensaries offer a loyalty rewards program to retail customers which allows them to earn reward points to be used for future purchases of goods at a discount from the stand-alone selling price of a product. This program provides retail customers with a material right which is accounted for as a separate performance obligation.

Based on the stand-alone selling price allocation, management allocates a portion of the gross sales revenue generated to the material right. As the reward points are redeemed, a proportionate amount of the material right is recognized as revenue and at each reporting date the amount of the material right represented by the unredeemed reward points is carried forward as a liability until such reward points are redeemed.

As at December 31, 2023, the Company had a loyalty program liability of $1,098,673, which is recorded as a component of accrued liabilities, payroll and loyalty rewards program in the accompanying Consolidated Statements of Financial Position. As at December 31, 2022, the Company had a loyalty program liability of $2,196,333, which historically was recorded as part of accounts payable and accrued liabilities, for comparative purposes, this amount was reclassified into the component of accrued liabilities, payroll and loyalty rewards program in the accompanying Consolidated Statements of Financial Position.

2.20 Share Capital

Common Shares

As at December 31, 2023, the voting securities of the Company consist of an unlimited number of Common Shares that are classified as equity. Transaction costs directly attributable to the issuance of Common Shares and options to purchase Common Shares are recognized as a reduction in equity.

Equity units

Proceeds received on the issuance of units, comprised of Common Shares and warrants are allocated to Common Shares and warrants based on the residual method.

2.21 Assets Held for Sale

The Company classifies assets held for sale in accordance with IFRS 5, *Non-Current Assets Held for Sale and Discontinued Operations* ("IFRS 5"). When the Company makes the decision to sell an asset or to stop some part of its business, the Company assesses if such assets should be classified as an asset held for sale.

To classify as an asset held for sale, the asset or disposal group must meet all of the following conditions: i) the asset is available for immediate sale in its present condition, ii) management is committed to a plan to sell, iii) an active program to locate a buyer and complete the plan has been initiated, iv) the asset is being actively marketed for sale at a sales price that is reasonable in relation to its fair value, v) the sale is highly probable within one year from the date of classification, and vi) actions required to complete the plan indicate that it is unlikely that the plan will be significantly changed or withdrawn. An asset held for sale is measured at the lower of its carrying amount or fair value less cost to sell ("FVLCS") unless the asset held for sale meets the exceptions as denoted by IFRS 5. FVLCS is the amount obtainable from the sale of the asset in an arm's length transaction, less the costs of disposal.

2. Material Accounting Policy Information (continued)

2.21 Assets Held for Sale (continued)

Once classified as held for sale, any depreciation and amortization cease to be recorded.

2.22 Share-Based Payments

Stock options

Stock options issued to employees are measured at fair value at the grant date and are recognized as an expense over the relevant vesting periods with a corresponding credit to reserve for share-based payments.

Stock options issued to non-employees are measured at either the fair value of goods or services received, or the fair value of equity instruments issued if it is determined that the fair value of the goods or services cannot be reliably measured. The fair value of non-employee stock options is recorded as an expense at the date the goods or services are received.

The fair value of stock options is calculated using the Black-Scholes-Merton option pricing model. When determining the fair value of stock options, management is required to make certain assumptions and estimates related to expected lives, volatility, risk-free rate, future dividend yields and estimated forfeitures at the initial grant date.

The number of options expected to vest is adjusted at the end of each reporting period such that the amount recognized for services received as consideration for the equity instruments granted shall be based on the number of equity instruments that will eventually vest. Amounts recorded for forfeited or expired unexercised stock options are transferred to share capital in the year of forfeiture or expiry.

Upon the exercise of stock options, proceeds received from stock option holders are recorded as an increase to share capital.

Restricted Share Units ("RSUs")

RSUs are equity-settled share-based payments. RSUs are measured at their fair value on the date of grant based on the closing price of the Company's shares on the date prior to the grant and are recognized as share-based compensation expense over the vesting period, with a corresponding credit to reserve for share-based payments. Upon the release of RSUs, the related reserve for share-based payments is transferred to share capital.

The amount recognized for services received as consideration for the RSUs granted is based on the number of equity instruments that eventually vest. Amounts recorded for forfeited RSUs are transferred to deficit in the year of forfeiture or expiry.

2.23 Loss Per Share

The Company calculates basic loss per share by dividing net loss by the weighted average number of shares outstanding during the period. Diluted loss per share is determined by adjusting loss attributable to shareholders holding Common Shares and the weighted average number of shares outstanding, for the effects of all dilutive potential shares, which comprise convertible debentures, RSUs, warrants and stock options issued.

The Company's potentially dilutive securities have been excluded from the computation of diluted net loss per share as the effect would be to reduce the net loss per share. Therefore, the weighted average number of Common Shares outstanding used to calculate both basic and diluted net loss per share attributable to shareholders is the same.

2. Material Accounting Policy Information (continued)

2.24 Non-Controlling Interests

Non-controlling interests ("NCI") are recognized either at fair value or at the NCI's proportionate share of the acquiree's net assets, determined on an acquisition-by-acquisition basis at the date of acquisition. Changes in the Company's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

2.25 Related Party Transactions

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

2.26 Fair Value Measurements

The Company measures certain financial and non-financial assets and liabilities at fair value at each reporting date. In addition, fair value measurements are disclosed for certain financial and non-financial assets and liabilities.

Fair value is the price that would either be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In estimating the fair value of an asset or a liability, the Company considers the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and disclosure purposes is determined on such a basis, except for share-based payment transactions, and measurements that have some similarities to fair value but are not fair value, such as net realizable value or value in use.

Assets and liabilities, for which fair value is measured or disclosed in the consolidated financial statements, are classified using a three-level fair value hierarchy that reflects the significance and transparency of the inputs used in making the fair value measurements. Each level is based on the following:

- Level 1 - inputs are unadjusted quoted prices of identical assets or liabilities in active markets;
- Level 2 - inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices from observable market data) from observable market data; and
- Level 3 - one or more significant inputs used in a valuation technique are unobservable in determining fair value of the asset or liability.

Determination of fair value and the resulting hierarchy requires the use of observable market data whenever available. The classification of an asset or liability in the fair value hierarchy is based upon the lowest level of input that is significant to the measurement of fair value.

The Company's biological assets and derivative liabilities are classified within level 3 of the fair value hierarchy.

There have been no transfers between fair value hierarchy levels during the years ended December 31, 2023 and 2022.

2.27 Financial Instruments

The Company classifies and measures financial instruments in accordance with IFRS 9 - *Financial Instruments* ("IFRS 9"). On initial recognition, a financial asset is classified as fair value through profit or loss ("FVTPL"), fair value through other comprehensive income ("FVTOCI"), or amortized cost. Purchases and sales of financial assets are recorded on a settlement date basis.

2. Material Accounting Policy Information (continued)

2.27 Financial Instruments (continued)

Subsequent to initial recognition, all investments are measured at fair value. All gains and losses arising from the changes in fair value of investments are presented in the Consolidated Statements of Loss and Comprehensive Loss in the period in which the gains or losses arise. The Company will only reclassify a financial asset when the Company changes its business model for managing the financial asset. All reclassifications are recorded at fair value at the date of reclassification, which becomes the new carrying value.

i. Financial assets classified at FVTPL

Financial assets are classified as FVTPL if the asset is an equity investment, if the Company has not elected to classify investments as FVTOCI, or if the Company's business model for holding the investment is achieved other than by collecting contractual cash flows and by selling the assets. As at December 31, 2023 and December 31, 2022, the Company did not have any financial assets at FVTOCI.

FVTPL assets are initially recorded at fair value with realized gains and losses on disposition and subsequent changes in fair value recorded in other income (loss). Directly attributable transaction costs are recorded in other income (loss) as incurred.

ii. Non-derivative financial liabilities

Non-derivative financial liabilities are recognized initially on the date the Company becomes a party to the contractual obligations of the financial instrument. All non-derivative financial liabilities are recognized initially at fair value along with directly attributable transaction costs. Subsequent to initial measurement, non-derivative financial liabilities are measured at amortized cost using the effective interest method.

iii. Derivative financial instruments - warrants and stock options

A financial derivative, such as warrants or stock options, which will be settled with Common Shares is classified as an equity instrument if the derivative is to acquire a fixed number of the Company's own equity instruments for a fixed amount of U.S. dollars. The Private Placement Offering Warrants and Pelorus Warrants are classified as a derivative liability and reported at fair value at each reporting period. Gains or losses resulting from the revaluation will be recorded within the Company's Consolidated Statement of Loss and Comprehensive Loss. Derivative liabilities are disclosed in Note 17 of the financial statements.

A financial derivative is considered a financial liability at FVTPL if it is used to acquire a variable number of Common Shares and the stock options or warrants were not offered pro-rata to all existing owners of the class of non-derivative equity instruments.

The following table presents the Company's classification of financial assets and financial liabilities as at December 31, 2023:

Financial assets/financial liabilities	Classification
Cash and restricted cash	Amortized cost
Accounts receivable, net	Amortized cost
Other current assets	FVTPL
Deposits and other assets	Amortized cost
Due from other entities	Amortized cost
Notes Receivable	Amortized cost
Lease Liabilities	Amortized cost
Accounts payable	Amortized cost
Notes payable, net	Amortized cost
Term loan, net	Amortized cost
Derivative liabilities	FVTPL

2. Material Accounting Policy Information (continued)

2.27 Financial Instruments (continued)

The Company recognizes a provision for expected credit losses on financial assets that are measured at amortized cost. The Company assumes that the credit risk on a financial asset has increased if it is more than 60 days past due. The Company considers a financial asset to be impaired either when the financial asset is more than 90 days past due, or it is determined that the borrower is unlikely to pay its credit obligations to the Company in full.

The carrying amount of a financial asset is reduced (either partially or in full) if management determines that there is no realistic prospect of recovery. This is generally the case when the Company concludes that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay amounts owed.

The Company assesses information available including, on a forward-looking basis, the expected credit loss associated with its assets carried at amortized cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk. To assess whether there is a significant increase in credit risk, the Company compares the risk of a default occurring on the asset at the reporting date with the risk of default at the date of initial recognition based on all information available and reasonable and supportive forward-looking information. For accounts receivable only, the Company applies the simplified approach as permitted by IFRS 9. The simplified approach to the recognition of expected losses does not require the Company to track the changes in credit risk; rather, from the dates of the trade receivables, the Company recognizes a loss provision based on lifetime expected credit losses at each reporting date.

Expected credit losses are measured as the difference in the present value of the contractual cash flows that are due to the Company under the contract, and the cash flows that the Company expects to receive thereunder. The Company assesses information available, including past due status, credit ratings, the existence of third-party insurance, and forward-looking macro-economic factors in the measurement of the expected credit losses associated with its assets carried at amortized cost. The Company measures expected credit loss by considering the risk of default over the contract period and incorporates forward-looking information into its measurement.

2.28 Critical Accounting Estimates and Judgments

The preparation of these consolidated financial statements in conformity with IFRS Accounting Standards requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from those estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised in any future periods affected. Significant judgments, estimates, and assumptions that have the most significant effect on the amounts recognized in the consolidated financial statements are described below.

Business combinations

In a business combination, substantially all identifiable assets, liabilities and contingent liabilities acquired are recorded at their respective fair values at the acquisition date. The date on which the acquirer obtains control of the acquiree is generally the date on which the acquirer legally transfers the consideration, acquires the assets and assumes the liabilities of the acquiree, which is the closing date of such transaction. However, the acquirer might obtain control on a date that is either earlier or later than the closing date.

Management exercises judgment in considering all pertinent facts and circumstances in identifying the acquisition date.

The Company examines three elements to determine whether control exists. When these three elements of control are present, then an investor is considered to control an investee and consolidation is required. When one or more of the elements is not present, an investor will not consolidate but instead be required to determine the nature of its relationship with the investee.

2. Material Accounting Policy Information (continued)

2.28 Critical Accounting Estimates and Judgments (continued)

The Company exercises its judgment when determining control over an investee, when it has all of the following attributes: (i) power over the investee, such as the ability to direct relevant activities of the investee; (ii) exposure, or rights, to variable returns from its involvement with the investee, such as returns that are not fixed and have the potential to vary with performance of the investee; and (iii) the ability to use its power over the investee to affect the amount of the investor's returns, such as identifying the link between power and returns.

Classification of an acquisition as a business combination or an asset acquisition depends on whether the assets acquired constitute a business, which can be a complex judgment. Whether an acquisition is classified as a business combination or an asset acquisition can have a significant impact on the entries made at and after acquisition. In determining the fair value of all identifiable assets, liabilities and contingent liabilities acquired, the most significant estimates relate to contingent consideration and intangible assets. Contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination.

Management exercises judgment in estimating the probability and timing of when contingent securities are expected to be issued which is used as the basis for estimating fair value. 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 may develop the fair value, using appropriate valuation techniques which are generally based on a forecast of the total expected future net cash flows. The evaluations are linked closely to the assumptions made by management regarding the future performance of these assets and any changes in the discount rate applied.

Purchase consideration also includes consideration of any pre-existing relationships that are effectively settled at their fair values due to the acquisition.

Fair value of biological assets and valuation of inventories

Determination of the fair value of biological assets and inventories requires management to make assumptions about how market participants assign fair values to these assets. These assumptions primarily relate to the level of effort required to grow cannabis to the point of harvest, costs to convert the harvested cannabis to finished goods, sales price, risk of loss, expected future yields from the cannabis plants and estimating values during the growth cycle of such biological assets.

The valuation of biological assets at the point of harvest is the cost basis for all cannabis-based inventories and thus any critical estimates and judgments related to the valuation of biological assets are also applicable for inventories. Significant assumptions used in determining the fair value of biological assets include:

* Estimating the stage of growth of cannabis up to the point of harvest;
* Pre-harvest and post-harvest costs;
* Expected selling prices;
* Expected yields for cannabis plants to be harvested; and
* Wastage of cannabis plants at various stages.

The valuation of work in process and finished goods also requires the estimate of conversion costs incurred, which become part of the carrying amount for inventories. The Company must also determine if the cost of any inventories exceeds its net realizable value ("NRV"), such as instances where prices have decreased, or inventories have spoiled or otherwise been damaged. The Company estimates the NRV of inventories, considering the most reliable evidence available at each reporting date.

The future realization of these inventories may be affected by market-driven changes that may reduce future selling prices. A change to these assumptions could impact the Company's inventory valuation and impact gross profit.

2. Material Accounting Policy Information (continued)

2.28 Critical Accounting Estimates and Judgments (continued)

Provision for expected credit losses ("ECL")

Determining a provision for ECLs for accounts receivable held at amortized cost requires management to make assumptions about the historical patterns for the probability of default, timing of collection and the amount of incurred credit losses, which are adjusted based on management's judgment about whether economic conditions and credit terms are such that actual losses may be higher or lower than what the historical patterns suggest.

Estimated useful lives of depreciation and amortization of property, plant and equipment

Depreciation and amortization of property, plant and equipment is dependent upon estimates of useful lives which are determined through the exercise of judgment. The assessment of any impairment of these assets is dependent upon estimates of recoverable amounts which consider factors such as economic conditions, market conditions and the useful lives of assets.

Impairment of long-lived assets

Long-lived assets, including property, plant and equipment and intangible assets, are reviewed for indicators of impairment at each reporting period or whenever events or changes in circumstances indicate that the carrying amount of an asset exceeds its recoverable amount. The recoverable amount of an asset or a cash generating unit ("CGU") is the greater of its fair value less costs to sell or its value in use. If the carrying amount of an asset or a CGU exceeds its recoverable amount, an impairment charge is recognized immediately as a loss for the amount by which the carrying amount of the asset exceeds the recoverable amount.

In the current year, the Company reassessed its CGUs to one CGU, which is the same as the Company's operating segment.

Compound financial instruments

The conversion feature and warrants denominated and exercisable in a foreign currency are accounted for as derivative liabilities as their fair value is affected by changes in the fair value of Common Shares and in response to changes in foreign exchange rates. The estimates, assumptions and judgments made in relation to the fair value of derivative liabilities are subject to measurement uncertainty. The conversion feature and warrants denominated and exercisable in a currency other than the Company's functional currency are required to be measured at fair value at each reporting period.

The valuation techniques used to determine fair value require inputs that involve assumptions and judgments such as estimating the future volatility of the Company's stock price, expected dividend yield, and expected life.

Income taxes

Income taxes and tax exposures recognized in the consolidated financial statements reflect management's best estimate of the outcome based on facts known at the reporting date. The Company recognizes a liability when, based on its estimates, it anticipates a future income tax payment.

The difference between an expected amount and the final tax outcome has an impact on current and deferred taxes in the period when the Company becomes aware of a difference.

In addition, when the Company incurs losses that cannot be associated with current or past profits, it assesses the probability of taxable profits being available in the future based on its budgeted forecasts. These forecasts are adjusted to take into account certain non-taxable income and expenses and specific rules on the use of unused credits and tax losses.

2. Material Accounting Policy Information (continued)

2.28 Critical Accounting Estimates and Judgments (continued)

When the forecasts indicate that sufficient future taxable income will be available to deduct the temporary differences, a deferred tax asset is recognized for all deductible temporary differences.

In addition, 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.

Provisions

The Company recognizes provisions if there is a present obligation (legal or constructive) that has arisen as the result of a past event, it is probable that the Company will be required to settle the obligation and the obligation can be reliably estimated.

The Company's provision as at December 31, 2023 and December 31, 2022 relates to uncertain tax positions under Internal Revenue Code §280E ("IRC §280E") for Patients Mutual Assistance Collective Corporation ("PMACC") and San Jose Wellness Solutions Corp. ("SJW"), permanent and temporary differences on the Company's federal income tax returns and underpayments of federal income tax liabilities.

Many of the central issues relating to the interpretations of IRC §280E remain unsettled, and there are critical accounting issues regarding the allocation of expenses to the cost of goods sold (thus avoiding disallowance as deductions under IRC §280E). The Company evaluated these uncertain tax treatments, using a probability-weighted approach to assess the range of possible outcomes as required in its adoption of IFRIC 23 - *Uncertainty over Income Tax Treatment* ("IFRIC 23") and, although the Company strongly disagrees with the positions taken by the Internal Revenue Service ("IRS") and the findings of the U.S. Tax Court, it has determined that a reserve for uncertain tax position should be recorded for all years subject to statutory review. On July 28, 2022, the Company entered into a partial payment and installment agreement with the IRS (the "IRS Agreement") in relation to a portion of the uncertain tax positions for PMACC (Note 18). The amount recognized as a provision reflects the Company's obligations due under the IRS Agreement and management's best estimate of the consideration required to settle the remaining uncertain tax positions at the reporting date, considering the risks and uncertainties surrounding the obligation.

2.29 Adoption of New Accounting Policies

The Company adopted the following standards effective as of January 1, 2023. These changes were made in accordance with the applicable transitional provisions noted below.

