ALEAFIA HEALTH INC.
CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Canadian dollars)
For the Year Ended March 31, 2023 and 2022

AleafiaHealth.com

MANAGEMENT'S RESPONSIBILITY

To the Shareholders of Aleafia Health Inc.:

The accompanying consolidated financial statements of Aleafia Health Inc. and its subsidiaries (the "Company") were prepared by management, which is responsible for the integrity and fairness of the information presented, including the many amounts that out of necessity are based on estimates and judgements. These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards.

In fulfilling its responsibilities, management designs and maintains the necessary accounting systems and related internal controls to provide reasonable assurance that transactions are authorized, assets are safeguarded, and financial records are properly maintained to provide reliable information for the preparation of these consolidated financial statements.

The Board of Directors oversees the responsibilities of management for financial reporting through an Audit Committee, which is composed entirely of independent directors. This Audit Committee reviews the consolidated financial statements and recommends them to the Board of Directors for approval. They meet regularly with management to review internal control procedures and advise directors on accounting matters and financial reporting issues.

"Tricia Symmes"

Patricia Symmes-Rizakos
Chief Executive Officer

"Matthew Sale"

Matthew Sale
Chief Financial Officer

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of
Aleafia Health, Inc.

Opinion

We have audited the accompanying consolidated financial statements of Aleafia Health Inc. and its subsidiaries (collectively, the "Company"), which comprise the consolidated statement of financial position as at March 31, 2023 and 2022 and the consolidated statements of loss and comprehensive loss, changes in shareholders' equity and cash flows for the 12-month and 15-month periods then ended, respectively, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at March 31, 2023 and 2022, and its consolidated financial performance and cash flows for the 12-month and 15-month periods then ended, respectively, in accordance with International Financial Reporting Standards ("IFRS").

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 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 financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 2(c) in the consolidated financial statements, which indicates that the Company had an accumulated deficit of $527.8 million and net working capital deficit of $5.4 million as at March 31, 2023. These events or conditions, along with other matters as set forth in Note 2(c), 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 to this matter.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended March 31, 2023. The matter discussed below was 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 this matter. The key audit matter to be communicated in our auditors' report is as follows:

Valuation of biological assets and cannabis inventory

We draw attention to Notes 2(f), 2(j), 7 and 8 to the consolidated financial statements. Biological assets are measured at fair value less cost to sell at the stage of completion. The Company values inventories of harvested bulk cannabis and finished goods at the lower of cost and net realizable value.

In estimating the fair value of biological assets, management is required to make a number of estimates, including estimating the stage of growth of the cannabis up to the point of harvest, average yield per plant, harvesting costs, selling costs, selling price, and the allocation of indirect costs, which form part of the standard cost per gram to complete production. In calculating final inventory values, management is required to

determine an estimate of spoiled or expired inventory and compares the inventory cost to estimated net realizable value.

We identified measurement of the fair value of biological assets and net realizable value of cannabis inventory as key audit matters as a high degree of auditor judgment was required to evaluate the significant assumptions and estimates made by management.

Our audit response to the key audit matter was as follows:

- We performed sensitivity analyses over the Company's significant assumptions used to determine the fair value of biological assets to assess the impact of changes in those assumptions on the Company's determination of fair value.
- We tested the stage of growth by observing the plants at year-end.
- We tested the average expected yield per plant by comparing actual results of the current year to historical results of operations.
- We tested the average selling price per gram by comparing to estimates used by management to actual sales prices per gram in actual sales transaction during and subsequent to year-end.
- We also tested the net realizable value of inventory by comparing the carrying value of inventory to the prices earned from sales transactions near and subsequent to year-end.

Other Information

Management is responsible for the other information, which comprises the information included in the Company's Management's Discussion and Analysis to be filed with the relevant Canadian securities commissions.

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

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

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters 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 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.

The engagement partner on the audit resulting in this independent auditor’s report is Christopher Hiestand.

Accell Audit & Compliance, PA

Tampa, Florida
June 13, 2023

ALEAFIA HEALTH INC.

Consolidated Statements of Financial Position

As at March 31, 2023 and 2022

(Amounts reflected in thousands of Canadian dollars)

	Notes	March 31, 2023	March 31, 2022
		$	$
ASSETS			
Current			
Cash		**465**	1,347
Restricted cash		**162**	222
Marketable securities	3	**70**	1,190
Trade and other receivables, net	19	**4,275**	7,751
Net tax receivable	9	**-**	530
Prepaids and deposits		**1,867**	2,952
Inventory, net	7	**16,605**	21,664
Biological assets	8	**2,404**	1,179
		25,848	36,835
Assets held for sale	22	**10,000**	-
Non-current			
Property, plant, and equipment, net	6	**20,406**	40,448
Right-of-use assets	5	**1,280**	1,844
Investments	4	**2,391**	2,391
		24,077	44,683
TOTAL ASSETS		**59,925**	81,518
LIABILITIES			
Current			
Accounts payable and accrued liabilities	10	**9,238**	23,999
Net tax payable	9	**8,886**	-
Lease liability	5	**260**	522
Credit facility	11	**12,882**	12,073
Convertible debt	13	**-**	36,401
		31,266	72,995
Liabilities held for sale	22	**4,375**	-
Non-current			
Lease liability	5	**1,596**	1,833
Convertible debt	13	**27,172**	-
Credit facility	11	**-**	5,075
Promissory notes	12	**4,429**	-
		33,197	6,908
TOTAL LIABILITIES		**68,838**	79,903
SHAREHOLDERS' EQUITY			
Share capital	14	**408,674**	404,341
Contributed surplus		**110,223**	90,477
Deficit		**(527,810)**	(493,203)
		(8,913)	1,615
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**59,925**	81,518

COMMITMENTS AND CONTINGENCIES (Note 20)
GOING CONCERN (Note 2)

The accompanying notes are an integral part of these Consolidated Financial Statements.
Approved and authorized for issue on behalf of the board on June 13, 2023.

"*David Pasieka*"
David Pasieka, Chairman

"Lu Galasso"
Lu Galasso, Director

ALEAFIA HEALTH INC.

Consolidated Statements of Profit or Loss and Comprehensive Profit or Loss

For the twelve months ended March 31, 2023 and fifteen months ended March 31, 2022
(Amounts reflected in thousands of Canadian dollars, except share and per share amounts)

	Notes	March 31, 2023	March 31, 2022
		$	$
Revenue		**57,361**	53,813
Excise taxes		**14,514**	10,691
Net revenue		**42,847**	43,122
Cost of sales		**28,651**	33,965
Gross profit before fair value adjustment		**14,196**	9,157
Fair value changes in biological assets and changes in inventory sold	8	**1,019**	(1,453)
Inventory provision	7	**(9,216)**	(19,648)
Gross profit (loss)		**5,999**	(11,944)
Operating expenses			
Selling, general and administrative expenses	15	**18,221**	34,127
Amortization and depreciation expense	5,6	**3,373**	9,468
Share-based compensation expense	14,16	**1,944**	2,899
Restructuring costs		**397**	-
Business transaction costs		**502**	5,026
Bad debt expense	19	**217**	1,868
		24,654	53,388
Other expenses (income)			
Interest expense		**9,357**	10,787
Fair value adjustments through profit and loss	2	**1,108**	15,505
Gain on marketable securities		**-**	-
Impairment of property, plant and equipment	6	**5,578**	28,800
Impairment of goodwill		**-**	11,314
Impairment of intangible assets		**-**	53,093
Gain on sale of assets		**(91)**	(12,092)
Other non-operating expenses		**-**	(18)
		15,952	107,389
Net loss before income taxes		**(34,607)**	(172,721)
Income tax			
Current income tax expense (recovery)		**-**	-
Deferred income tax expense (recovery)		**-**	(2,854)
Net loss and comprehensive loss		**(34,607)**	(169,867)
Net loss per share, basic and diluted	17	**(0.09)**	(0.52)
Weighted average common shares outstanding		**386,358,769**	327,012,541

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

ALEAFIA HEALTH INC.

Consolidated Statements of Changes in Shareholders' Equity

For the twelve months ended March 31, 2023 and fifteen months ended March 31, 2022
(Amounts reflected in thousands of Canadian dollars, except share and warrant amounts)

	Number of Shares	**Common Shares**	**Contributed Surplus**	**Deficit**	**Total**
	#	$	$	$	$
Balances, December 31, 2020	301,269,686	384,265	85,025	(323,336)	145.954
Issuance of common shares	27,777,500	18,894	3,836	-	22,730
Share issuance costs	-	(1,751)	37	-	(1,714)
Shares issued under stock option plan	781,250	959	(334)	-	625
Shares issued under deferred share unit plan	89,709	96	-	-	96
Shares issued from warrants issued	1,050,890	1,719	(958)	-	761
Restricted share units issued/released	155,316	159	(159)	-	-
Warrants issued	-	-	131	-	131
Share-based compensation expense	-	-	2,899	-	2,899
Net loss for the period	-	-	-	(169,867)	(169,867)
Balances, March 31, 2022	**331,124,351**	**404,341**	**90,477**	**(493,203)**	**1,615**

	Number of Shares	**Common Shares**	**Contributed Surplus**	**Deficit**	**Total**
	#	$	$	$	$
Balances, March 31, 2022	331,124,351	404,341	90,477	(493,203)	1,615
Share issuance costs	-	(1,511)	-	-	(1,511)
Shares issued under private placement	71,559,015	5,623	-	-	5,623
Shares issued under deferred share unit plan	24,816	152	-	-	152
Shares issued from conversion of convertible debentures	204,761	15	-	-	15
Equity portion of debt issuance	-	-	16,047	-	16,047
Restricted share units issued/released	250,983	54	(54)	-	-
Warrants issued	-	-	1,352	-	1,352
Share-based compensation expense	-	-	2,401	-	2,401
Net loss for the period	-	-	-	(34,607)	(34,607)
Balances, March 31, 2023	**403,163,926**	**408,674**	**110,223**	**(527,810)**	**(8,913)**

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

ALEAFIA HEALTH INC.
Consolidated Statements of Cash Flows
For the twelve months ended March 31, 2023 and fifteen months ended March 31, 2022
(Amounts reflected in thousands of Canadian dollars)

