FORM 51-102F4

BUSINESS ACQUISITION REPORT

ITEM 1. - IDENTITY OF COMPANY

1.1 Name and Address of Company

Vencanna Ventures Inc. (“**Vencanna**” or the “**Corporation**”)
c/o Stikeman Elliott LLP
Suite 4200, 888 – 3rd Street S.W.
Calgary, Alberta T2P 5C5

1.2 Executive Officer

David McGorman
Chief Executive Officer
Telephone: 403-470-9528

ITEM 2. - DETAILS OF ACQUISITION

2.1 Nature of Business Acquired

On February 23, 2024, the Corporation entered into a second amended and restated unit exchange agreement (as amended, the "**Definitive Agreement**") with The Cannavative Group LLC ("**Cannavative**") and Vencanna Acquisition Inc. ("**AcquisitionCo**"), a wholly-owned subsidiary of the Corporation, pursuant to which the Corporation, indirectly through AcquisitionCo, agreed to acquire all of the outstanding membership units of Cannavative (the "**Transaction**"). A copy of the Definitive Agreement has been filed on the Corporation’s SEDAR+ profile (www.sedarplus.ca).

2.2 Acquisition Date

The Transaction was completed on April 30, 2024.

2.3 Consideration

The consideration issued by AcquisitionCo for the acquisition of the membership units of Cannavative pursuant to the Transaction consisted of an aggregate of:

i. 56.8 million common shares in the capital of AcquisitionCo, designated as exchangeable non-voting common stock, $0.00010 par value ("**Exchangeable Shares**"), which are exchangeable, on a one-for-one basis, into common shares of the Corporation (“**Shares**”), at the option of the holder and designed to be economically equivalent (without taking into account tax consequences) to the Shares;

ii. 10.6 million Exchangeable Share purchase warrants, each exercisable for one Exchangeable Share at an exercise price of C$0.10 until January 31, 2025, and

iii. 12.5 million Exchangeable Share purchase warrants, each exercisable for one Exchangeable Share at an exercise price of C$0.13 until October 31, 2025.

Contingent upon the business of Cannavative achieving specific 2024 and 2025 financial milestones set forth in the Definitive Agreement, the former holders of membership units will be eligible to receive up to an aggregate of 96.6 million additional earn-out units, each unit consisting of: (a) one Exchangeable Share and; and (b) 0.5 of one Exchangeable Share purchase warrant, each such full earn-out warrant exercisable for one Exchangeable Share for 12 months from the date of issuance at an exercise price of the greater of: (i) C$0.10; and (ii) the market price at the time of issue.

2.4 Effect on Financial Position

Upon completion of the Transaction, Cannavative became a wholly-owned subsidiary of AcquisitionCo.

As a condition to the completion of the Transaction, the principal amount and accrued interest on the convertible debenture issued by Vencanna on July 3, 2020 was converted in full on April 30, 2024 into a total of 41.4 million Shares and 20.7 million Share purchase warrants, each warrant exercisable at C$0.075 until April 30, 2025. Following the completion of the Transaciton, the Corporation became debt-free with approximately C$4.0 million in cash on hand.

The Transaction constituted a "Major Acquisition" pursuant to the policies of the Canadian Securities Exchange.

The Corporation's Form 5A Annual Listing Summary dated February 23, 2024 describes the business of the Corporation following the completion of the Transaction and is available on the SEDAR+ website at www.sedarplus.ca.

Except as otherwise disclosed, there are presently no plans or proposals for material changes in the Corporation’s business affairs which may have a significant effect on the financial performance and financial position of the Corporation.

2.5 Prior Valuations

To the knowledge of the Corporation, no valuation opinion was obtained within the last 12 months by either the Corporation or Cannavative required by securities legislation or a Canadian exchange or market to support the consideration paid by the Corporation for the Cannavative membership units.

2.6 Parties to Transaction

The Transaction was negotiated at arm's length and was not with an "informed person" (as such term is defined in Section 1.1 of National Instrument 51-102 – *Continuous Disclosure Obligations*), associate or affiliate of the Corporation.

2.7 Date of Report

July 14, 2024.

ITEM 3. - FINANCIAL STATEMENTS AND OTHER INFORMATION

The financial statements of Cannavative as at and for the financial years ended December 31, 2023 and 2022 and the auditors' report thereon are attached at Schedule "A to this Business Acquisition Report.

The unaudited consolidated financial statements of Cannavative as at and for the three and nine months ended September 30, 2023 and 2022 are attached at Schedule "B to this Business Acquisition Report.

Vencanna is relying on such statements pursuant to the exemption in section 8.4(4) of National Instrument 51-102 – Continuous Disclosure Obligations, which allows reliance on earlier financial statements when certain conditions have been met.