Amendments to IAS 1 - Presentation of Financial Statements and IFRS Practice Statement 2 - Making Materiality Judgments

In February 2021, the IASB issued amendments to IAS 1 - *Presentation of Financial Statements,* and IFRS Practice Statement 2 - *Making Materiality Judgments* ("IFRS Practice Statement 2"). These amendments help entities provide accounting policy disclosure that is more useful to primary users of financial statements by:

* Replacing the requirement to disclose "significant" accounting policies under IAS 1 with a requirement to disclose "material" accounting policies. Under IAS 1, an accounting policy would be material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that primary users of general-purpose financial statements would make on the basis of those financial statements.
* Providing guidance in IFRS Practice Statement 2 to explain and demonstrate the application of the four-step materiality process to accounting policy disclosure.

2. Material Accounting Policy Information (continued)

2.29 Adoption of New Accounting Policies (continued)

The adoption of the standard did not have a material impact on the Company's consolidated financial statements.

Amendments to IAS 8 - Accounting Policies, Changes in Accounting Estimates and Errors

In February 2021, the IASB issued amendments to IAS 8 - *Accounting Policies, Changes in Accounting Estimates and Errors*. These amendments introduce a new definition of "accounting estimates" to replace the definition of "change in accounting estimates" and also include clarifications intended to help entities distinguish changes in accounting policies from changes in accounting estimates. The adoption of the standard did not have a material impact on the Company's consolidated financial statements.

Amendments to IAS 12 - Income Taxes

In May 2021, the IASB issued amendments to the recognition exemptions under IAS 12 - *Income Taxes* ("IAS 12"). These amendments narrowed the scope of the recognition exemption to require an entity to recognize deferred tax on the initial recognition of a transaction, to the extent the transaction gives rise to equal amounts of deferred tax assets and liabilities.

These amendments apply to transactions for which an entity recognizes both an asset and liability, for example leases and decommissioning liabilities. The adoption of the standard did not have a material impact on the Company's consolidated financial statements.

2.30 New, Amended, and Future IFRS Pronouncements

The Company has implemented all applicable IFRS standards recently issued by the IASB. Pronouncements that are not applicable or where it has been determined do not have a significant impact on the Company have been excluded in these consolidated financial statements.

The Company is currently assessing the impact that adopting the new standards or amendments will have on its consolidated financial statements.

No material impact is expected upon the adoption of the following new standards issued but not yet effective:

Amendments to IAS 1 - Classification of Liabilities as Current or Non-current

In January 2020, the IASB issued amendments to IAS 1 - *Classification of Liabilities as Current or Non-current*. These amendments clarify the requirements relating to determining if a liability should be presented as current or non-current in the statement of financial position. Pursuant to the new requirements, the assessment of whether a liability is presented as current or non-current is based on the contractual arrangements in place as at the reporting date and does not impact the amount or timing of recognition. These amendments are effective for annual periods beginning on or after January 1, 2024, with early application permitted.

IFRS 16 - Lease Liability in a Sale and Leaseback

The IASB has issued narrow-scope amendments to the requirements for sale and leaseback transactions in IFRS 16 explaining how a seller-lessee accounts for a sale and leaseback after the date of the transaction. Sale and leaseback transactions where some or all the lease payments are variable lease payments that do not depend on an index or a rate are most likely to be impacted. These amendments are effective for annual periods beginning on or after January 1, 2024, with early application permitted. Because the Company does not currently utilize any sale and leaseback transactions, this amendment is not expected to have a material impact on the financial reports of the Company.

2. Material Accounting Policy Information (continued)

2.30 New, Amended, and Future IFRS Pronouncements (continued)

IAS 7 and IFRS 7 - Supplier Finance Arrangements

On May 25, 2023, the IASB issued the amendments to IAS 7 and IFRS 7, which requires disclosures of supplier finance arrangements and their impact to a company's liquidity risk. The amendment requires a company to disclose: the terms and conditions; the amount of the liabilities that are part of the arrangements, breaking out the amounts for which the suppliers have already received payment from the finance providers, and stating where the liabilities sit on the balance sheet; ranges of payment due dates; and liquidity risk information. These amendments are effective for annual periods beginning on or after January 1, 2024, with early application permitted. Because the Company does not currently utilize any supplier finance arrangements, this amendment is not expected to have a material impact on the financial reports of the Company.

IAS 21- Lack of Exchangeability

The amendments to IAS 21 clarify how an entity should assess whether a currency is exchangeable and how it should determine a spot exchange rate when exchangeability is lacking, as well as require the disclosure of information that enables users of financial statements to understand the impact of a currency not being exchangeable. These amendments are effective for annual periods beginning on or after January 1, 2025, with early application permitted.

Because the Company only operates in the United States and Canada, between which the exchange of currency is well-established, this amendment is not expected to have a material impact on the consolidated financial statements of the Company.

IAS 18 - Presentation and Disclosure of Financial Statements

In April 2024, the IASB issued the new standard IFRS 18 - Presentation and Disclosure of Financial Statements. This standard aims to bring more transparency and comparability to the financial performance of companies, enabling investors to make better investment decisions.

IFRS 18 introduces three sets of new requirements; improved comparability of the profit or loss statement (statement of income), improved transparency of management-defined performance measures, and more useful grouping of information in financial statements.

IFRS 18 will replaced IAS 1 - Presentation of Financial Statements.

This standard becomes effective for years beginning on or after January 1, 2027, and companies may apply it earlier subject to authorization by relevant regulators. The Company is assessing the impacts to ensure that all information complies with the standard.

3. Business Combinations

Acquisitions during the year ended December 31, 2022 (Restated – Note 34)

The Company completed two business combinations during the year ended December 31, 2022. The Urbn Leaf Acquisition (as defined below) and the Loudpack Acquisition (as defined below) were each accounted for in accordance with IFRS 3, *Business Combinations* ("IFRS 3").

3. Business Combinations (continued)

The following table summarizes the allocation of purchase consideration exchanged to the estimated fair value of tangible and identifiable intangible assets acquired and liabilities assumed:

	Urbn Leaf Acquisition	Loudpack Acquisition
Acquisition date	March 1, 2022	April 4, 2022
Fair value of:		
Share capital issued	$ 26,283,514	$ 42,517,795
Warrants issued	-	610,400
Cash consideration	-	1,225,000
Settlement of note payable	1,109,233	-
Settlement of convertible debenture	-	3,173,471
Receivables and payables assumed	443,451	439,244
Total purchase consideration	$ 27,836,198	$ 47,965,910

Goodwill arising from acquisitions consists largely of the synergies and economies of scale expected from combining the operations of the businesses. These synergies include the use of the Company's existing infrastructure to expand operations, sales and profits as well as elimination of redundant facilities and functions. None of the goodwill recognized is expected to be deductible for tax purposes.

	Urbn Leaf Acquisition as previously reported	Adjustment	Adjustment	Loudpack Acquisition
Purchase consideration paid	$ 27,836,198		$ 27,836,198	$ 47,965,910
Fair value of net assets acquired:				
Cash and cash equivalents	3,268,427		3,268,427	2,570,270
Accounts receivable, net	70,702		70,702	5,643,919
Inventories	2,061,304		2,061,304	9,271,015
Biological assets	-		-	101,543
Due from other entities	474,028		474,028	-
Note receivable	1,140,901		1,140,901	-
Prepaid expenses and other current assets	875,975		875,975	577,434
Property, plant and equipment, net	23,676,515		23,676,515	46,467,535
Right-of-use assets	16,418,786		16,418,786	1,353,489
Deposits and other assets	724,925		724,925	308,465
Intangible assets	8,150,000		8,150,000	45,150,000
Accounts payable and accrued liabilities	(14,032,084)		(14,032,084)	(14,800,822)
Excise, cultivation and property taxes	-		-	(28,455,925)
Incomes taxes payable	(10,060,651)	4,574,668	(5,485,983)	(1,147,905)
Notes payable, net	(14,767,571)		(14,767,571)	(25,910,587)
Term loan, net	(13,005,439)		(13,005,439)	(15,620,538)
Deferred tax liability	(699,270)	(2,243,968)	(2,943,238)	(8,953,776)
Lease liabilities	(26,230,741)		(26,230,741)	(1,850,962)
Total identifiable net assets acquired	(21,934,193)	2,330,700	(19,603,493)	14,703,155
Goodwill	50,666,912	(2,330,700)	48,336,212	33,262,755
Non-controlling interests acquired	(896,521)		(896,521)	-
Net assets acquired	$ 27,836,198	$ -	$ 27,836,198	$ 47,965,910

Had these acquisitions been made as of the beginning of the 2022 annual reporting period, the Company's consolidated revenue and loss for the year ended December 31, 2022 would have been as shown below:

	Net Revenue	Net Loss
As reported	$ 108,247,727	$ (240,386,032)
Pro forma impact for:		
Urbn Leaf Acquisition	8,249,237	(4,487,079)
Loudpack Acquisition	16,198,222	18,926,258
	$ 132,695,186	$ (225,946,853)

3. Business Combinations (continued)

The pro forma impact on net loss for the Loudpack Acquisition includes non-cash other income and expenses related to the restructuring and carve out of certain assets prior to the acquisition date.

The Urbn Leaf Acquisition

UL Holdings Inc. ("Urbn Leaf") is a leading California cannabis retailer that owned and operated seven retail dispensaries in California, located in San Diego, San Ysidro, La Mesa, Vista, Grover Beach, Seaside and San Jose, with the eighth location, Grossmont, was acquired as part of the acquisition, Grossmont became operational subsequent to the acquisition. Urbn Leaf also operates retail delivery services in California that cover the Grover Beach and San Ysidro areas from its Urbn Leaf-branded retail dispensaries. The Company opened the Urbn Leaf-branded retail dispensary in Grossmont, California in April 2022.

On March 1, 2022, pursuant to the terms of the definitive agreement dated November 29, 2021 between the Company, Urbn Leaf, Saturn Merger Sub Inc. and Momentum Capital Group, LLC, in its capacity as the representative of the shareholders of Urbn Leaf, the Company acquired 100% of the equity interests of Urbn Leaf (the "Urbn Leaf Acquisition") for a total purchase consideration comprised of (a) the issuance of 60,000,000 SVS, valued at approximately $26,284,000, (b) the settlement of the principal and accrued interest of an unsecured promissory note valued at approximately $1,100,000, and (c) a cash payment of approximately $444,000 for the settlement of receivables and payables from the pre-existing relationship between the companies. As a result of the Reclassification, all SVS issued in connection with the Urbn Leaf Acquisition have been reclassified as Common Shares in accordance with the terms of the Reclassification (Note 24).

The estimated fair value of the non-controlling interest assumed was $1,189,815. The fair value was estimated using a market approach based on the proportionate share of revenues acquired for the non-controlling interest, the implied number of shares issued and a 45% discount for lack of marketability.

The estimated fair value of intangible assets acquired as a result of the Urbn Leaf Acquisition includes $7,120,000 for certain cannabis dispensary licenses and $1,030,000 for a trademark (Note 10). The key assumptions used in estimating fair value of the intangible assets relate to management's five year business projections, estimated long-term growth, and an after-tax discount rate applicable to the intangible assets estimated at approximately 6.9%. The discount rate incorporates the risk-free rate as well as risks and uncertainties associated with the projected operations.

In connection with the Urbn Leaf Acquisition, the Company granted certain officers of the Company (i) stock options (the "Urbn Leaf Options") to purchase an aggregate of 5,758,797 SVS and (ii) RSUs (the "Urbn Leaf RSUs") representing the right to receive up to an aggregate of 912,599 SVS, subject to the satisfaction of certain vesting conditions. Each Urbn Leaf Option is exercisable to acquire one SVS at an exercise price of C$0.70per SVS for a period of five years following the date of grant, in accordance with the terms of its A&R Plan (as defined in Note 24). As a result of the Reclassification, all Urbn Leaf Options and Urbn Leaf RSUs issued in connection with the Urbn Leaf Acquisition are now exercisable or represent the right to acquire, as applicable, Common Shares (Note 23).

Acquisition-related costs in connection with the Urbn Leaf Acquisition of approximately $1,464,000 were included as a component of mergers & acquisitions and transactional expenses in the accompanying Consolidated Statements of Loss and Comprehensive Loss. A portion of the professional fees were settled with shares (Note 23).

The Loudpack Acquisition

LPF JV Corporation ("Loudpack") was a leading manufacturer, cultivator and distributor of award-winning cannabis brands in California. Loudpack owned and operated a facility in Greenfield, California which includes light deprivation greenhouse cultivation, manufacturing and processing along with distribution, storage and office space.

3. Business Combinations (continued)

On April 4, 2022, pursuant to the terms of the definitive agreement dated November 29, 2021 between the Company, Loudpack, LPF Merger Sub, Inc. and LPF Holdco, LLC, the Company acquired 100% of the equity interests of Loudpack (the "Loudpack Acquisition") for a total purchase consideration comprised of (a) the issuance of 90,752,140 SVS, valued at approximately $42,518,000, (b) the issuance of 2,000,000 warrants (the "Loudpack Warrants"), valued at approximately $610,000, (c) cash consideration of approximately $1,225,000, (d) the settlement of the 15% senior secured convertible debentures valued at approximately $3,173,000 and (e) approximately $439,000 for the settlement of receivables and payables from the pre-existing relationship between the companies. In addition, the Company paid approximately $3,764,000 of acquisition-related costs on behalf of Loudpack. As a result of the Reclassification, all of the SVS issued in connection with the Loudpack Acquisition have been reclassified as Common Shares in accordance with the terms of the Reclassification (Note 23).

The estimated fair value of intangible assets acquired as a result of the Loudpack Acquisition includes $30,100,000 for the cannabis licenses for manufacturing and distribution, $8,550,000 for a trademark and $6,500,000 for customer relationships (Note 10). The key assumptions used in estimating fair value of the intangible assets relate to management's five year business projections, estimated long-term growth, and an after-tax discount rate applicable to the intangible assets estimated at approximately 11.4%. The discount rate incorporates the risk-free rate as well as risks and uncertainties associated with the projected operations.

The Loudpack Warrants issued were exercisable to purchase SVS at a price of CAD $2.50 per SVS, anytime within five years of the closing date of the Loudpack Acquisition. The Company has the option to accelerate the expiration date of the Loudpack Warrants in the event that the volume weighted average trading price of the SVS is equal to or greater than CAD $5.00. As a result of the Reclassification, all of the Loudpack Warrants issued in connection with the Loudpack Acquisition are now exercisable into Common Shares (Note 23).

Acquisition-related costs in connection with the Loudpack Acquisition of approximately $5,357,000 were included as a component of mergers & acquisitions and transactional expenses in the accompanying Consolidated Statements of Loss and Comprehensive Loss. A portion of the professional fees were settled with shares (Note 23).

Measurement period adjustments

Provisional changes between the financial statements for the periods ended December 31, 2022 and September 30, 2022 are as follows:

	As previously reported	Adjustment	December 31, 2022 (Restated – Note 34)	September 30, 2022
Urbn Leaf Acquisition:				
Intangible assets	$ 8,150,000		$ 8,150,000	$ 8,310,000
Goodwill	$ 50,666,912	(2,330,700)	$ 48,336,212	$ 52,277,981
Deferred tax liability	$ (699,270)	(2,243,968)	$ (2,943,238)	$ (2,479,704)
Accounts payable and accrued liabilities	$ (14,032,084)	4,574,668	$ (9,457,416)	$ (14,022,719)
Loudpack Acquisition:				
Accounts receivable	$ 5,643,919		$ 5,643,919	$ 5,658,902
Inventories	$ 9,271,015		$ 9,271,015	$ 9,274,589
Property, plant and equipment, net	$ 46,467,535		$ 46,467,535	$ 57,439,850
Intangible assets	$ 45,150,000		$ 45,150,000	$ 3,375,189
Goodwill	$ 33,262,755		$ 33,262,755	$ 55,265,552
Accounts payable and accrued liabilities	$ (14,800,822)		$ (14,800,822)	$ (18,023,456)
Income taxes payable	$ (1,147,905)		$ (1,147,905)	$ (597,905)
Excise, cultivation and property tax liabilities	$ (28,455,925)		$ (28,455,925)	$ (25,955,925)
Deferred tax liability	$ (8,953,776)		$ (8,953,776)	$ -

The measurement period adjustments are a result of provisional accounting for the fair values over intangible assets, property, plant and equipment, income taxes payable and deferred tax liabilities being finalized during the three months ended December 31, 2022. In addition, the Company recorded adjustments to accounts receivable, inventories, accounts payable and accrued liabilities and excise, cultivation and property liabilities as a result of procedures performed over the opening balance sheet and reclassifications to conform to the year-end presentation.

3. Business Combinations (continued)

The Company did not recognize any gains or losses related to identifiable assets acquired or liabilities assumed during the year ended December 31, 2022. As at December 31, 2022, the measurement period adjustments that are a result of provisional accounting for the fair values over intangible assets, property, plant and equipment, income taxes payable and deferred tax liabilities have been finalized.

4. Accounts Receivable, net

The Company's accounts receivable, net was comprised of the following as at December 31, 2023 and 2022:

	December 31, 2023	December 31, 2022
Trade receivables	$ 13,150,714	$ 8,640,066
Sales tax receivables	42,018	10,688
Total	13,192,732	8,650,754
Provision for credit loss	(5,734,586)	(2,908,583)
Total accounts receivable, net	$ 7,458,146	$ 5,742,171

Accounts receivable are recognized initially at fair value and subsequently measured at amortized cost, less any provisions for expected credit losses.

The Company provides trade credit to its wholesale and manufacturing customers in the normal course of business and has established credit evaluation and monitoring processes to mitigate credit risk. Credit risk for these customers is assessed on a quarterly basis and a provision for expected credit losses is recorded where required.

The Company does not offer extended payment terms to its retail customers. Retail transactions are paid for at the point of sale. Accordingly, credit risk from retail customers is limited to outstanding balances due from debit card processors. The Company assesses the risk of collectability of accounts receivable on a quarterly basis.

As at December 31, 2023 and 2022, there was $287,636 and $229,210, respectively, outstanding from debit card processors that is included in trade receivables.

Estimates of expected credit losses consider the Company's collection history, deterioration of collection rates during the average credit period, as well as observable changes in and forecasts of future economic conditions that affect default risk.

Where applicable, the carrying amount of a trade receivable is reduced for any expected credit losses using a provision for expected credit losses. The provision for expected credit losses reflects the Company's best estimate of probable losses in the trade receivables accounts.

Activity in the provision for expected credit losses was as follows:

	December 31, 2023	December 31, 2022
Balance, beginning of year	$ 2,908,583	$ 617,821
Provision for expected credit losses assumed in acquisitions	-	749,553
Current period additions to provision for expected credit losses	3,222,939	2,303,583
Amounts reversed	(396,936)	(762,374)
Balance, end of year	$ 5,734,586	$ 2,908,583

Amounts reversed includes $396,936 and $762,374 of net receivables that were reclassified to assets held for sale as at December 31, 2023 and 2022, respectively.

4. Accounts Receivable, net (continued)

The Company's aging of accounts receivable was as follows as at December 31, 2023 and 2022:

	December 31, 2023	December 31, 2022
Current	$ 3,138,645	$ 2,070,030
1 - 30 days	1,556,129	1,288,714
31 - 60 days	778,489	598,195
61 - 90 days	654,692	677,243
Over 90 days	7,064,777	4,016,572
Total	$ 13,192,732	$ 8,650,754

5. Inventories

The Company's inventory was comprised of the following items as at December 31, 2023 and 2022:

	December 31, 2023	December 31, 2022
Raw materials	$ 1,148,129	$ 910,961
Work-in-process	1,703,004	4,161,307
Finished goods	4,276,126	4,712,825
Total	$ 7,127,259	$ 9,785,093

During the twelve months ended December 31, 2023 and 2022, inventory expensed to cost of goods sold was approximately $47,292,000 and $48,917,000, respectively.