	2023	2022
	$	$
Operating activities		
Net profit (loss) for the period	**(34,607)**	(169,867)
Adjustments for non-cash items:		
Depreciation expense	**6,565**	10,446
Amortization expense	**-**	1,621
Share-based compensation expense	**2,401**	2,899
Interest expense	**9,357**	10,787
Bad debt expense	**217**	1,868
Fair value adjustments through profit and loss	**1,108**	15,505
Fair value changes in biological assets and changes in inventory sold	**(1,019)**	1,453
Gain on sale of property, plant and equipment	**(91)**	(12,092)
Impairment of property, plant and equipment	**5,578**	28,800
Impairment of intangible assets	**-**	53,093
Impairment of goodwill	**-**	11,314
Deferred income tax recovery	**-**	(2,854)
Inventory provision	**9,216**	19,648
	(1,275)	(27,379)
Changes in operating working capital:		
Trade and other receivables	**1,259**	(3,931)
Prepaids and deposits	**1,085**	1,288
Inventory	**(4,157)**	(12,236)
Biological assets	**(206)**	869
Accounts payable and accrued liabilities	**(9,600)**	9,247
Net tax payable (receivable)	**9,416**	-
Net cash used in operating activities	**(3,478)**	(32,142)
Investing activities		
Proceeds from sale of property, plant, and equipment	**227**	-
Acquisition of property, plant, and equipment	**(1,654)**	(4,659)
Net cash used in investing activities	**(1,427)**	(4,659)
Financing activities		
Lease liability payments	**(914)**	(1,349)
Interest payments	**(2,035)**	(4,076)
Repayment of convertible debt	**-**	(25,650)
Borrowing from (repayment to) credit facility	**(2,289)**	16,418
Proceeds from issuance of promissory notes	**4,500**	-
Proceeds from the issuance of common shares	**5,623**	21,112
Warrants and stock options exercised	**-**	1,386
Conversion of convertible debt into equity	**(286)**	-
Debt issuance cost	**(636)**	-
Net cash provided by financing activities	**3,963**	7,841
Change in cash	**(942)**	(28,960)
Cash and restricted cash, beginning of period	**1,569**	30,529
Cash and restricted cash, end of period	**627**	1,569

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

Note 1 Nature of Operations

The Company is a publicly traded corporation incorporated under the laws of Ontario. Aleafia Health's head and registered office is currently located at 85 Basaltic Road, Concord, Ontario, and its corporate website is www.AleafiaHealth.com.

The Company is a federally licensed Canadian cannabis company offering cannabis products in Canada and destined for international markets, including Australia and Germany. The Company operates a virtual medical cannabis clinic staffed by physicians and nurse practitioners which provide health and wellness services across Canada.

The Company operates three licensed cannabis production facilities all in the province of Ontario, including the largest, outdoor cannabis cultivation facility in Canada. The Company produces a diverse portfolio of cannabis and cannabis derivative products including pre-roll, milled, dried flower, vapes, oils, capsules, edibles, sublingual strips, and topicals, for sale in Canada in the medical and adult-use markets, and in select international jurisdictions.
The common shares of the Company commenced trading on the Toronto Stock Exchange ("TSX") (symbol "AH"), on May 27, 2020.

Note 2 Significant Accounting Policies and Judgments

IFRS requires management to make judgments, estimates, and assumptions that affect the carrying values of certain assets and liabilities and the reported amounts of income and expenses during the period. Actual results may differ from these judgments, estimates, and assumptions.

Significant accounting policies, which affect the consolidated financial statements as a whole, as well as key accounting estimates and areas of significant judgment are highlighted in this section. This note also describes change in accounting policies, new accounting standards, which have been adopted during 2023, and new accounting pronouncements, which are not yet effective but are expected to impact the Company's consolidated financial statements in the future. Accounting policies, estimates, or judgments that have a significant effect on the amounts recognized in the financial statements include the valuation of investments (Note 4), estimated useful lives of property, plant and equipment (Note 6), inventory (Note 7), biological assets (Note 8), convertible debentures (Note 13), share-based compensation (Note 14), and the fair value of financial instruments (Note 19).

a) Basis of presentation

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

The Company's consolidated financial statements are presented in Canadian dollars, which is the Company's functional currency. The amounts in the tables are expressed in Canadian dollars and rounded to the nearest thousand, unless otherwise stated.

The consolidated financial statements were approved and authorized for issue by the Board of Directors of the Company on June 13, 2023.

b) Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries, which are entities controlled by the Company. Control is achieved when the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Such control is generally evidenced through ownership of more than 50% of the voting rights or through contractual arrangements. All intercompany transactions and balances have been eliminated. All subsidiaries, except for the holding companies and the inactive

subsidiaries, are actively engaged in carrying out the Company's business in the normal course and are domiciled in Canada.

The Company's subsidiaries during the year ended March 31, 2023 are as follows:

	Operating Status	Percentage Ownership
Aleafia Inc.	Active	100%
Canabo Medical Corporation ("Canabo")	Active	100%
Aleafia Farms Inc. ("Aleafia Farm")	Active	100%
Emblem Corp. ("Emblem")	Active	100%
Emblem Cannabis Corporation ("ECC")	Active	100%
GrowWise Health Limited ("GrowWise")	Active	100%
Emblem Realty Ltd. ("Emblem Realty")	Inactive	100%
Aleafia Brands Inc.	Inactive	100%
Aleafia Retail Inc.	Inactive	100%
2672533 Ontario Inc.	Inactive	100%
2676063 Ontario Inc.	Inactive	100%

c) Going concern assumption

The consolidated financial statements have been prepared on a going concern basis, which contemplates continuity of normal business activities and the realization of assets and settlement of liabilities in the normal course of business as they come due in the foreseeable future.

The Company has experienced recurring losses, has a cumulative deficit of $527,810 (March 31, 2022 – $493,203) and net working capital deficit of $5,418 (March 31, 2022 – deficiency of $36,160). These factors indicate that there are material uncertainties that cast significant doubt as to the Company's ability to continue as a going concern.

The Company's ability to continue as a going concern is dependent on its ability to achieve profitable operations and/or raise equity or debt financing. There is no assurance that any necessary future financing will be sufficient to sustain operations until such time that the Company can generate sufficiently profitable operations to support its requirements.

The consolidated financial statements do not include any adjustments to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary, should the Company be unable to continue as a going concern, such adjustments could be material.

The proposed business combination transaction with Red White & Bloom Brands Inc. ("RWB"), along with the related subsequent events as described in Note 25, have the potential to significantly affect the Company's ability to continue as a going concern. Please refer to Note 25 for more details regarding this subsequent event.

The Company's objectives when managing its liquidity and capital resources are to ensure sufficient liquidity to meet its financial obligations and execute its operating and strategic plans for at least the next twelve months. Management closely monitors the liquidity position and expects to have adequate sources of funding to finance the Company's projects and operations. The Company manages liquidity risk by exploring new debt and equity financing options, reviewing its capital structure to optimize the cost of capital, maintaining the continuity of equity and debt funding options, managing its non-cash current assets to ensure the timely conversion to cash, optimizing its fixed assets which in certain instances includes monetizing, and putting plans in place to meet its financial obligations as they come due.

The Company has multiple options which could potentially meet liquidity needs including converting its non-cash working capital to cash, selling non-core assets, issuing common shares via a public or private placement equity offering, and new debt financing options.

The Company's ability to meet its commitments to sustain operations and settle its obligations as they become due within the next twelve months and its exposure to liquidity risk is dependent on the Company's ability to:

- Realize cash flow from operations which is subject to significant judgements and estimates, the most significant of which is the Company's sales projections and its ability to realize its assets and discharge its liabilities in the normal course of business
- Remain in compliance with its credit facilities and convertible debenture covenants; and
- Raise additional debt and equity financing.

While the Company has been successful in obtaining financing to date and believes it will be able to obtain sufficient funds in the future and ultimately achieve profitability and positive cash flows from operations, there can be no assurance that the Company will achieve profitability and be able to obtain sufficient financing in the future on terms favourable for the Company.

d) COVID-19 estimation uncertainty

In March 2020, the World Health Organization declared the outbreak of a novel strain of coronavirus ("COVID-19"), a global pandemic. Government measures to limit the spread of COVID-19, including the closure of non-essential businesses, continued to disrupt the Company's operations during the year ended March 31, 2023.

The production and sale of cannabis and cannabis-derived products have been recognized as essential services across Canada; however, COVID-19 related challenges have persisted, including, but not limited to, reduced staffing levels, production inefficiencies resulting from increased health and safety measures, and supply chain issues.

Due to the ongoing developments and uncertainty surrounding COVID-19, it is not possible to predict the continuing impact that COVID-19 will have on the Company, its financial position, and/or its operating results in the future. In addition, it is possible that estimates in the Company's consolidated financial statements will change in the near term as a result of COVID-19, and the effect of any such changes could be material. The Company is closely monitoring the impact of COVID-19 on all aspects of its business.

e) Cash and cash equivalents

Cash in the consolidated statements of financial position is comprised of cash in banks and on hand, and short-term deposits which are readily convertible into a known amount of cash and are subject to insignificant risk with respect to its value and liquidity.

f) Restricted cash

Restricted cash includes cash held as collateral against certain bank credit card facilities. It also includes Canadian bank issued preferred shares, which is subject to trading restrictions that are greater than 90 days.

g) Biological assets

The Company measures biological assets consisting of cannabis plants at fair value less cost to sell up to the point of harvest. Unrealized gains or losses arising from the changes in fair value less cost to sell during the period are recognized in the consolidated statements of loss and comprehensive loss. The Company capitalizes all the direct

and indirect costs as incurred related to the transformation of biological assets between the initial planting to the point of harvest including labour, labour related, fertilizer, utilities and facility costs and amortization of related production equipment. Seeds are measured at fair market value. Upon harvest, the fair value adjustments including all the capitalized costs are transferred from biological assets to inventory and form the cost basis of the inventory.

h) Inventories

Inventories are measured at the lower of cost and net realizable value. Cost is determined using weighted average method. Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. Inventories are written down to net realizable value when the cost of inventories is estimated to be unrecoverable due to obsolescence, damage, or declining market prices. When the circumstances that previously caused inventories to be written down below cost no longer exist or when there is evidence of an increase in selling price, then the amount of the write-down previously recorded is reversed.

The cost of inventories comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. The costs of purchase include the purchase price, non-recoverable taxes, and transport, handling and other costs directly attributable to the acquisition of finished goods, materials or services. The costs of conversion include direct material and labour costs, and a systematic allocation of fixed and variable overheads incurred in converting materials into finished goods.

