



CONDENSED INTERIM CONSOLIDATED FINANCIAL
STATEMENTS

ENTOURAGE HEALTH CORP.

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

Entourage Health Corp.

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three and nine months ended September 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
November 27, 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 | September 30, 2023 | December 31, 2022 |
|---|------|-----------------------|-----------------------|
| Assets | | | |
| Current | | | |
| Cash | | \$ 9,322,196 | \$ 9,075,257 |
| Restricted cash | 8 | 100,000 | 2,100,000 |
| Trade and other receivables | 18 | 4,031,238 | 4,025,494 |
| Inventory | 3 | 15,744,233 | 14,088,980 |
| Biological assets | 3 | — | 695,712 |
| Prepaid expenses and deposits | 16 | 1,995,415 | 1,053,036 |
| Commodity tax receivable | | 676,775 | 466,837 |
| | | 31,869,857 | 31,505,316 |
| Assets held for sale | 6 | — | 8,580,000 |
| Total current assets | | 31,869,857 | 40,085,316 |
| Prepaid expenses and deposits | 16 | 1,717,652 | 1,717,652 |
| Property, plant and equipment | 5 | 5,204,140 | 4,663,660 |
| Total assets | | \$ 38,799,774 | \$ 46,466,628 |
| Liabilities | | | |
| Current | | | |
| Accounts payable and accrued liabilities | 17 | \$ 13,557,661 | \$ 13,170,713 |
| Current portion of lease liabilities | 4 | 135,188 | 284,420 |
| Current portion of loans and borrowings | 8 | 148,848,129 | 128,423,830 |
| Total current liabilities | | 162,540,978 | 141,878,963 |
| Lease liabilities | 4 | 602,118 | 677,183 |
| Loans and borrowings | 8 | 4,719,018 | 4,263,053 |
| Unsecured convertible debentures | 7 | 913,008 | 886,364 |
| Total liabilities | | \$ 168,775,122 | \$ 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 | 30,663,074 | 23,042,751 |
| Accumulated deficit | | (348,360,490) | (319,368,021) |
| Total shareholders' deficiency | | (129,975,348) | (101,238,935) |
| Total liabilities and shareholders' deficiency | | \$ 38,799,774 | \$ 46,466,628 |

Going concern (Note 2 (e))

Commitments and contingencies (Note 20)

Subsequent events (Note 24)

See accompanying notes

Entourage Health Corp.**CONDENSED INTERIM CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS**

(Unaudited- Expressed in Canadian dollars)

| | Note | Three months ended Sept 30, | | Nine months ended Sept 30, | |
|--|------|--------------------------------|---------------------|-------------------------------|---------------------|
| | | 2023 | 2022 | 2023 | 2022 |
| Revenue | 18 | \$ 12,251,059 | 13,438,320 | \$ 40,723,886 | 42,394,098 |
| Excise taxes | | (3,500,956) | (3,363,018) | (9,965,921) | (10,204,114) |
| Revenue, net | | 8,750,103 | 10,075,302 | 30,757,965 | 32,189,984 |
| Cost of goods sold | | (6,350,603) | (14,966,189) | (23,204,831) | (33,869,444) |
| Gross profit before changes in fair value | | 2,399,500 | (4,890,887) | 7,553,134 | (1,679,460) |
| Realized fair value amounts previously included in inventory | | (39,659) | 1,205,218 | (2,440,702) | 6,107,618 |
| Unrealized loss (gain) on changes in fair value of biological assets | 3 | — | (134,073) | 501,501 | (314,433) |
| Gross profit (loss) | | 2,439,159 | (5,962,032) | 9,492,335 | (7,472,645) |
| Depreciation and amortization | 5 | 148,953 | 704,904 | 175,567 | 1,412,457 |
| Selling, general and administrative expenses | 12 | 6,051,822 | 6,842,714 | 20,833,618 | 21,350,963 |
| Finance costs | 13 | 6,355,994 | 3,917,799 | 17,958,650 | 13,047,423 |
| Share based compensation | 11 | 156,000 | 82,318 | 213,364 | 436,865 |
| Loss before other (expenses) income | | (10,273,610) | (17,509,767) | (29,688,864) | (43,720,353) |
| Provision for trade receivables | 18 | 366,927 | — | 366,927 | — |
| Other income, net | 23 | 1,602 | 28,717 | 49,722 | 28,717 |
| Gain on sale of assets held for sale | 6 | — | — | 279,746 | — |
| Gain on lease modification | 4 | — | — | — | 805,324 |
| Gain on extinguishment of unsecured convertible debentures | | — | 48,866 | — | 5,154,866 |
| Gain on modification of loan and borrowings | | — | — | — | 3,195,964 |
| Impairment of property, plant and equipment | | — | — | — | (687,798) |
| Loss and comprehensive loss before income tax | | (9,905,081) | (17,432,184) | (28,992,469) | (35,223,280) |
| Income tax expense (recovery) | | — | — | — | — |
| Net loss and comprehensive loss | | (9,905,081) | (17,432,184) | (28,992,469) | (35,223,280) |
| Basic and diluted loss per share | 14 | \$ (0.03) | (0.06) \$ | (0.09) | (0.12) |