Management determined net realizable value as the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to complete a sale. During the years ended December 31, 2023 and 2022, the Company recognized an impairment of $858,894 and $0, respectively, for excess and obsolete inventory.

6. Biological Assets

The changes in the carrying value of biological assets was as follows:

	December 31, 2023	December 31, 2022
Balance, beginning of year	$ 441,144	$ 443,839
Acquired as part of acquisitions	-	101,543
Costs capitalized	11,380,292	14,045,709
Changes in fair value less costs to sell due to biological asset transformation	(1,619,201)	(7,752,644)
Transferred to inventory upon harvest	(9,343,070)	(6,397,303)
Balance, end of year	$ 859,165	$ 441,144

The Company measures its biological assets at their fair value less costs to sell. This is determined using a model which estimates the expected harvest yield in grams for plants currently being cultivated, and the expected selling price less costs to sell per gram.

6. Biological Assets (continued)

The Company's method of accounting for biological assets attributes value accretion on a straight-line basis throughout the life of the biological asset from initial cloning to the point of harvest. The following inputs and assumptions are all categorized within Level 3 on the fair value hierarchy and were used in determining the fair value of biological assets:

Inputs and assumptions	Description	Correlation between inputs and fair value
Average selling price per gram	Represents the average selling price per gram of dried cannabis net of excise taxes, where applicable, for the period for all strains of cannabis sold, which is expected to approximate future selling prices.	If the average selling price per gram was higher (lower), estimated fair value would increase (decrease).
Average attrition rate	Represents the weighted average number of plants culled at each stage of production.	If the average attrition rate was lower (higher) estimated fair value would increase (decrease).
Weighted average yield per plant	Represents the weighted average number of grams of dried cannabis inventory expected to be harvested from each cannabis plant.	If the weighted average yield per plant was higher (lower), estimated fair value would increase (decrease).
Standard cost per gram to complete production	Based on actual production costs incurred divided by grams produced in the period.	If the standard cost per gram to complete production was lower (higher), estimated fair value would increase (decrease).
Weighted average effective yield	Represents the estimated percentage of harvested product that meets specifications in order to be sold as a dried cannabis product.	If the weighted average effective yield was higher (lower), the estimated fair value would increase (decrease).
Stage of completion in production process	Calculated by taking the weighted average number of days in production over a total average grow cycle of approximately thirteen weeks.	If the number of days in production was higher (lower), estimated fair value would increase (decrease).

Biological assets as at December 31, 2023 and 2022 include an allocation of depreciation of $130,984 and $194,385, respectively.

The following table quantifies each significant unobservable input, and provides the impact that a 10% increase or decrease in each input would have on the fair value of biological assets at the Salinas Production Campus:

		As at December 31, 2023			As at December 31, 2022		
	Assumptions:	Input		10% change	Input		10% change
i	Weighted average of expected loss of plants until harvest [a]	5%	$	4,841	5%	$	1,975
ii	Expected yields (dry grams of cannabis per plant) [b]	85 grams	$	86,296	71 grams	$	41,008
iii	Weighted average number of growing weeks completed as a percentage of total growing weeks as at year-end	44%	$	86,296	50%	$	41,008
iv	Estimated selling price (per gram) [c]	$0.87 per gram dried flower $0.00 per gram dried trim	$	119,583	$0.64 per gram dried flower $0.01 per gram dried trim	$	71,839
v	After harvest cost to complete and sell (per gram)	$0.26 per gram dried flower $0.00 per gram dried trim	$	33,287	$0.28 per gram dried flower $0.00 per gram dried trim	$	30,831

The following table quantifies each significant unobservable input, and provides the impact that a 10% increase or decrease in each input would have on the fair value of biological assets at the Greenfield Production Campus:

		As at December 31, 2022		
	Assumptions:	Input		10% change
i	Weighted average of expected loss of plants until harvest [a]	0%	$	-
ii	Expected yields (dry grams of cannabis per plant) [b]	33 grams	$	3,154
iii	Weighted average number of growing weeks completed as a percentage of total growing weeks as at year-end	91%	$	3,154
iv	Estimated selling price (per gram) [c]	$0.49 per gram dried flower $0.04 per gram dried trim	$	5,514
v	After harvest cost to complete and sell (per gram)	$0.23 per gram dried flower $0.02 per gram dried trim	$	2,360

6. Biological Assets (continued)

[a] Weighted average of expected loss of plants until harvest represents loss from plants that do not survive to the point of harvest. It does not include any financial loss on a surviving plant.

[b] Expected average yields for cannabis plants vary based on the mix of strains and number of plants existing at each reporting date. As at December 31, 2023 and December 31, 2022, it was expected the Company's biological assets would yield 36 and 42 grams of dried flower per plant, respectively, and 49 and 62 grams of dried trim per plant, respectively.

[c] The estimated selling price (per gram) represents the actual average sales price for the Company's strains sold as bulk products.

The Company estimates the harvest yields for cannabis at various stages of growth. As at December 31, 2023 and 2022, it is expected that the Company's biological assets will yield approximately 2,840,271 and 2,305,602 grams of dry cannabis flower, respectively, and 3,061,055 and 3,259,309 grams of dry trim, respectively, when harvested. The fair value adjustments on biological assets are presented separately in the Consolidated Statements of Income (Loss) and Comprehensive Income (Loss).

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

7. Prepaid Expenses and Other Current Assets

As at December 31, 2023 and 2022, prepaid expenses and other current assets were comprised of the following:

	December 31, 2023	December 31, 2022
Excise taxes	$ 122,030	$ 675,584
Insurance and rent	1,190,838	2,116,019
Advances made to suppliers and consultants	-	382,637
Payroll and income taxes	-	34,096
Taxes and fees	37,583	150,506
Licenses and other	639,273	1,064,519
Other prepaid expenses	171,623	-
Total prepaid expenses	2,161,347	4,423,361
Conversion option embedded in the FGW Note (Note 2 & Note 26)	-	1,461,440
Total prepaid expenses and other current assets	$ 2,161,347	$ 5,884,801

On August 1, 2021, the Company entered into a prepayment of inventory agreement with Loudpack (the "Loudpack Inventory Agreement") for $1,500,000 of goods at wholesale cost which was accounted for as a component of advances made to suppliers and consultants. Pursuant to the terms of the Loudpack Inventory Agreement, the Company received a minimum discount of 10% on all purchases from Loudpack. The prepayment of inventory was applied as purchase consideration in the Loudpack Acquisition (Note 3).

On December 18, 2020, the Company entered into a securities purchase agreement with FGW (the "FGW Agreement"). Pursuant to the FGW Agreement, the Company agreed to acquire an initial ownership interest of 21% in FGW and the right to acquire an additional 29.1% interest in FGW (the "FGW Transaction"). Upon closing of the FGW Transaction, FGW issued the Company a convertible note, in the principal amount of $1,265,000 (the "FGW Note"). The FGW Note bears interest at 4.0% per annum and matures on June 30, 2031.

On February 15, 2022, the Company entered into a definitive securities purchase agreement with FGW (the "Subsequent FGW Agreement"). Pursuant to the Subsequent FGW Agreement, the Company agreed to acquire a further 29.9% interest in FGW (the "Subsequent Shares"), subject to certain material closing conditions, including approvals from regulatory authorities and converting the FGW Note in accordance with its terms. The acquisition of the Subsequent Shares and conversion of the FGW Note will increase the Company's interest in FGW to 80%. The aggregate purchase price for the Subsequent Shares is equal to $1,300,650.

7. Prepaid Expenses and Other Current Assets (continued)

Pursuant to the terms of the Subsequent FGW Agreement, the purchase price for the Subsequent Shares will be satisfied in MVS priced at the greater of: (i) the 30-day volume weighted average price of the SVS on the CSE ending on the day prior to closing of the purchase of the Subsequent Shares, multiplied by 100; (ii) C$150 per MVS; or (iii) such other price as may be approved by the CSE.

Prior to the closing of the acquisition of the Subsequent Shares, the Subsequent FGW Agreement will be amended to reflect the occurrence of the Mandatory Conversion and the Reclassification, as applicable, and in particular the issuance of SVS instead of MVS as consideration for the Subsequent Shares.

The Company retains the right of first refusal to purchase, in its discretion, in whole or in part and in one or more closings, the remaining 20% of FGW, subject to regulatory approvals. On February 15, 2023, the Company received regulatory approvals for the Subsequent Shares. On October 27, 2023, the Company had acquired Subsequent Shares. Additionally, the Company converted the FGW Note into an additional interest of 29.1% in FGW. As a result, the Company's ownership in FGW increased to 80% as at December 31, 2023.

As at November 1, 2023 and December 31, 2022, the Company used the Monte Carlo Simulation option-pricing model (the "Monte Carlo , Model") to estimate the fair value of the conversion option embedded in the FGW Note. The change in fair value of $230,785 for the twelve months ended December 31, 2022 are included as a component of fair value gain in other current assets and derivative liabilities in the accompanying Consolidated Statements of Income (Loss) and Comprehensive Income (Loss). The change in fair value as of November 1, 2023, the conversion date, was recorded as part of the equity transaction.

8. Notes Receivable

On April 16, 2021, UL Holdings Inc. ("Urbn Leaf") entered into a membership interest repurchase agreement (the "Membership Interest Repurchase Agreement") with 2220 NBC, LLC ("NBC"). Pursuant to the terms of the Membership Interest Repurchase Agreement, NBC agreed to repurchase Urbn Leaf's 33.3% membership interest for $1,150,000. On March 1, 2022, pursuant to the terms of a definitive agreement dated November 29, 2021, between the Company, Urbn Leaf, Saturn Merger Sub Inc. and Momentum Capital Group, LLC, in its capacity as the representative of the shareholders of Urbn Leaf, the Company acquired 100% of the equity interest of Urbn Leaf (the "Urbn Leaf Acquisition"). The note receivable associated with the Membership Interest Repurchase Agreement was assumed in connection with the Urbn Leaf Acquisition. The note receivable accrues interest at a rate of 10% per annum on the outstanding daily unpaid principal amount. Initial payments on the note receivable began on January 1, 2022. Payments are to be made following a five-year amortization schedule of equal monthly payments following the initial payment date. As at December 31, 2023, principal and accrued interest amounted to $1,345,069. The Company assesses the risk of collectability of accounts receivable on a quarterly basis. As at December 31, 2023 the Company determined that the probability of collection of the principal and interest is not probable. As a result, the Company has fully reserved a provision for expected credit losses of $1,150,000 principal amount of the NBC note receivable, the accrued interest balance totaled $195,069.

On March 24, 2022, the Company entered into a settlement agreement (the "Altai Settlement Agreement") with Altai Partnership, LLC ("Altai"). Pursuant to the terms of the Altai Settlement Agreement, Altai agreed to pay an aggregate of $1,250,000 to the Company to settle amounts owed by Altai in connection with advances that had been made by the Company in relation to a binding letter of intent for the Company's acquisition of Lucrum Enterprises Inc. d/b/a LUX Cannabis Dispensary ("LUX") in 2019. In April 2022, the Company received the first installment payable by Altai pursuant to the terms of the Altai Settlement Agreement, in the amount of $500,000. On May 1, 2022, the Company and Altai entered into a convertible secured promissory note (the "Altai Note") for the remaining $750,000 owed pursuant to the terms of the Altai Settlement Agreement. The principal owed under the Altai Note is payable over 36 months beginning on May 15, 2022. As at December 31, 2023, the outstanding principal owed under the Altai Note amounted to $698,000.

8. Notes Receivable (continued)

On February 23, 2023, the Company entered into a settlement agreement (the "Fang Settlement Agreement") with Alexander Fang ("Fang") and Sublime Concentrates, Inc. Pursuant to the terms of the Fang Settlement Agreement, Mr. Fang is required to make certain cash payments in the amount of $550,000 to the Company in exchange for the release of any claims in connection with Alexander Fang v. Sublime Machining, Inc. and Sublime Concentrates, Inc. v. Sublime Machining Inc. (Note 29).

The amounts owed pursuant to the terms of the Fang Settlement Agreement are payable by Fang on the following schedule: $50,000 paid within 45 days of the release, $425,000 payable in installments of $7,083 beginning on April 15, 2023, until March 15, 2028, and a $75,000 balloon payment due on April 15, 2028. Late payments bear interest at 10% per annum. As at December 31, 2023, the outstanding principal owed under the Fang Settlement Agreement was $443,334.

On August 21, 2023, the Company entered into an agreement to sell the ownership interest in UL Visalia, of which the Company owned an 80% ownership interest. UL Visalia holds a Cannabis Retailer License in the State of California and a local authorization to conduct a cannabis business in the unincorporated area of Tulare County, California. The sale of the 80% ownership interest of UL Visalia closed on December 22, 2023 for a total of $400,000 of which $15,000 was paid in cash and the remaining consideration of $385,000 is held in a note receivable by UL Holdings. The note receivable is to be received in $5,000 payments each month. As of the year ended December 31, 2023, $385,000 was outstanding on the Visalia Note Receivable and is held by UL Holdings, Inc. In July 2019, the Company purchased UL Visalia by entering into a Note Payable agreement for $500,000, of which, there was an outstanding balance of $247,943 prior to the Visalia Sale agreement. As part of the sale of UL Visalia, the outstanding balance of $247,943 has been written off and is now $0.

On October 11, 2023, the Company entered into an agreement to sell its license and operations of its Urbn Leaf-branded retail dispensary located in Grossmont for an aggregate purchase price of $725,000. The Buyer shall pay the purchase price in the form of ready-for-sale cannabis flower and assumed liabilities. The Company recognized the remaining consideration outstanding within notes receivable. As at December 31, 2023, there was an outstanding balance of $660,000.

Notes receivable are recognized initially at fair value and subsequently measured at amortized cost, less any provisions for expected credit losses. As at December 31, 2023 and 2022, the Company recognized a provision for expected credit losses on notes receivable of $1,345,069 and $0, respectively.

9. Property, Plant and Equipment, net

As at December 31, 2023 and December 31, 2022, the Company's net property, plant and equipment, including construction in process ("CIP") consisted of the following:

	Land	Retail and Agricultural Buildings	Agricultural and Manufacturing Equipment	Construction in Progress (CIP)	Furniture, Fixtures, and Equipment	Leasehold Improvements	Total
At Cost							
As at December 31, 2021	$ 3,714,572	$ 15,045,824	$ 6,985,888	$ 1,982,146	$ 2,477,629	$ 1,598,241	$ 31,804,300
Additions	-	-	76,102	342,297	71,238	236,141	725,778
Business acquisitions	16,448,146	35,454,332	4,849,940	1,456,832	4,948,421	6,986,379	70,144,050
Reclassification*	-	-	-	-	(59,558)	(151,522)	(211,080)
Disposals and transfers	-	-	(879,257)	(131,504)	(368,076)	(216,691)	(1,595,528)
Reclass on completed phase of construction	-	-	-	(2,827,201)	306,636	2,520,565	-
As at December 31, 2022	20,162,718	50,500,156	11,032,673	822,570	7,376,290	10,973,113	100,867,520
Additions	-	103,250	-	890,683	45,644	27,349	1,066,926
Disposals and transfers	(239,275)	(1,261,456)	-	(323,148)	(110,168)	(2,457,469)	(4,391,516)
Reclassification to held for sale	-	-	-	-	(265,384)	(1,912,320)	(2,177,704)
As at December 31, 2023	$ 19,923,443	$ 49,341,950	$ 11,032,673	$ 1,390,105	$ 7,046,382	$ 6,630,673	$ 95,365,226
Accumulated depreciation							
As at December 31, 2021	$ -	$ 2,788,103	$ 3,934,513	$ -	$ 1,370,952	$ 195,122	$ 8,288,690
Disposals and transfers	-	-	(108,520)	-	(61,925)	(21,646)	(192,091)
Reclassification*	-	-	-	-	(11,831)	(7,916)	(19,747)
Depreciation expense	-	1,641,007	2,156,792	-	1,084,491	952,278	5,834,568
As at December 31, 2022	-	4,429,110	5,982,785	-	2,381,687	1,117,838	13,911,420
Additions	-	-	-	-	-	-	-
Disposals and transfers	-	(311,351)	-	-	(24,010)	(567,992)	(903,353)
Depreciation expense	-	2,392,991	1,542,045	-	1,171,710	1,168,469	6,275,215
Reclassification	-	1,611	225,585	-	7,660	(147,890)	86,966
Reclassification to held for sale	-	-	-	-	(192,719)	(239,038)	(431,757)
As at December 31, 2023	$ -	$ 6,512,361	$ 7,750,415	$ -	$ 3,344,328	$ 1,331,387	$ 18,938,491
Net Book Value							
As at December 31, 2022	$ 20,162,718	$ 46,071,046	$ 5,049,888	$ 822,570	$ 4,994,603	$ 9,855,275	$ 86,956,100
As at December 31, 2023	$ 19,923,443	$ 42,829,589	$ 3,282,258	$ 1,390,105	$ 3,702,054	$ 5,299,286	$ 76,426,735

* Reclassification includes the amounts transferred to assets held for sale (Note 12).

Depreciation expense relating to property, plant and equipment for the year ended December 31, 2023 and 2022 was as follows:

	2023	2022
Cost of goods sold - wholesale	$ 3,760,124	$ 4,985,266
Expenses	2,515,091	849,302
Total depreciation and amortization relating to property, plant and equipment	$ 6,275,215	$ 5,834,568

10. Intangible Assets and Goodwill

During the year ended December 31, 2022, the Company acquired $53,300,000 and $81,598,967 of intangible assets and goodwill, respectively, as a result of the Urbn Leaf Acquisition and Loudpack Acquisition (Note 3). As at December 31, 2023 and 2022, the Company performed its annual impairment tests for goodwill and intangible assets.

The Company assesses its intangible assets for impairment when events and circumstances arise, or by October 31, each year.

At year end, the Company assessed its intangible assets for impairment. The recoverable amount involved estimating the fair value the invested capital of the consolidated Company and comparing this fair value to the carrying amount of the Company CGU. In addition, as the Company is publicly traded, the valuation specialists considered the reconciliation with the market capitalization in the fair value analysis. As of the valuation date of October 31, 2023, the Company determined that the intangible asset are fully impaired.

Amortization expense of $0 and $3,852,237 was recorded for the years ended December 31, 2023 and 2022.

10. Intangible Assets and Goodwill (continued)

As at December 31, 2023 and 2022, the Company performed its annual impairment test for goodwill and intangible assets. The recoverable amount of all CGUs was determined based on fair value less costs of disposal ("FVLCD") using Level 3 inputs in a discounted cash flow model, as the FVLCD was higher than the GCUs value in use.

The key assumptions used in these estimates of the recoverable amounts are described as follows:

- Cash flows: Estimated cash flows were projected based on the Company's business plans, which are based on actual operating results as well as industry and market trends. The forecast was extended to a total of five years (with a terminal year thereafter);
- Terminal value growth rate: The terminal growth rate of 2.0% and 3.2% for 2023 and 2022, was based on historical and projected customer price inflation, historical and projected economic indicators, and projected industry growth; and
- Discounted rate: The post tax discount rate was 16.0% and 16.5% in both 2023 and 2022.

