

THIS IS EXHIBIT "19" TO THE
AFFIDAVIT OF JOHN ARBUTHNOT IV
SWORN BEFORE ME AT WINNIPEG, MANITOBA,
this 12th day of July, 2024

A handwritten signature in blue ink, appearing to read "Amah/andh", is written over a horizontal line.

A NOTARY PUBLIC IN AND FOR THE PROVINCE OF MANITOBA

Licensed Producer Supply Agreement for Non-Medical Cannabis

This Licensed Producer Supply Agreement for Non-Medical Cannabis (the “**Agreement**”) is dated for reference as of the 31st day of July, 2018 and will be effective as of the last day executed (the “**Effective Date**”) between:

**Her Majesty the Queen in Right of the Province of British Columbia, as represented by the
Administrator of the *Cannabis Distribution Act*, SBC 2018, c 28**

(the “**Province**”)

and

Delta 9 Bio-Tech Inc.

(the “**Licensed Producer**”)

The federal government intends to bring the federal *Cannabis Act*, SC 2018, c 16, into force on October 17, 2018, inter alia, authorizing the distribution and retail sale of non-medical cannabis. The Province is establishing a wholesale distribution system, public and private ‘bricks and mortar’ retail stores and a public online (e-commerce) system for retail sales to consumers.

The Province wishes to purchase non-medical cannabis (the “**Cannabis Product**”) from the Licensed Producer and the Licensed Producer has agreed to offer to sell the Cannabis Product to the Province, on the terms and conditions set out in this Agreement.

In consideration of the mutual covenants herein and other good and valuable consideration, the receipt and sufficiency of which each party acknowledges, the Province and the Licensed Producer agree as follows:

Term

1. This Agreement will be in effect from the Effective Date and continue until such time as terminated (the “**Term**”).

Termination

2. The Province may terminate this Agreement by written notice:
 - (a) if Licensed Producer acts in a manner contrary to any other provision of this Agreement and fails to remedy such action within thirty days of receiving notice from the Province to rectify such action;
 - (b) immediately if Licensed Producer ceases at any time to be the holder of a producer’s licence under Section 35 of the *Access to Cannabis for Medical*

Purposes Regulations, SOR/2016-230, prior to the coming into force of Section 158 of the *Cannabis Act*, SC 2018, c 16;

- (c) immediately if Licensed Producer ceases at any time to be the holder of a licence under Section 62 of the *Cannabis Act*, SC 2018, c 16; or
- (d) immediately if Licensed Producer:
 - i. becomes insolvent, is adjudged a bankrupt or makes an assignment for the benefit of its creditors;
 - ii. has a receiver appointed in respect of its property in any action, suit or proceeding by or against the Licensed Producer; or
 - iii. ceases to carry on business.

- 3. This Agreement may be terminated by the Province at any time upon 90 days' prior written notice to the Licensed Producer.

Purchase Orders

- 4. The Province will issue a purchase order to the Licensed Producer for each purchase of Cannabis Product and the parties acknowledge and agree that any such purchase order will be governed by the terms and conditions of the purchase order, this Agreement and the additional Purchase Order Terms and Conditions attached to this Agreement as Appendix A, regardless of whether the Purchase Order Terms and Conditions are attached to the purchase order.
- 5. The Licensed Producer must confirm receipt of the purchase order within one business day, being a day other than a Saturday or a Sunday, on which Provincial government offices are open for normal business in British Columbia (a "**Business Day**") and provide notice of any variance between purchase order quantities and shipment quantities prior to or at the time of shipping. The acknowledgement will include the estimated time of arrival of the purchased Cannabis Product at its destination, the name of the vessel or carrier, the shipping point and the purchase order number.
- 6. The Licensed Producer must report to the Province at least once a week its available inventory of Cannabis Product to facilitate the purchase order process.

No Purchasing Obligations

- 7. The Province will have no obligation or liability to purchase any particular volume of Cannabis Product from the Licensed Producer. The Province does not guarantee that it will purchase any particular volume of Cannabis Product and is not obligated to issue any number of purchase orders to the Licensed Producer. The Province will not be liable to the Licensed Producer for any loss, including but not limited to those losses related to business, revenue, or excess inventory, if the volume of Cannabis Product purchased by

the Province or the number of the Province's purchase orders do not meet the Licensed Producer's expectations, or if the Province terminates this Agreement pursuant to Sections 2 or 3 of this Agreement.

Policies and Procedures

8. The Licensed Producer will comply with the Province's policies and procedures posted on the Province's cannabis supplier informational website located at <https://www.bcldbcannabisupdates.com/bcldb-cannabis-supplier-information>, as may be updated by the Province from time to time (the "Website"), without notice to the Licensed Producer.
9. The Province reserves the right in its sole discretion to implement supply chain non-compliance fees on prior notice provided to the Licensed Producer and will then make such deductions from payment to the Licensed Producer for any non-compliance with supply chain requirements.

Documentation

10. The Licensed Producer will provide Cannabis Product information and documentation requested from time to time by the Province, at the Licensed Producer's expense. This may include, but is not limited to, GS1 Canada product registration files, product attribute information and Cannabis Product photos (collectively, the "Product Information").

License

11. The Licensed Producer grants the Province a license to use, exhibit, excerpt, reformat, modify, reproduce, publish, publicly perform and transmit via the internet and otherwise use such Product Information. The Province is entitled to make reasonable non-exclusive use of the trademarks and tradenames associated with the Cannabis Product, as determined by the Province in the Province's sole discretion, subject to any reasonable directions or policies communicated to the Province by the Licensed Producer. If the Licensed Producer is not the owner of these trademarks and tradenames, the Licensed Producer will use commercially reasonable efforts to obtain permission for the Province to use such trademarks and tradenames in accordance with this Agreement. If this Agreement is terminated, the Province may continue to use the Product Information, trademarks and tradenames provided by the Licensed Producer until the Province no longer has any Cannabis Product inventory from the Licensed Producer.
12. The Licensed Producer warrants and represents (and it is a condition hereof) that:
 - (a) the manufacture, sales, distribution and use of the Purchased Cannabis Product; and
 - (b) the Product Information,

do not and will not infringe any patent, trademark, copyright, industrial design or other proprietary right, whether domestic or foreign.

Lowest Price

13. The Licensed Producer will charge no more than the equivalent price for the same Cannabis Product sold to other Canadian jurisdictions. This excludes regional variations in tax, shipping costs and region-specific promotions.

Pricing

14. Notwithstanding the price at which the Province purchases Cannabis Product from the Licensed Producer, the Province will set the wholesale price it deems appropriate to sell to both public and private retail channels and such wholesale price may be increased or decreased by the Province from time to time in its sole discretion and without notice to the Licensed Producer.

Product Stability

15. The Licensed Producer will not offer to sell Cannabis Product to the Province unless the Cannabis Product is shelf stable and does not require refrigeration, heating, or special handling.

Smell Jar Programs

16. It is intended that the Province will issue directions by notice to all Licensed Producers regarding a “smell jar program” and the Licensed Producer will comply with such direction to provide support to cover the product costs associated with the in-store smell jar programs.

Returns

17. Without prejudice to any other rights or remedies, the Province may return Cannabis Product in whole or in part to the Licensed Producer at any time including without limitation before or after delivery and the Cannabis Product being received into the Province’s inventory management system by the Province scanning the barcode at the Cannabis DC (“**Receipt**”), or payment by the Province, in the following events (each a “**Return Event**”):
 - (a) the Cannabis Product inventory is unsaleable or in excess, in the Province’s sole opinion;
 - (b) the Cannabis Product does not correspond with the exact requirements of a purchase order;
 - (c) the Cannabis Product does not comply with the Province’s supply chain requirements;

- (d) the Cannabis Product is unsatisfactory, defective, non-conforming or fails to meet any warranties or other specifications of a purchase order or the Province; or
 - (e) the Province cancels a purchase order due to a breach by the Licensed Producer of the terms and conditions of the purchase order, the additional Purchase Order Terms and Conditions, or this Agreement.
18. In a Return Event, the Province may return the Cannabis Product (or any part thereof) to the Licensed Producer at the sole risk and expense of the Licensed Producer and all amounts paid by the Province to the Licensed Producer on account of the purchase price of such returned Cannabis Product together with any costs incurred by the Province in connection with the purchase, Receipt, return or destruction of such Cannabis Product will be repaid to the Province by the Licensed Producer or set-off by the Province from any monies owing by the Province to the Licensed Producer, at the Province's sole discretion.

Insurance

19. The Licensed Producer must, without limiting the Licensed Producer's obligations or liabilities and at the Licensed Producer's own expense, purchase and maintain throughout the Term the following insurances with insurers licensed in Canada in forms and amounts acceptable to the Province:
- (a) Commercial General Liability in an amount not less than \$10,000,000 inclusive per occurrence against bodily injury, personal injury and property damage and including liability assumed under this Agreement:
 - i. include the Province as an additional insured,
 - ii. be endorsed to provide the Province with 30 days advance written notice of cancellation or material change,
 - iii. include a cross liability clause, and
 - iv. include coverage for products liability specific to cannabis or Cannabis Product; and
 - (b) product recall and product contamination insurance specific to Cannabis Product in an amount not less than \$10,000,000 per occurrence.
20. The Licensed Producer must provide the Province with evidence of all required insurance as follows:
- (a) within 10 Business Days of the Effective Date, the Licensed Producer must provide to the Province evidence of all required insurance in the form of a completed Province of British Columbia Certificate of Insurance;

- (b) if any required insurance policy expires during the term of this Agreement, the Licensed Producer must provide to the Province within 10 Business Days of the policy's expiration, evidence of a new or renewal policy meeting the requirements of the expired insurance in the form of a completed Province of British Columbia Certificate of Insurance; and
 - (c) despite subsections (a) or (b) above, if requested by the Province at any time, the Licensed Producer must provide to the Province certified copies of the required insurance policies.
21. The Licensed Producer must obtain, maintain and pay for any additional insurance which the Licensed Producer is required by law to carry, or which the Licensed Producer considers necessary to cover risks not otherwise covered by insurance, in the Licensed Producer's sole discretion.

Indemnity

22. The Licensed Producer must indemnify and save harmless the Province and the Province's employees and agents from any loss, claim (including any claim of infringement of third-party intellectual property rights), damage award, action, cause of action, cost or expense that the Province or any of the Province's employees or agents may sustain, incur, suffer or be put to at any time, either before or after this Agreement ends, (each a "Loss") to the extent the Loss is directly or indirectly caused or contributed to by:
- (a) any negligent act or omission by the Licensed Producer or by any of the Licensed Producer's agents, employees, officers, directors or subcontractors in connection with this Agreement;
 - (b) the manufacture, production, shipment or delivery of the Cannabis Product;
 - (c) any false or misleading Product Information; or
 - (d) any default by the Licensed Producer or breach of its obligations (express or implied) under this Agreement.

Other Fees

23. Upon receipt of email approval by the Licensed Producer and at the sole discretion of the Province, the Province may provide re-packaging, labelling or other services as required to make Purchased Cannabis Products marketable for distribution and sale. The Province will notify the Licensed Producer of the price of these services prior to obtaining email approval from the Licensed Producer. Should these services be provided, the associated fees will be repaid to the Province by the Licensed Producer or set-off by the Province from any monies owing by the Province to the Licensed Producer, at the Province's sole discretion.

Customer Complaints

24. The Licensed Producer must investigate any product quality concerns raised by the Province and must acknowledge receipt of the concern and the commencement of an investigation by the Licensed Producer within two Business Days. Licensed Producer must then provide the Province with regular updates of the investigation or provide such updates promptly upon inquiry by the Province.

Public Announcements

25. Any public announcement relating to the parties entering into this Agreement will be arranged in conjunction with the Province. The Licensed Producer may not make any public announcement prior to the Province making a public announcement.

Compliance with All Laws

26. The Licensed Producer will comply with all applicable laws related to supplying the Cannabis Product.

Governing Laws

27. This Agreement is governed by, and is to be interpreted and construed in accordance with, the laws applicable in British Columbia and any proceedings which may be taken hereunder by the Licensed Producer will be taken in British Columbia.
28. In this Agreement, unless otherwise specified, a reference to a statute by name means the statute of British Columbia by that name, as amended or replaced from time to time.

Payment of Taxes, Fees and Charges

29. The Licensed Producer will pay all applicable taxes and fees and charges imposed by the federal government and provincial government related to supplying Cannabis Product to the Province.

Contact Information and Delivery of Notice

30. Any communications related to this Agreement (including any notice provisions) may be made by prepaid mail (assuming no work stoppage by Canada Post), hand-delivered, or by e-mail as follows:

- (a) to the Province, addressed to:

| | |
|----------|---|
| Name | Jeff Ring |
| Position | Director Supply Chain, Cannabis Operations |
| Address | BC Liquor Distribution Branch 2625 Rupert Street, Vancouver, BC V5M 3T5 |
| E-mail | <u>cannabis.vendor@bcldb.com</u> |

(b) to the Licensed Producer, addressed to:

| | |
|----------|--|
| Name | John Arbuthnot |
| Position | CEO |
| Address | 770 Pandora Avenue East, Winnipeg, MB R2C 3N1 |
| E-mail | john.arbuthnot@delta9.ca |

31. Any notice mailed will be treated as if received on the fifth Business Day after the date of mailing. Any notice received by e-mail will be treated as received on the same day of sending if received before 4:00 pm, or on the next Business Day, if received after 4:00 pm.

Change of Address

32. Either party may from time to time give notice to the other party of a substitute address or email address, which from the date such notice is given will supersede for purposes of section 30 any previous address or email address specified for the party giving the notice.

Assignment

33. The Licensed Producer must not assign any of the Licensed Producer's rights or obligations under this Agreement without the Province's prior written consent, which may be unreasonably withheld by the Province. Upon providing written notice to the Licensed Producer, the Province may assign to any person any of the Province's rights under this Agreement and may assign to any "government corporation", as defined in the *Financial Administration Act*, RSBC 1996, c 138, any of the Province's obligations under this Agreement.

Amendments

34. The Province reserves the right to amend the terms and conditions of this Agreement at any time, on 30 days' notice to the Licensed Producer. Any changes to the Agreement terms and conditions will be posted on the Website and the Licensed Producer will be notified of the changes by email. The Licensed Producer acknowledges that these changes may occur. Unless the Licensed Producer notifies the Province in writing within 10 days of being notified by email that it does not agree with these changes, the changes will be deemed accepted by the Licensed Producer. If the Licensed Producer does not agree to the changes, the Licensed Producer may terminate this Agreement upon written notice to the Province, such termination effective at the end of the Province's 30 days' notice period, all without any claim against the Province for losses such revisions or termination may cause the Licensed Producer.

35. The Licensed Producer may not amend this Agreement (including the terms of any purchase order), unless such amendment is in writing and agreed to by the Province.

Waiver

36. A waiver of any term or breach of this Agreement is effective only if it is in writing and signed by, or on behalf of, the waiving party and is not a waiver of any other term or breach.

Entire Agreement

37. This Agreement (including any modifications, any policies and procedures of the Province that the Licensed Producer is required to comply with under this Agreement, and any purchase orders issued pursuant to this Agreement) constitutes the entire agreement between the parties as to the supply of Cannabis Product.

Survival of Certain Provisions

38. Sections 7, 9, 11, 12, 14, 16, 17, 18, 19, 20, 21, 22, 23, 26, 27, 29, 30, 31, 32, 38, Appendix A (with respect to any purchase order), any accrued but unpaid payment obligations, and any other sections of this Agreement (including schedules) which, by their terms or nature, are intended to survive termination of this Agreement, will continue in force indefinitely subject to any applicable limitation period prescribed by law, even after this Agreement ends.

Appendices

39. The appendices to this Agreement (including any documents attached to, or incorporated by reference into, those appendices) are part of this Agreement.

Headings

40. The headings herein are for convenience of reference only and do not form a part of this purchase order.

Time

41. Time is of the essence in this Agreement and, without limitation, will remain of the essence after any modification or extension of this Agreement, whether or not expressly restated in the document effecting the modification or extension.

Remainder Not Affected by Invalidity

42. If any provision of this Agreement or the application of it to any person or circumstance is invalid or unenforceable to any extent, the remainder of this Agreement and the application of such provision to any other person or circumstance will not be affected or impaired and will be valid and enforceable to the extent permitted by law.

Execution

43. This Agreement may be entered into by a separate copy of this Agreement being executed by, or on behalf of, each party and that executed copy being delivered to the other party by a method provided for in section 30.

IN WITNESS WHEREOF, the parties have, through duly authorized officials, executed this Agreement dated for reference as of the day and year first written above and effective as of the last day executed.

John Arbuthnot
(Signature)

John Arbuthnot
(Name Printed/Typed)

CEO
(Title)

09/26/19
(Date)

Her Majesty the Queen in Right of the
Province of British Columbia, as
represented by the Administrator of the
Cannabis Distribution Act, SBC 2018, c 28

[Signature]
(Signature)

R. Blain Lawson
(Name Printed/Typed)

Administrator
(Title)

OCT 1 / 19
(Date)

Appendix A – Purchase Order Terms and Conditions

Interpretation

1. In this purchase order, unless the context otherwise requires:
 - (a) “Cannabis DC” means the Province’s distribution centre to which the Purchased Cannabis Product is to be delivered under the purchase order, which location may be changed by the Province from time to time in its sole discretion;
 - (b) “Licensed Producer” means the seller of the Purchased Cannabis Product, as identified on the face of this purchase order;
 - (c) “Licensed Producer Agreement” means the Licensed Producer Supply Agreement for Non-Medical Cannabis between the Province and the Licensed Producer, dated for reference as of the 31st day of July, 2018.
 - (d) “Province” means Her Majesty the Queen in Right of the Province of British Columbia, as represented by the Administrator of the *Cannabis Distribution Act*, SBC 2018, c 28; and
 - (e) “Purchased Cannabis Product” means the goods which correspond exactly to the specifications on the face of this purchase order.
2. All capitalized terms not otherwise defined in these Purchaser Order Terms and Conditions, have the meanings given to them in the Licensed Producer Agreement.

Offer and Acceptance

3. This purchase order is an offer to purchase Purchased Cannabis Product (and not an acceptance of any offer to sell Purchased Cannabis Product) which may be accepted only in accordance with these terms and without modification, deletion, addition or alteration. This purchase order is issued by the Province under the Licensed Producer Agreement, the terms of which apply to this purchase order. If the Licensed Producer’s acknowledgement, invoice or other form of acceptance of this purchase order states terms additional to or different from these terms, this is a notification of objection to such additional and/or different terms and a rejection of such terms.
4. By acceptance of this purchase order, the Licensed Producer is agreeing to the terms and conditions of the purchase order.

Purchase Order

5. This purchase order authorizes only the purchase of Purchased Cannabis Product and the Province is under no obligation to accept or allow the sale of any goods which do not correspond exactly to the specifications set out on the face of this purchase order unless the Province consents in writing to a modification or change.
6. The Licensed Producer may request that this purchase order be amended or cancelled by email notice to the Province’s cannabis demand planning team, which email address will

be provided to Licensed Producer by the Province and as the Province may update from time to time. The Province may amend or cancel the purchase order (or part of it) on its own initiative before acceptance of the purchase order by the Licensed Producer.

Packaging and Delivery

7. The Licensed Producer will properly package the Purchased Cannabis Product:
 - (a) in accordance with applicable federal and provincial laws;
 - (b) for safe shipment; and
 - (c) in accordance with the supply chain requirements for Purchased Cannabis Products posted on the Website.
8. The Licensed Producer will not charge the Province for boxing, packaging or crating unless such charge is specifically permitted on the face of this purchase order.
9. The Licensed Producer will arrange for shipment of the Purchased Cannabis Product in accordance with the terms of this purchase order.

Shipping

10. Delivery is FOB (Incoterms 2010) the Cannabis DC address noted on the face of this purchase order. Upon receipt of a purchase order from the Province, the Licensed Producer is responsible for making arrangements for delivery and for the cost of freight to the Cannabis DC. The Licensed Producer bears the risk of damage and/or loss of the Purchased Cannabis Product until Receipt.
11. All Purchased Cannabis Product require unique, scannable GS1 Canada bar codes, which incorporate: company prefix, Global Trade Item Number (GTIN), lot number, and expiry date (if applicable) into the scannable code for the case, master carton, and retail selling unit. All Purchased Cannabis Product must be registered and maintained in the GS1 Canada central product registry by the Licensed Producer.
12. The Licensed Producer must comply with case configurations set by the Province, as detailed on the Website.
13. The Licensed Producer must ship Purchased Cannabis Product in tamper evident cases.

Documents

14. At the time of delivery to the Cannabis DC, the Licensed Producer will provide the paperwork specified in the supply chain requirements for Purchased Cannabis Product posted by the Province at the Website.

Price and Payment

15. The Province will pay the Licensed Producer for Purchased Cannabis Product 60 days after Receipt of the Purchased Cannabis Product by the Province, provided the Licensed Producer has complied with the terms and conditions of this purchase order.

Force Majeure

16. If an event in the nature of force majeure or any other event reasonably beyond the control of either party (including strikes, lockouts and illegal work-stoppages) which the party primarily affected could not, by reasonable diligence, have avoided, delays or prevents the completion of the purchase order, then the date for completion will be extended or, if the parties cannot agree on an extension date, then the purchase order will be cancelled and neither party will be liable for such delay or failure to complete. Such party will not be relieved of liability, however, unless it has used reasonable diligence to remedy the case of such delay or failure, although neither party will be obliged to settle any labour dispute if, in its opinion, such settlement is not in its best interest.

Risk

17. Notwithstanding any shipping instructions or the FOB point herein, the Licensed Producer will assume all risk of damage to or destruction of Purchased Cannabis Product (or part thereof) from any cause whatever until Receipt of the Purchased Cannabis Product at the Cannabis DC specified on the face of this purchase order. Title to or property in the Purchased Cannabis Product (or part thereof) will pass from the Licensed Producer to the Province upon Receipt.

Warranties and Representations

18. In placing this purchase order, the Province is relying on the skill and judgment of the Licensed Producer in selecting and providing the proper goods for the particular use of the Province. The Licensed Producer warrants and represents to the Province (and it is a condition hereof) that the Purchased Cannabis Product and any services provided hereunder will correspond to and conform with the relevant specifications on the face of this purchase order, will conform to all samples, will be new and of the best quality unless otherwise specified on the face of this purchase order, will be fit for the purpose for which they are to be used and will conform in all respects with all applicable government requirements (including general requirements of the Province).
19. The Licensed Producer warrants and represents (and is a condition hereof) that the Purchased Cannabis Product is free and clear of all liens and encumbrances and the Licensed Producer has good and marketable title to the Purchased Cannabis Product upon shipment of the same hereunder.

Insurance

20. The Licensed Producer is responsible for purchasing, and maintaining Purchased Cannabis Product insurance during shipment.

Cancellation

21. In addition to other rights and remedies the Province may have, the Province may cancel this purchase order (or any part of it) at any time without prior notice upon breach by the Licensed Producer of any express or implied terms herein.
22. The Province will not be liable for any costs expenses or losses incurred by the Licensed Producer as a result of cancellation of the purchase order and the Licensed Producer will not impose a cancellation charge on the Province.

Statutory warranties or conditions

23. The purchase order does not exclude implied statutory warranties or conditions on behalf of the Licensed Producer.

STANDING OFFER CONTRACT NUMBER: 1626

BETWEEN:

ALBERTA GAMING, LIQUOR AND CANNABIS COMMISSION
("AGLC")

- and -

Delta 9 Bio-Tech Inc.
("Licensed Producer")

BACKGROUND

AGLC is responsible for the regulatory oversight and distribution of cannabis in Alberta.

In order to support the distribution of cannabis in Alberta, AGLC is required to purchase cannabis from producers licensed to produce cannabis under the Access to Cannabis for Medical Purposes Regulation or the Cannabis Act (SC 2018, c.16).

For the purposes of this Contract, any reference to goods means cannabis as defined in the *Gaming, Liquor and Cannabis Act* (Alberta) , as amended from time to time, ("Goods") and set out more specifically in a purchase order.

The parties agree as follows:

A. GENERAL

- A.1 The Background is part of this Contract.
- A.2 Headings in this document are used for convenience only and will not affect the meaning or interpretation of the clauses.
- A.3 In this Contract words in the singular include the plural and vice versa.
- A.4 The Licensed Producer agrees to supply the Goods and be paid in accordance with the provisions of this Contract.
- A.5 This Contract is a non-exclusive supply and services contract for the Goods. During this Contract, AGLC may purchase the Goods from sources other than the Licensed Producer.
- A.6 AGLC is not obligated to purchase any Goods with the exception of the initial quantities as outlined in Schedule "A".
- A.7 Notices or reports to be provided under this Contract will be deemed to be given to the other party if in writing, and:
 - a) sent by e-mail;
 - b) sent by prepaid registered mail; or
 - c) personally delivered.

Notices or reports must be addressed to:

| | |
|----------|--|
| AGLC: | Alberta Gaming, Liquor and Cannabis Commission |
| Address: | 50 Corriveau Avenue |

Attention: St. Albert, Alberta, Canada T8N 3T5
Email: Procurement Branch
procurement@aglc.ca

The Licensed Producer: Delta 9 Bio-Tech Inc.
Address: PO Box 68096 Osborne Village
Winnipeg, Manitoba, Canada
R3L 2V9

Attention: John Arbuthnot
Email: john.arbuthnot@delta9.ca

Either party may change its information by giving notice to the other in the manner described above. Any notice personally served or sent by email or fax will be deemed received when actually delivered or received, if delivery or email or fax transmission is from 8:15 am to 4:00 pm in Alberta from Monday through Friday excluding holidays observed by AGLC ("Business Day"), or if not on a Business Day, on the following Business Day.

- A.8 Time is of the essence of this Contract.
- A.9 This Contract will be interpreted and applied in the courts, and in accordance with the laws in force, in Alberta.
- A.10 The Licensed Producer must not assign, subcontract or otherwise dispose of any of its rights, obligations or interests, other than identified in this Contract, without AGLC's prior written consent. If AGLC consents to subcontracting, the Licensed Producer will still be responsible for the Contract's obligations and liabilities.
- A.11 This is to certify that the purchaser of the Goods is AGLC; therefore the purchaser is not subject to the Goods and Services Tax ("GST") or the Harmonized Sales Tax ("HST"). The Licensed Producer is responsible to determine whether or not it is subject to the GST or the HST. AGLC's GST Registration Number is 12407 2513 RT0001.
- A.12 This Contract contains the entire agreement of the parties for the Goods to be purchased and no other understandings or agreements, verbal or otherwise, exist between the parties.

B. TERM

- B.1 This Contract will become effective upon signing by both parties and will continue until June 30, 2020 (the "Term"), unless terminated earlier. The term of this Contract may be extended upon mutual agreement of the parties for a maximum of two (2) additional terms of up to one (1) year each.
- B.2 Notice of an intention to extend the term of this Contract must be provided in writing to the other party within sixty (60) days of the end of the current term.
- B.3 The AGLC may immediately terminate all or any part of the Contract, without cause, upon written notice to the Licensed Producer. The AGLC will only pay the Licensed Producer for the Goods delivered in accordance with the Contract, up to the effective date of the termination of the Contract.

C. SUPPLY/DELIVERY

- C.1 The Licensed Producer must, upon receipt of a:
- a) purchase order; or
 - b) any other form approved by AGLC
- ("Order"), which forms part of this Contract, sell to AGLC the Goods from Schedule "A" or otherwise mutually agreed and identified in the Order.
- C.2 The Licensed Producer must deliver the Goods identified in the Order within thirty (30) Business Days after the Licensed Producer receives an Order, unless otherwise specified by AGLC in writing. If the Licensed Producer fails to deliver the Goods within this time period or delivers an amount of Goods that is less than the amount set out in the Order, the Licensed Producer will be charged a penalty as set out in paragraph F, below. If the Goods identified in the Order cannot be provided by the Licensed Producer, substitute products may be suggested; however, revisions to the Order must be made in writing by AGLC through a formal change order and accepted by AGLC.
- C.3 The Licensed Producer must pay all costs related to complete inbound delivery, acceptance and quality assurance of the Goods to the Alberta address identified in the Order. Quality assurance costs are defined as, but not limited to, costs related to correct, test, or return unsatisfactory Goods delivered to AGLC warehouse. All costs referred to in this clause must include, but are not limited to, any packaging, handling, shipping, unloading, duty, customs, brokerage fees, and insurance charges.
- C.4 Failure to comply with any term of the Order may constitute a breach of Contract on the part of the Licensed Producer.
- C.5 An Order may be terminated prior to shipment upon mutual agreement between the parties.
- C.6 Prior to fulfilling an Order, the Licensed Producer must deliver an advanced shipping notice ("ASN") in a standardized format to AGLC at cannabisreceiving@dhl.com and cannabismerch@aglc.ca. The ASN will include a number of criteria in a specified format which will be outlined in the Licensed Producer Operational Manual, including the address of the location the Goods were shipped from to meet federal reporting requirements and date on which the Goods were packaged.
- C.7 The Goods must have a human readable "packaged on" date printed on both the master case and retail unit. All Goods must have at least three quarters (3/4) remaining shelf life when delivered to AGLC. Shelf life is defined as the amount of time, in days, that the Goods remains fit for consumption, measured from when the Goods were packaged. Shelf life by item will be determined by the Licensed Producer and stated in Schedule "A".
- C.8 Upon delivery of the Goods, AGLC will inspect ten percent (10%) of the cases of each Stock Keeping Unit (SKU) for accuracy. Should any discrepancies be found, a secondary inspection will be conducted on the remaining ninety percent (90%). The Licensed Producer will be responsible for the inspection costs incurred during that secondary inspection.

D. PRICING

- D.1 Subject to Clauses D.2, D.3, D.4 and F, the Licensed Producer must supply the Goods to AGLC at the purchase price outlined in Schedule "A" ("Purchase Price"). The Purchase Price (including taxes) represents the landed costs to AGLC and includes but is not limited to fees for shipping/transportation, packaging, handling, insurance, and excise taxes related to delivering the Goods. During the Licensed Producer's annual line review, there will be the opportunity to

negotiate the Purchase Price charged to AGLC.

- D.2 The Purchase Price of Goods set out in Schedule "A" is the maximum Purchase Price during the Contract. AGLC may agree to increase the Purchase Price of Goods during the Contract in certain limited circumstances during AGLC's annual line review following a cost justification process. Any consent to increase the Purchase Price must be given, in writing, by AGLC.
- D.3 If the Licensed Producer offers to any third party the same Goods in similar quantities and circumstances, at a lower Purchase Price (excluding taxes) than the Purchase Price (excluding taxes) as calculated from Schedule "A", the Purchase Price (excluding taxes) to AGLC for such Goods must then be lowered by the Licensed Producer to this lower Purchase Price (excluding taxes) for all Goods ordered after the offer to the third party. The Licensed Producer will also adjust any open purchase orders to the new price, and credit AGLC the difference in price for all Goods remaining in the AGLC supply chain.
- D.4 If the Licensed Producer elects to decrease the Purchase Price of the Goods due to promotional prices or otherwise, the Licensed Producer must:
- a) send AGLC written notification of all Purchase Price decreases, and their effective and expiry dates, within five (5) Business Days of the Licensed Producer's announcement date; and
 - b) supply the Goods to AGLC, at the decreased Purchase Prices, beginning on the effective date of the Licensed Producer's announcement. In the circumstance where AGLC has already purchased the Goods, the Licensed Producer will be required to pay AGLC the difference between the Purchase Price and the promotional price for all Goods remaining in the AGLC supply chain. All open purchase orders will also be adjusted to the new price.
- D.5 The Licensed Producer must provide AGLC with thirty (30) Business Days' advanced notice, in writing, of any Goods that are discontinued and, if applicable, the replacement Goods, including the associated prices and effective dates.

E. FEES

- E.1 The Licensed Producer will be charged the following fees which will be deducted from AGLC's payment to the Licensed Producer:
- a) Listing Fee: \$1,500 per SKU;
 - b) Marketing Support Fee: 2% of gross shipment amount; and
 - c) Salvage/Damage: 2% of gross shipment amount.

Salvage/Damage fees are charged to Licensed Producers on every order to cover the cost of damaged orders.

F. PENALTIES

- F.1 During the Term of the contract, the following penalties will be charged to the Licensed Producer, unless otherwise agreed to in writing by AGLC:
- a) Short or Delayed Shipments: 3% of Order for the first incident;
4% of Order for the second incident;
5% of Order for any subsequent incidents

The penalty for short or delayed shipments will be applied to the outstanding portion of the

Order.

- F.2 Early shipments may not be accepted and any associated costs will be covered by the Licensed Producer. Early shipment is defined as any time prior to the scheduled receiving appointment time but excludes small orders delivered by Purolator.
- F.3 Any non-compliance with the packaging and shipping criteria as outlined in Schedule "B" will result in a minimum penalty of \$1,000 up to and including the cost to remedy the error.

G. ACCEPTANCE

- G.1 The Licensed Producer will be deemed to have completed its delivery obligations if, in AGLC's opinion, the Goods delivered for any Order satisfy the Acceptance Criteria as set out in Schedule "B", attached, and AGLC does not otherwise notify the Licensed Producer in writing that it is not accepting the Goods.
- G.2 AGLC will have three (3) Business Days to visually inspect the Goods after the delivery date before notifying the Licensed Producer if it is rejecting the Goods, following which the Goods will be deemed to be accepted by AGLC.
- G.3 The Acceptance Criteria are the specifications the Goods must meet for the Licensed Producer to comply with its' requirements and obligations under this Contract, detailed in Schedule "B", attached.
- G.4 AGLC may test the Goods to ensure they meet the specifications set out in the Certificate of Analysis as provided by the Licensed Producer. The Certificate of Analysis must be submitted to certificateofanalysis@aglc.ca prior to Goods arriving at the AGLC warehouse. The Certificate of Analysis assures the quality of the product meets regulated specifications (e.g., confirmation that the product passed testing for potential contaminants). If the Certificate of Analysis varies from the test results, AGLC may return the Goods to the Licensed Producer.

H. PAYMENT

- H.1 Despite any other provision in this Contract AGLC will, upon receiving an invoice referencing this Contract and the Order number, pay the Licensed Producer the Purchase Price in effect on the date the Goods were ordered within sixty (60) days after the invoice date. If payment is made within fifteen (15) days after the invoice date, AGLC will receive a 2% discount on the Order. The invoice cannot be dated before the Goods have been accepted by AGLC.
- H.2 The invoice must follow the requirements as outlined in the Licensed Producer Operational Manual. This manual may be updated throughout the contract term, and updated versions will be re-issued to the Licensed Producer. The Licensed Producer must adhere to the most recent version.
- H.3 Other fees and penalties identified in Article E and F will be deducted by AGLC from the payment to the Licensed Producer.
- H.4 Invoices must be sent electronically to the e-mail account: AP@aglc.ca.

I. WARRANTY and TITLE

- I.1 The Licensed Producer warrants that:
 - a) it has the right to offer the Goods;
 - b) the Goods meet all legislative requirements with respect to the production, packaging, labelling and any other standards;

- c) the Goods are undamaged and in a merchantable condition at time of delivery to AGLC.
- I.2 If Clause I.1(a) is breached or the Goods violate any patent, copyright, trade secret, industrial design or any other proprietary right of any other party, the Licensed Producer must, at its expense, either obtain for AGLC the right to purchase the Goods or replace or modify them so that they are no longer in violation and continue to meet the specifications in this Contract.
- I.3 Title to and risk of loss for each Good will pass to AGLC upon acceptance by AGLC in accordance with Section G.2.

J. SOURCING OF GOODS

- J.1 Where the Licensed Producer sources the Goods from another licensed producer, AGLC may request information on the secondary source. Response to this request for information will be expected in a reasonable time frame.

K. PRODUCT LISTING REQUIREMENTS

- K.1 The Licensed Producer will provide listing requirements for each Good in an Order as set out in the Licensed Producer Operational Manual. This manual may be updated throughout the contract term, and updated versions will be re-issued to the Licensed Producer. The Licensed Producer must adhere to the most recent version.

L. RETURNS

- L.1 Goods sold to AGLC may be returned to the Licensed Producer for any reason including if the Goods remain unsold, are deemed unsatisfactory, or have a remaining shelf life of six (6) months, or half (1/2) of the remaining shelf life of the Goods, whichever is more. Inventory at the warehouse will be managed on a first in first out basis, and any products that are returned to Licensed Producers will not have previously been removed from the warehouse. The Licensed Producer will be responsible for all costs including but not limited to the Purchase Price of the Goods and the cost of the expenses incurred by AGLC related to the return.

M. RECALLS

- M.1 The parties will promptly comply with any recalls of the Goods issued by either the Licensed Producer or any applicable governmental authority. Unless a product recall is caused by any act or omission of AGLC, the Licensed Producer will be responsible for all commercially reasonable costs associated with Goods that are subject to product recall including but not limited to the cost of the Goods and expenses incurred by AGLC related to the recall. The Licensed Producer must notify AGLC, in writing, as soon as Health Canada is informed of a voluntary recall initiated by the Licensed Producer.

N. FEDERAL LICENCE REQUIREMENT

- N.1 Throughout the Term the Licensed Producer must be validly licensed to produce and sell cannabis under the Access to Cannabis for Medical Purposes Regulation or the Cannabis Act (SC 2018, c.16). Any suspension or cancellation of the license must be reported immediately to AGLC, no further Orders will be requested, and any outstanding Orders will be cancelled without penalty to AGLC.

O. REGISTERED REPRESENTATIVE

- O.1 As set out in the Gaming, Liquor and Cannabis Regulation, as amended from time to time, the Licensed Producer is required to have a registered cannabis representative to represent its cannabis in Alberta ("Cannabis Representative"). For the purposes of this Contract the Licensed Producer must be the Cannabis Representative and at all times during the Term the Licensed Producer will be a Cannabis Representative in good standing with AGLC.
- O.2 AGLC must be notified, in writing, of any corporate structure changes that may impact the Cannabis Representative Registration. This includes, but is not limited to, change in Licensed Producer Ownership, Directors, and/or Shareholders.
- O.3 If the Cannabis Representative has its registration suspended or cancelled during the Term, no further Orders will be made and any outstanding Orders will be cancelled without penalty to AGLC.

P. DUE DILIGENCE

- P.1 For the purposes of determining suitability as a supplier of the Goods in Alberta, AGLC reserves the right to conduct its full or a partial due diligence process on the Licensed Producer at any time during the course of this Contract. The Licensed Producer will be responsible for any costs associated with this process.

Q. PROHIBITED RELATIONSHIPS

- Q.1 In accordance with the Gaming, Liquor and Cannabis Regulation, as amended from time to time, the Licensed Producer, the Licensed Producer's employees, subcontractors and agents and its Cannabis Representative are prohibited from directly or indirectly offering or providing anything of value to licensed cannabis retailers in Alberta.

R. PROMOTIONS

- R.1 The Licensed Producer will comply with all legislative requirements with respect to promotion and advertising of Goods.

S. AUDIT

- S.1 AGLC may, during regular business hours, conduct an audit of the Licensed Producer's financial records and production facilities for the purposes of ensuring compliance with this Contract. For audits of financial records, AGLC will provide the Licensed Producer with thirty (30) days' advance written notice. For publicly traded companies, AGLC may use the public financial records or AGLC may also request additional information and reports. For audits of production facilities, Licensed Producers will be given forty-eight (48) hours' advance written notice. All audit personnel must comply with Licensed Producer's access and site safety policies as a precondition of access. AGLC may also request additional information and reports, which may include, but is not limited to; recall procedures, copies of audit reports and Certificates of Analysis.

T. CONFIDENTIALITY, SECURITY OF INFORMATION AND INFORMATION SHARING

- T.1 The parties, their employees, subcontractors and agents must:
 - a) subject to legislative requirements, keep strictly confidential all information

concerning the other party, or any of the business or activities of the other party acquired as a result of participation in this Contract;

- b) only use, copy or disclose such information as necessary for the performance of this Contract or upon written authorization of the other party; and
- c) maintain security standards, including control of access to data and other information, consistent with the highest standards of business practice in the industry.

T.2 The Licensed Producer will provide, at a minimum, the following information in a format prescribed by AGLC:

- a) Total sales to AGLC by SKU product format, type (i.e., species), and size;
- b) Total volume sold by Canadian Provinces by SKU product format, type, and size;
- c) Three (3) month rolling projected available inventory for Alberta by SKU; and six (6) month rolling projected available inventory for Alberta by kilogram.
- d) Information on any other product format, type, and size reasonably requested by AGLC to fulfill the duties of AGLC.

The information provided by the Licensed Producer outlined above will not be shared publicly, except as aggregate data or as masked data that would not be identifiable.

T.3 AGLC will provide the Licensed Producer information, within its control, related to the performance and distribution of the Licensed Producer's Goods in Alberta.

T.4 The Licensed Producer is aware that AGLC's third party warehouse operator may offer, and the Licensed Producer may choose to accept, certain value added services. The License Producer agrees that AGLC may review any and all invoices issued by the third party warehouse operator to the Licensed Producer for any value added services provided.

U. RESPONSIBILITY AND LIABILITY

U.1 Each party will indemnify and hold harmless the other, its employees, and agents against and from any and all third party claims, demands, actions, or costs (including legal costs on a solicitor-client basis) to the extent arising from:

- a) that party's breach of this Contract, or
- b) the negligence, other tortious act or willful misconduct of that party, or those for whom it is legally responsible, in relation to the performance of its obligations under this Contract.

U.2 The Licensed Producer will indemnify and hold harmless AGLC against and from any loss or damage to the real or personal property of AGLC to the extent arising from the Licensed Producer's breach of this Contract or from the negligence, other tortious act or willful misconduct of the Licensed Producer, or those for whom it is legally responsible.

V. INSURANCE

V.1 During the Term of the Contract the Licensed Producer must:

- a) at its own expense and without limiting its liabilities in this Contract, insure its operations under a contract of General Liability Insurance, in accordance with the *Alberta Insurance Act*, in an amount no less than \$10,000,000 inclusive per occurrence insuring against bodily injury, personal injury, property damage including loss of use and product liability;

- b) ensure product liability coverage extends for twelve (12) months following the expiry or termination of this Contract.
- c) provide copies of insurance documents in a form of a detailed certificate of insurance, acceptable to AGLC; and annually within one month of the renewal date of the General Liability policy and at any other time requested by AGLC;
- d) provide evidence of endorsement to provide AGLC with thirty (30) days advance written notice of cancellation of or material change to their insurance coverage; and
- e) comply with the Workers' Compensation Act, when the Act applies, and must, upon demand by AGLC, deliver to AGLC a certificate from the Workers' Compensation Board showing that the Licensed Producer is registered and in good standing with the Board.

W. CONFLICT OF INTEREST AND ETHICAL CONDUCT

- W.1 The Licensed Producer, upon request by AGLC, will deliver copies of all written ethical standards, conflict of interest policies and codes of conduct established or observed by the Licensed Producer in its business practices or in relation to its employees, subcontractors, or agents.
- W.2 The Licensed Producer, its employees, subcontractors, or agents must refrain from making any offers of gifts, hospitality or other incentives that would place an AGLC employee in a conflict of interest. Examples of this include event tickets (hockey, football, shows, or otherwise), golf green fees, or other items of value. If the Licensed Producer is approached by an AGLC employee, subcontractor, or agent with such a request, the Licensed Producer should contact *ConfidenceLine* at 1-800-661-9675 or online www.aglc.confidenceline.net.
- W.3 The Licensed Producer must comply with, and ensure that its employees, subcontractors, and agents comply with, the *Lobbyists Act* (Alberta), as amended from time to time.
- W.4 In the event the Licensed Producer becomes aware of any matter that causes or is likely to cause a conflict of interest in relation to the Contract, the Licensed Producer must immediately disclose such matter to AGLC in writing.
- W.5 The Licensed Producer must receive written consent from AGLC prior to making any public announcements respecting the existence or content of this Contract.

THE BALANCE OF THIS PAGE LEFT INTENTIONALLY BLANK

X. SURVIVAL OF TERMS

X.1 Despite any other provision of this Contract, those clauses which by their nature continue after the conclusion or termination of this Contract will continue after such conclusion or termination, including:

| | |
|----------|--|
| Clause E | - Fees |
| Clause F | - Penalties |
| Clause G | - Acceptance |
| Clause I | - Warranty and Title |
| Clause L | - Returns |
| Clause M | - Recalls |
| Clause T | - Confidentiality, Security of Information and Information Sharing |
| Clause U | - Responsibility and Liability |
| Clause V | - Insurance (Product Liability only) |

The parties have made this Contract.

Alberta Gaming, Liquor and Cannabis
Commission

Delta 9 Bio-Tech Inc.

Per:

Signature

Jay Shukle

Print Name

Acting Chief Operating Officer + Vice President

Gaming + Cannabis

Date

May 22/19

Per:

Signature

JOHN ARBUTHNOT

Print Name

CEO

Title

Date

5-17-2019

Schedule "A"

GOODS

The costs outlined in the table below will be firm for the Term of the Contract, unless otherwise documented in accordance to section D of the Contract or modified during AGLC's annual line review.

| GTIN | LP SKU ID | Product Name | Unit Size (i.e. 3.5g, 30 capsules, 10mL) | Purchase Cost to AGLC (including federal excise tax and provincial duty) | Manufacturer's Suggested Retail Price (excluding GST) | Shelf Life |
|--------------|---------------------|------------------------------------|--|--|--|------------|
| 689285000785 | CDEL-MB-S-3.5-29106 | Blended Mix 3.5g Milled Flower | 3.5g | \$ 20.41 | \$ 29.99 | 365 |
| 689285000792 | CDEL-MB-S-7-29107 | Blended Mix 7g Milled Flower | 7g | \$ 40.83 | \$ 57.99 | 365 |
| 689285000884 | CDEL-W-1D-3.5-29304 | 13 Dawgs 3.5g Dried Flower | 3.5g | \$ 32.47 | \$ 49.99 | 365 |
| 689285000891 | CDEL-W-1D-7-29305 | 13 Dawgs 7g Dried Flower | 7g | \$ 64.95 | \$ 92.99 | 365 |
| 689285000983 | CDEL-W-AK-3.5-29147 | Afghani Kush 3.5g Dried Flower | 3.5g | \$ 32.47 | \$ 49.99 | 365 |
| 689285000990 | CDEL-W-AK-7-29149 | Afghani Kush 7g Dried Flower | 7g | \$ 64.95 | \$ 92.99 | 365 |
| 689285000822 | CDEL-W-BD-3.5-29108 | Black Domina 3.5g Dried Flower | 3.5g | \$ 25.04 | \$ 37.99 | 365 |
| 689285000839 | CDEL-W-BD-7-29109 | Black Domina 7g Dried Flower | 7g | \$ 50.09 | \$ 71.99 | 365 |
| 689285000686 | CDEL-W-BV-3.5-28715 | Blue Venom 3.5g Dried Flower | 3.5g | \$ 25.04 | \$ 37.99 | 365 |
| 689285000693 | CDEL-W-BV-7-28716 | Blue Venom 7g Dried Flower | 7g | \$ 50.09 | \$ 71.99 | 365 |
| 689285000747 | CDEL-W-BV-3.5-28706 | Blue Light 3.5g Dried Flower | 3.5g | \$ 27.84 | \$ 42.99 | 365 |
| 689285000754 | CDEL-W-BV-7-28707 | Blue Light 7g Dried Flower | 7g | \$ 55.69 | \$ 79.99 | 365 |
| 689285000426 | CDEL-W-C-3.5-29982 | Cannatonic 3.5g Dried Flower | 3.5g | \$ 25.04 | \$ 37.99 | 365 |
| 689285000433 | CDEL-W-C-7-29984 | Cannatonic 7g Dried Flower | 7g | \$ 50.09 | \$ 71.99 | 365 |
| 689285000648 | CDEL-W-CS-3.5-28533 | CBD Skunk Haze 3.5g Dried Flower | 3.5g | \$ 28.78 | \$ 44.99 | 365 |
| 689285000655 | CDEL-W-CS-7-28534 | CBD Skunk Haze 7g Dried Flower | 7g | \$ 57.56 | \$ 82.99 | 365 |
| 689285000488 | CDEL-W-CN-3.5-29664 | Cloud Nine 3.5g Dried Flower | 3.5g | \$ 40.80 | \$ 62.99 | 365 |
| 689285000495 | CDEL-W-CN-7-29665 | Cloud Nine 7g Dried Flower | 7g | \$ 81.60 | \$ 116.99 | 365 |
| 689285000846 | CDEL-W-E-3.5-29111 | Elysium 3.5g Dried Flower | 3.5g | \$ 23.21 | \$ 35.99 | 365 |
| 689285000853 | CDEL-W-E-7-29112 | Elysium 7g Dried Flower | 7g | \$ 46.43 | \$ 66.99 | 365 |
| 689285000907 | CDEL-W-KM-3.5-29357 | Kali Mist 3.5g Dried Flower | 3.5g | \$ 32.16 | \$ 49.99 | 365 |
| 689285000914 | CDEL-W-KM-7-29358 | Kali Mist 7g Dried Flower | 7g | \$ 64.33 | \$ 92.99 | 365 |
| 689285000761 | CDEL-W-MK-3.5-28896 | Master Kush 3.5g Dried Flower | 3.5g | \$ 28.78 | \$ 44.99 | 365 |
| 689285000778 | CDEL-W-MK-7-28897 | Master Kush 7g Dried Flower | 7g | \$ 57.56 | \$ 82.99 | 365 |
| 689285000921 | CDEL-W-M-3.5-29302 | Motavation 3.5g Dried Flower | 3.5g | \$ 28.78 | \$ 44.99 | 365 |
| 689285000938 | CDEL-W-M-7-29303 | Motavation 7g Dried Flower | 7g | \$ 57.56 | \$ 82.99 | 365 |
| 689285000563 | CDEL-W-OK-3.5-29949 | OG Kush 3.5g Dried Flower | 3.5g | \$ 32.47 | \$ 49.99 | 365 |
| 689285000570 | CDEL-W-OK-7-29950 | OG Kush 7g Dried Flower | 7g | \$ 64.95 | \$ 92.99 | 365 |
| 689285000501 | CDEL-W-PP-3.5-29666 | Prairie Fire 3.5g Dried Flower | 3.5g | \$ 40.80 | \$ 62.99 | 365 |
| 689285000518 | CDEL-W-PP-7-29667 | Prairie Fire 7g Dried Flower | 7g | \$ 81.60 | \$ 116.99 | 365 |
| 689285000709 | CDEL-W-SS-3.5-28692 | Sensi Star 3.5g Dried Flower | 3.5g | \$ 32.47 | \$ 49.99 | 365 |
| 689285000716 | CDEL-W-SS-7-28693 | Sensi Star 7g Dried Flower | 7g | \$ 64.95 | \$ 92.99 | 365 |
| 689285000662 | CDEL-W-SL-3.5-27883 | Super Lemon Haze 3.5g Dried Flower | 3.5g | \$ 32.47 | \$ 49.99 | 365 |
| 689285000679 | CDEL-W-SL-7-27885 | Super Lemon Haze 7g Dried Flower | 7g | \$ 64.95 | \$ 92.99 | 365 |
| 689285000860 | CDEL-W-WR-3.5-29113 | White Russian 3.5g Dried Flower | 3.5g | \$ 32.47 | \$ 49.99 | 365 |
| 689285000877 | CDEL-W-WR-7-29114 | White Russian 7g Dried Flower | 7g | \$ 64.95 | \$ 92.99 | 365 |
| 689285000365 | CDEL-W-WW-3.5 | White Widow 3.5g Dried Flower | 3.5g | \$ 35.27 | \$ 54.99 | 365 |
| 689285000372 | CDEL-W-WW-7 | White Widow 7g Dried Flower | 7g | \$ 70.55 | \$ 99.99 | 365 |
| 689285000297 | CDEL-W-CO-3.5 | Conkushion 3.5g Dried Flower | 3.5g | \$ 32.47 | \$ 49.99 | 365 |
| 689285000303 | CDEL-W-CO-7 | Conkushion 7g Dried Flower | 7g | \$ 64.95 | \$ 92.99 | 365 |

AGLC is seeking to secure the following volumes of dried flower products:

| Calendar Quarter | Commitment in Kilograms (kgs) |
|--------------------------|----------------------------------|
| April to June 2019 | 30 |
| July to September 2019 | 45 |
| October to December 2019 | 60 |
| January to March 2020 | 75 |
| April to June 2020 | 90 |

Schedule "B"

ACCEPTANCE CRITERIA

A. Packaging Requirements

- Certificate of Analysis of the Goods is required for all Orders

B. Master Case Requirements

- The maximum size of a master case shipping container must not exceed 30.48 cm (length) x 25.40 cm (width) x 22.86 cm (height)
- Master cases should be greater than or equal to 75% utilized by the eaches within. Any master case with a utilization of less than 75% will be flagged for validation. Master case utilization is defined as:
 - The volume of an each, multiplied by the number of eaches per master case, divided by the volume of the master case.
- Labels must be on adjacent sides and barcodes must have a minimum size of 8.89 cm (width) x 1.91 cm (height) (3.5" x 0.75"). Each barcode must be scannable, therefore labels must not overlap or curve around case corners.
- Human Readable Label: Must include Description, SKU, LOT, Unit Size, Number of Units per Case, Packaged on Date, Barcode Number, Expiry Date (optional)
- All cases must follow the GS1-128 barcode format, 01195011015300001718091610AB123, as defined as:
 - 01 = Identifies the subsequent 14 digits as an SCC barcode
 - Application Identifier: 01
 - Description: SCC barcode format PCCMMMMMIIIIID (e.g., "19501101530000"), as defined as:
 - P = Package indicator; possible values include:
 - 1-8 = Differentiates different standard each quantities of the same item within the case
 - 0 or 9 = Not acceptable for AGLC cannabis products
 - CC = UPC prefix
 - MMMMM = Manufacturer code
 - IIIII = Item identification number
 - D = SCC barcode check digit
 - Data Type: Numeric
 - Maximum Length: 14 digits (no variable length)
 - 17 = Identifies the subsequent 6 digits as an Expiry Date
 - Application Identifier: 17
 - Description: Expiry Date "180916"
 - Data Type: Numeric (in YYMMDD format)
 - Maximum Length: 6 digits (no variable length)
 - If your product does not have an expiry date, you will still need to keep the application identifier (17) in the barcode symbology and replace the date with the default of 500723.
 - 10 = Identifies the subsequent data string as a Lot Number
 - Application Identifier: 10
 - Description: Lot number "AB123"

- Data Type: Any valid character (letters and / or numbers)
- Length: Variable length permitted between 1 and 15 characters
- Sample barcode below:



C. Retail Unit (Each) Labelling Requirements

- Either UPC-A or GTIN Data Stack is accepted by AGLC for retail unit (eaches).
- UPC-A Format:
 - UPC-A: Needs to be both bar coded and human readable on the package.
 - All units must be UPC-A barcode labelled with the following information:
 - UPC code format: L-MMMMMMIIII-D, where:
 - L = Lead Digit (values 0-1, 6-9)
 - MMMMM = Manufacturer code
 - IIIII = Item identification number
 - D = UPC-A check digit
 - Packaged on Date: Needs to also be human readable only on the package.
 - Lot Number: Needs to be human readable only on the package.
 - UPC-A bar code example:



- GTIN Data Stack:
 - Item identifier must be GTIN (Global Trade Item No.)
 - GTIN barcode must be on a separate line from expiry date and lot number values code format in order to enable scanning of GTIN by itself.
 - GTIN bar code format: 01GGGGGGGGGGGGGGG, where:
 - 01 = Application identifier denoting that next 14 digits are a GTIN number.
 - GGGGGGGGGGGGGG = 14 digit GTIN no.
 - Expiry date format: 17YYMMDD, where:
 - 17 = Application identifier denoting that next 6 digits (maximum no. of digits) are the expiry date.
 - YYMMDD = Expiry date, e.g. 180916, indicates an expiry date of September 16, 2018
 - If your product does not have an expiry date, you will still need to keep the application identifier (17) in the barcode symbology and replace the date with the default of 500723.
 - Lot number format:
 - 10LLLLLLLLLLLLLLLLLLLL, where:
 - 10 = Application identifier denoting the next string of characters is the lot no.

- LLLLLLLLLLLLLLLLLL = Lot number value, can be letters or numbers, up to a 15 character maximum.
- Lot number must be human readable. Barcoding this value is optional.

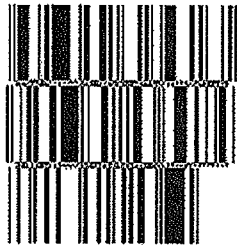
GTIN data stacks may have either 2 or 3 stacks. Examples below:

2 Stack example:



(01) 0 062858200005 0 (13)
180723 (10)
1234567691234567

3 Stack example:



(01) 0 9501101 53000 3
(17) 140704
(10) AB-123

All unit barcodes must be scannable and printed in a manner which minimizes curvature. Example:



All unit barcodes must be tested and approved by AGLC prior to a Purchase Order being created.

D. Pallet Configuration

- Pallet material:

- Pallets must be acceptable for elevated storage in racking.
 - Pallets must be 120 cm x 100 cm (48"x40"), four-way, and have stringers.
 - CHEP equivalent is acceptable.
 - Pallet must be in good repair and not damaged in any way.
 - Pallets are considered one way and will not be returned.
- Height of Pallet:
 - Maximum: The maximum height of a pallet must be less than 142.24 cm (56") including product (127 cm or 50") and pallet (15.24 cm or 6"). Any pallets with a product height that exceeds 127 cm (50") will not be accepted.
 - Minimum: The height pallets, excluding the pallet itself, is expected to be at least 91.44 cm (36"). Any pallet heights less than 91.44 cm (36") will be flagged for validation.
- Pallets must be able to be double stacked
- Pallet Utilization:
 - Pallets are expected to be greater than or equal to 75% utilized. Any pallets with a utilization of less than 75% will be flagged for validation. Pallet utilization is defined as:
 - The area of a master case, multiplied by the number of master cases per pallet layer, and then divided by the area of a standard pallet 121.92 cm x 101.60 cm (48" x 40").

E. Other Non-Compliance

- Non-Compliant Labeling: Product must be labelled in accordance to Federal requirements and labeling requirements as specified in B above.
- Arrival Time: Shipments must arrive at pre-determined times. Late arrivals (greater than 15 minutes late) may not be accepted. Early arrivals may be accommodated if possible.
- Non Purchase Order: Product that is not on a purchase order will not be accepted.
- Non ASN: Product that is not registered on the ASN will not be accepted.
- Non Registered Product: Product without a SKU registration will not be accepted.
- Non Booking: Product that arrives without a valid appointment will not be accepted.

Kyle G. Mirecki

Subject: RE: Licensed Producer Registration - Delta 9 Bio-Tech Inc. (L1059-2022)

From: Landers, Andy SLGA <alanders@slga.gov.sk.ca>

Sent: February 26, 2019 9:46 AM

To: John Arbuthnot; Alexa Goertzen

Cc: Cannabis Branch, SLGA; Henry, Janice SLGA

Subject: Licensed Producer Registration - Delta 9 Bio-Tech Inc. (L1059-2022)

Mr. Arbuthnot, Ms. Goertzen,

Please be advised that SLGA has completed its review of your application to register your company to supply cannabis to the Saskatchewan market from the following location:

- **770 Pandora Avenue East Winnipeg, MB R2C3N**

Based on the information provided, I am pleased to inform you that your application has been approved, and that SLGA has registered your company as a cannabis supplier for Saskatchewan. This determination may be revisited should SLGA become aware of changes to the status of your company's federal licenses enabling you to sell cannabis to the retail market.

If you have any questions about this confirmation or about the reporting specifications, please contact cannabisbranch@slga.gov.sk.ca . When submitting reports as will be required from time to time, please submit to cannabisreport@slga.gov.sk.ca .

Andy Landers

Saskatchewan Liquor & Gaming Authority
Manager - Cannabis Regulation

E: alanders@slga.gov.sk.ca

W: 306-787-0662

www.slga.com



CANNABIS SUPPLY AGREEMENT

June 2018

CANNABIS SUPPLY AGREEMENT

Made: June, 2018

BETWEEN:

MANITOBA LIQUOR AND LOTTERIES CORPORATION,

(“MBLL”),

– and –

Delta 9 Cannabis Inc.

(the “Supplier”),

MBLL AND THE SUPPLIER AGREE AS FOLLOWS:

SECTION 1 – DEFINITIONS AND SCHEDULES

1.01 Definitions

The following words and phrases have the meanings as set out below:

- (a) “Act” means *The Liquor, Gaming and Cannabis Control Act* (Manitoba) as amended from time to time.
- (b) “Authorization” means a license or permit issued by Canada authorizing the Supplier directly or through its subsidiaries to produce, package, transport and sell Cannabis.
- (c) “Breach” has the meaning assigned at subsection 13.03.
- (d) “Cannabis” means cannabis as defined in the Act.
- (e) “Cannabis Store” means the premises, specified in a retail Cannabis licence issued under Division 2 of Part 4.1 of the Act, where the retail sale of Cannabis is authorized.
- (f) “Distributor” means the holder of a Cannabis distributor licence issued under section 101.11 of the Act.
- (g) “Effective Date” means:

- (i) the date upon which both the federal and provincial legislation required to authorize the establishment and operation of Cannabis Stores come into force; or
- (ii) the date upon which this Agreement is executed by both MBLL and the Supplier;

whichever is latest.

- (h) "Products" means Cannabis in the forms, cultivars, and packaged quantities listed at Schedule "A".
- (i) "Purchase Order" means the form attached as Schedule "B".
- (j) "Regulations" means regulations passed from time to time pursuant to the Act.
- (k) "Remote Order" has the definition given to it in the Act.
- (l) "Retailer" means the operator of a Cannabis Store.

1.02 Schedules

The following Schedules form part of this Agreement:

- (a) Schedule "A" – Product Summary
- (b) Schedule "B" – Purchase Order Form
- (c) Schedule "C" – Product Information and Education Materials

SECTION 2 – TERM

- 2.01 Subject to section 2.02, the term of this Agreement shall commence on the Effective Date and shall continue for a period of twelve months unless terminated earlier in accordance with section 13.
- 2.02 MBLL may extend the term of this Agreement for an additional period of twelve months on notice in writing to the Supplier.

SECTION 3 – AUTHORIZATION AND SUPPLIER OBLIGATIONS

Authorization

- 3.01 The Supplier:

- (a) represents and warrants that it holds an Authorization;
- (b) shall maintain the Authorization in good standing throughout the term of this Agreement;
- (c) shall provide proof of the Authorization to MBLL upon signing this Agreement; and
- (d) shall notify MBLL promptly in writing in the event that the Authorization is suspended or cancelled.

Supplier Obligations

3.02 The Supplier represents and warrants that:

- (a) it has all necessary power and authority to enter into this Agreement;
- (b) this Agreement is enforceable against the Supplier in accordance with its terms;
- (c) the execution, delivery and performance of this Agreement will not violate, nor be in conflict with, nor constitute a default under, any contract to which the Supplier is a party or any judgment, order or law applicable to the Supplier;
- (d) it has all right and title to the Products, free and clear of any charges, liens, encumbrances and security interests, and that upon delivery of the Products to MBLL or to a Distributor or to a Retailer or to a designated third party, MBLL shall receive title to the Products free and clear of any charges, liens, encumbrances and security interests;
- (e) to the extent that any third party holds any intellectual property rights in relation to the Products, it has obtained from the third party all necessary licences, consents or assignments of those intellectual property rights to facilitate the sale of the Products to MBLL, the sale of the Products by MBLL to Retailers and the sale of the Products by Retailers;
- (f) the Products and the Supplier shall comply with all federal, provincial and municipal laws, regulations and by-laws, including, without limitation, the Act, the Regulations, *The Manitoba Liquor and Lotteries Corporation Act* (Manitoba), the regulations under *The Manitoba Liquor and Lotteries Corporation Act*, the *Cannabis Act* (Canada) and the regulations under the *Cannabis Act*;
- (g) the Products, at time of delivery, shall conform with the specifications identified for that Product by the Supplier ;

- (h) the Products are produced in accordance with the *Cannabis Act* (Canada); and
 - (i) it will treat MBLL equitably with respect to its Product allocations in the event of a scarcity or shortage of Products.
- 3.03 These representations and warranties shall be true and correct during the entire term of the Agreement and shall survive the expiry or earlier termination of the Agreement until all of the obligations of the Supplier have been fulfilled.
- 3.04 The Supplier shall provide Product information and materials for MBLL, for Distributors and for Retailers, and shall provide education materials for Distributors and for Retailers, as detailed in Schedule "C". MBLL shall have the right to reproduce the information and materials in quantities that MBLL may find necessary. The Supplier remains fully responsible for the content and form of such information and materials.

SECTION 4 – PRODUCTS

- 4.01 The Supplier shall make available to MBLL for purchase a minimum of 2,300,000 grams of Cannabis during the first twelve months of this Agreement, in the quantities and forms of the Products listed at Schedule "A". For the purpose of this calculation, the equivalent quantities listed at Schedule 3 of the *Cannabis Act* (Canada) shall be applied.
- 4.02 MBLL may purchase Cannabis from the Supplier, in the quantities and forms of the Products listed at Schedule "A". MBLL is not obligated to purchase a minimum amount of Cannabis or any amount of Cannabis from the Supplier.
- 4.03 MBLL may amend Schedule "A" from time to time on notice in writing to the Supplier.
- 4.04 The Supplier may request in writing that new forms, cultivars or packaged quantities of Cannabis be added to Schedule "A", and MBLL will consider such requests and, in its sole discretion, approve or reject such requests.
- 4.05 The Supplier shall ensure that each Product is tested by a laboratory licensed by Canada to conduct Cannabis testing, and that the results of such testing are available for review by MBLL once received from the laboratory.
- 4.06 The Supplier is responsible for implementing Product recalls (if any) and shall follow the recreational Cannabis recall process established by Canada. The Supplier shall promptly notify MBLL of the receipt of any complaint of any nature whatsoever with regard to any Product, and the Supplier shall notify MBLL of its intention to recall any Product for any reason.

- 4.07 Products shall be packaged as set out in Schedule "A". All packaging shall comply with the Act and the *Cannabis Act* (Canada). The Supplier shall ensure that its excise tax stamp is affixed to all packaging prior to shipment.
- 4.08 In addition to the packaging requirements set out in subsection 4.07, the Supplier shall work with MBLL to support the goals of, and shall adopt practices and programs to reduce and prevent packaging waste in accordance with, *The Waste Reduction and Prevention Act* (Manitoba) and the regulations made thereunder.
- 4.09 On an annual basis (within one month of the end of each 12-month period during the term of this Agreement), the Supplier shall provide written notification to MBLL of the packaging material weight (i.e. the "empty container weight") for each type of retail packaging material used in the Supplier's retail sales of Cannabis in Manitoba, and the units of each type of packaging used.

SECTION 5 – PRICES

- 5.01 The prices listed at Schedule "A" are the maximum prices that the Supplier may charge to MBLL for the Products.
- 5.02 The Supplier shall notify MBLL in writing if it offers a lower price to a third party for a Product and shall offer MBLL the same price. The Supplier may request an amendment to Schedule "A" for the purpose of reducing one or more maximum prices at any time.
- 5.03 Prices shall include all fees, costs and charges whatsoever, including, without limitation, all costs for packaging, transportation, handling, order assembly, wrapping, crating, loading, unloading, storage, preparing the Products for delivery, overhead and administration, excise taxes, out-of-pocket expenses and all costs paid to third parties by the Supplier.

