CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

ENTOURAGE HEALTH CORP.

For the three and six months ended
June 30, 2023 and 2022
(Unaudited - Expressed in Canadian Dollars)

Entourage Health Corp.

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three and six months ended June 30, 2023, and 2022

(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
August 29, 2023

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 Chartered Professional Accountants (CPA) of 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		June 30, 2023		December 31, 2022
Assets					
Current					
Cash		**$**	**9,442,720**	$	9,075,257
Restricted cash	8		**100,000**		2,100,000
Trade and other receivables	18		**4,540,762**		4,025,494
Inventory	3		**15,010,982**		14,088,980
Biological assets	3		**—**		695,712
Prepaid expenses and deposits	16		**1,623,371**		1,053,036
Commodity tax receivable			**432,272**		466,837
			31,150,107		31,505,316
Assets held for sale	6		**—**		8,580,000
Total current assets			**31,150,107**		40,085,316
Prepaid expenses and deposits	16		**1,717,652**		1,717,652
Property, plant and equipment	5		**4,437,917**		4,663,660
Total assets		**$**	**37,305,676**	$	46,466,628
Liabilities					
Current					
Accounts payable and accrued liabilities	17	**$**	**8,583,250**	$	13,170,713
Current portion of lease liabilities	4		**150,433**		284,420
Current portion of loans and borrowings	8		**142,704,362**		128,423,830
Total current liabilities			**151,438,045**		141,878,963
Lease liabilities	4		**624,331**		677,183
Loans and borrowings	8		**4,566,089**		4,263,053
Unsecured convertible debentures	7		**903,478**		886,364
Total liabilities		**$**	**157,531,943**	$	147,705,563
Shareholders' deficiency					
Common shares	9	**$**	**186,225,089**	$	186,140,597
Warrants reserve	10		**1,384,884**		8,833,643
Conversion feature			**112,095**		112,095
Contributed surplus	11		**30,507,074**		23,042,751
Accumulated deficit			**(338,455,409)**		(319,368,021)
Total shareholders' deficiency			**(120,226,267)**		(101,238,935)
Total liabilities and shareholders' deficiency		**$**	**37,305,676**	$	46,466,628

Going concern (Note 2 (e))

Commitments and contingencies (Note 20)

Subsequent events (Note 24)

See accompanying notes

"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 June 30, 2023	Three months ended June 30, 2022	Six months ended June 30, 2023	Six months ended June 30, 2022
Revenue	18	$ **13,365,382**	13,185,209	$ **28,472,827**	28,955,778
Excise taxes		**(3,191,256)**	(3,494,497)	**(6,464,965)**	(6,841,096)
Revenue, net		**10,174,126**	9,690,712 0	**22,007,862**	22,114,682
Cost of goods sold		**(8,022,685)**	(9,216,469)	**(16,854,228)**	(18,903,255)
Gross profit before changes in fair value		**2,151,441**	474,243	**5,153,634**	3,211,427
Realized fair value amounts previously included in inventory		**(907,070)**	3,575,701	**(2,401,043)**	4,902,400
Unrealized loss (gain) on changes in fair value of biological assets	3	**—**	347,931	**501,501**	(180,360)
Gross profit (loss)		**3,058,511**	(3,449,389)	**7,053,176**	(1,510,613)
Depreciation and amortization	5	**18,979**	700,152	**26,614**	707,553
Selling, general and administrative expenses	12	**6,849,681**	7,838,551	**14,781,796**	14,508,249
Finance costs	13	**6,035,843**	5,313,919	**11,602,656**	9,129,624
Share based compensation	11	**24,686**	144,976	**57,364**	354,547
Loss before other (expenses) income		**(9,870,678)**	(17,446,987)	**(19,415,254)**	(26,210,586)
Other income, net	23	**19,104**	—	**48,120**	—
Gain on sale of assets held for sale	6	**279,746**	—	**279,746**	—
Gain on lease modification	4	**—**	805,324	**—**	805,324
Gain on extinguishment of unsecured convertible debentures		**—**	5,106,000	**—**	5,106,000
Gain on modification of loan and borrowings		**—**	3,195,964	**—**	3,195,964
Impairment of property, plant and equipment		**—**	(687,798)	**—**	(687,798)
Loss and comprehensive loss before income tax		**(9,571,828)**	(9,027,497)	**(19,087,388)**	(17,791,096)
Income tax expense (recovery)		**—**	**—**	**—**	**—**
Net loss and comprehensive loss		**(9,571,828)**	(9,027,497)	**(19,087,388)**	(17,791,096)
Basic and diluted loss per share	14	$ **(0.03)**	(0.03)	$ **(0.06)**	(0.06)

See accompanying notes

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

	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	11	—	—	—	—	354,547	—	354,547
Loss and comprehensive loss		—	—	—	—	—	(17,791,096)	(17,791,096)
Transfer of conversion feature on settlement of unsecured convertible debentures	11	—	—	—	(1,514,025)	1,514,025	—	—
Balance, June 30, 2022		**303,976,702**	**$ 185,813,639**	**$ 13,341,946**	**$ 112,095**	**$ 18,734,452**	**$ (214,012,670)**	**$ 3,989,462**
Balance, December 31, 2022		**306,744,396**	**$ 186,140,597**	**$ 8,833,643**	**$ 112,095**	**$ 23,042,751**	**$ (319,368,021)**	**$ (101,238,935)**
Share based compensation	11	—	—	—	—	57,364	—	57,364
Transfer on expiry of warrants	10 (d)	—	—	(7,448,759)	—	7,448,759	—	—
Shares issued on exercise of deferred stock units	9 (b)	220,000	41,800	—	—	(41,800)	—	—
Shares issued to debtholders	9 (c)	1,423,057	42,692	—	—	—	—	42,692
Loss and comprehensive loss		—	—	—	—	—	(19,087,388)	(19,087,388)
Balance, June 30, 2023		**308,387,453**	**$ 186,225,089**	**$ 1,384,884**	**$ 112,095**	**$ 30,507,074**	**$ (338,455,409)**	**$ (120,226,267)**

