Entourage
HEALTH CORP

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

ENTOURAGE HEALTH CORP.

For the three and nine months ended
September 30, 2022 and 2021
(Unaudited - Expressed in Canadian Dollars)

Entourage Health Corp.

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three and nine months ended September 30, 2022 and 2021

(Unaudited)

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MANAGEMENT’S RESPONSIBILITY STATEMENT

The management of Entourage Health Corp. (the "Company"), is responsible for preparing the condensed interim consolidated financial statements, the notes to the condensed interim consolidated financial statements and other financial information contained in these condensed interim consolidated financial statements (the “condensed interim consolidated financial statements”).

Management prepares the condensed interim consolidated financial statements in accordance with International Financial Reporting Standards (“IFRS”). The condensed interim consolidated financial statements are considered by management to present fairly the Company's financial position and results of operations.

The management, in fulfilling its responsibilities, has developed and maintains a system of internal accounting controls designed to provide reasonable assurance that management assets are safeguarded from loss or unauthorized use, and that the records are reliable for preparing the condensed interim consolidated financial statements.

George Scorsis, Chief Executive Officer
November 14, 2022

Notice of No Auditor’s Review of Condensed Interim Consolidated Financial Statements

In accordance with National Instrument 51-102, the Company discloses that its external auditors have not reviewed the accompanying condensed interim consolidated financial statements of Entourage Health Corp.

The accompanying condensed interim consolidated financial statements (unaudited) of the Company have been prepared by management and approved by the Audit Committee and the Board of Directors of the Company.

The Company’s independent auditors have not performed a review of these unaudited condensed interim consolidated financial statements in accordance with the standards established by the Canadian Chartered Professional Accountants (CPA) Canada for a review of interim financial statements by an entity’s auditors.

Entourage Health Corp.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(Unaudited - Expressed in Canadian dollars)

	Note		September 30, 2022		December 31, 2021
Assets					
Current					
Cash		$	8,085,310	$	21,416,073
Restricted cash			100,000		100,000
Trade and other receivables	15		6,411,004		7,677,210
Inventory	3		24,353,739		29,640,553
Biological assets	3		1,275,191		607,175
Prepaid expenses and deposits			2,876,723		931,090
Commodity tax receivable			651,055		1,053,312
Total current assets			43,753,022		61,425,413
Prepaid expenses and deposits			—		1,098,286
Property, plant and equipment	5		76,743,224		81,700,129
Total assets		$	120,496,246	$	144,223,828
Liabilities					
Current					
Accounts payable and accrued liabilities	16	$	14,337,405	$	17,437,329
Current portion of lease liabilities	4		336,338		1,106,252
Current portion of loans and borrowings	7		1,956,591		86,625,014
Current portion of unsecured convertible debentures	6		—		11,224,172
Total current liabilities			16,630,334		116,392,767
Lease liabilities	4		726,320		1,833,815
Loans and borrowings	7		115,622,346		3,674,615
Unsecured convertible debentures	6		877,650		896,620
Total liabilities		$	133,856,650	$	122,797,817
Shareholders' (deficiency) equity					
Common shares	8	$	186,140,597	$	185,813,639
Warrants reserve	9		13,341,946		13,341,946
Conversion feature	6		112,095		1,626,120
Contributed surplus	10		18,489,812		16,865,880
Accumulated deficit			(231,444,854)		(196,221,574)
Total shareholders' (deficiency) equity			(13,360,404)		21,426,011
Total liabilities and shareholders' (deficiency) equity		$	120,496,246	$	144,223,828

Going concern (Note 2)

Commitments and contingencies (Note 19)

Subsequent events (Note 24)

See accompanying notes to the condensed interim consolidated financial statements

"George Scorsis" (signed)	"Bruce Croxon" (signed)
Director	Director

Entourage Health Corp.
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS
(Unaudited - Expressed in Canadian dollars)

	Note	Three months ended September 30, 2022	Three months ended September 30, 2021	Nine months ended September 30, 2022	Nine months ended September 30, 2021
Revenue	17	$ **13,438,320**	14,978,879	$ **42,394,098**	41,690,499
Excise taxes		**(3,363,018)**	(4,190,067)	**(10,204,114)**	(10,019,172)
Revenue, net		**10,075,302**	10,788,812	**32,189,984**	31,671,327
Cost of goods sold		**(14,966,189)**	(14,944,076)	**(33,869,444)**	(32,463,272)
Gross loss before changes in fair value		**(4,890,887)**	(4,155,264)	**(1,679,460)**	(791,945)
Realized fair value amounts included in inventory sold	3	**1,205,218**	4,936,165	**6,107,618**	12,107,201
Unrealized loss (gain) on changes in fair value of biological assets	3	**(134,073)**	1,191,650	**(314,433)**	(3,446,392)
Gross loss		**(5,962,032)**	(10,283,079)	**(7,472,645)**	(9,452,754)
Depreciation and amortization	5	**704,904**	468,173	**1,412,457**	2,514,547
Selling, general and administrative expenses	11	**6,842,714**	4,489,937	**21,350,963**	20,892,439
Finance costs	12	**3,917,799**	2,491,246	**13,047,423**	7,400,622
Share based compensation	10	**82,318**	214,390	**436,865**	882,752
Acquisition-related expenses		**—**	326,877	**—**	326,877
Loss from operations		**(17,509,767)**	(18,273,702)	**(43,720,353)**	(41,469,991)
Loss on disposal of property, plant and equipment	8	**(22,018)**	(16,422)	**(22,018)**	(16,422)
Other income, net	22	**50,735**	—	**50,735**	4,088,067
Gain on lease modification	4	**—**	—	**805,324**	—
Gain on extinguishment of unsecured convertible debentures	6	**48,866**	—	**5,154,866**	—
Gain on modification of loan and borrowings	7	**—**	—	**3,195,964**	—
Impairment of property, plant and equipment	5	**—**	—	**(687,798)**	—
Government grant	23	**—**	822,986	**—**	2,972,387
Loss and comprehensive loss		**(17,432,184)**	(17,467,138)	**(35,223,280)**	(34,425,959)
Basic and diluted loss per share	13	$ **(0.06)**	(0.07)	$ **(0.12)**	(0.15)

See accompanying notes to condensed interim consolidated financial statements

Entourage Health Corp.
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' (DEFICIENCY) EQUITY
(Unaudited - Expressed in Canadian dollars)

	Note	Number of Shares	Share Capital	Warrants Reserve	Conversion Feature	Contributed Surplus	Accumulated Deficit	Total
Balance, December 31, 2020		**210,261,715**	**$ 163,229,737**	**$ 10,597,563**	**$ 1,514,025**	**$ 16,035,146**	**$ (117,286,441)**	**$ 74,090,030**
Share based compensation		—	—	—	—	830,052	—	830,052
Common shares issued upon private placement		35,937,500	13,976,016	3,273,984	—	—	—	17,250,000
Issuance cost		—	(1,351,120)	(316,510)	—	—	—	(1,667,630)
Shares issued on exercise of stock option		425,000	255,000	—	—	—	—	255,000
Loss and comprehensive loss		—	—	—	—	—	(34,425,959)	(34,425,959)
Balance, September 30, 2021		**246,624,215**	**$ 176,109,633**	**$ 13,555,037**	**$ 1,514,025**	**$ 16,865,198**	**$ (151,712,400)**	**$ 56,331,493**

	Note	Number of Shares	Share Capital	Warrants Reserve	Conversion Feature	Contributed Surplus	Accumulated Deficit	Total
Balance, December 31, 2021		**303,976,702**	**$ 185,813,639**	**$ 13,341,946**	**$ 1,626,120**	**$ 16,865,880**	**$ (196,221,574)**	**$ 21,426,011**
Share based compensation	10	—	—	—	—	436,865	—	436,865
Transfer of conversion feature on settlement of unsecured convertible debentures	6	—	—	—	(1,514,025)	1,514,025	—	—
Shares issued on exercise of deferred stock units	8	2,767,694	326,958	—	—	(326,958)	—	—
Loss and comprehensive loss		—	—	—	—	—	(35,223,280)	(35,223,280)
Balance, September 30, 2022		**306,744,396**	**$ 186,140,597**	**$ 13,341,946**	**$ 112,095**	**$ 18,489,812**	**$ (231,444,854)**	**$ (13,360,404)**

See accompanying notes to the condensed interim consolidated financial statements

Entourage Health Corp.
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited - Expressed in Canadian dollars)