The Company's inventories include harvested bulk cannabis and finished goods, which are valued at the lower of cost and net realizable value. Harvested cannabis is initially recorded at fair value less costs to sell at the point of harvest, which becomes the inventory's cost. This fair value includes capitalized costs and unrealized fair value adjustments. Any subsequent post-harvest costs are capitalized to inventory to the extent that they are less than the net realizable value. The cost of fertilizers and nutrients includes the costs of purchases net of vendor allowances and other costs, such as transportation, that are directly incurred to bring the inventories to their present location and condition. Net realizable value is determined as the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

Storage costs, indirect administrative overhead, and certain other selling costs related to inventories are expensed in the period incurred.

i) Property, plant, and equipment

All items of property, plant and equipment are stated at historical cost, less any accumulated depreciation and any accumulated impairment losses. Historical cost includes all costs directly attributable to the acquisition.

Land is not depreciated. Depreciation of other items of property, plant and equipment is calculated on components that have homogeneous useful lives by using the straight-line method or declining balance method to depreciate the initial cost down to the residual value over their estimated useful lives, as follows:

Computer equipment and software	30% on a declining basis
Office furniture and equipment	20% on a declining basis
Buildings	25 years on a straight-line basis
Leasehold improvements	Straight-line over the remaining term of the lease

Useful lives, residual values and depreciation methods are reviewed at each year-end. Such a review takes into consideration the nature of the assets, their intended use and technological changes.

Gains or losses on disposals are determined as the difference between the proceeds and the carrying amount and

are recognized in “Other expenses (income)” in the consolidated statements of loss and comprehensive loss.

j) Leases

The Company leases some items of property, plant and equipment.

As is permitted under IFRS 16, the Company elected to expense its short-term leases (term of 12 months or less) and leases of low-value assets on a straight-line basis over the lease term.

For its other contracts, the Company assesses whether its new or amended contracts contain a lease.

A lease represents the right to control the use of an identified asset for a period of time in exchange for consideration.

The Company assesses the following to determine whether a contract conveys the right to control the use of an identified asset:

- The identified asset is directly or indirectly specified in the contract, or it represents substantially all of the capacity of a physically distinct asset.
- The right of use covers substantially all of the economic benefits from the use of the identified asset for a period of time.
- The Company has the right to direct the use of the identified asset. In cases where the use is predetermined, the Company operates the asset or designed it in a way that predetermines how and for what purpose the asset will be used.

When a lease is identified, the Company allocates the consideration in the contract to each of the lease components, separately from the non-lease components, on the basis of their relative stand-alone price. However, as is permitted under IFRS 16, the Company elected to account for all contracts of land and buildings it occupies as leases.

A right-of-use asset (a “lease asset”) and a lease liability are recognized in the statement of financial position at the lease commencement date.

k) Right of use assets

The Company recognizes right-of-use assets at the commencement date of the lease [i.e., the date the underlying asset is available for use]. Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognized, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Company is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognized right-of-use assets are depreciated on a straight-line basis over the shorter of their estimated useful life and the lease term. Right-of-use assets are subject to impairment.

l) Lease obligation

At the commencement date of the lease, the Company recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. In calculating the present value of lease payments, the Company uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

m) Share-based payments

Share-based payments to employees and others providing similar services are measured at the estimated fair value of the instruments issued on the grant date and amortized over the vesting period. Share-based payments to non-employees are measured at the fair value of the goods or services received or the fair value of the equity instruments issued if it is determined the fair value of the goods or services cannot be reliably measured and are recorded at the date the goods or services are received. The amount recognized as an expense is adjusted to reflect the number of awards expected to vest. The offset to the recorded cost is to equity settled share-based payments reserve.

Consideration received on the exercise of stock options is recorded as share capital and the related equity settled share-based payments reserve is transferred to share capital. Charges for options that are forfeited before vesting are reversed from contributed surplus.

Share-based compensation expense relating to deferred share units is accrued over the vesting period of the units based on the quoted market price on the date of issuance. As these awards can be settled in cash, the expense and liability are adjusted each reporting year for changes in the underlying share price.

n) Provisions

Provisions are recognized when it is probable that the Company is required to settle an obligation (legal or constructive), as a result of a past event, and the obligation can be reliably estimated. The provision represents the Company’s best estimate of the amounts required to settle the obligation at the end of the reporting year. When a provision is determined using the expected cash flow method, the carrying amount is the present value of those cash flows (when the effect of the time value of money is material). When some or all of the amounts required to settle a provision are expected to be recoverable from a third party, a receivable is recognized when it is virtually certain reimbursement is receivable and the expected reimbursement can be reliably measured.

o) Loss per share

The Company presents basic and diluted loss per share data for its common shares, calculated by dividing the loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the year. Diluted loss per share does not adjust the loss attributable to common shareholders or the weighted average number of common shares outstanding when the effect is anti-dilutive.

p) Income taxes

Current income taxes are the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted, and includes any adjustments to tax payable or receivable in respect of previous years. Deferred income taxes are recorded using the liability method whereby deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the date of the statements of financial position. Deferred tax is not recognized for temporary differences which arise on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting, nor taxable profit or loss.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

q) Financial instruments

Financial assets and liabilities are initially measured at fair value. In the case of a financial asset not at fair value through profit and loss ("FVTPL") transaction costs are included in the carry amount of the asset. Transaction costs of financial assets carried at FVTPL are expensed in the consolidated statements of loss and comprehensive loss. Financial assets are subsequently measured at:

a. FVTPL
b. Amortized cost
c. Fair value through other comprehensive income ("FVOCI")
d. Equity instruments designated at FVOCI; or
e. Financial instruments designated at FVTPL

Financial liabilities are subsequently measured at:

f. FVTPL
g. Amortized cost

The classification is based on whether the contractual cash flow characteristics represent "solely payment of principal and interest" as well as the business model under which the financial assets are managed. Financial liabilities held by the Company are initially measured at fair value and subsequently measured at amortized cost.

r) Impairment of non-financial assets

The carrying amounts of the Company's non-financial assets are reviewed for impairment at each statement of financial position date or whenever events or changes in circumstances indicate that the carrying amount of an asset exceeds its recoverable amount. For the purpose 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 to sell, and its value in use. If the carrying amount of an asset 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 exceeds the recoverable amount. Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the lesser of the revised estimate of recoverable amount and the carrying amount that would have been recorded had no impairment loss been recognized previously.

s) Impairment of financial assets

The Company assesses, on a forward-looking basis, the expected credit losses associated with its financial instruments carried at amortized cost and FVOCI. The impairment methodology applied depends on whether the asset originated from a contract that is in the scope of IFRS 15 - Revenue from Contracts with Customers (IFRS 15) or if there have been significant increases in credit risk.

Accounts receivable - For accounts receivable and contract assets, the Company applies the simplified approach to providing for expected credit losses prescribed by IFRS 9 - Financial Instruments (IFRS 9), which requires the use of the lifetime expected loss provision for all accounts receivable and contract assets within the scope of IFRS 15. The Company has established a provision based on the Company's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

Cash equivalents - For cash equivalents and short-term investments at amortized cost, the Company applies the general approach to providing for expected credit losses. These instruments are considered to be low credit risk, and

therefore, the impairment provision is determined using a 12-month expected credit loss basis.

t) Segment reporting

IFRS 8 - Operating Segments requires operating segments to be determined based on internal reports that are regularly reviewed by the chief operating decision maker for the purpose of allocating resources to the segment and to assessing its performance. The Company has one reportable segment, the cultivation of cannabis plants, and production and sale of cannabis flower, extracts and other derivatives, all of which supply four different sales channels: adult use, medical, international and wholesale.

u) Revenue recognition

The Company derives revenue primarily from the sale of cannabis and cannabis products. Revenue is recognized upon transfer of control of the promised goods and services to customers in an amount that reflects the consideration the Company expects to receive in exchange for those goods or services. Performance obligations are satisfied, and revenue is recognized, either over time or at a point in time. Certain activities may give rise to deferred revenue, which are contract liabilities under IFRS 15 and relate to payments received in advance of performance under contracts with customers. Contract liabilities are recognized as revenue as (or when) the Company satisfies its performance obligations under the contracts.

Under bill-and-hold arrangements – whereby the Company bills a customer for product to be delivered at a later date – control typically transfers when the product is still in the Company’s physical possession, and title and risk of loss has passed to the customer. Revenue is recognized when all specific requirements for transfer of control under a bill-and-hold arrangement have been met. There are no bill and hold arrangements as at March 31, 2023.

The provision for sales returns is an estimate used in the recognition of revenue in connection with contract liabilities identified in contracts with customers. The Company has a return policy that allows wholesalers to return product within a specified period prior to, and subsequent to, the expiration date. Provisions for returns are recognized in the period in which the underlying sales are recognized, as a reduction of product sales revenue. The Company estimates provisions for returns based upon historical data to determine return percentages and current market conditions, representing management’s best estimate. Historical experience may not always be an accurate indicator of future returns, and therefore the Company continually monitors return provisions and adjusts when it believes that actual product returns may differ from amounts recorded.

Amounts disclosed as net revenue are net of sales tax, duty tax, allowances, returns provision, price adjustments, discounts and rebates.

Sale of cannabis: Revenue from the sale of cannabis is recognized when the Company transfers control to the customer upon delivery or the time of the product pickup from the Company’s facilities by the customer based on the contract-by-contract basis between the Company and the customer, or in the case of bill-and-hold arrangements, when specific requirements have been met.

Medical consultation: The Company provides medical services to patients on a scheduled appointment fixed fee basis. Performance of the service is considered complete at the conclusion of the appointment and revenue is recognized at a point in time.

Storage Revenue: Revenue from storage services is recognized over time as the services are provided, based on the agreed-upon storage rates and the passage of time.

Shipping Revenue: Revenue from shipping services is recognized when control of the goods has transferred to the

customer, typically upon delivery to the customer's specified destination.

Solar Panel Revenue: Revenue from the generation of electricity by the solar panels is recognized based on the actual amount of electricity generated.

v) Assets and liabilities held for sale

Assets and liabilities held for sale are no longer depreciated and are presented separately in the statement of financial position at the lower of their carrying amount and fair value less costs to sell. An asset is regarded as held for sale if its carrying amount will be recovered principally through a sale transaction, rather than through continuing use. For this to be the case, the asset must be available for immediate sale and its sale must be highly probable.

w) Foreign currency translation

Transactions in foreign currencies are translated using the exchange rate prevailing at the date of the transaction. At each reporting date, foreign currency denominated monetary assets and liabilities are translated at year-end exchange rates. Exchange differences arising from the transactions are recorded in profit or loss for the period.

x) Future changes in accounting policies

The following IFRS standards have been recently issued by the IASB with an effective date after March 31, 2023, and have not yet been adopted by the Company. Pronouncements that are irrelevant or not expected to have a significant impact have been excluded:

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

The amendments to IAS 1 clarify the requirements relating to determining whether a liability should be presented as current or non-current in the statement of financial position. Under 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. The amendments will apply retrospectively for annual reporting periods beginning on or after January 1, 2024. The Company will evaluate the potential impact of these amendments on the consolidated financial statements when they become applicable.

