Court File No. CV-23-00700581-00CL

***ONTARIO***
**SUPERIOR COURT OF JUSTICE**
**COMMERCIAL LIST**

**IN THE MATTER OF THE *COMPANIES' CREDITORS ARRANGEMENT ACT*, R.S.C. 1985, c. C-36, AS AMENDED**

**AND IN THE MATTER OF A PLAN OF COMPROMISE OR ARRANGEMENT OF 15315441 CANADA INC.**

Applicant

**MOTION RECORD**
**(RETURNABLE MARCH 26, 2025)**
**(RE: CCAA TERMINATION AND DISTRIBUTION ORDER)**

March 20, 2025


**STIKEMAN ELLIOTT LLP**
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**TO: THE SERVICE LIST**

Court File No. CV-23-00700581-00CL

***ONTARIO***
**SUPERIOR COURT OF JUSTICE**
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# INDEX

**Tab**

# TAB 1

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Applicant

# NOTICE OF MOTION
# (RETURNABLE MARCH 26, 2025)

15315441 Canada Inc. (the "**Applicant**" or "**Residual Co.**") will make a motion before Justice Osborne of the Ontario Superior Court of Justice (Commercial List) on **Wednesday, March 26, 2025, at 11:00 a.m.**, or as soon after that time as the Motion can be heard.

**PROPOSED METHOD OF HEARING**: The Motion is to be heard:

[ ] In writing under subrule 37.12.1(1);
[ ] In writing as an opposed motion under subrule 37.12.1(4);
[ ] In person;
[ ] By telephone conference;
[X] By video conference.

at the following location:

https://ca01web.zoom.us/j/65979875939?pwd=VVRJZHVVRWQ1cGdkRERtTGpRajNFUT09

**THE MOTION IS FOR**[1]

1. Issuance of an order (the "**CCAA Termination and Distribution Order**"), among other things:

(a) authorizing and directing the Monitor, on behalf of the Applicant, to make distributions (the "**Proposed Distributions**") to creditors with Proven Claims against the Applicant on a pro-rata basis without regard to which F&F Entity any Proof of Claim was filed against;

(b) approving the Ninth Report of the Monitor, to be filed (the "**Ninth Report**") and the activities of the Monitor referred to therein;

(c) approving the fees of the Monitor and its counsel;

(d) terminating the CCAA Proceedings effective upon service by the Monitor of an executed copy of a certificate (the "**Monitor's Termination Certificate**") certifying that, to the knowledge of the Monitor, all matters to be attended to in connection with the CCAA Proceedings have been completed (and the time of service thereof being the "**CCAA Termination Time**");

(e) terminating, releasing, and discharging all of the Court-ordered charges granted in these CCAA Proceedings upon the CCAA Termination Time;

(f) establishing a reserve for the Monitor to complete the CCAA Proceedings;

(g) discharging and releasing FTI in its capacity as Monitor in the CCAA Proceedings effective as at the CCAA Termination Time;

(h) lifting the stay of proceedings for the sole purpose of allowing Residual Co. to make an assignment in bankruptcy; and

(i) extending the Stay Period until the CCAA Termination Time or such later date that the Court may order.

[1] All capitalized terms used herein and not otherwise defined shall have the meanings ascribed to them in the affidavit of Avininder Grewal sworn March 20, 2025, contained at Tab 2 of the Motion Record of the Applicants.

2. Such further and other relief as may be requested by the Applicants and as this Honourable Court considers just.

**THE GROUNDS FOR THE MOTION ARE:**

***Background***

3. FFHC, through its wholly-owned subsidiaries, is an independent cannabis retail chain with many retail cannabis stores open across Canada and two (2) licensed wholesale distribution facilities. Certain subsidiaries of FFHC also carry on business as a wholesale cannabis distributor and operate digital platforms which provide various services and software products relating to cannabis products.

4. The F&F Entities suffered severe liquidity issues due to, among other things, increased competition and operating costs, margin pressure, and regulatory restrictions experienced by the Companies and the cannabis industry generally.

5. Prior to initiating these CCAA Proceedings, the F&F Entities made various efforts since September 2022 to raise additional liquidity and pursue strategic alternatives. Unable to successfully restructure their operations or secure replacement financing or investment outside of formal insolvency proceedings, on June 5, 2023, the Applicants sought and were granted protection under CCAA pursuant to the Initial Order (which was amended and restated on June 15, 2023).

6. On June 19, 2023, the F&F Entities sought and obtained the SISP Order which, among other things, approved the SISP, authorized the Applicants and the Monitor to immediately commence the SISP, and approved the Stalking Horse Agreement solely for the purpose of constituting the Stalking Horse Bid under the SISP.

7. Following the completion of the SISP, the F&F Entities with the assistance of the Monitor identified the successful bid and transaction. On August 29, 2023, the F&F Entities sought and obtained: (a) the Approval and Reverse Vesting Order, which, among other things, approved the Subscription Agreement dated as of August 17, 2023, between FFHC and FIKA, and the Transactions contemplated therein, and extended the Stay Period until and including October 15, 2023; and (b) the Claims Process Order approving the proposed claims process to which claimants may file claims against the Applicant.

8. The Transactions closed on September 15, 2023. Upon closing of the Transactions, among other things: (a) all of FFHC's right, title and interest in and to the Excluded Assets, Excluded Contracts, Excluded Leases and Excluded Liabilities were channeled to, assumed by and vested absolutely and exclusively in Residual Co.; and (b) the F&F Entities were deemed to cease being applicants in these CCAA Proceedings, and Residual Co. became an applicant in these CCAA Proceedings.

9. As a result of the Transactions, the F&F Entities are continuing to operate, with the majority of employees retaining their employment, majority of their landlords retaining a paying tenant and a majority of their suppliers retaining a paying counterparty. In addition, the Transactions generated approximately $13 million in proceeds in excess of the secured debt of the F&F Entities.

10. The Stay Period has periodically been extended from time to time, most recently until and including March 31, 2025.

11. The Claims Process is now largely completed (subject to one Disputed Claim) and the Applicants are seeking Court authorization to make the Proposed Distributions to the Applicant's creditors.

***Proposed Distributions on a Pro-Rata Basis***

12. The Applicant requests that the Monitor, on behalf of the Applicant, should be authorized and directed to make the Proposed Distributions on a pro rata basis without regard to which F&F Entity any Proof of Claim was filed against.

13. It is fair and reasonable for the Proposed Distributions to be made in such a manner, as among other things: (a) it is difficult to determine the value of assets that can be ascribed to each F&F Entity; (b) the F&F Entities co-mingled their assets and business functions; and (c) the consideration paid by FIKA under the Subscription Agreement was not allocated to specific F&F Entities.

14. As the Court-ordered Claims Process was designed to identify, quantify, and resolve claims against ResidualCo with respect to the F&F Entities, with a view to making distributions to the Applicant's creditors, the Proposed Distributions to the Applicant's creditors should be approved.

***Approval of the Monitor's Activities and Fees***

15. As described in the Ninth Report, the Monitor has undertaken numerous activities to facilitate the CCAA Proceedings and conduct the Claims Process. The Applicant and the Monitor are now seeking approval of such activities.

16. The Applicant and the Monitor also seeks approval of the fees and disbursements of the Monitor and its counsel. The Monitor and its counsel will prepare and file fee affidavits with the Court in advance of the hearing of this motion.

***Termination of the CCAA Proceedings and Related Relief***

17. Since the granting of the Initial Order, the F&F Entities and thereafter ResidualCo, in consultation with he Monitor, have acted in good faith and with due diligence to, among other things, stabilize their business, keep their stakeholders apprised of actions taken within the CCAA Proceedings, prepare and implement the SISP, and negotiate and execute the Subscription Agreement and close the Transactions.

18. Pursuant to the proposed CCAA Termination and Distribution Order, the CCAA Proceedings will be terminated upon the filing of the Monitor's Termination Certificate certifying that all matters to be attended to in connection with the CCAA Proceedings have been completed.

19. Certain of the other relief sought under the CCAA Termination and Distribution Order is necessary to effect an orderly termination of the CCAA Proceedings, including lifting the stay of proceedings for the limited purpose of permitting ResidualCo to make an assignment in bankruptcy pursuant to the *Bankruptcy and Insolvency Act* (Canada) and an efficient administration of the bankruptcy of ResidualCo.

***Reserve for CCAA Proceedings***

20. The Monitor shall require a reserve fund for the benefit of itself, its counsel, and the Applicant's counsel in the amount of $200,000.00 along with an amount of $25,000.00 for the benefit of the Claims Officer and $75,000.00 in Director fees (the "**Estimated Termination Fees**") to fund the remainder of these CCAA Proceedings up to and including the CCAA Termination Time. The Monitor shall require a further reserve fund for the benefit of itself and its counsel in the amount of $100,000.00 (the "**Estimated Bankruptcy Fees**"") to fund the administration of the bankruptcy of Residual Co.

21. The Estimated Termination Fees and Estimated Bankruptcy Fees constitutes the Monitor's best estimate of fees and disbursements, excluding HST, for services that have been or will be provided, on the assumption that there are no delays, disputes, or unforeseen developments in connection with any of the remaining steps of these CCAA Proceedings and the subsequent bankruptcy proceedings of Residual Co., if applicable. The reserve to cover the Estimated Termination Fees and Estimated Bankruptcy Fees (the "**Termination Reserve**") will need to be approximately $452,000.00, inclusive of HST.

***Extension of Stay Period***

22. The Applicant is seeking to extend the Stay Period from March 31, 2025, until and including the CCAA Termination Time or such later date as this Court orders.

23. The extension of the Stay Period to the CCAA Termination Time will permit ResidualCo and/or the Monitor to complete the necessary activities in an efficient manner with the benefit of the stay of proceedings. Further, the proposed extension of the Stay Period will obviate the need for a further attendance before the Court which will avoid the additional costs and occupation of further court time.

**OTHER GROUNDS:**

24. Sections 11 and 36 of the CCAA and the inherent and equitable jurisdiction of this Court.

25. Rules 1.04, 2.03, 3.02, 16, 37, and 39 of the Ontario *Rules of Civil Procedure*, R.R.O. 1990, Reg. 194, as amended.

26. Such further and other grounds as counsel may advise and this Court may permit.

**THE FOLLOWING DOCUMENTARY EVIDENCE** will be used at the hearing of the Motion:

27. The affidavit of Avininder Grewal sworn March 20, 2025, and the Exhibits thereto.

28. The Ninth Report of the Monitor dated as of March 20, 2025.

29. Such further and other evidence as counsel may advise and this Court may permit.

March 20, 2025

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**Applicant**

***ONTARIO***
**SUPERIOR COURT OF JUSTICE**
**(COMMERCIAL LIST)**

PROCEEDING COMMENCED AT TORONTO

**NOTICE OF MOTION**
**(RETURNABLE MARCH 26, 2025)**


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Lawyers for the Applicant

# TAB 2

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***ONTARIO***
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**AND IN THE MATTER OF A PLAN OF COMPROMISE OR ARRANGEMENT OF 15315441 CANADA INC.**

Applicant

# AFFIDAVIT OF AVININDER GREWAL
**(Sworn March 20, 2025)**

I, Avininder Grewal, of the City of Toronto, in the Province of Ontario, MAKE OATH AND SAY:

1. I am the sole director of 15315441 Canada Inc. ("**Residual Co.**" or the "**Applicant**") and have held this position since August 28, 2023. Prior to September 15, 2023, I was a director of Fire & Flower Holdings Corp. ("**FFHC**"), Fire & Flower Inc. ("**FFI**"), 13318184 Canada Inc., 11180703 Canada Inc., 10926671 Canada Ltd., Friendly Stranger Holdings Corp. ("**Friendly Stranger**"), Pineapple Express Delivery Inc., and Hifyre Inc. (collectively, the "**F&F Entities**" and each individual company being an "**F&F Entity**") and became a director of each of the F&F Entities at different times. However, I was a director of each of the F&F Entities both prior to the commencement and throughout the CCAA Proceedings (as defined below). Accordingly, I have personal knowledge of the matters to which I hereinafter depose, except where otherwise stated. Where I have relied upon such information, I do verily believe such information to be true.

2. Capitalized terms used herein and not otherwise defined have the meanings ascribed to them in my affidavits sworn October 6, 2023, January 23, 2024, April 3, 2024, July 8, 2024, and November 15, 2024 (the "**Fifth Grewal Affidavit**"). All references to monetary amounts in this affidavit are in Canadian dollars unless otherwise indicated.

3. I swear this affidavit in support of the Applicant's motion (the "**Motion**") for the issuance of an order (the "**CCAA Termination and Distribution Order**"), among other things:

(a) authorizing and directing the Monitor, on behalf of the Applicant, to make distributions (the "**Proposed Distributions**") to creditors with Proven Claims against the Applicant on a pro-rata basis without regard to which F&F Entity any Proof of Claim was filed against;

(b) approving the Ninth Report of the Monitor, to be filed (the "**Ninth Report**") and the activities of the Monitor referred to therein;

(c) approving the fees of the Monitor and its counsel;

(d) terminating the CCAA Proceedings effective upon service by the Monitor of an executed copy of a certificate (the "**Monitor's Termination Certificate**") certifying that, to the knowledge of the Monitor, all matters to be attended to in connection with the CCAA Proceedings have been completed (and the time of service thereof being the "**CCAA Termination Time**");

(e) terminating, releasing, and discharging all of the Court-ordered charges granted in these CCAA Proceedings upon the CCAA Termination Time;

(f) establishing a reserve for the Monitor to complete the CCAA Proceedings;

(g) discharging and releasing FTI in its capacity as Monitor in the CCAA Proceedings effective as at the CCAA Termination Time;

(h) lifting the stay of proceedings for the sole purpose of allowing Residual Co. to make an assignment in bankruptcy; and

(i) extending the Stay Period until the CCAA Termination Time or such later date that the Court may order.

## I. BACKGROUND

4. FFHC, through its wholly-owned subsidiaries, is an independent cannabis retail chain with many retail cannabis stores open across Canada and two (2) licensed wholesale distribution facilities. Certain subsidiaries of FFHC also carry on business as a wholesale cannabis distributor and operate digital platforms which provide various services and software products relating to cannabis products.

5. Facing a severe liquidity crisis, the F&F Entities sought and obtained protection under the CCAA pursuant to the Initial Order issued by this Court on June 5, 2023.

6. Among other things, the Initial Order:

(a) appointed FTI as Monitor of the F&F Entities;

(b) granted the Initial Stay of Proceedings in favour of the F&F Entities, their directors and officers, and the Monitor;

(c) approved the execution by the F&F Entities of the DIP Facility Agreement entered into on June 5, 2023, with the DIP Lender, pursuant to which the DIP Lender agreed to advance to the F&F Entities, a total amount of up to $9.8 million, during the CCAA Proceedings, of which an Initial Advance of $2.7 million was to be advanced during the Initial Stay of Proceedings;

(d) granted the following priority charges against the F&F Entities' Property:

(i) the Administration Charge against the Property in the amount of $600,000, as security for the payment of the professional fees and disbursements incurred and to be incurred by the Monitor, counsel to the Monitor, and counsel to the F&F Entities;

(ii) the DIP Lender's Charge against the Property in the amount of the Initial Advance as security for the F&F Entities' obligations under the DIP Facility Agreement; and

(iii) the D&O Charge against the Property in the maximum amount of $2,800,000 in favour of the directors and officers of the F&F Entities as security for the F&F Entities' obligation to indemnify such D&Os for obligations and liabilities incurred in such capacities after the commencement of the CCAA Proceedings.

7. On June 15, 2023, the F&F Entities sought and obtained the ARIO, which, among other things:

(a) extended the Stay Period to and including September 1, 2023;

(b) approved the KERP and granted the KERP Charge in the amount of $1.16 million against the Property as security for payments under the KERP; and

(c) authorized the F&F Entities to increase the amounts which may be borrowed by the F&F Entities under the DIP Facility Agreement to $9.8 million and granted a corresponding increase to the DIP Lender's Charge.

8. On June 19, 2023, the F&F Entities sought and obtained the SISP Order, which, among other things:

(a) approved the SISP and authorized the F&F Entities and the Monitor to immediately commence the SISP; and

(b) approved the Stalking Horse Agreement dated as of June 21, 2023, between FFHC and the Stalking Horse Bidder solely for the purpose of constituting the "Stalking Horse Bid" under the SISP.

9. Following the completion of the SISP, the F&F Entities with the assistance of the Monitor identified the successful bid and transaction. On August 29, 2023, the F&F Entities sought and obtained from the Court:

(a) the Approval and Reverse Vesting Order which, among other things:

(i) approved the Subscription Agreement dated as of August 17, 2023, between FFHC and FIKA (the "**Purchaser**") and the Transactions contemplated therein; and

(ii) extended the Stay Period until and including October 15, 2023; and

(b) the Claims Process Order which approved the proposed Claims Process pursuant to which claimants may file claims against the Applicant.

10. The Transactions closed on September 15, 2023. Among other things, the following occurred upon delivery of the Monitor's Closing Certificate and closing of the Transaction:

(a) all of FFHC's right, title and interest in and to the Excluded Assets vested absolutely and exclusively in Residual Co. All applicable Claims and

Encumbrances continued to attach to the Excluded Assets and to the Purchase Price;

(b) all Excluded Contracts, Excluded Leases and Excluded Liabilities were channeled to, assumed by and vested absolutely and exclusively in Residual Co.; and

(c) the F&F Entities were deemed to cease being applicants in these CCAA Proceedings, with Residual Co. becoming an applicant in these CCAA Proceedings, and the F&F Entities were deemed to be released from the purview of the ARIO and all other Orders of this Court granted in respect of these CCAA Proceedings, save and except for the Approval and Reverse Vesting Order.

11. As a result of the Transactions, the F&F Entities are continuing to operate, with the majority of employees retaining their employment, a majority of their landlords retaining a paying tenant and a majority of their suppliers retaining a paying counterparty. In addition, the Transactions generated approximately $13 million in proceeds in excess of the secured debt of the F&F Entities.

12. On October 13, 2023, the Applicant sought and obtained the Stay Extension, Distribution, and Fees Approval Order, which:

(a) approved the Fourth Report of the Monitor and the activities of the Monitor referred to therein;

(b) approved the fees of the Monitor and its counsel;

(c) authorized the Monitor to make certain distributions from the Cash Consideration received and held by the Monitor in connection with the Transactions; and

(d) extended the Stay Period until and including January 30, 2024.

13. On January 29, 2024, the Applicant sought and obtained the Stay Extension and Late Claims Approval Order which (a) extended the Stay Period until and including April 15, 2024; and (b) authorized the Monitor to accept, revise or disallow late claims filed after the Claims Bar Date.

14. Since the Stay Extension and Late Claims Approval Order, the Applicant has periodically sought and obtained orders that extended the Stay Period, most recently until and including March 31, 2025.

15. Copies of all orders, together with all other filings in the CCAA Proceedings, are available on the Monitor's website at: https://cfcanada.fticonsulting.com/fireandflower/

## II. UPDATE ON APPLICANT'S ACTIVITIES

16. Following issuance of the last order extending the Stay Period until and including March 31, 2025, the Applicant has been working with the Monitor in good faith and with due diligence towards completing the Claims Process and making a distribution to its creditors.

### A. Claims Process[1]

17. As described in and at the time of the Fifth Grewal Affidavit:

(a) the Claims Bar Date for all Proofs of Claim for Pre-Filing Claims and Restructuring Claims was October 12, 2023;

(b) the Monitor received a total of 199 Claims in the approximate aggregate amount of $295,262,000 by the Claims Bar Date and 12 Late Claims in the approximate aggregate amount of $1,148,000 after the Claims Bar Date;

(c) the Monitor, together with the Applicant, reconciled and accepted 166 Claims totalling approximately $36.0 million; and

(d) excluding the D&O Claims, 4 Disputed Claims totalling approximately $8.4 million were under dispute.

18. The Monitor, in consultation with the Applicant, delivered a number of Notices of Revision or Disallowance to Claimants, including the Canada Revenue Agency, who did not subsequently return a Notice of Dispute in accordance with paragraphs 27 and 29 of the Claims Procedure. Under the terms of the Claims Procedure, the value and status of such Claim is deemed to be as set out in the Notice of Revision or Disallowance for voting and distribution purposes, the Claimant is barred from disputing or appealing same, and the balance of such Claimant's Claim, if any, is forever barred and extinguished.

[1] Capitalized terms used herein and not otherwise defined have the meanings ascribed to them in the Claims Process Order.

19. Subject to one Disputed Claim which is anticipated to be determined by the Claims Officer shortly, the Monitor and Residual Co. will complete their administration of the Claims Process. The quantum of the Disputed Claim is approximately $100,000, with all parties having submitted their materials to the Claims Officer by March 12, 2025.

20. I understand that the Monitor will provide a more extensive update on the Claims received and their resolution in its Ninth Report. However, below is a summary breakdown of the approximate amount of the Proven Claims against each of the F&F Entities in the Claims Process:

| F&F Entity | Unsecured ($M) | Secured ($M) | Total ($M) |
|---|---|---|---|
| Fire & Flower Holdings Corp. | $6.6 | $0.3 | $6.8 |
| Fire & Flower Inc. | $12.5 | $0.3 | $12.8 |
| 13318184 Canada Inc. | $2.3 | - | $2.3 |
| 11180703 Canada Inc. | - | - | - |
| 10926671 Canada Ltd. | $11.4 | - | $11.4 |
| Friendly Stranger Holdings Corp. | $0.2 | - | $0.2 |
| Pineapple Express Delivery Inc. | $0.3 | - | $0.3 |
| Hifyre Inc. | $3.9 | - | $3.9 |
| **TOTAL ($M)** | | | **$37.6** |

**B. Additional Activities**

21. In addition to the activities of the Applicant described above, since the granting of the last order extending the Stay Period, the Applicant has also:

(a) responded to creditor and stakeholder enquiries regarding these CCAA Proceedings;

(b) engaged in correspondence with the Claims Officer on the resolution of the last outstanding Disputed Claim; and

(c) completed the Applicant's annual corporate filings.

## III. RELIEF SOUGHT

### A. Proposed Distributions on a Pro-Rata Basis

22. The Applicant requests that the Monitor, on behalf of the Applicant, should be authorized and directed to make the Proposed Distributions on a pro rata basis without regard to which F&F Entity any Proof of Claim was filed against.

23. The F&F Entities had during all relevant times, consolidated financial statements which did not report individual entity-level financials. Within the consolidated financial statements, the various F&F Entities were grouped within specific segments based on the nature of each entity's business functions. Collectively attached hereto as **Exhibit "A"** are copies of the F&F Entities' audited consolidated financial statements for the fiscal years ended January 29, 2022, and December 31, 2022.

24. It is therefore difficult to determine the value of assets that can be ascribed to each F&F Entity. As an example, the consolidated financial statements had a "Retail" segment which includes both FFI and Friendly Stranger. However, I am not able to determine which of the assets listed in the "Retail" segment belonged to FFI as compared to Friendly Stranger. Similarly, there are different entities grouped within the other reporting segments, and it is also similarly difficult to determine which assets belonged to each F&F Entity.

25. I understand from the Monitor that a lengthy and costly exercise would have to be undertaken to try and determine the value of assets held by each F&F Entity, but that even then, it is not certain that the value of the assets of each F&F Entity can be determined in any precise measure.

26. If the Applicant and the Monitor were to use the unaudited book value of the most recent unaudited consolidated financial statement before the CCAA Proceedings commenced, it is possible to divide the asset value in each segment equally amongst the various F&F Entities in each segment. However, this is a highly imprecise way of allocating the value of assets for each F&F Entity and does not take into account the value that certain F&F Entities offered which cannot be determined from looking at a financial statement.

27. For example, FFHC's employees primarily held C-suite positions responsible for overseeing the strategy and operations of the other F&F Entities, likely contributing to their profitability. The F&F Entities also co-mingled their assets and business functions through, among other things, FFHC's debt obligations funding the operations of the other F&F Entities.

28. This integrated manner of conducting their business continued during the CCAA Proceedings, when assets of one entity were sold in the normal course, the proceeds of sale were used for the benefit of all the F&F Entities without observing any corporate formalities.

29. The consideration paid by FIKA under the Subscription Agreement was also not allocated to specific F&F Entities. As stated in the Affidavit of Stephane Trudel sworn on August 23, 2023, (the "**Trudel Affidavit**")—who served as CEO of the F&F Entities during their time as applicants in these CCAA Proceedings—the consideration payable by FIKA under the Subscription Agreement, which granted FIKA sole ownership of the F&F Entities, was $36 million. No portion of the purchase price was allocated to specific F&F Entities. A copy of the Trudel Affidavit (without Exhibits) is attached hereto as **Exhibit "B"**.

30. Given the foregoing and following consultation with the Monitor, I believe it is fair and reasonable for the Proposed Distributions to be made on a pro-rata basis of the aggregate amount of funds available for distribution to the Applicant's creditors.

31. As the Court-ordered Claims Process was designed to identify, quantify, and resolve claims against Residual Co. with respect to the F&F Entities, with a view to making distributions to the Applicant's creditors, the Proposed Distributions to the Applicant's creditors should be approved.

**B. Approval of the Monitor's Activities and Fees**

32. The Applicant also seeks approval of the Monitor's activities described in the Ninth Report, as well as the fees and disbursements of the Monitor and its counsel in the administration of the CCAA Proceedings. To this end, I understand that the Monitor and its counsel will prepare and file fee affidavits with the Court in advance of the hearing of this motion.

33. The Monitor and its counsel have provided invaluable assistance to the Applicant in these CCAA Proceedings and are the principal parties responsible for conducting the Claims Process.

34. I am advised by Maria Konyukhova of Stikeman that the rates and fees charged by the Monitor and its counsel are reasonable and market for insolvency proceedings of similar complexity.

35. Accordingly, the Applicant supports the approval of the Monitor's activities described in the Ninth Report, as well as the fees and disbursements of the Monitor and its counsel.

## C. Termination of the CCAA Proceedings and Related Relief

36. Since the granting of the Initial Order, the F&F Entities and thereafter Residual Co., in consultation with he Monitor, have acted in good faith and with due diligence to, among other things, stabilize their business, keep their stakeholders apprised of actions taken within the CCAA Proceedings, prepare and implement the SISP, and negotiate and execute the Subscription Agreement and close the Transactions.

37. Pursuant to the proposed CCAA Termination and Distribution Order, the CCAA Proceedings will be terminated upon the filing of the Monitor's Termination Certificate certifying that all matters to be attended to in connection with the CCAA Proceedings have been completed.

38. At the CCAA Termination Time, all the Court-ordered charges granted in these CCAA Proceedings will be terminated and FTI will be released and discharged as Monitor.

39. Certain of the other relief sought under the CCAA Termination and Distribution Order is necessary to effect an orderly termination of the CCAA Proceedings, including lifting the stay of proceedings for the sole purpose of allowing Residual Co. to make an assignment in bankruptcy pursuant to the *Bankruptcy and Insolvency Act* (Canada), and an efficient administration of the bankruptcy of Residual Co.

## D. Reserve for CCAA Proceedings

40. I understand from the Monitor that the Monitor shall require a reserve fund for the benefit of itself, its counsel, and the Applicant's counsel in the amount of $200,000.00 along with an amount of $25,000.00 for the benefit of the Claims Officer and $75,000.00 in Director fees (the "**Estimated Termination Fees**") to fund the remainder of these CCAA Proceedings up to and including the CCAA Termination Time. The Monitor shall require a further reserve fund for the benefit of itself and its counsel in the amount of $100,000.00 (the "**Estimated Bankruptcy Fees**"") to fund the administration of the bankruptcy of Residual Co.

41. The Estimated Termination Fees and Estimated Bankruptcy Fees constitutes the Monitor's best estimate of fees and disbursements, excluding HST, for services that have been or will be provided, on the assumption that there are no delays, disputes, or unforeseen developments in connection with any of the remaining steps of these CCAA Proceedings and the subsequent bankruptcy proceedings of Residual Co., if applicable. I understand from the Monitor that the reserve to cover the Estimated Termination Fees and Estimated Bankruptcy Fees (the "**Termination Reserve**") will need to be approximately $452,000.00, inclusive of HST.

## E. Stay Extension

42. The Stay Period currently expires on March 31, 2025. Pursuant to the CCAA Termination and Distribution Order, Residual Co. seeks an extension of the Stay Period until and including the CCAA Termination Time or such later date as this Court orders.

43. Prior to the CCAA Termination Time, Residual Co. and/or the Monitor are required to take various steps such as:

(a) making the Proposed Distributions to the Applicant's creditors;

(b) completing the necessary statutory and administrative steps for terminating the CCAA Proceedings and discharging the Monitor; and

(c) bankrupting and administering Residual Co.

44. The extension of the Stay Period to the CCAA Termination Time will permit Residual Co. and/or the Monitor to complete the above activities in an efficient manner with the benefit of the stay of proceedings. Further, the proposed extension of the Stay Period will obviate the need for a further attendance before the Court which will avoid the additional costs and occupation of further court time.

45. I understand that the Monitor is supportive of the proposed extension of the Stay Period and does not believe that it will materially prejudice any stakeholders.

46. I also believe the Applicant has and will continue to act in good faith and with due diligence to complete the CCAA Proceedings

## IV. CONCLUSION

47. In light of the foregoing, I believe that the relief sought by the Applicant in connection with this Motion is reasonable and appropriate in the circumstances. I understand that the Monitor is also supportive of the relief sought by the Applicant in connection with this Motion.

| | |
|---|---|
| SWORN remotely via videoconference, by Avininder Grewal, stated as being located in the City of Toronto, in the Province of Ontario, before me at the City of Toronto, in Province of Ontario, this day of March 20, 2025, in accordance with O. Reg 431/20, *Administering Oath or Declaration Remotely*.<br><br>DocuSigned by:<br>Philip Y<br>36124C4218DD47C...<br><br>Commissioner for Taking Affidavits, etc.<br>PHILIP YANG \| LSO# 82084O | DocuSigned by:<br>A. Grewal<br>8E3B19310F3F45B...<br><br>**AVININDER GREWAL** |

This is Exhibit “A” referred to

in the Affidavit of Avininder Grewal

sworn on March 20, 2025

DocuSigned by:

36124C4218DD47C...

Commissioner for Taking Affidavits

Philip Yang

CONSOLIDATED FINANCIAL STATEMENTS OF

# Fire & Flower Holdings Corp.

FOR THE FISCAL YEARS ENDED JANUARY 29, 2022 AND JANUARY 30, 2021

## MANAGEMENT'S REPORT

Management is responsible for preparing the consolidated financial statements and the notes hereto. These consolidated financial statements have been prepared in conformity with International Financial Reporting Standards, as issued by the International Accounting Standards Board, using the best estimates and judgments of management, where appropriate.

Management is also responsible for maintaining a system of internal controls designed to provide reasonable assurance that assets are safeguarded and that accounting systems provide timely, accurate and reliable information.

The Board of Directors is responsible for approving the consolidated financial statements, primarily through its Audit Committee. This committee, which holds periodic meetings with members of management as well as with the independent external auditors, reviewed the consolidated financial statements and recommended their approval to the Board of Directors.

The external auditors have full and unrestricted access to the Audit Committee to discuss their audits and related findings as to the integrity of the financial reporting process.

/s/ "Trevor Fencott"
Trevor Fencott,
Chief Executive Officer

/s/ "Judy Adam"
Judy Adam,
Chief Financial Officer

April 25, 2022

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# Independent auditor's report

To the Shareholders of Fire & Flower Holdings Corp.

## Our opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Fire & Flower Holdings Corp. and its subsidiaries (together, the Company) as at January 29, 2022 and January 30, 2021, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS).

**What we have audited**
The Company's consolidated financial statements comprise:

- the consolidated statements of financial position as at January 29, 2022 and January 30, 2021;
- the consolidated statements of loss and comprehensive loss for the years then ended;
- the consolidated statements of changes in shareholders' equity for the years then ended;
- the consolidated statements of cash flows for the years then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

## 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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**Independence**
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. We have fulfilled our other ethical responsibilities in accordance with these requirements.

## Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended January 29, 2022. These matters were

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addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| **Impairment assessment of retail cash-generating units**<br><br>*Refer to note 4 – Summary of Significant Accounting Policies, note 6 – Critical Accounting Estimates and Judgments, note 19 – Restructuring and Impairment Costs, Net and note 26 – Segmented Information to the consolidated financial statements.*<br><br>Total net book value of non-current assets within the Company's retail cash-generating units (CGUs) as at January 29, 2022 is $137 million, of which a significant portion relates to property, plant and equipment, right-of-use assets and intangible assets. Property, plant and equipment, right-of-use-assets and intangible assets are reviewed for impairment indicators at the end of each reporting period. During the year, management identified indicators of impairment for the retail CGUs. When any indication of impairment exists, management estimates the recoverable amount of the CGU to which the asset relates to determine the extent of any impairment loss. A CGU is the lowest level of a group of assets for which there are separately identifiable cash flows. The recoverable amount is the higher of fair value less cost to sell and value in use of the CGU. When the recoverable amount of the CGU is lower than the carrying amount, the carrying amount is reduced to the recoverable amount.<br><br>Management performed impairment assessments using the fair value less cost to sell method based on the market approach. Key assumptions used by management in estimating the recoverable amounts of the CGUs included the revenue forecasts and the revenue multiple. Based on the impairment assessments performed with respect | Our approach to addressing the matter involves the following procedures, among others:<br><br>• Tested how management determined the recoverable amounts of the retail CGUs, which included the following:<br><br>– Tested the appropriateness of the method and approach used.<br><br>– Tested the underlying data used in the recoverable amount calculations.<br><br>– Evaluated the reasonableness of the revenue forecasts used by management by comparing them to the revenue forecasts approved by the Board and by considering the past performance of the CGUs.<br><br>– Evaluated the reasonableness of the revenue multiple by considering third party comparative market data.<br><br>– Evaluated the reasonableness of the recoverable amounts of the retail CGUs by considering the Company's market capitalization and the recoverable amounts of the Company's other CGUs. |

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| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| to the retail CGUs, management recognized impairment charges of $17.1 million, which was allocated to the licenses within the impaired CGUs.<br><br>We considered this a key audit matter due to the judgment required by management in determining the recoverable amounts of retail CGUs, including the determination of key assumptions. This has resulted in a significant audit effort and subjectivity in performing procedures to test the recoverable amounts of retail CGUs determined by management. | |

## Other information

Management is responsible for the other information. The other information comprises the Management's Discussion and Analysis.

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 identified above 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.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

## Responsibilities of management and those charged with governance for the consolidated financial statements

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

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

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

## Auditor's responsibilities for the audit of the consolidated financial statements

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial

statements. We 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 Neil Rostant.

**/s/PricewaterhouseCoopers LLP**

Chartered Professional Accountants, Licensed Public Accountants

Oakville, Ontario
April 26, 2022

# Fire & Flower Holdings Corp.

## CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(In thousands of Canadian Dollars)

| | As at January 29, 2022 | As at January 30, 2021 |
|---|---|---|
| | $ | $ |
| **Assets** | | |
| Current assets | | |
| Cash and cash equivalents (note 8) | 19,847 | 30,613 |
| Restricted cash | - | 4,254 |
| Trade and other receivables (note 9) | 15,948 | 6,248 |
| Merchandise inventories (note 10) | 12,458 | 9,838 |
| Prepaid expenses, deposits, and other current assets | 4,413 | 2,367 |
| **Total current assets** | **52,666** | 53,320 |
| Non-current assets | | |
| Deposits | 3,305 | 3,831 |
| Property, plant and equipment, net (note 11) | 47,500 | 43,355 |
| Right-of-use assets, net (note 12) | 43,755 | 40,500 |
| Intangible assets, net (note 13) | 45,113 | 58,570 |
| Goodwill (note 13) | 30,541 | 13,806 |
| **Total assets** | **222,880** | 213,382 |
| **Liabilities** | | |
| Current liabilities | | |
| Accounts payable and accrued liabilities | 21,697 | 20,049 |
| Income tax payable | 3,749 | 2,037 |
| Debentures and loans (note 15, 22) | 20,119 | 637 |
| Derivative liability (note 15) | 1,349 | - |
| Deferred revenue | 489 | 112 |
| Provisions (note 14) | 1,742 | 2,672 |
| Lease liabilities (note 12) | 5,113 | 2,784 |
| **Total current liabilities** | **54,258** | 28,291 |
| Non-current liabilities | | |
| Debentures and loans (note 15, 22) | 1,705 | 33,017 |
| Derivative liability (note 15) | 1,371 | 66,317 |
| Lease liabilities (note 12) | 47,090 | 43,122 |
| Deferred tax liability (note 27) | 1,749 | 5,451 |
| Other non-current liabilities | 1,015 | 1,509 |
| **Total liabilities** | **107,188** | 177,707 |
| **Shareholders' equity** | | |
| Share capital (note 16) | 324,248 | 180,780 |
| Common shares to be issued | - | 112 |
| Warrant reserve | - | 4,874 |
| Contributed surplus | 6,179 | 1,056 |
| Accumulated deficit | (214,739) | (151,147) |
| Accumulated other comprehensive income | 4 | - |
| **Total shareholders' equity** | **115,692** | 35,675 |
| **Total liabilities and shareholders' equity** | **222,880** | 213,382 |

Commitments and contingencies (note 25)
Subsequent events (note 28)

/s/ "Trevor Fencott", Director
Trevor Fencott

/s/ "Sharon Ranson", Director
Sharon Ranson

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

# Fire & Flower Holdings Corp.

## CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS

(In thousands of Canadian Dollars, except per share information)

| | Fiscal Year Ended | |
|---|---|---|
| | **January 29, 2022** | January 30, 2021 |
| | **$** | $ |
| Revenue (note 26) | **175,499** | 128,053 |
| Costs of goods sold (notes 10, 26) | 113,405 | 82,634 |
| **Gross profit** | **62,094** | 45,419 |
| **Expenses (income)** | | |
| Selling, general and administrative (note 18) | 63,242 | 45,777 |
| Depreciation & amortization (notes 11, 12, 13) | 19,080 | 12,345 |
| Restructuring, impairment and other costs, net (note 19) | 25,122 | 4,859 |
| Loss (gain) on revaluation of derivative liability, net (note 15) | 8,545 | (18,638) |
| Loss on extinguishment and revaluation of debentures (note 15) | - | 53,152 |
| Finance costs, net (note 20) | 7,245 | 24,884 |
| **Total expenses** | **123,234** | 122,379 |
| **Loss before tax** | **(61,140)** | (76,960) |
| Current tax expense (note 27) | (5,313) | (2,049) |
| Deferred tax recovery (note 27) | 2,861 | 50 |
| **Net loss** | **(63,592)** | (78,959) |
| **Net loss per share** (note 16, 17) | | |
| **Basic** | **$(1.89)** | $(4.54) |
| **Diluted** | **$(1.89)** | $(4.54) |
| **Comprehensive loss** | | |
| Net loss | (63,592) | (78,959) |
| *Items that may be reclassified to profit or loss* | | |
| Foreign currency translation, net of income tax effect | 4 | - |
| Other comprehensive income, net of income tax effect | 4 | - |
| **Total comprehensive loss** | **(63,588)** | (78,959) |

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

# Fire & Flower Holdings Corp.

## CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(In thousands of Canadian Dollars, except common shares information)

| | Common Shares[1] | Share Capital | Shares to be issued | Debenture Equity | Warrant Reserve | Contributed Surplus | Accumulated other comprehensive income | Deficit | Total Shareholders' Equity |
|---|---|---|---|---|---|---|---|---|---|
| | # | $ | $ | $ | $ | $ | $ | $ | $ |
| **Balance, January 30, 2021** | **23,211,418** | **180,780** | **112** | **-** | **4,874** | **1,056** | **-** | **(151,147)** | **35,675** |
| Common shares cancelled - acquisition post-closing adjustment (note 7) | (53,678) | (53) | - | - | - | - | - | - | (53) |
| Common shares issued - At-the-Market offering (note 16) | 817,090 | 7,618 | - | - | - | - | - | - | 7,618 |
| Common shares issued - store asset acquisitions (note 7) | 8,838 | 100 | - | - | - | - | - | - | 100 |
| Common shares issued - PotGuide (note 7) | 597,805 | 5,440 | - | - | - | - | - | - | 5,440 |
| Common shares issued - Wikileaf (note 7) | 801,710 | 7,296 | - | - | - | - | - | - | 7,296 |
| Common shares issued - Pineapple Express Delivery (note 7) | 1,153,144 | 5,166 | - | - | - | - | - | - | 5,166 |
| Conversion of debentures (note 15) | 9,025,661 | 102,843 | - | - | - | - | - | - | 102,843 |
| Common shares issued - debenture interest (note 15) | 304,495 | 1,698 | - | - | - | - | - | - | 1,698 |
| Acquisition of Hifyre Inc. (note 7) | 45,000 | 312 | (112) | - | - | - | - | - | 200 |
| Warrants exercised (note 16) | 1,050,577 | 12,599 | - | - | (2,830) | - | - | - | 9,769 |
| Warrants expired (note 16) | - | - | - | - | (2,044) | 2,044 | - | - | - |
| Redemption of restricted share units | 11,879 | 121 | - | - | - | (250) | - | - | (129) |
| Share-based compensation - options and restricted share units (note 16) | - | - | - | - | - | 3,465 | - | - | 3,465 |
| Options exercised (note 16) | 41,769 | 328 | - | - | - | (136) | - | - | 192 |
| Currency translation adjustment on foreign subsidiary | - | - | - | - | - | - | 4 | - | 4 |
| Net loss and comprehensive loss | - | - | - | - | - | - | - | (63,592) | (63,592) |
| **Balance, January 29, 2022** | **37,015,708** | **324,248** | **-** | **-** | **-** | **6,179** | **4** | **(214,739)** | **115,692** |
| **Balance, February 1, 2020** | **14,609,323** | **106,067** | **1,233** | **1,756** | **6,271** | **3,771** | **-** | **(72,188)** | **46,910** |
| Common shares to be issued - acquisitions | - | - | 920 | - | - | - | - | - | 920 |
| Common shares issued - At-the-Market offering | 839,750 | 7,071 | - | - | - | - | - | - | 7,071 |
| Common shares issued - store acquisitions | 3,783,062 | 29,766 | (1,808) | - | - | - | - | - | 27,958 |
| April 2020 Debentures - warrants issued | - | - | - | - | 808 | - | - | - | 808 |
| Conversion of debentures - LP Debentures | 1,237,391 | 14,407 | - | - | - | - | - | - | 14,407 |
| Common shares issued - debenture interest | 281,668 | 2,119 | - | - | - | - | - | - | 2,119 |
| Debenture conversion option expiry - June 2019 Debentures | - | - | - | (1,756) | - | 1,756 | - | - | - |
| Acquisition of Hifyre Inc. | 65,000 | 434 | (233) | - | | | - | - | 201 |
| Investor debentures equity conversion option extinguished due to amendments | - | - | - | - | - | (3,549) | - | - | (3,549) |
| Investor warrants cancelled due to amendments | - | - | - | - | (808) | (7,625) | - | - | (8,433) |
| Investor warrants issued - amended series A warrants - A-1, A-2, A-3 | - | - | - | - | 4,674 | - | - | - | 4,674 |
| Warrants exercised | 2,365,224 | 20,818 | - | - | (1,844) | - | - | - | 18,974 |
| Warrants expired | - | - | - | - | (4,227) | 4,227 | - | - | - |
| Share-based compensation - options and restricted share units | - | - | - | - | - | 2,512 | - | - | 2,512 |
| Options exercised | 30,000 | 98 | - | - | - | (36) | - | - | 62 |
| Net loss and comprehensive loss | - | - | - | - | - | - | - | (78,959) | (78,959) |
| **Balance, January 30, 2021** | **23,211,418** | **180,780** | **112** | **-** | **4,874** | **1,056** | **-** | **(151,147)** | **35,675** |

*(1) On December 1, 2021, the Company completed a ten-to-one share consolidation on its issued and outstanding common shares, which was applied retrospectively. As a result, the common share amounts are stated on an adjusted post-consolidation basis (note 16). The common shares began trading on the TSX on a post-consolidation basis on December 2, 2021.*

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

# Fire & Flower Holdings Corp.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands of Canadian Dollars)

| | Fiscal Year Ended January 29, 2022 | January 30, 2021 |
|---|---|---|
| | $ | $ |
| **Operating activities** | | |
| Net loss | (63,592) | (78,959) |
| Items not affecting cash and cash equivalents | | |
| Depreciation and amortization (note 11, 12 & 13) | 19,080 | 12,345 |
| Impairment of intangible assets (note 13 & 19) | 18,943 | 869 |
| Impairment of property, plant and equipment (note 11 & 19) | 3,734 | 579 |
| Impairment of ROU assets, net lease liability remeasurement (note 12 & 19) | 1,499 | 1,863 |
| Share-based compensation | 3,174 | 2,512 |
| Interest expense on debentures and loans and other finance costs (note 20) | 2,734 | 20,271 |
| Loss (gain) on revaluation of derivative liability (note 15) | 8,545 | (18,638) |
| Transaction costs on issuance of debentures and loans | 304 | 1,686 |
| Interest expense on lease liabilities (note 12) | 4,670 | 3,147 |
| Loss on extinguishment and revaluation of debentures (note 15) | - | 53,152 |
| Restructuring charges (note 19) | 777 | 1,548 |
| Changes in non-cash working capital items (note 23) | (12,466) | 2,280 |
| **Cash (used in) provided by operating activities** | **(12,598)** | **2,655** |
| **Investing activities** | | |
| Acquisition of property, plant and equipment and intangible assets (note 11) | (16,580) | (11,567) |
| Disposal of property, plant and equipment and intangible assets (note 11) | - | 1,898 |
| Deposits related to acquisitions | - | (60) |
| Business combination, net of cash acquired (note 7) | (10,011) | (5,733) |
| Asset acquisitions (note 7) | (1,569) | (750) |
| Deposits related to leases | 33 | (726) |
| Redemption of short-term investments | - | 5,000 |
| **Cash used in investing activities** | **(28,127)** | **(11,938)** |
| **Financing activities** | | |
| ACT secured debt facility (note 15) | 20,000 | - |
| Issuance of common shares and other equity securities (note 16) | 7,777 | 7,224 |
| Cash collateral for loans, credit facilities and letters of credit (note 15) | 3,948 | (4,254) |
| Transaction costs on issuance of shares (note 16) | (159) | (153) |
| Proceeds from issuance of convertible debentures (note 15) | - | 28,000 |
| Senior secured term loan drawdown (note 15) | - | 2,538 |
| Transaction costs on debenture and loan issuances (note 15) | - | (1,806) |
| Redemption of restricted share units | (65) | - |
| Principal repayment on debentures and loans (note 15) | (2,359) | (27,400) |
| Interest paid on debentures and loans (note 15) | (111) | (1,057) |
| Exercise of warrants and options | 9,960 | 19,036 |
| Lease liability payments (note 12) | (9,036) | (5,132) |
| **Cash provided by financing activities** | **29,955** | **16,996** |
| Effect of foreign exchange on cash and cash equivalents | 4 | - |
| (Decrease) increase in cash and cash equivalents | (10,766) | 7,713 |
| Cash and cash equivalents, beginning of year | 30,613 | 22,900 |
| **Cash and cash equivalents, end of year** | **19,847** | **30,613** |

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 1. NATURE OF OPERATIONS

Fire & Flower Holdings Corp. (the "Company") is a publicly traded company listed on the Toronto Stock Exchange (the "TSX") under the symbol 'FAF'. The Company is a technology-powered, independent cannabis retailer in Canada, with wholesale cannabis distribution and fulfilment business operations in Saskatchewan, Canada ("Open Fields Distribution"). The Company also operates a proprietary digital retail and analytics platform (the "Hifyre Digital Platform") supporting e-commerce retail activities, rapid delivery services and providing a compliant technology system for cannabis licensed producers and other industry stakeholders. The Company's head office and registered office is located at 130 King Street West, Suite 2500, Toronto, Ontario, M5X 1C8, Canada.

On December 1, 2021, the Company completed a ten-to-one share consolidation on its issued and outstanding common shares and began trading on the TSX on a post-consolidation basis on December 2, 2021. The Share Consolidation has been applied retrospectively and as a result, the per share and common share amounts are stated on an adjusted post-consolidation basis. Refer to note 16 for further details.

**COVID-19**

In March 2020, COVID-19 resulted in governments worldwide enacting emergency measures to combat the spread of the virus. These measures include the implementation of travel bans, self-imposed quarantine periods, social distancing, vaccine mandates and temporary closures of non-essential businesses. Subsequently, in November 2020 and April 2021, the Government of Ontario announced lockdowns through Ontario, in efforts to combat COVID-19. No other provincial or territorial government has ordered the closure of any of the Company's operations in response to COVID-19, though several provincial and municipal governments have imposed restrictions on occupancy limits and/or sales in physical retail stores or implemented vaccine mandates for customers in certain regions.

Since the outset of the pandemic in March 2020, the Company has reacted to this unprecedented public health challenge by i) rapidly commissioning a Pandemic Response Team focused on keeping its employees safe and healthy while ensuring the continuity and sustainability of its business; ii) implementing enhanced in-store procedures including increased and frequent cleaning, installation of safety shields, reduction of paper materials and ceasing acceptance of cash or product returns; iii) monitoring store performance, shopping patterns and employee availability on an ongoing basis to optimize operating hours and selectively close stores where required by law or otherwise appropriate to enhance the productivity of the network under the circumstances; iv) temporarily adapting its business model by moving towards exclusively servicing stores through the Spark Fastlane™ "click-and-collect" service that enables customers to order products online for fast pickup and payment in store; and v) offering curbside pick-up and delivery options in British Columbia, Saskatchewan and Ontario.

Since the initial outset of the pandemic in mid-March 2020 to the current fiscal year end January 29, 2022, the Company did not experience a significant decline in sales. However, it is not possible to reliably estimate future impacts, if any, on the financial results and condition of the Company. The Company is continually monitoring and assessing new information and recommendations from health and government authorities as it becomes available and will continue to respond accordingly.