See accompanying notes

Entourage Health Corp.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' 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 | — | — | — | — | 436,865 | — | 436,865 |
| Transfer of conversion feature on settlement of unsecured convertible debentures | 11 | — | — | — | (1,514,025) | 1,514,025 | — | — |
| Shares issued on exercise of deferred stock units | | 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) |
| 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 | — | — | — | — | 213,364 | — | 213,364 |
| Common shares issued upon private placement | | — | — | — | — | — | — | — |
| 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 | | — | — | — | — | — | (28,992,469) | (28,992,469) |
| Balance, September 30, 2023 | | 308,387,453 | \$ 186,225,089 | \$ 1,384,884 | \$ 112,095 | \$ 30,663,074 | \$ (348,360,490) | \$ (129,975,348) |

See accompanying notes

Entourage Health Corp.**CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS**

(Unaudited- Expressed in Canadian dollars)

| For the nine months ended September 30, | Note | 2023 | 2022 |
|---|-------------|---------------------|---------------------|
| Cashflows provided by (used in): | | | |
| Operating | | | |
| Net loss | | \$ (28,992,469) | \$ (35,223,280) |
| Adjustments for: | | | |
| Depreciation and amortization | | 155,057 | 5,472,360 |
| Impairment of inventory included in cost of goods sold | 3 | 3,799,990 | 8,990,576 |
| Impairment of property, plant and equipment | | — | 687,798 |
| Share based compensation | 11 | 213,364 | 436,865 |
| Finance costs | 13 | 17,908,744 | 13,047,423 |
| 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 | (2,440,702) | 6,107,618 |
| Unrealized (gain) on changes in fair value of biological assets and inventory | 3 | 501,501 | (314,433) |
| Gain on sale of assets held for sale | 6 | (279,746) | 22,018 |
| Gain on extinguishment of unsecured convertible debentures | | — | (5,154,866) |
| | | (9,501,188) | (9,929,209) |
| Change in non-cash working capital | 15 | (2,565,753) | (12,722,142) |
| | | \$ (12,066,941) | \$ (22,651,351) |
| Investing | | | |
| Purchase of property, plant and equipment | 5 | (951,862) | (1,677,216) |
| Proceeds from disposal of assets held for sale | | 8,500,000 | — |
| Proceeds from disposal of property, plant and equipment | | — | 380,019 |
| | | \$ 7,540,013 | \$ (1,297,197) |
| Financing | | | |
| Proceeds from loan financing, net of transaction costs | 8 | 14,773,542 | 15,251,479 |
| Payment of lease liabilities | 4 | (262,073) | (1,177,168) |
| Repayment of loans and borrowings | 8 | (10,500,907) | (1,857,500) |
| Interest paid | 8 | (1,236,695) | (1,599,026) |
| | | \$ 2,773,867 | \$ 10,617,785 |
| Decrease in cash | | (1,753,061) | (13,330,763) |
| Cash, beginning of the period | | 11,175,257 | 21,516,073 |
| Cash, end of the period | | \$ 9,422,196 | \$ 8,185,310 |
| Cash | | 9,322,196 | 8,085,310 |
| Restricted cash | | 100,000 | 100,000 |
| | | \$ 9,422,196 | \$ 8,185,310 |

See accompanying notes

Entourage Health Corp.

Notes to the Condensed Interim Consolidated Financial Statements
For the three and nine months ended September 30, 2023, and 2022

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 nine months ended September 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 November 27, 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.

Entourage Health Corp.