SECTION 6 – PURCHASE ORDERS

- 6.01 From time to time, and in its sole discretion, MBLL may issue Purchase Orders to the Supplier in the form set out at Schedule "B". MBLL may amend Schedule "B" from time to time on notice in writing to the Supplier.
- 6.02 The Supplier shall establish and maintain an electronic communication link with MBLL in accordance with technical requirements established by MBLL from time to time so that Purchase Orders may be issued electronically.
- 6.03 The Purchase Order shall:
 - (a) identify the quantities of each Product being purchased by MBLL;

- (b) instruct the Suppliers to deliver specific quantities of Product to addresses identified in the Purchase Order.
- 6.04 The Supplier acknowledges that MBLL may, in its sole discretion, determine the selection of Products, the quantities of those Products, and the delivery locations for those Products, set out in a Purchase Order.
- 6.05 The Supplier shall not substitute any Product identified on a Purchase Order without the prior written agreement of MBLL. Where MBLL agrees to any substitution for a Product identified on a Purchase Order, an amended Purchase Order shall be issued.
- 6.06 The Supplier must notify MBLL once an order that is the subject of a Purchase Order has shipped (an "Order Notification"). MBLL may amend or cancel a Purchase Order by notice in writing to the Supplier at any time prior to MBLL receiving an Order Notification from the Supplier.
- 6.07 The Supplier shall not accept orders directly from Retailers and shall not sell or deliver Cannabis based on orders received directly from Retailers or from Distributors or from third parties. For greater certainty, the Supplier shall deliver to MBLL or Retailers or Distributors or third parties only those Products that have been ordered in accordance with a Purchase Order issued by MBLL.
- 6.08 Each Purchase Order shall be incorporated into and form part of this Agreement.

SECTION 7 -- SHIPMENT OF PRODUCTS

- 7.01 All prices for Products shall include delivery to any location in Manitoba specified by MBLL in the Purchase Order. MBLL may direct delivery to MBLL's premises or to the address of one or more Distributors or to the address of one or more Cannabis Stores or to the address of one or more third parties identified by MBLL.
- 7.02 The Supplier shall ensure that Products included in a Purchase Order are delivered as per the instructions specified in the Purchase Order (including, without limitation, the delivery date) and in accordance with all regulatory requirements.
- 7.03 The Supplier shall use best commercial practices to ensure that the Products arrive safely at the destination identified in the Purchase Order. The Supplier bears all risk of loss, injury or destruction of the Products occurring prior to acceptance of the Products by MBLL (where the Purchase Order directs delivery of the Products to MBLL premises) or by the Distributor (where the Purchase Order directs delivery of the Products to the Distributor) or by the Retailer (where the Purchase Order directs delivery of the Products to a Cannabis Store) or by

the third party (where the Purchase Order directs delivery of the Products to the third party).

- 7.04 The Supplier shall not deliver Remote Orders.
- 7.05 Transportation and delivery of Products shall comply with all requirements of the Act, the Regulations and the *Cannabis Act* (Canada).

SECTION 8 -- ACCEPTANCE / REJECTION OF PRODUCTS

- 8.01 All Products will be counted and inspected upon delivery to confirm that the Products meet the requirements of the Purchase Order and this Agreement. Payment for the Products will not be authorized until the Products have been accepted in writing by MBLL or by the Distributor or by the Retailer or by the third party identified by the address for delivery on the Purchase Order.
- 8.02 If the Products do not meet the requirements of the Purchase Order or this Agreement (including, without limitation, time of delivery), MBLL or the Distributor or the Retailer or the third party identified by the address for delivery on the Purchase Order may reject the Products. Any rejected Products shall be returned to the Supplier at the sole cost of the Supplier.
- 8.03 The Supplier shall notify MBLL any time a Product is rejected by a Retailer or a Distributor or a third party.
- 8.04 The Supplier shall be charged a penalty of four percent (4%) of gross purchases for any deliveries that are short or delayed but still accepted by MBLL or by the Distributor or by the Retailer or by the third party identified by the address for delivery on the Purchase Order .
- 8.05 MBLL may, for any reason, request to have Products returned to the Supplier at any time up until 120 days after acceptance of the Products in writing. The Supplier shall forthwith transport the Products from the address specified by MBLL to the Supplier. The Supplier shall accept the return of the Products and shall provide MBLL with a credit equivalent to the price paid for the Products, less the cost of return shipping, which cost must be reasonable and evidenced by an invoice acceptable to MBLL. The Supplier bears all risk of injury to, or loss or destruction of, the Products occurring during transportation of returned Products.

SECTION 9 -- PAYMENT

- 9.01 Payments for Products will be authorized by MBLL once acceptance has been confirmed in accordance with section 8. MBLL shall pay the finalized Purchase Order amount, adjusted if necessary to the totals confirmed as accepted by MBLL or by the Retailer or by the Distributor or by the third party identified by the

address for delivery on the Purchase Order, and as further adjusted, if necessary, for any penalty charged pursuant to subsection 8.04 of this Agreement and any credits for Product returns, and including applicable tax. MBLL shall endeavour to pay the Supplier within thirty (30) days after payment is authorized, unless otherwise noted by MBLL.

- 9.02 The Supplier shall not be entitled to receive, and shall not invoice MBLL for, any fees, costs or charges whatsoever, including, without limitation, any costs for packaging, transportation, handling, order assembly, wrapping, crating, loading, unloading, storage, preparing the Products for delivery, overhead or administration, excise taxes, out-of-pocket expenses, or any costs paid to third parties by the Supplier, unless they have been pre-approved by MBLL in writing.
- 9.03 MBLL will pay in Canadian funds (CAD) to Canadian financial institutions via electronic funds transfer (EFT). The Supplier shall provide MBLL with all information required to make payments by EFT.
- 9.04 The Supplier shall provide MBLL with their GST number, in writing, upon execution of this agreement.

SECTION 10 -- RECORDS OF SUPPLIER

- 10.01 The Supplier shall maintain records to document all activities carried out under this Agreement.
- 10.02 All records referred to in subsection 10.01 must be available, at all reasonable times while this Agreement is in effect and until at least six years after the date on which the Agreement expires or is terminated, for inspection and audit by MBLL and its representatives and auditors, and must be produced by the Supplier on demand. The Supplier agrees to provide reasonable facilities for such inspections and audits, to provide copies of and extracts from such records, documents or contracts upon request by MBLL and its representatives or auditors, and agrees to promptly provide such other information and explanations as may be reasonably requested by MBLL and its representatives or auditors, from time-to-time.

SECTION 11 -- LIABILITY, INDEMNITY AND INSURANCE

- 11.01 The Supplier shall at all times, before and after the expiry or termination of this Agreement, indemnify and save harmless MBLL and its employees, officers and agents for and from any and all loss, injury, death, damages, claims, demands, costs, expenses, legal costs, fines, liabilities, actions and prosecutions of any nature whatever which it or they may incur or suffer, directly or indirectly by reason of any breach by the Supplier of any term of this Agreement, or the performance of this Agreement, or any act or omission or default or negligence of

or by the Supplier or any agent, employee, customer, invitee, licensee, officer, director or shareholder of the Supplier. MBLL and its employees, officers and agents shall not under any circumstances be liable or responsible in any manner to any person or persons with respect to any injury (including death) or any loss of or damage to, or destruction of, any property which occurs as a direct or indirect result of the performance of this Agreement unless and to the extent caused by the willful act or negligence of MBLL or its employees, officers or agents.

11.02 The Supplier shall obtain and maintain throughout the term of the Agreement:

- (a) commercial general liability insurance with minimum coverage limits of ten million (\$10,000,000) dollars per occurrence, including coverage for premises and operations, products and completed operations, blanket contractual, extended bodily injury, broad form property damage, personal liability, advertising injury liability and non-owned automobile liability;
- (b) 'All risk', replacement cost property insurance coverage, including coverage while in transit, for all product while in storage and during shipment;
- (c) insurance covering product recall and product contamination;
- (d) comprehensive dishonesty, disappearance and destruction coverage, including Insuring Agreement I - Employee Dishonesty Coverage Form A for not less than the replacement value of Product shipments, including without limitation, loss due to employee dishonesty, mysterious disappearance or destruction;
- (e) automobile liability insurance of not less than five million (\$5,000,000) dollars per accident covering all vehicles used in the Supplier's operations.

11.03 Without limiting or restricting the generality of subsection 11.02 above, such insurance shall:

- (a) name MBLL, its officers, employees and agents as additional insureds with respect to the commercial general liability relating to the Services provided under the Agreement;
- (b) include an endorsement that states the coverage applies to cannabis and cannabis related products;
- (c) be underwritten by insurers which are licensed in Canada and carry an AM Best rating of A – (minus) or better; and
- (d) require the insurers to give MBLL at least thirty (30) days' prior written notice if it intends to cancel or significantly reduce the coverage under the policy.

- 11.04 The Supplier shall submit to MBLL a Certificate(s) of Insurance as written evidence of the required insurance upon signing the Agreement. The Certificate(s) of Insurance shall state that the insurer(s) will not cancel, materially alter or cause the policy(ies) to lapse without giving at least thirty (30) days' prior notice, in writing, to MBLL. MBLL may request, and shall receive, at any time full copies of the insurance contracts.
- 11.05 The above are minimum insurance requirements intended to provide basic coverage for the Supplier. It is the responsibility of the Supplier and its insurance advisors to determine whether higher limits or additional insurance coverage is required.
- 11.06 Where the Supplier's industry is included in the scope of *The Workers Compensation Act* (Manitoba) and the Supplier is required under the Act to maintain coverage:
- (a) the Supplier shall be registered with the Workers Compensation Board of Manitoba;
 - (b) the Supplier shall maintain in good standing workers compensation coverage throughout the term of this Agreement; and
 - (c) at the written request of MBLL any time during the term of this Agreement, the Supplier must provide MBLL with evidence, in a form satisfactory to MBLL, of the coverage and standing.
- 11.07 The Supplier must ensure that, where a subcontractor is required under *The Workers Compensation Act* to maintain worker's compensation coverage, the subcontractor is registered with the Workers Compensation Board of MBLL and maintains in good standing workers compensation coverage throughout the term of this Agreement.

SECTION 12 – CONFIDENTIALITY

- 12.01 All information provided by MBLL to the Supplier under this Agreement is the exclusive property of MBLL. Such information must be held in strict confidence by the Supplier, its officers, employees, agents, contractors and subcontractors. The Supplier must ensure that all information is kept confidential and that it is not disclosed to any other person or used for any purpose other than to provide the Products under the Agreement. All information must be promptly returned to MBLL upon request.

SECTION 13 – TERMINATION

13.01 This Agreement may be terminated by MBLL at any time with thirty (30) days' notice to the Supplier.

13.02 In the event of non-payment by MBLL, the Supplier may terminate this Agreement by giving at least 90 days' written notice to MBLL, provided the non-payment is unjustified and is not remedied within such 90-day period.

13.03 The following events shall constitute a Breach:

- (a) any non-compliance with, breach of any obligation, representation or warranty in, or any default under, this Agreement by the Supplier;
- (b) suspension or cancellation of the Authorization;
- (c) the Supplier assigns or purports to assign this Agreement without the prior written consent of MBLL;
- (d) the Supplier has become, or is about to become, bankrupt or insolvent, has gone into receivership or has taken the benefit of any statute from time-to-time in force relating to bankrupt or insolvent debtors;
- (e) an order has been made or resolution has been passed to dissolve or wind-up the Supplier or the Supplier is otherwise likely to lose its corporate status;
- (f) the Supplier has ceased to carry on business or stated an intention to cease to carry on business;
- (g) the Supplier is in default under any other agreements, present or future, with MBLL or the Government of Manitoba;
- (h) any creditor of the Supplier has seized or encumbered any substantial asset of the Supplier; or
- (i) the Supplier's conduct is considered detrimental to the best interest of MBLL in the sole discretion of MBLL.

13.04 In the event of a Breach, MBLL may, in its sole discretion, do one or more of the following:

- (a) grant to the Supplier a period of time (as determined by MBLL) to remedy such Breach;
- (b) cancel one or more Purchase Orders;

- (c) immediately suspend this Agreement;
- (d) immediately terminate this Agreement;

upon written notice to the Supplier .

- 13.05 For greater certainty, the parties agree that, upon the expiration or termination of this Agreement, MBLL, Retailers, Distributors and third parties may continue to sell any Products that are still in their possession.

SECTION 14 – NOTICES

- 14.01 All notices, demands, requests, consents, approvals, payments, publications or reports which may or are required to be given or made pursuant to any provision of this Agreement shall be given or made in writing and shall be delivered personally or by email or registered mail. Notices to MBLL shall be directed to P.O. Box 1023, Winnipeg, Manitoba, R3C 2X1, E-mail: cannabis@mbll.ca, Attention: MBLL; and to the Supplier at:

- 14.02 Any notice:

- (a) delivered personally is deemed to have been received on the date of the delivery;
- (b) sent by registered mail is deemed to have been received on the third business day after the date of mailing;
- (c) sent by e-mail is deemed to have been received on the first business day after the date of transmission.

If mail service is disrupted by labour controversy, the notice must be delivered personally or by e-mail.

SECTION 15 – GENERAL PROVISIONS

Assignment

- 15.01 MBLL may assign this Agreement at any time upon written notice to the Supplier.
- 15.02 The Supplier shall not assign this Agreement or any rights or obligations under this Agreement without the prior written consent of MBLL, which consent may be withheld for any or no reason or given with or without conditions.
- 15.03 No assignment of this Agreement or of any rights or obligations under this Agreement relieves the Supplier of its obligations under this Agreement, except

to the extent that those obligations are properly performed by the Supplier's permitted assigns.

15.04 This Agreement is binding upon the successors and assigns of MBLL and on the successors and permitted assigns of the Supplier.

Severability

15.05 If any provision of this Agreement is for any reason invalid, that provision shall be considered separate and severable from this Agreement, and the other provisions of this Agreement shall remain in force and continue to be binding upon the parties as though the invalid provision had never been included in this Agreement.

Set-off or Deduction

15.06 Any amounts due to MBLL from the Supplier under this Agreement may be set-off or deducted from any amounts due to the Supplier from MBLL under this Agreement.

Advertising

15.07 The Supplier agrees that it shall not refer to this Agreement or the transactions contemplated herein, now or in the future, in any press releases, advertising or promotional material and shall not use MBLL's corporate name or logo in any advertising or promotional material except with the prior written authorization of MBLL.

No Agent

15.08 Nothing in this Agreement:

- (a) makes or may be construed to make the Supplier an agent of, or partner with, MBLL;
- (b) authorizes the Supplier to enter into a contract on behalf of MBLL, to act as MBLL's agent or to otherwise obligate MBLL.

Preamble, Titles and Terms

15.09 The Preamble is incorporated into and made a part of this Agreement. Titles of sections are used for convenience only and are not part of the text. All terms used in any one number or gender shall be construed to include any other number or gender as the context may require.

No Waiver

- 15.10 Any waiver by MBLL of a Breach is not effective unless it is given in writing and does not constitute a subsequent waiver of a similar or other Breach. The rights and remedies hereunder are cumulative to any other rights or remedies which may be granted by law.

Governing Law

- 15.11 This Agreement must be construed, interpreted, performed and enforced in accordance with the laws of the Province of Manitoba and the federal laws of Canada applicable therein.

Survival

- 15.12 Sections 3, 4, 8, 10, 11, 12 and 15 and those other sections containing obligations that by their very nature are intended to survive, shall survive the termination or expiry of this Agreement.

Time of Essence

- 15.13 Time shall be of the essence in carrying out any obligations set out in this Agreement.

Entire Agreement

- 15.14 This Agreement (including the attached Schedules and any Purchase Orders issued from time to time) constitutes the entire agreement between MBLL and the Supplier. There are no undertakings, representations or promises, express or implied, other than those contained in this Agreement.

Amendment

- 15.15 This Agreement may be amended in writing and signed by MBLL and the Supplier.

Force Majeure

- 15.16 Neither party shall be deemed to be in default under this Agreement if such default is caused, or materially contributed to, by acts of God, war, natural calamities, labour disturbances, or any other legitimate cause beyond the reasonable control of such party and which, by the exercise of due diligence, such party could not have prevented, but lack of funds on the part of such party shall not be deemed to be a force majeure. Upon the occurrence of a force majeure event affecting the performance of a party, that party shall provide immediate notice in writing to the other party. In the event that a force majeure event continues for a period of longer than five days, MBLL may terminate this

Agreement by notice in writing to the Supplier, effective on the date indicated in such notice of termination.

Acknowledgement

15.17 The Supplier has read this Agreement and has been given the opportunity to clarify any provisions which were not fully understood.

[Remainder of this page intentionally left blank. Signature page follows.]

The parties have caused this Agreement to be properly executed on the dates shown below.


MANITOBA LIQUOR AND LOTTERIES CORPORATION

Per:  Date: June 28/18
Name: Brent Hlady
Title: Executive Director

Per:  Date: June 28/18
Name: Heather Mitchell
Title: Chief Financial Officer

Per:  Date: June 28/18
Name: Peter Hak
Title: President & CEO

Delta 9 Cannabis Inc.

Per:  Date: 6-26-2018
Name: John Arbutnot
Title: CEO

Per: _____ Date: _____
Name: _____
Title: _____

Per: _____ Date: _____
Name: _____
Title: _____

Products

Products

Supplier: Delta9 Cannabis

| Brand | Product Name | Cultivar / Strain / Common Name | Positioning | Species | Concentrations | | Qty per Unit | Biom. Grams | Wholesale Price/Unit | Retail Tax /Unit** | Price to MGILL* | | Grams/ml Requested | Units Requested |
|-----------------|-----------------|---------------------------------|-------------|---------|----------------|-------|--------------|-------------|----------------------|--------------------|-----------------|----------|--------------------|-----------------|
| | | | | | THC % | CBG % | | | | | gram | unit | | |
| | | | | | | | | | | | | | | |
| Flower Products | | | | | | | | | | | | | | |
| Flower | Orange Sherbert | Orange Sherbert | Flower | Indica | 18.0% | 0.0% | 100g | 100g | \$ 1,000 | \$ 0.00 | \$ 4.00 | \$ 20.00 | 100g | 100g |
| Flower | Orange Sherbert | Orange Sherbert | Flower | Indica | 18.0% | 0.0% | 100g | 100g | \$ 1,000 | \$ 0.00 | \$ 4.00 | \$ 20.00 | 100g | 100g |
| Flower | Orange Sherbert | Orange Sherbert | Flower | Indica | 18.0% | 0.0% | 100g | 100g | \$ 1,000 | \$ 0.00 | \$ 4.00 | \$ 20.00 | 100g | 100g |
| Flower | Orange Sherbert | Orange Sherbert | Flower | Indica | 18.0% | 0.0% | 100g | 100g | \$ 1,000 | \$ 0.00 | \$ 4.00 | \$ 20.00 | 100g | 100g |
| Flower | Orange Sherbert | Orange Sherbert | Flower | Indica | 18.0% | 0.0% | 100g | 100g | \$ 1,000 | \$ 0.00 | \$ 4.00 | \$ 20.00 | 100g | 100g |
| Flower | Orange Sherbert | Orange Sherbert | Flower | Indica | 18.0% | 0.0% | 100g | 100g | \$ 1,000 | \$ 0.00 | \$ 4.00 | \$ 20.00 | 100g | 100g |
| Flower | Orange Sherbert | Orange Sherbert | Flower | Indica | 18.0% | 0.0% | 100g | 100g | \$ 1,000 | \$ 0.00 | \$ 4.00 | \$ 20.00 | 100g | 100g |
| Flower | Orange Sherbert | Orange Sherbert | Flower | Indica | 18.0% | 0.0% | 100g | 100g | \$ 1,000 | \$ 0.00 | \$ 4.00 | \$ 20.00 | 100g | 100g |
| Flower | Orange Sherbert | Orange Sherbert | Flower | Indica | 18.0% | 0.0% | 100g | 100g | \$ 1,000 | \$ 0.00 | \$ 4.00 | \$ 20.00 | 100g | 100g |
| Flower | Orange Sherbert | Orange Sherbert | Flower | Indica | 18.0% | 0.0% | 100g | 100g | \$ 1,000 | \$ 0.00 | \$ 4.00 | \$ 20.00 | 100g | 100g |
| Flower | Orange Sherbert | Orange Sherbert | Flower | Indica | 18.0% | 0.0% | 100g | 100g | \$ 1,000 | \$ 0.00 | \$ 4.00 | \$ 20.00 | 100g | 100g |
| Flower | Orange Sherbert | Orange Sherbert | Flower | Indica | 18.0% | 0.0% | 100g | 100g | \$ 1,000 | \$ 0.00 | \$ 4.00 | \$ 20.00 | 100g | 100g |
| Flower | Orange Sherbert | Orange Sherbert | Flower | Indica | 18.0% | 0.0% | 100g | 100g | \$ 1,000 | \$ 0.00 | \$ 4.00 | \$ 20.00 | 100g | 100g |
| Flower | Orange Sherbert | Orange Sherbert | Flower | Indica | 18.0% | 0.0% | 100g | 100g | \$ 1,000 | \$ 0.00 | \$ 4.00 | \$ 20.00 | 100g | 100g |
| Flower | Orange Sherbert | Orange Sherbert | Flower | Indica | 18.0% | 0.0% | 100g | 100g | \$ 1,000 | \$ 0.00 | \$ 4.00 | \$ 20.00 | 100g | 100g |
| Flower | Orange Sherbert | Orange Sherbert | Flower | Indica | 18.0% | 0.0% | 100g | 100g | \$ 1,000 | \$ 0.00 | \$ 4.00 | \$ 20.00 | 100g | 100g |
| Flower | Orange Sherbert | Orange Sherbert | Flower | Indica | 18.0% | 0.0% | 100g | 100g | \$ 1,000 | \$ 0.00 | \$ 4.00 | \$ 20.00 | 100g | 100g |
| Flower | Orange Sherbert | Orange Sherbert | Flower | Indica | 18.0% | 0.0% | 100g | 100g | \$ 1,000 | \$ 0.00 | \$ 4.00 | \$ 20.00 | 100g | 100g |
| Flower | Orange Sherbert | Orange Sherbert | Flower | Indica | 18.0% | 0.0% | 100g | 100g | \$ 1,000 | \$ 0.00 | \$ 4.00 | \$ 20.00 | 100g | 100g |
| Flower | Orange Sherbert | Orange Sherbert | Flower | Indica | 18.0% | 0.0% | 100g | 100g | \$ 1,000 | \$ 0.00 | \$ 4.00 | \$ 20.00 | 100g | 100g |
| Flower | Orange Sherbert | Orange Sherbert | Flower | Indica | 18.0% | 0.0% | 100g | 100g | \$ 1,000 | \$ 0.00 | \$ 4.00 | \$ 20.00 | 100g | 100g |
| Flower | Orange Sherbert | Orange Sherbert | Flower | Indica | 18.0% | 0.0% | 100g | 100g | \$ 1,000 | \$ 0.00 | \$ 4.00 | \$ 20.00 | 100g | 100g |
| Flower | Orange Sherbert | Orange Sherbert | Flower | Indica | 18.0% | 0.0% | 100g | 100g | \$ 1,000 | \$ 0.00 | \$ 4.00 | \$ 20.00 | 100g | 100g |
| Flower | Orange Sherbert | Orange Sherbert | Flower | Indica | 18.0% | 0.0% | 100g | 100g | \$ 1,000 | \$ 0.00 | \$ 4.00 | \$ 20.00 | 100g | 100g |
| Flower | Orange Sherbert | Orange Sherbert | Flower | Indica | 18.0% | 0.0% | 100g | 100g | \$ 1,000 | \$ 0.00 | \$ 4.00 | \$ 20.00 | 100g | 100g |
| Flower | Orange Sherbert | Orange Sherbert | Flower | Indica | 18.0% | 0.0% | 100g | 100g | \$ 1,000 | \$ 0.00 | \$ 4.00 | \$ 20.00 | 100g | 100g |
| Flower | Orange Sherbert | Orange Sherbert | Flower | Indica | 18.0% | 0.0% | 100g | 100g | \$ 1,000 | \$ 0.00 | \$ 4.00 | \$ 20.00 | 100g | 100g |
| Flower | Orange Sherbert | Orange Sherbert | Flower | Indica | 18.0% | 0.0% | 100g | 100g | \$ 1,000 | \$ 0.00 | \$ 4.00 | \$ 20.00 | 100g | 100g |
| Flower | Orange Sherbert | Orange Sherbert | Flower | Indica | 18.0% | 0.0% | 100g | 100g | \$ 1,000 | \$ 0.00 | \$ 4.00 | \$ 20.00 | 100g | 100g |
| Flower | Orange Sherbert | Orange Sherbert | Flower | Indica | 18.0% | 0.0% | 100g | 100g | \$ 1,000 | \$ 0.00 | \$ 4.00 | \$ 20.00 | 100g | 100g |
| Flower | Orange Sherbert | Orange Sherbert | Flower | Indica | 18.0% | 0.0% | 100g | 100g | \$ 1,000 | \$ 0.00 | \$ 4.00 | \$ 20.00 | 100g | 100g |
| Flower | Orange Sherbert | Orange Sherbert | Flower | Indica | 18.0% | 0.0% | 100g | 100g | \$ 1,000 | \$ 0.00 | \$ 4.00 | \$ 20.00 | 100g | 100g |
| Flower | Orange Sherbert | Orange Sherbert | Flower | Indica | 18.0% | 0.0% | 100g | 100g | \$ 1,000 | \$ 0.00 | \$ 4.00 | \$ 20.00 | 100g | 100g |
| Flower | Orange Sherbert | Orange Sherbert | Flower | Indica | 18.0% | 0.0% | 100g | 100g | \$ 1,000 | \$ 0.00 | \$ 4.00 | \$ 20.00 | 100g | 100g |
| Flower | Orange Sherbert | Orange Sherbert | Flower | Indica | 18.0% | 0.0% | 100g | 100g | \$ 1,000 | \$ 0.00 | \$ 4.00 | \$ 20.00 | 100g | 100g |
| Flower | Orange Sherbert | Orange Sherbert | Flower | Indica | 18.0% | 0.0% | 100g | 100g | \$ 1,000 | \$ 0.00 | \$ 4.00 | \$ 20.00 | 100g | 100g |
| Flower | Orange Sherbert | Orange Sherbert | Flower | Indica | 18.0% | 0.0% | 100g | 100g | \$ 1,000 | \$ 0.00 | \$ 4.00 | \$ 20.00 | 100g | 100g |
| Flower | Orange Sherbert | Orange Sherbert | Flower | Indica | 18.0% | 0.0% | 100g | 100g | \$ 1,000 | \$ 0.00 | \$ 4.00 | \$ 20.00 | 100g | 100g |
| Flower | Orange Sherbert | Orange Sherbert | Flower | Indica | 18.0% | 0.0% | 100g | 100g | \$ 1,000 | \$ 0.00 | \$ 4.00 | \$ 20.00 | 100g | 100g |
| Flower | Orange Sherbert | Orange Sherbert | Flower | Indica | 18.0% | 0.0% | 100g | 100g | \$ 1,000 | \$ 0.00 | \$ 4.00 | \$ 20.00 | 100g | 100g |
| Flower | Orange Sherbert | Orange Sherbert | Flower | Indica | 18.0% | 0.0% | 100g | 100g | \$ 1,000 | \$ 0.00 | \$ 4.00 | \$ 20.00 | 100g | 100g |
| Flower | Orange Sherbert | Orange Sherbert | Flower | Indica | 18.0% | 0.0% | 100g | 100g | \$ 1,000 | \$ 0.00 | \$ 4.00 | \$ 20.00 | 100g | 100g |
| Flower | Orange Sherbert | Orange Sherbert | Flower | Indica | 18.0% | 0.0% | 100g | 100g | \$ 1,000 | \$ 0.00 | \$ 4.00 | \$ 20.00 | 100g | 100g |
| Flower | Orange Sherbert | Orange Sherbert | Flower | Indica | 18.0% | 0.0% | 100g | 100g | \$ 1,000 | \$ 0.00 | \$ 4.00 | \$ 20.00 | 100g | 100g |
| Flower | Orange Sherbert | Orange Sherbert | Flower | Indica | 18.0% | 0.0% | 100g | 100g | \$ 1,000 | \$ 0.00 | \$ 4.00 | \$ 20.00 | 100g | 100g |
| Flower | Orange Sherbert | Orange Sherbert | Flower | Indica | 18.0% | 0.0% | 100g | 100g | \$ 1,000 | \$ 0.00 | \$ 4.00 | \$ 20.00 | 100g | 100g |
| Flower | Orange Sherbert | Orange Sherbert | Flower | Indica | 18.0% | 0.0% | 100g | 100g | \$ 1,000 | \$ 0.00 | \$ 4.00 | \$ 20.00 | 100g | 100g |
| Flower | Orange Sherbert | Orange Sherbert | Flower | Indica | 18.0% | 0.0% | 100g | 100g | \$ 1,000 | \$ 0.00 | \$ 4.00 | \$ 20.00 | 100g | 100g |
| Flower | Orange Sherbert | Orange Sherbert | Flower | Indica | 18.0% | 0.0% | 100g | 100g | \$ 1,000 | \$ 0.00 | \$ 4.00 | \$ 20.00 | 100g | 100g |
| | | | | | | | | | | | | | | |

^a Exchange rate of the dollar against the pound sterling in 1993 was 1.05. The low production costs were approximately 10 percent of \$10 per ton.

Packaging

Retail Cannabis packaging can represent a significant downstream waste source. The Supplier should choose Cannabis retail product packaging and shipping materials that are lightweight and, when possible, made from recycled content and recyclable or compostable in Manitoba. The Supplier should consider options for reusable shipping containers.

SCHEDULE "B"

Form of Purchase Order



TEST

PURCHASE ORDER 180

Page 1 of 1

Supplier: MBLL
123 FORT WARE
10000 MBLL

Creation Date: 08-14-2010

Revision Date:

Requested Ship Date: 08/20/2010

Ship Terms: Buyer must be notified of changes to cost/quantity asap

Ship To: RETAILER
12345 PHILIPS
10000 MBLL

Currency:

Special Instructions:

Tax Code:

For inquiries on this P.O. contact:

| Item Number | Item Description | QTY | UOM | Quantity Per Unit | Unit Cost | Extended Cost | Item No. | SKU |
|-------------|------------------|-----|-----|-------------------|-----------|---------------|----------|------|
| 1000 | 10000 MBLL | 100 | EA | 100 | 1.00 | 100.00 | 1000 | 1000 |
| 1001 | 10000 MBLL | 100 | EA | 100 | 1.00 | 100.00 | 1001 | 1001 |
| 1002 | 10000 MBLL | 100 | EA | 100 | 1.00 | 100.00 | 1002 | 1002 |

Notes:

Note: This statement will be included on the purchase order issued by MBLL. "This Purchase Order is issued pursuant to an Agreement between Manitoba Liquor and Lotteries Corporation ("MBLL") and _____ (the "supplier") dated _____ (the "Agreement"). The Agreement is incorporated into and forms part of each Purchase Order."

Purchase Order Definitions

Below are descriptions of the Purchase Order fields:

Item number: MBLL internal item number associated with SKU

Item Description: Product descriptive name as entered by MBLL, e.g.: flower, brand, package size

UOM: MBLL's Purchasing Unit of Measure. e.g.: Unit (U) Case (CA) Pallet (PA)

Quantity per Unit: the number in each unit, e.g.: 12, 24, 48

Extended cost: Quantity ordered * unit cost

UPC/2nd Item No.: GTIN number assigned to the Product to be used as the Suppliers' item number.

SCC/3rd Item No.: If applicable this would indicate the Shipping Container Code. (outer case packaging)

SCHEDULE "C"

Cannabis Product Information Materials

The material is intended to provide MBLL employees (buyers and customer service coordinators) with Product information to assist in making informed decisions when working with the Supplier and Retailers.

The material should provide specific information relating to Products offered by the Supplier.

Product information may include:

- Product Offerings - cultivars (strains)
- Product Categories - good, better, best
- THC % and CBD % and other cannabinoid profiles
- Terpene Profiles
- Available Product packages
- Product characteristics / highlights (smell / taste / look)
- Product images
- Future Products (edibles, concentrates, other)

MASTER CANNABIS SUPPLY AGREEMENT

between

Ontario Cannabis Retail Corporation

and

Delta 9 Bio-Tech Inc.

TABLE OF CONTENTS

| | |
|--|----|
| ARTICLE 1 INTERPRETATION..... | 1 |
| 1.01 Definitions | 1 |
| 1.02 Headings | 6 |
| 1.03 Extended Meanings | 6 |
| 1.04 Statutory References | 6 |
| 1.05 Order of Precedence..... | 6 |
| 1.06 Ambiguities..... | 6 |
| 1.07 Currency..... | 7 |
| ARTICLE 2 SALE AND PURCHASE OF PRODUCTS..... | 7 |
| 2.01 Sale and Purchase..... | 7 |
| 2.02 No Purchase Obligation; No Exclusivity..... | 7 |
| 2.03 Forecasting | 7 |
| ARTICLE 3 ORDERING PROCESS | 7 |
| 3.01 Issuance of Purchase Orders | 7 |
| 3.02 Acknowledgment or Rejection of Purchase Orders | 7 |
| 3.03 Validation or Rejection of Purchase Orders..... | 8 |
| 3.04 Cancellation of Purchase Orders | 8 |
| 3.05 Rejection of Supplier Terms and Conditions | 8 |
| ARTICLE 4 PRICES..... | 9 |
| 4.01 Prices | 9 |
| 4.02 Most Favoured Customer | 9 |
| 4.03 Price Increases | 9 |
| 4.04 Price Decreases..... | 10 |
| ARTICLE 5 PACKAGING, SHIPPING, TITLE AND RISK | 10 |
| 5.01 Packaging Standards..... | 10 |
| 5.02 Non-Compliance | 10 |
| 5.03 Shipping Responsibilities | 10 |
| 5.04 Title and Risk of Loss..... | 11 |
| 5.05 Receipt at Delivery Location | 11 |
| 5.06 Delay | 11 |
| ARTICLE 6 INSPECTION AND TESTING..... | 11 |
| 6.01 Supplier Testing | 11 |
| 6.02 Quality Assurance | 11 |
| 6.03 Purchaser Testing | 12 |
| ARTICLE 7 RECEIPT CONFIRMATION AND PAYMENT | 12 |
| 7.01 Receipt Confirmation..... | 12 |
| 7.02 Payment Terms; Supplier Bank Account | 12 |
| 7.03 Set-Off..... | 12 |
| 7.04 Excise Taxes..... | 13 |

| | |
|--|----|
| ARTICLE 8 SUPPLIER MANUAL | 13 |
| 8.01 Supplier Manual | 13 |
| ARTICLE 9 PRODUCT LISTING AND FILL RATE | 13 |
| 9.01 Amendment to Product Listing | 13 |
| 9.02 Determination and Consequence of Fill Rate | 14 |
| ARTICLE 10 RETURNED, DISCONTINUED, SLOW-MOVING AND EXPIRED PRODUCTS | 14 |
| 10.01 Customer Product Returns | 14 |
| 10.02 Discontinued Products | 14 |
| 10.03 Slow-Moving Products | 14 |
| 10.04 Expired Products | 14 |
| 10.05 Related Processes and Procedures | 14 |
| ARTICLE 11 INSURANCE | 15 |
| 11.01 Insurance Coverage Requirements | 15 |
| 11.02 Evidence of Insurance Coverage; Changes | 15 |
| 11.03 Actions Under Insurance; Claims Reporting | 16 |
| ARTICLE 12 INFORMATION; AUDIT AND INSPECTION; REPORTS | 16 |
| 12.01 Maintenance of Information | 16 |
| 12.02 Audit and Inspection | 16 |
| 12.03 No Relief of Obligations | 17 |
| 12.04 Reports | 17 |
| ARTICLE 13 DATA AND INTELLECTUAL PROPERTY | 17 |
| 13.01 Ownership of Operations Data | 17 |
| 13.02 Data Subscription | 17 |
| 13.03 Intellectual Property Rights | 17 |
| ARTICLE 14 CANNABIS LICENSING MATTERS | 18 |
| 14.01 Outstanding Licenses at Effective Date | 18 |
| 14.02 Covenants | 18 |
| 14.03 Termination | 18 |
| ARTICLE 15 ADDITIONAL SUPPLIER COVENANTS | 19 |
| 15.01 Additional Supplier Covenants | 19 |
| 15.02 Designated Analyst | 19 |
| 15.03 EDI System | 19 |
| ARTICLE 16 SURVIVAL; REPRESENTATIONS AND WARRANTIES | 19 |
| 16.01 Survival of Representations, Warranties and Covenants | 19 |
| 16.02 Foundation Representations and Warranties of Supplier | 19 |
| 16.03 Representations and Warranties on Validation of Purchase Order | 20 |
| ARTICLE 17 NON-CONFORMING PRODUCTS | 21 |

| | | |
|--|--|----|
| 17.01 | Non-Conforming Products | 21 |
| 17.02 | Notification of Non-Conforming Products | 21 |
| 17.03 | Remedy | 21 |
| 17.04 | Related Processes and Procedures | 22 |
| ARTICLE 18 PRODUCT RECALLS AND CUSTOMER CARE | | 22 |
| 18.01 | Recalls and Corrective Actions | 22 |
| 18.02 | Defects and Tampering | 22 |
| 18.03 | Cooperation | 22 |
| 18.04 | Complaints | 22 |
| ARTICLE 19 INDEMNIFICATION BY SUPPLIER | | 23 |
| 19.01 | Supplier Indemnification | 23 |
| ARTICLE 20 LIMITATION OF LIABILITY | | 23 |
| 20.01 | Limitation of Liability | 23 |
| ARTICLE 21 TERM AND TERMINATION | | 23 |
| 21.01 | Initial Term | 23 |
| 21.02 | Renewal Terms | 24 |
| 21.03 | Termination by Purchaser | 24 |
| 21.04 | Termination by Supplier | 24 |
| 21.05 | No Effect on Other Rights | 25 |
| 21.06 | Survival | 25 |
| ARTICLE 22 CONFIDENTIALITY AND PUBLICITY | | 25 |
| 22.01 | Confidential Information | 25 |
| 22.02 | Protection of Confidential Information | 25 |
| 22.03 | Compelled Disclosure | 25 |
| 22.04 | Publicity | 26 |
| 22.05 | Breach | 26 |
| 22.06 | Destruction | 26 |
| 22.07 | Supplier Information | 26 |
| 22.08 | Freedom of Information and Protection of Privacy | 26 |
| ARTICLE 23 NOTICES | | 27 |
| 23.01 | Vendor Portal Communications | 27 |
| 23.02 | Other Notices | 27 |
| ARTICLE 24 GENERAL | | 28 |
| 24.01 | Force Majeure | 28 |
| 24.02 | Change of Control | 28 |
| 24.03 | Relationship of the Parties | 28 |
| 24.04 | Amendment and Waiver | 28 |
| 24.05 | Delays | 29 |
| 24.06 | Assignment | 29 |
| 24.07 | Subcontracting | 29 |
| 24.08 | Business Name | 29 |

| | | |
|-------|---|----|
| 24.09 | Successors and Assigns | 29 |
| 24.10 | Third Party Beneficiaries | 29 |
| 24.11 | Expenses | 29 |
| 24.12 | Entire Agreement | 29 |
| 24.13 | Governing Law and Attornment | 30 |
| 24.14 | No Recourse to Other Provincial Entities..... | 30 |
| 24.15 | Remedies Cumulative | 30 |
| 24.16 | Severable Provisions | 30 |
| 24.17 | Time of the Essence | 31 |
| 24.18 | Further Assurances..... | 31 |
| 24.19 | Electronic Execution and Counterparts | 31 |
| 24.20 | Language | 31 |

MASTER CANNABIS SUPPLY AGREEMENT

THIS AGREEMENT is made as of June 11, 2020.

BETWEEN:

Ontario Cannabis Retail Corporation ("Purchaser")

- and -

Delta 9 Bio-Tech Inc. ("Supplier")

WHEREAS Purchaser and Supplier wish to establish a commercial arrangement for the sale by Supplier, and the purchase by Purchaser, of the Products.

NOW THEREFORE, in consideration of the premises and the mutual covenants contained herein, the parties agree as follows:

ARTICLE 1 **INTERPRETATION**

1.01 Definitions

In this Agreement, unless something in the subject matter or context is inconsistent therewith:

"Acknowledgment" means a notice from Supplier to Purchaser indicating agreement with or proposed modification of a Purchase Order and constituting a binding and irrevocable offer by Supplier to supply the Products specified in the corresponding Purchase Order to Purchaser, in each case, in accordance with Section 3.02.

"Acknowledgment Deadline" means the deadline for Supplier to issue an Acknowledgment, as specified from time to time in the Supplier Manual.

"Act of Insolvency" means, when used in relation to Supplier, that Supplier: (a) becomes insolvent, makes an assignment for the benefit of its creditors, makes a proposal or takes the benefit of any Debtor Relief Laws or an actual or deemed entry of an order for relief is made under any Debtor Relief Laws in respect of Supplier; (b) has a receiver, trustee, interim receiver, receiver and manager or other officer with like powers appointed for all or any substantial part of its assets; or (c) has a resolution passed in respect of it or an application or petition is made seeking any reorganization, arrangement, composition, cancellation, dissolution, liquidation, revocation or winding-up of it under any Debtor Relief Laws.

"Adjustment Amount" has the meaning ascribed thereto in Section 4.02.

"Affiliate" means, in relation to any person, any other person that directly or indirectly Controls or is Controlled by or is under common Control with the first mentioned person, except that, for purposes of this Agreement, Purchaser and the LCBO are not Affiliates of one another, nor are they Affiliates of the Crown or any Governmental Authority.

"Agreement Records" has the meaning ascribed thereto in Section 12.01.

"Analyst Services" has the meaning ascribed thereto in the Supplier Manual.

"Agreement" means, collectively, this master cannabis supply agreement and the Product Listing, in each case, as amended from time to time in accordance with this Agreement.

"AML Laws" means the *Proceeds of Crime (Money Laundering) and Terrorist Financing Act (Canada)*.

"Applicable Law" means: (a) any domestic or foreign statute, law, treaty, code, ordinance, rule, regulation, restriction or by-law (zoning or otherwise); (b) any judgment, order, writ, injunction, decision, ruling, decree or award, guideline, policy, standard, directive or bulletin, in each case, of any Governmental Authority; and (c) any Governmental Consent; in each of cases (a), (b) and (c), having the force of law and binding on the person referred to in the context in which the term is used, or any provisions of any of the foregoing, including general principles of common law, civil law and equity (and, for certainty, Applicable Law includes the AML Laws, the Cannabis Laws, the Debtor Relief Laws and the Privacy Laws).

"Business Day" means any day other than a Saturday, Sunday, statutory or civic holiday in the Province of Ontario or any other day on which banks are generally not open for business in the City of Toronto.

"Cannabis Laws" means, collectively, the Criminal Code, the *Cannabis Act (Canada)*, the *Cannabis Act, 2017 (Ontario)*, the *Ontario Cannabis Retail Corporation Act, 2017 (Ontario)* and the *Smoke-Free Ontario Act, 2017 (Ontario)*.

"Cannabis Licenses" means a standard processing license (or a micro-processing license, where applicable) and, where applicable, a standard cultivation license (or a micro-cultivation license, where

applicable), in each case, granted pursuant to the *Cannabis Act* (Canada), and any other licenses, registrations or authorizations that are from time to time necessary to possess, produce, cultivate, package, label, test, store, deliver, transport, distribute, import, export, dispose of or destroy any Products, in each case, as required by any applicable Governmental Authority or under the *Controlled Drugs and Substances Act* (Canada), the *Narcotic Control Regulations* (Canada), the Cannabis Laws or any other Applicable Law.

"Claim" means any actual or threatened civil, criminal, administrative, regulatory, arbitral or investigative inquiry, action, suit, investigation, application, hearing, complaint, grievance, litigation, proceeding or other claim or demand of whatever nature or kind and, in each case, any claim or demand resulting therefrom.

"Code of Conduct" means Purchaser's code of conduct, currently entitled *Ontario Cannabis Store Supplier Code of Conduct*, including all policies, procedures, guides, plans, protocols, standards, frameworks, matrices and other similar items contained therein, as such code of conduct may be amended, updated, replaced or supplemented by Purchaser from time to time.

"Compositional Standards" means, collectively, all of the terms, conditions, provisions, standards, guidelines and other requirements, in each case, applicable or otherwise relating to the composition (chemical or otherwise) of any Product and/or any substances or materials regulated under Cannabis Laws included in any Product and, in each case, that are prescribed or otherwise established from time to time under Applicable Law and/or as Purchaser may otherwise specify from time to time in the Supplier Manual or otherwise provide to Supplier in writing (in each case, as the same may be amended, updated, replaced or supplemented by Purchaser from time to time).

"Confidential Information" has the meaning ascribed thereto in Section 22.01.

"Control" means, in respect of a person, the possession, directly or indirectly, of the power to direct or cause the direction of the management or policies of such person, whether through the ability to exercise voting power, by contract, or otherwise, and **"Controls"** and **"Controlled"** will have corresponding meanings. Without limiting the generality of the foregoing: (a) a person Controls a corporation if securities of the corporation to which are attached more than 50% of the votes that may be cast to elect directors of the corporation are beneficially owned by that person and

the votes attached to those securities are sufficient, if exercised, to elect a majority of the directors of the corporation; (b) a person Controls an unincorporated person other than a limited partnership if more than 50% of the ownership interests, however designated, into which the unincorporated person is divided are beneficially owned by that person and the person is able to direct the business and affairs of the unincorporated person; (c) the general partner of a limited partnership Controls the limited partnership; and (d) a person who Controls a second person is deemed to Control any other person that is Controlled, or deemed to be Controlled, by the second person.

"Criminal Code" means the *Criminal Code of Canada*.

"Crown" means Her Majesty the Queen in right of Ontario.

"Data Subscription Agreement" has the meaning ascribed thereto in Section 13.02.

"De-List" means, in respect of a Product, the deletion or deemed deletion of a Product from the Product Listing, thereby rendering such deleted Product ineligible for sale by Supplier to Purchaser under this Agreement (unless otherwise agreed in writing between the parties) (and the term **"De-Listing"** will have a corresponding meaning).

"Debtor Relief Laws" means the *Bankruptcy and Insolvency Act* (Canada), the *Companies' Creditors Arrangement Act* (Canada), the *Winding-up and Restructuring Act* (Canada) and any other liquidation, conservatorship, bankruptcy, assignment for the benefit of creditors, moratorium, arrangement, rearrangement, receivership, insolvency, reorganization, or analogous laws of Canada or other legislation, in each case from time to time in effect and affecting the rights of creditors generally.

"Delivery Location" means the delivery location specified by Purchaser in the applicable Purchase Order.

"Designated Analyst" has the meaning ascribed thereto in Section 15.02.

"Disclosing Party" has the meaning ascribed thereto in Section 22.01.

"EDI System" has the meaning ascribed thereto in Section 15.03.

"Effective Date" means the date of this Agreement.

"Encumbrances" means all liabilities, restrictions, reservations, liens, security interests, charges, encumbrances and other rights of others.

"Expired Product" means any Product that has reached the end of its Shelf Life.

"Fill Rate" has the meaning ascribed thereto in the Supplier Manual.

"FIPPA" has the meaning ascribed thereto in Section 22.08.

"Force Majeure" means an event that: (a) is beyond the affected party's reasonable control; (b) could not have reasonably been foreseen by the affected party (or, if it could have been foreseen, was unavoidable); (c) was caused without the fault or negligence of the affected party or its Representatives; and (d) the affected party was unable to prevent or materially mitigate through the use of prudent contingency plans, in each case, after exercising all reasonable diligence; provided, however, that, notwithstanding the foregoing, Force Majeure will not include: (i) any inability or delay of a party to obtain financing or any other financial inability on the part of such party; (ii) any labour unrest, strikes or lockouts involving Supplier or any of Supplier's Representatives; (iii) Supplier's financial inability to perform; (iv) changes in costs or availability of materials, components or services, market conditions, supplier actions or contract disputes; or (v) any constraint upon Supplier's capacity resulting from sales to other customers.

"Forecast" means, in respect of any period designated by Purchaser, any projection or estimate from Purchaser of Purchaser's anticipated requirements for Products during such period.

"Governmental Authority" means the government of Canada or of any other nation, or any political subdivision thereof, whether provincial, territorial, state, municipal or local, or any governmental, executive, legislative, judicial, administrative or regulatory agency, department, ministry, authority, instrumentality, commission, board, bureau or similar body, whether federal, provincial, territorial, state, municipal or local, and whether foreign or domestic, in each case, having jurisdiction in the relevant circumstances.

"Governmental Consent" means any license, right, permit, franchise, privilege, registration, direction, decree, consent, exemption, waiver, order, permission, approval, or authority issued or provided, or to be issued or provided, by any Governmental Authority, including any Cannabis License.

"GST/HST" means the taxes imposed under Part IX of the *Excise Tax Act* (Canada).

"Initial Term" has the meaning ascribed thereto in Section 21.01.

"Intellectual Property" means any intellectual or industrial property of any nature or kind, including all domestic and foreign trade names, brand names, trade-marks (including logos), service marks, plant varieties or breeds, works, copyrights, inventions, discoveries, patents (including continuations, extensions, divisionals and other patent rights), know-how, trade secrets and confidential information, together with all registrations and applications for any of the foregoing and any rights and interests under licenses, assignments, waivers or other agreements or instruments relating to any of the foregoing.

"Landed Cost" means, in respect of a Product, the aggregate amount of all fees, costs, charges and expenses incurred by or on behalf of Purchaser to acquire, receive and handle such Product in accordance with this Agreement, the Supplier Manual and the applicable Purchase Order, including: (a) the Price; (b) all fees, costs, charges and expenses relating to receiving, handling, storing, shipping, delivery, quality assurance, testing and inspection; (c) a reasonable allocation, determined by Purchaser in its sole and absolute discretion, of Purchaser's labour, overhead and other internal administrative costs in respect of such Product or relating to receiving, handling, storing, shipping, transportation, delivery, quality assurance, testing and inspection; (d) all Taxes, levies, duties and charges that Purchaser is required by Applicable Law to pay, or that are otherwise levied on Purchaser, in respect of such Product; and (e) where applicable, all fees, costs, charges and expenses relating to the return, disposal or destruction of such Product.

"LCBO" means the Liquor Control Board of Ontario, or any successor or replacement thereof.

"License Confirmation" has the meaning ascribed thereto in Section 14.01.

"Licensed Supplier Mark" means any trade-mark, trade name, brand name, service mark or similar Intellectual Property owned by or licensed to Supplier relating to any Product.

"Losses" means all losses, damages, penalties, deficiencies, obligations, liabilities (in each case, of whatever nature or kind and whether accrued, actual, contingent, latent or otherwise), assessments, Taxes,

judgments, awards, orders, decrees, rulings, settlements, dues, fines, costs, charges, fees and expenses (including interest, court costs, Professional Fees, all costs, charges and expenses (including deductibles) incurred in pursuing any related insurance Claims and any corresponding increases in insurance premiums and other charge-backs, and all costs, charges and expenses incurred in any investigation, collection, prosecution or defence of any Claim).

"Non-Conforming Product" has the meaning ascribed thereto in Section 17.01.

"Non-Renewal Notice" has the meaning ascribed thereto in Section 21.02.

"OCRC Act" means the *Ontario Cannabis Retail Corporation Act, 2017*.

"OCRC Policies" has the meaning ascribed thereto in Section 8.01(1).

"Operations Data" means all data, meta-data and information in any form whatsoever that is from time to time generated, captured, organized, stored, received or transmitted by or on behalf of Purchaser or any of its Representatives directly or indirectly in connection with the operation of Purchaser's business and operations, including all data, meta-data and information that is from time to time generated, captured, organized, stored and/or transmitted by Supplier to Purchaser in connection with this Agreement or the Supplier Manual.

"Outstanding Licenses" has the meaning ascribed thereto in Section 14.01.

"Packaging Standards" means, collectively, all of the terms, conditions, provisions, standards, guidelines and other requirements, in each case, applicable or otherwise relating to the packaging, marking, labelling, packing, shipping and/or transporting of Products and, in each case, that are prescribed or otherwise established from time to time under Applicable Law, this Agreement, the Product Listing, the Supplier Manual or the applicable Validated Purchase Order.

"Personal Information" means information about an identifiable individual and collected, used, disclosed, processed or retained by Supplier, including any information determined by any Governmental Authority to be personal information regulated by any Privacy Law applicable to any party to this Agreement.

"Privacy Laws" means all Applicable Law governing the collection, use, disclosure and retention of Personal

Information, including the *Personal Information Protection and Electronic Documents Act* (Canada) and the *Freedom of Information and Protection of Privacy Act* (Ontario).

"Price" has the meaning ascribed thereto in Section 4.01.

"Product Listing" means the list maintained by Purchaser and made available to Supplier on the Vendor Portal or in such other manner as Purchaser may from time to time designate, acting reasonably, of products, goods, materials and supplies that Supplier is eligible to sell to Purchaser, and Purchaser is eligible to purchase from Supplier, on and subject to the terms and conditions of this Agreement, as such list is prepared and settled in accordance with the procedures specified therefor in the Supplier Manual and as such list may from time to time be amended, updated, replaced or supplemented in accordance with this Agreement and the Supplier Manual.

"Products" means the products, goods, materials and supplies to be supplied by Supplier to Purchaser under Validated Purchase Orders and that are, as at the applicable Validation Deadline, included in the Product Listing.

"Professional Fees" means the reasonable fees and expenses of lawyers, accountants and other experts and professionals.

"Purchase Order" means any purchase order issued by Purchaser in accordance with the terms and conditions hereof, as such purchase order may be modified in accordance with Section 3.02.

"Purchaser" has the meaning ascribed thereto in the recitals to this Agreement.

"Purchaser Indemnitees" has the meaning ascribed thereto in Section 19.01.

"Purchaser Personal Information" has the meaning ascribed thereto in Section 22.08.

"Purchaser Records" has the meaning ascribed thereto in Section 22.08.

"Receipt Confirmation" has the meaning ascribed thereto in Section 7.01.

"Receiving Party" has the meaning ascribed thereto in Section 22.01.

"Recipient" means any person (including Purchaser itself) designated by Purchaser to receive, for and on behalf of Purchaser, Products shipped under a Purchase Order.

"Reference Website" means Purchaser's trade resource website currently found at www.doingbusinesswithocs.ca, or such other website of which Purchaser notifies Supplier from time to time.

"Rejection" means a notice: (a) from Supplier to Purchaser indicating that Supplier is unable or unwilling to supply any or all of the Products specified in the corresponding Purchase Order issued by Purchaser; or (b) from Purchaser to Supplier rejecting in full Supplier's binding and irrevocable offer made in an Acknowledgment to supply the Products specified in the corresponding Purchase Order (whether or not Supplier's Acknowledgment proposes any modifications to the corresponding Purchase Order in Supplier's Acknowledgment).

"Renewal Option" has the meaning ascribed thereto in Section 21.02.

"Renewal Term" has the meaning ascribed thereto in Section 21.02.

"Representatives" means: (a) in respect of Purchaser, the LCBO and each of Purchaser's and the LCBO's respective directors, officers, employees, agents, subcontractors, partners, advisors (including lawyers, accountants and other experts and professionals), successors and permitted assigns, and each Governmental Authority having jurisdiction over, or that performs any legislative, judicial, regulatory or administrative function in respect of, Purchaser or the LCBO; and (b) in respect of any other person, such person's Affiliates and each of its and their respective directors, officers, employees, agents, subcontractors (including Subcontractors in the case of Supplier), partners, shareholders, advisors (including lawyers, accountants and other experts and professionals), successors and permitted assigns.

"Service Fee" has the meaning ascribed thereto in the Supplier Manual.

"Shelf Life" has the meaning ascribed thereto in the Supplier Manual.

"Shipping Documents" means all shipping or transportation documentation, including bills of lading, Canada Customs invoices, Certificates of Origin and, where applicable, any other documents to support a

Claim for preferred tariff treatment under any applicable international trade agreement.

"Slow-Moving Products" has the meaning ascribed thereto in the Supplier Manual.

"Specifications" means all of the specifications for the Products that are set out or incorporated by reference in the Product Listing, the Packaging Standards, the Compositional Standards, the Supplier Manual and, as applicable, any Validated Purchase Order.

"Subcontractor" means any subcontractor or agent of Supplier or of any of its Affiliates, in each case, that provides services to or for the benefit of Supplier or any of its Affiliates in furtherance or satisfaction of any of Supplier's covenants, agreements or obligations under this Agreement or the Supplier Manual.

"Supplier" has the meaning ascribed thereto in the recitals to this Agreement.

"Supplier Bank Account" means a segregated bank account of Supplier at one of the banks listed in Schedule I of the *Bank Act* (Canada) or, with the prior consent of Purchaser, one of the banks listed in Schedule II of the *Bank Act* (Canada).

"Supplier Information" has the meaning ascribed thereto in Section 22.07.

"Supplier Manual" means, collectively, the OCRC Policies and the Code of Conduct.

"Supplier Manual Update" has the meaning ascribed thereto in Section 8.01(2).

"Supplier Material" means any Intellectual Property provided or made available by Supplier to Purchaser in connection with any Product, including any packaging, display or promotional material.

"Tax" or "Taxes" means all federal, provincial, territorial, county, municipal, local and foreign taxes, charges, fees, levies, imposts and other assessments, including all income, sales, use, GST/HST, value added, capital, capital gains, alternative, net worth, transfer, profits, withholding, payroll, employer health, excise, franchise, real property and personal property taxes, and any other taxes, customs duties, fees, assessments, royalties, duties, deductions, compulsory loans and similar charges in the nature of a tax, including Canada Pension Plan contributions and equivalent contributions under Applicable Law, employment insurance premiums and workers compensation premiums,

together with any instalments and any interest, fines, penalties or addition to tax imposed by any Governmental Authority, whether disputed or not.

"Term" has the meaning ascribed thereto in Section 21.02.

"Validated Purchase Order" means a Purchase Order in respect of which Purchaser has issued a Validation.

"Validation" means a notice of Purchaser to Supplier confirming that Purchaser accepts all or part of Supplier's offer to supply Products made in an Acknowledgment.

"Validation Deadline" means the deadline for Purchaser to issue a Validation, as specified from time to time in the Supplier Manual.

"Vendor Portal" means the web portal established and maintained by Purchaser on the Reference Website, or such other portal, website or other similar electronic interchange as Purchaser may from time to time designate in writing to Supplier, that is capable of posting or transmitting information between Purchaser and Supplier with respect to, at a minimum, the issue, acknowledgment, validation, withdrawal or cancellation of Purchase Orders.

"Vendor Portal Communication" has the meaning ascribed thereto in Section 23.01.

"Vendor Portal Terms and Conditions" means the terms and conditions governing the provision of, access to and terms of use of the Vendor Portal specified by Purchaser, as the same may be amended, updated, replaced or supplemented by Purchaser from time to time.

1.02 Headings

The division of this Agreement into Articles and Sections and the insertion of a table of contents and headings are for convenience of reference only and do not affect the construction or interpretation of this Agreement. The terms **"hereof"**, **"hereunder"** and similar expressions refer to this Agreement and not to any particular Article, Section or other portion hereof. Unless something in the subject matter or context is inconsistent therewith, references herein to Articles, Sections and Schedules are to Articles and Sections of and Schedules to this Agreement.

1.03 Extended Meanings

In this Agreement, the Supplier Manual and any Validated Purchase Order: (a) words importing the singular number include the plural and vice versa; (b) words importing any gender include all genders; (c) words importing persons include individuals, corporations, limited and unlimited liability companies, general and limited partnerships, associations, trusts, unincorporated organizations, joint ventures and Governmental Authorities; and (d) words or abbreviations that have well known technical industry or trade meanings are used herein in accordance with their recognized meanings. In this Agreement, the Supplier Manual and any Validated Purchase Order, the term **"including"** means "including without limiting the generality of the foregoing" (and the terms **"include"** and **"includes"** have similar meanings) and the term **"third party"** means any person other than Purchaser and Supplier.

1.04 Statutory References

Unless otherwise indicated, all references in this Agreement, the Supplier Manual and any Validated Purchase Order to any statute include all regulations thereunder and all applicable guidelines, policies, standards, directives and bulletins made in connection therewith and that are legally binding, in each case, as amended, re-enacted, consolidated or replaced from time to time and, in the case of any such amendment, re-enactment, consolidation or replacement, reference herein to a particular provision will be read as referring to such amended, re-enacted, consolidated or replaced provision.

1.05 Order of Precedence

In the event of any conflict or inconsistency between the provisions of any of the following documents, then, unless the parties agree otherwise in writing, the following descending order of priority will apply to the extent of such conflict or inconsistency: (a) this Agreement; (b) the OCRC Policies; (c) the Code of Conduct; and (d) any Validated Purchase Order.

1.06 Ambiguities

The parties acknowledge that their respective legal counsel has reviewed and participated in settling the terms of this Agreement and agree that any rule of construction to the effect that any ambiguity in this Agreement will be resolved against the drafting party will not be applied to the interpretation of this Agreement, the Supplier Manual or any Validated Purchase Order.

1.07 Currency

All references to currency and monetary amounts in this Agreement and in the Supplier Manual are and will be to Canadian dollars.

ARTICLE 2 **SALE AND PURCHASE OF PRODUCTS**

2.01 Sale and Purchase

On and subject to the terms and conditions of this Agreement (including Section 2.02), during the Term, Purchaser will purchase Products from Supplier, and Supplier will sell Products to Purchaser, at the applicable Prices. Unless otherwise expressly agreed between Purchaser and Supplier in writing, Products (and any goods or products of Supplier that are similar to any Products) may only be purchased by Purchaser from Supplier, and may only be sold by Supplier to Purchaser, in each case, pursuant to and in accordance with the framework for the purchase and sale of Products established under this Agreement.

2.02 No Purchase Obligation; No Exclusivity

Notwithstanding any provision of this Agreement to the contrary, Purchaser will have no obligation to purchase any Products or any minimum quantity of Products from Supplier. Supplier acknowledges and agrees that Purchaser has entered into, or plans to enter into, supply agreements or other arrangements with other suppliers of products, goods, materials and supplies that are the same as or similar to the Products and Supplier has no expectation or understanding that Purchaser will purchase any Products from Supplier or, if Purchaser does so purchase Products from Supplier, whether such purchases will continue. Any decision of Purchaser to order any Products from Supplier will be at Purchaser's sole and absolute discretion. This Agreement does not grant Supplier an exclusive right or privilege to sell to Purchaser any Products. Without limiting the generality of the foregoing, Purchaser may at any time and from time to time purchase, or enter into any agreement or other arrangement for the purchase of, any products, goods, materials and supplies, including products, goods, materials and supplies that are the same as or similar to the Products, from any person and on any terms and conditions as Purchaser may determine in its sole and absolute discretion.

2.03 Forecasting

Purchaser may at any time or from time to time, but will have no obligation to, provide Supplier with

Forecasts. If Purchaser provides a Forecast, such Forecast is for information purposes only. Any Product quantities and other information included or referred to in any Forecast are preliminary and non-binding only. Purchaser makes no representation or warranty whatsoever as to the quantity of Products that it will purchase, if any, or when any such Products may be purchased, if at all. For certainty, if Purchaser has provided Forecasts to Supplier in the past, Purchaser may cease to provide Forecasts to Supplier at any time and without notice or may change the frequency on which such Forecasts may be provided. Purchaser will have no obligation or liability whatsoever to Supplier for Supplier's reliance on any Forecasts.

ARTICLE 3 **ORDERING PROCESS**

3.01 Issuance of Purchase Orders

Each order, if any, for Products will be initiated by the issuance by Purchaser to Supplier of a Purchase Order. Each Purchase Order will be in such format as Purchaser may establish from time to time; provided that each Purchase Order will set out at least the information specified for Purchase Orders in the Supplier Manual.

3.02 Acknowledgment or Rejection of Purchase Orders

Not later than the applicable Acknowledgment Deadline, Supplier will provide to Purchaser an Acknowledgment or Rejection in respect of the corresponding Purchase Order issued by Purchaser; provided, however, that Supplier is only permitted to, and may only, propose to modify a Purchase Order issued by Purchaser to: (a) decrease the quantity of Products ordered in such Purchase Order; or (b) modify the delivery date of such Products; any such proposed modifications to be set out in the Acknowledgment. All permitted modifications of a Purchase Order that are proposed by Supplier in an Acknowledgment, if accepted by Purchaser in accordance with Section 3.03, will be deemed to modify the applicable Purchase Order. If Supplier does not issue an Acknowledgment prior to the applicable Acknowledgment Deadline, Supplier will be deemed to have rejected the corresponding Purchase Order in full. Each Acknowledgment constitutes a binding offer of Supplier to supply to Purchaser the Products specified in the corresponding Purchase Order and is irrevocable by Supplier. Each Acknowledgment will set out the information specified for Acknowledgments in the Supplier Manual.

3.03 Validation or Rejection of Purchase Orders

Not later than the applicable Validation Deadline, Purchaser will provide to Supplier a Validation or Rejection, in each case in whole or in part, in respect of Supplier's offer to supply the Products in the corresponding Purchase Order made in an Acknowledgment. The acceptance in part of Supplier's offer made in an Acknowledgment by Validation in accordance with this Section 3.03 will be deemed to modify the applicable Purchase Order. If Purchaser fails to issue a Validation prior to the applicable Validation Deadline, Purchaser will be deemed to have rejected Supplier's Acknowledgment in full. Each Validated Purchase Order will constitute a binding and enforceable agreement of purchase and sale in respect of the Products thereunder, on and subject to the terms and conditions of this Agreement. Each Validation will set out the information specified for Validations in the Supplier Manual.

3.04 Cancellation of Purchase Orders

In addition to any other rights of cancellation provided in this Agreement or the Supplier Manual, Purchaser may cancel any Purchase Order, in whole or in part and whether or not any Acknowledgment or Validation has been issued in respect thereof:

- (a) at any time before shipment of the applicable Products;
- (b) at any time (for certainty, whether before or after shipment of the applicable Products) up to the time of the Recipient's acknowledgment of receipt of the applicable Products at the Delivery Location if Purchaser becomes aware or has a reasonable basis to believe that:
 - (i) any Product under such Purchase Order (or any part or component thereof, including any packaging and/or labelling) is a Non-Conforming Product;
 - (ii) there is any inaccuracy or misrepresentation in any representation or warranty of Supplier in this Agreement or in any document delivered to Purchaser by or on behalf of Supplier pursuant to this

Agreement or the Supplier Manual;

- (iii) Supplier has failed to perform or comply with any covenant, agreement or obligation of Supplier in this Agreement or any requirement of the Supplier Manual; or
 - (iv) any event or circumstance described in Section 21.03(2) has occurred and is continuing;
- (c) at any time with the consent of Supplier; or
- (d) at any time (for certainty, whether before or after shipment of the applicable Products) if any Products have not been received by Purchaser at the applicable Delivery Location by the required delivery time specified for such Products in the applicable Validated Purchase Order.