As at October 31, 2023, management determined that the carrying value of its CGU was less than the recoverable value using the fair value less costs of disposal model. As a result, the Company recognized an impairment loss of $16,541,000 on the intangible assets in the accompanying Consolidated Statements of Loss and Comprehensive Loss. The intangible assets are fully impaired in the current year.

As at December 31, 2022, management determined the impairment charge of $90,899,408 on the intangible assets, and the carrying value exceeded the recoverable amount of goodwill by $113,953,857 for the California CGU. These impairment charges totaling $204,853,265 are recognized in impairment loss in the accompanying Consolidated Statements of Loss and Comprehensive Loss.

11. Right-of-use Assets and Lease Liabilities

Right-of-use Assets

As at December 31, 2023 and 2022, the Company's right-of-use assets consisted of the following:

		Right-of-use Assets - Buildings
Cost		
Balance as at December 31, 2021	$	6,101,302
Additions		1,909,970
Write-off from lease modification		(16,970)
Transferred to assets held for sale (Note 12)		(1,946,316)
Acquired leases		17,772,275
Balance as at December 31, 2022		23,820,261
Write-off from lease termination		(1,902,568)
Transferred to assets held for sale (Note 12)		(4,333,028)
Balance as at December 31, 2023	$	17,584,665
Accumulated amortization		
Balance as at December 31, 2021		1,667,905
Transferred to assets held for sale (Note 12)		(439,179)
Amortization expense		2,318,317
Balance as at December 31, 2022		3,547,043
Transferred to assets held for sale (Note 12)		(610,597)
Amortization expense		2,468,199
Balance as at December 31, 2023	$	5,404,645
Net book value		
As at December 31, 2022	$	20,273,218
As at December 31, 2023	$	12,180,020

11. Right-of-use Assets and Lease Liabilities (continued)

Lease Liabilities

The Company's lease liabilities consist of various real property leases. The lease liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate. There were no new leases during the year ended December 31, 2023.

The incremental borrowing rate for additions during the years ended December 31, 2023 and 2022 ranged from 9.5% and 18.0% for additions during the year. The following is a summary of the activity in the Company's lease liabilities for the year ended December 31, 2023:

Ending lease liabilities as at December 31, 2022		32,188,593
Lease payments		(4,819,980)
Interest expense		2,329,354
Write-offs from lease termination		(1,815,724)
Transferred to assets held for sale (Note 12)		(5,353,226)
Ending lease liability as at December 31, 2023		22,529,017
Less: current portion		(1,402,097)
Non-current lease liabilities	$	21,126,920

The maturity of contractual undiscounted lease obligation payments are as follows:

		December 31, 2023		December 31, 2022
Due within one year	$	5,048,420	$	6,331,195
Due within one to five years		18,089,234		21,631,491
Due after five years		19,755,654		28,558,852
Total undiscounted lease liabilities		42,893,308		56,521,538
Less interest		(21,766,388)		(24,332,945)
Total present value of minimum lease payments	$	21,126,920	$	32,188,593

The Company also leases office and other retail space from related parties (Note 28).

The Company recognized no material expenses related to short-term leases and leases of low-value assets for the years ended December 31, 2023 and 2022.

12. Assets and Liabilities Held for Sale

The Company has been actively marketing certain rights and interests in non-core assets of the Company, including cannabis licenses in non-core geographies within California and selected retail operations in Oregon and California. The Company classified the assets as held for sale and measured the assets at the lower of its carrying value or fair value less costs to sell. The Company did not recognize any impairment loss associated with assets and liabilities held for sale as at December 31, 2023 and 2022.

Changes in the carrying amount of assets and liabilities held for sale was as follows:

Assets held for sale		
Balance as at December 31, 2021	$	-
Transferred in/(out)		2,183,880
Balance as at December 31, 2022	$	2,183,880
Transferred in/(out)		5,002,769
Total assets held for sale as at December 31, 2023	$	7,186,649
Liabilities associated with assets held for sale		
Balance as at December 31, 2021	$	-
Transferred in/(out)		2,872,796
Balance as at December 31, 2022	$	2,872,796
Transferred in/(out)		5,737,950
Total liabilities held for sale as at December 31, 2023	$	8,610,746

12. Assets and Liabilities Held for Sale (continued)

On March 13, 2023, the Company entered into the Lafayette Membership Agreement. Pursuant to the Lafayette Membership Assignment, the Company assigned its 90% interest in Lafayette back to the other remaining partners and made a $120,000 payment for back rent owed on the property in exchange for the Lafayette Note (Note 14 and 26).

On October 11, 2023, the Company entered into an agreement to sell its minority ownership interest in real estate in Grossmont to UL La Mesa, LLC for $550,000 (Note 33). The Company simultaneously entered into a management services agreement with UL La Mesa, LLC pursuant to which the Company will continue to operate the location for an initial term of 12 months. The Company will receive a management fee of 100% of the net profit from the premises.

On October 11, 2023, the Company entered into an agreement to sell its license and operations of its Urbn Leaf-branded retail dispensary located in Grossmont for an aggregate purchase price of $725,000. The Buyer shall pay the purchase price in the form of ready-for-sale cannabis flower.

The Company executed a non-binding term sheet for the sale of the membership interests of Uprooted LM, UL San Jose LLC, San Leandro Wellness Solutions, Inc., and Accucanna, LLC. Although the terms of the agreement are non-binding, the Company expects to execute the sale during the third quarter of fiscal 2024 (Note 33). Thus, the entities' assets and liabilities are included in the assets and liabilities held for sale balances.

The Company entered into an Agreement for Sale and Purchase with Addisian LLC for the sale of the membership interests of LGCLORDIS2 LLC (also "Terpene Station") located in Oregon. The sale was finalized on April 26, 2024 (Note 33). As such, the entity's assets and liabilities are included in the assets and liabilities held for sale balances.

The assets and liabilities held for sale were comprised of the following as at December 31, 2023:

	December 31, 2023	December 31, 2022
Accounts receivable, net	$ 130,763	$ 4,017
Inventories	530,283	55,822
Prepaid expenses and other current assets	157,655	35,086
Property, plant and equipment, net	1,854,940	191,333
Right-of-use assets	4,333,028	1,507,137
Deposits and other assets	179,980	12,930
Due from other entities	-	377,555
Assets held for sale	$ 7,186,649	$ 2,183,880
Accounts payable and accrued liabilities	$ 3,167,577	$ 386,495
Excise, cultivation and property tax liabilities	89,943	42,029
Income taxes payable	-	172,774
Lease liabilities	5,353,226	2,271,498
Liabilities associated with assets held for sale	$ 8,610,746	$ 2,872,796

13. Accounts Payable, Accrued Liabilities and Excise, Cultivation and Property Tax Liabilities

Accounts payable and accrued liabilities of the Company are principally comprised of amounts outstanding for trade purchases incurred in the normal course of business.

The Company's accounts payable and accrued liabilities consist of the following as at December 31, 2023 and December 31, 2022:

	December 31, 2023	December 31, 2022
Trade payable	24,340,272	$ 20,369,595
Accrued local and sales taxes	4,771,732	5,673,819
Accrued liabilities	11,369,314	12,776,055
Accrued payroll	2,469,326	3,396,024
Accrued loyalty rewards program	1,098,673	2,196,333
Excise, cultivation and property tax liabilities, net of current portion	3,024,000	-
Excise, cultivation and property tax liabilities - current	17,884,700	24,717,641
Total accounts payable and accrued liabilities	$ 64,958,017	$ 69,129,467

14. Notes Payable

The notes payable consists of the following as at December 31, 2023:

	Total outstanding - December 31, 2023	Total outstanding - December 31, 2022
Carryover Notes	$ 28,926,712	$ 26,676,712
Senior Secured Debt	15,000,000	7,479,000
ACS Agreements	390,678	555,392
Seaside Note	340,000	340,000
Urbn Leaf - Lafayette Street	-	304,139
Urbn Leaf - UL Visalia LLC	247,943	247,943
SBC Private loans	-	150,000
Vehicle financings	57,208	127,825
Total notes payable	$ 44,962,541	$ 35,881,011
Current Notes Payable	(703,943)	(8,577,312)
Total notes payable - Long-Term	$ 44,258,598	$ 27,303,699

The loan fees associated with obtaining the notes payable are recorded as a reduction to the carrying amount and are being amortized as interest expense. As at December 31, 2023 and December 31, 2022, there was $492,000 and $0 of unamortized deferred financing costs.

Carryover Notes

On April 4, 2022, pursuant to the terms of a definitive agreement dated November 29, 2021, between the Company, LPF JV Corporation ("Loudpack"), LPF Merger Sub, Inc. and LPF Holdco, LLC, the Company acquired 100% of the equity interest of Loudpack (the "Loudpack Acquisition").

In connection with the Loudpack Acquisition, the Company assumed the Senior Carryover Notes and the Junior Carryover Notes (collectively, the "Carryover Notes"). The Carryover Notes were a result of the amended and restated master debenture supplement agreement (the "Supplement Agreement") dated April 4, 2022, between Loudpack and Acquiom Agency Services, LLC as Collateral Agent and Administrative Agent. The Supplement Agreement amended and restated the original agreement for the remaining existing debentures leaving a remaining principal amount of $17,000,000 for the Senior Carryover Notes and $8,000,000 for the Junior Carryover Notes. The Carryover Notes bear interest at 9%. Interest and principal owed under the Carryover Notes are due on April 4, 2025.

Senior Secured Debt

In December 2020, Urbn Leaf received a loan ("Senior Secured Debt") in the amount of $5,400,000. The Senior Secured Debt originally matured on December 21, 2022, at which time all outstanding principal plus an additional fee of $2,079,000 was due. Monthly payments were interest only with a variable interest rate of the higher of 12.5% or the prime rate plus 9%.

The Senior Secured Debt is secured by certain collateral, pursuant to the terms of a credit and guarantee agreement dated December 21, 2021, between Urbn Leaf and Seventh Avenue Investments, LLC.

On February 9, 2023, the lenders assigned a portion of the Senior Secured Debt to Pelorus Fund REIT, LLC ("Pelorus") pursuant to the terms of a loan purchase agreement dated February 9, 2023.

On July 31, 2023, the Company entered into the tenth omnibus amendment of the loan agreement to further extend the maturity date of the Senior Secured Debt to February 10, 2027 and increase the amount of the Senior Secured Debt by $7,521,000, bringing the total principal amount of the Senior Secured Debt to $15,000,000. The Senior Secured Debt bears interest at a rate of one month Secured Overnight Financing Rate ("SOFR"), plus 12.5%, with a SOFR floor of 4.5%.

The Senior Secured Debt is subject to certain debt service ratio requirements, interest reserves, cross-corporate guarantees and defaults, subordination agreements and intercreditor agreements, along with a general corporate guarantee from the Company.

14. Notes Payable (continued)

As consideration for entering into an Amendment, the Company granted 136,258,279 common share purchase warrants to Pelorus, amounting to 40% of the Senior Secured Debt. Please refer to Note 17.

Urbn Leaf Note

On July 23, 2021, Urbn Leaf completed a bridge financing whereby it issued a $5,200,000 secured promissory note (the "Urbn Leaf Note") to SUB CCP Urbn, LLC. The Urbn Leaf Note bore interest at a rate of 15% per annum with principal and accrued interest due and payable on December 31, 2021, or earlier, depending on timing of certain events as set out in the Urbn Leaf Note, but subject to certain extension provisions set out in the promissory note.

Urbn Leaf had the option to extend the maturity date of the Urbn Leaf Note by 60 days which extended the maturity date of the Urbn Leaf Note to February 28, 2022 (the "Initial Extension"). The Initial Extension triggered an extension fee equal to 1% of the outstanding principal amount plus all accrued interest thereon for every 30 days that the maturity date was extended. Following the Initial Extension, Urbn Leaf exercised its option to extend the maturity date of the Urbn Leaf Note by an additional 60 days, which extended the maturity date of the Urbn Leaf Note to April 30, 2022 (the "Second Extension"). The Second Extension triggered an extension fee equal to 1% of the outstanding principal amount plus all accrued interest for every 30 days that the maturity date was extended.

On April 29, 2022, the Company repaid the Urbn Leaf Note as follows: (i) a cash payment in the amount of $358,541; and (ii) the issuance of approximately $5,870,000 worth of SVS at a price of C$0.45 per SVS (16,660,993 SVS). The Company recorded a loss on debt extinguishment of $66,436 in the accompanying Consolidated Statements of Loss and Comprehensive Loss.

ACS Agreements

On November 1, 2019, and February 27, 2022, Loudpack entered into certain secured promissory notes (collectively, the "ACS Agreements"). The November 1, 2019, note was in the amount of $1,100,065, payable over 60 monthly installments of $24,749 beginning on or before December 1, 2019 until the principal and interest have been paid in full. Any unpaid principal and interest are due and payable on December 1, 2024. The February 27, 2022, note was in the amount of $276,650, payable over 60 monthly installments of $6,213 beginning on or before March 1, 2020 until the principal and interest have been paid in full. Any unpaid principal and interest are due and payable on March 1, 2025. The ACS Agreements were assumed by the Company in connection with the Loudpack Acquisition, which closed on April 4, 2022. The ACS Agreements bear interest at a rate of 12.5%.

Seaside Note

On May 18, 2022, the Company entered into an agreement with the Company's former partner (the "Seaside Agreement") to acquire a further 50% ownership interest in its Seaside, California retail dispensary. The Seaside Agreement and the additional interest acquired by the Company was the result of a legal settlement with the Company's former partner in the Seaside retail dispensary. As a result, the total cost of the additional interest was $440,000, with $100,000 to be paid upfront (the "First Installment") and the balance payable over seven years, with $50,000 being paid on the first and sixth anniversaries of the First Installment and $40,000 being paid on the seventh anniversary of the First Installment.

On August 26, 2023, the Company elected not to renew the cannabis license and closed operations of the Seaside dispensary and recognized a loss of $741,644 in other income (expense) on the Consolidated Statement of Loss and Comprehensive Loss (Note 30).

14. Notes Payable (continued)

Urbn Leaf - Lafayette Street

The membership interests of Lafayette were acquired in exchange for the Lafayette Note. Pursuant to the terms of the Lafayette Note, Urbn Leaf paid $500,000 in the form of a down payment, with the remaining $2,000,000 to be paid in equal installments over a period of 24 months.

On March 13, 2023, the Company entered into the Lafayette Membership Assignment. Pursuant to the Lafayette Membership Assignment, the Company assigned its 90% interest in Lafayette back to the other remaining partners and made a $120,000 payment for back rent owed on the property in exchange for satisfaction of the Lafayette Note (Note 11 and 24).

Urbn Leaf - UL Visalia LLC

On July 30, 2019, Urbn Leaf acquired a 80% membership interest in UL Visalia LLC ("UL Visalia"), and Urbn Leaf satisfied the consideration payable for such acquisition with two initial payments of $250,000 each, and the remaining $500,000 being an unsecured and non-interest bearing loan to be paid by Urbn Leaf pursuant to the terms of a second amendment to the memorandum of understanding, which does not specify a definitive repayment date. As part of the UL Visalia sale consideration (see Note 8), this note payable was forgiven and prior to being written off as part of the UL Visalia transaction had an outstanding balance of $247,943.

SBC Private loans

In May 2017, SBC Management LLC ("SBC") borrowed $100,000 from an individual at an interest rate of 12% per annum, pursuant to the terms of an unsecured loan (the "Second SBC Loan"). Pursuant to the terms of the Second SBC Loan, Urbn Leaf was required to make interest payments of $1,000 per month until May 9, 2022, at which time the principal balance owed under the Second SBC Loan would become due. The Second SBC Loan was assumed by the Company in connection with the Urbn Leaf Acquisition, which closed on March 1, 2022. On May 19, 2022, the Company entered into a third amendment to the promissory note extending the maturity date and principal repayment to May 9, 2023. On May 25, 2023, the Company entered into a fourth amendment to the promissory note extending the maturity date and principal repayment to May 9, 2024. In May 2024, the Company entered into a fifth amendment to further extend the maturity date.

In August 2017, SBC borrowed $50,000 from the same individual at an interest rate of 12% per annum, pursuant to the terms of an unsecured loan (the "Third SBC Loan"). Pursuant to the terms of the Third SBC Loan, Urbn Leaf was required to make interest payments of $500 per month until August 16, 2022, at which time the full principal balance owed under the Third SBC Loan would become due. The Third SBC Loan was assumed by the Company in connection with the Urbn Leaf Acquisition, which closed on March 1, 2022. On May 19, 2022, the Company entered into a third amendment to the promissory note extending the maturity date and principal repayment to May 9, 2023. On May 15, 2023, the Company repaid the principal and accrued interest under the Third SBC Loan totaling $50,000.

Vehicle financings

In connection with the Loudpack Acquisition, the Company assumed four vehicle financing notes (the "Vehicle Financing Notes") for its distribution operations. The Vehicle Financing Notes mature at various dates through October 2024, with interest rates of up to 6.34%.

15. Term Loan

On November 29, 2021, in connection with the intended acquisitions of Urbn Leaf and Loudpack, the Company announced that it signed a non-binding term sheet with Pelorus and on February 10, 2022, the Company and Pelorus entered into a loan and security agreement (the "Pelorus Loan Agreement") whereby Pelorus agreed to provide an aggregate of approximately $77,300,000 of debt financing (the "Term Loan") which would be used primarily to retire certain existing loans, including the senior secured revolving credit facility (the "Facility"), and provide additional working capital to the Company, Urbn Leaf and Loudpack.

15. Term Loan (continued)

Pursuant to the terms of the Pelorus Loan Agreement, the Term Loan was funded in two tranches, with the first occurring prior to closing of the Urbn Leaf Acquisition and the Loudpack Acquisition, and the second tranche funded to the Company post-closing of the Loudpack Acquisition.

The first tranche was funded in three separate loans, with a loan to each of Urbn Leaf, Loudpack and the Company. The Company received approximately $15,500,000, Loudpack received approximately $16,400,000 and Urbn Leaf received approximately $13,500,000 of the aggregate funds under the first tranche. From its share of the proceeds of the Term Loan, the Company repaid the $12,000,000 outstanding under the Facility. On April 8, 2022, the Company received approximately $31,950,000 from the second tranche.

The Term Loan contains a nominal interest rate of 10.25% and requires monthly interest payments until the maturity date. The Company is obligated to make principal payments in the amount of 7.5% of the then outstanding balance on both the 36th and 48th payment dates. The remaining principal of the Term Loan is due on the maturity date of February 10, 2027.

The Term Loan is subject to debt service ratio requirements, interest reserves, certain cross-corporate guarantees and defaults, subordination agreements and intercreditor agreements, along with a general corporate guarantee from the Company and is secured by certain real estate assets, cannabis licenses and other assets of the Company, Urbn Leaf and Loudpack.

The loan fees associated with the Term Loan are recorded as a reduction to the carrying amount and are being amortized as interest expense within the consolidated financial statements over the five-year term.