Notes to the Condensed Interim Consolidated Financial Statements
For the three and nine months ended September 30, 2023, and 2022

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 September 30, 2023, the Company had a working capital of \$(130,671,121) (December 31, 2022 –\$(101,793,647)) and an accumulated deficit of \$(348,360,490) (December 31, 2022–\$(319,368,021)). For the nine months ended, the Company used cash in operating activities of \$ 12,066,941 (nine month ended September 30, 2022 - \$22,651,351), resulting primarily from the net loss of \$28,992,469 (nine month ended September 30, 2022 - \$35,223,280) 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 breached one of its financial covenants under its senior secured credit agreements with LiUNA Pension Fund (LFP) Subsequent to quarter-end, Entourage received a forbearance letter from LFP related to the Company's defaults. Entourage continues working productively with its senior secured lender to restructure its senior debt.

Entourage Health Corp.

Notes to the Condensed Interim Consolidated Financial Statements
For the three and nine months ended September 30, 2023, and 2022

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.

Entourage Health Corp.

Notes to the Condensed Interim Consolidated Financial Statements
For the three and nine months ended September 30, 2023, and 2022

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, 2023 | December 31, 2022 |
|----------------------------|-----------------------|----------------------|
| | Amount | Amount |
| Dried cannabis | \$ 10,578,168 | \$ 10,646,652 |
| Harvested work in progress | — | 350,395 |
| Extracts | | |
| Resin | 98,987 | 64,948 |
| Crude oil | — | 486,451 |
| Finished oil | 2,782,210 | 1,281,679 |
| Non-cannabis inventory | 2,284,868 | 1,258,855 |
| | \$ 15,744,233 | \$ 14,088,980 |

During the three and nine months ended September 30, 2023, the Company recognized impairment of inventory amounting \$1,510,069 and \$4,164,469 (for three and nine months ended September 30, 2022 - \$7,680,702 and \$8,990,576) included in cost of goods sold and \$142,981 and \$(139,799) (for three and nine months ended September 30, 2022 - \$900,399 and \$617,620) 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, September 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 September 30, 2023 and December 31, 2022. Biological assets, if any, were 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.

Entourage Health Corp.

Notes to the Condensed Interim Consolidated Financial Statements
For the three and nine months ended September 30, 2023, and 2022

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 estimated harvest yields for the plants at various stages of growth. As of September 30, 2023, the Company did not have any biological assets to harvest as compared to December 31, 2022, when it harvested 1,521,850 grams. The weighted average selling price used in the valuation as at December 31, 2022 was \$0.65 per gram and was based on a normalized historical average selling price, adjusted based on expected future sales prices and mix. The Company estimated percentage of costs incurred based on the stage of growth. The Company estimated that as at December 30, 2022, the Company's plants had 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 September 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 | Percentage change used in sensitivity analysis | Change resulting for reasonable variance as at December 31, 2022 |
|--|----------------------|---|--|
| | Valuation inputs | | |
| 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) |

Entourage Health Corp.

Notes to the Condensed Interim Consolidated Financial Statements
For the three and nine months ended September 30, 2023, and 2022

4. Lease Liabilities

The following is a breakdown of the carrying amount of the Lease liabilities as at September 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 | 37,776 | — | 37,776 |
| Payments | (262,058) | (15) | (262,073) |
| Lease liability, September 30, 2023 | \$ 737,306 | \$ - | \$ 737,306 |
| 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 September 30, 2023 | | | |
| Short Term Portion | \$ 135,188 | \$ - | \$ 135,188 |
| Long Term Portion | \$ 602,118 | \$ — | \$ 602,118 |

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

| | September 30, 2023 | December 31, 2022 |
|--------------------------------|-------------------------------|------------------------------|
| Less than one year | \$ 162,291 | \$ 332,477 |
| 1 to 5 years | 520,755 | 522,650 |
| Greater than 5 years | 193,462 | 283,453 |
| Gross lease liabilities | 876,508 | 1,138,580 |
| Interest on lease liabilities | 139,202 | 176,977 |
| Net lease liabilities | \$ 737,306 | \$ 961,603 |

Entourage Health Corp.