## 2. BASIS OF PRESENTATION

**Statement of Compliance**

The Company's audited consolidated financial statements for the fiscal years ended January 29, 2022 and January 30, 2021 ("Consolidated Financial Statements"), have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

These Consolidated Financial Statements were authorized for issuance by the Board of Directors on April 25, 2022.

**Basis of Preparation**

The consolidated financial statements have been prepared on a going concern basis using the historical cost basis except for certain financial instruments that are measured at fair value. The policies applied in these consolidated financial statements are based on IFRS standards, which have been applied consistently to all periods presented, unless otherwise stated.

**Functional and Presentation Currency**

These consolidated financial statements are presented in Canadian dollars which is the Company's presentation currency. The functional currency of each entity is measured using the currency of the primary economic environment in which the entity operates. The functional currency of the Company's subsidiaries in Canada and the United States is the Canadian dollar and U.S. dollar, respectively.

**Reclassification of Comparative Amounts**

Certain amounts in the prior year have been reclassified to conform to the current year's presentation. Reclassified amounts were not material to the consolidated financial statements and relate to the classification within Selling, General and Administrative expenses to include share-based compensation, marketing and promotion, and acquisition and business development costs, which were presented separately on the statements of loss and comprehensive loss in the prior year (Note 18).

The presentation of revenue amounts in the prior year has been aggregated into one line on the consolidated statements of loss and comprehensive loss under the current year's presentation. Refer to Note 26 for the disclosure of disaggregated revenues consistent with the prior year's revenue by segment.

The subtotal of Loss from operations and the line item, total other income (expenses) which were previously presented separately in the consolidated statements of loss and comprehensive loss in the prior year have been eliminated to conform as management determined that the subtotal was no longer relevant to an understanding of the company's financial performance.

**Fiscal Year**

The fiscal year of the Company consists of a fifty-two or fifty-three week period ending on the Saturday closest to January 31. Fiscal year 2021 represents the fifty-two weeks ended January 29, 2022 with a comparative fiscal year 2020 consisting of the fifty-two weeks ended on January 30, 2021. References to years in the consolidated financial statements relate to fiscal year rather than calendar year. The fiscal years ended January 29, 2022 and January 30, 2021 are referred to as "2021" and "2020", respectively.

## 3. PRINCIPLES OF CONSOLIDATION

**Basis of Consolidation**

Each subsidiary is fully consolidated from the date of acquisition, being the date on which the Company obtains control, and continues to be consolidated until the date when such control ceases. Control exists when the Company has the existing rights that give it the current ability to direct the activities that significantly affect the entities' returns. Transactions and balances between the Company and its consolidated entities have been eliminated on consolidation.

(In thousands of Canadian Dollars, unless otherwise noted)

The consolidated financial statements include the accounts and results of operations of the Company and its wholly owned subsidiaries listed in the following table:

| Entity Legal Name | Principal Activity | Place of Incorporation | Ownership Interest as at | |
|---|---|---|---|---|
| | | | January 29, 2022 | January 30, 2021 |
| Fire & Flower Holdings Corp. | Parent & Holding Company | Canada | **Parent Company** | Parent Company |
| **Significant subsidiaries:** | | | | |
| Fire & Flower Inc. | Retail Operations | Canada | **100%** | 100% |
| 10926671 Canada Ltd. (o/a Open Fields Distribution) | Wholesale Distribution and Fulfillment | Canada | **100%** | 100% |
| Hifyre Inc. | Digital Platform | Canada | **100%** | 100% |
| 11180703 Canada Inc. | Holding Company | Canada | **100%** | 100% |
| Friendly Stranger Holdings Corp. | Retail Operations | Canada | **100%** | 100% |
| Hifyre US, Inc. | Holding Company | Delaware | **100%** | N/A |
| 13318184 Canada Inc. | Holding Company | Canada | **100%** | N/A |
| PGED Corp. (1) | Digital Platform | Delaware | **100%** | N/A |
| Pineapple Express Delivery (1) | Delivery Operations | Canada | **100%** | N/A |

(1) *Acquired businesses during the current fiscal year ended January 29, 2022. Refer to note 7 for further details.*

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### a) Cash and Cash Equivalents, Short-term Investments

Cash and cash equivalents include cash deposits in financial institutions and other short-term deposits that are readily convertible into cash. short-term deposits with maturity dates greater than 90 days and less than 365 days are classified as short-term investments.

Interest income is earned on the Company's cash deposits, short-term investments in High Interest Savings Accounts and Guaranteed Investment Certificates.

### b) Inventory

Inventory is valued at the lower of cost and net realizable value.

Cost is determined using the average cost method. Costs are comprised of all variable costs, and certain fixed costs, incurred in bringing inventories to the location and condition necessary for sale to customers. Storage and administrative overheads are expensed as incurred. Supplier rebates and discounts are recorded as a reduction in the cost of goods sold.

Net realizable value is determined as the estimated selling price in the ordinary course of business and the estimated costs necessary to make the sale. Inventories are written down to net realizable value when the cost of inventories is estimated to be unrecoverable due to obsolescence, damage or declining selling prices.

### c) Property, Plant and Equipment

Property, plant and equipment is measured at cost less accumulated depreciation and any accumulated impairment losses. Cost includes expenditures that can be directly attributed to the acquisition or construction of the asset as well as the costs directly attributable to bringing the asset to the location and condition necessary for its use in operations.

Depreciation is calculated on a straight-line basis to allocate the cost of the asset, less any residual value, over its estimated useful life. Depreciation is accounted for using the following terms and methods:

| Fixed Asset | Method | Depreciation Periods |
|---|---|---|
| Land | Non-Depreciable | Non-Depreciable |
| Buildings | Straight-Line | 20 years |
| Leasehold Improvements | Straight-Line | Shorter of initial lease term and 10 years |
| Computer, Hardware and Software, and Equipment | Straight-Line | 5 years |
| Signage and Displays | Straight-Line | 3 years |
| Vehicles | Straight-Line | 5 years |
| Furniture and Fixtures | Straight-Line | 5 years |

Depreciation commences once the acquired asset is available for use or, in the case of leasehold improvements, at the later of that date and commencement of the lease of the property to which the leasehold improvement relates to.

An asset's residual value, useful life and depreciation method are reviewed at the end of each financial reporting period and adjusted where appropriate.

Gains and losses on disposal are determined by comparing the proceeds from disposal with the carrying amount of the fixed asset and are recognized in the Consolidated statement of loss and comprehensive loss.

### d) Leases

At lease possession date, the Company recognizes a right-of-use asset and a lease liability on the balance sheet. The right-of-use asset is measured at cost, which is made up of the initial measurement of the lease liability, any lease payments made in advance of the lease commencement date (net of any incentives received), initial direct costs, and any restoration costs of the underlying asset.

The Company depreciates the right-of-use assets on a straight-line over the estimated lease term. The lease term reflects the period over which the lease payments are reasonably certain including renewal options that the Company is reasonably certain to exercise. The Company also assesses the right-of-use asset for impairment when such indicators exist.

At the possession date, the Company measures the lease liability at the present value of the lease payments unpaid at that date, discounted using the Company's incremental borrowing rate. Lease payments included in the measurement of the lease liability are made up of fixed payments (including in substance fixed) and variable lease payments that are based on an index or rate. Subsequent to initial measurement, the liability will be reduced for payments made and increased for interest. It is remeasured to reflect any reassessment or modification, or if there are changes in in-substance fixed payments. When the lease liability is remeasured, the corresponding adjustment is reflected in the right-of-use asset, or in the Consolidated statement of loss and comprehensive loss if the right-of-use asset is already reduced to zero.

Variable lease payments that are not based on an index or a rate are not included in the measurement of both the lease liabilities and right-of-use assets. The related liabilities are recognized as an expense in the period in which the conditions that trigger those payments occur and are recorded as general and administrative expenses in the consolidated statement of income/loss.

The Company has elected to account for short-term leases that have a lease term of 12 months or less and leases of low-value assets using the practical expedients. Instead of recognizing a right-of-use asset and lease liability, the payments in relation to these are recognized as an expense in the Consolidated statement of loss and comprehensive loss on a straight-line basis over the lease term.

### e) Intangible Assets and Goodwill

Intangible assets with finite useful lives are carried at cost less accumulated depreciation and accumulated impairment losses. The estimated useful life and depreciation method are reviewed at the end of each financial reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

Estimated useful lives are as follows:

| Intangible Assets | Method | Depreciation Periods |
|---|---|---|
| Licenses | Straight-Line | Over estimated lease term of associated location. (1) |
| Trademarks, Subscriber & Customer Relationships | | |
| Trademarks, Tradenames and Patents | Straight-Line | 15 years |
| Acquired Customer Lists | Straight-Line | 5 years |
| Subscriber Relationships | Straight-Line | 5 years |
| Software and Platform Related Technology | | |
| Capitalized Software Development | Straight-Line | 5 years |
| Platform Related Technology | Straight-Line | 5 years |

*(1) Shorter of initial lease term and 10 years.*

Costs associated with maintaining Software and Platform Related Technology are recognized as an expense as incurred. Development costs that directly contribute to the design and testing of identifiable and unique products controlled by the Company, including directly attributable employee costs, are recognized as intangible assets.

Amortization commences once the acquired asset is available for use or, in the case of patents or trademarks, on the date the license is acquired.

Goodwill represents the excess of the purchase price paid for the acquisition of subsidiaries over the fair value of the net tangible and intangible assets acquired. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Other indefinite life intangible assets are measured at cost less any accumulated impairment losses.

### f) Impairment of Non-Financial Assets

Non-financial assets, including property, plant and equipment, right-of-use assets, and intangible assets are reviewed for impairment if events or changes in circumstances indicate that they might be impaired. Management evaluates for indicators of impairment at the end of each financial reporting period. If any such indications exist, the asset's recoverable amount is estimated and compared to its carrying amount.

The Company assesses whether there is an indication that intangible assets are impaired at every reporting period. This assessment includes a review of the Company's current and expected performance, market conditions and trends, changes in regulatory environment, among other factors. If any indication of impairment exists, the Company estimates the recoverable amount of the asset or cash-generating unit ("CGU") to which the asset relates to determine the extent of any impairment loss. A CGU is the lowest level of a group of assets for which there are separately identifiable cash flows. The recoverable amount is the higher of an asset or CGUs fair value less costs of sale ("FVLCS") and its value in use ("VIU") to the Company. If the recoverable amount of an asset or a CGU is estimated to be less than its carrying amount, the carrying amount is reduced to its recoverable amount. An impairment charge is recognized immediately in the statements of loss and comprehensive loss.

Goodwill and intangible assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired.

The recoverable amount of an asset or cash-generating-unit is the higher of an asset's FVLCS and VIU. VIU is estimated as the present value of the future cash flows that the Company expects to derive from the asset or CGU. The Company determines FVLCS using market-based information. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generate cash inflows from continuing use that are largely independent of the cash flows of other assets or groups of assets, defined as a CGU.

Corporate assets, which include head office facilities do not generate separate cash inflows. Corporate assets are tested for impairment at the minimum grouping of CGUs to which the corporate assets can be reasonably and consistently allocated. When the carrying amount of the asset exceeds the recoverable amount, the excess amount is recognized as an impairment charge in the Consolidated statement of loss and comprehensive loss. Impairment losses recognized in respect of CGUs are allocated to reduce the carrying amount of the assets in the unit (group of units) on a pro rata basis.

Impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed, with the exception of goodwill and indefinite lived intangible assets, if there has been a change in estimates used to determine the recoverable amount. Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the lesser of the revised estimate of recoverable amount and the carrying amount that would have been recorded had no impairment loss been previously recognized.

**g) Provisions**

Provisions, including those for onerous contracts, legal claims, and restructuring events are recognized when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated. Provisions are measured based on management's best estimate of the expenditure required to settle the obligation at the end of the reporting period and are discounted to present value where the effect is material.

The Company performs evaluations to identify onerous contracts and legal claims and, where applicable, records provisions for such items. A provision for onerous contracts is recognized when the unavoidable costs of meeting the obligations under a contract exceed the economic benefits expected to be received from the contract.

Actual costs and timing of future cash flows are dependent on future events; thus, any variance between estimates and the actual future liability will be accounted for in the period when such determination is made. Recoveries from third parties and other contingent gains are recognized when realized.

Restructuring provisions are recognized only when a detailed formal plan for the restructuring exists and either the plan has commenced, or the plan's been announced internally and with the board of directors. A formal plan usually includes the identification of principal locations affected, details regarding the employees affected and timing of the planned restructuring, and the expenditures that will have to be undertaken.

**h) Foreign Currency Translation**

The functional currency of the Company's subsidiaries in Canada and the United States is the Canadian dollar and U.S. dollar, respectively. The Company's reporting currency is in Canadian dollars. Transactions undertaken in foreign currencies are translated into the Canadian dollars at daily exchange rates prevailing when the transactions occur. Monetary assets and liabilities denominated in foreign currencies are translated at period-end exchange rates and non-monetary items are translated at historical exchange rates. Realized and unrealized exchange gains or losses are recognized in the consolidated statement of loss and other comprehensive loss in the period in which they arise.

The assets and liabilities of foreign operations that have a functional currency different from that of the Company are translated into Canadian dollars using the period-end exchange rates in effect at the consolidated balance sheet date. Income, expenses and cash flows of foreign operations are translated into Canadian dollars using average exchange rates of the period that approximate the rates in effect at the dates which such items are transacted. The resulting exchange differences from the translation of foreign operations into Canadian dollars are recognized in accumulated other comprehensive loss.

**i) Business Combinations**

The Company applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair value of the assets given, equity instruments issued, and liabilities incurred or assumed at the date of acquisition.

Identifiable assets acquired, and liabilities assumed are measured at their fair values at the acquisition date.

The Company expenses acquisition-related expenses as incurred.

Any contingent consideration to be transferred by the group is recognized at fair value as at the acquisition date. Subsequent changes to the fair value of the contingent consideration are recognized either in the Consolidated statement of loss and comprehensive loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not re-measured, and its subsequent settlement is accounted for within equity.

Goodwill is initially measured as the excess of the aggregate of the consideration transferred over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognized in the Consolidated statement of loss and comprehensive loss.

### j) Revenue Recognition

For its three major revenue segments, retail merchandise, wholesale distribution, and digital development, the Company recognizes revenue when control of goods or services is transferred to a customer.

Revenue is measured at the fair value of the consideration received or receivable from customers for the sale of goods and services provided by the Company, net of promotional discounts, estimated returns and sales taxes.

*Retail merchandise sales*

Revenue consists of sales through the Company's network of retail stores and includes sales through the Company's e-commerce platform. Merchandise sales through retail stores are recognized at the time of delivery to the customer which is generally at the point of sale. Merchandise sales through the Company's e-commerce operations are recognized on the date of receipt by the customer.

*Wholesale distribution sales*

Revenue from sales to customers through the Company's Wholesale Distribution segment are recognized when control of the goods has transferred to the customer. Where the Company arranges the shipping of goods, revenue is generally recognized on the date the goods are shipped from the Company's warehouse (FOB shipping point). Where the customer arranges for the pickup of goods, revenue is recognized at the time the goods are transferred to the customer's carrier. Costs to ship orders to customers are included as an expense in cost of goods sold.

*Digital platform revenue*

Revenue from the Hifyre™ Digital Platform are earned primarily through subscription services, listing services and some custom software development services. Revenue from subscription services and listing services are recognized over the term of the contract. Revenue from custom software development is recognized as the services are performed. As it relates to the transaction price, customers can enter into fixed, variable or a combination thereof of fee contracts. For variable fee contracts, as the revenue is recognized over time, which reflects the period over which services are performed based on the number of labor hours incurred, there is no requirement to estimate variable consideration at the inception of the contract. Fixed contract fees are recognized over the term of a contract, under a monthly billing cycle. The performance obligation is fulfilled when the data and services agreed upon with the customer are transferred to the customer at the end of each month. From time to time, the Company will advance bill the customer prior to the completion of the performance obligation which would result in deferred revenue being recognized on the Consolidated statement of financial position.

### k) Cost of Goods Sold

Cost of goods sold expenses for the Company's retail and wholesale distribution operations includes cost of inventory, packaging costs and shipping costs.

Cost of goods sold expenses for the Company's digital operations includes all costs attributable to the generation of digital platform revenues.

### l) Research and Development

Expenditures related to research activities are expensed as incurred. Expenditures during the development phase are capitalized if certain criteria, including technical feasibility and intent and ability to develop and use or sell the technology, are met; otherwise, they are expensed as incurred.

**m) Income Taxes**

The Company is subject to income, value added, withholding and other taxes, and their determination of liabilities requires interpretation of the respective jurisdictions' laws and regulations.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. In assessing the probability of realizing income tax assets recognized, management makes estimates related to expectations of future taxable income, applicable tax planning opportunities, expected timing of reversals of existing temporary differences, and the likelihood that tax positions taken will be sustained upon examination by applicable tax authorities. In making its assessments, management gives additional weight to positive and negative evidence that can be objectively verified. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Current tax and deferred tax are recognized in the Consolidated statement of loss and comprehensive loss except to the extent that it relates to items recognized directly in equity or in other comprehensive income.

All tax related filings are subject to government audit and potential reassessment subsequent to the financial statement reporting period. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the tax related accruals and deferred income tax provisions in the period in which such determination is made.

**n) Share Capital**

Common shares are classified as equity. Incremental costs directly attributable to the issuance of common shares and warrants are recognized as a reduction to equity, net of any tax effects. Share capital issued for non-monetary consideration is recorded at an amount based on estimated fair market value of the shares on the date of issue.

**o) Share-based Payments**

Equity settled share-based payments are measured at their fair value on the date of grant using the Black-Scholes model. Stock options are recognized as compensation expense on a graded vesting basis over the period in which the options vest. At the end of each reporting period, the Company revises its estimate of the number of equity instruments expected to vest. Forfeitures are estimated for each reporting period and adjusted as required to reflect actual forfeitures that have occurred in the period.

The impact of the revision of the original estimates, if any, is recognized in the Consolidated statement of loss and comprehensive loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to contributed surplus. When stock options or warrants expire after vesting, the recorded value remains in contributed surplus.

For stock options and warrants granted to non-employees, the compensation expense is measured at the fair value of goods or services received. If the fair value cannot be reasonably estimated, compensation expense is measured at the fair value of the equity instruments granted and measured at the date the Company obtains goods or services rendered.

Where the terms and conditions of options are modified, the increase or decrease in the fair value of the options, measured immediately before and after the modification, is charged to the Consolidated statement of loss and comprehensive loss over the remaining vesting period.

Consideration paid by employees or non-employees on the exercise of stock options and warrants are recorded as share capital and the related share-based payment expense is transferred from contributed surplus or warrant reserve, respectively, to share capital.

**p) Earnings or Loss per Share**

Basic earnings (loss) per share is calculated by dividing the net earnings (loss) by the weighted average number of common shares outstanding during the year.

Diluted earnings (loss) per share reflect the potential dilutive effect that could occur if additional common shares were assumed to be issued under securities or instruments that may entitle their holders to obtain common shares in the future. Dilution could occur through the exercise of stock options, the exercise of warrants, and the exercise of the conversion option of convertible debentures. The number of additional shares for inclusion in the diluted earnings (loss) per share calculation is determined using the treasury stock method.

**q) Financial instruments**

The following table summarizes the classification of the Company's financial instruments under IFRS 9 Financial Instruments ("IFRS 9"):

| Financial Instrument | Classification under IFRS 9 |
|---|---|
| Cash and cash equivalents | Amortized cost |
| Restricted cash | Amortized cost |
| Trade account receivables | Amortized cost |
| Accounts payable and accrued liabilities | Amortized cost |
| Convertible debentures & loans | Amortized cost |
| Derivative liability | Fair value through profit or loss |

*Financial assets*

The classification of financial assets is based on the Company's assessment of its business model for holding financial assets and the contractual terms of the cash flows. The classification categories are as follows:

- Financial assets measured at amortized cost: assets that are held within a business model whose objective is to hold assets to collect contractual cash flows and its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.
- Financial assets at fair value through other comprehensive income ("FVOCI"): assets that are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.
- Financial assets at fair value through profit or loss ("FVTPL"): assets that do not meet the criteria for amortized cost or FVOCI.

Financial assets measured at amortized cost are measured at cost using the effective interest method.

Financial assets are derecognized when the contractual rights to the cash flows from the financial asset expire or when the contractual rights to those assets are transferred. Cash, short-term deposits, restricted cash, short-term investments and accounts receivable has been classified as amortized cost.

*Financial liabilities*

The classification of financial liabilities is determined by the Company at initial recognition. The classification categories are as follows:

- Financial liabilities measured at amortized cost: financial liabilities initially measured at fair value less directly attributable transaction costs and are subsequently measured at amortized cost using the effective interest method. Interest expense is recognized in the consolidated statement of loss and comprehensive loss.
- Financial liabilities measured at fair value through profit or loss: financial liabilities measured at fair value with changes in fair value and interest expense recognized in the consolidated statement of loss and comprehensive loss.

A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expires with any associated gain or loss recognized in other income or expense in the consolidated statements of loss and comprehensive loss.

The impact of amendments to terms of financial instruments such as debentures and loans are assessed to determine if the change is a modification or an extinguishment. The Company reviews both quantitative and qualitative factors in determining whether the changes in terms are substantial and extinguishment accounting is required. Qualitative factors involve assessing whether the amendments represent a significant change in the terms and conditions of the instruments, including changes in conversion price, settlement options or introducing variability in such terms such that the accounting treatment of the instrument changes. A gain or a loss is recorded in the Consolidated statement of loss and comprehensive loss related to the modification or extinguishment. Under extinguishment accounting, the old instrument is derecognized and the amended instruments are recognized at the estimated fair value of the date the amendment was substantially effective.

**r) Impairment of financial assets carried at amortized cost - expected credit loss allowances**

At each reporting date, the Company assesses whether a financial asset or group of financial assets is impaired under the expected credit loss ("ECL") model. Loss allowances are measured based on (i) ECLs that result from possible default events within the 12 months after the reporting date ("12-month ECL"), or (ii) ECLs that result from all possible default events over the expected life of a financial instrument ("lifetime ECLs").

For trade account receivables, the Company applies the simplified approach and has calculated ECLs based on lifetime ECLs. Where information exists, the Company establishes a loss rate based on historical normalized credit loss experience. The loss rate is based on the payment profiles and aging of trade receivables and is adjusted to reflect current and forward-looking information on macroeconomic factors.

The amortized cost of the financial asset is reduced by impairment losses at an amount equal to the lifetime expected credit losses. Loss allowances for financial assets measured at amortized cost are deducted from the gross carrying amounts of the assets and the loss is recognized in the consolidated statements of loss and comprehensive loss. When a trade receivable is uncollectible, it is written off against the allowance for doubtful accounts.

## 5. NEW STANDARDS AND INTERPRETATIONS

**New Standards Adopted**

*Amendments to IFRS 9, IAS 39, IFRS 7 and IFRS 16 Interest Rate Benchmark Reform*

Interbank Offered Rates ("IBORs") reform is the market-wide reform of interest rate benchmarks in which some IBORs are replaced with alternative risk-free rates. The amendments revise the existing requirements for hedge accounting and are designed to support the provision of useful financial information by companies during the period of uncertainty arising from the phasing out of interest-rate benchmarks such as Interbank Offered Rates.

To address the impact IBOR reform has on financial reporting, in August 2020, the IASB issued Interest Rate Benchmark Reform—Phase 2, which amends IFRS 9, Financial Instruments, IAS 39, Financial Instruments: Recognition and Measurement, IFRS 7, Financial Instruments: Disclosures, IFRS 4, Insurance Contracts and IFRS 16, Leases. These amendments became effective for annual periods beginning on or after January 1, 2021.

Phase 2 amendments provide certain practical reliefs related to modifications of financial instruments or hedging relationships triggered by a replacement of a benchmark interest rate in a contract with a new alternative benchmark rate.

The Company assessed the impacts of the IBOR reform on its financial instruments and hedging relationships. As a result, the Company is not immediately impacted by the IBOR reform. The Company will continue to monitor future developments of Canadian Dollar Offered Rate ("CDOR") and other applicable benchmark interest rates, and will elect the practical reliefs relating to financial instruments and hedges when applicable.

**Standards, amendments and interpretations issued as of January 29, 2022 that are not yet effective**

A number of new and amendments to accounting standards are effective for the Company for annual periods beginning on or after January 30, 2022 and earlier application is permitted. However, the Company has not early adopted the new or amended standards in preparing these consolidated financial statements. The following are relevant new and amended standards. The Company has not yet determined the impact of these amendments on its consolidated financial statements.

*Amendments to IAS 1 Presentation of Financial Statements ("IAS 1")*

In January 2020, the IASB issued an amendment to IAS 1, which affects the presentation of liabilities in the statement of financial position and not the amount or timing of their recognition. The amendments clarify that the classification of liabilities as current or non-current should be based on rights that are in existence at the end of the reporting period and align the wording in all affected paragraphs to refer to the right to defer settlement by at least 12 months. That classification is unaffected by the likelihood that an entity will exercise its deferral right. The amendments are effective for annual periods beginning on or after January 1, 2023 and are to be applied retrospectively. The Company is still assessing the impact of adopting these amendments on its consolidated financial statements.

*Amendments to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors ("IAS 8")*

Amendments to IAS 8 in February 2021, IASB issued Definition of Accounting Estimates, which amends IAS 8. The amendment replaces the definition of accounting estimates. Under the new definition, accounting estimates are "monetary amounts in financial statements that are subject to measurement uncertainty." The amendment provides clarification to help entities to distinguish between accounting policies and accounting estimates. The amendments are effective for annual reporting periods beginning on or after January 1, 2023. The Company is still assessing the impact of adopting these amendments on its consolidated financial statements.

*Amendments to IAS 12 Deferred Tax related to Assets and Liabilities arising from a Single Transaction ("IAS 12")*

The amendment narrowed the scope of certain recognition exemptions so that it no longer applies to transactions that, on initial recognition, give rise to equal taxable and deductible temporary differences. An entity applies the amendments to transactions that occur on or after the beginning of the earliest comparative period presented. It also, at the beginning of the earliest comparative period presented, recognizes deferred tax for all temporary differences related to leases and decommissioning obligations and recognizes the cumulative effect of initially applying the amendments as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) at that date. The amendment is effective for annual periods beginning on or after January 1, 2023 with early application permitted. The Company is currently evaluating the potential impact of these amendments on the Company's consolidated financial statements.

*Amendments to IAS 37 Onerous Contracts and the Cost of Fulfilling a Contract ("IAS 37")*

The amendment specifies that the 'cost of fulfilling' a contract comprises the 'costs that relate directly to the contract'. Costs that relate directly to a contract can either be incremental costs of fulfilling that contract or an allocation of other costs that relate directly to fulfilling contracts. The Company applied the standard prospectively from January 31, 2021. The amendments to the definition of material did not have a significant impact on the consolidated financial statements.

## 6. 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, income and expenses. Actual results may differ from these estimates, and these differences could be material. 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.

**a) Business acquisitions**

For business acquisitions, the Company applies judgment on the recognition and measurement of assets acquired and liabilities assumed, and estimates are utilized to calculate and measure such adjustments. The excess, if any, of the fair value of consideration over the fair value of the net identifiable assets acquired is recognized as goodwill.

The determination of acquisition date fair values often requires management to make assumptions and estimates about future events. The assumptions with respect to the fair value of intangible assets requires a high degree of judgment and include estimates for future operating performance, discount rates, technology migration factors and terminal value rates. The Company's business acquisitions, including fair value estimates and judgments, are described under Note 7.

**b) Provisions**

The recognition of provisions requires management to make certain judgements regarding whether there is a present legal or constructive obligation as a result of a past event, it is probably that the Company will be required to settle the obligation and if a reliable estimate of the amount of the obligation can be made. Provisions are reviewed on an ongoing basis and are adjusted accordingly when new facts and events become known to the Company. Due to the judgmental nature of these items, settlement of provisions may differ from amounts recognized.

**c) Income taxes**

The calculation of current and deferred income taxes requires management to make certain judgements regarding the tax rules in jurisdictions where the Company performs activities. Judgement is required regarding the classification of transactions and in assessing probable outcomes of claimed deductions including expectations of future operating results, the timing and reversal of temporary differences, likelihood of utilizing deferred tax assets and possible audits of income tax and other tax filings to tax authorities.

**d) Recoverable amounts and impairment**

Management assesses impairment of non-financial assets such as intangible assets, goodwill, property, plant and equipment, and ROU assets on a periodic basis. When impairment indicators are noted, management estimates the recoverable amount of each asset or CGU based on a VIU model, using expected future cash flows, or a FVLCS model, using recent sales data or appraisal reports. Under a VIU model, when measuring expected future cash flows, management makes assumptions about future growth of profits of CGU locations which relate to future events and circumstances. Actual results could vary from these estimated future cash flows.

Impairment losses on the consolidated financial statements are further described in Note 19.

**e) Convertible debentures**

Management applies judgment in identifying the components and determining their inception fair value for the purpose of allocating the proceeds to the component(s) of its convertible debentures. Management applies assumptions and estimates when using the Black-Scholes, Monte-Carlo, and Trinomial simulation valuation models used to estimate fair value for such derivatives. These assumptions and estimates require a high degree of judgment and a change in these estimates may result in a material effect to the consolidated financial results. The judgments and estimates are described under Note 15.

**f) Lease term**

Lease term reflects the period over which the lease payments are reasonably certain including renewal options that the Company is reasonably certain to exercise. The determination of lease terms involves significant judgment with respect to assumptions of whether lease extensions will be utilized. Management makes assumptions about long-term industry outlook and store operating performances and growth which relate to future events and circumstances. Actual results could vary from these assumptions, and the differences could be material to the carrying value of the lease liabilities and ROU assets (which use lease term as the basis for determining useful life).

### g) Incremental borrowing rate

The incremental borrowing rates are based on judgments including the Company's own credit risk, economic environment, term, and risks specific to the underlying assets. The carrying balance of the ROU, lease liabilities, and the resulting amortization and finance expenses, may differ due to changes in the Company's own credit risk, market conditions and lease term. Refer to note 4 for estimates with respect to incremental borrowing rate applied in lease liability calculations.

### h) Share-based payments and warrants fair values

The Company applies the Black-Scholes valuation technique for fair valuing stock options and share purchase warrants that are classified as equity instruments. The key estimate in these models relates to future volatility assumptions, which uses both Company and peer company share price data. Volatility assumptions and estimates require judgment given limited history of Company and industry share price and operating performance data. Changes in these assumptions may affect the fair value estimates of stock options and share purchase warrants. Refer to note 16 for details of valuation model inputs applied for these instruments.

The Company has also issued warrants as part of a strategic investment transaction with a key investor, that were classified as a derivative liability due to a variable exercise price range and is fair valued using Monte-Carlo simulation valuation technique. Key estimates and sensitivity of unobservable inputs (volatility) are described under Note 15.

### i) Segment information

The Company uses judgment in determining its reportable segments based on how the Chief Operating Decision Makers ("CODMs") reviews information and assesses segment operating income or loss when making strategic decisions. Segment operating income or profit is calculated as segment gross profit less segment selling, general and administrative expenses. The Company's reportable segments, organized based on products and services, are as follows: (1) The Retail segment which sells cannabis products and accessories to the adult-use market in provinces where the sale of cannabis by private retailers is legal, and operates under retail banners Fire & Flower™, Friendly Stranger™, Happy Dayz™, and Hotbox™; (2) The Wholesale Distribution segment which distributes cannabis products and accessories; and (3) The Digital Platform segment which sells products and services provided by the Hifyre™ digital and analytics platform, PotGuide content platform and Pineapple Express Delivery develops digital experiences and retail analytical insights. The CODMs are the Chief Executive Officer, Chief Financial Officer and Chief Innovation Officer.

During the fiscal year ended January 29, 2022, certain departmental costs previously presented under the Retail segment and their allocation to the other business lines and corporate segments were updated to better reflect how the Company services its customers and markets.

## 7. ACQUISITIONS

**Acquisitions Completed in the Current Fiscal Year**

**a) Business Acquisition of Pineapple Express Delivery Inc.**

On December 9, 2021, the Company entered into a definitive agreement ("the Agreement") to acquire Pineapple Express Delivery Inc. ("Pineapple Express Delivery"). The transaction closed effective January 21, 2022. Pursuant to the Agreement, the total purchase for the acquisition of Pineapple Express Delivery paid by the Company was comprised of (i) assumption and repayment of $5,049 in debt (ii) issuance of 313,708 common shares with an aggregate value of $1,405, based on the share price at the date of acquisition; and (iii) contingent consideration of $3,761 consisting of 839,436 common shares held in escrow. As at January 29, 2022, 839,436 common shares were held in escrow in relation to the share consideration issued for the acquisition, subject to certain adjustments in accordance with the terms of the Agreement and Pineapple Express Delivery achieving certain performance-based milestones in the fiscal 2022 year. As the release of the 839,436 common shares held in escrow are not dependent on continued employment by the seller, the amount is included as part of the consideration paid for the business combination. For accounting purposes, the common shares issued as contingent consideration were fair valued at $3,761 based on the close price on the TSX on the date of acquisition and also factored in the probability of the contingent consideration becoming payable.

Pineapple Express Delivery is licensed to deliver cannabis and other regulated products including transportation and delivery of medical and recreational products in Ontario, Manitoba, Saskatchewan and British Columbia. Pineapple Express Delivery has partnered with BC Cannabis Stores to provide next business day delivery in the Metro Vancouver region through BC Cannabis Stores' e-commerce website.

In accordance with IFRS 3, the substance of this acquisition constituted a business combination as the group of assets acquired, along with the processes and outputs, were determined to have met the definition of a business under the standard. Accordingly, the assets acquired, have been recorded at their respective estimated fair values as of the acquisition date, January 21, 2022. The goodwill on the acquisition is attributable to synergies expected to be achieved from integrating Pineapple Express Delivery into the group of Retail and Digital CGUs. Refer to note 13 for further details.

(In thousands of Canadian Dollars, unless otherwise noted)

The estimated fair value of the identifiable assets and liabilities acquired, and the consideration paid is detailed below:

| **Consideration paid** | |
|---|---|
| | $ |
| Common shares issued | 1,405 |
| Contingent consideration | 3,761 |
| Assumption of debt | 5,049 |
| **Total consideration** | **10,215** |

| **Identifiable assets (liabilities) acquired** | |
|---|---|
| | $ |
| Cash & cash equivalents | 122 |
| Prepaids | 261 |
| Property, plant and equipment | 797 |
| Receivables and other assets | 962 |
| Accounts payable and accrued liabilities | (1,627) |
| Intangible assets - customer relationships (note 13) | 890 |
| Intangible assets - software and platform related technology (note 13) | 741 |
| Right-of-use assets | 961 |
| Lease liabilities | (1,053) |
| Deferred tax liability | (382) |
| Goodwill | 8,543 |
| **Total identifiable net assets and goodwill** | **10,215** |

The estimated fair value of the material intangible assets was determined using the following methods:

- Customer relationships – Multiple period excess earnings method ("MEEM Method"); and
- Software and platform related technology – Replacement Cost method.

Significant judgments and areas of estimations in these valuations related to the following:

- Under the MEEM Method, Inputs in the 5-year financial projections included a 2% terminal value growth rate. The 5-year revenue projections reflect the expected expansion of delivery services into new provinces and the growth in the medical delivery program.
- Discount rate of 17% across the valuation methods. The discount rate was based on the cost of equity and weighted average cost of capital (utilized in the MEEM Method), and the estimated rate of return for companies of comparable size and other risk factors (utilized in the Corroborative Income approach).

The Company recognized deferred tax liabilities associated with the customer relationships and software and platform related technology. The deferred tax liability resulted in an additional goodwill amount of $382.

Changes in these assumptions may affect the fair value estimates determined for these intangibles and a reallocation of purchase price to or from the amount recognized for goodwill. The goodwill arising from the acquisition of Pineapple Express Delivery represents synergies to be realized by integrating its operations and technologies with the Company's retail network and Hifyre digital platform and will allow the Company to service the market end-to-end through customer acquisition, product discovery and delivery.

If the transaction had closed on January 31, 2021, the Company estimates proforma revenue and proforma loss from operations would have increased by approximately $10,286 and $2,992, respectively for the fiscal year ended January 29, 2022.

Due to the timing of the acquisition, the Company has not finalized the assessment of the fair value of the net assets acquired and, as a result, the working capital balances, deferred taxes and the fair value assessments for intangible assets may be subject to adjustments pending close of the purchase price, final valuations and post-closing adjustments. Differences between the preliminary purchase price allocations and the final purchase price allocation accounting may occur. Adjustments, including purchase consideration finalization, will be finalized within twelve (12) months from the acquisition date.

Acquisition costs of $67 arose as a result of the transaction, which were recognized in the Consolidated statement of loss and comprehensive loss.

**b) Business Acquisitions of PotGuide and Wikileaf**

*Wikileaf Business Acquisition*

On August 3, 2021, the Company entered into an asset purchase agreement (the "Wikileaf APA") with Wikileaf Technologies Inc. and certain subsidiaries ("Wikileaf"). The transaction closed effective September 15, 2021. Pursuant to the Wikileaf APA, the Company acquired certain digital assets, including the website domain, and intellectual property rights from Wikileaf for a total purchase consideration of $7,500, by issuing 801,710 common shares of the Company which was based on the Company's 10-day volume weighted average price on the TSX as of the date of agreement. For accounting purposes, the shares were fair valued at $7,296 based on the close price on the TSX on the date of acquisition.

In accordance with IFRS 3, the substance of this acquisition constituted a business combination as the group of assets acquired, along with the processes and outputs, were determined to have met the definition of a business under the standard. Accordingly, the assets acquired, have been recorded at their respective estimated fair values as of the acquisition date, September 15, 2021. The goodwill on the acquisition is attributable to synergies expected to be achieved from integrating Wikileaf into the group of Retail and Digital CGUs. Refer to note 13 for further details.

If the transaction had closed on January 31, 2021, the Company estimates proforma revenue and proforma loss from operations would have increased by approximately $90 and $2,637, respectively for the fiscal year ended January 29, 2022.

*PotGuide Business Acquisition*

On August 25, 2021, the Company entered into a definitive share purchase agreement (the "PGED SPA") with PGED Corp. ("PotGuide"), the Denver Colorado based operator of PotGuide.com. The transaction closed effective September 15, 2021. Pursuant to the terms of the PGED SPA, the Company purchased all the issued and outstanding shares of PotGuide for an aggregate consideration of $10,912 (US$8,820), by paying $5,472 (US$4,320) in cash and issued 597,805 common shares of the Company based on the Company's 10-day volume weighted average price on the TSX as of the date of the agreement. For accounting purposes, the shares were fair valued at $5,440 based on the close price on the TSX on the date of acquisition.

In accordance with IFRS 3, the substance of the transaction constituted a business combination as PotGuide meets the definition of a business under the standard. Accordingly, the assets acquired, and the liabilities assumed have been recorded at their respective estimated fair values as of the acquisition date. The goodwill on the acquisition is attributable to synergies expected to be achieved from integrating PotGuide into the group of Retail and Digital CGUs. Refer to note 13 for further details.

If the transaction had closed on January 31, 2021, the Company estimates proforma revenue and proforma loss from operations would have increased by approximately $1,422 and $361, respectively for the fiscal year ended January 29, 2022.

(In thousands of Canadian Dollars, unless otherwise noted)

Further, PotGuide mainly operates in the USA with its operating activities majorly being carried out in U.S. Dollars. In accordance with IAS 21, management has determined that the functional currency of PotGuide is U.S. Dollars.

The estimated fair value of the identifiable assets and liabilities acquired, and consideration paid is detailed below:

| **Consideration paid** | **PotGuide** | **Wikileaf** | **TOTAL** |
|---|---|---|---|
| | $ | $ | $ |
| Common shares issued (1) | 5,440 | 7,296 | 12,736 |
| Cash | 5,472 | - | 5,472 |
| **Total consideration** | **10,912** | **7,296** | **18,208** |
| **Identifiable assets (liabilities) acquired** | | | |
| | $ | $ | $ |
| Cash & cash equivalents | 388 | - | 388 |
| Receivables and other assets | 177 | - | 177 |
| Accounts payable and accrued liabilities | (160) | - | (160) |
| Intangible assets - trademarks, subscriber & dispensary relationships (note 13) | 3,436 | 2,269 | 5,705 |
| Intangible assets - software and platform related technology (note 13) | 2,080 | 1,338 | 3,418 |
| Deferred tax liability | (1,462) | - | (1,462) |
| Goodwill | 6,453 | 3,689 | 10,142 |
| **Total identifiable net assets and goodwill** | **10,912** | **7,296** | **18,208** |
| **Common shares issued (#)** | 597,805 | 801,710 | **1,399,515** |

*(1) In accordance with IFRS, the share consideration was fair valued based on close price on the TSX as of the acquisition date.*

The estimated fair value of the material intangible assets was determined using the following methods:

- Dispensary relationships – Multiple period excess earnings method ("MEEM Method"),
- Subscriber relationships – Replacement Cost method, and
- Platform related technology - Replacement Cost method.

*Wikileaf and PotGuide - Significant Judgments and Estimates*

Significant judgments and areas of estimations in these valuations related to the following:

- Under the MEEM Method, Inputs in the 5-year financial projections included a 2% terminal value growth rate. The 5-year revenue projections reflect the expected growth of the Cannabis market and e-commerce activities in Canada and the United States.
- Discount rate range of 12% - 25% across the valuation methods. The discount rates were based on the cost of equity and weighted average cost of capital (utilized in the MEEM Method), and the estimated venture capital rate of return for an early-stage company (utilized in the Replacement Cost method).

The goodwill recognized under both acquisitions relate to expected synergies from combining operations, subscriber and customer relationships of Wikileaf, PotGuide and the Company's Hifyre digital platform, as well as assembled workforce, which is not separately recognizable as an intangible asset under IFRS. In addition, the Company recognized deferred tax liabilities associated with the PotGuide's intangible assets, which resulted in recognition of additional goodwill of $1,462.

Acquisition costs of $100 arose as a result of the transaction, which were recognized in the Consolidated statement of loss and comprehensive loss.

Due to the timing of the acquisitions for Wikileaf and PotGuide, the Company has not finalized the assessment of the fair value of the net assets acquired and, as a result, the deferred taxes and the fair value assessments for intangible assets may be subject to adjustments pending final valuations and post-closing adjustments. Differences between these preliminary amounts and the final accounting may occur. Adjustments, including purchase consideration finalization, will be finalized within twelve (12) months from the acquisition date.

**c) Asset Acquisition – Orangeville and Sarnia**

On April 13 and June 11, 2021 respectively, the Company entered into two asset purchase agreements (each an "APA") to acquire the assets related to the operations of cannabis retail stores located in Sarnia and Orangeville, Ontario for aggregate purchase consideration of $1,600, subject to certain closing adjustments.

The Orangeville transaction closed effective October 29, 2021. Pursuant to the terms of the Orangeville APA, the Company paid total aggregate consideration of $972 for the assets acquired comprising of (i) $872 in cash and (ii) 8,838 common shares of the Company with a value of $100. The assets acquired have been recorded at their estimated fair values at the acquisition date. The identifiable assets included inventory, prepaids, and leasehold improvements of $379. The intangible assets included retail operating licenses for $593. Under IFRS 3, the substance of the acquisition does not constitute a business combination.

The Sarnia transaction closed effective November 9, 2021. Pursuant to the terms of the Sarnia APA, the Company paid total aggregate consideration of $697 in cash for the assets acquired. The assets acquired have been recorded at their estimated fair values at the acquisition date. The identifiable assets included leasehold improvements and other assets of $231. The intangible assets included retail operating licenses for $466. Under IFRS 3, the substance of the acquisition does not constitute a business combination.

**d) Fire & Flower U.S. Holdings Inc. (formerly American Acres) Arrangement**

On February 22, 2021, the Company announced that it has entered into agreements with a Canadian private company, operating as "American Acres Managers" ("American Acres"), which comprised agreements to license the Company's brand, store operating system and digital retail and analytics platform for cannabis dispensaries across certain U.S. states (collectively, the "Strategic Agreements"). On August 10, 2021, the Company announced that American Acres had changed its operating name to Fire & Flower U.S. Holdings ("Fire & Flower US") and opened its first Fire & Flower branded store in Palm Springs, California. On January 28, 2022, the Corporation amended certain terms of the Strategic Agreements with Fire & Flower US to provide for, among other things, the Corporation to pay the shareholders of Fire & Flower US an aggregate amount of US$5 million (subject to certain conditions). The cash deposit, plus a premium of one percent (1%), calculated monthly, will be deducted from the fair-market value purchase price payable, if and when the Company exercises its option to acquire Fire & Flower US. Hifyre will now receive a one-time implementation fee and ongoing software and support fees for each Fire & Flower branded store operated by Fire & Flower US. In addition, the amendments to the Strategic Agreements provide for the Corporation, upon the payment of additional cash amounts, (i) to extend its option to acquire Fire & Flower US to February 2028 or such later date upon the federal legalization of adult-use cannabis in the United States or when such acquisition would otherwise be permitted by the policies of the TSX or any other stock exchange on which the Corporation's securities are listed for trading, (ii) expand the number of cannabis retail stores that Fire & Flower US may operate utilizing the Corporation's licensed trademarks/intellectual property, and/or (iii) expand the territory within which Fire & Flower US may operate cannabis retailer stores utilizing the licensed trademarks/intellectual property.

**Acquisitions Completed in Prior Fiscal Year**

The Company completed a series of business combination and asset acquisitions in the prior fiscal year ended January 30, 2021, which are described below.

**a) Business Acquisition of Friendly Stranger**

On November 1, 2020, the Company entered into a share purchase agreement (the "FSHC SPA") with Friendly Stranger Holdings Corp. ("Friendly Stranger"). The transaction closed effective December 1, 2020. Pursuant to the terms of the FSHC SPA, the Company purchased all of the issued and outstanding shares of Friendly Stranger for an aggregate consideration of $25,276 in common shares, subject to certain closing adjustments. The Company issued an aggregate of 3,129,734 common shares. As at January 29, 2022, the acquisition was finalized and final post-closing adjustments were completed. The measurement period is now closed.

(In thousands of Canadian Dollars, unless otherwise noted)

Pursuant to the terms of the share purchase agreement by which the Company acquired Friendly Stranger Holdings Corp, 485,436 common shares were held in escrow, to be released upon finalization of the post-closing adjustments. During the fifty-two weeks ended January 29, 2022, upon finalization of post-acquisition adjustments, the Company released 431,758 common shares from escrow, with 53,678 common shares with a carrying value of $53 being cancelled.

Concurrently with entering into the FSHC SPA on November 1, 2020, the Company also entered into a loan agreement with Friendly Stranger under which Friendly Stranger borrowed from the Company up to $2,000 to support the purchase of certain licensed cannabis retail stores operating in the province of Ontario. The loan remained outstanding at the time of close of acquisition and therefore the balance was included as part of the overall purchase consideration.

Friendly Stranger (and its subsidiaries) hold numerous Alcohol and Gaming Commission of Ontario ("AGCO") retail operator licences ("ROL") and retail store authorizations ("RSA") throughout the province of Ontario under the "Friendly Stranger", "Hotbox" and "Happy Dayz" brands.

In accordance with IFRS 3, the substance of these acquisitions constituted a business combination as these individual companies met the definition of a business under the standard. Accordingly, the assets acquired, including the AGCO ROLs/RSAs, and the liabilities assumed have been recorded at their respective estimated fair values as of the acquisition date.

The estimated fair value of the identifiable assets and liabilities acquired, and consideration paid is detailed below:

| **Consideration paid** | |
|---|---|
| | $ |
| Common shares issued(1) | 25,223 |
| Advances under loan arrangement | 2,000 |
| **Total consideration** | **27,223** |

| **Identifiable assets (liabilities) acquired** | |
|---|---|
| | $ |
| Cash & cash equivalents | 330 |
| Inventory | 935 |
| Prepaid expense and deposits | 1,292 |
| Receivables and other assets | 609 |
| Property, plant & equipment | 5,152 |
| Intangible assets - brands and trademarks | 7,223 |
| Intangible assets - retail operator licence and retail store authorizations | 10,630 |
| Accounts payable and accrued liabilities(1) | (3,360) |
| Loans payable | (3,345) |
| Earnout liability | (522) |
| Right-of-use assets | 11,086 |
| Lease liabilities | (10,962) |
| Deferred tax liability(1) | (1,476) |
| Goodwill(1) | 9,631 |
| **Total identifiable net assets and goodwill** | **27,223** |

(1) *During the fiscal year ended January 29, 2022, the Company recognized certain post-acquisition adjustments through goodwill relating to the Friendly Stranger. Refer to note 13 & 16 for further details.*

The estimated fair value of the brands/trademarks was determined using the relief from royalty method, which was based on a market input (royalty rate) and revenue projections. The licences were valued using the excess earnings methodology, which utilized revenue projections, free cash-flows and contributory asset charge estimates.

Significant judgments and estimate areas in these valuations related to the following:

- Inputs in the financial projections related to revenue projections by store location and 2-4% growth rate in projection and terminal value. The growth rate also reflected the anticipated market conditions, including the inherent uncertainty due to the impact of the COVID-19 pandemic (note 1).

(In thousands of Canadian Dollars, unless otherwise noted)

- Discount rate range of 13% - 18% utilized in arriving at the present value of the projections and contributory assets expected return. The discount rates were determined based on risk and liquidity of the intangibles relative to the overall return on the assets acquired, estimates of the Company's weighted average cost of capital, and benchmarking to peers.
- Royalty rate range of 2% - 6% utilized in relief from royalty method. The rate was benchmarked using comparable market transactions for similar products, technology and industry.

The Company recognized deferred tax liabilities associated with the licences, brands and trademarks. The deferred tax liability resulted in an additional goodwill amount of $1,476.