Purchaser will provide Supplier with prompt notice of any such cancellation. Purchaser will have no obligation or liability whatsoever, including in respect of any Losses that may be suffered or incurred by Supplier, in respect of any Purchase Order (or part thereof, as applicable) that is cancelled by Purchaser in accordance with this Section 3.04, all of which obligations, liabilities and Losses will be borne by, and be the sole responsibility of, Supplier.

3.05 Rejection of Supplier Terms and Conditions

Each Purchase Order is subject to all the terms and conditions of this Agreement and all of the applicable requirements prescribed therefor in the Supplier Manual in effect as of the date of the Acknowledgment of such Purchase Order, all of which will supersede and take precedence over any and all terms, conditions or other provisions whatsoever that are submitted by Supplier (other than those modifications expressly permitted to be made by Supplier in an Acknowledgment in accordance with Section 3.02). Any Supplier proposal for additional or different terms, conditions or other provisions or any attempt by Supplier to vary the terms, conditions or other provisions of this Agreement by any means are hereby expressly rejected by Purchaser and will not be

binding or enforceable on either party unless expressly agreed in writing by Purchaser.

ARTICLE 4 **PRICES**

4.01 Prices

(1) Subject to Sections 4.02, 4.03 and 4.04, Supplier will sell to Purchaser each Product at the applicable price for such Product specified in the Product Listing (with respect to each Product, the "Price").

(2) Supplier is solely responsible and liable for, and all Prices include, all costs, charges and expenses whatsoever relating to the performance of Supplier's covenants, agreements and obligations hereunder, including those relating, directly or indirectly, to producing, processing, manufacturing, storing, testing, inspecting, quality assurance, packaging, labelling, boxing, crating, marking, packing, transporting, loading, unloading, customs, tariffs and duties, Tax, insurance and all other financial contributions or obligations relating to the Products and Supplier's performance of its covenants, agreements and obligations in this Agreement and the Supplier Manual.

4.02 Most Favoured Customer

If at any time or from time to time during the Term Supplier charges to, or otherwise agrees to be paid by, any other person a lower price (exclusive of Taxes, duties, transportation and freight, and taking into account any rebates, incentives, credits and similar inducements and compromises) for any Product (or any good or product that is the same as or similar to any Product), Supplier will promptly notify Purchaser, such notice to set out each affected Product, the applicable lower price therefor charged to or paid by such other person and the date on which (or the duration for which) each such lower price became or will become effective (or the duration for which such lower price has been or will be in effect) with respect to each such Product. Notwithstanding any provision of this Agreement or of any Validated Purchase Order to the contrary, in all cases Purchaser will be entitled to pay, and will only pay, the lower price charged to or paid by such other person for the corresponding Product for the period (or for an equivalent period) during which such lower prices applied or will apply to such other person and the Prices under this Agreement will be deemed to be adjusted downward accordingly. Such adjusted Prices will apply to the full quantity of all corresponding Product that has been or will be Purchased by Purchaser for the period

(or for an equivalent period) during which such lower prices applied or will apply to such other person. In respect of any Products affected by this provision for which payment has been made by Purchaser, Purchaser will be entitled, at its election, to either: (a) a credit equal to the amount (the "Adjustment Amount") by which Purchaser's aggregate payments to Supplier for such affected Products exceed the aggregate purchase price for such Products that would have applied had the applicable lower Prices applied during the applicable period; or (b) the payment by Supplier to Purchaser of immediately available funds in an amount equal to the Adjustment Amount. The procedures for making payment in satisfaction of the requirements therefor in this Section 4.02 will be set out in the Supplier Manual.

4.03 Price Increases

At any time and from time to time during the Term, Supplier may propose an increase in any Price by submitting to Purchaser a written proposal therefor, such proposal to set out: (a) each Product for which the Price is proposed to be increased; (b) the proposed increased Price for each such Product; (c) the proposed date on which each such increased Price is proposed to become effective, which proposed date must not be less than 90 days following the date of such request; (d) Supplier's rationale for such proposed Price increase (including the rationale for the quantum and effective date thereof); and (e) any other information that Supplier considers relevant to Purchaser's consideration of such proposal. Any proposal by Supplier for any Price increase will be subject to Purchaser's prior approval, which approval may be withheld or conditioned in the sole and absolute discretion of Purchaser. If Purchaser does not respond in writing to any proposal by Supplier for any Price increases within 30 days following the date of Supplier's submission of such proposal, all such proposed increases will be deemed to have been rejected. If Purchaser rejects (or is deemed to have rejected) a proposed increase in Prices, Supplier may, upon at least 90 days' prior notice to Purchaser given on or following the date of such rejection (or deemed rejection) direct Purchaser to De-List the corresponding Products for which such Price increases were rejected (and Purchaser will promptly reflect such De-Listing in the Product Listing). If Purchaser accepts any such proposed increase, Supplier will continue to sell the applicable Products to Purchaser at the original Prices until the effective date of such increase specified in Supplier's proposal and accepted by Purchaser and, for certainty, such Price increase will not affect any sales made before the effective date of such increase specified in Supplier's proposal.

4.04 Price Decreases

At any time and from time to time during the Term, either Purchaser or Supplier may propose a decrease in any Price by submitting to the other party a written proposal therefor, such proposal to set out: (a) each Product for which the Price is proposed to be decreased; (b) the proposed decreased Price for each such Products; and (c) the proposed date on which each such decreased Price is proposed to become effective, which proposed date must not be less than 15 days following the date of such proposal (unless the parties otherwise agree in writing). If Supplier has proposed such decrease, the decreased Price will become effective as of the applicable effective date specified in such proposal. If Purchaser has proposed such decrease, the decreased Price will be subject to Supplier's prior approval. If Supplier does not respond in writing to any proposal by Purchaser for any Price decrease within 10 days following the date of Purchaser's submission of such proposal, such proposed decrease will be deemed to have been rejected. If Supplier rejects (or is deemed to have rejected) a proposed Price decrease, Purchaser may, upon at least 10 days' prior notice to Supplier given on or following the date of such rejection (or deemed rejection) De-List the corresponding Products for which such Price decreases were rejected. If a Price decrease has been proposed by Supplier or has been proposed by Purchaser and approved by Supplier in accordance with this Section 4.04, at any time prior to the applicable effective date for such Price decrease, Purchaser may, in its sole and absolute discretion, elect by notice to Supplier given at least three days before the effective date of such Price decrease to return to Supplier all or any portion of the Products affected by such decrease in Prices (including any such Products that are in Purchaser's inventory or under a Validated Purchase Order but that have not yet been received by Purchaser), in which case Supplier will pay to Purchaser the Landed Cost of such Products together with the applicable Service Fee. Further, if and to the extent Purchaser elects not to return all or any portion of the Products affected by such Price decrease, Supplier will pay to Purchaser the difference between the amount paid by Purchaser for all such Products so retained by Purchaser and the amount Purchaser would need to pay to acquire such Products at the decreased Prices. The process for the return of such Products will be set out in the Supplier Manual together with the procedures for making payment in respect thereof in satisfaction of the requirements therefor in this Section 4.04.

ARTICLE 5 **PACKAGING, SHIPPING, TITLE AND RISK**

5.01 Packaging Standards

Supplier will ensure that all Products are assembled, packaged, labelled, boxed, crated, marked, packed and shipped, in each case, in a manner that meets or exceeds the applicable Packaging Standards, and Supplier will ensure that all Products are properly loaded onto, and unloaded from, any designated carrier or designated freight forwarder in compliance with Applicable Law, prevailing industry practice for the same or similar products and requirements of the carrier.

5.02 Non-Compliance

In addition to any other rights and remedies available to Purchaser under this Agreement or Applicable Law, if Purchaser or the Recipient receives any Products that do not comply with the Packaging Standards, then Purchaser may elect, in its sole and absolute discretion, to take or cause to be taken all such corrective actions and measures as Purchaser considers necessary or appropriate, acting reasonably, to bring such Products into compliance with the Packaging Standards. Supplier will promptly reimburse Purchaser for all fees, costs, charges and expenses incurred by or on behalf of Purchaser to bring such Products in compliance with the Packaging Standards in accordance with the foregoing and Purchaser will, in addition, be entitled to charge Supplier, and Supplier will pay to Purchaser, an administrative fee for bringing such Products in compliance with the Packaging Standards as provided in the Supplier Manual. In addition to any other rights and remedies available to Purchaser under this Agreement or Applicable Law, Purchaser reserves the right to determine, in its sole and absolute discretion, whether non-compliance with Packaging Standards is not curable using reasonable corrective action or measures.

5.03 Shipping Responsibilities

Supplier is solely responsible for arranging, at Supplier's sole risk, cost and expense, shipment and transportation of all Products hereunder strictly in the quantities, by the methods, to the Delivery Locations and by the Delivery Dates required pursuant to this Agreement, the Supplier Manual and the applicable Validated Purchase Order. Supplier will provide the Shipping Documents for the Products for each shipment and will ensure that all Shipping Documents are fully and accurately completed and are delivered at the time the Products are shipped to the designated

carrier or designated freight forwarder capable of shipping Products in transportation conditions that will maintain the integrity of the Products and comply with Applicable Law.

5.04 Title and Risk of Loss

Title to Products purchased by Purchaser hereunder will transfer directly to Purchaser upon acknowledgment of receipt by the Recipient at the Delivery Location and Supplier will deliver directly to Purchaser full and unrestricted title to all Products, free and clear of any and all Encumbrances. If requested by Purchaser, Supplier will promptly provide to Purchaser evidence of the release and discharge of any prior Encumbrances relating to Products delivered pursuant to this Agreement. Title will transfer to Purchaser even if Supplier has not been paid for such Products; provided that Purchaser will not be relieved of its obligation to pay for Products on and subject to the terms and conditions hereof. Notwithstanding any provision of this Agreement to the contrary, risk of loss to Products shipped passes to Purchaser upon acknowledgment of receipt by the Recipient at the Delivery Location and Purchaser's acceptance of such Products, and Supplier will bear all risk of loss regarding Products until the Recipient's receipt and Purchaser's acceptance of such Products, in accordance with this Agreement.

5.05 Receipt at Delivery Location

Purchaser is entitled, but is not obligated to, conduct or cause to be conducted any inspection of any Products at the Delivery Location. Without limiting any other rights or remedies available to it under this Agreement or Applicable Law, if Purchaser become aware or has a reasonable basis to believe that all or any portion of any shipment of Products contains any Non-Conforming Products, Purchaser or the Recipient may refuse to accept all or any portion of such shipment of Products, in which case title to and risk of loss regarding such Products will remain with Supplier and Supplier will be solely responsible and liable, at Supplier's sole cost and expense, for return shipment of such Products to Supplier. Purchaser will cooperate reasonably with Supplier and Supplier's carrier for the return shipment of such Products. Supplier will promptly pay Purchaser the applicable Service Fee in connection with such Products.

5.06 Delay

Time is of the essence for all orders of Products placed by Purchaser under this Agreement. Supplier acknowledges that its failure to deliver conforming

Products within the time specified in this Agreement or as indicated in a Validated Purchase Order will cause material harm to Purchaser. Therefore, in addition to any other rights and remedies available to Purchaser under this Agreement or Applicable Law, in the event Supplier fails or anticipates it will fail to deliver conforming Products to the Delivery Location on or before the required delivery date therefor, Supplier will promptly advise Purchaser of any failure or anticipated failure to comply with delivery obligations.

ARTICLE 6 **INSPECTION AND TESTING**

6.01 Supplier Testing

Supplier must conduct or cause to be conducted, as applicable, all safety, quality assurance and other testing and certification processes and procedures as required under, and in accordance with, this Agreement, the Supplier Manual and Applicable Law. Without limiting the foregoing, all testing and certification of the Products must be conducted by a person that (i) is in compliance with Applicable Law (including any accreditation standards and licensing requirements from time to time in effect thereunder), and (ii) is approved in advance by the Purchaser, acting reasonably; provided, however, that, without limitation, it will be considered reasonable for Purchaser to withhold such approval if such person or facility, including any person having Control thereof, is not independent of Supplier.

6.02 Quality Assurance

In respect of Products supplied pursuant to a Validated Purchase Order which have been subject to any safety, quality assurance or other testing or certification processes or procedures, Supplier will provide to Purchaser all results, reports, approvals and certificates produced as a result thereof, in each case, as required under Applicable Law or as Purchaser may request. Without limiting the generality of the foregoing, where applicable, Supplier will provide to Purchaser true and complete copies of all approvals, certificates and other documentation evidencing that, or required in order to demonstrate that, the Products supplied under each Purchase Order comply with the Cannabis Laws and all other Applicable Law, such approvals, certificates and other documentation to be provided no later than the time of the issuance of the corresponding Acknowledgment (or such later time as Purchaser may designate in respect of the applicable Products or Purchase order in a notice to Supplier).

6.03 Purchaser Testing

In addition to any testing conducted by or on behalf of Supplier and any inspection pursuant to Section 5.05, Purchaser may, but will have no obligation to, test or submit any Products or any components thereof to such testing as Purchaser may deem necessary or appropriate in its sole and absolute discretion. Purchaser will keep Supplier reasonably informed of its intention to test or submit any category of Products or specific Products for further inspection and testing, provided that this will not oblige Purchaser to inform Supplier of when, how or in what circumstances any Products will be submitted for further inspection or testing, nor will it oblige Purchaser to notify of each specific instance of testing or inspection. Supplier will be responsible for and bear all costs of such testing and will promptly reimburse Purchaser for all charges, fees and expenses incurred by Purchaser in connection with such testing, including such reasonable fees as Purchaser may determine where Purchaser conducts such testing itself. Notwithstanding Purchaser's rights contained in this Agreement, Purchaser will not have any obligation or liability to Supplier or to any other person to conduct or cause to be conducted or verify any Product inspection or testing and will not incur any obligation or liability whatsoever: (a) for not conducting or causing to be conducted or any Product inspection or testing; (b) for not conducting or causing to be conducted the same carefully, completely or properly; (c) for not verifying or causing to be verified any Product inspection or testing; or (d) for not addressing or otherwise acting upon any matters or information resulting from or identified during any such Product inspection or testing or verification thereof. The fact that any Product inspection or testing may not have been conducted or caused to be conducted or verified or caused to be verified by Purchaser or any of its Representatives will not relieve Supplier of any of its covenants, agreements, obligations or liabilities under this Agreement or under the Cannabis Laws or any other Applicable Law.

ARTICLE 7 **RECEIPT CONFIRMATION AND PAYMENT**

7.01 Receipt Confirmation

Promptly following the Recipient's receipt of Products under a Validated Purchase Order at the Delivery Location, Purchaser will issue or cause to be issued to Supplier a confirmation of receipt (a "**Receipt Confirmation**") setting forth the type and quantities of all Products for which delivery and receipt was acknowledged, which Receipt Confirmation will be in such form as Purchaser may from time to time

designate and which will set out at least the information specified for Receipt Confirmations in the Supplier Manual.

7.02 Payment Terms; Supplier Bank Account

(1) Unless otherwise specified in the applicable Validated Purchase Order, the total amount payable by Purchaser to Supplier under a Receipt Confirmation is due and payable on or prior to the date that is 60 days following the date of issue of such Receipt Confirmation by Purchaser. All amounts are to be referenced and paid in Canadian dollars.

(2) Supplier will seek to obtain and diligently pursue all available Tax and duty exemptions, drawbacks, remissions or refunds in respect of any sale of Products hereunder. Any amounts recovered by Supplier subsequent to payment by Purchaser will be held in trust by Supplier for Purchaser and will be remitted to Purchaser forthwith. If Supplier through its fault or negligence, fails to obtain said exemptions, drawbacks, remissions or refunds, then any such Taxes and duties will not be payable by Purchaser and Purchaser will bear no responsibility or liability for same.

(3) Supplier will establish and maintain at all times during the Term the Supplier Bank Account. Unless otherwise agreed in writing between Purchaser and Supplier, and subject to Section 7.03 and any procedures specified in the Supplier Manual, all payments being made by Purchaser to Supplier pursuant to this Agreement will be sent by electronic funds transfer to the Supplier Bank Account.

7.03 Set-Off

Without limiting any right of set-off available to Purchaser under Applicable Law, Purchaser may: (a) set-off against any amount payable to Supplier under this Agreement, any credit or amount payable to Purchaser by Supplier under this Agreement or under any other agreement then in effect between Supplier and Purchaser (including the Data Subscription Agreement); and (b) when making any payment pursuant to this Agreement, deduct from the amount payable to Supplier the amount of any such credit or amount payable to Purchaser by Supplier that, by virtue of the right of set-off, may be retained by Purchaser. Notwithstanding the foregoing, the rights of Purchaser under this Section 7.03 will not be available in respect and to the extent of amounts that are then the subject of a dispute until such dispute (or the portion thereof that relates to such amounts) has been resolved.

7.04 Excise Taxes

If requested by Purchaser at any time or from time to time, Supplier will promptly prepare and issue to Purchaser a statement detailing, to Purchaser's satisfaction, all excise Taxes imposed under the *Excise Tax Act (Canada)* and payable by Supplier in connection with any Products sold by Supplier to Purchaser hereunder.

ARTICLE 8 **SUPPLIER MANUAL**

8.01 Supplier Manual

(1) In force and effect as of the Effective Date are the policies, procedures, guides, plans, protocols, standards, frameworks, matrices and other similar items entitled *Ontario Cannabis Store Supplier Manual* a complete copy of which has been made available to Supplier on the Reference Website (such policies, procedures, guides, plans, protocols, standards, frameworks, matrices and other similar items, together with all additional policies, procedures, guides, plans, protocols, standards, frameworks, matrices and other similar items, and all amendments thereto, prescribed by Purchaser from time to time in accordance with Section 8.01(2), collectively, the "**OCRC Policies**").

(2) Purchaser may prescribe from time to time such additional policies, procedures, guides, plans, protocols, standards, frameworks, matrices and other similar items, in each case, relating to all or part of the Products and/or any matters or transactions contemplated by this Agreement, and Purchaser may from time to time modify, amend, update, supplement or replace the then-existing policies, procedures, guides, plans, protocols, standards, frameworks, matrices and other similar items and/or the Supplier Manual, in each case, as Purchaser considers necessary or appropriate in its sole and absolute discretion (any such prescription, modification, amendment, update, supplement or replacement in this Section 8.01(2) being a "**Supplier Manual Update**").

(3) The Supplier Manual will be available to Supplier on the Reference Website. Supplier acknowledges and agrees that Supplier is solely responsible and liable for reviewing in full the Supplier Manual, including any Supplier Manual Updates that are in effect, prior to issuing an Acknowledgment of any Purchase Order. In addition to any other manner of notification Purchaser may select, notification of any Supplier Manual Update will be made through the Vendor Portal.

(4) Where Purchaser proposes to implement a Supplier Manual Update, Purchaser will provide Supplier with such prior written notice of such Supplier Manual Update as Purchaser determines in its discretion is reasonable in the circumstances in light of the nature of the Supplier Manual Update and having regard to any other factors as Purchaser may consider appropriate for these purposes, including Purchaser's commercial, business and other objectives. Notwithstanding anything herein to the contrary, Purchaser may implement a Supplier Manual Update with immediate effect on notice thereof to Supplier where such Supplier Manual Update is made in response to any change or pending change in Applicable Law or where Purchaser determines in its discretion such change is required to address any health, safety, quality or similar concern.

(5) Supplier acknowledges and agrees that the standard of notice set forth in Section 8.01(4) is reasonable and waives any objection that it may hereafter have to the length of prior notice given in respect of any Supplier Manual Update and agrees not to plead or claim any such prior notice is insufficient in any dispute or proceeding arising in connection therewith.

(6) The Supplier Manual that is in effect as of the date of the Acknowledgment by Supplier of the relevant Purchase Order will apply to and will be deemed to be incorporated by reference into, such Purchase Order.

ARTICLE 9 **PRODUCT LISTING AND FILL RATE**

9.01 Amendment to Product Listing

Purchaser will reflect any modifications to the Product Listing required or permitted to be made pursuant to this Agreement or as otherwise agreed between the parties (including the addition to or any De-Listing of Products from the Product Listing and any adjustments to the Prices pursuant to Sections 4.02, 4.03 or 4.04) by amending or supplementing the Product Listing; provided however, that, notwithstanding anything to the contrary contained in this Agreement or the Supplier Manual, the administrative formality of such amendment or supplement will not be a condition to the effectiveness of such modification (including any adjustment to the Prices, which will be deemed to be effective in accordance with Section 4.02, 4.03 or Section 4.04, as applicable).

9.02 Determination and Consequence of Fill Rate

Purchaser will from time to time determine and assess Supplier's Fill Rate (and any similar or related metrics described in the Supplier Manual) in accordance with the procedures specified therefor in the Supplier Manual. Supplier acknowledges and agrees that Purchaser will, in its sole and absolute discretion and without limiting any other criteria or other factors that may be taken into account by Purchaser, be entitled to take Supplier's record of Fill Rate (and any similar or related metrics described in the Supplier Manual) into account in scoring any future Product calls, procurement processes and other assessments or evaluations of Supplier.

ARTICLE 10 **RETURNED, DISCONTINUED, SLOW-MOVING AND EXPIRED PRODUCTS**

10.01 Customer Product Returns

Supplier acknowledges that any Products returned to Purchaser, whether opened or unopened, sealed or unsealed, partially used or unused, may, in the sole and absolute discretion of Purchaser, be deemed non-merchantable. Accordingly, if, at any time during the Term and during the period of 18 months following the end of the Term, any customer of Purchaser returns to Purchaser any Product that is deemed non-merchantable by Purchaser, then Purchaser may elect to dispose of or destroy (or cause Supplier to dispose of or destroy in accordance with Applicable Law) such Product and Supplier will promptly pay to Purchaser an amount equal to the Landed Cost of such Product together with the applicable Service Fee.

10.02 Discontinued Products

Supplier must give at least 120 days' prior notice to Purchaser if Supplier determines to discontinue any Product. If Supplier discontinues or determines to discontinue any Product, or Purchaser otherwise determines, acting reasonably, that Supplier has ceased, or otherwise is or will be unable to continue to provide to Purchaser a reliable supply of any Product, then Purchaser may De-List such Product. Further, Purchaser may, at its election in its sole and absolute discretion and upon giving notice to Supplier: (a) cancel any Validated Purchase Orders for such Product (in whole or in part), whether before or after shipment, without obligation or liability to Supplier; (b) return to Supplier all or any quantities of such Product as Purchaser may elect that are in Purchaser's inventory;

(c) dispose of or destroy (or cause Supplier to dispose of or destroy in accordance with Applicable Law) any quantities of such Product in Purchaser's inventory; (d) subject to Applicable Law, reduce the retail price of any quantities of such Product as Purchaser may elect that are under order from Supplier or in Purchaser's inventory (excluding any quantities of such Product to be returned to Supplier or disposed of or destroyed in accordance with this Section 10.02) to such price as Purchaser may determine; or (e) any combination of the foregoing. Supplier will pay Purchaser the Landed Cost of all Products returned to Supplier or disposed of or destroyed pursuant to this Section 10.02 together with the applicable Service Fee and will pay Purchaser a *pro rata* amount of the Landed Cost of all Products with a reduced retail price pursuant to this Section 10.02 in proportion to such price reduction.

10.03 Slow-Moving Products

Purchaser may, at its election in its sole and absolute discretion, return to Supplier or dispose of or destroy (or cause Supplier to dispose of or destroy in accordance with Applicable Law) (or any combination thereof), in each case, at Supplier's sole risk and expense, any quantities of Slow-Moving Products as are in Purchaser's inventory. Supplier will promptly pay Purchaser the Landed Cost of such Slow-Moving Products so returned, disposed of or destroyed together with the applicable Service Fee.

10.04 Expired Products

Purchaser may, at its election in its sole and absolute discretion, return to Supplier or dispose of or destroy (or cause Supplier to dispose of or destroy in accordance with Applicable Law) (or any combination thereof), in each case, at Supplier's sole risk and expense, any quantities of Expired Products that are in Purchaser's inventory. Supplier will promptly pay Purchaser the Landed Cost of such Expired Products so returned, disposed of or destroyed together with the applicable Service Fee.

10.05 Related Processes and Procedures

The applicable processes and procedures for the return, disposal and destruction of Products contemplated by this Agreement or the Supplier Manual will be set out in the Supplier Manual, including the applicable processes and procedures for making payment in respect thereof in satisfaction of the requirements therefor in this Article 10.

ARTICLE 11
INSURANCE

11.01 Insurance Coverage Requirements

(1) During the Term and for a period of at least three years following the end of the Term, Supplier will obtain and maintain in force, at a minimum, the following insurance coverages:

(a) *General Liability Insurance:* General liability insurance on an occurrence-based form to cover the size, type and risk characteristics of Supplier's business and operations and its covenants, agreements and obligations in this Agreement. Unless otherwise requested by Supplier and agreed in writing by Purchaser in its sole and absolute discretion, Supplier will obtain and maintain general liability insurance to a minimum of \$5 million per occurrence. Purchaser will be added as an additional insured in respect of liability caused by Supplier (including as a result of services provided by or on behalf of Supplier) and the policies will have cross liability and severability of interest clauses. The foregoing minimum insurance requirement may be achieved by combining general liability, umbrella and excess liability policy limits; and

(b) *Product Recall Insurance:* Product recall liability insurance on an occurrence-based form to cover the nature of the Products and the size, type and risk characteristics of Supplier's business and operations and its covenants, agreements and obligations in this Agreement. Unless otherwise requested by Supplier and agreed in writing by Purchaser in its sole and absolute discretion, Supplier will obtain and maintain product recall liability insurance to a minimum of \$15 million per occurrence. Purchaser will be added as an additional insured.

(2) Any failure to obtain or maintain in force such insurance coverage, or any other failure to comply with any provision of this Article 11, will be deemed to be a material breach by Supplier of this Agreement. None of the requirements contained in this Agreement as to types, limits and approval of insurance

coverage to be maintained by Supplier are intended to, and will not in any manner, limit or qualify the covenants, agreements, obligations and liabilities of Supplier under this Agreement. Supplier will cause all Subcontractors engaged by Supplier in connection with the performance of this Agreement to have and maintain in force insurance coverages that are commercially reasonable having regard to the services being provided by such Subcontractor.

(3) Supplier will add Purchaser as an additional insured, to the extent that liability is attributable to Supplier and/or loss payee, as its interest may appear, in each case, as provided above. The insurance coverages under which Purchaser is added as an additional insured will be primary and all coverage will be non-contributing with respect to any other insurance or self-insurance that may be maintained by Purchaser. Supplier will promptly make and diligently pursue a Claim against any insurance it is required to maintain pursuant to this Agreement for any Claim or Loss suffered or incurred by any Purchaser Indemnitee where such Purchaser Indemnitee is named or is required to be named as an additional insured, additional named insured or loss payee, as applicable, under such insurance policy pursuant to this Agreement.

(4) All insurance coverages must be underwritten by reputable and financially creditworthy insurers to Purchaser's reasonable satisfaction and all such insurers must be licensed or authorized to carry on insurance business in Canada and must have a financial strength rating by A.M. Best Company, Inc. of "A-" or higher.

11.02 Evidence of Insurance Coverage; Changes

Supplier will, or will cause its insurers or insurance brokers to, issue to Purchaser certificates of insurance evidencing that the coverages and policy endorsements required under this Agreement are maintained in force, such certificates to be provided to Purchaser on the Effective Date, on the anniversary date of each such insurance policy and upon any renewal of each such insurance policy. In addition, Purchaser reserves the right to request at any time complete and certified copies of Supplier's insurance policies and Supplier will promptly comply, or will cause its insurers or insurance brokers to promptly comply, with any such request. Supplier will, or will cause its insurers or insurance brokers to: (a) provide at least 60 days' prior notice to Purchaser of any cancellation of any insurance coverages required to be maintained hereunder; and (b) notify Purchaser and Supplier of any

material change to any insurance coverages required to be maintained hereunder.

11.03 Actions Under Insurance; Claims Reporting

(1) In the case of any Claim, Loss or other event that requires notice or other action under the terms of any insurance coverage specified in this Agreement, Supplier will be solely responsible and liable for taking such action. Without limiting any other covenant, agreement or obligation of Supplier hereunder, for Claims or Losses involving any covenant, agreement or obligation of Supplier in this Agreement (including any circumstances that may give rise to a future Claim or Loss), Supplier will provide Purchaser with contemporaneous notice thereof and with all such other information as Purchaser may request regarding such Claim or Loss and such other covenant, agreement or obligation.

(2) Without limiting the generality of the foregoing, within 45 days following the end of each calendar year during the Term and within 45 days following the end of each of the first three calendar years following the end of the Term, Supplier will prepare and deliver to Purchaser a report setting out all pending Claims under any insurance policy or other insurance coverage maintained by Supplier pursuant to this Agreement, which report will include a description in reasonable detail of the cause and nature of each such pending Claim, together with a summary of the insurer's actual losses paid and any loss reserve amount set or recommended by the insurer in connection therewith, in each case, as of the last day of the calendar year to which such report relates, each such report will be in writing and will be prepared in such format and transmitted to Purchaser using such method, whether in paper or by electronic delivery, as may be prescribed by Purchaser from time to time, acting reasonably.

ARTICLE 12 **INFORMATION; AUDIT AND INSPECTION;** **REPORTS**

12.01 Maintenance of Information

(1) Supplier will maintain or cause to be maintained in accordance with Applicable Law, this Agreement and the Supplier Manual proper, accurate and complete books of account and such other records, material, information and data (in any form or notation and however stored) as may be necessary or customarily prepared or maintained to reflect the sale of the Products and the performance of Supplier's other

covenants, agreements and obligations hereunder and under the Supplier Manual and to allow and facilitate the purposes of the rights of inspection and audit contemplated by this Agreement and by the Supplier Manual, including all books of account and other records, material, information and data relating to any Subcontractors (collectively, the "Agreement Records").

(2) Unless otherwise directed in writing by Purchaser or otherwise prescribed in the Supplier Manual, Supplier will maintain or cause to be maintained all Agreement Records until the latest of: (a) the date that is seven years after the date on which the relevant item or the relevant document is generated; (b) the date on which all disputes, Claims and other matters relating to this Agreement are resolved; and (c) such later date as necessary to comply with Applicable Law or the Supplier Manual; provided, however, that Supplier will not be required to retain Personal Information longer than the time contemplated by the Privacy Laws.

12.02 Audit and Inspection

(1) In addition to the audit and other review rights referred to in the Supplier Manual, Purchaser and any authorized Representatives designated by Purchaser (which may include one or more independent firms selected by Purchaser) and/or the Auditor General of Ontario and the staff and other personnel or representatives of the Office of the Auditor General of Ontario may: (a) audit from time to time during the Term and for the period of seven years thereafter, all Agreement Records; and (b) attend and inspect at any time and from time to time during the Term all or any part of any operation or facility of Supplier used or proposed to be used in connection with performance of Supplier's covenants, agreements and obligations hereunder and under the Supplier Manual (including all raw materials, work-in-progress and inventory of or relating to Products). Purchaser may, but has no obligation to, provide notice to Supplier of any planned audit or inspection to be conducted by Purchaser or any authorized Representatives pursuant to this Section 12.02(1).

(2) Subject to the provisions of Section 22.02, Purchaser and any authorized Representatives designated by Purchaser will have all rights and authority necessary or incidental to conducting any audit or inspection pursuant to this Agreement and the Supplier Manual, including the right to make copies of and take extracts from any Agreement Records and any and all other books of account and other records material, information and

data (financial or otherwise and in any form or notation and however stored) provided or made available to it pursuant to Section 12.02(1). Purchaser will use its commercially reasonable efforts to ensure that any audit or inspection conducted pursuant to Section 12.02(1) will not unreasonably interfere with the operation of Supplier's business. Purchaser and any authorized Representatives designated by Purchaser will observe and comply with Supplier's reasonable standard workplace policies and safety procedures that apply generally to persons attending Supplier's operations or facilities.

12.03 No Relief of Obligations

Notwithstanding Purchaser's rights contained in this Agreement or the Supplier Manual, Purchaser will not have any obligation or liability to Supplier or to any other person to conduct or cause to be conducted any audit or inspection and will not incur any liability or obligation whatsoever for: (a) not conducting or causing to be conducted any audit or inspection, (b) not conducting or causing to be conducted the same carefully, completely or properly, or (c) for not addressing or otherwise acting upon any matters or information resulting from or identified during any such audit or inspection. The fact that any audit or inspection may not have been conducted or caused to be conducted by Purchaser or any of its Representatives will not relieve Supplier of any of its covenants, agreements, obligations and liabilities under this Agreement.

12.04 Reports

Supplier will promptly prepare and provide to Purchaser any and all such reports relating to or containing information or other data in connection with the sale of the Products and/or the performance of any of Supplier's covenants, agreements and obligations hereunder and under the Supplier Manual and/or any other matters ancillary or incidental thereto, as Purchaser may request from time to time, including any reports Purchaser may request from Supplier to facilitate the satisfaction of any request made of or obligation binding upon Purchaser to prepare or provide any information or report to any Governmental Authority.

ARTICLE 13 **DATA AND INTELLECTUAL PROPERTY**

13.01 Ownership of Operations Data

As between the parties, the Operations Data will at all times be the sole and exclusive property of

Purchaser. Supplier agrees, on its own behalf and on behalf of its Representatives, now and hereafter, not to challenge or object to Purchaser's ownership of the Operations Data or Purchaser fully exercising its exclusive rights in the Operations Data.

13.02 Data Subscription

On or prior to the Effective Date, Supplier will enter into with Purchaser a subscription agreement (the "**Data Subscription Agreement**") pursuant to which Supplier will, among other things, have access to certain Operations Data. On and subject to the terms and conditions of the Data Subscription Agreement, Supplier will maintain such subscription at the minimum level of Level One (as defined in the Data Subscription Agreement) and, unless earlier terminated in accordance with its terms, the term of the Data Subscription Agreement will continue until the expiry or earlier termination of this Agreement in accordance with its terms. Supplier will be solely responsible and liable for all costs, charges, fees and expenses contemplated as being the responsibility of Supplier in the Data Subscription Agreement. Supplier acknowledges that it has received a complete copy of the Data Subscription Agreement.

13.03 Intellectual Property Rights

(1) All Intellectual Property owned by a party prior to the Effective Date and all Intellectual Property developed or acquired by or on behalf of a party (or by any of its Representatives or any other person engaged by such party (other than the engagement of Supplier by Purchaser under this Agreement)) during the Term will be and will remain the sole and exclusive property of such party. Each party agrees, now and hereafter, not to challenge the ownership or validity of any Intellectual Property of the other party. If Supplier and Purchaser together intend to contribute to the development, modification, enhancement or acquisition of specific Intellectual Property during the Term, Supplier and Purchaser will enter into a written agreement, prior to the development or acquisition of such Intellectual Property, stipulating which party or parties will own such Intellectual Property and whether such Intellectual Property will be licensed, if at all, and, if applicable, the terms of any such licence.

(2) Purchaser may use the Licensed Supplier Marks during the Term and for such period thereafter as in which there remains any Products in Purchaser's inventory in the conduct of Purchaser's business and operations (including in connection with Purchaser's e-commerce activities), provided that such use is in accordance with the terms of this Agreement.

Use of any Licensed Supplier Marks by Purchaser will comply with Applicable Law. If Supplier and Purchaser together intend to enter into an arrangement to jointly promote any Products beyond the scope of Purchaser's permitted use of the Licensed Supplier Marks under this Agreement, Supplier and Purchaser will enter into a written agreement in respect thereof.

(3) In the event a Product, or any part or component thereof, or the production, use, sale or distribution thereof by any person, is Claimed to constitute an infringement of an Intellectual Property right or interest of a third party, Supplier will promptly and at its sole expense, at Purchaser's election: (a) use its commercially reasonable efforts to procure the right for Purchaser to continue purchasing, marketing, offering for sale and selling such Product or portion thereof; (b) use its commercially reasonable efforts to modify the affected Product or part of component thereof as necessary to cure the infringement and maintain at least equivalent functionality; or (c) replace the affected Product or part of component thereof with a reasonable alternative. In the event Supplier is unable to provide Purchaser with one of the foregoing forms of relief, Supplier will reimburse Purchaser the Landed Cost of all affected Products together with the applicable Service Fee.

(4) Supplier hereby grants to Purchaser and its Representatives, a world-wide, royalty free, perpetual, irrevocable, non-exclusive license to use, reproduce, modify, adapt, translate, perform, display, distribute and otherwise disclose to third parties any Supplier Material for the purpose of the conduct of Purchaser's business and operations (including in connection with Purchaser's e-commerce activities).

ARTICLE 14 **CANNABIS LICENSING MATTERS**

14.01 Outstanding Licenses at Effective Date

If Supplier does not possess on the Effective Date all Cannabis Licenses required in order for Supplier to perform its covenants, agreements and obligations under this Agreement Supplier will (a) immediately notify Purchaser of all such Cannabis Licenses that Supplier does not possess (collectively, the "**Outstanding Licenses**"); (b) use its commercially reasonable efforts to obtain all Outstanding Licenses as soon as reasonably practicable; and (c) notify Purchaser promptly following Supplier's receipt of the last of the Outstanding Licenses that Supplier is, as of the date specified by Supplier in such notice, in possession of all Cannabis Licenses required in order for Supplier to perform its covenants, agreements and

obligations under this Agreement (the "**License Confirmation**"), such notice to be accompanied by true and complete copies of all such Cannabis Licenses. Provided that Supplier provides to Purchaser the notice of the Outstanding Licenses in accordance with this Section 14.01, the representations and warranties of Supplier set out in Section 16.02(h) will be qualified to exclude the Outstanding Licenses until the date specified in the License Confirmation; and Supplier's covenant made in Section 14.02(c) will not apply in respect of the Outstanding Licenses until the date specified in the License Confirmation. Purchaser will not issue any Purchase Order prior to the date on which Purchaser receives the License Confirmation.

14.02 Covenants

At all times during the Term, Supplier covenants to: (a) promptly notify Purchaser upon becoming aware of any change in the status of any Cannabis Licenses that could prevent or impair the performance of Supplier's obligations under this Agreement or Applicable Law (or any facts or circumstances that, with or without the passage of time, are reasonably likely to give rise to any such change in status), including any amendment thereto or any renewal, suspension, revocation, termination or other modification thereof; (b) promptly following any amendment, renewal or other modification of any Cannabis License in Supplier's possession, provide Purchaser with a true and complete copy of such amended, renewed or modified Cannabis License; and (c) remain in good standing with all Governmental Authorities having jurisdiction or authority over or in respect of Supplier, and obtain and maintain in good standing all Governmental Consents required from time to time in order for Supplier to perform its covenants, agreements and obligations under this Agreement.

14.03 Termination

If Purchaser terminates this Agreement pursuant to Section 21.03(2)(d), Purchaser may, at its election in its sole and absolute discretion, return to Supplier or dispose of or destroy (or cause Supplier to dispose of or destroy in accordance with Applicable Law) (or any combination thereof), in each case, at Supplier's sole risk and expense, any quantities of Products as are in Purchaser's inventory. Supplier will promptly pay Purchaser the Landed Cost of such Products so returned, disposed of or destroyed together with the applicable Service Fee.

ARTICLE 15
ADDITIONAL SUPPLIER COVENANTS

15.01 Additional Supplier Covenants

In addition to the other covenants, agreements and obligations of Supplier set out in this Agreement, Supplier will: (a) at all times during the Term, comply with this Agreement, Applicable Law, the Supplier Manual and each Validated Purchase Order; (b) ensure that each Representative of Supplier that is from time to time engaged, directly or indirectly, in the performance of any of Supplier's covenants, agreements or obligations hereunder or under the Supplier Manual complies at all times during the period of any such engagement with this Agreement, Applicable Law, the Supplier Manual and each Validated Purchase Order, in each case, to the extent any of the foregoing apply to such covenants, agreements or obligations of Supplier being performed by any such Representative of Supplier; and, as between Purchaser and Supplier, will be solely responsible and liable for all acts and omissions of any Representatives of Supplier with regard to or in connection with this Agreement, including acts or omissions constituting negligence, wilful misconduct, criminal conduct or fraud; and (c) maintain at all times during the Term a business office location and physical presence in Canada.

15.02 Designated Analyst

Supplier will designate an appropriate employee or independent contractor of Supplier (the "Designated Analyst") to serve as the primary contact with Purchaser for the coordination and administration of matters related to this Agreement and to perform the Analyst Services. Supplier may from time to time designate a replacement Designated Analyst upon prior notice to Purchaser, provided that any such replacement has appropriate familiarity with the parties' covenants, agreements and obligations under this Agreement and can suitably perform the Analyst Services. Supplier will, by notice to Purchaser provided on or promptly following the Effective Date, identify the individual who will be the initial Designated Analyst. The Designated Analyst will be available upon Purchaser's reasonable request during Supplier's normal business hours to review and discuss matters relating to the Products and this Agreement and to perform and collaborate with Purchaser in respect of the Analyst Services.

15.03 EDI System

After consultation with Supplier and upon reasonable prior notice to Supplier, Purchaser may at

any point during the Term require Supplier to implement and to thereafter for the balance of the Term operate and maintain an electronic data interchange system (the "EDI System") to be used by the parties for the purposes of generating, capturing, storing and transmitting certain data and information relating to the sale and purchase of Products pursuant to this Agreement. After consultation with Supplier, Purchaser will prescribe the required specifications for such EDI System, acting reasonably and having regard to prevailing practice for similar systems used in similar industries in Canada and the deadline or timeline on which such EDI System will be implemented. Each of Purchaser and Supplier will be responsible and liable for their own respective costs and expenses in connection with the implementation, operation and maintenance of any EDI System. For certainty, the Vendor Portal is not the EDI System and any modification, or successor designated by Purchaser, to the Vendor Portal will not be considered the EDI System for these purposes unless Purchaser gives notice to Supplier expressly providing otherwise.

ARTICLE 16
SURVIVAL; REPRESENTATIONS AND WARRANTIES

16.01 Survival of Representations, Warranties and Covenants

All representations, warranties, covenants, agreements and obligations contained in this Agreement and in all other agreements, documents and certificates provided pursuant to or contemplated by this Agreement will survive the execution, delivery and performance of this Agreement and all such other agreements, documents and certificates.

16.02 Foundation Representations and Warranties of Supplier

Supplier hereby represents and warrants to Purchaser that:

- (a) Supplier: (i) is a corporation, limited or unlimited liability company, general or limited partnership or business trust duly organized and validly existing under the laws of the jurisdiction of its formation and Supplier is duly organized and validly existing under the laws of Canada or of a Province or Territory of Canada; and (ii) has all requisite power and authority to own or lease and operate its assets and to

carry on its business as now conducted and as proposed to be conducted;

- (b) the execution, delivery and performance by Supplier of this Agreement is within its powers, has been duly authorized by all necessary action and does not: (i) contravene any provision of its articles, bylaws, partnership agreement, trust agreement or other constating documents; or (ii) violate any Applicable Law;
- (c) this Agreement has been duly executed and delivered by Supplier and is the legal, valid and binding obligation of Supplier, enforceable against Supplier in accordance with its terms except as such enforceability may be limited by applicable bankruptcy, insolvency, reorganization, moratorium and similar Applicable Law limiting the enforcement of creditors' rights generally and by general principles of equity and that a court may stay proceedings or the execution of judgments regardless of whether asserted in a proceeding in equity or at law;
- (d) there is no Claim affecting Supplier pending or, to the knowledge of Supplier, threatened before any Governmental Authority or arbitrator that would reasonably be expected to have a material adverse effect of Supplier's ability to carry out any of its covenants, agreements or obligations in this Agreement;
- (e) Supplier is not in default under or with respect to any Applicable Law, which default would reasonably be expected to have a material adverse effect on Supplier's ability to carry out any of its covenants, agreements or obligations in this Agreement;
- (f) no event or circumstance of the nature contemplated by Section 21.03(2) (or any event that would constitute event or circumstance of the nature contemplated by Section 21.03(2) but for the passage of time or a requirement that notice be given, or both) has occurred and is continuing or would result from the consummation of the transactions contemplated by this Agreement;
- (g) no Act of Insolvency has occurred in respect of Supplier that would reasonably be expected to have a material adverse effect of Supplier's ability to carry out any of its covenants, agreements or obligations in this Agreement;
- (h) Supplier, subject to Section 14.01, and each Subcontractor engaged by Supplier in connection with the performance of this Agreement has obtained all Governmental Consents required to be obtained by any of them and that are necessary to perform the covenants, agreements and obligations under this Agreement, and each of such Governmental Consents is valid, subsisting and in good standing; neither Supplier nor, to the knowledge of Supplier, the relevant Subcontractors, are in default thereunder or breach thereof; and, to the knowledge of Supplier, there exists no circumstance or fact that, individually or together with any other existing circumstance or fact, could reasonably be expected to result in a default under or breach of any of the Governmental Consents or the revocation or limitation thereof;
- (i) Supplier Material will not infringe upon or violate any Applicable Law or any rights of third parties, including infringement, violation or misappropriation of any Intellectual Property; and
- (j) Supplier is registered under Subdivision (d) of Division V of Part IX of the *Excise Tax Act* (Canada) and its registration number is 851163048RD0001.

16.03 **Representations and Warranties on Validation of Purchase Order**

- (1) Supplier will ensure that each of the representations and warranties of Supplier set out in

Section 16.02 will be true and correct as of the date of the issuance of each and every Validation with the same force and effect as if made at and as of each such date.

(2) Further, upon and as of the date of the issuance of each and every Validation, and without any further act or formality, Supplier will be deemed to represent and warrant to Purchaser that: (a) none of the Products in respect of the Validated Purchase Order, nor the exercise by Purchaser of any of its rights hereunder with respect to such Products or any Intellectual Property of Supplier, infringe upon, violate or misappropriate any Intellectual Property right or interest of any person; (b) Supplier has obtained all quality assurance certifications required hereunder and under Applicable Law for all Products in respect of such Validated Purchase Order and has provided to Purchaser evidence thereof as required under this Agreement or the Supplier Manual (except to the extent Purchaser permits Supplier to provide such proof at a later time by providing a notice under Section 6.02, in which case Supplier represents and warrants that it will, by the time specified in such notice, provide Purchaser with such evidence); (c) none of the Products in respect of such Validated Purchase Order are Non-Conforming Products; and (d) Supplier is in full compliance in all respects with all covenants, agreements and obligations under this Agreement and all requirements under the Supplier Manual.

(3) Supplier acknowledges and agrees that, in issuing a Validation and in performing its covenants, agreements and obligations in respect of the Validated Purchase Order, Purchaser is relying on the accuracy of all of the representations and warranties of Supplier set out or referred to in this Section 16.03.

ARTICLE 17

NON-CONFORMING PRODUCTS

17.01 Non-Conforming Products

For the purposes of this Agreement, "Non-Conforming Product" means any Product or any part of component thereof (including any packaging, marking and/or labelling thereof) that: (a) does not correspond with the provisions of, or description of such Product in, the applicable Validated Purchase Order; (b) does not meet the applicable Specifications; (c) is not of merchantable quality; (d) is not fit for its intended use; (e) is not fit for consumption in the intended manner, as applicable; (f) is defective; (g) does not comply with Applicable Law; (h) does not comply with any federal or provincial standards established for products, parts or components of that description, as

applicable; (i) does not match in all material respects the sample, if any, previously submitted to and approved by Purchaser; (j) does not match the quality of the same Products previously supplied by Supplier to Purchaser; (k) is delivered after the date specified for delivery in the Validated Purchase Order in respect of such Product; (l) is subject to any order which has the effect of rendering it unsellable; (m) is subject to any safety notice, recall or similar regulatory action or campaign; (n) is subject to any Claim, including any Claim that such Product, part or component violates or infringes any Intellectual Property rights of any person; (o) does not otherwise comply with any representation, warranty, covenant or other requirement of this Agreement or the Supplier Manual; or (p) at the time of its receipt by the Recipient at the Delivery Location has less than 75% of its Shelf Life remaining.

17.02 Notification of Non-Conforming Products

Supplier will promptly notify Purchaser upon Supplier becoming aware of any Non-Conforming Product (or any facts or circumstances that, with or without the passage of time, are reasonably likely to result in a Product becoming a Non-Conforming Product).

17.03 Remedy

If Purchaser determines in its sole and absolute discretion, including before or after any inspection or before or after Purchaser's receipt of any notification from Supplier under Section 17.02 or otherwise, that any Products (or any parts or components thereof) are Non-Conforming Products, then Purchaser may, in addition to any other rights and remedies available to Purchaser under this Agreement, the Supplier Manual or Applicable Law, at the election of Purchaser in its sole and absolute discretion and upon giving notice to Supplier: (a) require prompt correction or replacement of all or any quantities of such Non-Conforming Products as Purchaser may elect in accordance with Purchaser's written instructions; (b) return to Supplier all or any portion of any shipments containing the Non-Conforming Products; (c) dispose of or destroy (or cause Supplier to dispose of or destroy in accordance with Applicable Law) all or any quantities of the Non-Conforming Products as Purchaser may elect; or (d) any combination of the foregoing. Supplier will promptly pay Purchaser the Landed Cost of all Non-Conforming Products returned to Supplier or disposed of or destroyed pursuant to this Section 17.03 together with the applicable Service Fee.

17.04 Related Processes and Procedures

The applicable processes and procedures for the return, disposal and destruction of Products contemplated by this Agreement or the Supplier Manual will be set out in the Supplier Manual, including the applicable processes and procedures for making payment in respect thereof in satisfaction of the requirements therefor in this Article 17.

ARTICLE 18 **PRODUCT RECALLS AND CUSTOMER CARE**

18.01 Recalls and Corrective Actions

If any of Purchaser, Supplier, any Governmental Authority or any consumer protection agency determines that any Product, or any part or component thereof, is or may be the subject of a safety notice, recall or similar regulatory action or campaign, Purchaser will, upon becoming aware thereof, return all affected Products to Supplier, dispose of or destroy (or cause Supplier to dispose of or destroy in accordance with Applicable Law) such Products and/or take such other actions as Purchaser may consider appropriate in accordance with Applicable Law, in each case, as determined by Purchaser in its sole and absolute discretion or otherwise as required by Governmental Authority, regulatory instruction or Applicable Law. Supplier will comply with all reporting obligations under Applicable Law. In addition to any other rights and remedies available to Purchaser under this Agreement (including Article 17) or Applicable Law, Supplier will be solely responsible and liable for all Losses associated with the recall, notice, action or campaign and will promptly reimburse Purchaser for all Losses suffered or incurred by Purchaser in taking any actions contemplated in this Article 18, including correcting, recalling, publishing notices about, shipping, transporting and, if applicable, disposing of or destroying the affected Products (and, if applicable, any products with which the Products have been packaged, consolidated or commingled), including the Landed Cost of unsold Products and Products returned for refund by customers. Supplier will pay all reasonable fees, costs, charges and expenses associated with determining whether a safety notice, recall or similar regulatory action or campaign is necessary. Supplier will cooperate with Purchaser and, as applicable, all Governmental Authorities and consumer protection agencies in connection with the required corrective actions and measures and/or safety notices, recalls or similar regulatory actions or campaigns. Supplier will also pay the applicable Service Fee in connection with any affected Products.

18.02 Defects and Tampering

If Supplier becomes aware of any defect or potential defect regarding, or of any tampering or potential tampering with, a Product or any part of component thereof, Supplier will: (a) immediately notify Purchaser; (b) if required under Applicable Law or the Supplier Manual, promptly notify all applicable Governmental Authorities (including Health Canada) in accordance with Applicable Law and provide Purchaser with notice and complete copies of such communications; (c) promptly commence and diligently pursue, at its sole cost and expense, a comprehensive quality investigation and analysis of the affected Products and provide to Purchaser a complete copy of all findings thereof; (d) provide reasonable assistance to Purchaser in the development and implementation of recall and related regulatory strategy and action; (e) act as a liaison, as appropriate and required, between Purchaser and the subject Products' manufacturer(s), distributor(s) and importer(s), as applicable, in the context of regulatory action and/or recall; and (f) comply with Purchaser and, as applicable, all Governmental Authorities and consumer protection agencies in strategy and implementation of recall and/or related regulatory action.

18.03 Cooperation

The parties will cooperate with and assist one another in all reasonable ways in connection with any corrective actions or measures, safety notices, recalls (whether or not voluntary) or similar regulatory actions or campaigns in respect of any Products or any parts or components thereof.

18.04 Complaints

Supplier will promptly notify Purchaser, including with reasonable particulars, upon Supplier receiving or otherwise becoming aware of any complaint by any person in respect of any Product (or any part or component thereof) or any product produced by Supplier that is substantially similar to any Product (or contains any part or component that is the same as or substantially similar to any part of component of any Product). Supplier shall regularly report the results of any investigation with respect to any such complaint to Purchaser pursuant to and in accordance with the requirements of the Supplier Manual and as may otherwise be required by Applicable Law. All communications with respect to any such complaint will be governed by and made in accordance with the procedures specified therefor in the Supplier Manual and Supplier will strictly comply with all terms and requirements of the Supplier Manual in respect of such

complaints and will promptly take all applicable actions specified in the Supplier Manual in accordance with the Supplier Manual.

ARTICLE 19 **INDEMNIFICATION BY SUPPLIER**

19.01 Supplier Indemnification

Supplier will indemnify and save harmless Purchaser, the LCBO and each of the Representatives of Purchaser and each of the Representatives of the LCBO (all of the foregoing, collectively, the "**Purchaser Indemnitees**") from and against any and all Claims asserted against and Losses suffered or incurred by any of them directly or indirectly arising out of, in connection with or resulting from:

- (a) any inaccuracy or misrepresentation in any representation or warranty of Supplier in this Agreement or in any document delivered to Purchaser by or on behalf of Supplier pursuant to this Agreement or the Supplier Manual;
- (b) any failure of Supplier to perform or comply with any covenant, agreement or obligation of Supplier in this Agreement or any requirement of the Supplier Manual;
- (c) any Non-Conforming Product or any defect with respect to any Product (or any part or component thereof), in each case, irrespective of the time when same is discovered;
- (d) manufacture, production, handling, assembly, packaging, labelling, storing, quality assurance, testing, inspection, shipping, transporting or delivery of any Products (or any part or component thereof) by the Supplier or any of its Representatives;
- (e) any acts or omissions, whether under this Agreement or otherwise, of Supplier, any of Supplier's Representatives or any other person for whom Supplier is responsible at law, including any fraud, negligence or wilful misconduct of, or breach or violation of Applicable Law by, Supplier, any of Supplier's Representatives or any other person

for whom Supplier is responsible at law;

- (f) any harm or bodily injury to or the death of any person or any loss, damage or destruction of or to any property or asset, in each case, occurring in connection with the Products or the performance (or non-performance) by or on behalf of Supplier of any of its covenants, agreements or obligations hereunder or under the Supplier Manual;
- (g) the enforcement of any rights of any Purchaser Indemnitee under this Agreement or the Supplier Manual and, in each case, any related investigation, defence, preparation of defence, dispute resolution, litigation and enquiries; and
- (h) any infringement, violation or misappropriation of any Intellectual Property right or interest by a Product or any part of component thereof or by Supplier, or any allegations of any such infringement, violation or misappropriation even if such allegations are false.

ARTICLE 20 **LIMITATION OF LIABILITY**

20.01 Limitation of Liability

Purchaser will not be liable for any indirect, incidental, punitive, economic, special, exemplary or consequential damages arising out of or relating to this Agreement, including lost profits, business interruption, loss of business information, anticipated or lost revenues (in each case, whether a Claim for such damages is based, without limitation, on warranty, contract, tort, negligence or strict liability), even if Purchaser has been advised of the possibility of such damages and notwithstanding the failure of any agreed or other remedy of its essential purpose.

ARTICLE 21 **TERM AND TERMINATION**

21.01 Initial Term

The initial term of this Agreement will commence on the Effective Date and, unless earlier

terminated as provided under this Agreement, will continue until August 14, 2022 (the "Initial Term").

21.02 Renewal Terms

Not later than the date that is 180 days prior to the last day of the Initial Term and, if Purchaser has exercised a Renewal Option, not later than the date that is 180 days prior to the last day of the then current Renewal Term, Supplier may provide notice to Purchaser (a "Non-Renewal Notice") indicating that Supplier will not accept any Renewal Option. Unless Supplier has delivered a Non-Renewal Notice in accordance with this Section 21.02, Purchaser will have an unlimited number of successive options (each, a "Renewal Option"), each exercisable in its sole and absolute discretion, to extend the Initial Term or the Term, as applicable, for additional consecutive terms of two years each (each, a "Renewal Term" and any and all Renewal Terms together with the Initial Term, the "Term") by providing to Supplier notice of each exercise of a Renewal Option not later than the date that is 60 days prior to the last day of the Initial Term or last day of the then current Renewal Term, as applicable. Unless otherwise agreed in writing between the parties, all of the same terms and conditions of this Agreement will apply during each Renewal Term. No termination fee or other compensation whatsoever will be paid or payable by Purchaser to Supplier or any other person in the event that Purchaser does not exercise any Renewal Option or this agreement otherwise ends prior to the end of the Term.

21.03 Termination by Purchaser

(1) Purchaser may, at its election and in its sole and absolute discretion, terminate this Agreement in its entirety or De-List any one or more Products by providing at least 60 days' prior notice to Supplier.

(2) Purchaser may, at its election and in its sole and absolute discretion, terminate this Agreement in its entirety or De-List any one or more Products by giving notice of such termination or De-Listing to Supplier if any one or more of the following occurs:

- (a) if there is any inaccuracy or misrepresentation in any representation or warranty of Supplier in this Agreement or in any document delivered to Purchaser by or on behalf of Supplier pursuant to this Agreement or the Supplier Manual and, if such inaccuracy or misrepresentation is capable of being cured, such inaccuracy or misrepresentation has

not been cured within 15 days following the date on which Purchaser notifies Supplier of such inaccuracy or misrepresentation;

- (b) if Supplier fails to perform or comply with any one or more covenants, agreements or obligations of Supplier in this Agreement and such failure has not been cured within 15 days following the date on which Purchaser notifies Supplier of such failure;
- (c) if any Act of Insolvency occurs in respect of Supplier or if Supplier ceases or threatens to cease to carry on business generally or admits its inability to pay or fails to pay its debts generally;
- (d) if any Cannabis License required in order for Supplier to perform its covenants, agreements and obligations under this Agreement is revoked or Supplier fails to maintain or renew or otherwise ceases to possess any such Cannabis License; or
- (e) if there occurs any change in the Cannabis Laws or any other Applicable Law that could reasonably be interpreted to prohibit or prevent, or would otherwise in Purchaser's reasonable determination significantly burden Purchaser in, Purchaser's performance of its covenants, agreements and obligations under this Agreement or the sales of the Products to the public by Purchaser.

(3) Supplier will promptly notify Purchaser upon Supplier becoming aware of the occurrence of any event or circumstance described in this Section 21.03.

21.04 Termination by Supplier

(1) Supplier may, at its election and in its sole and absolute discretion, terminate this Agreement or direct Purchaser to De-List any one or more Products by providing at least 180 days' prior notice to Purchaser (and Purchaser will promptly reflect any such De-Listing in the Product Listing, as applicable).

(2) Supplier may terminate this Agreement or direct Purchaser to De-List any one or more Products by giving notice of such termination or De-Listing to

Purchaser if Purchaser fails to make any payment (other than payments being disputed in good faith) within 90 days following such payment becoming due and after having received notification from Supplier advising of: (i) the overdue amount; and (ii) the date on which this Agreement will be terminated if such overdue amount remains unpaid as of such date. Purchaser will promptly reflect any such De-Listing in the Product Listing, as applicable.

21.05 No Effect on Other Rights

Each party's rights of termination under this Article 21 are in addition to any other rights or remedies available to it under this Agreement, the Supplier Manual or Applicable Law, and the exercise of a right of termination by a party will not constitute an election of remedies. Nothing in this Article 21 will limit or affect any other rights or causes of action a party may have with respect to the representations, warranties, covenants and indemnities contained in this Agreement, which representations, warranties, covenants and indemnities will survive the termination of the transactions contemplated by this Agreement. Nothing in this Article 21 will be deemed to release either party from any liability for any breach by such party of the terms and conditions of this Agreement, or to impair the right of either party to compel specific performance by the other party of its covenants, agreements and obligations under this Agreement.

21.06 Survival

All provisions of this Agreement that may reasonably be interpreted or construed as surviving the termination or expiry of this Agreement (including any provisions that are reasonably required for the interpretation thereof) will survive such termination or expiry, including Articles 1, 5, 7, 10, 11, 12, 13, 15, 16, 17, 18, 19, 20, 21, 22, 23 and 24. For certainty and without limiting the generality of the foregoing or the survival of any of the other provisions of this Agreement, Articles 16, 18, 19, 20 and 21 shall survive indefinitely.

ARTICLE 22 **CONFIDENTIALITY AND PUBLICITY**

22.01 Confidential Information

From time to time during the Term, Purchaser (as the "**Disclosing Party**") may disclose or make available to Supplier (as the "**Receiving Party**") or its Representatives non-public information, whether business or technical in nature, that is designated as being confidential, or which under the circumstances of disclosure should reasonably be treated as confidential

("Confidential Information"). Confidential Information excludes information that, at the time of disclosure and as established by documentary evidence: (a) is or becomes generally available to and known by the public other than as a result of, directly or indirectly, any breach of this Article 22 by the Receiving Party or any of its Representatives; (b) is or becomes available to the Receiving Party on a non-confidential basis from a third-party source, provided that such third party is not and was not prohibited from disclosing such Confidential Information; (c) was known by or in the possession of the Receiving Party or its Representatives before being disclosed by or on behalf of the Disclosing Party; or (d) was or is independently developed by the Receiving Party without reference to, or use of, in whole or in part, any of the Disclosing Party's Confidential Information. For certainty, Confidential Information includes the terms of this Agreement (including the Prices) and the Supplier Manual.

22.02 Protection of Confidential Information

The Receiving Party will:

- (a) protect and safeguard the confidentiality of the Disclosing Party's Confidential Information with at least the same degree of care as the Receiving Party would protect its own Confidential Information, but in no event with less than a commercially reasonable degree of care;
- (b) not use the Disclosing Party's Confidential Information, or permit it to be accessed or used, for any purpose other than to exercise its rights or perform its covenants, agreements and obligations under this Agreement; and
- (c) not disclose any such Confidential Information to any person, except to the Receiving Party's Representatives who need to know the Confidential Information to assist the Receiving Party, or act on its behalf, to exercise its rights or perform its covenants, agreements and obligations under this Agreement.

22.03 Compelled Disclosure

If the Receiving Party or any of its Representatives is requested pursuant to, or required by, Applicable Law or legal process to disclose any Confidential Information, the Receiving Party may make

such disclosure but must first provide the Disclosing Party with prompt notice of such request or requirement, unless notice is prohibited by Applicable Law, in order to enable the Disclosing Party to seek an appropriate protective order or other remedy or to waive compliance with the terms of this Agreement or both. The Receiving Party will reasonably cooperate with the Disclosing Party and will not oppose any action by the Disclosing Party to seek such a protective order or other remedy. If, failing the obtaining of a protective order or other remedy by the Disclosing Party, such disclosure is required, the Receiving Party will use reasonable efforts to ensure that the disclosure will be afforded confidential treatment.

22.04 Publicity

Neither Supplier nor any of its Representatives will (orally or in writing) publicly disclose, issue any filing or press release or make or cause to be made any other similar public announcement, or otherwise communicate with the media, concerning the existence of this Agreement or the subject matter hereof, without the prior approval of Purchaser (which will not be unreasonably withheld), except if and to the extent that such person is required by Applicable Law to make any public disclosure or filing regarding the subject matter of this Agreement; provided, however, that to the extent that Supplier or any Representative thereof is required by Applicable Law to make such a filing, press release or similar public announcement or communication, such filing, press release, public announcement or communication will only be made after prior consultation with and approval by Purchaser, acting reasonably. Purchaser will respond promptly to any such request for approval made pursuant to this Section 22.04 and will take into account any applicable timelines for such public disclosure prescribed by Applicable Law and the determinations made by Supplier or its applicable Representative as to the level of public disclosure required pursuant to Applicable Law.

22.05 Breach

The Receiving Party will be responsible and liable for any breach of this Article 22 caused by any of its Representatives.

22.06 Destruction

At any time during the Term at the Disclosing Party's written request and, in any event, promptly following the expiration or earlier termination of this Agreement, the Receiving Party and its Representatives will return or, at the election of the

Disclosing Party, destroy or cause to be destroyed, all Confidential Information of the Disclosing Party in the possession of the Receiving Party and its Representatives other than: (a) copies of such Confidential Information that is recorded in computerized archival or back-up files if it would be reasonably impractical to destroy these files; and (b) one copy of such information which may be retained by the Receiving Party as may be required by its internal document retention policies relating to materials delivered to its board of directors (or committee of the board) or for evidentiary purposes in the event of litigation or other legal disputes regarding the transactions contemplated by this Agreement; provided that, in each case, so long as such Confidential Information is retained it will remain strictly confidential in accordance with the terms and conditions hereof. Promptly following such return or destruction of Confidential Information of the Disclosing Party, the Receiving Party will provide a certification attesting to the same. Where Supplier is the Receiving Party, such certification will be given and signed by an authorized signing officer of Supplier who is a senior executive of Supplier.

22.07 Supplier Information

Purchaser has no obligation whatsoever to treat any information disclosed to Purchaser or its Representatives by Supplier ("**Supplier Information**") as confidential, whether or not such Supplier Information is business or technical in nature and notwithstanding that such Supplier Information may be non-public or Supplier may have designated such Supplier Information as being confidential. Supplier acknowledges that Operations Data may include Supplier Information.

22.08 Freedom of Information and Protection of Privacy

Supplier acknowledges and agrees that the *Freedom of Information and Protection of Privacy Act* (Ontario) ("**FIPPA**") applies to, among other persons, Purchaser, the LCBO, the Crown and the Governmental Authorities having jurisdiction over Purchaser and each of them is required to comply fully with FIPPA, including the requirement to protect the privacy of individuals with respect to "personal information" (as defined in FIPPA). Supplier acknowledges and agrees that there may be records ("**Purchaser Records**") and Personal Information ("**Purchaser Personal Information**") in Supplier's custody or under its control or in Supplier's custody but under Purchaser's control, in each case, that Purchaser may be required to disclose in connection with a request

under FIPPA. For clarity and without limiting the foregoing, any information determined by any competent authority to be "personal information" within the meaning of FIPPA for which Purchaser is responsible at law will be deemed to be Purchaser Personal Information. Without limiting Section 22.07, subject to any applicable limitations or exceptions set out in FIPPA, Purchaser will provide access to the Purchaser Records and Purchaser Personal Information to the party that has made the request under FIPPA. Without limiting the generality of the foregoing, Supplier will and will ensure that Subcontractors will, at all times during and after the Term:

- (a) cooperate with Purchaser in responding to freedom of information requests relating to Purchaser Records pursuant to Part II of FIPPA, including, upon written request from Purchaser, promptly providing Purchaser with access to Purchaser Records so as to permit Purchaser to respond to freedom of information requests within the time periods provided in FIPPA or as may be otherwise reasonably required by Purchaser;
- (b) cooperate with Purchaser in responding to requests from individuals for access to Purchaser Personal Information as it relates to them, including promptly providing Purchaser with access to Purchaser Personal Information so as to permit Purchaser to respond to such requests within the time periods set forth in FIPPA or as may be otherwise reasonably required by Purchaser;
- (c) store all Purchaser Records and Purchaser Personal Information in Canada or such other location or locations as may be approved by Purchaser in writing; and
- (d) retain for such periods of time and dispose of Purchaser Records as and when prescribed by Purchaser, provided that, whenever Supplier disposes of any Purchaser Records or Purchaser Personal Information, Supplier will in every case destroy such Purchaser Records or Purchaser Personal Information, as applicable, in a secure way such that such Purchaser Records or Purchaser Personal

Information cannot be reconstructed or retrieved; and Supplier will certify in writing to Purchaser that it has done so.