SCHEDULE "A"

FINANCIAL STATEMENTS OF CANNAVATIVE AS AT AND FOR THE FINANCIAL YEARS ENDED
DECEMBER 31, 2023 AND 2022

THE CANNAVATIVE GROUP LLC

Consolidated Financial Statements

For the years ended December 31, 2023 and 2022

(Expressed in United States dollars)

Independent Auditor's Report

To the Members of
The CannaVative Group LLC

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of The CannaVative Group LLC, which comprise the consolidated statement of financial position as of December 31, 2023 and the consolidated statements of operations, changes in members' deficit and cash flows for the year then ended and notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2023 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of The CannaVative Group LLC and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Other Matter

The consolidated financial statements of the Company for the year ended December 31, 2022 were audited by another auditor who expressed an unmodified opinion on those statements on September 6, 2023.

Substantial Doubt About the Entity's Ability to Continue as a Going Concern (Material Uncertainty Related to Going Concern)

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the consolidated financial statements, the Company has suffered recurring losses from operations, has a working capital deficiency and members' deficit, and has stated that substantial doubt exists about the Company's ability to continue as a going concern. Management's evaluation of the events and conditions and management's plans regarding these matters are also described in Note 1. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

Responsibilities of Management 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 the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about The CannaVative Group LLC's ability to continue as a going concern for at least one year after the date that the consolidated financial statements are issued.

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 absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. 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. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.

- 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 CannaVative Group LLC's internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about The CannaVative Group LLC's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control–related matters that we identified during the audit.

Matsumura

Costa Mesa, California

July 12, 2024

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THE CANNAVATIVE GROUP LLC
Consolidated Statements of Financial Position
(Expressed in United States dollars)

	Note	**December 31, 2023**	December 31, 2022
		$	$
ASSETS			
Current			
Cash		**31,698**	70,835
Accounts receivable	4	**734,332**	1,207,849
Prepaid expenses	5	**374,217**	71,643
Inventory	6	**1,416,071**	1,097,501
Biological assets	7	**120,096**	347,632
Other current assets		**-**	12,773
		2,676,414	2,808,233
Property and equipment	8	**3,607,152**	4,022,316
Right-of-use asset	13	**2,573,394**	2,810,938
Total assets		**8,856,960**	9,641,487
LIABILITIES			
Current			
Accounts payable and accrued liabilities	9	**1,915,803**	2,035,892
Current portion of due to related parties	10	**5,499,503**	4,930,898
Loans payable	12	**3,247,087**	2,963,542
Current portion of lease liability - related party	13	**95,890**	83,183
		10,758,283	10,013,515
Due to related parties	10	**1,284,066**	1,366,922
Lease liability - related party	13	**3,802,536**	3,898,426
Total liabilities		**15,844,885**	15,278,863
MEMBERS' DEFICIT	14	**(6,987,925)**	(5,637,376)
Total liabilities and members' deficit		**8,856,960**	9,641,487

Nature of operations and going concern (Note 1)
Subsequent event (Note 20)

Approved and authorized for issue on behalf of the Board of Directors on July 12, 2024:

/s/ "Zara Ehasz"	*/s/ "Scott Wrye"*
Director of Finance	Director and CEO

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

THE CANNAVATIVE GROUP LLC
Consolidated Statements of Operations
(Expressed in United States dollars, except for per unit amounts and number of units)

	Note	Years ended December 31, 2023	2022
		$	$
Revenues		**10,058,591**	10,773,889
Cost of sales	6,7,8	**(7,143,603)**	(10,560,750)
Gross profit before fair value adjustments		**2,914,988**	213,139
Fair value amounts realized on sale of inventory	6	**(1,450,740)**	(1,911,569)
Fair value adjustment on biological assets	7	**684,442**	2,374,021
Gross profit		**2,148,690**	675,591
Operating expenses			
Administrative expenses	16	**888,166**	753,788
Depreciation	8	**12,686**	10,877
Marketing		**286,028**	402,084
Professional and consulting fees		**487,822**	295,780
Rent	13	**44,575**	51,481
Salaries and wages	11	**1,021,730**	1,037,584
		(2,741,007)	(2,551,594)
Loss from operations		**(592,317)**	(1,876,003)
Other income (expenses)			
Gain on trade-in of equipment	8	**3,000**	-
Interest expense	10-13	**(1,290,893)**	(1,253,180)
Interest income		**178**	533
Other income	15	**581,866**	-
Net loss		**(1,298,166)**	(3,128,650)
Net loss per unit			
Basic and diluted		**(1.30)**	(3.13)
Weighted average number of units outstanding			
Basic and diluted		**1,000,000**	1,000,000