See accompanying notes

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

For the six months ended June 30,	Note		2023		2022
Cashflows provided by (used in):					
Operating					
Net loss		$	**(19,087,388)**	$	(17,791,096)
Adjustments for:					
Depreciation and amortization			**87,780**		3,524,743
Impairment of inventory included in cost of goods sold	3		**2,654,400**		1,309,874
Impairment of property, plant and equipment			**—**		687,798
Share based compensation	11		**57,364**		354,547
Finance costs	13		**11,602,656**		9,129,624
Gain on lease modification	4		**—**		(805,324)
Gain on modification of loan and borrowings			**—**		(3,195,964)
Realized fair value amounts previously included in inventory	3		**(2,401,043)**		4,902,400
Unrealized (gain) on changes in fair value of biological assets and inventory	3		**501,501**		(180,360)
Gain on sale of assets held for sale	6		**(279,746)**		—
Gain on extinguishment of unsecured convertible debentures			**—**		(5,106,000)
			(6,864,476)		(7,169,758)
Change in non-cash working capital	15		**(6,052,013)**		(10,016,433)
		$	**(12,916,489)**	$	(17,186,191)
Investing					
Purchase of property, plant and equipment	5		**(38,362)**		(1,632,113)
Proceeds from disposal of assets held for sale			**8,500,000**		—
Proceeds from disposal of property, plant and equipment			**—**		360,019
		$	**8,461,638**	$	(1,272,094)
Financing					
Proceeds from loan financing, net of transaction costs	8		**14,773,542**		14,884,481
Payment of lease liabilities	4		**(213,626)**		(835,999)
Repayment of loans and borrowings	8		**(10,500,907)**		(1,857,500)
Interest paid	8		**(1,236,695)**		(994,916)
		$	**2,822,314**	$	11,196,066
Decrease in cash			**(1,632,537)**		(7,262,219)
Cash, beginning of the period			**11,175,257**		21,516,073
Cash, end of the period		$	**9,542,720**	$	14,253,854
Cash			**9,442,720**		14,153,854
Restricted cash			**100,000**		100,000
		$	**9,542,720**	$	14,253,854

See accompanying notes

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 a facility in Aylmer, Ontario (the "Aylmer Facility"), which specializes in cannabis processing, manufacturing and extraction.

The condensed interim consolidated financial statements of the Company for the three and six months ended June 30, 2023, and for the year ended December 31, 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 is a publicly listed company on the TSX Venture Exchange ("TSXV") that trades under the ticker symbol "ENTG-V". The Company 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 250 Elm St, Aylmer, ON N5H 2M8.

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, 2022, and 2021, 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 August 29, 2023.

b) Basis of presentation

The condensed interim consolidated financial statements have been prepared on an historical cost basis except for biological assets, which are measured at fair value and asset held for sale that are measured at the lower of carrying value and fair value less cost to sell.

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.

Estimates are based on management's best knowledge of current events and actions that the Company may undertake in the future. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

e) 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. Accordingly, 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.

As of June 30, 2023, the Company had a working capital of $(120,287,938) (December 31, 2022 – $(101,793,647) and an accumulated deficit of $(338,455,409) (December 31, 2022– $(319,368,021). For the six months ended, the Company used cash in operating activities of $12,916,489 (six month ended June 30, 2022 - $17,186,191), resulting primarily from the net loss of $19,087,388 (six month ended June 30, 2022 - $17,791,096) offset by items not affecting cash such as depreciation, amortization, and stock-based compensation. 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.

The Company anticipates it has sufficient cash on hand to service its liabilities and fund operating costs for the immediate future with the additional sources of funding actually received in February 2023, as well as additional funding expected during 2023. However, there is uncertainty as to how long these funds will last. The application of the going concern assumption is dependent upon the Company's ability to generate future profitable operations and obtain necessary financing to do so.

In November 2022, the Company announced the planned closure of its Strathroy facility and the execution of a long-term cannabis supply agreement with Hexo Corp. These two strategic initiatives were done in an effort to attain profitability and positive cash flow from operations; however, the timing of when this will occur is subject to material uncertainty. The Company is in the process of obtaining a waiver subsequent to quarter end for its credit facility with Liuna Pension Fund ("LPF").

f) New and Amended Accounting Pronouncements

Insurance Contracts

In May 2017, the International Accounting Standards Board ("IASB") issued IFRS 17, which replaced 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. The Company assessed the impact of the amendment and determined there to be no material impact on the condensed interim consolidated financial statements.

Clarifying Distinction Between Accounting Policies and Accounting Estimates

In February 2021, the IASB issued narrow-scope amendments to IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors ("IAS 8"). 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 Company assessed the impact of the amendment and determined there to be no material impact on the condensed interim consolidated financial statements.

Accounting pronouncements not yet effective

Amendments to IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current

On January 23, 2020, the IASB issued Classification of Liabilities as Current or Non-current (Amendments to IAS 1). The amendments address inconsistencies with how entities classify current and non-current liabilities. The amendments serve to address whether debt and other liabilities with an uncertain settlement date should be classified as current or non-current in the consolidated balance sheets. The amendments also improve the information an entity provides when its right to defer settlement of a liability for at least twelve months is subject to compliance with covenants.

The amendments are effective for annual periods beginning on or after January 1, 2024. The Company intends to adopt the amendments in its condensed interim consolidated financial statements or the annual period beginning January 1, 2024. The Company is currently assessing the impact of the amendment.

Lease Liability in a Sale and Leaseback

In September 2022, the IASB issued amendments to IFRS 16 – Leases ("IFRS 16") relating to sale leaseback transactions for seller-lessees. The amendment adds a requirement that measuring lease payments or revised lease payments shall not result in the recognition of a gain or loss that relates to the right-of-use asset retained by the seller-lessee. The amendments are effective for annual reporting periods beginning on or after January 1, 2024, with early adoption 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:

		June 30, 2023		December 31, 2022
		Amount		Amount
Dried cannabis	$	10,777,027	$	10,646,652
Harvested work in progress		—		350,395
Extracts				
Resin		98,987		64,948
Crude oil		—		486,451
Finished oil		2,845,359		1,281,679
Non-cannabis inventory		1,289,609		1,258,855
	$	**15,010,982**	$	14,088,980

During the three and six months ended June 30, 2023, the Company recognized impairment of inventory amounting $1,539,831 and $2,654,400 (for three and six months ended June 30, 2022 - $717,405 and $1,309,874) included in cost of goods sold and $(1,408,164) and $(2,795,657) (for three and six months ended June 30, 2022 - $49,024 and $(282,780)) included in realized fair value amounts previously included in inventory in the statements of loss and comprehensive loss.