For the nine months ended September 30,	Note		2022		2021
Cashflows provided by (used in):					
Operating					
Net loss		$	**(35,223,280)**	$	(34,425,959)
Adjustments for:					
Depreciation and amortization	5		**5,472,360**		2,514,547
Impairment of inventory included in cost of goods sold	3		**8,990,576**		—
Impairment of property, plant and equipment	5		**687,798**		—
Share based compensation	10		**436,865**		830,052
Finance costs	12		**13,047,423**		7,400,622
Gain on lease modification	4		**(805,324)**		—
Gain on modification of loan and borrowings	7		**(3,195,964)**		—
Realized fair value amounts included in inventory sold	3		**6,107,618**		12,107,201
Unrealized (gain) on changes in fair value of biological assets and inventory	3		**(314,433)**		(3,446,392)
Loss on disposal of property, plant and equipment			**22,018**		16,422
Gain on extinguishment of unsecured convertible debentures	6		**(5,154,866)**		—
			(9,929,209)		(15,003,507)
Change in non-cash working capital	14		**(12,722,142)**		(6,258,238)
Trade and other receivables			**1,266,206**		(4,374,535)
Prepaid expenses and deposit			**(847,347)**		(725,281)
Inventory			**(6,260,661)**		(4,074)
Biological assets			**(3,832,377)**		—
Commodity tax receivable			**402,257**		1,787,500
Accounts payable and accrued liabilities			**(3,450,221)**		(2,941,848)
		$	**(22,651,351)**	$	(21,261,745)
Investing					
Purchase of property, plant and equipment	5		**(1,677,216)**		(730,204)
Purchase of intangible assets			—		(53,444)
Proceeds from disposal of assets held for sale	10		—		1,990,881
Proceeds from disposal of property, plant and equipment			380,019		189,619
		$	**(1,297,197)**	$	1,396,852
Financing					
Proceeds from issuance of share capital, net of issuance cost			—		16,089,174
Proceeds from loan financing, net of transaction costs	7		**15,251,479**		—
Shares issued on exercise of stock option			—		255,000
Payment of lease liabilities	4		**(1,177,168)**		(660,979)
Repayment of loans and borrowings	7		**(1,857,500)**		(4,711,367)
Interest paid	7		**(1,599,026)**		(1,332,021)
		$	**10,617,785**	$	9,639,807
Decrease in cash			**(13,330,763)**		(10,225,086)
Cash, beginning of the period			**21,516,073**		25,618,083
Cash, end of the period		$	**8,185,310**	$	15,392,997
Cash			**8,085,310**		12,379,593
Restricted cash			**100,000**		3,013,404
		$	**8,185,310**	$	15,392,997
Supplemental disclosure of non-cash financing activity					
Settlement of unsecured convertible debentures by obtaining additional loan financing	7		**8,533,002**		—

See accompanying notes to the condensed interim consolidated financial statements

1. Nature of Operations

Entourage Health Corp. is the publicly traded parent company of Entourage Brands Corp., a federally licensed producer and distributor of cannabis products for both the medical and adult-use markets. The Company owns and operates three facilities: i) indoor facility in Aylmer, Ontario ("Aylmer Facility") which specializes in cannabis extraction and processing, ii) greenhouses, outdoor licensed production space located in Strathroy, Ontario ("Strathroy Facility"), iii) Operates an indoor micro-propagation facility in Guelph, Ontario which specializes in tissue culture, genetics remediation and plant-cell growth in a clean, data-driven environment ("Guelph Facility").

The condensed interim consolidated financial statements of the Company for the three and nine months ended September 30, 2022, are comprised of Entourage Health Corp. and its wholly-owned subsidiaries: Entourage Brands Corp., 2686912 Ontario Limited, 2686913 Ontario Inc., CannTx Life Sciences Inc. ("CannTx" was acquired on October 29, 2021), Pioneer Cannabis Corp. ("Pioneer") (50.1% ownership- inactive Company with no assets and liabilities) and Starseed Holdings Inc. and North Star Wellness Inc. (collectively, "Entourage" or the "Company").

Entourage Health Corp., is a publicly listed company on the TSX Venture Exchange ("TSXV") that trades under the ticker symbol "ENTG-V". Entourage Health Corp., is also listed on the OTCQX under the ticker symbol "ETRGF" and on the Frankfurt Stock Exchange under the ticker symbol "4WE". The registered and head office of the Company is located at 276 Queen Street West, Suite 200, Toronto, Ontario M5V 2A1.

On October 29, 2021 the Company completed the acquisition of CannTx by Entourage (the "Acquisition"). Following approval from CannTx shareholders, and satisfaction of other closing conditions, the formerly privately owned cannabis cultivator, which operates out of its licensed production facility in Guelph, Ontario, is now a wholly owned subsidiary of Entourage.

2. Basis of preparation

a) Statement of compliance

These condensed interim consolidated financial statements have been prepared in accordance with International Accounting Standard 34 Interim Financial Reporting ("IAS 34"). The condensed interim consolidated financial statements do not include all of the information required for full annual financial statements and therefore should be read in conjunction with the audited annual consolidated financial statements of Entourage Health Corp. for the years ended December 31, 2021 and 2020, which have been prepared in accordance with International Financial Reporting Standards (IFRS).

These condensed interim consolidated financial statements were approved by the Board of Directors for issue on November 14, 2022

b) Basis of presentation

The condensed interim consolidated financial statements have been prepared on an historical cost basis except for certain financial instruments and biological assets, which are measured at fair value and inventory which is recorded at the lower of cost and net realizable value.

The functional currency of the Company and its subsidiaries is the Canadian Dollar, which is also the presentation currency of the condensed interim consolidated financial statements.

c) Basis of consolidation

The financial statements of subsidiaries are included in the condensed interim consolidated financial statements from the date that control commences until the date control ceases.

Intercompany balances and transactions, and unrealized gains arising from intercompany transactions are eliminated in preparing the condensed interim consolidated financial statements.

d) Accounting estimates and judgments

The preparation of these condensed interim consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the condensed interim consolidated financial statements and the reported amounts of income and expenses during the reporting period. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. The most significant judgments include those related to the ability of the Company to continue as a going concern, the determination that acquisitions meet the definition of a business combination under IFRS 3- Business Combinations ("IFRS 3") and identification of intangible assets acquired, the determination of when property, plant and equipment are available for use as well as their useful lives, determining the lease term under IFRS 16 – Leases (IFRS 16"), the capitalization of construction costs, valuation and recoverability of deferred taxes, the determination of whether performance obligations have been met for revenue recognition, including bill and hold arrangements, impairment of financial and non-financial assets and assessment of assets held for sale.

The Company is subject to a number of risks and uncertainties associated with the going concern assumption and exercises judgment to assess the uncertainties relating to the determination of the Company's ability to continue as a going concern.

The most significant estimates and assumptions include those related to the inputs used in accounting for share based payment transactions, the valuation of warrants, and the conversion feature included in convertible debt, including volatility, the fair value of financial instruments, the discount rate used to determine the present value of the debt component of convertible debt, the impairment tests including weighted average cost of capital, terminal growth rate, projected cash flows, assets classified as held for sale including estimated sale price and cost to sell, and the valuation of net assets acquired in the Acquisition. In calculating the value of the biological assets and the net realizable value of inventory, management is required to make a number of estimates, including estimating the stage of growth of the cannabis up to the point of harvest, harvesting costs, selling costs, sales price, wastage and expected yields for the cannabis plants. In calculating final inventory values, management is required to determine an estimate of spoiled or expired inventory and compares the inventory cost versus net realizable value. The Company also exercises judgment in determining the incremental borrowing rate when the interest rate is not implicit in the lease. The incremental borrowing rate is the rate of interest that a lessee would have to pay to borrow over a similar term, with a similar security, the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment. Management has determined that judgments, estimates and assumptions reflected in these condensed interim consolidated financial statements are reasonable.

e) COVID-19 Pandemic

On March 11, 2020, the World Health Organization declared the ongoing COVID-19 outbreak as a global health emergency. This resulted in governments worldwide enacting emergency measures to combat the spread of the virus, including the closure of non-essential businesses. In Canada, the production and sale of cannabis is recognized as an essential service.

During the three and nine months ended September 30, 2022, the pandemic did not have a material impact on the Company's operations. COVID-19 has resulted in changes to the way the Company operates, for example, the number of employees allowed in a grow room. Consequently, the Company has taken steps to minimize any potential impact of the pandemic. These actions include postponement of discretionary capital expenditures, reduction of general and administrative expenses, temporary staff reductions, and enhanced process optimization to increase efficiencies and reduce costs.

Due to the rapid developments and uncertainty surrounding COVID-19, the challenges continue within the cannabis and other industries, and therefore it is not possible to predict the impact that COVID-19 will have on certain businesses, financial position, and operating results in the future. In addition, it is possible that estimates in the Company's condensed interim 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, which could result in, among other things, impairment of long-lived assets including intangibles. The Company is closely monitoring the impact of the pandemic on all aspects of its business.

f) Going concern

These condensed interim consolidated financial statements have been prepared on a going concern basis which presumes that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of its operations. As of September 30, 2022, the Company had a working capital of $27,122,688 (December 31, 2021 – negative working capital of $54,967,354) and an accumulated deficit of $231,444,854 (December 31, 2021 - $196,221,574). For the nine months ended, the Company used cash in operating activities of $22,651,351 (nine months ended September 30, 2021 - $21,261,745), resulting primarily from the net loss of $35,223,280 (nine months ended September 30, 2021 - $34,425,959) offset by items not affecting cash such as depreciation, amortization, and stock-based compensation. The Company has insufficient cash to fund its planned capital investments and operations for the next twelve months. The Company's ability to continue as a going concern is dependent upon its ability to obtain sufficient additional funding and to generate sufficient revenues and positive cash flows from its operating activities to meet its obligations and fund its planned investments and operations. These conditions indicate the existence of a material uncertainty that may cast a significant doubt about the Company's ability to continue as a going concern.