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

THE CANNAVATIVE GROUP LLC
Consolidated Statements of Cash Flows
(Expressed in United States dollars)

	Years ended December 31,	
	2023	2022
	$	$
Operating activities:		
Net loss	**(1,298,166)**	(3,128,650)
Adjustments for:		
Fair value amounts realized on sale of inventory	**1,450,740**	1,911,569
Fair value adjustment on biological assets	**(684,442)**	(2,374,021)
Depreciation	**12,686**	10,877
Gain on trade-in of equipment	**(3,000)**	-
Interest expense	**662,421**	743,370
Changes in non-cash working capital:		
Accounts receivable	**473,517**	(231,520)
Prepaid expenses	**(302,574)**	30,597
Inventory	**423,580**	908,017
Biological assets	**(538,762)**	1,092,046
Other current assets	**12,773**	2,727
Accounts payable and accrued liabilities	**464,564**	1,420,826
Cash provided by operating activities	**673,337**	385,838
Investing activities:		
Purchases of property and equipment	**(55,309)**	(385,935)
Cash used in investing activities	**(55,309)**	(385,935)
Financing activities:		
Distribution to members	**(52,383)**	(1,182,807)
Advances from due to related parties	**676,000**	1,368,763
Advances from loans payable	**413,500**	-
Repayments of due to related parties	**(588,210)**	(1,188,234)
Repayments of lease liability - related party	**(477,600)**	(477,600)
Cash interest paid	**(628,472)**	(509,810)
Cash used in financing activities	**(657,165)**	(1,989,688)
Change in cash	**(39,137)**	(1,989,785)
Cash, beginning of year	**70,835**	2,060,620
Cash, end of year	**31,698**	70,835
Supplemental cash flow information:		
Cash interest received	**178**	533
Property and equipment included in accounts payable and accrued liabilities	**43,819**	171,329
Additions to equipment through trade-in	**3,000**	-
Subscription payable settled	**-**	1,402,056

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

THE CANNAVATIVE GROUP LLC
Consolidated Statements of Changes in Members' Deficit
(Expressed in United States dollars, except number of units)

	Class A Units	Class A members' deficit	Class B Units	Class B members' deficit	Class C Units	Class C members' deficit	Class D Units	Class D members' earnings	Total members' deficit
	#	$	#	$	#	$	#	$	$
Balance, December 31, 2021	21,429	(58,456)	775,071	(2,114,375)	203,500	(555,144)	-	-	(2,727,975)
Distribution to members	-	(25,346)	-	(916,760)	-	(240,701)	-	-	(1,182,807)
Issuance of units	-	-	-	-	(51,944)	-	51,944	1,402,056	1,402,056
Net loss for the year	-	(67,043)	-	(2,424,926)	-	(474,166)	-	(162,515)	(3,128,650)
Balance, December 31, 2022	21,429	(150,845)	775,071	(5,456,061)	151,556	(1,270,011)	51,944	1,239,541	(5,637,376)
Distribution to members	-	(1,122)	-	(40,601)	-	(7,939)	-	(2,721)	(52,383)
Net loss for the year	-	(27,818)	-	(1,006,171)	-	(196,745)	-	(67,432)	(1,298,166)
Balance, December 31, 2023	**21,429**	**(179,785)**	**775,071**	**(6,502,833)**	**151,556**	**(1,474,695)**	**51,944**	**1,169,388**	**(6,987,925)**

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

1. NATURE OF OPERATIONS AND GOING CONCERN

The Cannavative Group LLC (the "Company" or "Cannavative") was incorporated July 16, 2014, under the Articles of Organization for a Limited Liability Company ("LLC") in Reno, Nevada. Its head office and registered office address is 14331 Lear Boulevard, Reno, NV, 89506. The Company, collectively with its subsidiaries, operates exclusively in the State of Nevada where the legal commercial production and vending of marijuana is permitted by Nevada state law. The Company is a private licensed manufacturer and distributor of cannabis flower and extracted products in the State of Nevada.

The Company operates as a licensed manufacturer and distributor of recreational cannabis and cannabis products and distributes its products through an arrangement with a cannabis distributor to licensed cannabis vendors in Nevada. The Company commenced revenue generating activity during the year ended December 31, 2016. Continuance of operations is dependent upon maintaining the necessary licensing under Nevada state law, and the ability to obtain the necessary financing to perform its operating activities and meet ongoing obligations.