Notes to the Condensed Interim Consolidated Financial Statements
For the three and nine months ended September 30, 2023 and 2022

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 | — | — | 951,862 | — | — | — | 951,862 |
| Balance as at September 30, 2023 | 340,629 | 5,331,041 | 15,667,578 | 195,728 | 4,966,419 | 78,500 | 26,579,895 |
| 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 | — | (138,935) | (272,447) | — | — | — | (411,382) |
| Balance as at September 30, 2023 | (52,629) | (2,859,978) | (13,222,501) | (195,728) | (4,966,419) | (78,500) | (21,375,755) |
| Net Book Value | | | | | | | |
| Balance as at December 31, 2022 | 288,000 | 2,609,998 | 1,765,662 | — | — | — | 4,663,660 |
| Balance as at September 30, 2023 | 288,000 | 2,471,063 | 2,445,077 | — | — | — | 5,204,140 |

For the three and nine months ended September 30, 2023, depreciation of \$nil and \$237,491 has been capitalized in inventory and biological assets, respectively (for the three and nine months ended September 30, 2022 - \$437,813 and \$1,503,005 respectively).

Entourage Health Corp.

Notes to the Condensed Interim Consolidated Financial Statements
For the three and nine months ended September 30, 2023 and 2022

| | 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 |

Entourage Health Corp.

Notes to the Condensed Interim Consolidated Financial Statements
For the three and nine months ended September 30, 2023 and 2022

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 September 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 September 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 nine months ended September 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 | | 26,644 |
| Balance, September 30, 2023 | \$ | 913,008 |

As at December 31, 2022

| | |
|--------------------|---------|
| Short Term Portion | — |
| Long Term Portion | 886,364 |

As at September 30, 2023

| | |
|--------------------|---------|
| Short Term Portion | — |
| Long Term Portion | 913,008 |

During the three and nine months ended, the company recorded interest on convertible debentures of \$22,981 and \$70,473 and were paid to the debenture holders as at September 30, 2023.

Entourage Health Corp.

Notes to the Condensed Interim Consolidated Financial Statements
For the three and nine months ended September 30, 2023 and 2022

8. Loans and Borrowings

| Maturity date | Financial Institution | | | Liuna Pension Fund ("LPF") | Liuna Pension Fund ("LPF") | 1217174 Ontario LTD | | |
|-----------------------------|-----------------------|---------------|--------------|----------------------------|----------------------------|---------------------|------------------------|----------------|
| | September 2024 | | | September 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 | (1,783,810) | (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 | — | — | — | 14,452,887 | 14,773,542 | — | — | 29,226,429 |
| Interest | 55,348 | 1,068,872 | 64,981 | 650,523 | 15,445,501 | 465,750 | — | 17,750,975 |
| 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 | — | — | (9,785) | — | 45,857 |
| Interest payments | (55,349) | (1,068,872) | (64,982) | — | — | — | — | (1,189,203) |
| Balance, September 30, 2023 | \$ — | \$ — | \$ — | \$ 15,103,410 | \$ 133,712,769 | \$ 4,719,018 | \$ 31,950 | \$ 153,567,147 |

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

During the three and nine months ended September 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. The remaining restricted cash of \$100,000 represents cash collateral held by BMO for the Company's corporate credit cards.

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.

As at September 30, 2023, the Company was in breach of certain financial covenants and obligations under its senior secured credit facilities with an affiliate of the LiUNA Pension Fund of Central and Eastern Canada (the "Senior Lender"). The Company has received a forbearance letter from the Senior Lender noting the Company in default of the Credit Facilities and temporarily waiving the Company's breaches until December 8, 2023, subject to the satisfaction or waiver of certain conditions. The Company is working collaboratively with the Senior Lender to reach an agreement on the terms of a new forbearance.

c) 1217174 Ontario LTD

During the three and nine months ended September 30, 2023, the Company incurred \$156,250 and \$465,750 (three and nine months ended September 30, 2022- \$77,625 and \$232,875) in interest and \$(2,321) and \$(9,785) (three and nine months ended September 30, 2022- \$71,946 and \$204,832) in accretion expense relating to these loans.

Entourage Health Corp.

Notes to the Condensed Interim Consolidated Financial Statements
For the three and nine months ended September 30, 2023 and 2022

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 September 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 nine months ended September 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 nine months ended September 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 September 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).

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Notes to the Condensed Interim Consolidated Financial Statements
For the three and nine months ended September 30, 2023 and 2022

- 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 September 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 September 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 | | (315,000) | — |
| Stock options expired | 11 (a) | (4,636,500) | — |
| 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) | — | 213,364 |
| Balance as at September 30, 2023 | | 3,437,140 | 30,663,074 |

- a) Stock options expired during the nine months ended September 30, 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.