These condensed interim consolidated financial statements do not reflect adjustments that would be necessary if the going concern assumption were not appropriate. Should the Company be unable to generate sufficient cash flow from financing and operating activities, the carrying value of the Company's assets could be subject to material adjustments and other adjustments may be necessary to these financial statements should such events impair the Company's ability to continue as a going concern.

g) New and Amended Accounting Pronouncements

<u>Accounting pronouncements not yet effective</u>

The following new standards, amendments and interpretations have been issued but are not effective for the fiscal year ending December 31, 2022 and, accordingly, have not been applied in preparing these interim financial statements.

Insurance Contracts

In May 2017, the International Accounting Standards Board ("IASB") issued IFRS 17 – Insurance Contracts ("IFRS 17"), which replaces IFRS 4 – Insurance Contracts and establishes a new model for recognizing insurance policy obligations, premium revenue, and claims-related expenses. In June 2020, the IASB issued 'Amendments to IFRS 17' to address concerns and implementation challenges identified after IFRS 17 was published in 2017. The amendments also deferred the effective date for two years to January 1, 2023. Early adoption is permitted. The Company is assessing the potential impact of this standard.

(Unaudited – Expressed in Canadian Dollars)

Improving Accounting Policy Disclosures and Clarifying Distinction between Accounting Policies and Accounting Estimates (Amendments to IAS 1 and IAS 8)

In February 2021, the IASB issued narrow-scope amendments to IAS 1 – Presentation of Financial Statements ("IAS 1"), IFRS Practice Statement 2 – Making Materiality Judgments ("IFRS Practice Statement 2") and IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors ("IAS 8").

The amendments to IAS 1 require companies to disclose their material accounting policy information rather than their significant accounting policies. The amendments to IFRS Practice Statement 2 provide guidance on how to apply the concept of materiality to accounting policy disclosures.

The amendments to IAS 8 clarify how companies distinguish changes in accounting policies from changes in accounting estimates. That distinction is important because changes in accounting estimates are applied prospectively only to future transactions and other future events, but changes in accounting policies are generally also applied retrospectively to past transactions and other past events.

The amendments are effective for annual reporting periods beginning on or after January 1, 2023. Earlier application is permitted. The Company is assessing the potential impact of these amendments.

3. Inventory and Biological Assets

Inventory

Inventory is comprised of the following and is valued at the lower of cost and net realizable value:

	September 30, 2022			December 31, 2021		
		Amount	Grams		Amount	Grams
Dried cannabis	$	14,876,972	14,133,777	$	17,736,539	20,023,872
Harvested work in progress		1,941,488	1,501,729		4,121,413	9,110,900
Extracts						
Resin		74,572	251,120		144,616	289,045
Crude oil		1,676,339	357,566		998,714	109,770
Finished oil		3,884,210	2,259,676		4,391,981	1,925,928
Non-cannabis inventory		1,900,158	—		2,247,290	—
	$	**24,353,739**		$	29,640,553	

During the three and nine months ended September 30, 2022, the Company recognized impairment of inventory amounting to $7,680,702 and $8,990,576 (for the three and nine months ended September 30, 2021 $908,353 and $4,978,477) included in cost of goods sold and $900,399 and $617,620 (for the three and nine months ended September 30, 2021 - $5,007,459 and $10,039,830) included in realized fair value amounts included in inventory sold in the statements of loss and comprehensive loss.

As disclosed in the Company's condensed interim consolidated financial statements for the three months ended June 30, 2022, a structural deficiency resulted in the temporary closure in certain cultivation rooms at the Company's Strathroy facility to facilitate the necessary remediations. Whereas two rooms were initially impacted, through the three months ended June 30, 2022, the Company remediated all eighteen rooms at the Strathroy facility. Due to the closure in certain of these rooms, a total of thirteen harvests were lost, including harvests of certain of the Company's proprietary cultivars.

Given the room closures, included in cost of goods sold for the three months ended June 30, 2022 are expenses of $3,304,296 representing costs incurred as a result of the room for around twelve weeks. Remediation was completed in full by mid-July and all rooms were in production by the beginning of August. As such, there were no related costs recognized in the three months ended September 30, 2022.

(Unaudited – Expressed in Canadian Dollars)

Biological assets

The Company's biological assets consist of cannabis plants.

The changes in carrying value of the Company's biological assets are as follows:

Carrying amount, December 31, 2020	**$**	**1,955,697**
Changes in fair value less costs to sell due to biological transformation		2,499,282
Production costs capitalized		8,669,227
Transferred to inventory upon harvest		(12,517,031)
Carrying amount, December 31, 2021	**$**	**607,175**
Changes in fair value less costs to sell due to biological transformation		314,433
Production costs capitalized		6,383,197
Transferred to inventory upon harvest		(6,029,614)
Carrying amount, September 30, 2022	**$**	**1,275,191**

All of the plants are to be harvested as agricultural produce. Indoor grow plants are up to twelve weeks from harvest (December 31, 2021: up to twelve weeks) and the maximum life cycle is estimated to be one hundred and twelve days (December 31, 2021: one hundred and two days). The Company did not hold plants to be sold as live plants at September 30, 2022 and December 31, 2021. Biological assets are classified as level 3 in the fair value hierarchy. There have been no transfers between levels.

In accordance with IFRS, the Company is required to record its biological assets at fair value less cost to sell. At each reporting period, unharvested plants are adjusted to fair value less costs to complete and sell based on the estimated yield for harvests in progress. At the point of harvest or before they are transferred to Inventory, biological assets are adjusted to fair value less costs to complete and sell based on the actual yield in grams. At each reporting period, costs incurred up to harvest are capitalized to biological assets when the costs are incurred, fair value adjustments are recorded to reflect the difference between the capitalized costs and fair value less costs to complete and sell. Cannabis which has been harvested is transferred to inventory at the full biological asset carrying value, comprised of capitalized costs and fair value adjustments, for each harvest.

To determine fair value the Company considers the following:

- The product of the expected yield in grams per plant and the expected selling price per gram;
- The expected selling price less selling costs and remaining costs to be incurred in order to complete the harvest and bring the harvested product to finished inventory; and

The significant assumptions used in determining the fair value of cannabis plants are as follows:

- Expected yield by plant adjusted for expected wastage – represents the expected number of grams of dry cannabis inventory which are expected to be obtained from each cannabis plant;
- Percentage of costs incurred to date compared to the total expected costs to be incurred over the life of the plant are used to estimate the fair value of an in-process plant at each stage;
- Expected weighted average selling price per gram of harvested cannabis – calculated as the weighted average historical selling price for all strains of cannabis sold by the Company, which is expected to approximate future selling prices;
- Expected number of days remaining over the life of the plant; and
- Expected number of days remaining in each stage of growth and over the life of the plant.

The Company estimates harvest yields for the plants at various stages of growth. As of September 30, 2022, it is expected that the Company's biological assets that are to be harvested from its greenhouse facility will yield approximately 1,560,907 grams (December 31, 2021: 1,105,431 grams) with a value of $1,275,191 (December 31, 2021: $607,175), based on the current stage of growth. The weighted average selling price used in the valuation is $0.82 per gram (December 31, 2021: $0.59 per gram) and is based on a normalized historical average selling price, adjusted based on expected future sales mix, can vary based on different grades of cannabis. The Company estimates percentage of costs incurred based on the stage of growth. Plants on hand at September 30, 2022, have incurred an average of 43% of costs to harvest (December 31, 2021: 40%).

(Unaudited – Expressed in Canadian Dollars)

The Company's estimates are, by their nature, subject to change. Changes in the anticipated yield will be reflected in future changes in the gain or loss on biological assets. The Company performed a sensitivity analysis on the fair value of biological assets using the most sensitive inputs to the fair value methodology. The following table quantifies each significant unobservable input, and also provides the impact of a reasonable increase/decrease that each input would have on the fair value of the Company's greenhouse biological assets.

	September 30, 2022 Valuation inputs	December 31, 2021 Valuation inputs	Percentage change used in sensitivity analysis	Change resulting for reasonable variance as at September 30, 2022	Change resulting for reasonable variance as at December 30, 2021
Increase or decrease of Selling price	0 to 1.28	0 to 1.52	10%	$ 236,931	$ 349,356
Increase or decrease of Yield by plant	108 grams	136 grams	15%	$ 191,279	$ 91,076
Increase in average life cycle	100 days	110 days	10%	$ (117,951)	$ 47,019
Decrease in average life cycle	100 days	110 days	10%	$ (129,625)	$ (50,255)
Increase in percentage of costs to harvest incurred to date	43%	40%	10%	$ 127,519	$ 50,255
Decrease in percentage of costs to harvest incurred to date	43%	40%	10%	$ (127,519)	$ (50,255)

4. Right-of-Use Assets and Lease Liabilities

The following is a breakdown of the carrying amount of the Right-of-Use assets as at September 30, 2022: The weighted average incremental borrowing rate was applied from 5.95% to 12.08% for the leases.