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, 2021	**$**	**607,175**
Changes in fair value less costs to sell due to biological transformation		(4,525,559)
Production costs capitalized		9,175,750
Transferred to inventory upon harvest		(4,561,654)
Carrying amount, December 31, 2022	**$**	**695,712**
Changes in fair value less costs to sell due to biological transformation		(501,501)
Production costs capitalized		805,227
Transferred to inventory upon harvest		(999,438)
Carrying amount, June 30, 2023	**$**	**—**

All of the plants have been harvested as agricultural produce by March 29, 2023. Plants were up to ten weeks from harvest as at December 31, 2022 and the maximum life cycle was estimated to be one hundred and twelve days as at December 31, 2022. The Company did not hold plants to be sold as live plants at June 30, 2023 and December 31, 2022. Biological assets, if any, are classified as level 3 in the fair value hierarchy.

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.

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

- Expected yield by plant adjusted for expected wastage;
- Percentage of costs incurred to date compared to the total expected costs to be incurred over the life of the plant;
- Expected weighted average selling price per gram of harvested cannabis based on the weighted average historical selling price adjusted based on expected future sales prices and mix;
- Expected remaining costs to be incurred in order to complete the harvest and bring the harvested product to finished inventory; and
- Expected percentage complete based on number of days remaining over the life of the plant.

The Company estimates harvest yields for the plants at various stages of growth. As of June 30, 2023, the Company's biological assets have been harvested (December 31, 2022: 1,521,850 grams). The weighted average selling price used in the valuation was $0.65 per gram (December 31, 2022: $0.65 per gram) and is based on a normalized historical average selling price, adjusted based on expected future sales prices and mix. The Company estimates percentage of costs incurred based on the stage of growth. The Company estimated that as at June 30, 2023, the Company's plants have achieved 69% of their expected growth

The Company's estimates, if any, 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 Company does not have any biological assets as at June 30, 2023. 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 as at December 31, 2022.

	December 31, 2022 Valuation inputs	Percentage change used in sensitivity analysis	Change resulting for reasonable variance as at December 31, 2022
Increase or decrease of Selling price	0 to 0.81	10%	$ 69,571
Increase or decrease of Yield by plant	64 grams	10%	$ 69,571
Increase in average life cycle	100 days	10%	$ (64,433)
Decrease in average life cycle	100 days	10%	$ 69,571
Increase in percentage of costs to harvest incurred to date	69%	10%	$ 69,571
Decrease in percentage of costs to harvest incurred to date	69%	10%	$ (69,571)

4. Lease Liabilities

The following is a breakdown of the carrying amount of the Lease liabilities as at June 30, 2023:

	Building	Vehicle	Total
Lease liability, December 31, 2021	$ 2,940,052	$ 15	$ 2,940,067
Interest	121,882	—	121,882
Payments	(1,295,022)	—	(1,295,022)
Modification	(805,324)	—	(805,324)
Lease liability, December 31, 2022	$ **961,588**	$ **15**	$ **961,603**
Interest	26,787	—	26,787
Payments	(213,626)	—	(213,626)
Lease liability, June 30, 2023	$ **774,749**	$ **15**	$ **774,764**
For the year ended December 31, 2022			
Short Term Portion	$ 284,405	$ 15	$ 284,420
Long Term Portion	$ 677,183	$ —	$ 677,183
For the three months ended June 30, 2023			
Short Term Portion	$ 150,418	$ 15	$ 150,433
Long Term Portion	$ 624,331	$ —	$ 624,331

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

	June 30, 2023	December 31, 2022
Less than one year	$ 190,563	$ 332,477
1 to 5 years	518,174	522,650
Greater than 5 years	216,218	283,453
Gross lease liabilities	**924,955**	**1,138,580**
Interest on lease liabilities	150,191	176,977
Net lease liabilities	$ **774,764**	$ **961,603**

5. Property, Plant and Equipment

	Land	Building	Equipment	Fence & signage	Leasehold improvements	Construction in progress	Total
Cost							
Balance as at December 31, 2022	340,629	5,331,041	14,715,716	195,728	4,966,419	78,500	25,628,033
Additions	—	—	38,362	—	—	—	38,362
Balance as at June 30, 2023	**340,629**	**5,331,041**	**14,754,078**	**195,728**	**4,966,419**	**78,500**	**25,666,395**
Accumulated Depreciation / Impairment							
Balance as at December 31, 2022	(52,629)	(2,721,043)	(12,950,054)	(195,728)	(4,966,419)	(78,500)	(20,964,373)
Depreciation	—	(92,624)	(171,481)	—	—	—	(264,105)
Balance as at June 30, 2023	**(52,629)**	**(2,813,667)**	**(13,121,535)**	**(195,728)**	**(4,966,419)**	**(78,500)**	**(21,228,478)**
Net Book Value							
Balance as at December 31, 2022	288,000	2,609,998	1,765,662	—	—	—	4,663,660
Balance as at June 30, 2023	**288,000**	**2,517,374**	**1,632,543**	—	—	—	**4,437,917**