Entourage Health Corp.

Notes to the Condensed Interim Consolidated Financial Statements
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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 September 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 May 27, 2023, the Company granted an aggregate of 6,200,000 performance share units (“PSUs”) to certain member of the Company’s management team. The PSUs will vest one year after the grant date subject to and to the extent of the Company achieving certain business performance objectives, as set by the Company’s Board of Directors.

Entourage Health Corp.

Notes to the Condensed Interim Consolidated Financial Statements
For the three and nine months ended September 30, 2023 and 2022

- j) 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.
- k) On September 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 third 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 \$32,000.

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

| | Three months ended | | Nine Months ended | |
|-----------------------------|--------------------|--------------------|--------------------|--------------------|
| | September 30, 2023 | September 30, 2022 | September 30, 2023 | September 30, 2022 |
| Share based compensation | \$ — | \$ — | \$ — | \$ 11,070 |
| Deferred stock units issued | 156,000 | 82,318 | 213,364 | 425,795 |
| Total | \$ 156,000 | \$ 82,318 | \$ 213,364 | \$ 436,865 |

As at September 30, 2023 3,437,140 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 |
|----------------|-------------------------------|-------------------------------|------------------------|---|---------------------------------|
| \$1.95 | 200,000 | 200,000 | 0.28 | 0.02 | \$ 0.11 |
| \$1.53 | 440,500 | 440,500 | 0.53 | 0.07 | \$ 0.20 |
| \$3.26 | 142,640 | 142,640 | 0.34 | 0.01 | \$ 0.14 |
| \$0.40 | 1,009,000 | 1,009,000 | 2.05 | 0.60 | \$ 0.12 |
| \$0.40 | 125,000 | 125,000 | 3.25 | 0.12 | \$ 0.01 |
| \$0.85 | 600,000 | 600,000 | 1.47 | 0.26 | \$ 0.15 |
| \$1.00 | 10,000 | 10,000 | 0.41 | 0.00 | \$ 0.00 |
| \$1.25 | 10,000 | 10,000 | 0.48 | 0.00 | \$ 0.00 |
| \$1.48 | 440,000 | 440,000 | 1.68 | 0.22 | \$ 0.19 |
| \$1.75 | 60,000 | 60,000 | 0.47 | 0.01 | \$ 0.03 |
| \$1.75 | 250,000 | 250,000 | 0.51 | 0.04 | \$ 0.13 |
| \$1.75 | 100,000 | 100,000 | 1.11 | 0.03 | \$ 0.05 |
| \$0.40 | 50,000 | 50,000 | 3.44 | 0.05 | \$ 0.01 |
| | 3,437,140 | 3,437,140 | | | 1.14 |

Entourage Health Corp.

Notes to the Condensed Interim Consolidated Financial Statements
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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 Sept 30, | | Nine Months ended Sept 30, | |
|----------------------------------|-----------------------------|------------------|----------------------------|-------------------|
| | 2023 | 2022 | 2023 | 2022 |
| Salaries and benefits | \$ 2,337,279 | \$ 3,135,592 | \$ 7,324,493 | \$ 10,582,564 |
| Office & Administrative | 1,019,023 | 1,079,294 | 3,841,417 | 3,218,220 |
| Professional/Consulting Fees | 1,138,565 | 994,866 | 4,056,877 | 3,838,959 |
| Selling, marketing and promotion | 1,495,602 | 1,565,961 | 4,187,696 | 3,543,415 |
| Restructuring expenses | 61,353 | — | 1,380,697 | — |
| Research and development | — | 67,001 | 42,438 | 167,805 |
| Total | \$ 6,051,822 | 6,842,714 | 20,833,618 | 21,350,963 |

13. Finance Costs

| | Three months ended Sept 30, | | Nine Months ended Sept 30 | |
|--|-----------------------------|---------------------|---------------------------|----------------------|
| | 2023 | 2022 | 2023 | 2022 |
| Accretion cost | \$ 7,209 | \$ 122,366 | \$ 72,501 | \$ 2,364,126 |
| Interest expense on credit facilities | 155,250 | 563,607 | 1,654,951 | 1,862,780 |
| Accrued interest on term loan (Liuna) - Note (a) below | 6,143,767 | 3,156,785 | 16,096,024 | 7,843,917 |
| Interest expense on unsecured convertible debentures | 32,748 | 22,570 | 70,473 | 613,295 |
| Interest expense on lease liabilities | 10,989 | 22,122 | 37,776 | 105,083 |
| Foreign exchange loss | 6,031 | 30,267 | 19,608 | 74,009 |
| Other (gain) charges | — | 82 | 7,317 | 184,213 |
| Total | \$ 6,355,994 | \$ 3,917,799 | \$ 17,958,650 | \$ 13,047,423 |