The earnout liability assumed by the Company relates to an arrangement between Friendly Stranger and owners of acquired stores prior to the Company's acquisition. The additional consideration is to be paid out to a maximum of $1,200, depending on certain revenue and branded store operations targets being achieved by December 31, 2022. During the year ended January 29, 2022, one of the revenue targets was achieved resulting in $200 earnout liability being realized. Weighted average probability of achievement of the remaining targets was estimated at 40% based on management's expectation of the targets being reached before expiration.

Acquisition costs of $1,813 arose as a result of the transaction, which were recognized in the statement of loss and comprehensive loss.

### b) Acquisitions of Additional Ontario Retail Businesses

Summarized below are the Company's other Ontario retail location acquisitions completed in the previous fiscal year ended January 30, 2021. As at January 29, 2022, these acquisitions were finalized and final post-closing adjustments were completed. The measurement period is now closed. These transactions comprised primarily single retail location store operations. In accordance with IFRS 3, the substance of these acquisitions constituted a business combination as these individual companies met the definition of a business under the standard. Accordingly, the assets acquired, including the AGCO ROLs/RSAs, and the liabilities assumed have been recorded at their respective estimated fair values as of the acquisition date. The total consideration paid, and the preliminary estimate of fair value of the assets and liabilities acquired at the date of acquisition are detailed below.

The estimated fair value of the identifiable assets and liabilities acquired, and consideration paid are detailed below:

| Consideration paid | Quad Nine | Busboy | 2673 Ontario(1) | 115 Canada | 267 Ontario | 272 Ontario | TOTAL |
|---|---|---|---|---|---|---|---|
| | | | | | | | $ |
| Common shares issued | 100 | 1,700 | 250 | - | 411 | 631 | 3,092 |
| Cash | 1,034 | 800 | 893 | 1,245 | - | 1,110 | 5,082 |
| Settlement of receivables | - | - | - | - | 1,728 | - | 1,728 |
| **Total consideration** | **1,134** | **2,500** | **1,143** | **1,245** | **2,139** | **1,741** | **9,902** |
| **Identifiable assets (liabilities) acquired** | | | | | | | |
| Cash & cash equivalents | 2 | 39 | 26 | 207 | 745 | - | 1,019 |
| Inventory | 80 | 61 | 51 | 102 | 520 | 433 | 1,247 |
| Other assets(1) | 53 | 21 | 121 | 162 | - | - | 357 |
| Property, plant & equipment | 131 | - | 364 | 228 | - | - | 723 |
| Intangible assets - retail operator licence and retail store authorizations | 855 | 2,359 | 631 | 509 | 874 | 1,398 | 6,626 |
| Accounts payable and accrued liabilities | - | - | - | - | - | (90) | (90) |
| Right-of-use assets | 413 | 724 | 624 | 2,769 | - | - | 4,530 |
| Lease liabilities | (400) | (704) | (613) | (2,732) | - | - | (4,449) |
| Deferred tax liability | (227) | (631) | (167) | (135) | (230) | (372) | (1,762) |
| Goodwill(1) | 227 | 631 | 106 | 135 | 230 | 372 | 1,701 |
| **Total identifiable net assets and goodwill** | **1,134** | **2,500** | **1,143** | **1,245** | **2,139** | **1,741** | **9,902** |
| **Common shares issued (#)** | 12,408 | 219,865 | 24,841 | - | 75,343 | 80,000 | **412,457** |

(1) *During the fiscal year ended January 29, 2022, the Company recognized certain post-acquisition adjustments through goodwill relating to 2673 Ontario. Refer to note 13 for further details.*

For the above acquisitions, the value to the licences was determined as a residual in the purchase price allocation, and was determined to be a reasonable approximation of the fair value of the licences based on recent market transactions, valuations done (see Friendly Stranger acquisition) and retail location value. The Company also recognized deferred tax liabilities associated with the licences acquired. The deferred tax liabilities resulted in the recognition of goodwill amounts for these acquisitions.

- *Acquisition of Quad Nine* - On December 6, 2020, the Company completed the acquisition of Quad Nine Investments Inc. ("Quad Nine"). Quad Nine holds an AGCO ROL and RSA in respect of a cannabis retail store located in Ontario.
- *Acquisition of Busboy* - On November 1, 2020, the Company completed the acquisition of Busboy Ventures Inc. ("Busboy"). Busboy Ventures Inc. holds an AGCO ROL and RSA in respect of one location in Toronto, Ontario, and at time of acquisition, had an application for an RSA for another location in Ontario, which was issued to the Company in December 2020.
- *Acquisition of 2673 Ontario* - On October 22, 2020, the Company completed the acquisition of a cannabis retail store (holding an ROL and RSA) located in Toronto, Ontario by way of its acquisition of all of the issued and outstanding shares of 2673801 Ontario Inc. ("2673 Ontario").
- *Acquisition of 115 Canada* - On September 1, 2020, the Company completed the acquisition of a cannabis retail store (holding an ROL and RSA) located in Toronto, Ontario by way of its acquisition of the issued and outstanding shares of 11522302 Canada Inc. ("115 Canada").
- *Acquisition of 2676053 Ontario* – On February 27, 2020, the Company completed the acquisition of the Kingston location by way of its acquisition of all of the issued and outstanding shares of 2676053 Ontario for a total purchase price of $2,139 consisting of the settlement of receivables of $1,728 and 753,431 common shares of the Company issued upon final closing adjustments on August 27, 2020. On February 27, 2020, the remaining promissory note balance outstanding of $828 was settled as part of the purchase price adjustments for the acquisition of this location.
- *Acquisition of 2727765 Ontario* – On February 11, 2020, the Company completed the acquisition of the Ottawa location by way of its acquisition of all of the issued and outstanding shares of 2727765 Ontario for a total purchase price of $1,741, consisting of $1,110 in cash and 80,000 common shares of the Company.

### c) Asset Acquisition - Flora and Tridelion

On June 4, 2019, the Company entered into asset purchase agreements with Flora (Bernard) Enterprises Inc., Flora (Dawson) Enterprises Inc. and Tridelion Enterprises Inc. pursuant to which the Company proposed to acquire an aggregate of five cannabis retail stores in Kelowna, Kamloops, Vernon, Prince George and Quesnel, British Columbia, subject to customary conditions including satisfaction of all licensing requirements.

During the fiscal year ended January 30, 2021, the asset purchase agreements with Flora (Dawson) Enterprises Inc. and Tridelion Enterprises Inc. in respect of stores in Kamloops, Vernon, Prince George and Quesnel expired in accordance with their terms, and the Company and FFI entered into an amended and restated asset purchase agreement with Flora (Bernard) Enterprises Inc. in respect of a store in Kelowna (the "Kelowna Acquisition") which was completed on April 15, 2020. The purchase price was $2,147, consisting of $450 in cash including retention of deposits already paid, $300 by way of a promissory note, and 240,871 common shares of the Company (issued on July 31, 2020). Under IFRS 3, the substance of the acquisition does not constitute a business combination. The purchase price was allocated fully to the acquired licence and recognized as an intangible asset. The promissory note was fully settled as at January 30, 2021.

### d) Hifyre Inc.

During fiscal year ended January 29, 2022, in accordance with the share purchase agreement by which the Company acquired Hifyre Inc. dated July 20, 2018, the final installment of the purchase price consideration was settled with the issuance of 45,000 common shares with a carrying value of $312.

(In thousands of Canadian Dollars, unless otherwise noted)

## 8. CASH AND CASH EQUIVALENTS

As at January 29, 2022 and January 30, 2021, the Company's cash and cash equivalents was comprised of the following:

| | January 29, 2022 | January 30, 2021 |
|---|---|---|
| | $ | $ |
| Cash | 19,847 | 30,412 |
| Cash equivalents | - | 201 |
| **Total Cash and Cash Equivalents** | **19,847** | 30,613 |

Cash equivalents were comprised of highly liquid money market mutual funds and GIC's held with large Canadian financial institutions.

## 9. TRADE AND OTHER RECEIVABLES

As at January 29, 2022 and January 30, 2021, the Company's trade and other receivables was comprised of the following:

| As at | January 29, 2022 | January 30, 2021 |
|---|---|---|
| | $ | $ |
| Trade accounts receivable | 12,386 | 4,283 |
| Sales tax receivable | 3,477 | 1,913 |
| Other receivables | 85 | 52 |
| **Total trade and other receivables** | **15,948** | 6,248 |

During the fiscal year ended January 29, 2022, the Company recognized $410 as a provision for expected credit loss on its trade accounts receivable (January 30, 2021 - $9).

## 10. MERCHANDISE INVENTORIES

As at January 29, 2022 and January 30, 2021, the Company's merchandise inventories were comprised of the following:

| As at | January 29, 2022 | January 30, 2021 |
|---|---|---|
| | $ | $ |
| Cannabis | 10,332 | 8,991 |
| Accessories & apparel | 2,126 | 847 |
| **Total merchandise inventories** | **12,458** | 9,838 |

The amount of inventories recognized as an expense in cost of goods sold for the fiscal year ended January 29, 2022 was $112,180 (January 30, 2021 - $81,606).

As at January 29, 2022, the Company recorded an inventory write-down of $359 (January 30, 2021 - $78) for the write-down of inventories below cost to net realizable value. The write-down was included in cost of goods sold. There were no reversals of previously recorded write-down of inventories during the fiscal year January 29, 2022 and January 30, 2021.

(In thousands of Canadian Dollars, unless otherwise noted)

## 11. PROPERTY, PLANT AND EQUIPMENT

| | Land and Buildings | Furniture and Fixtures | Leasehold Improvements | Computers and Equipment | Signage and Displays | Vehicles | Total |
|---|---|---|---|---|---|---|---|
| **Cost** | $ | $ | $ | $ | $ | $ | $ |
| Balance, January 30, 2021 | 5,045 | 3,281 | 34,821 | 6,270 | 621 | 391 | 50,429 |
| Acquisitions (note 7) | - | 71 | 1,154 | 3 | - | 84 | 1,312 |
| Additions | 362 | 39 | 9,143 | 2,756 | 772 | - | 13,072 |
| Impairment[1] | - | (45) | (4,874) | (89) | (36) | - | (5,044) |
| **Balance, January 29, 2022** | **5,407** | **3,346** | **40,244** | **8,940** | **1,357** | **475** | **59,769** |
| **Accumulated Depreciation** | | | | | | | |
| Balance, January 30, 2021 | 158 | 373 | 4,219 | 1,933 | 212 | 179 | 7,074 |
| Depreciation | 198 | 643 | 3,898 | 1,291 | 251 | 74 | 6,355 |
| Impairment[1] | - | (12) | (1,287) | - | (11) | - | (1,310) |
| Transfers and Other | 150 | - | - | - | - | - | 150 |
| **Balance, January 29, 2022** | **506** | **1,004** | **6,830** | **3,224** | **452** | **253** | **12,269** |
| **Net Book Value** | | | | | | | |
| Balance, January 30, 2021 | 4,887 | 2,908 | 30,602 | 4,337 | 409 | 212 | 43,355 |
| **Balance, January 29, 2022** | **4,901** | **2,342** | **33,414** | **5,716** | **905** | **222** | **47,500** |

| | Land and Buildings | Furniture and Fixtures | Leasehold Improvements | Computers and Equipment | Signage and Displays | Vehicles | Total |
|---|---|---|---|---|---|---|---|
| **Cost** | $ | $ | $ | $ | $ | $ | $ |
| Balance, February 1, 2020 | 7,110 | 919 | 23,670 | 5,311 | 173 | 391 | 37,574 |
| Acquisitions | - | 1,736 | 4,201 | 114 | 95 | - | 6,146 |
| Additions | 259 | 819 | 7,195 | 913 | 355 | - | 9,541 |
| Disposal | (2,232) | - | (21) | - | - | - | (2,253) |
| Impairment[1] | (92) | (193) | (224) | (68) | (2) | - | (579) |
| **Balance, January 30, 2021** | **5,045** | **3,281** | **34,821** | **6,270** | **621** | **391** | **50,429** |
| **Accumulated Depreciation** | | | | | | | |
| Balance, February 1, 2020 | 243 | 117 | 1,746 | 893 | 70 | 106 | 3,175 |
| Depreciation | 280 | 256 | 2,473 | 1,040 | 142 | 73 | 4,264 |
| Disposals | (365) | - | - | - | - | - | (365) |
| **Balance, January 30, 2021** | **158** | **373** | **4,219** | **1,933** | **212** | **179** | **7,074** |
| **Net Book Value** | | | | | | | |
| Balance, February 1, 2020 | 6,867 | 802 | 21,924 | 4,418 | 103 | 285 | 34,399 |
| **Balance, January 30, 2021** | **4,887** | **2,908** | **30,602** | **4,337** | **409** | **212** | **43,355** |

(1) *For further details on the impairments, refer to Note 19, Restructuring and Impairments*

As at January 29, 2022, the amount of property, plant and equipment classified as under construction or development and therefore not being amortized was $2,251 (January 30, 2021: $15,759).

(In thousands of Canadian Dollars, unless otherwise noted)

## 12. RIGHT-OF-USE ASSETS AND LEASE LIABILITIES

The Company entered into various lease agreements predominantly to execute its retail platform strategy.

The Company leases properties such as various retail stores and offices. Lease contracts are typically made for fixed periods of 5 to 10 years but may have extension options. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions.

| **Right-of-use assets** | **January 29, 2022** | **January 30, 2021** |
|---|---|---|
| | $ | $ |
| **Beginning balance** | **40,500** | **33,633** |
| Additions | 14,761 | 19,567 |
| Terminated locations[1] | (5,722) | (8,620) |
| Depreciation expense for the year | (5,784) | (4,080) |
| **Ending balance** | **43,755** | **40,500** |

*[1] For further details on the ROU asset impairment, refer to Note 19, Restructuring and Impairments*

The lease liabilities pursuant to these leases is summarized in the below table:

| **Lease liabilities** | **January 29, 2022** | **January 30, 2021** |
|---|---|---|
| | $ | $ |
| **Beginning balance, January 30, 2021** | **45,906** | **36,862** |
| Additions | 14,886 | 18,851 |
| Cash outflows in the year | (9,036) | (5,132) |
| Terminated locations[1] | (4,223) | (7,822) |
| Accretion expense for the year ended | 4,670 | 3,147 |
| **Ending balance** | **52,203** | **45,906** |

*[1] For further details on the terminated lease liabilities, refer to Note 19, Restructuring and Impairments*

| | | |
|---|---|---|
| Current | 5,113 | 2,784 |
| Non-current | 47,090 | 43,122 |
| **Maturity analysis - contractual undiscounted cash flow** | $ | $ |
| Less than one year | 9,637 | 8,823 |
| One year | 9,042 | 8,607 |
| Two years | 8,084 | 7,866 |
| Three years | 7,140 | 6,258 |
| Four years | 6,851 | 5,758 |
| Five years and beyond | 21,803 | 20,591 |
| | **62,557** | **57,903** |

| **Other amounts recognized in the consolidated statement of loss and comprehensive loss** | **January 29, 2022** | **January 30, 2021** |
|---|---|---|
| | $ | $ |
| Expenses relating to short-term leases | 49 | 73 |
| Expenses relating to variable lease payments not included in the measurement of lease liabilities | 3,738 | 2,231 |
| Income from subleasing right-of-use assets | 160 | 321 |

(In thousands of Canadian Dollars, unless otherwise noted)

## 13. INTANGIBLE ASSETS AND GOODWILL

| | Trademarks, Subscriber & Customer Relationships | Licenses | Software and platform related technology | Total |
|---|---|---|---|---|
| **Cost** | $ | $ | $ | $ |
| Balance, January 30, 2021 | 8,491 | 53,380 | 2,496 | 64,367 |
| Acquisitions (note 7) | 6,595 | 1,059 | 4,159 | 11,813 |
| Additions | - | - | 614 | 614 |
| Impairment[1] | - | (19,170) | - | (19,170) |
| **Balance, January 29, 2022** | **15,086** | **35,269** | **7,269** | **57,624** |
| **Accumulated Depreciation and impairments** | | | | |
| Balance, January 30, 2021 | 586 | 4,571 | 640 | 5,797 |
| Depreciation | 940 | 4,823 | 1,178 | 6,941 |
| Impairment[1] | - | (227) | - | (227) |
| **Balance, January 29, 2022** | **1,526** | **9,167** | **1,818** | **12,511** |
| **Net Book Value** | | | | |
| Balance, January 30, 2021 | 7,905 | 48,809 | 1,856 | 58,570 |
| **Balance, January 29, 2022** | **13,560** | **26,102** | **5,451** | **45,113** |

[1] *For further details on the license impairments, refer to Note 19, Restructuring and Impairments*

| | Trademarks, Subscriber & Customer Relationships | Licenses | Software and platform related technology | Total |
|---|---|---|---|---|
| **Cost** | $ | $ | $ | $ |
| Balance, February 1, 2020 | 1,120 | 34,845 | 1,614 | 37,579 |
| Acquisitions | 7,223 | 19,403 | - | 26,626 |
| Additions | 148 | - | 882 | 1,030 |
| Restructuring | - | (868) | - | (868) |
| **Balance, January 30, 2021** | **8,491** | **53,380** | **2,496** | **64,367** |
| **Accumulated Depreciation and impairments** | | | | |
| Balance, February 1, 2020 | 270 | 1303 | 224 | 1797 |
| Depreciation | 316 | 3,268 | 416 | 4,000 |
| **Balance, January 30, 2021** | **586** | **4,571** | **640** | **5,797** |
| **Net Book Value** | | | | |
| Balance, February 1, 2020 | 850 | 33,542 | 1,390 | 35,782 |
| **Balance, January 30, 2021** | **7,905** | **48,809** | **1,856** | **58,570** |

During the fiscal year ended January 29, 2022, the Company generated $611 (January 30, 2021: $676) of internally developed software assets.

**Goodwill**

| | January 29, 2022 | January 30, 2021 |
|---|---|---|
| Beginning balance | 13,806 | 402 |
| Business combinations (note 7) | 18,685 | 13,404 |
| Post-acquisition adjustments | (1,950) | - |
| | **30,541** | **13,806** |

During the fiscal year ended January 29, 2022, the Company had goodwill arising from the acquisitions of PotGuide and Wikileaf of $6,453 and $3,689. Of the goodwill recognized, $1,462 arose upon recognition of deferred liabilities for the acquisition during the fiscal year. The Company had goodwill arising from the acquisition of Pineapple Express Delivery of $8,543. Of the goodwill recognized, $382 arose upon recognition of deferred liabilities for the acquisition during the fiscal year. The purchase price allocations are further detailed under Note 7.

(In thousands of Canadian Dollars, unless otherwise noted)

The goodwill recognized from PotGuide, Wikileaf and Pineapple Express Delivery for $18,685 relates to purchase allocations that are subject to final adjustments.

During the fiscal year ended January 29, 2022, the Company recognized a total of $1,950 in post-acquisition adjustments relating to certain assets and liabilities from the acquisition of Friendly Stranger and 2673 Ontario from the preceding fiscal year ended January 30, 2021.

**Impairment assessment**

Allocation of goodwill to CGUs:

| | January 29, 2022 | January 30, 2021 |
|---|---|---|
| | $ | $ |
| Retail | 14,318 | 9,382 |
| Digital | 16,223 | 4,424 |
| | **30,541** | **13,806** |

The Company performed its annual impairment test on goodwill for the fiscal year ended January 29, 2022. Goodwill arising from business combinations has been allocated to the CGUs where it is expected that the CGUs will benefit from the synergies of the combination. The Company allocates goodwill to the Retail CGUs and Digital CGU. There are no other intangible assets with indefinite useful lives.

The Company's recoverable amount for its CGUs was determined using the Fair Value Less Costs to Sell method ("FVLCS") which is a market-based approach, which was based on the expected revenues multiplied by a revenue multiple of comparable companies in the industry. Key assumptions used in the FVLCS model that are most sensitive are revenue forecasts and the revenue multiple which are considered to be Level 3 in the fair value hierarchy. Management determined the values assigned to each key assumption based on approved budgets, historical data and external sources of information.

The Company used the following key assumptions in the FVLCS model which includes revenue multiple of 1.0 to 1.1 of revenues based on external capital market research information and revenue forecasts approved by the Board. The calculation of the FVLCS is not sensitive to any of the assumptions.

Based on the impairment test performed, the recoverable amount was determined to be higher than the carrying value of the CGUs. As a result, no impairment was recognized on goodwill during the year (January 30, 2021: $Nil).

## 14. PROVISIONS

| | January 29, 2022 | January 30, 2021 |
|---|---|---|
| | $ | $ |
| **Beginning balance** | 2,672 | 265 |
| Additions | 777 | 2,649 |
| Drawdowns | (1,707) | (242) |
| **Ending balance** | **1,742** | **2,672** |

Restructuring provisions relate to the Company's initiatives to lower operating costs and improve financial performance. During the fiscal year January 29, 2022, the Company recorded a provision for estimated severance costs of $777 as part of its analysis of the retail network and a corporate reorganization during the year which was offset by drawdowns for facility and other costs incurred at identified restructured locations in the prior year. The value of the provision is management's best estimate of the amount of expenditures expected to occur over the next 12 months. Lease obligation costs related to the restructuring locations are recorded in lease liabilities (note 12).

(In thousands of Canadian Dollars, unless otherwise noted)

## 15. DEBENTURES AND LOANS, DERIVATIVE LIABILITY

### *Debentures and Loans balances outstanding:*

| | Contractual Maturity Date | Coupon Interest Rate | Principal Outstanding January 29, 2022 | Principal Outstanding January 30, 2021 | Carrying Amount January 29, 2022 | Carrying Amount January 30, 2021 |
|---|---|---|---|---|---|---|
| | | | $ | $ | $ | $ |
| ***Convertible debenture liability*** | | | | | | |
| April 2020 Debentures (1) | June 1, 2022 | 8.00% | - | 29,407 | - | 16,364 |
| Investor Debentures (1) | June 30, 2023 | 8.00% | 2,407 | 25,990 | 1,754 | 14,931 |
| | | | 2,407 | 55,397 | 1,754 | 31,295 |
| ***Term loans and credit facilities*** | | | | | | |
| Term loan | April 30, 2030 | 3.95% | - | 2,359 | - | 2,359 |
| ACT loan | October 1, 2022 | 8.00% | 20,070 | - | 20,070 | - |
| **Total debentures and loans** | | | **22,477** | 57,756 | **21,824** | 33,654 |
| Current Portion | | | (20,070) | (219) | (20,119) | (637) |
| **Long-term Portion** | | | **2,407** | 57,537 | **1,705** | 33,017 |

### *Derivative Liability balances outstanding:*

| | Contractual Maturity Date | Conversion Price/unit | Equivalent Units January 29, 2022 | Equivalent Units January 30, 2021 | Carrying Amount January 29, 2022 | Carrying Amount January 30, 2021 |
|---|---|---|---|---|---|---|
| | | $/unit | # | # | $ | $ |
| ***Conversion option derivative liabilities*** | | | | | | |
| April 2020 Debentures | June 1, 2022 | $5.00 | – | 2,940,700 | - | 21,355 |
| Investor Debentures (1) | June 30, 2023 | variable (1) | 240,741 | 2,598,998 | 1,074 | 17,457 |
| | | | | | 1,074 | 38,812 |
| ***Warrants recognized as derivative liability*** | | | | | | |
| Series B Warrants (1) (2) | September 30, 2022 | variable | 6,717,554 | 6,717,554 | 1,171 | 10,576 |
| Series C Warrants (1) (3) | June 30, 2023 | variable | 13,339,078 | 13,339,078 | 224 | 16,929 |
| Top-up Series B Warrants (2) | September 30, 2022 | variable | 1,570,513 | - | 178 | - |
| Top-up Series C Warrants (3) | June 30, 2023 | variable | 4,457,206 | - | 73 | - |
| | | | | | 1,646 | 27,505 |
| **Total derivative liability** | | | | | **2,720** | 66,317 |
| Current Portion | | | | | (1,349) | - |
| **Long-term Portion** | | | | | **1,371** | 66,317 |

(1) *Amended. See further details below.*

(2) *Exercisable after January 1, 2022 (see terms described below).*

(3) *Exercisable after October 31, 2022 (see terms described below).*

Cash proceeds from convertible debentures issued totalled $Nil (January 30, 2021: $28,000).

Cash proceeds from term loan facilities totalled $20,000 (January 30, 2021: $2,538).

(In thousands of Canadian Dollars, unless otherwise noted)

Convertible debenture related activity is summarized below:

| | | Carrying Amount | | |
|---|---|---|---|---|
| | Principal Outstanding | Debenture component | Derivative liability - conversion option | Equity component - conversion option |
| | $ | $ | $ | $ |
| **Balance at February 1, 2020** | **67,158** | **51,502** | **2,078** | **1,756** |
| Conversion and settlement - LP Debentures | (14,000) | (13,132) | (1,112) | - |
| Repayment and settlement - June 2019 Debentures | (27,168) | (27,168) | - | - |
| Conversion option expiry - June 2019 Debentures | - | - | - | (1,756) |
| Issuances - April 2020 Debentures | 28,000 | 11,762 | 15,309 | - |
| Pre-amendment Investor Debentures- extinguishment | (25,990) | (20,728) | - | - |
| Amended Investor Debentures - new liability | 25,990 | 13,601 | 21,966 | - |
| Debenture modifications | - | (1,207) | - | - |
| Loss on revaluation of derivative liability | - | - | 682 | - |
| Accretion and interest expense | - | 19,892 | - | - |
| Coupon interest payment in cash | - | (1,057) | - | - |
| Coupon interest payment in common shares | - | (2,119) | - | - |
| Coupon interest capitalization to principal | 1,507 | - | - | - |
| Debenture conversions - Investor Debentures | (100) | (51) | (111) | - |
| **Balance, January 30, 2021** | **55,397** | **31,295** | **38,812** | - |
| Loss on revaluation of derivative liability | - | - | 34,708 | - |
| Accretion and interest expense | - | 2,562 | - | - |
| Coupon interest payment in cash | - | (9) | - | - |
| Coupon interest payment in common shares | - | (1,697) | - | - |
| Debenture conversions - Investor Debentures | (23,583) | (13,643) | (24,245) | - |
| Debenture conversions - April 2020 Debentures | (29,407) | (16,754) | (48,201) | - |
| **Balance, January 29, 2022** | **2,407** | **1,754** | **1,074** | - |

Derivative liability activity related to warrants are summarized below:

| | January 29, 2022 | January 30, 2021 |
|---|---|---|
| | $ | $ |
| **Balance, beginning of fiscal year** | 27,505 | - |
| Amended Series B Warrants | - | 16,949 |
| Amended Series C Warrants | - | 29,876 |
| Top-up Series B Warrants | 194 | - |
| Top-up Series C Warrants | 110 | - |
| Gain on revaluation | (26,163) | (19,320) |
| **Balance, end of fiscal year** | **1,646** | **27,505** |

*Measurement and sensitivity analysis as at January 29, 2022*

As at January 29, 2022, the derivative liability for the April 2020 Debentures conversion option was revalued using the above described valuation technique and the following assumptions: stock price of $4.46; risk-free interest rate of 1.09%; and expected volatility of 63% based on historical trading data of the Company and its peers.

As at January 29, 2022, the derivative liabilities related to the Investor Debentures conversion option, Series B Warrants and Series C Warrants were revalued using the Monte-Carlo and trinomial tree model simulation valuation technique and the following assumptions: stock price of $4.46; risk-free interest rate range of 0.72% - 1.09%; and expected volatility range of 60% - 63% based on historical trading data of the Company and its peers.

These fair values were determined based on Company-specific inputs and valuation techniques that utilized both observable and unobservable market inputs. Such estimated fair values for the financial liabilities were thus categorized as Level 3 measurement inputs.

(In thousands of Canadian Dollars, unless otherwise noted)

Volatility assumptions are a significant unobservable input to the estimate, mainly due to the limited available longer-term historical trading data for the Company and comparable companies in the industry, as well as the emerging market the Company operates in.

As at January 29, 2022, with all other variables held constant, a 5% decrease and 5% increase in volatility would have resulted in a change in the estimated fair values of the derivative liability instruments as follows:

| Sensitivity Analysis | | As at January 29, 2022 | |
|---|---|---|---|
| | Valuation Technique | Volatility - 5% | Volatility +5% |
| | | $ | $ |
| Investor Debentures conversion option | Monte-Carlo/ Trinomial | (33) | 27 |
| Series B Warrants | Monte-Carlo | (113) | 110 |
| Series C Warrants | Monte-Carlo | (122) | 274 |
| Top-up Series B Warrants | Monte-Carlo | (23) | 18 |
| Top-up Series C Warrants | Monte-Carlo | (40) | 88 |
| **Total** | | (331) | 517 |

### a) Issuance of Top-up Warrants

Pursuant to the terms of the amended and restated investor rights agreement dated September 16, 2020 between the Company and ACT (the "IRA"), ACT is entitled to certain Top-up Rights (as defined in the IRA) when its fully diluted interest in the Company drops below 49.1%. As a result of certain dilutive issuances of common shares, ACT's Top-up Rights were triggered and on January 18, 2022, the Company issued an additional 1,570,513 Series B Warrants, and 4,457,206 Series C Warrants, for an aggregate issuance of 6,027,719 warrants ("**Top-up Warrants**"). ACT may receive additional ACT Warrants pursuant to the exercise of certain Top-up Rights.

Exercise price for Top-up Series B Warrants is the greater of (i) $4.7732; and (ii) the lesser of (A) $18.75; and (B) the 20-day volume weighted average trading price of the Shares on the Exchange on the last Business Day prior to the exercise of such top-up Series B Warrants.

Exercise price for Top-up Series C Warrants is the greater of (i) $4.7732; and (ii) the lesser of (A) $30.00; and (B) 125% of the 20-day volume weighted average trading price of the Shares on the Exchange on the last Business Day prior to the exercise of such top-up Series C Warrants.

The same fair value models for the existing Series B and Series C Warrants were applied to the Top-up Series B and Series C Warrants. Assumptions used in valuing the Top-up Warrants were:

- For Series B: stock price of $4.46, risk-free interest rate of 0.72%, and expected volatility of 60% based on historical trading data of the Company and its peers.
- For Series C: stock price of $4.46, risk-free interest rate of 1.09%, and expected volatility of 63% based on historical trading data of the Company and its peers.

### b) ACT Secured Debt Facility

On December 13, 2021, the Company entered into a loan agreement (the "ACT Loan Agreement") with ACT pursuant to which ACT shall loan to the Company a maximum aggregate amount of $30,000 which may be drawn down in three separate tranches of $10,000 (the "Loan"). Subject to the terms of the ACT Loan Agreement, the Loan will accrue interest at a rate of 8.0% per annum, payable quarterly, and matures on October 1, 2022. The ACT Loan Agreement contemplates prepayment of amounts drawn from the net proceeds received by the Company upon the exercise of Series B Warrants held by ACT which become exercisable by ACT as of January 1, 2022 until September 30, 2022. The Loan is secured by the assets of the Company. As at January 29, 2022, a total of $20,000 was withdrawn.

### c) Settlement of Senior Secured Term Loan and Credit Facilities

On April 21, 2020, the Company entered into a commitment letter to obtain up to an aggregate amount of $10,000 (with an option for an additional $5,000), non-dilutive credit facilities with a financial institution. The new financing is comprised of two separate loan facilities on a two-year term: a revolving credit facility in the amount of $5,000 that bears a variable interest rate of 1.75% plus prime rate, and a term loan in the amount of $5,000 that bears a variable interest rate of 1.50% plus prime rate. An "accordion" option is also available to increase the revolving facility by an additional $5,000, subject to the financial institution's consent and certain other customary conditions.

On October 25, 2021, the Company announced it had repaid in full its obligations under the credit facilities. The Company was permitted to repay amounts outstanding prior to maturity without penalty. The outstanding debt was repaid from cash held in a restricted collateral account.

### d) Strategic Investment - Investor Debentures and Investor Warrants

On August 7, 2019, the Company issued: (i) $25,990 principal amount of 8.0% unsecured convertible debentures (the "Investor Debentures"); (ii) 3,063,432 series A Common Share purchase warrants (the "Series A Warrants"); (iii) 5,612,689 series B Common Share purchase warrants (the "Series B Warrants"); and (iv) 11,070,392 series C Common Share purchase warrants (the "Series C Warrants" and with the Series A Warrants and the Series B Warrants, the "Investor Warrants") pursuant to the terms of a subscription agreement with 2707031 Ontario Inc., an indirect wholly-owned subsidiary of Alimentation Couche-Tard ("ACT") (the "Strategic Investment"). Pursuant to the terms of the Strategic Investment, ACT had the right, but not the obligation, to acquire that number of common shares that may result in ACT holding 50.1% of the issued and outstanding common shares if the principal amount of Investor debentures and warrants are converted and exercised, respectively, in full.

On July 23, 2020, the Company announced a series of amendments to convertible debentures and investor warrants issued to ACT under the strategic investment agreement completed on August 7, 2019 (the "ACT Investment Amendments"). These amendments were approved at a special meeting of shareholders on September 15, 2020.

These amendments resulted in the following:

- Extending the maturity date of $25,990 principal amount 8.0% convertible unsecured debentures to June 30, 2023 from June 30, 2021. ACT would have the right to accelerate the Investor Debentures maturity date once $20,000 in principal of the April 2020 Debentures was converted.
- The Investor Debentures conversion price is now the lesser of: (A) the 20-day volume weighted average price ("VWAP") of the common shares of the Company on the last trading day prior to ACT delivering a notice of its intention to convert; and (B) $9.00.
- The Company has the ability to repay the principal amount of the Investor Debentures and interest by issuing common shares of the Company at a price equal to $7.50 per common share (subject to satisfaction of certain conditions precedent, including the common shares having a 20-day VWAP of at least $10.00 on the date the Company gives its notice of intention to convert).
- 3,415,802 series A common share purchase warrants ("Series A Warrants"), previously with an exercise price of $14.00, were amended as follows:
    - 1,314,646 of the Series A Warrants (the "A-1 Warrants") have an exercise price equal to $7.80, which were subsequently exercised by ACT on September 18, 2020 for cash exercise proceeds of $10,254;

- 1,050,577 of the Series A Warrants (the "A-2 Warrants") has an exercise price equal to $8.30, which were exercised during the fiscal year ended January 29, 2022 for cash exercise proceeds of $8,720; and
- 1,050,577 of the Series A Warrants (the "A-3 Warrants") has an exercise price equal to $9.30. The A-3 Warrants will expire on June 30, 2021 (the "Series A Expiry Date").

- 6,717,554 series B common share purchase warrants ("Series B Warrants"), previously with an exercise price of $18.75, were amended such that the exercise price is the lesser of: (A) $18.75; and (B) the 20-day VWAP of the common shares on the last trading day prior to the date on which the Series B Warrants are exercised; is exercisable at any time after January 1, 2022; and the expiry date is September 30, 2022.
- 13,339,078 series C common share purchase warrants ("Series C Warrants"), previously with an exercise price range of $20.00 - $60.00, were amended such that the exercise price is the lesser of: (A) $30.00; and (B) 125% of the 20-day VWAP of the common shares on the last trading day prior to the date on which the Series C Warrants are exercised; is exercisable at any time after October 1, 2022; and the expiry date would be June 30, 2023.

*Initial Recognition and Measurement in fiscal year ended February 1, 2020*

The Investor Debentures' host debt component was classified as a financial liability measured at amortized cost, while the holder's conversion option component was classified as an equity instrument, and the accelerated maturity date prepayment option and the Company's conversion option components were classified as embedded derivatives.

The classification of Investor Warrants was determined based on the terms and conditions attached to each series. The Series C Warrants were classified as a derivative liability due to the variability in exercise price, while the Series A Warrants and Series B Warrants were classified as equity instruments and are not subject to revaluation in accordance with IFRS.

Gross proceeds were $25,990 and net proceeds were $24,092, net of cash transaction costs of $1,898. The gross proceeds were allocated on a relative fair value basis to the Series C warrants for $15,546, the host debt component for $10,473, and the embedded derivatives for $29,015. Of the cash transaction costs, $765 was allocated and netted against the host debt component, and $1,133 was recognized as finance costs expense at inception. In accordance with IFRS, any residual value remaining would be allocated to the identified equity instruments. At initial recognition, no residual value remained for allocation, and the Series A Warrants, Series B Warrants and the holder's conversion option was assigned a $nil value. At initial recognition, these equity instruments had an aggregate estimated fair value of $60,581.

The host debt component was recognized and measured at amortized cost and accreted such that the carrying amount at maturity will equal the principal $25,990, using an effective interest rate of 80%.

The estimated fair value at initial recognition for the Investor Debentures host debt component and the Investor Warrants differed from the transaction price. For the Series C Warrants derivative liability, which are to be recognized at fair value, IFRS permits the deferral of the recognition of the difference of $11,503, between the estimated fair value at initial recognition of $27,049 and the allocated relative fair value amount. This Company's policy is to defer such differences and recognize the deferred amounts once estimated fair values can be determined based solely on market observable inputs.

The estimated fair value of the Investor Debentures host debt component at initial recognition was determined using probability weighted present value approach accounting for the variable maturity date, which depends on the occurrence or non-occurrence of certain Company-specific operational events, and a company specific discount rate assumption range of 33% - 46%.

The Series C Warrants were valued using the Monte-Carlo simulation valuation technique to project the Company's share price to the expected maturity date, and the following assumptions: stock price of $13.90; $nil dividends; risk-free interest rate of 1.33%; and expected volatility of 70% based on historical trading data.

As at February 1, 2020 and prior to amendment, the Series C Warrants were revalued to $nil (net of the deferred initial difference), using the above described valuation technique. These fair values were determined based on Company-specific inputs and valuation techniques that utilized both observable and unobservable market inputs. Such estimated fair values for the financial liabilities were thus categorized as Level 3 measurement inputs.

*Accounting for the amendments to Investor Debentures and Investor Warrants in fiscal year ended January 30, 2021*

The amendment to the terms of the Investor Debentures and Investor Warrants resulted in the derecognition of the existing debenture and warrants carrying values at the date of amendment (September 15, 2020), which were in aggregate $20,728 and $808, respectively, and recognition of the debentures and warrants under the amended terms. The aggregate fair value of the amended debentures and warrants totalled $87,066, and were allocated as follows:

- Recognition of $13,601 as a debenture liability for the host debt component and $21,966 as a derivative liability in relation to the conversion option. The conversion option was accounted for as a derivative liability as the amended terms did not meet the fixed-for-fixed criteria under IFRS (pre-amendment, accounted for as an equity instrument with $Nil carrying value).
- Recognition of $4,674 for Series A Warrants, which were accounted for as an equity instrument (pre-amendment, $Nil carrying value).
- Recognition of $16,949 for Series B Warrants, which were accounted for as a derivative liability (pre-amendment, accounted for as an equity instrument with $Nil carrying value).
- Recognition of $29,876 for Series C Warrants, which were accounted for as a derivative liability (pre-amendment, $Nil carrying value and $13,860 in unrecognized deferred losses).

The recognition of the Investor Debentures and Investor Warrants under the amended terms resulted in an extinguishment loss of $54,359 in the fiscal year ended January 30,2021, which was recognized in net loss, and an amount of $11,174 recognized in contributed surplus in relation to the equity instrument components that were extinguished.

The amendment date fair value estimates for the Investor Debentures conversion option and Investor Warrants were estimated using Black-Scholes, Monte-Carlo and trinomial tree model simulation valuation techniques, and the following assumptions: stock price of $8.80; risk-free interest rate range of 0.19% - 0.27%; and expected volatility range of 60%-94% based on historical trading data of the Company and its peers and variability of the life of the conversion option and warrants.

The estimated fair value of the host debt component of the Investor Debentures was determined based on a discount rate assumption of 40%, and was measured at amortized cost and accreted such that the carrying amount at maturity will equal the principal using an effective interest rate of 33%.

*Amendment date measurement and sensitivity analysis in fiscal year ended January 30, 2021*

As there was no associated consideration or transaction price for the amendment, the aggregate fair value was recognized without calibration to proceeds or other consideration, and no relative fair value allocation of proceeds to the instruments. As such, the following assumptions were determined significant to the fair value recognized as at September 15, 2020:

- *Discount rate utilized for the host debt component* - A discount rate range of 34% to 46% would result in an initial host debt liability range of $12,300 - $15,200. Discount rate is based on both market and company specific premium assumption that considers the Company's borrowing profile relation to the comparable group. Changes in the discount rate would result in a change in the non-cash accretion expense recognized to accrete up to the principal at expected maturity date. The Company estimated the maturity date consistent with the contractual maturity date of June 30, 2023.
- *Volatility* – As described further above, volatility is a significant assumption in the valuations utilized to estimate fair value of the Company's derivative liabilities. The following table summarizes the sensitivity of the amendment date estimate fair values:

(In thousands of Canadian Dollars, unless otherwise noted)

| Sensitivity Analysis - Investor Debentures and Derivative Liabilities | | As at September 15, 2020 | |
|---|---|---|---|
| | Valuation Technique | Volatility -5% | Volatility +5% |
| | | $ | $ |
| Investor Debentures conversion option | Monte-Carlo/ Trinomial | (364) | 229 |
| Series B Warrants | Monte-Carlo | (1,847) | 1,871 |
| Series C Warrants | Monte-Carlo | (4,939) | 1,368 |
| **Total** | | (7,150) | 3,468 |

*Conversion and Settlement of Investor Debentures in fiscal year ended January 29, 2022*

On March 10, 2021, the Company's $25,990 principal amount of Investor Debentures were converted. The debentures were held by 2707031 Ontario Inc., an indirect wholly-owned subsidiary of ACT. $23,583 in principal of the Investor Debentures was early converted by the Company at the forced conversion price of $7.50. Accrued and unpaid interest of $366 was also settled at the time of conversion. A total of 3,193,254 common shares were issued upon principal conversion of the principal and settlement of the interest. The common shares issued had a value upon conversion of $37,888, which was comprised of the carrying values, as at the date of conversion, of the debenture liability ($13,643) and the corresponding conversion option derivative liability ($24,245).

The conversion option derivative liability was valued by taking the difference between the intrinsic value and the fair value of the debt portion. The intrinsic value and discounted cash flow approach utilized for the valuation of the debt portion had the following key inputs and assumptions: stock price of $12.50, and discount rate 31% - 35%.

As at January 29, 2022, $2,407 in principal of the Investor Debentures remained outstanding.

## e) Issuance of April 2020 Debentures

During the fiscal year ended January 30, 2021, the Company completed two private placements for aggregate gross proceeds of $28,000, which were comprised of:

- a non-brokered private placement of 8% secured convertible debentures for aggregate gross proceeds of $19,800 (the "April 2020 Initial Debentures"), which closed on April 28, 2020, and
- a non-brokered private placement of subscription receipts for aggregate gross proceeds of $8,200, subject to shareholder approval (the "April 2020 Subscription Receipts"). The April 2020 Subscription Receipts were automatically converted into convertible debentures upon shareholder approval on June 17, 2020. These convertible debentures have the same terms as the April 2020 Initial Debentures.

The principal amount of the April 2020 Initial Debentures and the April 2020 Subscription Receipts, upon conversion to convertible debentures (collectively the "April 2020 Debentures"), will be convertible at the holder's option into common shares of the Company (the "Conversion Shares") at any time prior to the maturity date (described below) at a conversion price of $5.00 per Conversion Share. The Company's obligations under the April 2020 Debentures is secured by the assets of the Company.

On July 23, 2020, in conjunction with entering into the ACT Investment Amendments, the Company also entered into a supplemental debenture indenture (the "Supplemental Indenture") to the debenture indenture dated April 28, 2020 (the "Indenture") which governs the April 2020 Debentures. The Supplemental Indenture amendments included:

- modification of the April 2020 Debenture maturity date to June 1, 2021, or June 1, 2022, in the event that, on or before April 1, 2021, ACT's A-1 Warrants and A-2 Warrants have been exercised. As at January 30, 2021, ACT's A-1 Warrants and A-2 Warrants were fully converted and the maturity date was extended to June 1, 2022;
- the Company's election to force the conversion of the principal amount of April 2020 Debentures shall no longer be contingent on the conversion or retirement of the Investor Debentures; and

(In thousands of Canadian Dollars, unless otherwise noted)

- the Company may elect to add any interest accrued and payable on the December 31, 2021 payment date to the principal amount of April 2020 Debentures (as is already contemplated for the interest payments owing on December 31, 2020 and June 30, 2021) (the "Interest Amendment"). The Interest Amendment was approved by the shareholders of the Company on September 15, 2020.

The Supplemental Indenture amendments' impact on the carrying value of the debt was assessed by the Company once the ACT Investment Amendments were effective upon shareholder and regulatory approvals received on September 15, 2020.

*April 2020 Debentures - initial recognition in fiscal year ended January 30, 2021*

Of the $28,000 in gross proceeds, $19,800 was received during the first quarter of 2020, and $8,200 related to the April 2020 Subscription Receipts was received in the second quarter of 2020. The gross proceeds were allocated on a relative fair value basis to the conversion option derivative and embedded derivatives and the host debt component.

The April 2020 Debentures' host debt component was classified as a financial liability measured at amortized cost, while the holder's conversion option along with the embedded derivatives were classified as a derivative liability given the variability in settlement options of the conversion. Transaction costs totalled $2,058, with cash transaction costs of $1,250 and non-cash costs of $808 related to the Additional Investor Warrants (described and defined further below). Transaction costs totalling $685 was deferred and recognized in other assets as deferred charges as at May 2, 2020, and then allocated once the April 2020 Subscription Receipts were converted into debenture units during the second quarter of 2020.

See table below for a summary of the allocation of proceeds and initial recognition values at inception:

| Initial Recognition | | Debentures | | Derivative liability | |
|---|---|---|---|---|---|
| | Gross proceeds | Carrying value | Transaction Costs (1) (2) | Carrying value | Transaction Costs (1) |
| | $ | $ | $ | $ | $ |
| April 2020 Initial Debentures | 19,800 | 9,234 | 640 | 10,566 | 733 |
| April 2020 Subscription Receipts | 8,200 | 3,457 | 289 | 4,743 | 396 |
| Total | **28,000** | **12,691** | **929** | **15,309** | **1,129** |

*(1) Transaction cost amounts were allocated on a proportional basis. Transaction costs allocated to the debentures was netted against the host debt component, and costs allocated to the derivative liability were treated as finance costs expense (note 20).*

*(2) Includes fair value of additional Investor Warrants issued in connection with the issuance of these debentures. See details below.*

The estimated fair value of the April 2020 Debentures host debt component at initial recognition was determined using a probability weighted present value approach accounting for the variable maturity date, which depends on the occurrence or non-occurrence of certain Company-specific events, and a company specific discount rate assumption range of 33% - 46%. The host debt component for the April 2020 Debentures was recognized and measured at amortized cost and accreted such that the carrying amount at maturity will equal the principal using an effective interest rate of 52%.

The derivative liability inception fair value was estimated using the Monte-Carlo and trinomial tree model simulation valuation techniques to project the Company's share price and expected maturity date, and the following assumptions:

- April 2020 Initial Debentures – stock price of $6.30; risk-free interest rate of 0.31%; and expected volatility of 70% based on historical trading data of the Company and its peers.
- April 2020 Subscription Receipts – stock price of $7.40; risk-free interest rate of 0.26%; and expected volatility of 92% based on historical trading data of the Company and its peers.

As the estimated fair value at initial recognition of the overall instrument differed from the transaction price, for the derivative liabilities (which are to be recognized at fair value under IFRS), $7,442 in fair value was deferred at inception. The deferred amount was the difference between the estimated fair value at initial recognition for the derivative liabilities and allocated relative fair value amount of $18,439. As per the Company's accounting policy and as permitted under IFRS, the deferred amount will be recognized once estimated fair values can be determined based solely on market observable inputs.

Discount rate and volatility are significant assumptions in the valuation models utilized to estimate fair value of the host debt and derivatives, respectively. Changes in either the discount rate or volatility assumptions at inception would have resulted in a change in the relative fair value allocation between the host debt component and the conversion option derivative at inception, and would not have a material effect on the statement of loss and comprehensive loss.

*Issuance of additional Investor Warrants in fiscal year ended January 30, 2021*

ACT also participated in the April 2020 Debentures, and consequently exercised its participation rights under the terms of the August 7, 2019 investor rights agreement. As a result, on April 28, 2020, the Company issued an additional 352,370 Series A Warrants, 1,104,865 Series B Warrants, and 2,268,686 Series C Warrants, for an aggregate issuance of 3,725,921 warrants ("Additional Investor Warrants"). The Additional Investor Warrants were accounted for as transaction costs of the April 2020 Debentures, and followed the same accounting treatment as the initial tranche of warrants issued on August 7, 2019:

- Series A Warrants and Series B Warrants were accounted for as equity instruments and the initial fair value of $808 was recognized in warrants reserves. These instruments were not subject to revaluation in accordance with IFRS.
- The Series C Warrants were accounted for as derivative liabilities and were recognized at $Nil consistent with the fair value recognized for the existing series C warrants. The same fair value model was applied to these Series C Warrants as was applied to the initial Series C Warrants.

Assumptions used in valuing the Additional Investor Warrants were stock price of $6.30, risk-free interest rate of 0.31%, and expected volatility of 77% based on historical trading data of the Company and its peers.

On September 15, 2020, the Additional Investor Warrants were de-recognized as a result of the ACT Investment Amendments, and then re-recognized under the amended terms (note 15(d)).

*April 2020 Debentures – modification gains in fiscal year ended January 30, 2021*

The amendments to the host debt component were not considered to be substantial modification of the original terms, and therefore did not result in de-recognition. The Company recognized a modification gain of $497 in net loss.

The Company elected to defer the coupon interest payment on December 31, 2020, and a deferred amount of $1,507 was capitalized and added as principal to the April 2020 Debentures, with repayment expected upon settlement of the debentures. This resulted in a change in the estimated timing of cash outflows of the host debt component and a modification gain of $710.