	Office Space Queen St.	**Office Space** 484 Richmond	**Building** Sprung Greenhouse	**Vehicle** Truck	**Equipment** Spectrum	**Starseed** Office Space/ Bowmanville	**Canntx** Office Space	**Total**
Cost								
As at, December 31, 2020	$ 504,605	$ 944,521	$ 1,762,359	$ 7,968	$ 637,364	$ 181,054	$ —	$ 4,037,871
Additions	—	—	—	—	—	—	—	—
Modification	—	—	123,401	—	—	—	—	123,401
Acquisition - Canntx	—	—	—	—	—	—	1,056,995	1,056,995
As at, December 31, 2021	504,605	944,521	1,885,760	7,968	637,364	181,054	1,056,995	5,218,267
Additions	—	—	—	—	—	—	—	—
As at September 30, 2022	**$ 504,605**	**$ 944,521**	**$ 1,885,760**	**$ 7,968**	**$ 637,364**	**$ 181,054**	**$ 1,056,995**	**$ 5,218,267**
Depreciation								
As at, December 31, 2020	$ 196,209	$ 85,940	$ 115,732	$ 7,968	$ 318,682	$ 98,835	$ —	$ 823,366
Depreciation	98,067	91,818	90,339	—	318,682	40,993	23,229	663,128
As at, December 31, 2021	294,276	177,758	206,071	7,968	637,364	139,828	23,229	1,486,494
Depreciation	—	—	—	—	—	—	—	—
As at September 30, 2022	**$ 294,276**	**$ 177,758**	**$ 206,071**	**$ 7,968**	**$ 637,364**	**$ 139,828**	**$ 23,229**	**$ 1,486,494**
Impairment								
As at, December 31, 2020	$ 9,039	$ 23,931	$ 45,249	$ —	$ —	$ —	$ —	$ 78,219
Impairment	201,290	742,832	1,634,440	—	—	41,226	1,033,766	3,653,554
As at, December 31, 2021	210,329	766,763	1,679,689	—	—	41,226	1,033,766	3,731,773
Impairment	—	—	—	—	—	—	—	—
As at September 30, 2022	**$ 210,329**	**$ 766,763**	**$ 1,679,689**	**$ —**	**$ —**	**$ 41,226**	**$ 1,033,766**	**$ 3,731,773**
Net book value								
As at, December 31, 2021	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
As at September 30, 2022	**$ —**	**$ —**	**$ —**	**$ —**	**$ —**	**$ —**	**$ —**	**$ —**

(Unaudited – Expressed in Canadian Dollars)

The following is a breakdown of the carrying amount of the Lease liabilities as at September 30, 2022:

	Office Space 232 Central Ave.	Office Space Queen St.	Office Space 484 Richmond	Building Sprung Greenhouse	Vehicle Truck	Equipment Spectrum	Starseed Office Space	Canntx Office Space	Total
Ending lease liability, December 31, 2020	**$ 97,847**	**$ 325,885**	**$ 888,598**	**$ 827,270**	**$ 15**	**$ 331,477**	**$ 101,298**	**$ —**	**$ 2,572,390**
Interest	—	16,269	49,730	72,487	—	18,635	4,977	8,725	170,823
Payments	(15,000)	(115,668)	(116,636)	(226,310)	—	(350,112)	(46,560)	(30,409)	(900,695)
Modification	—	—	—	123,401	—	—	—	—	123,401
Reclassification	(82,847)	—	—	—	—	—	—	—	(82,847)
Acquisition - Canntx	—	—	—	—	—	—	—	1,056,995	1,056,995
Ending lease liability, December 31, 2021	**$ —**	**$ 226,486**	**$ 821,692**	**$ 796,848**	**$ 15**	**$ —**	**$ 59,715**	**$ 1,035,311**	**$ 2,940,067**
Interest (Note 12)	—	8,336	34,662	25,458	—	—	2,117	34,510	105,083
Payments	—	(86,751)	(89,359)	(826,863)	—	—	(34,920)	(139,275)	(1,177,168)
Modification	—	—	—	4,557	—	—	—	(809,881)	(805,324)
Ending lease liability, September 30, 2022	**$ —**	**$ 148,071**	**$ 766,995**	**$ —**	**$ 15**	**$ —**	**$ 26,912**	**$ 120,665**	**$ 1,062,658**
For the year ended December 31, 2021									
Short Term Portion	**$ —**	**$ 105,314**	**$ 73,536**	**$ 796,848**	**$ 15**	**$ —**	**$ 44,057**	**$ 86,482**	**$ 1,106,252**
Long Term Portion	**$ —**	**$ 121,172**	**$ 748,156**	**$ —**	**$ —**	**$ —**	**$ 15,658**	**$ 948,829**	**$ 1,833,815**
For the nine months ended September 30, 2022									
Short Term Portion	**$ —**	**$ 109,976**	**$ 78,770**	**$ —**	**$ 15**	**$ —**	**$ 26,912**	**$ 120,665**	**$ 336,338**
Long Term Portion	**$ —**	**$ 38,095**	**$ 688,225**	**$ —**	**$ —**	**$ —**	**$ —**	**$ —**	**$ 726,320**

The lease commitment schedule for all future lease payments is outlined in the table below:

As at	**September 30, 2022**	**December 31, 2021**
Less than one year	**$ 390,914**	$ 1,272,470
1 to 5 years	548,985	1,435,145
Greater than 5 years	316,537	924,356
Gross lease liabilities	**1,256,436**	3,631,971
Interest on lease liabilities	193,778	691,904
Net lease liabilities	**$ 1,062,658**	$ 2,940,067

During the three and nine months ended September 30, 2022, the Company recognized the proportionate decrease in the lease liability to reflect the change in the assumption pertaining to renewal of the lease term as all cultivation activities have been transferred from Guelph facility to Strathroy resulting in gain amounting to $Nil and $809,881 (for the three and nine months ended September 30, 2021: Nil) recognized in the condensed interim consolidated statements of loss and comprehensive loss.

(Unaudited – Expressed in Canadian Dollars)

5. Property, Plant and Equipment

Cost	Balance at December 31, 2021	Additions	Transfer	Acquisition	Disposal	Transfer to Assets held for sale	Balance at September 30, 2022
Security equipment	$ 3,355,575	$ —	$ —	$ —	$ —	$ —	$ 3,355,575
Equipment	15,262,951	1,008,297	205,708	—	(595,905)	—	15,881,051
Furniture & fixtures	432,820	—	—	—	—	—	432,820
Fence & signage	663,648	—	—	—	—	—	663,648
Land	3,808,002	—	—	—	—	—	3,808,002
Building	87,805,209	—	—	—	(48,400)	—	87,756,809
Leasehold improvements and greenhouse	4,297,500	668,919	—	—	—	—	4,966,419
Capital work in progress	284,208	—	(205,708)	—	—	—	78,500
	$ 115,909,913	**$ 1,677,216**	**$ —**	**$ —**	**$ (644,305)**	**$ —**	**$ 116,942,824**

Accumulated Depreciation	Balance at December 31, 2021	Additions	Transfer	Acquisition	Disposal	Transfer to Assets held for sale	Balance at September 30, 2022
Security equipment	$ (1,621,412)	$ (199,627)	$ —	$ —	$ —		$ (1,821,039)
Equipment	(5,657,355)	(1,176,155)	—	—	235,886	—	(6,597,624)
Furniture & fixtures	(199,082)	(26,728)	—	—	—	—	(225,810)
Fence & Signage	(158,632)	(30,048)	—	—	—	—	(188,680)
Land	—	—	—	—	—	—	—
Building	(8,922,615)	(2,754,628)	—	—	6,382	—	(11,670,861)
Leasehold improvements and greenhouse	(82,994)	(1,357,100)	—	—	—	—	(1,440,094)
Capital work in progress		—	—	—	—	—	—
	$ (16,642,090)	**$ (5,544,286)**	**$ —**	**$ —**	**$ 242,268**	**$ —**	**$ (21,944,108)**

Accumulated Impairment	Balance at December 31, 2021	Additions	Transfer	Acquisition	Disposal	Transfer to Assets held for sale	Balance at September 30, 2022
Security equipment	$ (334,498)	$ —	$ —	$ —	$ —	$ —	$ (334,498)
Equipment	(1,626,223)	(170,600)	(30,311)	—	—	—	(1,827,134)
Furniture & fixtures	(46,359)	—	—	—	—	—	(46,359)
Fence & signage	(94,186)	—	—	—	—	—	(94,186)
Land	(561,111)	—	—	—	—	—	(561,111)
Building	(14,150,758)	—	—	—	—	—	(14,150,758)
Leasehold improvements and greenhouse	(712,681)	(517,198)	—	—	—	—	(1,229,879)
Capital work in progress	(41,878)	—	30,311	—	—	—	(11,567)
	$ (17,567,694)	**$ (687,798)**	**$ —**	**$ —**	**$ —**	**$ —**	**$ (18,255,492)**