	Land	Building	Equipment	Fence & signage	Leasehold improvements	Construction in progress	Total
Cost							
Balance as at December 31, 2021	3,808,002	87,805,209	19,051,346	663,648	4,297,500	284,208	115,909,913
Additions	—	—	1,028,049	—	668,919	—	1,696,968
Transfers	—	—	205,708	—	—	(205,708)	—
Disposal	—	(48,400)	(595,906)	—	—	—	(644,306)
Transfer to assets held for sale	(3,467,373)	(82,425,768)	(4,973,481)	(467,920)	—	—	(91,334,542)
Balance as at December 31, 2022	**340,629**	**5,331,041**	**14,715,716**	**195,728**	**4,966,419**	**78,500**	**25,628,033**
Accumulated Depreciation / Impairment							
Balance as at December 31, 2021	(561,111)	(23,073,373)	(9,484,930)	(252,817)	(795,675)	(41,878)	(34,209,784)
Transfers	—	—	(30,311)	—	—	30,311	—
Depreciation	—	(3,243,219)	(1,842,561)	(36,275)	(1,986,889)	—	(7,108,944)
Disposal	—	6,382	235,887	—	—	—	242,269
Impairment	(135,558)	(54,067,837)	(5,813,717)	(374,556)	(2,183,855)	(66,933)	(62,642,456)
Net held for sale	644,040	77,657,004	3,985,578	467,920	—	—	82,754,542
Balance as at December 31, 2022	**(52,629)**	**(2,721,043)**	**(12,950,054)**	**(195,728)**	**(4,966,419)**	**(78,500)**	**(20,964,373)**
Net Book Value							
Balance as at December 31, 2021	3,246,891	64,731,836	9,566,416	410,831	3,501,825	242,330	81,700,129
Balance as at December 31, 2022	**288,000**	**2,609,998**	**1,765,662**	**—**	**—**	**—**	**4,663,660**

For the three and six months ended June 30, 2023, depreciation of $111,832 and $237,491 has been capitalized in inventory and biological assets, respectively (for the three and six months ended June 30, 2022 - $2,002,608 and $3,524,743 respectively).

6. Assets held for Sale

Property, plant and equipment as at December 31, 2022	$	**8,580,000**
Less:		
Proceeds from sale		8,500,000
Receivable		359,746
Gain on sale of assets held for sale		(279,746)
Property, plant and equipment as at June 30, 2023	**$**	**—**

Strathroy and Guelph Facilities

On November 15, 2022, the Company announced it would phase out its Strathroy and Guelph Facilities to align with strategic priorities and address ongoing business transformation plans.

Guelph Facility: The Guelph Facility is a leased facility and the right of use asset was fully impaired during the year ended December 31, 2021. On November 15, 2022, the Company impaired the Guelph Facility assets to nil prior to the transfer to asset held for sale; therefore, assets were reclassified as assets held for sale at a nil value as at June 30, 2023 and December 31, 2022.

Strathroy Facility: During the year ended December 31, 2022, the Company committed to a plan to dispose of certain assets comprising property, plant and equipment pertaining to the Strathroy Facility, within 2023 fiscal year, and accordingly, reclassified these assets with a carrying value of $8,580,000 to assets held for sale. Impairment was recorded prior to the transfer to asset held for sale. Subsequent to year ended December 31, 2022, the Company entered into a final agreement to sell the Strathroy Facility to a third party on April 21, 2023 on which date the Company ceased cultivation operations in the Strathroy Facility and the sale was consummated on May 18, 2023. Proceeds of sale, net of transaction costs of $8,500,000 incurred were used to repay the associated BMO debt (Refer note 8). During the three and six months ended June 30, 2023, the Company recorded a gain on sale of assets held for sale of $279,746.

7. Unsecured Convertible Debentures

		Debentures
Balance, December 31, 2021	$	12,120,792
Accretion of debentures		1,003,976
Settlement of debentures		(12,218,340)
Gain on modification of debenture		(81,068)
Accretion of acquisition debentures		61,004
Balance, December 31, 2022	$	886,364
Accretion of debentures		17,114
Balance, June 30, 2023	**$**	**903,478**

As at December 31, 2022	
Short Term Portion	—
Long Term Portion	886,364
As at June 30, 2023	
Short Term Portion	—
Long Term Portion	903,478

During the three and six months ended, the company recorded interest on convertible debentures of $22,731 and $47,492 and were paid to the debenture holders as at June 30, 2023.

8. Loans and Borrowings

	Financial Institution			Liuna Pension Fund ("LPF")	Liuna Pension Fund ("LPF")	1217174 Ontario LTD		
Maturity date	**June 2024**			**June 2024**	**December 2024**	**October 2026**		
	Facility 1	**Facility 2**	**Facility 3**	**BMO loan transfer**	**Term loan**	**Canntx Loan**	**Canntx short term loan**	**Total**
Balance, December 31, 2021	$ 2,930,157	$ 26,256,609	$ 2,016,621	$ —	$ 55,389,677	$ 3,674,615	$ 31,950	$ 90,299,629
Proceeds	—	—	—	—	38,314,858	—	—	38,314,858
Interest	178,289	1,180,543	104,568	—	12,171,855	362,250	—	13,997,505
Gain on loan modification	(45,911)	(167,848)	(23,824)	—	(3,381,883)	—	—	(3,619,466)
Repayment	(1,793,810)	(3,315,000)	(600,000)	—	—	—	—	(5,708,810)
Accretion	32,955	99,224	12,419	—	999,219	226,188	—	1,370,005
Interest payments	(180,625)	(1,659,518)	(126,695)	—	—	—	—	(1,966,838)
Balance, December 31, 2022	$ 1,121,055	$ 22,394,010	$ 1,383,089	$ —	$ 103,493,726	$ 4,263,053	$ 31,950	$132,686,883
Proceeds	—	—	—	—	14,773,542	—	—	14,773,542
Interest	55,348	1,068,872	64,981	—	9,952,257	310,500	—	11,451,958
Repayment	—	(10,500,907)	—	—	—	—	—	(10,500,907)
Loan transfer	(1,127,899)	(11,935,307)	(1,389,681)	14,452,887	—	—	—	—
Accretion	6,845	42,204	6,593	—	—	(7,464)	—	48,178
Interest payments	(55,349)	(1,068,872)	(64,982)	—	—	—	—	(1,189,203)
Balance, June 30, 2023	**$ —**	**$ —**	**$ —**	**$ 14,452,887**	**$ 128,219,525**	**$ 4,566,089**	**$ 31,950**	**$147,270,451**

As at December 31, 2022	
Short Term Portion	128,423,830
Long Term Portion	4,263,053
As at June 30, 2023	
Short Term Portion	142,704,362
Long Term Portion	4,566,089

a) Credit Facility with Financial Institution - Bank of Montreal (BMO)

During the three and six months ended June 30, 2023, the Company used $8,500,000 pertaining to proceeds from sale of assets held for sale, $2,000,000 held in restricted cash and $907 from the cash balance to pay down a significant portion of BMO loan.