Several states in the United States have enacted legislation to regulate the sale and use of medical cannabis without limits on tetrahydrocannabinol ("THC"), while other states have regulated the sale and use of medical cannabis with strict limits on the levels of THC. Notwithstanding the permissive regulatory environment of adult-use recreational and medical cannabis at the state level, cannabis continues to be categorized as a controlled substance under the Controlled Substances Act in the United States and as such, cannabis-related practices, or activities, including without limitation, the manufacture, importation, possession, use or distribution of cannabis are illegal under United States federal law. Strict compliance with state laws with respect to cannabis will neither absolve the Company of liability under United States federal law, nor provide a defense to any federal proceeding which may be brought against the Company. Any such proceedings brought against the Company may adversely affect the Company's operations and financial performance.

These consolidated financial statements for the years ended December 31, 2023 and 2022 ("financial statements") have been prepared on a going concern basis, which assumes that the Company will be able to meet its obligations and continue its operations for at least the next twelve months. As at December 31, 2023, the Company had accumulated members' deficit of $6,987,925 (December 31, 2022 - $5,637,376) and a working capital deficiency of $8,081,869 (December 31, 2022 - $7,205,282). For the year ended December 31, 2023, the Company incurred a net loss of $1,298,166 (2022 - $3,128,650). The Company has been successful in securing financing in the past, but there can be no assurance that it will be able to do so in the future, or that financing will be available on a timely basis or on terms acceptable to the Company. These conditions indicate a material uncertainty that may cast significant doubt on the Company's ability to continue as a going concern. These financial statements do not give effect to adjustments that would be necessary to reported carrying values and classifications of assets and liabilities should the Company be unable to continue as a going concern. Such adjustments could be material.

On April 30, 2024, Vencanna acquired all Units of the Company of Cannavative pursuant to a previously announced definitive agreement (Note 20).

2. BASIS OF PREPARATION

a) Statement of compliance

These financial statements were approved by the Board of Directors and authorized for issue on July 12, 2024.

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

b) Basis of presentation

These financial statements have been prepared using the historical cost basis, except for certain financial assets and liabilities which are measured at fair value, as specified by IFRS Accounting Standards for each type of asset, liability, income, and expense as set out in the accounting policies below.

Certain amounts in the prior year presented have been reclassified to conform to the current period financial statement presentation. These reclassifications have no effect on previously reported net income.

c) Functional and presentation currency

These financial statements are presented in United States dollars, except as otherwise noted, which is the functional currency of the Company and each of the Company's subsidiaries.

2. BASIS OF PREPARATION (continued)

d) Basis of consolidation

These financial statements incorporate the accounts of the Company and its wholly-owned subsidiaries. All intercompany transactions and balances are eliminated on consolidation. Control exists where the parent entity has power over the investee and is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Subsidiaries are included in the financial statements from the date control commences until the date control ceases.

A summary of the Company's subsidiaries included in these financial statements as at December 31, 2023 is as follows:

Name of subsidiary	Country of incorporation	Principal activity
Cannavative Farms, LLC	USA	Cannabis producer
Cannavative Extracts, LLC	USA	Cannabis processor

3. MATERIAL ACCOUNTING POLICIES

a) Significant estimates and assumptions

The preparation of these financial statements require management to exercise significant judgments in applying the Company's accounting policies and make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of expenses during the reporting period. Estimates and assumptions are reviewed on an ongoing basis and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual future outcomes could differ from present estimates and assumptions, which may require material adjustments to the Company's financial statements. Revisions to accounting estimates are accounted for prospectively.

Significant judgments, estimates and related assumptions exercised by management in applying the Company's accounting policies that have the most significant effect on the amounts recognized in the financial statements include, but are not limited to, the following:

<u>Going concern presentation</u>

These financial statements financial statements have been prepared on a going concern basis, which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. Management assesses the Company's ability to continue as a going concern at each reporting date using all quantitative and qualitative information available. This assessment, by its nature, relies on estimates and assumptions of future cash flows and other events (Note 1), whose subsequent changes could materially impact the validity of the assessment.

<u>Assessment of cash generating units</u>

For impairment assessment and testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets of cash generating units ("CGU"). The Company applies judgment in assessing the smallest group of assets that comprise a single CGU.

<u>Assessment of useful lives and depreciation of property and equipment</u>

The Company's depreciation of property and equipment is dependent on the estimation of the assets' useful lives. The Company's assessment of any impairment of assets is dependent on its estimation of recoverable amounts that consider various factors, including market and economic conditions and the assets' useful lives.

<u>Review of asset carrying values and impairment assessment</u>

The Company evaluates the impairment of non-financial assets when there are indicators of impairment, such as changes in how the asset is used, plans to discontinue its use, obsolescence, or physical damage.

In assessing impairment, the Company compares the carrying amount of the asset or CGU to its recoverable amount. If the carrying amount exceeds its recoverable amount, an impairment loss is recognized. This loss is then recorded in profit or loss.