Net Book Value	Balance at December 31, 2021	Additions	Transfer	Acquisition	Disposal	Transfer to Assets held for sale	Balance at September 30, 2022
Security equipment	$ 1,399,665	$ (199,627)	$ —	$ —	$ —	$ —	$ 1,200,038
Equipment	7,979,373	(338,458)	175,397	—	(360,019)	—	7,456,293
Furniture & fixtures	187,379	(26,728)	—	—	—	—	160,651
Fence & signage	410,830	(30,048)	—	—	—	—	380,782
Land	3,246,891	—	—	—	—	—	3,246,891
Building	64,731,836	(2,754,628)	—	—	(42,018)	—	61,935,190
Leasehold improvements and greenhouse	3,501,825	(1,205,379)	—	—	—	—	2,296,446
Capital work in progress	242,330	—	(175,397)		—	—	66,933
	$ 81,700,129	**$ (4,554,868)**	**$ —**	**$ —**	**$ (402,037)**	**$ —**	**$ 76,743,224**

(Unaudited – Expressed in Canadian Dollars)

Cost	Balance at December 31, 2020	Additions	Transfer	Acquisition	Disposal	Balance at December 31, 2021
Security equipment	$ 3,355,575	$ —	$ —	$ —	$ —	$ 3,355,575
Equipment	14,322,495	81,311	—	1,599,400	(740,255)	15,262,951
Furniture & fixtures	432,820	—	—	—	—	432,820
Fence & signage	663,648	—	—	—	—	663,648
Land	3,808,002	—	—	—	—	3,808,002
Building	87,721,299	83,910	—		—	87,805,209
Leasehold improvements and greenhouse	97,500		—	4,200,000	—	4,297,500
Capital work in progress	—	284,208		—		284,208
	$ 110,401,339	$ 449,429	$ —	$ 5,799,400	$ (740,255)	$ 115,909,913

Accumulated Depreciation	Balance at December 31, 2020	Additions	Transfer	Acquisition	Disposal	Balance at December 31, 2021
Security equipment	$ (1,247,570)	$ (373,842)	$ —	$ —	$ —	$ (1,621,412)
Equipment	(3,860,700)	(2,015,772)	—	—	219,117	(5,657,355)
Furniture & fixtures	(149,034)	(50,048)	—	—	—	(199,082)
Fence & Signage	(107,280)	(51,352)	—	—	—	(158,632)
Building	(4,676,873)	(4,245,742)	—	—	—	(8,922,615)
Leasehold improvements and greenhouse	(5,216)	(77,778)	—	—	—	(82,994)
Capital work in progress	—	—	—			—
	$ (10,046,673)	$ (6,814,534)	$ —	$ —	$ 219,117	$ (16,642,090)

Accumulated Impairment	Balance at December 31, 2020	Additions	Transfer	Acquisition	Disposal	Balance at December 31, 2021
Security equipment	$ (92,615)	$ (241,883)	$ —	$ —	$ —	$ (334,498)
Equipment	(247,268)	(1,378,955)	—	—	—	(1,626,223)
Furniture & fixtures	(13,977)	(32,382)	—	—	—	(46,359)
Fence & signage	(23,188)	(70,998)	—	—	—	(94,186)
Land	—	(561,111)	—	—	—	(561,111)
Building	(2,964,126)	(11,186,632)	—	—	—	(14,150,758)
Leasehold improvements and greenhouse	(107,513)	(605,168)	—	—	—	(712,681)
Capital work in progress	—	(41,878)	—		—	(41,878)
	$ (3,448,687)	$ (14,119,007)	$ —	$ —	$ —	$ (17,567,694)

Net Book Value	Balance at December 31, 2020	Additions	Transfer	Acquisition	Disposal	Balance at December 31, 2021
Security equipment	$ 2,015,390	$ (615,725)	$ —	$ —	$ —	$ 1,399,665
Equipment	10,214,527	(3,313,416)	—	1,599,400	(521,138)	7,979,373
Furniture & fixtures	269,809	(82,430)	—	—	—	187,379
Fence & signage	533,180	(122,350)	—	—	—	410,830
Land	3,808,002	(561,111)	—	—	—	3,246,891
Building	80,080,300	(15,348,464)	—	—	—	64,731,836
Leasehold improvements and greenhouse	(15,229)	(682,946)	—	4,200,000	—	3,501,825
Capital work in progress	—	242,330	—	—	—	242,330
	$ 96,905,979	$ (20,484,112)	$ —	$ 5,799,400	$ (521,138)	$ 81,700,129

(Unaudited – Expressed in Canadian Dollars)

Total depreciation for the three and nine months ended September 30, 2022 was $2,019,543 and $5,544,286 respectively (for the three and nine months ended September 30, 2021: $1,906,938 and $5,070,324), of which $437,813 and $1,503,005 (for the three and nine months ended September 30, 2021: $1,383,001 and $2,512,481) has been capitalized in inventory, $876,825 and $2,628,824 has been capitalized to biological assets (for the three and nine months ended September 30, 2021: $445,035 and $1,284,646) and remaining depreciation for the three and nine months ended September 30, 2022 was $704,904 and $1,412,457 (for the three and nine months ended September 30, 2021: $468,173 and $2,514,547) is directly expensed under Depreciation and amortization in the condensed interim consolidated statements of loss and comprehensive loss.

During the three months and nine months ended September 30, 2022, the Company recorded impairment amounting to $Nil and $687,978 (for the three and nine months ended September 30, 2021: Nil) recognized in the condensed interim consolidated statements of loss and comprehensive loss due to transfer of all cultivation activities from Guelph facility to Strathroy facility.

6. Unsecured Convertible Debentures

	Debentures	Warrants	Conversion Feature	Total
Balance, December 31, 2020	$ 9,584,869	$ 1,447,359	$ 1,514,025	$ 12,546,253
Accretion of debentures	1,639,303	—	—	1,639,303
Debentures issued on acquisition	886,035	—	112,095	998,130
Accretion of acquisition debentures	10,585	—	—	10,585
Balance, December 31, 2021	$ 12,120,792	$ 1,447,359	$ 1,626,120	$ 15,194,271
Accretion of debentures	1,550,636	—	—	1,550,636
Settlement of debentures	(12,765,000)	—	(1,514,025)	(14,279,025)
Gain on modification of debenture	(48,866)	—	—	(48,866)
Accretion of acquisition debentures	20,088	—	—	20,088
Balance, September 30, 2022	**$ 877,650**	**$ 1,447,359**	**$ 112,095**	**$ 2,437,104**

As at year ended December 31, 2021	
Short Term Portion	11,224,172
Long Term Portion	896,620
As at September 30, 2022	
Short Term Portion	—
Long Term Portion	877,650

On June 27, 2022, in connection with the unsecured convertible debentures issued on September 25, 2019, the Company accelerated its maturity date from September 25, 2022 to June 30, 2022 and settled its unsecured convertible debentures at a discount of 40% on the principal amount, together with any accrued and unpaid interest earned on the principal amount of the Debentures from the last Interest Payment Date. The settlement was made by obtaining additional loan from Liuna Pension Fund (“LPF”) at an interest rate 15.25% p.a. (refer to note 7)

Due to the above stated amendment in its maturity date the remaining accretion has been recognized in the condensed interim consolidated statements of loss and comprehensive loss during the three and nine months ended September 30, 2022.

During the three and nine months ended September 30, 2022, the Company recorded a gain on extinguishment of unsecured convertible debentures amounting to $Nil and $5,106,000 as the full and final settlement of above debentures which were made at a discount of 40% on the principal amount recognized in the condensed interim consolidated statements of loss and comprehensive loss.

(Unaudited – Expressed in Canadian Dollars)

The relative fair value of the conversion feature pertaining to above unsecured convertible debentures, amounting to $1,514,025 has been adjusted against contributed surplus in the condensed interim consolidated statements of changes in shareholders' (deficiency) equity.

On July 26, 2022, the Company amended its outstanding 9% unsecured convertible debentures having principal amount of $1,013,050, of one of its subsidiary acquired in the previous year. The amendments included (i) extending the maturity date of the Debentures from March 31, 2024 to December 31, 2025; (ii) in certain cases, allow for the interest accrued under the Debentures to be paid in cash or Entourage common shares; and (iii) reduce the conversion price of the Debentures from $0.50 to $0.15 per Entourage common share.