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

On January 31, 2023, the Company amended its credit facility with LPF and received the second tranche of funding of $15,000,000 less transaction costs of $226,458. 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.

On June 16, 2023, LPF assumed the remaining balance of the BMO loan after repayment noted above and issued funding of $14,452,887 to BMO in repayment of such remaining balance to BMO. The Company is in the process of revising the terms of assumed loan with LPF.

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.

The Company was in breach to comply with its financial covenant to maintain a certain minimum quarterly EBITDA target as at June 30, 2023. However, the Company is in the process of obtaining a written waiver for the breach hence classified as current liability in the statements of financial position as at June 30, 2023.

c) 1217174 Ontario LTD

During the three and six months ended June 30, 2023, the Company incurred $155,250 and $310,500 (three and six months ended June 30, 2022- $77,625 and $155,250) in interest and $(2,149) and $(7,464) (three and six months ended June 30, 2022- $69,299 and $132,886) in accretion expense relating to these loans.

9. Share Capital

	Note	Number of shares		Amount
Balance as at December 31, 2021		303,976,702	$	185,813,639
Issuance of shares on exercise of DSU's	9 (a)	2,767,694		326,958
Balance as at December 31, 2022		306,744,396	$	186,140,597
Issuance of shares on exercise of DSU's	9 (b)	220,000	$	41,800
Shares issued to debtholders	9 (c)	1,423,057	$	42,692
Balance as at June 30, 2023		308,387,453		186,225,089

a) During the year ended December 31, 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.

b) During the six months ended June 30, 2023, the Company settled 220,000 Deferred stock units (“DSU’s") given to certain officers of the Company for one common share each. These DSU’s were valued at $41,800 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.

c) During the six months ended June 30, 2023, the Company issued 1,423,057 common shares given to certain debt holders / employees of the Company. These shares were valued at $42,692 based on the fair market value at the grant date.

10. Warrants Reserve

Warrants Reserve

	Note	Number of Warrants		Warrants reserve
Balance as at December 31, 2021		36,047,165	$	13,341,946
less: broker warrants expired	10 (a)	(983,624)		(364,064)
less: warrants expired	10 (b & c)	(11,196,875)		(4,144,240)
Balance as at December 31, 2022		23,866,666	$	8,833,643
less: warrants expired	10 (d)	(20,125,000)	$	(7,448,759)
Balance as at June 30, 2023		3,741,666		1,384,884

a) 983,623 broker warrants issued on September 25, 2019 expired unexercised on September 24, 2022 and have been transferred to contributed surplus from warrant reserve in the consolidated financial statements of changes in shareholders’ (deficiency).

b) 8,196,875 warrants issued on September 25, 2019 expired unexercised on September 24, 2022 and have been transferred to contributed surplus from warrant reserve in the consolidated financial statements of changes in shareholders’ (deficiency).

c) 3,000,000 warrants issued on November 21, 2017 expired unexercised on November 20, 2022 and have been transferred to contributed surplus from warrant reserve in the consolidated financial statements of changes in shareholders’ (deficiency).

d) 20,125,000 warrants issued on March 12, 2021 expired unexercised on March 11, 2023 and have been transferred to contributed surplus from warrant reserve in the consolidated financial statements of changes in shareholders' (deficiency).

The table below summarizes the number of warrants outstanding as of as of June 30, 2023:

Exercise price ($)	Expiry Date	Warrants #
2.5	March 28, 2024	625,000
0.35	December 15, 2024	3,116,666
Total		**3,741,666**

The table below summarizes the number of warrants outstanding as of as of December 31, 2022:

Exercise price ($)	Expiry Date	Warrants #
0.48 - 0.60	March 11, 2023	20,125,000
2.5	March 28, 2024	625,000
0.35	December 15, 2024	3,116,666
Total		**23,866,666**

11. 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 10% of the issued and outstanding Shares. The exercise price of each option granted under the plan shall be determined by the Board of Directors.

As at June 30, 2023, the Company's outstanding stock options consists of the following:

	Note	Number of options	Contributed surplus
Balance as at December 31, 2021		**12,090,616**	**$ 16,865,880**
Stock options forfeited		(1,105,338)	—
Stock options expired	11 (a)	(2,646,638)	—
Transfer of conversion feature on settlement of unsecured convertible debentures	7 (a)	—	1,514,025
Transfer on expiry of warrants	10 (a,b,c)	—	4,508,303
Stock options granted	11 (g)	50,000	3,172
Share based compensation	11 (h)	—	8,137
Deferred stock units issued	11 (b,c,d,e,f)	—	470,192
Deferred stock units converted to shares	9 (a)	—	(326,958)
Balance as at December 31, 2022		**8,388,640**	**$ 23,042,751**
Stock options forfeited		(305,000)	—
Stock options expired	11 (a)	(2,801,500)	—
Deferred stock units converted to shares	9 (b)	—	(41,800)
Transfer on expiry of warrants	10 (d)	—	7,448,759
Deferred stock units issued	11 (h)	—	57,364
Balance as at June 30, 2023		**5,282,140**	**30,507,074**

a) Stock options expired during the three months ended March 31, 2023 and year ended December 31, 2022 as a result of unexercised employee options.

b) 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.

c) 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.

d) 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 one year after the grant date 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.

e) 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 one year after the grant date 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.

f) On December 31, 2022, the Company determined and authorized the grant of an aggregate of 4,000,000 deferred share units ("DSUs") to directors of the Company based on the fair value of the services provided. The DSUs will vest one year after the grant date 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 $44,636.

g) During year ended December 31, 2022, the Company granted 50,000 options to an employee. 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) the expected volatility of 159.49% is based on Company specific historical volatility); (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.

h) On March 31, 2023, the Company determined and authorized the grant of an aggregate of 1,600,000 deferred share units ("DSUs") to certain directors of the Company based on the fair value of the services provided. The DSUs will vest one year after the grant date and are granted in lieu of cash compensation for services rendered during the first quarter of 2023. 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 $32,678.

i) On June 30, 2023, the Company determined and authorized the grant of an aggregate of 1,600,000 deferred share units ("DSUs") to certain directors of the Company based on the fair value of the services provided. The DSUs will vest one year after the grant date and are granted in lieu of cash compensation for services rendered during the second quarter of 2023. 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 $24,686.