As at December 31, 2023, the outstanding balance less unamortized deferred financing costs was $75,351,031. As at December 31, 2023, unamortized deferred financing costs amounted to $2,163,790. As at December 31, 2022, the outstanding balance less unamortized deferred financing costs was $75,638,056. As at December 31, 2022, unamortized deferred financing costs amounted to $1,661,944.

16. Excise, Cultivation and Property Tax Liabilities

The Company has various payment plans with the California Department of Tax and Fee Administration ("CDTFA") related to excise and cultivation taxes. As at December 31, 2023 and December 31, 2022, the Company had $20,908,700 and $24,261,110 accrued for the excise and cultivation tax liabilities, respectively, of which approximately $13,890,509 and $16,900,000 related to penalties. The Company will apply with the CDTFA for relief of related penalties when the balance of principal and interest is paid in full.

In July 2022, Greenfield Organix entered into a term sheet with the City of Greenfield (the "City of Greenfield Note") for $2,500,000 related to prior year property tax obligations. The City of Greenfield applied credits for tax amounts already paid amounting to $388,182 and the Company paid $260,000 in July 2022 upon executing such term sheet. The remaining tax amount of $2,000,000 is payable over 36 equal monthly installments beginning on July 1, 2022. The first 12 monthly payments on the outstanding balance are interest free after which time, the balance will bear interest at a rate of 3% per annum. As at December 31, 2023 and December 31, 2022, the City of Greenfield Note amounted to $923,102 and $1,536,758, respectively.

17. Derivative Liabilities

The following table provides a reconciliation of the beginning and ending balance of derivative liabilities and the change in fair value of derivative liabilities:

		Warrant Liabilities
Balance as at December 31, 2021	$	779,643
Change in fair value of derivative liabilities		(964,259)
Effects of foreign exchange		185,593
Balance as at December 31, 2022		977
Issuance of warrants		2,084,752
Change in fair value of derivative liabilities		2,129,780
Balance as at December 31, 2023	$	4,215,509

Private Placement Offering Warrants

On February 18, 2021, the Company issued warrants to purchase SVS ("SVS Warrants") and warrants to purchase MVS ("MVS Warrants") (collectively, the "Private Placement Offering Warrants"), in connection with an upsized brokered private placement of units. The Private Placement Offering Warrants are classified as a liability based on the fixed-for-fixed criterion under IAS 32 - *Financial Instruments: Presentation*. As a result of the Mandatory Conversion and Reclassification, the MVS Warrants are now exercisable to acquire Common Shares using the corresponding amount of Common Shares using a ratio of 100 Common Shares per MVS. As a result of the Reclassification, the SVS Warrants are now exercisable to acquire Common Shares using the corresponding amount of Common Shares.

The Company used the Monte Carlo Model to estimate the fair value of the derivative liabilities at issuance and at each reporting date. The Monte Carlo Model uses certain Level 2 inputs in its valuation model. Level 2 inputs are inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices from observable market data) from observable market data.

The key Level 2 inputs used by management to determine the fair value are: (i) the expected future volatility in the price of the Company's Common Shares, (ii) the risk-free interest rate, and (iii) the expected life of the instruments.

The risk-free interest rate is based on data from the Federal Reserve Statistical Release and is extrapolated for interim periods. The expected lives are based on the expected lives of the instrument. Volatility was calculated by using the stock price returns from comparable public companies as there was insufficient trading history in the Company's shares.

As at December 31, 2023 and 2022, the Private Placement Offering Warrants had a fair value of $0 and $977, respectively. In February 2024, the Private Placement Offering Warrants expired. The following assumptions were used to value the Private Placement Offering Warrants as at December 31, 2022:

	December 31, 2022
Risk-free interest rate	4.46%
Exercise price - CAD	C$3.69
Share price - CAD	C$0.10
Expected volatility	114.16%
Expected remaining life	1.13 years
Fair value	$977

17. Derivative Liabilities (continued)

Pelorus Warrants

As discussed previously in Note 14, in conjunction with an Amendment, the Company granted 136,258,279 common share purchase warrants to Pelorus (the "Pelorus Warrants"), amounting to 40% of the Senior Secured Debt. The Pelorus Warrants are exercisable for a period of three years, with an exercise price that is adjusted based on a weighted-average dilution basis. Pelorus is prohibited from exercising the Pelorus Warrants if, upon exercise, Pelorus would beneficially own greater than 9.99% of the outstanding Common Shares of the Company. The Pelorus Warrants cannot be transferred to another party without the consent of the Company, unless the transfer is to an affiliate of Pelorus, or the Company is found to be in default of the Senior Secured Debt.

The Company holds an option to acquire (the "Call Option") the Pelorus Warrants at a 30% premium to the then current aggregate exercise price for all of the underlying Common Shares. The Company is required to provide Pelorus with at least 25 days' prior written notice of any prepayment of the Senior Secured Debt. Such prepayment notice shall include notice to Pelorus of whether the Company will elect or not elect to exercise the Call Option. Absent a prepayment in full of the Senior Secured Debt, the Company is required to provide Pelorus with written notice of whether it will elect or not to elect to exercise the Call Option at least 25 days prior to the maturity date of the Senior Secured Debt.

The Company also granted Pelorus an option to sell (the "Put Option"), so long as the Pelorus Warrants have not been exercised, the Pelorus Warrants to the Company at a 30% discount to the then current exercise price. Pelorus may exercise the Put Option by providing written notice to the Company at least 15 days prior to the prepayment or maturity date of the Senior Secured Debt.

If Pelorus fails to exercise the Put Option during such time period, the Put Option will be deemed void ab initio.

The Company used the Black-Scholes-Merton option valuation model to estimate the fair value of the derivative liabilities at issuance and at each reporting date. The Black-Scholes-Merton model uses certain Level 3 inputs in its valuation model. Level 3 inputs are unobservable inputs (i.e., a reporting entity's or other entity's own data). The key level 3 inputs used by management to determine the fair value are: (i) the expected future volatility in the price of the Common Shares and (ii) the risk-free interest rate, and (iii) the expected life of the instruments. The risk-free interest rate is based on data from the Federal Reserve Statistical Release and is extrapolated for interim periods. The expected lives are based on the expected lives of the instrument. Volatility was calculated by using the stock price returns from comparable public companies as there was insufficient trading history in the Common Shares.

	December 31, 2023	July 17, 2023
Risk-free interest rate	3.10%	3.71%
Exercise price - CAD	C$0.05	C$0.05
Call price- CAD	C$0.065	C$0.065
Put price- CAD	C$0.035	C$0.035
Share price - CAD	C$0.035	C$0.03
Expected volatility	124.00%	126.13%
Expected remaining life	4.58 years	5.00 years
Fair value - USD	$0.03	$0.02

18. Provisions

IRC §280E

Certain subsidiaries of the Company operate in the cannabis industry and are subject to IRC §280E, which prohibits businesses engaged in the trafficking of controlled substances (including cannabis as specified in Schedule I of the Controlled Substances Act) from deducting ordinary and necessary business expenses. This results in permanent tax differences resulting from normal business expenses which are deemed non-allowable under IRC §280E. Many of the central issues relating to the interpretation of IRC §280E remain unsettled, and there are critical tax accounting issues regarding the allocation of expenses to the cost of goods sold (thus avoiding disallowance as deductions under IRC §280E). IFRIC 23 provides guidance that adds to the requirements in IAS 12 by specifying how to reflect the effects of uncertainty in accounting for income taxes.

18. Provisions (continued)

The Company evaluated these uncertain tax treatments, using a probability-weighted approach to assess the range of possible outcomes as required in its adoption of IFRIC 23 and, although it strongly disagrees with the positions taken by the IRS and the findings of the U.S. Tax Court, the Company has determined that a reserve for an uncertain tax position should be recorded for all years subject to statutory review. The company has not recorded interest on the reserves for uncertain tax positions as income tax expense for the 2023 year.

The Company engaged external counsel to negotiate the settlement and subsequent payment of its potential liabilities under IRC §280E. On July 28, 2022, the Company entered into the IRS Agreement for PMACC's corporate tax returns for the fiscal years ended July 31, 2007 through July 31, 2012, described below, and the year ended December 31, 2020. This amount has been transferred from provision balance to income tax payable for the 2023 period as shown in the table below.

The Company does not expect any liabilities or payments resulting from the fiscal year 2016 case or SJW negotiation with the IRS, as described below, to be resolved within 12 months of the issuance of these consolidated financial statements. The Company has historically litigated and settled prior period tax liabilities for less than the outstanding balance, the prior settlements have not included penalties and the Company has continued to not accrue penalties associated with balances in litigation or settlement. The Company believes it is probable that the outstanding balances in litigation or negotiation with the IRS will be significantly reduced from initial assessment. The Company has recorded an uncertain tax position based on the unknown outcome of the settlement discussions. As at December 31, 2023 and 2022, the reserve totaled $20,213,223 and $21,152,172, respectively, a sum which includes the IRS Agreement and the separate tax proceedings described below.

In a U.S. Tax Court proceeding related to deductions barred by IRC §280E, the IRS issued a notice of deficiency disallowing all deductions taken in their entirety and asserting that PMACC owed $16,035,218 in additional taxes and penalties for fiscal 2016. The Company filed its initial petition in this case to the U.S. Tax Court on February 13, 2020. The IRS proposed a deficiency in tax of $13,362,682, of which the Company has accrued $4,303,183 in the current year. The company engaged external counsel to review the position for 2016 and determine the settlement reserve recorded above.

The U.S. Tax Court had stayed active litigation in this matter pending the Ninth Circuit's rendering a decision referenced above. With the adverse decision in the Ninth Circuit in April 2021, the stay is no longer in effect. External counsel for PMACC is in discussions with the IRS in respect to this matter.

SJW

SJW was involved in two separate tax proceedings. The first involves the 2010, 2011, and 2012 tax years, and in this case, the IRS asserted a tax deficiency of $2,120,215. The second proceeding involves the 2014 and 2015 tax years and in the second case the IRS asserted that SJW owed an additional $2,064,363 in taxes and penalties. Both proceedings involve substantially the same issues as the PMACC cases.

On February 17, 2021, the U.S. Tax Court ruled in favor of the Commissioner of Internal Revenue with respect to the cases for SJW. The Company appealed the U.S. Tax Court decisions on May 14, 2021. In an effort to resolve the matter as part of a global settlement, the Company withdrew its appeal. Since withdrawing the appeal, the Company has engaged in communication with the IRS to negotiate settlement and payment of the above referenced liabilities. The Company through its negotiations with the IRS has also included the 2020, 2021, and 2022 tax years as part of the negotiation and settlement. The roll forward presented below provides the additions to the provision balance related to the 2020, 2021, and 2022 tax years as part of the negotiation and settlement.

18. Provisions (continued)

Changes in the carrying amount of the provision for the years ended December 31, 2023 and 2022 was as follows:

Balance as at December 31, 2021	$ 36,051,249
Interest accrued	1,502,472
Settlement for IRS Agreement	(16,101,549)
Less payments made on IRS Agreement	(300,000)
Balance as at December 31, 2022 (current and non-current)	21,152,172
Interest accrued	1,971,683
Additions in 2023	2,663,528
Payments on PMACC Settlement note	(600,000)
Reclassification of PMACC Settlement Note to income tax payable	(4,900,000)
Other True-up	(74,159)
Ending provision as at December 31, 2023	20,213,224
Less: current portion	(20,213,224)
Non-current provision	$ -

19. General and Administrative Expenses

For the years ended December 31, 2023 and 2022, general and administrative expenses consisted of the following:

	2023	2022
Advertising and promotion	$ 1,034,988	$ 1,492,345
Banking and processing fees	940,515	2,504,236
Other general administrative	(212,457)	162,158
Office and general expenses	10,823,609	13,179,854
Salaries and benefits	20,892,534	25,365,988
Sales and marketing	254,195	1,141,874
Taxes and licenses	2,491,091	3,532,394
Third party distribution costs	4,608,911	-
Travel and entertainment	302,304	706,074
Total	$ 41,135,690	$ 48,084,923

20. Gain or Loss on Sale of Business

Sublime Machining

On May 13, 2022, the Company entered into a letter of intent to sell certain assets of Sublime Machining, including its California state manufacturing license, all necessary permits from the City of Oakland and Alameda County to conduct a cannabis business and all "as is" equipment and furnishings located in the Oakland facility needed to produce pre-rolls, vape cartridges and gummies.

As part of the integration with Loudpack, in May 2022 the Company moved Sublime's manufacturing operations from Oakland to Greenfield, California. In June 2022, the agreement was modified and the Company entered into a stock purchase agreement for the sale of all issued and outstanding common stock, $0.01 par value of Sublime Machining for total consideration of $200,000 (the "Sublime Machining Transaction").

As at December 31, 2022, the Company recognized a loss on sale of business in connection with the Sublime Machining Transaction in the amount of $7,167,558 for the write off of the property, plant and equipment, the intangible asset license value and intercompany balances.

UL Visalia

On August 21, 2023, the Company entered into an agreement to sell the ownership interest in UL Visalia, of which the Company owned an 80% ownership interest. UL Visalia holds a Cannabis Retailer License in the State of California and a local authorization to conduct a cannabis business in the unincorporated area of Tulare County, California. The sale of the 80% ownership interest of UL Visalia closed on December 22, 2023 for a total of $400,000 of which $15,000 was paid in cash and the remaining consideration of $385,000 is held in a note receivable by UL Holdings.

20. Gain or Loss on Sale of Business (continued)

UL Visalia (continued)

The note receivable is to be received in $5,000 payments each month. As of the year ended December 31, 2023, $385,000 was outstanding on the Visalia Note Receivable and is held by UL Holdings, Inc.

In July 2019, the Company purchased UL Visalia by entering into a Note Payable agreement for $500,000, of which, there was an outstanding balance of $247,943 prior to the Visalia Sale agreement. As part of the sale of UL Visalia, the outstanding balance of $247,943 has been written off and is now $0. All intercompany receivables and payables were alleviated as part of this sale. The Company recorded a gain on the sale of UL Visalia of $506,505, which is included in other income (expense) in the accompanying Consolidated Statements of Loss and Comprehensive Loss for the year ended December 31, 2023.

As at December 31, 2023, the Company recognized a gain on sale of business in connection with the UL Visalia Transaction in the amount of $253,923.

21. Employee Retention Credit ("ERC")

The Company received approximately $6,400,000 of ERC funds through the Coronavirus Aid, Relief and Economic Security Act. The ERC program was established to provide eligible employers with a credit against certain employment taxes for qualified wages paid to employees who were retained during the COVID-19 pandemic. The ERC program requires the Company to comply with certain conditions, including maintaining certain levels of employment and not reducing wages of certain employees. The Company recorded amounts received as a component of other income (expense) in the accompanying Consolidated Statements of Income (Loss) and Comprehensive Income (Loss).

22. Income Taxes

StateHouse is treated as a U.S. corporation for U.S. federal income tax purposes under IRC §7874 and is subject to U.S. federal income tax. However, for Canadian tax purposes, the Corporation is expected, regardless of any application of IRC §7874, to be treated as a Canadian resident company (as defined in the ITA) for Canadian income tax purposes. As a result, the Corporation will be subject to taxation both in Canada and the U.S. Notwithstanding the foregoing, it is management's expectation that StateHouse's activities will be conducted in such a manner that income from operations will be not subject to double taxation.

The Company's income tax expense and (benefit) for the years ended December 31, 2023 and 2022 was as follows:

	2023	2022 (Restated – Note 34)
Current tax	$ 20,096,199	$ 12,904,136
Deferred tax	(7,303,787)	(24,022,323)
Income tax expense (benefit)	$ 12,792,412	$ (11,118,187)

The net tax provision differs from that expected by applying the U.S. federal tax rate of 21.0% to net loss before income taxes mainly due to limitations on the deductibility of certain expenses for tax purposes under IRC §280E as well as fair value adjustments for biological assets and derivative liabilities.

22. Income Taxes (continued)

The net tax provision differs from that expected by applying the U.S. federal tax rate of 21.0% to net loss before income taxes for the following reasons:

	2023	2022 (Restated – Note 34)
Net loss before income taxes	$ (37,221,099)	$ (254,515,572)
Expected income tax benefit based on statutory rate	(7,816,431)	(53,448,270)
Adjusted to expected income tax expense		
Difference due to state taxes and foreign tax rate	(9,517,169)	(8,815,040)
Unpaid tax penalties and interest	3,997,545	1,811,800
Share-based compensation	-	1,016,775
§280E adjustment	13,406,499	16,211,473
Provision interest	1,971,682	1,502,472
Fair value change in derivative liability	802,152	(359,393)
Other expense not deductible for tax	(1,187,173)	22,732,846
Changes in benefit of tax asset not recognized	11,135,307	8,229,150
Income tax expense (benefit)	$ 12,792,412	$ (11,118,187)

Deferred taxes reflect the tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax values.

The following table summarizes the components of deferred taxes for the years ended December 31, 2023 and 2022. Deferred taxes reflects the tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax values. The following table summarizes the components of deferred taxes for the years ended December 31, 2023 and 2022:

	2023	2022 (Restated – Note 34)
Deferred tax assets		
Disallowed business interest expense	$ 113,051	$ 87,095
Net operating losses	242,666	-
Depreciation expense	348,151	-
Operating lease	751,837	68,436
Other deferred tax assets	30,595	-
Bad debt reserve	580,749	-
Biological assets	400,022	537,418
Total deferred tax assets	2,467,071	692,949
Deferred tax liabilities		
Intangible assets	(19,743)	(4,983,577)
Property, plant and equipment	-	(870,044)
Investments in P/S	(154,197)	-
Inventories	(227,494)	(77,478)
Total deferred tax liabilities	(401,434)	(5,931,099)
Net deferred tax assets (liabilities)	$ 2,065,637	$ (5,238,150)

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

Movements in the net deferred tax liabilities during the year ended December 31, 2023 and 2022, were as follows:

Balance, beginning of year	$ (5,238,150)
Recognized in loss	7,303,787
Net deferred tax liability from acquisitions (Note 3)	-
Balance, end of year	$ 2,065,637

22. Income Taxes (continued)

Gross deferred tax assets have not been recognized in respect of the following deductible temporary differences because it is not probable that future taxable profit will be available against which the Company can use the benefits:

	2023	2022 (Restated – Note 34)
Provision for expected credit losses	$ 3,749,262	$ 6,037,040
Non-capital losses carryforward - Canada	42,010,696	30,731,480
Federal net operating loss	47,902,917	44,700,583
State net operating loss	115,635,837	61,553,745
Intangibles	169,669	(16,693,046)
Property, plant and equipment	12,141,031	6,991,290
Non-deductible interest	-	3,534,476
Other assets	-	194,498
Investments, capital gain	1,008,669	74,610
Inventories	(762,379)	(368,941)
Capital losses	1,000,000	2,137,574
Right of usage	816,972	6,022,999
Resource pools - Mineral Properties	620,742	620,742
Discount on loans payable	1,890,570	1,890,570
Charitable contribution carryover	-	29,694
Stock options expense NQSO	8,184,578	1,285,536
Interest not deductible	13,530,086	2,041,518
Investments	(516,745)	417,314
Biological assets	1,646,261	2,080,424
Start-up costs	348,484	1,062,266
	$ 249,376,650	$ 154,344,372

The U.S. net capital losses in the amount of $1,000,000 will start expiring in 2024.