*Conversion and Settlement of April 2020 Debentures in fiscal year ended January 29, 2022*

During the fiscal year ended January 29, 2022, April 2020 Debentures with $29,407 in principal amount outstanding were early converted and settled at the conversion price of $5.00. Coupon interest of $1,139 was also settled in common shares at the conversion price of $5.00. A total of 6,109,131 common shares were issued for the principal conversions and interest settlement. The common shares issued had a value upon conversion of $64,955, which was comprised of the carrying values, as at the date of conversion, of the debenture liability ($16,754) and the corresponding conversion option derivative liability ($48,201). The conversion option derivative liability was valued by taking the difference between the intrinsic value and the fair value of the debt portion. The intrinsic value and discounted cash flow approach utilized for the valuation of the debt portion had the following key inputs and assumptions: stock price of $13.60, and discount rate 26%-32%.

### f) June 2019 Debentures

On June 26, 2019, the Company closed a bought deal private placement of 2,718 convertible debenture units at a price of $10,000 per unit for total gross proceeds of $27,188. Each unit comprised of one $10 principal amount unsecured convertible debenture ("June 2019 Debentures") and 27 common share purchase warrants. The convertible debentures had a maturity date of June 26, 2020, at 8% interest per annum and a conversion price of $12.00 per share.

Each common share purchase warrant entitles the holder to purchase one common share of the Company for a period of 24 months following the close of the offering at an exercise price of $14.50. In connection with the private placement, the Company paid the underwriters aggregate cash consideration of $1,476 and 135,535 broker warrants. Each broker warrant is exercisable for one common share of the Company at a price of $12.00 per share until June 26, 2021.

Gross proceeds were $27,188 and net proceeds were $24,768, net of cash transaction costs of $1,738 and broker warrants valued at $682. Net proceeds were allocated on a relative fair value basis to the common share purchase warrants for $1,533, to the June 2019 Debentures debt component for $21,479, and the residual value to the debenture conversion option for $1,756.

The June 2019 Debentures were classified as a debenture with the conversion option component classified as an equity instrument. The debenture component was recognized and measured at amortized cost and accreted such that the carrying amount at maturity will equal $27,188, using an effective interest rate of 32%.

The 755,826 common share purchase warrants issued were valued on a relative fair value basis using the following assumptions: stock price of $10.30; expected life of 2 years; $nil dividends; 99.5% volatility; and risk-free interest rate of 1.51%.

The 135,535 broker warrants issued were valued at $161,718, which is recorded in warrant reserve, based on a pro-rata basis of its fair value using the following assumptions: stock price of $10.30; expected life of 2 years; $nil dividends; 99.5% volatility; and risk-free interest rate of 1.51%.

During the fiscal year ended January 30, 2021, $27,168 in principal outstanding of the June 2019 Debentures was settled in cash at maturity. The conversion option carrying value of $1,756 recorded within debenture equity reserves expired and was reclassified to contributed surplus.

**g) 2018 Debentures and LP Debentures**

On July 26, 2018 and August 1, 2018, the Company issued $27,317 in unsecured convertible debentures, bearing coupon rate of 8% per annum with a maturity date of July 31, 2019 (the "2018 Debentures"). The 2018 Debentures were classified as a debenture with a fair value derivative liability component. As at February 2, 2019, the debenture portion and the derivative liability had a carrying value of $25,683 and $11,253, respectively.

During the fiscal year ended February 1, 2020, the 2018 Debentures with principal $7,317 were converted upon completion of the RTO Transaction into 638,071 common shares of the Company at the carrying value of the convertible debenture and derivative liability at the time of conversion, which totalled $9,958.

The remaining $20,000 in principal was amended upon close of the RTO Transaction (the "LP Debentures"). As a result of the amendment and the recognition of the new LP Debentures resulted in a net loss on extinguishment and revaluation of $5,119 during the fiscal year ended February 1, 2020.

The LP Debentures were classified as a debt liability with a fair value derivative liability component with respect to the conversion option. The debt component was recognized at $16,388 and measured at amortized cost and accreted such that the carrying amount at maturity will equal $20,000 using an effective interest rate of 23.5%. The conversion option was initially recognized at $15,660 and measured using the Black-Scholes model and the following assumptions: stock price of $15.00; expected life of 1.5 years; $nil dividends; expected volatility of 95% based on comparable companies; exercise price of $11.50; and risk-free interest rate of 1.81%.

During the fiscal year ended February 1, 2020, $6,000 in principal was early converted resulting in 521,739 shares being issued, with a carrying value of $6,771, of which $1,179 related to the settlement value of the corresponding conversion option derivative liability.

During the fiscal year ended January 30, 2021, the remaining outstanding $14,000 in principal was early converted by the Company. This resulted in 1,217,391 common shares being issued, with a carrying value of $14,244, of which $1,112 related to the settlement value of the corresponding conversion option derivative liability. The provisions of the LP debentures were amended to provide for the forced early conversion of the principal amount by the Company at its sole discretion upon certain share price conditions being met. An additional 4,972 common shares were issued to settle accrued and unpaid interest thereon.

## 16. SHAREHOLDERS' EQUITY AND SHARE BASED ARRANGEMENTS

**a) Share Capital**

The Company is authorized to issue an unlimited number of common shares.

As at January 29, 2022, the Company had 37,015,708 common shares outstanding (January 30, 2021: 23,211,418).

As at January 29, 2022, 839,436 Common Shares were held in escrow in relation to the share consideration issued for the acquisition of Pineapple Express Delivery. During the fiscal year 2021, pursuant to the share purchase agreement by which the Company acquired Friendly Stranger, the Company released 431,758 common shares from escrow, with 53,678 common shares with a carrying value of $53 being cancelled (refer note 7).

*Common Share Consolidation*

In connection with the Nasdaq listing application, on June 9, 2021, the Company's shareholders passed a special resolution approving one or more future consolidations of the Company's issued and outstanding common shares on the basis of a consolidation ratio to be selected by the Board of Directors of the Company (the "Board") of up to ten (10) pre-consolidation common shares for one (1) post-consolidation common share.

On November 29, 2021, the Company announced that it had filed articles of amendment implementing a consolidation of its common shares on the basis of ten (10) pre-consolidation common shares for one (1) post-consolidation common share. On December 1, 2021, the Company completed a ten-to-one share consolidation on its issued and outstanding common shares (the "Share Consolidation"), with common shares trading on a post–consolidation basis commencing on December 2, 2021. The Share Consolidation has been applied retrospectively and as a result, all common shares, options, warrants, restricted share units, and per share amounts are stated on an adjusted post-consolidation basis for all periods presented.

*At-the-Market Offering*

On December 3, 2020, the Company announced it has established an At-the-Market equity program (the "ATM Program"), under which the Company was permitted to issue and sell up to $15,000 of common shares from treasury to the public. All common shares sold under the ATM Program are sold through the TSX or another marketplace where the common shares are listed, quoted or otherwise traded, at the prevailing market price at the time of sale. As at January 30, 2021, the Company issued 839,750 common shares for proceeds, net of transaction costs, of $7,071.

During the fiscal year ended January 29, 2022, the Company completed its ATM Program and issued 817,090 common shares for proceeds, net of transaction costs of $7,618. The Company issued a total of 1,656,840 common shares for proceeds, net of transaction costs, of $14,689 under the ATM Program.

(In thousands of Canadian Dollars, unless otherwise noted)

**b) Warrants**

The following is a summary of the movement in warrants outstanding:

| | January 29, 2022 | | January 30, 2021 | |
|---|---|---|---|---|
| | Warrants | Weighted Average Exercise Price | Warrants | Weighted Average Exercise Price |
| | # | $ | # | $ |
| Balance, beginning of fiscal year | 22,008,570 | 24.90 | 23,253,177 | 17.20 |
| Issued - Investor Warrants A (note 15) | - | - | 352,370 | 14.00 |
| Issued - Investor Warrants B (note 15) | - | - | 1,104,865 | 18.75 |
| Issued - Investor Warrants C (note 15) (1) | - | - | 2,268,686 | variable |
| Cancelled - Investor Warrants A (note 15) | - | - | (3,415,802) | 14.00 |
| Cancelled - Investor Warrants B (note 15) | - | - | (6,717,554) | 18.75 |
| Cancelled - Investor Warrants C (note 15) | - | - | (13,339,078) | variable |
| Issued - amended Series A-1 Warrants (note15) | - | - | 1,314,646 | 7.80 |
| Issued - amended Series A-2 Warrants (note15) | - | - | 1,050,577 | 8.30 |
| Issued - amended Series A-3 Warrants (note15) | - | - | 1,050,577 | 9.30 |
| Issued - amended Series B Warrants (note15) (2) | - | - | 6,717,554 | variable |
| Issued - amended Series C Warrants (note15) (1) | - | - | 13,339,078 | variable |
| Warrants issued -Top-up Series B Warrants (note15) (2) | 1,570,513 | variable | - | |
| Warrants issued -Top-up Series C Warrants (note15) (2) | 4,457,206 | variable | - | |
| Exercised - Investor Warrants | (1,050,577) | 9.30 | (2,365,224) | 7.80 |
| Expired | (901,361) | 14.10 | (2,605,302) | 10.56 |
| **Balance, end of fiscal year** | **26,084,351** | **26.43** | **22,008,570** | **24.93** |
| **Warrants recognized under derivative liability, end of fiscal year (note 15)** | **26,084,351** | **variable** | **20,056,632** | **variable** |

(1) For purposes of weighted average calculations, the exercise price is assumed to be $20.00 for pre-amendment Series C Warrants, and $30.00 for amended Series C Warrants. Exercise price conditions are described under Note 15.

(2) For purposes of weighted average calculations, the exercise price is assumed to be $18.75 for the amended Series B Warrants. Exercise price conditions are described under Note 15. Pre-amended Series B Warrants had a fixed exercise price of $18.75.

The following table reflects the warrants issued and outstanding as at January 29, 2022:

| Expiry dates | Number of warrants outstanding | Exercise price ($) | Grant date fair value per warrant ($) | Remaining contractual Life (years) |
|---|---|---|---|---|
| September 30, 2022 (1) | 6,717,554 | variable | 2.5231 | 0.67 |
| June 30, 2023 (1) | 13,339,078 | variable | 2.2397 | 1.42 |
| September 30, 2022 (2) | 1,570,513 | variable | 0.1230 | 0.67 |
| June 30, 2023 (2) | 4,457,206 | variable | 0.0250 | 1.42 |
| **Total warrants** | **26,084,351** | | | |

(1) Amended Series B Warrants and Amended Series C Warrants are exercisable after January 1, 2022 and October 1, 2022, respectively (note 15).

(2) Top-up Series B Warrants and Top-up Series C Warrants are exercisable after January 1, 2022 and October 1, 2022, respectively (note 15).

As at January 29, 2022, 26,084,351 warrant units were held by ACT (January 30, 2021: 21,107,210 units). The terms of these warrants were amended during the fiscal year January 30, 2021 and are detailed in Note 15.

Excluding the Investor Warrants, the weighted average life for warrants outstanding as at January 29, 2022 was Nil years (January 30, 2021: 0.40 years). See Note 15 for further details on the expiry of the Investor Warrants.

(In thousands of Canadian Dollars, unless otherwise noted)

### c) Stock Options

The following is a summary of the movement in stock options outstanding:

| | January 29, 2022 | | January 30, 2021 | |
|---|---|---|---|---|
| | Options # | Weighted Average Exercise Price $ | Options # | Weighted Average Exercise Price $ |
| Balance, beginning of fiscal year | 1,459,519 | 8.75 | 1,232,948 | 9.70 |
| Issued | 461,251 | 9.94 | 443,750 | 6.50 |
| Exercised | (41,769) | 4.59 | (30,000) | 0.70 |
| Forfeited | (301,178) | 10.54 | (187,179) | 10.17 |
| **Balance, end of fiscal year** | **1,577,823** | **8.87** | **1,459,519** | **8.75** |
| **Exercisable balance, January 29, 2022** | 1,006,669 | 8.30 | 626,369 | 8.30 |

During the fiscal year ended January 29, 2022, the Company recorded an expense of $3,174 (January 30, 2021: $2,512) related to stock options in share-based payments expense and contributed surplus. Stock option related compensation expense is recognized over the vesting period of the underlying options, which typically range from three to four years with the first tranche vesting on the annual anniversary date from grant date, and remaining options vesting in monthly tranches evenly over the remaining vesting period.

The fair value of the options granted was estimated on the date of the grant using the Black-Scholes option pricing model with the following assumptions:

| | Fiscal Year Ended January 29, 2022 | January 30, 2021 |
|---|---|---|
| Options issued (#) | 461,251 | 443,750 |
| Expected option lives range in years | 6 | 4 |
| Volatility range, based on comparable companies | 70%-105% | 85%-105% |
| Risk-free interest rate range | 0.32%-2.13% | 0.32% - 0.38% |
| Share price range | $5.10 - $12.30 | $6.40 -$8.60 |
| Exercise Price range | $5.10 - $12.30 | $5.80 - $8.60 |
| Dividend yield | nil | nil |

The following table reflects the options issued and outstanding as at as at January 29, 2022:

| | Outstanding | | Exercisable | |
|---|---|---|---|---|
| Exercise price per share | Number of Options # | Weighted Average Remaining Contractual Life (years) | Number of Options # | Weighted Average Remaining Contractual Life (years) |
| $0.20 - $5.55 | 254,628 | 1.83 | 224,628 | 1.00 |
| $5.56 - $7.80 | 257,650 | 2.55 | 181,335 | 2.00 |
| $7.81 - $10.10 | 291,750 | 1.81 | 225,114 | 2.00 |
| $10.11 - $10.55 | 400,545 | 4.49 | 82,764 | 2.00 |
| $10.56 - $15.00 | 373,250 | 2.21 | 292,828 | 2.00 |
| **Total** | **1,577,823** | **2.71** | **1,006,669** | **1.78** |

### d) Treasury-settled Restricted Share Units ("RSU")

Under the Company's Treasury Performance and Restricted Share Unit Plan, 85,178 RSUs were issued to the employees and executives of the Company during the fiscal year ended January 29, 2022 (January 30, 2021: Nil). An RSU represents the right to receive a common share of the Company at settlement less applicable tax-related withholdings, or with the consent of the Company, to receive the cash equivalent of a common share at the time of settlement. The share-based compensation expense is recognized using the graded vesting method, where the estimated fair value of RSUs is amortized, by tranche, on a straight-line basis over the vesting period, and accumulates in contributed surplus until settlement/redemption of the RSU by the holder.

(In thousands of Canadian Dollars, unless otherwise noted)

Of the RSUs issued, 33,530 units vested immediately as settlement of bonus liability accrued in the prior fiscal year, while the remaining 51,648 units vest over 3 years at the annual anniversary date from the issuance. The estimated fair value was $907, with $577 recognized in contributed surplus, of which $342 related to RSUs issued to settle bonus liability, and $235 recognized as share-based compensation expense.

As at January 29, 2022, 60,700 RSUs were issued and outstanding (January 30, 2021: Nil), with 51,648 units remaining unvested.

**e) Deferred Share Units ("DSU")**

Under the Company's Deferred Share Unit Plan, certain Directors elect to receive compensation in the form of DSUs. The plan contemplates DSUs being granted at the Market Price based on the 30-day VWAP as at the Award Date, which is predetermined and not subject to any further election once a Director has elected for the year. The DSUs are cash-settled upon a Director ceasing to hold office based on the market price at that time or paid quarterly in arrears.

During the fiscal year ended January 29, 2022, the Company issued a total of 14,945 DSUs at a weighted average price of $7.69 per unit (January 30, 2021: $Nil). Of the DSUs issued during the year, all 14,945 units were outstanding (January 30, 2021: $Nil), with an estimated fair value of $65.

## 17. LOSS PER COMMON SHARE

On December 1, 2021, the Company completed a ten-to-one Share Consolidation, which was applied retrospectively. As a result, the common share amounts and per share amounts are stated on an adjusted post-consolidation basis for all periods presented below (note 16).

| | **Fiscal Year Ended** | |
|---|---|---|
| | **January 29, 2022** | January 30, 2021 |
| Loss attributable to common shares ($) | (63,592) | (78,959) |
| Adjusted net loss attributable to common shares | **(63,592)** | (78,959) |
| Weighted average number of shares outstanding - basic (#) | 33,650,960 | 17,409,674 |
| Weighted average number of shares outstanding - diluted (#) | 33,650,960 | 17,409,674 |
| **Loss per common share, basic ($)** | **(1.89)** | (4.54) |
| **Loss per common share, diluted ($)** | **(1.89)** | (4.54) |

Basic loss per share and diluted loss per share were the same for the fifty-two weeks ended January 29, 2022 and the fiscal year ended January 30, 2021, as the exercise of any potentially dilutive instruments would be anti-dilutive.

(In thousands of Canadian Dollars, unless otherwise noted)

## 18. EXPENSES BY NATURE

Below are the expenses by nature included in selling, general and administrative expenses:

| | Fiscal Year Ended | |
|---|---|---|
| | **January 29, 2022** | January 30, 2021 |
| | **$** | **$** |
| **Selling, general and administrative expenses** | | |
| Salaries and benefits | **33,585** | 23,542 |
| Facility expenses | **7,500** | 5,411 |
| Professional and consulting fees | **5,722** | 3,841 |
| Marketing and promotion | **2,629** | 1,709 |
| Administrative | **7,538** | 5,762 |
| Share-based compensation (note 16) | **3,174** | 2,512 |
| Acquisition and strategic initiative professional fees | **3,094** | 3,000 |
| **Total selling, general and administrative expenses** | **63,242** | 45,777 |

## 19. RESTRUCTURING AND IMPAIRMENT COSTS, NET

| | Fiscal Year Ended | |
|---|---|---|
| | **January 29, 2022** | **January 30, 2021** |
| | $ | $ |
| Impairment of intangible assets (note 13) | 18,943 | 869 |
| Impairment of property, plant and equipment assets (note 11) | 3,734 | 579 |
| Impairment of ROU assets, net of lease liability remeasurement (notes 12) | 1,668 | 1,863 |
| Restructuring charges | 777 | 1,548 |
| **Total restructuring & impairment costs** | **25,122** | **4,859** |

**Impairments**

During the fiscal year ended January 29, 2022, the Company recognized impairment on intangible and fixed assets totalling $18,943 and $3,734 in relation to certain retail operation licences and retail store location assets (January 30, 2021: $869 and $579) and $1,668 related to the ROU assets net of lease liability remeasurement (January 30, 2021: $1,863).

*Impairment of intangible assets*

During the fiscal year ended January 29, 2022, management performed an assessment over its retail portfolio which resulted in an impairment charge of $1,869 in acquired licences for certain retail locations in Ontario and Alberta where the assets were not recoverable, and were ultimately closed subsequent to the year end.

The Company also identified impairment indicators for the Retail CGUs due to recent cannabis licence and permit regulation changes and changes to the competitive landscape which are expected to negatively impact expected future store performance. The recoverable amount of the CGU, which is at the retail store level for retail operations, was estimated based on a FVLCS, using a market-based approach. Key assumptions used in determining FVLCS included expected retail store revenues and a revenue multiple. Revenue multiples were determined by comparison to comparable companies in the Canadian cannabis industry.

The carrying amount of the certain Retail CGUs located in Ontario, Alberta, Saskatchewan and British Columbia exceeded the recoverable amount, and a total of $17,074 in impairment charge was recognized and allocated to licenses associated with those Retail CGUs.

The calculation of FVLCS is most sensitive to the revenue multiple. The sensitivity of the key assumption was calculated independently of any changes in the other key assumptions. A decrease in revenue multiple by 0.2 would result in additional impairment of $2,800 in the Retail CGUs.

(In thousands of Canadian Dollars, unless otherwise noted)

*Impairment of other long-term assets*

Under management's plan to optimize the Company's retail portfolio and strategy, the Company identified certain Ontario and Alberta locations where it no longer intends to open cannabis retail stores. The associated property and equipment were impaired, resulting in a $2,979 impairment charge, and $1,630 of impairment on ROU assets net of associated lease liability payment obligation reduction.

During the fifty-two weeks ended January 29, 2022, the Company also recognized additional impairment on property and equipment of $755 and on ROU assets net of associated lease liability payment obligation reduction remeasurement of $38 for a terminated retail location where the location no longer met the provincial retail operations cannabis licence regulations (January 30, 2021: total of $869 and $1,863 impairment, respectively).

**Restructuring**

During the fiscal year ended January 29, 2022, additional severance costs of $777, has been included under restructuring charges as part of the Company's ongoing formal plan to improve operational efficiency and performance (January 30, 2021: $1,548).

**Impairment and Restructuring Costs Recognized in the Prior Year**

*Prior year impairment of intangible assets*

During the prior fiscal year ended January 30, 2021, the Company recognized $868 of impairment charges related to the write-off of a licence for a location that was restructured and closed, and in which the carrying value exceeded the recoverable amount. The recoverable amount was estimated based on a VIU approach.

*Prior year impairment of other long-term assets*

During the prior fiscal year ended January 30, 2021, the Company recognized $580 of net impairment charges. The net impairment charges include i) $1,489 related to impairment reversals of locations that were restructured from preceding year, and subsequently achieved improved operating performance, ii) $1,040 related to locations that were terminated during the year, iii) $483 related to additional adjustments for restructured locations, and iv) $546 related to the write down of capital assets under the expired asset purchase agreements with Flora (Dawson) Enterprises Inc. and Tridelion Enterprises Inc.

During the prior fiscal year ended January 30, 2021, the Company recognized a net impairment charge of $1,863 on $9,729 of right-of-use assets, net of associated lease liability payment obligation reductions of $7,822, and $44 related to other restructuring provision drawdown. The impairments related to locations that were terminated, and certain leases under the expired asset purchase agreements with Flora (Dawson) Enterprises Inc. and Tridelion Enterprises Inc. (note 7).

## 20. FINANCE COSTS, NET

Finance costs are comprised of the following:

| | Fiscal Year Ended | |
|---|---|---|
| | **January 29, 2022** | January 30, 2021 |
| | **$** | **$** |
| Interest expense on lease liabilities (note 12) | **4,670** | 3,147 |
| Interest expense on debentures and loans (note 15) | **2,734** | 19,999 |
| Transaction costs - issuance of debentures and loans (note 15) | **-** | 1,686 |
| Other finance (income) costs | **(159)** | 52 |
| **Total Finance costs, net** | **7,245** | 24,884 |

## 21. FINANCIAL INSTRUMENTS

The Company's risk exposures and the impact of the financial instruments are summarized below.

**a) Interest Risk**

The Company is exposed to interest rate risk to the extent that cash and investments maintained at financial institutions may fluctuate with the prevailing market rate. The Company invests surplus cash in GIC's which accumulate interest at the prevailing rate. As at January 29, 2022, the Company had cash and cash equivalents of $19,847 (January 30, 2021: $30,613), restricted cash of $Nil (January 30, 2021: $4,254), and outstanding debentures and loans of $21,824 (January 30, 2021: $33,654). Interest earned on the Company's surplus cash is not significant and the Company's financial liabilities have fixed rates of interest; therefore, the Company is not exposed to any significant interest rate fair value risk.

**b) Credit Risk**

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Company's cash and cash equivalents, restricted cash, and trade and other receivables. The Company's cash and cash equivalents include petty cash, store cash flows, and cash held at Canadian financial institutions, which management believes the risk of loss is minimal. The Company's financial assets subject to credit risk includes trade accounts receivable balances of $12,386, which primarily arise from the Company's Wholesale Distribution and Digital operating segments (January 30, 2021: $4,283). The Company's point-of-sale retail stores operations do not give rise to significant accounts receivable amounts.

The Company limits the total exposure to individual customer counterparties by maintaining a credit policy, which sets forth prepayment or short net credit term requirements for trade customers in order to mitigate losses from non-collection of trade receivables.

The carrying amount of cash and cash equivalents, restricted cash, short term investments and trade and other receivables represent the maximum exposure to credit risk and at January 29, 2022, this amounted to $35,795 (January 30, 2021: $41,115), and provision for expected credit loss allowances related to trade account receivables was $410 as at January 29, 2022 (January 30, 2021: $9).

**c) Liquidity Risk**

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company's ability to satisfy its liquidity needs and meet future growth targets is dependent on increasing revenues, improving profitability and cash flows from operations, availability of funding from debt, warrants and other capital market alternatives. Management continually evaluates the Company's liquidity risk by reviewing immediate capital requirements and ensuring planning and budgeting controls and processes are in place to ensure sufficient funds are available to fund the Company's normal operations, including lease payments for locations secured for future store operations.

(In thousands of Canadian Dollars, unless otherwise noted)

| As at January 29, 2022 | Carrying amount | Contractual Cash Flows | Less than 1 year | 1 to 3 years | 3 to 5 years | More than 5 years |
|---|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ | $ |
| Accounts payable and accrued liabilities | 21,697 | 21,697 | 21,697 | - | - | - |
| Debentures and loans (note 15) | 21,824 | 22,477 | 20,070 | 2,407 | - | - |
| Derivative liability (note 15) | 2,720 | 2,720 | 1,349 | 1,371 | - | - |
| Undiscounted lease obligations (note 12) | 52,203 | 62,557 | 9,637 | 24,266 | 13,751 | 14,903 |
| Total | 98,444 | 109,451 | 52,753 | 28,044 | 13,751 | 14,903 |

| As at January 30, 2021 | Carrying amount | Contractual Cash Flows | Less than 1 year | 1 to 3 years | 3 to 5 years | More than 5 years |
|---|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ | $ |
| Accounts payable and accrued liabilities | 20,049 | 20,049 | 20,049 | - | - | - |
| Debentures and loans | 33,654 | 57,756 | 29,407 | 25,990 | - | 2,359 |
| Derivative liability | 66,317 | 66,317 | - | 66,317 | - | - |
| Undiscounted lease obligations | 45,906 | 57,903 | 8,823 | 22,731 | 11,335 | 15,014 |
| | 165,926 | 202,025 | 58,279 | 115,038 | 11,335 | 17,373 |

As January 29, 2022, the Company had $19,847 (January 30, 2021: $30,613) of cash and cash equivalents.

The Company's non-current financial liabilities are comprised of convertible debentures and derivative liabilities including warrants, which have varying contractual maturity/expiry dates, and are described under note 15 and note 16. All other financial liabilities of the Company are current.

During the fiscal year ended January 29, 2022, the Company completed its ATM Program and issued 817,090 common shares for proceeds, net of transaction costs of $7,618 (January 30, 2021: $7,071). The Company issued a total of 1,656,840 common shares for proceeds, net of transaction costs, of $14,689 under the ATM Program. Refer to note 16.

The Company's primary sources of liquidity are cash, warrants proceeds, equity financing and cash flows from operations primarily from the Digital Platform and Wholesale operating segments. The Company's warrants are held by a wholly-owned subsidiary of ACT, exercisable after January 1, 2022, and totalled 20,056,632 units as at January 29, 2022, of which 6,717,554 are exercisable after January 1, 2022, and 13,339,078 are exercisable after October 1, 2022, with maximum exercise price range $18.75 - $30.00 (notes 15 and 16). The ACT Loan Agreement contemplates prepayment of amounts drawn from the net proceeds received by the Company upon the exercise of Series B Warrants held by ACT. On April 19, 2022, the Company received notice from ACT of its commitment to exercise 8,288,067 Series B Warrants prior to the completion of the quarter ending April 30, 2022. The proceeds will be calculated based on a 20-day VWAP share price, and proceeds are estimated to be between $38,540 and $42,734. As discussed in Note 15 the proceeds will first be used to settle the short-term debt of $20,000 and related accrued interests outstanding with ACT with the remaining amounts being added to cash on hand.

(In thousands of Canadian Dollars, unless otherwise noted)

**d) Foreign currency risk**

Foreign currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate due to changes in foreign exchange rates. The Company incurs certain revenues and expense transactions and has assets and liabilities in U.S. dollars and is therefore subject to gains or losses due to fluctuations in the U.S. dollar relative to the Canadian dollar. The Company does not use derivative instruments to reduce its exposure to foreign currency risk.

The Company is exposed to foreign currency risk through the following asset and liabilities denominated in U.S. dollars:

| | January 29, 2022 | January 30, 2021 |
|---|---|---|
| | $ | $ |
| Cash and cash equivalents | 301 | - |
| Trade and other receivables | 598 | 4 |
| Accounts payable and accrued liabilities | (211) | (32) |
| | 688 | (28) |

Assuming all variables remain constant, a change in foreign exchange rates of 10% between the U.S and Canadian dollar would impact the Company's net assets by $69 (January 30, 2021: $3).

**e) Fair Value of Financial Instruments**

The Company classifies fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 - Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 - Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Carrying value approximates the fair value for cash and cash equivalents, restricted cash, trade and other receivables, other current assets and accounts payable and accrued liabilities.

The following table provides the fair value measurement hierarchy of the Company's financial assets and liabilities measured as at January 29, 2022 and January 30, 2021:

| As at January 29, 2022 | Total - Carrying Amount | Total - Fair Value | Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ |
| Debentures and loans (note 15) | 21,824 | 21,824 | - | 20,070 | 1,754 |
| Derivative liability (note 15) | 2,720 | 2,720 | - | - | 2,720 |

| As at January 30, 2021 | Total - Carrying Amount | Total - Fair Value | Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ |
| Debentures and loans (note 15) | 33,654 | 33,654 | - | 2,359 | 31,295 |
| Derivative liability (note 15) | 66,317 | 66,317 | - | - | 66,317 |

There were no transfers between Level 1, Level 2 or Level 3 during the fiscal years ended January 29, 2022 and January 30, 2021.

(In thousands of Canadian Dollars, unless otherwise noted)

## 22. RELATED PARTY TRANSACTIONS

As a result of transactions described in note 15, ACT is a related party. During the fiscal year ended January 29, 2022, the following transactions occurred with ACT:

- $23,583 in convertible debenture conversions (January 30, 2021: $Nil) (note 15), $463 of coupon interest settlement (January 30, 2021: $1,057)
- $29,407 of the April 2020 Debentures were converted (January 30, 2021: $100) (note 15), $1,139 of coupon interest settlement (January 30, 2021: $Nil)
- Exercised 1,050,577 warrants and the Company received gross proceeds of $9,769, respectively (January 30, 2021: $20,818)
- Sub-lease rental and management fee charges of $322, respectively, were incurred for certain retail locations where the Company has sub-lease arrangements with ACT (January 30, 2021: $176)
- $20,000 ACT Secured Debt Facility (note 15) and $70 interest expense
- The Company issued an additional 1,570,513 Series B Warrants, and 4,457,206 Series C Warrants, for an aggregate issuance of 6,027,719 warrants described further under Note 15
- As at January 29, 2022, $429 of capital expenditure charges remain payable to ACT, and was recognized under Other Liabilities (January 30, 2021: $429)

*Store Co-location Program with ACT*
During the fiscal year ended January 29, 2022, the Company entered into certain master franchise agreements with a subsidiary of ACT (the "Franchisee"), where the Franchisee has the right to develop and operate (and sub-franchise and sub-license such rights to others) cannabis retail outlets utilizing the Company's brand trademarks, intellectual property, and operating plans and system of design. The agreements cover the operation of such franchises in the Canadian provinces of Alberta, Manitoba and Saskatchewan, and will advance the Company's strategic initiative to continue to open new Fire & Flower™ branded cannabis retail stores adjacent to ACT operated Circle K stores located in new markets across Canada.

*Fire & Flower U.S. Holdings Inc. Investment*
As at January 29, 2022, the Chief Executive Officer, directly or indirectly, held control or direction over approximately 5% of the common shares of Fire & Flower US, which has entered into a licensing agreement and purchase option agreement with the Company as described in Note 7.

**Key Management Compensation**

Compensation for key management personnel, including the Company's officers and Board of Directors and private companies controlled by Officers and Directors, was as follows:

| | Fiscal Year Ended | |
|---|---|---|
| | **January 29, 2022** | **January 30, 2021** |
| | **$** | **$** |
| Salaries and consulting fees(2) | **3,394** | 1,614 |
| Share-based payments(1) | **838** | 1,031 |
| Directors' board fees | **665** | 475 |
| **Total** | **4,897** | **3,120** |

(1) *Includes base salary and management fees elected to be paid in common shares of the Company. See further details below.*

(2) *Excludes bonuses earned and yet to be paid out, which totalled $660 as at January 29, 2022 (January 30, 2021: $600). As at January 29, 2022, the non-current portion of bonus payable recognized under Other Liabilities totalled Nil (January 30, 2021: $250).*

(In thousands of Canadian Dollars, unless otherwise noted)

During the fiscal year ended January 29, 2022, a total of 166,206 stock options were issued to the Company's officers and directors (January 30, 2021: 105,000), with an exercise price range of $10.20 - $12.30 (January 30, 2021: $5.80 - $6.00), and maturity date range of March 23, 2025 to April 26, 2027 (January 30, 2021: April 29, 2024).

During the fiscal year ended January 30, 2022, as part of the final installment of share consideration, a total of 45,000 common shares (January 30, 2021: 65,000 common shares) were issued in relation to Hifyre Inc. acquisition (note 7) to the vendor who is now a designated officer of the Company.

Under the Company's amended and restated management services agreement with JNZS (the "JNZS Agreement"), JNZS received from the Company a fee of $300 for each of the calendar years 2020 and 2021 (collectively, the "JNZS Fee"). Pursuant to the terms of the original agreement entered into on January 1, 2018 as amended by a supplemental management services agreement entered into on August 17, 2018, JNZS elected to receive half of the JNZS Fee for the 2019 calendar year by the issuance of 133,333 common shares. The former Chairman of the Board, Harvey Shapiro, as the service provider, is also eligible to participate in the Company's bonus plans and stock option plans. During the fiscal year ended January 29, 2022, $200 in management service fees was incurred (January 30, 2021: $275), of which $Nil was charged as share-based payment expense (January 30, 2021: $Nil). During the fiscal year, the JNZS Agreement expired in accordance its terms and is no longer in effect.

## 23. SUPPLEMENTAL CASH FLOW INFORMATION

| | Fiscal Year Ended | |
|---|---|---|
| | **January 29, 2022** | **January 30, 2021** |
| | **$** | **$** |
| Changes in non-cash working capital - operating activities | | |
| Merchandise inventories | (2,620) | (1,780) |
| Trade and other receivables | (8,738) | (1,170) |
| Deposits held in trust | 1,621 | (1,259) |
| Prepaid expenses and other current assets | (1,369) | 1,987 |
| Deferred revenue | 377 | (169) |
| Accounts payable, accrued liabilities and other | (1,737) | 4,671 |
| **Total** | **(12,466)** | **2,280** |
| **Non-cash investing and financing activities** | | |
| Acquisition of property, plant and equipment and intangible assets - working capital | (1,279) | (6,151) |
| Acquisition of retail stores and licences | (100) | (31,493) |

Non-cash investing and financing activities disclosed in other notes are:

- Acquisition of ROU assets – Note 12
- Conversion and settlements of debentures and coupon interest via issue of common shares – Note 15

## 24. CAPITAL RISK MANAGEMENT

The Company's objective is to maintain sufficient capital base so as to maintain investor, creditor and customer confidence and to sustain future development of the business. The Company currently has not paid any dividends to its shareholders.

As at January 29, 2022, total capital was comprised of shareholders' equity of $115,692.

The Company's objective when managing capital is to safeguard the Company's ability to continue as a going concern while maintaining adequate flexibility to invest in opportunities which will provide attractive returns to shareholders.

Management has chosen to mitigate the risk and uncertainty associated with raising additional capital within current economic conditions and manages its capital by:

i) maintaining a liquidity cushion in order to address any potential disruptions or industry downturns;
ii) minimizing discretionary disbursements; and
iii) reducing or eliminating expansion expenditures which are of limited strategic value.

In light of the above, the Company will continue to assess retail locations and seek to acquire an interest in additional locations if it believes there is sufficient potential and if it has adequate financial resources to do so.

Management reviews its capital management approach on an ongoing basis. There were no changes in the Company's approach to capital management during the fiscal year ended January 29, 2022 and January 30, 2021. As at January 29, 2022, the Company was not subject to externally imposed capital requirements. Changes in capital are described in the statement of changes in shareholders' equity.

## 25. COMMITMENTS AND CONTINGENCIES

**a) Supply agreement commitments**

In April 2018, the Company entered into two three-year supply agreements for the purchase of cannabis, with the option to renew for two additional years at the Company's discretion, with annual renewal dates set at April 16 and September 30, respectively. Under the terms of each agreement the annual purchase amount is based on the ability of the Company to purchase cannabis products from the supplier under applicable laws and regulations, with a maximum annual commitment of $5,000, subject to set off against amounts owing by the counterpart to the Company and adjustment based on the proportion of cannabis retail licences held by the Company in jurisdictions permitting such agreements as of the annual renewal date and at prices determined by an applicable provincial regime or, where a provincial regime is silent as to price, negotiated in good faith.

Upon closing of the Mera Acquisition on October 17, 2019, the Company entered into a supply agreement with Mera (the "Supply Agreement") pursuant to which the Company will be the exclusive distributor of Mera's adult-use cannabis products in the province of Saskatchewan and the Company will purchase Mera's adult-use cannabis products for re-sale at its retail locations, in provinces where this is permitted.

**b) Contingencies**

The Company is involved in certain claims and litigation on matters related to employment and lease arrangements. The Company views these as routine litigation matters that the Company is expected to be involved with in the normal course of business. Certain outcomes of these matters are uncertain, and therefore there can be no assurance that such matters will be resolved in the Company's favour.

On April 28, 2021, the Company was served with a Notice of Civil Claim in the Supreme Court of British Columbia by Flora (Dawson Creek) Enterprises Inc., Flora (Prince George) Enterprises Inc. and Tridelion Enterprises Inc., as plaintiffs, with respect to four asset purchase agreements for cannabis retail store locations in Kamloops, Vernon, Prince George and Quesnel, British Columbia which the parties agreed to terminate on April 6, 2020. The claim alleges breach by the Company of the asset purchase agreements and seeks an undefined amount of damages, a portion of which includes claims for the remainder of the purchase price under the terminated asset purchase agreements related to such cannabis retail stores, totaling approximately $8 million.

The Company records a liability when it is probable that a loss has been incurred and the amount can be reasonably estimated. No legal provisions have been recognized in respect to the claims above as at January 29, 2022 (January 30, 2021: $Nil). As at January 29, 2022, based on information available, the Company has not identified any outcomes that will have a material adverse effect on the Company's financial position, results of operations or cash flows.

(In thousands of Canadian Dollars, unless otherwise noted)

## 26. SEGMENTED INFORMATION

The Company's reportable segments, organized based on products and services, are as follows: (1) The Retail segment which sells cannabis products and accessories to the adult-use market in provinces where the sale of cannabis by private retailers is legal, and operates under retail banners Fire & Flower™, Friendly Stranger™, Happy Dayz™, and Hotbox™; (2) The Wholesale Distribution segment which distributes cannabis products and accessories; and (3) The Digital Platform segment which sells products and services provided by the Hifyre™ digital and analytics platform, PotGuide content platform and Pineapple Express Delivery.

The Chief Operating Decision Maker ("CODM") assesses segment performance based on segment operating income or loss. During the fiscal year ended January 29, 2022, certain departmental costs previously presented under the Retail segment and their allocation to the other business lines and corporate segments were updated to better reflect how the Company services its customers and markets. Comparative period selling, general and administrative expense within the segments have been reclassified to conform to the current period's presentation.

With the acquisition of PotGuide (note 7), and the Company's strategic license agreement with BDS Analytics Inc. ("BDSA") during the fiscal year ended January 29, 2022, the Digital Platform segment expanded its presence into the USA. All other segments operate within Canada. Information on the Company's reporting segments are detailed below.

| **Information about reportable segments**<br>**Fiscal Year Ended January 29, 2022** | **Retail** | **Wholesale distribution** | **Digital platform** | **Corporate** | **Consolidated** |
|---|---|---|---|---|---|
| | **$** | **$** | **$** | **$** | **$** |
| Revenues | 130,823 | 30,336 | 14,340 | - | 175,499 |
| Intercompany revenues[1] | - | 14,192 | 4,719 | - | 18,911 |
| Eliminations and adjustments | - | (14,192) | (4,719) | - | (18,911) |
| **Total revenues** | **130,823** | **30,336** | **14,340** | **-** | **175,499** |
| Cost of sales | (93,277) | (23,924) | (109) | - | (117,310) |
| Intercompany cost of sales | - | (10,512) | - | - | (10,512) |
| Eliminations and adjustments | 3,905 | 10,512 | - | - | 14,417 |
| **Gross profit** | **41,451** | **6,412** | **14,231** | **-** | **62,094** |
| Selling, general and administrative expenses | (44,947) | (1,687) | (6,523) | (14,804) | (67,961) |
| Eliminations and adjustments | 4,719 | - | - | - | 4,719 |
| Depreciation and amortization | - | - | - | (19,080) | (19,080) |
| Restructuring and impairment costs, net | - | - | - | (25,122) | (25,122) |
| Loss on revaluation of derivative liability | - | - | - | (8,545) | (8,545) |
| Finance costs, net | - | - | - | (7,245) | (7,245) |
| **Income (loss) before tax** | 1,223 | 4,725 | 7,708 | (74,796) | **(61,140)** |

1. Sales between segments are made at prices that approximate market prices.

| **As at January 29, 2022** | | | | | |
|---|---|---|---|---|---|
| Total non-current assets | **137,199** | **1,992** | **30,298** | **725** | **170,214** |
| Total assets | **157,748** | **14,579** | **39,996** | **10,557** | **222,880** |
| Total non-current liabilities | **46,192** | **258** | **3,770** | **2,710** | **52,930** |
| Total liabilities | **62,190** | **7,847** | **9,388** | **27,763** | **107,188** |

(In thousands of Canadian Dollars, unless otherwise noted)

| **Information about reportable segments**<br>**Fiscal Year Ended January 30, 2021** | **Retail** | **Wholesale distribution** | **Digital platform** | **Corporate** | **Consolidated** |
|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ |
| Revenues | 101,497 | 20,300 | 6,256 | - | 128,053 |
| Intercompany revenues[1] | - | 12,278 | 4,604 | - | 16,882 |
| Eliminations and adjustments | | (12,278) | (4,604) | - | (16,882) |
| **Total revenues** | **101,497** | **20,300** | **6,256** | - | **128,053** |
| Cost of sales | (68,412) | (16,234) | - | - | (84,646) |
| Intercompany cost of sales | - | (10,239) | - | - | (10,239) |
| Eliminations and adjustments | 2,012 | 10,239 | - | - | 12,251 |
| **Gross profit** | **35,097** | **4,066** | **6,256** | - | **45,419** |
| Selling, general and administrative expenses | (32,162) | (1,161) | (4,489) | (12,569) | (50,381) |
| Eliminations and adjustments | 4,604 | - | - | - | 4,604 |
| Depreciation and amortization | - | - | - | (12,345) | (12,345) |
| Restructuring and impairment costs, net | - | - | - | (4,859) | (4,859) |
| Gain on revaluation of derivative liability | - | - | - | 18,638 | 18,638 |
| Loss on extinguishment and revaluation of debentures | - | - | - | (53,152) | (53,152) |
| Finance costs, net | - | - | - | (24,884) | (24,884) |
| **Income (loss) before tax** | **7,539** | **2,905** | **1,767** | **(89,171)** | **(76,960)** |

[1] *Sales between segments are made at prices that approximate market prices.*

| **As at January 30, 2021** | | | | | |
|---|---|---|---|---|---|
| Total non-current assets | **158,037** | **1,993** | **32** | - | **160,062** |
| Total assets | **200,499** | **8,785** | **3,444** | **654** | **213,382** |
| Total non-current liabilities | **50,208** | **5** | **54** | **99,149** | **149,416** |
| Total liabilities | **67,637** | **5,522** | **2,703** | **101,845** | **177,707** |

| **Fiscal Year Ended January 29, 2022** | **Canada**<br>**January 29, 2022** | **Canada**<br>**January 30, 2021** | **USA**<br>**January 29, 2022** | **USA**<br>**January 30, 2021** | **Total**<br>**January 29, 2022** | **Total**<br>**January 30, 2021** |
|---|---|---|---|---|---|---|
| Total revenues | 174,912 | 128,053 | 587 | - | 175,499 | 128,053 |
| Gross profit | 61,507 | 45,419 | 587 | - | 62,094 | 45,419 |
| Income (loss) from operations | (45,424) | (17,562) | 74 | - | (45,350) | (17,562) |

| **As at January 29, 2022** | | | | | | |
|---|---|---|---|---|---|---|
| Total non-current assets | **158,244** | **108,925** | **11,970** | - | **170,214** | **108,925** |
| Total assets | **210,510** | **153,594** | **12,370** | - | **222,880** | **153,594** |
| Total non-current liabilities | **51,468** | **96,408** | **1,462** | - | **52,930** | **96,408** |
| Total liabilities | **105,730** | **150,931** | **1,458** | - | **107,188** | **150,931** |

(In thousands of Canadian Dollars, unless otherwise noted)

## 27. INCOME TAXES

### a) Provision for income taxes

Income tax expense differs from the amount that would result from applying the income tax rates from the applicable tax jurisdictions to income or loss before income taxes. These differences result from the following:

| | Fiscal Year Ended January 29, 2022 | January 30, 2021 |
|---|---|---|
| | **$** | **$** |
| Combined statutory income tax rate | **26.50%** | 26.50% |
| Loss before income tax | **(61,140)** | (76,960) |
| Expected tax recovery based on statutory rate | **(16,202)** | (20,394) |
| Adjustments to expected income tax benefit: | | |
| Share-based payments | **841** | 667 |
| Non taxable loss (gain) related to derivative revaluations | **2,265** | 9,146 |
| Non-deductible expenses | **1,467** | 6,076 |
| Change in unrecorded deferred tax asset | **14,081** | 6,504 |
| **Total income tax provision** | **2,452** | 1,999 |
| The Company's income tax provision is allocated as follows: | | |
| Current tax expense | **5,313** | **2,049** |
| Deferred tax recovery | **(2,861)** | **(50)** |
| | **2,452** | 1,999 |

### b) Deferred income tax

The following table summarizes the components of deferred tax:

| | Fiscal Year Ended January 29, 2022 | January 30, 2021 |
|---|---|---|
| **Deferred tax assets** | **$** | **$** |
| Non-capital loss carry-forwards | **34,748** | 18,864 |
| Property, Plant and Equipment | **-** | 925 |
| Right of Use assets | **2,734** | 830 |
| Accretion, provision and accrued reserves | **-** | 2,074 |
| Finance costs | **1,134** | 1,633 |
| Other | **158** | 158 |
| **Total** | **38,774** | 24,484 |
| **Deferred tax liabilities** | **$** | **$** |
| Property, Plant and Equipment | **(4,961)** | (375) |
| Intangible assets - retail operator licence and retail store authorizations | **(2,681)** | (6,502) |
| Right of Use assets | **-** | (46) |
| Tax benefits not recognized | **(32,881)** | (23,012) |
| **Total** | **(40,523)** | (29,935) |
| **Net deferred tax liabilities** | **(1,749)** | (5,451) |

Deferred tax assets and liabilities have been offset where they relate to income taxes levied by the same taxation authority and the Company has the legal right and intent to offset.

(In thousands of Canadian Dollars, unless otherwise noted)

Movement in net deferred tax liability balances is as follows:

| | Fiscal Year Ended January 29, 2022 | January 30, 2021 |
|---|---|---|
| | $ | $ |
| **Balance, beginning of fiscal year** | 5,451 | - |
| Acquisitions - purchase accounting (note 7) | (841) | 5,501 |
| Recognized as deferred tax recovery | (2,861) | (50) |
| **Balance, end of fiscal year** | **1,749** | 5,451 |

### c) Loss Carry-Forwards

As at January 29, 2022, the Company's non-capital income tax losses expire as follows:

| Fiscal Year | $ |
|---|---|
| 2038 | 18,826 |
| 2039 | 6,649 |
| 2040 | 33,951 |
| 2041 | 23,655 |
| 2042 | 46,296 |
| | **129,377** |

Deferred tax assets have not been recognized in respect of these items because it is not probable that future taxable profit will be available against which the Company can use the benefits.

## 28. SUBSEQUENT EVENTS

**Warrants Exercise**

On April 19, 2022, the Company received notice from ACT of its intention to exercise 8,288,067 Series B Warrants. Following the exercise of such Series B Warrants, ACT will hold approximately 35.3% of the issued and outstanding Common Shares. Refer to note 21.

CONSOLIDATED FINANCIAL STATEMENTS OF

# Fire & Flower Holdings Corp.

FOR THE FISCAL YEARS ENDED DECEMBER 31, 2022 AND JANUARY 29, 2022

## MANAGEMENT'S REPORT

Management is responsible for preparing the consolidated financial statements and the notes hereto. These consolidated financial statements have been prepared in conformity with International Financial Reporting Standards, as issued by the International Accounting Standards Board, using the best estimates and judgments of management, where appropriate.

Management is also responsible for maintaining a system of internal controls designed to provide reasonable assurance that assets are safeguarded and that accounting systems provide timely, accurate and reliable information.

The Board of Directors is responsible for approving the consolidated financial statements, primarily through its Audit Committee. This committee, which holds periodic meetings with members of management as well as with the independent external auditors, reviewed the consolidated financial statements and recommended their approval to the Board of Directors.

The external auditors have full and unrestricted access to the Audit Committee to discuss their audits and related findings as to the integrity of the financial reporting process.

/s/ "Stéphane Trudel"
Stéphane Trudel,
Chief Executive Officer

/s/ "John Chou"
John Chou,
Chief Financial Officer

March 27, 2023

# Independent auditor's report

To the Audit Committee of Fire & Flower Holdings Corp.

## Our opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Fire & Flower Holdings Corp. and its subsidiaries (together, the Company) as at December 31, 2022 and January 29, 2022, and its financial performance and its cash flows for the 48 weeks ended December 31, 2022 and the 52 weeks ended January 29, 2022 in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS).

**What we have audited**
The Company's consolidated financial statements comprise:

- the consolidated statements of financial position as at December 31, 2022 and January 29, 2022;
- the consolidated statements of loss and comprehensive loss for the 48 weeks ended December 31, 2022 and the 52 weeks ended January 29, 2022;
- the consolidated statements of changes in shareholders' equity for the 48 weeks ended December 31, 2022 and the 52 weeks ended January 29, 2022;
- the consolidated statements of cash flows for the 48 weeks ended December 31, 2022 and the 52 weeks ended January 29, 2022; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

## 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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**Independence**
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. We have fulfilled our other ethical responsibilities in accordance with these requirements.