Amendments to IAS 8: Definition of Accounting Estimate

The amendments introduced a new definition for accounting estimates, clarifying that the estimates are monetary amounts in the financial statements that are subject to measurement uncertainty which is defined as an uncertainty that arises when monetary amounts in financial reports cannot be observed directly and must instead be estimated. The amendments are effective for annual reporting periods beginning on or after January 1, 2023. The Company will evaluate the potential impact of these amendments on the consolidated financial statements when they become applicable.

Amendments to IAS 1: Disclosure of Accounting Policies

The IASB has issued amendments to IAS 1 and IFRS Practice Statement 2 on the application of materiality to disclosure of accounting policies in deciding which accounting policies to disclose in the financial statements. The key amendments to IAS 1 include requiring companies to disclose their material accounting policies rather than their significant accounting policies; clarifying that accounting policies related to immaterial transactions, other events, or conditions are immaterial and need not be disclosed; and clarifying that not all accounting policies that relate to material transactions, other events, or conditions are material to a company’s consolidated financial statements. The amendments are effective for annual reporting periods beginning on or after January 1, 2023. The Company will evaluate the potential impact of these amendments on the consolidated financial statements

when they become applicable.

Amendments to IAS 12: Deferred Tax related to Assets and Liabilities arising from a Single Transaction

The amendments narrowed the scope of certain recognition exemptions so that it no longer applies to transactions that, on initial recognition, give rise to equal taxable and deductible temporary differences. A company applies the amendments to transactions that occur on or after the beginning of the earliest comparative period presented. It also, at the beginning of the earliest comparative period presented, recognizes deferred tax for all temporary differences related to leases and decommissioning obligations and recognizes the cumulative effect of initially applying the amendments as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) at that date. The amendments will be effective for the annual period beginning on or after January 1, 2023, and the Company has chosen not to early adopt the amendments. The Company will evaluate the potential impact of these amendments on the consolidated financial statements when they become applicable.

As of March 31, 2023, the Company has not yet adopted the above-mentioned IFRS standards that have an effective date after this reporting period. The Company is currently evaluating the potential impact of these amendments on the consolidated financial statements and will adopt them when they become applicable in accordance with the relevant IFRS standards. The evaluation process includes assessing the potential impact on the Company's financial position, results of operations, and disclosures in the financial statements.

It should be noted that the potential impact of these amendments on the consolidated financial statements cannot be determined with certainty until the Company completes its evaluation process. Therefore, the Company cannot provide any assurance that the impact of these amendments will not be material to the consolidated financial statements in the period of initial application or in future periods.

This note is provided for informational purposes only and does not represent a comprehensive analysis of all potential accounting impacts that may arise from the adoption of these IFRS standards. The Company encourages users of its financial statements to refer to the full text of the applicable IFRS standards and related guidance for a more detailed understanding of the potential impact on its financial statements.

Note 3 Marketable Securities

As at March 31, 2023 and 2022, the Company held the following marketable securities:

Financial asset Hierarchy level	Level 1	Level 2	Level 3	Total
	WDSL	Millgauss	-	
	$	$	$	$
Balance, March 31, 2022	1,190	-	-	1,190
Additions (disposals)	-	-	-	-
Unrealized gain (loss) on changes in fair value	(1,123)	3	-	(1,120)
Balance, March 31, 2023	**67**	**3**	**-**	**70**

Financial asset Hierarchy level	Level 1	Level 2	Level 3	Total
	WDSL	Millgauss	-	
	$	$	$	$
Balance, December 31, 2020	6,615	-	-	6,615
Additions (disposals)	-	-	-	-
Unrealized gain (loss) on changes in fair value	(5,425)	-	-	(5,425)
Balance, March 31, 2022	**1,190**	**-**	**-**	**1,190**

On May 10, 2021, the Company, through its subsidiaries Canabo and GrowWise, sold certain clinic assets to Myconic Capital Corp (d.b.a Wellbeing Digital Sciences Limited "WDSL"). In exchange, WDSL issued 7,000,000 common shares with a fair value of $12,250 at the time of closing. The sale resulted in the derecognition of assets and lease obligations with a net book value of $586, resulting in a gain of $12,092.

The shares are classified as fair value through profit and loss, and are categorized as Level 2 on the fair value hierarchy as they have quoted market prices in an active market.

On August 30, 2021, KetamineOne Capital Limited completed a spin-off of Milgauss Investments Ltd, and distributed one one-hundred-tenth of a Milgauss share and one new common share of KetamineOne for each KetamineOne share held before the effective date of the transaction. As part of the spin-off, the Company received 60,795 shares.

The shares are classified as fair value through profit and loss and are categorized as Level 2 on the fair value hierarchy due to the unavailability of some inputs in the market.

Note 4 Investments

One Plant (Retail) Corp. is a private Canadian company that focuses on cannabis retail business. The Company holds 9.4% of One Plant (Retail) Corp.'s common shares as an investment. The investment is accounted for under IFRS 9 - Financial Instruments and is initially recognized at cost, which includes the transaction costs directly attributable to the acquisition of the investment.

The Company evaluates its investment in One Plant (Retail) Corp. for impairment at each reporting date or when there is an indication of impairment. As of March 31, 2023, there is no indication of impairment, and the investment is carried at cost. No dividends have been received or recognized for the year ended March 31, 2023 and 2022.

Any future dividends received from One Plant (Retail) Corp. will be recognized in the Company's profit or loss as income when the right to receive payment has been established. Any transaction costs related to the disposal of the investment will be recognized in profit or loss when the disposal occurs.

Note 5 Right-of-Use Asset and Lease Liability

The changes in the carrying value of right-of-use assets are as follows:

Right-of-Use Asset	$
Cost	
Balance, March 31, 2022	2,888
Revaluation	46
Terminations	(89)
Balance, March 31, 2023	**2,845**
Accumulated amortization	
Balance, March 31, 2022	1,044
Terminations	(67)
Amortization	588
Balance, March 31, 2023	**1,565**
Net book value, March 31, 2022	1,844
Net book value, March 31, 2023	**1,280**

The changes in the carrying value of current and non-current lease liabilities are as follows:

Lease Liability	$
Balance, March 31, 2022	2,355
Revaluation	46
Terminations	(26)
Interest expense	395
Payments	(914)
Balance, March 31, 2023	**1,856**
Current portion	260
Non-current portion	**1,596**

Note 6 Property, Plant and Equipment

	Equipment and Furniture	**Computer and Software**	**Land**	**Buildings and Leasehold Improvements**	**Total**
	$	$	$	$	$
Cost					
Balance, March 31, 2022	15,949	722	7,737	65,588	89,996
Additions	1,039	331	-	285	1,655
Disposals	(196)	(4)	-	-	(200)
Impairment loss	-	-	-	(5,578)	(5,578)
Transfer to assets held for sale	-	-	(1,051)	(20,388)	(21,439)
Balance, March 31, 2023	**16,792**	**1,049**	**6,686**	**39,907**	**64,434**
Accumulated depreciation					
Balance, March 31, 2022	12,100	372	-	37,076	49,548
Depreciation	1,960	139	-	3,879	5,978
Disposals	(57)	(2)	-	-	(59)
Transfer to assets held for sale	-	-	-	(11,439)	(11,439)
Balance, March 31, 2023	**14,003**	**509**	**-**	**29,516**	**44,028**
Net book value					
As at March 31, 2022	3,849	350	7,737	28,512	40,448
As at March 31, 2023	**2,789**	**540**	**6,686**	**10,391**	**20,406**

Depreciation relating to manufacturing equipment and production facilities for owned and right-of-use lease assets is capitalized to biological assets and inventory and is expensed to cost of sales upon the sale of goods.

During the year ended March 31, 2023, the Company recognized depreciation expense of $5,978 (March 31, 2022 – $12,093), of which $3,150 (March 31, 2022 – $4,417) was included in cost of sales, biological assets and inventory, and $2,828 (March 31, 2022 – $7,676) was included in operating expenses.

Note 7 Inventory

Inventory is comprised of the following items as at:

	March 31, 2023	March 31, 2022
	$	$
Finished goods	3,977	4,454
Work-in-progress	18,582	27,992
Supplies and consumables	3,127	2,940
Inventory provision	(9,081)	(13,722)
Total inventory	**16,605**	**21,664**

The inventory provision solely relates to work-in-progress inventory as of March 31, 2023, and 2022. It accounts for estimated losses due to obsolescence, slow-moving inventory, and other factors affecting the recoverability of the carrying amount, as determined by management.

Note 8 Biological Assets

Biological assets are valued in accordance with IAS 41. The Company's biological assets consist of cannabis plants. As there is no actively traded commodity market for these, the valuation of these biological assets is obtained using valuation techniques where the inputs are based upon unobservable market data which are considered level 3 inputs under IFRS. These inputs are subject to volatility in market prices and several uncontrollable factors could significantly affect the fair value of assets in the future. The fair value is determined using a valuation model to estimate the expected harvest yield per plant applied to the estimated price per gram less processing and selling costs. The Company capitalizes all the direct and indirect costs as incurred related to the transformation of biological assets and measures biological assets consisting of cannabis plants at fair value less cost to sell up to the point of harvest, which becomes the basis for the cost of finished goods inventories after harvest. Unrealized gains or losses arising from changes in fair value less cost to sell during the year are included in the results of operations of the related year.

The Company's estimates are subject to change and differences from the anticipated yield will be reflected in the gain or loss on biological assets in future periods.