ARTICLE 23 **NOTICES**

23.01 Vendor Portal Communications

Notwithstanding Section 23.02, unless otherwise specified in the Supplier Manual, every Purchase Order, Acknowledgment, Validation, Rejection, notice of the withdrawal of a Purchase Order, notice of the cancellation of a Purchase Order, Receipt Confirmation and every other communication specified in the Supplier Manual as being required to be given through the Vendor Portal (each, a "**Vendor Portal Communication**") must be made through the Vendor Portal. Any Vendor Portal Communication not made through the Vendor Portal will be deemed to not have been given and received. Any Vendor Portal Communication made through the Vendor Portal will be deemed to have been given and received on the Business Day on which the same was made through the Vendor Portal (provided if the Vendor Portal Communication was made through the Vendor Portal on a day that is not a Business Day or after 5:00 p.m. in the recipient's local time, the Vendor Portal Communication will be deemed to have been given and received on the next following Business Day).

23.02 Other Notices

Subject to Section 23.01, any notice, consent, approval, objection or waiver required or permitted to be given or provided under this Agreement will be in writing and will be delivered in person, transmitted by e-mail or sent by registered mail or nationally recognized courier charges prepaid, in each case, addressed as follows:

- (a) If to Purchaser: Ontario Cannabis Retail Corporation,
cannabis.submissions@ocs.ca;
Attention: OCS Merchandising Team;
or
- (b) If to Supplier: Delta 9 Bio-Tech Inc. 770 Pandora Avenue East, Winnipeg, Manitoba R2C 3N1,
alex.goertzen@delta9.ca; Attention: Alexa Goertzen.

Any such notice, consent, approval, objection or waiver will be deemed to have been given and received: (a) if delivered in person, on the day on which it was delivered (or, if such day is not a Business Day or if

delivery is made on a Business Day after 5:00 p.m. at the place of receipt, then on the next following Business Day), or (b) if sent by registered mail or courier, on the earlier of actual receipt and the third Business Day following the date of sending; provided, however, that if at the time of sending or within three Business Days thereafter there is or occurs a labour dispute or other event that would reasonably be expected to disrupt the delivery of documents by mail or by such courier service, any such notice, consent, approval, objection or waiver will be delivered by means of personal delivery, e-mail or by an alternative courier service; or (c) if transmitted by e-mail, on the earlier of the next Business Day following the date on which such e-mail was sent (provided if such e-mail is sent on a day that is not a Business Day or after 5:00 p.m. in the recipient's local time, such e-mail will be deemed to have been given and received on the next following Business Day) and sender's receipt of an acknowledgement from the intended recipient (such as by the "return receipt requested" function, as available, return e-mail or other written acknowledgement). Any party may change or supplement its foregoing notice particulars from time to time by giving notice to the other party in accordance with this Section 23.02.

ARTICLE 24

GENERAL

24.01 Force Majeure

If a Force Majeure prevents, delays or substantially hinders either party from performing all or part of its covenants, agreements and obligations hereunder, the party affected by such Force Majeure may give prompt notice thereof to the other party specifying in reasonable detail the nature of the Force Majeure, its expected duration and its expected effects upon the covenants, agreements and obligations of the affected party. If such notice is given and the party affected by such Force Majeure: (a) continues to use its commercially reasonable efforts to eliminate, mitigate and protect against the effects of such Force Majeure (including, as applicable, using its commercially reasonable efforts to implement and continue all business continuity plans and disaster recovery plans); and (b) continues to perform all of its covenants, agreements and obligations hereunder to the extent that such performance is not prevented, delayed or hindered by such Force Majeure; then: (a) the party affected by such Force Majeure will be deemed not to be in default of its covenants, agreements and obligations hereunder to the extent that the failure to perform such covenants, agreements and obligations is attributable to such Force Majeure; (b) any time period within which such affected covenants, agreements and

obligations are to be performed pursuant to the terms of this Agreement will be extended for the period equivalent to the period of the delay caused by the Force Majeure; and (c) the other party may suspend the performance of any of its covenants, agreements or obligations under this Agreement to the extent that they are dependent upon the affected covenants, agreements or obligations of the party affected by such Force Majeure, or to the extent such suspension is otherwise commercially reasonable in the circumstances; provided, however, that, notwithstanding any provision of this Section 24.01 to the contrary, a Force Majeure Event will not relieve or excuse either party from any payment obligation hereunder or the timing of any such payment obligation.

24.02 Change of Control

Supplier will, within five Business Days after the occurrence of any direct or indirect change of Control of Supplier, give notice to Purchaser of such change of Control, including reasonable details of the nature of the transaction or transactions giving rise to such change of Control and the identity of the person having Control of Supplier as a result thereof.

24.03 Relationship of the Parties

Each of Supplier and Purchaser are independent contractors with regard to this Agreement and all actions and services performed under this Agreement and neither Supplier nor Purchaser will be construed to be the other party's agent or as being authorized, expressly or implicitly, to commit any other party to any obligation. Nothing in this Agreement will create or be construed as creating a joint venture, joint employer, partnership, employment, representative, agency, trust or any other relationship between the parties other than one of independent contractor. None of Supplier nor any Representative of Supplier will have the authority to bind Purchaser in any manner whatsoever. The inclusion or incorporation by reference of portions of this Agreement in Supplier's arrangements with its suppliers or any Representatives will not create or imply a contractual relationship between any such supplier or Representative and Purchaser.

24.04 Amendment and Waiver

This Agreement will not be modified except by a written document signed by both parties that specifically identifies this Agreement and the provision intended to be amended. No waiver of any breach of any provision of this Agreement will be effective or binding unless made in writing and signed by the party

purporting to give the same and, unless otherwise provided, will be limited to the specific breach waived.

24.05 Delays

No delay or failure of either party at any time to exercise or enforce any right or remedy available to it under this Agreement, and no course of dealing or performance with respect thereto, will constitute a waiver of any such right or remedy with respect to any other breach or failure by the other party. The express waiver by a party of any right or remedy in a particular instance will not constitute a waiver of any such right or remedy in any other instance.

24.06 Assignment

Neither party will assign any of its rights or any covenants, agreements or obligations under this Agreement in whole or in part, directly or indirectly, whether by operation of Applicable Law or otherwise, without the other party's prior consent. Any purported assignment in violation of this Section 24.06 is null and void. No assignment relieves the assigning party of any of its covenants, agreements or obligations under this Agreement.

24.07 Subcontracting

(1) Supplier may not, without the prior consent of Purchaser, engage any Subcontractor to perform and may not otherwise outsource the performance of, all or any part of Supplier's covenants, agreements or obligations under this Agreement.

(2) Without limiting the generality of any other provision of this Agreement, Supplier will: (a) ensure that each Subcontractor has obtained and maintains during the term of any subcontract all Governmental Consents and other licenses, authorizations, approvals and consents necessary in connection with the applicable covenants, agreements and obligations and furnish evidence of same to Purchaser promptly upon request from time to time; and (b) as between Purchaser and Supplier, be solely responsible and liable for all acts and omissions of Subcontractors that directly or indirectly result in or suffer to exist any failure of Supplier to perform or comply with any covenant, agreement or obligation of Supplier in this Agreement, including acts or omissions constituting gross negligence, wilful misconduct, criminal conduct or fraud.

(3) The subcontracting or other delegation of any of Supplier's covenants, agreements or obligations under this Agreement to any Subcontractor

will not relieve Supplier from any of its covenants, agreements, obligations or liabilities hereunder. Any failure of any Subcontractor to perform or comply with any covenant, agreement or obligation required to be performed or complied with by Supplier under this Agreement will be deemed to be a failure of Supplier.

24.08 Business Name

Supplier acknowledges Purchaser may also conduct business under the registered business name Ontario Cannabis Store (as the same may be modified or replaced from time to time) and such other business or trade names as Purchaser may also register from time to time.

24.09 Successors and Assigns

All the terms and conditions of this Agreement will be binding upon and inure to the benefit of and be enforceable by the parties hereto and their respective successors and permitted assigns.

24.10 Third Party Beneficiaries

Except as provided in Article 19, this Agreement is solely for the benefit of: (a) Supplier, and its successors and permitted assigns, with respect to the covenants, agreements and obligations of Purchaser under this Agreement; and (b) Purchaser, and its successors and assigns, with respect to the covenants, agreements and obligations of Supplier under this Agreement; and this Agreement will not be deemed to confer upon or give to any other person any Claim or other right or remedy. Supplier appoints Purchaser as the trustee for the Purchaser Indemnitees of the covenants of indemnification of Supplier with respect to such Purchaser Indemnitees and Purchaser accepts such appointment.

24.11 Expenses

Except as otherwise expressly provided in this Agreement, each party will pay for its own costs and expenses incurred in connection with the negotiation, preparation, execution and performance of this Agreement, the agreements contemplated herein and the transactions contemplated herein and therein, including Professional Fees.

24.12 Entire Agreement

This Agreement and the Supplier Manual (and all other documents, instruments and agreements entered into between the parties, or by a party in favour

of the other party, pursuant hereto or thereto or in connection with the implementation of the transactions and other matters contemplated by hereby or thereby, including the Data Subscription Agreement and the Vendor Portal Terms and Conditions) constitute the entire agreement between the parties hereto with respect to the subject matter hereof and thereof and cancel and supersede any prior communications, understandings and agreements, oral or written, between the parties hereto with respect thereto. There are no representations, warranties, terms, conditions, undertakings or collateral agreements, express, implied or statutory, between the parties other than as expressly set out in this Agreement or the Supplier Manual (or in any other document, instrument or agreement entered into between the parties, or by a party in favour of the other party, pursuant hereto or thereto or in connection with the implementation of the transactions and other matters contemplated by hereby or thereby, including the Data Subscription Agreement and the Vendor Portal Terms and Conditions).

24.13 Governing Law and Attornment

This Agreement will be governed and construed in accordance with the laws of the Province of Ontario and the laws of Canada applicable therein. For the purpose of all legal proceedings this Agreement will be deemed to have been performed in the Province of Ontario and the courts of the Province of Ontario will have exclusive jurisdiction to entertain any action arising under this Agreement. Each of the parties hereby attorns to the exclusive jurisdiction of the courts of the Province of Ontario. Each of the parties agrees that a final judgment in any such action or proceeding will be conclusive and may be enforced in other jurisdictions by suit on the judgment or in any other manner provided by Applicable Law. Each of the parties hereby irrevocably and unconditionally waives, to the fullest extent it may legally and effectively do so, any objection that it may now or hereafter have to the laying of venue of any suit, action or proceeding arising out of or relating to this Agreement in any provincial or federal court of competent jurisdiction in the Province of Ontario. Each of the parties hereby irrevocably waives, to the fullest extent permitted by Applicable Law, the defence of an inconvenient forum to the maintenance of such action or proceeding in any such court.

24.14 No Recourse to Other Provincial Entities

The parties acknowledge and agree that the remedies, recourse and rights of Supplier under or in connection with this Agreement are intended by them to be, and will be, limited to Supplier's remedies, recourse and rights as against Purchaser or any successor or

permitted assignee of Purchaser that becomes party to or otherwise assumes Purchaser's covenants, agreements and obligations under this Agreement. In furtherance of the foregoing: (a) Supplier covenants and agrees that, notwithstanding that Purchaser is an agent of the Crown or that any successor or permitted assignee of Purchaser that becomes party to or otherwise assumes Purchaser's covenants, agreements and obligations under this Agreement may be an agent of the Crown, Supplier will not make any Claim or seek to enforce any remedy, recourse or right against any of the LCBO, the Crown, any Governmental Authority or any Affiliate of the Crown; and (b) Supplier hereby waives and releases all Claims, remedies, recourse and rights that Supplier ever had, now has, or may hereafter have against any of the LCBO, the Crown, any Governmental Authority or any Affiliate of the Crown, in each of cases (a) and (b), in respect of Purchaser's (or in respect of such successor's or permitted assignee's) covenants, agreements and obligations under or in connection with this Agreement; or for any act, omission or liability of Purchaser (or of any such successor or permitted assignee) or for which Purchaser (or such successor or permitted assignee) is responsible.

24.15 Remedies Cumulative

All rights and remedies provided for in this Agreement or in the Supplier Manual will be cumulative and not exclusive and will be in addition to, and not in substitution for, any other rights and remedies available under Applicable Law or otherwise. Each party will be entitled to pursue any and all of such rights and remedies concurrently, consecutively and alternatively. For greater certainty, subject to Applicable Law, nothing in Article 19 will limit the ability of a party to seek specific performance or injunctive relief in circumstances necessary to prevent irreparable harm. In any proceeding for specific performance or injunctive relief, each party will accept service of process in the manner set out for the giving of notices pursuant to Section 23.02.

24.16 Severable Provisions

If any provision in this Agreement or the Supplier Manual is deemed illegal, invalid or unenforceable, then, so long as the economic or legal substance of the transactions contemplated hereby is not affected in any manner materially adverse to either of the parties, to the fullest extent permitted by Applicable Law: (a) all other provisions will remain in full force and effect and will be liberally construed in order to carry out the intent of the parties as nearly as possible; (b) such invalidity, illegality or unenforceability

will not affect the validity, legality or enforceability of any other provision of this Agreement or the Supplier Manual; and (c) any court having jurisdiction will have the power to reform such invalid, illegal or unenforceable provision to the extent necessary for such provision to be enforceable under Applicable Law.

24.17 Time of the Essence

Time is of the essence of this Agreement and every Validated Purchase Order and for all requirements under the Supplier Manual.

24.18 Further Assurances

The parties hereto will execute and deliver all such further documents, do or cause to be done all such further acts and things and give all such further assurances as may be necessary or desirable to give full effect to the provisions, intent and purpose of this Agreement.

24.19 Electronic Execution and Counterparts

Delivery of an executed copy of this Agreement by any party by facsimile or other means of electronic transmission capable of producing a printed copy will be as effective as delivery of a manually executed copy of the Agreement by such party. This Agreement may be executed in any number of counterparts, each of which will be deemed to be an original, and all of which taken together will be deemed to constitute one and the same instrument.

24.20 Language


The parties have required that this Agreement and all documents and notices resulting from it be drawn up in English. *Les parties aux présents ont exigés que la présente convention ainsi que tous les documents et avis qui s'y rattachent ou qui en découleront soient rédigés en anglais.*

[signature page follows]

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date first written above.

ONTARIO CANNABIS RETAIL CORPORATION
by its authorized signatories

by:

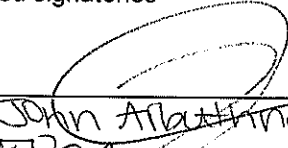

Name: Cal Bricker
Title: President, CEO

by:

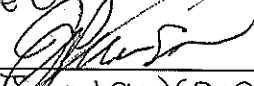
Name:
Title:

DELTA 9 BIO-TECH INC.
by its authorized signatories

by:


Name: John Alathinos
Title: CEO

by:


Name: Glen Lawson
Title: CFO

NLC Cannabis and Cannabis Related Product Supply Agreement

Supplier Agreement

This supplier agreement made at the City of St. John's, in the Province of Newfoundland and Labrador, effective as of 19 day of June, 2020.

BETWEEN:

**NEWFOUNDLAND LABRADOR LIQUOR CORPORATION
("NLC")**

- And -

**Delta 9 Bio-Tech Inc.
("Supplier")**

Whereas

- A. NLC is a Provincial Crown Corporation responsible for managing the importation, sale and distribution of beverage alcohol and non-medical cannabis in the Province of Newfoundland and Labrador. NLC has the statutory authority to regulate the purchase and sale of Cannabis and Cannabis Related Products in the Province of Newfoundland and Labrador.

B. Supplier

The Supplier has been issued an Authorization by NLC granting them the authority to sell Cannabis and Cannabis Related Products in the Province of Newfoundland and Labrador to Licensed Cannabis Retailers ("LCRs") and NLC's e-Commerce Customers via NLC e-Commerce Platform. All individual Cannabis and Cannabis Related Products, must be approved by NLC. Any subsidiaries of the Supplier as of the date of this Agreement and any subsidiaries acquired by the Supplier throughout the term of this agreement are also bound by the same terms as contained herein if they are a producer of non-medical cannabis and currently hold a federal licence to produce cannabis.

NLC Cannabis and Cannabis Related Product Supply Agreement

Background

The Canadian Federal Government has passed the *Cannabis Act* (Bill C-45) which regulates and has legalized the sale and use of non-medical cannabis with an effective date of October 17, 2018. The *Cannabis Act* was amended on October 17, 2019 to include additional classes. The legalization enables adults of legal age to purchase cannabis for recreational use.

Suppliers are required to provide Health Canada with 60 days' notice of intent to sell the new classes of Cannabis, therefore these new classes cannot be available for sales before December 16th 2019.

NLC has been appointed to oversee the sale, distribution and regulation of Cannabis and Cannabis Related Products for the Province of Newfoundland and Labrador. The sale of Cannabis and Cannabis Related Products is completed using both retail stores and online sales. Retail licenses are granted to Licensed Cannabis Retailers (LCRs). NLC does not sell Cannabis or Cannabis related products through retail stores owned by NLC. NLC is the online retailer of Cannabis and Cannabis Related Products from the onset of legalization and has established a trusted online location for the purchase of Cannabis and Cannabis Related Products thereby providing accessibility to all residents of Newfoundland and Labrador.

In order to meet the market demand of cannabis consumers in the province, NLC must source product from Suppliers to ensure there is an appropriate quantity and product mix. NLC does not play any role in the physical distribution or storage of any Cannabis or Cannabis Related Products. Shipping arrangements and costs are paid by the Suppliers for B2B sales and by the customer for B2C sales. Individual customers place orders through NLC e-Commerce platform. LCRs place orders directly with Suppliers. Suppliers establish the purchase order process. Licensed producers ship directly to individual customers and LCRs. Licensed producers establish payment terms and conditions with each individual LCR. Suppliers must provide shipment insight to NLC for the previous Calendar month.

NLC Supply Agreement outlines the terms and conditions for all Suppliers selling Cannabis and Cannabis Related Products through NLC in the province of Newfoundland and Labrador.

NLC Cannabis and Cannabis Related Product Supply Agreement

ARTICLE 1 INTERPRETATION AND GENERAL PROVISIONS

Section 1.1 Definitions

Call Schedule – is the scheduled Call for Listing for Cannabis and Cannabis Related products that will be published on the Cannabis NL website at the beginning of each calendar year.

Cannabis and Cannabis Related Products – defined as non-medical cannabis or cannabis derived products to be sold at Licensed Cannabis Retailers and on NLC e-Commerce platform. Cannabis and Cannabis Related Products are limited to the following forms:

1. Dried Flower (including pre-rolls)
2. Fresh Cannabis
3. Edibles and Beverages
4. Ingestible Oils and Capsules
5. Inhalable Extracts (Vaporizers)
6. Inhalable Concentrated Extracts
7. Topicals
8. Seeds
9. Plants

e-Commerce Customers – residents of Newfoundland and Labrador who purchase Cannabis and Cannabis Related Products from NLC's e-Commerce platform for home delivery within the Province.

Federal and Provincial Legislation – pertains to the any and all legislation relating to, but not limited to, the sale of Cannabis and Cannabis Related Products. Specifically, but not limited to Federal Bill C-45 (*Cannabis Act*) and Provincial Bill 20 (*Cannabis Control Act*), including all amendments.

Final Retail Price – price of Cannabis and Cannabis Related Products to the end retail customer, inclusive of excise, but not Harmonized Sales Tax ("HST").

Gross Profit – this the amount due to NLC on all Cannabis and Cannabis Related Products distributed in the province as set out by NLC's Pricing Policy.

Shipment Reports: Monthly reports of product shipments and returns. Reports are provided to NLC by suppliers as per a defined schedule.

Licensed Cannabis Retailer (LCR) – is a retail store that is authorized by the Newfoundland Labrador Liquor Corporation to sell Cannabis and Cannabis Related Products.

Licensed Cannabis Retailer Commission Rate – this is the rate of commission received by LCRs on the sale of Cannabis and Cannabis Related Products to the end customer. The Licensed Cannabis Retailer Commission Rate is 8% of the List Price.

List Price – price of Cannabis and Cannabis Related Products, not including excise or HST.

NLC Cannabis and Cannabis Related Product Supply Agreement

NLC Pricing Policy – policy setting the pricing of all Cannabis and Cannabis Related Products sold in Newfoundland and Labrador.

Order Status - the status of an order to an e-Commerce customer. These orders have three types of status:

1. Open Orders – orders that are received by the supplier, but not yet shipped
2. Fulfilled – Orders that are shipped by the supplier to the e-Commerce customer
3. Closed – orders that have been received by the e-Commerce customer

Supplier(s) – are producers of non-medical cannabis that currently hold a federal license to produce cannabis ("LPs"). Suppliers also include any subsidiaries of the parent company as of the date of the agreement or any subsidiaries that are acquired by the parent company throughout the course of this agreement that are also producers of non-medical cannabis that currently hold a federal license to produce cannabis.

Supplier Price – the agreed upon price of Cannabis and Cannabis Related Products between NLC and the LP. The supplier price will be used in NLC's Pricing Policy to set the List Price and Final Retail Price.

Term of Listing – the duration of a product listing for the sale of Cannabis and Cannabis Related Products in the province of Newfoundland and Labrador.

Section 1.2 Entire Agreement

The Agreement, together with all attachments hereto embodies the entire agreement between the parties with regard to the provision of the Cannabis and Cannabis Related Products in the Province and supersedes any prior understanding or agreement, collateral, oral or otherwise, existing between the parties at the date of execution of the Agreement.

Section 1.3 Amendments

Any changes to the Agreement shall only be made by written amendment signed by NLC and the Supplier. No changes shall be effective or carried out in the absence of such an amendment.

Section 1.4 Severability

If any term or condition of the Agreement, or the application thereof to the parties or to any parties or circumstances, is to any extent invalid or unenforceable, the remainder of the Agreement, and the application of such term or condition to the parties, entities, or circumstances other than those to which it is held invalid or unenforceable, is not affected thereby.

Section 1.5 Force Majeure

Neither party shall be liable for damages caused by delay or failure to perform its obligations under the Agreement where such delay or failure is caused by an event beyond its reasonable control. An event is not considered beyond one's reasonable control if a reasonable business person applying due diligence in the same or similar circumstances under the same or similar obligations as those

NLC Cannabis and Cannabis Related Product Supply Agreement

contained in the Agreement would have put in place contingency plans to either materially mitigate or negate the effects of such an event. Without limiting the generality of the foregoing, force majeure events include natural disasters and acts of war, insurrection, and terrorism, but do not include shortages or delays relating to supplies or services. If a party seeks to excuse itself from its obligations under the Agreement due to a force majeure event, that party shall promptly notify the other party of the delay or non-performance, the reason for such delay or non-performance, the anticipated period of delay or non-performance, and reasonable details on any plans to resume performance of its obligations hereunder.

Section 1.6 Notices by Prescribed Means

Notices must be in writing and must be delivered by postage-prepaid envelope, personal delivery, or email and must be addressed to, respectively, NLC Address to the attention of Category Management and to the applicable Supplier Address to the attention of the Supplier Representative. Notices are deemed to have been given

- i) In the case of notices given by postage-prepaid envelope, five (5) Business Days after such notice is mailed
- ii) In the case of notices given by personal delivery or email, one (1) Business Day after such notice is received by the other party.

In the event of a postal disruption, notices must be given by personal delivery or email. Unless the parties expressly agree in writing to additional methods of notice, notices may only be provided by the methods contemplated in this paragraph. A party may change its address, email, or designated representative for receipt of notices by providing notice to the other party.

Section 1.7 Governing Law

The Agreement is governed by, and shall be construed in accordance with, the laws of the Province of Newfoundland and Labrador and the federal laws of Canada applicable therein. All legal proceedings related to the subject matter of the Agreement shall be submitted to the exclusive jurisdiction of the courts of the Province of Newfoundland and Labrador.

Section 1.8 Condonation Not a Waiver

Any failure by a party to insist in one or more instances upon strict performance by the other party of any of the terms or conditions of the Agreement shall not be construed as a waiver by such party of its right to require strict performance of any such terms or conditions, and the obligations of the other party with respect to such performance continue in full force and effect.

Section 1.9 Survival

Except where the context clearly provides to the contrary, provisions, covenants, representations, and warranties that are intended by their terms or by logical inference to survive the termination of the Agreement shall so survive the expiration, termination, or completion of the Agreement.

NLC Cannabis and Cannabis Related Product Supply Agreement

Section 1.10 Currency

Unless otherwise indicated, all dollar amounts referred to in the Agreement are in Canadian funds.

Section 1.11 Further Assurances

The parties shall from time to time, after the execution of the Agreement, promptly make, do, or execute or cause or permit to be made, done, or executed all such further acts, deeds, things, conveyances, and assurances as may be required to carry out the intention and to give full effect to the Agreement.

Section 1.12 Adequate Consideration

The parties acknowledge that the consideration in this Agreement, namely the authorization to sell Cannabis and Cannabis Related Products and the payment of the Gross Profit to NLC as described, is sufficient and adequate.

Section 1.13 Subcontracting and Assignment

Nothing contained in the Agreement shall create a contractual relationship between any Subcontractor or its employees and NLC. Provided that the Supplier has received prior written notice of NLC's intent to assign, NLC may assign without the consent of the Supplier all or any part of this Agreement to any NLC affiliate or subsidiary, or where such assignment is necessitated by outsourcing, privatizing, partnering, or similar activity, to a non-governmental entity provided that NLC remains the majority shareholder. Except to the extent that it is otherwise mutually agreed to in writing, no assignment pursuant to this Agreement will relieve such assigning party of any of its obligations under the Agreement and for the avoidance of all doubt, such assigning party shall remain responsible therefor.

Section 1.14 Policies and Procedures

- a) Suppliers must comply with all NLC prescribed policies and procedures.
- b) Suppliers must comply with NLC Supplier Code of Conduct Policy.

Section 1.15 Insurance

- a) Supplier must maintain a minimum of \$5,000,000 commercial general liability and \$15,000,000 recall insurance. Proof of insurance must be provided.
- b) NLC to be an additional insured and certificate holder.
- c) Any subsidiary of a Supplier that is a producer of non-medical cannabis that currently holds a federal license to produce cannabis must also meet the minimum insurance obligations as set out in 1.15(a).

NLC Cannabis and Cannabis Related Product Supply Agreement

**ARTICLE 2
INDEMNITY**

Section 2.1 Duty to Defend and Indemnity

- (1) Supplier shall indemnify, defend, and hold harmless the NLC from and against any and all Losses of the NLC pursuant to a third-party claim, demand, or action (a "Claim"), to the extent arising from:
 - a) any act or omission of the Supplier or its Personnel that (i) is in breach of the Agreement by Supplier; or (ii) is as a result of the gross negligence, fraud, tortious conduct, or wilful misconduct of any of the Supplier or its Personnel;
 - b) damage to or loss of any real or tangible personal property of NLC in the possession or under the control of Supplier from (i) a breach of the Agreement by Supplier; or (ii) the gross negligence, fraud, tortious conduct or wilful misconduct of any of the Supplier or its Personnel; or
- (2) NLC shall indemnify, defend, and hold harmless the Supplier Indemnified Parties from and against any and all losses of a Supplier Indemnified Party pursuant to a Claim to the extent arising from:
 - a) any act or omission of NLC, its employees, officers, representatives, agents, or its subcontractors, that (i) is in breach of the Agreement; or (ii) is as a result of the gross negligence, tortious conduct, fraud or wilful misconduct of any of NLC, its employees, officers, representatives, agents, or its Subcontractors; or
 - b) the damage to or loss of any real or tangible personal property of Supplier in the possession or under the control of NLC, arising from (i) a breach of the Agreement; or (ii) the gross negligence, fraud, tortious conduct, or wilful misconduct of any of NLC, its service providers, or their respective agents, employees, or its Subcontractors.
- (3) The indemnification rights of an Indemnified Party under this Agreement shall be the exclusive remedy of the Indemnified Party with respect to the claims to which such indemnification relates.

**ARTICLE 3
AUTHORIZATION AND LISTINGS**

Section 3.1 Authorization to Sell Cannabis and Cannabis Related Products in Newfoundland and Labrador

1) Authorizations and Licenses

NLC Cannabis and Cannabis Related Product Supply Agreement

- a) All Suppliers of Cannabis and Cannabis related products must receive Authorization from NLC to sell in Newfoundland and Labrador.
 - b) An Authorization issued by NLC shall be in writing and indicate the classes, varieties, types and brands of Cannabis and Cannabis Related Products that Suppliers can sell in the province.
 - c) NLC may limit the number of Authorizations to sell in the province.
 - d) An Authorization shall be subject to the terms and conditions imposed by NLC and all Federal and Provincial legislation.
 - e) NLC will not issue an Authorization to a Supplier who:
 - i) Does not hold a valid license issued under the Federal Act to produce Cannabis and Cannabis Related Products for commercial purposes.
 - ii) Provides false particulars in the application for an Authorization.
- 2) Term and Termination of Supply Agreement
- a) The Term of Listing is one year from effective date and will be re-evaluated regularly at the discretion of NLC
 - b) Term of Listings will be evaluated on the following criteria:
 - (1) Product and Brand Performance
 - (2) Category Strategy
 - (3) Shelf Management Requirements
 - (4) Pricing Strategy
 - (5) Supply
 - (6) Shelf Life
 - (7) NLC has reasonable cause to delist
 - c) A category review will happen as per the Call Schedule and the term may be extended for an additional year by mutual agreement.
 - d) NLC may, in its sole discretion, terminate the authorization immediately if the Supplier does not adhere to the Federal or Provincial legislation; NLC prescribed policies and procedures are not followed; the Supplier's Federal license has been suspended, revoked or cancelled; or there is a material breach of this agreement.
 - e) Where the supplier has failed to comply with any of their obligations under the agreement or the terms and conditions of their authorization, including but not limited to, a period of inactivity greater than 90 days, or failing to remit two (2) consecutive monthly returns and/or payment when due and/or other required reports to NLC by the timeframe established by the NLC authorization. NLC will issue a rectification notice to the Supplier setting out the breach in reasonable detail. Within thirty (30) days of receipt of notice the Supplier shall either:
 - i) Cure such breach
 - ii) If applicable, provide a rectification plan satisfactory to NLC.If the Supplier fails to cure such a breach, or provide a satisfactory rectification plan, NLC may immediately terminate the Agreement.
 - f) The Supplier may, in its sole discretion, terminate this agreement without cause upon thirty (30) day's prior written notice to NLC.

NLC Cannabis and Cannabis Related Product Supply Agreement

- g) NLC reserves the right to terminate this agreement, without cause, upon thirty (30) day's prior written notice to the Supplier.

Section 3.2 Product Listings, Promotions and Packaging

1) Eligible Products

- a) All Cannabis and Cannabis Related Products must be approved by NLC's Category Management.
- b) All Cannabis and Cannabis Related Products will be displayed on NLC e-Commerce platform for B2C customers to purchase.
- c) All purchases from Suppliers, made by the LCRs will be directly between the Supplier and the LCRs.
- d) Only approved products from Suppliers who have been authorized by NLC, can be sold in Newfoundland and Labrador.

2) No Guaranteed Sales Volume

- a) A Term of Listing is not a commitment to purchase nor does NLC provide any guarantee of sales volumes.

3) Advertising and Promotions

- a) All advertising and promotions must adhere to Federal and Provincial Legislation.
- b) Promotional activities intended for the Province of Newfoundland and Labrador must be approved by NLC Category Management.
 - i) Suppliers must notify NLC Category Management Team, in writing, of all promotions for the Province of Newfoundland and Labrador 30 days in advance of the promotion.

4) Packaging Requirements

- a) All packaging must adhere to Federal and Provincial Legislation.

ARTICLE 4 ROUTE TO MARKET

Section 4.1 Route to Market Process

- 1) NLC will have two routes to market for Newfoundland and Labrador. Suppliers must make all Cannabis and Cannabis Related Products available to all routes to market. Suppliers must have ability to fulfill orders to LCRs and e-Commerce customers.

a) Shipments from Supplier to Licensed Cannabis Retailer (LCR)

- LCRs are to purchase directly from licensed producers.
- Supplier specifies the purchase order process with LCRs.
- Supplier fulfills the order and collects payment from the LCR.
- Payment and delivery terms will be negotiated between the Supplier and each individual LCR.

NLC Cannabis and Cannabis Related Product Supply Agreement

- Suppliers sell product to the LCR at Final Retail, minus Licensed Cannabis Retailer Commission Rate.
- Supplier ships product directly to the LCR utilizing an approved common carrier.
- Supplier is responsible for shipping arrangements.
- Supplier is responsible for the cost of shipment to the LCRs.
- Supplier remits NLC Gross Profit report and payment to NLC in the manner and timeframe established by NLC
- LCRs sell product at Final Retail Price set forth by NLC Pricing Policy, plus HST.
- NLC will provide all LCRs the contact information of key contacts for each Supplier.
- NLC will provide all Suppliers with the contact information of key contacts for each LCR.
- NLC will maintain a list of approved LCRs in which a Supplier can ship to Newfoundland and Labrador.
- Suppliers are only permitted to ship to locations that are approved LCRs.
- Suppliers are required to submit to NLC a monthly report of shipments to LCRs. NLC to specify the format and requirements of reports.

b) Shipments from Supplier to NLC e-Commerce customers

- NLC will be the online retailer of Cannabis and Cannabis Related Products and will establish a trusted online location for the purchase of Cannabis and Cannabis Related Products thereby providing accessibility to all residents of Newfoundland and Labrador.
- e-Commerce customer orders via NLC e-Commerce platform:
 - i) Suppliers will log into NLC e-Commerce solution to manage orders.
 - ii) Suppliers will fulfill and ship directly to individual e-Commerce customers
 - Suppliers may charge a shipping fee to e-Commerce customers
 - Suppliers must seek approval from NLC for any shipping fees they will charge e-Commerce customers
- NLC will collect payment and shipping fees from customers.
- Supplier ships product directly to the individual e-Commerce customer utilizing an approved common carrier.
- Supplier invoices NLC Monthly for product, at the agreed supplier price, and shipping costs associated with completed shipments to customers.
- NLC remits payment of supplier invoices on a monthly basis.

Please refer to Pricing and Payment and Gross Profit and Reporting sections for all information regarding pricing, remittance and Gross Profit.

ARTICLE 5 SUPPLY AND DISTRIBUTION

Section 5.1 Distribution and Storage:

Supply and Distribution

- a) NLC will not take part in the physical distribution or storage of any Cannabis or Cannabis Related Products.

NLC Cannabis and Cannabis Related Product Supply Agreement

- b) Supplier will assume all responsibility for shipment, including the risk of loss during shipment, of all Cannabis and Cannabis Related Products delivered to the LCR or e-Commerce customer.
- c) All Cannabis or Cannabis Related Products shall be shipped in a secure and responsible manner and in accordance with Federal and Provincial regulations and in consultation with NLC.
- d) All carriers will be bonded and will be selected from a list of acceptable common carriers in accordance with Federal regulations. The carrier will be required to verify the customer's identification, to verify the customer is of legal age to purchase Cannabis, and secure a signature before delivering the package containing the product to a customer and/or LCR.

Section 5.2 Quality Assurance (Q/A)

1) Regulatory Q/A

- a) Products supplied must comply with all applicable regulatory and Q/A requirements set forth by both Federal and Provincial legislation.
- b) Suppliers must maintain all required Federal licenses.
- c) Suppliers must be able to provide a Certificate of Analysis from an accredited facility for each individual Lot number of product.

2) Product Recalls

- a) All product recalls must follow NLC Recall Policy.
- b) All product recalls must be communicated to NLC and each LCR location immediately.
- c) All product recalls must be communicated to Health Canada immediately by the Supplier as per Federal and Provincial legislation.
- d) All LCRs and NLC e-Commerce customers will be contacted immediately, via email and through NLC e-Commerce platform.
- e) All recall procedures must follow Provincial and Federal legislations and regulations.
- f) All supporting documentation on a product recall must be submitted to NLC.
- g) Suppliers will pay for all costs associated with product recalls, including refunding customers as appropriate or shipment/destruction of recalled products.
- h) Please refer to Pricing and Payment section for information regarding associated charge backs.

3) Product Destruction

- a) All Cannabis and Cannabis Related Products destroyed by, or for, Suppliers must comply with all Federal and Provincial Legislation.

4) Customer Complaints

- a) Suppliers will be responsible for investigating and responding to customer product complaints from both LCR and individual e-Commerce customers.
- b) Suppliers will be responsible for investigating and responding to both LCR and e-Commerce customer inquiries on shipping related questions and issues.
- c) Suppliers will be responsible for taking the appropriate corrective steps which may include refunding the customer, shipping a replacement product or other measures required to resolve the situation.

NLC Cannabis and Cannabis Related Product Supply Agreement

- i) Suppliers will be responsible for letting NLC know if an individual e-Commerce return is required and NLC will process the refund to the customer.
- ii) Refunds to LCRs must be organized and completed between the Supplier and LCR and properly documented in all shipping and gross profit reports.

ARTICLE 6 PRICING AND PAYMENT

Section 6.1 Supplier Price

- a) The approved Supplier Prices are in effect for the Term of Listing.
- b) NLC may, at its sole discretion, offer the Supplier the opportunity to re-quote during the Term of Listing, or NLC may request that the Supplier re-quote their prices based on the following criteria:
 - i) Market Supply and Demand
 - ii) Product and Brand Performance
 - iii) Category Strategy
 - iv) Pricing Strategy
- c) Supplier Prices will be reviewed at the end of each Term of Listing.
- d) For any price reductions, as per Pricing Policy, LCRs will be reimbursed for the difference on current inventories at time of price reduction. The current inventories are to be based on LCR self-reports or another process established by the Supplier and LCR.

Section 6.2 Pricing for Licensed Cannabis Retailers (LCR)

- a) NLC will set the List Price and Final Retail Price for Cannabis and Cannabis Related Products in Newfoundland and Labrador.
- b) NLC will keep an up-to-date pricelist available to Suppliers and LCRs on NLC Cannabis vendor portal
- c) Suppliers will sell to the LCR at the Final Retail Price minus LCR Commission Rate.
- d) Suppliers will remit NLC Gross Profit less LCR Commission Rate on a monthly basis.

Section 6.3 Pricing for NLC e-Commerce Customers

- a) NLC will set the Final Retail Price for Cannabis and Cannabis Related Products in Newfoundland and Labrador.
- b) NLC will collect all payments, including shipping charges where applicable, from individual e-Commerce customers and remit the Supplier Price and shipping charge to the Supplier.
- c) Supplier will invoice NLC on a monthly basis for Supplier Price of Cannabis and Cannabis Related Products and the associated shipping fees collected by NLC.
- d) Payment from NLC will be remitted to the Supplier 30 days after invoice date.

Section 6.4 Payment Terms to Licensed Cannabis Retailers (LCR)

- a) Suppliers will establish payment terms and conditions with each individual LCR.

NLC Cannabis and Cannabis Related Product Supply Agreement

- b) NLC is not responsible for the collection of amounts owing between Suppliers and LCRs.

Section 6.6 Suppliers must submit customer refund policies for the following:

- a) Shipments from Supplier to Licensed Cannabis Retailer (LCR),
- b) Shipments from Supplier to NLC e-Commerce customers.

Section 6.7 Charge Backs

- a) Suppliers are responsible for all costs associated with the following:
 - i) product returns, as per customer refund policy,
 - ii) product recalls,
 - iii) discontinued product,
 - iv) expired product.
- b) Charge Backs include:
 - i) destruction of product,
 - ii) disposal of product,
 - iii) processing of product,
 - iv) shipping and handling of product,
 - v) refunds, as per customer refund policy,
 - vi) any other related expense to the above.
- c) Charge Back Terms to Licensed Cannabis Retailers (LCR)
 - i) Suppliers will establish payment terms and conditions with each individual LCR.
 - ii) NLC is not responsible for the collection of amounts owing between Suppliers and LCRs.
- d) Charge Back Terms to NLC e-Commerce customers
 - i) NLC will pay all refunds to e-Commerce customers including Cannabis and Cannabis Related Product payments, including shipping charges where applicable, and deduct from amounts owing to the Supplier on monthly invoice.

ARTICLE 7 GROSS PROFIT AND REPORTING

Section 7.1 Remittance to NLC

- a) Suppliers who ship to LCRs in Newfoundland and Labrador will be required to remit a percentage of the List Price, representing NLC Gross Profit, of any Cannabis and Cannabis Related Products to NLC.

Section 7.2 Remittance to Supplier

- a) NLC will remit the Supplier Price, and any associated shipping fees not covered by the Supplier, to the Supplier on any Cannabis or Cannabis Related Products shipped to any NLC e-Commerce customer.

NLC Cannabis and Cannabis Related Product Supply Agreement

Section 7.3 Monthly Gross Profit Report

- a) The Supplier is to submit a Gross Profit report each month.
- b) The Gross Profit report will include a reconciliation of inventory packaged for sale in Newfoundland and Labrador.
 - i) This will include:
 - (1) opening inventory
 - (2) units packaged
 - (3) units shipped
 - (4) units destroyed
 - (5) closing inventory
- c) Reconciliations are to be prepared for each product each month.
- d) Gross Profit rates are based on NLC approved List Prices.
- e) The Gross Profit report and payment for each month is due by the 10th of the following month.
 - i) For example, for Cannabis or Cannabis Related Products shipped anytime in July, NLC Gross Profit would be due and payable on August 10th
- f) The supplier is to keep adequate records to support all transactions. These include:
 - i) products packaged for sale in the province of Newfoundland and Labrador,
 - ii) products shipped to the province of Newfoundland and Labrador,
 - iii) products returned/destroyed,
 - iv) monthly inventory counts,
 - v) record of age verification process.
- g) NLC reserves the right to audit all sales of Cannabis and Cannabis Related Products in and for, the province of Newfoundland and Labrador.
- h) NLC will periodically request access to these records for purposes of auditing distribution in Newfoundland and Labrador and Gross Profit amounts paid to NLC.
- i) NLC will also require access to monthly Federal returns and audit reports filed by the Supplier.

ARTICLE 8 USABILITY REQUIREMENTS

Section 8.1 Online Retail

NLC will be the online retailer of Cannabis and Cannabis Related Product and will establish a trusted online location for the purchase of Cannabis and Cannabis Related Products thereby providing accessibility to all residents of Newfoundland and Labrador. Any Supplier dealing with NLC will have to be required to meet NLC's usability requirements in order to conduct business.

Section 8.2 Usability Requirements

- a) Supplier Delivery to NLC e-Commerce Customers

NLC Cannabis and Cannabis Related Product Supply Agreement

- i) NLC's e-Commerce solution is the source of record for all Supplier to NLC e-Commerce customer orders shipped and fulfilled from Suppliers to NLC e-Commerce customers.
 - ii) Suppliers must update and maintain inventory levels on NLC's e-Commerce platform.
 - iii) Suppliers must update the e-Commerce customer orders within the e-Commerce platform to ensure it reflects what was shipped to Newfoundland and Labrador customers.
- 2) Supplier Delivery to Licensed Cannabis Retailers (LCR)
 - i) The monthly shipment report submitted by the Supplier is the source of record for all orders shipped from Suppliers to LCRs.
- 3) Suppliers must have ability to fulfill orders to LCRs and e-Commerce customers
- 4) Suppliers will be responsible for ensuring NLC e-Commerce solution accurately reflects the fulfillment of all B2C transactions. Including, but not limited to, the following:
 - i) Shipping Confirmation
 - ii) Shipping Tracking Number
 - iii) Orders Status (Open, Fulfilled and Closed)
 - iv) Lot number
- 5) Supplier's fulfillment solution must avail of an approved carrier service
 - i) The carrier service must verify the age and obtain signature of all B2C customers upon delivery.
- 6) Suppliers and their carriers must ensure that requirements of Access to Information and Protection of Privacy Act (ATIPPA), 2015 or other applicable privacy legislation (such as Personal Information Protection and Electronic Documents Act (PIPEDA) and Canadian Data Residency) are met and the solution has adequate measures to protect personal information. Personal information includes but is not limited to:
 - i) Name
 - ii) Email address
 - iii) Phone number
 - iv) Address
 - v) Personal information and opinions
- 7) Personal information acquired as a result of this agreement must not be used for any purpose other than fulfilling customer orders, product safety and product recall information. Any other use of personal information, including direct marketing and promotion, is not permitted without the consent of NLC and NLC's customer.
- 8) Upon the termination of this agreement the Supplier must only retain NLC customer personal information as required to fulfil its obligations for product recalls under the *Canada Consumer Product Safety Act* or any applicable Federal statute or regulation. NLC customer personal information must be purged by the Supplier once the timelines for retaining data related to product recalls have been satisfied.
- 9) Suppliers will be required to provide NLC with a document summarizing their Information Technology environment, including all controls used to prevent unauthorized access to information and what steps will be taken to ensure the privacy of data and personal information. NLC will review the information as part of the Authorization process.

NLC Cannabis and Cannabis Related Product Supply Agreement

The Parties have executed this Agreement as of the date noted above.

**NEWFOUNDLAND LABRADOR LIQUOR
CORPORATION**

Per: 

Name: Peter Murphy

Title: Chief Merchandising Officer

("Supplier"): Delta 9

Per: 

Name: John Arbuthnot

Title: CEO

CANNABIS PURCHASE AND SALE AGREEMENT

BETWEEN:

YUKON LIQUOR CORPORATION,
as represented by the President

(“YLC”)

AND:

Delta 9 Bio-Tech Inc.

(“Supplier”)

Together referred to as the “Parties”

BACKGROUND:

- A. YLC is established by the *Liquor Act*, RSY 2002, c. 140;
- B. The Cannabis Control and Regulation Act regulates the purchase and sale of cannabis for recreational purposes in Yukon Territory;
- C. Order-in-Council 2018/107 has designated YLC as the distributor corporation authorized to purchase and sell cannabis for recreational purposes in Yukon; and
- D. The Supplier is a federally licensed producer and seller of cannabis for recreational purposes, and wishes to supply and sell cannabis to YLC.

THEREFORE, in consideration of these mutual promises, and intending to be bound by them, the Parties agree as follows:

ARTICLE 1 DEFINITIONS AND INTERPRETATION

1.1. In this Agreement:

- 1.1.1. “Applicable Laws” means all federal, territorial, provincial and local laws, regulations, professional codes of ethics, and other requirements or standards, relevant in any way to this Agreement;
- 1.1.2. “Product List” means the list of Products attached to this Agreement as Schedule A as amended by the Parties from time to time pursuant to Section 7.1;

- 1.1.3. “Product Cost” means the price per unit of the cannabis Products as listed on the Supplier’s Product List attached to this Agreement as Schedule A, as amended by the Parties from time to time pursuant to Section 7.1;
- 1.1.4. “Products” means the cannabis products to be made available to YLC for purchase as listed on the Product List attached to this Agreement as Schedule A, as amended by the Parties from time to time pursuant to Section 7.1;
- 1.1.5. “Spoiled” means cannabis products are unsuitable for sale and/or unfit for consumption;
- 1.1.6. “Term” means the period of time specified in Article 2; and
- 1.1.7. “Yukon” means that portion of Canada described in Schedule 1 to the Yukon Act.
- 1.2. In this Agreement:
 - 1.2.1. Words importing the singular include the plural and vice-versa, and words importing gender include all genders;
 - 1.2.2. When calculating the period of time within or following which any act is to be done or any step taken, the date that is the reference date for starting the calculation of such period will be excluded and the final date for completing such act or step will be included;
 - 1.2.3. A reference to any statute includes all rules and regulations made pursuant to that statute and, unless expressly provided otherwise, the provisions of any statute, rule or regulation which amends, supplements or supersedes any such statute, rule or regulation;
 - 1.2.4. All references to amounts of money herein, unless otherwise specified, will be in Canadian currency; and
 - 1.2.5. Any reference to an official in this Agreement includes his or her authorized delegates.
- 1.3. This Agreement is governed by the laws of Yukon and the laws of Canada applicable therein. Any dispute arising under this Agreement shall be determined by the courts in Yukon.
- 1.4. No waiver by a party of any of the provisions hereof will be effective unless explicitly set forth in writing and signed by the party so waiving.
- 1.5. This Agreement is made subject to, and generally incorporates, the provisions of the Yukon *Financial Administration Act*.

- 1.6. Nothing in this Agreement:
- 1.6.1. Creates an agency relationships between the Parties;
 - 1.6.2. Makes the Parties partners of each other;
 - 1.6.3. Establishes the Parties as joint venturers; or
 - 1.6.4. Establishes an employer or employee relationship between the Parties.
- 1.7. Schedule A to this Agreement, as amended or modified from time to time in accordance with this Agreement, is an integral part of this Agreement.

ARTICLE 2 TERM

- 2.1. Either Party may terminate this Agreement without cause on 90 days' written notice to the other Party.

ARTICLE 3 NOT AN EXCLUSIVE ARRANGEMENT

- 3.1. YLC is not bound to exclusively carry the Products of the Supplier and may, in its sole discretion, without any obligation to notify the Supplier or receive its consent, purchase and sell cannabis products from other suppliers.
- 3.2. The Supplier is not bound to exclusively sell the Products to YLC.

ARTICLE 4 CANNABIS PURCHASES BY YLC

- 4.1. During the Term, YLC may, from time to time order, by purchase order issued under this Agreement, any of the Products from the Supplier in such quantities as it chooses and the Supplier will make commercially reasonable efforts to provide the Products ordered.
- 4.2. The Supplier agrees that:
- 4.2.1. Product Cost to be paid by YLC will be the Product Cost in effect, as set out in Schedule A, and confirmed at the time the purchase order is issued;
 - 4.2.2. Ownership of the Product will occur upon delivery to YLC, or a YLC specified destination;
 - 4.2.3. Product Cost will always reflect wholesale pricing, and be inclusive of all duties, and taxes levied under any Applicable Law;

- 4.2.4. To provide YLC with a purchase order confirmation, advanced shipping notice, packing lists and all legally or operationally required documentation with the shipment, including Product lot identifiers on applicable documents; and
- 4.2.5. To provide YLC accurate and timely information on inquiries regarding Product, order status and delivery.
- 4.3. The Supplier will make commercially reasonable efforts to provide to YLC:
 - 4.3.1. All Product and quantities ordered by YLC;
 - 4.3.2. The Product by the delivery date and shipping method specified in the purchase order; and
 - 4.3.3. All Product shall have a minimum of 180 days of shelf-life remaining before their expiry or best before date. YLC may provide explicit, written approval to the Supplier to accept Product with less than 180 days.
- 4.4. YLC's commitment to purchase Product from the Supplier is conditional on its assessment, in its complete discretion, of the following:
 - 4.4.1. The level of retail demand for the Product;
 - 4.4.2. The Supplier's effectiveness and reliability in supplying Product to YLC;
 - 4.4.3. The quality of the Product; and
 - 4.4.4. The competitiveness of the wholesale pricing of the Product.
- 4.5. On an ongoing basis the Parties will work together on a sales forecast to enable the Supplier to grow and supply Product in anticipation of sales to YLC.

ARTICLE 5 SHIPPING

- 5.1. Unless otherwise requested, the Supplier will, at its own risk and expense, deliver all Product ordered by YLC to Yukon Liquor Corporation, 9031 Quartz Road, Whitehorse, Yukon Y1A 4P9.
- 5.2. YLC may, on notice to the Supplier at the time of its order, require the Supplier to provide options for different shippers so that YLC may choose, in its sole discretion, the shipper that best meets YLC's needs.
- 5.3. Supplier will pay the cost of insurance if it elects to purchase any.
- 5.4. YLC shall pay to Supplier an amount towards shipping costs for all orders placed with

Supplier by YLC. The Parties shall discuss such shipping costs to mutually agree upon the percentage of any such purchase order that will be paid to Supplier by YLC. If after any such discussions the Parties are unable to mutually agree upon the amount to be paid towards such shipping costs by YLC in relation to a given purchase order, then Supplier shall be under no obligation to fulfill such purchase order.

ARTICLE 6 INVOICING AND PAYMENT

- 6.1. The Supplier will invoice YLC for Product, including excise duties and taxes, only after the Product has shipped.
- 6.2. Invoices must itemize any additional taxes and shipping costs included in the amounts charged to YLC by the Supplier in a form and with content acceptable to YLC.
- 6.3. YLC will, unless it disputes an invoice in whole or in part, pay each invoice within 30 days of receipt of the invoice, subject to adjustments for missing, additional, non-salable Product, or incorrectly priced Products.
- 6.4. Where YLC disputes only a portion of an invoice, it will pay the undisputed portion of that invoice within 30 days of receipt.
- 6.5. Credit notes shall be issued by the Supplier, upon request by YLC, for any Product returned by YLC and will be used against any outstanding invoices owing to the Supplier.
- 6.6. YLC will, where it disputes an invoice, in whole or in part, provide notice of the dispute to the Supplier within 30 days of receipt of the invoice together with explanation of the basis for disputing the invoice. The parties will, subject to Section 13.1, work collaboratively to determine the best method of resolving the dispute.
- 6.7. Interest payable by YLC on any over-due account will be paid in accordance with the *Interest on Overdue Accounts and Payment of Interest Regulations* (OIC 1986/39).

ARTICLE 7 CHANGES IN PRODUCTS AND PRICES

- 7.1. The Supplier may from time to time adjust its Product List to add or delete Products, on 30 days' notice in writing to YLC. Such notice must include the revised Product List which shall be deemed to be substituted for Schedule A of this Agreement as of the effective date of the change (30 days from the acknowledged receipt by YLC).
- 7.2. Despite section 7.1, nothing prevents the Parties from agreeing, in writing, from time to time, that the effective date of any replacement Product List will be more or less than 30 days from receipt of a notice of change.

- 7.3. During the Term of this Agreement, the Supplier shall give YLC its best available wholesale pricing, such that it will not offer better pricing on the Products to any statutorily-created territorial or provincial distributor.
- 7.4. During the Term of this Agreement, the Supplier shall make its entire recreational Product line available to YLC, such that it will not offer any recreational cannabis Products to other customers that are not also available to YLC.

ARTICLE 8 PRODUCT RECALL

- 8.1. If there is a legal requirement to recall any Product or the Supplier voluntarily recalls any Product, the Supplier will refund YLC the cost of the recalled Products and pay any costs associated with the recall unless the recall is caused by the action or inaction of YLC.

ARTICLE 9 SPOILED PRODUCT

- 9.1. If Product is spoiled or damaged in transit, YLC will document the spoilage or damage and return the Product to the Supplier. YLC will request a credit note for product and shipping costs for spoiled or damaged product to be returned.

ARTICLE 10 PRODUCT DESTRUCTION

- 10.1. If any Product is spoiled or has an expiry date, and that date passes, the Parties agree that Product must be destroyed.
- 10.2. YLC will securely destroy all Product not suitable for sale in accordance with its Destruction Policy.
- 10.3. In the event that both Parties agree to return the Product to the Supplier, the Supplier will be responsible for all costs associated with the return shipping and secure destruction of the Product.

ARTICLE 11 CANNABIS SALES BY YLC

- 11.1. YLC may, subject to Applicable Laws, set retail prices for the Products as per the approved Cannabis Markup Structure.
- 11.2. YLC may, if Applicable Laws allow, re-sell the Products to other retailers in the Yukon

who may set whatever retail prices they choose, all subject to Applicable Laws.

- 11.3. All Products sold at retail by YLC will be sold to end users in Supplier packaging and bearing Supplier's marks, and YLC will not remove or alter any Supplier mark nor add any marks or labels, other than pricing marks, without Supplier's prior written consent, except to the extent necessary to comply with Applicable Law.
- 11.4. If YLC re-sells the Products to other retailers in the Yukon, YLC will impose the obligations in article 11.3 above on such retailers.

ARTICLE 12 EDUCATION

- 12.1. At its own cost, the Supplier will provide YLC, retailers and employees with product information about its Products at times agreeable to the Parties.

ARTICLE 13 DISPUTES

- 13.1. The Parties shall immediately use their best efforts to resolve any dispute in a cooperative and timely manner. The Parties agree that any disputes which cannot be settled by agreement and negotiation between the Parties will be settled by the Yukon courts.

ARTICLE 14 REPRESENTATIONS AND WARRANTIES

- 14.1. Supplier represents and warrants that:
 - 14.1.1. It has obtained all required licences under the Cannabis Act and any other applicable federal laws to cultivate and sell cannabis to YLC;
 - 14.1.2. It has complied and will continue to comply with all Applicable Laws;
 - 14.1.3. It is authorized to enter into this Agreement;
 - 14.1.4. It has a merchantable Product and the ability to track the Product;
 - 14.1.5. The Products and their labelling and marketing comply with and do not infringe upon any intellectual property rights; and
 - 14.1.6. It is a corporation in good standing, incorporated under the laws of Manitoba, Canada.
- 14.2. YLC represents and warrants that:
 - 14.2.1. It is authorized to enter into this Agreement; and

14.2.2. It has and will continue to comply with all Applicable Laws.

ARTICLE 15 NOTICE

15.1. Any communications or notices contemplated by this Agreement may be given by email, personal delivery, fax or mail to the addresses below:

15.1.1. If to YLC:

Yukon Liquor Corporation
9031 Quartz Road
Whitehorse, Yukon Y1A 4P9
YLC-Purchasing@yukon.ca

15.1.2. If to Supplier:

Delta 9 Bio-Tech Inc.
770 Pandora Ave East
Winnipeg, MB R2C 3N1
Jonathan.doherty@delta9.ca

15.1.3. If sent by post, same will be deemed to have been delivered one week from the date that it was deposited with Canada Post with first-class postage prepaid.

15.1.4. If sent by electronic means, same will be deemed to have been delivered at the time shown on a fax confirmation sheet at a fax number normally used by the designated official of the recipient, or by an e-mail receipt confirmation returned from an e-mail address normally used by the designated official of the recipient.

15.1.5. If delivered by hand, same will be deemed to have been received at the time it was delivered by the sender to the designated official of the recipient.

15.1.6. The Parties may, from time to time, update their addresses for delivery, and they may from time to time supply fax numbers and e-mail addresses for delivery to each other as is appropriate, and they may from time to time designate authorized delegates to receive delivery as is appropriate.

15.1.7. The Parties may from time to time designate in writing different officials to receive notice on their behalf, together with addresses for delivery, both physical and electronic.

ARTICLE 16 GENERAL

- 16.1. This Agreement may only be amended, modified or supplemented by an Agreement in writing signed by each party to this Agreement.
- 16.2. Time is of the essence under this Agreement.
- 16.3. The Supplier agrees that it will not announce to the public nor its shareholders the existence of this Agreement without the consent of YLC.
- 16.4. The Supplier agrees that it will not share purchase orders and other information it receives from YLC in the ordinary course of business without the prior written consent of YLC.
- 16.5. YLC and all records in its custody or control are subject to the *Access to Information and Protection of Privacy Act* R.S.Y. 2002 c.1. and its regulations, as amended. If the Supplier is submitting trade secrets, commercial, financial, scientific or technical information to YLC, the Supplier must explicitly identify such information at the time it is submitted to YLC.
- 16.6. Each party agrees to sign and deliver such further documents and do such other things as are reasonably necessary to fulfill the terms of this Agreement.
- 16.7. Each party will comply with all Applicable Laws in the course of performing its obligations under this Agreement.
- 16.8. The Parties have specifically required that this Agreement and all documents related to this Agreement be drafted and executed in English.
- 16.9. If for any reason a provision of this Agreement is found to be or becomes invalid or becomes unenforceable, in whole or in part, it shall be deemed to be severable and shall be deleted from this Agreement, but all of the other terms and conditions of this Agreement shall continue to be valid and enforceable.
- 16.10. This Agreement constitutes the entire agreement of the Parties with respect to the subject matter hereof, and supersedes all prior or contemporaneous understandings or agreements, whether written or oral, between Supplier and YLC with respect to such subject matter.
- 16.11. This Agreement may be signed in one or more counterparts; each signed page to be deemed an original and all of which when taken together will constitute the same agreement. Both Parties agree that the receipt of an electronic signature from the other party will represent final execution and acceptance of the terms and conditions contained in this Agreement and each such copy of this Agreement will form one instrument.

SIGNED BELOW BY THE PARTIES DULY AUTHORIZED REPRESENTATIVES.

Yukon Liquor Corporation

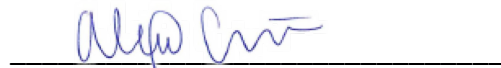


Signature

Dennis Berry, President

April 12, 2023
Date

Delta 9 Bio-Tech Inc.



Signature

Alexa Goertzen, VP of Cannabis Sales

April 6, 2023
Date

THIS IS EXHIBIT "20" TO THE
AFFIDAVIT OF JOHN ARBUTHNOT IV
SWORN BEFORE ME AT WINNIPEG, MANITOBA,
this 12th day of July, 2024


A NOTARY PUBLIC IN AND FOR THE PROVINCE OF MANITOBA

DELTA 9 CANNABIS INC.
CONSOLIDATED
FINANCIAL STATEMENTS
DECEMBER 31, 2022
(EXPRESSED IN CANADIAN DOLLARS)

DELTA 9 CANNABIS INC.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2022

AUDITOR'S REPORT

CONSOLIDATED STATEMENTS OF FINANCIAL POSITIONSTATEMENT 1

CONSOLIDATED STATEMENTS OF NET LOSS AND COMPREHENSIVE INCOME LOSSSTATEMENT 2

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITYSTATEMENT 3

CONSOLIDATED STATEMENT OF CASH FLOWSSTATEMENT 4

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS PAGE 1

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Delta 9 Cannabis Inc.

Opinion

We have audited the consolidated financial statements of Delta 9 Cannabis Inc. and its subsidiaries, (the Company), which comprise the consolidated statements of financial position as at December 31, 2022 and December 31, 2021, and the consolidated statements of net loss and comprehensive loss, changes in shareholders' equity and cash flows for the years December 31, 2022 and 2021, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2022 and December 31, 2021, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 2(e) to the consolidated financial statements, which indicates that the Company had negative working capital, experienced a net loss for the year ended December 31, 2022 and had negative operating cash flows for the year. These events or conditions along with other matters described in Note 2(e) indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements for the year ended December 31, 2022. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We have determined the matters described below to be the key audit matters to be communicated in our auditor's report.

Fair value less costs to sell inventory and biological assets

As discussed in notes 3 and 9 to the consolidated financial statements, the Company measures biological assets at fair value less costs to sell. The Company's biological assets are comprised of cannabis plants in various stages of growth, up to the point of harvest. At December 31, 2022, biological assets were recorded at \$1,442,202. Biological assets are transferred to work in progress inventory at their fair value at the point of harvest which becomes the cost of the cannabis inventory. Determination of fair value less costs to sell requires management to make significant judgements and assumptions relating to the stage of growth of the cannabis, harvesting costs, processing costs, sales price and expected yields.

We identified fair value less costs to sell inventory and biological assets as a key audit matter as management is required to make significant judgements and assumptions in determining these amounts. In turn, this leads to a high degree of auditor judgement, subjectivity, and effort in performing procedures to evaluate management's estimates.

To address this key audit matter, we evaluated management's process for developing the fair value estimates, evaluated the model for determining costs to sell, undertook sensitivity analysis, tested the completeness, accuracy and relevance of the underlying data used in the calculation, evaluated the significant assumptions used by management in determining the stage of growth of cannabis, harvest costs, processing costs, sales prices and expected yields. We undertook physical observation of the growing cannabis at year end, as well as examined source documentation for sales transactions subsequent to year end and harvest documentation and data with respect to yields.

Impairment of goodwill

As discussed in note 3 to the consolidated financial statements, the Company reviews long-lived assets including goodwill for impairment at each statement of financial position date or whenever events or changes in circumstances indicate that the carrying amount of an asset exceeds the recoverable amount. At December 31, 2022, goodwill was recorded at \$14,198,669 and an impairment loss on goodwill was recorded.

We identified impairment of long-lived assets as a key audit matter as auditing the Company's goodwill is complex, and management is required to make significant judgements and assumptions in determining the higher of fair value less costs of disposal and value in use. In turn, this leads to a high degree of auditor judgement, subjectivity, and effort in performing procedures to evaluate management's estimates.

Fair value less costs of disposal is determined using a market approach based on market multiples. Value in use is determined using an income approach based on discounted cash flow involving forecasted revenue, gross margin, operating expenses, long-term growth rates and discount rates. The sensitivity of reasonable changes to the significant assumptions could have a significant impact on the determination of impairment.

To address this key audit matter, we evaluated the company's model for determining impairment, evaluated the reasonability of assumptions applied to key inputs involved in the determination of impairment and performed a sensitivity analysis on the key assumptions to assess the impact of reasonable changes on the determination of the recoverable amounts. We evaluated the market multiples by analyzing precedent market transactions and comparable public company multiples and comparing to those selected by management. We assessed the reasonableness of the Company's discount rates as well as forecasts related to revenue growth rates and earnings margins by comparing historical forecasts to actual performance. We also assessed the adequacy of the Company's disclosures in notes 3 and 13 to the consolidated financial statements.

Other Information

Management is responsible for the other information. The other information comprises the information contained in the Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. We obtained the information included in the Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the consolidated financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Brent S. Morrish.

Baker Tilly HMA LLP

Chartered Professional Accountants

Winnipeg, Manitoba
March 28, 2023

DELTA 9 CANNABIS INC.