Utilization of U.S. net operating loss carryforwards may be subject to limitations in the event of a change in ownership as defined under U.S. IRC §382 and similar state provisions. An "ownership change" is generally defined as a cumulative change in the ownership interest of significant stockholders over a three-year period of more than 50 percentage points. The Company believes a change in ownership, as defined by U.S. IRC §382, has occurred. This will limit the Company's ability to reduce future income by net operating loss carryforwards. A formal §382 study has not been prepared, so the exact effects of the ownership change are not known at this time. A significant majority of the net operating loss carryforwards have not been recognized because it is not probable that future taxable profit will be available against which the Company can use the benefits and would not significantly impact tax expense due to the non-recognition of the net operating loss carryforwards.

The Company has income tax loss carryforwards that, if unused, will expire as at December 31:

	U.S.	Canada	Total
2034	$ 679,880	$ 2,098,296	$ 2,778,176
2035	245,969	-	245,969
2036	4,375,560	175,746	4,551,306
2037	8,547,044	159,769	8,706,813
2038	11,464,579	883,293	12,347,872
2039	16,301,317	3,306,885	19,608,202
2040	8,494,741	4,255,288	12,750,029
2041	5,397,395	2,749,686	8,147,081
2042	44,537,589	17,102,517	61,640,106
2043	19,954,822	11,279,216	31,234,038
Indefinite life	44,786,751	-	44,786,751
Total	$ 164,785,647	$ 42,010,696	$ 206,796,343

23. Share Capital

The following is a reconciliation of the issued and outstanding shares of the Company as at December 31, 2023 and 2022:

	Common Shares (formerly SVS)	MVS
Balance, December 31, 2021	39,525,407	425,971
Issuance of new shares	168,856,565	11,290
Issuance on settlement of RSUs	190,202	-
Issuance on exercise of stock options	291,407	-
Shares surrendered	(101,175)	-
Conversion of MVS to SVS	43,726,030	(437,260)
Balance, December 31, 2022	252,488,436	-
Issuance of new shares	3,463,229	-
Shares surrendered	(19,778)	-
Balance, December 31, 2023	255,931,887	-

As a result of the mandatory conversion and reclassification, completed on March 31, 2022, and July 25, 2022, respectively, the SVS Warrants and MVS Warrants are now exercisable to acquire Common Shares on economically equivalent terms using a ratio of one Common Share per SVS and 100 Common Shares per MVS.

In consideration for services, the Company paid Agents a cash commission equal to C$1,451,340 ($1,160,854) and issued the Agents an aggregate of 569,154 Broker Warrants ("Broker Warrants"). Each Broker Warrant was exercisable until February 18, 2022, into one SVS Unit at an exercise price of C$2.55 per SVS Unit. Upon exercise of a Broker Warrant, each underlying SVS Warrant was exercisable at C$3.69 per SVS Warrant until February 18, 2024. The Broker Warrants were not exercised and expired during February 2022. The Broker Warrants were valued on February 18, 2021 at $1,134,112 based on an implied share price of C$2.53 based on the Monte Carlo Model. The key assumptions used are discussed in Note 26.

On March 31, 2022, the Company completed the Mandatory Conversion of all MVS into SVS at a ratio of 100 SVS for each MVS outstanding. In addition, each holder of MVS Warrants became entitled to acquire 100 SVS for each MVS underlying its MVS Warrants, upon exercise of such MVS Warrants.

On March 1, 2022, the Company issued 60,000,000 SVS, valued at approximately $26,283,514, as part of the purchase consideration for Urbn Leaf Acquisition (Note 3).

On April 4, 2022, the Company issued 90,752,140 SVS, valued at approximately $42,517,795, as part of the purchase consideration for the Loudpack Acquisition (Note 3).

On April 4, 2022, the Company agreed to issue an aggregate of 1,443,493 SVS at a deemed issuance price of approximately C$0.72 per SVS to settle an aggregate of C$1,034,647 ($828,442) owing to certain advisors (the "Indebtedness") for advisory services provided to the Company in connection with the Urbn Leaf Acquisition and the Loudpack Acquisition.

Effective July 25, 2022, the Company completed the reclassification of its SVS to Common Shares.

During the year ended December 31, 2022, the Company issued 291,407 shares for the exercise of stock options by employees. There were no stock option exercises for the year ended December 31, 2023.

On October 27, 2023, the Company issued 1,170,584 common shares pursuant its purchase of an additional interest in FGW (Note 7).

During the year ended December 31, 2023, the Company issued an additional 2,292,645 shares for vested RSUs.

24. Contributed Surplus

Stock Options

Prior to June 30, 2020, the Company maintained an equity incentive plan (the "Old Plan") whereby certain key employees, officers, directors, consultants and advisors could be granted stock options, RSAs, RSUs, share appreciation rights, performance compensation awards, dividend equivalents and other share-based awards of the Company.

The stock options which were awarded under the Old Plan vest on a graded-vesting schedule, generally, over a two-year period and expire 10 years after the grant date. The Company uses a graded vesting schedule to record compensation expense, which results in greater compensation expense earlier in the vesting period after an award is granted. All stock options granted are settled in Common Shares.

If an employee terminates employment with the Company prior to awards vesting, the unvested awards are forfeited and the historical compensation expense for unvested options is reversed in the period of termination.

On June 30, 2020, the Company adopted an equity incentive plan (the "Plan") whereby certain key employees, officers, directors, consultants and advisors may be granted stock options, RSAs, RSUs, share appreciation rights, performance compensation awards, dividend equivalents and other share-based awards of the Company. The Plan was ratified by the Company's shareholders on August 4, 2020.

The RSUs granted under the Plan vest on each of the first, second, third and fourth anniversary of the date of grant. RSUs are forfeited upon a participant's termination of employment or resignation or removal as a Director during the applicable restriction period. The Company uses a graded vesting schedule to record compensation expense, which results in greater compensation expense earlier in the vesting period after RSUs are granted. The stock options which are awarded under the Plan vest on a graded-vesting schedule, generally, over a two-year period and expire 10 years after the grant date. The Company uses a graded vesting schedule to record compensation expense, which results in greater compensation expense earlier in the vesting period after an award is granted. All stock options granted are settled in Common Shares.

On January 17, 2022, the Company adopted an amended and restated equity incentive plan (the "A&R Plan") to amend and restate the Plan in order to increase the maximum number of SVS which may be allocated for issuance pursuant to Incentive Stock Options (as defined in the A&R Plan) to up to 23,355,026 SVS or such lesser amount as determined by the Board. The A&R Plan was ratified by the Company's shareholders on February 22, 2022.

The following table summarizes the stock option activities for the years ended December 31, 2023 and 2022:

	Number of options outstanding	Weighted average exercise price CAD $
Balance, December 31, 2021	4,624,152	1.51
Options exercised	(291,407)	0.05
Options expired/forfeited/cancelled	(4,558,190)	1.02
Options granted	21,700,000	0.49
Replacement options recognized	84,420	3.43
Balance, December 31, 2022	21,558,975	0.61
Options granted	5,400,000	0.04
Options expired/forfeited/cancelled	(5,344,733)	0.46
Balance, December 31, 2023	21,614,242	0.60

During the years ended December 31, 2023 and 2022, the Company recorded aggregate share-based compensation of $1,873,711 and $3,983,121 respectively, for all stock options vesting and vested during the period. The Company has elected to recognize forfeitures as an adjustment to compensation expense in the same period as the forfeitures occur.

During the year ended December 31, 2022, the Company received cash consideration of $15,883 for the exercise of 291,407 vested options. There were no exercises of options during the year ended December 31, 2023.

24. Contributed Surplus (continued)

On February 4, 2022, the Company issued 84,420 replacement options (the "Sublime Replacement Options") to certain existing holders of Sublime options in connection with the Sublime Acquisition (as defined below). The Company accounted for the Sublime Replacement Options in accordance with IFRS 2 - *Share-based Payment* and IFRS 3 - *Business Combinations* and recognized post-acquisition costs for share-based compensation of $916,112 related to the issuance of the Sublime Replacement Options.

On March 1, 2022, following closing of the Urbn Leaf Acquisition, the Company granted certain officers of the Company stock options (the "Urbn Leaf Options") to purchase an aggregate of 5,758,797 SVS to certain members of management and the Board. Each Urbn Leaf Option is exercisable to acquire one SVS at an exercise price of C$0.70 per SVS for a period of five years following the date of grant.

On April 4, 2022, following the closing of the Loudpack Acquisition, the Company granted options to purchase an aggregate of 9,401,203 SVS to certain members of the Board, management, employees and consultants. Each option is exercisable to acquire one SVS at an exercise price of C$0.75 per SVS for a period of five years following the date of grant.

On April 29, 2022, the Company granted options to purchase up to an aggregate 1,540,000 SVS to certain members of management and employees. Each option is exercisable to acquire one SVS at an exercise price of C$0.75 per SVS for a period of five years following the date of the grant.

On June 29, 2022, the Company granted options to purchase up to an aggregate 3,400,000 SVS to certain members of management and employees. Each option is exercisable to acquire one SVS at an exercise price of C$0.37 per SVS for a period of five years following the date of grant.

On July 25, 2022, the Company completed the Reclassification of its SVS to Common Shares. As a result of the Reclassification, each stock option to acquire SVS is now exercisable to acquire Common Shares.

On October 10, 2022, the Company granted options to purchase up to an aggregate 800,000 Common Shares to certain members of management and employees. Each option is exercisable to acquire one Common Share at an exercise price of C$0.25 per Common Share for a period of five years following the date of grant.

On November 24, 2022, the Company granted options to purchase up to an aggregate 800,000 Common Shares to certain members of management and employees. Each option is exercisable to acquire one Common Share at an exercise price of C$0.16 per Common Share for a period of five years following the date of grant.

On July 17, 2023, the Company granted options to purchase up to an aggregate 800,000 Common Shares to certain members of management and employees. Each option is exercisable to acquire one Common Share at an exercise price of C$0.50 per Common Share for a period of five years following the date of grant.

On September 28, 2023, the Company granted options to purchase up to an aggregate 4,600,000 Common Shares to certain members of management and employees. Each option is exercisable to acquire one Common Share at an exercise price of C$0.065 per Common Share for a period of five years following the date of grant.

The fair value of stock options granted by the Company during the years ended December 31, 2023 and 2022, under the A&R Plan, were estimated on the grant date using the Black-Scholes-Merton option pricing model with the relevant assumptions outlined in the table below. The expected volatility was estimated based on volatility ranges acceptable in practice. The expected life in years represents the period of time that options granted are expected to be outstanding. The risk-free rate was based on the Bank of Canada bond yield rate at the time of the grant of the award that approximated the expected life in years of the grant. Expected annual rate of dividends was assumed to be zero based on the fact that the Company has never paid cash dividends and does not expect to pay cash dividends in the foreseeable future.

24. Contributed Surplus (continued)

	For the years ended	
	December 31, 2023	**December 31, 2022**
Stock price at grant date	CAD .01 - .07	CAD 0.20 - 5.39
Exercise price at grant date	CAD .05 - .07	CAD 0.20 - 5.39
Expected life in years	3 to 4.5 years	1.5 to 6.5 years
Expected volatility	100%	100%
Expected annual rate of dividends	0%	0%
Risk-free annual interest rate	3.80% - 4.68%	0.25% - 3.92%

As at December 31, 2023, the options outstanding and exercisable for SVS and with the corresponding exercise price and weighted average remaining life was as follows:

Date of grant	Expiry date	Number of options outstanding	Number of options exercisable	Exercise price (CAD)	Weighted average remaining life
September 1, 2020	September 1, 2025	573,611	573,611	0.95	1.7
December 23, 2020	December 23, 2025	765,000	580,000	1.83	2.0
June 11, 2021	June 11, 2026	250,000	125,000	2.21	2.4
August 1, 2016	August 1, 2026	32,631	32,631	0.05	2.6
March 1, 2022	March 1, 2027	5,758,797	1,439,699	0.70	3.2
April 4, 2022	April 4, 2027	5,266,203	1,616,551	0.75	3.3
April 29, 2022	April 29, 2027	1,475,000	368,750	0.75	3.3
June 29, 2022	June 29, 2027	-	-	0.37	3.5
October 10, 2022	October 10, 2027	800,000	200,000	0.22	3.8
November 24, 2022	November 24, 2027	800,000	200,000	0.16	3.9
April 25, 2018	April 25, 2028	440,000	440,000	5.34	4.3
May 15, 2018	May 15, 2028	43,000	43,000	0.80	4.4
June 25, 2018	June 25, 2028	10,000	10,000	5.52	4.5
July 17, 2023	July 17, 2028	800,000	-	0.05	4.5
September 28, 2023	September 28, 2028	4,600,000	-	0.07	4.7
Total		21,614,242	5,629,242		

The weighted average remaining contractual life of outstanding options as at December 31, 2023 was 3.6 years.

Restricted share units ("RSUs")

On March 1, 2022, the Company granted an aggregate of 912,599 RSUs to certain members of management. The fair value on the grant date of the RSUs was valued at $489,627 (or $0.54 per RSU) based on the share price on the grant date.

On April 4, 2022, the Company granted an aggregate of 2,737,401 RSUs to certain members of management. The fair value on the grant date of the RSUs was valued at $1,641,003 (or $0.60 per RSU) based on the share price on the grant date.

On May 26, 2022, the Company granted an aggregate 450,000 RSUs to certain board members. The fair value on the grant date of the RSUs was valued at $129,837 (or $0.29 per RSU) based on the share price on the grant date.

On November 24, 2022, the Company granted an aggregate 400,000 RSUs to certain board members. The fair value on the grant date of the RSUs was valued at $47,966 (or $0.12 per RSU) based on the share price on the grant date.

On December 22, 2022, the Company granted an aggregate 150,000 RSUs to certain board members. The fair value on the grant date of the RSUs was valued at $12,000 (or $0.08 per RSU) based on the share price on the grant date.

On September 28, 2023, the Company granted 50,000 RSUs to a board member. The fair value on the grant date of the RSUs was valued at $2,595 (or $0.05 per RSU) based on the share price on the grant date.

24. Contributed Surplus (continued)

On October 3, 2023 the Company issued 367,000 RSU's to a board member for a compensation agreement further described in Note 28. The fair value on the grant date of the RSUs was valued at $22,758 (or $0.062 per RSU) based on the share price on the grant date.

On October 5, 2023 the Company issued 367,000 RSU's to a board member for a compensation agreement further described in Note 28. The fair value on the grant date of the RSUs was valued at $21,421 (or $0.058 per RSU) based on the share price on the grant date.

On November 11, 2023 the Company issued 367,000 RSU's to a board member for a compensation agreement further described in Note 28. The fair value on the grant date of the RSUs was valued at $9,369 (or $0.026 per RSU) based on the share price on the grant date.

On December 19, 2023 the Company issued 367,000 RSU's to a board member for a compensation agreement further described in Note 28. The fair value on the grant date of the RSUs was valued at $5,465 (or $0.015 per RSU) based on the share price on the grant date.

During the years ended December 31, 2023 and 2022, the Company recorded share-based compensation expense of $581,976 and $858,666 respectively, as a result of vested RSUs.

As at December 31, 2023, the Company had an aggregate of 2,325,000 RSUs outstanding, and as at December 31, 2022, the Company had an aggregate of 4,000,000 RSUs outstanding which includes grants prior to March 2022.

The following table summarizes the activity related to the RSUs for the years ended December 31, 2023 and December 31, 2022:

	Number of Units	Weighted average grant date fair value per RSU
Balance, December 31, 2021	-	
RSUs granted	4,700,000	0.49
RSUs vested	(200,000)	0.60
RSUs expired/forfeited/cancelled	(500,000)	0.60
Balance, December 31, 2022	4,000,000	
RSUs granted	1,518,000	0.04
RSUs vested	(2,593,000)	0.51
RSUs expired/forfeited/cancelled	(600,000)	0.28
Balance, December 31, 2023	2,325,000	

25. Reserve for Warrants

The activity for warrants outstanding for the years ended December 31, 2023 and December 31, 2022 is summarized as follows:

	Common Shares (formerly Subordinate Voting Shares)	
	Number of warrants outstanding	**Weighted average exercise price CAD $**
Balance, December 31, 2021	6,375,854	3.59
Conversion of MVS Warrants to Common Shares in connection with the Reclassification	7,959,200	3.69
Conversion of Bank Warrants to Common Shares in connection with the Reclassification	410,000	3.69
Issuance of warrants	2,000,000	3.12
Broker Warrants expired	(569,154)	2.55
Balance, December 31, 2022	16,175,900	3.62
Bank Warrants expired	(410,000)	3.69
Issuance of Pelorus Warrants (Note 14)	136,258,279	0.05
Balance, December 31, 2023	152,024,179	

	Multiple Voting Shares	
	Number of warrants outstanding	**Weighted average exercise price CAD $**
Balance, December 31, 2021	83,692	369.00
Conversion of MVS Warrants to SVS in connection with the Reclassification	(79,592)	369.00
Conversion of Bank Warrants to SVS in connection with the Reclassification	(4,100)	369.00
Balance, December 31, 2022 and 2023	-	

Warrants

On February 18, 2021, the Company issued 5,806,700 SVS and 79,592 MVS Warrants in connection with the Offering (Note 23). Each SVS Warrant entitles the holder thereof to purchase one SVS of the Company at an exercise price of C$3.69 per share until February 18, 2024. Each MVS Warrant entitles the holder thereof to purchase one MVS of the Company at an exercise price of C$369 per share until February 18, 2024. Following the Mandatory Conversion, all MVS Warrants previously exercisable into MVS, were exercisable into SVS. Each holder of MVS Warrants was then entitled to receive, upon exercise of the MVS Warrants, one hundred SVS per MVS Warrant at an exercise price of $369 per MVS Warrant. As a result of the Mandatory Conversion and Reclassification the MVS Warrants are now exercisable to acquire Common Shares on economically equivalent terms using a ratio of one Common Share per SVS.

The SVS Warrants and MVS Warrants are being accounted for as a derivative liability (Note 17).

On March 19, 2021, the Company issued 4,100 warrants (the "Bank Warrants") to purchase MVS to the Bank in connection with the Facility, exercisable at a price of C$369 per MVS, at any time prior to March 19, 2023.

As a result of the mandatory conversion and reclassification, the Bank Warrants were exercisable to acquire Common Shares on economically equivalent terms.

The Bank Warrants were accounted for as other assets and were amortized on a straight-line basis over the two-year term of the Facility. The Company amortized the remaining balance of the Bank Warrants in connection with repayment of the Facility. The Bank Warrants were not exercised and expired during March 2023.

On April 4, 2022, the Company issued 2,000,000 warrants (the "Loudpack Warrants") as partial consideration for the Loudpack Acquisition, which are exercisable to purchase SVS at a price of CAD $2.50 per SVS, any time prior to April 4, 2027.

25. Reserve for Warrants (continued)

As a result of the Reclassification, the Loudpack Warrants are now exercisable to acquire Common Shares on economically equivalent terms.