The change in the carrying value of biological assets during the period area as follows:

	March 31, 2023	March 31, 2022
	$	$
Opening balance	1,179	2,511
Production costs capitalized	14,902	22,053
Changes in fair value less cost to sell due to biological transformation	5,158	1,333
Transferred to inventory upon harvest	(18,835)	(24,718)
Total biological assets	**2,404**	**1,179**

In determining the fair value of biological assets, management had made the following significant assumptions in the valuation model:

	March 31, 2023		March 31, 2022	
	Indoor	Outdoor	Indoor	Outdoor
Average fair value per gram ($)	2.00	0.17	0.98	0.16
Average yield per plant (grams)	244	238	60	750
Average of growth cycle (weeks)	13	20	13	16

The Company values cannabis plants at fair value. Measurement of the biological transformation of the plant at fair value begins at the time of planting and is recognized evenly until the point of harvest. The number of weeks in the growing cycle is between thirteen and twenty weeks from propagation to harvest.

The Company estimates the harvest yields for the cannabis on plants at various stages of growth, based on expected yield of mature plants. As of March 31, 2023, it is expected that the Company's biological assets will yield 19,759 kg of cannabis when eventually harvested. The Company's estimates are, by their nature, subject to change, and differences from the expected yield will be reflected in the fair value adjustment to biological assets in future periods. The Company accretes fair value on a straight-line basis according to stage of growth. As a result, a cannabis plant that is 50% through its 13-week growing cycle would be ascribed approximately 50% of its harvest date expected fair value less costs to sell (subject to wastage adjustments).

The fair value adjustment to biological assets and inventory sold consists of the following for twelve and the fifteen months ended:

	March 31, 2023	March 31, 2022
	$	$
Change in fair value on growth of biological assets	1,380	1,333
Realized fair value amounts included in inventory sold	(361)	120
Fair value changes in biological assets and inventory sold	**1,019**	**1,453**

Note 9 Net tax payable (receivable)

Net tax payable (receivable) comprises the following items as at:

	March 31, 2023	March 31, 2022
	$	$
Sales tax payable (receivable)	286	(3,323)
Excise duty payable	9,423	3,616
Excise stamp deposit	(823)	(823)
Total net tax payable (receivable)	**8,886**	**(530)**

Note 10 Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities comprise the following items:

	March 31, 2023	March 31, 2022
	$	$
Trade payables	8,091	18,763
Accrued expenses	859	4,782
Provisions	288	454
Total accounts payable and accrued liabilities	**9,238**	**23,999**

Note 11 Credit Facilities

December 2021 Credit Facility - Current

On December 24, 2021, the Company entered into a new loan agreement that provides for a term facility of $12,000 and access to a revolving facility up to $7,000. The loans bear interest at a rate of the National Bank of Canada prime (with a floor of 3.45%) rate plus 9%, annually, with an effective interest rate of 14.8%. Under the agreement, the Company prepaid interest of $749. The availability under the revolving facility is subject to an advance rate against certain accounts receivable balances.

The Company received net proceeds of $10,798 on December 24, 2021.

The facility is secured by first lien mortgages on the Paris, Ontario and Grimsby, Ontario production facilities and certain equipment and a general security agreement on the Company.

On each of March 28, 2022 and June 17, 2022 the Company and the lender agreed to certain amendments to the agreement to provide for ongoing funding under the revolving facility despite one or more breaches of existing covenants.

The amortization of the credit facility as at March 31, 2023:

	$
Balance, March 31, 2022	12,073
Interest expense	1,942
Fees	203
Drawdown	24,926
Repayment	(27,215)
Transfer to liabilities held for sale	(4,375)
Balance, March 31, 2023	**7,554**
Credit facility	7,755
Revolver	(201)
Balance, March 31, 2023	**7,554**

The following table provides a reconciliation of the credit facility balance reported on the balance sheet as of March 31, 2023:

	$
December 2021 Credit Facility	7,554
August 2021 Credit Facility	5,328
Total credit facility, March 31, 2023	**12,882**

August 2021 Credit Facility - Current

On August 23, 2021, the Company entered into a secured Credit Agreement, to receive $10,000 for working capital and general corporate purposes. The term of the loan was for one year with a fixed interest rate of 12% and an effective interest rate of 17.3%. Accrued interest may either be paid monthly in arrears or upon maturity of the facility. In addition, up to 1,000,000 common share purchase warrants with an exercise price of $0.32 were granted and vest in four tranches of 250,000 quarterly commencing November 20, 2021. The warrants were ascribed a value of $131,

using Black Scholes pricing model. The facility is secured by a first lien mortgage on the Port Perry, Ontario facility.

On December 24, 2021, the Company entered into an amendment with its lender to revise certain terms in the credit facility. Second lien mortgages were granted against the Paris, Ontario and Grimsby, Ontario production facilities. The maturity date was extended by approximately 16 months to December 24, 2023, the stated interest rate applicable changed to 12.45%, and the interest to begin paying in June 2022.

The Company made a principal repayment of $5,000 against the credit facility, together with accrued interest and fees on January 7, 2022. The first tranche of the common share purchase warrants of 250,000 vested on November 20, 2021. Due to the early repayment, the second tranche vesting February 20, 2022, was reduced to 190,217 from 250,000. The third tranche of 125,000 common share purchase warrants of 250,000 vested on May 20, 2022 and the remaining 125,000 common share purchase warrants vested on August 20, 2022.

On December 24, 2021, the Company entered into an amendment with its lender to revise certain terms in the credit facility including the prepayment of one year of interest, from June 2022 to June 2023, in the amount of $623.

The amortization of the credit facility as at March 31, 2023:

	$
Balance, March 31, 2022	5,075
Interest accretion	876
Interest payment	(623)
Balance, March 31, 2023	**5,328**

Note 12 Promissory Notes

Promissory Note

On December 16, 2022, the Company issued a promissory note to receive $1,000 for general corporate purposes. The note bears a fixed interest rate of 12.75% and an effective interest rate of 15.77%. The promissory note will be due and payable on December 31, 2024. The interest on the amount of the promissory note will accrue and be paid bi-monthly.

On January 24, 2022, the Company issued a promissory note to receive $1,500 for general corporate purposes. The note bears a fixed interest rate of 12.75% and an effective interest rate of 15.09%. The promissory note will be due and payable on December 31, 2024. The interest on the amount of the promissory note will accrue and be paid bi-monthly.

On February 28, 2023, the Company issued a promissory note to receive $2,000 for general corporate purposes. The note bears a fixed interest rate of 12.75% and an effective interest rate of 13.86%. The promissory note will be due and payable on December 31, 2024. The interest on the amount of the promissory note will accrue and be paid bi-monthly.

The amortization of the promissory notes as at March 31, 2023 is as follows:

	$
Proceeds from issuance on December 16, 2022	1,000
Proceeds from issuance on January 24, 2023	1,500
Proceeds from issuance on February 28, 2023	2,000
Transaction costs	(80)
Interest accretion and amortization of transaction costs	102
Balance, March 31, 2023	**4,522**
Interest payable included in accounts payable and accrued liabilities	93
Promissory note	4,429
Balance, March 31, 2023	**4,522**

Note 13 Convertible Debt

Aleafia Convertible Debt

In June 2019, the Company issued 40,250 additional convertible debentures units (the "**Aleafia Convertible Debt Unit**") for gross proceeds of $40,300 (the "**June 2019 Convertible Debenture**"). The Aleafia Convertible Debt Unit consists of one $1,000 principal amount of unsecured convertible debenture of the Company and 680 common share purchase warrants, under the following terms:

- A maturity date of June 27, 2022,
- An interest rate of 8.5% per annum, payable semi-annually,
- Convertible at $1.47 per share until June 27, 2022, at the option of the holder, and
- The Company may accelerate the expiry date of the common share purchase warrants with not less than 30 days' notice, should the daily volume weighted average trading price of the outstanding common shares of the Company on the TSX be greater than $3.10 for 20 consecutive trading days.

During 2019, Debenture holders converted $2,900 debentures to common shares. Accordingly, the remaining principal balance to be paid upon maturity is $37,350.

During the year ended March 31, 2022, Debenture holders converted $301 debentures to 204,751 common shares. Accordingly, the remaining principal balance to be paid upon maturity is $37,049.

On June 23, 2022, the Company amended key commercial terms of its unsecured convertible debenture (Debenture Amendments), maturing June 27, 2022. The amendment includes, among other things, exchanging the current convertible debentures for new convertible debentures with maturities in two, four and six years. The interest rate remains the same at 8.5%, with payment in kind with additional new convertible debentures and a reduction in the conversion price from $1.47 to $0.25 for the debentures expiring in 2024, $0.30 for the debentures expiring in 2026, and $0.35 for the debentures expiring in 2028.

The Debenture Amendments were effected by the exchange of the outstanding $37,049 principal amount of unsecured convertible debentures for new, secured convertible debentures, which were issued to existing debenture holders in three equal, separate series (each, a "Series"): (a) 8.50% Series A Secured Debentures Due June 30, 2024 (the "**Series A Debentures**"), (b) 8.50% Series B Secured Debentures Due June 30, 2026 (the "**Series B Debentures**"), and (c) 8.50% Series C Secured Convertible Debentures Due June 30, 2028 (the "**Series C Debentures**" and, collectively with the Series A Debentures and the Series B Debentures, the "**New Debentures**").

The interest rate remains at 8.5%, with no mandatory cash interest payment for either 24 and 30 months depending on the length of the term, as interest will be paid-in-kind with additional New Debentures (the "**PIK Interest**") during these periods.

In addition, $2,387 principal amount of Series C Debentures were issued as consideration for the consent fee payable to debenture holders who consented in favour of the extraordinary resolution approving the Debenture Amendments.

Following the closing of the Debenture Amendments, the following New Debentures are issued and outstanding on the following terms:

New Debenture	Initial Principal Amount	Maturity Date	Conversion Price
Series A Debentures	$12,350	June 30, 2024	$0.25
Series B Debentures	$12,350	June 30, 2026	$0.30
Series C Debentures	$14,736	June 30, 2028	$0.35

The New Debentures are secured against certain assets of the Company and are fully subordinated to the Company's existing credit facilities. The Company is not permitted to incur further senior secured indebtedness, subject to certain exceptions, including to fund working capital, capital expenditures, and acquisitions.

The below table summarizes the changes in the total consolidated convertible debentures.

	$
Balance, March 31, 2022	36,401
Interest accretion	4,076
Conversion into equity	(301)
Derecognition of June 2019 Convertible Debenture	(40,175)
Transaction costs	(636)
Issuance of New Debentures	24,128
Balance, June 30, 2022	**23,493**
Interest accretion	3,679
Balance March 31, 2023	**27,172**

The modifications to the June 2019 Convertible Debenture were determined to be substantial and therefore accounted for as an extinguishment.