STATEMENT 1

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(CANADIAN DOLLARS)

AS AT DECEMBER 31

| | 2022 | 2021 |
|--|----------------------|----------------------|
| ASSETS | | |
| CURRENT | | |
| Cash (Note 6) | \$ 3,518,994 | \$ 4,240,835 |
| Trade and other receivables (Note 7) | 2,317,486 | 4,569,330 |
| Inventories (Note 8) | 18,378,055 | 20,383,157 |
| Biological assets (Note 9) | 1,442,202 | 2,205,105 |
| Current portion of notes receivable (Note 11) | 142,244 | 973,294 |
| Prepayments and other current assets (Note 10) | 1,289,425 | 1,546,005 |
| Due from directors, officers and related parties (Note 18) | 112,080 | 100,269 |
| | <u>27,200,486</u> | <u>34,017,995</u> |
| NOTES RECEIVABLE (Note 11) | 202,915 | 268,805 |
| PROPERTY, PLANT AND EQUIPMENT (Note 12) | 27,263,998 | 28,208,075 |
| RIGHT-OF-USE ASSETS (Note 19) | 20,151,153 | 11,989,708 |
| INVESTMENTS (Note 14) | 533,333 | 533,333 |
| INTANGIBLES | - | 150,000 |
| GOODWILL (Note 5, 13) | 14,198,669 | 2,910,976 |
| | <u>\$ 89,550,554</u> | <u>\$ 78,078,892</u> |
| LIABILITIES | | |
| CURRENT | | |
| Accounts payable and accrued liabilities (Note 15) | \$ 14,904,892 | \$ 10,990,711 |
| Customer deposits (Note 16) | 327,993 | 294,167 |
| Due to shareholder (Note 18) | 48,951 | 48,951 |
| Current portion of loan from related parties (Note 18) | - | 180,870 |
| Current portion of deferred revenue (Note 17) | 267,162 | 267,162 |
| Current portion of lease liabilities (Note 19) | 7,455,272 | 6,641,816 |
| Current portion of borrowings (Note 20) | 29,807,260 | 14,018,294 |
| Current portion of convertible debentures (Note 21) | - | 11,154,547 |
| | <u>52,811,530</u> | <u>43,596,518</u> |
| LOAN FROM RELATED PARTIES (Note 18) | 2,756,404 | 2,481,817 |
| DEFERRED REVENUE (Note 17) | 926,723 | 1,193,885 |
| LEASE LIABILITIES (Note 19) | 13,285,923 | 5,527,530 |
| BORROWINGS (Note 20) | 5,591,193 | - |
| CONVERTIBLE DEBENTURES - HOST LIABILITY (Note 21) | 7,242,210 | - |
| CONVERTIBLE DEBENTURES - EMBEDDED DERIVATIVE LIABILITY (Note 21) | 398,000 | - |
| | <u>83,011,983</u> | <u>52,799,750</u> |
| SHAREHOLDERS' EQUITY | | |
| SHARE CAPITAL (Note 22) | 72,581,938 | 64,080,903 |
| WARRANTS | 325,814 | 1,456,415 |
| CONTRIBUTED SURPLUS | 7,500,886 | 5,774,941 |
| ACCUMULATED DEFICIT | (54,569,663) | (27,369,106) |
| ACCUMULATED OTHER COMPREHENSIVE LOSS | (19,274,154) | (19,274,154) |
| NON-CONTROLLING INTEREST | (26,250) | 610,143 |
| TOTAL SHAREHOLDERS' EQUITY | <u>6,538,571</u> | <u>25,279,142</u> |
| | <u>\$ 89,550,554</u> | <u>\$ 78,078,892</u> |
| COMMITMENTS (Note 29) | | |

Approved on behalf of the Board:

"Nitin Kaushal"

Signed: Director

"John William Arbuthnot IV"

Signed: Director

See accompanying notes to consolidated financial statements

00321

DELTA 9 CANNABIS INC.

STATEMENT 2

CONSOLIDATED STATEMENTS OF NET LOSS AND COMPREHENSIVE LOSS

(CANADIAN DOLLARS)

YEAR ENDED DECEMBER 31

| | 2022 | 2021 |
|---|---------------|---------------|
| REVENUE (Note 24) | \$ 63,228,271 | \$ 62,291,436 |
| COST OF SALES | (50,311,768) | (44,030,504) |
| GROSS PROFIT BEFORE UNREALIZED GAIN FROM CHANGES IN BIOLOGICAL ASSETS | 12,916,503 | 18,260,932 |
| Unrealized gain on changes in fair value of biological assets | 15,307,184 | 19,227,027 |
| Fair value changes in biological assets included in inventory sold | (17,344,998) | (20,168,683) |
| GROSS PROFIT | 10,878,689 | 17,319,276 |
| EXPENSES | | |
| General and administrative (Note 25) | 15,073,754 | 12,920,121 |
| Sales and marketing (Note 25) | 14,452,733 | 10,576,409 |
| Share based compensation (Note 22) | 1,610,463 | 1,462,033 |
| | 31,136,950 | 24,958,563 |
| LOSS FROM OPERATIONS | (20,258,261) | (7,639,287) |
| OTHER INCOME (EXPENSES) | | |
| Finance income (expense) - net (Note 26) | (6,484,892) | (3,867,790) |
| Other income (Note 27) | 312,665 | 364,830 |
| Other financing costs | (494,466) | (400,995) |
| Gain (loss) on fair value change in derivative liability | 2,313,609 | - |
| Impairment of goodwill (Note 13) | (3,075,605) | - |
| Impairment of intangible assets (Note 13) | (150,000) | - |
| | (7,578,689) | (3,903,955) |
| LOSS BEFORE INCOME TAXES | (27,836,950) | (11,543,242) |
| Current income tax expense (recovery) (Note 30) | - | (401,015) |
| NET LOSS | (27,836,950) | (11,142,227) |
| Net income (loss) attributable to: | | |
| Delta 9 Cannabis Inc. | (27,200,557) | (11,177,487) |
| Non-controlling interest (Note 23) | (636,393) | 35,260 |
| | (27,836,950) | (11,142,227) |
| Other comprehensive income (loss) | | |
| Gain on disposal of Decibel Cannabis Company Inc. investment | - | 493,846 |
| Total comprehensive income (loss) | (27,836,950) | (10,648,381) |
| Total comprehensive income (loss) attributable to: | | |
| Delta 9 Cannabis Inc. | (27,200,557) | (10,683,641) |
| Non-controlling interest (Note 23) | (636,393) | 35,260 |
| | (27,836,950) | (10,648,381) |
| Earnings (loss) per share - basic (Note 28) | \$(0.22) | \$(0.11) |
| Earnings (loss) per share - diluted (Note 28) | \$(0.22) | \$(0.11) |

See accompanying notes to consolidated financial statements

00322

DELTA 9 CANNABIS INC.

STATEMENT 3

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(CANADIAN DOLLARS)

YEAR ENDED DECEMBER 31

| | Number of shares | Share Capital | Warrants | Contributed Surplus | Accumulated Deficit | Accumulated Other Comprehensive Loss | Non- Controlling Interest | Total Equity |
|--|---------------------|----------------------|---------------------|------------------------|------------------------|---|---------------------------------|----------------------|
| BALANCE, December 31, 2020 | 101,940,350 | \$ 62,274,195 | \$ 1,456,415 | \$ 5,158,458 | \$(17,112,604) | \$(19,768,000) | \$ 926,896 | \$ 32,935,360 |
| Net income (loss) | - | - | - | - | (11,177,487) | - | 35,260 | (11,142,227) |
| Reallocation of Head Office costs | - | - | - | - | 920,985 | - | (920,985) | - |
| Gain on disposal of Decibel Cannabis Company Inc. investment | - | - | - | - | - | 493,846 | - | 493,846 |
| Investment by minority shareholder | - | - | - | - | - | - | 514,500 | 514,500 |
| Shares issued to Sundial Cannabis Inc. | - | - | - | - | - | - | 54,472 | 54,472 |
| Shares issued in business acquisition transactions | 2,387,668 | 961,158 | - | - | - | - | - | 961,158 |
| Share based compensation | - | - | - | 1,462,033 | - | - | - | 1,462,033 |
| Transfer on exercise of restricted stock units | 1,329,250 | 845,550 | - | (845,550) | - | - | - | - |
| BALANCE, December 31, 2021 | <u>105,657,268</u> | <u>\$ 64,080,903</u> | <u>\$ 1,456,415</u> | <u>\$ 5,774,941</u> | <u>\$(27,369,106)</u> | <u>\$(19,274,154)</u> | <u>\$ 610,143</u> | <u>\$ 25,279,142</u> |
| BALANCE, December 31, 2021 | 105,657,268 | \$ 64,080,903 | \$ 1,456,415 | \$ 5,774,941 | \$(27,369,106) | \$(19,274,154) | \$ 610,143 | \$ 25,279,142 |
| Net income (loss) | - | - | - | - | (27,200,557) | - | (636,393) | (27,836,950) |
| Shares issued in equity raise | 11,300,027 | 1,578,100 | 144,836 | - | - | - | - | 1,722,936 |
| Shares issued to Sundial Cannabis Inc. (Note 22) | 1,178,647 | 255,479 | - | - | - | - | - | 255,479 |
| Shares issued related to financing (Note 22) | 2,038,217 | 640,000 | - | - | - | - | - | 640,000 |
| Shares issued in business acquisition transactions (Note 5) | 24,911,771 | 4,856,458 | - | - | - | - | - | 4,856,458 |
| Transfer of warrants to contributed surplus on expiry | - | - | (1,275,437) | 1,275,437 | - | - | - | - |
| Share based compensation (Note 22) | - | - | - | 1,621,506 | - | - | - | 1,621,506 |
| Transfer on exercise of restricted stock units (Note 22) | 5,171,076 | 1,170,998 | - | (1,170,998) | - | - | - | - |
| BALANCE, December 31, 2022 | <u>150,257,006</u> | <u>\$ 72,581,938</u> | <u>\$ 325,814</u> | <u>\$ 7,500,886</u> | <u>\$(54,569,663)</u> | <u>\$(19,274,154)</u> | <u>\$(26,250)</u> | <u>\$ 6,538,571</u> |

CONSOLIDATED STATEMENT OF CASH FLOWS
(CANADIAN DOLLARS)
YEAR ENDED DECEMBER 31

| | 2 0 2 2 | 2 0 2 1 |
|---|------------------------|------------------------|
| CASH FLOW FROM | | |
| OPERATING ACTIVITIES | | |
| Net loss for the year | \$(27,836,950) | \$(11,142,227) |
| Items not affecting cash: | | |
| Amortization of property, plant and equipment | 7,966,408 | 6,475,081 |
| Unrealized changes in fair value of biological assets | 2,037,814 | 941,656 |
| Gain on fair valuation of change in derivative liability | (2,313,609) | - |
| Interest accrued on lease liabilities | 1,179,425 | 694,772 |
| Interest accrued on loan from related party | 94,717 | 83,097 |
| Interest accrued on convertible debentures | 2,466,118 | 1,913,389 |
| Interest accrued on borrowings | 91,951 | 8,926 |
| Bad debts | 455,367 | - |
| Share based compensation (Note 22) | 1,621,506 | 1,462,033 |
| Non-cash revenue | (267,162) | (459,177) |
| Impairment of goodwill (Note 13) | 3,075,605 | - |
| Impairment of intangible assets (Note 13) | 150,000 | - |
| | (11,278,810) | (22,450) |
| Trade and other receivables | 1,796,477 | 486,094 |
| Inventories | 1,581,121 | (5,671,421) |
| Prepayments and other current assets | (217,785) | (364,836) |
| Accounts payable and accrued liabilities | 3,530,771 | 5,199,365 |
| Customer deposits | 33,826 | 294,167 |
| Notes receivable | 896,940 | (600,099) |
| Income taxes payable | - | (401,015) |
| Deferred portion of manufacturing rebate | - | 304,717 |
| Changes in non-cash working capital | 7,621,350 | (753,028) |
| | (3,657,460) | (775,478) |
| INVESTING ACTIVITIES | | |
| Acquisition of property, plant and equipment | (2,363,342) | (2,579,504) |
| Proceeds on disposal of Decibel Cannabis Company Inc. investment | - | 885,846 |
| Cash payment for retail store acquisitions, net (Note 5) | (11,501,800) | (1,166,750) |
| | (13,865,142) | (2,860,408) |
| FINANCING ACTIVITIES | | |
| Proceeds from minority interest in Delta 9 Lifestyle Cannabis Clinic Inc. | - | 514,500 |
| Loan from related parties | - | 514,500 |
| Proceeds from convertible debentures - net (Note 21) | 9,345,555 | - |
| Proceeds from share issuances - net | 1,722,937 | - |
| Proceeds from borrowings - net (Note 20) | 37,155,648 | 2,811,236 |
| Repayment of lease liabilities (Note 19) | (2,816,647) | (2,501,707) |
| Repayment of borrowings | (15,828,351) | (1,959,828) |
| Repayment of convertible debentures (Note 21) | (12,766,570) | (1,003,000) |
| Due to (from) related parties | (11,811) | 82,867 |
| | 16,800,761 | (1,541,432) |
| NET DECREASE IN CASH | (721,841) | (5,177,318) |
| CASH, beginning of period | 4,240,835 | 9,418,153 |
| CASH, end of period | \$ 3,518,994 | \$ 4,240,835 |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**DECEMBER 31, 2022**

1. NATURE OF BUSINESS

Delta 9 Cannabis Inc. (the "Company") is a licensed cannabis producer regulated by Health Canada under The Cannabis Act. The Company is a publicly traded company on the Toronto Stock Exchange ("TSX") under the symbol DN. The Cannabis license is in the name of Delta 9 Bio-Tech Inc., a wholly owned subsidiary of the Company. On December 4, 2019, Health Canada amended the Cannabis license to allow the Company to sell cannabis oils, extracts and derivative products in addition to the previously granted license for standard cultivation and license for sale for medical purposes with subsequent amendments expiring on August 22, 2027.

The address of the registered office is Suite 2600, 1066 West Hastings Street, Vancouver, British Columbia, V6E 3X1.

On March 28, 2023, the Board of Directors authorized the Consolidated Financial Statements for issue.

2. BASIS OF PRESENTATION**a) Statement of compliance**

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by International Accounting Standard Board ("IASB").

b) Basis of measurement

These consolidated financial statements have been prepared on a historical cost basis except for biological assets, notes receivable, long term investments, intangibles, borrowings, convertible debentures, loan from related parties, warrants and options which are measured at fair value, as explained in the accounting policies below.

Historical cost is the fair value of the consideration given in exchange for goods and services based on the fair value at the time of the transaction of the consideration given in exchange for assets.

c) Functional and presentation currency

These consolidated financial statements are presented in Canadian dollars, which is the Company's functional and presentation currency.

d) Basis of consolidation

These consolidated financial statements consolidate the accounts of the Company and its subsidiaries. Subsidiaries are all entities over which the Company has control. The Company controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The Company has power over an entity where it has existing rights that give the current ability to direct the activities that most significantly affect the entity's returns (relevant activities). Power may be determined on the basis of voting rights or, in the case of structured entities, other contractual arrangements. The Company consolidates all subsidiaries from the date it obtains control and ceases consolidation when an entity is no longer controlled by it. All transactions and balances from subsidiaries have been eliminated upon consolidation.

These consolidated financial statements include the Company and its wholly owned subsidiaries, Delta 9 Bio-Tech Inc. and Delta 9 Cannabis Store Inc., and the Company's interest in Delta 9 Lifestyle Cannabis Clinic Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**DECEMBER 31, 2022**

2. BASIS OF PRESENTATION *(continued)*

In addition to Delta 9 Bio-Tech Inc. (and its subsidiary, Delta 9 Lifestyle Cannabis Clinic Inc.), the Company has four other subsidiaries, 10007705 Manitoba Ltd. which was incorporated under The Corporations Act (Manitoba) on December 14, 2017 and Delta 9 Cannabis Store Inc. which was incorporated under the Canada Business Corporations Act on May 6, 2019. Delta 9 Bio-Tech Inc. owns 50% of the issued and outstanding shares of 10007705 Manitoba Ltd. The remaining 50% of the issued and outstanding shares are owned by Canopy Growth Corporation, an arm's length third party. The Manitoba retail license was issued to 10007705 Manitoba Ltd. The retail license allows each of Delta 9 Bio-Tech Inc. and Canopy Growth Corporation to license individual retail store locations to sell recreational cannabis, which are independently owned, operated, and branded by subsidiaries of Delta 9 Bio-Tech Inc. and Canopy Growth Corporation, respectively. Delta 9 Lifestyle Cannabis Clinic Inc. was awarded its first four Manitoba retail location licenses. The Company now has eighteen retail locations in Manitoba owned by Delta 9 Lifestyle Cannabis Clinic Inc. and twenty-two retail locations in Saskatchewan and Alberta owned by Delta 9 Cannabis Store Inc. In 2020, the Company incorporated a new subsidiary Blue Horseshoe Manufacturing Inc. The Company holds 53% of the issued and outstanding shares, with the remaining shares held by arm's length third parties. On October 5, 2021, Delta 9 Logistics Inc. a wholly owned subsidiary was incorporated by the Company.

No financial transactions were incurred by 10007705 Manitoba Ltd. and Delta 9 Logistics Inc. as of December 31, 2022. There were no material financial transactions incurred by Blue Horseshoe Manufacturing Inc. as of December 31, 2022.

e) Going concern

These consolidated financial statements have been prepared on a going concern basis which assumes that the Company will, in the foreseeable future realize on its assets and discharge its liabilities in the normal course of business as they become due. Accordingly, the consolidated financial statements do not give affect to adjustments that would be necessary should the Company be unable to continue as a going concern and, therefore be required to realize its assets and liquidate its liabilities and commitments in other than the normal course of business and at amounts different from those in these consolidated financial statements. Such adjustments could be material.

At December 31, 2022, the Company had negative working capital of \$25,611,044 compared to \$9,578,523 at December 31, 2021. Net loss for the year ended December 31, 2022 of \$27,836,950 and used cash flows from operating activities of \$3,657,460.

The Company anticipates it will have sufficient cash on hand to service its liabilities and fund operating costs for the immediate future. However, without raising additional debt financing or equity in the current fiscal year there is material uncertainty over the Company's ability to continue as a going concern. The Company has acted and continues to act on substantial cost cutting initiatives in all aspects of the Company's operations. the expected results of these initiatives are estimated to reduce operating costs between \$3,000,000 and \$4,000,000 annually.

Subsequent to year end, management has negotiated several contracts for wholesale cannabis products, both within Canada and internationally. As well, the Company has received a number of deposits for the sale of grow pods in our B2B segment, with sales confirmed in Canada and the United States as companies begin to scale operations post COVID.

As at December 31, 2022 the Company was not compliant with its debt service coverage ratio covenant and its working capital covenant. The company is currently negotiating a waiver from connectFirst. Continued non-compliance with the financial covenants in the credit facility could result in the debt becoming due and payable on demand. Should the Company anticipate continued non-compliance, management will proactively approach its lender to amend the credit facilities to ensure their continued availability. There is no certainty the Company will be successful in negotiating such amendments.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**DECEMBER 31, 2022**

3. SIGNIFICANT ACCOUNTING POLICIES*REVENUE RECOGNITION*

The Company's policy for the timing and amount of revenue to be recognized is based on the following five-step process described in IFRS 15:

- Identifying the contract with a customer
- Identifying the performance obligations
- Determining the transaction price
- Allocating the transaction price to the performance obligations
- Recognizing revenue when or as performance obligation(s) are satisfied

Revenue from the sale of cannabis, related merchandise and devices and grow pods is recognized when the Company has transferred the significant risks and rewards of ownership to the customer, the amount of the revenue can be reliably measured and it is probable that the Company will receive the previously agreed upon payment. Significant risks and rewards are generally considered to be transferred when the product leaves the Company's premises. Revenue is recognized at the fair value of the consideration received or receivable. Interest and sundry income is recognized at the time the amount is earned, determinable and collectibility is reasonably assured.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash on hand, balances with banks net of term deposits having maturity of twelve months or less at acquisition, which are held for the purpose of meeting short-term cash commitments.

TRADE AND OTHER RECEIVABLES

Trade receivables are stated at the amounts billed to customers under normal trade, and are recognized initially at fair value and subsequently measured at amortized cost less an allowance for impairment.

Trade and other receivables are classified as current assets if amounts are due within one year or less. If not, they are presented as non-current assets.

NOTES RECEIVABLE

Notes receivable are recognized initially at fair value and subsequently carried at amortized cost.

Notes receivable are classified as current assets if amounts are due within one year or less. If not, they are presented as non-current assets.

INVENTORIES

Inventories of raw materials, merchandise and devices, grow pods, and finished goods are valued at the lower of cost and net realizable value. Harvested cannabis plants are transferred from biological assets into work in progress inventory at their fair value at harvest less costs to sell which is deemed to be their cost. Any subsequent post-harvest costs are capitalized to inventory to the extent that cost is less than net realizable value. Net realizable value is determined as the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs to sell. Packaging, supplies and seeds are initially valued at cost.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2022

3. SIGNIFICANT ACCOUNTING POLICIES (*continued*)*BIOLOGICAL ASSETS*

The Company's biological assets consist of cannabis clones, mother plants and flowering plants. All the biological assets are presented as current assets on the statement of financial position. The Company measures biological assets at fair value less cost to sell up to the point of harvest which becomes the basis for the cost of work in progress and in turn finished goods inventories after harvest. Average selling prices and expected yield from a flowering cannabis plant has been applied on a strain by strain basis. Gains or losses arising from changes in fair value less cost to sell are included in the results of operations of the related period.

PREPAYMENTS AND OTHER CURRENT ASSETS

Prepayments and other current assets include short-term prepaid expenses and prepayments related to materials and other deposits required in the normal course of business, which are less than one year.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are measured at cost less accumulated amortization and impairment losses. Amortization is provided on a straight-line basis using the following rates:

| | |
|--------------------------------|-----|
| Building | 5% |
| Leasehold improvements | 20% |
| Containers | 10% |
| Production equipment | 20% |
| Cooling infrastructure | 10% |
| Security equipment | 20% |
| Computer equipment | 55% |
| Computer software | 33% |
| Office furniture and equipment | 20% |
| Vehicles | 30% |

In the year of acquisition, amortization is taken at one-half of the straight line rate.

IMPAIRMENT OF LONG-LIVED ASSETS

Long lived assets, including property, plant and equipment and intangible assets are reviewed for impairment at each statement of financial position date or whenever events or changes in circumstances indicate that the carrying amount of an asset exceeds the recoverable amount. For the purposes of impairment-testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generate cash flows from continuing use that are largely independent of cash flows of other assets or groups of the assets (the cash generating unit, or "CGU"). The recoverable amount of an asset or a CGU is the higher of its fair value, less costs of disposal ("FVLCD"), and its value in use. If the carrying amount of an asset exceeds its recoverable amount, an impairment charge is recognized immediately in profit or loss by the amount by which the carrying amount of the asset exceeds the recoverable amount. Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the lesser of the revised estimate of the recoverable amount, and the carrying amount that would have been recorded had no impairment loss been recognized previously.

BUSINESS ACQUISITIONS

The Company applies the acquisition method in accounting for business combinations. The Company measures goodwill as the difference between the fair value of the consideration transferred, including the recognized amount of any non-controlling interest in the acquiree, and the net recognized amount (generally fair value) of the identifiable assets acquired and liabilities assumed, all measured as of the acquisition date.

Consideration transferred includes the fair value of the assets transferred (including cash), liabilities incurred by the Company on behalf of the acquiree, and equity interests issued by the Company. Consideration transferred also includes the fair value of any contingent consideration.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**DECEMBER 31, 2022**

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Transaction costs that the Company incurs in connection with a business combination, such as finders' fees, legal fees, due diligence fees, and other professional and consulting fees, are expensed in the period as incurred.

TRADE AND OTHER PAYABLES

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Other payables include excise duty, social responsibility fee, government remittances payable and corporate credit cards. Trade and other payables are classified as current liabilities if payments are due within one year or less. If not, they are presented as non-current liabilities.

DEFERRED REVENUE

Deferred revenue includes amounts related to:

- Consulting and training services associated with the sale of the Company's products.
- Amortization of manufacturing rebate from the government over the useful life of the related assets.

If the revenue recognition associated with these services is expected to take place within twelve months from the balance sheet date, the Company presents the deferred revenue as current; otherwise the deferred revenue is presented as non-current.

BORROWINGS

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in earnings over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognized as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. If so, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalized as a pre-payment for liquidity services and amortized over the period of the facility to which it relates.

CONVERTIBLE INSTRUMENTS

Convertible instruments are compound financial instruments which are accounted for separately by their components, a financial liability and an equity instrument. The financial liability, which represents the obligation to pay coupon interest on the convertible instruments in the future is initially measured at its fair value of a similar liability that does not have an equity conversion option, and subsequently measured at amortized cost using the effective interest method. The residual amount is accounted for as an equity instrument at issuance. The equity component is not remeasured subsequent to initial recognition, except on conversion or expiry. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts.

For compound instruments with non-equity derivatives, the fair value of the embedded derivative is determined based on the contractual terms, and the initial carrying amount of the host instrument is the residual amount after separating the embedded derivative.

DERIVATIVES

The Company measures derivative financial liabilities at fair value through profit or loss at initial recognition and in subsequent reporting periods. Fair value gains or losses are recognized in other gains (losses) on the statement of net loss and comprehensive loss. Transaction costs, which are directly attributable to the offering, are expensed as incurred.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2022

3. SIGNIFICANT ACCOUNTING POLICIES (*continued*)*INTANGIBLE ASSETS*

Indefinite intangible assets are deemed to have no foreseeable limit over which the asset is expected to generate net cash inflows. Following initial recognition, intangible assets with indefinite useful lives are carried at cost less any accumulated impairment losses and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. The capitalized indefinite life of retail licenses were recognized upon the acquisition of retail stores in Calgary and Grande Prairie in May 2020.

At December 31, 2022, the licenses have been written down to \$nil as disclosed in Note 13.

LEASES

The Company recognizes lease liabilities under the principles of IFRS 16 Leases.

The Company leases various properties for its offices, manufacturing facility and retail stores to sell recreational cannabis. Rental contracts are typically made for fixed periods, but might have extension options. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets cannot be used as security for borrowing purposes.

Leases are recognized as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Company.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of fixed payments (including in-substance fixed payments), less any lease incentives receivable. The lease payments are discounted using the Company's incremental borrowing rate.

The Company recognizes a right-of-use asset and a lease liability at the commencement of the lease. The right-of-use asset is initially measured based on the present value of lease payments, plus initial direct costs and the cost of obligations to refurbish the asset, adjusted for any lease payments made at or before the commencement date less any incentives received.

Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is amortized over the shorter of the asset's useful life and the lease term on a straight-line basis. In case of a future purchase option, the right-of-use asset is amortized over the asset's useful life.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2022

3. SIGNIFICANT ACCOUNTING POLICIES (*continued*)

In applying IFRS 16, the Company uses the following practical expedients permitted by the standard:

- The use of a single discount rate to a portfolio of leases with reasonably similar characteristics.
- To account for each lease component of a contract and any associated non-lease components as a single lease component, where non-lease components are not significant when compared with the lease components of a contract.
- The use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Company has elected not to recognize right-of-use assets and liabilities for leases where the total lease term is less than or equal to twelve months, or for leases of low-value assets. Payments associated with short-term leases and leases of low-value assets are recognized on a straight-line basis as an expense. Presently, there are no short-term or low-value leases in effect.

Income from operating leases is recognized on a straight-line basis over the term of the lease.

SHARE-BASED COMPENSATION

The Company has a stock option plan for directors, officers, employees, and consultants. Grants are subject to a service condition by the option holder.

All option grants are initially measured at fair value at the grant date using the Black-Scholes option pricing model. The fair value of the options is amortized over the vesting period and is included in operating expenses with a corresponding increase in contributed surplus, net of an estimated forfeiture credit. Management reassesses the estimated forfeiture credit at each reporting period. Where the terms and conditions of the initial option grant are modified before they vest, the options are remeasured at fair value at the modification date and any increase in fair value is charged to earnings.

When options are exercised, common shares are issued from treasury and the proceeds are credited to share capital in the Consolidated Statement of Financial Position.

The Company also has a performance and restricted share units plan for directors, officers, and employees. All performance and restricted share units are initially measured at fair value at the grant date. The fair value of the performance and restricted share units is amortized over the vesting period and is included in operating expenses with a corresponding increase in contributed surplus, net of an estimated forfeiture credit. Management reassesses the estimated forfeiture credit at each reporting period. When performance and restricted share units are exercised, common shares are issued from treasury and the corresponding fair values are credited to share capital in the Consolidated Statement of Financial Position.

WARRANTS

The Company uses the residual value approach in respect of unit offerings whereby the amount assigned to the warrant is the excess of the unit price over the trading price of the Company's shares at the date of issuance, if any, to a maximum fair value of the warrant determined by using the Black-Scholes option pricing model.

INCOME TAXES

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2022

3. SIGNIFICANT ACCOUNTING POLICIES (*continued*)*FINANCIAL INSTRUMENTS*

Financial instruments consist of financial assets and liabilities and are initially measured at fair value, and are recognized in the consolidated statements of financial position when the Company has become party to the contractual provisions of the instruments. The accounting policies for financial instruments are described below and the composition of the Company's financial instruments and related risks are disclosed in Notes 31 and 32.

1) Financial Assets

The Company classifies each financial asset into one of following categories depending on the purpose for which the asset was acquired. The classification of its instruments is driven by the Company's business model for managing the financial assets and their contractual cash flow characteristics.

a) At Fair Value Through Profit or Loss ("FVTPL").

Assets in this category are derivatives, equity instruments which the Company has not irrevocably elected, at initial recognition, to classify at FVTOCI, or other assets classified as held-for-trading (i.e. acquired or incurred principally for the purpose of selling or repurchasing in the near term) or designated as FVTPL upon initial recognition subject to meeting certain conditions. After initial recognition, such assets are measured at fair value with changes therein being recognized in profit or loss. The Company has cash and cash equivalents which are classified as FVTPL.

b) At Fair Value Through Other Comprehensive Income ("FVTOCI")

Equity instruments that are not held-for-trading can be irrevocably designated to have their change in fair value recognized through other comprehensive income instead of through profit or loss. This election can be made on individual instruments and is not required to be made for the entire class of instruments. Attributable transaction costs are included in the carrying value of the instruments. Financial assets at fair value through other comprehensive income are initially measured at fair value and changes therein are recognized in other comprehensive income. The Company has investments in equity instruments of Pure Blue Cannabis Inc. (formerly Vitreous Cannabis Inc.) and Oceanic Releaf Inc. which are classified as FVTOCI.

c) Amortized Cost

Assets in this category are initially recognized at fair value plus or minus transaction costs, respectively, and subsequently carried at amortized cost less impairment. The Company has accounts receivable, notes receivable, and amounts due from related parties which are classified as financial assets at amortized cost.

2) Financial Liabilities

The Company classifies each financial liability into one of following categories depending on the purpose for which the liability was incurred.

a) At FVTPL

Financial liabilities in this category are derivatives or liabilities classified as held-for-trading or designated as FVTPL, upon initial recognition subject to meeting certain conditions. After initial recognition, such liabilities are measured at fair value with changes in fair value being recognized in profit or loss. The Company has an embedded derivative liability classified as FVTPL.

(b) Other Financial Liabilities

Liabilities in this category are non-derivative financial liabilities that are not classified as FVTPL. After initial recognition, such liabilities are measured at amortized cost using the effective interest rate method. The Company has accounts payable and accrued liabilities, customer deposits, lease liabilities, loan from related parties, borrowings, convertible debentures and due to related parties which are classified as other financial liabilities.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2022

3. SIGNIFICANT ACCOUNTING POLICIES (*continued*)

3) Transaction Costs

For FVTPL financial assets and liabilities, transaction costs on initial recognition, and thereafter, are included directly in profit or loss. For other categories of financial assets and liabilities, transaction costs are capitalized and included in the calculation of the effective interest rate i.e. amortized through profit or loss over the terms of the related instrument.

4) Impairment of Financial Assets

The Company recognizes a loss allowance for expected credit losses on financial assets that are measured at amortized cost. At each reporting date, the Company measures the loss allowance for the financial asset at an amount equal to the lifetime expected credit losses if the credit risk on the financial asset has increased significantly since initial recognition. If at the reporting date, the credit risk on financial assets has not increased significantly since initial recognition, the Company measures the loss allowance for the financial assets at an amount equal to twelve month expected credit losses. The Company recognizes in the statements of net income (loss), as an impairment gain or loss, the amount of expected credit losses (or reversal) that is required to adjust the loss allowance at the reporting date to the amount that is required to be recognized.

5) Fair Value Measurement

Fair value is defined as the price to sell an asset or transfer a liability (i.e. the "exit price") in an orderly transaction between market participants. Management uses a fair value hierarchy that gives the highest priority to quoted prices in active markets and the lowest priority to unobservable data. The fair value hierarchy is broken down into the following three levels:

Level 1: Fair value based on unadjusted quoted prices in active markets for identical assets or liabilities.

Level 2: Fair value based on quoted prices in active markets for similar assets or liabilities, quoted prices for identical assets or liabilities in inactive markets, or for which significant inputs are observable (e.g. interest rates, yield curves, etc.) or can be corroborated by observable market data.

Level 3: Fair value based on inputs that are unobservable and reflecting significant management judgments about assumptions that market participants might use.

The fair value hierarchy requires the use of observable market inputs whenever such inputs exist. A financial instrument is classified to the lowest level of the hierarchy for which a significant input has been considered in measuring fair value.

GOVERNMENT GRANTS

The Company recognizes government grants when there is reasonable assurance that the grant will be received and that the conditions of the grant will be met. The Company recognizes government grants in the Consolidated Statements of Net Income (Loss) in the same period as the expense for which the grant is intended to compensate. The Company has elected to record the grants, where appropriate, as a reduction of the expenses for which those grants are intended to cover, including within General and Administrative expenses and Sales and Marketing expenses. Grants that are intended as a revenue guarantee are recorded within revenue in the period in which they are earned.

CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**DECEMBER 31, 2022**

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)***1) Biological Assets**

Determination of the fair value of biological assets requires the Company to make a number of estimates, including estimating the stage of growth of the cannabis plants up to the point of harvest, harvesting costs, selling costs, sales prices, wastage and expected yields of the cannabis plant. In determining final inventory values, the Company estimates spoiled or expired inventory in determining net realizable value.

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

2) Estimated Useful Lives of Property, Plant and Equipment

Amortization of property, plant and equipment requires estimates of useful lives, which are determined through the exercise of judgment. The assessment of any impairment of these assets is dependent upon estimates of recoverable amounts that take into account factors such as economic and market conditions and the useful lives of assets.

3) Valuation of Inventory

In calculating the net realizable value ("NRV") of inventory, management determines the selling prices based on current observable market sales prices, selling costs, based on the most reliable evidence available at the time, to record inventory at the lower of cost or net realizable value.

4) Convertible Debentures

Convertible debentures are financial instruments which are accounted for separately dependent on the nature of their components: a financial liability and an equity instrument. The identification of such components embedded within a convertible debenture requires significant estimates including discount rates and future cash flows.

5) Share Based Compensation

The fair value of share-based compensation expenses are estimated using the Black-Scholes option pricing model and relies on a number of estimated inputs, such as the expected life of the option, the volatility of the underlying share price, the risk free rate of return and the estimated rate of forfeiture of options granted. Changes in the underlying estimated inputs may result in materially different results.

6) Warrants

In calculating the fair value of warrants, management relies on estimated inputs, such as the volatility of the Company's stock price and the risk-free rate of return.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2022

3. SIGNIFICANT ACCOUNTING POLICIES (*continued*)

7) Business Combinations

Judgement is used in determining whether an acquisition is a business combination or an asset acquisition. In determining the allocation of the purchase price in a business combination, including any acquisition-related contingent consideration, estimates including market based and appraisal values are used. The contingent consideration is measured at its acquisition date fair value and included as part of the consideration transferred in a business combination. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or liability is remeasured at subsequent reporting dates as appropriate, with the corresponding gain or loss being recognized in profit or loss. The Company measures all assets acquired and liabilities assumed at their acquisition-date fair values. Non-controlling interests in the acquiree are measured on the basis of the non-controlling interests' proportionate share of this equity in the acquiree's identifiable net assets. Acquisition-related costs are recognized as expenses in the periods in which the costs are incurred and the services are received (except for the costs to issue debt or equity securities which are recognized according to specific requirements). The excess of the aggregate of (a) the consideration transferred to obtain control, the amount of any non-controlling interest in the acquire over (b) the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed, is recognized as goodwill as of the acquisition date.

8) Determination of CGUs

For the purposes of assessing impairment of non-financial assets, the Company must determine cash generating units ("CGU"). Assets are allocated to CGUs based on the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGUs. Determination of what constitutes a CGU is subject to management judgement. The asset composition of a CGU can directly impact the recoverability of the assets included within the CGU. The determination of the Company's CGUs is the retail store or stores that are included in the group for which goodwill has been established.

9) Impairment of Non-Financial Assets

Property, plant and equipment and definite-life intangible assets, are reviewed for indicators of impairment at each reporting period or whenever events or changes in circumstances indicate that the carrying amount of an asset exceeds its recoverable amount. The recoverable amount of an asset or a CGU is the higher of its FVLCD or its value in use. If the carrying amount of an asset exceeds its recoverable amount, an impairment charge is recognized immediately in profit or loss for the amount by which the carrying amount of the asset exceeds the recoverable amount. Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the lesser of the revised estimate of recoverable amount, and the carrying amount that would have been recorded if no impairment loss been recognized previously.

Goodwill and indefinite-life intangible assets are tested for impairment annually and whenever events or changes in circumstances indicate that the carrying amount of goodwill or intangible assets has likely been impaired. Goodwill and indefinite-life intangible asset impairment testing requires management to make estimates in the impairment testing model. Impairment is influenced by judgment in defining a CGU and determining the indicators of impairment, and estimates used to measure impairment losses. The recoverable amount is defined as the higher of: (i) value in use; or (ii) FVLCD. The Company relies on a number of factors including historical results, business plans, forecasts and market data in determining the recoverable amount. Changes in the conditions for these judgments and estimates can significantly affect the assessed value of goodwill and indefinite life intangible assets.

Impairment losses recognized in respect of a CGU are first allocated to the carrying value of goodwill and any excess is allocated to the carrying value of assets in the CGU. Any impairment is recorded in profit and loss in the period in which the impairment is identified. Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the lessor of the revised estimate of recoverable amount and the carrying amount that would have been recorded had no impairment loss been previously recognized, with the exception of goodwill and indefinite lived intangible assets.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2022

4. ACCOUNTING PRONOUNCEMENTS

Future changes in accounting policies

Amendments to IAS 1 - Presentation of financial statements: classification of liabilities as current or non-current.

In January 2020, the IASB issued amendments to clarify the requirements for classifying liabilities as current or non-current. The amendments specify that the conditions that exist at the end of a reporting period are those which will be used to determine if a right to defer settlement of a liability exists. The amendments also clarify the situations that are considered a settlement of a liability. The amendments are effective January 1, 2023, with early adoption permitted. The amendments are to be applied retrospectively. This change is not expected to have a significant impact on the Company.

In October 2020, the IASB issued amendments to defer the effective date of the amendment to IAS 1 titled classification of liabilities as current or non-current published in January 2020 by one year to annual reporting periods beginning on or after January 1, 2024.

Amendments to IAS 8 - Definition of Accounting Estimates.

In February 2021, the IASB issued amendments to IAS 8, in which it introduces a definition of 'accounting estimates'. The amendments clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors. Also, they clarify how entities use measurement techniques and inputs to develop accounting estimates. The amendments are effective January 1, 2023, with early adoption permitted. This change is not expected to have a significant impact on the Company.

IAS 1 and IFRS Practice Statement 2 - Disclosure of Accounting Policies.

In February 2021, the IASB issued amendments to IAS 1 and IFRS Practice Statement 2 Making Materiality Judgements, in which it provides guidance and examples to help entities apply materiality judgements to accounting policy disclosures. The amendments aim to help entities provide accounting policy disclosures that are more useful by replacing the requirement for entities to disclose their 'significant' accounting policies with a requirement to disclose their 'material' accounting policies and adding guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures. The amendments are effective January 1, 2023, with earlier adoption permitted. Since the amendments to the Practice Statement 2 provide non-mandatory guidance on the application of the definition of material to accounting policy information, an effective date for these amendments is not necessary. This change is not expected to have a significant impact on the Company.

Amendments to IAS 12 - Income Taxes

In May 2021, the IASB issued amendments to require companies to recognize deferred tax on particular transactions that, on initial recognition, give rise to equal amounts of taxable and deductible temporary differences. The proposed amendments will typically apply to transactions such as leases for the lessee and decommissioning obligations. The amendment is effective January 1, 2023, with early adoption permitted. This change is not expected to have a significant impact on the Company.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2022

5. BUSINESS ACQUISITION

1. ACQUISITION OF RETAIL STORES IN ALBERTA:

On March 30, 2022 the Company completed the purchase of 17 retail stores in Alberta. Management believes this acquisition meets the criteria of a business acquisition under IFRS 3 "Business Combinations". The Company expects the acquisition will contribute various synergies including sharing of information technology, marketing strategies, and supply chain efficiencies.

For the year ended December 31, 2022, the Alberta acquisition accounted for revenue of \$11,339,996 and net income of \$29,875. If the acquisition had been completed on January 1, 2022, the Company estimates it would have recorded additional revenue of \$3,800,000 and an increase in net income of \$40,000.

Consideration Transferred:

Under the terms of the acquisition, the Company issued 6,666,667 common shares to the seller at a value of \$1,866,667 (\$0.28 per share) based on a TSX share price at the closing of the transaction on March 30, 2022. In addition to this, \$12,907,274 was paid in cash, \$600,928 in a promissory note, which makes the total purchase consideration on the closing date of \$15,374,859.

The net cash outflow at the closing of the acquisition was \$11,501,800.

The following identifiable assets and liabilities were subject to management's estimates and assumptions after taking into consideration all relevant information available. The fair value amounts represent provisional balances and the effects of adjustments, if any, in these values will be recorded in the financial statements.

The purchase price allocation to the net assets acquired was determined to be as follows:

| | Amount |
|--------------------------------|-----------------------------|
| Cash | \$ 17,000 |
| Inventories | 600,928 |
| Leasehold improvements | 322,100 |
| Signs | 253,500 |
| Security equipment | 188,000 |
| Office furniture and equipment | 234,600 |
| Prepays | 434,584 |
| Loyalty program | (76,480) |
| Goodwill | <u>13,400,627</u> |
| Total purchase consideration | <u>\$ 15,374,859</u> |

Goodwill:

The residual purchase consideration of \$13,400,627 was assumed goodwill on this acquisition, which has been allocated to the cash generating unit consisting of 17 Alberta retail stores.

Acquisition-related Costs:

The Company has incurred costs totaling \$204,292 related to this business acquisition transaction which was recorded as general and administrative expense.

2. ACQUISITION OF RETAIL STORES IN MANITOBA:

On September 6, 2022 the Company completed the purchase of three Garden Variety branded retail cannabis stores in Manitoba, two in Winnipeg and one in Brandon. Management believes this acquisition meets the criteria of a business acquisition under IFRS 3 "Business Combinations". The Company expects the acquisition will contribute various synergies including sharing of information technology, marketing strategies, and supply chain efficiencies.

For the year ended December 31, 2022, the Garden Variety branded retail cannabis stores accounted for revenue of \$1,977,196 and a net loss of \$313,782. If the acquisition had been completed on January 1, 2022, the Company estimates it would have recorded additional revenue of \$5,931,588 and a net loss of \$941,345.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2022

5. BUSINESS ACQUISITION (*continued*)Consideration Transferred:

Under the terms of the acquisition, the Company issued 17,944,785 common shares to the seller at a value of \$2,871,166 (\$0.16 per share) based on a TSX share price at the closing of the transaction on September 6, 2022. In addition to this, \$259,798 was paid in cash and \$596,993 was included in accrued liabilities, which makes the total purchase consideration on the closing date of \$4,046,975. Subsequent to year end, cash in the amount of \$596,993 for inventory was paid.

An additional 1,993,865 common shares will be issued to the seller in approximately six months from acquisition date at a value of \$319,018 (\$0.16 per share).

The following identifiable assets and liabilities were subject to management's estimates and assumptions after taking into consideration all relevant information available. The fair value amounts represent provisional balances and the effects of adjustments, if any, in these values will be recorded in the financial statements.

The purchase price allocation to the net assets acquired was determined to be as follows:

| | Amount |
|--------------------------------|----------------------------|
| Inventory | \$ 596,993 |
| Prepays | 103,613 |
| Property, plant, and equipment | 2,387,398 |
| Gift card liability | (3,700) |
| Goodwill | <u>962,671</u> |
| | <u>\$ 4,046,975</u> |

Goodwill:

The residual purchase consideration of \$962,671 was assumed goodwill on this acquisition, which has been allocated to the cash generating unit of the Garden Variety retail stores.

Acquisition-related Costs:

The Company has incurred costs totaling \$73,522 related to this business acquisition transaction which was recorded as general and administrative expense.

3. ACQUISITION OF RETAIL STORES IN EDMONTON, ALBERTA:

On August 31, 2021 the Company completed the purchase of two retail stores in Edmonton, Alberta.

In conjunction with this acquisition, on January 5, 2022, an additional 300,319 common shares were issued to the seller at a value of \$118,626 (\$0.395 per share).

6. CASH AND CASH EQUIVALENTS

| | December 31, 2022 | December 31, 2021 |
|---|------------------------------|----------------------------|
| Cash | \$ 3,468,994 | \$ 3,714,697 |
| Assignment of deposit instrument with Canadian Western Bank | <u>50,000</u> | <u>526,138</u> |
| | <u>\$ 3,518,994</u> | <u>\$ 4,240,835</u> |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2022
7. TRADE AND OTHER RECEIVABLES

| | December 31, 2022 | December 31, 2021 |
|---------------------------------------|------------------------------|----------------------------|
| Trade receivables | \$ 2,923,180 | \$ 4,719,657 |
| Less: Allowance for doubtful accounts | (605,694) | (150,327) |
| | <u>\$ 2,317,486</u> | <u>\$ 4,569,330</u> |

The following table provides details on the age of trade receivables:

| | December 31, 2022 | December 31, 2021 |
|----------------------|------------------------------|----------------------------|
| 0 - 30 days | \$ 1,400,577 | \$ 1,225,769 |
| 31 - 60 days | 503,893 | 732,760 |
| 61 - 90 days | 27,023 | 842,547 |
| Greater than 90 days | <u>991,687</u> | <u>1,918,581</u> |
| | <u>\$ 2,923,180</u> | <u>\$ 4,719,657</u> |

8. INVENTORIES

| | December 31, 2022 | December 31, 2021 |
|------------------------------------|------------------------------|-----------------------------|
| Raw materials | \$ 167,564 | \$ 121,730 |
| Packaging materials | 872,526 | 1,169,549 |
| Finished goods | 11,108,993 | 12,166,923 |
| Merchandise and devices | 575,567 | 414,286 |
| Work in progress | 5,152,629 | 5,737,142 |
| Grow pods and equipment for resale | <u>500,776</u> | <u>773,527</u> |
| | <u>\$ 18,378,055</u> | <u>\$ 20,383,157</u> |

The amount of inventories recognized as an expense during the year ended December 31, 2022 was \$42,514,891 (\$36,982,937 - year ended December 31, 2021)

9. BIOLOGICAL ASSETS

Biological assets consist of cannabis plants.

| | December 31, 2022 | December 31, 2021 |
|---|------------------------------|----------------------------|
| Biological assets, beginning | \$ 2,205,105 | \$ 2,598,698 |
| Net increase in fair value less cost to sell due to biological transformation | 15,307,184 | 19,227,027 |
| Transferred to inventory upon harvest | (16,070,087) | (19,620,620) |
| Biological assets, ending | <u>\$ 1,442,202</u> | <u>\$ 2,205,105</u> |

Biological assets are valued in accordance with IAS 41 and are presented at their fair values less costs to finish and sell. The Company's biological assets are primarily cannabis clones, mother plants and flowering plants, and because there is no actively traded commodity market for plants or dried product, the valuation of these biological assets is obtained using valuation techniques where the inputs are based upon unobservable market data (Level 3).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2022

9. BIOLOGICAL ASSETS (continued)

The significant assumptions used in determining the fair value of biological assets include:

- Selling price on a strain-wise basis less cost to sell (\$1.71 to \$3.83 per gram)
- Estimated yield on a strain-wise basis per cannabis flowering plant (32.8 to 58.5 grams)
- Estimated yield of large flower versus small flower per cannabis flowering plant in flowering and harvest stages
- Fair value of small flower based on end product
- Selling price pro-rated based on the stage of growth of the biological assets at the reporting period, less wastage
- Selling costs are estimated based on post-harvest costs (\$1.03 per gram)

The following table highlights the sensitivities and impact of changes in significant assumptions on the fair value of biological assets:

| Significant inputs & assumptions | Inputs | | Sensitivity | Impact on fair value | |
|---|-------------------|-------------------|---|----------------------|-------------------|
| | December 31, 2022 | December 31, 2021 | | December 31, 2022 | December 31, 2021 |
| Average selling price per gram | \$ 2.45 | \$ 3.23 | Increase or decrease of \$1.00 per gram | \$ 700,621 | \$ 698,088 |
| Weighted average yield (grams per plant) | 43.60 | 43.71 | Increase or decrease of 5 grams per plant | \$ 196,849 | \$ 257,589 |
| Standard cost per gram to complete production | \$ 1.03 | \$ 0.90 | Increase or decrease of \$0.25 per gram | \$ 175,155 | \$ 174,522 |

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

10. PREPAYMENTS AND OTHER CURRENT ASSETS

| | December 31, 2022 | December 31, 2021 |
|---|----------------------|----------------------|
| Advertising and promotion | \$ 83,657 | \$ 61,541 |
| Deposit for purchase of technology | - | 250,000 |
| Deposit for purchase of products | 494,644 | 840,073 |
| Deposit for purchase of equipment | 120,000 | - |
| Excise tax security - Canada Revenue Agency | 283,895 | 143,645 |
| Insurance | 166,943 | 4,123 |
| Deposit for rent | 10,888 | 8,238 |
| Other | 129,398 | 238,385 |
| | <u>\$ 1,289,425</u> | <u>\$ 1,546,005</u> |

11. NOTES RECEIVABLE

| | December 31, 2022 | December 31, 2021 |
|-----------------------|----------------------|----------------------|
| Notes receivable | \$ 345,159 | \$ 1,242,099 |
| Less: current portion | (142,244) | (973,294) |
| | <u>\$ 202,915</u> | <u>\$ 268,805</u> |

Notes receivable are interest bearing at 6% and 8.5%, and repayable in monthly blended principal and interest payments. The notes receivable are due from two counterparties and are secured by equipment sold.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2022

12. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment relate to the infrastructure for cannabis growing production and wholesale and retail operations. A cost continuity of the accounts for the year ended December 31, 2022 is as follows:

| | Balance at January 1, 2022 | Additions | Disposals/ Transfers | Balance at December 31, 2022 |
|--------------------------------|-------------------------------|---------------------|-------------------------|---------------------------------|
| Land | \$ 647,650 | \$ - | \$ - | \$ 647,650 |
| Building | 8,472,434 | 41,648 | - | 8,514,082 |
| Leasehold improvements | 5,985,515 | 3,312,511 | - | 9,298,026 |
| Containers | 8,658,325 | - | - | 8,658,325 |
| Production equipment | 9,485,014 | 230,271 | - | 9,715,285 |
| Cooling infrastructure | 4,391,697 | - | - | 4,391,697 |
| Security equipment | 1,416,328 | 309,120 | - | 1,725,448 |
| Computer equipment | 411,653 | 46,247 | - | 457,900 |
| Computer software | 80,172 | - | - | 80,172 |
| Office furniture and equipment | 658,053 | 669,636 | - | 1,327,689 |
| Vehicles | 16,195 | 103,411 | - | 119,606 |
| Construction in progress | <u>1,069,237</u> | <u>1,042,893</u> | <u>(1,005,397)</u> | <u>1,106,733</u> |
| | <u>\$ 41,292,273</u> | <u>\$ 5,755,737</u> | <u>\$ (1,005,397)</u> | <u>\$ 46,042,613</u> |

The accumulated amortization continuity for property, plant and equipment for the year ended December 31, 2022 is as follows:

| | Balance at January 1, 2022 | Additions | Disposals/ Transfers | Balance at December 31, 2022 |
|--------------------------------|-------------------------------|---------------------|-------------------------|---------------------------------|
| Building | \$ 1,232,875 | \$ 420,682 | \$ - | \$ 1,653,557 |
| Leasehold improvements | 1,985,701 | 1,476,309 | - | 3,462,010 |
| Containers | 2,672,511 | 871,027 | - | 3,543,538 |
| Production equipment | 5,149,038 | 1,888,864 | - | 7,037,902 |
| Cooling infrastructure | 649,367 | 437,892 | - | 1,087,259 |
| Security equipment | 664,245 | 305,797 | - | 970,042 |
| Computer equipment | 319,485 | 81,020 | - | 400,505 |
| Computer software | 80,172 | - | - | 80,172 |
| Office furniture and equipment | 318,660 | 194,959 | - | 513,619 |
| Vehicles | <u>12,144</u> | <u>17,867</u> | <u>-</u> | <u>30,011</u> |
| | <u>13,084,198</u> | <u>\$ 5,694,417</u> | <u>\$ -</u> | <u>18,778,615</u> |
| Net book value | <u>\$ 28,208,075</u> | | | <u>\$ 27,263,998</u> |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2022

12. PROPERTY, PLANT AND EQUIPMENT (continued)

A cost continuity of the accounts for the year ended December 31, 2021 is as follows:

| | Balance at January 1, 2021 | Additions | Disposals/ Transfers | Balance at December 31, 2021 |
|--------------------------------|-------------------------------|---------------------|-------------------------|---------------------------------|
| Land | \$ 647,650 | \$ - | \$ - | \$ 647,650 |
| Building | 7,466,546 | 1,005,888 | - | 8,472,434 |
| Leasehold improvements | 4,373,113 | 1,612,402 | - | 5,985,515 |
| Containers | 8,658,325 | - | - | 8,658,325 |
| Production equipment | 9,150,375 | 334,639 | - | 9,485,014 |
| Cooling infrastructure | 4,297,829 | 93,868 | - | 4,391,697 |
| Security equipment | 1,140,596 | 275,732 | - | 1,416,328 |
| Computer equipment | 296,415 | 115,238 | - | 411,653 |
| Computer software | 95,772 | 15,600 | (31,200) | 80,172 |
| Office furniture and equipment | 563,996 | 94,057 | - | 658,053 |
| Vehicles | 16,195 | - | - | 16,195 |
| Construction-in-progress | <u>2,010,943</u> | <u>2,350,570</u> | <u>(3,292,276)</u> | <u>1,069,237</u> |
| | <u>\$ 38,717,755</u> | <u>\$ 5,897,994</u> | <u>\$ (3,323,476)</u> | <u>\$ 41,292,273</u> |

The accumulated amortization continuity for property, plant and equipment for the year ended December 31, 2021 is as follows:

| | Balance at January 1, 2021 | Additions | Disposals/ Transfers | Balance at December 31, 2021 |
|--------------------------------|-------------------------------|---------------------|-------------------------|---------------------------------|
| Building | \$ 835,601 | \$ 397,274 | \$ - | \$ 1,232,875 |
| Leasehold improvements | 950,243 | 1,035,458 | - | 1,985,701 |
| Containers | 1,806,679 | 865,832 | - | 2,672,511 |
| Production equipment | 3,266,985 | 1,882,053 | - | 5,149,038 |
| Cooling infrastructure | 214,891 | 434,476 | - | 649,367 |
| Security equipment | 413,372 | 250,873 | - | 664,245 |
| Computer equipment | 248,069 | 71,416 | - | 319,485 |
| Computer software | 68,716 | 16,442 | (4,986) | 80,172 |
| Office furniture and equipment | 196,051 | 122,609 | - | 318,660 |
| Vehicles | <u>7,286</u> | <u>4,858</u> | <u>-</u> | <u>12,144</u> |
| | <u>8,007,893</u> | <u>\$ 5,081,291</u> | <u>\$ (4,986)</u> | <u>13,084,198</u> |
| Net book value | <u>\$ 30,709,862</u> | | | <u>\$ 28,208,075</u> |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2022

13 GOODWILL AND INDEFINITE LIFE INTANGIBLE ASSETS

| | December 31, 2022 | December 31, 2021 |
|--|----------------------|----------------------|
| Balance, beginning of period | \$ 2,910,976 | \$ 664,442 |
| Goodwill from business acquisitions (Note 5) | 14,363,298 | 2,246,534 |
| Impairment of goodwill | (3,075,605) | - |
| Balance, end of period | <u>\$ 14,198,669</u> | <u>\$ 2,910,976</u> |

During the year ended December 31, 2022, goodwill additions relate to the acquisition of twenty retail stores, seventeen in Alberta and three in Manitoba.

As at December 31, 2022, the Company performed its annual goodwill impairment test by comparing the carrying amount of the assets within its CGU to its recoverable amount using the FVLCD, value in use approach. The FVLCD of the CGUs was determined to be greater than their value in use. As a result of this analysis, a goodwill impairment charge of \$3,075,605 was determined as the carrying values of the CGUs exceeded recoverable amounts.

The impairment charges have been disclosed separately on the statement of loss and comprehensive loss.

As at December 31, 2022 the Company performed its annual intangible assets impairment test by comparing the carrying amount of the intangible asset to its recoverable amount using the FVLCD, value in use approach. The intangible asset was determined to have no value, which resulted in an impairment of \$150,000 (2021 - \$nil).

14. INVESTMENTS

| | December 31, 2022 | December 31, 2021 |
|---|----------------------|----------------------|
| Pure Blue Cannabis Inc. (formerly Vitreous Cannabis Inc.) | \$ 33,333 | \$ 33,333 |
| Oceanic Releaf Inc. | <u>500,000</u> | <u>500,000</u> |
| | <u>\$ 533,333</u> | <u>\$ 533,333</u> |

Pure Blue Cannabis Inc. (formerly Vitreous Cannabis Inc.)

The investment consists of an initial strategic investment by subscribing for 333,333 Class A common shares of Pure Blue Cannabis Inc. ("Pure Blue") for gross proceeds of \$33,333. Pure Blue will develop a cannabis cultivation facility in Ontario once they obtain a license from Health Canada under the Cannabis Act. Pure Blue is also pursuing options to raise further equity.

The investment was valued based on the fair value of the consideration paid.

Oceanic Releaf Inc.

The investment consists of 5,000 Class A common shares in the capital of Oceanic Releaf Inc. ("Oceanic") in exchange for a promissory note, which shall be assignable to Oceanic and the amount payable by the Company thereunder shall be set off by delivery of certain consulting and training services. The corresponding revenue was recorded on satisfaction of respective performance obligation.

The investment was valued based on the fair value of the consideration paid.

The Company had elected to measure investment in equity instruments Pure Blue Cannabis Inc. and Oceanic Releaf Inc. at FVTOCI on initial recognition as the investments are not held-for-trading, instead long-term and strategic in nature, and net changes in fair value are more suited to be presented in other comprehensive income.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2022
15. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

| | December 31, 2022 | December 31, 2021 |
|-----------------------------------|------------------------------|-----------------------------|
| Trade payables | \$ 2,527,778 | \$ 3,049,765 |
| Accrued liabilities | 3,375,639 | 2,546,411 |
| Excise tax payable | 6,168,941 | 2,491,672 |
| Social responsibility fee payable | 1,910,967 | 2,020,708 |
| Government remittances payable | <u>921,567</u> | <u>882,155</u> |
| | <u>\$ 14,904,892</u> | <u>\$ 10,990,711</u> |

Effective October 17, 2018, Canada Revenue Agency ("CRA") began levying an excise tax on the sale of medical and consumer cannabis products. The Company becomes liable for these excise duties when cannabis products are delivered to the customer.

The excise tax payable is the higher of (i) a flat-rate duty which is imposed when a cannabis product is packaged, and (ii) an advalorem duty that is imposed when a cannabis product is delivered to the customer. Where the excise tax has been billed to customers, the Company has reflected the excise tax as part of revenue in accordance with IFRS 15. Net revenue as presented on the Consolidated Statements of Net Income and Comprehensive Income, represents revenue from the sale of goods less applicable excise taxes. Given that the excise tax payable/paid to CRA cannot be reclaimed and is not always billed to customers, the Company recognizes that the excise tax is an operating cost that affects gross margin to the extent that it is not recovered from its customers.

Effective January 1, 2019, the Manitoba government began collecting a social responsibility levy at 6% on all retail cannabis sales.

16. CUSTOMER DEPOSITS

| | December 31, 2022 | December 31, 2021 |
|-------------------|------------------------------|----------------------|
| Customer deposits | <u>\$ 327,993</u> | <u>\$ 294,167</u> |

These amounts represent deposits by customers in conjunction with business to business purchases.

17. DEFERRED REVENUE

| | December 31, 2022 | December 31, 2021 |
|--|------------------------------|----------------------------|
| Deferred consulting and training revenue - beginning balance | \$ - | \$ 200,000 |
| Deferred manufacturing rebate -beginning balance | 1,461,047 | 1,390,508 |
| Deferred manufacturing rebate - current period | - | 381,609 |
| Deferred in-store promotion revenue - beginning balance | <u>-</u> | <u>25,000</u> |
| | 1,461,047 | 1,997,117 |
| Transferred to revenue | <u>267,162</u> | <u>536,070</u> |
| | 1,193,885 | 1,461,047 |
| Current portion | <u>267,162</u> | <u>267,162</u> |
| | <u>\$ 926,723</u> | <u>\$ 1,193,885</u> |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2022
18 DUE FROM/TO RELATED PARTIES, DIRECTORS AND SHAREHOLDERS

Related entities have advanced funds to the Company through various loans, some of which were secured by a promissory note and other amounts which were unsecured with no specified terms of repayment. These transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

| | December 31, 2022 | December 31, 2021 |
|--|------------------------------|----------------------|
| Advance to (from) directors for expenses | \$ 3,554 | \$ (19,262) |
| Due from related parties | 89,531 | 89,531 |
| Receivable from directors and officers | <u>18,995</u> | <u>30,000</u> |
| | <u>\$ 112,080</u> | <u>\$ 100,269</u> |
| | December 31, 2022 | December 31, 2021 |
| Due to shareholder | <u>\$ 48,951</u> | <u>\$ 48,951</u> |

Due to shareholder

On April 1, 2017, a unanimous shareholders' agreement was signed by the shareholders of Delta 9 Lifestyle Cannabis Clinic Inc. It was agreed that the initial fixturing of the leased premises by the Clinic shall be financed by shareholder loans amounting to \$51,000 (received in July 2017) from Delta 9 Bio-Tech Inc. and \$49,000 from 7217804 Manitoba Ltd. These loans are unsecured, non-interest bearing and with no specific date of repayment.

| | December 31, 2022 | December 31, 2021 |
|-----------------------|------------------------------|----------------------|
| Due to related party: | | |
| Current portion | \$ - | \$ 180,870 |
| Long-term portion | <u>2,756,404</u> | <u>2,481,817</u> |
| | <u>\$ 2,756,404</u> | <u>\$ 2,662,687</u> |

Over the years 2018-2021, Delta 9 Lifestyle Cannabis Clinic Inc. received advances from its shareholders, 7217804 and Delta 9 Bio-Tech, in the principal amounts of \$3,014,500 and \$4,035,500 respectively (the "Shareholder Advances"). These Shareholder Advances were evidenced by promissory notes issued by Delta 9 Lifestyle to 7217804 and Delta 9 Bio-Tech. The promissory notes accrue and bear interest at a rate in accordance with the following:

- From January 1, 2019 to June 30, 2019, the principal sum, bore interest at a rate equal to 3% per annum, calculated and payable monthly;
- From July 1, 2019 until repayment in full, the principal sum and all interest thereon the promissory notes shall bear interest at a rate of 6% per annum, calculated and payable monthly.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2022
18. DUE FROM/TO RELATED PARTIES, DIRECTORS AND SHAREHOLDERS (continued)

Pursuant to the terms of the promissory notes, at any time after June 30, 2019, but no later than 90 days prior to the maturity date of the promissory notes, 7217804 and/or Delta 9 Bio-Tech may convert all or any part of the then-principal sums under the promissory notes into Class A common shares of Delta 9 Lifestyle at the price of \$60,000 per Class A common share of Delta 9 Lifestyle, subject to adjustments in accordance with the promissory notes.

In accordance with IFRS, the promissory notes were initially recorded at their fair value, discounted at a market interest rate of 10.50%. The estimated fair value of the equity component of the promissory notes were recorded as part of Delta 9 Lifestyle Cannabis Clinic Inc.'s equity.

As of September 30, 2021, Delta 9 Bio-Tech Inc. exercised its option and converted \$4,035,500 principal amount of the promissory notes into Class A common shares of Delta 9 Lifestyle. As a result, Delta 9 Bio-Tech Inc.'s shareholding in Delta 9 Lifestyle Cannabis Clinic Inc. was increased from 51% to 68.78%.

During the year ended December 31, 2021, Delta 9 Bio-Tech and the minority shareholder in Delta 9 Lifestyle Cannabis Clinic Inc. also invested additional amounts of \$535,500 and \$514,500, respectively.

Key management compensation

Key management personnel are those persons having the authority and responsibility for planning, directing, and controlling activities of the Company. The key management personnel of the Company are the executive management team and the Board of Directors.

The remuneration and other payments to the Company's directors and other key management personnel for the year ended December 31, 2022 are as follows:

| | Salaries | Share based compensation | Total |
|----------------|---------------------|-----------------------------|---------------------|
| Key management | \$ 1,081,212 | \$ 176,279 | \$ 1,257,491 |
| Directors | <u>256,923</u> | <u>793,760</u> | <u>1,050,683</u> |
| | <u>\$ 1,338,135</u> | <u>\$ 970,039</u> | <u>\$ 2,308,174</u> |

19. LEASE LIABILITIES

| | December 31, 2022 | December 31, 2022 |
|-------------|------------------------------|----------------------|
| Current | \$ 7,455,272 | \$ 6,641,816 |
| Non-current | <u>13,285,923</u> | <u>5,527,530</u> |
| | <u>\$ 20,741,195</u> | <u>\$ 12,169,346</u> |

The right-of-use assets at December 31, 2022 and the amortization charge for the year then ended are shown below by the underlying class of asset:

| | Carrying Value December 31, 2022 | Amortization Charge Year Ended December 31, 2022 |
|------------|--|--|
| Properties | <u>\$ 20,151,153</u> | <u>\$ 2,271,991</u> |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2022

19. LEASE LIABILITIES *(continued)*

During the year ended December 31, 2022, 24 new retail store leases commenced. The Company reassessed the incremental borrowing rate used in the valuation of the 17 Alberta retail stores to be 6.95% and for future leases to be 7.69%. The present value of lease obligations of \$10,209,070 was recorded at the commencement of the leases with the corresponding right-of-use asset. Prepayments of \$224,365 were transferred to the right-of-use asset.

The lease liability for an office space was remeasured on July 1, 2022 due to extension in the lease term for another 18 months. The incremental borrowing rate of 7.72% was determined to be relevant as the risk-free rate plus the borrowing rate. The corresponding amount of the resulted adjustment was recorded under right-of-use assets.

The lease liability at December 31, 2022 was \$20,741,195. The corresponding interest expense for the year ended December 31, 2022, amounted to \$1,179,425. The portion of the lease payments recognized as a reduction of the lease liabilities was \$1,637,222 and a total cash outflow from financing activities for the year ended December 31, 2022 amounted to \$2,816,647. An amount of \$89,780 was recorded in other operating expenses for variable lease payments.