Total share-based compensation pertaining to options for the six months ended June 30, 2023 and 2022 are as follows:

	Three months ended		Six months ended	
	June 30, 2023	June 30, 2022	**June 30, 2023**	June 30, 2022
Share based compensation	$ —	$ 5,654	$ —	$ 11,070
Deferred stock units issued	24,686	139,322	57,364	343,477
Total	**$ 24,686**	$ 144,976	**$ 57,364**	$ 354,547

As at June 30, 2023, 5,282,140 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
$2.07	500,000	500,000	0.19	0.02	$ 0.20
$1.95	200,000	200,000	0.28	0.01	$ 0.07
$1.53	440,500	440,500	0.53	0.04	$ 0.13
$3.26	142,640	142,640	0.34	0.01	$ 0.09
$0.40	1,019,000	1,019,000	2.05	0.39	$ 0.08
$0.40	125,000	125,000	3.25	0.08	$ 0.01
$0.50	700,000	700,000	0.20	0.03	$ 0.07
$0.85	200,000	200,000	0.14	0.01	$ 0.03
$0.85	600,000	600,000	1.47	0.17	$ 0.10
$0.85	25,000	25,000	0.01	0.00	$ 0.00
$0.85	50,000	50,000	0.01	0.00	$ 0.01
$1.00	10,000	10,000	0.41	0.00	$ 0.00
$1.25	5,000	5,000	0.13	0.00	$ 0.00
$1.25	10,000	10,000	0.48	0.00	$ 0.00
$1.48	440,000	440,000	1.68	0.14	$ 0.12
$1.75	105,000	105,000	0.24	0.00	$ 0.03
$1.75	250,000	250,000	0.24	0.01	$ 0.08
$1.75	60,000	60,000	0.47	0.01	$ 0.02
$1.75	250,000	250,000	0.51	0.02	$ 0.08
$1.75	100,000	100,000	1.11	0.02	$ 0.03
$0.40	50,000	50,000	3.44	0.03	$ 0.00
	5,282,140	**5,282,140**			**1.17**

As at December 31, 2022 – 8,388,640 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	0.03	—	0.31
1.80	400,000	400,000	0.38	0.02	0.09
2.07	500,000	500,000	0.68	0.04	0.12
1.95	200,000	200,000	0.78	0.02	0.05
1.53	440,500	440,500	1.02	0.05	0.08
1.52	10,000	10,000	1.52	—	0.00
3.26	142,640	142,640	0.83	0.01	0.06
0.40	1,314,000	1,314,000	2.54	0.40	0.06
0.40	125,000	125,000	3.75	0.06	0.01
0.48	1,010,000	1,010,000	0.24	0.03	0.06
0.50	700,000	700,000	0.70	0.06	0.04
0.84	60,000	60,000	0.20	—	0.01
0.84	48,000	48,000	0.24	—	0.00
0.85	200,000	200,000	0.64	0.02	0.02
0.85	600,000	600,000	1.96	0.14	0.06
0.85	25,000	25,000	0.50	—	0.00
0.85	145,000	145,000	0.45	0.01	0.01
0.85	50,000	50,000	0.50	—	0.01
1.00	20,000	20,000	0.06	—	0.00
1.00	20,500	20,500	0.12	—	0.00
1.00	10,000	10,000	0.91	—	0.00
1.25	5,000	5,000	0.62	—	0.00
1.25	10,000	10,000	0.98	—	0.00
1.48	440,000	440,000	2.18	0.11	0.08
1.75	105,000	105,000	0.73	0.01	0.02
1.75	250,000	250,000	0.73	0.02	0.05
1.75	60,000	60,000	0.97	0.01	0.01
1.75	250,000	250,000	1.00	0.03	0.05
1.75	100,000	100,000	1.60	0.02	0.02
0.40	50,000	33,333	3.94	0.02	0.00
	8,388,640	**8,371,973**			**1.24**

12. Selling, General and Administrative Expenses

	Three months ended June 30, 2023	Three months ended June 30, 2022	Six months ended June 30, 2023	Six months ended June 30, 2022
Salaries and benefits	$ 1,758,956	$ 3,818,712	$ 4,987,214	$ 7,446,972
Office & Administrative	1,288,802	1,415,764	2,822,394	2,138,926
Professional fees	1,162,710	794,255	2,472,963	1,766,971
Consulting fees	143,061	814,004	445,349	1,077,122
Selling, marketing and promotion	1,176,630	943,260	2,692,094	1,977,454
Restructuring expenses	1,319,344	—	1,319,344	—
Research and development	178	52,556	42,438	100,804
Total	$ **6,849,681**	$ 7,838,551	$ **14,781,796**	$ 14,508,249

13. Finance Costs

	Three months ended June 30, 2023	Three months ended June 30, 2022	Six months ended June 30, 2023	Six months ended June 30, 2022
Accretion cost	$ 35,346	$ 1,437,651	$ 65,292	$ 2,241,760
Interest expense on credit facilities	750,952	728,827	1,499,701	1,299,173
Accrued interest on term loan (Liuna) - Note (a) below	5,211,508	2,605,181	9,952,257	4,687,132
Interest expense on unsecured convertible debentures	17,532	319,468	37,725	590,725
Interest expense on lease liabilities	12,236	31,320	26,787	82,961
Foreign exchange loss	4,089	26,001	13,577	43,742
Other charges	4,180	165,471	7,317	184,131
Total	**$ 6,035,843**	$ 5,313,919	**$ 11,602,656**	$ 9,129,624