The liability component of the New Debentures is recorded at the present value of the future interest and principal payments using the discount rate of 19.5%. The equity component represents the residual amount attributed to the Company's liability to equity conversion option amounting to $16,047 and is recorded in the contributed surplus in the interim condensed consolidated statements of financial position.

Note 14 Share Capital

Authorized

The Company is authorized to issue an unlimited number of common shares without par value.

Issued and Outstanding

As at March 31, 2023, there were 403,143,926 common shares issued and outstanding.

During the year ended March 31, 2023, the Company issued 68,151,515 common shares at a price of $0.0825 plus 3,407,500 common shares as finder's fee, by way of a private placement offering on June 24, 2022, resulting in net proceeds of $5,623. Each common share also has one half of one common share purchase warrant (refer to "**warrant**" section below).

Stock Options

The Company has adopted a stock option plan (the "**Plan**"), providing the Board of Directors with the discretion to issue an equivalent number of options of up to 20% of the issued and outstanding share capital. Stock options are granted with an exercise price of not less than the closing share price of the day preceding the date of grant.

The total stock option expense recognized as share-based compensation expense for the year ended March 31, 2023 was $1,571 (March 31, 2022 – $2,607).

The following table summarizes information relating to outstanding and exercisable stock options as at March 31, 2023:

	Options	**Weighted average exercise price**
	#	$
Balance December 31, 2020	**26,260,632**	**1.06**
Granted	11,564,000	0.39
Exercised/released	(781,250)	0.65
Forfeited/cancelled	(2,468,385)	0.76
Expired	(4,238,551)	0.46
Balance, March 31, 2022	**30,335,946**	**0.88**
Vested, March 31, 2022	23,059,947	1.03
Unvested, March 31, 2022	7,275,999	0.41
Granted	29,004,000	0.09
Forfeited/cancelled	(6,170,175)	0.35
Expired	(250,000)	0.56
Balance, March 31, 2023	**52,919,771**	**0.51**
Vested	40,322,396	0.64
Unvested	12,597,375	0.10
Balance, March 31, 2023	**52,919,771**	**0.51**

The fair values of the stock options granted during the year ended March 31, 2023 and 2022, were estimated using the Black-Scholes option pricing model with following weighted average assumptions:

	2023	**2022**
Weighted average share price	$0.05	$0.21
Weighted average risk-free interest rate	2.87%	0.69%
Weighted expected life-years	3.2 years	2.8 years
Weighted average expected daily volatility	87.5%	87.0%
Weighted expected dividends	0.00%	0.00%
Forfeiture rate	5.65%	0.00%

The volatility assumption is based on an analysis of historical volatility over a period equivalent to the life of the options.

The following table summarizes the outstanding and exercisable options held by directors, officers, employees and consultants as at March 31, 2023:

Exercise Price Range	Outstanding			Exercisable	
	Number of Options	**Remaining Contractual Life**	**Weighted average exercise price**	**Number of Options**	**Weighted average exercise price**
$		Years	$		$
0.05 - 0.07	8,885,000	4.48	0.05	4,032,750	0.05
0.08 - 0.11	16,576,00	4.07	0.10	9,567,500	0.10
0.12 - 0.42	9,603,000	3.33	0.36	8,931,125	0.36
0.43 - 1.02	7,050,500	1.15	0.64	6,985,750	0.64
1.03 - 2.65	10,805,27	1.00	1.54	10,805,271	1.54
	52,919,771	2.99	0.51	40,322,396	0.64

The following table summarizes the outstanding and exercisable options held by directors, officers, employees and consultants as at March 31, 2022:

Exercise Price Range	Outstanding			Exercisable	
	Number of Options	**Remaining Contractual Life**	**Weighted average exercise price**	**Number of Options**	**Weighted average exercise price**
$		Years	$		$
0.13 - 0.50	11,949,000	4.17	0.38	5,739,750	0.41
0.51 - 1.00	7,193,250	2.10	0.67	6,376,500	0.68
1.01 - 1.50	6,839,690	2.21	1.08	6,589,691	1.08
1.51 - 2.00	749,006	1.60	1.58	749,006	1.58
2.00 - 2.65	3,605,000	1.64	2.44	3,605,000	2.44
	30,335,946	2.88	0.88	23,059,947	1.03

Restricted Share Units ("RSUs")

The Company has a restricted share unit plan (the "**RSU Plan**"). For each RSU granted under the plan, the Company recognizes an expense equal to the market value of a common share at the date of grant based on the number of RSUs expected to vest over the term of the vesting period, with a corresponding credit to equity for share-based compensation expense anticipated to be equity settled. RSUs under the RSU plan may vest immediately or become exercisable in various increments based on conditions as determined by the Board. In determining the amount of share-based compensation, the Company used the closing price of the common shares on the RSU grant date.

During the year ended March 31, 2023, 2,000,000 RSUs were granted (March 31, 2022 – 1,274,000). The total RSU expense recognized as share-based compensation expense for the year ended March 31, 2023 was $126 (March 31, 2022 – $292).

A summary of the RSUs granted and outstanding as at March 31, 2023 and 2022, is as follows:

	#
Balance, December 31, 2020	–
Granted	1,274,000
Exercised/released	(335,250)
Forfeited	(214,083)
Balance, March 31, 2022	724,667
Granted	2,000,000
Exercised/released	(661,417)
Cancelled/forfeited	(127,500)
Balance, March 31, 2023	**1,935,750**

There are no RSU's exercisable as they are issued as common shares upon vesting.

Deferred Share Unit Plan for Directors

At the Company's annual general meeting on June 30, 2020, shareholders passed a resolution approving the Company's deferred share unit plan (the "**DSU Plan**"), which was implemented during the year ended December 31, 2020.

The purpose of the DSU Plan is to promote a greater alignment of long-term interests between eligible participants (being non-executive directors only) and the Company and its shareholders, to provide a compensation system for non-employee directors that, together with other director compensation, is reflective of the responsibility, commitment and risk accompanying membership on the Board and the performance of the duties required of the various committees of the Board. The deferred share units are settled in shares.

A summary of the DSUs granted and outstanding as at March 31, 2023 and 2022 is as follows:

	#
Balance, December 31, 2020	**148,431**
Granted	2,229,549
Exercised/released	(347,947)
Balance, March 31, 2022	**2,030,033**
Granted	7,494,704
Balance, March 31, 2023	**9,524,737**

There are no DSU's exercisable as they are issued as common shares upon vesting.

Warrants

The Company has the following warrants outstanding as at March 31, 2023 and 2022:

	Warrants outstanding	Weighted average exercise price
	#	$
Balance, December 31, 2020	**50,221,974**	**1.17**
Issued	15,316,000	0.99
Exercised	(1,050,890)	0.75
Expired	(8,331,652)	0.74

Balance, March 31, 2022	**56,155,432**	**1.19**
Issued	34,325,758	0.10
Expired	(43,410,215)	1.38
Outstanding and exercisable, March 31, 2023	**47,070,975**	**0.29**

In conjunction with the issuance of common shares under the private placement, each holder received one half of one common share purchase warrant. A total of 34,075,758 were issued with an exercise price of $0.1025, expiring June 24, 2026. The expiry date may be accelerated by the Company at any time and upon 30 days' notice if the closing price of the common shares on the Toronto Stock Exchange is greater than $0.165 for any 10 consecutive trading day after the four-month lock up period and prior to the expiry of the warrants.

In addition to these warrants, the Company has 12,305,500 warrants set to expire on May 29, 2023, and 690,217 warrants set to expire on August 20, 2023.

Note 15 Selling, General and Administration Expense

	March 31, 2023	March 31, 2022
	$	$
Wages and benefits	8,901	17,367
Marketing	2,463	3,058
Information technology	1,099	2,262
Regulatory and licensing	3,436	1,733
Professional fees	95	40
Facility costs	1,035	2,228
General and administrative expenses	1,192	7,439
	18,221	**34,127**

Note 16 Key Management Compensation

Key management includes directors and key executives of the Company.

For the year ended March 31, 2023 and 2022, the Company had the following transactions with the officers and directors of the Company:

	March 31, 2023	March 31, 2022
	$	$
Wages and benefits: Directors	-	827
Wages and benefits: Management	1,380	3,247
Share based compensation: Directors	457	57
Share based compensation: Management	991	1,680
Termination benefits: Management	-	730
	2,828	**6,541**

As at March 31, 2023, an amount of $16 (March 31, 2022 – $429) was due to directors and management. These amounts are non-interest bearing, unsecured, due on demand and included in accounts payable and accrued liabilities on the consolidated statements of financial position.

Note 17 Loss per Share

Loss per common share is calculated using the weighted average number of common shares outstanding. The weighted average number of shares outstanding for the year March 31, 2023 was 386,358,769 (March 31, 2022 – 327,012,541).

Diluted income per common share is calculated using the weighted average number of common shares outstanding taking into consideration the weighted average impact of dilutive securities. All of the Company's potentially dilutive securities are anti-diluted during the periods presented due to losses incurred.

Note 18 Management of Capital

The Company's objectives when managing capital are to:

- sustain a sufficient capital base to maintain investor, creditor, supplier, and customer confidence; and
- sustain the future development of the business.

The Company does not have any externally imposed capital requirements to which it is subject.

The Company defines capital as the aggregate of its shareholders' equity, credit facilities, lease liabilities, promissory note, and convertible debt. The Company manages the capital structure and adjusts it to reflect changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue new shares or dispose of assets or adjust the amount of cash. In the current period, the Company manages its capital with a heightened focus on maintaining and improving its liquidity. For the year ended March 31, 2023, there has been no other significant changes to the management of capital.

Note 19 Financial Instruments and Financial Risks

Fair Value of Financial Instruments

The Company's financial instruments consist of cash, restricted cash, marketable securities, trade and other receivables, investments, accounts payable, lease liability, promissory note, and convertible debt. The following table summarizes the carrying values of the Company's financial instruments by measurement category:

	March 31, 2022	**March 31, 2022**
	$	$
Fair value through profit and loss (cash, restricted cash, and marketable securities)	697	2,759
Assets, amortized cost (trade receivables, net tax receivable, and investments)	6,666	10,672
Liabilities, amortized cost (accounts payable, net tax payable, lease liability, credit facilities, liabilities held for sale, promissory note and convertible debt)	68,838	79,903

The Company classifies its fair value measurements in accordance with an established hierarchy that prioritizes the inputs in valuation techniques used to measure fair value as follows:

- Level 1 - Unadjusted quoted prices in active markets for identical assets or liabilities

- Level 2 - Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly
- Level 3 - Inputs that are not based on observable market data

The following table sets out for the Company's financial assets measured at fair value on a recurring basis by level within the fair value hierarchy as at March 31, 2023 and March 31, 2022:

	Level 1	Level 2	Level 3	Total
	$	$	$	$
Cash	465	-	-	465
Restricted cash	162	-	-	162
Marketable securities	65	5	-	70
Total, March 31, 2023	**692**	**5**	**-**	**697**

	Level 1	Level 2	Level 3	Total
	$	$	$	$
Cash	1,347	-	-	1,347
Restricted cash	222	-	-	222
Marketable securities	1,185	5	-	1,190
Total, March 31, 2022	**2,754**	5	**-**	**2,759**

The carrying value of trade receivables, accounts payable and net tax payable are a reasonable approximation of their fair value due to their short-term nature. The carrying value of lease liability, credit facilities, promissory notes and convertible debt are a reasonable approximation of their value based on market interest rates for similar instruments as at March 31, 2023.