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

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14. Loss per Share

| | Three months ended | | Nine months ended | |
|---|--------------------|----------------|-------------------|----------------|
| | 2023 | 2022 | 2023 | 2022 |
| Basic and diluted loss per share: | | | | |
| Loss attributable to holders of shares | \$ (9,905,081) | \$(17,432,184) | \$ (28,992,469) | \$(35,223,280) |
| Weighted average number of shares outstanding | 307,429,741 | 304,363,421 | 307,429,741 | 304,363,421 |
| | \$ (0.03) | \$ (0.06) | \$ (0.09) | \$ (0.12) |

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, 2023, the Company calculated loss per share using 307,429,741 (nine months ended September 30, 2022: 304,363,421) common shares. The effect of options, warrants and conversion feature was anti-dilutive.

15. Change in Non-cash Operating Working Capital

| | September 30, 2023 | | December 31, 2022 | |
|--|--------------------|--------------------|-------------------|---------------------|
| Trade and other receivables | \$ | 720,929 | \$ | 1,266,206 |
| Prepaid expenses and deposits | | (942,379) | | (847,347) |
| Inventory | | (5,199,287) | | (6,260,661) |
| Biological assets | | 2,635,282 | | (3,832,377) |
| Commodity tax receivable | | (209,938) | | 402,257 |
| Accounts payable and accrued liabilities | | 429,640 | | (3,450,220) |
| Net Changes in Non-Cash Working Capital | \$ | (2,565,753) | \$ | (12,722,142) |

16. Prepaid expenses and deposits

| | September 30, 2023 | | December 31, 2022 | |
|-------------------|--------------------|------------------|-------------------|------------------|
| Deposits | \$ | 1,768,607 | \$ | 1,793,642 |
| License fee | | 583,446 | | 288,981 |
| Supplier advances | | 999,359 | | 387,468 |
| Prepaid Insurance | | 361,655 | | 300,597 |
| Total | \$ | 3,713,067 | \$ | 2,770,688 |
| Current | | 1,995,415 | | 1,053,036 |
| Long term | | 1,717,652 | | 1,717,652 |

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17. Accounts payable and accrued liabilities

| | September 30, 2023 | December 31, 2022 |
|----------------------------|----------------------|----------------------|
| Trade payables | \$ 2,873,896 | \$ 2,667,241 |
| Accrued employee benefits | 681,550 | 862,192 |
| Accrued excise taxes | 5,809,015 | 1,940,049 |
| Restructuring accrual | — | 521,808 |
| Accrued and other payables | 4,193,200 | 7,179,423 |
| Total | \$ 13,557,661 | \$ 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, \$nil have not been paid as of September 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 | | Nine Months ended | |
|----------------------|----------------------|----------------------|----------------------|----------------------|
| | September 30, 2023 | September 30, 2022 | September 30, 2023 | September 30, 2022 |
| Medical | \$ 3,643,391 | \$ 3,519,130 | \$ 15,341,639 | \$ 15,631,481 |
| Adult Use | 8,607,668 | 9,919,190 | 25,156,856 | 26,544,555 |
| Bulk | — | — | 225,391 | 218,062 |
| Total Revenue | \$ 12,251,059 | \$ 13,438,320 | \$ 40,723,886 | \$ 42,394,098 |

For the three and nine months ended September 30, 2023, 61% and 51% (September 30, 2022: 90% and 88%) of total revenue is from 2 customers (September 30, 2022: 3 customers) each representing more than 10% of the Company's revenue.

As at September 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 nine months ended September 30, 2023, actual returns amounted to \$454,139 and \$792,862 (September 30, 2022 - \$372,806 and \$372,806), respectively recorded net of revenue in the consolidated financial statements of loss and comprehensive loss.