3. MATERIAL ACCOUNTING POLICIES (continued)

Biological assets and inventory

In calculating the value of the biological assets and inventory, management is required to make a number of estimates, including estimating the stage of growth of cannabis up to the point of harvest, harvesting costs, selling costs, sales price, wastage and expected yields for the cannabis plant. In calculating final inventory values, management is required to determine an estimate of spoiled or expired inventory and compare the inventory cost to net realizable value.

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

The Company utilizes the Nevada Department of Taxation ("NDOT") determined wholesale fair market value for the period of future sales in order to calculate the expected selling price of its biological assets at its Nevada operations. The Company believes the NDOT observed values are consistent and has observed peer issuers adopting the same valuation input.

Expected credit losses

In calculating the expected credit loss on financial instruments, management is required to make a number of estimations including the probability of possible outcomes with regards to credit loss, the discount rate to use for time value of money and whether the financial instrument's credit risk has increased significantly since initial recognition.

Leases

i. Identifying whether a contract includes a lease

IFRS 16 *Leases* ("IFRS 16") applies a control model to the identification of leases, distinguishing between a lease and a service contract on the basis of whether the customer controls the asset. The Company had to apply judgment on certain factors, including whether the supplier has substantive substitution rights, does the Company obtain substantially all of the economic benefits and who has the right to direct the use of that asset.

ii. Incremental borrowing rate

When the Company recognizes a lease, the future lease payments are discounted using the Company's incremental borrowing rate. This significant estimate impacts the carrying amount of the lease liabilities and the interest expense recorded in profit or loss operations.

iii. Estimate of lease term

When the Company recognizes a lease, it assesses the lease term based on the conditions of the lease and determines whether it will extend the lease at the end of the lease contract or exercise an early termination option This significant estimate could affect future results if the Company extends the lease or exercises an early termination option.

Government grants related to income

During the year ended December 31, 2023, the Company received a government grant in connection with the Employee Retention Credit ("ERC") that was enacted under the CARES Act. Subject to eligibility, the program paid refundable payroll tax credits intended to provide immediate relief to companies that experienced hardships during 2020 or 2021 resulting in full or partial suspension of their business or a significant decline in gross receipts using thresholds and comparisons to the same period in 2019. The Company has applied significant judgment in the determination of its eligibility under this program and has recognized the full amount received of $581,866 into income. In the event that eligibility of the Company's ERC claim is disputed, the Company may be required to repay part or all of the ERC. If any such repayment occurs, it will be recognized as other expense immediately.

b) Cash

Cash consists of cash on hand and held with banks.

c) Biological assets

The Company's biological assets consist of cannabis plants. The Company capitalizes the direct and indirect costs incurred related to the biological transformation of the biological assets between the point of initial recognition and the point of harvest.

3. MATERIAL ACCOUNTING POLICIES (continued)

The Company then measures the biological assets at fair value less costs to sell and complete up to the point of harvest, which becomes the basis for the cost of finished goods inventories after harvest. The effect of realized and unrealized gains or losses arising from changes in fair value less cost to sell during the year are included in profit or loss.

d) Inventory

Work in process and finished goods inventories are valued at the lower of cost or net realizable value. Harvested raw material cannabis inventories are transferred from biological assets at their fair value less cost to sell at harvest, which becomes the initial deemed cost. Any subsequent post-harvest costs are capitalized to inventory insofar as cost is less than net realizable value. Inventories for resale, in addition to supplies and consumables, are valued at the lower of cost or net realizable value, with standard costing used to determine cost.

Net realizable value is calculated as the estimated selling price in the ordinary course of business, less any estimated costs to complete and sell the goods. The cost of inventory includes expenditures incurred in acquiring raw materials, production and conversion costs, depreciation and other costs incurred in bringing inventory to its existing location and condition. The Company uses the standard costing method to track and cost inventory items. The Company maintains two categories of inventory: work in process and finished goods.

e) Property and equipment

Property and equipment are measured at cost less accumulated depreciation and impairment.

Depreciation is calculated on the straight-line basis over the useful lives of the assets as follows:

Class of property and equipment	Depreciation rate
Leasehold improvements	Shorter of the life of the improvement or the remaining lease term
Furniture and equipment	5 years
Vehicles	5 years

f) Leases

As a lessee, the Company recognizes a right-of-use asset and a lease liability at the commencement date of the lease. The right-of-use asset is initially measured at cost, which is comprised of the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, less any lease incentives received. The right-of-use asset is subsequently depreciated from the commencement date to the earlier of the end of the lease term, or the end of the useful life of the asset.

A lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date discounted by the interest rate implicit in the lease or, if that rate cannot be readily determined, the incremental borrowing rate. The lease liability is subsequently measured at amortized cost using the effective interest method.