Assets Held for Sale

The fair value of assets held for sale, primarily comprising the land and building of the Grimsby greenhouse facility, is determined based on Level 3 inputs within the fair value hierarchy. The fair value measurement incorporates various factors, including third-party valuation reports, advisor opinions of value, the range of purchase proposals received, and comparisons to comparable asset sale list prices and actual sale prices. These inputs are used to formulate the fair value less cost to sell.

Risk Management

Effective risk management is fundamental to the success of the organization and is recognized as key in the Company's overall approach to strategy management. The Company has a strong, disciplined risk culture where managing risk is a responsibility shared by all of the company's employees.

The primary goals of the risk management are to ensure that the outcomes of risk-taking activities are consistent with the Company's strategies and the risk appetite and that there is an appropriate balance between risk and reward in order to maximize shareholder value.

The Company has identified the below potential risk categories:

a) Currency risk

The Company's revenues and expenses are denominated in Canadian dollars. The Company's corporate office is based in Canada and current exposure to exchange rate fluctuations is minimal.

The Company does not have any significant foreign currency denominated monetary assets or liabilities and has few

transactions denominated in a currency other than Canadian dollars. During the twelve months ended March 31, 2023, there has been no change to the management of this risk.

b) Interest rate risk

The Company is exposed to interest rate risk on the variable rate of interest earned on bank deposits, the variable rate of interest applicable to the $12,000 term facility, and the drawn amount on the revolving facility. The fair value interest rate risk on bank deposits is insignificant as the deposits are short-term in nature. The interest rate risk on convertible debt is insignificant due to the fixed rate of interest on convertible debt. The Company has not entered into any derivative instruments to manage interest rate fluctuations. The Company monitors interest rates and may enter into derivative instruments to hedge interest rate risk should it deem it economically efficient.

c) Investment risk

The Company is exposed to investment risk arising from its holdings in various securities, including publicly traded securities and a long-term investment in a privately held company. Investment risk encompasses a range of factors that could impact the value and performance of these securities.

The Company's investments in publicly traded securities are subject to market-related risks, including share price volatility and fluctuations. These risks are influenced by factors such as market conditions, investor sentiment, economic trends, and company-specific developments. The Company monitors market conditions, including share price movements, and evaluates the performance of its investments regularly. By staying informed about market trends and conducting ongoing evaluations, the Company aims to make informed investment decisions and manage risks effectively.

The Company holds a long-term investment in a privately held retail company, which introduces investment risks. These risks include factors such as business performance, market dynamics, regulatory changes, competitive landscape, and other industry-specific risks. The value and success of the investment are dependent on the ability of the underlying company to achieve its strategic objectives and generate sustainable returns. The Company regularly monitors the performance and prospects of this investment, market conditions, and industry-specific risks affecting the investment and incorporates risk assessments into its investment strategies.

It is important to note that investment risk cannot be completely eliminated, as it is inherent in the investment process. The Company recognizes that investments carry inherent uncertainties, and actual outcomes may differ from estimates and projections. Therefore, the Company remains diligent in its investment activities, continuously evaluates investment opportunities, and adjusts its investment strategy as necessary to navigate investment-related risks effectively.

d) Credit risk

Credit risk is the risk of loss associated with the counterparty's inability to fulfill its payment obligations. Financial instruments that potentially subject the Company to concentrations of credit risks consist principally of cash, trade and other receivables and marketable securities. The risk exposure is limited to their carrying values reflected on the consolidated statements of financial position. To minimize the credit risk the Company places these instruments with a high-quality financial institution. There are no expected credit losses with respect to cash and as the Company does not invest in asset backed investments. To manage and mitigate credit risk in respect of certain trade receivables with other Canadian licensed producers, the Company has the option in certain cases to receive product in kind.

The expected credit losses of trade and other accounts receivables was assessed based on the expected loss model in compliance with IFRS 9. Individual receivables that were known to have incurred credit losses are written off by reducing the carrying amount directly, and this is reevaluated and subject to change as the Company reevaluates its credit risk exposure. Pursuant to their collective terms, trade accounts receivable, were aged as follows:

	March 31, 2023	March 31, 2022
	$	$
Current	2,787	6,363
0 – 30 days past due	512	250
31 – 60 days past due	248	95
61 – 90 days past due	156	69
90 + days past due	1,184	1,176
Provision for credit losses	(871)	(654)
Other receivables	259	452
Total	**4,275**	**7,751**

The following table shows the changes in the provision for credit losses for trade and other receivables:

	March 31, 2023	March 31, 2022
	$	$
Opening balance	654	762
Write-offs	-	(1,976)
Expected credit losses	217	1,868
Total	**871**	**654**

The standard payment terms applicable to most customers are between 30 – 60 days upon receipt of goods. There is negligible credit risk with respect to other receivables, as they primarily originate from government agencies, national insurance companies and a credit card company.

The Company has concentration risk, as approximately 82% (March 31, 2022 – 76%) of total revenue came from three (March 31, 2022 – three) customers and approximately 59% (March 31, 2022 – 79%) of total trade accounts receivable is due from three (March 31, 2022 – three) customers.

During the year, the Company settled $2,000 in accounts payable by delivering its products to a counterparty from whom the Company had made purchases, resulting in an equivalent accounts receivable balance. This transaction led to the offsetting of accounts receivable and accounts payable, effectively setting them to zero. Consequently, no cash flow was generated from the bulk wholesale revenue, and both the accounts payable and accounts receivable were fully eliminated.

e) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company has experienced recurring losses and has a cumulative deficit of $527,810. For the year ended March 31, 2023, cash flow from operations is negative. Refer to note 2, Going Concern.

As at March 31, 2023, the Company has total current assets of $25,848 (March 31, 2022 – $36,835) and total current liabilities of $31,266 (March 31, 2022 – $72,995), providing for net current liability of $5,418 (March 31, 2022 – net current liability of $36,160). The significant change during the year March 31, 2023 is a result of the extinguishment of the June 2019 Convertible Debenture.

The Company has the following undiscounted future payments for convertible debenture, credit facilities, lease obligations, loan payable, and purchase commitments as at March 31, 2023:

	within 1 year	2 years	3 years	4 years	5 years and thereafter
	$	$	$	$	$
Convertible debenture	-	12,350	-	12,350	14,736
Credit facilities	12,882	-	-	-	-
Lease obligations	260	1,072	511	11	2
Promissory note	-	4,500	-	-	-
Purchase commitments	506	-	-	-	-
Total	**13,648**	**17,922**	**511**	**12,361**	**14,738**

Note 20 Commitments and Contingencies

In the ordinary course of business, from time to time, the Company may be involved in various claims related to its commercial and/or corporate activities. Although such matters cannot be predicted with certainty, management does not consider the Company's exposure to these claims to be material to these consolidated financial statements.

Certain of Emblem Corp.'s former executives have been named in a claim commenced March 20, 2015, in the Ontario Superior Court of Justice that also identifies Emblem Corp. and Emblem in relation to certain services provided to the parties by an individual. The plaintiff has claimed $10,000 in damages. The claim is being contested and is expected to proceed to trial circa 2024 if an early settlement is not achieved. The outcome of this legal matter is subject to negotiations by the officers of the Company and the Company believes it is unlikely to be impacted and accordingly, no amount has been provided for. A separate claim was also initiated by Amos Tayts on March 22, 2019, in the Ontario Superior Court of Justice against Emblem and Emblem Corp. arising out of the same facts and seeking the same damages. It is also being contested.

On June 16, 2020, a class-action lawsuit was issued in Calgary, Alberta by Lisa Marie Langevin as the proposed representative plaintiff. The claim has been filed against most of the cannabis manufacturers in Canada and includes, among the many defendants, Emblem Corp. and Aleafia Health. The claim alleges that the THC and CBD levels in the products manufactured and/or sold by the defendants differed from what was represented on packaging, specifically alleging that THC and CBD levels were found to be significantly higher than indicated in some products while others may have had significantly lower levels. The action is seeking $500,000 (or such other amount as may be proven at trial) for all Canadians who purchased medicinal cannabis products on or after June 16, 2010, as well as Canadians who legally purchased cannabis for recreational purposes on or after October 17, 2018. The claim also seeks $5,000 in punitive damages. Ms. Langevin has not alleged that she ever purchased product from Emblem or Aleafia Health. The case is at its earliest stages. The Company believes it has good defenses to the claim and intends to vigorously defend the claim. Accordingly, at this stage no amount has been provided for in the consolidated statements of financial position in respect of this claim.

On February 8, 2023, the Company received a letter from the Canada Revenue Agency ("CRA") with respect to Emblem Cannabis Corporation's previously filed Canada Emergency Wage Subsidy ("CEWS") for the period between March 15, 2020 and March 13, 2021. The CRA has audited said periods for Emblem Cannabis Corporation and has proposed a claw back in the amount of $3,200 related to the CEWS funds provided to the Company. The Company is actively reviewing the CRA's findings and intends to file a Notice of Objection. Based on the Company's records and external advice, it remains of the belief that it is owed the full amount of the previously claimed and received

CEWS funds. At this time, it is not possible to make a reasonable and reliable estimate of the likelihood of the outcome of the dispute. Accordingly, the Company has not accrued for any potential disallowed CEWS claims in the period. The Company will continue to assess the matter as the dispute resolution progresses.

Note 21 Income Taxes

The Company has non-capital losses carried forward of approximately $263,000 available to reduce income taxes in future years which expire from 2030 to 2041. The Company has not recognized any deferred income tax assets. The Company recognizes deferred income tax assets based on the extent to which it is probable that sufficient taxable income will be realized during the carry forward periods to utilize all deferred tax assets.