The following assumptions were used in Monte- Carlo Simulation model to re-value the convertible debentures on the amendment date:

- Stock price of $0.05
- Expected maturity of 3.44 years
- Volatility of 88.56%
- Discount rate of 2.92%
- Conversion price of $0.15

As a result of the revaluation, during the three and nine months ended September 30, 2022, the Company recorded gain on modification of convertible debentures of $48,866 (for the three and nine months ended September 30, 2021: $Nil)

7. Loans and Borrowings

	Financial Institution				Liuna Pension Fund ("LPF")		1217174 Ontario LTD		
Maturity date	June 2024				December 2024		October 2026		
	Facility 1	Facility 2	Facility 3	Transaction costs	Term loan	Transaction costs	Canntx Loan	Canntx short term loan	Total
Balance, December 31, 2020	**$ 3,290,620**	**$ 32,434,599**	**$ 2,800,000**	**$ (184,419)**	**$ 31,125,000**	**$ (744,743)**	**$ —**	**$ —**	**$ 68,721,057**
Proceeds	1,300,000	—	—	—	20,000,000	(308,872)	—	—	20,991,128
Acquisition	—	—	—	—	—		3,653,050	71,950	3,725,000
Interest	92,049	1,855,440	149,623	—	5,083,944	—	25,875	—	7,206,931
Gain on loan modification	(14,051)	33,529	(2,303)	—	(244,331)	—	—	—	(227,156)
Repayment	(1,653,867)	(6,498,900)	(800,000)	—	—	—	—	(40,000)	(8,992,767)
Accretion	—	—	—	146,323	—	478,679	21,565	—	646,567
Interest payments	(84,594)	(1,533,124)	(127,538)	—	—	—	(25,875)	—	(1,771,131)
Balance, December 31, 2021	**$ 2,930,157**	**$ 26,291,544**	**$ 2,019,782**	**$ (38,096)**	**$ 55,964,613**	**$ (574,936)**	**$ 3,674,615**	**$ 31,950**	**$ 90,299,629**
Proceeds	—	—	—	—	15,000,000	(115,519)	—	—	14,884,481
Additional loan proceeds	—	—	—	—	366,998	—	—	—	366,998
Additional loan	—	—	—	—	8,533,002	(331,491)	—	—	8,201,511
Interest	168,736	1,348,039	91,839	—	7,843,917	—	232,875	—	9,685,406
(Gain) / Loss on loan modification	(31,135)	100,914	29,707	—	(3,295,450)	—	—	—	(3,195,964)
Repayment	—	(1,657,500)	(200,000)	—	—	—	—	—	(1,857,500)
Accretion	—	—	—	38,096	—	550,474	204,832	—	793,402
Interest payments	(135,657)	(1,142,324)	(88,170)	—	—	—	(232,875)	—	(1,599,026)
Balance, September 30, 2022	**$ 2,932,101**	**$ 24,940,673**	**$ 1,853,158**	**$ —**	**$ 84,413,080**	**$ (471,472)**	**$ 3,879,447**	**$ 31,950**	**$ 117,578,937**

For the year ended December 31, 2021	
Short Term Portion	86,625,014
Long Term Portion	3,674,615
For the nine months ended September 30, 2022	
Short Term Portion	1,956,591
Long Term Portion	115,622,346

Credit Facility with Bank of Montreal (BMO)

Under the Credit agreement with Bank of Montreal (BMO) dated September 30, 2020, the Company was to maintain until the Conversion Date a total funded debt to tangible net worth ratio of not more than 1:1. From July 2020, the Company was to maintain Liquidity coverage of not less than $2,000,000.

At or after the Conversion Date the Company must maintain

- a minimum fixed charge coverage ratio of 1.25:1,
- a senior funded debt to EBITDA ratio of not more than 3:1,
- a total funded debt to EBITDA ratio of not more than 4:1.

On June 30, 2022, the Company entered into an amendment to extend the maturity to June 30, 2024. In the amendment, the requirement relating to maintaining a total funded debt to tangible net worth of not more than 1:1 until Conversion Date was replaced by a requirement to maintain a certain minimum quarterly EBITDA targets for the fiscal quarters ending June 30, 2022 to December 31, 2023. Further, under the June, 30, 2022 amendment the Company is to maintain liquidity coverage of not less than $1,000,000 at all times. As part of the conditions necessary for the amendment of the loan with BMO, the Company was required to settle its unsecured convertible debentures on or before the amendment date.

Credit facility with LiUNA Pension Fund of Central and Eastern Canada (“LPF”)

On April 29, 2022, the Company received additional disbursement of $15 million proceeds from LPF for use by the Company for general working capital purposes, maturing in August 2022 and bearing a 15.25% interest rate per annum and shall accrue daily and be payable monthly in arrears, with a payment-in-kind option at the Company's discretion, to add interest accrued to the principal loan amount.

On June 27, 2022, the Company entered into an arrangement with LPF to repay in full the unsecured convertible debenture holders of the Company including its transaction costs ($8.2 million is towards repayment of its debenture holders and $331,491 towards its transaction costs) and received additional cash proceeds of $366,998, resulting in an increase in the loan balance by $8.9 million on the same terms as noted above. The unsecured convertible debenture holders including its related expenses were directly settled by LPF.

On June 30, 2022, the Company secured an extension of the maturity date of the LPF loan from August 2022 to December 31, 2024, and a deferral of certain of its financial covenants to January 1, 2024, subject to certain conditions. In the amendment, the requirement relating to maintaining a total funded debt to tangible net worth of not more than 1:1 until Conversion Date was replaced by a requirement to maintain a certain minimum quarterly EBITDA targets for the fiscal quarters ending June 30, 2022 to December 31, 2023. Further, under the June, 30, 2022 amendment the Company is to maintain liquidity coverage of not less than $1,000,000 at all times. As part of the conditions necessary for the amendment of the loan with LPF, the Company was required to settle its unsecured convertible debentures on or before the amendment date.

The company was in breach to comply with one of the financial covenants to maintain a certain minimum quarterly EBITDA target as at September 30, 2022, however the Company is in discussions with the lender to obtain the written waiver. (In the first quarter of the nine months ended September 30, 2022 and for the year ended December 31, 2021, the Company was in breach of one of the covenants related to total funded debt to tangible net worth ratio of not more than 1:1, however the Company received a written waiver from the lender prior to the issuance of the financial statements relating to those periods.)

(Unaudited – Expressed in Canadian Dollars)

8. Share Capital

	Note	Number of shares		Amount
Balance as at December 31, 2020		210,261,715	**$**	**163,229,737**
Common shares issued upon private placement		35,937,500		14,867,515
Issuance cost - cash		—		(1,437,305)
Issuance cost - warrants		—		(420,007)
Issuance of shares on exercise of stock option		425,000		397,301
Common shares issued upon Canntx Acquisition		57,352,487		9,176,398
Balance as at December 31, 2021		303,976,702	$	185,813,639
Issuance of shares on exercise of DSU's	8	2,767,694		326,958
Balance as at September 30, 2022		306,744,396	**$**	**186,140,597**

During the three and nine months ended September 30, 2022, the Company settled 2,767,694 Deferred stock units (“DSU’s") given to certain directors of the Company for one common share each. These DSU’s were valued at $326,958 based on the fair market value at the grant date. Accordingly, this fair market value was transferred from Contributed Surplus to Share Capital on settlement.

9. Warrants

	Note	Number of Warrants		Warrants reserve
Balance as at December 31, 2020		12,805,498	**$**	**10,597,563**
add: warrants issued		17,968,750		2,382,485
less: issuance cost - cash		—		(230,325)
add: broker warrants issued		2,156,250		420,007
add: warrants issued on acquisition		3,116,667		172,216
Balance as at December 31, 2021		36,047,165	$	13,341,946
less: broker warrants expired	9 (a)	(983,624)		—
less: warrants expired	9 (b)	(8,196,875)		—
Balance as at September 30, 2022		26,866,666	**$**	**13,341,946**

a) 983,623 broker warrants issued on September 25, 2019 was expired on September 24, 2022.

b) 8,196,875 warrants issued on September 25, 2019 was expired on September 24, 2022.

10. Contributed Surplus

The Company has established a stock option plan for its directors, officers, employees and consultants under which the Company may grant options from time to time to acquire a maximum of 20% of the issued and outstanding Shares. The exercise price of each option granted under the plan shall be determined by the Board of Directors.

(Unaudited – Expressed in Canadian Dollars)

As at September 30, 2022, the Company's outstanding stock options consists of the following:

	Note	Number of options		Contributed surplus
Balance as at December 31, 2020		**14,139,665**	**$**	**16,035,146**
Stock options forfeited		(5,370,549)		(234,947)
Stock options exercised		(425,000)		(142,301)
Stock options expired		(487,000)		—
Stock options granted		125,000		21,094
Share based compensation		—		431,679
Deferred stock units issued		—		642,020
Stock options issued on acquisition		4,108,500		113,189
Balance as at December 31, 2021		**12,090,616**	**$**	**16,865,880**
Stock options forfeited		(660,338)		—
Stock options expired		(300,000)		—
Transfer of conversion feature on settlement of unsecured convertible debentures	6	—		1,514,025
Stock options granted	10 (d)	50,000		3,172
Share based compensation	10 (d)	—		8,137
Deferred stock units issued	10 (a,b,c,d)	—		425,556
Deferred stock units converted to shares	8	—		(326,958)
Balance as at September 30, 2022		**11,180,278**	**$**	**18,489,812**

(Unaudited – Expressed in Canadian Dollars)

As at September 30, 2022, 11,180,278 (December 31, 2021: 12,090,616) shares have been reserved for stock options as follows:

Exercise price	Number of options outstanding	Number of options exercisable	Remaining life (years)	Weighted average remaining life (years)	Weighted average exercise price
2.36	1,098,000	1,098,000	0.28	0.03	0.23
1.80	400,000	400,000	0.63	0.02	0.06
2.07	500,000	500,000	0.93	0.04	0.09
1.95	200,000	200,000	1.03	0.02	0.04
1.53	440,500	440,500	1.27	0.05	0.06
1.52	220,000	220,000	1.78	0.04	0.03
0.98	2,346,638	2,346,638	0.09	0.02	0.21
3.26	142,640	142,640	1.08	0.01	0.04
0.40	1,549,000	1,549,000	2.79	0.39	0.06
0.40	125,000	125,000	4.00	0.04	0.00
0.48	1,010,000	1,010,000	0.49	0.04	0.04
0.50	700,000	700,000	0.95	0.06	0.03
0.84	60,000	60,000	0.45	—	0.00
0.84	48,000	48,000	0.49	—	0.00
0.85	200,000	200,000	0.89	0.02	0.02
0.85	600,000	600,000	2.22	0.12	0.05
0.85	25,000	25,000	0.76	—	0.00
0.85	145,000	145,000	0.70	0.01	0.01
0.85	50,000	50,000	0.76	—	0.00
1.00	20,000	20,000	0.31	—	0.00
1.00	20,500	20,500	0.37	—	0.00
1.00	10,000	10,000	1.16	—	0.00
1.25	5,000	5,000	0.88	—	0.00
1.25	10,000	10,000	1.23	—	0.00
1.48	440,000	440,000	2.43	0.10	0.06
1.75	105,000	105,000	0.99	0.01	0.02
1.75	250,000	250,000	0.98	0.02	0.04
1.75	60,000	60,000	1.22	0.01	0.01
1.75	250,000	250,000	1.25	0.03	0.04
1.75	100,000	100,000	1.85	0.02	0.02
0.40	50,000	16,667	4.19	0.02	0.00
	11,180,278	**11,146,945**			**1.17**

a) On March 31, 2022, the Company determined and authorized the grant of an aggregate of 1,911,290 deferred share units ("DSUs") to certain directors and employees of the Company based on the fair value of the services provided. The DSUs will vest immediately and are granted in lieu of cash compensation for services rendered during the first quarter of 2022. The grant date fair value of the DSUs equals the fair market value of the corresponding shares at the grant date. Management estimates the total fair value of the DSUs to be $204,155.

b) On June 10, 2022, the Company determined and authorized the grant of an aggregate of 788,793 deferred share units ("DSUs") to directors of the Company based on the fair value of the services provided. The DSUs will vest immediately and are granted in lieu of cash compensation for services rendered during the second quarter of 2022. The grant date fair value of the DSUs equals the fair market value of the corresponding shares at the grant date. Management estimates the total fair value of the DSUs to be $43,384.

(Unaudited – Expressed in Canadian Dollars)

c) On June 30, 2022, the Company determined and authorized the grant of an aggregate of 1,454,544 deferred share units ("DSUs") to directors of the Company based on the fair value of the services provided. The DSUs will vest immediately and are granted in lieu of cash compensation for services rendered during the second quarter of 2022. The grant date fair value of the DSUs equals the fair market value of the corresponding shares at the grant date. Management estimates the total fair value of the DSUs to be $95,938.

d) On September 30, 2022, the Company determined and authorized the grant of an aggregate of 2,666,668 deferred share units ("DSUs") to directors of the Company based on the fair value of the services provided. The DSUs will vest immediately and are granted in lieu of cash compensation for services rendered during the third quarter of 2022. The grant date fair value of the DSUs equals the fair market value of the corresponding shares at the grant date. Management estimates the total fair value of the DSUs to be $82,079.

e) During three and nine months ended September 30, 2022, the Company granted 50,000 options to an employee of the Company which were valued based on the value of the instruments as the value of the services was not reliably determinable. Each option is exercisable into one common share at an exercise price of $0.40, until December 8, 2026. One third options are vested every 6 months. The fair value of the Options has been estimated using the Black-Scholes option pricing model with the following assumptions: (i) expected dividend yield of 0%; (ii) expected volatility of 159.49%; (iii) risk-free interest rate of 1.51%; (iv) share price of $0.075; (v) forfeiture rate of nil; and (vi) expected life of 60 months. The total fair value of the options is $3,172.

Total share based compensation for the three and nine months ended September 30, 2022 is $82,318 and $436,865 respectively (for the three and nine months ended September 30, 2021 is $214,390 and $882,752 respectively).

11. Selling, General and Administrative Expenses

	Three months ended		Nine months ended	
	September 30, 2022	September 30, 2021	**September 30, 2022**	September 30, 2021
Salaries and benefits	$ 3,135,592	$ 2,234,860	$ 10,582,564	$ 9,817,570
Office & Administrative	1,079,294	1,009,008	3,218,220	4,063,761
Professional fees	553,830	644,888	2,320,801	2,249,399
Consulting fees	441,036	182,394	1,518,158	3,074,308
Selling, marketing and promotion	1,565,961	374,632	3,543,415	1,412,740
Research and development	67,001	44,155	167,805	274,661
Total	$ **6,842,714**	$ 4,489,937	$ **21,350,963**	$ 20,892,439

12. Finance Costs

	Three months ended		Nine months ended	
	September 30, 2022	**September 30, 2021**	**September 30, 2022**	**September 30, 2021**
Accretion cost	$ 122,366	$ 570,489	$ 2,364,126	$ 1,630,328
Interest expense on credit facilities	563,607	451,281	1,862,780	1,332,021
Accrued interest on term loan (Liuna) *	3,156,785	1,125,000	7,843,917	3,375,000
Interest expense on unsecured convertible debentures	22,570	271,257	613,295	813,771
Interest expense on lease liabilities	22,122	40,429	105,083	132,835
Foreign exchange loss	30,267	32,790	74,009	116,667
Others charges	82	—	184,213	—
Total	**$ 3,917,799**	$ 2,491,246	**$ 13,047,423**	$ 7,400,622

*Interest on LPF loan is accrued, however not due until maturity based on the terms of the loan agreement.

(Unaudited – Expressed in Canadian Dollars)

13. Loss per Share

	Three months ended		Nine months ended	
	September 30, 2022	September 30, 2021	**September 30, 2022**	September 30, 2021
Basic and diluted loss per share:				
Loss attributable to holders of shares	**$ (17,432,184)**	$ (26,165,379)	**$ (35,223,280)**	$ (34,425,959)
Weighted average number of shares outstanding	304,363,421	210,261,715	304,363,421	230,419,386
	$ (0.06)	$ (0.12)	**$ (0.12)**	$ (0.15)

For periods where the Company records a loss, the Company calculates diluted loss per share using the basic weighted average number of shares. If the diluted weighted average number of shares were used, the result would be a reduction in the loss, which would be anti-dilutive. Consequently, for the nine months ended September 30, 2022, the Company calculated loss per share using 304,363,421 (nine months ended September 30, 2021: 230,419,386) common shares. The effect of options, warrants and conversion feature was anti-dilutive.

14. Change in Non-cash Operating Working Capital

For the nine months ended September 30,	2022	2021
Trade and other receivables	$ 1,266,206	$ (4,374,535)
Prepaid expenses and deposits	(847,347)	(725,281)
Inventory	(6,260,661)	(4,074)
Biological assets	(3,832,377)	—
Commodity tax receivable	402,257	1,787,500
Accounts payable and accrued liabilities	(3,450,220)	(2,941,848)
Net Changes in Non-Cash Working Capital	$ **(12,722,142)**	$ (6,258,238)

15. Trade and other receivables

	September 30, 2022	**December 31, 2021**
Gross trade receivables	**$ 5,876,746**	$ 7,573,550
Less: allowance for expected credit losses	—	—
Net trade receivables	**5,876,746**	7,573,550
Other receivables	**534,258**	103,660
Total	**$ 6,411,004**	$ 7,677,210

The ageing of outstanding receivables for the period ended September 30, 2022 and for the year ended December 31, 2021 are detailed as below:

Trade receivables ageing		
	September 30, 2022	**December 31, 2021**
0-89 days	**$ 5,876,746**	$ 7,573,550
90-119 days	—	—
120 days and above	—	—
Total	**$ 5,876,746**	$ 7,573,550

(Unaudited – Expressed in Canadian Dollars)

Trade receivables are from sale of dried cannabis and cannabis extracts sold directly to medical patients (“Medical”), wholesale of finished products to provinces and provincially regulated distributors (“Adult Use”), and wholesale of bulk to other Licensed Producers and Provincially regulated distributors (“Bulk”).

Trade receivables for Medical are mostly paid upfront or settled by Insurance providers through direct billing, Adult use receivables are generally received within 90 days of sale from the provincial boards and bulk use receivables are outstanding as at period end but do not exceed aging above 30 days due to which there are no expected credit losses for the Company.

16. Accounts payable and accrued liabilities

		September 30, 2022		December 31, 2021
Trade payables	**$**	5,765,778	$	5,119,834
Accrued employee benefits		2,334,642		2,025,699
Accrued excise taxes		2,216,624		2,208,403
Accrued audit fees		637,500		850,000
Accrued and other payables		3,382,861		7,233,393
Total	**$**	**14,337,405**	$	17,437,329

17. Revenue

		Three months ended				Nine months ended		
		September 30, 2022		September 30, 2021		**September 30, 2022**		September 30, 2021
Medical	**$**	3,519,130	$	3,305,732	**$**	15,631,481	$	13,281,721
Adult Use		9,919,190	$	11,313,679	**$**	26,544,555	$	27,568,625
Bulk		-	$	359,468	**$**	218,062	$	840,153
Total Revenue	**$**	**13,438,320**	$	14,978,879	**$**	**42,394,098**	$	41,690,499

For the three and nine months ended September 30, 2022, 90% and 88% (September 30, 2021: 67% and 59%) of total revenue is from 3 customers (September 30, 2021: 3 customers) each representing more than 10% of the Company’s revenue.