20. BORROWINGS

| | December 31, 2022 | December 31, 2021 |
|---|----------------------|----------------------|
| Demand revolving loan for purchase of production facility - beginning balance | \$ 3,550,000 | \$ 3,850,000 |
| Non-revolving loan for purchase of equipment - beginning balance | 401,038 | 601,845 |
| Non-revolving equipment masterline - beginning balance | 2,214,599 | 2,958,203 |
| Overdraft - beginning balance | 3,297,570 | 1,340,716 |
| Non-revolving demand loan - beginning balance | 2,848,819 | 3,100,310 |
| Non-revolving equipment masterline - beginning balance | <u>1,706,250</u> | <u>2,161,250</u> |
| | 14,018,276 | 14,012,324 |
| Add: Proceeds from connectFirst, net | 26,910,939 | - |
| Add: Proceeds from promissory notes | 5,591,193 | - |
| Add: Accretion | 91,951 | 8,926 |
| Add: Proceeds from overdraft | 4,564,445 | 2,811,236 |
| Less: Repayments of overdraft | 3,877,808 | 854,364 |
| Less: Repayments made | 11,900,543 | 1,959,828 |
| Less: Current portion of borrowings | <u>29,807,260</u> | <u>14,018,294</u> |
| | <u>\$ 5,591,193</u> | <u>\$ -</u> |

On March 30, 2022, Delta 9 Cannabis Inc. (the "Borrower") entered into a credit facility with connectFirst Credit Union Ltd. (the "Credit Union"). On the same date, Delta 9 Bio-Tech Inc. repaid all of the existing loans to Canadian Western Bank, with the exception of a business Visa facility of \$50,000 for corporate credit cards.

The credit facility with the Credit Union consists of:

- 1) A commercial mortgage loan of \$23,000,000 which was intended to assist in repayment of the CWB loans and convertible debentures. The loan is repayable in blended monthly payments of principal and interest at 4.55% over 144 months. The current fixed rate of 4.55% will be for a term of five years.
- 2) A commercial mortgage loan of \$5,000,000 which was intended to assist in the acquisition of 17 retail stores in Alberta. The loan is repayable in blended monthly payments of principal and interest at 4.55% over 144 months. The current fixed rate of 4.55% will be for a term of five years.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2022

20. BORROWINGS (continued)

As the fixed interest rate was negotiated at arm's length and the loan is secured by a first line on the Company's assets, the financing cost reflects market rate and therefore the estimated fair value of this loan fairly approximates its carrying value. However factoring in the transaction fees, the effective interest rate on the above loans is 5.29%. The carrying value of the loan is calculated based on this effective rate.

3) An overdraft facility of \$4,000,000 to be used to finance day-to-day operations. Interest floats at a rate of 1.50% per annum above the Credit Union's prime lending rate. The loan is repayable on demand. As of December 31, 2022, \$3,984,207 had been drawn down on this segment of the credit facility.

The Company was in breach of its debt service coverage ratio covenant and its working capital covenant as at December 31, 2022. Accordingly the entire loan balance of \$25,823,053 has been classified as current liabilities as at December 31, 2022. The Company is currently negotiating a waiver from the lender that they do not intend to take any action and demand repayment of the loan balance under the agreement.

The loans are secured by:

A first charge demand collateral mortgage of a freehold interest in the amount of \$28,000,000 over the property 770 Pandora Ave, Winnipeg, MB, and 760 Pandora Ave, Winnipeg, MB.

- A General Security Agreement comprising a first charge security interest over all present and after-acquired personal property located at or on or related to the Property, registered at Personal Property Registry.

Unlimited Guarantee and Postponement of Claim granted by Delta 9 Cannabis Store Inc. and Delta 9 Lifestyle Cannabis Clinic Inc, supported by:

- A General Security Agreement comprising a first charge security interest over all present and after-acquired personal property located at or on or related to the Property, registered at Personal Property Registry.

A formal Assignment and Postponement of Shareholders' Loan/Affiliated Company Loans/Debentures in the amount of \$2,459,856 acknowledged by the Borrower, registered at Personal Property Registry.

On April 25, 2022, the Company obtained an unsecured loan from a shareholder in the amount of \$4,990,264 that is due on July 20, 2025. The loan bears interest at 6% per annum and is payable monthly.

On April 25, 2022, the Company obtained an unsecured loan from a shareholder in the amount of \$600,929 that is due on July 20, 2025. The loan bears interest at 6% per annum and is payable monthly.

21. CONVERTIBLE DEBENTURES

| | 2022 Convertible debentures | 2019 Convertible debentures | Convertible debentures warrants | Total |
|--|-----------------------------------|-----------------------------------|---------------------------------------|---------------|
| Balance - beginning of period | \$ - | \$ 11,154,547 | \$ 1,275,437 | \$ 12,429,984 |
| Debentures issued | 6,888,391 | - | - | 6,888,391 |
| Interest payments made | (755,480) | (550,404) | - | (1,305,884) |
| Accretion | 1,363,744 | 1,195,857 | - | 2,559,601 |
| Transaction costs | (254,445) | - | - | (254,445) |
| Debenture repayment and cancellation of warrants on expiry | - | (11,800,000) | (1,275,437) | (13,075,437) |
| Balance - end of period | \$ 7,242,210 | \$ - | \$ - | \$ 7,242,210 |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2022

21. CONVERTIBLE DEBENTURES *(continued)*2022 Convertible Debentures

On March 30, 2022, the Company completed a private placement of a \$10,000,000 principal amount 3 year 10% senior second-lien secured convertible debenture of the Company (the "Sundial Debenture") to SNDL Inc., formerly Sundial Growers Inc. ("Sundial") for a subscription price of \$9,600,000, representing an original discount of 4.0% (the "Sundial Convertible Debenture Offering").

Until June 29, 2022, the Sundial Debenture was convertible by Sundial into Common Shares (the "Conversion Shares") at a conversion price equal to the lesser of: (i) \$0.35 per Conversion Share; and (ii) a share price equal to a 20.0% premium to the issuance price of an offering of equity securities of the Company completed in the six months from the date of issuance, provided that such price is not less than the 5-day volume weighted average trading price of the Common Shares (the "5-Day VWAP") as of the date of the conversion of the Sundial Debenture (the "Floor Price"). The Company may, at its option, also convert 100% of the interest accrued and payable for the first quarter ending June 30, 2022 and 50% of the interest accrued and payable for the second quarter ending September 30, 2022 into Common Shares at a price equal to the 5-Day VWAP as to the date of issuance. During an event of default that is ongoing, Sundial may, at its option, convert 100% of the interest accrued and payable into Common Shares at a price equal to the 5-Day VWAP as to the date of the interest payment. The current conversion price per unit is \$0.15 Conversion Share and is fixed for the remaining term of the agreement.

On June 29, 2022, in connection with the Sundial Convertible Debenture Offering, the Company received the approval of the shareholders of the Company for the ratification of the Sundial Convertible Debenture Offering and specifically the approval of: (i) the issuance to Sundial (or any person acting in combination or in concert with the Sundial) of more than 19,953,242 Shares pursuant to the Sundial Debenture, representing 25% of the issued and outstanding Common Shares, on a non-diluted basis as of the issuance of the Sundial Debenture on March 30, 2022, less the 6,666,667 Shares issued to Uncle Sam pursuant to the Uncle Sam Transaction; (ii) the issuance to Sundial (and any person acting in combination or in concert with Sundial) of that number of Common Shares that would result in Sundial (and any person acting in combination or in concert with Sundial) holding greater than 19.99% of the outstanding Common Shares, and accordingly becoming a control person of the Company, after giving effect to any conversion of the Sundial Debenture or any other issuance of Common Shares to Sundial pursuant to the terms of the Sundial Debenture, including the payment of interest thereon; (iii) the payment of interest on the Sundial Debenture in Common Shares at a price per Share equal to 85% of the 5-Day VWAP of the Common Shares on the terms set out in the Sundial Debenture; and (iv) removing the Floor Price for the issuance of Common Shares on any conversion of the Sundial Debenture.

The gross proceeds of \$9,600,000 was apportioned between the host loan and the embedded derivative liability by first determining the fair value of the derivative, which was \$2,711,609 on March 30, 2022. Transaction costs of \$254,445 associated with the host liability were capitalized to the liability whereas transaction costs of \$94,665 associated with the embedded derivative liability were expensed in the current period. The fair value of the derivative liability was \$398,000 at December 31, 2022 due to a decrease in the share price of the Company.

The effective interest rate of the host liability was calculated at 26.38%. The carrying value of the host liability was \$6,888,391 at March 30, 2022.

The Sundial Debentures contain a call option feature which allows the issuer to repay the principal plus interest at any time during the three-year term, with the repayment being equal to the amortized cost of the host liability. Under the exemption of IAS 39, the call option feature is closely related to the debt host contract and is not required to be accounted for separately.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2022

21. CONVERTIBLE DEBENTURES *(continued)*2019 Convertible Debentures

On July 17, 2019, the Company closed on financing for \$11,800,000 principal amount 3 year 8.50% convertible debenture. Each debenture unit is convertible at a price of \$1.21 per common share. The convertible debentures were repaid July 17, 2022.

The fair value of the debenture warrants was determined to be \$3,600,000, however, the discounted value of the liability component was determined at \$10,600,000, therefore, the remaining amount of \$1,200,000 represented the fair value of the warrants. Each warrant was exercisable at a price of \$1.33 per warrant. All warrants expired on July 17, 2022.

22. SHARE CAPITAL

Authorized:

The authorized share capital of the Company consists of an unlimited number of common shares without par value.

| | December 31, 2022 | December 31, 2021 |
|---|----------------------|----------------------|
| Issued share capital | | |
| 150,257,006 (December 31, 2021 - 105,657,268) Common Shares | \$ <u>72,581,938</u> | \$ <u>64,080,903</u> |

The increase of \$8,501,035 in the value of common shares during the year ended December 31, 2022 is represented by the following:

| | |
|---|---------------------|
| Shares issued in business acquisition transactions | \$ 4,856,458 |
| Shares issued relating to private placement and financing - net | 2,473,580 |
| Shares issued on exercise of restricted stock units | <u>1,170,997</u> |
| | <u>\$ 8,501,035</u> |

On November 3, 2021, the Company announced that the TSX has approved the Company's normal course issuer bid (the "NCIB"). Under the NCIB, the Company can purchase up to an aggregate of 6,827,032 common shares and up to an aggregate of \$1,180,000 principal amount of 8.5% unsecured convertible debentures of the Company. Purchases of common shares and convertible debentures pursuant to the NCIB may be made through the facilities of the TSX and alternative Canadian trading systems from November 5, 2021 and to November 4, 2022, or an earlier date in the event that the Company purchases the maximum number of common shares and convertible debentures available under the NCIB. The Company will pay the market price at the time of acquisition for any common shares and debentures purchased through the facilities of the TSX. All common shares and debentures acquired directly by the Company under the NCIB will be cancelled. The Company sought approval of the NCIB because it believes that, from time to time, the market price of the common shares and convertible debentures may not fully reflect the value of the common shares and convertible debentures. The Company believes that, in such circumstances, the purchase of common share and convertible debentures represents an accretive use of capital.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2022

22. SHARE CAPITAL *(continued)*Equity raise

On June 16, 2022, the Company completed a bought deal public offering of 8,800,027 units for aggregate gross proceeds of \$1,936,006 at an offering price of \$0.22 per unit. Each unit consisted of one common share of the Company and one common share purchase warrant of the Company. Each warrant is exercisable to acquire one common share for a period of 36 months at an exercise price of \$0.255.

The Company uses the residual approach in respect of equity offerings whereby the amount assigned to the warrant is the excess of the unit price over the trading price for the Company's shares at the date of issuance, if any, to a maximum fair value of the warrant determined by using the Black-Scholes option pricing model. Using this approach a fair value of \$88,000 was assigned to warrants.

The Company incurred costs in the amount of \$448,063 related to this equity raise.

Equity raise

On September 9, 2022, the Company completed a private placement of 1,650,000 shares for aggregate gross proceeds of \$206,250 at an offering price of \$0.125 per share.

The Company incurred costs in the amount of \$26,390 related to this equity raise.

At-the-Market Equity Offering ("ATM Program")

On December 6, 2022, the Company announced that it had established an ATM equity program that allows the Company to issue up to \$5,000,000 of Common Shares from treasury to the public from time to time, at the Company's discretion. Distributions of the Common Shares through the ATM Program will be made pursuant to the terms of an equity distribution agreement (the "Equity Distribution Agreement") dated December 6, 2022 between the Corporation and Haywood Securities Inc ("Haywood").

Pursuant to the Equity Distribution Agreement, the Common Shares may be offered and sold by Haywood: (a) in privately negotiated transactions with the consent of the Company and, if required, by the TSX; (b) as block transactions; (c) by Haywood, on the TSX or on any other "marketplace" (as such term is defined in National Instrument 21-101 – Marketplace Operation) in Canada; or (d) by any method permitted by law that constitutes an "at-the-market distribution" under National Instrument 44-102 – Shelf Distributions.

The offering under the ATM Program was made pursuant to the prospectus supplement of the Company dated December 6, 2022 to the amended and restated short form base shelf prospectus of the Company dated November 25, 2022, for all of the provinces of Canada, except Québec and the short form base shelf prospectus of the Company dated November 25, 2022, for Québec and the territories of Canada in respect of the ATM Program.

From the establishment of the ATM Program on December 6, 2022 to December 31, 2022, the Company issued 850,000 Common Shares under the ATM Program for an average price per Common Share of \$0.066 for aggregate gross proceeds of \$56,500.

The Company incurred costs in the amount of \$58,201 related to the ATM Program.

Warrants

On July 17, 2019, the Company closed a debenture financing deal for 11,800 convertible debenture units. Each unit consisted of one 8.5% unsecured convertible debenture (each a "convertible debenture") of the Company and 826 common share purchase warrants (each a "warrant"). Each warrant is exercisable to acquire one common share for a period of 36 months at an exercise price of \$1.33 per warrant, provided that if, at any time prior to the expiry date, the daily volume weighted average trading price of the common shares on the TSX, is greater than \$2.33 for 20 consecutive trading days, the Company may, within 10 business days of the occurrence of such event, deliver a notice to the holders of the warrants accelerating the expiry date to the date that is 30 days following the date of such notice. Any unexercised warrants shall automatically expire at the end of the accelerated exercise period. The warrants related to the 11,800 convertible debenture units expired on July 17, 2022.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2022

22. SHARE CAPITAL (continued)

In connection with the debenture financing broker 682,276 brokers' warrants were issued. These are exercisable at \$1.21 until July 17, 2022 and are not subject to accelerated provisions. The brokers' warrants connected with the debenture financing broker expired on July 17, 2022.

On June 16, 2022, the Company completed a bought deal public offering of 8,800,027 units for aggregate gross proceeds of \$1,936,006 at an offering price of \$0.22 per unit. Each unit consists of one common share of the Company and one common share purchase warrant of the Company. Each warrant is exercisable to acquire one common share for a period of 36 months at an exercise price of \$0.255. No warrants were exercised as of December 31, 2022.

In connection with the bought deal equity financing 616,002 brokers' warrants were issued. Each warrant entitles the holder to acquire one share at the issue price of \$0.22 until June 16, 2025. No broker warrants were exercised as of December 31, 2022.

On December 21, 2020, the Company completed a bought deal public offering of 10,454,546 units for aggregate gross proceeds of \$5,750,000 at an offering price of \$0.55 per unit. Each unit consists of one common share of the Company and one half of one common share purchase warrant of the Company. Each warrant is exercisable to acquire one common share for a period of 36 months at an exercise price of \$0.70. No warrants were exercised as of December 31, 2022.

In connection with the bought deal equity financing 731,818 brokers' warrants were issued. Each warrant entitles the holder to acquire one share at the issue price of \$0.55 until December 21, 2023. No broker warrants were exercised as of December 31, 2022.

The following table provides a summary of warrants activity for the year ended December 31, 2022:

| | <u>Number of warrants</u> | <u>Weighted Average Exercise Price</u> |
|----------------------------------|---------------------------|--|
| Outstanding, beginning of period | 16,388,167 | \$ 1.09 |
| Issued | 9,416,029 | \$ 0.25 |
| Exercised | - | \$ - |
| Expired | <u>10,429,076</u> | <u>\$ 1.32</u> |
| Outstanding, end of period | <u>15,375,120</u> | <u>\$ 0.42</u> |

Stock Option plan

On May 2, 2017, the Board of Directors approved the 2017 Stock Option Plan ("2017 Plan") to retain and attract directors, officers, and key employees. This replaces and terminates the former option plan, which had no outstanding options. On June 25, 2020, the shareholders of the Company approved, the amended and restated stock option plan (the "2020 Plan"). The 2020 Plan amended the 2017 Plan to comply with the policies of the TSX.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2022

22. SHARE CAPITAL (continued)

The following table provides a summary of stock option activity for the year ended December 31, 2022:

| | <u>Number of options</u> | <u>Weighted Average Exercise Price</u> |
|----------------------------------|--------------------------|--|
| Outstanding, beginning of period | 4,477,152 | \$ 0.58 |
| Granted | - | \$ - |
| Exercised | - | \$ - |
| Forfeited | 492,455 | \$ 0.58 |
| Cancelled | 867,829 | \$ 0.65 |
| Outstanding, end of period | <u>3,116,868</u> | <u>\$ 0.56</u> |

The following table provides a summary of currently active stock options at December 31, 2022:

| | | | |
|-------------------------|------------------|-------------------|-------------------|
| Date of approval | October 31, 2017 | November 13, 2019 | November 27, 2020 |
| Expiry date | October 31, 2022 | November 13, 2024 | November 27, 2025 |
| Number of stock options | 5,116,258 | 3,000,000 | 1,228,482 |
| Exercisable price | \$ 0.65 | \$ 0.55 | \$ 0.60 |
| | 25% each: | | |
| | April 30, 2018 | 50% each: | 50% each: |
| Vesting dates | October 31, 2018 | May 13, 2020 | May 30, 2021 |
| | April 30, 2019 | November 13, 2020 | November 30, 2021 |
| | October 31, 2019 | | |
| Options forfeited | 1,542,975 | 769,079 | 342,535 |
| Options cancelled | 867,829 | - | - |
| Options exercised | <u>2,705,454</u> | <u>-</u> | <u>-</u> |
| Options outstanding | <u>-</u> | <u>2,230,921</u> | <u>885,947</u> |

Restricted Share Units

On June 25, 2020, the shareholders approved the performance and restricted share unit plan of the Company, which is an equity incentive plan of equity-based instruments that do not have option-like features, including shares, restricted shares, performance share units, restricted share units, deferred share units, phantom shares, phantom share units, share equivalent units, and stock. The plan was amended May 12, 2022.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2022

22. SHARE CAPITAL (continued)

The following table provides a summary of currently active restricted share units at December 31, 2022:

| Date of approval | August 17, 2020 | November 27, 2020 | September 15, 2021 | July 22, 2022 | September 15, 2022 |
|---|--|--|---|---|-----------------------|
| Number of RSUs awarded | 1,590,056 | 1,243,500 | 1,846,150 | 6,661,278 | 2,885,000 |
| Vesting dates | 62% August 17, 2020 38% June 30, 2021 | 50% each: May 30, 2021 November 30, 2021 | 50% each: March 31, 2022 September 30, 2022 | 50% each: September 30, 2022 March 31, 2023 | September 15, 2022 |
| RSUs forfeited | - | 33,750 | 251,000 | 6,160 | - |
| RSUs redeemed | <u>1,590,056</u> | <u>1,196,000</u> | <u>842,425</u> | <u>976,902</u> | <u>2,885,000</u> |
| RSUs outstanding | <u>-</u> | <u>13,750</u> | <u>752,725</u> | <u>5,678,216</u> | <u>-</u> |
| Year ended December 31, 2022 share-based compensation expense | \$ <u>-</u> | \$ <u>-</u> | \$ <u>420,664</u> | \$ <u>796,942</u> | \$ <u>403,900</u> |

23. NON-CONTROLLING INTEREST

At December 31, 2022, the non-controlling interest represented a 31.22% interest in Delta 9 Lifestyle Cannabis Clinic Inc.

24. REVENUE

| | December 31, 2022 | December 31, 2021 |
|--------------------------------|----------------------|----------------------|
| Revenue from sale of cannabis: | | |
| Wholesale | \$ 12,126,163 | \$ 18,535,927 |
| Retail | 50,327,604 | 40,157,865 |
| Medicinal | 110,419 | 159,547 |
| Business to business | 1,730,399 | 5,010,113 |
| Merchandise and devices | 1,866,664 | 1,367,841 |
| Other | <u>419,829</u> | <u>387,543</u> |
| | 66,581,078 | 65,618,836 |
| Excise tax | (3,352,807) | (3,327,400) |
| Net Revenue | <u>\$ 63,228,271</u> | <u>\$ 62,291,436</u> |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2022

25. EXPENSES

The Company presents its Consolidated Statements of Net Income and Comprehensive Income on a functional basis in which expenditures are aggregated to the function to which they relate. The Company has identified the major functions as general and administrative and sales and marketing.

| Year ended December 31, 2022 | General and administrative | Sales and marketing | Total |
|--|----------------------------|----------------------|----------------------|
| Amortization | \$ 3,996,030 | \$ 3,850,174 | \$ 7,846,204 |
| Insurance | 605,708 | 120,711 | 726,419 |
| Legal, professional, consulting and investor relations | 1,547,417 | 369,619 | 1,917,036 |
| Other operating expenses | 1,793,325 | 1,623,649 | 3,416,974 |
| Personnel expenditures | 5,866,079 | 7,828,544 | 13,694,623 |
| Utilities | 563,799 | 227,363 | 791,162 |
| Site renovation | 7,201 | - | 7,201 |
| Supplies and materials | 694,195 | 432,673 | 1,126,868 |
| | <u>\$ 15,073,754</u> | <u>\$ 14,452,733</u> | <u>\$ 29,526,487</u> |

| Year ended December 31, 2021 | General and administrative | Sales and marketing | Total |
|--|----------------------------|----------------------|----------------------|
| Amortization | \$ 4,007,751 | \$ 2,320,542 | \$ 6,328,293 |
| Insurance | 463,614 | 202,712 | 666,326 |
| Legal, professional, consulting and investor relations | 1,129,857 | 429,364 | 1,559,221 |
| Other operating expenditures | 1,787,779 | 1,347,298 | 3,135,077 |
| Personnel expenditures | 4,322,371 | 5,819,431 | 10,141,802 |
| Utilities | 516,869 | 108,364 | 625,233 |
| Site renovation | 92,520 | - | 92,520 |
| Supplies and materials | 599,360 | 348,698 | 948,058 |
| | <u>\$ 12,920,121</u> | <u>\$ 10,576,409</u> | <u>\$ 23,496,530</u> |

26. FINANCE INCOME (EXPENSE)

| | December 31, 2022 | December 31, 2021 |
|---|------------------------|------------------------|
| Interest revenue | \$ 116,710 | \$ 31,120 |
| Interest expense: | | |
| Interest and bank charges | (1,055,209) | (514,182) |
| Interest on loans | (1,698,045) | (776,567) |
| Interest on leases | (1,179,425) | (694,772) |
| Interest on debentures | (2,574,258) | (1,913,389) |
| Transaction costs related to embedded derivatives | (94,665) | - |
| | <u>\$ (6,484,892)</u> | <u>\$ (3,867,790)</u> |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2022

27. OTHER INCOME

| | December 31, 2022 | December 31, 2021 |
|--------------------------------------|----------------------|----------------------|
| Amortization of manufacturing rebate | \$ 267,162 | \$ 311,069 |
| Other income | <u>45,503</u> | <u>53,761</u> |
| | <u>\$ 312,665</u> | <u>\$ 364,830</u> |

28. EARNINGS PER SHARE

Basic earnings per share

Basic EPS is calculated by dividing net income attributable to common shareholders by the weighted average number of common shares outstanding during the year.

| | December 31, 2022 | December 31, 2021 |
|---|----------------------|----------------------|
| Net income (loss) attributable to common shareholders | \$(27,200,557) | \$(11,177,487) |
| Weighted average number of common shares | <u>126,067,044</u> | <u>103,343,876</u> |
| | <u>\$(0.22)</u> | <u>\$(0.11)</u> |

Diluted earnings per share

Diluted EPS was calculated by dividing the applicable net income by the weighted average number of common shares outstanding, adjusted for the effects of all dilutive potential common shares, which comprise warrants and share options issued. However, the calculation of diluted earnings per share excludes the effects of various conversions and exercise of options or warrants that would be anti-dilutive.

| | December 31, 2022 | December 31, 2021 |
|--|----------------------|----------------------|
| Net income (loss) attributable to common shareholders | \$(27,200,557) | \$(11,177,487) |
| Weighted average number of common shares for diluted EPS | <u>126,067,044</u> | <u>103,343,876</u> |
| | <u>\$(0.22)</u> | <u>\$(0.11)</u> |

29. COMMITMENTS

On March 19, 2018, Delta 9 Bio-Tech entered into a binding letter of intent (the "Delta LOI") dated March 19, 2018 with 6599362 Canada Inc. setting out the terms and conditions pursuant to which it is anticipated that Delta 9 Bio-Tech would purchase property including the Expansion Properties. On July 17, 2018, the Delta LOI was amended and on April 28, 2021 a binding letter of intent was signed with 6599362 Canada Inc. replacing and superseding the Delta LOI in respect of revised terms governing the purchase of the Expansion Properties and defining the area of the Expansion Properties. The final purchase price and date is yet to be determined.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2022

30. INCOME TAXES

| | December 31, 2022 | December 31, 2021 |
|--|----------------------|----------------------|
| Net loss before income taxes | \$(27,836,950) | \$(11,543,242) |
| Statutory rates: | <u>26.90%</u> | <u>26.90%</u> |
| Expected income tax recovery based on statutory rate | (7,488,140) | (3,105,132) |
| Deferred income tax asset not recognized | <u>7,488,140</u> | <u>3,105,132</u> |
| Increase (decrease) in income taxes resulting from: | | |
| Taxable income (loss) in non-wholly owned subsidiary | <u>-</u> | <u>(401,015)</u> |
| Income tax expense (recovery) per financial statements | <u>\$ -</u> | <u>\$ (401,015)</u> |

As at December 31, 2022, the Company has \$71,594,915 of non-capital losses that expire as follows:

| | |
|------|----------------------|
| 2030 | \$ 587 |
| 2031 | 73,021 |
| 2032 | 643,155 |
| 2033 | 1,004,283 |
| 2034 | 1,305,720 |
| 2035 | 37 |
| 2036 | 2,301,408 |
| 2037 | 11,147,707 |
| 2038 | 19,815,387 |
| 2039 | 7,110,025 |
| 2040 | <u>6,593,870</u> |
| 2041 | <u>21,599,715</u> |
| | <u>\$ 71,594,915</u> |

Deferred tax assets are not recognized in these consolidated financial statements because the realization of these deferred tax assets is contingent on future profits.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2022

31. FINANCIAL INSTRUMENTS

As at December 31, 2022, the Company's financial instruments consist of cash and cash equivalents totaling \$3,518,994, trade and other receivables totaling \$2,317,486, notes receivable totaling \$345,159, net amount due from related parties totaling \$63,129, accounts payable and accrued liabilities totaling \$14,904,892, loan from related parties totaling \$2,756,404, lease liability totaling \$20,741,195, borrowings totaling \$35,398,453, convertible debentures totaling \$7,242,210, and derivative liabilities totaling \$398,000.

As at December 31, 2022 there were no significant differences between the carrying values of these items and their estimated fair values.

The Company records its financial instruments at fair value using a fair value hierarchy that gives the highest priority to quoted prices in active markets and the lowest priority to unobservable data. The fair value hierarchy is broken down into the following three levels:

| | Level 1 | Level 2 | Level 3 | December 31, 2022 |
|---|---------------------|-------------|-------------------|----------------------|
| Cash | \$ 3,518,994 | \$ - | \$ - | \$ 3,518,994 |
| Investment in Pure Blue Cannabis Inc. (formerly Vitreous Cannabis Inc.) | - | - | 33,333 | 33,333 |
| Investment in Oceanic Releaf Inc. | - | - | 500,000 | 500,000 |
| | <u>\$ 3,518,994</u> | <u>\$ -</u> | <u>\$ 533,333</u> | <u>\$ 4,052,327</u> |
| | Level 1 | Level 2 | Level 3 | December 31, 2021 |
| Cash | \$ 4,240,835 | \$ - | \$ - | \$ 4,240,835 |
| Investment in Pure Blue Cannabis Inc. (formerly Vitreous Cannabis Inc.) | - | - | 33,333 | 33,333 |
| Investment in Oceanic Releaf Inc. | - | - | 500,000 | 500,000 |
| | <u>\$ 4,240,835</u> | <u>\$ -</u> | <u>\$ 533,333</u> | <u>\$ 4,774,168</u> |

32. FINANCIAL RISK AND CAPITAL MANAGEMENT

In the normal course of business, the Company is exposed to a variety of financial risk: market risk, price risk, credit risk, and liquidity risk.

Financial Risk Factors*Market Risk*

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises two types of risk: currency risk and interest rate risk.

1. Currency risk is the risk to the Company's earnings that arise from fluctuations of foreign exchange rates. The Company is not exposed to foreign currency exchange risk as it has no financial instruments denominated in a foreign currency.

2. Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Borrowings issued at variable interest rates expose Company to cash flow interest rate risk. The remaining outstanding demand revolving loan is subject to variable interest rate. In 2022 the Company has not entered into any interest rate swap to mitigate this cash flow interest rate risk.

An increase of 1% in the floating interest rate with all other variables held constant, would result in an insignificant increase to interest expense for the year.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2022

32. FINANCIAL RISK AND CAPITAL MANAGEMENT (continued)

Price Risk

Price risk relates to the possibility that the fair value of future cash flows from financial instruments will change due to market fluctuations (other than due to currency or interest rate movements).

Credit Risk

Credit risk arises from deposits with banks, short-term investments and outstanding receivables. For trade receivables, the Company does not hold any collateral as security but mitigates this risk by dealing only with what management believes to be financially sound counterparties and accordingly does not anticipate significant loss from non-performance. There is no material exposure to credit risk on cash and cash equivalents as cash balances are held by highly reputable, large financial institutions.

Liquidity Risk

The Company's liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company controls liquidity risk by management of working capital, cash flows and the issuance of share capital. The Company is in the process of finalizing a number of large contract agreements for sales of wholesale cannabis which will improve overall company liquidity once completed. Further to this, the Company is currently negotiating with various levels of Government to provide grant contributions under various programs.

The following table analyses the Company's financial liabilities, including commitments, based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

| Payment due: | Total | Within 1 year | 1-3 years | 3-5 years | Over 5 years |
|-----------------------------------|----------------------|----------------------|----------------------|---------------------|---------------------|
| Trade payables and other payables | \$ 14,904,892 | \$ 14,904,892 | \$ - | \$ - | \$ - |
| Loan from related parties | 2,756,404 | - | 2,756,404 | - | - |
| Lease liabilities | 20,741,195 | 7,455,272 | 3,572,872 | 3,999,896 | 5,713,155 |
| Convertible debentures | 7,242,210 | - | 7,242,210 | - | - |
| Borrowings | <u>35,398,453</u> | <u>29,807,260</u> | <u>5,591,193</u> | <u>-</u> | <u>-</u> |
| Total contractual obligations | <u>\$ 81,043,154</u> | <u>\$ 52,167,424</u> | <u>\$ 19,162,679</u> | <u>\$ 3,999,896</u> | <u>\$ 5,713,155</u> |

Capital Management

The Company's key objectives when managing capital are to maintain a strong capital base in order to:

- maintain investor, creditor and market confidence;
- advance the Company's corporate strategies to generate attractive risk-adjusted return over the long-term for the shareholders;
- sustain the Company's operations and growth through all cycles; and
- ensure compliance with the covenants of any applicable credit facility and other financing facilities.

Management monitors the Company's capital and capital structure on an ongoing basis to ensure it is sufficient to achieve the Company's short-term and long-term objectives.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2022

33. SEGMENTED INFORMATION

The Company's operating results have been divided into three reportable operating segments plus corporate. All property, plant and equipment are located in Canada. All revenues were principally generated in Canada. The chief operating decision maker (the Company's chief executive officer) evaluates the operating performance of the segments and allocates resources based on information provided at gross margin level.

| | Wholesale Cannabis | Retail Cannabis and Merchandise and Devices | Business to Business | December 31, 2022 |
|--------------|-----------------------|--|-------------------------|----------------------|
| Revenue | \$ <u>8,891,674</u> | \$ <u>52,362,045</u> | \$ <u>1,974,552</u> | \$ <u>63,228,271</u> |
| Gross Profit | \$ <u>31,604</u> | \$ <u>12,558,537</u> | \$ <u>326,362</u> | \$ <u>12,916,503</u> |

| | Wholesale Cannabis | Retail Cannabis and Merchandise and Devices | Business to Business | December 31, 2021 |
|--------------|-----------------------|--|-------------------------|----------------------|
| Revenue | \$ <u>15,383,087</u> | \$ <u>41,699,682</u> | \$ <u>5,208,667</u> | \$ <u>62,291,436</u> |
| Gross Profit | \$ <u>5,161,516</u> | \$ <u>11,290,375</u> | \$ <u>1,809,041</u> | \$ <u>18,260,932</u> |

34. NON-CASH TRANSACTIONS IN CASH FLOW STATEMENT

Following are the non-cash transactions in the statement of cash flows for the year ended December 31, 2022:

- Prepayments of \$224,365 transferred to right-of-use assets on application of IFRS 16.
- Fair value component of inventory amounting to \$1,274,910.

DELTA 9 CANNABIS INC.
CONSOLIDATED
FINANCIAL STATEMENTS
DECEMBER 31, 2023
(EXPRESSED IN CANADIAN DOLLARS)

DELTA 9 CANNABIS INC.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2023

AUDITOR'S REPORT

| | |
|--|-------------|
| CONSOLIDATED STATEMENTS OF FINANCIAL POSITION | STATEMENT 1 |
| CONSOLIDATED STATEMENTS OF NET AND COMPREHENSIVE LOSS | STATEMENT 2 |
| CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY | STATEMENT 3 |
| CONSOLIDATED STATEMENT OF CASH FLOWS | STATEMENT 4 |
| NOTES TO CONSOLIDATED FINANCIAL STATEMENTS | PAGE 1 |

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Delta 9 Cannabis Inc.

Opinion

We have audited the consolidated financial statements of Delta 9 Cannabis Inc. and its subsidiaries, (the Company), which comprise the consolidated statements of financial position as at December 31, 2023 and December 31, 2022, and the consolidated statements of net loss and comprehensive loss, changes in shareholders' equity and cash flows for the years December 31, 2023 and 2022, and notes to the consolidated financial statements, including a summary of material accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2023 and December 31, 2022, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 2(e) to the consolidated financial statements, which indicates that the Company had negative working capital and experienced a net loss for the year ended December 31, 2023. These events or conditions along with other matters described in Note 2(e) indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements for the year ended December 31, 2023. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We have determined the matters described below to be the key audit matters to be communicated in our auditor's report.

Fair value less costs to sell inventory and biological assets

As discussed in notes 3 and 9 to the consolidated financial statements, the Company measures biological assets at fair value less costs to sell. The Company's biological assets are comprised of cannabis plants in various stages of growth, up to the point of harvest. On December 31, 2023, biological assets were recorded at \$1,086,182. Biological assets are transferred to work in progress inventory at their fair value at the point of harvest which becomes the cost of the cannabis inventory. Determination of fair value less costs to sell requires management to make significant judgements and assumptions relating to the stage of growth of the cannabis, harvesting costs, processing costs, sales price and expected yields.

We identified fair value less costs to sell inventory and biological assets as a key audit matter as management is required to make significant judgements and assumptions in determining these amounts. In turn, this leads to a high degree of auditor judgement, subjectivity, and effort in performing procedures to evaluate management's estimates.

To address this key audit matter, we evaluated management's process for developing the fair value estimates, evaluated the model for determining costs to sell, undertook sensitivity analysis, tested the completeness, accuracy and relevance of the underlying data used in the calculation, evaluated the significant assumptions used by management in determining the stage of growth of cannabis, harvest costs, processing costs, sales prices and expected yields. We undertook physical observation of the growing cannabis at year end, as well as examined source documentation for sales transactions subsequent to year end and harvest documentation and data with respect to yields.

Impairment of goodwill

As discussed in note 3 to the consolidated financial statements, the Company reviews long-lived assets including goodwill for impairment at each statement of financial position date or whenever events or changes in circumstances indicate that the carrying amount of an asset exceeds the recoverable amount. On December 31, 2023, goodwill was recorded at \$14,198,669.

We identified impairment of long-lived assets as a key audit matter as auditing the Company's goodwill is complex, and management is required to make significant judgements and assumptions in determining the higher of fair value less costs of disposal and value in use. In turn, this leads to a high degree of auditor judgement, subjectivity, and effort in performing procedures to evaluate management's estimates.

Fair value less costs of disposal is determined using a market approach based on market multiples. Value in use is determined using an income approach based on discounted cash flow involving forecasted revenue, gross margin, operating expenses, long-term growth rates and discount rates. The sensitivity of reasonable changes to the significant assumptions could have a significant impact on the determination of impairment.

To address this key audit matter, we evaluated the company's model for determining impairment, evaluated the reasonability of assumptions applied to key inputs involved in the determination of impairment and performed a sensitivity analysis on the key assumptions to assess the impact of reasonable changes on the determination of the recoverable amounts. We evaluated the market multiples by analyzing precedent market transactions and comparable public company multiples and comparing to those selected by management. We assessed the reasonableness of the Company's discount rates as well as forecasts related to revenue growth rates and earnings margins by comparing historical forecasts to actual performance. We also assessed the adequacy of the Company's disclosures in notes 3 and 13 to the consolidated financial statements.

Other Information

Management is responsible for the other information. The other information comprises the information contained in the Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements, or our knowledge obtained in the audit or otherwise appears to be materially misstated. We obtained the information included in the Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure, and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the consolidated financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision, and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Brent S. Morrish.

Baker Tilly HMA LLP

Chartered Professional Accountants

Winnipeg, Manitoba
March 31, 2024

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(CANADIAN DOLLARS)

AS AT DECEMBER 31

| | 2023 | 2022 |
|--|----------------------|----------------------|
| ASSETS | | |
| CURRENT | | |
| Cash (Note 6) | \$ 2,153,346 | \$ 3,518,994 |
| Trade and other receivables (Note 7) | 1,919,339 | 2,317,486 |
| Inventories (Note 8) | 11,000,403 | 18,378,055 |
| Biological assets (Note 9) | 1,086,182 | 1,442,202 |
| Current portion of notes receivable (Note 11) | 85,142 | 142,244 |
| Prepayments and other current assets (Note 10) | 1,891,671 | 1,289,425 |
| Due from directors, officers and related parties (Note 18) | 113,262 | 112,080 |
| | <u>18,249,345</u> | <u>27,200,486</u> |
| NOTES RECEIVABLE (Note 11) | 137,830 | 202,915 |
| PROPERTY, PLANT AND EQUIPMENT (Note 12) | 21,917,066 | 27,263,998 |
| RIGHT-OF-USE ASSETS (Note 19) | 19,051,865 | 20,151,153 |
| INVESTMENTS (Note 14) | 533,333 | 533,333 |
| GOODWILL (Note 5, 13) | <u>14,198,669</u> | <u>14,198,669</u> |
| | <u>\$ 74,088,108</u> | <u>\$ 89,550,554</u> |
| LIABILITIES | | |
| CURRENT | | |
| Accounts payable and accrued liabilities (Note 15) | \$ 13,938,998 | \$ 14,904,892 |
| Customer deposits (Note 16) | 521,101 | 327,993 |
| Due to shareholder (Note 18) | 48,951 | 48,951 |
| Current portion of deferred revenue (Note 17) | 317,017 | 267,162 |
| Current portion of lease liabilities (Note 19) | 1,961,646 | 7,455,272 |
| Current portion of borrowings (Note 20) | <u>29,311,297</u> | <u>29,807,260</u> |
| | <u>46,099,010</u> | <u>52,811,530</u> |
| LOAN FROM RELATED PARTIES (Note 18) | 2,860,248 | 2,756,404 |
| DEFERRED REVENUE (Note 17) | 859,263 | 926,723 |
| LEASE LIABILITIES (Note 19) | 18,407,306 | 13,285,923 |
| BORROWINGS (Note 20) | 3,791,193 | 5,591,193 |
| CONVERTIBLE DEBENTURES - HOST LIABILITY (Note 21) | 8,271,535 | 7,242,210 |
| CONVERTIBLE DEBENTURES - EMBEDDED DERIVATIVE LIABILITY (Note 21) | <u>226,000</u> | <u>398,000</u> |
| | <u>80,514,555</u> | <u>83,011,983</u> |
| SHAREHOLDERS' EQUITY | | |
| SHARE CAPITAL (Note 22) | 76,399,543 | 72,581,938 |
| WARRANTS | 144,835 | 325,814 |
| CONTRIBUTED SURPLUS | 7,534,873 | 7,500,886 |
| ACCUMULATED DEFICIT | (72,085,002) | (54,569,663) |
| ACCUMULATED OTHER COMPREHENSIVE LOSS | (19,274,154) | (19,274,154) |
| NON-CONTROLLING INTEREST | <u>853,458</u> | <u>(26,250)</u> |
| TOTAL SHAREHOLDERS' EQUITY | <u>(6,426,447)</u> | <u>6,538,571</u> |
| | <u>\$ 74,088,108</u> | <u>\$ 89,550,554</u> |
| COMMITMENTS (Note 29) | | |

Approved on behalf of the Board:

"Nitin Kaushal"

Signed: Director

"John William Arbuthnot IV"

Signed: Director

See accompanying notes to consolidated financial statements

00367

CONSOLIDATED STATEMENTS OF NET LOSS AND COMPREHENSIVE LOSS
(CANADIAN DOLLARS)
YEAR ENDED DECEMBER 31

| | 2 0 2 3 | 2 0 2 2 |
|---|-------------------|----------------|
| REVENUE <i>(Note 24)</i> | \$ 71,065,337 | \$ 63,228,271 |
| COST OF SALES | (53,091,503) | (50,311,768) |
| GROSS PROFIT BEFORE UNREALIZED GAIN FROM CHANGES IN BIOLOGICAL ASSETS | 17,973,834 | 12,916,503 |
| Unrealized gain on changes in fair value of biological assets | 8,230,742 | 15,307,184 |
| Fair value changes in biological assets included in inventory sold | (11,759,995) | (17,344,998) |
| GROSS PROFIT | 14,444,581 | 10,878,689 |
| EXPENSES | | |
| General and administrative <i>(Note 25)</i> | 11,236,033 | 15,073,754 |
| Sales and marketing <i>(Note 25)</i> | 15,903,556 | 14,452,733 |
| Share based compensation | 798,156 | 1,610,463 |
| | 27,937,745 | 31,136,950 |
| LOSS FROM OPERATIONS | (13,493,164) | (20,258,261) |
| OTHER INCOME (EXPENSES) | | |
| Finance income (expense) - net <i>(Note 26)</i> | (6,784,662) | (6,484,892) |
| Other income <i>(Note 27)</i> | 3,470,195 | 312,665 |
| Other financing costs | - | (494,466) |
| Gain (loss) on fair value change in derivative liability | 172,000 | 2,313,609 |
| Impairment of goodwill <i>(Note 13)</i> | - | (3,075,605) |
| Impairment of intangible assets <i>(Note 13)</i> | - | (150,000) |
| | (3,142,467) | (7,578,689) |
| LOSS BEFORE INCOME TAXES | (16,635,631) | (27,836,950) |
| Current income tax expense (recovery) <i>(Note 30)</i> | - | - |
| NET LOSS | (16,635,631) | (27,836,950) |
| Net income (loss) attributable to: | | |
| Delta 9 Cannabis Inc. | (17,515,339) | (27,200,557) |
| Non-controlling interest <i>(Note 23)</i> | 879,708 | (636,393) |
| | (16,635,631) | (27,836,950) |
| Total comprehensive income (loss) | (16,635,631) | (27,836,950) |
| Total comprehensive income (loss) attributable to: | | |
| Delta 9 Cannabis Inc. | (17,515,339) | (27,200,557) |
| Non-controlling interest <i>(Note 23)</i> | 879,708 | (636,393) |
| | (16,635,631) | (27,836,950) |
| Earnings (loss) per share - basic <i>(Note 28)</i> | \$(0.10) | \$(0.22) |
| Earnings (loss) per share - diluted <i>(Note 28)</i> | \$(0.10) | \$(0.22) |

DELTA 9 CANNABIS INC.

STATEMENT 3

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(CANADIAN DOLLARS)

YEAR ENDED DECEMBER 31

| | Number of shares | Share Capital | Warrants | Contributed Surplus | Accumulated Deficit | Accumulated Other Comprehensive Loss | Non- Controlling Interest | Total Equity |
|---|---------------------|----------------------|-------------------|------------------------|------------------------|---|---------------------------------|-----------------------|
| BALANCE, December 31, 2021 | 105,657,268 | \$ 64,080,903 | \$ 1,456,415 | \$ 5,774,941 | \$(27,369,106) | \$(19,274,154) | \$ 610,143 | \$ 25,279,142 |
| Net income (loss) | - | - | - | - | (27,200,557) | - | (636,393) | (27,836,950) |
| Shares issued relating to financing | 2,038,217 | 640,000 | - | - | - | - | - | 640,000 |
| Shares issued in equity raise | 11,300,027 | 1,578,100 | 144,836 | - | - | - | - | 1,722,936 |
| Shares issued to Sundial Cannabis Inc. | 1,178,647 | 255,479 | - | - | - | - | - | 255,479 |
| Shares issued in business acquisition transactions | 24,911,771 | 4,856,458 | - | - | - | - | - | 4,856,458 |
| Transfer of warrants to contributed surplus on expiry | - | - | (1,275,437) | 1,275,437 | - | - | - | - |
| Share based compensation | - | - | - | 1,621,506 | - | - | - | 1,621,506 |
| Transfer on exercise of restricted stock units (Note 22) | 5,171,076 | 1,170,998 | - | (1,170,998) | - | - | - | - |
| BALANCE, December 31, 2022 | <u>150,257,006</u> | <u>\$ 72,581,938</u> | <u>\$ 325,814</u> | <u>\$ 7,500,886</u> | <u>\$(54,569,663)</u> | <u>\$(19,274,154)</u> | <u>\$(26,250)</u> | <u>\$ 6,538,571</u> |
| BALANCE, December 31, 2022 | 150,257,006 | \$ 72,581,938 | \$ 325,814 | \$ 7,500,886 | \$(54,569,663) | \$(19,274,154) | \$(26,250) | \$ 6,538,571 |
| Net income (loss) | - | - | - | - | (17,515,339) | - | 879,708 | (16,635,631) |
| Transfer of warrant to contributed surplus on expiry | - | - | (180,979) | 180,979 | - | - | - | - |
| Share issued related to private placement and financing (Note 22) | 44,584,664 | 2,186,866 | - | - | - | - | - | 2,186,866 |
| Shares issued in business acquisition transactions (Note 5) | 1,993,865 | 319,018 | - | - | - | - | - | 319,018 |
| Restricted shares issued for services and purchase of equipment (Note 22) | 5,609,419 | 364,612 | - | - | - | - | - | 364,612 |
| Share based compensation | - | - | - | 800,117 | - | - | - | 800,117 |
| Transfer on exercise of restricted stock units (Note 22) | 10,721,941 | 947,109 | - | (947,109) | - | - | - | - |
| BALANCE, December 31, 2023 | <u>213,166,895</u> | <u>\$ 76,399,543</u> | <u>\$ 144,835</u> | <u>\$ 7,534,873</u> | <u>\$(72,085,002)</u> | <u>\$(19,274,154)</u> | <u>\$ 853,458</u> | <u>\$(6,426,447)</u> |

CONSOLIDATED STATEMENT OF CASH FLOWS
(CANADIAN DOLLARS)
YEAR ENDED DECEMBER 31

| | 2023 | 2022 |
|--|------------------------|------------------------|
| CASH FLOW FROM | | |
| OPERATING ACTIVITIES | | |
| Net loss for the year | \$(16,635,631) | \$(27,836,950) |
| Items not affecting cash: | | |
| Amortization of property, plant and equipment | 8,787,343 | 7,966,408 |
| Unrealized changes in fair value of biological assets | 3,529,253 | 2,037,814 |
| Gain on fair valuation of change in derivative liability | (172,000) | (2,313,609) |
| Gain on disposal of fixed assets | (15,834) | - |
| Interest accrued on lease liabilities | 1,525,096 | 1,179,425 |
| Interest accrued on loan from related party | 103,845 | 94,717 |
| Interest accrued on convertible debentures | 2,029,366 | 2,466,118 |
| Interest accrued on borrowings | 153,489 | 91,951 |
| Bad debts | 122,434 | 455,367 |
| Share based compensation and payments | 1,314,728 | 1,621,506 |
| Non-cash revenue- manufacturing rebate | (267,162) | (267,162) |
| Impairment of goodwill (Note 13) | - | 3,075,605 |
| Impairment of intangible assets | - | 150,000 |
| Research equipment write down | 250,000 | - |
| Forgiveness of debt | (2,241,489) | - |
| | (1,516,562) | (11,278,810) |
| Trade and other receivables | 275,713 | 1,796,477 |
| Inventories | 3,954,813 | 1,581,121 |
| Prepayments and other current assets | (649,046) | (217,785) |
| Accounts payable and accrued liabilities | 1,592,328 | 3,530,771 |
| Customer deposits | 193,108 | 33,826 |
| Notes receivable | 122,187 | 896,940 |
| Deferred revenue | 249,567 | - |
| Changes in non cash working capital | 5,738,670 | 7,621,350 |
| | 4,222,108 | (3,657,460) |
| INVESTING ACTIVITIES | | |
| Acquisition of property, plant and equipment | (652,231) | (2,363,342) |
| Proceeds on disposal of fixed assets | 20,000 | - |
| Cash payment for retail store acquisitions, net | - | (11,501,800) |
| | (632,231) | (13,865,142) |
| FINANCING ACTIVITIES | | |
| Proceeds from share issuances - net | 2,036,864 | - |
| Proceeds from convertible debentures - net (Note 21) | - | 9,345,555 |
| Proceeds from equity raise | - | 1,722,937 |
| Proceeds from borrowings - net (Note 20) | 291,686 | 37,155,648 |
| Repayment of lease liabilities (Note 19) | (3,541,455) | (2,816,647) |
| Repayment of borrowings | (2,741,138) | (15,828,351) |
| Interest payments on convertible debentures | (1,000,000) | (12,766,570) |
| Due to (from) related parties | (1,182) | (11,811) |
| | (4,955,225) | 16,800,761 |
| NET DECREASE IN CASH | (1,365,348) | (721,841) |
| CASH, beginning of year | 3,518,994 | 4,240,835 |
| CASH, end of year | \$ 2,153,646 | \$ 3,518,994 |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**December 31 , 2023**

1. NATURE OF BUSINESS

Delta 9 Cannabis Inc. (the "Company") is a licensed cannabis producer regulated by Health Canada under The Cannabis Act. The Company is a publicly traded company on the Toronto Stock Exchange ("TSX") under the symbol DN. The Cannabis license is in the name of Delta 9 Bio-Tech Inc., a wholly owned subsidiary of the Company. On December 4, 2019, Health Canada amended the Cannabis license to allow the Company to sell cannabis oils, extracts and derivative products in addition to the previously granted license for standard cultivation and license for sale for medical purposes with subsequent amendments expiring on August 22, 2027.

The address of the registered office is Suite 2600, 1066 West Hastings Street, Vancouver, British Columbia, V6E 3X1.

On March 31, 2024, the Board of Directors authorized the Consolidated Financial Statements for issue.

2. BASIS OF PRESENTATION**a) Statement of compliance**

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by International Accounting Standard Board ("IASB").

b) Basis of measurement

These consolidated financial statements have been prepared on a historical cost basis except for biological assets, notes receivable, long term investments, intangibles, borrowings, convertible debentures, loans from related parties, warrants and options which are measured at fair value, as explained in the accounting policies below.

Historical cost is the fair value of the consideration given in exchange for goods and services based on the fair value at the time of the transaction of the consideration given in exchange for assets.

c) Functional and presentation currency

These consolidated financial statements are presented in Canadian dollars, which is the Company's functional and presentation currency.

d) Basis of consolidation

These consolidated financial statements consolidate the accounts of the Company and its subsidiaries. Subsidiaries are all entities over which the Company has control. The Company controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The Company has power over an entity where it has existing rights that give the current ability to direct the activities that most significantly affect the entity's returns (relevant activities). Power may be determined on the basis of voting rights or, in the case of structured entities, other contractual arrangements. The Company consolidates all subsidiaries from the date it obtains control and ceases consolidation when an entity is no longer controlled by it. All transactions and balances from subsidiaries have been eliminated upon consolidation.

These consolidated financial statements include the Company and its wholly owned subsidiaries, Delta 9 Bio-Tech Inc. and Delta 9 Cannabis Store Inc., and the Company's interest in Delta 9 Lifestyle Cannabis Clinic Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**December 31 , 2023**

2. BASIS OF PRESENTATION *(continued)*

In addition to Delta 9 Bio-Tech Inc. (and its subsidiary, Delta 9 Lifestyle Cannabis Clinic Inc.), the Company has four other subsidiaries, 10007705 Manitoba Ltd. which was incorporated under The Corporations Act (Manitoba) on December 14, 2017 and Delta 9 Cannabis Store Inc. which was incorporated under the Canada Business Corporations Act on May 6, 2019. Delta 9 Lifestyle Cannabis Clinic Inc. was awarded its first four Manitoba retail location licenses. The Company now has nineteen retail locations in Manitoba owned by Delta 9 Lifestyle Cannabis Clinic Inc. and twenty-two retail locations in Saskatchewan and Alberta owned by Delta 9 Cannabis Store Inc. In 2020, the Company incorporated a new subsidiary Blue Horseshoe Manufacturing Inc. The Company holds 53% of the issued and outstanding shares, with the remaining shares held by arm's length third parties. On October 5, 2021, Delta 9 Logistics Inc. a wholly owned subsidiary was incorporated by the Company.

No financial transactions were incurred by 10007705 Manitoba Ltd. and Delta 9 Logistics Inc. as of December 31, 2023. There were no material financial transactions incurred by Blue Horseshoe Manufacturing Inc. as of December 31, 2023.

e) Going concern

These consolidated financial statements have been prepared on a going concern basis which assumes that the Company will, in the foreseeable future realize on its assets and discharge its liabilities in the normal course of business as they become due. Accordingly, the consolidated financial statements do not give affect to adjustments that would be necessary should the Company be unable to continue as a going concern and, therefore be required to realize its assets and liquidate its liabilities and commitments in other than the normal course of business and at amounts different from those in these consolidated financial statements. Such adjustments could be material.

At December 31, 2023, the Company had negative working capital of \$27,849,665 compared to \$25,611,044 at December 31, 2022. The Company incurred a net loss for the year ended December 31, 2023 of \$16,635,631 and earned cash flows from operating activities of \$4,222,108.

The Company anticipates it will have sufficient cash on hand to service its liabilities and fund operating costs for the immediate future. However, without raising additional debt financing or equity in the upcoming fiscal year there is material uncertainty over the Company's ability to continue as a going concern. The company has acted and continues to act on substantial cost cutting initiatives in all aspects of the company operations. The projected result of these initiatives was estimated to be between \$3,000,000 and \$4,000,000 in 2023. The actual cash reductions in 2023 were \$3,800,000. The company will continue cost cutting initiatives in 2024.

As at December 31, 2023 the Company was not compliant with its debt service coverage ratio covenant and its working capital covenant. Continued non-compliance with the financial covenants in the credit facility could result in the debt becoming due and payable on demand. Should the Company anticipate continued non-compliance, management will proactively approach its lender to amend the credit facilities to ensure their continued availability. There is no certainty the Company will be successful in negotiating such amendments.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**December 31 , 2023**

3. MATERIAL ACCOUNTING POLICIES***REVENUE RECOGNITION***

The Company's policy for the timing and amount of revenue to be recognized is based on the following five-step process described in IFRS 15:

- Identifying the contract with a customer
- Identifying the performance obligations
- Determining the transaction price
- Allocating the transaction price to the performance obligations
- Recognizing revenue when or as performance obligation(s) are satisfied

Revenue from the sale of cannabis, related merchandise and devices and grow pods is recognized when the Company has transferred the significant risks and rewards of ownership to the customer, the amount of the revenue can be reliably measured and it is probable that the Company will receive the previously agreed upon payment. Significant risks and rewards are generally considered to be transferred when the product leaves the Company's premises. Revenue is recognized at the fair value of the consideration received or receivable. Interest and sundry income is recognized at the time the amount is earned, determinable and collectibility is reasonably assured.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash on hand, balances with banks and term deposits having maturity of twelve months or less at acquisition, which are held for the purpose of meeting short-term cash commitments.

TRADE AND OTHER RECEIVABLES

Trade receivables are stated at the amounts billed to customers under normal trade, and are recognized initially at fair value and subsequently measured at amortized cost less an allowance for impairment.

Trade and other receivables are classified as current assets if amounts are due within one year or less. If not, they are presented as non-current assets.

NOTES RECEIVABLE

Notes receivable are recognized initially at fair value and subsequently carried at amortized cost.

Notes receivable are classified as current assets if amounts are due within one year or less. If not, they are presented as non-current assets.

INVENTORIES

Inventories of raw materials, merchandise and devices, grow pods, and finished goods are valued at the lower of cost and net realizable value. Harvested cannabis plants are transferred from biological assets into work in progress inventory at their fair value at harvest less costs to sell which is deemed to be their cost. Any subsequent post-harvest costs are capitalized to inventory to the extent that cost is less than net realizable value. Net realizable value is determined as the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs to sell. Packaging, supplies and seeds are initially valued at cost.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2023

3. MATERIAL ACCOUNTING POLICIES (continued)

BIOLOGICAL ASSETS

The Company's biological assets consist of cannabis clones, mother plants and flowering plants. All the biological assets are presented as current assets on the statement of financial position. The Company measures biological assets at fair value less cost to sell up to the point of harvest which becomes the basis for the cost of work in progress and in turn finished goods inventories after harvest. Average selling prices and expected yield from a flowering cannabis plant has been applied on a strain by strain basis. Gains or losses arising from changes in fair value less cost to sell are included in the results of operations of the related year.

PREPAYMENTS AND OTHER CURRENT ASSETS

Prepayments and other current assets include short-term prepaid expenses and prepayments related to materials and other deposits required in the normal course of business, which are less than one year.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are measured at cost less accumulated amortization and impairment losses. Amortization is provided on a straight-line basis using the following rates:

| | |
|--------------------------------|-----|
| Building | 5% |
| Leasehold improvements | 20% |
| Containers | 10% |
| Production equipment | 20% |
| Cooling infrastructure | 10% |
| Security equipment | 20% |
| Computer equipment | 55% |
| Computer software | 33% |
| Office furniture and equipment | 20% |
| Vehicles | 30% |

In the year of acquisition, amortization is taken at one-half of the straight line rate.

IMPAIRMENT OF LONG-LIVED ASSETS

Long lived assets, including property, plant and equipment and intangible assets are reviewed for impairment at each statement of financial position date or whenever events or changes in circumstances indicate that the carrying amount of an asset exceeds the recoverable amount. For the purposes of impairment-testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generate cash flows from continuing use that are largely independent of cash flows of other assets or groups of the assets (the cash generating unit, or "CGU"). The recoverable amount of an asset or a CGU is the higher of its fair value, less costs of disposal ("FVLCD"), and its value in use. If the carrying amount of an asset exceeds its recoverable amount, an impairment charge is recognized immediately in profit or loss by the amount by which the carrying amount of the asset exceeds the recoverable amount. Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the lesser of the revised estimate of the recoverable amount, and the carrying amount that would have been recorded had no impairment loss been recognized previously.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**December 31 , 2023**

3. MATERIAL ACCOUNTING POLICIES (continued)***BUSINESS ACQUISITIONS***

The Company applies the acquisition method in accounting for business combinations. The Company measures goodwill as the difference between the fair value of the consideration transferred, including the recognized amount of any non-controlling interest in the acquiree, and the net recognized amount (generally fair value) of the identifiable assets acquired and liabilities assumed, all measured as of the acquisition date.

Consideration transferred includes the fair value of the assets transferred (including cash), liabilities incurred by the Company on behalf of the acquiree, and equity interests issued by the Company. Consideration transferred also includes the fair value of any contingent consideration.

Transaction costs that the Company incurs in connection with a business combination, such as finders' fees, legal fees, due diligence fees, and other professional and consulting fees, are expensed in the year as incurred.

TRADE AND OTHER PAYABLES

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Other payables include excise duty, government remittances payable and corporate credit cards. Trade and other payables are classified as current liabilities if payments are due within one year or less. If not, they are presented as non-current liabilities.

DEFERRED REVENUE

Deferred revenue includes amounts related to:

- Amortization of pre-roll machine government rebate.
- Amortization of manufacturing rebate from the government over the useful life of the related assets.
- Amortization of Efficiency Manitoba retrofit grant.

If the revenue recognition associated with these services is expected to take place within twelve months from the balance sheet date, the Company presents the deferred revenue as current; otherwise the deferred revenue is presented as non-current.

BORROWINGS

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in earnings over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognized as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. If so, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalized as a pre-payment for liquidity services and amortized over the period of the facility to which it relates.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**December 31 , 2023**

3. MATERIAL ACCOUNTING POLICIES (continued)**CONVERTIBLE INSTRUMENTS**

Convertible instruments are compound financial instruments which are accounted for separately by their components, a financial liability and an equity instrument. The financial liability, which represents the obligation to pay coupon interest on the convertible instruments in the future is initially measured at its fair value of a similar liability that does not have an equity conversion option, and subsequently measured at amortized cost using the effective interest method. The residual amount is accounted for as an equity instrument at issuance. The equity component is not remeasured subsequent to initial recognition, except on conversion or expiry. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts.

For compound instruments with non-equity derivatives, the fair value of the embedded derivative is determined based on the contractual terms, and the initial carrying amount of the host instrument is the residual amount after separating the embedded derivative.

DERIVATIVES

The Company measures derivative financial liabilities at fair value through profit or loss at initial recognition and in subsequent reporting periods. Fair value gains or losses are recognized in other gains (losses) on the statement of net loss and comprehensive loss. Transaction costs, which are directly attributable to the offering, are expensed as incurred.

INTANGIBLE ASSETS

Indefinite intangible assets are deemed to have no foreseeable limit over which the asset is expected to generate net cash inflows. Following initial recognition, intangible assets with indefinite useful lives are carried at cost less any accumulated impairment losses and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired.

LEASES

The Company recognizes lease liabilities under the principles of IFRS 16 Leases.

The Company leases various properties for its offices, manufacturing facility and retail stores to sell recreational cannabis. Rental contracts are typically made for fixed periods, but might have extension options. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets cannot be used as security for borrowing purposes.

Leases are recognized as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Company.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of fixed payments (including in-substance fixed payments), less any lease incentives receivable. The lease payments are discounted using the Company's incremental borrowing rate.

The Company recognizes a right-of-use asset and a lease liability at the commencement of the lease. The right-of-use asset is initially measured based on the present value of lease payments, plus initial direct costs and the cost of obligations to refurbish the asset, adjusted for any lease payments made at or before the commencement date less any incentives received.

Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period to produce a constant periodic rate of interest on the remaining balance of the liability for each year. The right-of-use asset is amortized over the shorter of the asset's useful life and the lease term on a straight-line basis. In case of a future purchase option, the right-of-use asset is amortized over the asset's useful life.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**December 31 , 2023**

3. MATERIAL ACCOUNTING POLICIES (continued)

In applying IFRS 16, the Company uses the following practical expedients permitted by the standard:

- The use of a single discount rate to a portfolio of leases with reasonably similar characteristics.
- To account for each lease component of a contract and any associated non-lease components as a single lease component, where non-lease components are not significant when compared with the lease components of a contract.
- The use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Company has elected not to recognize right-of-use assets and liabilities for leases where the total lease term is less than or equal to twelve months, or for leases of low-value assets. Payments associated with short-term leases and leases of low-value assets are recognized on a straight-line basis as an expense. Presently, there are no short-term or low-value leases in effect.

Income from operating leases is recognized on a straight-line basis over the term of the lease.

SHARE-BASED COMPENSATION

The Company has a stock option plan for directors, officers, employees, and consultants. Grants are subject to a service condition by the option holder.

All option grants are initially measured at fair value at the grant date using the Black-Scholes option pricing model. The fair value of the options is amortized over the vesting period and is included in operating expenses with a corresponding increase in contributed surplus, net of an estimated forfeiture credit. Management reassesses the estimated forfeiture credit at each reporting period. Where the terms and conditions of the initial option grant are modified before they vest, the options are remeasured at fair value at the modification date and any increase in fair value is charged to earnings.

When options are exercised, common shares are issued from treasury and the proceeds are credited to share capital in the Consolidated Statement of Financial Position.

The Company also has a performance and restricted share units plan for directors, officers, and employees. All performance and restricted share units are initially measured at fair value at the grant date. The fair value of the performance and restricted share units is amortized over the vesting period and is included in operating expenses with a corresponding increase in contributed surplus, net of an estimated forfeiture credit. Management reassesses the estimated forfeiture credit at each reporting period. When performance and restricted share units are exercised, common shares are issued from treasury and the corresponding fair values are credited to share capital in the Consolidated Statement of Financial Position.

WARRANTS

The Company uses the residual value approach in respect of unit offerings whereby the amount assigned to the warrant is the excess of the unit price over the trading price of the Company's shares at the date of issuance, if any, to a maximum fair value of the warrant determined by using the Black-Scholes option pricing model.

INCOME TAXES

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2023

3. MATERIAL ACCOUNTING POLICIES (*continued*)*FINANCIAL INSTRUMENTS*

Financial instruments consist of financial assets and liabilities and are initially measured at fair value, and are recognized in the consolidated statements of financial position when the Company has become party to the contractual provisions of the instruments. The accounting policies for financial instruments are described below and the composition of the Company's financial instruments and related risks are disclosed in Notes 31 and 32.

1) Financial Assets

The Company classifies each financial asset into one of following categories depending on the purpose for which the asset was acquired. The classification of its instruments is driven by the Company's business model for managing the financial assets and their contractual cash flow characteristics.

a) At Fair Value Through Profit or Loss ("FVTPL").

Assets in this category are derivatives, equity instruments which the Company has not irrevocably elected, at initial recognition, to classify at FVTOCI, or other assets classified as held-for-trading (i.e. acquired or incurred principally for the purpose of selling or repurchasing in the near term) or designated as FVTPL upon initial recognition subject to meeting certain conditions. After initial recognition, such assets are measured at fair value with changes therein being recognized in profit or loss. The Company has cash and cash equivalents which are classified as FVTPL.

b) At Fair Value Through Other Comprehensive Income ("FVTOCI")

Equity instruments that are not held-for-trading can be irrevocably designated to have their change in fair value recognized through other comprehensive income instead of through profit or loss. This election can be made on individual instruments and is not required to be made for the entire class of instruments. Attributable transaction costs are included in the carrying value of the instruments. Financial assets at fair value through other comprehensive income are initially measured at fair value and changes therein are recognized in other comprehensive income. The Company has investments in equity instruments of Pure Blue Cannabis Inc. (formerly Vitreous Cannabis Inc.) and Oceanic Releaf Inc. which are classified as FVTOCI.

c) Amortized Cost

Assets in this category are initially recognized at fair value plus or minus transaction costs, respectively, and subsequently carried at amortized cost less impairment. The Company has accounts receivable, notes receivable, and amounts due from related parties which are classified as financial assets at amortized cost.