On July 17, 2023, as consideration for entering into an Amendment, the Company granted 136,258,279 common share purchase warrants to Pelorus, amounting to 40% of the Senior Secured Debt. The Pelorus Warrants are exercisable for a period of three years, with an exercise price that is adjusted based on a weighted-average dilution basis. Pelorus is prohibited from exercising the warrants if, upon exercise, Pelorus would beneficially own greater than 9.99% of the outstanding common shares of the Company.

The following table summarizes information of warrants outstanding as at December 31, 2023:

Date of expiry	Number of warrants outstanding	Weighted Average Exercise price (CAD)	Weighted Average Exercise price (USD)	Weighted average remaining life
February 18, 2024*	5,806,700	3.69	2.73	0.13
February 18, 2024*	7,959,200	3.69	2.73	0.13
November 29, 2026	2,000,000	3.12	2.31	2.92
July 31, 2028	136,258,279	0.05	0.04	4.59
Total	152,024,179	2.64	1.95	1.94

*In February 2024, the Private Placement Offering Warrants expired, unexercised.

26. Non-controlling Interests

On February 15, 2022, the Company entered into the Subsequent FGW Agreement, pursuant to which the Company agreed to acquire the Subsequent Shares, subject to certain material closing conditions, including approvals from regulatory authorities. On October 27, 2023, the Company completed the acquisition of the Subsequent Shares as per the Subsequent FGW Agreement and the FGW Note conversion. These transactions resulted in the Company increasing its FGW ownership to 80%. The Company also retains a right of first refusal to purchase, in its discretion, in whole or in part and in one or more closings, the remaining 20% of FGW, subject to regulatory approvals. Pursuant to the Subsequent FGW Agreement, the Company paid an aggregate purchase price of $1,300,650 for the Subsequent Shares in accordance with MVS priced at the greater of:

(i) the 30-day volume weighted average price of the SVS on the CSE ending on the day prior to closing of the purchase of the Subsequent Share multiplied by 100; (ii) CAD $150 per MVS; or (iii) such other price as may be approved by the CSE. Prior to closing the acquisition of the Subsequent Shares, the Subsequent FGW Agreement will be amended to reflect the occurrence of the Mandatory Conversion and Reclassification. As at December 31, 2023, the ownership percentage increased to 80%. This entity was previously consolidated, even whilst owning 21% due to Statehouse having control of the day-to-day operations of FGW.

On March 1, 2022, the Company acquired several non-controlling interests through the Urbn Leaf Acquisition.

On May 18, 2022, the Company entered into the Seaside Agreement pursuant to which the Company acquired the remaining 50% ownership interest in its Seaside, California retail dispensary (the "Seaside Acquisition"). The Seaside Acquisition was a result of a legal settlement (Note 14).

The Seaside Acquisition resulted in the Company owning all of the issued and outstanding securities of 680 Broadway Master, LLC, which owns the Seaside retail dispensary, bringing the Company's ownership interest in the Seaside retail dispensary to 100%. On August 26, 2023, the Company elected not to renew the cannabis license and closed operations of the Seaside dispensary (Note 32).

On March 13, 2023, the Company entered into the Lafayette Membership Assignment. Pursuant to the Lafayette Membership Assignment, the Company assigned its 90% interest in Lafayette back to the other remaining partners and made a $120,000 payment for back rent owed on the property in exchange for satisfaction of the Lafayette Note (Note 12 and 14).

26. Non-controlling Interests (continued)

As at December 31, 2023 and December 31, 2022, the Company held the following ownership interests:

December 31, 2023	
FGW Haight Inc.	80.00%
UL Chula Two LLC	51.00%
JLM Investment Group, LLC	66.66%
Banana LLC	75.00%
UL Benicia LLC	70.00%
December 31, 2022	
FGW Haight Inc.	21.00%
UL Chula Two LLC	51.00%
UL La Mesa LLC	59.56%
JLM Investment Group, LLC	66.66%
Banana LLC	75.00%
UL Benicia LLC	70.00%
UL Visalia LLC	80.00%
ULRB LLC	80.00%
Lafayette Street Property Management LLC	90.00%

The change in non-controlling interests for the years ended December 31, 2023, was as follows:

Balance, December 31, 2021	$	2,857,465
Purchases of businesses - initial equity related to non-controlling interests		896,521
Purchase of remaining interest of Seaside in connection with the Seaside Acquisition		(282,748)
Share of loss for the year		(569,323)
Balance, December 31, 2022		2,901,915
Share of loss for the year		(133,150)
Exercise of call option for FGW Haight transaction		(843,570)
Conversion of debt for FGW Haight transaction		(820,999)
Change in ownership of non-controlling interests		(54,975)
Assignment of membership interest		140,594
Balance, December 31, 2023	$	1,189,815

27. Net Loss Per Share

Basic loss per share is calculated by dividing net profit or loss attributable to ordinary equity holders of the Company (the numerator) by the weighted average number of ordinary shares outstanding (the denominator) during the period. For purposes of calculating loss per share, the dilutive effect of outstanding MVS is converted into 100 SVS on a weighted-average basis for the number of days the MVS are outstanding.

On March 31, 2022, the Company completed the Mandatory Conversion of all MVS into SVS at a ratio of 100 SVS for each MVS outstanding. On July 25, 2022, the Company completed the Reclassification whereby the Company reclassified its SVS to Common Shares (Note 23).

The following is a reconciliation for the calculation of basic and diluted loss per share for the years ended December 31, 2023 and 2022:

		2023		2022
Net income (loss) attributable to the Company	$	(49,880,361)	$	(242,828,062)
Diluted weighted average number of shares outstanding		253,369,754		213,813,888
Basic and diluted loss per share	$	(0.20)	$	(1.14)

28. Related Party Transactions and Key Management and Director Compensation

(a) Key Management and Director Compensation

Key management includes directors and officers of the Company. Total compensation (comprised of salaries, benefits, one-time bonuses and share-based compensation) awarded to key management for the years ended December 31, 2023 and 2022, was as follows:

	2023	2022
Short-term employee benefits, including salaries and director fees	$ 2,006,271	$ 2,311,690
Share-based compensation - Directors and Executives	2,455,687	3,486,067
Total	$ 4,461,958	$ 5,797,757

As at both December 31, 2023 and December 31, 2022, $202,540 was payable to Will Senn ("Mr. Senn"), Chief Corporate Development Officer, for deferred compensation.

As at December 31, 2023 and December 31, 2022, $176,050 and $164,567, respectively, was payable to the directors for quarterly director fees.

All amounts outstanding are unsecured, non-interest bearing and due on demand.

(b) Related Parties

The Company did not have any purchases of goods or services with related parties during the years ended December 31, 2023 and 2022.

(c) Other Related Parties

On July 19, 2021, the Company entered into two consulting agreements with Entourage Effect Capital ("Entourage") in exchange for cash compensation. Pursuant to the terms of the first consulting agreement with Entourage, Matt Hawkins ("Mr. Hawkins") agreed to provide management services as Interim Chief Executive Officer ("CEO") of the Company. Pursuant to the terms of the second consulting agreement with Entourage, Entourage agreed to provide business and executive management services related to the Company's retail, wholesale and manufacturing operations. In connection with the Urbn Leaf Acquisition, the Company announced the resignation of Mr. Hawkins as Interim CEO and the appointment of Edward Schmults as CEO. As at December 31, 2023 and December 31, 2022, a total of $45,000 was payable to Entourage for business and executive management services under the second consulting agreement.

An immediate family member of Mr. Senn was employed by the Company. Short term employee benefits including salary expense during the years ended December 31, 2023 and 2022 was $0 and $88,427, respectively. As at both December 31, 2023 and December 31, 2022, a total of $94,087 was payable for deferred compensation.

Lafayette leases a building in Stockton, California in which an officer of the Company owns a 45% interest in the entity that owns the building. On March 13, 2023, the Company entered into the Lafayette Membership Assignment. Pursuant to the Lafayette Membership Assignment, the Company assigned its 90% interest in Lafayette back to the other remaining partners and made a $120,000 payment for back rent owed on the property in exchange for satisfaction of the Lafayette Note (Note 12 and 15).

UL La Mesa LLC leases a building in La Mesa, California in which an immediate family member of an officer of the Company owns a 36.25% interest in the entity that owns the building. During the years ended December 31, 2023 and 2022 the Company paid $144,540 and $130,000, respectively, for rent expense.

ULBP Inc. leases a building in La Mesa, California in which an officer of the Company owns a 50% interest in the entity that owns the building. During the twelve months ended December 31, 2023, the Company paid $634,919 for rent expense. During the twelve months ended December 31, 2022 the Company paid $63,469 for rent expense.

28. Related Party Transactions and Key Management and Director Compensation (continued)

(a) Key Management and Director Compensation (continued)

On January 9, 2023, the Company entered into a management services agreement with UL Management LLC and PDLP JV, LLC (the "Urbn Leaf WeHo Service Agreement") to manage and operate a dispensary under the Urbn Leaf brand in West Hollywood, California ("Urbn Leaf WeHo"). The Urbn Leaf WeHo Service Agreement has an initial term of five years and is subject to three automatic renewals of five years for a total of 20 years. The Company had a right to acquire a 50% ownership in PDLP JV, LLC for no additional consideration. On December 30, 2022, the Company exercised its right to acquire a 50% ownership in PDLP JV, LLC and is awaiting final approval from the City of West Hollywood (Note 33), and the Company expects for approval to be finalized during the year ended December 31, 2024. The total due to PDLP as of the year ended December, 31, 2023 was $1,603,703 and is included in due to related parties on the consolidated statements of financial position.

As at December 31, 2023, a security deposit of $140,000 was owed to the UL San Jose's landlord and is included in due to related parties on the consolidated statements of financial position.

As at December 31, 2023, a total of $44,035 was owed to 8939 La Mesa Partners, a related party, and is included in due to related parties on the consolidated statements of financial position.

As at December 31, 2023, a total of $428,806 was owed to Hillside Partners, a related party, and is included in due to related parties on the consolidated statements of financial position.

As at December 31, 2023, a total of $108,526 was owed to Paragon Partners, a related party, and is included in due to related parties on the consolidated statements of financial position.

On September 19, 2023, the Company entered into an agreement with The Scott Company, LLC ("TSC") for professional services in exchange for $15,000 and 367,000 RSUs on a monthly basis.

The Company granted 734,000 RSU's on September 28, 2023 for the months of September and October. Additional RSU's were granted totaling 734,000 on December 5, 2023 for the months of November and December. All RSU's fully vest on the grant date. TSC is owned by a related party, James Scott, who is a member of the Board of Directors.

29. Commitments and Contingencies

Employee Retention Credit ("ERC")

As discussed in Note 21, the Company received approximately $6,400,000 of ERC funds through the Coronavirus Aid, Relief and Economic Security Act. The ERC program requires the Company to comply with certain conditions, including maintaining certain levels of employment and not reducing wages of certain employees. The Company has adhered to all requirements of the program and believes it will not be liable to pay back any portion of the ERC. However, the company can provide no guarantee that they will not be required to repay the credit. The Company will continue to assess these matters each period and record the appropriate amounts in connection with any changes to the status of the ERC compliance.

IRC §280E

Many of the central issues relating to the interpretation of IRC §280E remain unsettled and there are critical tax accounting issues regarding the allocation of expenses to the cost of goods sold (thus avoiding disallowance as deductions under IRC §280E) that have never been addressed by any Treasury regulation or court case. IFRIC 23 provides guidance that adds to the requirements in IAS 12 by specifying how to reflect the effects of uncertainty in accounting for income taxes. The Company evaluated its uncertain tax treatments using a probability-weighted approach to assess the range of possible outcomes as required in its adoption of IFRIC 23 and, although it strongly disagrees with the findings of the IRS and the U.S. Tax Court, determined that a reserve for an uncertain tax position should be recorded.

29. Commitments and Contingencies (continued)

On February 17, 2021, the U.S. Tax Court ruled in favor of the Commissioner of Internal Revenue with respect to SJW to disallow all of SJW's deductions pursuant to IRC §280E for all the years at issue. On May 14, 2021, the Company appealed the U.S. Tax Court ruling. In an effort to resolve the matter as part of a global settlement, the Company withdrew its appeal. On June 28, 2022, the Company entered into the IRS Agreement related to certain federal tax returns of PMACC (Note 18).

Pending Litigation

From time to time, the Company may become defendants in legal actions and the Company intends to take appropriate action with respect to any such legal actions, including defending itself against such legal claims as necessary. As the Company continues to operate, it may become party to additional litigation matters and claims. The outcomes of litigation and claims cannot be predicted with certainty, and the resolution of any future matters could materially affect the Company's financial position, results of operations or cash flows.

Sublime Concentrates, Inc. v. Sublime Machining, Inc.

On September 18, 2018, Sublime Machining, Inc. entered into a trademark assignment agreement with Sublime Concentrates, Inc. (the "Counterparty") for use of certain trademarks. The Counterparty filed suit against Sublime Machining, Inc. alleging breach of contract regarding the nonpayment for the transfer of the trademark assets. On February 23, 2023, the Company entered into the Fang Settlement Agreement, which calls for certain cash payments to be made to the Company in exchange for the release of any claims (Note 8).

Joshua Bubeck v. StateHouse Holdings Inc., Harborside Inc., UL Management LLC, UL Holdings Inc., Edward Schmults, and Will Senn

On August 25, 2022, the Company received a complaint on behalf of a former executive, Joshua Bubeck. The complaint alleges various wage and hour claims, as well as breach of contract. This matter has been referred to the Company's insurance carrier and counsel. It is the intent of the Company to prevail or settle the matter, however, it is not possible to determine or predict the scope of any resolution at this time.

Denise M. Harbison v. Twyla Williams; and Uprooted, Inc.

On or about September 9, 2022, the company received a complaint that was filed August 26, 2022, related to a vehicle accident. The complaint alleges two claims of negligence, and negligence per se. This matter has been referred to the company’s insurance provider. On March 31, 2023, the policy limits were offered to resolve the claim. On September 7, 2023, a request for dismissal was filed and approved.

Norguard Insurance Company v. Calgen Trading, Inc. dba Urbn Leaf and 909 West Vista Way LLC

On September 15, 2022, the Company received a complaint alleging that one of the Company's contracted security guards was injured on the job in May of 2020. The plaintiff, who is the worker's compensation insurance carrier for the contracted security company, is seeking compensatory damages in connection with this complaint. This matter has been referred to the Company's insurance carrier. It is the intent of the Company to prevail or settle the matter, however, it is not possible to determine or predict the scope of any resolution at this time.

Global Alliance for Cannabis Commerce v. UL Holdings Inc.

On December 30, 2022, the Company received a summons and compliant from the Global Alliance for Cannabis Commerce alleging breach of contract and accounts stated. On March 23, 2023, the Company entered into a settlement agreement, which calls for certain cash payments to be made by the Company in exchange for the release of any claims.

29. Commitments and Contingencies (continued)

Christopher Francy v. UL Holdings Inc and William Senn

On June 23, 2023, UL Holdings Inc ("UL Holdings") received a demand letter (the "Francy Demand Letter") from Christopher Francy ("Mr. Francy"), a former 680 Broadway Master LLC joint venture partner. The Francy Demand Letter alleges that the company owes payment to Mr. Francy pursuant to the terms of a settlement agreement entered into between the UL Holdings and Mr. Francy on March 8, 2022. In addition, on September 8, 2023, UL Holdings received a summons and complaint on behalf of Mr. Francy alleging breach of contract. On January 31, 2024, the parties executed a settlement agreement, pursuant to which UL Holdings agreed to continue payments over time.

Maria Adan and Other Individuals Similarly Situated v. LPF RE Manager, LLC

In October 2019, Loudpack received a summons regarding wage and hour claims related to Loudpack's security screening procedures. The parties have executed a class action settlement agreement and have agreed to a maximum settlement amount. The settlement payments in connection with such settlement agreement must be paid over biweekly payments starting 30 days after final approval from the court is obtained, which is expected to be in late 2023. On June 29, 2022, the court granted preliminary approval of the settlement. On April 24, 2023, the Company received final judgment in connection with this claim, pursuant to which the Company agreed to make settlement payments over time. The Company has accrued the settlement as part of accounts payable and accrued liabilities in the accompanying Consolidated Statements of Financial Position.

Jose Zamudio and Sandra Gasca v. LPF RE Manager, LLC et al

In February 2020, LPF RE Manager, LLC was served with a summons for a third wage and hour claim related to Loudpack's security screening procedures. On April 13, 2023, the parties executed a settlement agreement, pursuant to which the Company agreed to make settlement payments over time. The Company has accrued the settlement as part of accounts payable and accrued liabilities in the accompanying Consolidated Statements of Financial Position.

Abigail O'Flaherty v. Greenfield Prop Owner II, LLC and Greenfield Organix

In September 2020, Greenfield Prop Owner II, LLC received a complaint alleging personal injury damages arising from a car accident on May 24, 2019 involving a Company owned vehicle. Loudpack tendered a claim with its insurance provider and is being defended by panel counsel retained through such insurance provider. On October 20, 2023, Loudpack received a notice of entry of dismissal in connection with the matter and was advised that a settlement between the parties had been finalized.

Gregory Bannon v. Steven Swanson; Greenfield Prop Owner II, LLC

On November 23, 2021, Loudpack was served a complaint alleging personal injury and property damage. On July 18, 2022, plaintiff's counsel sent a statutory offer to compromise, and the parties are in process of negotiating a settlement amount. The Company was notified that the matter was settled as of September 19, 2022. The court had scheduled a Compliance Hearing regarding Dismissal for December 12, 2022. The compliance hearing was subsequently moved to March 9, 2023 and was continued by the court until May 16, 2023. On May 3, 2023, the Company received a copy of the release of all claims and the request for dismissal of this matter.

Elliot Espinoza v. Eaze Technologies; Cura Cannabis Solutions; Select; Kingpen; Loud Pack Farms; Loudpack, Inc; Loud Pack Legendz LLC; Loud Pack Legendz, Inc.; et al.

In September 2021, Loudpack was served with a complaint for compensatory damages alleging claims for product liability, misrepresentation, and negligence. The plaintiff has alleged that in January 2019, he ingested Kingpen Skywalker OG and Select Adjustable Pro vaporizer products and had an adverse allergic reaction to the products resulting in serious bodily injury. Loudpack tendered a claim with its insurance carrier to assist in the defense of this matter. On December 21, 2023, the parties executed a settlement agreement, pursuant to which Loudpack agreed to make a settlement payment to the plaintiff to resolve all claims.

29. Commitments and Contingencies (continued)

Robby Castillo Ordonez and Jessica Carolina Hernandez Rodriguez de Castillo v. Holistic Healing Alternative, Inc., LP-KP IP Holdings, LLC and Greenfield Organix

On July 25, 2022, the Company was served with a summons and complaint alleging a breach of statutory obligation, negligent exercise of retained control, premises liability, civil harassment, Bane civil rights act and loss of consortium. The Company denies any direct or indirect involvement with the plaintiff's claims, or any potential liability in this matter. This matter has been referred to the Company's external counsel and insurance carrier. It is the intent of the Company to prevail or settle the matter, however, it is not possible to determine or predict the scope of any resolution at this time.

Monterey County Office of the Assessor v. Greenfield Prop Owner II, LLC

On or about October 4, 2021, Loudpack received a letter from the Monterey County Office of the Assessor regarding an appeal of supplemental assessments due to an increased assessed value for the Company's Cherry Avenue property in Greenfield. This matter has been referred to the Company's external counsel. It is the intent of the Company to prevail or settle the matter, however, it is not possible to determine or predict the scope of any resolution at this time.