The Company has elected not to recognize right-of-use assets and liabilities for short-term leases that have a term of 12 months or less and for low-value assets.

g) Provisions

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

Constructive obligations are obligations that derive from the Company's actions where:
1) by an established pattern of past practice, published policies or a sufficiently specific current statement, the Company has indicated to other parties that it will accept certain responsibilities; and
2) as a result, the Company has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

Provisions are reviewed at the end of each reporting period and adjusted to reflect management's current best estimate of the expenditure required to settle the present obligation at the end of the reporting period. If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision is reversed.

3. MATERIAL ACCOUNTING POLICIES (continued)

Provisions are reduced by actual expenditures for which the provision was originally recognized. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects the current market assessments of the time value of money and the risks specific to the liability. The accretion of the discount is charged to profit or loss.

h) Revenue recognition

Revenue is recognized when a customer obtains control of promised goods or services. The amount of revenue reflects the consideration to which the Company expects to be entitled to receive in exchange for these goods or services. The Company applies the following five-step analysis to determine whether, how much and when revenue is recognized: (1) Identify the contract with the customer; (2) Identify the performance obligation in the contract; (3) Determine the transaction price; (4) Allocate the transaction price to the performance obligation in the contract; and (5) Recognize revenue when or as the Company satisfies a performance obligation.

Revenue from the sale of cannabis related products is recognized at a point in time when control over the goods has been transferred to the customer. Payment is receivable upon transfer of the goods and revenue is recognized upon the satisfaction of the performance obligation. The Company satisfies its performance obligation and transfers control upon delivery and acceptance by the customer.

Deferred revenue is subsequently recognized into revenue as or when the Company fulfills its performance obligation.

For the year ended December 31, 2023, there were $1,105,110 (2022 - $795,492) of discounts and rebates recorded against revenues.

i) Loss per unit

Basic loss per unit is calculated by dividing the net loss of the Company by the basic weighted average number of units outstanding during the period.

For purposes of calculating diluted loss per unit, the proceeds from the potential exercise of dilutive unit options and unit purchase warrants with exercise prices that are below the average market price of the underlying units for the reporting period are assumed to be used in purchasing the Company’s units at their average market price for the period.

Unit options and unit purchase warrants are included in the calculation of diluted loss per unit only to the extent that the market price of the units exceeds the exercise price of the options or purchase warrants except where such inclusion would be anti-dilutive.

j) Financial instruments

Classification

The Company classifies its financial instruments in the following categories: at fair value through profit or loss (“FVTPL”), at fair value through other comprehensive income (loss) (“FVTOCI”), or at amortized cost. The Company determines the classification of its financial assets at initial recognition. The classification of debt instruments is driven by the Company’s business model for managing the financial assets and their contractual cash flow characteristics. Financial liabilities are measured at amortized cost, unless they are required to be measured at FVTPL (such as instruments held for trading or derivatives) or if the Company has opted to measure them at FVTPL.

3. MATERIAL ACCOUNTING POLICIES (continued)

A summary of the Company's classification of financial instruments under IFRS 9 *Financial Instruments* is as follows:

Financial instrument	Classification
Financial assets	
Cash	Amortized cost
Accounts receivable	Amortized cost
Other current assets	Amortized cost
Financial liabilities	
Accounts payable and accrued liabilities	Amortized cost
Due to related parties	Amortized cost
Loans payable	Amortized cost
Lease liabilities	Amortized cost

Measurement

Financial assets and liabilities at amortized cost are initially recognized at fair value plus or minus transaction costs, respectively, and subsequently carried at amortized cost less any impairment.

Impairment of financial assets at amortized cost

The Company recognizes a loss allowance for expected credit losses on financial assets that are measured at amortized cost. At each reporting date, the Company measures the loss allowance for the financial asset at an amount equal to the lifetime expected credit losses if the credit risk on the financial asset has increased significantly since initial recognition. If, at the reporting date, the financial asset has not increased significantly since initial recognition, the Company measures the loss allowance for the financial asset at an amount equal to the twelve month expected credit losses.

The Company will recognize in profit or loss, as an impairment gain or loss, the amount of expected credit losses (or reversal) that is required to adjust the loss allowance at the reporting date to the amount that is required to be recognized.