As at September 30, 2022, the Company recognized a contract liability of $1,015,074 pertaining to customer returns (December 31, 2021 - $408,908) which is expected to settle within one operating cycle. During the three and nine months ended September 30, 2022, actual returns amounted to $372,806 recorded net of revenue in the condensed interim consolidated statements of loss and comprehensive loss.

18. Related Party Transactions

The Company’s key management includes the Chief Executive Officer, Chief Financial Officer, Chief People Officer, Chief Commercial Officer, Chief Legal Officer, Chief Operating Officer and all directors. Transactions with related parties include salaries, share based compensation and service fees.

The balances outstanding for remuneration/service fees/ share based compensation payable to key management are as follows:

		September 30, 2022		December 31, 2021
Accounts payable and accrued liabilities	**$**	—	$	115,543

(Unaudited – Expressed in Canadian Dollars)

For the three and nine months ended September 30, 2022 and 2021, total remuneration/service fees/ share based compensation expensed pertaining to the key management is as follows:

	Three months ended		Nine months ended	
	September 30, 2022	September 30, 2021	**September 30, 2022**	September 30, 2021
Share based Compensation and director fees	**$ 150,018**	$ 134,954	**$ 758,376**	$ 414,623
Salaries	499,360	284,490	1,340,278	969,192
Bonus	—	8,644	346,000	157,394
Severance payments	10,524	131,111	10,524	892,511
Fees	—	—	35,724	—
Total	**$ 659,902**	$ 559,199	**$ 2,490,902**	$ 2,433,720

19. Commitments and Contingencies

Commitments

The commitment schedule for all future committed payments excluding lease payments disclosed in Note 4 is outlined in the table below:

Within 1 year	**$ 9,833**
Within 2 years	7,685
Within 3 years	1,375
Greater than 3 years	—
Total	**$ 18,893**

Contingencies

On July 2, 2021, Pioneer, an investee of the Company, commenced legal action against a former licensee of Pioneer to seek damages in the amount of $1,235,292 for the recovery of funds advanced to the former executive. These advances were partially funded through a promissory note issued by the Company. On November 22, 2021, Pioneer received a counterclaim from the former Pioneer executive, amounting to $1,000,000 for breach of contract, misrepresentation, and breach of franchise disclosure obligations. The Company believes that the outcome of this claim and counterclaim will not have any material effect on its condensed interim consolidated financial statements.

20. Financial Instruments

Transactions in financial instruments may result in an entity assuming or transferring to another party one or more of the financial risks described below. The required disclosures provide information that assists users of financial statements in assessing the extent of risk related to financial instruments.

(a) Fair value

Fair value measurement is disaggregated into three hierarchical levels: Level 1, 2 or 3. Fair value hierarchical levels are directly based on the degree to which the inputs to the fair value measurement are observable. The levels are as follows:

Level 1 – Inputs are unadjusted, quoted prices in active markets for identical assets or liabilities at the measurement date.

Level 2 – Inputs (other than quoted prices included in Level 1) are either directly or indirectly observable for the asset or liability through correlation with market data at the measurement date and for the duration of the asset or liability's anticipated life.

Level 3 – Inputs are unobservable and reflect management's best estimate of what market participants would use in pricing the asset or liability at the measurement date. Consideration is given to the risk inherent in the valuation technique and the risk inherent in the inputs in determining the estimate.

The carrying values of cash (Level 1), trade and other receivables (Level 2), accounts payable (Level 2) and accrued liabilities (Level 2), short term loan and borrowings (Level 2) approximate their fair values because of the short-term nature of these financial instruments. Long term loan and borrowings and unsecured convertible debentures are recorded at amortized cost.

(b) Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations.

The Company is exposed to credit risk on its trade and other receivables which has a balance of $6,411,004 (December 31, 2021: $7,677,210).

As at September 30, 2022, 94% (December 31, 2021: 54%) of the Company's trade and other receivables balance, is owing from 4 customers (December 31, 2021: 1 customers), each representing more than 10% of trade and other receivables.

Cash is generally invested in cash accounts held in Canadian chartered banks, in short-term GICs or in-trust. Restricted cash is generally held as collateral to repay any outstanding balances related to the Company's credit cards. Management believes the risk of loss associated with these assets to be remote. Management believes that the credit risk concentration with respect to financial instruments included in assets has been reduced to the extent presently practicable.

The definition of items that are past due is determined by reference to payment terms agreed to with individual customers, which are normally within 0 to 90 days. Credit risk is low as receivables are from government bodies and participants in the cannabis industry and are received within a short period of time. Management expects credit risk to be minimal.

(c) Foreign exchange risk

The Company is exposed to foreign exchange risk in United States dollars. Foreign exchange risk is the risk that the exchange rate that was in effect on the date that an obligation in a foreign currency was made to the Company by a customer or lender, or that an obligation in a foreign currency was made by the Company to a supplier or partner, is different at the time of settlement than it was at the time that the obligation was determined. The Company reduces its exposure to foreign exchange risk by carefully monitoring exchange rates on obligations that are made to the Company. The Company did not have any hedges at the time that the financial statements were issued. The Company does not utilize financial instruments to manage its foreign exchange risk.

(d) Liquidity risk

Liquidity risk is the risk that the Company cannot repay its obligations when they become due to its creditors. The Company reduces its exposure to liquidity risk by ensuring that it documents when authorized payments become due; maintains an adequate working capital to repay trade creditors as they become due.

The Company has total current liabilities of $16,630,334 (December 31, 2021: $116,392,767) with cash on hand of $8,085,310 (December 31, 2021: $21,416,073). In the opinion of management, the liquidity risk exposure to the Company is moderate. The Company will manage the risk exposure through increased future sales, minimizing expenses by increasing efficiency and productivity, accessing the Revolving Credit Facility, and if necessary, raise additional capital through debt and/or equity.

(Unaudited – Expressed in Canadian Dollars)

The contractual maturities of all liabilities and lease obligations by year is as follows:

	2022-23 (Year 1)	2023-24 (Year 2)	2024-25 (Year 3)	2025-26 (Year 4)	2026 and later
Lease liabilities	$ 390,914	$ 162,291	$ 126,317	$ 128,898	$ 448,016
Loans and borrowings	2,608,084	31,773,945	118,856,662	310,500	5,051,750
Unsecured convertible debentures	91,175	91,175	1,127,018	—	—
Other commitments	9,833	7,685	1,375	—	—
Accounts payables and accrued liabilities	14,337,405	—	—	—	—
Total	**$ 17,437,411**	**$ 32,035,096**	**$ 120,111,372**	**$ 439,398**	**$ 5,499,766**

(e) Cash flow risk

Cash flow risk is the risk that future cash flows associated with a monetary financial instrument will fluctuate in amount, such as a debt instrument held with a floating interest rate, or investments. Floating rate debt exposes the Company to fluctuations in cash flows and net earnings due to changes in market interest rates. In the opinion of management, the cash flow risk exposure to the Company is low.

21. Capital Management

The Company includes shareholders' (deficiency) equity, comprised of common shares, warrants reserve, conversion feature, contributed surplus and accumulated deficit, in the definition of capital. The Company's objectives when managing capital are as follows:

(i) To safeguard the Company's assets and ensure the Company's ability to continue as a going concern; and

(ii) To raise sufficient capital to achieve the ongoing business objectives including funding of future growth opportunities and meeting its general administrative expenditures.

The Company manages its capital structure and makes adjustments to it, based on general economic conditions, the Company's short-term working capital requirements, and its planned capital requirements and strategic growth initiatives.

The Company's principal source of capital is from the issuance of common shares. In order to achieve its objectives, the Company expects to spend its working capital, when applicable, and raise additional funds as required.

22. Other Income

During the three and nine months ended September 30, 2022, other income recorded of $50,735 represents sale of minor tools (three and nine months ended September 30, 2021 - $Nil and $4,420,763 respectively, represents inventory received pertaining to a prepaid supply agreement that was previously written off).

23. Government Grant

The Company received $Nil wage subsidy during the three and nine months ended September 30, 2022 (three and nine months ended September 30, 2021 - $822,986 and $2,972,387 respectively) from Government of Canada pursuant to Canada Emergency Wage Subsidy program relating to Covid-19 Pandemic Crisis.

24. Subsequent Events

The Company's management has evaluated subsequent events up to November 14, 2022, the date the condensed interim consolidated financial statements were issued and determined the following events:

On October 31, 2022, the Company amended its credit facility with LPF (the "Credit Facility") and received its first tranche of funding under the amended Credit Facility, amounting to $15 million. The second tranche of funding amounting to $15 million will be received on January 31, 2023. The Credit Facility continues to bear an interest rate of 15.25% with the option, at the Company's discretion, to capitalize interest in lieu of cash payments of interest and is set to mature on December 31, 2024. The Credit Facility is secured by the assets of the Company and its subsidiaries, including the Company's production facilities, and contains customary financial and other covenants, as well as typical conditions precedent for a transaction of this nature. LPF's security under the Credit Facility is in second position to the Company's senior creditor.

Also on October 31, 2022, the Company entered into an amended and restated credit agreement with its senior secured lender, Bank of Montreal, which reflected recent amendments to the agreement. No additional significant amendments were made.