PricewaterhouseCoopers LLP
PwC Centre, 354 Davis Road, Suite 600, Oakville, Ontario, Canada L6J 0C5
T: +1 905 815 6300, F: +1 905 815 6499

## Material uncertainty related to going concern

We draw attention to note 1 to the consolidated financial statements, which describes events or conditions that indicate the existence of a material uncertainty that may cast significant doubt about 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 judgment, were of most significance in our audit of the consolidated financial statements for the 48 weeks ended December 31, 2022 and the 52 weeks ended January 29, 2022. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| **Impairment assessment of goodwill and non-current assets for the Retail and Digital CGUs**<br><br>*Refer to note 4 – Summary of significant accounting policies, note 7 – Critical accounting estimates and judgments, note 14 – Intangible assets and goodwill, note 20 – Restructuring and impairment costs, net and note 27 – Segmented information to the consolidated financial statements.*<br><br>The Company has goodwill of $6.0 million and non-current assets, including property, plant and equipment, right-of-use assets and intangible assets, of $117.7 million as at December 31, 2022. Of these amounts, $1.1 million and $93.4 million and $0.5 million and $16.5 million relate to the Retail and Digital CGUs respectively. Goodwill is tested for impairment annually, or more frequently if events or circumstances indicate that it may be impaired. Non-current assets are evaluated for indicators of impairment at the end of each reporting period. When any indication of impairment exists, or at the date of the annual impairment test for goodwill, management estimates the recoverable amount of the cash-generating unit (CGU) to which the asset relates to determine the extent of any impairment charge. | Our approach to addressing the matter included the following procedures, among others:<br><br>• Tested how management determined the recoverable amounts of the Retail and Digital CGUs, which included the following:<br>– Tested the appropriateness of the models and approach used.<br>– Tested the underlying data used in the recoverable amount calculations.<br><br>• For the Digital CGU, with the assistance of professionals with specialized skill and knowledge in the field of valuation, developed an independent point estimate of the recoverable amount of the CGU using a historical revenue multiple based on comparable market data and compared the recoverable amount from our independent point estimate to management's recoverable amount to evaluate the reasonability of management's estimate.<br><br>• For the Retail group of CGUs to which goodwill is allocated and the store level Retail CGUs for non-current assets, tested management's process to estimate the recoverable amounts, which included the following: |

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| A CGU is the lowest level of a group of assets for which there are separately identifiable cash flows.<br><br>For the Retail CGUs, goodwill is allocated to the group of store level Retail CGUs and non-current assets are tested at the store level Retail CGU. The recoverable amount of a CGU is the higher of its fair value less cost to sell (FVLCS) and value in use (VIU). When the recoverable amount of the CGU is lower than the carrying amount, the carrying amount is reduced to the recoverable amount.<br><br>During the thirteen weeks ended October 29, 2022, management identified that there were indications of impairment associated with the Company's Digital CGU as a result of the evaluation of observable external and internal factors, and proceeded to test the Digital CGU for impairment as at October 29, 2022 and then subsequently as at December 31, 2022, the date of its annual impairment test. As at October 29, 2022, the Company recognized an impairment of goodwill of $11.5 million. As at December 31, 2022, the recoverable amount was determined to be higher than the carrying amount and as such, no further impairment charge was recognized. For the Digital CGU, management applied the VIU model. Key assumptions used in the VIU model included annual revenue growth over the next 5 years, the terminal growth rate beyond the 5-year cash flow projection and the post-tax discount rate.<br><br>For the goodwill allocated to the Retail group of CGUs as at December 31, 2022 management applied the FVLCS model using a market-based approach. Based on the impairment test performed, the carrying amount of the Retail CGU was determined to be higher than the recoverable amount and as a result, $13.4 million of impairment was recognized. In addition, impairment indicators were identified for the Retail | - Evaluated the reasonableness of the revenue forecasts used by management by comparing them to the revenue forecasts approved by the Board of Directors and by considering past performance of the CGUs (at the individual store level and for the group of CGUs to which goodwill is allocated).<br>- Professionals with specialized skill and knowledge in the field of valuation assisted in evaluating the reasonableness of the revenue multiple based on comparative market data.<br><br>• Evaluated the reasonableness of the consolidated value of the recoverable amounts of the CGUs by comparing to the Company's market capitalization.<br>• Tested the disclosures made in the consolidated financial statements, particularly with regard to the sensitivity of the key assumptions used by management. |

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| CGUs for non-current assets as a result of changes in the competitive landscape, which are expected to negatively impact expected future store performance. The recoverable amounts of these CGUs, which is at the retail store level for retail operations, was estimated based on the FVLCS model using a market-based approach. As a result of the test performed, the carrying amount of certain Retail CGUs exceeded the recoverable amount, and a total of $5.4 million in impairment charges was recognized on store licenses and $0.2 million in impairment charges was recognized on leasehold improvements associated with those Retail CGUs. For both the goodwill and non-current asset impairment tests, key assumptions used by management in the FVLCS model include the revenue multiple and revenue forecasts.<br><br>We considered this a key audit matter due to the judgment by management in determining the recoverable amounts of the CGUs, including the determination of key assumptions. This has resulted in a high degree of subjectivity and audit effort in performing procedures to test the key assumptions. Professionals with specialized skill and knowledge in the field of valuation assisted us in performing our procedures. | |

## Other information

Management is responsible for the other information. The other information comprises the Management's Discussion and Analysis.

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 identified above 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.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

## Responsibilities of management and those charged with governance for the consolidated financial statements

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

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

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

## Auditor's responsibilities for the audit of the consolidated financial statements

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We 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 Neil Rostant.

**/s/PricewaterhouseCoopers LLP**

Chartered Professional Accountants, Licensed Public Accountants

Oakville, Ontario
March 27, 2023

# Fire & Flower Holdings Corp.

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(In thousands of Canadian Dollars)

| | **As at December 31, 2022** | As at January 29, 2022 |
|---|---|---|
| | **$** | **$** |
| **Assets** | | |
| Current assets | | |
| Cash | 12,425 | 19,847 |
| Trade and other receivables (note 8) | 15,289 | 15,948 |
| Merchandise inventories (note 9) | 12,271 | 12,458 |
| Prepaid expenses, deposits, and other current assets | 2,358 | 4,413 |
| Lease receivables (note 12) | 242 | - |
| **Total current assets** | **42,585** | 52,666 |
| Non-current assets | | |
| Deposits | 3,165 | 3,305 |
| Refundable deposit to acquire (note 10) | 7,112 | - |
| Property and equipment, net (note 11) | 36,845 | 47,500 |
| Lease receivables (note 12) | 1,414 | - |
| Right-of-use assets, net (note 13) | 31,971 | 43,755 |
| Intangible assets, net (note 14) | 31,156 | 45,113 |
| Goodwill (note 14) | 6,029 | 30,541 |
| **Total assets** | **160,277** | 222,880 |
| **Liabilities** | | |
| Current liabilities | | |
| Accounts payable and accrued liabilities | 21,675 | 21,697 |
| Income tax payable | 6,001 | 3,749 |
| Debentures and loans (note 16, 23) | 13,515 | 20,119 |
| Derivative liability (note 16) | 494 | 1,349 |
| Deferred revenue | 249 | 489 |
| Provisions (note 15) | 3,895 | 1,742 |
| Lease liabilities (note 13) | 5,730 | 5,113 |
| Other current liabilities | 809 | - |
| **Total current liabilities** | **52,368** | 54,258 |
| Non-current liabilities | | |
| Debentures and loans (note 16, 23) | - | 1,705 |
| Derivative liability (note 16) | - | 1,371 |
| Provisions (note 15) | 770 | - |
| Lease liabilities (note 13) | 39,070 | 47,090 |
| Deferred tax liability (note 28) | 108 | 1,749 |
| Other non-current liabilities | - | 1,015 |
| **Total liabilities** | **92,316** | 107,188 |
| **Shareholders' equity** | | |
| Share capital (note 17) | 359,140 | 320,487 |
| Common shares held in escrow (note 17) | 3,524 | 3,761 |
| Contributed surplus | 9,516 | 6,179 |
| Accumulated deficit | (304,232) | (214,739) |
| Accumulated other comprehensive income | 13 | 4 |
| **Total shareholders' equity** | **67,961** | 115,692 |
| **Total liabilities and shareholders' equity** | **160,277** | 222,880 |

Nature of operations and going concern (note 1)
Change in fiscal year end (note 2)
Commitments and contingencies (note 26)
Subsequent events (note 29)

/s/ "Stéphane Trudel", Director
Stéphane Trudel

/s/ "Sharon Ranson", Director
Sharon Ranson

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

# Fire & Flower Holdings Corp.

## CONSOLIDATED STATEMENT OF LOSS AND COMPREHENSIVE LOSS

(In thousands of Canadian Dollars, except per share information)

| | 48 weeks ended December 31, 2022[1] | 52 weeks ended January 29, 2022 |
|---|---|---|
| | $ | $ |
| Revenue (note 27) | **156,022** | 175,499 |
| Costs of sales (notes 9, 27) | 114,910 | 113,405 |
| **Gross profit** | **41,112** | 62,094 |
| **Expenses (income)** | | |
| Selling, general and administrative (note 19) | 59,347 | 63,242 |
| Depreciation & amortization (notes 11, 13, 14) | 19,759 | 19,080 |
| Restructuring, impairment, net of reversals (note 20) | 45,742 | 25,122 |
| Foreign exchange (gain) | (357) | - |
| (Gain) loss on revaluation of derivative liability, net (note 16) | (882) | 8,545 |
| Finance costs, net (note 21) | 5,340 | 7,245 |
| **Total expenses** | **128,949** | 123,234 |
| **Loss before tax** | **(87,837)** | (61,140) |
| Current tax expense (note 28) | (3,297) | (5,313) |
| Deferred tax recovery (note 28) | 1,641 | 2,861 |
| **Net loss** | **(89,493)** | (63,592) |
| **Net loss per share** (note 18) | | |
| **Basic** | **($2.07)** | ($1.89) |
| **Diluted** | **($2.07)** | ($1.89) |
| **Comprehensive loss** | | |
| Net loss | **(89,493)** | (63,592) |
| Items that may be reclassified to profit or loss | | |
| Foreign currency translation, net of income tax effect | 9 | 4 |
| Other comprehensive income, net of income tax effect | 9 | 4 |
| **Total comprehensive loss** | **(89,484)** | (63,588) |

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

*(1) Refer to note 2 for description of the change to fiscal year end to December 31.*

# Fire & Flower Holdings Corp.

## CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

(In thousands of Canadian Dollars, except common shares information)

| | Common Shares | Share Capital | Common shares held in escrow | Warrant Reserve | Contributed Surplus | Accumulated other comprehensive income | Accumulated Deficit | Total Shareholders' Equity |
|---|---|---|---|---|---|---|---|---|
| | # | $ | $ | $ | $ | $ | $ | $ |
| **Balance, January 29, 2022** | **37,015,708** | **320,487** | **3,761** | **-** | **6,179** | **4** | **(214,739)** | **115,692** |
| Warrants exercised (note 16, 17) | 8,288,067 | 37,794 | - | - | 1,344 | - | - | 39,138 |
| Share-based compensation - options and restricted share units (note 17) | - | - | - | - | 2,074 | - | - | 2,074 |
| Redemption of restricted share units | 4,595 | 33 | - | - | (67) | - | - | (34) |
| Options exercised (note 17) | 25,000 | 65 | - | - | (14) | - | - | 51 |
| Common shares issued - debenture interest (note 16) | 35,238 | 97 | - | - | - | - | - | 97 |
| Common shares issued - Pineapple Express Delivery shares in escrow (note 5) | - | 237 | (237) | - | - | - | - | - |
| Common shares issued - Pineapple Express Delivery Working Capital Adjustment Shares (note 5) | 150,281 | 427 | - | - | - | - | - | 427 |
| Currency translation adjustment on foreign subsidiary | - | - | - | - | - | 9 | - | 9 |
| Net loss and comprehensive loss | - | - | - | - | - | - | (89,493) | (89,493) |
| **Balance, December 31, 2022** | **45,518,889** | **359,140** | **3,524** | **-** | **9,516** | **13** | **(304,232)** | **67,961** |
| | | | | | | | | |
| **Balance, January 30, 2021** | **23,211,418** | **180,780** | **112** | **4,874** | **1,056** | **-** | **(151,147)** | **35,675** |
| Common shares cancelled - acquisition post-closing adjustment | (53,678) | (53) | - | - | - | - | - | (53) |
| Common shares issued - At-the-Market offering | 817,090 | 7,618 | - | - | - | - | - | 7,618 |
| Common shares issued - store asset acquisition | 8,838 | 100 | - | - | - | - | - | 100 |
| Common shares issued - PotGuide | 597,805 | 5,440 | - | - | - | - | - | 5,440 |
| Common shares issued - Wikileaf | 801,710 | 7,296 | - | - | - | - | - | 7,296 |
| Common shares issued - Pineapple Express Delivery | 1,153,144 | 1,405 | 3,761 | - | - | - | - | 5,166 |
| Conversion of debentures | 9,025,661 | 102,843 | - | - | - | - | - | 102,843 |
| Common shares issued - debenture interest | 304,495 | 1,698 | - | - | - | - | - | 1,698 |
| Acquisition of Hifyre Inc. | 45,000 | 312 | (112) | - | - | - | - | 200 |
| Warrants exercised | 1,050,577 | 12,599 | - | (2,830) | - | - | - | 9,769 |
| Warrants expired | - | - | - | (2,044) | 2,044 | - | - | - |
| Currency translation adjustment on foreign subsidiary | - | - | - | - | - | 4 | - | 4 |
| Redemption of restricted share units | 11,879 | 121 | - | - | (250) | - | - | (129) |
| Share-based compensation - options and restricted share units | - | - | - | - | 3,465 | - | - | 3,465 |
| Options exercised | 41,769 | 328 | - | - | (136) | - | - | 192 |
| Net loss and comprehensive loss | - | - | - | - | - | - | (63,592) | (63,592) |
| **Balance, January 29, 2022** | **37,015,708** | **320,487** | **3,761** | **-** | **6,179** | **4** | **(214,739)** | **115,692** |

*(1) On December 1, 2021, the Company completed a ten-to-one share consolidation on its issued and outstanding common shares, which was applied retrospectively. As a result, the common share amounts are stated on an adjusted post-consolidation basis (note 17). The common shares began trading on the TSX on a post-consolidation basis on December 2, 2021.*

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

# Fire & Flower Holdings Corp.

## CONSOLIDATED STATEMENT OF CASH FLOWS

(In thousands of Canadian Dollars)

| | 48 weeks ended December 31, 2022(1) | 52 weeks ended January 29, 2022 |
|---|---|---|
| | $ | $ |
| **Operating activities** | | |
| Net loss | (89,493) | (63,592) |
| Items not affecting cash | | |
| Depreciation and amortization (note 11, 13 & 14) | 19,759 | 19,080 |
| Impairment of intangible assets and goodwill (note 14 & 20) | 33,376 | 18,943 |
| Impairment of property and equipment (note 11 & 20) | 6,432 | 3,734 |
| Impairment of ROU assets, net lease liability remeasurement (note 13 & 20) | 1,735 | 1,499 |
| Share-based compensation (note 17 & 19) | 2,074 | 3,174 |
| Interest expense on debentures, loans and other finance costs (note 21) | 1,463 | 2,734 |
| (Gain) loss on revaluation of derivative liability (note 16) | (882) | 8,545 |
| Transaction costs on issuance of debentures and loans | - | 304 |
| Interest expense on lease liabilities (note 13 & 21) | 4,338 | 4,670 |
| Interest income on lease receivables (note 12 & 21) | (66) | - |
| Other finance income | (337) | - |
| Foreign exchange gain | (354) | - |
| Changes in restructuring provisions (note 15) | 2,923 | (930) |
| Cash used in operating activities before changes in non-cash working capital items | (19,032) | (1,839) |
| Net change in non-cash working capital items (note 24) | 2,230 | (10,759) |
| **Cash used in operating activities** | **(16,802)** | **(12,598)** |
| **Investing activities** | | |
| Acquisition of property and equipment and intangible assets (note 11 & 14) | (3,589) | (16,580) |
| Proceeds from disposal of property and equipment | 146 | - |
| Refundable deposit to acquire (note 10) | (6,418) | - |
| Business combination, net of cash acquired (note 5) | - | (10,011) |
| Asset acquisitions (note 5) | - | (1,569) |
| Deposits related to leases | 22 | 33 |
| Lease payments received (note 12) | 33 | - |
| **Cash used in investing activities** | **(9,806)** | **(28,127)** |
| **Financing activities** | | |
| 2022 & 2021 Investor Loan (note 16) | 11,000 | 20,000 |
| Warrants exercise, net of 2021 Investor Loan and interest repayment (note 16) | 17,334 | - |
| Issuance of common shares and other equity securities | - | 7,777 |
| Cash collateral for loans, credit facilities and letters of credit | - | 3,948 |
| Transaction costs on issuance of shares | - | (159) |
| Redemption of restricted share units | (34) | (65) |
| Principal repayment on debentures and loans | - | (2,359) |
| Interest paid on debentures and loans | - | (111) |
| Exercise of warrants and options | 51 | 9,960 |
| Lease liability payments (note 13) | (9,173) | (9,036) |
| **Cash provided by financing activities** | **19,178** | **29,955** |
| Effect of foreign exchange on cash and cash equivalents | 8 | 4 |
| Decrease in cash and cash equivalents | (7,422) | (10,766) |
| Cash, beginning of period | 19,847 | 30,613 |
| **Cash, end of period** | **12,425** | **19,847** |

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

*(1) Refer to note 2 for description of the change to fiscal year end to December 31.*

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 1. NATURE OF OPERATIONS AND GOING CONCERN

Fire & Flower Holdings Corp. (the "**Company**") is a publicly traded company listed on the Toronto Stock Exchange (the "**TSX**") under the symbol 'FAF'. The Company is a technology-powered, independent cannabis retailer in Canada, with wholesale cannabis distribution and fulfilment business operations in Saskatchewan, Canada ("**Open Fields Distribution**"). The Company operates a proprietary digital retail and analytics platform (the "**Hifyre Digital Platform**") supporting e-commerce retail activities, rapid delivery services and providing a compliant data platform for cannabis licensed producers and other industry stakeholders. The Company's head office and registered office is located at 77 King Street West, Suite 400, Toronto, Ontario, M5K 0A1, Canada.

On December 1, 2021, the Company completed a ten-to-one share consolidation on its issued and outstanding common shares and began trading on the TSX on a post-consolidation basis on December 2, 2021 (the "**Share Consolidation**"). The Share Consolidation has been applied retrospectively and as a result, the per share and common share amounts are stated on an adjusted post-consolidation basis. Refer to note 17 for further details.

**Going Concern and Liquidity**

The Company's consolidated financial statements for the 48-week fiscal year ended December 31, 2022 and the 52-week fiscal year ended January 29, 2022 ("**Consolidated Financial Statements**", refer to note 2 for description of the change in fiscal year end) have been prepared on the assumption that the Company will continue as a going concern, meaning that it will continue in operation for the foreseeable future and will be able to realize assets and discharge liabilities in the ordinary course of business as they come due. The ability of the Company to continue operations as a going concern is ultimately dependent upon increasing revenues, improving profitability and cash flows and the availability of funding from debt, warrants and other capital market alternatives. Management continually evaluates the Company's liquidity by reviewing immediate capital requirements and ensuring planning and budgeting controls and processes are in place to ensure sufficient funds are available to finance the Company's ongoing operations.

As at December 31, 2022, the Company had cash of $12,425 (January 29, 2022: $19,847). The Company's financial liabilities are comprised of accounts payable and accrued liabilities, debentures and loans and convertible debentures, which have varying contractual maturity/expiry dates, and are described under notes 16 and 17.

The Company incurred net loss of $89,493 for the year ended December 31, 2022 (January 29, 2022: $63,592) and negative cashflow from operating activities of $16,802 (January 29, 2022: $12,598). As at December 31, 2022, accumulated deficit was $304,232 (January 29, 2022: $214,739).

The Company's primary sources of liquidity are cash from sales of goods and services to its customers, debt financing, warrants proceeds and equity financing. The Company's outstanding warrants are held by 2707031 Ontario Inc. (the "**Investor**"), a wholly-owned subsidiary of Alimentation Couche-Tard Inc. ("**ACT**"). As at December 31, 2022, 17,796,284 Series C Warrant units were held by the Investor exercisable at any time after October 1, 2022 until June 30, 2023; 13,339,078 of such Series C Warrants having an exercise price of the lesser of: (A) $30.00; and (B) 125% of the 20-day VWAP of the common shares on the last trading day prior to the date on which the Series C Warrants are exercised (the "**Initial Exercise Price**") and 4,457,206 of such Series C Warrants having an exercise price of the greater of (A) $4.7732; and (B) the Initial Exercise Price (January 29, 2022: 26,084,351). As of December 31, 2022, ACT held 35.3% of the issued and outstanding common shares of the Company. During the year ended December 31, 2022, the Investor exercised 8,288,067 Series B Warrants and the Company received net proceeds of $17,334.

The Company's ability to continue as a going concern is dependent on future profitable operations, management's ability to manage costs and the future availability of equity or debt financing. The Company is actively pursuing additional financing options to raise additional capital in order to fund its operations and meet its future growth targets, including ongoing negotiations in respect of both non-dilutive debt financing and equity financing at preferred rates. There is no assurance that these initiatives will be successful, timely or sufficient. These material uncertainties cast significant doubt as to the ability of the Company to continue as a going concern.

These financial statements do not reflect the adjustments to the carrying values of assets and liabilities and the reported expenses and balance sheet classifications that would be necessary if the Company were unable to realize its assets and settle its liabilities as a going concern in the normal course of operations. Such adjustments could be material.

## 2. BASIS OF PRESENTATION

**Statement of Compliance**

The Company's Consolidated Financial Statements for the fiscal years ended December 31, 2022 and January 29, 2022, have been prepared in accordance with International Financial Reporting Standards ("**IFRS**") as issued by the International Accounting Standards Board ("**IASB**").

These Consolidated Financial Statements were authorized for issuance by the Company's board of directors (the "**Board**") on March 27, 2023.

**Basis of Preparation**

The consolidated financial statements have been prepared on a going concern basis using the historical cost basis except for certain financial instruments that are measured at fair value. The policies applied in these consolidated financial statements are based on IFRS standards, which have been applied consistently to all periods presented, unless otherwise stated.

**Functional and Presentation Currency**

These consolidated financial statements are presented in Canadian dollars which is the Company's presentation currency. The functional currency of each entity is measured using the currency of the primary economic environment in which the entity operates. The functional currency of the Company's subsidiaries in Canada and the United States is the Canadian dollar and U.S. dollar, respectively.

**Change of year end**

The fiscal year end of the Company was changed from a 52 or 53-week period ending the Saturday closest to January 31 to a calendar 12-month period ending December 31 to enhance comparability of its periodic financial statements with those of its peers. Accordingly, the current financial statements are prepared for the 48-week period from January 30, 2022 to December 31, 2022, whereas the comparative figures stated in consolidated statement of loss and comprehensive loss, consolidated statement of changes in shareholders' equity, consolidated statement of cash flow and the related notes are for the 52-week period from January 31, 2021 to January 29, 2022.

## 3. PRINCIPLES OF CONSOLIDATION

**Basis of Consolidation**

Each subsidiary is fully consolidated from the date of acquisition, being the date on which the Company obtains control, and continues to be consolidated until the date when such control ceases. Control exists when the Company has the existing rights that give it the current ability to direct the activities that significantly affect the entities' returns. Transactions and balances between the Company and its consolidated entities have been eliminated on consolidation.

(In thousands of Canadian Dollars, except number of shares and per share amounts)

The consolidated financial statements include the accounts and results of operations of the Company and its wholly owned subsidiaries listed in the following table:

| Entity Legal Name | Principal Activity | Place of Incorporation | Ownership Interest as at | |
|---|---|---|---|---|
| | | | **December 31,** | **January 29, 2022** |
| Fire & Flower Holdings Corp. | Parent & Holding Company | Canada | **Parent Company** | Parent Company |
| **Significant subsidiaries:** | | | | |
| Fire & Flower Inc. | Retail Operations | Canada | **100%** | 100% |
| 10926671 Canada Ltd. (o/a Open Fields Distribution) | Wholesale Distribution and Fulfillment | Canada | **100%** | 100% |
| Hifyre Inc. | Digital Platform | Ontario | **100%** | 100% |
| 11180703 Canada Inc. | Holding Company | Canada | **100%** | 100% |
| Friendly Stranger Holdings Corp. | Retail Operations | Ontario | **100%** | 100% |
| Hifyre US, Inc. | Holding Company | Delaware | **100%** | 100% |
| 13318184 Canada Inc. | Holding Company | Canada | **100%** | 100% |
| PGED Corp. | Digital Platform | Delaware | **100%** | 100% |
| Pineapple Express Delivery | Delivery Operations | Canada | **100%** | 100% |

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### a) Cash and Cash Equivalents

Cash and cash equivalents include cash deposits in financial institutions and other short-term deposits that are readily convertible into cash. Short-term deposits with maturity dates greater than 90 days and less than 365 days are classified as short-term investments.

Interest income is earned on the Company's cash deposits, short-term investments in High Interest Savings Accounts and Guaranteed Investment Certificates.

### b) Inventory

Inventory is valued at the lower of cost and net realizable value.

Cost is determined using the average cost method. Costs are comprised of all variable costs, and certain fixed costs, incurred in bringing inventories to the location and condition necessary for sale to customers. Storage and administrative overheads are expensed as incurred. Supplier rebates and discounts are recorded as a reduction in the cost of goods sold.

Net realizable value is determined as the estimated selling price in the ordinary course of business and the estimated costs necessary to make the sale. Inventories are written down to net realizable value when the cost of inventories is estimated to be unrecoverable due to obsolescence, damage or declining selling prices.

### c) Property and Equipment

Property and equipment is measured at cost less accumulated depreciation and any accumulated impairment losses. Cost includes expenditures that can be directly attributed to the acquisition or construction of the asset as well as the costs directly attributable to bringing the asset to the location and condition necessary for its use in operations.

Depreciation is calculated on a straight-line basis to allocate the cost of the asset, less any residual value, over its estimated useful life. Depreciation is accounted for using the following terms and methods:

| Property and Equipment | Method | Depreciation Periods |
|---|---|---|
| Land | Non-Depreciable | Non-Depreciable |
| Buildings | Straight-Line | 20 years |
| Leasehold Improvements | Straight-Line | Shorter of initial lease term and 10 years |
| Computer, Hardware and Software, and Equipment | Straight-Line | 5 years |
| Signage and Displays | Straight-Line | 3-5 years |
| Vehicles | Straight-Line | 5 years |
| Furniture and Fixtures | Straight-Line | 5 years |

Depreciation commences once the acquired asset is available for use or, in the case of leasehold improvements, at the later of that date and commencement of the lease of the property to which the leasehold improvement relates to.

An asset's residual value, useful life and depreciation method are reviewed at the end of each financial reporting period and adjusted where appropriate.

Gains and losses on disposal are determined by comparing the proceeds from disposal with the carrying amount of the fixed asset and are recognized in the Consolidated statement of loss and comprehensive loss.

### d) Leases

At lease possession date, the Company recognizes a right-of-use asset and a lease liability on the balance sheet. The right-of-use asset is measured at cost, which is made up of the initial measurement of the lease liability, any lease payments made in advance of the lease commencement date (net of any incentives received), initial direct costs, and any restoration costs of the underlying asset.

The Company depreciates the right-of-use assets on a straight-line over the estimated lease term. The lease term reflects the period over which the lease payments are reasonably certain including renewal options that the Company is reasonably certain to exercise. The Company also assesses the right-of-use asset for impairment when such indicators exist.

At the possession date, the Company measures the lease liability at the present value of the lease payments unpaid at that date, discounted using the Company's incremental borrowing rate. Lease payments included in the measurement of the lease liability are made up of fixed payments (including in substance fixed) and variable lease payments that are based on an index or rate. Subsequent to initial measurement, the liability will be reduced for payments made and increased for interest. It is remeasured to reflect any reassessment or modification, or if there are changes in in-substance fixed payments. When the lease liability is remeasured, the corresponding adjustment is reflected in the right-of-use asset, or in the Consolidated statement of loss and comprehensive loss if the right-of-use asset is already reduced to zero.

Variable lease payments that are not based on an index or a rate are not included in the measurement of both the lease liabilities and right-of-use assets. The related liabilities are recognized as an expense in the period in which the conditions that trigger those payments occur and are recorded as general and administrative expenses in the consolidated statement of income/loss.

The Company has elected to account for short-term leases that have a lease term of 12 months or less and leases of low-value assets using the practical expedients. Instead of recognizing a right-of-use asset and lease liability, the payments in relation to these are recognized as an expense in the Consolidated statement of loss and comprehensive loss on a straight-line basis over the lease term.

*Lease receivables*

Where the Company acts as an intermediate lessor, it classifies the sublease as a finance lease by reference to the right of use asset arising from the head lease. If the applicable criteria of transferring majority of the risks and rewards to the sublessee is met, the Company derecognizes the right of use asset relating to the head lease of the subleased location, recognizes a corresponding lease receivable, and the lease liability relating to the head lease is retained. For leases where the majority of the risks and rewards are not transferred, the company retains the right of use asset and recognizes revenue as rental income. The lease receivable is periodically reduced by impairment losses, if any, and adjusted for certain lease renewals or modifications.

**e) Intangible Assets and Goodwill**

Intangible assets with finite useful lives are carried at cost less accumulated depreciation and accumulated impairment losses. The estimated useful life and depreciation method are reviewed at the end of each financial reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

Estimated useful lives are as follows:

| Intangible Assets | Method | Depreciation Periods |
|---|---|---|
| Licenses | Straight-Line | Over estimated lease term of associated location. (1) |
| Trademarks, Subscriber & Customer Relationships | | |
| Trademarks, Tradenames and Patents | Straight-Line | 15 years |
| Acquired Customer Lists | Straight-Line | 5 years |
| Subscriber Relationships | Straight-Line | 5 years |
| Software and Platform Related Technology | | |
| Capitalized Software Development | Straight-Line | 5 years |
| Platform Related Technology | Straight-Line | 5 years |

*(1) Shorter of initial lease term and 10 years.*

Costs associated with maintaining Software and Platform Related Technology are recognized as an expense as incurred. Development costs that directly contribute to the design and testing of identifiable and unique products controlled by the Company, including directly attributable employee costs, are recognized as intangible assets.

Amortization commences once the acquired asset is available for use or, in the case of patents or trademarks, on the date the license is acquired.

Goodwill represents the excess of the purchase price paid for the acquisition of subsidiaries over the fair value of the net tangible and intangible assets acquired. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Other indefinite life intangible assets are measured at cost less any accumulated impairment losses.

**f) Impairment of Non-Financial Assets**

Non-financial assets, including property, plant and equipment, right-of-use assets, and intangible assets are reviewed for impairment if events or changes in circumstances indicate that they might be impaired. Management evaluates for indicators of impairment at the end of each financial reporting period. If any such indications exist, the asset's recoverable amount is estimated and compared to its carrying amount.

The Company assesses whether there is an indication that intangible assets are impaired at every reporting period. This assessment includes a review of the Company's current and expected performance, market conditions and trends, changes in regulatory environment, among other factors. If any indication of impairment exists, the Company estimates the recoverable amount of the asset or cash-generating unit ("**CGU**") to which the asset relates to determine the extent of any impairment loss. A CGU is the lowest level of a group of assets for which there are separately identifiable cash flows. The recoverable amount is the higher of an asset or CGUs fair value less costs of sale ("**FVLCS**") and its value in use ("**VIU**") to the Company. If the recoverable amount of an asset or a CGU is estimated to be less than its carrying amount, the carrying amount is reduced to its recoverable amount. An impairment charge is recognized immediately in the statements of loss and comprehensive loss.

Goodwill and intangible assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired.

The recoverable amount of an asset or cash-generating-unit is the higher of an asset's FVLCS and VIU. VIU is estimated as the present value of the future cash flows that the Company expects to derive from the asset or CGU. The Company determines FVLCS using market-based information. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generate cash inflows from continuing use that are largely independent of the cash flows of other assets or groups of assets, defined as a CGU.

Corporate assets, which include head office facilities do not generate separate cash inflows. Corporate assets are tested for impairment at the minimum grouping of CGUs to which the corporate assets can be reasonably and consistently allocated. When the carrying amount of the asset exceeds the recoverable amount, the excess amount is recognized as an impairment charge in the Consolidated statement of loss and comprehensive loss. Impairment losses recognized in respect of CGUs are allocated to reduce the carrying amount of the assets in the unit (group of units) on a pro rata basis.

Impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed, with the exception of goodwill and indefinite lived intangible assets, if there has been a change in estimates used to determine the recoverable amount. Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the lesser of the revised estimate of recoverable amount and the carrying amount that would have been recorded had no impairment loss been previously recognized.

**g) Provisions**

Provisions, including those for onerous contracts, legal claims, and restructuring events are recognized when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated. Provisions are measured based on management's best estimate of the expenditure required to settle the obligation at the end of the reporting period and are discounted to present value where the effect is material.

The Company performs evaluations to identify onerous contracts and legal claims and, where applicable, records provisions for such items. A provision for onerous contracts is recognized when the unavoidable costs of meeting the obligations under a contract exceed the economic benefits expected to be received from the contract.

Actual costs and timing of future cash flows are dependent on future events; thus, any variance between estimates and the actual future liability will be accounted for in the period when such determination is made. Recoveries from third parties and other contingent gains are recognized when realized.

Restructuring provisions are recognized only when a detailed formal plan for the restructuring exists and either the plan has commenced, or the plan's been announced internally and with the Board. A formal plan usually includes the identification of principal locations affected, details regarding the employees affected and timing of the planned restructuring, and the expenditures that will have to be undertaken.

**h) Foreign Currency Translation**

The functional currency of the Company's subsidiaries in Canada and the United States is the Canadian dollar and U.S. dollar, respectively. The Company's reporting currency is in Canadian dollars. Transactions undertaken in foreign currencies are translated into the Canadian dollars at daily exchange rates prevailing when the transactions occur. Monetary assets and liabilities denominated in foreign currencies are translated at period-end exchange rates and non-monetary items are translated at historical exchange rates. Realized and unrealized exchange gains or losses are recognized in the consolidated statement of loss and other comprehensive loss in the period in which they arise.

The assets and liabilities of foreign operations that have a functional currency different from that of the Company are translated into Canadian dollars using the period-end exchange rates in effect at the consolidated balance sheet date. Income, expenses and cash flows of foreign operations are translated into Canadian dollars using average exchange rates of the period that approximate the rates in effect at the dates which such items are transacted. The resulting exchange differences from the translation of foreign operations into Canadian dollars are recognized in accumulated other comprehensive loss.

**i) Business Combinations**

The Company applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair value of the assets given, equity instruments issued, and liabilities incurred or assumed at the date of acquisition.

Identifiable assets acquired, and liabilities assumed are measured at their fair values at the acquisition date.

The Company expenses acquisition-related expenses as incurred.

Any contingent consideration to be transferred by the group is recognized at fair value as at the acquisition date. Subsequent changes to the fair value of the contingent consideration are recognized either in the Consolidated statement of loss and comprehensive loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not re-measured, and its subsequent settlement is accounted for within equity.

Goodwill is initially measured as the excess of the aggregate of the consideration transferred over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognized in the Consolidated statement of loss and comprehensive loss.

**j) Revenue Recognition**

For its three major revenue segments, retail, wholesale and logistics, and digital platform, the Company recognizes revenue when control of goods or services is transferred to a customer.

Revenue is measured at the fair value of the consideration received or receivable from customers for the sale of goods and services provided by the Company, net of promotional discounts, estimated returns and sales taxes.

*Retail sales*

Revenue consists of sales through the Company's network of retail stores and includes sales through the Company's e-commerce platform. Merchandise sales through retail stores are recognized at the time of delivery to the customer which is generally at the point of sale. Merchandise sales through the Company's e-commerce operations are recognized on the date of receipt by the customer.

*Wholesale and logistics sales*

Revenue from sales to customers through the Company's wholesale and logistics segment are recognized when control of the goods has transferred to the customer. Where the Company arranges the shipping of goods, revenue is generally recognized on the date the goods are shipped from the Company's warehouse (FOB shipping point). Where the customer arranges for the pickup of goods, revenue is recognized at the time the goods are transferred to the customer's carrier.

*Delivery revenue*

The Company recognizes revenues from delivery services when the performance obligation is fulfilled which corresponds to when the goods are delivered to the customer destination (FOB destination).

*Digital platform revenue*

Revenue from the Hifyre™ Digital Platform are earned primarily through subscription services, listing services and some custom software development services. Revenue from subscription services and listing services are recognized over the term of the contract. Revenue from custom software development is recognized as the services are performed. As it relates to the transaction price, customers can enter into fixed, variable or a combination thereof of fee contracts. For variable fee contracts, as the revenue is recognized over time, which reflects the period over which services are performed based on the number of labor hours incurred, there is no requirement to estimate variable consideration at the inception of the contract. Fixed contract fees are recognized over the term of a contract, under a monthly billing cycle. The performance obligation is fulfilled when the data and services agreed upon with the customer are transferred to the customer at the end of each month. From time to time, the Company will advance bill the customer prior to the completion of the performance obligation which would result in deferred revenue being recognized on the Consolidated statement of financial position.

*Software licensing*

The Company recognizes revenues from software licensing services when the customers' orders are successfully dispatched through the Company's software platform. For software deployment revenue, the performance obligation may include the software license, implementation, or ongoing support services. Revenue related to software deployment is recognized when the performance obligation is satisfied, which occurs when the software is deployed, and the right to access has been provided to the customer.

**k) Cost of Goods Sold**

Cost of goods sold expenses for the Company's retail and wholesale and logistic operations include cost of inventory, packaging costs, driver wages, vehicle related expenses and shipping costs.

Cost of goods sold expenses for the Company's digital operations includes all costs attributable to the generation of digital platform revenues.

**l) Research and Development**

Expenditures related to research activities are expensed as incurred. Expenditures during the development phase are capitalized if certain criteria, including technical feasibility and intent and ability to develop and use or sell the technology, are met; otherwise, they are expensed as incurred.

**m) Income Taxes**

The Company is subject to income, value added, withholding and other taxes, and their determination of liabilities requires interpretation of the respective jurisdictions' laws and regulations.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. In assessing the probability of realizing income tax assets recognized, management makes estimates related to expectations of future taxable income, applicable tax planning opportunities, expected timing of reversals of existing temporary differences, and the likelihood that tax positions taken will be sustained upon examination by applicable tax authorities. In making its assessments, management gives additional weight to positive and negative evidence that can be objectively verified. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Current tax and deferred tax are recognized in the Consolidated statement of loss and comprehensive loss except to the extent that it relates to items recognized directly in equity or in other comprehensive income.

All tax related filings are subject to government audit and potential reassessment subsequent to the financial statement reporting period. This includes tax credits taken on both our income tax returns and our value-add tax filings. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the tax related accruals and deferred income tax provisions in the period in which such determination is made.

**n) Share Capital**

Common shares are classified as equity. Incremental costs directly attributable to the issuance of common shares and warrants are recognized as a reduction to equity, net of any tax effects. Share capital issued for non-monetary consideration is recorded at an amount based on estimated fair market value of the shares on the date of issue.

**o) Share-based Payments**

Equity settled share-based payments are measured at their fair value on the date of grant using the Black-Scholes model. Stock options are recognized as compensation expense on a graded vesting basis over the period in which the options vest. At the end of each reporting period, the Company revises its estimate of the number of equity instruments expected to vest. Forfeitures are estimated for each reporting period and adjusted as required to reflect actual forfeitures that have occurred in the period.

The impact of the revision of the original estimates, if any, is recognized in the Consolidated statement of loss and comprehensive loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to contributed surplus. When stock options or warrants expire after vesting, the recorded value remains in contributed surplus.

For stock options and warrants granted to non-employees, the compensation expense is measured at the fair value of goods or services received. If the fair value cannot be reasonably estimated, compensation expense is measured at the fair value of the equity instruments granted and measured at the date the Company obtains goods or services rendered.

Where the terms and conditions of options are modified, the increase in the fair value of the options, measured immediately before and after the modification, is charged to the Consolidated statement of loss and comprehensive loss over the remaining vesting period.

Consideration paid by employees or non-employees on the exercise of stock options and warrants are recorded as share capital and the related share-based payment expense is transferred from contributed surplus or warrant reserve, respectively, to share capital.

**p) Earnings or Loss per Share**

Basic earnings (loss) per share is calculated by dividing the net earnings (loss) by the weighted average number of common shares outstanding during the year.

Diluted earnings (loss) per share reflect the potential dilutive effect that could occur if additional common shares were assumed to be issued under securities or instruments that may entitle their holders to obtain common shares in the future. Dilution could occur through the exercise of stock options, the exercise of warrants, and the exercise of the conversion option of convertible debentures. The number of additional shares for inclusion in the diluted earnings (loss) per share calculation is determined using the treasury stock method.

**q) Financial instruments**

The following table summarizes the classification of the Company's financial instruments under IFRS 9 Financial Instruments ("IFRS 9"):

| Financial Instrument | Classification under IFRS 9 |
|---|---|
| Cash and cash equivalents | Amortized cost |
| Restricted cash | Amortized cost |
| Trade account receivables | Amortized cost |
| Accounts payable and accrued liabilities | Amortized cost |
| Convertible debentures & loans | Amortized cost |
| Refundable deposit to acquire | Amortized cost |
| Derivative liability | Fair value through profit or loss |

*Financial assets*

The classification of financial assets is based on the Company's assessment of its business model for holding financial assets and the contractual terms of the cash flows. The classification categories are as follows:

- Financial assets measured at amortized cost: assets that are held within a business model whose objective is to hold assets to collect contractual cash flows and its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.
- Financial assets at fair value through other comprehensive income ("**FVOCI**"): assets that are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.
- Financial assets at fair value through profit or loss ("**FVTPL**"): assets that do not meet the criteria for amortized cost or FVOCI.

Financial assets measured at amortized cost are measured at cost using the effective interest method.

Financial assets are derecognized when the contractual rights to the cash flows from the financial asset expire or when the contractual rights to those assets are transferred. Cash, short-term deposits, restricted cash, short-term investments and accounts receivable has been classified as amortized cost.

*Financial liabilities*

The classification of financial liabilities is determined by the Company at initial recognition. The classification categories are as follows:

- Financial liabilities measured at amortized cost: financial liabilities initially measured at fair value less directly attributable transaction costs and are subsequently measured at amortized cost using the effective interest method. Interest expense is recognized in the consolidated statement of loss and comprehensive loss.
- Financial liabilities measured at fair value through profit or loss: financial liabilities measured at fair value with changes in fair value and interest expense recognized in the consolidated statement of loss and comprehensive loss.

A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expires with any associated gain or loss recognized in other income or expense in the consolidated statements of loss and comprehensive loss.

The impact of amendments to terms of financial instruments such as debentures and loans are assessed to determine if the change is a modification or an extinguishment. The Company reviews both quantitative and qualitative factors in determining whether the changes in terms are substantial and extinguishment accounting is required. Qualitative factors involve assessing whether the amendments represent a significant change in the terms and conditions of the instruments, including changes in conversion price, settlement options or introducing variability in such terms such that the accounting treatment of the instrument changes. A gain or a loss is recorded in the Consolidated statement of loss and comprehensive loss related to the modification or extinguishment. Under extinguishment accounting, the old instrument is derecognized and the amended instruments are recognized at the estimated fair value of the date the amendment was substantially effective.

**r) Impairment of financial assets carried at amortized cost - expected credit loss allowances**

At each reporting date, the Company assesses whether a financial asset or group of financial assets is impaired under the expected credit loss ("**ECL**") model. Loss allowances are measured based on (i) ECLs that result from possible default events within the 12 months after the reporting date ("**12-month ECL**"), or (ii) ECLs that result from all possible default events over the expected life of a financial instrument ("**lifetime ECLs**").

For trade account receivables, the Company applies the simplified approach and has calculated ECLs based on lifetime ECLs. Where information exists, the Company establishes a loss rate based on historical normalized credit loss experience. The loss rate is based on the payment profiles and aging of trade receivables and is adjusted to reflect current and forward-looking information on macroeconomic factors.

The amortized cost of the financial asset is reduced by impairment losses at an amount equal to the lifetime expected credit losses. Loss allowances for financial assets measured at amortized cost are deducted from the gross carrying amounts of the assets and the loss is recognized in the consolidated statements of loss and comprehensive loss. When a trade receivable is uncollectible, it is written off against the allowance for doubtful accounts.

## 5. ACQUISITIONS

**Acquisitions Completed in the Prior Fiscal Year**

**a) Business Acquisition of Pineapple Express Delivery Inc.**

On December 9, 2021, the Company entered into a definitive agreement (the "**PED Agreement**") to acquire Pineapple Express Delivery Inc. ("**Pineapple Express Delivery**"). The transaction closed effective January 21, 2022. Pursuant to the PED Agreement, the total purchase for the acquisition of Pineapple Express Delivery paid by the Company was comprised of: (i) assumption and repayment of $5,049 in debt (ii) issuance of 313,708 common shares with an aggregate value of $1,405, based on the share price at the date of acquisition; and (iii) contingent consideration of $3,761 consisting of 839,436 common shares held in escrow, subject to certain adjustments in accordance with the terms of the PED Agreement and Pineapple Express Delivery achieving certain performance-based milestones in the fiscal 2022 year. As the release of the 839,436 common shares held in escrow are not dependent on continued employment by the seller, the amount is included as part of the consideration paid for the business combination. For accounting purposes, the common shares issued as contingent consideration were fair valued at $3,761 based on the close price on the TSX on the date of acquisition and also factored in the probability of the contingent consideration becoming payable.

During fiscal year ended December 31, 2022, the Company finalized the assessment of the fair value of net assets acquired. The measurement period for the Pineapple Express Delivery acquisition is now closed.

**Pineapple Express Delivery Inc. Shares held in escrow**

On August 12, 2022, in accordance with the PED Agreement, the Company issued an additional 150,281 common shares with a carrying value of $427, reflecting an upwards adjustment to the aggregate purchase price to acquire Pineapple Express Delivery, and released 52,800 common shares with a carrying value of $237 from escrow, all of the foregoing as settlement of certain working capital adjustments. As at December 31, 2022, 786,636 common shares were held in escrow with a carrying value of $3,524, subject to the achievement of certain performance-based milestones in the fiscal 2022 year. Effective March 3, 2023, a further 333,704 Common Shares were released from escrow and 452,932 Common Shares were cancelled and returned to treasury, all in accordance with the PED Agreement and as a result of Pineapple Express Delivery achieving certain performance-based milestones during the fiscal 2022 year.

(In thousands of Canadian Dollars, except number of shares and per share amounts)

Pineapple Express Delivery is licensed to deliver cannabis and other regulated products including transportation and delivery of medical and recreational cannabis products in Ontario, Manitoba, Saskatchewan and British Columbia.

In accordance with IFRS 3, the substance of this acquisition constituted a business combination as the group of assets acquired, along with the processes and outputs, were determined to have met the definition of a business under the standard. Accordingly, the assets acquired, have been recorded at their respective estimated fair values as of the acquisition date, January 21, 2022.

The estimated fair value of the identifiable assets and liabilities acquired, and the consideration paid is detailed below:

| **Consideration paid** | |
|---|---|
| | $ |
| Common shares issued(1) | 2,069 |
| Contingent consideration | 3,524 |
| Assumption of debt | 5,049 |
| **Total consideration** | **10,642** |

| **Identifiable assets (liabilities) acquired** | |
|---|---|
| | $ |
| Cash & cash equivalents | 122 |
| Prepaids | 261 |
| Property and equipment | 797 |
| Receivables and other assets | 962 |
| Accounts payable and accrued liabilities | (1,627) |
| Intangible assets - customer relationships | 890 |
| Intangible assets - software and platform related technology | 741 |
| Right-of-use assets | 961 |
| Lease liabilities | (1,053) |
| Deferred tax liability | (382) |
| Goodwill | 8,970 |
| **Total identifiable net assets and goodwill** | **10,642** |

The estimated fair value of the material intangible assets was determined using the following methods:

- Customer relationships – Multiple period excess earnings method ("MEEM Method"); and
- Software and platform related technology – Replacement Cost method.

Significant judgments and areas of estimations in these valuations related to the following:

- Under the MEEM Method, Inputs in the 5-year financial projections included a 2% terminal value growth rate. The 5-year revenue projections reflect the expected expansion of delivery services into new provinces and the growth in the medical delivery program.
- Discount rate of 17% across the valuation methods. The discount rate was based on the cost of equity and weighted average cost of capital (utilized in the MEEM Method), and the estimated rate of return for companies of comparable size and other risk factors (utilized in the Corroborative Income approach).

The Company recognized deferred tax liabilities associated with the customer relationships and software and platform related technology. The deferred tax liability resulted in an additional goodwill of $382.

The goodwill arising from the acquisition of Pineapple Express Delivery represents expected synergies associated with integrating its operations and technologies with the Company's retail network and Wholesale and Logistics segment. During the fiscal year ended December 31, 2022, the Company identified certain indicators of impairment and recognized impairment on the goodwill. Refer to note 20 for further details.

**b) Business Acquisitions of PotGuide and Wikileaf**

*Wikileaf Business Acquisition*

On August 3, 2021, the Company entered into an asset purchase agreement (the "**Wikileaf APA**") with Wikileaf Technologies Inc. and certain of its subsidiaries ("**Wikileaf**"). The transaction closed effective September 15, 2021. Pursuant to the Wikileaf APA, the Company acquired certain digital assets, including the website domain wikileaf.com, and intellectual property rights from Wikileaf for a total purchase consideration of $7,500, paid by issuing 801,710 common shares of the Company which was based on the Company's 10-day volume weighted average price on the TSX as of the date of agreement. For accounting purposes, the shares were fair valued at $7,296 based on the close price on the TSX on the date of acquisition.