The Company applies the simplified approach for determining expected credit losses for accounts receivable, which requires the Company to determine the lifetime expected losses for all its trade receivables. The lifetime expected credit loss provision for the Company's accounts receivable is based on historical default rates and other relevant forward-looking information.

k) Impairment of non-financial assets

Non-financial assets are comprised of right-of-use asset and property and equipment and are reviewed for impairment at each reporting date or whenever events or changes in circumstances indicate that the carrying amount of an asset exceeds its recoverable amount. For purposes of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets. The recoverable amount of an asset or a CGU is the higher of its fair value less costs to sell and its value in use. Value in use is based on the estimated cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. If the carrying amount of an asset exceeds its recoverable amount, an impairment loss is recognized immediately in profit or loss by the amount by which the carrying amount of the asset exceeds the recoverable amount. Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the lesser of the revised estimate of recoverable amount, and the carrying amount that would have been recorded had no impairment loss been recognized previously.

l) Government grants related to income

Proceeds from government grants related to income are presented as a separate line item in the consolidated statements of operations. In the event that a government grant becomes repayable, it is accounted for as a change in accounting estimate. Repayment of a government grant related to income is applied first to any unamortized deferred credit recognized in respect of the grant. To the extent that the repayment exceeds any such deferred credit or when no deferred credit exists, the repayment is recognized immediately in profit or loss.

(Expressed in United States dollars, except where noted)

3. MATERIAL ACCOUNTING POLICIES (continued)

m) Income tax

The Company and its subsidiaries are limited liability corporations and, accordingly, taxable income and losses are attributed to its members on the basis of proportionate ownership of units. Therefore, no provision or liability for income tax has been included in the accompanying financial statements.

As the Company operates in the cannabis industry, it is subject to the limits of Internal Revenue Code ("IRC") Section 280E under which the Company is only allowed to deduct expenses directly related to the sales of product (inventory). This results in permanent differences between ordinary and necessary business expenses deemed non-allowable under IRC Section 280E.

n) Accounting standards and interpretations adopted

The Company adopted the following amendments to accounting standards, which were effective January 1, 2023:

<u>Disclosure of accounting policies - amendments to IAS 1 and IFRS Practice Statement 2</u>

The amendments to IAS 1 *Presentation of financial statements* and IFRS Practice Statement 2 *Making materiality judgements* provide guidance and examples to help entities apply materiality judgements to accounting policy disclosures. The amendments aim to help entities provide accounting policy disclosures that are more useful by replacing the requirement for entities to disclose their 'significant' accounting policies with a requirement to disclose their 'material' accounting policies and adding guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures. The amendments have had no impact on the Company's disclosures of accounting policies as well as on the measurement, recognition or presentation of any items in the Company's financial statements.

<u>Definition of accounting estimates - amendments to IAS 8</u>

The amendments to IAS 8 *Accounting policies, changes in accounting estimates and errors* clarify the distinction between changes in accounting estimates, changes in accounting policies and the correction of errors. They also clarify how entities use measurement techniques and inputs to develop accounting estimates. The amendments had no impact on the Company's financial statements.

<u>Deferred tax related to assets and liabilities arising from a single transaction - amendments to IAS 12</u>

The amendments to IAS 12 *Income Taxes* narrow the scope of the initial recognition exception, so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences such as leases and decommissioning liabilities. The amendments had no impact on the Company's financial statements.

The Company has not early adopted any other new accounting standard, interpretation or amendment that has been issued but is not yet effective.

4. ACCOUNTS RECEIVABLE

A summary of the Company's aging analysis of accounts receivable is as follows:

	December 31, 2023	December 31, 2022
	$	$
30 or less days	**579,403**	1,095,386
31-60 days	**58,300**	52,449
61-90 days	**38,917**	39,445
90+ days	**207,755**	147,629
Less: Allowance for doubtful accounts	**(150,043)**	(127,060)
	734,332	1,207,849

(Expressed in United States dollars, except where noted)

5. PREPAID EXPENSES

A summary of the Company's prepaid expenses is as follows:

	December 31, 2023	December 31, 2022
	$	$
Insurance	**15,806**	23,671
License, fees and permits	**8,129**	7,916
Other	**3,433**	558
Prepaid supplies and packaging	**343,254**	36,192
Property tax	**3,595**	3,306
	374,217	71,643

6. INVENTORY

A summary of the Company's inventory is as follows:

	December 31, 2023	December 31, 2022
	$	$
Work in progress	**645,974**	716,917
Finished goods	**770,097**	380,584
	1,416,071	1,097,501

Inventory expensed to cost of sales during the year ended December 31, 2023, was $7,143,603 (2022 - $10,560,750). For the year ended December 31, 2023, the Company realized a fair value adjustment on the sale of inventory of $1,450,740 (2022 - $1,911,569).

7. BIOLOGICAL ASSETS

The Company's biological assets consist of cannabis plants. The Company measures its cannabis plants at their fair value less costs to sell which is determined using a model that estimates the expected harvest yield in grams for plants currently being cultivated, and then adjusts the amount for the expected selling price per gram at the point of harvest.