The following table reconciles the amount of income tax recoverable on application of the statutory Canadian federal and provincial income tax rates for the twelve and fifteen months ended, respectively:

	March 31, 2023	**March 31, 2022**
	$	$
Loss and comprehensive loss for the year	(34,607)	(169,867)
Canadian statutory income tax rate	26.5%	26.5%
Income tax recovery at statutory rate	(9,171)	(45,015)
Effect of income taxes of:		
Permanent differences and other	1,583	17,105
Change in deferred tax assets not recognized	7,588	25,056
Deferred income tax (recovery)	**-**	**(2,854)**

The temporary differences that give rise to significant portions of the deferred tax assets and liabilities are presented below:

	March 31, 2023	**March 31, 2022**
	$	$
Non-capital loss carry forwards	76,253	69,719
Property, plant, and equipment	2,488	(541)
Investment	(634)	(634)
Biological assets and inventory	4,998	6,053
Intangible assets	-	-
Convertible debentures	(3,250)	(252)
Lease liability IFRS 16	492	624
Share issue costs	990	1,320
Deferred tax assets not recognized	(81,337)	(76,289)
Deferred income tax assets (liability)	**-**	**-**

Note 22 Segment Reporting

An operating segment is a component of an entity for which separate financial information is available and whose operating results are reviewed regularly by the entity's chief operating decision maker to make resource allocation decisions and assess performance. An operating segment also engages in business activities from which it may earn

revenue and incur expenses. The Company has determined that it has only one operating segment that meets the above criteria, and for which separate financial information is available.

The Company's revenue is derived from different geographic regions. During the year, the revenue breakdown was as follows: 95% of the total net revenue originated from Canada (March 31, 2022 - 98%), and 5% was originated from Europe and Australia (March 31, 2022 - 2%).

All of the Company's long-lived assets are located in Canada.

Note 23 Assets and Liabilities Held for Sale

In connection with the Company's business transformation plan, during the year ended March 31, 2023, the Company initiated the winddown of its Grimsby greenhouse and listed the asset for sale.

The most significant estimates and assumptions include those related to the inputs used in accounting for assets classified as held for sale including the estimated fair value less costs to sell. In calculating the estimated fair value less costs to sell, management is required to make a number of estimates, including determining the appropriate comparable assets, calculating the estimated costs to get the asset ready for sale, and the estimated costs required to execute and complete the sale. In formulating management's estimated fair value less costs to sell, management reviewed third-party valuation reports, proposals received, actual selling prices of other greenhouses, and asking prices of other greenhouses, among other sources of information. The Company estimated the fair value less costs to sell of $10,000, and accordingly has recorded an impairment loss of $3,000 and $5,578, for the three and twelve months ended March 31, 2023. The impairment loss was included in impairment of property, plant and equipment in the Consolidated Statements of Profit or Loss and Comprehensive Profit or Loss. The facility is actively being marketed and readily available for sale. The sale of the facility is considered probable as multiple proposals have been put forth to the Company. The sale of the Grimsby greenhouse facility is expected to occur within a year.

The following table presents the major classes of assets and liabilities related to the operations of the Grimsby greenhouse:

	March 31, 2023
Land	1,051
Building	8,949
Assets held for sale	10,000
Credit facility	4,375
Liabilities held for sale	**4,375**

The liability held for sale was determined by comparing the estimated relative fair value of the Grimsby property to the Paris property at the time the facility/loan was granted. This ratio was utilized to establish the loan balance when the Grimsby property was classified as held for sale. The term facility is secured by a first lien on the Paris and Grimsby facilities, as disclosed in Note 11 - Credit Facilities.

Note 24 Comparative Figures

Reclassifications have been undertaken for the prior period comparative figures to enhance comparability with the current period financial statements. The objective of these reclassifications is to present more detailed information in the consolidated statement of financial position by adjusting the grouping of specific accounts. These reclassifications had no impact on the net loss or shareholders' equity. Their purpose of is to facilitate a better understanding of the financial position, provide a higher level of granularity, and enhance the overall presentation of the consolidated statement of financial position.

The following reclassifications were made to enhance the disclosure of certain figures:

Consolidated Statements of Financial Position	As Reported	Adjustment	As Reclassified
Cash	1,356	(9)	1,347
Restricted cash	213	9	222
Trade and other receivables, net	11,085	(3,334)	7,751
Net tax receivable	-	530	530
Prepaids and deposits	3,775	(823)	2,952
Accounts payable and accrued liabilities	27,626	(3,627)	23,999

Note 25 Events After the Reporting Period

On June 6, 2023, Red White & Bloom Brands Inc. (“**RWB**”) and Aleafia (the “**Company**”) entered into a Binding Letter Agreement whereby RWB has agreed to acquire Aleafia and its subsidiaries in a business combination transaction (the "**Proposed Transaction**") to be completed by way of a court-approved plan of arrangement under the Business Corporations Act (Ontario).

Under the terms of the Binding Letter Agreement, each outstanding common share in the capital of Aleafia (each, an “**Aleafia Share**”) will be exchanged for 0.35 of a common share in the capital of the Company (each, an “**RWB Share**”), subject to customary adjustment (the “**Exchange Ratio**”). Upon the completion of the Proposed Transaction, existing RWB shareholders are expected to own approximately 76% of the Combined Company resulting from the Proposed Transaction (the "**Combined Company**") and Aleafia shareholders are expected to own approximately 24% of the Combined Company.

The Letter Agreement provides for the parties to enter into a definitive arrangement agreement setting out the final terms and conditions of the Proposed Transaction, at which time additional information will be provided in a subsequent press release.

Summary of the Proposed Transaction

The Proposed Transaction is expected to be completed by way of a court-approved plan of arrangement under the Business Corporations Act (Ontario). Under the terms of the Letter Agreement, RWB will acquire all of the issued and outstanding Aleafia Shares in exchange for RWB Shares on the basis of the Exchange Ratio. Outstanding options and warrants to purchase Aleafia Shares will become exercisable to acquire RWB Shares on the same terms and conditions, on the basis of the Exchange Ratio. Outstanding restricted and deferred share units of Aleafia will be settled upon closing in RWB Shares on the basis of the Exchange Ratio.

The Proposed Transaction will require the approval of: (a) (i) two-thirds of the votes cast by shareholders of Aleafia, and, if required, (ii) a simple majority of the votes cast by minority Aleafia shareholders in accordance with Multilateral Instrument 61-101 – Protection of Minority Security Holders in Special Transactions (“**MI 61-101**”), at a special meeting of Aleafia shareholders expected to take place in the third quarter of 2023 (the “**Aleafia Meeting**”); (b)

debenture holders of the requisite percentage of the principal amount of each series of Aleafia Convertible Debentures ("**Debentureholder Approval**"); and (c) if required, RWB shareholders at a special meeting of RWB shareholders expected to take place in the third quarter of 2023 (the "**RWB Meeting**").

Completion of the Proposed Transaction will be subject to customary closing conditions and receipt of necessary court and regulatory approvals, including stock exchange approval. Subject to receipt of all necessary approvals, the Proposed Transaction is expected to close by on October 31, 2023 (the "**Effective Time**").

A copy of the Letter Agreement will be filed on Aleafia and RWB's SEDAR profiles at www.sedar.com. Prior to entering into a definitive arrangement agreement, all members of the board of directors of Aleafia, all officers of Aleafia and certain other security holders of Aleafia, will enter into customary support and voting agreements.

The Letter Agreement provides for the parties to enter into a definitive arrangement agreement setting out the final terms and conditions of the Proposed Transaction on or before July 31, 2023. The Letter Agreement contains, and the arrangement agreement will continue to contain, standard non-solicitation and superior proposal provisions and a break fee of C$2 million. The Letter Agreement includes, and arrangement agreement will continue to include other provisions such as conditions to closing the Proposed Transaction, and representations and warranties and covenants customary for arrangement agreements. Further details with respect to the Proposed Transaction will be included in the arrangement agreement and in an information circular to be mailed to Aleafia shareholders in connection with the Aleafia Meeting and to holders of Aleafia Convertible Debentures, as applicable, and to RWB shareholders in connection with the RWB meeting (if required). Once available, copies of the arrangement agreement and information circular will be filed on each of Aleafia and RWB's SEDAR profiles at www.sedar.com, as applicable.

Concurrent with entering into the Binding Letter Agreement, the Aleafia Senior Secured Loan Agreement, made as of December 24, 2021, between Aleafia and certain subsidiaries as borrowers, with other subsidiaries as guarantors, and NE SPC II LP as lender, and subsequently amended on March 28, 2022, June 17, 2022, April 26, 2023, May 15, 2023, and May 31, 2023, was assigned by NE SPC II LP to RWB.

On June 6, 2023, concurrent with the execution of the Binding Letter Agreement Aleafia was advanced $1.5 million.

As part of the Proposed Transaction, the Company expects to settle the 8.5% Series A Secured Convertible Debentures due June 30, 2024, the 8.5% Series B Secured Convertible Debentures due June 30, 2026, and the 8.5% Series C Secured Convertible Debentures due June 30, 2028 (collectively, the "**Aleafia Convertible Debentures**") for an aggregate of $6,000 at the Effective Time (subject to Debentureholder approval). The funding for the settlement of the Aleafia Convertible Debentures, along with the assignment of the Aleafia Senior Secured Loan Agreement, is intended to be funded through a new secured $30,000 credit facility (the "**New Credit Facility**"). The New Credit Facility will also serve to support working capital requirements, growth initiatives, and the RWB Credit Facility, a $17,500 credit facility being negotiated by RWB and Aleafia. The RWB Credit Facility will facilitate cash settlement, working capital requirements, and promissory note repayment, and will include covenants and reporting requirements.

The specific terms of the New Credit Facility and the RWB Credit Facility will be confirmed upon the execution of final funding agreements and the completion of the Proposed Transaction. These actions aim to enhance liquidity and improve financial flexibility by supporting working capital requirements and funding growth initiatives. The negotiations for the RWB Credit Facility are being conducted in accordance with customary practices and are expected to be finalized within 30 days.

As at the consolidated financial statements' balance sheet date of March 31, 2023, the Proposed Transaction and the related subsequent events had not yet been completed. Consequently, the consolidated financial statements do not reflect the impact of the Proposed Transaction. The Company will reassess and determine the appropriate accounting treatment once the Proposed Transaction is finalized and all necessary approvals are obtained.