In accordance with IFRS 3, the substance of this acquisition constituted a business combination as the group of assets acquired, along with the processes and outputs, were determined to have met the definition of a business under the standard. Accordingly, the assets acquired, have been recorded at their respective estimated fair values as of the acquisition date, September 15, 2021. The goodwill on the acquisition is attributable to synergies expected to be achieved from integrating Wikileaf into the Retail cash generating unit ("**CGU**") and the Digital CGU.

*PotGuide Business Acquisition*

On August 25, 2021, the Company entered into a definitive share purchase agreement (the "**PGED SPA**") with PGED Corp. ("**PotGuide**"), the Denver Colorado based operator of PotGuide.com. The transaction closed effective September 15, 2021. Pursuant to the terms of the PGED SPA, the Company purchased all the issued and outstanding shares of PotGuide for an aggregate consideration of $10,912 (US$8,820), by paying $5,472 (US$4,320) in cash and issued 597,805 common shares of the Company based on the Company's 10-day volume weighted average price on the TSX as of the date of the agreement. For accounting purposes, the shares were fair valued at $5,440 based on the close price on the TSX on the date of acquisition.

In accordance with IFRS 3, the substance of the transaction constituted a business combination as PotGuide meets the definition of a business under the standard. Accordingly, the assets acquired, and the liabilities assumed have been recorded at their respective estimated fair values as of the acquisition date. The goodwill on the acquisition is attributable to synergies expected to be achieved from integrating PotGuide into the Retail and Digital CGUs.

(In thousands of Canadian Dollars, except number of shares and per share amounts)

Further, PotGuide mainly operates in the USA with its operating activities majorly being carried out in U.S. Dollars. In accordance with IAS 21, management has determined that the functional currency of PotGuide is U.S. Dollars.

The estimated fair value of the identifiable assets and liabilities acquired, and consideration paid is detailed below:

| Consideration paid | PotGuide | Wikileaf | TOTAL |
|---|---|---|---|
| | $ | $ | $ |
| Common shares issued (1) | 5,440 | 7,296 | 12,736 |
| Cash | 5,472 | - | 5,472 |
| **Total consideration** | **10,912** | **7,296** | **18,208** |

| Identifiable assets (liabilities) acquired | | | |
|---|---|---|---|
| | $ | $ | $ |
| Cash & cash equivalents | 388 | - | 388 |
| Receivables and other assets | 177 | - | 177 |
| Accounts payable and accrued liabilities | (160) | - | (160) |
| Intangible assets - trademarks, subscriber & dispensary relationships | 3,436 | 2,269 | 5,705 |
| Intangible assets - software and platform related technology | 2,080 | 1,338 | 3,418 |
| Deferred tax liability | (1,462) | - | (1,462) |
| Goodwill | 6,453 | 3,689 | 10,142 |
| **Total identifiable net assets and goodwill** | **10,912** | **7,296** | **18,208** |
| **Common shares issued (#)** | 597,805 | 801,710 | **1,399,515** |

*(1) In accordance with IFRS, the share consideration was fair valued based on close price on the TSX as of the acquisition date.*

The estimated fair value of the material intangible assets was determined using the following methods:

- Dispensary relationships – MEEM Method
- Subscriber relationships – Replacement Cost method, and
- Platform related technology - Replacement Cost method.

*Wikileaf and PotGuide - Significant Judgments and Estimates*

Significant judgments and areas of estimations in these valuations related to the following:

- Under the MEEM Method, Inputs in the 5-year financial projections included a 2% terminal value growth rate. The 5-year revenue projections reflect the expected growth of the Cannabis market and e-commerce activities in Canada and the United States.
- Discount rate range of 12% - 25% across the valuation methods. The discount rates were based on the cost of equity and weighted average cost of capital (utilized in the MEEM Method), and the estimated venture capital rate of return for an early-stage company (utilized in the Replacement Cost method).

The goodwill recognized under both acquisitions relate to expected synergies from combining operations, subscriber and customer relationships of Wikileaf, PotGuide and the Company's Hifyre digital platform, as well as assembled workforce, which is not separately recognizable as an intangible asset under IFRS. In addition, the Company recognized deferred tax liabilities associated with the PotGuide's intangible assets, which resulted in recognition of additional goodwill of $1,462. The measurement period for PotGuide and Wikileaf acquisitions are closed. During the fiscal year ended December 31, 2022, the Company identified certain indicators of impairment associated with the Company's Digital CGU and recognized impairment on the goodwill. Refer to note 20 for further details.

**c) Asset Acquisition – Orangeville and Sarnia**

On April 13 and June 11, 2021 respectively, the Company entered into two asset purchase agreements (each an "**APA**") to acquire the assets related to the operations of cannabis retail stores located in Sarnia and Orangeville, Ontario for aggregate purchase consideration of $1,600, subject to certain closing adjustments.

The Orangeville transaction closed effective October 29, 2021. Pursuant to the terms of the Orangeville APA, the Company paid total aggregate consideration of $972 for the assets acquired comprising of (i) $872 in cash and (ii) 8,838 common shares of the Company with a value of $100. The assets acquired have been recorded at their estimated fair values at the acquisition date. The identifiable assets included inventory, prepaids, and leasehold improvements of $379. The intangible assets included retail operating licenses for $593. Under IFRS 3, the substance of the acquisition does not constitute a business combination. The measurement period for the Orangeville transaction is closed.

The Sarnia transaction closed effective November 9, 2021. Pursuant to the terms of the Sarnia APA, the Company paid total aggregate consideration of $697 in cash for the assets acquired. The assets acquired have been recorded at their estimated fair values at the acquisition date. The identifiable assets included leasehold improvements and other assets of $231. The intangible assets included retail operating licenses for $466. Under IFRS 3, the substance of the acquisition does not constitute a business combination. During the year ended December 31, 2022, the cannabis retail store located in Sarnia was closed as part of management's plan to optimize the Company's retail portfolio and strategy described in note 20. The measurement period for the Sarnia transaction is closed.

**d) Business Acquisition of Friendly Stranger**

The earnout liability assumed by the Company relates to an arrangement between Friendly Stranger and owners of acquired stores prior to the Company's acquisition of Friendly Stranger. The additional consideration is to be paid out to a maximum of $1,200, depending on certain revenue and branded store operations targets being achieved by December 31, 2022. During the year ended January 29, 2022, $200 earnout liability was realized as a result of one of the revenue targets being achieved.

## 6. NEW STANDARDS AND INTERPRETATIONS

**New Standards Adopted**

Amendments to IAS 37 Onerous Contracts and the Cost of Fulfilling a Contract ("IAS 37")

The amendment specifies that the 'cost of fulfilling' a contract comprises the 'costs that relate directly to the contract'. Costs that relate directly to a contract can either be incremental costs of fulfilling that contract or an allocation of other costs that relate directly to fulfilling contracts. The Company applied the standard prospectively from January 31, 2021. The amendments did not have an impact on the consolidated financial statements.

**Standards, amendments and interpretations issued as of December 31, 2022 that are not yet effective**

A number of new and amendments to accounting standards are effective for the Company for annual periods beginning on or after January 1, 2023 and earlier application is permitted. However, the Company has not early adopted the new or amended standards in preparing these consolidated financial statements. The following are relevant new and amended standards. The Company has not yet determined the impact of these amendments on its consolidated financial statements.

*Amendments to IAS 1 Presentation of Financial Statements (“IAS 1”)*

In January 2020, the IASB issued an amendment to IAS 1, which affects the presentation of liabilities in the statement of financial position and not the amount or timing of their recognition. The amendments clarify that the classification of liabilities as current or non-current should be based on rights that are in existence at the end of the reporting period and align the wording in all affected paragraphs to refer to the right to defer settlement by at least 12 months. That classification is unaffected by the likelihood that an entity will exercise its deferral right. The amendments are effective for annual periods beginning on or after January 1, 2023 and are to be applied retrospectively. The amendments do not have a material impact on the consolidated financial statements.

In October 2022, the IASB issued another amendment to IAS 1, which affects the classification of Liabilities as Current or Non-current, clarifying requirements for the classification of liabilities as non-current which is effective for annual periods beginning on or after January 1, 2024.

*Amendments to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors (“IAS 8”)*

Amendments to IAS 8 in February 2021, IASB issued Definition of Accounting Estimates, which amends IAS 8. The amendment replaces the definition of accounting estimates. Under the new definition, accounting estimates are “monetary amounts in financial statements that are subject to measurement uncertainty.” The amendment provides clarification to help entities to distinguish between accounting policies and accounting estimates. The amendments are effective for annual reporting periods beginning on or after January 1, 2023. The amendments do not have a material impact on the consolidated financial statements.

*Amendments to IAS 12 Deferred Tax related to Assets and Liabilities arising from a Single Transaction (“IAS 12”)*

The amendment narrowed the scope of certain recognition exemptions so that it no longer applies to transactions that, on initial recognition, give rise to equal taxable and deductible temporary differences. An entity applies the amendments to transactions that occur on or after the beginning of the earliest comparative period presented. It also, at the beginning of the earliest comparative period presented, recognizes deferred tax for all temporary differences related to leases and decommissioning obligations and recognizes the cumulative effect of initially applying the amendments as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) at that date. The amendment is effective for annual periods beginning on or after January 1, 2023 with early application permitted. The Company is currently evaluating the potential impact of these amendments on the Company’s consolidated financial statements.

*Amendments to IFRS 16, Lease liability in a Sale and Leaseback*

The amendment specifies the requirements that a seller-lessee should use in measuring the lease liability arising in a sale and leaseback transaction to ensure the seller-lessee does not recognize any amount of the gain or loss that relates to the right of use it retains that is effective for annual periods beginning on or after January 1, 2024. The Company is currently evaluating the potential impact of these amendments on the Company’s consolidated financial statements.

## 7. 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, income and expenses. Actual results may differ from these estimates, and these differences could be material. 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.

**a) Business acquisitions**

For business acquisitions, the Company applies judgment on the recognition and measurement of assets acquired and liabilities assumed, and estimates are utilized to calculate and measure such adjustments. The excess, if any, of the fair value of consideration over the fair value of the net identifiable assets acquired is recognized as goodwill.

The determination of acquisition date fair values often requires management to make assumptions and estimates about future events. The assumptions with respect to the fair value of intangible assets requires a high degree of judgment and include estimates for future operating performance, discount rates, technology migration factors and terminal value rates. The Company's business acquisitions, including fair value estimates and judgments, are described under Note 5.

**b) Provisions**

The recognition of provisions requires management to make certain judgements regarding whether there is a present legal or constructive obligation as a result of a past event, it is probable that the Company will be required to settle the obligation and if a reliable estimate of the amount of the obligation can be made. Provisions are reviewed on an ongoing basis and are adjusted accordingly when new facts and events become known to the Company. Due to the judgmental nature of these items, settlement of provisions may differ from amounts recognized.

**c) Deferred taxes**

The calculation of deferred income taxes requires management to make certain judgements regarding the tax rules in jurisdictions where the Company performs activities. Judgement is required regarding the classification of transactions and in assessing probable outcomes of claimed deductions including expectations of future operating results, the timing and reversal of temporary differences, likelihood of utilizing deferred tax assets and possible audits of income tax and other tax filings to tax authorities.

**d) Recoverable amounts and impairment**

Management assesses impairment of non-financial assets such as intangible assets, goodwill, property, plant and equipment, and ROU assets on a periodic basis. When impairment indicators are noted, management estimates the recoverable amount of each asset or CGU based on a VIU model, using expected future cash flows, or a FVLCS model, using recent sales data or appraisal reports and revenue multiple based on external capital market research. Under a VIU model, when measuring expected future cash flows, management makes assumptions about future growth of profits of CGU locations which relate to future events and circumstances. Actual results could vary from these estimated future cash flows.

Impairment losses on the consolidated financial statements are further described in Note 20.

**e) Convertible debentures**

Management applies judgment in identifying the components and determining their inception fair value for the purpose of allocating the proceeds to the component(s) of its convertible debentures. Management applies assumptions and estimates when using the Black-Scholes, Monte-Carlo, and Trinomial simulation valuation models used to estimate fair value for such derivatives. These assumptions and estimates require a high degree of judgment and a change in these estimates may result in a material effect to the consolidated financial results. The judgments and estimates are described under Note 16.

**f) Lease term**

Lease term reflects the period over which the lease payments are reasonably certain including renewal options that the Company is reasonably certain to exercise. The determination of lease terms involves significant judgment with respect to assumptions of whether lease extensions will be utilized. Management makes assumptions about long-term industry outlook and store operating performances and growth which relate to future events and circumstances. Actual results could vary from these assumptions, and the differences could be material to the carrying value of the lease liabilities and ROU assets (which use lease term as the basis for determining useful life).

(In thousands of Canadian Dollars, except number of shares and per share amounts)

### g) Incremental borrowing rate

The incremental borrowing rates are based on judgments including the Company's own credit risk, economic environment, term, and risks specific to the underlying assets. The carrying balance of the ROU, lease liabilities, and the resulting amortization and finance expenses, may differ due to changes in the Company's own credit risk, market conditions and lease term. Refer to note 4 for estimates with respect to incremental borrowing rate applied in lease liability calculations.

### h) Share-based payments and warrants fair values

The Company applies the Black-Scholes valuation technique for fair valuing stock options and share purchase warrants that are classified as equity instruments. The key estimate in these models relates to future volatility assumptions, which uses both Company and peer company share price data. Volatility assumptions and estimates require judgment given limited history of Company and industry share price and operating performance data. Changes in these assumptions may affect the fair value estimates of stock options and share purchase warrants. Refer to note 17 for details of valuation model inputs applied for these instruments.

The Company has also issued warrants as part of a strategic investment transaction with a key investor, that were classified as a derivative liability due to a variable exercise price range and is fair valued using Monte-Carlo simulation valuation technique. Key estimates and sensitivity of unobservable inputs (volatility) are described under Note 16.

## 8. TRADE AND OTHER RECEIVABLES

As at December 31, 2022 and January 29, 2022, the Company's trade and other receivables was comprised of the following:

| As at | December 31, 2022 | January 29, 2022 |
|---|---|---|
| | $ | $ |
| Trade accounts receivable | 12,923 | 12,386 |
| Sales tax receivable | 2,324 | 3,477 |
| Other receivables | 42 | 85 |
| **Total trade and other receivables** | **15,289** | 15,948 |

During the fiscal year ended December 31, 2022, the Company recognized $624 as a provision for expected credit loss on its trade accounts receivable (January 29, 2022 - $410).

## 9. MERCHANDISE INVENTORIES

As at December 31, 2022 and January 29, 2022, the Company's merchandise inventories were comprised of the following:

| As at | December 31, 2022 | January 29, 2022 |
|---|---|---|
| | $ | $ |
| Cannabis | 11,145 | 10,332 |
| Accessories & apparel | 1,126 | 2,126 |
| **Total merchandise inventories** | **12,271** | 12,458 |

The amount of inventories recognized as an expense in cost of goods sold for the fiscal year ended December 31, 2022 was $104,123 (January 29, 2022 - $112,180).

As at December 31, 2022, the Company recorded an inventory write-down of $434 (January 29, 2022 - $359) to reduce the value of inventories to their net realizable value. The write-down was included as an expense in cost of goods sold. There were no reversals of previously recorded write-down of inventories during the fiscal year December 31, 2022 and January 29, 2022.

## 10. REFUNDABLE DEPOSIT TO ACQUIRE

**Fire & Flower U.S. Holdings Inc. (formerly American Acres) Arrangement**

On February 22, 2021, the Company announced that it has entered into agreements with a Canadian private company, operating as "American Acres Managers" ("**American Acres**"), which comprised agreements to license the Company's brand, store operating system and Hifyre digital retail and analytics platform for cannabis dispensaries across certain U.S. states and an option to acquire American Acres upon the federal legalization of adult-use cannabis in the United States or when such acquisition would otherwise be permitted by the policies of the TSX or any other stock exchange on which the Company's securities are listed for trading (collectively, the "**Strategic Agreements**"). On August 10, 2021, the Company announced that American Acres had changed its operating name to Fire & Flower U.S. Holdings Inc. ("**Fire & Flower US**") and opened its first Fire & Flower branded store in Palm Springs, California. On January 28, 2022, the Company amended certain terms of the Strategic Agreements with Fire & Flower US to provide for, among other things, the Company to pay the shareholders of Fire & Flower US an aggregate amount of US$5 million (the "**Refundable Deposit**"), subject to certain conditions. The Refundable Deposit, plus a premium of one percent (1%), calculated monthly, will be deducted from the fair-market value purchase price payable, if and when the Company exercises its option to acquire Fire & Flower US. Hifyre will receive a one-time implementation fee and ongoing software and support fees for each Fire & Flower branded store operated by Fire & Flower US. In addition, the amendments to the Strategic Agreements provide for the Company, upon the payment of additional cash amounts, (i) to extend its option to acquire Fire & Flower US to February 2028 or such later date upon the federal legalization of adult-use cannabis in the United States or when such acquisition would otherwise be permitted by the policies of the TSX or any other stock exchange on which the Company's securities are listed for trading, (ii) expand the number of cannabis retail stores that Fire & Flower US may operate utilizing the Company's licensed trademarks/intellectual property, and/or (iii) expand the territory within which Fire & Flower US may operate cannabis retailer stores utilizing the licensed trademarks/intellectual property.

On August 2, 2022, the Company entered into further amending agreements (the "**August 2022 Amendments**") in respect to the Strategic Agreements with Fire & Flower US. The August 2022 Amendments revised the conditions for payment of the Refundable Deposit to the shareholders of Fire & Flower US, which was released from escrow to the shareholders of Fire & Flower US concurrent with entering into the August 2022 Amendments. The August 2022 Amendments also revised the ongoing software and support fees payable to the Company until such time as Fire & Flower US has obtained a license to deliver cannabis in Denver, Colorado, and extended the territories in which Fire & Flower US may utilize the Company's intellectual property to include New Mexico and Ohio.

(In thousands of Canadian Dollars, except number of shares and per share amounts)

## 11. PROPERTY, PLANT AND EQUIPMENT

| | Land and Buildings | Furniture and Fixtures | Leasehold Improvements | Computers and Equipment | Signage and Displays | Vehicles | Total |
|---|---|---|---|---|---|---|---|
| **Cost** | $ | $ | $ | $ | $ | $ | $ |
| Balance, January 29, 2022 | 5,407 | 3,346 | 40,244 | 8,940 | 1,357 | 475 | 59,769 |
| Additions | - | 357 | 2,675 | 217 | 247 | - | 3,496 |
| Disposal | - | - | - | (45) | - | (250) | (295) |
| Impairment(1) | (817) | (13) | (7,839) | - | (26) | - | (8,695) |
| Transfers and Other Adjustments | - | (11) | (384) | 233 | (1) | 80 | (83) |
| **Balance, December 31, 2022** | **4,590** | **3,679** | **34,696** | **9,345** | **1,577** | **305** | **54,192** |
| **Accumulated Depreciation** | | | | | | | |
| Balance, January 29, 2022 | 506 | 1,004 | 6,830 | 3,224 | 452 | 253 | 12,269 |
| Depreciation | 178 | 755 | 4,343 | 1,639 | 274 | 94 | 7,283 |
| Disposal | - | - | - | (18) | - | (167) | (185) |
| Impairment(1) | (104) | (3) | (2,154) | - | (2) | - | (2,263) |
| Transfers and Other Adjustments | 69 | - | 107 | 14 | - | 53 | 243 |
| **Balance, December 31, 2022** | **649** | **1,756** | **9,126** | **4,859** | **724** | **233** | **17,347** |
| **Net Book Value** | | | | | | | |
| Balance, January 29, 2022 | 4,901 | 2,342 | 33,414 | 5,716 | 905 | 222 | 47,500 |
| **Balance, December 31, 2022** | **3,941** | **1,923** | **25,570** | **4,486** | **853** | **72** | **36,845** |

| | Land and Buildings | Furniture and Fixtures | Leasehold Improvements | Computers and Equipment | Signage and Displays | Vehicles | Total |
|---|---|---|---|---|---|---|---|
| **Cost** | $ | $ | $ | $ | $ | $ | $ |
| Balance, January 30, 2021 | 5,045 | 3,281 | 34,821 | 6,270 | 621 | 391 | 50,429 |
| Acquisitions | - | 71 | 1,154 | 3 | - | 84 | 1,312 |
| Additions | 362 | 39 | 9,143 | 2,756 | 772 | - | 13,072 |
| Impairment(1) | - | (45) | (4,874) | (89) | (36) | - | (5,044) |
| **Balance, January 29, 2022** | **5,407** | **3,346** | **40,244** | **8,940** | **1,357** | **475** | **59,769** |
| **Accumulated Depreciation** | | | | | | | |
| Balance, January 30, 2021 | 158 | 373 | 4,219 | 1,933 | 212 | 179 | 7,074 |
| Depreciation | 198 | 643 | 3,898 | 1,291 | 251 | 74 | 6,355 |
| Impairment | - | (12) | (1,287) | - | (11) | - | (1,310) |
| Transfers and Other | 150 | - | - | - | - | - | 150 |
| **Balance, January 29, 2022** | **506** | **1,004** | **6,830** | **3,224** | **452** | **253** | **12,269** |
| **Net Book Value** | | | | | | | |
| Balance, January 30, 2021 | 4,887 | 2,908 | 30,602 | 4,337 | 409 | 212 | 43,355 |
| **Balance, January 29, 2022** | **4,901** | **2,342** | **33,414** | **5,716** | **905** | **222** | **47,500** |

*(1) For further details on the impairments, refer to Note 20, Restructuring and Impairments*

As at December 31, 2022, the amount of property, plant and equipment classified as under construction or development and therefore not being amortized was $712 (January 29, 2022: $2,251).

(In thousands of Canadian Dollars, except number of shares and per share amounts)

## 12. LEASE RECEIVABLES

| Lease receivables | December 31, 2022 |
|---|---|
| | $ |
| **Beginning balance** | - |
| Additions | 1,674 |
| Lease payments received | (33) |
| Interest income from lease receivables | 66 |
| Impairment of lease receivable | (51) |
| **Ending balance** | **1,656** |
| Current | 242 |
| Non-current | 1,414 |

| Maturity analysis - contractual undiscounted cash flow | $ |
|---|---|
| One year | 437 |
| Two years | 478 |
| Three years | 320 |
| Four years | 212 |
| Five years | 216 |
| Beyond five years | 914 |
| Total contractual undiscounted cash flow | **2,576** |
| Less: unearned finance income | (920) |
| **Ending balance, December 31, 2022** | **1,656** |

Lease receivables are reviewed for impairment based on expected credit losses at each balance sheet date in accordance with IFRS 9 – Financial Instruments. An impairment loss is recorded when the credit risk is assessed to have increased for the lease receivable. An expected credit loss of $51 was recorded for the fiscal year ended December 31, 2022 (January 29, 2022: $nil).

## 13. RIGHT-OF-USE ASSETS AND LEASE LIABILITIES

The Company has entered into various lease agreements predominantly to execute its retail platform strategy.

The Company leases properties such as various retail stores and offices. Lease contracts are typically made for fixed periods of 5 to 10 years but may have extension options. Lease terms are negotiated on an individual basis and contain a range of different terms and conditions.

| Right-of-use assets | December 31, 2022 | January 29, 2022 |
|---|---|---|
| | $ | $ |
| **Beginning balance** | **43,755** | **40,500** |
| Additions | 2,146 | 14,761 |
| Lease modifications(1) | (3,490) | - |
| Terminated locations(2) | (4,656) | (5,722) |
| Depreciation expense for the period | (5,784) | (5,784) |
| **Ending balance** | **31,971** | **43,755** |

(1) *Lease modifications includes a reversal of impairment of ROU asset, net of lease liability of $224*

(2) *For further details on the ROU asset impairment, refer to Note 20, Restructuring and Impairments*

(In thousands of Canadian Dollars, except number of shares and per share amounts)

The lease liabilities pursuant to these leases is summarized in the below table:

| **Lease liabilities** | **December 31, 2022** | **January 29, 2022** |
|---|---|---|
| | $ | $ |
| **Beginning balance** | **52,203** | **45,906** |
| Additions | 2,168 | 14,886 |
| Lease modifications | (1,803) | - |
| Payments in the period | (9,173) | (9,036) |
| Terminated locations[1] | (2,933) | (4,223) |
| Accretion expense for the period | 4,338 | 4,670 |
| **Ending balance** | **44,800** | **52,203** |

[1] *For further details on the terminated lease liabilities, refer to Note 20, Restructuring and Impairments*

| | | |
|---|---|---|
| Current | 5,730 | 5,113 |
| Non-current | 39,070 | 47,090 |
| **Maturity analysis - contractual undiscounted cash flow** | $ | $ |
| One year | 9,649 | 9,637 |
| Two years | 8,242 | 9,042 |
| Three years | 6,997 | 8,084 |
| Four years | 6,406 | 7,140 |
| Five years | 6,238 | 6,851 |
| Beyond five years | 15,395 | 21,803 |
| | **52,927** | **62,557** |

| **Other amounts recognized in the consolidated statement of loss and comprehensive loss** | **December 31, 2022** | **January 29, 2022** |
|---|---|---|
| | $ | $ |
| Expenses relating to short-term leases | 71 | 49 |
| Expenses relating to lease payments not included in the measurement of lease liabilities | 3,726 | 3,738 |
| Income from subleasing right-of-use assets | 390 | 160 |

(In thousands of Canadian Dollars, except number of shares and per share amounts)

## 14. INTANGIBLE ASSETS AND GOODWILL

| | Trademarks, Subscriber & Customer Relationships | Licenses | Software and platform related technology | Total |
|---|---|---|---|---|
| **Cost** | $ | $ | $ | $ |
| Balance, January 29, 2022 | 15,086 | 35,269 | 7,269 | 57,624 |
| Additions | - | - | 917 | 917 |
| Impairment[1] | (753) | (10,191) | - | (10,944) |
| Transfers and Other Adjustments | 8 | (3,823) | 233 | (3,582) |
| **Balance, December 31, 2022** | **14,341** | **21,255** | **8,419** | **44,015** |
| **Accumulated Amortization and Impairments** | | | | |
| Balance, January 29, 2022 | 1,526 | 9,167 | 1,818 | 12,511 |
| Amortization | 1,724 | 3,206 | 1,761 | 6,691 |
| Impairment[1] | (124) | (2,383) | - | (2,507) |
| Transfers and Other Adjustments | - | (3,836) | - | (3,836) |
| **Balance, December 31, 2022** | **3,126** | **6,154** | **3,579** | **12,859** |
| **Net Book Value** | | | | |
| Balance, January 29, 2022 | 13,560 | 26,102 | 5,451 | 45,113 |
| **Balance, December 31, 2022** | **11,215** | **15,101** | **4,840** | **31,156** |

[1] *For further details on the license impairments, refer to Note 20, Restructuring and Impairments*

| | Trademarks, Subscriber & Customer Relationships | Licenses | Software and platform related technology | Total |
|---|---|---|---|---|
| **Cost** | $ | $ | $ | $ |
| Balance, January 30, 2021 | 8,491 | 53,380 | 2,496 | 64,367 |
| Acquisitions | 6,595 | 1,059 | 4,159 | 11,813 |
| Additions | - | - | 614 | 614 |
| Impairment | - | (19,170) | - | (19,170) |
| **Balance, January 29, 2022** | **15,086** | **35,269** | **7,269** | **57,624** |
| **Accumulated Depreciation and Impairments** | | | | |
| Balance, January 30, 2021 | 586 | 4,571 | 640 | 5,797 |
| Depreciation | 940 | 4,823 | 1,178 | 6,941 |
| Impairment | - | (227) | - | (227) |
| **Balance, January 29, 2022** | **1,526** | **9,167** | **1,818** | **12,511** |
| **Net Book Value** | | | | |
| Balance, January 30, 2021 | 7,905 | 48,809 | 1,856 | 58,570 |
| **Balance, January 29, 2022** | **13,560** | **26,102** | **5,451** | **45,113** |

During the fiscal year ended December 31, 2022, the Company capitalized $745 (January 29, 2022: $611) of internally developed software assets.

**Goodwill**

| | December 31, 2022 | January 29, 2022 |
|---|---|---|
| Beginning balance | 30,541 | 13,806 |
| Business combinations (note 5) | - | 18,685 |
| Post-acquisition adjustments (note 5) | 427 | (1,950) |
| Impairment loss (note 20) | (24,939) | - |
| | **6,029** | **30,541** |

(In thousands of Canadian Dollars, except number of shares and per share amounts)

On August 12, 2022, in accordance with the PED Agreement, the Company issued an additional 150,281 common shares in the amount of $427, reflecting an upwards adjustment to the aggregate purchase price.

During the fiscal year ended January 29, 2022, the Company had goodwill arising from the acquisitions of PotGuide and Wikileaf of $6,453 and $3,689. Of the goodwill recognized, $1,462 arose upon recognition of deferred liabilities for the acquisition during the fiscal year. The Company had goodwill arising from the acquisition of Pineapple Express Delivery of $8,543. Of the goodwill recognized, $382 arose upon recognition of deferred liabilities for the acquisition during the fiscal year. The purchase price allocations are further detailed under Note 5.

During the fiscal year ended January 29, 2022, the Company recognized a total of $1,950 in post-acquisition adjustments relating to certain assets and liabilities from the Friendly Stranger and other Ontario retail stores from the fiscal year ended January 30, 2021.

Allocation of goodwill to CGUs:

| | December 31, 2022 | January 29, 2022 |
|---|---|---|
| | $ | $ |
| Retail | 1,096 | 14,318 |
| Wholesale and Logistics | 4,485 | 4,271 |
| Digital | 448 | 11,952 |
| | **6,029** | **30,541** |

The assessment and recognition of impairment of goodwill and intangible assets are described in detail in Note 20.

## 15. PROVISIONS

| | December 31, 2022 | January 29, 2022 |
|---|---|---|
| | $ | $ |
| **Beginning balance** | 1,742 | 2,672 |
| Additions (note 20) | 4,328 | 777 |
| Drawdowns | (1,405) | (1,707) |
| **Total Provisions** | **4,665** | **1,742** |
| Current | (3,895) | (1,742) |
| **Non-Current** | **770** | **-** |

Restructuring provisions relate to the Company's initiatives to lower operating costs and improve financial performance. During the fiscal year ended December 31, 2022, the Company recorded an expense of $4,342 comprised of $1,839 of severance and other benefits and $2,503 relating to the cost of closing certain retail locations including the expected cost to settle and exit the respective leases (note 20). The value of the provision is management's best estimate of the expenditures. Lease obligation costs related to the restructured locations are recorded in lease liabilities (note 13). If the effect of time value is material, provisions are discounted using a current pre-tax rate that reflects the risk specific to the liability.

(In thousands of Canadian Dollars, except number of shares and per share amounts)

## 16. DEBENTURES AND LOANS, DERIVATIVE LIABILITY

***Debentures and Loans balances outstanding:***

| | Contractual Maturity Date | Coupon Interest Rate | Principal Outstanding | | Carrying Amount | |
|---|---|---|---|---|---|---|
| | | | **December 31, 2022** | **January 29, 2022** | **December 31, 2022** | **January 29, 2022** |
| | | | $ | $ | $ | $ |
| ***Convertible debenture liability*** | | | | | | |
| Investor Debentures [1] | June 30, 2023 | 8.00% | 2,407 | 2,407 | 2,271 | 1,754 |
| ***Term loans and credit facilities*** | | | | | | |
| 2021 Investor Loan | October 1, 2022 | 8.00% | - | 20,070 | - | 20,070 |
| 2022 Investor Loan | December 31, 2023 | 11.00% | 11,244 | - | 11,244 | - |
| **Total debentures and loans** | | | **13,651** | 22,477 | **13,515** | 21,824 |
| Current | | | (13,651) | (20,070) | (13,515) | (20,119) |
| **Non-current** | | | - | 2,407 | - | 1,705 |

***Derivative Liability balances outstanding:***

| | Contractual Maturity Date | Conversion Price/unit | Equivalent Units | | Carrying Amount | |
|---|---|---|---|---|---|---|
| | | | **December 31, 2022** | **January 29, 2022** | **December 31, 2022** | **January 29, 2022** |
| | | $/unit | # | # | $ | $ |
| ***Conversion option derivative liabilities*** | | | | | | |
| Investor Debentures [1] | June 30, 2023 | variable [1] | 240,741 | 240,741 | 404 | 1,074 |
| ***Warrants recognized as derivative liability*** | | | | | | |
| Series B Warrants [1] [2] | September 30, 2022 | variable | - | 6,717,554 | - | 1,171 |
| Series C Warrants [1] [3] | June 30, 2023 | variable | 13,339,078 | 13,339,078 | 85 | 224 |
| Top-up Series B Warrants [2] | September 30, 2022 | variable | - | 1,570,513 | - | 178 |
| Top-up Series C Warrants [3] | June 30, 2023 | variable | 4,457,206 | 4,457,206 | 5 | 73 |
| | | | | | 90 | 1,646 |
| **Total derivative liability** | | | | | **494** | 2,720 |
| Current | | | | | (494) | (1,349) |
| **Non-current** | | | | | - | 1,371 |

*(1) Amended. See further details below.*

*(2) Exercisable after January 1, 2022 (see terms described below).*

*(3) Exercisable after October 1, 2022 (see terms described below).*

Cash proceeds from term loan facilities totaled $11,000 for the fiscal year ended December 31, 2022 (January 29, 2022: $20,000).

(In thousands of Canadian Dollars, except number of shares and per share amounts)

Convertible debenture related activity is summarized below:

| | | Carrying Amount | |
|---|---|---|---|
| | Principal Outstanding | Debenture component | Derivative liability - conversion option |
| | $ | $ | $ |
| **Balance, January 29, 2022** | **2,407** | **1,754** | **1,074** |
| Gain on revaluation of derivative liability | - | - | (670) |
| Accretion and interest expense | - | 614 | - |
| Coupon interest paid in common shares | - | (97) | - |
| **Balance, December 31, 2022** | **2,407** | **2,271** | **404** |

Derivative liability activity related to warrants are summarized below:

| | December 31, 2022 |
|---|---|
| | $ |
| **Balance, beginning of fiscal year** | 1,646 |
| Gain on revaluation of derivative liabilities | (212) |
| Conversion and settlement | (1,344) |
| **Balance, end of fiscal year** | **90** |

*Measurement and sensitivity analysis as at December 31, 2022*

As at December 31, 2022, the derivative liabilities related to the Investor Debentures conversion option, Series C Warrants were revalued using the Monte-Carlo and trinomial tree model simulation valuation technique and the following assumptions: stock price of $1.18; risk-free interest rate range of 4.47%; and expected volatility range of 98% based on historical trading data of the Company and its peers.

These fair values were determined based on Company-specific inputs and valuation techniques that utilized both observable and unobservable market inputs. Such estimated fair values for the financial liabilities were thus categorized as Level 3 measurement inputs.

Volatility assumptions are a significant unobservable input to the estimate, mainly due to the limited available longer-term historical trading data for the Company and comparable companies in the industry, as well as the emerging market the Company operates in.

As at December 31, 2022, with all other variables held constant, a 5% decrease and 5% increase in volatility would have resulted in a change in the estimated fair values of the derivative liability instruments as follows:

| Sensitivity Analysis | | As at December 31, 2022 | |
|---|---|---|---|
| | Valuation Technique | Volatility - 5% | Volatility +5% |
| | | $ | $ |
| Investor Debentures conversion option | Monte-Carlo/ Trinomial | 44 | 51 |
| Series C Warrants | Monte-Carlo | (14) | 24 |
| Top-up Series C Warrants | Monte-Carlo | (2) | 1 |
| **Total** | | 28 | 76 |

(In thousands of Canadian Dollars, except number of shares and per share amounts)

**2022 Investor Loan**

On October 18, 2022, the Company entered into a loan agreement (the "**2022 Loan Agreement**") with the Investor. Pursuant to the terms of the 2022 Loan Agreement, the Investor loaned $11,000 principal amount to the Company ("**2022 Investor Loan**") with an interest rate of 11% per annum and payable quarterly, provided that for the first six months of the term of the 2022 Investor Loan, the Company may elect to increase the principal amount of the 2022 Investor Loan by the amount of accrued interest during such period in lieu of paying such accrued interest to the Investor. The 2022 Investor Loan matures on December 31, 2023 and the Investor has first priority security on all of the assets of the Company and its subsidiaries including all intellectual property subject only to permitted liens. Pursuant to the 2022 Loan Agreement, the Company may prepay all or any portion of the 2022 Investor Loan without bonus or penalty upon five business days' notice. As at December 31, 2022, the Company has $11,244 in principal and accrued interest outstanding which includes interest that was elected to be capitalized as permitted pursuant to the 2022 Loan Agreement.

**Proposed Amendments to Series C Warrants**

On October 18, 2022, the Company announced that it had entered into an amendment agreement (the "**Amendment Agreement**") with the Investor with respect to the Series C Warrants held by the Investor. Pursuant to the terms of the Amendment Agreement, the Company and the Investor proposed to, among other things, amend the terms of the Series C Warrants to revise the exercise price and expiry date of the Series C Warrants. In connection with the 2022 Amending Agreement, the Company and the Investor entered into a subscription agreement (the "**Subscription Agreement**") to purchase Common Shares for aggregate proceeds of approximately $5 million.

The terms of the Amendment Agreement and the Subscription Agreement were subject to customary conditions precedent and applicable regulatory approvals, including the receipt of the requisite approvals by the holders of Common Shares as required by applicable securities laws and the policies of the TSX. The Amendment Agreement and the Subscription Agreement have both been terminated in accordance with their terms, as certain conditions to closing were ultimately not achieved.

**2021 Investor Loan**

On December 13, 2021, the Company entered into a loan agreement (the "**2021 Loan Agreement**") with ACT pursuant to which ACT shall loan to the Company a maximum aggregate amount of $30,000 which may be drawn down in three separate tranches of $10,000 (the "**2021 Investor Loan**"). The 2021 Investor Loan accrued interest at a rate of 8.0% per annum, payable quarterly, and matures on October 1, 2022. The 2021 Loan Agreement contemplated prepayment of amounts drawn from the 2021 Investor Loan from the net proceeds received by the Company upon exercise of the Series B Warrants held by the Investor, which were exercisable by the Investor as of January 1, 2022 until September 30, 2022. As at January 29, 2022, a total of $20.0 million was withdrawn under the 2021 Investor Loan and as at December 31, 2022, no amounts are outstanding on the 2021 Investor Loan (refer below for repayment of the 2021 Investor Loan).

**Warrants Exercise and Repayment of 2021 Investor Loan during the fiscal year ended December 31, 2022**

During the fiscal year ended December 31, 2022, the Company received net proceeds of $17,334 (the "**Proceeds**") from the exercise of the Series B Warrants, comprising (a) 6,717,554 Series B Warrants exercised at a price of $4.5103, representing the 20-day volume-weighted average price of the common shares of the Company and (b) 1,570,513 Top-up Series B Warrants exercised at a price of $4.7732. Pursuant to the terms of the 2021 Loan Agreement (as defined in note 24), a portion of the warrant amount of $37,794 was used to repay the principal of $20,000 and interest of $460 (January 29, 2022: $70) to the Investor as prescribed within the 2021 Loan Agreement.

| | **December 31, 2022** |
|---|---|
| | **$** |
| Series B Warrants | 37,794 |
| 2021 Investor Loan | (20,000) |
| 2021 Investor interest | (460) |
| **Net proceeds** | **17,334** |

**Issuance of Top-up Warrants**

Pursuant to the terms of the amended and restated investor rights agreement dated September 16, 2020 between the Company and ACT (the "**IRA**"), ACT is entitled to certain Top-up Rights (as defined in the IRA) when its fully diluted interest in the Company drops below 49.1%. As a result of certain dilutive issuances of common shares, ACT's Top-up Rights were triggered and on January 18, 2022, the Company issued an additional 1,570,513 Series B Warrants, and 4,457,206 Series C Warrants, for an aggregate issuance of 6,027,719 warrants ("**Top-up Warrants**"). ACT may receive additional ACT Warrants pursuant to the exercise of certain Top-up Rights.

Exercise price for Top-up Series B Warrants is the greater of (i) $4.7732; and (ii) the lesser of (A) $18.75; and (B) the 20-day volume weighted average trading price of the Shares on the Exchange on the last Business Day prior to the exercise of such top-up Series B Warrants.

Exercise price for Top-up Series C Warrants is the greater of (i) $4.7732; and (ii) the lesser of (A) $30.00; and (B) 125% of the 20-day volume weighted average trading price of the Shares on the Exchange on the last Business Day prior to the exercise of such top-up Series C Warrants.

The same fair value models for the existing Series B and Series C Warrants were applied to the Top-up Series B and Series C Warrants. Assumptions used in valuing the Top-up Warrants were:

- For Series B: stock price of $4.46, risk-free interest rate of 0.72%, and expected volatility of 60% based on historical trading data of the Company and its peers.
- For Series C: stock price of $4.46, risk-free interest rate of 1.09%, and expected volatility of 63% based on historical trading data of the Company and its peers.

**Investor Debentures and Investor Warrants**

On August 7, 2019, the Company issued: (i) $25,990 principal amount of 8.0% unsecured convertible debentures (the "**Investor Debentures**"); (ii) 3,063,432 series A Common Share purchase warrants (the "**Series A Warrants**"); (iii) 5,612,689 series B Common Share purchase warrants (the "**Series B Warrants**"); and (iv) 11,070,392 series C Common Share purchase warrants (the "**Series C Warrants**" and with the Series A Warrants and the Series B Warrants, the "**Investor Warrants**") pursuant to the terms of a subscription agreement with the Investor, an indirect wholly-owned subsidiary of ACT (the "**Strategic Investment**"). Pursuant to the terms of the Strategic Investment, the Investor has the right, but not the obligation, to acquire that number of common shares that may result in the Investor holding 50.1% of the issued and outstanding common shares if the principal amount of Investor Debentures and Investor Warrants are converted and exercised, respectively, in full.

On July 23, 2020, the Company announced a series of amendments to the Investor Debenture and Investor Warrants issued to the Investor under the strategic investment agreement completed on August 7, 2019 (the "**ACT Investment Amendments**"). These amendments were approved at a special meeting of shareholders on September 15, 2020.

These amendments resulted in the following:

- Extending the maturity date of $25,990 principal amount 8.0% convertible unsecured debentures to June 30, 2023 from June 30, 2021. The Investor would have the right to accelerate the Investor Debentures maturity date once $20,000 in principal of the April 2020 Debentures (defined below) was converted.
- The Investor Debentures conversion price is now the lesser of: (A) the 20-day volume weighted average price ("VWAP") of the common shares of the Company on the last trading day prior to the Investor delivering a notice of its intention to convert; and (B) $0.90.
- The Company has the ability to repay the principal amount of the Investor Debentures and interest by issuing common shares of the Company at a price equal to $7.50 per common share (subject to satisfaction of certain conditions precedent, including the common shares having a 20-day VWAP of at least $10.00 on the date the Company gives its notice of intention to convert).
- 3,415,802 Series A Warrants, previously with an exercise price of $14.00, were amended as follows:
    - 1,314,646 of the Series A Warrants (the "A-1 Warrants") have an exercise price equal to $7.80, which were subsequently exercised by the Investor on September 18, 2020 for cash exercise proceeds of $10,254;

(In thousands of Canadian Dollars, except number of shares and per share amounts)

- 1,050,577 of the Series A Warrants (the "A-2 Warrants") have an exercise price equal to $8.30, which were exercised on December 21, 2020 for cash exercise proceeds of $8,720; and
- 1,050,577 of the Series A Warrants (the "A-3 Warrants") have an exercise price equal to $9.30, which were exercised on June 30, 2021 for cash exercise proceeds of $9,770.

- 6,717,554 Series B Warrants, previously with an exercise price of $18.75, were amended such that the exercise price is the lesser of: (A) $18.75; and (B) the 20-day VWAP of the common shares on the last trading day prior to the date on which the Series B Warrants are exercised. The Series B Warrants were exercised on April 28, 2022 for cash exercise proceeds of $37,794.
- 13,339,078 Series C Warrants, previously with an exercise price range of $20.00 - $60.00, were amended such that the exercise price is the lesser of: (A) $30.00; and (B) 125% of the 20-day VWAP of the common shares on the last trading day prior to the date on which the Series C Warrants are exercised. The Series C Warrants are exercisable at any time after October 1, 2022; and expire on June 30, 2023.

| **Sensitivity Analysis - Investor Debentures and Derivative Liabilities** | | **As at September 15, 2020** | |
|---|---|---|---|
| | **Valuation Technique** | **Volatility - 5%** | **Volatility +5%** |
| | | $ | $ |
| Investor Debentures conversion option | Monte-Carlo/ Trinomial | (364) | 229 |
| Series B Warrants | Monte-Carlo | (1,847) | 1,871 |
| Series C Warrants | Monte-Carlo | (4,939) | 1,368 |
| **Total** | | (7,150) | 3,468 |

*Conversion and Settlement of Investor Debentures in fiscal year ended January 29, 2022*

On March 10, 2021, $23,583 in principal amount of the Investor Debentures were early converted by the Company at the forced conversion price of $7.50. Accrued and unpaid interest of $366 was also settled at the time of conversion. A total of 3,193,254 common shares were issued upon principal conversion of the principal and settlement of the interest. The common shares issued had a value upon conversion of $37,888, which was comprised of the carrying values, as at the date of conversion, of the debenture liability ($13,643) and the corresponding conversion option derivative liability ($24,245).

The conversion option derivative liability was valued by taking the difference between the intrinsic value and the fair value of the debt portion. The intrinsic value and discounted cash flow approach utilized for the valuation of the debt portion had the following key inputs and assumptions: stock price of $12.50, and discount rate 31% - 35%.

As at December 31, 2022, $2,407 in principal of the Investor Debentures remained outstanding. (January 29, 2022: $2,407)

**April 2020 Debentures**

During the fiscal year ended January 30, 2021, the Company completed two private placements for aggregate gross proceeds of $28,000, which were comprised of:

- a non-brokered private placement of 8% secured convertible debentures for aggregate gross proceeds of $19,800 (the "**April 2020 Initial Debentures**"), which closed on April 28, 2020, and
- a non-brokered private placement of subscription receipts for aggregate gross proceeds of $8,200, subject to shareholder approval (the "**April 2020 Subscription Receipts**"). The April 2020 Subscription Receipts were automatically converted into convertible debentures upon shareholder approval on June 17, 2020. These convertible debentures have the same terms as the April 2020 Initial Debentures.

The principal amount of the April 2020 Initial Debentures and the April 2020 Subscription Receipts, upon conversion to convertible debentures (collectively the "**April 2020 Debentures**"), were convertible at the holder's option into common shares of the Company (the "**Conversion**

**Shares**") at any time prior to the maturity date (described below) at a conversion price of $5.00 per Conversion Share. The Company's obligations under the April 2020 Debentures were secured by the assets of the Company.

On July 23, 2020, in conjunction with entering into the ACT Investment Amendments, the Company also entered into a supplemental debenture indenture (the "**Supplemental Indenture**") to the debenture indenture dated April 28, 2020 (the "**Indenture**") which governs the April 2020 Debentures. The Supplemental Indenture amendments included:

- modification of the April 2020 Debenture maturity date to June 1, 2021, or June 1, 2022, in the event that, on or before April 1, 2021, ACT's A-1 Warrants and A-2 Warrants have been exercised. As at January 30, 2021, ACT's A-1 Warrants and A-2 Warrants were fully converted and the maturity date was extended to June 1, 2022;
- the Company's election to force the conversion of the principal amount of April 2020 Debentures shall no longer be contingent on the conversion or retirement of the Investor Debentures; and
- the Company may elect to add any interest accrued and payable on the December 31, 2021 payment date to the principal amount of April 2020 Debentures (as is already contemplated for the interest payments owing on December 31, 2020 and June 30, 2021) (the "**Interest Amendment**"). The Interest Amendment was approved by the shareholders of the Company on September 15, 2020.

The Supplemental Indenture amendments' impact on the carrying value of the debt was assessed by the Company once the ACT Investment Amendments were effective upon shareholder and regulatory approvals received on September 15, 2020.

*Conversion of April 2020 Debentures in fiscal year ended January 29, 2022*

During the fiscal year ended January 29, 2022, April 2020 Debentures with $29,407 in principal amount outstanding were early converted and settled at the conversion price of $5.00. Coupon interest of $1,139 was also settled in common shares at the conversion price of $5.00. A total of 6,109,131 common shares were issued for the principal conversions and interest settlement. The common shares issued had a value upon conversion of $64,955, which was comprised of the carrying values, as at the date of conversion, of the debenture liability ($16,754) and the corresponding conversion option derivative liability ($48,201). The conversion option derivative liability was valued by taking the difference between the intrinsic value and the fair value of the debt portion. The intrinsic value and discounted cash flow approach utilized for the valuation of the debt portion had the following key inputs and assumptions: stock price of $13.60, and discount rate 26%-32%.

**Repayment of Senior Secured Term Loan and Credit Facilities**

On April 21, 2020, the Company entered into a commitment letter to obtain up to an aggregate amount of $10,000 (with an option for an additional $5,000), non-dilutive credit facilities with a financial institution. The new financing is comprised of two separate loan facilities on a two-year term: a revolving credit facility in the amount of $5,000 that bears a variable interest rate of 1.75% plus prime rate, and a term loan in the amount of $5,000 that bears a variable interest rate of 1.50% plus prime rate. An "accordion" option is also available to increase the revolving facility by an additional $5,000, subject to the financial institution's consent and certain other customary conditions.

On October 25, 2021, the Company announced it had repaid in full its obligations under the credit facilities. The Company was permitted to repay amounts outstanding prior to maturity without penalty. The outstanding debt was repaid from cash held in a restricted collateral account.

## 17. SHAREHOLDERS' EQUITY AND SHARE BASED ARRANGEMENTS

### a) Share Capital

The Company is authorized to issue an unlimited number of common shares.