(a) Interest on LPF loan is accrued, however not due until maturity based on the terms of the loan agreement (Note 8)

14. Loss per Share

	Three months ended		Six months ended	
	June 30, 2023	June 30, 2022	**June 30, 2023**	June 30, 2022
Basic and diluted loss per share:				
Loss attributable to holders of shares	**$ (9,571,828)**	$ (9,027,497)	**$ (19,087,388)**	$ (17,791,096)
Weighted average number of shares outstanding	307,015,601	303,976,702	307,015,601	303,976,702
	$ (0.03)	$ (0.03)	**$ (0.06)**	$ (0.06)

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 six months ended June 30, 2023, the Company calculated loss per share using 307,015,601 (six months ended June 30, 2022: 303,976,702) common shares. The effect of options, warrants and conversion feature was anti-dilutive.

15. Change in Non-cash Operating Working Capital

	June 30, 2023	June 30, 2022
Trade and other receivables	**$** (155,522)	$ 1,044,959
Prepaid expenses and deposits	(570,335)	(1,333,768)
Inventory	(3,400,446)	(1,134,327)
Biological assets	2,595,623	(3,503,146)
Commodity tax receivable	34,565	476,256
Accounts payable and accrued liabilities	(4,555,898)	(5,566,407)
Net Changes in Non-Cash Working Capital	**$ (6,052,013)**	$ (10,016,433)

16. Prepaid expenses and deposits

	June 30, 2023	**December 31, 2022**
Deposits	**$** 1,735,677	$ 1,793,642
License fee	—	288,981
Supplier advances	1,029,869	387,468
Prepaid Insurance	565,460	300,597
Total	**$ 3,331,006**	$ **2,770,688**
Current	1,623,371	1,053,036
Long term	1,717,652	1,717,652

17. Accounts payable and accrued liabilities

		June 30, 2023		December 31, 2022
Trade payables	$	1,369,502	$	2,667,241
Accrued employee benefits		425,572		862,192
Accrued excise taxes		2,123,322		1,940,049
Restructuring accrual		106,163		521,808
Accrued and other payables		4,558,691		7,179,423
Total	**$**	**8,583,250**	$	13,170,713

Restructuring accrual - On November 15, 2022, the Company announced the phasing out of its Strathroy and Guelph Facilities to align with their strategic priorities and address ongoing business transformation plans. The restructuring also included a reduction to the number of employees across the organization in an effort to reduce spending.

During the last quarter of 2022, the Company recorded restructuring expenses of $254,308 relating to workforce retention and reductions associated with the planned closure of these facilities and $267,500 related to professional services required to execute on the restructuring in the statement of loss and comprehensive loss. Out of which, $106,163 have not been paid as of June 30, 2023, relating to workforce retention and reductions.

The provisions for restructuring represent the present value of the best estimate of the future outflow of economic benefits that will be required to settle the expected liabilities and may vary as a result of new events affecting the amounts that will need to be paid.

18. Revenue and trade and other receivables

a) Revenue

		Three months ended				Six months ended		
		June 30, 2023		**June 30, 2022**		**June 30, 2023**		June 30, 2022
Medical	$	4,787,468	$	5,000,512	$	11,698,247	$	12,112,351
Adult Use		8,352,523		8,184,697		16,549,189		16,625,365
Bulk		225,391		—		225,391		218,062
Total Revenue	**$**	**13,365,382**	$	13,185,209	**$**	**28,472,827**	$	28,955,778

For the three and six months ended June 30, 2023, 45% and 42% (June 30, 2022: 91% and 51%) of total revenue is from 2 customers (June 30, 2022: 3 customers) each representing more than 10% of the Company's revenue.

As at June 30, 2023, the Company recognized a contract liability of $486,152, included in accounts payable and accrued liabilities, pertaining to potential customer returns (December 31, 2022 - $565,781). During the three and six months ended June 30, 2023, actual returns amounted to $79,243 and $338,723 (June 30, 2022 - $61,168 and $358,557), respectively recorded net of revenue in the consolidated financial statements of loss and comprehensive loss.

b) Trade and other receivables

	June 30, 2023	December 31, 2022
Gross trade receivables	$ **3,599,072**	$ 4,239,896
Less: allowance for expected credit losses	**447,238**	447,238
Net trade receivables	**3,151,834**	3,792,658
Other receivables	**1,388,928**	232,836
Total	$ **4,540,762**	$ 4,025,494

The ageing of outstanding receivables for the period ended June 30, 2023 and for the year ended December 31, 2022 are detailed as below:

Trade receivables ageing		
	June 30, 2023	December 31, 2022
0-30 days	$ **1,352,724**	$ 3,159,328
30-90 days	**847,601**	156,537
90 days and above	**1,398,747**	924,031
Total	$ **3,599,072**	$ **4,239,896**

Trade receivables are from sale of cannabis 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 or licensed distributors and Bulk receivables are outstanding as at period end but do not exceed aging above 30 days. During the year ended December 31, 2022, the Company recorded allowance for expected credit losses of $447,238 towards trade receivables and $89,579 towards other receivables. There were no additional allowances created for the period ended June 30, 2023.

19. 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 and Secretary, Chief Operating Officer and all directors. Transactions with related parties include salaries, share based compensation and service fees.

The amounts due to related parties are recorded at the exchange amounts as agreed upon by the related parties under contracts signed with them, non-interest bearing, unsecured and have no fixed repayment terms, other than the credit facility within LiUNA Pension Fund of Central and Eastern Canada (“LPF”). On September 23, 2020, the Company had entered into a credit facility with the LPF – a major shareholder of the Company. For all transactions with LPF, refer to Note 8.