2) Financial Liabilities

The Company classifies each financial liability into one of following categories depending on the purpose for which the liability was incurred.

a) At FVTPL

Financial liabilities in this category are derivatives or liabilities classified as held-for-trading or designated as FVTPL, upon initial recognition subject to meeting certain conditions. After initial recognition, such liabilities are measured at fair value with changes in fair value being recognized in profit or loss. The Company has an embedded derivative liability classified as FVTPL.

(b) Other Financial Liabilities

Liabilities in this category are non-derivative financial liabilities that are not classified as FVTPL. After initial recognition, such liabilities are measured at amortized cost using the effective interest rate method. The Company has accounts payable and accrued liabilities, customer deposits, lease liabilities, loan from related parties, borrowings, convertible debentures and due to related parties which are classified as other financial liabilities.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31 , 2023

3. MATERIAL ACCOUNTING POLICIES (*continued*)

3) Transaction Costs

For FVTPL financial assets and liabilities, transaction costs on initial recognition, and thereafter, are included directly in profit or loss. For other categories of financial assets and liabilities, transaction costs are capitalized and included in the calculation of the effective interest rate i.e. amortized through profit or loss over the terms of the related instrument.

4) Impairment of Financial Assets

The Company recognizes a loss allowance for expected credit losses on financial assets that are measured at amortized cost. At each reporting date, the Company measures the loss allowance for the financial asset at an amount equal to the lifetime expected credit losses if the credit risk on the financial asset has increased significantly since initial recognition. If at the reporting date, the credit risk on financial assets has not increased significantly since initial recognition, the Company measures the loss allowance for the financial assets at an amount equal to twelve month expected credit losses. The Company recognizes in the statements of net income (loss), as an impairment gain or loss, the amount of expected credit losses (or reversal) that is required to adjust the loss allowance at the reporting date to the amount that is required to be recognized.

5) Fair Value Measurement

Fair value is defined as the price to sell an asset or transfer a liability (i.e. the "exit price") in an orderly transaction between market participants. Management uses a fair value hierarchy that gives the highest priority to quoted prices in active markets and the lowest priority to unobservable data. The fair value hierarchy is broken down into the following three levels:

Level 1: Fair value based on unadjusted quoted prices in active markets for identical assets or liabilities.

Level 2: Fair value based on quoted prices in active markets for similar assets or liabilities, quoted prices for identical assets or liabilities in inactive markets, or for which significant inputs are observable (e.g. interest rates, yield curves, etc.) or can be corroborated by observable market data.

Level 3: Fair value based on inputs that are unobservable and reflecting significant management judgments about assumptions that market participants might use.

The fair value hierarchy requires the use of observable market inputs whenever such inputs exist. A financial instrument is classified to the lowest level of the hierarchy for which a significant input has been considered in measuring fair value.

GOVERNMENT GRANTS

The Company recognizes government grants when there is reasonable assurance that the grant will be received and that the conditions of the grant will be met. The Company recognizes government grants in the Consolidated Statements of Net Income (Loss) in the same period as the expense for which the grant is intended to compensate. Grants that are intended as a revenue guarantee are recorded within revenue in the period in which they are earned.

CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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

1) Biological Assets

Determination of the fair value of biological assets requires the Company to make a number of estimates, including estimating the stage of growth of the cannabis plants up to the point of harvest, harvesting costs, selling costs, sales prices, wastage and expected yields of the cannabis plant. In determining final inventory values, the Company estimates spoiled or expired inventory in determining net realizable value.00379

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31 , 2023

3. MATERIAL ACCOUNTING POLICIES (*continued*)

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

2) Estimated Useful Lives of Property, Plant and Equipment

Amortization of property, plant and equipment requires estimates of useful lives, which are determined through the exercise of judgment. The assessment of any impairment of these assets is dependent upon estimates of recoverable amounts that take into account factors such as economic and market conditions and the useful lives of assets.

3) Valuation of Inventory

In calculating the net realizable value ("NRV") of inventory, management determines the selling prices based on current observable market sales prices, selling costs, based on the most reliable evidence available at the time, to record inventory at the lower of cost or net realizable value.

4) Convertible Debentures

Convertible debentures are financial instruments which are accounted for separately dependent on the nature of their components: a financial liability and an equity instrument. The identification of such components embedded within a convertible debenture requires significant estimates including discount rates and future cash flows.

5) Share Based Compensation

The fair value of share-based compensation expenses are estimated using the Black-Scholes option pricing model and relies on a number of estimated inputs, such as the expected life of the option, the volatility of the underlying share price, the risk free rate of return and the estimated rate of forfeiture of options granted. Changes in the underlying estimated inputs may result in materially different results.

6) Warrants

In calculating the fair value of warrants, management relies on estimated inputs, such as the volatility of the Company's stock price and the risk-free rate of return.

7) Business Combinations

Judgement is used in determining whether an acquisition is a business combination or an asset acquisition. In determining the allocation of the purchase price in a business combination, including any acquisition-related contingent consideration, estimates including market based and appraisal values are used. The contingent consideration is measured at its acquisition date fair value and included as part of the consideration transferred in a business combination. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or liability is remeasured at subsequent reporting dates as appropriate, with the corresponding gain or loss being recognized in profit or loss. The Company measures all assets acquired and liabilities assumed at their acquisition-date fair values. Non-controlling interests in the acquiree are measured on the basis of the non-controlling interests' proportionate share of this equity in the acquiree's identifiable net assets. Acquisition-related costs are recognized as expenses in the periods in which the costs are incurred and the services are received (except for the costs to issue debt or equity securities which are recognized according to specific requirements). The excess of the aggregate of (a) the consideration transferred to obtain control, the amount of any non-controlling interest in the acquiree over (b) the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed, is recognized as goodwill as of the acquisition date.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31 , 2023

3. MATERIAL ACCOUNTING POLICIES (*continued*)

8) Determination of CGUs

For the purposes of assessing impairment of non-financial assets, the Company must determine cash generating units ("CGU"). Assets are allocated to CGUs based on the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGUs. Determination of what constitutes a CGU is subject to management judgement. The asset composition of a CGU can directly impact the recoverability of the assets included within the CGU. The determination of the Company's CGUs is the retail store or stores that are included in the group for which goodwill has been established.

9) Impairment of Non-Financial Assets

Property, plant and equipment and definite-life intangible assets, are reviewed for indicators of impairment at each reporting period or whenever events or changes in circumstances indicate that the carrying amount of an asset exceeds its recoverable amount. The recoverable amount of an asset or a CGU is the higher of its FVLCD or its value in use. If the carrying amount of an asset exceeds its recoverable amount, an impairment charge is recognized immediately in profit or loss for the amount by which the carrying amount of the asset exceeds the recoverable amount. Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the lesser of the revised estimate of recoverable amount, and the carrying amount that would have been recorded if no impairment loss been recognized previously.

Goodwill and indefinite-life intangible assets are tested for impairment annually and whenever events or changes in circumstances indicate that the carrying amount of goodwill or intangible assets has likely been impaired. Goodwill and indefinite-life intangible asset impairment testing requires management to make estimates in the impairment testing model. Impairment is influenced by judgment in defining a CGU and determining the indicators of impairment, and estimates used to measure impairment losses. The recoverable amount is defined as the higher of: (i) value in use; or (ii) FVLCD. The Company relies on a number of factors including historical results, business plans, forecasts and market data in determining the recoverable amount. Changes in the conditions for these judgments and estimates can significantly affect the assessed value of goodwill and indefinite life intangible assets.

Impairment losses recognized in respect of a CGU are first allocated to the carrying value of goodwill and any excess is allocated to the carrying value of assets in the CGU. Any impairment is recorded in profit and loss in the period in which the impairment is identified. Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the lessor of the revised estimate of recoverable amount and the carrying amount that would have been recorded had no impairment loss been previously recognized, with the exception of goodwill and indefinite lived intangible assets.

4. ACCOUNTING PRONOUNCEMENTS

Future changes in accounting policies

IAS 1 - Presentation of financial statements:.

IAS 1 Presentation of Financial Statements was revised to incorporate amendments issued by the IASB requiring entities to disclose, in specific circumstances, information in the notes that enable financial statement users to understand the risk that non-current liabilities with covenants could become repayable within 12 months after the reporting date.

The amendments specify that covenants to be complied with after the reporting date do not affect the classification of debts as current or non-current at the reporting date. Instead, the amendments require a company to disclose information about these covenants in the notes to the financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**December 31 , 2023**

4. ACCOUNTING PRONOUNCEMENTS *(continued)***IAS 7 Statement of Cashflows**

These amendments introduce new disclosure requirements to enhance the transparency of supplier finance arrangements and to provide users of the financial statements with information to enable them to:

- Assess how supplier finance arrangement affect the entity's liability and cash flows; and
- Understand the effect of supplier finance arrangements on an entity's exposure to liquidity risk and how the entity might be affected if the arrangements were no longer available to it.

Required disclosures in relation to supplier finance arrangements include terms and conditions, carrying amounts and related financial statement line items, ranges of payment due dates, information on non cash changes, and liquidity risk

The effective date for these amendments is January 1, 2024.

The company is currently assessing the impact of these amendments.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2023

5. BUSINESS ACQUISITION

1. ACQUISITION OF RETAIL STORES IN ALBERTA:

On March 30, 2022 the Company completed the purchase of 17 retail stores in Alberta. Management believes this acquisition meets the criteria of a business acquisition under IFRS 3 "Business Combinations".

Consideration Transferred:

Under the terms of the acquisition, the Company issued 6,666,667 common shares to the seller at a value of \$1,866,667 (\$0.28 per share) based on a TSX share price at the closing of the transaction on March 30, 2022. In addition to this, \$12,907,274 was paid in cash, \$600,928 in a promissory note, which makes the total purchase consideration on the closing date of \$15,374,859.

The net cash outflow at the closing of the acquisition was \$11,501,800.

The following identifiable assets and liabilities were subject to management's estimates and assumptions after taking into consideration all relevant information available. The fair value amounts represent final balances recorded in the financial statements.

The purchase price allocation to the net assets acquired was determined to be as follows:

| | Amount |
|--------------------------------|-----------------------------|
| Cash | \$ 17,000 |
| Inventories | 600,928 |
| Leasehold improvements | 322,100 |
| Signs | 253,500 |
| Security equipment | 188,000 |
| Office furniture and equipment | 234,600 |
| Prepays | 434,584 |
| Loyalty program | (76,480) |
| Goodwill | <u>13,400,627</u> |
| Total purchase consideration | <u>\$ 15,374,859</u> |

Goodwill:

The residual purchase consideration of \$13,400,627 was assumed goodwill on this acquisition, which was allocated to the cash generating unit consisting of 17 Alberta retail stores.

2. ACQUISITION OF RETAIL STORES IN MANITOBA:

On September 6, 2022 the Company completed the purchase of three Garden Variety branded retail cannabis stores in Manitoba, two in Winnipeg and one in Brandon. Management believes this acquisition meets the criteria of a business acquisition under IFRS 3 "Business Combinations".

Consideration Transferred:

Under the terms of the acquisition, the Company issued 17,944,785 common shares to the seller at a value of \$2,871,166 (\$0.16 per share) based on a TSX share price at the closing of the transaction on September 6, 2022. In addition to this, \$259,798 was paid in cash and \$596,993 was included in accrued liabilities, which makes the total purchase consideration on the closing date of \$4,046,975. During the year ended December 31, 2023, cash in the amount of \$596,993 for inventory was paid.

An additional 1,993,865 common shares were issued to the seller on March 15, 2023 at a value of \$319,018 (\$0.16 per share).

The following identifiable assets and liabilities were subject to management's estimates and assumptions after taking into consideration all relevant information available. The fair value amounts represent final balances recorded in the financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2023

5. BUSINESS ACQUISITION (continued)

The purchase price allocation to the net assets acquired was determined to be as follows:

| | Amount |
|--------------------------------|---------------------|
| Inventory | \$ 596,993 |
| Prepays | 103,613 |
| Property, plant, and equipment | 2,387,398 |
| Gift card liability | (3,700) |
| Goodwill | 962,671 |
| | <u>\$ 4,046,975</u> |

Goodwill:

The residual purchase consideration of \$962,671 was assumed goodwill on this acquisition, which was allocated to the cash generating unit of the Garden Variety retail stores.

6. CASH AND CASH EQUIVALENTS

| | December 31, 2023 | December 31, 2022 |
|---|----------------------|----------------------|
| Cash | \$ 2,103,346 | \$ 3,468,994 |
| Assignment of deposit instrument with Canadian Western Bank | <u>50,000</u> | <u>50,000</u> |
| | <u>\$ 2,153,346</u> | <u>\$ 3,518,994</u> |

7. TRADE AND OTHER RECEIVABLES

| | December 31, 2023 | December 31, 2022 |
|---------------------------------------|----------------------|----------------------|
| Trade receivables | \$ 1,919,339 | \$ 2,923,180 |
| Less: Allowance for doubtful accounts | <u>-</u> | <u>(605,694)</u> |
| | <u>\$ 1,919,339</u> | <u>\$ 2,317,486</u> |

The following table provides details on the age of trade receivables:

| | December 31, 2023 | December 31, 2022 |
|----------------------|----------------------|----------------------|
| 0 - 30 days | \$ 963,691 | \$ 1,400,577 |
| 31 - 60 days | 172,458 | 503,893 |
| 61 - 90 days | 120,982 | 27,023 |
| Greater than 90 days | <u>662,208</u> | <u>991,687</u> |
| | <u>\$ 1,919,339</u> | <u>\$ 2,923,180</u> |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2023
8. INVENTORIES

| | December 31, 2023 | December 31, 2022 |
|------------------------------------|------------------------------|-----------------------------|
| Raw materials | \$ 100,796 | \$ 167,564 |
| Packaging materials | 772,272 | 872,526 |
| Finished goods | 7,655,879 | 11,108,993 |
| Merchandise and devices | 426,141 | 575,567 |
| Work in progress | 1,982,315 | 5,152,629 |
| Grow pods and equipment for resale | <u>63,000</u> | <u>500,776</u> |
| | <u>\$ 11,000,403</u> | <u>\$ 18,378,055</u> |

The amount of inventories recognized as an expense during the year ended December 31, 2023 was \$45,299,922 (\$42,514,891 year ended December 31, 2022). An inventory write down of \$250,000 was recorded in the business to business division during the year ended 2023.

9. BIOLOGICAL ASSETS

Biological assets consist of cannabis plants.

| | December 31, 2023 | December 31, 2022 |
|---|------------------------------|----------------------------|
| Biological assets, beginning | \$ 1,442,202 | \$ 2,205,105 |
| Net increase in fair value less cost to sell due to biological transformation | 8,230,742 | 15,307,184 |
| Transferred to inventory upon harvest | (8,586,762) | (16,070,087) |
| Biological assets, ending | <u>\$ 1,086,182</u> | <u>\$ 1,442,202</u> |

Biological assets are valued in accordance with IAS 41 and are presented at their fair values less costs to finish and sell. The Company's biological assets are primarily cannabis clones, mother plants and flowering plants, and because there is no actively traded commodity market for plants or dried product, the valuation of these biological assets is obtained using valuation techniques where the inputs are based upon unobservable market data (Level 3).

The significant assumptions used in determining the fair value of biological assets include:

- Selling price on a strain-wise basis less cost to sell (\$1.36 to \$3.83 per gram)
- Estimated yield on a strain-wise basis per cannabis flowering plant (31.10 to 60.06 grams)
- Estimated yield of large flower versus small flower per cannabis flowering plant in flowering and harvest stages
- Fair value of small flower based on end product
- Selling price pro-rated based on the stage of growth of the biological assets at the reporting period, less wastage
- Selling costs are estimated based on post-harvest costs (\$0.64 per gram)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2023
9. BIOLOGICAL ASSETS (continued)

The following table highlights the sensitivities and impact of changes in significant assumptions on the fair value of biological assets:

| Significant inputs & assumptions | Inputs | | Sensitivity | Impact on fair value | |
|---|-------------------|-------------------|---|----------------------|-------------------|
| | December 31, 2023 | December 31, 2022 | | December 30, 2023 | December 31, 2022 |
| Average selling price per gram | \$ 1.64 | \$ 2.45 | Increase or decrease of \$1.00 per gram | \$ 426,304 | \$ 700,621 |
| Weighted average yield (grams per plant) | 48.48 | 43.60 | Increase or decrease of 5 grams per plant | \$ 75,183 | \$ 196,849 |
| Standard cost per gram to complete production | \$ 0.64 | \$ 1.03 | Increase or decrease of \$0.25 per gram | \$ 106,576 | \$ 175,155 |

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

10. PREPAYMENTS AND OTHER CURRENT ASSETS

| | December 31, 2023 | December 31, 2022 |
|---|------------------------------|------------------------------|
| Advertising and promotion | \$ 58,328 | \$ 83,657 |
| Deposit for purchase of products | 1,431,123 | 494,644 |
| Deposit for purchase of equipment | 55,575 | 120,000 |
| Excise tax security - Canada Revenue Agency | 308,800 | 283,895 |
| Insurance | - | 166,943 |
| Deposit for rent | - | 10,888 |
| Other | 37,845 | 129,398 |
| | <u>\$ 1,891,671</u> | <u>\$ 1,289,425</u> |

11. NOTES RECEIVABLE

| | December 31, 2023 | December 31, 2022 |
|-----------------------|------------------------------|------------------------------|
| Notes receivable | \$ 222,972 | \$ 345,159 |
| Less: current portion | (85,142) | (142,244) |
| | <u>\$ 137,830</u> | <u>\$ 202,915</u> |

Note receivable is interest bearing at 6%. As per mutual agreement, the note receivable will be settled against accounts payable invoices from the counterparty for purchase of product by Delta 9.

The note receivable is due from one counterparty and is secured by equipment sold.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2023

12. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment relate to the infrastructure for cannabis growing production and wholesale and retail operations. A cost continuity of the accounts for the year ended December 31, 2023 is as follows:

| | Balance at January 1, 2023 | Additions | Disposals/ Transfers | Balance at December 31, 2023 |
|--------------------------------|-------------------------------|-------------------|-------------------------|---------------------------------|
| Land | \$ 647,650 | \$ - | \$ - | \$ 647,650 |
| Building | 8,514,082 | - | - | 8,514,082 |
| Leasehold improvements | 9,298,026 | 90,759 | - | 9,388,785 |
| Containers | 8,658,325 | - | - | 8,658,325 |
| Production equipment | 9,715,285 | 546,922 | (26,200) | 10,236,007 |
| Cooling infrastructure | 4,391,697 | - | - | 4,391,697 |
| Security equipment | 1,725,448 | 67,740 | - | 1,793,188 |
| Computer equipment | 457,900 | 5,469 | - | 463,369 |
| Computer software | 80,172 | - | - | 80,172 |
| Office furniture and equipment | 1,327,689 | 47,195 | - | 1,374,884 |
| Vehicles | 119,606 | - | - | 119,606 |
| Construction in progress | <u>1,106,733</u> | <u>164,994</u> | <u>(224,049)</u> | <u>1,047,678</u> |
| | <u>\$ 46,042,613</u> | <u>\$ 923,079</u> | <u>\$ (250,249)</u> | <u>\$ 46,715,443</u> |

The accumulated amortization continuity for property, plant and equipment for the year ended December 31, 2023 is as follows:

| | Balance at January 1, 2023 | Additions | Disposals/ Transfers | Balance at December 31, 2023 |
|--------------------------------|-------------------------------|---------------------|-------------------------|---------------------------------|
| Building | \$ 1,653,557 | \$ 421,497 | \$ - | \$ 2,075,054 |
| Leasehold improvements | 3,462,008 | 1,894,210 | - | 5,356,218 |
| Containers | 3,543,538 | 912,232 | - | 4,455,770 |
| Production equipment | 7,037,902 | 1,731,022 | (24,177) | 8,744,747 |
| Cooling infrastructure | 1,087,259 | 438,815 | - | 1,526,074 |
| Security equipment | 970,042 | 309,698 | - | 1,279,740 |
| Computer equipment | 400,505 | 38,818 | - | 439,323 |
| Computer software | 80,172 | - | - | 80,172 |
| Office furniture and equipment | 513,621 | 265,409 | - | 779,030 |
| Vehicles | <u>30,011</u> | <u>32,238</u> | <u>-</u> | <u>62,249</u> |
| | <u>18,778,615</u> | <u>\$ 6,043,939</u> | <u>\$ (24,177)</u> | <u>24,798,377</u> |
| Net book value | <u>\$ 27,263,998</u> | | | <u>\$ 21,917,066</u> |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2023

12. PROPERTY, PLANT AND EQUIPMENT (continued)

A cost continuity of the accounts for the year ended December 31, 2022 is as follows:

| | Balance at January 1, 2022 | Additions | Disposals/ Transfers | Balance at December 31, 2022 |
|--------------------------------|-------------------------------|---------------------|-------------------------|---------------------------------|
| Land | \$ 647,650 | \$ - | \$ - | \$ 647,650 |
| Building | 8,472,434 | 41,648 | - | 8,514,082 |
| Leasehold improvements | 5,985,515 | 3,312,511 | - | 9,298,026 |
| Containers | 8,658,325 | - | - | 8,658,325 |
| Production equipment | 9,485,014 | 230,271 | - | 9,715,285 |
| Cooling infrastructure | 4,391,697 | - | - | 4,391,697 |
| Security equipment | 1,416,328 | 309,120 | - | 1,725,448 |
| Computer equipment | 411,653 | 46,247 | - | 457,900 |
| Computer software | 80,172 | - | - | 80,172 |
| Office furniture and equipment | 658,053 | 669,636 | - | 1,327,689 |
| Vehicles | 16,195 | 103,411 | - | 119,606 |
| Construction-in-progress | <u>1,069,237</u> | <u>1,042,893</u> | <u>(1,005,397)</u> | <u>1,106,733</u> |
| | <u>\$ 41,292,273</u> | <u>\$ 5,755,737</u> | <u>\$ (1,005,397)</u> | <u>\$ 46,042,613</u> |

The accumulated amortization continuity for property, plant and equipment for the year ended December 31, 2021 is as follows:

| | Balance at January 1, 2022 | Additions | Disposals/ Transfers | Balance at December 31, 2022 |
|--------------------------------|-------------------------------|---------------------|-------------------------|---------------------------------|
| Building | \$ 1,232,875 | \$ 420,682 | \$ - | \$ 1,653,557 |
| Leasehold improvements | 1,985,701 | 1,476,309 | - | 3,462,010 |
| Containers | 2,672,511 | 871,027 | - | 3,543,538 |
| Production equipment | 5,149,038 | 1,888,864 | - | 7,037,902 |
| Cooling infrastructure | 649,367 | 437,892 | - | 1,087,259 |
| Security equipment | 664,245 | 305,797 | - | 970,042 |
| Computer equipment | 319,485 | 81,020 | - | 400,505 |
| Computer software | 80,172 | - | - | 80,172 |
| Office furniture and equipment | 318,660 | 194,959 | - | 513,619 |
| Vehicles | <u>12,144</u> | <u>17,867</u> | <u>-</u> | <u>30,011</u> |
| | <u>13,084,198</u> | <u>\$ 5,694,417</u> | <u>\$ -</u> | <u>18,778,615</u> |
| Net book value | <u>\$ 28,208,075</u> | | | <u>\$ 27,263,998</u> |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2023

13 GOODWILL

| | December 31, 2023 | December 31, 2022 |
|--|----------------------|----------------------|
| Balance, beginning of year | \$ 14,198,669 | \$ 2,910,976 |
| Goodwill from business acquisitions (Note 5) | - | 14,363,298 |
| Impairment of goodwill | - | (3,075,605) |
| Balance, end of year | <u>\$ 14,198,669</u> | <u>\$ 14,198,669</u> |

As at 31 December 2023, the Company performed its annual goodwill impairment test by comparing the carrying amount of the assets within the cash generating units (CGU) to their recoverable amount. The recoverable amount is defined as higher of: (i) value in use; or (ii) FVLCD.

Significant assumptions inherent in the valuation methodologies for goodwill are employed and include, but are not limited to, prospective financial information, growth rates, terminal value, discount rate, and comparable multiples from publicly traded companies in the cannabis industry.

The recoverable amount of the CGUs was determined based on fair value less cost of disposal. The Company relied on similar sized peer competitors analysis which assesses relative capital market valuations for similar publicly traded firms when considering the market capitalization, enterprise value, revenue and EBITDA multiple of these firms. The Company has decided to use the revenue multiple category as the core valuation metric as it considers this is the fairest market metric versus the peer group. The fair value less cost of disposal of the CGUs was determined to be greater than the carrying value of respective CGUs

As a result of the analysis, in the year ended December 31, 2023, no goodwill impairment was determined (2022 - \$3,075,605).

14. INVESTMENTS

| | December 31, 2023 | December 31, 2022 |
|---|----------------------|----------------------|
| Pure Blue Cannabis Inc. (formerly Vitreous Cannabis Inc.) | \$ 33,333 | \$ 33,333 |
| Oceanic Releaf Inc. | <u>500,000</u> | <u>500,000</u> |
| | <u>\$ 533,333</u> | <u>\$ 533,333</u> |

Pure Blue Cannabis Inc. (formerly Vitreous Cannabis Inc.)

The investment consists of an initial strategic investment by subscribing for 333,333 Class A common shares of Pure Blue Cannabis Inc. ("Pure Blue") for gross proceeds of \$33,333. Pure Blue has developed a cannabis cultivation facility in Ontario and has obtained a cultivation license from Health Canada under the Cannabis Act.

The investment was valued based on the fair value of the consideration paid.

Oceanic Releaf Inc.

The investment consists of 5,000 Class A common shares in the capital of Oceanic Releaf Inc. ("Oceanic") in exchange for a promissory note, which shall be assignable to Oceanic and the amount payable by the Company hereunder shall be set off by delivery of certain consulting and training services. The corresponding revenue was recorded on satisfaction of respective performance obligations.

The investment was valued based on the fair value of the consideration paid.

The Company had elected to measure investment in equity instruments Pure Blue Cannabis Inc. and Oceanic Releaf Inc. at FVTOCI on initial recognition as the investments are not held-for-trading, instead long-term and strategic in nature, and net changes in fair value are more suited to be presented in other comprehensive income.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2023
15. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

| | December 31, 2023 | December 31 2022 |
|-----------------------------------|------------------------------|----------------------|
| Trade payables | \$ 2,693,956 | \$ 2,527,778 |
| Accrued liabilities | 2,046,466 | 3,299,159 |
| Excise tax payable | 7,746,848 | 6,168,941 |
| Social responsibility fee payable | - | 1,910,967 |
| Government remittances payable | 1,241,736 | 921,567 |
| Loyalty liabilities | <u>209,992</u> | <u>76,480</u> |
| | <u>\$ 13,938,998</u> | <u>\$ 14,904,892</u> |

Effective October 17, 2018, Canada Revenue Agency ("CRA") began levying an excise tax on the sale of medical and consumer cannabis products. The Company becomes liable for these excise duties when cannabis products are delivered to the customer.

The excise tax payable is the higher of (i) a flat-rate duty which is imposed when a cannabis product is packaged, and (ii) an advalorem duty that is imposed when a cannabis product is delivered to the customer. Where the excise tax has been billed to customers, the Company has reflected the excise tax as part of revenue in accordance with IFRS 15. Net revenue as presented on the Consolidated Statements of Net Income and Comprehensive Income, represents revenue from the sale of goods less applicable excise taxes. Given that the excise tax payable/paid to CRA cannot be reclaimed and is not always billed to customers, the Company recognizes that the excise tax is an operating cost that affects gross margin to the extent that it is not recovered from its customers.

Effective January 1, 2019, the Manitoba government began collecting a social responsibility levy at 6% on all retail cannabis sales. On July 1st 2023, the Manitoba government announced that with the passing of Bill 10, The Liquor, Gaming and Cannabis Control Act repealed the requirement for a cannabis store operator to pay to the government a social responsibility fee. Additional to this, the government also forgave social responsibility fee amounts collected and payable related to the 2022 and 2023 years (Note 27).

16. CUSTOMER DEPOSITS

| | December 31, 2023 | December 31, 2022 |
|-------------------|------------------------------|----------------------|
| Customer deposits | <u>\$ 521,101</u> | <u>\$ 327,993</u> |

These amounts represent deposits by customers in conjunction with business to business purchases.

17. DEFERRED REVENUE

| | December 31, 2023 | December 31, 2022 |
|--|------------------------------|----------------------|
| Deferred manufacturing rebate -beginning balance | \$ 1,193,885 | \$ 1,461,047 |
| Additional manufacturing rebate | 100,408 | - |
| Deferred provincial grant | 195,346 | - |
| Transferred to revenue | <u>(313,359)</u> | <u>(267,162)</u> |
| | 1,176,280 | 1,193,885 |
| Current portion | <u>317,017</u> | <u>267,162</u> |
| | <u>\$ 859,263</u> | <u>\$ 926,723</u> |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2023
18 DUE FROM/TO RELATED PARTIES, DIRECTORS AND SHAREHOLDERS

Related entities have advanced funds to the Company through various loans, some of which were secured by a promissory note and other amounts which were unsecured with no specified terms of repayment. These transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

| | December 31, 2023 | December 31, 2022 |
|--|------------------------------|----------------------|
| Advance to (from) directors for expenses | \$ 3,205 | \$ 3,554 |
| Due from related parties | 89,531 | 89,531 |
| Receivable from directors and officers | <u>20,526</u> | <u>18,995</u> |
| | <u>\$ 113,262</u> | <u>\$ 112,080</u> |
| | December 31, 2023 | December 31, 2022 |
| Due to shareholder | <u>\$ 48,951</u> | <u>\$ 48,951</u> |

On April 1, 2017, a unanimous shareholders' agreement was signed by the shareholders of Delta 9 Lifestyle Cannabis Clinic Inc. It was agreed that the initial fixturing of the leased premises by the Clinic shall be financed by shareholder loans amounting to \$51,000 (received in July 2017) from Delta 9 Bio-Tech Inc. and \$49,000 from 7217804 Manitoba Ltd. These loans are unsecured, non-interest bearing and with no specific date of repayment.

| | December 31, 2023 | December 31, 2022 |
|----------------------|------------------------------|----------------------|
| Due to related party | <u>\$ 2,860,248</u> | <u>\$ 2,756,404</u> |

Over the years 2018-2021, Delta 9 Lifestyle Cannabis Clinic Inc. received advances from its shareholders, 7217804 and Delta 9 Bio-Tech, in the principal amounts of \$3,014,500 and \$4,035,500 respectively (the "Shareholder Advances"). These Shareholder Advances were evidenced by promissory notes issued by Delta 9 Lifestyle to 7217804 and Delta 9 Bio-Tech. The promissory notes accrue and bear interest at a rate in accordance with the following:

- From January 1, 2019 to June 30, 2019, the principal sum, bore interest at a rate equal to 3% per annum, calculated and payable monthly;
- From July 1, 2019 until repayment in full, the principal sum and all interest thereon the promissory notes shall bear interest at a rate of 6% per annum, calculated and payable monthly.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31 , 2023
18. DUE FROM/TO RELATED PARTIES, DIRECTORS AND SHAREHOLDERS (continued)

Pursuant to the terms of the promissory notes, at any time after June 30, 2019, but no later than 90 days prior to the maturity date of the promissory notes, 7217804 and/or Delta 9 Bio-Tech may convert all or any part of the then-principal sums under the promissory notes into Class A common shares of Delta 9 Lifestyle at the price of \$60,000 per Class A common share of Delta 9 Lifestyle, subject to adjustments in accordance with the promissory notes.

The promissory notes were initially recorded at their fair value, discounted at a market interest rate of 10.50%. The estimated fair value of the equity component of the promissory notes were recorded as part of Delta 9 Lifestyle Cannabis Clinic Inc.'s equity.

As of September 30, 2021, Delta 9 Bio-Tech Inc. exercised its option and converted \$4,035,500 principal amount of the promissory notes into Class A common shares of Delta 9 Lifestyle. As a result, Delta 9 Bio-Tech Inc.'s shareholding in Delta 9 Lifestyle Cannabis Clinic Inc. was increased from 51% to 68.78%.

During the year ended December 31, 2021, Delta 9 Bio-Tech and the minority shareholder in Delta 9 Lifestyle Cannabis Clinic Inc. also invested additional amounts of \$535,500 and \$514,500, respectively.

Key management compensation

Key management personnel are those persons having the authority and responsibility for planning, directing, and controlling activities of the Company. The key management personnel of the Company are the executive management team and the Board of Directors.

The remuneration and other payments to the Company's directors and other key management personnel for the year ended December 31, 2023 are as follows:

| | Salaries | Share based compensation | Total |
|-----------------------|---------------------|--------------------------|---------------------|
| Key management | \$ 956,458 | \$ 65,564 | \$ 1,022,022 |
| Directors | 137,618 | 572,242 | 709,860 |
| Other related parties | - | 97,500 | 97,500 |
| | <u>\$ 1,094,076</u> | <u>\$ 735,306</u> | <u>\$ 1,829,382</u> |

19. LEASE LIABILITIES

| | December 31, 2023 | December 31, 2022 |
|-------------|----------------------|----------------------|
| Current | \$ 1,961,646 | \$ 7,455,272 |
| Non-current | <u>18,407,306</u> | <u>13,285,923</u> |
| | <u>\$ 20,368,952</u> | <u>\$ 20,741,195</u> |

The right-of-use assets at December 31, 2023 and the amortization charge for the year then ended are shown below by the underlying class of asset:

| | Carrying Value December 31, 2023 | Amortization Charge Year Ended December 31, 2023 |
|------------|--|--|
| Properties | <u>\$ 19,051,865</u> | <u>\$ 2,743,403</u> |

During the year ended December 31, 2023, the Company did not enter into any new leases.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2023

19. LEASE LIABILITIES (continued)

The lease liability for an office space was remeasured on July 1, 2023 due to a change in judgement of timing of the purchase option for another thirty months. The incremental borrowing rate of 9.31% was determined to be relevant as the risk-free rate plus the borrowing rate. The corresponding amount of the resulted adjustment was recorded under right-of-use assets.

The lease liabilities for retail store leases were remeasured on March 1, 2023 and September 30, 2023 due to exercising of a renewal options. The incremental borrowing rate of 7.81% - 9.42% was determined to be relevant as the risk-free rate plus the borrowing rate. The corresponding amount of the resulted adjustment was recorded under right-of-use assets.

The lease liability at December 31, 2023 was \$20,368,952. The corresponding interest expense for the year ended December 31, 2023, amounted to \$1,525,096. The portion of the lease payments recognized as a reduction of the lease liabilities was \$2,017,083 and a total cash outflow from financing activities for the year ended December 31, 2023 amounted to \$3,542,180. An amount of \$181,984 was recorded in other operating expenses for variable lease payments.

20. BORROWINGS

| | December 31, 2023 | December 31, 2022 |
|---|----------------------|----------------------|
| Demand revolving loan for purchase of production facility - beginning balance | \$ - | \$ 3,550,000 |
| Non-revolving loan for purchase of equipment - beginning balance | - | 401,038 |
| Non-revolving equipment masterline - beginning balance | - | 2,214,599 |
| Overdraft - beginning balance | 3,984,207 | 3,297,570 |
| Borrowings - beginning balance | 25,823,053 | - |
| Promissory notes - beginning balance | 5,591,193 | - |
| Non-revolving demand loan - beginning balance | - | 2,848,819 |
| Non-revolving equipment masterline - beginning balance | - | 1,706,250 |
| | 35,398,453 | 14,018,276 |
| Add: Proceeds from borrowings | 291,686 | 26,910,939 |
| Add: Proceeds from promissory notes | - | 5,591,193 |
| Add: Accretion | 144,206 | 91,951 |
| Add: Proceeds from overdraft | 9,283 | 4,564,445 |
| Less: Repayments of overdraft | - | 3,877,808 |
| Less: Repayments made | 2,741,138 | 11,900,543 |
| Less: Current portion of borrowings | 29,311,297 | 29,807,260 |
| | \$ 3,791,193 | \$ 5,591,193 |

On January 9, 2023, Delta 9 Bio-Tech Inc. entered into a short-term equipment financing arrangement with Solid Packaging Robotik Group Inc. The financing arrangement is repayable in blended monthly payments of principal and interest over six months and bears interest at 12% per annum. At December 31, 2023 the short-term equipment financing was fully repaid.

On March 30, 2022, Delta 9 Cannabis Inc. (the "Borrower") entered into a credit facility with connectFirst Credit Union Ltd. (the "Credit Union"). On the same date, Delta 9 Bio-Tech Inc. repaid all of the existing loans to Canadian Western Bank, with the exception of a business Visa facility of \$50,000 for corporate credit cards.

The credit facility with the Credit Union consists of:

1) A commercial mortgage loan of \$23,000,000 which was intended to assist in repayment of the CWB loans and convertible debentures. The loan is repayable in blended monthly payments of principal and interest at 4.55% over 144 months. The current fixed rate of 4.55% will be for a term of five years.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2023

20. BORROWINGS (continued)

2) A commercial mortgage loan of \$5,000,000 which was intended to assist in the acquisition of 17 retail stores in Alberta. The loan is repayable in blended monthly payments of principal and interest at 4.55% over 144 months. The current fixed rate of 4.55% will be for a term of five years.

As the fixed interest rate was negotiated at arm's length and the loan is secured by a first line on the Company's assets, the financing cost reflects market rate and therefore the estimated fair value of this loan fairly approximates its carrying value. However factoring in the transaction fees, the effective interest rate on the above loans is 5.29%. The carrying value of the loan is calculated based on this effective rate.

3) An overdraft facility of \$4,000,000 to be used to finance day-to-day operations. Interest floats at a rate of 1.50% per annum above the Credit Union's prime lending rate. The loan is repayable on demand. As of December 31, 2023, \$3,993,667 had been drawn down on this segment of the credit facility.

The Company was in breach of its debt service coverage ratio covenant and its working capital covenant as at December 31, 2023. Accordingly the entire loan balance of \$28,111,297 has been classified as current liabilities as at December 31, 2023.

The loans are secured by:

A first charge demand collateral mortgage of a freehold interest in the amount of \$28,000,000 over the property 770 Pandora Ave, Winnipeg, MB, and 760 Pandora Ave, Winnipeg, MB.

- A General Security Agreement comprising a first charge security interest over all present and after-acquired personal property located at or on or related to the Property, registered at Personal Property Registry.

Unlimited Guarantee and Postponement of Claim granted by Delta 9 Cannabis Store Inc. and Delta 9 Lifestyle Cannabis Clinic Inc, supported by:

- A General Security Agreement comprising a first charge security interest over all present and after-acquired personal property located at or on or related to the Property, registered at Personal Property Registry.

A formal Assignment and Postponement of Shareholders' Loan/Affiliated Company Loans/Debentures in the amount of \$2,459,856 acknowledged by the Borrower, registered at Personal Property Registry.

On April 25, 2022, the Company obtained an unsecured loan from a shareholder in the amount of \$4,990,264 that is due on July 20, 2025. The loan bears interest at 6% per annum and is payable monthly.

On April 25, 2022, the Company obtained an unsecured loan from a shareholder in the amount of \$600,929 that is due on July 20, 2025. The loan bears interest at 6% per annum and is payable monthly.

On June 16, 2023, the Company entered into an Amending Agreement with Uncle Sam's Cannabis Ltd. Pursuant to the Amending Agreement, for a period of six (6) months, beginning on July 1, 2023 and concluding on December 31, 2023, (the "Prepayment Incentive period"): (i) if the Purchaser, in a calendar month throughout the Prepayment Incentive period, makes prepayment(s) against the principal amount of the VTB Amount which are, in the aggregate, equal to or greater than one hundred thousand (\$100,000.00) dollars in the aggregate; and (ii) the Purchaser has made, in each prior calendar month throughout the Prepayment Incentive period, prepayment(s) against the principal amount of the VTB Amount which are, in the aggregate, equal to or greater than one hundred thousand (\$100,000.00) dollars, then, for such calendar month, and notwithstanding the terms of the Promissory Note, no interest shall be calculated, accrue or be payable by the Purchaser to the Vendor on the VTB Amount then outstanding. The Company intends to enter into a new Amending Agreement with Uncle Sam's Cannabis Ltd. prior to the end of the Prepayment Incentive period.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2023

21. CONVERTIBLE DEBENTURES

| | December 31, 2023 | December 31, 2022 |
|--|----------------------|----------------------|
| Balance - beginning of year | \$ 7,242,210 | \$ 12,429,975 |
| Debentures issued | - | 6,888,391 |
| Interest payments made | (1,000,000) | (1,305,884) |
| Accretion | 2,029,325 | 2,559,601 |
| Transaction costs | - | (254,445) |
| Debenture repayment and cancellation of warrants on expiry | - | (13,075,428) |
| Balance - end of year | <u>\$ 8,271,535</u> | <u>\$ 7,242,210</u> |

2022 Convertible Debentures

On March 30, 2022, the Company completed a private placement of a \$10,000,000 principal amount 3 year 10% senior second-lien secured convertible debenture of the Company (the "Sundial Debenture") to SNDL Inc., formerly Sundial Growers Inc. ("Sundial") for a subscription price of \$9,600,000, representing an original discount of 4.0% (the "Sundial Convertible Debenture Offering").

Until June 29, 2022, the Sundial Debenture was convertible by Sundial into Common Shares (the "Conversion Shares") at a conversion price equal to the lesser of: (i) \$0.35 per Conversion Share; and (ii) a share price equal to a 20.0% premium to the issuance price of an offering of equity securities of the Company completed in the six months from the date of issuance, provided that such price is not less than the 5-day volume weighted average trading price of the Common Shares (the "5-Day VWAP") as of the date of the conversion of the Sundial Debenture (the "Floor Price"). The Company may, at its option, also convert 100% of the interest accrued and payable for the first quarter ending June 30, 2022 and 50% of the interest accrued and payable for the second quarter ending September 30, 2022 into Common Shares at a price equal to the 5-Day VWAP as to the date of issuance. During an event of default that is ongoing, Sundial may, at its option, convert 100% of the interest accrued and payable into Common Shares at a price equal to the 5-Day VWAP as to the date of the interest payment. The current conversion price per unit is \$0.15 Conversion Share and is fixed for the remaining term of the agreement.

On June 29, 2022, in connection with the Sundial Convertible Debenture Offering, the Company received the approval of the shareholders of the Company for the ratification of the Sundial Convertible Debenture Offering and specifically the approval of: (i) the issuance to Sundial (or any person acting in combination or in concert with the Sundial) of more than 19,953,242 Shares pursuant to the Sundial Debenture, representing 25% of the issued and outstanding Common Shares, on a non-diluted basis as of the issuance of the Sundial Debenture on March 30, 2022, less the 6,666,667 Shares issued to Uncle Sam pursuant to the Uncle Sam Transaction; (ii) the issuance to Sundial (and any person acting in combination or in concert with Sundial) of that number of Common Shares that would result in Sundial (and any person acting in combination or in concert with Sundial) holding greater than 19.99% of the outstanding Common Shares, and accordingly becoming a control person of the Company, after giving effect to any conversion of the Sundial Debenture or any other issuance of Common Shares to Sundial pursuant to the terms of the Sundial Debenture, including the payment of interest thereon; (iii) the payment of interest on the Sundial Debenture in Common Shares at a price per Share equal to 85% of the 5-Day VWAP of the Common Shares on the terms set out in the Sundial Debenture; and (iv) removing the Floor Price for the issuance of Common Shares on any conversion of the Sundial Debenture.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2023

21. CONVERTIBLE DEBENTURES (continued)

The gross proceeds of \$9,600,000 was apportioned between the host loan and the embedded derivative liability by first determining the fair value of the derivative, which was \$2,711,609 on March 30, 2022. Transaction costs of \$254,445 associated with the host liability were capitalized to the liability whereas transaction costs of \$94,665 associated with the embedded derivative liability were expensed in the year ended 31st December 2022. The fair value of the derivative liability was \$226,000 at December 31, 2023.

The effective interest rate of the host liability was calculated at 26.38%. The carrying value of the host liability was \$6,888,391 at March 30, 2022.

The Sundial Debentures contain a call option which allows the issuer to repay the principal plus interest at any time during the three-year term, at a redemption price equal to par plus premium. The redemption right was not separated but accounted for as a single embedded derivative along with conversion feature.

22. SHARE CAPITAL

Authorized:

The authorized share capital of the Company consists of an unlimited number of common shares without par value.

| | December 31, 2023 | December 31, 2022 |
|---|----------------------|----------------------|
| Issued share capital | | |
| 213,166,895 (December 31, 2022 - 150,257,006) Common Shares | <u>\$ 76,399,542</u> | <u>\$ 72,581,938</u> |

The increase of \$3,817,604 in the value of common shares during the year ended December 31, 2023 is represented by the following:

| | |
|---|---------------------|
| Shares issued in business acquisition transaction | \$ 319,017 |
| Shares issued relating to private placement and financing - net | 2,186,866 |
| Shares issued relating to services and equipment purchases | 364,612 |
| Shares issued on exercise of restricted stock units | <u>947,109</u> |
| | <u>\$ 3,817,604</u> |

Equity raise

On June 16, 2022, the Company completed a bought deal public offering of 8,800,027 units for aggregate gross proceeds of \$1,936,006 at an offering price of \$0.22 per unit. Each unit consisted of one common share of the Company and one common share purchase warrant of the Company. Each warrant is exercisable to acquire one common share for a period of 36 months at an exercise price of \$0.255.

The Company uses the residual approach in respect of equity offerings whereby the amount assigned to the warrant is the excess of the unit price over the trading price for the Company's shares at the date of issuance, if any, to a maximum fair value of the warrant determined by using the Black-Scholes option pricing model. Using this approach a fair value of \$88,000 was assigned to warrants.

The Company incurred costs in the amount of \$448,063 related to this equity raise.

Equity raise

On September 9, 2022, the Company completed a private placement of 1,650,000 shares for aggregate gross proceeds of \$206,250 at an offering price of \$0.125 per share.

The Company incurred costs in the amount of \$26,390 related to this equity raise.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2023

22. SHARE CAPITAL (continued)

At-the-Market Equity Offering ("ATM Program")

On December 6, 2022, the Company announced that it had established an ATM equity program that allows the Company to issue up to \$5,000,000 of Common Shares from treasury to the public from time to time, at the Company's discretion. Distributions of the Common Shares through the ATM Program will be made pursuant to the terms of an equity distribution agreement (the "Equity Distribution Agreement") dated December 6, 2022 between the Corporation and Haywood Securities Inc ("Haywood").

Pursuant to the Equity Distribution Agreement, the Common Shares may be offered and sold by Haywood: (a) in privately negotiated transactions with the consent of the Company and, if required, by the TSX; (b) as block transactions; (c) by Haywood, on the TSX or on any other "marketplace" (as such term is defined in National Instrument 21-101 – Marketplace Operation) in Canada; or (d) by any method permitted by law that constitutes an "at-the-market distribution" under National Instrument 44-102 – Shelf Distributions.

The offering under the ATM Program was made pursuant to the prospectus supplement of the Company dated December 6, 2022 to the amended and restated short form base shelf prospectus of the Company dated November 25, 2022, for all of the provinces of Canada, except Québec and the short form base shelf prospectus of the Company dated November 25, 2022, for Québec and the territories of Canada in respect of the ATM Program.

During the year ended December 31, 2023, the Company issued 42,166,000 common shares under the ATM program for net proceeds of \$2,186,866.

New ATM Program

On October 23, 2023, the Company announced that it had established the New ATM Program that allows the Company to issue up to \$5,000,000 of Common Shares from treasury to the public from time to time, at the Company's discretion. Distributions of the Common Shares through the New ATM Program will be made pursuant to the terms of an equity distribution agreement (the "New Equity Distribution Agreement") dated October 23, 2023 between the Corporation and Haywood.

Pursuant to the New Equity Distribution Agreement, the Common Shares may be offered and sold by Haywood: (a) in privately negotiated transactions with the consent of the Company and, if required, by the TSX; (b) as block transactions; (c) by Haywood, on the TSX or on any other "marketplace" (as such term is defined in National Instrument 21-101 – Marketplace Operation) in Canada; or (d) by any method permitted by law that constitutes an "at-the-market distribution" under National Instrument 44-102 – Shelf Distributions.

The offering under the New ATM Program was made pursuant to the prospectus supplement of the Company dated October 23, 2023 to the short form base shelf prospectus of the Company dated October 12, 2023, for all of the provinces and territories of Canada in respect of the New ATM Program.

Warrants

On June 16, 2022, the Company completed a bought deal public offering of 8,800,027 units for aggregate gross proceeds of \$1,936,006 at an offering price of \$0.22 per unit. Each unit consists of one common share of the Company and one common share purchase warrant of the Company. Each warrant is exercisable to acquire one common share for a period of 36 months at an exercise price of \$0.255. No warrants were exercised as of December 31, 2023.

In connection with the bought deal equity financing 616,002 brokers' warrants were issued. Each warrant entitles the holder to acquire one share at the issue price of \$0.22 until June 16, 2025. No broker warrants were exercised as of December 31, 2023.

On December 21, 2020, the Company completed a bought deal public offering of 10,454,546 units for aggregate gross proceeds of \$5,750,000 at an offering price of \$0.55 per unit. Each unit consists of one common share of the Company and one half of one common share purchase warrant of the Company. Each warrant is exercisable to acquire one common share for a period of 36 months at an exercise price of \$0.70. No warrants were exercised as of December 31, 2023 and they expired on December 21, 2023.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2023

22. SHARE CAPITAL (continued)

In connection with the bought deal equity financing 731,818 brokers' warrants were issued. Each warrant entitles the holder to acquire one share at the issue price of \$0.55 until December 21, 2023. No broker warrants were exercised as of December 21, 2023 and they expired on December 21, 2023.

The following table provides a summary of warrants activity for the year ended December 31, 2023:

| | <u>Number of warrants</u> | <u>Weighted Average Exercise Price</u> |
|--------------------------------|---------------------------|--|
| Outstanding, beginning of year | 15,375,120 | \$ 0.42 |
| Issued | - | \$ - |
| Exercised | - | \$ - |
| Expired | <u>5,959,091</u> | <u>\$ 0.68</u> |
| Outstanding, end of year | <u>9,416,029</u> | <u>\$ 0.25</u> |

Stock Option plan

On May 2, 2017, the Board of Directors approved the 2017 Stock Option Plan ("2017 Plan") to retain and attract directors, officers, and key employees. This replaces and terminates the former option plan, which had no outstanding options. On June 25, 2020, the shareholders of the Company approved, the amended and restated stock option plan (the "2020 Plan"). The 2020 Plan amended the 2017 Plan to comply with the policies of the TSX.

The following table provides a summary of stock option activity for the year ended December 31, 2023:

| | <u>Number of options</u> | <u>Weighted Average Exercise Price</u> |
|--------------------------------|--------------------------|--|
| Outstanding, beginning of year | 3,116,868 | \$ 0.56 |
| Granted | - | \$ - |
| Exercised | - | \$ - |
| Forfeited | 866,458 | \$ 0.57 |
| Cancelled | <u>-</u> | <u>\$ -</u> |
| Outstanding, end of year | <u>2,250,410</u> | <u>\$ 0.56</u> |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2023
22. SHARE CAPITAL (continued)

The following table provides a summary of currently active stock options at December 31, 2023:

| | | |
|-------------------------|--|--|
| Date of approval | November 13, 2019 | November 27, 2020 |
| Expiry date | November 13, 2024 | November 27, 2025 |
| Number of stock options | 3,000,000 | 1,228,482 |
| Exercisable price | \$ 0.55 | \$ 0.60 |
| Vesting dates | 50% each: May 13, 2020 November 13, 2020 | 50% each: May 30, 2021 November 30, 2021 |
| Options forfeited | <u>1,299,968</u> | <u>678,104</u> |
| Options outstanding | <u>1,700,032</u> | <u>550,378</u> |

Restricted Share Units

On June 25, 2020, the shareholders approved the performance and restricted share unit plan of the Company, which is an equity incentive plan of equity-based instruments that do not have option-like features, including shares, restricted shares, performance share units, restricted share units, deferred share units, phantom shares, phantom share units, share equivalent units, and stock. The plan was amended on May 12, 2022.

The following table provides a summary of currently active restricted share units at December 31, 2023:

| | | | |
|---|--|--|--|
| Date of approval | September 15, 2021 | July 22, 2022 | Nov 15, 2023 |
| Number of RSUs awarded | 1,846,150 | 6,666,495 | 13,102,456 |
| Vesting dates | 50% each: March 31, 2022 September 30, 2022 | 50% each: September 30, 2022 March 31, 2023 | 50% each: March 15, 2024 July 15, 2024 |
| RSUs forfeited | 419,175 | 2,028,931 | - |
| RSUs cancelled | 244,750 | | |
| RSUs redeemed | <u>907,225</u> | <u>3,828,845</u> | <u>-</u> |
| RSUs outstanding | <u>275,000</u> | <u>808,719</u> | <u>13,102,456</u> |
| Year ended December 31, 2023 share-based compensation expense | <u>\$ -</u> | <u>\$ 169,563</u> | <u>\$ 123,552</u> |

23. NON-CONTROLLING INTEREST

At December 31, 2023, the non-controlling interest represented a 31.22% interest in Delta 9 Lifestyle Cannabis Clinic Inc.

00399

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2023
24. REVENUE

| | December 31, 2023 | December 31, 2022 |
|--------------------------------|------------------------------|----------------------|
| Revenue from sale of cannabis: | | |
| Wholesale | \$ 10,099,372 | \$ 12,126,163 |
| Retail | 59,307,104 | 50,327,604 |
| Medicinal | 7,551 | 110,419 |
| Business to business | 1,396,748 | 1,730,399 |
| Merchandise and devices | 1,804,074 | 1,866,664 |
| Other | 444,599 | 419,829 |
| | 73,059,448 | 66,581,078 |
| Excise tax | (1,994,111) | (3,352,807) |
| Net Revenue | \$ 71,065,337 | \$ 63,228,271 |

25. EXPENSES

The Company presents its Consolidated Statements of Net Income and Comprehensive Income on a functional basis in which expenditures are aggregated to the function to which they relate. The Company has identified the major functions as general and administrative and sales and marketing.

| Year ended December 31, 2023 | General and administrative | Sales and marketing | Total |
|--|-------------------------------|------------------------|----------------------|
| Amortization | \$ 3,815,536 | \$ 4,801,588 | \$ 8,617,124 |
| Insurance | 639,994 | 84,516 | 724,510 |
| Legal, professional, consulting and investor relations | 1,294,085 | 152,875 | 1,446,960 |
| Other operating expenses | 1,746,358 | 1,484,053 | 3,230,411 |
| Personnel expenditures | 3,611,219 | 8,728,427 | 12,339,646 |
| Utilities | 22,167 | 329,726 | 351,893 |
| Supplies and materials | 106,674 | 322,371 | 429,045 |
| | \$ 11,236,033 | \$ 15,903,556 | \$ 27,139,589 |

| Year ended December 31, 2022 | General and administrative | Sales and marketing | Total |
|--|-------------------------------|------------------------|----------------------|
| Amortization | \$ 3,996,030 | \$ 3,850,174 | \$ 7,846,204 |
| Insurance | 605,708 | 120,711 | 726,419 |
| Legal, professional, consulting and investor relations | 1,547,417 | 369,619 | 1,917,036 |
| Other operating expenditures | 1,793,325 | 1,623,649 | 3,416,974 |
| Personnel expenditures | 5,866,079 | 7,828,544 | 13,694,623 |
| Utilities | 563,799 | 227,363 | 791,162 |
| Site renovation | 7,201 | - | 7,201 |
| Supplies and materials | 694,195 | 432,673 | 1,126,868 |
| | \$ 15,073,754 | \$ 14,452,733 | \$ 29,526,487 |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31 , 2023
26. FINANCE INCOME (EXPENSE)

| | December 31, 2023 | December 31, 2022 |
|---|-------------------------------|-------------------------------|
| Interest revenue | \$ 21,254 | \$ 116,710 |
| Interest expense: | | |
| Interest and bank charges | (1,498,376) | (1,055,209) |
| Interest on loans | (1,753,119) | (1,698,045) |
| Interest on leases | (1,525,096) | (1,179,425) |
| Interest on debentures | (2,029,325) | (2,574,258) |
| Transaction costs related to embedded derivatives | - | (94,665) |
| | <u>\$ (6,784,662)</u> | <u>\$ (6,484,892)</u> |

27. OTHER INCOME

| | December 31, 2023 | December 31, 2022 |
|--|------------------------------|--------------------------|
| Amortization of manufacturing rebate | \$ 313,359 | \$ 267,162 |
| Other income | 417,525 | 45,503 |
| Social responsibility fee forgiveness (Note 15) | <u>2,989,311</u> | <u>-</u> |
| | 3,720,195 | 312,665 |
| Write down of research equipment | <u>(250,000)</u> | <u>-</u> |
| | <u>\$ 3,470,195</u> | <u>\$ 312,665</u> |

28. EARNINGS PER SHARE
Basic earnings per share

Basic EPS is calculated by dividing net income attributable to common shareholders by the weighted average number of common shares outstanding during the year.

| | December 31, 2023 | December 31, 2022 |
|---|------------------------------|--------------------------|
| Net income (loss) attributable to common shareholders | \$(17,515,339) | \$(27,200,557) |
| Weighted average number of common shares | <u>178,944,150</u> | <u>126,067,044</u> |
| | <u>\$ (0.10)</u> | <u>\$ (0.22)</u> |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31 , 2023

28. EARNINGS PER SHARE *(continued)*Diluted earnings per share

Diluted EPS was calculated by dividing the applicable net income by the weighted average number of common shares outstanding, adjusted for the effects of all dilutive potential common shares, which comprise warrants and share options issued. However, the calculation of diluted earnings per share excludes the effects of various conversions and exercise of options or warrants that would be anti-dilutive.

| | December 31, 2023 | December 31, 2022 |
|--|------------------------------|----------------------|
| Net income attributable to common shareholders | \$(17,515,339) | \$(27,200,557) |
| Weighted average number of common shares for diluted EPS | <u>178,944,150</u> | <u>126,067,044</u> |
| | <u>\$(0.10)</u> | <u>\$(0.22)</u> |

29. COMMITMENTS

On March 19, 2018, Delta 9 Bio-Tech entered into a binding letter of intent (the "Delta LOI") dated March 19, 2018 with 6599362 Canada Inc. setting out the terms and conditions pursuant to which it is anticipated that Delta 9 Bio-Tech would purchase property including the Expansion Properties. On July 17, 2018, the Delta LOI was amended and on April 28, 2021 a binding letter of intent was signed with 6599362 Canada Inc. replacing and superseding the Delta LOI in respect of revised terms governing the purchase of the Expansion Properties and defining the area of the Expansion Properties. The final purchase price and date is yet to be determined.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2023

30. INCOME TAXES

| | December 31, 2023 | December 31, 2022 |
|--|----------------------|----------------------|
| Net loss before income taxes | \$(16,635,631) | \$(27,836,950) |
| Statutory rates: | <u>26.90%</u> | <u>26.90%</u> |
| Expected income tax recovery based on statutory rate | (4,474,985) | (7,488,140) |
| Deferred income tax asset not recognized | <u>\$ 4,474,985</u> | <u>\$ 7,488,140</u> |

As at December 31, 2023, the Company has \$81,999,280 of non-capital losses that expire as follows:

| | |
|------|----------------------|
| 2030 | \$ 587 |
| 2031 | 73,021 |
| 2032 | 643,155 |
| 2033 | 1,004,283 |
| 2034 | 1,305,720 |
| 2035 | 37 |
| 2036 | 2,301,408 |
| 2037 | 11,147,707 |
| 2038 | 19,815,387 |
| 2039 | 6,966,868 |
| 2040 | 6,593,870 |
| 2041 | 18,287,056 |
| 2042 | 14,080,568 |
| | <u>\$ 81,999,280</u> |

Deferred tax assets are not recognized in these consolidated interim financial statements because the realization of these deferred tax assets is contingent on future profits.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2023

31. FINANCIAL INSTRUMENTS

As at December 31, 2023, the Company's financial instruments consist of cash and cash equivalents totaling \$2,153,346, trade and other receivables totaling \$1,919,339, notes receivable totaling \$222,972, net amount due from related parties totaling \$113,262, accounts payable and accrued liabilities totaling \$13,938,998, loan from related parties totaling \$48,951, lease liability totaling \$20,368,952, borrowings totaling \$33,102,490, convertible debentures totaling \$8,271,535, and derivative liabilities totaling \$226,000.

As at December 31, 2023 there were no significant differences between the carrying values of these items and their estimated fair values.

The Company records its financial instruments at fair value using a fair value hierarchy that gives the highest priority to quoted prices in active markets and the lowest priority to unobservable data. The fair value hierarchy is broken down into the following three levels:

| | Level 1 | Level 2 | Level 3 | December 30, 2023 |
|---|---------------------|-------------|-------------------|----------------------|
| Cash | \$ 2,153,346 | \$ - | \$ - | \$ 2,153,346 |
| Investment in Pure Blue Cannabis Inc. (formerly Vitreous Cannabis Inc.) | - | - | 33,333 | 33,333 |
| Investment in Oceanic Releaf Inc. | - | - | 500,000 | 500,000 |
| | <u>\$ 2,153,346</u> | <u>\$ -</u> | <u>\$ 533,333</u> | <u>\$ 2,686,679</u> |
| | Level 1 | Level 2 | Level 3 | December 31, 2022 |
| Cash | \$ 3,518,994 | \$ - | \$ - | \$ 3,518,994 |
| Investment in Pure Blue Cannabis Inc. (formerly Vitreous Cannabis Inc.) | - | - | 33,333 | 33,333 |
| Investment in Oceanic Releaf Inc. | - | - | 500,000 | 500,000 |
| | <u>\$ 3,518,994</u> | <u>\$ -</u> | <u>\$ 533,333</u> | <u>\$ 4,052,327</u> |

32. FINANCIAL RISK AND CAPITAL MANAGEMENT

In the normal course of business, the Company is exposed to a variety of financial risk: market risk, price risk, credit risk, and liquidity risk.

Financial Risk Factors*Market Risk*

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises two types of risk: currency risk and interest rate risk.

1. Currency risk is the risk to the Company's earnings that arise from fluctuations of foreign exchange rates. The Company is not exposed to foreign currency exchange risk as it has no financial instruments denominated in a foreign currency.

2. Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Borrowings issued at variable interest rates expose Company to cash flow interest rate risk. The remaining outstanding demand revolving loan is subject to variable interest rate. In 2023 the Company has not entered into any interest rate swap to mitigate this cash flow interest rate risk.

An increase of 1% in the floating interest rate with all other variables held constant, would result in an insignificant increase to interest expense for the period.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2023

32. FINANCIAL RISK AND CAPITAL MANAGEMENT (continued)

Price Risk

Price risk relates to the possibility that the fair value of future cash flows from financial instruments will change due to market fluctuations (other than due to currency or interest rate movements).

Credit Risk

Credit risk arises from deposits with banks, short-term investments and outstanding receivables. For trade receivables, the Company does not hold any collateral as security but mitigates this risk by dealing only with what management believes to be financially sound counterparties and accordingly does not anticipate significant loss from non-performance. There is no material exposure to credit risk on cash and cash equivalents as cash balances are held by highly reputable, large financial institutions.

Liquidity Risk

The Company's liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company controls liquidity risk by management of working capital, cash flows and the issuance of share capital. The Company is in the process of finalizing a number of large contract agreements for sales of wholesale cannabis which will improve overall company liquidity once completed. Further to this, the Company is currently negotiating with various levels of Government to provide grant contributions under various programs.

The following table analyses the Company's financial liabilities, including commitments, based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

| Payment due: | Total | Within 1 year | 1 - 3 years | 3 - 5 years | Over 5 years |
|-----------------------------------|----------------------|----------------------|----------------------|---------------------|---------------------|
| Trade payables and other payables | \$ 13,938,998 | \$ 13,938,998 | \$ - | \$ - | \$ - |
| Loan from related parties | 2,860,248 | - | 2,860,248 | - | - |
| Lease liabilities | 20,368,952 | 1,961,646 | 9,534,861 | 4,587,761 | 4,284,684 |
| Convertible debentures | 8,271,535 | - | 8,271,535 | - | - |
| Borrowings | <u>33,102,490</u> | <u>29,311,297</u> | <u>3,791,193</u> | <u>-</u> | <u>-</u> |
| Total contractual obligations | <u>\$ 78,542,223</u> | <u>\$ 45,211,941</u> | <u>\$ 24,457,837</u> | <u>\$ 4,587,761</u> | <u>\$ 4,284,684</u> |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2023

32. FINANCIAL RISK AND CAPITAL MANAGEMENT (continued)

Capital Management

The Company's key objectives when managing capital are to maintain a strong capital base in order to:

- maintain investor, creditor and market confidence;
- advance the Company's corporate strategies to generate attractive risk-adjusted return over the long-term for the shareholders;
- sustain the Company's operations and growth through all cycles; and
- ensure compliance with the covenants of any applicable credit facility and other financing facilities.

Management monitors the Company's capital and capital structure on an ongoing basis to ensure it is sufficient to achieve the Company's short-term and long-term objectives.

33. SEGMENTED INFORMATION

The Company's operating results have been divided into three reportable operating segments plus corporate. All property, plant and equipment are located in Canada. All revenues were principally generated in Canada. The chief operating decision maker (the Company's chief executive officer) evaluates the operating performance of the segments and allocates resources based on information provided at gross margin level.

| | Wholesale Cannabis | Retail Cannabis and Merchandise and Devices | Business to Business | December 31, 2023 |
|--------------|-----------------------|--|-------------------------|----------------------|
| Revenue | \$ 8,114,436 | \$ 61,220,975 | \$ 1,729,926 | \$ 71,065,337 |
| Gross Profit | \$ (748,582) | \$ 17,819,673 | \$ 902,743 | \$ 17,973,834 |

| | Wholesale Cannabis | Retail Cannabis and Merchandise and Devices | Business to Business | December 31, 2022 |
|--------------|-----------------------|--|-------------------------|----------------------|
| Revenue | \$ 8,891,674 | \$ 52,362,045 | \$ 1,974,552 | \$ 63,228,271 |
| Gross Profit | \$ 31,604 | \$ 12,558,537 | \$ 326,362 | \$ 12,916,503 |

34. NON-CASH TRANSACTIONS IN CASH FLOW STATEMENT

Following are the non-cash transactions in the statement of cash flows for the year ended December 31, 2023:

- Issuance of additional shares related to the acquisition of Garden Variety of \$319,018 transferred to share capital.
- Fair value component of inventory amounting to \$3,172,839.