As at December 31, 2022, the Company had 45,518,889 common shares outstanding (January 29, 2022: 37,015,708).

*Common Share Consolidation*

On December 1, 2021, the Company completed a ten-to-one share consolidation on its issued and outstanding common shares (the "**Share Consolidation**"), with common shares trading on a post–consolidation basis commencing on December 2, 2021. The Share Consolidation has been applied retrospectively and as a result, all common shares, options, warrants, restricted share units, and per share amounts are stated on an adjusted post-consolidation basis for all periods presented.

(In thousands of Canadian Dollars, except number of shares and per share amounts)

*Common Shares held in escrow*

As at December 31, 2022, 786,636 common shares valued at $3,524 were held in escrow in relation to the share consideration issued for the acquisition of Pineapple Express Delivery, subject to certain adjustments in accordance with the terms of the PED Agreement and Pineapple Express Delivery achieving certain performance-based milestones in the fiscal 2022 year. As the release of the 786,636 common shares held in escrow are not dependent on continued employment by the seller, the amount is included as part of the consideration paid for the business combination. For accounting purposes, the common shares issued as contingent consideration were fair valued at $3,761 based on the close price on the TSX on the date of acquisition and also factored in the probability of the contingent consideration becoming payable.

**b) Warrants**

The following is a summary of the movement in warrants outstanding:

| | December 31, 2022 | | January 29, 2022 | |
|---|---|---|---|---|
| | Warrants<br>#| Weighted Average Exercise Price<br>$ | Warrants<br>#| Weighted Average Exercise Price<br>$ |
| Balance, beginning of fiscal year | 26,084,351 | 26.43 | 22,008,570 | 24.90 |
| Exercised - Series B Warrants | (6,717,554) | 4.51 | - | - |
| Exercised - Top-up Series B Warrants | (1,570,513) | 4.77 | - | - |
| Warrants issued -Top-up Series B Warrants (note16) (2) | - | - | 1,570,513 | variable |
| Warrants issued -Top-up Series C Warrants (note16) (2) | - | - | 4,457,206 | variable |
| Exercised - Investor Warrants | - | - | (1,050,577) | 9.30 |
| Expired | - | - | (901,361) | 14.10 |
| **Balance, end of fiscal year** | **17,796,284** | **17.39** | **26,084,351** | **26.43** |
| **Warrants recognized under derivative liability, end of fiscal year (note 16)** | **17,796,284** | **variable** | **26,084,351** | **variable** |

(1) For purposes of weighted average calculations, the exercise price is assumed to be $20.00 for pre-amendment Series C Warrants, and $30.00 for amended Series C Warrants. Exercise price conditions are described under Note 16.

(2) For purposes of weighted average calculations, the exercise price is assumed to be $18.75 for the amended Series B Warrants. Exercise price conditions are described under Note 16. Pre-amended Series B Warrants had a fixed exercise price of $18.75.

The following table reflects the warrants issued and outstanding as at December 31, 2022:

| Expiry dates | Number of warrants outstanding | Exercise price ($) | Grant date fair value per warrant ($) | Remaining contractual Life (years) |
|---|---|---|---|---|
| June 30, 2023 (1) | 4,457,206 | variable | 0.0250 | 0.50 |
| June 30, 2023 (1) | 13,339,078 | variable | 2.2397 | 0.50 |
| **Total warrants** | **17,796,284** | | | |

(1) Amended Series C Warrants are exercisable after October 1, 2022. (note 16).

(2) Top-up Series C Warrants are exercisable after October 1, 2022. (note 16).

As at December 31, 2022, 17,796,284 warrants were held by the Investor (January 29, 2022: 26,084,351 warrants). Refer to Note 16 for terms of the outstanding warrants.

(In thousands of Canadian Dollars, except number of shares and per share amounts)

**c) Stock Options**

The following is a summary of the movement in stock options outstanding:

| | December 31, 2022 | | January 29, 2022 | |
|---|---|---|---|---|
| | Options | Weighted Average Exercise Price | Options | Weighted Average Exercise Price |
| | # | $ | # | $ |
| Balance, beginning of fiscal year | 1,577,823 | 8.87 | 1,459,519 | 8.75 |
| Issued | 1,307,412 | 3.56 | 461,251 | 9.94 |
| Exercised | (25,000) | 2.06 | (41,769) | 4.59 |
| Forfeited | (529,842) | 7.44 | (301,178) | 10.54 |
| **Balance, end of fiscal year** | **2,330,393** | **6.29** | **1,577,823** | **8.87** |
| **Exercisable balance, December 31, 2022** | 1,098,109 | 8.65 | 1,006,669 | 8.30 |

During the fiscal year ended December 31, 2022, the Company recorded an expense of $2,074 (January 29, 2022: $3,465) related to stock options in share-based payments expense and contributed surplus. Share-based expense related to stock options is recognized over the vesting period of the underlying options, which typically range from three to four years with the first tranche vesting on the annual anniversary date from grant date, and remaining options vesting in monthly tranches evenly over the remaining vesting period.

The fair value of the options granted was estimated on the date of the grant using the Black-Scholes option pricing model with the following assumptions:

| | Fiscal Year Ended December 31, 2022 | January 29, 2022 |
|---|---|---|
| Options issued (#) | 1,307,412 | 461,251 |
| Expected option lives range in years | 5 | 4 |
| Volatility range, based on comparable companies | 73.0 - 74.9% | 70%-105% |
| Risk-free interest rate range | 1.64 - 3.28% | 0.32% - 2.13% |
| Share price range | $2.13 - $4.70 | $5.10 -$12.30 |
| Exercise Price range | $2.06 | $5.10 -$12.30 |
| Dividend yield | nil | nil |

The following table reflects the options issued and outstanding as at December 31, 2022:

| | Outstanding | | Exercisable | |
|---|---|---|---|---|
| **Exercise price per share** | Number of Options | Weighted Average Remaining Contractual Life | Number of Options | Weighted Average Remaining Contractual Life |
| | # | (years) | # | (years) |
| $0.20 - $3.66 | 512,809 | 3.14 | 159,628 | 0.20 |
| $3.67 - $4.24 | 727,789 | 4.33 | - | - |
| $4.25 - $8.20 | 429,725 | 1.33 | 372,822 | 0.89 |
| $8.21 - $10.30 | 347,270 | 3.16 | 238,890 | 2.82 |
| $10.31 - $15.00 | 312,800 | 1.65 | 295,285 | 1.51 |
| **Total** | **2,330,393** | **2.98** | **1,066,625** | **1.78** |

The Company's stock option plan (the "**2021 Option Plan**"), as ratified by the Company's shareholders in June 2021, authorizes the Board to grant options to any bona fide Director, Officer, Employee, Management Company Employee, Consultant or Company Consultant (as such terms are defined in the 2021 Option Plan). The aggregate number of common shares from treasury that may be granted under the 2021 Option Plan and under all other Share Compensation Arrangement (as defined in the 2021 Option Plan) shall not exceed 10% of the issued and outstanding common shares as at the date of such grant. The exercise price of options granted may not be less than the Market Price (as defined in the 2021 Option Plan) at the time such option is granted. The term of any common share option grant cannot exceed ten (10) years and is subject to vesting conditions as determined at the discretion of the Board, with the default standard vesting schedule set at 1/3 on the date that is one year from the effective date of the option grant, and 1/36 each month thereafter. Certain outstanding stock options were issued under the Company's previous stock option plan (the "**2019 Option Plan**"). The 2021 Option Plan includes an update to the definition of "Change of Control" from the 2019 Option Plan, which increases the proportion of voting shares required for a "Change of Control" event to occur from more than 20% to more than 50%, and updates vesting provisions to require a double trigger for acceleration of vesting following a Change of Control.

(In thousands of Canadian Dollars, except number of shares and per share amounts)

**d) Treasury-settled Restricted Share Units ("RSU")**

Under the Company's Treasury Performance and Restricted Share Unit Plan, 165,602 RSUs were issued to employees of the Company during the fiscal year ended December 31, 2022 (January 29, 2022: 85,178 RSUs). An RSU represents the right to receive a common share of the Company at settlement less applicable tax-related withholdings, or with the consent of the Company, to receive the cash equivalent of a common share at the time of settlement, less applicable tax-related withholdings. The share-based compensation expense is recognized using the graded vesting method, where the estimated fair value of RSUs is amortized, by tranche, on a straight-line basis over the vesting period, and accumulates in contributed surplus until settlement/redemption of the RSU by the holder.

All of the 165,602 RSUs issued during the fiscal year ended December 31, 2022 vest over 3 years at the annual anniversary date from the issuance. The estimated fair value of $67 (January 29, 2022:$250) was recognized in contributed surplus during the fiscal year ended December 31, 2022.

As at December 31, 2022, 179,545 RSUs were issued and outstanding (January 29, 2022: 60,700).

**e) Deferred Share Units ("DSU")**

Under the Company's Deferred Share Unit Plan, certain Directors elect to receive compensation in the form of DSUs. The plan contemplates DSUs being granted at the Market Price based on the 30-day VWAP as at the Award Date, which is predetermined and not subject to any further election once a Director has elected for the year. The DSUs are cash-settled upon a Director ceasing to hold office based on the market price at that time or paid quarterly in arrears.

During the fiscal year ended December 31, 2022, the Company issued Nil DSUs (January 29, 2022: 14,945 units). As at December 31, 2022, 14,945 DSUs were outstanding (January 29, 2022: 14,945), with an estimated fair value of $17 (January 29, 2022: $65).

## 18. LOSS PER COMMON SHARE

| | Fiscal Year Ended | |
|---|---|---|
| | **December 31, 2022** | January 29, 2022 |
| Loss attributable to common shares ($) | (89,493) | (63,592) |
| Adjusted net loss attributable to common shares | **(89,493)** | (63,592) |
| Weighted average number of shares outstanding - basic and diluted (#) | 43,229,517 | 33,650,960 |
| **Loss per common share, basic ($)** | **(2.07)** | (1.89) |
| **Loss per common share, diluted ($)** | **(2.07)** | (1.89) |

Basic loss per share and diluted loss per share were the same for the fiscal year ended December 31, 2022 and January 29, 2022, as the exercise of any potentially dilutive instruments would be anti-dilutive.

(In thousands of Canadian Dollars, except number of shares and per share amounts)

## 19. EXPENSES BY NATURE

Below are the expenses by nature included in selling, general and administrative expenses:

| | Fiscal Year Ended | |
|---|---|---|
| | **December 31, 2022** | January 29, 2022 |
| | **$** | **$** |
| **Selling, general and administrative expenses** | | |
| Salaries and benefits | **32,206** | 33,585 |
| Facility expenses | **8,262** | 7,500 |
| Professional and consulting fees | **4,073** | 5,722 |
| Marketing and promotion | **1,711** | 2,629 |
| Administrative(1) | **9,828** | 7,538 |
| Share-based compensation (note 17) | **2,074** | 3,174 |
| Acquisition and strategic initiatives expenses | **1,193** | 3,094 |
| **Total selling, general and administrative expenses** | **59,347** | 63,242 |

(1) *Administrative expense includes $64 gain on disposal of property and equipment*

## 20. RESTRUCTURING AND IMPAIRMENT COSTS, NET

| | Fiscal Year Ended | |
|---|---|---|
| | **December 31, 2022** | **January 29, 2022** |
| | $ | $ |
| Impairment of goodwill (note 14) | 24,939 | - |
| Impairment of intangible assets (note 14) | 8,437 | 18,943 |
| Impairment of property and equipment assets (note 11) | 6,432 | 3,734 |
| Impairment of ROU assets, net of lease liability remeasurement (note 13) | 1,592 | 1,668 |
| Restructuring charges (note 15) | 4,342 | 777 |
| **Total restructuring, impairment, net of reversals** | **45,742** | **25,122** |

**Impairments**

*Impairment of goodwill*

October 29, 2022 impairment test

During the thirteen weeks ended October 29, 2022, management identified that there were indications of impairment associated with the Company's Digital CGU as a result of the evaluation of observable external and internal factors and proceeded to test the Digital CGU for impairment. Based on the testing performed, it was determined that the carrying value of the Digital CGU exceeded the VIU and therefore, the Company recognized an impairment of $11,504 to goodwill for the Digital CGU.

The recoverable amount of the Digital CGU was determined based on its VIU which was prepared using the following key assumptions:
- Annual revenue growth over the next 5 years;
- Terminal growth rate of 2% beyond the 5 years cash flow projection; and
- Post-tax discount rate of 25%.

An increase of 1.0% in post-tax discount rate, decrease of 1.0% in revenue and a decrease of 1.0% in terminal growth rate would have resulted in a further impairment of the goodwill of the Digital CGU by $371, $357 and $162, respectively.

December 31, 2022 annual impairment test

The Company performed its annual impairment test on goodwill for the fiscal year ended December 31, 2022. Goodwill arising from business combinations are tested within the CGUs they were allocated to which is where there will be benefit from the synergies of the combination. There are no other intangible assets with indefinite useful lives.

In assessing the CGU for impairment, the Company compares the carrying value of the CGU to the recoverable amount, where the recoverable amount is the higher of FVLCS and the VIU. An impairment charge is recognized to the extent that the carrying value exceeds the recoverable amount.

The Company's recoverable amounts for its Retail and Wholesale and Logistics CGUs as at December 31, 2022 were determined using the FVLCS model using a market-based approach, which was based on the expected revenues multiplied by a revenue multiple of comparable companies in the industry. For the Retail CGU, goodwill is allocated to the group of store level retail CGUs as this is the lowest level within the entity at which management monitors goodwill for internal purposes. Key assumptions used in the FVLCS model that are most sensitive are revenue forecasts and the revenue multiple which are considered to be Level 3 in the fair value hierarchy. Management determined the values assigned to each key assumption based on approved budgets and external sources of information. The Company used the following key assumptions in the FVLCS model which includes revenue multiple of 0.6 based on external capital market research information and revenue forecasts approved by the Board.

Based on the impairment test performed, the carrying amount was determined to be higher than the recoverable amount for the Retail group of CGUs. As a result, $13,435 ((January 29, 2022: $Nil) was recognized as impairment.

The calculation of FVLCS is most sensitive to forecasted revenue and the revenue multiple. The sensitivity of the key assumption was calculated independently of any changes in the other key assumptions. A decrease in forecasted revenue by 1% would result in an impairment of $894 in the retail group of CGUs and a decrease in revenue multiple by 0.01 would result in additional impairment of $1,506.

The recoverable amount of the Digital CGU was determined based on its VIU and was prepared using the key assumptions described in the October 29, 2022 impairment test. No impairment was noted.

*Impairment of intangible assets and other non-current assets*

Under management's plan to optimize the Company's retail portfolio and strategy, the Company identified certain Ontario and Alberta locations where it no longer intends to operate cannabis retail stores. As a result, a $2,711 impairment charge was recorded against the associated store licenses, a $5,511 impairment charge was recognized against the associated property and equipment, and $1,592 of impairment on ROU assets net of associated lease liability payment obligation reduction.

The Company also identified impairment indicators for the Retail CGUs for non-current assets other than goodwill and financial assets due to recent changes to the competitive landscape which are expected to negatively impact expected future store performance. The recoverable amount of the CGU, which is at the retail store level for retail operations, was estimated based on a FVLCS model, using a market-based approach. The Company used the following key assumptions in the FVLCS model which includes revenue multiple of 0.6 based on external capital market research information and revenue forecasts approved by the Board.

As a result of the test performed, the carrying amount of the certain Retail CGUs exceeded the recoverable amount, and a total of $5,373 in impairment charges was recognized on store licenses and $209 in impairment charges was recognized on leasehold improvements associated with those Retail CGUs.

The calculation of FVLCS is most sensitive to forecasted revenue and revenue multiple. The sensitivity of the key assumption was calculated independently of any changes in the other key assumptions. A decrease in forecasted revenue by 1% would result in an impairment of $86 in the retail group of CGUs and a decrease in revenue multiple by 0.01 would result in additional impairment of $145.

Similarly, as at December 31, 2022, management identified indicators of impairment associated with acquired customer relationships intangible assets in the wholesale and logistics CGU due to attrition in customers being higher than forecasted. As a result of this an assessment was performed which resulted in an impairment of $293 to acquired customer relationships.

(In thousands of Canadian Dollars, except number of shares and per share amounts)

Subsequent to year end, management completed a sales and lease back transaction on a land and building held within its Wholesale and Logistics CGU, as a result of this transaction an impairment of $713 was recognized to the land and building to reflect the fair value of the asset as at December 31, 2022.

**Restructuring**

During the fiscal year ended December 31, 2022, the Company recorded restructuring charges of $4,342 comprised of $1,839 of severance and other benefits and $2,503 relating to the cost of closing certain retail locations including the expected cost to settle and exit the respective lease (January 29, 2022: $777).

## 21. FINANCE COSTS, NET

Finance costs are comprised of the following:

| | Fiscal Year Ended | |
|---|---|---|
| | **December 31, 2022** | January 29, 2022 |
| | **$** | **$** |
| Interest expense on lease liabilities (note 13) | **4,338** | 4,670 |
| Interest expense on debentures, loans and other finance costs (note 16) | **1,463** | 2,734 |
| Interest income on lease receivables (note 12) | **(66)** | - |
| Other finance income | **(395)** | (159) |
| **Total Finance costs, net** | **5,340** | 7,245 |

## 22. FINANCIAL INSTRUMENTS

The Company's risk exposures and the impact of the financial instruments are summarized below.

**a) Interest Risk**

The Company is exposed to interest rate risk to the extent that cash maintained at financial institutions may fluctuate with the prevailing market rate. As at December 31, 2022, the Company had cash of $12,425 (January 29, 2022: $19,847) and outstanding debentures and loans of $13,515 (January 29, 2022: $21,824). Interest earned on the Company's surplus cash is not significant and the Company's financial liabilities have fixed rates of interest; therefore, the Company is not exposed to any significant interest rate fair value risk.

**b) Credit Risk**

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Company's cash, refundable deposit to acquire, lease receivables, and trade and other receivables. The Company's cash and cash equivalents include petty cash, store cash flows, and cash held at Canadian financial institutions, which management believes the risk of loss is minimal. The Company's financial assets subject to credit risk includes trade accounts receivable balances of $12,923, which primarily arise from the Company's Wholesale Distribution and Digital operating segments (January 29, 2022: $12,386). The Company's point-of-sale retail stores operations do not give rise to significant accounts receivable amounts.

The Company limits the total exposure to individual customer counterparties by maintaining a credit policy, which sets forth prepayment or short net credit term requirements for trade customers in order to mitigate losses from non-collection of trade receivables.

The carrying amount of cash and cash equivalents, lease receivable and trade and other receivables represent the maximum exposure to credit risk and at December 31, 2022, this amounted to $29,370 (January 29, 2022: $35,795), and provision for expected credit loss allowances related to trade account receivables was $624 as at January 29, 2022 (January 29, 2022: $410) and $51 for lease receivable ((January 29, 2022: $nil).

(In thousands of Canadian Dollars, except number of shares and per share amounts)

**c) Liquidity Risk**

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company's ability to satisfy its liquidity needs and meet future growth targets is dependent on increasing revenues, improving profitability and cash flows from operations, availability of funding from debt, warrants and other capital market alternatives. Management continually evaluates the Company's liquidity risk by reviewing immediate capital requirements and ensuring planning and budgeting controls and processes are in place to ensure sufficient funds are available to fund the Company's normal operations, including lease payments for locations secured for future store operations.

| As at December 31, 2022 | Carrying amount | Contractual Cash Flows | Less than 1 year | 1 to 3 years | 3 to 5 years | More than 5 years |
|---|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ | $ |
| Accounts payable and accrued liabilities | 21,675 | 21,675 | 21,675 | - | - | - |
| Debentures and loans (note 16) | 13,515 | 13,651 | 13,651 | - | - | - |
| Derivative liability (note 16) | 494 | 494 | 494 | - | - | - |
| Undiscounted lease obligations (note 13) | 44,800 | 52,927 | 9,649 | 15,239 | 12,644 | 15,395 |
| Total | 80,484 | 88,747 | 45,469 | 15,239 | 12,644 | 15,395 |

| As at January 29, 2022 | Carrying amount | Contractual Cash Flows | Less than 1 year | 1 to 3 years | 3 to 5 years | More than 5 years |
|---|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ | $ |
| Accounts payable and accrued liabilities | 21,697 | 21,697 | 21,697 | - | - | - |
| Debentures and loans | 21,824 | 22,477 | 20,070 | 2,407 | - | - |
| Derivative liability | 2,720 | 2,720 | 1,349 | 1,371 | - | - |
| Undiscounted lease obligations | 52,203 | 62,557 | 9,637 | 24,266 | 13,751 | 14,903 |
| | 98,444 | 109,451 | 52,753 | 28,044 | 13,751 | 14,903 |

As December 31, 2022, the Company had $12,425 (January 29, 2022: $19,847) of cash.

The Company's primary sources of liquidity are cash, warrants proceeds, equity financing and cash flows from operations primarily from the Digital Platform and Wholesale operating segments. The Company's warrants are held by a wholly-owned subsidiary of ACT and totaled 17,796,284 units as at December 31, 2022, which are exercisable after October 1, 2022, with maximum exercise price range $18.75 - $30.00 (notes 16 and 17).

(In thousands of Canadian Dollars, except number of shares and per share amounts)

**d) Foreign currency risk**

Foreign currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate due to changes in foreign exchange rates. The Company incurs certain revenues and expense transactions and has assets and liabilities in U.S. dollars and is therefore subject to gains or losses due to fluctuations in the U.S. dollar relative to the Canadian dollar. The Company does not use derivative instruments to reduce its exposure to foreign currency risk.

The Company is exposed to foreign currency risk through the following asset and liabilities denominated in U.S. dollars:

| | December 31, 2022 | January 29, 2022 |
|---|---|---|
| | $ | $ |
| Cash and cash equivalents | 234 | 301 |
| Refundable deposits to acquire | 5,255 | - |
| Trade receivables | 64 | 598 |
| Accounts payable and accrued liabilities | (117) | (211) |
| | 5,436 | 688 |

Assuming all variables remain constant, a change in foreign exchange rates of 10% between the U.S and Canadian dollar would impact the Company's net assets by $74 (January 29, 2022: $69).

**e) Fair Value of Financial Instruments**

The Company classifies fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 - Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 - Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Carrying value approximates the fair value for cash, trade and other receivables, other current assets and accounts payable and accrued liabilities.

The following table provides the fair value measurement hierarchy of the Company's financial assets and liabilities measured as at December 31, 2022 and January 29, 2022:

| As at December 31, 2022 | Total - Carrying Amount | Total - Fair Value | Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ |
| Refundable deposit to acquire | 7,112 | 7,112 | - | 7,112 | - |
| Debentures and loans (note 16) | 13,515 | 13,651 | - | 11,244 | 2,407 |
| Derivative liability (note 16) | 494 | 494 | - | - | 494 |

| As at January 29, 2022 | Total - Carrying Amount | Total - Fair Value | Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ |
| Debentures and loans (note 16) | 21,824 | 22,477 | - | 20,070 | 2,407 |
| Derivative liability (note 16) | 2,720 | 2,720 | - | - | 2,720 |

There were no transfers between Level 1, Level 2 or Level 3 during the fiscal years ended December 31, 2022 and January 29, 2022.

(In thousands of Canadian Dollars, except number of shares and per share amounts)

## 23. RELATED PARTY TRANSACTIONS

During the fiscal year ended December 31, 2022, the Company had the following related party transactions with the Investor:

- Received $11,000 under the 2022 Loan Agreement (note 16) with the Investor and accrued $244 in capitalized interest expense.
- The Investor exercised 6,717,554 Series B Warrants for gross total of $30,298
- The Investor exercised 1,570,513 Top-Series B Warrants for gross total of $7,496
- Repayment of the 2021 Investor Loan of $20,000 and $460 interest expense (January 29, 2022: $70)
- Sub-lease rental and management fee charges of $40 and $Nil, respectively, were incurred for certain retail locations where the Company has sub-lease arrangements with the Investor (January 29, 2022: $78 and $242, respectively)
- Entered into the Amendment Agreement and the Subscription Agreement, which were subsequently terminated.
- Entered into a licensing agreement with respect to the licensing of the Hifyre Digital Platform to licensed store in Ontario. During the fiscal year ended December 31, 2022, the Company entered into licensing agreements (the "**Licensing Agreements**") with respect to the licensing Hifyre Digital Platform at five (5) licensed stores in Ontario.
- During the fiscal year ended December 31, 2022, the Company entered into an Asset Purchase Agreement (the "**Purchase Agreement**") to acquire two cannabis retail store locations in Kingston, Ontario from a wholly owned subsidiary of ACT (the "**Kingston Acquisition**"). Pursuant to the terms of the Purchase Agreement, the Company will issue to an affiliate of the Investor 804,548 Common Shares and up to additional 804,548 Common Shares upon achievement of certain performance metrics. The closing of the Kingston Acquisition is subject to the closing conditions set forth in the Purchase Agreement, including but not limited to, the receipt of regulatory approval from the Alcohol and Gaming Commission of Ontario. The TSX has conditionally approved the Kingston Acquisition.
- Interest of $97 paid on the convertible debenture (January 29, 2022: $1,698).
- As at December 31, 2022, $413 of capital expenditure charges remain payable to the Investor, and was recognized under Other Liabilities (January 29, 2022: $413).

**Key Management Compensation**

Compensation for key management personnel, including the Company's officers and the Board and private companies controlled by Officers and Directors, was as follows:

| | Fiscal Year Ended December 31, 2022 | January 29, 2022 |
|---|---|---|
| | $ | $ |
| Salaries and consulting fees | **2,268** | 3,394 |
| Share-based payments(1) | **966** | 838 |
| Directors' board fees | **540** | 665 |
| **Total** | **3,774** | **4,897** |

*(1) Includes base salary and management fees elected to be paid in common shares of the Company. See further details below.*

During the fiscal year ended December 31, 2022, a total of 925,403 stock options were issued to the Company's officers and directors (January 29, 2022: 166,206), with an exercise price range of $2.13 - $3.78 (January 29, 2022: $10.20 - $12.30), and maturity date range of April 28, 2027 to August 02, 2027 (January 29, 2022: March 23, 2025 to April 26, 2027).

Under the Company's amended and restated management services agreement with JNZS (the "**JNZS Agreement**"), JNZS received from the Company a fee of $300 for the calendar year 2021 (the "**JNZS Fee**"). The former Chairman of the Board, Harvey Shapiro, as the service provider, is also eligible to participate in the Company's bonus plans and stock option plans. During the fiscal year ended December 31, 2022, $nil in management service fees was incurred (January 29, 2022: $200), of which $Nil was charged as share-based payment expense (January 29, 2022: $Nil). During the fiscal year ended December 31, 2022, the JNZS Agreement expired in accordance with its terms.

(In thousands of Canadian Dollars, except number of shares and per share amounts)

## 24. SUPPLEMENTAL CASH FLOW INFORMATION

| | Fiscal Year Ended December 31, 2022 | January 29, 2022 |
|---|---|---|
| | $ | $ |
| Net change in non-cash working capital - operating activities | | |
| Merchandise inventories | 187 | (2,620) |
| Trade and other receivables | 659 | (8,738) |
| Deposits held in trust | 1,059 | 1,621 |
| Prepaid expenses and other current assets | 1,136 | (1,369) |
| Deferred revenue | (240) | 377 |
| Accounts payable, accrued liabilities and other | (571) | (30) |
| **Total** | **2,230** | **(10,759)** |
| **Non-cash investing and financing activities** | | |
| Acquisition of property and equipment and intangible assets - working capital | (788) | (1,279) |
| Acquisition of retail stores and licenses | - | (100) |

## 25. CAPITAL RISK MANAGEMENT

The Company's objective is to maintain sufficient capital base so as to maintain investor, creditor and customer confidence and to sustain future development of the business. The Company currently has not paid any dividends to its shareholders.

As at December 31, 2022, total capital was comprised of shareholders' equity of $67,961.

The Company's objective when managing capital is to safeguard the Company's ability to continue as a going concern while maintaining adequate flexibility to invest in opportunities which will provide attractive returns to shareholders.

Management has chosen to mitigate the risk and uncertainty associated with raising additional capital within current economic conditions and manages its capital by:

i) maintaining a liquidity cushion in order to address any potential disruptions or industry downturns;
ii) minimizing discretionary disbursements; and
iii) reducing or eliminating expansion expenditures which are of limited strategic value.

In light of the above, the Company will continue to assess retail locations and seek to acquire an interest in additional locations if it believes there is sufficient potential and if it has adequate financial resources to do so.

Management reviews its capital management approach on an ongoing basis. There were no changes in the Company's approach to capital management during the fiscal year ended December 31, 2022 and January 29, 2022. As at December 31, 2022, the Company was not subject to externally imposed capital requirements. Changes in capital are described in the statement of changes in shareholders' equity.

## 26. COMMITMENTS AND CONTINGENCIES

**a) Supply agreement commitments**

In April 2018, the Company entered into two three-year supply agreements for the purchase of cannabis, with the option to renew for two additional years at the Company's discretion, with annual renewal dates set at April 16 and September 30, respectively. Under the terms of each agreement the annual purchase amount is based on the ability of the Company to purchase cannabis products from the supplier under applicable laws and regulations, with a maximum annual commitment of $5,000, subject to set off against amounts owing by the counterpart to the Company and adjustment based on the proportion of cannabis retail licences held by the Company in jurisdictions permitting such agreements as of the annual renewal date and at prices determined by an applicable provincial regime or, where a provincial regime is silent as to price, negotiated in good faith.

Upon closing of the Mera Acquisition on October 17, 2019, the Company entered into a supply agreement with Mera (the "Supply Agreement") pursuant to which the Company will be the exclusive distributor of Mera's adult-use cannabis products in the province of Saskatchewan and the Company will purchase Mera's adult-use cannabis products for re-sale at its retail locations, in provinces where this is permitted.

**b) Contingencies**

The Company is involved in certain claims and litigation on matters related to employment and lease arrangements. The Company views these as routine litigation matters that the Company is expected to be involved with in the normal course of business. Certain outcomes of these matters are uncertain, and therefore there can be no assurance that such matters will be resolved in the Company's favour.

On April 28, 2021, the Company was served with a Notice of Civil Claim in the Supreme Court of British Columbia by Flora (Dawson Creek) Enterprises Inc., Flora (Prince George) Enterprises Inc. and Tridelion Enterprises Inc., as plaintiffs, with respect to four asset purchase agreements for cannabis retail store locations in Kamloops, Vernon, Prince George and Quesnel, British Columbia which the parties agreed to terminate on April 6, 2020. The claim alleges breach by the Company of the asset purchase agreements and seeks an undefined amount of damages, a portion of which includes claims for the remainder of the purchase price under the terminated asset purchase agreements related to such cannabis retail stores, totalling approximately $8 million.

The Company records a liability when it is probable that a loss has been incurred and the amount can be reasonably estimated. As at December 31, 2022, based on information available, the Company has not recognized any legal provisions with respect to the above described matter. As at December 31, 2022, the Company is not aware of and has not identified any other legal proceedings that it reasonably expects could have a material adverse effect on the Company's financial position, results of operations or cash flows.

## 27. SEGMENTED INFORMATION

The Company's reportable segments, organized based on products and services, are as follows: (1) The Retail segment which sells cannabis products and accessories to the adult-use market in provinces where the sale of cannabis by private retailers is legal, and operates under retail banners Fire & Flower™, Friendly Stranger™ and Happy Dayz™; (2) The Wholesale and Logistics segment which distributes and delivers cannabis products; and (3) The Digital Platform segment which sells products and services provided by the Hifyre™ digital and analytics platform, PotGuide content platform and CannDeliv logistics platform.

The Chief Operating Decision Maker ("**CODM**") assesses segment performance based on segment operating income or loss. During the year ended December 31, 2022, certain departmental costs previously presented under the Retail segment and their allocation to the other business lines and corporate segments were updated to better reflect how the Company services its customers and markets. Comparative period selling, general and administrative expense within the segments have been reclassified to conform to the current period's presentation.

As a result of certain acquisitions and strategic license agreements, the Digital Platform segment expanded its presence into the USA. All other segments operate within Canada. Information on the Company's reporting segments are detailed below. Certain subsidiaries were also presented within a different segment from year ended January 29, 2022 to align with how the CODM reviews their performance. Sales between segments are made at prices that approximate market prices.

(In thousands of Canadian Dollars, except number of shares and per share amounts)

| **Information about reportable segments**<br>**Fiscal year ended December 31, 2022** | **Retail** | **Wholesale & Logistics** | **Digital Platform** | **Corporate** | **Consolidated** |
|---|---|---|---|---|---|
| | **$** | **$** | **$** | **$** | **$** |
| **Total revenues[1]** | **115,780** | **30,670** | **9,572** | **-** | **156,022** |
| Cost of sales | (86,638) | (27,146) | (1,126) | - | (114,910) |
| **Gross profit** | **29,142** | **3,524** | **8,446** | **-** | **41,112** |
| Selling, general and administrative expenses | (41,055) | (5,191) | (4,000) | (9,101) | (59,347) |
| Depreciation & amortization | - | - | - | (19,759) | (19,759) |
| Restructuring, impairment and other costs, net | - | - | - | (45,742) | (45,742) |
| Foreign exchange gain | - | - | - | 357 | 357 |
| Gain on revaluation of derivative liability | - | - | - | 882 | 882 |
| Finance costs, net | - | - | - | (5,340) | (5,340) |
| **Income (loss) before tax** | (11,913) | (1,667) | 4,446 | (78,703) | **(87,837)** |

1. Retail revenues includes $391 rental income from subleasing right of use assets.

| **As at December 31, 2022** | | | | | |
|---|---|---|---|---|---|
| Total non-current assets | **93,405** | **-** | **16,506** | **7,781** | **117,692** |
| Total assets | **110,838** | **14,630** | **22,936** | **11,873** | **160,277** |
| Total non-current liabilities | **36,505** | **1,377** | **894** | **1,172** | **39,948** |
| Total liabilities | **50,516** | **15,279** | **8,439** | **18,084** | **92,318** |

| **Information about reportable segments**<br>**Fiscal Year Ended January 29, 2022** | **Retail** | **Wholesale & Logistics** | **Digital Platform** | **Corporate** | **Consolidated** |
|---|---|---|---|---|---|
| | **$** | **$** | **$** | **$** | **$** |
| **Total revenues** | **130,823** | **30,336** | **14,340** | **-** | **175,499** |
| Cost of sales | (89,372) | (23,924) | (109) | - | (113,405) |
| **Gross profit** | **41,451** | **6,412** | **14,231** | **-** | **62,094** |
| Selling, general and administrative expenses | (40,228) | (1,687) | (6,523) | (14,804) | (63,242) |
| Depreciation & amortization | - | - | - | (19,080) | (19,080) |
| Restructuring, impairment and other costs, net | - | - | - | (25,122) | (25,122) |
| Loss on revaluation of derivative liability | - | - | - | (8,545) | (8,545) |
| Finance costs, net | - | - | - | (7,245) | (7,245) |
| **Income (loss) before tax** | **1,223** | **4,725** | **7,708** | **(74,796)** | **(61,140)** |

| **As at January 29, 2022** | | | | | |
|---|---|---|---|---|---|
| Total non-current assets | **137,199** | **1,992** | **30,298** | **725** | **170,214** |
| Total assets | **157,748** | **14,579** | **39,996** | **10,557** | **222,880** |
| Total non-current liabilities | **46,192** | **258** | **3,770** | **2,710** | **52,930** |
| Total liabilities | **62,190** | **7,847** | **9,388** | **27,763** | **107,188** |

(In thousands of Canadian Dollars, except number of shares and per share amounts)

| Fiscal year ended December 31, 2022 | Canada December 31, 2022 | Canada January 29, 2022 | USA December 31, 2022 | USA January 29, 2022 | Total December 31, 2022 | Total January 29, 2022 |
|---|---|---|---|---|---|---|
| Total revenues | 154,773 | 175,310 | 1,249 | 189 | 156,022 | 175,499 |
| Gross profit | 39,951 | 61,905 | 1,161 | 189 | 41,112 | 62,094 |
| Loss before tax | (87,560) | (61,143) | (277) | 3 | (87,837) | (61,140) |
| **As at January 29, 2022** | | | | | | |
| Total non-current assets | **105,696** | **158,244** | **11,996** | **11,970** | **117,692** | **170,214** |
| Total assets | **148,104** | **210,510** | **12,173** | **12,370** | **160,277** | **222,880** |
| Total non-current liabilities | **38,486** | **51,468** | **1,462** | **1,462** | **39,948** | **52,930** |
| Total liabilities | **90,696** | **105,730** | **1,620** | **1,458** | **92,316** | **107,188** |

## 28. INCOME TAXES

### a) Provision for income taxes

Income tax expense differs from the amount that would result from applying the income tax rates from the applicable tax jurisdictions to income or loss before income taxes. These differences result from the following:

| | Fiscal Year Ended December 31, 2022 | January 29, 2022 |
|---|---|---|
| | **$** | **$** |
| Combined statutory income tax rate | **26.50%** | 26.50% |
| Loss before income tax | **(87,837)** | (61,140) |
| Expected tax recovery based on statutory rate | **(23,277)** | (16,202) |
| Share-based payments | **549** | 841 |
| Non-taxable loss (gain) related to derivative revaluations | **(234)** | 2,265 |
| Non-deductible expenses | **724** | 1,467 |
| Impairment of goodwill | **5,646** | 3,122 |
| True ups and other | **1,102** | - |
| Change in unrecorded deferred tax asset | **17,146** | 10,959 |
| **Total income tax provision** | **1,656** | 2,452 |

The Company's income tax provision is allocated as follows:

| | | |
|---|---|---|
| Current tax expense | **3,297** | **5,313** |
| Deferred tax recovery | **(1,641)** | **(2,861)** |
| | **1,656** | 2,452 |

(In thousands of Canadian Dollars, except number of shares and per share amounts)

**b) Deferred income tax**

The following table summarizes the components of deferred tax:

| | Fiscal Year Ended | |
|---|---|---|
| | **December 31, 2022** | **January 29, 2022** |
| **Deferred tax assets** | **$** | **$** |
| Non-capital loss carry-forwards | **44,058** | 34,748 |
| Property, Plant and Equipment | **16,841** | - |
| Right of Use assets | **3,678** | 2,734 |
| Finance costs | **878** | 1,134 |
| Other | **42** | 158 |
| **Total** | **65,497** | 38,774 |
| **Deferred tax liabilities** | **$** | **$** |
| Property, Plant and Equipment | **(557)** | (4,961) |
| Intangible assets - retail operator licence and retail store authorizations | **(2,926)** | (2,681) |
| Tax benefits not recognized | **(62,122)** | (32,881) |
| **Total** | **(65,605)** | (40,523) |
| **Net deferred tax liabilities** | **(108)** | (1,749) |

Deferred tax assets and liabilities have been offset where they relate to income taxes levied by the same taxation authority and the Company has the legal right and intent to offset.

Movement in net deferred tax liability balances is as follows:

| | Fiscal Year Ended | |
|---|---|---|
| | **December 31, 2022** | **January 29, 2022** |
| | **$** | **$** |
| **Balance, beginning of fiscal year** | 1,749 | 5,451 |
| Acquisitions - purchase accounting (note 5) | - | (841) |
| Recognized as deferred tax recovery | (1,641) | (2,861) |
| **Balance, end of fiscal year** | **108** | 1,749 |

**c) Loss Carry-Forwards**

As at December 31, 2022, the Company's non-capital income tax losses expire as follows:

| **Fiscal Year** | **$** |
|---|---|
| 2038 | 18,080 |
| 2039 | 6,986 |
| 2040 | 33,951 |
| 2041 | 24,034 |
| 2042 | 40,377 |
| 2043 | 42,486 |
| | **165,914** |

Deferred tax assets have not been recognized in respect of these items because it is not probable that future taxable profit will be available against which the Company can use the benefits.

## 29. SUBSEQUENT EVENTS

**Release of Common Shares from Escrow**

Effective March 3, 2023, the Company released 333,704 Common Shares from escrow and 452,932 Common Shares were cancelled and returned to treasury, all in accordance with the PED Agreement and as a result of Pineapple Express Delivery achieving certain performance-based milestones during the fiscal 2022 year.

This is Exhibit "B" referred to

in the Affidavit of Avininder Grewal

sworn on March 20, 2025

DocuSigned by:

Philip Y

36124C4218DD47C...

Commissioner for Taking Affidavits

Philip Yang

Court File No. CV-23-00700581-00CL

***ONTARIO***
**SUPERIOR COURT OF JUSTICE**
**COMMERCIAL LIST**

**IN THE MATTER OF THE *COMPANIES' CREDITORS ARRANGEMENT ACT*, R.S.C. 1985, c. C-36, AS AMENDED**

**AND IN THE MATTER OF A PLAN OF COMPROMISE OR ARRANGEMENT OF FIRE & FLOWER HOLDINGS CORP., FIRE & FLOWER INC., 13318184 CANADA INC., 11180703 CANADA INC., 10926671 CANADA LTD., FRIENDLY STRANGER HOLDINGS CORP., PINEAPPLE EXPRESS DELIVERY INC., and HIFYRE INC.**

Applicants

**AFFIDAVIT OF STEPHANE TRUDEL**
**(Sworn August 23, 2023)**

I, Stephane Trudel, of the City of Toronto, in the Province of Ontario, MAKE OATH AND SAY:

1. I am the Chief Executive Officer ("**CEO**") of Fire & Flower Holdings Corp. ("**FFHC**" or the "**Company**"), Fire & Flower Inc. ("**FFI**"), 13318184 Canada Inc., ("**133 Canada**"), 11180703 Canada Inc. ("**Hi-Line Ventures**"), 10926671 Canada Ltd. ("**Open Fields Distribution**"), Friendly Stranger Holdings Corp. ("**Friendly Stranger**"), Pineapple Express Delivery Inc. ("**Pineapple Express Delivery**"), Hifyre Inc. ("**Hifyre**", and collectively, the "**Applicants**"), Hifyre US, Inc., ("**Hifyre US**"), and PGED Corp. ("**PotGuide**", and together with Hifyre US and the Applicants, the "**Companies**") and a member of its board of directors. I have been a member of the board of directors of FFHC since June 8, 2020 and have been the CEO of the Companies and a member of the boards of directors of the Companies, other than FFHC, since June 1, 2022.

2. I am responsible for overseeing the operations of the Companies, their liquidity management and, ultimately, for assisting in their restructuring process. Because of my involvement with the Companies, I have knowledge of the matters to which I hereinafter depose, except where otherwise stated. I have also reviewed the records, press releases, and public filings of the Companies and have spoken with certain of the directors, officers and/or employees of the Companies, as necessary. Where I have relied upon such information, I do verily believe such information to be true.

3. I swear this affidavit is sworn in support of a motion by the Applicants for the issuance of:

(a) an order (the "**Approval and Reverse Vesting Order**"), among other things:

(i) approving the subscription agreement dated as of August 17, 2023 between FFHC, as company, and 2759054 Ontario Inc. o/a FIKA Cannabis ("**FIKA**"), as purchaser (the "**Subscription Agreement**"), the transactions contemplated therein (the "**Transactions**") and authorizing and directing FFHC to take such additional steps and execute such additional documents as necessary or desirable for the completion of the Transactions;

(ii) approving the amended and restated subscription agreement, to be entered into between FFHC, as company, and 2707031 Ontario Inc. ("**ACT Investor**"), as purchaser (the "**Back-Up Subscription Agreement**", and together with the Subscription Agreement, the "**Subscription Agreements**"), the transactions contemplated therein (the "**Back-Up Transactions**") and authorizing and directing FFHC to take such additional steps and execute such additional documents as necessary or desirable for the completion of the Back-Up Transactions, only to the extent that the Subscription Agreement and the Transactions contemplated therein do not close for any reason;

(iii) granting releases (the "**Releases**") in favour of:

(A) (1) the current directors, officers, employees, legal counsel, consultants and advisors to the Applicants; (2) the current directors, officers, employees, legal counsel and advisors to Residual Co.; and (3) the Monitor and its legal counsel and their respective current directors, officers, partners, employees, and advisors (collectively, the "**Released Parties**") from any and all present and future liabilities arising in connection with or relating to the CCAA Proceedings, the Subscription Agreement, or the Back-Up Subscription Agreement, as the case may be, the completion of the Transactions or the Back-Up Transactions, as the case may be (collectively, the "**Released Claims**"); and

(B) (1) the Applicants; (2) ACT Investor, in its capacity as the DIP Lender and the Stalking Horse Bidder; and (3) FIKA (collectively, the "**Other Released Parties**") from and any all present and future liabilities based in whole or in part of any act or omission, transaction, dealing or other occurrence existing or taking place prior to the filing of the Monitor's Closing Certificate, or undertaken or completed in connection with or pursuant to the terms of the Approval and Reverse Vesting Order and that relate in any manner whatsoever to the Subscription Agreement or Back-Up Subscription Agreement, as the case may be, the completion of the Transactions or the Back-Up Transactions, as the case may be, the closing documents, any agreement, document, instrument, matter or transaction involving the Applicants arising in connection with or pursuant to any of the foregoing, and/or the consummation of the Transactions or the Back-Up Transactions, as the case may be (collectively, the "**Other Released Claims**").

(iv) extending the Stay Period (as defined below) until and including October 15, 2023; and

(v) sealing the Confidential Appendix to the Third Report of the Monitor, to be filed, which contains a summary of the economic terms of the bids received in the SISP (as defined below); and

(b) an order approving the proposed claims process (the "**Claims Procedure Order**"), pursuant to which claimants may file claims against the Applicants.

4. All references to monetary amounts in this affidavit are in Canadian dollars unless otherwise indicated.

## I. BACKGROUND

5. FFHC, through its wholly-owned subsidiaries, is an independent cannabis retail chain with 72 retail cannabis stores open across Canada and two (2) licensed wholesale distribution facilities. Certain subsidiaries of FFHC also carry on business as a wholesale cannabis distributor

and operate digital platforms which provide various services and software products relating to cannabis products.

6. The Companies suffered severe liquidity issues due to, among other things, increased competition and operating costs, margin pressure, and regulatory restrictions experienced by the Companies and the cannabis industry generally. These factors have collectively contributed to significantly lower revenues and higher costs than what the Applicants expected their cannabis retail stores would face.

7. Unable to successfully restructure their operations or secure replacement financing or investment outside of formal insolvency proceedings, on June 5, 2023, the Applicants sought and were granted protection under the *Companies' Creditors Arrangement Act*, R.S.C. 1985, c. C-36, as amended (the "**CCAA**") by the Ontario Superior Court of Justice (Commercial List) (the "**Court**") pursuant to an order (the "**Initial Order**") which, among other things:

(a) appointed FTI Consulting Canada Inc. ("**FTI**") as monitor of the Applicants (in such capacity, the "**Monitor**") of these proceedings (the "**CCAA Proceedings**");

(b) granted an initial 10-day stay of proceedings in favour of the Applicants, their directors and officers (the "**D&Os**"), and the Monitor (the "**Initial Stay of Proceedings**");

(c) approved the execution by the Applicants of an interim facility loan agreement (the "**DIP Facility Agreement**") entered into on June 5, 2023 with ACT Investor (in its capacity as lender under the DIP Facility Agreement, the "**DIP Lender**"), pursuant to which the DIP Lender agreed to advance to the Applicants a total amount of up to $9.8 million (the "**DIP Facility**"), during the CCAA Proceedings, of which an initial amount of $2.7 million was to be advanced during the Initial Stay of Proceedings (the "**Initial Advance**");

(d) granted the following priority charges against the Applicants' assets, property, and undertakings (collectively, the "**Property**"):

(i) an "**Administration Charge**" against the Property in the amount of $600,000, as security for the payment of the professional fees and disbursements incurred and to be incurred by the Proposed Monitor, counsel to the Proposed Monitor, and counsel to the Applicants;

(ii) a “**DIP Lender’s Charge**” against the Property in the amount of the Initial Advance as security for the Applicants’ obligations under the DIP Facility Agreement; and

(iii) a “**D&O Charge**” against the Property in the maximum amount of $2,800,000 in favour of the D&Os of the Applicants as security for the Applicants’ obligation to indemnify such D&Os for obligations and liabilities incurred in such capacities after the commencement of the CCAA Proceedings.

8. On June 15, 2023, the Applicants sought and obtained an amended and restated Initial Order (the “**ARIO**”) which, among other things:

(a) extended the Initial Stay of Proceedings to and including September 1, 2023 (the “**Stay Period**”);

(b) approved the key employee retention plan (the “**KERP**”) and granted a “**KERP Charge**” in the amount of $1.16 million against the Property as security for payments under the KERP; and

(c) authorized the Applicants to increase the amounts which may be borrowed by the Applicants under the DIP Facility Agreement to $9.8 million and granted a corresponding increase to the DIP Lender’s Charge.

9. On June 19, 2023, the Applicants sought and obtained an order (the “**SISP Order**”) which, among other things:

(a) approved the sale and investment solicitation process (the “**SISP**”) and authorized the Applicants and the Monitor to immediately commence the SISP; and

(b) approved the subscription agreement (the “**Stalking Horse Agreement**”) dated as of June 21, 2023 between FFHC and ACT Investor (in such capacity, the “**Stalking Horse Bidder**”) solely for the purpose of constituting the “**Stalking Horse Bid**” under the SISP.

10. Copies of the Initial Order, ARIO, and SISP Order (which includes the SISP as a Schedule) are attached as **Exhibit “A”, “B”, and “C”**, respectively. A copy of the affidavit sworn by me

(without Exhibits) in support of the Initial Order (the "**Initial Affidavit**") is attached as **Exhibit "D"**. These documents, together with all other filings in the CCAA Proceedings, provide further details regarding the background to these CCAA Proceedings and are available on the Monitor's website at: http://cfcanada.fticonsulting.com/fireandflower/

11. As a result of the conclusion of the SISP, the Applicants now seek the issuance of the Approval and Reverse Vesting Order and the transactions contemplated thereunder.