The balances outstanding for services payable to key management personnel are as follows:

For the period ended	June 30, 2023	December 31, 2022
Accounts payable and accrued liabilities	$ **—**	$ —

For the three and six months ended June 30, 2023 and 2022, amounts expensed pertaining to the key management personnel are as follows:

	Three months ended		Six months ended	
	June 30, 2023	June 30, 2022	June 30, 2023	June 30, 2022
Salaries and bonus	$ 405,736	$ 866,910	**$ 862,984**	$ 1,186,918
Share based Compensation	686	273,787	**1,364**	608,358
Directors fee	24,000	35,724	**56,000**	35,724
Other compensation	166,800	—	**662,631**	—
Total	**597,222**	**1,176,421**	**1,582,979**	**1,831,000**

20. Commitments and Contingencies

Commitments

On November 15, 2022, Entourage entered into a long-term supply agreement with Hexo Corp. (“Hexo”). Under the supply agreement, Hexo will provide the Company with bulk dried cannabis and soft gel capsules. The supply agreement requires annual purchase commitments with year over year price increase ceilings. The term of the contract is three years and the Company can renew for an additional three years on the same terms and conditions, subject to revised minimum annual purchase commitments. The minimum annual purchase commitment for the calendar year 2023, under the agreement at an average rate is approximately $8,480,000.

In the ordinary course of business, the Company enters into various supply agreements with third party vendors. These contracts contain general provisions related to contract terminations, none of which indicates any financial implication in terms of payout to the vendors.

Contingencies

On July 2, 2021, Pioneer, an investee of the Company, commenced legal proceedings against a former licensee of Pioneer (the “Retailer”) to seek, among other things, damages in the amount of $1,235,292 in relation to a promissory note for development loan. On November 22, 2021, Pioneer received a counterclaim from the Retailer, amounting to $1,000,000 for, among other things, breach of contract, misrepresentation, and breach of franchise disclosure obligations. As at March 31, 2023, there have been no further updates to the proceedings. The Company believes that the outcome of this claim and counterclaim will not have any material effect on its condensed interim consolidated financial statements.

On January 26, 2023, the Company was served with a statement of claim, as co-defendant with the Retailer, by the Retailer’s landlord, Desjardins Financial Security Life Assurance Company. The claim is for damages resulting from the Retailer’s abandonment of the leased premises and failure to pay rent and an indemnity agreement signed among the landlord, the Company and the Retailer upon the Retailer entering into a lease for the premises, and is in an amount of $1,500,000. The Company filed its statement of defence and a crossclaim against the Retailer on April 21, 2023. The damages claimed in the statement of claim are subject to the landlord’s recourse to the retailer, and accordingly the Company believes that the outcome of this claim and counterclaim will not have any material effect on its condensed interim consolidated financial statements.

21. 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.

There are no financial instruments measured at fair value as at June 30, 2023 and December 31, 2022.

The carrying values of cash, trade and other receivables, accounts payable and accrued liabilities, and short term loan and borrowings 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 $4,540,762 (December 31, 2022: $4,025,494), refer to note 18 (b) for further details.

As at June 30, 2023, 42% (December 31, 2022: 83%) of the Company's trade receivables balance, is owing from 1 customer (December 31, 2022: 3 customer), each representing more than 10% of trade and other receivables.

Cash is generally invested in cash accounts held in Canadian chartered banks. Restricted cash is generally held as collateral to repay any outstanding balances related to the Company's loan and borrowings and 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 insurance agencies which generally have a low default risk. Credit risk for non-government wholesale customers is assessed on a case-by-case basis and represents 27% of trade receivables and comprises of 9% of the revenue of the Company as at June 30, 2023. 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 manages its exposure to liquidity risk by ensuring that it documents when authorized payments become due and actively manages its working capital to repay trade creditors as they become due.

The Company has total current liabilities of $151,438,045 (December 31, 2022: $141,878,963) with cash on hand of $9,442,720 (December 31, 2022: $9,075,257). The Company will manage the risk exposure through increased future sales, minimizing expenses by the phase out of the Strathroy and Guelph Facilities, increasing efficiency and productivity, accessing the Revolving Credit Facility, and if necessary, raise additional capital through debt and/or equity.

The Company is in the process of obatining a waiver from LPF related to its credit facility for its breach of the minimum EBITDA financial covenant as at June 30, 2023. The year 1 obligation includes the payout to the BMO Credit Facilities by LPF (loan transfer), terms of which are in the process of finalization.

The contractual maturities of all liabilities and lease obligations as at June 30, 2023 is as follows:

	2023- 2024 (Year 1)	2024 - 2025 (Year 2)	2025 - 2026 (Year 3)	2026 - 2027 (Year 4)	2027 and later
Lease liabilities	$ 190,563	$ 125,671	$ 128,253	$ 130,834	$ 349,634
Loans and borrowings	14,898,838	165,086,090	310,500	5,129,375	—
Unsecured convertible debentures	91,175	91,175	1,058,637	—	—
Other commitments	9,038	2,479	—	—	—
Accounts payables and accrued liabilities	8,583,250	—	—	—	—
Total	**$ 23,772,864**	**$ 165,305,415**	**$ 1,497,390**	**$ 5,260,209**	**$ 349,634**

The contractual maturities of all liabilities and lease obligations as at December 31, 2022 is as follows:

	2023 (Year 1)	2024 (Year 2)	2025 (Year 3)	2026 (Year 4)	2027 and later
Lease liabilities	$ 332,477	$ 134,019	$ 126,962	$ 129,544	$ 415,578
Loans and borrowings	25,499,354	310,500	145,035,514	5,284,625	—
Unsecured convertible debentures	91,175	91,175	1,104,225	—	—
Other commitments	9,833	6,051	550	—	—
Accounts payables and accrued liabilities	13,170,713	—	—	—	—
Total	**$ 39,103,552**	**$ 541,745**	**$ 146,267,251**	**$ 5,414,169**	**$ 415,578**

(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.

22. 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.

23. Other Income

During the three and six months ended June 30, 2023, other income recorded of $19,104 and $48,120 (three and six months ended June 30, 2022 – Nil) represents sale of certain minor tools.

24. Subsequent Events

The Company's management has evaluated subsequent events up to August 29, 2023, the date the condensed interim consolidated financial statements were issued and determined there were no material events to report.