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b) Trade and other receivables

| | September 30, 2023 | December 31, 2022 |
|--|---------------------|---------------------|
| Gross trade receivables | \$ 3,966,355 | \$ 4,239,896 |
| Less: allowance for expected credit losses | 80,311 | 447,238 |
| Net trade receivables | 3,886,044 | 3,792,658 |
| Other receivables | 145,194 | 232,836 |
| Total | \$ 4,031,238 | \$ 4,025,494 |

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

| Trade receivables ageing | | | |
|--------------------------|---------------------|---------------------|--|
| | September 30, 2023 | December 31, 2022 | |
| 0-30 days | \$ 1,977,589 | \$ 3,159,328 | |
| 30-90 days | 325,449 | 156,537 | |
| 90 days and above | 1,663,317 | 924,031 | |
| Total | \$ 3,966,355 | \$ 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, 2023, the Company recorded allowance for expected credit losses of \$366,927 (2022: \$447,927) towards trade receivables and \$nil (2022: \$89,579) towards other receivables.

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 | September 30, 2023 | December 31, 2022 |
|--|--------------------|-------------------|
| Accounts payable and accrued liabilities | \$ — | \$ — |

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

| | Three months ended | | Nine Months ended | |
|--------------------------|--------------------|--------------------|--------------------|--------------------|
| | September 30, 2023 | September 30, 2022 | September 30, 2023 | September 30, 2022 |
| Salaries and bonus | \$ 337,506 | \$ 499,360 | \$ 1,200,490 | \$ 1,686,278 |
| Share based Compensation | 102,000 | 150,018 | 103,364 | 758,376 |
| Directors fee | 22,000 | — | 78,000 | 35,724 |
| Other compensation | — | 10,524 | 662,631 | 10,524 |
| Total | 461,506 | 659,902 | 2,044,485 | 2,490,902 |

20. Commitments and Contingencies

Commitments

On November 15, 2022, Entourage entered into a long-term supply agreement with HEXO Operations Inc. ("Hexo"). Under the supply agreement, Hexo was to provide the Company with bulk dried cannabis. The supply agreement requires annual purchase commitments with year over year price increase ceilings. Effective July 1, 2023, the supply agreement was assigned by Hexo to and assumed by Aphria Inc., the operating subsidiary of Tilray Brands, Inc., with certain amendments. The term of the contract is four years and the parties may agree to renew it for an additional three years on the same terms and conditions. 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.

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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 September 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 \$4,031,238 (December 31, 2022: \$4,025,494), refer to note 18 (b) for further details.

As at September 30, 2023, 62% (December 31, 2022: 83%) of the Company's trade receivables balance, is owing from 2 customers (December 31, 2022: 3 customers), 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 20% of trade receivables and comprises of 9% of the revenue of the Company as at September 30, 2023. Management expects credit risk to be minimal.

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(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 \$162,540,978 (December 31, 2022: \$141,878,963) with cash on hand of \$9,332,196 (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.

As at September 30, 2023, the Company was in breach of certain financial covenants and obligations under its senior secured credit facilities with an affiliate of the LiUNA Pension Fund of Central and Eastern Canada (the "Senior Lender"). The Company has received a forbearance letter from the Senior Lender noting the Company in default of the Credit Facilities and temporarily waiving the Company's breaches until December 8, 2023, subject to the satisfaction or waiver of certain conditions. The Company is working collaboratively with the Senior Lender to reach an agreement on the terms of a new forbearance.

The contractual maturities of all liabilities and lease obligations as at September 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 | \$ 142,116 | \$ 125,671 | \$ 128,253 | \$ 130,834 | \$ 349,634 |
| Loans and borrowings | 14,789,263 | 165,086,090 | 310,500 | 5,051,750 | — |
| Unsecured convertible debentures | 91,175 | 91,175 | 1,035,844 | — | — |
| Other commitments | 9,038 | 2,479 | — | — | — |
| Accounts payables and accrued liabilities | 13,557,661 | — | — | — | — |
| Total | \$ 28,589,253 | \$ 165,305,415 | \$ 1,474,597 | \$ 5,182,584 | \$ 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 |

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(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, 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 nine months ended September 30, 2023, other income recorded of \$1,602 and \$49,722 (three and nine months ended September 30, 2022 – \$28,717) represents sale of certain minor tools.

24. Subsequent Events

The Company's management has evaluated subsequent events up to November 27, 2023, the date the condensed interim consolidated financial statements were issued and determined there were no material events to report.