Fusion LLF, LLC v. StateHouse Holdings Inc., formerly known as Harborside Inc.; Greenfield Organix; and ULBP Inc.

On or about August 26, 2022, the Company received a demand letter from Fusion LLF, LLC regarding a receivable for entities Greenfield Organix and Humboldt Partner Group, Inc. The letter demands immediate payment for a past due balance. On January 3, 2023, the Company received a summons and complaint from Fusion LLF, LLC alleging breach of contract, account stated and right to attach order and writ of attachment regarding an unpaid balance. It is the intent of the Company to prevail or settle the matter, however, it is not possible to determine or predict the scope of any resolution at this time.

Rocky Willeford, individually and on behalf of all others similarly situated v. Greenfield Organix and LPF JV Corporation

On November 2, 2022, the Company received a summons and complaint alleging that Greenfield Organix and LPF JV Corporation had mislabeled product and that a claimant is seeking damages. It is the intent of the Company to prevail or settle the matter, however, it is not possible to determine or predict the scope of any resolution at this time.

Kate Pellacani v. ULBP Inc.

On April 12, 2023, ULBP Inc. received a complaint on behalf of a former employee Kate Pellacani. The complaint alleges that Ms. Pellacani was misclassified as an exempt employee resulting in unpaid wages and penalties. It is the intent of the Company to prevail or settle the matter, however, it is not possible to determine or predict the scope of any resolution at this time.

Cynthia Summers v. UL San Jose LLC

On December 18, 2023, UL San Jose LLC (“ULSJ") received a complaint alleging successor liability from Cynthia Summers, a former employee of DFWS Inc., an entity which previously held the retail store location purchased through receivership by ULSJ in 2020. On April 3, 2024, the ULSJ received notice that the matter was dismissed without prejudice.

Payne’s Distribution LLC dba Leef Distribution v. Greenfield Organix

On October 20, 2023, the Greenfield Organix received a summons and complaint from Payne’s Distribution LLC (dba Leef Distribution). The complaint alleges breach of written contract, reasonable value, open book account, and account stated regarding a debt owing. On January 17, 2024, the parties executed a settlement agreement, pursuant to which Greenfield Organix agreed to make settlement payments over time.

29. Commitments and Contingencies (continued)

Beacon Securities Limited v. StateHouse Holdings Inc., LPF JV Corporation, LPF JV LLC, and UL Holdings Inc.

On March 6, 2024, StateHouse Holdings Inc received a statement of claim on behalf of Beacon Securities Limited ("Beacon"), a former financial advisor to LPF JV, a wholly owned subsidiary of StateHouse, alleging that StateHouse did not pay Beacon an advisory fee contractually owed to Beacon. It is the intent of the Company to settle the matter, however, it is not possible to determine or predict the scope of any resolution at this time.

Global Assets, Liens, and Foreclosures

On March 26, 2024, Statehouse received a demand letter and notice of debt assignment from Global Assets, Liens, and Foreclosures ("GALF") on behalf of HERBL Inc., alleging a debt that has been assigned to GALF. It is the intent of the company to prevail or settle the matter, however, it is not possible to determine or predict the scope of any resolution at this time.

Goldberg Weprin Finkel Goldstein LLP

On June 3, 2024, StateHouse Holdings Inc. received a demand from Goldberg Weprin Finkel Goldstein LLP, a former legal vendor to LPF JV Corporation, alleging unpaid invoices. It is the intent of StateHouse Holdings Inc. to prevail or settle the matter, however, it is not possible to determine or predict the scope of any resolution at this time.

UL Holdings Inc. v. 2220 NBC, LLC, and NBC Multinational Cultivation Company LLC

On January 8, 2024, UL Holdings filed a complaint against 2220 NBC, LLC, and NBC Multinational Cultivation Company LLC, note obligors to UL Holdings, alleging breach of note, money lent and received, foreclosure of collateral, alter ego, and fraudulent transfer, regarding an unpaid balance. It is the intent of the Company to prevail or settle the matter, however, it is not possible to determine or predict the scope of any resolution at this time.

Employment Agreements

Certain of the Company's employees have employment agreements under which the Company is obligated to make severance payments, accelerate vesting of stock options and provide other benefits in the event of the employee's termination, change in role or a change in control as defined in such agreements.

30. Capital Management

The Company's objectives when managing its capital are to ensure that there are adequate capital resources to safeguard the Company's ability to continue as a going concern, meet capital expenditures required for its continued operations, and to maintain a flexible capital structure which optimizes the cost of capital within a framework of acceptable risk. The Company manages its capital structure and adjusts it as appropriate given changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust its capital structure, the Company may issue new shares, issue new debt or acquire or dispose of assets. With the exception of certain restrictive covenants included in the Carryover Notes, Senior Secured Debt and Term Loan (Note 14 and 15), the Company is not subject to externally imposed capital requirements. The Board does not establish quantitative criteria related to a return on capital for management, but rather relies on the management team's expertise to sustain future development of the business.

30. Capital Management (continued)

Management has chosen to mitigate the risk and uncertainty associated with raising additional capital within current economic conditions by:

(i) minimizing discretionary disbursements;

(ii) reducing operating expenditures throughout the Company; and

(iii) exploring alternative sources of liquidity.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable. There have been no material changes to the Company's capital management approach during the years ended December 31, 2023 and 2022.

31. Financial Risk Management

The Company is exposed to a variety of financial instrument related risks. Management, in conjunction with the Board, mitigates these risks by assessing, monitoring and approving the Company's risk management processes.

(a) Liquidity Risk

Liquidity risk is the risk that the Company will not have sufficient cash resources to meet its financial obligations as they become due. The Company manages its liquidity risk by reviewing its capital requirements on an ongoing basis.

The Company's liquidity and operating results may be adversely affected if the Company's access to capital markets is hindered, whether as the result of a downturn in stock market conditions generally or related to matters specific to the Company. The Company generates cash flow primarily from its operating and financing activities.

As at December 31, 2023 and December 31, 2022, the Company had a cash and restricted cash balance of $2,429,973 and $3,419,112, respectively, to settle current liabilities of $132,489,464 and $124,283,888, respectively. The higher amount of current liabilities as at December 31, 2023 is primarily due to debt (Note 14) and the Company's excise, cultivation and property tax liabilities (Note 16).

In addition to the commitments outlined in Note 11, *Right-of-use Assets and Lease Liabilities*, and Note 29, *Commitments and Contingencies*, the Company has the following contractual obligations as at December 31, 2023:

	Less than 1 Year	1 to 3 Years	4 to 5 Years	> 5 Years	Total
Accounts payable	$ 24,340,272	-	-	-	$ 24,340,272
Accrued liabilities, payroll and loyalty rewards program	14,937,313	-	-	-	14,937,313
Accrued local and sales taxes	4,771,732	-	-	-	4,771,732
Notes payable	703,943	29,118,598	15,100,000	40,000	44,962,541
Excise, cultivation and property tax liabilities	17,884,700	3,024,000	-	-	20,908,700
IRS Agreement	600,000	1,200,000	1,200,000	1,950,000	4,950,000
Term Loan	-	75,351,031	-	-	75,351,031
Lease Liability	1,402,097	9,046,087	9,043,149	3,037,685	22,529,017
	$ 64,640,057	$ 117,739,716	$ 25,343,149	$ 5,027,685	$ 212,750,606

The Company had the following contractual obligations as at December 31, 2022:

	Less than 1 Year	1 to 3 Years	4 to 5 Years	> 5 Years	Total
Accounts payable and accrued liabilities	$ 44,411,826	$ -	$ -	$ -	$ 44,411,826
Notes payable	8,577,312	27,163,699	100,000	40,000	35,881,011
Excise, cultivation and property tax liabilities	24,717,641	1,080,227	-	-	25,797,868
IRS Agreement	600,000	1,800,000	1,200,000	1,350,000	4,950,000
Term Loan	-	5,797,500	5,362,688	66,139,812	77,300,000
	$ 78,306,779	$ 35,841,426	$ 6,662,688	$ 67,529,812	$ 188,340,705

31. Financial Risk Management (continued)

The Company manages liquidity risk by maintaining adequate cash reserves and by continuously monitoring forecasted and actual cash flows. If insufficient liquidity exists, the Company may pursue various debt and equity instruments for either short or long-term financing of its operations.

(b) Credit Risk

Credit risk is the risk of potential loss to the Company if a customer or third party to a financial instrument fails to meet its contractual obligations. The Company's credit risk is primarily attributable to cash, accounts receivable, notes receivable and deposits and other assets, which expose the Company to credit risk should the borrower default upon maturity of the instruments. Cash and restricted cash are primarily held with reputable banks, and at secure facilities controlled by the Company.

Management believes that the credit risk concentration with respect to financial instruments included in cash, restricted cash and accounts receivable is minimal.

(c) Market Risk

(i) Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company is exposed to interest rate volatility as the Company's Senior Secured Debt has a variable interest rate of one-month SOFR, plus 12.5%, with a SOFR floor of 4.5% (Note 14). As at December 31, 2023, if market interest rates had been 100 basis points higher with all other variables held constant, post-tax profit for the year would have been $367,449 lower as a result of higher interest expense.

(ii) Foreign Exchange Risk

Foreign exchange risk is the risk that the Company will be subject to foreign currency fluctuations in satisfying obligations related to its foreign activities. The Company's main operations are based in the U.S., and the majority of its business is transacted in U.S. Dollars. The Company's primary exposure to foreign exchange risk and rate fluctuations relates to bank deposits held in Canada and transactions denominated in Canadian dollars.

As of December 31, 2023, and 2022, the Company had no hedging agreements in place with respect to foreign exchange rates. The Company has not entered into any agreements or purchased any instruments to hedge possible currency risks at this time as it deems its foreign currency exposure to be immaterial.

(iii) Equity Price Risk

The Company is exposed to price risk with respect to equity prices. Equity price risk is defined as the potential adverse impact on the Company's earnings due to movements in individual equity prices or general movements in the level of the stock market or the cannabis sub-market. The Company's investments are subject to fluctuations in fair value arising from changes in the equity markets.

(d) Asset Forfeiture Risk

As the cannabis industry remains illegal under U.S. federal law, any property owned by participants in the cannabis industry which is used in the course of conducting such business, or is derived from the proceeds of such business, could be subject to seizure by law enforcement and subsequent civil asset forfeiture. Even if the owner of the property were never charged with a crime, the property in question could still be seized and subject to an administrative proceeding by which, with minimal due process, it could be subject to forfeiture.

31. Financial Risk Management (continued)

(e) Banking Risk

Notwithstanding that a majority of states in the United States have legalized cannabis for either adult or medical use, and the passage of the SAFE Banking Act by the U.S. House of Representatives, there has been no change in U.S. federal banking laws related to the deposit and holding of funds derived from activities related to the cannabis industry. Given that U.S. federal law provides that the production and possession of cannabis is illegal under the Controlled Substances Act, there is a valid argument that banks cannot accept funds for deposit from businesses involved in the cannabis industry.

Accordingly, due to the present state of the laws and regulations governing financial institutions in the U.S., only a small percentage of banks and credit unions offer financial services to the cannabis industry. Although the Company has strong relationships with several banking partners, regulatory restrictions make it extremely difficult for any cannabis company to maintain or enter into banking relationships with U.S. federally regulated entities. Additionally, U.S. federal prohibitions on the sale of cannabis may result in cannabis manufacturers and retailers being restricted from accessing the U.S. banking system and they may be unable to deposit funds in federally chartered banking institutions.

While the Company does not anticipate material impacts from dealing with banking restrictions, additional banking restrictions could nevertheless be imposed that would result in existing deposit accounts being closed and/or the inability to make further bank deposits. The inability to open bank accounts would make it more difficult for the Company to operate and would substantially increase operating costs and risk.

32. Segmented Information

The Company's operations comprise one reportable segment comprised of multiple revenue streams engaged in the cultivation, branding, manufacturing, wholesale distribution and retail sale of cannabis and cannabis products within the U.S. All revenues were generated in the United States for the years ended December 31, 2023, and 2022 and all property, plant and equipment and intangible assets are located in the United States.

In 2023, the Company reevaluated its CGU's and segments in light of the change of its operations as the Company better integrates the Urbn Leaf and Loudpack operations into the organization following the acquisition in the prior year. The change resulted in the Company moving to one segment and one CGU, in light of the integration of the acquisition from prior year and the intentional move to rationalize the operations to maximize the economic benefits of vertical integration. As a result, and based on the Chief Operating Decision Maker (CODM), the Company changed its segments to move to one operating and reportable segment, in addition to one CGU. Revenues were as follows:

	For the twelve months ended	
$ in thousands	**December 31, 2023**	**December 31, 2022**
Retail, net	$ 53,647	$ 62,981
Branded wholesale and manufacturing revenue, net	43,965	40,669
Cultivation revenue, net	2,930	4,598
Total net revenue	$ 100,542	$ 108,248

33. Subsequent Events

The Company has evaluated subsequent events through July 31, 2024.

Pelorus Debt Agreement

On January 31, 2024, the Company entered into the eleventh omnibus agreement of the loan agreement to correct a scrivener's error that erroneously indicated the requirement of a $1,000,000 pre-payment on February 1, 2024.

33. Subsequent Events (continued)

Sale of LCGLORDIS2 LLC

On April 26, 2024, the Company closed on the sale of LCGLORDIS2 LLC. LCGLORDIS2 LLC was listed as held for sale as of December 31, 2023.

Entity Dissolutions

The Company dissolved several entities during 2024 including: UL Benicia, LLC dissolved on February 5, 2024, Ocean Ranch LPFN, LLC dissolved on May 13, 2024, Oakland Machining Supply SLB dissolved on May 14, 2024, LPF Ohio, LLC dissolved on May 17, 2024, and Evergreen LPFN, LLC dissolved on May 17, 2024, as well as LPF Michigan, LLC, Benmore LPFN, CDRS Owner, LLC on June 12, 2024. Additionally, the Company has filed to dissolve and LGCLORDIS 1, LLC.

34. Restatement

Reclassifications

For comparative purposes, the Company has reclassified certain items on the comparative Consolidated Statements of Financial Position to conform with the current year's presentation. The items reclassified were as follows:

- Management reclassified accounts payable and accrued liabilities items to further break out these liabilities on the balance sheet. Historically the balance sheet has reflected "Accounts payable and accrued liabilities." The balance sheet as of December 31, 2023 reflects these categories as accounts payable, accrued liabilities, payroll and loyalty rewards program, and accrued local and sales taxes.
- In the current year, the Company reclassified $3,000,000 of depreciation relating to the production of inventory to costs of sales. The Company believes that the change in depreciation will provide shareholders with a better reflection of the Company’s business activities and enhance the comparability of the Company’s financial information to its industry peers.
- In the current year, the Company reclassified $1,580,896 of interest and penalties on unpaid income taxes from interest expense to income taxes. The Company believes that the change will provide shareholders with a better reflection of the Company’s business activities and enhance the comparability of the Company’s financial information to its industry peers.

Impairment Loss

In connection with the preparation of its audited consolidated financial statements for the year ended December 31, 2023, the Company identified an error related to the calculation of impairment of its intangible assets for the year ended December 31, 2022, which resulted in an understatement of the impairment loss in that fiscal year. As such, the Company will recognize an additional impairment of $10,528,000 for its intangible assets for the year ended December 31, 2022.

Income Taxes

In connection with the preparation of its audited consolidated financial statements for the year ended December 31, 2023, the Company identified multiple errors related to income taxes for the year ended December 31, 2022.

Management reviewed the purchase accounting for the Urbn Leaf Acquisition. The original acquisition reported intangible assets with the acquisition that were impaired on the opening balance sheet. The previous analysis recorded this impairment as a permanent adjustment and did not record the deferred tax liability on the opening balance sheet. Management determined that a deferred tax liability of $2,243,968 should have been recorded in the original purchase accounting. As such, the Company will recognize the deferred tax liability with a corresponding increase in goodwill for the same amount.

34. Restatement (continued)

The amounts to goodwill would have been impaired during the period its annual impairment tests for goodwill and intangible assets, which would have resulted in a subsequent reduction of the deferred tax liability and a deferred tax benefit recorded for the reduction in the deferred tax liability of $2,243,968. Management also identified a $4,574,668 overstatement of income tax payable related to the income taxes of the Company on the opening balance sheet for the Urbn Leaf Acquisition. This will result in a reduction of goodwill for the same amount.

Additionally, a $2,181,547 reduction to income tax payable was recorded to reflect the adjustment of the income tax payable to the accurate balance of taxes owed from any tax years ending before January 1, 2023, with a corresponding reduction to income tax expense for the same amount. The Company reviewed each prior period and obtained transcripts and prior tax returns to determine the outstanding liabilities for periods prior to December 31, 2023.

After reviewing the income tax payable for balances outstanding as of December 31, 2022, Management reviewed the recording of penalties and interest on the unpaid liabilities, which the Company did not recognize previously. Management determined that penalties and interest should be recorded on the unpaid taxes as of December 31, 2022. Management calculated the interest and penalties on the unpaid balances as of December 31, 2022 and determined the balance to be $1,811,800. Applicable interest rates obtained from the IRS were applied to the unpaid balances and additionally the large corporate rate was applied where applicable.

The changes are accounted for retrospectively and the financial statements for the year December 31, 2022, have been restated as summarized below:

	As previously reported	Adjustment	As restated
Consolidated Statements of Loss and Comprehensive Loss			
Total costs of goods sold	66,112,683	3,000,000	69,112,683
Gross profit	42,135,044	(3,000,000)	39,135,044
Depreciation and amortization	10,019,855	(3,000,000)	7,019,855
Total operating expenses	83,714,164	(3,000,000)	80,714,164
Impairment expense	196,655,965	8,197,300	204,853,265
Operating loss	(237,816,396)	(8,197,300)	(246,013,696)
Interest expense	(15,935,207)	1,580,896	(14,354,311)
Total other expenses	(10,082,772)	1,580,896	(8,501,876)
Net loss before income taxes	(247,899,168)	(6,616,404)	(254,515,572)
Income tax (expense) benefit	6,943,813	4,174,374	11,118,187
Net loss	(240,955,355)	(2,442,030)	(243,397,385)
Net loss attributable to StateHouse Holdings, Inc.	(240,386,032)	(2,442,030)	(242,828,062)
Consolidated Statements of Financial Position			
Intangible assets	27,069,000	(10,528,000)	16,541,000
Total assets	166,061,979	(10,528,000)	155,533,979
Income tax payable	30,411,289	(4,944,415)	25,466,874
Deferred tax liability	8,379,705	(3,141,555)	5,238,150
Total liabilities	276,734,293	(8,085,970)	268,648,323
Accumulated deficit	(358,801,715)	(2,442,030)	(361,243,745)
Total shareholders' deficit	(110,672,314)	(2,442,030)	(113,114,344)
Consolidated Statements of Cash Flows			
Net loss for the period	(240,955,355)	(2,442,030)	(243,397,385)
Impairment loss	196,655,965	8,197,300	204,853,265
Income tax payable	9,219,069	(4,944,415)	4,274,654