THIS IS EXHIBIT "21" TO THE
AFFIDAVIT OF JOHN ARBUTHNOT IV
SWORN BEFORE ME AT WINNIPEG, MANITOBA,
this 12th day of July, 2024



A NOTARY PUBLIC IN AND FOR THE PROVINCE OF MANITOBA

Delta 9 Cannabis Inc.
Consolidated Balance Sheet As at 2024-05-31

| ASSET | | LIABILITIES | |
|--|-----------------------|--|----------------------|
| CURRENT ASSET | | CURRENT LIABILITIES | |
| Cash to be deposited | 574,826.96 | Accounts Payable | 3,298,367.35 |
| Cash Float | 93,515.00 | Accrued Liabilities | 1,058,422.20 |
| CWB Savings | 48.55 | CWB-VISA CARD | 30,216.61 |
| Chequing Bank Account (SCU) | - | Current Portion of Right of Use Lease Liability | 1,967,836.62 |
| SCU Savings | - | Vacation Payable | 17,681.95 |
| CWB Chequing | 302,241.49 | PST Payable | 24,624.88 |
| Funds Held in Trust | 198,507.99 | Social Responsibility Fee | - |
| Term Deposit-CWB | 50,000.00 | CRA Excise Tax Payable | 7,607,561.39 |
| Payroll Clearing | - | Employee Benefit Payable(Source Deductions incl) | 56,601.57 |
| Credit Union Share | 11.00 | Unearned Revenue | - |
| Cash Clearing | - | Prepaid Sales/Deposits | - |
| CFCU Line of Credit | (3,985,945.76) | Income Tax Payable | 358.08 |
| CWB Investment | 10.00 | Customer Loyalty | 206,545.12 |
| Petty Cash | 754.81 | Deferred Revenue | 199,882.27 |
| ConnectFirst Share | - | Gift card liability | 3,700.00 |
| Total Cash | (2,766,029.96) | Staff Reimbursements | - |
| Accounts Receivable | 2,477,941.98 | PST Self-Assessed | - |
| Due from related parties(Blue Horseshoe) | - | | |
| Due from Government Agencies | (1,101,698.41) | | |
| Due from Employees/Share Holders | 14,534.10 | | |
| Finished-Grow Pods for Resale | 89,264.59 | | |
| Biological Assets + Inventory | 8,102,209.19 | | |
| Inventory -Ancillary Product | 329,007.17 | | |
| Inventory for sale to retail | - | | |
| WIP-Inventory | 1,912,828.31 | | |
| Purchase Prepayments | 1,562,622.20 | | |
| Raw Materials (Cultivation, Production, Packaging) | 1,080,301.33 | | |
| Inventory for resale-Clinic | - | | |
| Allowance for Doubtful accounts | - | | |
| Investment In Oceanic | 500,000.00 | | |
| TOTAL CURRENT ASSETS | 12,200,980.50 | TOTAL CURRENT LIABILITIES | 14,471,798.04 |
| NON-CURRENT ASSET | | LONG TERM LIABILITIES | |
| CAPITAL ASSETS | | Mortgage | - |
| Construction In Progress | 1,047,679.20 | Debenture Units | - |
| Site Expansion | - | Container Loan | - |
| Land | 647,650.00 | CFCU Loan | 24,190,321.36 |
| Containers | 8,658,324.80 | CWB Loan-1725500011117 | - |
| Accum Amort-Containers | (4,835,870.46) | Staff Clearing | - |
| Net-Containers | 3,822,454.34 | Customer Deposit | 585,775.33 |
| Vehicles | 119,605.86 | Retail Loan-7217804 MB Ltd. | 2,399,151.10 |

| | | |
|--------------------------------------|----------------|----------------------|
| Accum Amort-Vehicles | (76,120.04) | |
| Net-Vehicles | | 43,485.82 |
| Leasehold Improvement | 9,388,785.37 | |
| Accum Amort-Leasehold Improvemei | (6,096,324.36) | |
| Net-Leasehold Improvement | | 3,292,461.01 |
| Furniture & Equipment | 684,326.06 | |
| Accum Amort-Fur. & Equip. | (474,774.64) | |
| Net-Furniture & Equipment | | 209,551.42 |
| Computers | 463,368.96 | |
| Accum Amort-Computers | (450,420.19) | |
| Net-Computer | | 12,948.77 |
| Security Equipment | 1,793,189.70 | |
| Accum Amort-Security Equipment | (1,383,552.51) | |
| Net-Security Equipment | | 409,637.19 |
| Right of Use Assets | 27,457,954.27 | |
| Accum Amort-Right of use assets | (8,854,059.72) | |
| Net-Right of Use Assets | | 18,603,894.55 |
| Cooling Infrastructure | 4,391,696.36 | |
| Accum Amort-Cooling Infrastructure | (1,708,917.21) | |
| Net-Cooling Infrastructure | | 2,682,779.15 |
| Building | 8,502,602.75 | |
| Accum Amort-Building | (2,248,450.70) | |
| Net-Building | | 6,254,152.05 |
| Production Equipment | 10,246,908.70 | |
| Accum Amort Production Equip. | (9,284,019.36) | |
| Net-Production Equipment | | 962,889.34 |
| Cross Docking Storage | 11,478.96 | |
| Accum Cross Docking Storage | (2,221.95) | |
| Net-Cross Docking Storage | | 9,257.01 |
| IT Computer Software | 80,171.86 | |
| Accum Amort-Software | (80,171.86) | |
| Net-Computer Software | | - |
| Signage | 690,556.91 | |
| Accum Amort Signage | (402,816.68) | |
| Net Signage | | 287,740.23 |
| Mobile Store | - | |
| Accum Amort Mobile Store | - | |
| Net Mobile Store | | - |
| TOTAL CAPITAL ASSET | | 38,286,580.08 |
| OTHER NON-CURRENT ASSETS | | |
| Intangibles Assets | | - |
| Goodwill | | 14,198,668.59 |
| Investment in Delta West | | - |
| Investment in Pure Blue Cannabis Inc | | 33,333.33 |

| | |
|------------------------------------|----------------------|
| Shareholder Loan-7217804 MB | 488,766.47 |
| Right of Use Lease Liability | 12,701,219.15 |
| CRA Manufacturing Rebate Deferral | 926,375.93 |
| CWB Loan-1725500011020 | - |
| CWB-Loan-1755500011022 | - |
| Clearing Account | - |
| CFCU Transaction Costs | (832,921.34) |
| Sundial Transaction Costs | (254,444.98) |
| Sundial Debenture | 8,828,096.35 |
| Derivative Liability | 646,000.00 |
| Uncle Sam's Promissory Note-1,2 | 4,491,192.87 |
| Lease Liability | 5,430,596.35 |
| Notes Payable -Loan- Non Current | 23,951.00 |
| Other Liabilities - Non - Current | (3,212.63) |
| Federal Current Tax Payable | - |
| TOTAL LONG TERM LIABILITIES | 59,620,866.96 |
| TOTAL LIABILITIES | 74,092,665.00 |
| EQUITY | |
| Share Capital | 82,250,675.32 |
| Cost of SVT Acquisition | - |
| Share Issuance Costs | (2,585,803.05) |
| Warrants | 144,836.16 |

| | | | |
|---------------------------------------|----------------------|----------------------------------|-----------------------|
| Notes Receivable | 223,071.90 | Contributed Surplus | 7,834,568.87 |
| | | Retained Earnings- Previous Year | (90,403,074.96) |
| | | Retained Earnings INC | - |
| | | LP Buy Out | - |
| | | Non-Controlling Interest | (381,497.46) |
| | | Equity Component of Promissory | 430,492.02 |
| | | Current Earnings | (6,440,227.50) |
| TOTAL OTHER NON-CURRENT ASSETS | 14,455,073.82 | TOTAL OWNERS EQUITY | (9,150,030.60) |
| TOTAL ASSET | 64,942,634.40 | LIABILITY AND EQUITY | 64,942,634.40 |

check s/b nil

THIS IS EXHIBIT "22" TO THE
AFFIDAVIT OF JOHN ARBUTHNOT IV
SWORN BEFORE ME AT WINNIPEG, MANITOBA,
this 12th day of July, 2024


A NOTARY PUBLIC IN AND FOR THE PROVINCE OF MANITOBA



2720, 700 – 9th Ave SW
Calgary, AB T2P 3V4

Writer's Direct Line: (403) 736-4182

E-Mail: sneogi@connectfirstcu.com

February 1, 2022

Delta 9 Cannabis Inc.
777 8th Ave SW, Unit 210
Calgary, AB T2P 3R5

Attention: John Arbuthnot

Dear Member(s):

RE: COMMITMENT LETTER

Connect First Credit Union Ltd. (hereinafter called the "Credit Union") is pleased to advise that the following credit facilities (the "Credit Facilities" and each, a "Credit Facility") have been approved on the terms and conditions set forth below. If you agree with these terms and conditions, please sign the duplicate copy of this letter under the heading "Acceptance" and return same to the writer's attention.

Borrower: Delta 9 Cannabis Inc.

Guarantors: Delta 9 Bio-Tech Inc.
Delta 9 Lifestyle Cannabis Clinic Inc.
Delta 9 Cannabis Store Inc.

| Credit Facilities | New/Existing | Loan No. | Authorized Amount/Current Principal Balance Outstanding |
|--------------------------|--------------|----------|---|
| Commercial Mortgage Loan | New | TBD | \$23,000,000.00 |
| Commercial Mortgage Loan | New | TBD | \$5,000,000.00 |
| Authorized Overdraft | New | TBD | \$4,000,000.00 |

Credit Facility 1: Commercial Mortgage Loan – New

Amount of Loan: \$23,000,000.00 available in multiple advances

Purpose: To pay out CWB and Debentures, or as otherwise agreed by the Lender

Rate of Interest:

The Committed Rate is a fixed rate of 4.55% per annum, calculated daily, payable monthly in arrears

Term:

5 Years from the Interest Adjustment Date

Amortization:

12 Years from the Interest Adjustment Date

Repayment:

Interest calculated at the Committed Rate shall accrue from the date of the advance and be paid on the fifth day of the month following the date of advance (the "Interest Adjustment Date"). Thereafter on the fifth day of each month, during the term, the payment outlined below on account of principal and interest shall be due and payable.

| <u>Term</u> | <u>Payment Amount</u> |
|---------------|-----------------------|
| 5 year closed | \$207,570.01 |

Prepayment:

The Borrower when not in default under this Credit Facility, shall have the following privileges:

- a) In any calendar year, the Borrower shall have the privilege of prepaying additional amounts of principal under the Credit Facility without notice or bonus provided that the aggregate amount thereof in such calendar year does not exceed 20% of the Original Principal amount of this Credit Facility (the "Annual Prepayment"). The Annual Prepayment is not cumulative.
- b) The Borrower shall have the privilege, once in any calendar year, of increasing the amount of the monthly payment by not more than 20% of the amount of the monthly payment then payable under the Credit Facility (the "Increase Privilege"). The Increase Privilege is not cumulative.

In the event the Borrower has exercised the "Increase Privilege" contained in this Credit Facility, then the Borrower shall, once in any calendar year, have the privilege of decreasing the amount of the then monthly payment payable under the Credit Facility to an amount which is not less than the amount of monthly payment payable at the beginning of the current term. For purposes hereof "current term" means the term of the Credit Facility in the event there has been no extension or renewal of such term, and if such term has been extended or renewed then it means the extended or renewed term commencing on the first day of the extended or renewed term.

- c) The Borrower shall have the privilege of prepaying the entire balance outstanding under this Credit Facility (the "Full Payout Privilege") subject to the payment of a bonus equal to the greater of (i) three (3) months' interest on the outstanding Principal Amount of the Credit Facility at the interest rate then payable under the Credit Facility, or (ii) an amount in compensation for loss of interest, if any, where the interest rate then payable under this Credit Facility is greater than the Credit Union's current interest rate for reinvestment for the remainder of the term of this Credit Facility. The current interest rate for reinvestment is the applicable Government of Canada Bond rate or Treasury Bill yield.

Applicable Government of Canada Bond or Treasury Bill is that with a term not greater than (i) the remainder of the current term of the Credit Facility, and (ii) the next shorter term offered, provided that where the remainder of the term of the Credit Facility is less than the next shorter term offered, the Credit Union's current interest rate for reinvestment for the next shorter term shall apply. The bonus payable hereunder shall be calculated by the Credit Union and, in the absence of an obvious error, shall be conclusive.

Outstanding Balance shall be the outstanding principal amount of the Credit Facility on the date of the prepayment provided the Borrower had not exercised its 20/20 prepayment privilege in the 30 days preceding the pay-out date. Where the Borrower has exercised its 20/20 prepayment privilege within 30 days prior to the prepayment date, the Borrower would be required to pay a bonus as defined above on the partial prepayment.

Credit Facility 2: Commercial Mortgage Loan – New

Amount of Loan: \$5,000,000.00 available in a single advance

Purpose: Acquisition financing for Uncle Sam's Cannabis

Rate of Interest:

The Committed Rate is a fixed rate of 4.55% per annum, calculated daily, payable monthly in arrears

Term:

5 Years from the Interest Adjustment Date

Amortization:

12 Years from the Interest Adjustment Date

Repayment:

Interest calculated at the Committed Rate shall accrue from the date of the advance and be paid on the fifth day of the month following the date of advance (the "Interest Adjustment Date"). Thereafter on the fifth day of each month, during the term, the payment outlined below on account of principal and interest shall be due and payable.

| <u>Term</u> | <u>Payment Amount</u> |
|---------------|-----------------------|
| 5 year closed | \$45,123.92 |

Prepayment:

The Borrower when not in default under this Credit Facility, shall have the following privileges:

- a) In any calendar year, the Borrower shall have the privilege of prepaying additional amounts of principal under the Credit Facility without notice or bonus provided that the aggregate amount thereof in such calendar year does not exceed 20% of the Original Principal amount of this Credit Facility (the "Annual Prepayment"). The Annual Prepayment is not cumulative.
- b) The Borrower shall have the privilege, once in any calendar year, of increasing the amount of the monthly payment by not more than 20% of the amount of the monthly payment then payable under the Credit Facility (the "Increase Privilege"). The Increase Privilege is not cumulative.

In the event the Borrower has exercised the "Increase Privilege" contained in this Credit Facility, then the Borrower shall, once in any calendar year, have the privilege of decreasing the amount of the then monthly payment payable under the Credit Facility to an amount which is not less than the amount of monthly payment payable at the beginning of the current term. For purposes hereof "current term" means the term of the Credit Facility in the event there has been no extension or renewal of such term, and if such term has been extended or renewed then it means the extended or renewed term commencing on the first day of the extended or renewed term.

- c) The Borrower shall have the privilege of prepaying the entire balance outstanding under this Credit Facility (the "Full Payout Privilege") subject to the payment of a bonus equal to the greater of (i) three (3) months' interest on the outstanding Principal Amount of the Credit Facility at the interest rate then payable under the Credit Facility, or (ii) an amount in compensation for loss of interest, if any, where the interest rate then payable under this Credit Facility is greater than the Credit Union's current interest rate for reinvestment for the remainder of the term of this Credit Facility. The current interest rate for reinvestment is the applicable Government of Canada Bond rate or Treasury Bill yield.

Applicable Government of Canada Bond or Treasury Bill is that with a term not greater than (i) the remainder of the current term of the Credit Facility, and (ii) the next shorter term offered, provided that where the remainder of the term of the Credit Facility is less than the next shorter term offered, the Credit Union's current interest rate for reinvestment for the next shorter term shall apply. The bonus payable hereunder shall be calculated by the Credit Union and, in the absence of an obvious error, shall be conclusive.

Outstanding Balance shall be the outstanding principal amount of the Credit Facility on the date of the prepayment provided the Borrower had not exercised its 20/20 prepayment privilege in the 30 days preceding the pay-out date. Where the Borrower has exercised its 20/20 prepayment privilege within 30 days prior to the prepayment date, the Borrower would be required to pay a bonus as defined above on the partial prepayment.

Credit Facility 3: Authorized Overdraft - New

Amount: Up to a maximum of \$4,000,000.00

Purpose: To finance day to day operating requirements

Interest Rate:

The committed rate is the Credit Union's Prime Lending Rate plus 1.50% per annum, calculated daily, payable monthly in arrears. The Credit Union's Prime Lending Rate means the annual rate of interest announced from time to time by the Credit Union. As of the date hereof the Credit Union's Prime Lending Rate is 2.45% per annum.

Conditions of Margining:

Advances to be tested monthly on the 20th day of the month, will be contained within the lesser of (supported by Delta 9 Bio-Tech Inc. and Delta 9 Lifestyle Cannabis Clinic Inc.):

- a) the authorized limit, or
- b) On a forward margin basis, a maximum of 75% of the Credit Union's valuation of assigned, good quality Accounts Receivable after deducting the entire account past due 90 days or more, accounts in dispute, inter-company accounts, contra accounts, holdbacks, foreign accounts, source deductions (including Workers Compensation Board Premiums, GST, Employee Payroll deductions, Health Canada etc.) and any other accounts deemed unacceptable by the Credit Union;

Plus, 50% of Inventory at cost. "Inventory" means: (i) all inventory pertaining to fully completed self-contained cannabis growing pods; and (ii) all non-cannabis ancillary product inventory.

Repayment:

Payable on demand but until demand, interest only is payable monthly in arrears on the first day of each month.

Monthly Facility Fees:

\$250.00 per month, payable in advance on the first of each month.

This fee will be charged for each month this Credit Facility is available, even if the Borrower does not use or maintain a balance in this Credit Facility.

Review Date:

The next annual review date of all the Credit Facilities has been established as May 31, 2022 but may be changed at the discretion of the Credit Union.

Non-refundable Application Fee:

\$132,000.00 (\$32,000.00 collected, balance of \$100,000.00 will be deducted from initial loan advance)

Late Financial Reporting Fee:

\$500.00 per occurrence

Annual Review Fee:

\$10,000.00 is due and payable at annual review date

Renewal Fee:

0.25% of the principal balance outstanding at renewal (to be paid 5 years from the Interest Adjustment Date)

Legal Fees:

The Credit Union's lawyer's fees, taxes and disbursements are payable by the Borrower, which fees, taxes and disbursements will be deducted from the initial advance hereunder.

NOTE: In addition to these fees, the Borrower will be responsible for direct payment of the Borrower's own lawyer's fees/disbursements/G.S.T. for this transaction.

Financial Covenants:

The Borrower and the Guarantors shall at all times maintain, on a consolidated basis, a Current Ratio of not less than 1.25:1, to be tested Monthly

Current Ratio is defined as the Borrower's and the Guarantors', on a consolidated basis, current assets, as defined by Accounting Standards for Private Enterprises ("ASPE") / International Financial Reporting Standards ("IFRS"), divided by the Borrower's current liabilities, as defined by ASPE / IFRS.

The Borrower's and Guarantors' (on a consolidated basis) Debt Service Coverage Ratio shall at all times prior to June 30, 2022 be not less than 1:1x, to be tested Quarterly based on a Trailing 4 Quarters, increasing to 1.40:1x starting June 30, 2022 and at all times thereafter.

Covenants – as of June 30, 2022:

- a) DSC before Corporate distributions $\geq 1.40:1$
EBITDA \div Debt Service Obligations

- b) $\text{DSC after Corporate distributions} \geq 1:1$
 $[\text{EBITDA} - \text{Corporate Distribution}] \div \text{Debt Service Obligations}$

Definitions:

EBITDA means from continuing operations for the fiscal year under review and specifically, income before taxes + depreciation + amortization + other non-cash expenses + stock based compensation + interest expense, extraordinary gains and losses and capital leases are excluded from EBITDA

Debt Service means the sum of principal & interest payments for the corresponding fiscal year paid by the Borrower and the Guarantors, on a consolidated basis, on all funded indebtedness not specifically subordinated to the Credit Union.

Corporate Distribution means, payment of cash dividends and unfinanced Capital Expenditures

Corporate Distributions are permitted provided the Borrower and the Guarantors remain in compliance with the covenants, i. e., after giving effect to the Corporate Distributions, $\text{DSC} \geq 1.0x$

The Borrower's and the Guarantors' (on a consolidated basis) Debt to Equity Ratio shall at all times be less than 1:1, to be tested Annually.

Debt to Equity Ratio is defined as the Borrower's and the Guarantors' (on a consolidated basis) total liabilities, as defined by Accounting Standards for Private Enterprises ("ASPE") / International Financial Reporting Standards ("IFRS"), including the redemption value of any Preferred Shares not formally postponed to the Credit Union, excluding shareholder loans formally postponed and assigned to the Credit Union, divided by the Borrower's total equity, as defined by ASPE / IFRS, plus shareholder loans formally postponed and assigned to the Credit Union. At the discretion the Credit Union adjustments to total equity may be made for items such as intangibles and appraisal surplus

Financial Reporting Requirements:

Monthly

- a) Aged list of Accounts Receivable as at month end, by the 20th day of the following month.
- b) Aged list of Accounts Payable as at month end, by the 20th day of the following month.
- c) Statement of priority payables.
- d) List of inventories as at month end, by the 20th day of the following month.
- e) In-house financial statements (Balance Sheet and Income and Expense Statement) as at month end, by the 20th day of the following month.
- f) Current Ratio calculator worksheet.
- g) Monthly management commentary on Borrower's performance as it relates to financial projections.

- h) Signed monthly cover sheet (by signing officer for Borrower) regarding reports submitted.

Annually

Within 120 days of the Borrower's fiscal year-end, the borrower will provide the following:

- a) Audited, Consolidated Accountant Prepared financial statements of Delta 9 Cannabis Inc (including Delta 9 Bio-Tech Inc; Delta 9 Lifestyle Cannabis Clinic Inc; Delta 9 Cannabis Store Inc; and any other wholly owned subsidiary of Delta 9 Cannabis Inc.)
- b) Status of any and all Health Canada Licenses
- c) Confirmation of paid property taxes on 760 Pandora Ave E, Winnipeg MB

Authorization is provided to the Credit Union to contact the Accounting firm of the Borrower and Guarantor(s) to obtain copies of all financial statements and to answer questions relating to same.

Pre-disbursement Conditions:

The Credit Union's obligation to advance the Credit Facilities 1 and 2, and establish Credit Facility 3 is conditional upon receipt by the Credit Union of the following, all in form and substance satisfactory to it.

- a) Completion and, where applicable, registration of all security.
- b) Receipt of satisfactory Transmittal Letter from Altus Group, permitting the Credit Union Ltd to use their appraisal for mortgage lending purposes.
- c) Receipt of a satisfactory Phase I Environmental Site Assessment of 760 Pandora Ave E, Winnipeg MB prepared by an Environmental Consultant acceptable to the Credit Union. The report is to be addressed to the Credit Union or one of its Divisions or be accompanied by a Transmittal Letter authorizing the Credit Union or one of its Divisions to rely on the report for mortgage lending purposes.
- d) Review and Acceptance of Accountant Prepared Financial Statements (Year to date) of Uncle Sam's Cannabis Ltd.
- e) Evidence of satisfactory Equity raise sufficient to close Uncle Sam's Cannabis Ltd. transaction. For certainty, the Borrower acknowledges and agrees that, both before and following the closing of the said transaction the Borrower shall remain in compliance with the provisions hereof, including, without limitation, the Financial Covenants set forth herein above.
- f) Business Valuation for Delta 9 Lifestyle Cannabis Clinic Inc. in final format along with necessary Transmittal Letter authorizing the Credit Union or one of its Divisions to rely on the report for mortgage lending purposes.

Conditions of Credit:

- a) The Borrower or the applicable Guarantor(s) to be and remain the sole legal and beneficial owner of the Health Canada cannabis license granted in favour of the Borrower or the applicable Guarantor(s) (the "License");
- b) The Borrower and/or any applicable Guarantor(s) shall not take any action, or fail to perform the necessary action, to impede, jeopardize or otherwise place any risk on their ability to renew or maintain: (i) the License; or (ii) any material licenses, permits or approvals required to operate the Borrower's business (collectively, the "Other Licenses");
- c) The Borrower and/or the applicable Guarantor(s) shall with due diligence and in a reasonable manner, enforce the rights granted to it under and in connection with the License and the Other Licenses, and without limiting the foregoing, the Borrower and/or the applicable Guarantor(s) shall consistently apply yield improvement initiatives to its product produced in its cannabis facilities. The Borrower and/or the applicable Guarantor(s) shall further make commercially-reasonable efforts to ensure that the appropriate yield improvement initiatives, as well as all other applicable growing techniques and growing capacity, are in place to maximize the Borrower's and/or the applicable Guarantor's production;
- d) The Borrower and/or any applicable Guarantor(s) shall not dispose of or abandon any right, title or interest in the License or any Other License; and
- e) The Borrower and/or any applicable Guarantor(s) shall apply for and obtain each future License and Other License on or before such time as it shall be required by applicable law.

Other Conditions:

- a) Neither the Borrower nor any Guarantor will further encumber any of its property pledged in favour of the Credit Union, without the prior written consent of the Credit Union.
- b) Out of pocket expenses to be paid by Borrower (e.g. legal fees, appraisal fees, interim inspection fees and Land Title Searches).
- c) Implementation and continuation the Credit Facilities is subject to periodic review, at least annually, by the Credit Union, and is also subject to no materially adverse changes in the financial position of the Borrower.
- d) No change in the type or nature business carried on by the Borrower and the Guarantors, taken as a whole, shall occur during the life of the Credit Facility without the written consent of the Credit Union. Should the Borrower or any Guarantor wish to sell all or substantially all of their respective assets or business (subject to the Credit Union's written consent), proceeds of such sale shall be applied towards the repayment in full of the loans hereunder except otherwise agreed to by the Credit Union.
- e) No shareholder distribution or dividend shall be greater than an amount that ensures all financial covenants are met shall be permitted.

Registration of Mortgage Amount:

Although the Credit Union may register its mortgage for a sum greater than the amount of the Credit Facilities set out in this Commitment Letter, the Credit Union has no obligation to advance funds greater than the amount of the Credit Facilities set out in this Commitment Letter.

Syndication:

The Borrower and the Guarantor(s), if any, hereby acknowledge that the Credit Union is entitled to syndicate any portion of the proposed Credit Facilities to third parties without notice. The Borrower and Guarantor(s), if any, further acknowledge that should the Credit Union decide to syndicate any portion of the Credit Facilities that they will be required to provide information respecting the Borrower and the Guarantor(s), if any, to any potential syndication partner, providing that any such potential syndication partner agrees to maintain such information in confidence. In the event of any syndication of the Credit Facilities, the Credit Union shall be the sole administrator of the Credit Facilities, and will hold all Security exclusively in its own name. Notwithstanding the foregoing, any syndication partner will be entitled to all information in the possession of the Credit Union from time to time with respect to the Credit Facilities.

Renewal of Loan Beyond Maturity Date:

In the event that the Borrower fails to repay the outstanding principal and interest balance of the loan(s) on the maturity date, or fails to accept a renewal offer tendered by the Credit Union within the reasonable time period permitted by the Credit Union's offer to renew (where such failure to repay or renew, as aforesaid, is not attributable to the Credit Union), and provided that there are no arrears in principal and interest under the loan, then the Credit Union may, at its sole option, extend the term of a loan for such period from the expiry date to be determined by the Credit Union in its sole discretion. In such case, the loan from the date of this extension (and not for any period before) shall bear interest both before and after this new maturity at an interest rate being the greater of the contractual rate of interest or a rate equivalent to the Credit Union's Prime Rate plus Five (5%) percent per annum, as it may vary and be determined as provided below. This interest rate shall be determined by the Credit Union on the first Banking Day of the month in which the term of the loan expires and thereafter on the first Banking Day of each month until full repayment of the loan in principal, interest, costs and accessories. Unpaid interest accrued on the principal also bears interest at the same rate.

This interest shall be calculated daily and payable monthly. In the event that the renewal or repayment of the Credit Union's monies owing has not been finalized within the extension period, then there shall be no further extensions and the Credit Union will be at liberty to exercise any remedies available to it under the loan and the Security.

For the purposes of this clause, the Credit Union's Prime Rate is defined as the annual rate of interest announced from time to time by the Credit Union as being a reference rate then in effect for determining interest rates on Canadian dollar commercial loans.

For the purposes of this clause, "Banking Day" is defined as a day on which the head office of the Credit Union is open for business and which is not a Saturday, Sunday or civic or statutory holiday.

When the term is extended as mentioned above, the balance of the loan of principal and interest, as well as unpaid costs and accessories (money owed) may be paid in full on the expiry date or at any time during

the extension period, without notice or bonus. However, if not paid before, they shall be paid at expiry of the extension period.

A processing fee representing the greater of \$1,000.00 or one tenth (1/10th) of one percent (1%) of the outstanding principal balance at the expiry date shall be automatically added to the principal balance if this extension period is utilized.

Security and Other Documents:

The Borrower agrees to provide to the Credit Union in form and substance satisfactory to it and its solicitors, all security and supporting agreements requested by the Credit Union including the following documentation (the "Security") which will be held by the Credit Union as security for the Credit Facilities and all other direct and indirect liabilities of the Borrower and the Guarantor(s) (or any of them) to the Credit Union from time to time.

Documentation to be Obtained:

- a) Membership/Account opening documents

Security to be obtained for all Credit Facilities:

- a) All corporate documents, including:
- Resolution of Directors re Banking and Security,
 - Certified Copy of Resolution of the Directors,
 - Incumbency Certificate,
 - Officer's Certificate with constating documents attached or Notarized copies of all Certificates, Articles and By-laws, and
 - Certificate of Non-restriction
- b) Borrowing Resolution in the amount of \$32,000,000.00
- c) Loan Agreement in the amount of \$23,000,000.00 (*Credit Facility 1*)
- d) Loan Agreement in the amount of \$5,000,000.00 (*Credit Facility 2*)
- e) Overdraft Protection Agreement in the amount of \$4,000,000.00 (*Credit Facility 3*)
- f) Unlimited Guarantee and Postponement of Claim granted by Delta 9 Bio-Tech Inc. (*including supporting corporate documents*) supported by:

A first charge demand collateral mortgage of a freehold interest in the amount of \$28,000,000.00 over the property beneficially owned by and registered in the name of Delta 9 Bio-Tech Inc., which is municipally described as:

760 Pandora Ave, Winnipeg MB

and briefly legally described as:

Title No. 2977656/1

Parcels A, B, C, D, E and F Plan 51110 WLTO, in SW ¼ 3 and SE ¼ 4-1 ¼ EPM

(hereinafter referred to as "760 Pandora")

A first charge demand collateral mortgage of a leasehold interest in the amount of \$28,000,000.00 over the property leased by Delta 9 Bio-Tech Inc., which is municipally described as:

770 Pandora Ave, Winnipeg MB

and briefly legally described as:

Title No. 2513702/1

Parcel "G" Plan 51110 WLTO

Title No. 2513712/1

PARCEL "H" PLAN 51110 WLTO

Title No. 2513726/1

PARCEL "J" PLAN 51110 WLTO

Title No. 2513735/1

PARCEL "K" PLAN 51110 WLTO

Title No. 2513739/1

PARCEL "L" PLAN 51110 WLTO

(collectively, hereinafter referred to as "770 Pandora" and together with 760 Pandora being, the "Property")

Although the Credit Union's mortgage will be registered at 15.00%, the Credit Union is only entitled to interest at the Committed Rate.

and

A General Security Agreement comprising a first charge security interest over all present and after-acquired personal property located at or on or related to the Property, registered at Personal Property Registry

- g) A First Assignment of All Rents and Leases over the property beneficially owned by and registered in the name of Delta 9 Bio-Tech Inc.
- h) A General Security Agreement granted by the Borrower comprising a first charge security interest over all present and after acquired personal property, registered at Personal Property Registry
- i) Unlimited Guarantee and Postponement of Claim granted by Delta 9 Cannabis Store Inc.

(including supporting corporate documents), supported by:

A General Security Agreement comprising a first charge security interest over all present and after acquired personal property, registered at Personal Property Registry

- j) Unlimited Guarantee and Postponement of Claim granted by Delta 9 Lifestyle Cannabis Clinic Inc. *(including supporting corporate documents), supported by:*

A General Security Agreement comprising a first charge security interest over all present and after acquired personal property, registered at Personal Property Registry

- k) A formal Assignment and Postponement of Shareholders' Loans/Affiliated Company Loans/Debentures in the amount of \$2,459,856.00 acknowledged by the Borrower, registered at Personal Property Registry
- l) Evidence of Commercial General Liability insurance in a minimum amount of \$5,000,000.00 showing the Credit Union as additional insured, and assignment of adequate All Risk Insurance over subject Property/assets or security pledged showing the Credit Union as first loss payee via Standard Mortgage Endorsement Clause as follows

Building

Replacement Cost

*Insurance Certificate will be reviewed by the Credit Union approved Insurance Consultant.
Insurance Review fee will be deducted from initial loan advance.*

- m) The Credit Union's Master form Title Insurance Policy to be obtained through First Canadian Title or Chicago Title
- n) Environmental Indemnity Agreement in an unlimited amount from the Borrower and Guarantor(s)
- o) Direction and Authority to Pay
- p) An Opinion of Counsel to the Borrower and the Corporate Guarantor(s) in such form as the Credit Union shall require
- q) A Satisfactory Opinion of Counsel to the Credit Union in a form satisfactory to it
- r) Such other supporting documentation as the Credit Union or its solicitors, in the course of finalization, may determine as necessary for the protection of the advances

All the above documentation will be prepared by the Credit Union's solicitors. The Credit Union's solicitors in this transaction are:

Dentons
850 – 2nd Street SW, 15th Floor
Bankers Court
Calgary AB T2P 0R8

Attention: Glen Peterson

Please advise of the name, address and contact information of your solicitor:

MLT Aikins LLP
30th Floor, 360 Main Street
Winnipeg, Manitoba R3C 4G1
Attention: Eric Buettner

Your acceptance of this letter will constitute authority for the Credit Union to instruct its solicitors to prepare the necessary documentation

Commitment Expiry Date:

In the event initial advance of the Credit Facilities is not disbursed by August 31, 2022, this commitment expires.

Additional Terms and Conditions:

The attached Schedule "A" outlines additional terms and conditions that form part of this Commitment Letter.

The terms of this Commitment Letter are open for acceptance by the Borrower and the Guarantor(s) executing the duplicate copy of this letter where indicated below and returning it to our office at #2720, 700 – 9th Avenue, S.W., Calgary, Alberta, T2P 3V4, on or before 3:00 p.m. on February 15, 2022, after which date and time, this offer shall lapse if it is not accepted.

This Commitment Letter and any amendments, renewals or replacements thereof may be executed in any number of counterparts, each of which shall be deemed to be an original and all of which taken together shall be deemed to constitute one and the same instrument. Counterparts may be executed in original, faxed or electronic PDF format and the parties adopt any signatures received by a receiving fax machine or electronic transmission as original signatures of the parties.

We wish to thank you for allowing the Credit Union the opportunity of being of assistance to you.

Yours truly,

CONNECT FIRST CREDIT UNION LTD.


Sourav Neogi, Relationship Manager
Corporate & Commercial Banking

Encs.

ACCEPTANCE

We hereby **accept and agree** to the Credit Facilities on the terms and conditions outlined by the Commitment Letter dated February 1, 2022 on this 1 day of February, 2022.

Delta 9 Cannabis Inc. – Borrower

Per: _____

(Affix Corporate Seal)

Per: _____

Delta 9 Bio-Tech Inc. – Guarantor

Per: _____

(Affix Corporate Seal)

Per: _____

Delta 9 Cannabis Store Inc. – Guarantor

Per: _____

(Affix Corporate Seal)

Per: _____

Delta 9 Lifestyle Cannabis Clinic Inc. – Guarantor

Per: _____

(Affix Corporate Seal)

Per: _____

SCHEDULE "A" **ADDITIONAL TERMS AND CONDITIONS**

Representations and Warranties:

Each of the Borrower and the Guarantor(s), to the extent applicable, represents and warrants to the Credit Union that:

- a. It is a corporation validly incorporated and subsisting under the laws of the jurisdictions where it has been incorporated, and that it is duly registered or qualified to carry on business in all jurisdictions where the character of the properties owned by it or the nature of its business transacted make such registration or qualification necessary;
- b. The execution and delivery of this Commitment Letter and of the Security has or will have been duly authorized by all necessary actions and does not:
 - i) violate any law or any provisions of its charter,
 - ii) result in a breach of, a default under, or the creation of any encumbrance on its properties or assets under any agreement or instrument to which it or any of its properties and assets may be bound or affected, and
 - iii) require any regulatory approval which has not been obtained;
- c. No event has occurred which is or which, with the giving notice, lapse of time or other condition, would constitute an event having material adverse effect on its financial condition under or in respect of any agreement, undertaking, or instrument to which it is a party or to which it or any of its properties or assets may be subject.

Events of Default:

Without in any way affecting the Credit Union's right to demand repayment in respect of any Credit Facility that is repayable on demand, it is an event of default ("Event of Default") if any one or more of the following events has occurred and is continuing:

- a. The non-payment, when due, of principal, interest or any other amount due under this Commitment Letter;
- b. The breach by the Borrower or any Guarantor under any provision of this Commitment Letter or any other agreement with the Credit Union;
- c. There is a change in applicable laws which materially changes, in the sole opinion of the Credit Union, the nature of the Borrower's or any Guarantor's business and would reasonably be expected to have a material adverse effect on the business of the Borrower and/or such Guarantor;
- d. There is any event, occurrence, action, or failure to take the necessary action, which impedes, jeopardizes or otherwise poses any material risk to the Borrower's or any applicable Guarantor's ability to maintain the License or any Other License;
- e. The revocation of the License or any Other License;

- f. The default by the Borrower or any Guarantor under any obligation to repay borrowed money other than amounts due under this Commitment Letter, or in the performance or observance of any agreement or condition in respect of such borrowed money as a result of which the maturity of such obligation is accelerated or may be accelerated;
- g. If any representation or warranty made herein shall be false or inaccurate in any adverse respect;
- h. If in the opinion of the Credit Union, in its sole discretion, there is:
 - i) A material adverse change in, or a material adverse effect upon, the financial condition, operations, assets, business, properties or prospects of the Borrower or any Guarantor;
 - ii) A material impairment of the ability of the Borrower or any Guarantor to perform any of their obligations under any of the Security; or
 - iii) A material adverse effect upon any substantial portion of the assets or the property subject to the Security in favor of the Credit Union or upon the legality, validity, binding effect, rank or enforceability of any Security;
- i. If an order is made or an effective resolution is passed for the winding-up of the Borrower or any Guarantor or if a petition is filed for the winding-up of the Borrower or any Guarantor;
- j. If the Borrower or any Guarantor becomes insolvent, or makes an assignment or bulk sale of its assets, or if a petition in bankruptcy is filed or presented against the Borrower or any Guarantor;
- k. If any proceeding with respect to the Borrower or any Guarantor is commenced under the *Companies' Creditors Arrangements Act*;
- l. If any execution, sequestration, writ of enforcement or any other process of any court becomes enforceable against the Borrower or any Guarantor, or if a distress or analogous process is levied upon the property of the Borrower or any Guarantor or any part thereof, provided that such execution, sequestration, writ of enforcement or other process is not in good faith being contested by any Borrower or any Guarantor; or
- m. If the Borrower or any Guarantor ceases or threatens to cease to carry on its business or if the Borrower or any Guarantor commits or threatens to commit any act of bankruptcy.

The Credit Union will, to the extent that such an event is curable, provide the Borrower a 30-day cure period to rectify the above-mentioned events, with reasonable notice, before the events of default are enforced.

Remedies in the Event of Default on Credit Facilities:

If an Event of Default occurs, the Credit Union has the right in addition to its other rights at law or in equity to require immediate payment in full of all Credit Facilities.

Right of Termination:

The Credit Union shall have the right to terminate this Commitment Letter and be relieved of all obligations in connection therewith in the event any of the following events should occur:

- a. An Event of Default occurs and is continuing beyond any applicable cure period; or
- b. The Borrower or any Guarantor(s) fails or is unable or is unwilling for any reason whatsoever to comply with any of the terms and conditions set out in this Commitment Letter within the time indicated for such compliance; or
- c. The Borrower or any Guarantor(s) fails or refuses to execute any documentation requested by our solicitors or to deliver such documentation to our solicitors; or
- d. The net proceeds of the loan have not been fully advanced on or before the commitment expiry date referred to herein; or
- e. The Borrower refuses to accept the funds when advanced; or
- f. The Borrower or any Guarantor(s) or any other person or corporation whose covenant is required shall become bankrupt, or subject to bankruptcy, receivership or insolvency proceedings; or
- g. There has been, in the sole opinion of the Credit Union, acting reasonably, a material adverse change in the condition of the Property or the Borrower or any Guarantor(s) or in the actual or anticipated revenues from the Property; or
- h. Urea formaldehyde foam insulation or any construction material containing asbestos or other substance considered harmful by the Credit Union has been used or will be used in the Property; or there is in, or on about the Property any product or substance including, without restriction, PCBs contaminants or hazardous materials, equipment or anything which does, or is likely to, constitute an environmental hazard or contravenes any environmental law, regulation, order, decree or directive; or
- i. The Borrower has not complied with all the provisions of the *Builders' Lien Act of Alberta* and amendments thereto, to our satisfaction; or
- j. The Credit Union or its solicitor, acting reasonably, is not satisfied with the matters set out under the heading "Title"; or
- k. All legal matters and documentation relating to the transaction has not been completed to the Credit Union's and its counsel's satisfaction.

If the Credit Union elects to terminate this Commitment Letter or the Credit Facilities set out therein prior to the advance of the entire amount under the Credit Facilities, the amount advanced under the Credit Facilities, if any, together with interest thereon at the rate set out herein shall become immediately due and payable and the Credit Union shall, whether or not any proceeds have been advanced, be entitled to retain the Commitment Fee as compensation for all damages sustained by it, it being agreed that the

amount of such Commitment Fee is a fair estimate of the damages which will be suffered by the Credit Union in such event.

Collection, Use, Disclosure and Release of Financial and Other Information and Materials:

For the purposes of making, administering, reporting, selling or assigning in whole or in part, in connection with securitization or otherwise, and collecting the Credit Facilities, the following parties (collectively, "Authorized Parties") will be reviewing and examining financial and other information and materials provided to or obtained by the Credit Union concerning the Credit Facilities, the Borrower and the Guarantor(s), if any:

- a) The Credit Union and/or any holder or servicer of the Credit Facilities or of an interest therein from time to time and/or their respective affiliates and/or agents;
- b) Rating agencies, purchasers or investors and prospective purchasers or investors;
- c) Respective third party advisors of the parties listed in a) and b) above, such as lawyers, accountants, real estate brokers, investment dealers and underwriters, consultants, and appraisers; and,
- d) Credit verification sources.

The Borrower and the Guarantor(s), if any, acknowledges and irrevocably consents to the foregoing and irrevocably agrees that, in such manner as the Authorized Parties may determine to be necessary or desirable for these purposes, the Authorized Parties may disclose, release, exchange and share such information and materials:

- a) To and with any Individual(s), corporations(s) or other entities designated from time to time to hold title to the Credit Facilities and/or security documents as custodian(s) or agent(s);
- b) To and with each other;
- c) The Borrower and the Guarantor(s), if any, hereby consents to the Authorized Parties conducting such credit inquiries, as they may from time to time consider advisable for these purposes; and,
- d) The provisions of this paragraph shall apply until all loans have been fully and completely repaid and the security documents have been discharged.

Evidence of Advances:

The Borrower and the Guarantor(s), if any, agree that the Credit Union's records evidencing an advance shall be complete and final proof, absent manifest error, that funds have been advanced under any one or more of the Credit Facilities set forth in the Commitment Letter and may, from time to time dependent upon the type of Credit Facilities made available, be evidenced by other documentation such as, for example and without limitation, promissory notes, direct deposits, drafts or cheques made payable to other parties including solicitors and agents and any other means by which the Credit Union provides value to the Borrower under any one or more of the Credit Facilities.

Noteless Advances:

The Borrower acknowledges that the actual recording of the amount of any advance or repayment thereof under the Credit Facilities, and interest, fees and other amounts due in connection with the Credit Facilities, in an account of the Borrower maintained by the Credit Union, shall constitute prima facie evidence of the Borrower's indebtedness and liability under the applicable Credit Facilities; provided that the obligation of the Borrower to pay or repay any indebtedness and liability in accordance with the terms and conditions of the applicable Credit Facilities set out in the Commitment Letter shall not be affected by the failure of the Credit Union to make such recording. The Borrower also hereby acknowledges being indebted to the Credit Union for principal amounts shown as outstanding in the Credit Union's account records, and all accrued and unpaid interest in respect thereto, which principal and interest the Borrower hereby undertakes to pay to the Credit Union in accordance with the terms and conditions applicable to the Credit Facilities as set out in this Commitment Letter.

Automatic Debit:

The Borrower authorizes and directs the Credit Union to automatically debit payment, by mechanical, electronic, or manual means, payable by the Borrower under this Commitment Letter or by the Borrower under the Security, as defined below, including, but not limited to, the repayment of principal and the payment of interest, fees, and all charges for the keeping of the accounts of the Borrower.

Taxes:

All realty taxes and local improvement assessments are to be paid by Borrower or the applicable Guarantor(s) or, as and if applicable, the tenants to the municipality when due and you shall provide the Credit Union annually, if requested, with receipted copies of the realty tax bills for the Property. The Credit Union may, at its sole option, require that the Borrower or the applicable Guarantor(s) pays on the monthly payment date provided for herein one-twelfth of the annual realty taxes payable or estimated by the Credit Union to be payable for the forthcoming year. Any deficiency between actual and estimated taxes shall be payable to the Credit Union forthwith upon demand.

Insurance:

The Borrower will insure and keep fully insured the Property and all tangible personal property against the following perils:

- a. With respect to all buildings and other improvements now or hereafter situated on the Property and all insurable property included within the buildings, coverage against loss or damage by fire and other insurable hazards defined in an "All Risks" insurance policy for the full replacement cost with the same/adjacent site requirement removed and with automatic vacancy permit;
- b. Equipment Breakdown insurance, if applicable, for the full replacement cost of 760 Pandora and all improvements thereon or such lesser amount as shall be acceptable to the Credit Union;
- c. Loss or damage of all personal property by fire or other insurable hazards, including theft, in an amount not less than the full replacement cost thereof, and

- d. Commercial General Liability insurance to an amount not less than \$5,000,000 on an occurrence basis.

The policies of insurance to be maintained shall contain a stated amount co-insurance clause or not be subject to any co-insurance clauses and shall be in form and with insurers satisfactory to the Credit Union. The insurance shall include the agreement of the insurer that the policy will not be cancelled without at least thirty (30) days prior written notice of cancellation to the Credit Union. The Credit Union shall be named as the first mortgagee and loss payee subject to the standard Insurance Bureau of Canada Mortgage Clause. The Credit Union will be included as an additional insured on the Commercial General Liability coverage.

The Borrower, at least ten (10) days prior to the advance of any funds, will furnish to the Credit Union or its solicitors evidence of insurance.

Title:

Delta 9 Bio-Tech Inc. is the legal and beneficial owner of 760 Pandora and has been granted a leasehold interest in 770 Pandora, each of which are being mortgaged hereunder.

The Property and all improvements thereon shall have been duly authorized and comply in all respects with all applicable laws, by-laws, government requirements, whether federal, provincial or municipal including, without restriction, those dealing with planning, zoning, use, occupancy, subdivision, parking, historical designations, fire, access, loading facilities, landscaped areas, pollution of the environment, toxic materials or other environmental hazards, building construction, public health and safety and there shall be no outstanding work orders against the Property or the improvements or any part thereof.

Delta 9 Bio-Tech Inc. shall provide such certificates or other written confirmation as the Credit Union's solicitors may reasonably require, certifying that no control orders, stop orders or prosecutions exist with respect to the Property or any activity or operation carried out thereon pursuant to any federal, provincial, municipal or local environmental, health and safety laws, statutes and regulations as may apply to the Property or the activities or operations carried out thereon.

Leases:

In the event 760 Pandora is leased, it shall be in accordance with the terms set out in the lease document(s) between landlord and each tenant. Delta 9 Bio-Tech Inc. will provide at the Credit Union's request, executed copies of such leases for our review which must be in a form and upon terms acceptable to the Credit Union. Delta 9 Bio-Tech Inc. will also provide to our solicitors an Estoppel Certificate with the written acknowledgement of each tenant as to the status of its tenancy at the time of advance of funds. At the time of advance of the funds each tenant must be in possession of the whole of its leased premises, carrying on business thereon and paying rent pursuant to the terms of the lease and the landlord and tenant shall otherwise have performed all their obligations contained in the lease.

The Credit Union may at its option require that all present and future leases of 760 Pandora be postponed by way of a registered postponement agreement in favour of the Credit Union's interest in 760 Pandora.

In the event the forgoing is required, the Credit Union agrees to execute a Non Disturbance Agreement with a Tenant, in a form acceptable to the Credit Union.

Payment of Costs:

The Borrower agrees to pay all expenses, fees and charges incurred by the Credit Union in relation to all loans and credits, the preparation and registration of all security, enforcement or preservation of any or all of the Credit Union's rights and remedies, whether or not any such documentation is completed or any funds are advanced, including but not limited to legal expenses (on a solicitor-and-its-own-client full indemnity basis), costs of accountants, engineers, architects, consultants, appraisers and the costs of any and all searches and registrations the Credit Union or its solicitor deems either necessary or desirable.

Signs:

In the event this loan is for the purpose of providing financing for a building or other major improvements to be constructed on the Property, the Credit Union shall have the right to require a sign or signs supplied by it to be erected and maintained by you on the Property in a location acceptable to the Credit Union, which sign or signs shall indicate that the Credit Union has provided financing for the Property.

Environmental Representations:

As set out in the security documentation.

Mandatory Membership:

Membership with the Credit Union requires that every Borrower invest a minimum of \$1.00 in Common Shares of the Credit Union and such ownership and membership must be maintained so long as there are any monies and obligations outstanding by the Borrower to the Credit Union.

Amendment:

Any amendment to this Commitment Letter or security documents must be in writing and signed by the Borrower (s), Guarantor (s), and the Credit Union.

Assignment:

The Borrower understands and acknowledges that, after the occurrence of an Event of Default which is continuing, the Credit Union shall have the unrestricted right to sell or assign the Credit Facilities or any loan thereunder, and/or the security documents (including this Commitment Letter) or any parts thereof to a third party of its choice. The Borrower consents to the disclosure by the Credit Union to any such assignee and its agents of personal information of the undersigned relating to the Credit Facilities, and/or the security documents (including this Commitment Letter) or any parts thereof and consents to the collection and use of such personal information by such assignee and its agents. The Borrower also consents to the collection and use of said personal information by third parties involved in the assignment or sale of the Credit Facilities and the further disclosure of such information to the third parties' agents and assignees and those parties' subsequent collection and use of the information, in each case, for the purpose of the ongoing management of the Credit Facilities.

Governing Law:

This Commitment Letter constituted by your acceptance shall be governed by the laws of the Province of Alberta.

Headings:

The headings contained in this letter are for reference only and shall not constitute any part of the terms and conditions contained herein.

Payments:

Unless otherwise directed and agreed to by the Credit Union all amounts payable by the Borrower hereunder shall be paid to the Credit Union at its Commercial Banking Office/Branch, 2720, 700 – 9th Avenue SW, Calgary, Alberta T2P 3V4, in Canadian dollars.

Successors and Assigns:

Subject to the provisions hereof, this Commitment Letter shall enure to the benefit of and be binding upon the parties hereto and their respective successors and permitted assigns.

Severability:

Each provision of this Commitment Letter is severable and any term or provisions hereby declared to the contrary to, prohibited by, or invalid under applicable laws or regulations shall be inapplicable and deemed omitted herefrom, but shall not invalidate the remaining terms and provisions hereof.

Conflict:

The terms and conditions of this Commitment Letter shall not be merged by and shall survive the execution, delivery and registration of any and all security documents. In the event of a conflict between the terms of this Commitment Letter and the terms of any security document, the terms of this Commitment Letter shall prevail. For clarity, the mention of a provision in either the Commitment Letter and not in the Security or vice versa shall not constitute a conflict but shall be deemed to be supplemental and in addition to any of the terms and conditions available under either the Credit Facilities or the Security as the case may be.

Time:

Time shall in all respects be of the essence hereof.

Waiver:

No terms or requirement of this Commitment Letter or any security documents may be waived or varied orally or by any course of conduct or any officer, employee, or agent of the Credit Union. Any failure by the Credit Union to exercise any rights or remedies hereunder or under any of the Security shall not constitute a waiver thereof.

THIS IS EXHIBIT "23" TO THE
AFFIDAVIT OF JOHN ARBUTHNOT IV
SWORN BEFORE ME AT WINNIPEG, MANITOBA,
this 12th day of July, 2024



A NOTARY PUBLIC IN AND FOR THE PROVINCE OF MANITOBA

LOAN AGREEMENT (Fixed Rate / Blended)

Connect First Credit Union Ltd.
(the "Credit Union")

2720, 700 – 9th Ave SW

Calgary, Alberta
Commercial Banking, Branch
Member No(s): _____
Date March 11, 2022

Borrower(s):
Delta 9 Cannabis Inc.

\$ 23,000,000.00 Twenty Three Million Dollars and xx/100 ("Principal Sum")

IN CONSIDERATION of the Credit Union advancing the Principal Sum to or at the direction of the undersigned, the undersigned Borrower promises, and if more than one undersigned Borrower, then the Borrowers jointly and severally promise to pay to the Credit Union the Principal Sum together with interest on the outstanding amount thereof from the date hereof at the rate of 4.55 % per annum.

The Borrower(s) will pay the Principal Sum and interest by paying \$ 207,570.01 on _____, 2022
and then by making 59 payments of \$ 207,570.01 on the _____ day of each consecutive Month
(specify week, month, quarter, half-year, etc.) starting on _____, 2022 until _____, 2027
when the Borrower(s) will pay the unpaid amount of the Principal Sum and interest.

If the Borrower(s) fails to pay any amount when due then such amount shall be added to the outstanding Principal Sum and the Borrower(s) will pay interest thereon at the rate set out in this Loan Agreement until the amount is paid.

The Borrower(s) agrees with the Credit Union that:

1. References herein to "Loan Obligations" mean collectively the outstanding Principal Sum and accrued interest thereon together with any and all other obligations and liabilities of the Borrower(s) to the Credit Union under this Loan Agreement.
2. The Loan Obligations are to be secured (the "Loan Security") by:
 - (a) As set out in the Commitment Letter dated February 01, 2022, and any amendments, additions, renewals, or replacements thereof;
 - (b) _____;
 - (c) _____; and
 - (d) all monies of the Borrower(s) on deposit with and all paid up shares of the Borrower(s) in the Credit Union, which are hereby pledged to the Credit Union.
3. All Loan Security and related security agreements and security interests (collectively, the "Security") shall be held by the Credit Union as separate and continuing security for the Loan Obligations.
4. In addition to any remedies provided for in any of the Security, the Credit Union shall be entitled to any other remedies available to it by law.
5. Subject to the Credit Union providing the Borrower a 30-day cure period to rectify any default in payment of any of the Loan Obligations (with reasonable notice, before enforcing relative to same), upon any uncured default in payment of any of the Loan Obligations when due all the Loan Obligations, including those not yet due, may, at the option of the Credit Union, become forthwith due and payable.
6. All costs and expenses (including legal expenses on a solicitor and own client basis) incurred by the Credit Union in (i) taking and perfecting the Security (ii) collecting any of the Loan Obligations, and (iii) enforcing any of the Security, shall be for the account of the Borrower(s) and shall be due and payable to the Credit Union forthwith upon the Credit Union giving written particulars thereof to the Borrower(s).
7. The Borrower(s) agree to forthwith pay to the Credit Union a charge of \$ _____ for each cheque or bill of exchange used to pay any of the Loan Obligations which is dishonoured. If no charge is stated the charge shall be the Credit Union's normal charge in effect therefore.
8. The right to prepay any or all of the Outstanding Principal Sum shall be governed by the terms of Schedule "A" hereto.
9. Interest on the outstanding amount of the Principal Sum is calculated daily and payable on the dates for payment set out in this Loan Agreement.
10. All payments and other monies received by the Credit Union in payment of the Loan Obligations shall be applied firstly towards costs and expenses, secondly towards accrued interest and thirdly towards the outstanding Principal Sum.
11. The Borrower(s) acknowledges receipt of a copy of this Loan Agreement.

Delta 9 Cannabis Inc.
Borrower name if corporation or partnership

PER: John William Arbuthnot IV, CEO

PER:

Credit Union Officer



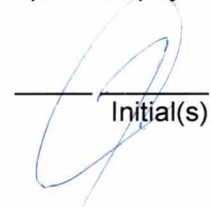
SCHEDULE "A"

The Borrower(s), when not in default under this Loan Agreement, shall have the following privileges:

1. In any calendar year, the Borrower shall have the privilege of prepaying additional amounts of principal under the Credit Facility without notice or bonus provided that the aggregate amount thereof in such calendar year does not exceed 20% of the Original Principal amount of this Credit Facility (the "Annual Prepayment"). The Annual Prepayment is not cumulative.
2. The Borrower shall have the privilege, once in any calendar year, of increasing the amount of the monthly payment by not more than 20% of the amount of the monthly payment then payable under the Credit Facility (the "Increase Privilege"). The Increase Privilege is not cumulative.

In the event the Borrower has exercised the "Increase Privilege" contained in this Credit Facility, then the Borrower shall, once in any calendar year, have the privilege of decreasing the amount of the then monthly payment payable under the Credit Facility to an amount which is not less than the amount of monthly payment payable at the beginning of the current term. For purposes hereof "current term" means the term of the Credit Facility in the event there has been no extension or renewal of such term, and if such term has been extended or renewed then it means the extended or renewed term commencing on the first day of the extended or renewed term.

3. The Borrower shall have the privilege of prepaying the entire balance outstanding under this Credit Facility (the "Full Payout Privilege") subject to the payment of a bonus equal to the greater of (i) three (3) months' interest on the outstanding Principal Amount of the Credit Facility at the interest rate then payable under the Credit Facility, or (ii) an amount in compensation for loss of interest, if any, where the interest rate then payable under this Credit Facility is greater than the Credit Union's current interest rate for reinvestment for the remainder of the term of this Credit Facility. The current interest rate for reinvestment is the applicable Government of Canada Bond rate or Treasury Bill yield. Applicable Government of Canada Bond or Treasury Bill is that with a term not greater than (i) the remainder of the current term of the Credit Facility, and (ii) the next shorter term offered, provided that where the remainder of the term of the Credit Facility is less than the next shorter term offered, the Credit Union's current interest rate for reinvestment for the next shorter term shall apply. The bonus payable hereunder shall be calculated by the Credit Union and, in the absence of an obvious error, shall be conclusive. Outstanding Balance shall be the outstanding Principal Loan amount on the date of the prepayment provided the borrower had not exercised its 20/20 prepayment privilege in the 30 days preceding the pay-out date. Where the borrower has exercised its 20/20 prepayment privilege within 30 days prior to the prepayment date, the borrower would be required to pay a bonus as defined above on the partial prepayment.

A handwritten signature in blue ink, consisting of a stylized 'C' and 'F' combined, written over a horizontal line.

Initial(s)



LOAN AGREEMENT (Fixed Rate / Blended)

Borrower(s):
Delta 9 Cannabis Inc.

Connect First Credit Union Ltd.
(the "Credit Union")

2720, 700 – 9th Ave SW

Calgary, Alberta
Commercial Banking Branch
Member No(s):
Date March 11, 2022

\$ 5,000,000.00 Five Million Dollars and xx/100 ("Principal Sum")

IN CONSIDERATION of the Credit Union advancing the Principal Sum to or at the direction of the undersigned, the undersigned Borrower promises, and if more than one undersigned Borrower, then the Borrowers jointly and severally promise to pay to the Credit Union the Principal Sum together with interest on the outstanding amount thereof from the date hereof at the rate of 4.55 % per annum.

The Borrower(s) will pay the Principal Sum and interest by paying \$ 45,123.92 on 2022
and then by making 59 payments of \$ 45,123.92 on the day of each consecutive Month
(specify week, month, quarter, half-year, etc.) starting on 2022 until 2027
when the Borrower(s) will pay the unpaid amount of the Principal Sum and interest.

If the Borrower(s) fails to pay any amount when due then such amount shall be added to the outstanding Principal Sum and the Borrower(s) will pay interest thereon at the rate set out in this Loan Agreement until the amount is paid.

The Borrower(s) agrees with the Credit Union that:

- References herein to "Loan Obligations" mean collectively the outstanding Principal Sum and accrued interest thereon together with any and all other obligations and liabilities of the Borrower(s) to the Credit Union under this Loan Agreement.
- The Loan Obligations are to be secured (the "Loan Security") by:
 - As set out in the Commitment Letter dated February 01, 2022, and any amendments, additions, renewals, or replacements thereof;
 -
 -
 - all monies of the Borrower(s) on deposit with and all paid up shares of the Borrower(s) in the Credit Union, which are hereby pledged to the Credit Union.
- All Loan Security and related security agreements and security interests (collectively, the "Security") shall be held by the Credit Union as separate and continuing security for the Loan Obligations.
- In addition to any remedies provided for in any of the Security, the Credit Union shall be entitled to any other remedies available to it by law.
- Subject to the Credit Union providing the Borrower a 30-day cure period to rectify any default in payment of any of the Loan Obligations (with reasonable notice, before enforcing relative to same), upon any uncured default in payment of any of the Loan Obligations when due all the Loan Obligations, including those not yet due, may, at the option of the Credit Union, become forthwith due and payable.
- All costs and expenses (including legal expenses on a solicitor and own client basis) incurred by the Credit Union in (i) taking and perfecting the Security (ii) collecting any of the Loan Obligations, and (iii) enforcing any of the Security, shall be for the account of the Borrower(s) and shall be due and payable to the Credit Union forthwith upon the Credit Union giving written particulars thereof to the Borrower(s).
- The Borrower(s) agree to forthwith pay to the Credit Union a charge of \$ for each cheque or bill of exchange used to pay any of the Loan Obligations which is dishonoured. If no charge is stated the charge shall be the Credit Union's normal charge in effect therefore.
- The right to prepay any or all of the Outstanding Principal Sum shall be governed by the terms of Schedule "A" hereto.
- Interest on the outstanding amount of the Principal Sum is calculated daily and payable on the dates for payment set out in this Loan Agreement.
- All payments and other monies received by the Credit Union in payment of the Loan Obligations shall be applied firstly towards costs and expenses, secondly towards accrued interest and thirdly towards the outstanding Principal Sum.
- The Borrower(s) acknowledges receipt of a copy of this Loan Agreement.

Credit Union Officer

Delta 9 Cannabis Inc.
Borrower name if corporation or partnership

PER: John William Arbuthnot IV, CEO

PER:



OVERDRAFT PROTECTION AGREEMENT (Floating Rate)

Borrower(s):
Delta 9 Cannabis Inc.

Connect First Credit Union Ltd.
(the "Credit Union")
2720, 700 – 9th Ave SW
Calgary, Alberta
Commercial Banking, Branch
Member No.: TBD
Date March 11, 2022

AGREEMENT

In this agreement, the words, "I", "me" and "my" mean the Borrower or if more than one, each Borrower who signs this agreement. In return for the Credit Union permitting me to overdraw my Chequing Account being account number TBD ("my Account") I agree to the following:

1. The maximum amount I may overdraw my Account is \$ 4,000,000.00 ("Overdraft Limit").
2. The Credit Union may debit to my Account the amount of any cheque or withdrawal, or other item drawn on my Account and interest as provided in this agreement. The Credit Union may refuse to pay any cheque, withdrawal or any other item if the outstanding debit balance of my Account exceeds, or would after payment of such cheque, withdrawal or other item exceed, my Overdraft Limit on the date such cheque, withdrawal or other item is presented to the Credit Union for payment.
3. I will pay on demand all amounts which overdraw my Account and I will pay both before and after demand interest on all amounts which overdraw my Account calculated from the date each such amount is debited to my Account until the date of payment at a rate per annum equal to 1.50 % per annum above the Credit Union Prime Rate, calculated monthly not in advance both before and after demand, default and judgment. Overdue interest shall be compounded monthly. Interest shall be determined daily and be calculated and payable monthly. As of the date of this agreement the Credit Union Prime Rate is 2.70 % per annum and the interest rate hereunder is 4.20 % per annum.
"Credit Union Prime Rate" means the floating annual rate of interest established from time to time by the Credit Union as the base rate it will use to determine rates of interest on Canadian Dollar loans to its members and designated by the Credit Union as its Credit Union Prime Rate. A change in the Credit Union Prime Rate shall on the day of such change also vary the interest rate on the amounts which overdraw my Account in the same manner.
4. In addition to interest payable under clause 3, I agree to pay to the Credit Union its costs of administration that relate to transactions that overdraw or increase the amount overdrawn in my Account (the "Transaction Fee") as well as those that relate to maintaining the Overdraft Limit (the "Standby Fee"). These fees may change from time to time. The current Transaction Fee and Standby Fee may be ascertained from the Credit Union. These fees may be debited to my Account and any such fees so charged will be reflected on my periodic statement pertaining to my Account.
5. The Credit Union may charge against any other of my accounts with the Credit Union and credit to my Account any payment that I am obligated to make to the Credit Union under this agreement.
6. I hereby pledge to the Credit Union all deposits and paid up shares which I now or may have in the Credit Union, the proceeds of which may, upon default of my obligations contained in this agreement, be applied by the Credit Union to amounts due and owing hereunder. This pledge is in addition to any other rights of or security held by the Credit Union in regard to my obligations hereunder.
7. In order to further secure my obligations hereunder I agree to grant to the Credit Union the following security:
 - (a) As set out in the Commitment Letter dated February 01, 2022, and any amendments, additions, renewals, or replacements thereof ("Commitment"); and;
 - (b) _____ and;
 - (c) _____.
8. If I fail to make any payment in accordance with this agreement, or if I fail to do anything I am required to do under this agreement, or if I die, become subject to or take advantage of any law relating to bankruptcy or insolvency or for the relief of debtors or upon attachment, execution or levy against me or my property, then the Credit Union shall have no further obligation to pay any cheques or withdrawals which overdraw my Account or increase an overdraft in my Account and at the option of the Credit Union any outstanding debit balance in my Account shall, without limiting any other of the Credit Union's rights, become immediately due and payable without notice or demand.
9. Either the Credit Union or I may terminate this agreement forthwith by giving written notice to the other, but no termination will relieve me of any obligation I have to the Credit Union under this agreement until I have paid to the Credit Union the outstanding debt balance of my Account in full, PROVIDED THAT, notwithstanding the foregoing, the Credit Union's right to terminate shall be governed by the Commitment.
10. If more than one person has signed this agreement, the obligations of those persons is joint and several. The Credit Union is authorized to pay any cheques or withdrawals on my Account which overdraw my Account or increase an overdraft in my Account signed by any person who has signed this agreement.
11. This agreement shall be governed by the laws of the Province of Alberta whose courts shall have non-exclusive jurisdiction in regard to matters pertaining hereto and to whose jurisdiction I do attorn for such purposes. I agree to pay to the Credit Union all costs it incurs in enforcing its rights under this agreement on a solicitor-client basis.

SIGNED at Winnipeg, Manitoba, this 11th day of March, 2022.

Delta 9 Cannabis Inc.
Borrower name if corporation or partnership
PER: John William Arbuthnot IV, CEO
PER:

Credit Union Officer