## II. DESCRIPTION OF THE APPLICANTS' SOLICITATION EFFORTS

### A. The Pre-Filing Strategic Process

12. Prior to initiating these CCAA Proceedings, the Applicants made various efforts since September 2022 to raise additional liquidity and pursue strategic alternatives. As set out in the Initial Affidavit, in September 2022, a special committee of the board of directors of the Company (the "**Board**") was formed to assist the Board in reviewing and negotiating matters related to the Companies' existing strategic capital investments and financing arrangements.

13. Shortly thereafter, in October 2022, the Company entered into (a) a loan agreement with ACT Investor in respect of a $11 million working capital loan pursuant to a secured loan facility with ACT investor, which was fully drawn down on October 21, 2022; and (b) a subscription agreement and warrant amending agreement that collectively contemplated a $5 million equity investment by ACT Investor and amendments to certain terms of existing warrants held by ACT Investor (the "**Warrant and Share Transaction**"). The Warrant and Share Transaction was subject to shareholder approval and the shareholders ultimately did not approve the Warrant and Share Transaction. Accordingly, the Companies did not receive the additional $5 million of working capital.

14. In April 2023, the Company once again formed a special committee of the board of directors (the "**Special Committee**") to review and assess potential financing opportunities and strategic alternatives. The Special Committee engaged in discussions pertaining to potential financing, acquisitions and/or sale transactions with the ACT Investor, key stakeholders of the Company and other industry participants and financial institutions. Despite these efforts, the Applicants were unable to secure additional financing.

## B. Conduct of the SISP[1]

15. Following the commencement of the CCAA Proceedings and approval by this Court of the SISP on June 19, 2023, the Monitor conducted the SISP, in consultation with the Applicants. The SISP contemplated the following milestones, among others, each of which could be modified by the Monitor as permitted in the SISP:

| | |
|---|---|
| **Phase 1 Bid Deadline**<br>Deadline for Qualified Bidders to submit non-binding LOIs | By no later than July 13, 2023, at 5:00 p.m. (Eastern Time) |
| **Phase 2 Bid Deadline** & **Qualified Bidders**<br>Phase 2 Bid Deadline (for delivery of definitive offers by Phase 2 Qualified Bidders) | August 11, 2023 |
| **Auction**<br>Anticipated Auction (if needed) | August 15, 2023 |
| **Selection of Successful Bid and Back-Up Bidder**<br>Deadline for selection of Successful Bid | By no later than August 17, 2023 at 5:00 p.m. (Eastern Time) |
| **Definitive Documentation**<br>Deadline for completion of definitive documentation in respect of Successful Bid | By no later than August 22, 2023 |
| **Approval Motion – Successful Bid**<br>Deadline for filing of Approval Motion in respect of Successful Bid | Week of August 28, 2023 |
| **Closing – Successful Bid**<br>Anticipated deadline for closing of Successful Bid being the Target Closing Date | September 8, 2023 or such earlier date as is achievable |
| **Outside Date – Closing**<br>Outside Date by which the Successful Bid must close | September 15, 2023 |

[1] All capitalized terms used in this subsection and not otherwise defined herein have the meanings given to them in the SISP.

16. The SISP solicited interest in and opportunities for: (a) one or more sales or partial sales of all, substantially all, or certain portions of the Property or the Business; and/or (ii) an investment in, restructuring, recapitalization, refinancing or other form of reorganization of the Applicants or their Business. Accordingly, the SISP provided the Applicants with the latitude to pursue both asset and share transactions (including through a reverse vesting structure).

17. Further, as noted above, the SISP was backstopped by the Stalking Horse Agreement. Among other benefits, the Stalking Horse Agreement provided certainty that a going-concern solution for the Applicants had already been identified, set a baseline purchase price and deal structure in order to encourage superior bids from interested parties, and maximized value for the benefit of the Applicants' stakeholders.

***(i) Notice and Phase 1***

18. In accordance with the SISP:

(a) the Monitor published notice of the SISP in *The Globe and Mail* (National Edition) on June 21, 2023;

(b) the Applicants issued a press release with Canada Newswire on June 21, 2023; and

(c) the SISP Order was posted on the Monitor's website on June 21, 2023.

19. The Monitor sent a Teaser Letter to 138 Known Potential Bidders. The Monitor received executed confidentiality and non-disclosure agreements from 33 potential bidders and provided each of these parties with access to the virtual data room facilitated by the Monitor for purposes of the SISP. Following the Phase 1 Bid Deadline on July 13, 2023, the Monitor, in consultation with the Applicants, as represented by their counsel and the Special Committee, determined that 12 Phase 1 Qualified Bidders were deemed Phase 2 Qualified Bidders and should proceed to Phase 2 of the SISP.

***(ii) Phase 2***

20. The Monitor confirms they received a total of eight (8) Binding Offers by the Phase 2 Bid Deadline on August 11, 2023. The Binding Offers included three (3) Sale Proposals and five (5) Partial Sale Proposals.

21. Following the Phase 2 Bid Deadline, the Monitor and its counsel, in consultation with the Applicants, as represented by their counsel and the Special Committee, reviewed and discussed the Binding Offers received and, where appropriate, requested certain amendments to Phase 2 Qualified Bids in accordance with paragraph 25 of the SISP.

22. Paragraph 22 of the SISP established a set of criteria which had to be met for a Binding Offer to be considered a Phase 2 Qualified Bid. Among other things, a Binding Offer could only be considered a Phase 2 Qualified Bid if the Binding Offer, among other things:

(a) provided for net cash proceeds that are not less than the Minimum Purchase Price (calculated by the Monitor to be $23.17 million);

(b) included a letter that confirmed a period of irrevocability;

(c) was unconditional, other than upon the receipt of the Approval and Reverse Vesting Order;

(d) was not subject to any financing condition;

(e) did not provide for a break or termination-type fee; and

(f) included payment of a refundable Deposit not less than ten percent (10%) of the cash purchase price payable on closing or total new investment contemplated, as the case may be.

23. On August 13, 2023, the Special Committee held a meeting with the Applicants' counsel and the Monitor to discuss the Binding Offers received. Following careful consideration of the available options, the Special Committee, in consultation with and based on the recommendation of the Monitor and Applicants' counsel, determined that it was in the Applicants' and their stakeholders' best interest to designate the Bid by FIKA and one of the other Sale Proposals received ("**Unsuccessful Bid**", with the Bidder being the "**Unsuccessful Bidder** ") to be Phase 2 Qualified Bids, and to hold the Auction with FIKA, the Unsuccessful Bidder, and the Stalking Horse Bidder (ACT Investor) participating in the Auction.

24. In making this decision, the Special Committee and the Monitor exercised their business judgment to reject the other Sale Proposal based on the proposed consideration and the Partial Sale Proposals received as, in the aggregate, they did not total the Minimum Purchase Price.

25. On August 14, 2023, FIKA and the Unsuccessful Bidder were advised by the Monitor that they were designated as Phase 2 Qualified Bidders and that they were permitted to participate in the Auction. The other parties who submitted Binding Offers were notified by the Monitor that they were not permitted to participate in the Auction.

### *(iii) Auction*

26. The Auction was held virtually via videoconference on August 15, 2023. Prior to the Auction, the Monitor, in consultation with the Applicants, as represented by their counsel and the Special Committee, identified the Binding Offer by FIKA to be the Opening Bid for the Auction as it was the highest Phase 2 Qualified Bid.

27. As a result of the Auction FIKA's Bid was declared as the Successful Bid and ACT Investor's Bid as the Back-Up Bid.

28. At the conclusion of the Auction, FIKA and ACT Investor were notified by the Monitor that their Bids were designated as the Successful Bid and Back-Up Bid, respectively. Accordingly, (a) FFHC and FIKA entered into the Subscription Agreement; and (b) FFHC and ACT Investor immediately began negotiating the Back-Up Subscription Agreement. A copy of the Subscription Agreement is attached as **Exhibit "E"**.

29. On August 18, 2023, pursuant to section 4 of the SISP, the Monitor, in consultation with the Applicants, as represented by their counsel, and the DIP Lender, amended the terms of the SISP to contemplate that any Deposits received from Phase 2 Qualified Bidders which are not the Successful Bidder or the Back-Up Bidder would be fully refunded to the Phase 2 Qualified Bidder that paid such a Deposit as soon as practical.

30. On August 18, 2023, the Monitor returned the received Deposits to the Unsuccessful Bidder and Phase 2 Qualified Bidders who are not the Successful Bidder.

31. I understand that the Monitor will provide further details of the conduct of the SISP through the Third Report of the Monitor, to be filed. I also understand that the Monitor will be providing a confidential summary and discussion of the Bids received. As same contains commercially sensitive information, the Applicants will seek to seal same pending closing of either the Subscription Agreement or Back-Up Subscription Agreement, as applicable.

## III. RELIEF SOUGHT

### A. Approval of the Subscription Agreement[2]

#### *(i) Key Terms of the Subscription Agreement*

32. As set out above, the highest and best offer in respect of the Applicants' business and/or assets is the offer made by FIKA under the Subscription Agreement, which is summarized below.

| Key Terms | Subscription Agreement |
|---|---|
| Purchaser | 2759054 Ontario Inc. (FIKA) |
| Purchased Assets | The Purchased Shares, which would, on closing, represent all the issued and outstanding equity interests in the Company, and for the avoidance of doubt, every direct and indirect subsidiary of the Company. All contracts, other than the Excluded Contracts and Excluded Leases referenced in Schedule 2.2(c), will remain with the F&F Group. |
| Purchase Price | The Purchase Price payable by the Purchaser to the Monitor for the Purchased Shares is $36 million, payable in cash. |
| Deposit | $3.6 million. |
| Transaction Structure | Reverse vesting structure. |
| Regulatory Approvals | Any consent required in connection with the change of control of the Company under Cannabis Laws, all as may be amended, supplemented or replaced from time to time and those which regulate the sale or distribution of cannabis (in various forms), cannabinoid product or paraphernalia commonly associated with cannabis and/or related cannabinoid products. |
| Outside Date for Closing | September 15, 2023. |

[2] All capitalized terms used in this subsection and not otherwise defined herein have the meanings given to them in the Subscription Agreement.

| | |
|---|---|
| Employees | Purchaser will interview employees of the Companies and in its discretion make offers of employment ten days, but no later than five days prior to the anticipated Closing Date. In the event that no offer is made to an employee, such employee will be terminated prior to Closing. |
| Retained Liabilities | • All Post-Filing Claims.<br>• All liabilities of the members of the F&F Group arising from and after Closing.<br>• Tax liabilities.<br>• Intercompany Claims.<br>• Indemnification obligations to current and former directors and officers of the F&F Group, subject to certain conditions.<br>• All outstanding Priority Payments, together with amounts owing in respect of obligations secured by the KERP Charge, Directors' Charge, and the Administration Charge.<br>• An amount sufficient to satisfy the Administration Expense Costs owing and secured by the Administration Charge that are not otherwise paid by the F&F Group. |
| Administrative Expenses Reserve | On the Closing Date, the F&F Group shall pay the Monitor the Administrative Expense Amount (cash in an amount equal to the Administrative Expense Amount and CCAA Charges).<br><br>From time to time after the Closing Date, the Monitor may pay from the Administrative Expense Amount the Administrative Expense Costs and amounts secured by the CCAA Charges, with unused amounts (if any) being transferred by the Monitor to the Company. |
| Key Conditions to Closing | • Court granting the Vesting Order, which shall be a Final Order.<br>• All required Transaction Regulatory Approvals in full force and effect except for those that need not be in full force and effect prior to Closing. |
| Other | Upon Closing, Purchaser and its Affiliates shall release the Company, the Monitor, and |

| | |
|---|---|
| | their respective Affiliates, directors and officers, and legal counsel from all actual or potential Released Claims relating to the Business, the Purchased Shares or the Retained Liabilities, save and except for Released Claims arising out of fraud, bad faith or illegal acts.<br><br>Upon Closing, Company and its Affiliates shall release the Purchaser, the Monitor and their respective Affiliates, directors and officers, and legal counsel from actual or potential Released Claims relating to (i) the Purchased Shares; (ii) all other Equity Interests of the Company which remain after the application of the Vesting Order, (ii) the Retained Liabilities, (iii) the Excluded Assets or (iv) the Excluded Liabilities, save and except for Released Claims arising out of fraud, bad faith or illegal acts. |

33. I understand from my discussions with the Monitor, the Special Committee, and the Applicants' counsel that the Subscription Agreement represents the best possible outcome for the Applicants, its creditors, and other stakeholders in the circumstances. The execution of the Subscription Agreement represents the culmination of extensive solicitation efforts on the part of the Applicants and the Monitor, which occurred both prior to and after the commencement of the CCAA Proceedings (as applicable).

34. I believe that the pre-filing strategic process leading up to the commencement of the CCAA Proceedings and the conduct of the Court-approved and robust SISP broadly canvassed the market of parties interested in the Applicants' business and assets. Further, the timelines under the SISP were reasonable. I am advised by the Monitor that it also believes the timelines and terms of the SISP were reasonable.

35. The benefits of the Transactions include the following, among others:

(a) all of the Applicants' secured liabilities will be satisfied, leaving millions of dollars for recovery to the Applicants' unsecured creditors;

(b) various unsecured and contingent liabilities being assumed; and

(c) the Applicants will continue operations as a going concern, resulting in:

(i) the potential for many of the Applicants' approximately 594 employees to preserve their employment;

(ii) a substantial number of the Applicants' landlords and suppliers of goods and services being able to maintain their business relationships with the Applicants; and

(iii) continuity of supply in provinces where the Applicants have distribution operations which play a critical part in the provincial supply chain.

***(ii) Reverse Vesting Structure***

36. The Transactions contemplated in the Subscription Agreement have been structured to form a "reverse vesting" transaction. In essence, instead of providing for a traditional asset sale transaction where all purchased assets are purchased and transferred to the purchaser on a "free and clear" basis and all excluded assets, excluded contracts and excluded liabilities remain with the debtor company, the Transactions provide for a share transaction whereby, essentially:

(a) FIKA will subscribe for and purchase new shares of FFHC, who will, in turn, cancel and terminate all of its existing equity securities so that FIKA may become the sole shareholder of FFHC and ultimately, each of the subsidiaries of FFHC; and

(b) All Excluded Contracts, Excluded Assets, and Excluded Liabilities with respect to the Applicants will be transferred and "vested out" to a corporation to be incorporated by FFHC in advance of the Closing Date ("**Residual Co.**"), so as to allow FIKA to indirectly acquire the Applicants' business and assets on a "free and clear" basis.

37. More specifically, if approved by this Court, the Approval and Reverse Vesting Order provides for the following sequence to occur upon closing (the "**Closing Sequence**"):

(a) first, all of the Applicants' right, title and interest in and to their respective Excluded Assets shall vest absolutely and exclusively in Residual Co., with all applicable Claims and Encumbrances continuing to attach to the Excluded Assets and to the Purchase Price;

(b) second, all Excluded Contracts, Excluded Leases, and Excluded Liabilities shall be channeled to, assumed by and vest absolutely and exclusively in Residual Co. such that the Excluded Contracts, Excluded Leases and Excluded Liabilities shall become obligations of Residual Co., and shall no longer be obligations of the Applicants and all of the Applicants' respective assets, licenses, undertakings and properties of every nature and kind whatsoever and wherever situate, including property held in trust for the Applicants (the "**F&F Group's Property**"), shall be forever released and discharged from such Excluded Contracts, Excluded Leases and Excluded Liabilities and all related Claims and all Encumbrances affecting or relating to the F&F Group's Property are to be expunged and discharged as against the F&F Group's Property;

(c) third, the Articles of Amendment shall be filed or deemed to have been filed;

(d) fourth, in consideration for the Purchase Price, FFHC shall issue the Purchased Shares to FIKA, and all of the right, title and interest in and to the Purchased Shares shall vest absolutely in FIKA, free and clear of and from any and all Claims and Encumbrances of any kind and in favour of any party and, for greater certainty, all of the Claims and Encumbrances of any kind affecting or relating to the Purchased Shares would be expunged and discharged as against the Purchased Shares;

(e) fifth, pursuant to the Articles of Amendment, any fractional Purchased Shares and all Equity Interests of FFHC outstanding prior to the issuance of the Purchased Shares other than the Purchased Shares, including all options, conversion privileges, equity-based awards, warrants, securities, debentures, loans, notes or other rights, agreements or commitments of any character whatsoever that are held by any Person and are convertible or exchangeable for any securities of FFHC or which require the issuance, sale or transfer by FFHC, of any shares or other securities of FFHC and/or the share capital of FFHC, or otherwise relating thereto, shall be deemed terminated and cancelled and the only Equity Interests of FFHC that shall remain shall be the Purchased Shares; and

(f) sixth, the F&F Group shall be deemed to cease being Applicants in these CCAA Proceedings, with Residual Co. becoming the sole Applicant in these CCAA

Proceedings. The F&F Group shall be deemed to be released from the purview of the ARIO and all other Orders of this Court granted in respect of these CCAA Proceedings, save and except for the Approval and Reverse Vesting Order, the provisions of which (as they relate to the F&F Group) shall continue to apply in all respects.

38. As outlined in the Initial Affidavit, the Applicants operate in a highly regulated environment in accordance with the *Cannabis Act* (Canada) and applicable provincial and municipal legislation. Among other things, these governments establish rules regarding how cannabis can be sold, how retail stores must be operated, where such stores can be located and who is allowed to sell cannabis.

39. The Applicants currently operate seventy-two (72) cannabis retail stores pursuant to cannabis retail and operator licenses in good standing, and two (2) wholesale distribution facilities pursuant to a cannabis wholesale permit and a limited distribution license. These licenses and permits are held across British Columbia, Alberta, Saskatchewan, Manitoba, Ontario, and the Yukon.

40. In addition to the foregoing licenses and permits, which would require re-issuance to a purchaser if an asset transfer was implemented, the Applicants would require consents to assign, re-establish or enter into new arrangements with respect to various other commercial counterparties including, but not limited to:

(a) contracts with certain provincially operated cannabis distributors;

(b) contracts with certain licensed cannabis producers;

(c) contracts with certain suppliers of strategic data sources;

(d) intellectual property which would require re-recording and registration of the names and assignment;

(e) leases with certain landlords; and

(f) contracts with certain premises security and other service providers, whose services are required to maintain the applicable licenses and permits under the applicable cannabis laws.

41. Under a traditional asset sale transaction structure, some of these licenses, permits, and contracts with government entities and other strategic suppliers may be difficult to transfer to a purchaser and, to the extent that such transfer is possible, the steps required to proceed with such transfer will likely result in additional delays, costs, and uncertainty.

42. Accordingly, the Subscription Agreement was structured as a reverse vesting transaction because, in part, it will permit the Applicants to maintain their licenses, intellectual property, and contracts with government entities and strategic suppliers. While certain cannabis regulatory approvals are required from the applicable government entity as it relates to a change of control, I have personally met with representatives of each the applicable provincial regulatory agencies and been advised by the Applicants' regulatory counsel and believe that such approvals will likely not have the same additional delays, costs, and uncertainty as would be required to implement an asset transfer.

43. Further, FIKA has demonstrated its ability to satisfy provincial regulators as to its fitness to operate licensed cannabis retail stores, as FIKA directly or indirectly owns and operates approximately twenty-five (25) cannabis retail stores in Ontario.

44. As the Applicants are facing significant liquidity constraints, the delays, costs, and uncertainty associated with getting their licenses, intellectual property and contracts with government entities, strategic suppliers and certain landlords transferred is not a viable option.

45. The reverse vesting structure may also permit the maintenance of the Applicants' tax attributes, which includes the Applicants' operating losses.

46. I do not believe that completing the Transactions under a reverse vesting structure will result in any material prejudice or impairment of any of the Applicants' creditors' rights that they would otherwise have under an asset sale transaction under any other alternative available to the Applicants. The Subscription Agreement maintains the rights that creditors would otherwise have in an asset sale transaction. In the case of parties with existing contracts with the Applicants, though no assignment of contracts (consensual or through an assignment order) is contemplated, the Subscription Agreement provides for all contracts, other than the Excluded Contracts, to remain with the Applicants. The contracting parties therefore have the opportunity to continue supplying goods and services to the Applicants post-emergence from the CCAA Proceedings. Contract counterparties will also be served with the Applicants' motion record to provide them with notice that their contracts may be retained or excluded as part of the Transactions.

47. In this case, the market has been thoroughly canvassed. The Monitor and the Special Committee confirm that the best going-concern option which would result in continued employment for many of the Applicants' employees, continued relationships with the Applicants' suppliers and customers, and millions of dollars for recovery to unsecured creditors, among other benefits, are the Transactions contemplated under the Subscription Agreement.

48. While a variety of liabilities will be vested out into Residual Co. in this structure, the same result would have occurred had the transaction been implemented in an asset transaction structure. The concept of Retained Liabilities in the Subscription Agreement provides a benefit for a variety of stakeholders that would not have otherwise had this benefit in a traditional asset vesting transaction structure. As referenced above, the Retained Liabilities include: (a) all Post-Filing Claims; (b) all liabilities of the Applicants arising from and after Closing; (c) tax liabilities; (d) Intercompany Claims; (e) indemnification obligations to current and former directors and officers of the Applicants, subject to certain conditions; (f) Priority Payments; and (g) Administration Expense Costs not otherwise paid by the F&F Group.

49. Finally, I believe, based on my involvement with the pre-filing strategic process leading up to commencement of the CCAA Proceedings and the SISP that:

(a) the process leading to the proposed Transactions, which began at least as early as September 2022, was reasonable in the circumstances;

(b) the Monitor properly conducted the SISP and consulted the Applicants through the Special Committee throughout, as required and necessary;

(c) the Transactions, if approved by this Court, will result in the best outcome for the Applicants and their creditors and other stakeholders in the circumstances, as confirmed by the Monitor, the Special Committee, and the Applicants' counsel;

(d) the consideration to be received for the Purchased Shares is reasonable and fair, taking into account their market value and the broad canvassing of the potentially interested parties during the pre-filing strategic process and the SISP;

(e) the Company has now tested the market on at least two separate occasions with the benefit of experienced advisors;

(f) the Monitor and the Applicants' secured creditor, ACT Investor are both supportive of the relief sought on this motion.

**B. Releases**

50. As set forth in the draft Approval and Reverse Vesting Order, the Applicants also seek the issuance of the Releases in favour of (a) the Released Parties (being the current directors, officers, employees, legal counsel, consultants and advisors to the Applicants and Residual Co.; and the Monitor and its current directors, officers, partners, employees and advisors) from the Released Claims; and (b) the Other Released Parties (being the Applicants, ACT Investor, in its capacity as the DIP Lender and the Stalking Horse Bidder, and FIKA) from the Other Released Claims.

51. As set out above:

(a) the Released Claims covers any and all present and future claims against the Released Parties based upon any fact or matter of occurrence in respect of the CCAA Proceedings, the Subscription Agreement, or the Back-Up Subscription Agreement, as the case may be, and the completion of the Transactions or the Back-Up Transactions, as the case may be. The Released Claims do not release claims which are not permitted to be released pursuant to section 5.1(2) of the CCAA; and

(b) the Other Released Claims covers any and all present and future claims against the Other Released Parties based upon any fact or matter of occurrence in respect of any act or omission, transaction, dealing or other occurrence existing or taking place prior to the filing of the Monitor's Closing Certificate, or undertaken or completed in connection with or pursuant to the terms of the Approval and Reverse Vesting Order and that relate in any manner whatsoever to the Subscription Agreement or Back-Up Subscription Agreement, as the case may be, the completion of the Transactions or the Back-Up Transactions, as the case may be, the closing documents, any agreement, document, instrument, matter or transaction involving the Applicants arising in connection with or pursuant to any of the foregoing, and/or the consummation of the Transactions or the Back-Up Transactions, as the case may be.

52. Notably, the Release in favour of the Released Parties only applies to the Applicants' current directors, officers, employees, legal counsel, consultants and advisors. The Approval and Reverse Vesting Order defines "current" as those individuals who remain in their applicable role(s) up to one day prior to closing of the Transactions or Back-Up Transactions, as applicable.

53. The Releases are being sought in order to achieve certainty and finality for the Released Parties and Other Released Parties in the most efficient and appropriate manner given the circumstances.

54. The Applicants believe that the Releases sought are appropriate, given the significant and material contributions of the Released Parties and Other Released Parties in connection with the CCAA Proceedings and Transactions or Back-Up Transactions, as applicable, which, as previously discussed, will allow for the satisfaction of all the Applicants' secured liabilities, provide for millions in recovery to unsecured creditors, assumption of certain unsecured liabilities, and will allow the Applicants to continue their operations as a going concern.

55. The Applicants and the Monitor believe that the Releases are an essential component to the Transactions and Back-Up Transactions, as applicable.

### C. Path to Closing

56. As noted above, the Outside Date to close the Transactions contemplated in the Subscription Agreement is September 15, 2023.

57. Immediately after the conclusion of the Auction, FFHC, FIKA, and the Monitor started working on getting to a successful closing of the Transactions. Among other things, the parties reached out to the applicable regulatory entities to start the process to obtain the necessary Transaction Regulatory Approvals (as defined in the Subscription Agreement).

58. While the parties have moved as expeditiously as possible to obtain the Transaction Regulatory Approvals from the applicable regulatory authorities, I understand that there is a possibility that the Transaction Regulatory Approvals will not all be obtained prior to September 15, 2023 if certain regulatory authorities require completion of their due diligence reviews prior to completion of the Transactions and are unable to complete same prior to September 15, 2023.

59. To the extent that the Transactions cannot close by September 15, 2023, the Applicants engaged with FIKA and the DIP Lender regarding an extension to the Outside Date and additional debtor-in-possession financing and will return to this Court to seek such relief as necessary.

### D. Approval of the Back-Up Subscription Agreement

60. For the same reasons set out above with respect to why the Subscription Agreement and the Transactions contemplated therein should be approved, this Court should approve the Back-Up Subscription Agreement and the Back-Up Transactions contemplated therein, but only to the extent that the Subscription Agreement and the Transactions contemplated therein do not close for any reason.

61. Among other benefits, the Back-Up Subscription Agreement and Back-Up Transactions also result in the Applicants continuing operations as a going concern, with all of the Applicants' secured liabilities being satisfied and millions of dollars for recovery to the Applicants' unsecured creditors.

62. However, the Back-Up Subscription Agreement provides for less consideration than the Subscription Agreement.

63. Certain terms of the Back-Up Subscription Agreement are being negotiated. The Applicants will serve a supplementary affidavit containing the executed Back-Up Subscription Agreement as soon as same is available, and prior to the hearing of this Motion.

### E. Claims Process[3]

64. As a result of the SISP generating bids in excess of the Applicants' secured debt, the Applicants are proposing to establish a process for the identification, quantification, and resolution of unsecured claims against Residual Co (the "**Claims Process**").

65. A draft Claims Procedure Order will be attached to the Applicants' Motion Record and stakeholders are encouraged to consult that draft for full details of the Claims Process. However, the following is a high-level summary of certain key aspects of the Claims Process:

---

[3] All capitalized terms used in this subsection and not otherwise defined herein have the meanings given to them in the Claims Process Order.

(a) **Notice.** The Monitor shall send a Claims Package to each Known Claimant within five (5) Business Days following the issuance of the Claims Procedure Order;

(b) **Pre-Filing Claims Bar Date.** The Pre-Filing Claims Bar Date to submit a Proof of Claim with respect to all Pre-Filing Claims is 5:00 p.m. (prevailing Eastern Time) on October 12, 2023;

(c) **Restructuring Claims Bar Date.** The Restructuring Claims Bar Date to submit a Proof of Claim with respect to all Restructuring Claims is the later of:

(i) The Pre-Filing Claims Bar Date; and

(ii) 5:00 p.m. (prevailing Eastern Time) on the day which is thirty (30) days after the Monitor sends a Claims Package with respect to a Restructuring Claim in accordance with the Claims Procedure Order;

(d) **Review of Proofs of Claim.** The Monitor, in consultation with the Applicants, shall review all Proofs of Claim and may (i) request additional information from a Claimant; (ii) request that a Claimant file a revised Proof of Claim; (iii) attempt to resolve and settle any issue arising in a Proof of Claim; (iv) accept (in whole or in part) any Claim; and (v) revise or disallow (in whole or in part) any Claim;

(e) **Notice of Revision or Disallowance.** Where a Claim is revised or disallowed, the Monitor shall deliver to the Claimant a Notice of Revision or Disallowance, attaching the form of Notice of Dispute;

(f) **Notice of Dispute.** Any Person who intends to dispute a Notice of Revision or Disallowance pursuant to the Claims Procedure Order shall deliver a Notice of Dispute no later than fourteen (14) days after receiving the Notice of Revision or Disallowance;

(g) **Disputed Claims Resolution.** If a dispute raised in a Notice of Dispute is not settled within a reasonable time or in a manner satisfactory to the Applicants, the Monitor may refer the dispute to the Claims Officer for determination.

(h) **Claims Officer.** The Claims Officer shall determine the status and/or amount of each Claim in respect of which a dispute has been referred to the Claims Officer. The Applicants propose Niels Ortved be appointed as Claims Officer.

(i) **Appeal of Claims Officer's Determination.** The Applicants or the Claimant may appeal the Claims Officer's determination by serving and filing a notice of motion on the other party (with a copy to the Monitor) within ten (10) calendar days of notification of the Claims Officer's determination of such Claim.

66. The Applicants' proposed Claims Process is embodied in the Claims Procedure Order, which has been prepared by the Applicants in consultation with the Monitor and its counsel.

67. The Applicants believe that the notification process described in the Claims Procedure Order will provide Claimants with adequate notice of the Claims Process and an adequate opportunity to prove their Claims prior to the Pre-Filing Claims Bar Date or the Restructuring Claims Bar Date, as applicable.

68. In addition, the Applicants believe that the adjudication procedure described in the Claims Procedure Order will facilitate the fair and expeditious resolution of any disputes regarding the status and/or amount of each Claim.

### F. Extension of Stay Period

69. The Applicants are seeking to extend the Stay Period from September 1, 2023 to and including October 15, 2023. The extension of the Stay Period is necessary and appropriate in the circumstances to provide the Applicants with continued breathing space while they attempt to maximize value for the benefit of their stakeholders through the CCAA Proceedings and the Claims Process.

70. The Subscription Agreements contemplate an Outside Date of September 15, 2023 to close the Transactions or Back-Up Transactions, as the case may be. Additional time may be required to complete the Transactions or Back-Up Transactions, as the case may be, contemplated under the Subscription Agreements.

71. Further, while Residual Co. (as an applicant in these CCAA Proceedings following closing of the Transactions) will likely return to this Court to seek other forms of relief prior to the proposed extended Stay Period, such as approval of distributions to ACT Investor from the purchase price

under the Subscription Agreement, the Claims Process will likely run until at least October 15, 2023.

72. Since the granting of the ARIO and the SISP Order, the Applicants have, among other things:

(a) preserved the Applicants' liquidity and limited their cash burn during the CCAA Proceedings by:

(i) operating in the ordinary course of business;

(ii) sending disclaimer notices in respect of several contracts; and

(iii) obtaining returns of deposits held by various landlords who had their leases disclaimed by the Applicants;

(b) negotiated terms of various lease amendments with landlords;

(c) engaged with the applicable regulatory authorities to keep them apprised of the SISP and the CCAA Proceedings; and

(d) responded to numerous creditor and stakeholder enquiries regarding these CCAA Proceedings.

73. Accordingly, the Applicants have acted, and are continuing to act in good faith and with due diligence in these CCAA Proceedings.

74. The Applicants prepared an updated cash flow forecast which will be attached to the Third Report of the Monitor (the "**Updated Cash Flow Forecast**"). The Updated Cash Flow Forecast reflects that the Applicants are expected to maintain liquidity and fund operations up to October 15, 2023.

75. I do not believe that the proposed extension of the Stay Period will materially prejudice any of the Applicants' stakeholders. Further, I understand that the Monitor supports the proposed extension of the Stay Period and will be providing further details with respect to the appropriateness of the requested extension of the Stay Period in its Third Report.

76. Finally, the Applicants are in active discussions with FIKA and the DIP Lender regarding repayment of the DIP Facility or extending the maturity date for the DIP Facility beyond September 15, 2023. The Applicants expect to finalize these discussions prior to their attendance before Court on August 29, 2023, and will either file supplementals or provide the Court with an update in respect of same.

### G. FAFUS

77. As outlined in the Initial Affidavit, FFHC has an option, but not an obligation to acquire all of the shares or all or substantially all of the assets of Fire & Flower US Holdings Inc. ("**FAFUS**"), an entity unaffiliated to the Applicants.

78. The beneficiary of the secured debt instrument (the "**Secured Party**") and FAFUS also entered into a security agreement (the "**FAFUS Security Agreement**") as part of FAFUS's acquisition, pursuant to which FAFUS granted a first-ranking charge over substantially all its assets to the Secured Party.

79. Both FFHC and FAFUS received a notice on August 18, 2023 from Secured Party, wherein it was alleged that FAFUS had defaulted on its obligations under the FAFUS Security Agreement. Upon certain defaults under the FAFUS Security Agreement, the Secured Party may enforce on substantially all the assets of FAFUS (but must provide FFHC with notice of same and provide FFHC with ten (10) business days notice to purchase the FAFUS Security Agreement and secured debt instrument referenced above).

80. FAFUS responded on August 21, 2023 and denied some of the Secured Party's allegations of defaults under the Security Agreement.

81. The Company continues to evaluate its options and is in discussions with FAFUS and FIKA with respect to the foregoing.

## VI. CONCLUSION

82. In light of the foregoing, I believe that the relief sought by the Applicants in connection with this Motion is reasonable and appropriate in the circumstances. I understand that the Monitor is also supportive of the relief sought by the Applicants in connection with this Motion.

| | |
|---|---|
| SWORN remotely via videoconference, by Stephane Trudel, stated as being located in the City of Montreal, in the Province of Quebec, before me at the City of Toronto, in Province of Ontario, this day of August 23, 2023, in accordance with O. Reg 431/20, *Administering Oath or Declaration Remotely*.<br><br>DocuSigned by:<br>Philip Y<br>36124C4218DD47C...<br><br>Commissioner for Taking Affidavits, etc.<br>PHILIP YANG | DocuSigned by:<br>Stephane Trudel<br>35998CB93F814E6...<br><br>**STEPHANE TRUDEL** |

**IN THE MATTER OF THE *COMPANIES' CREDITORS ARRANGEMENT ACT*, R.S.C. 1985, c. C-36, AS AMENDED**

Court File No. CV-23-00700581-00CL

**AND IN THE MATTER OF A PLAN OF COMPROMISE OR ARRANGEMENT OF 15315441 CANADA INC.**

**Applicant**

***ONTARIO***
**SUPERIOR COURT OF JUSTICE**
**(COMMERCIAL LIST)**

PROCEEDING COMMENCED AT TORONTO

**AFFIDAVIT OF AVININDER GREWAL**
**(SWORN MARCH 20, 2025)**

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Lawyers for the Applicant

# TAB 3

Court File No. CV-23-00700581-00CL

***ONTARIO***
**SUPERIOR COURT OF JUSTICE**
**(COMMERCIAL LIST)**

| | | |
|---|---|---|
| THE HONOURABLE | ) | WEDNESDAY, THE 26TH DAY |
| | ) | |
| JUSTICE OSBORNE | ) | OF MARCH, 2025 |

**IN THE MATTER OF THE *COMPANIES' CREDITORS ARRANGEMENT ACT*, R.S.C. 1985, c. C-36, AS AMENDED**

**AND IN THE MATTER OF A PLAN OF COMPROMISE OR ARRANGEMENT OF 15315441 CANADA INC.**

**Applicant**

## CCAA TERMINATION AND DISTRIBUTION ORDER

**THIS MOTION**, made by 15315441 Canada Inc. (the "**Applicant**") pursuant to the *Companies' Creditors Arrangement Act*, R.S.C. 1985, c. C-36, as amended (the "**CCAA**") for an order (the "**Order**"), among other things: (a) authorizing and directing the Monitor, on behalf of the Applicant, to make distributions (the "**Proposed Distributions**") to certain of the Applicant's creditors; (b) approving the Ninth Report of FTI Consulting Canada Inc. ("**FTI**"), in its capacity as monitor of the Applicant (in such capacity, the "**Monitor**") dated March 20, 2025 (the "**Ninth Report**"), and the activities of the Monitor described therein; (c) approving the fees and disbursements of the Monitor, as described in the affidavit of Jeffrey Rosenberg sworn March 20, 2025 (the "**Rosenberg Affidavit**") and the fees and disbursements of the Monitor's counsel, Thornton Grout Finnigan LLP ("**TGF**"), as described in the affidavit of Rebecca Kennedy sworn March 20, 2025 (the "**Kennedy Affidavit**"); (d) establishing a reserve for the Monitor to complete these proceedings; (e) terminating these proceedings and granting related relief; and (f) extending the stay of proceedings, was heard this day by judicial videoconference via Zoom.

**ON READING** the Applicant's Notice of Motion dated March 20, 2025, the affidavit of Avininder Grewal sworn March 20, 2025 (the "**Grewal Affidavit**"), and the Exhibits thereto, the Ninth Report, and the appendices thereto, and on hearing the submissions of counsel for the Applicant, counsel for the Monitor, and such other parties listed on the Participant Information Form, with no one else appearing although duly served as appears from the affidavit of service of Philip Yang, filed March 21, 2025.

**SERVICE AND DEFINITIONS**

1. **THIS COURT ORDERS** that the time for service and filing of the Notice of Motion and the Motion Record is hereby abridged and validated so that this Motion is properly returnable today and hereby dispenses with further service thereof.

2. **THIS COURT ORDERS** that capitalized terms used herein and not otherwise defined have the meanings given to them in the Grewal Affidavit, the Amended and Restated Initial Order granted in these proceedings on June 15, 2023 (the "**ARIO**"), or the Claims Procedure Order granted in these proceedings on August 19, 2023, as applicable.

**EXTENSION OF STAY PERIOD**

3. **THIS COURT ORDERS** that the Stay Period is extended to and including the CCAA Termination Time (as defined below) or such later date as this Court may order.

**DISTRIBUTIONS**

4. **THIS COURT ORDERS** that the Monitor is hereby authorized, on behalf of the Applicant, to make the Proposed Distributions to creditors with Proven Claims against the Applicant in the Claims Procedure, on a pro-rata basis without regard to which F&F Entity any Proof of Claim was filed against.

5. **THIS COURT ORDERS** that the Monitor is hereby authorized and directed to take all reasonably necessary steps and actions to effect the Proposed Distributions in accordance with the provisions of this Order and shall not incur any liability as a result of making the Proposed Distributions.

6. **THIS COURT ORDERS** that the Proposed Distributions in accordance with this Order shall be permanent and indefeasible payments of the Applicant's obligations to such creditors receiving the Proposed Distributions.

7. **THIS COURT ORDERS** that notwithstanding:

(a) the pendency of these CCAA Proceedings;

(b) any application for a bankruptcy or receivership order now or hereafter issued pursuant to the BIA or other applicable legislation in respect of the Applicant and any bankruptcy or receivership order issued pursuant to any such applications;

(c) any assignment in bankruptcy made in respect of the Applicant; and

(d) any provisions of any federal or provincial legislation,

the Proposed Distributions shall be made free and clear of all Encumbrances (including the Charges) and shall be binding on any trustee in bankruptcy or receiver that may be appointed in respect of the Applicant and shall not be void or voidable nor deemed to be a preference, assignment, fraudulent conveyance, transfer at undervalue, or other reviewable transaction under the BIA or any other applicable federal or provincial legislation, nor shall they constitute oppressive or unfairly prejudicial conduct pursuant to any applicable federal or provincial legislation.

**APPROVAL OF THE NINTH REPORT, ACTIVITIES, AND FEES**

8. **THIS COURT ORDERS AND DECLARES** that the Ninth Report and the activities of the Monitor referred to therein are hereby ratified and approved; provided, however, that only the Monitor, in its personal capacity and only with respect to its own liability, shall be entitled to rely upon or utilize in any way such approvals.

9. **THIS COURT ORDERS** that the fees and disbursements of the Monitor for the period from October 1, 2024, to March 16, 2025, as set out in the Rosenberg Affidavit, are hereby approved.

10. **THIS COURT ORDERS** that the fees and disbursements of TGF, as legal counsel to the Monitor, for the period from October 1, 2024, to March 16, 2025, as set out in the Kennedy Affidavit, are hereby approved.

**TERMINATION OF CCAA PROCEEDINGS**

11. **THIS COURT ORDERS** that, upon service by the Monitor of an executed certificate substantially in the form attached hereto as Schedule "A" (the "**Monitor's Termination Certificate**") on the service list in these CCAA Proceedings certifying that, to the knowledge of the Monitor, all matters to be attended to in connection with the CCAA Proceedings have been completed, these CCAA Proceedings shall be terminated without any further act or formality (the "**CCAA Termination Time**"), save and except as provided in this Order, and provided that nothing herein impacts the validity of any Orders made in these CCAA Proceedings or any action or steps taken by any Person pursuant thereto.

12. **THIS COURT ORDERS** that the Monitor is hereby directed to file a copy of the Monitor's Termination Certificate with the Court as soon as is practicable following service thereof on the

service list in these CCAA Proceedings.

13. **THIS COURT ORDERS** that the Administration Charge, the DIP Lender's Charge, the D&O Charge, the KERP Charge, and all other charges granted in these CCAA Proceedings, shall be terminated, released and discharged as of the CCAA Termination Time without any further act or formality.

**DISCHARGE OF THE MONITOR**

14. **THIS COURT ORDERS** that effective as at the CCAA Termination Time, FTI shall be discharged from its duties as the Monitor, and shall have no further duties, obligations or responsibilities as Monitor from and after the CCAA Termination Time, provided that, notwithstanding its discharge as Monitor, FTI shall have the authority to carry out, complete or address any matters in its role as Monitor that are ancillary or incidental to these CCAA Proceedings following the CCAA Termination Time, as may be required.

15. **THIS COURT ORDERS** that, notwithstanding any provision of this Order, the Monitor's discharge or the termination of these CCAA Proceedings, nothing herein shall affect, vary, derogate from, limit or amend, and FTI shall continue to have the benefit of, all of the rights, approvals, releases and protections in favour of the Monitor at law or pursuant to the CCAA, or any other Order of this Court in these CCAA Proceedings or otherwise, all of which are expressly continued and confirmed following the CCAA Termination Time, including in connection with any other actions taken by the Monitor following the CCAA Termination Time with respect to the Applicant or these CCAA Proceedings.

**RELEASE OF MONITOR**

16. **THIS COURT ORDERS** that effective as at the CCAA Termination Time, the Monitor and its affiliates, officers, directors, employees, legal counsel and agents (collectively, the "**Monitor Released Parties**" and each a "**Monitor Released Party**") shall be and are hereby forever released and discharged from any and all claims that any Person may have or be entitled to assert against any of the Monitor Released Parties, whether known or unknown, matured or unmatured, foreseen or unforeseen, existing or hereafter arising, based in whole or in part on any act or omission, transaction, dealing or other occurrence in any way relating to, arising out of, or in respect of, these CCAA Proceedings or with respect to their respective conduct in these CCAA Proceedings (collectively, the "**Monitor Released Claims**"), and any such Monitor Released Claims are hereby irrevocably and forever released, stayed, extinguished and forever barred, and the Monitor Released Parties shall have no liability in respect thereof, provided that the Monitor

Released Claims shall not include any claim or liability that is finally determined by a court of competent jurisdiction to have constituted gross negligence or wilful misconduct on the part of the applicable Monitor Released Party.

17. **THIS COURT ORDERS** that no action or other proceeding shall be commenced against any of the Monitor Released Parties in any way arising from or related to the CCAA Proceedings except with prior leave of this Court on not less than fifteen (15) days prior written notice to the applicable Monitor Released Party or Monitor Released Parties and upon further Order securing, as security for costs, the full indemnity costs of the applicable Monitor Released Party in connection with any proposed action or proceeding as the Court hearing the motion for leave to proceed may deem just and appropriate.

**BANKRUPTCY MATTERS**

18. **THIS COURT ORDERS** that the Stay provided for at paragraphs 14 and 15 of the ARIO, be and is hereby lifted solely for the purpose of allowing the Applicant to make an assignment in bankruptcy pursuant to the BIA.

19. **THIS COURT ORDERS** that the Applicant is authorized to make an assignment in bankruptcy pursuant to the BIA in the City of Toronto, Province of Ontario, naming FTI as the Bankruptcy Trustee, and, in that regard, the director of the Applicant is authorized to sign such documents in the name of the Applicant and take all such steps as are necessary to make the assignment in bankruptcy and commence proceedings under the BIA (the "**BIA Proceedings**").

**ADMINISTRATIVE RESERVE**

20. **THIS COURT ORDERS** that the Monitor shall be authorized to retain the Termination Reserve in the amount of $452,000.00 to fund the remainder of these CCAA Proceedings up to and including the CCAA Termination Time and, if applicable, the subsequent BIA Proceedings of the Applicant.

**GENERAL**

21. **THIS COURT ORDERS** that the Applicant or the Monitor may apply to this Court to amend, vary or supplement this Order or for advice and directions in the discharge of its powers and duties under this Order or in the interpretation or application of this Order.

22. **THIS COURT ORDERS** that, notwithstanding Rule 59.05, this Order is effective from the date that it is made and is enforceable without any need for entry and filing. In accordance with

Rules 77.07(6) and 1.04, no formal order need be entered and filed unless an appeal or a motion for leave to appeal is brought to an appellate court.

23. **THIS COURT ORDERS** that this Order shall have full force and effect in all provinces and territories in Canada.

24. **THIS COURT ORDERS** that the Applicant and the Monitor shall be authorized to apply as they may consider necessary or desirable, with or without notice, to any other court or administrative body, whether in Canada, the United States or elsewhere, for orders which aid and complement this Order. All courts and administrative bodies of all such jurisdictions are hereby respectfully requested to make such orders and to provide such assistance to the Applicant and the Monitor as may be deemed necessary or appropriate for that purpose.

25. **THIS COURT HEREBY REQUESTS** the aid and recognition of any court, tribunal, regulatory or administrative body having jurisdiction in Canada or in the United States, to give effect to this Order and to assist the Applicant, the Monitor and their respective agents in carrying out the terms of this Order. All courts, tribunals, regulatory and administrative bodies are hereby respectfully requested to make such orders and to provide such assistance to the Applicant and to the Monitor, as an officer of this Court, as may be necessary or desirable to give effect to this Order, to grant representative status to the Monitor in any foreign proceeding, or to assist the Applicant and the Monitor and their respective agents in carrying out the terms of this Order.

26. **THIS COURT ORDERS** that this Order and all of its provisions are effective as of 12:01 a.m. Prevailing Eastern Time on the date hereof.

**SCHEDULE “A”**

Court File No. CV-23-00700581-00CL

***ONTARIO***
**SUPERIOR COURT OF JUSTICE**
**(COMMERCIAL LIST)**

**IN THE MATTER OF THE *COMPANIES’ CREDITORS ARRANGEMENT ACT*, R.S.C. 1985, c. C-36, AS AMENDED**

**AND IN THE MATTER OF A PLAN OF COMPROMISE OR ARRANGEMENT OF 15315441 CANADA INC.**

**Applicant**

**TERMINATION CERTIFICATE**

**RECITALS**

A. FTI Consulting Canada Inc. (“**FTI**”) was appointed as the Monitor of 15315441 Canada Inc. in the within proceedings (the “**CCAA Proceedings**”) commenced under the *Companies’ Creditors Arrangement Act* (Canada) (the “**CCAA**”) pursuant to an Initial Order of the Ontario Superior Court of Justice (Commercial List) (the “**Court**”) dated June 5, 2023 (as amended, the “**Initial Order**”).

B. Pursuant to an Order of this Court dated March 26, 2025 (the “**CCAA Termination and Distribution Order**”), among other things, FTI shall be discharged as the Monitor and the CCAA Proceedings shall be terminated upon service of this Termination Certificate on the service list in these CCAA Proceedings, all in accordance with the terms of the CCAA Termination and Distribution Order.

C. Unless otherwise indicated herein, capitalized terms used in this Termination Certificate shall have the meanings given to them in the CCAA Termination and Distribution Order.

**THE MONITOR CERTIFIES** the following:

1. To the knowledge of the Monitor, all matters to be attended to in connection with the CCAA Proceedings (Court File No. CV-23-00700581-00CL) have been completed.

**ACCORDINGLY**, the CCAA Termination Time will occur upon service of the Termination Certificate by the Monitor on the service list in these CCAA Proceedings.

**DATED** at Toronto, Ontario this ________________ day of ______________, 2025.

**FTI CONSULTING CANADA INC.** in its capacity as the Court-appointed Monitor of the Applicant and not in its personal or corporate capacity

Per:

______________________________________
Name:
Title:

IN THE MATTER OF THE *COMPANIES' CREDITORS ARRANGEMENT ACT*, R.S.C. 1985, c. C-36, AS AMENDED

Court File No. CV-23-00700581-00CL

AND IN THE MATTER OF A PLAN OF COMPROMISE OR ARRANGEMENT OF 15315441 CANADA INC.

Applicant

***ONTARIO***
**SUPERIOR COURT OF JUSTICE**
**(COMMERCIAL LIST)**

PROCEEDING COMMENCED AT TORONTO

**ORDER**
**(TERMINATION AND DISTRIBUTION)**

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IN THE MATTER OF THE *COMPANIES' CREDITORS ARRANGEMENT ACT*, R.S.C. 1985, c. C-36, AS AMENDED

Court File No. CV-23-00700581-00CL

AND IN THE MATTER OF A PLAN OF COMPROMISE OR ARRANGEMENT OF 15315441 CANADA INC.

**Applicant**

***ONTARIO***
**SUPERIOR COURT OF JUSTICE**
**(COMMERCIAL LIST)**

PROCEEDING COMMENCED AT TORONTO

**MOTION RECORD OF THE APPLICANT**
**(RETURNABLE MARCH 26, 2025)**
**(CCAA TERMINATION AND DISTRIBUTION ORDER)**

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