Assets and liabilities carried at fair value are classified into one of three levels in the fair value hierarchy according to the relative reliability of the inputs used to estimate the fair values. The three levels of the fair value hierarchy are:

- Level 1 - quoted prices 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., from derived prices); and
- Level 3 - inputs for the asset or liability that are not based on observable market data.

The following significant unobservable inputs, all of which are classified as Level 3 on the fair value hierarchy, were used by management as part of the model:

- Selling price - calculated as the weighted average selling price for all expected grades and strains of cannabis based on estimates published by the State of Nevada of the fair value of various cannabis forms on a per pound basis.
- Yield per plant - represents the number of grams of finished cannabis that are expected to be obtained from each harvested cannabis plant.
- Stage of growth - represents the weighted average number of weeks out of the expected 16-week growing cycle that cannabis plants have reached as of the measurement date.
- Wastage - represents the weighted average percentage of cannabis plants expected to fail to mature to the point of harvest.
- Post-harvest processing costs - calculated as the cost per gram of harvested cannabis to convert into finished dry bulk flower ready to be packaged into finished goods.

(Expressed in United States dollars, except where noted)

7. BIOLOGICAL ASSETS (continued)

A summary of the Company's inputs used to estimate the fair value of biological assets is as follows:

Inputs	**December 31, 2023**	December 31, 2022
Selling price	**$2.57**	$2.93
Yield per plant	**183.1 grams**	188.2 grams
Stage of growth	**46%**	54%
Wastage	**12%**	12%
Post-harvest processing costs	**$0.69 per gram**	$0.67 per gram

A summary of impact on the fair value of biological assets upon a 10% change in inputs is as follows:

Inputs	**December 31, 2023**	December 31, 2022
	$	$
Selling price	**16,387**	45,099
Yield per plant	**12,009**	34,763
Stage of growth	**12,009**	34,763
Wastage	**(971)**	(2,217)
Post-harvest processing costs	**(4,379)**	(10,335)

A summary of the Company's biological asset activity is as follows:

	$
Balance, December 31, 2021	977,226
Capitalized costs	2,230,266
Fair value adjustment	2,374,021
Transferred to inventory upon harvest	(5,233,881)
Balance, December 31, 2022	347,632
Capitalized costs	1,788,489
Fair value adjustment	(429,405)
Transferred to inventory upon harvest	(1,586,620)
Balance, December 31, 2023	**120,096**

(Expressed in United States dollars, except where noted)

8. PROPERTY AND EQUIPMENT

A summary of the Company's property and equipment is as follows:

	Leasehold improvements	Furniture and equipment	Vehicles	Total
	$	$	$	$
Cost				
Balance, December 31, 2021	3,979,200	3,085,520	23,059	7,087,779
Additions	6,043	551,221	-	557,264
Balance, December 31, 2022	3,985,243	3,636,741	23,059	7,645,043
Additions	-	84,811	17,317	102,128
Disposal	-	-	(5,818)	(5,818)
Balance, December 31, 2023	**3,985,243**	**3,721,552**	**34,558**	**7,741,353**
Accumulated depreciation				
Balance, December 31, 2021	1,107,951	1,874,219	19,817	3,001,987
Depreciation	228,971	389,521	2,248	620,740
Balance, December 31, 2022	1,336,922	2,263,740	22,065	3,622,727
Depreciation	252,536	261,581	3,175	517,292
Disposal	-	-	(5,818)	(5,818)
Balance, December 31, 2023	**1,589,458**	**2,525,321**	**19,422**	**4,134,201**
Carrying amount				
Balance, December 31, 2022	2,648,321	1,373,001	994	4,022,316
Balance, December 31, 2023	**2,395,785**	**1,196,231**	**15,136**	**3,607,152**

During the year ended December 31, 2023, the Company recognized a gain on trade-in of equipment of $3,000 (2022 - $nil).

The total depreciation recognized for the year ended December 31, 2023 was $754,836 (2022 - $858,284), which included $237,544 (2022 - $237,544) of depreciation expense on the right-of-use asset. During the year ended December 31, 2023, depreciation expense capitalized in inventory was $742,150 (2022 - $847,407).

9. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

A summary of the Company's accounts payable and accrued liabilities is as follows:

	December 31, 2023	December 31, 2022
	$	$
Accounts payable	**1,785,068**	1,902,006
Accrued liabilities	**130,735**	133,886
	1,915,803	2,035,892

(Expressed in United States dollars, except where noted)

10. DUE TO RELATED PARTIES

A summary of the Company's due to related parties for the years ended December 31, 2023 and 2022 is as follows:

	2023	2022
	$	$
Opening balance	**6,297,820**	5,936,624
Advances from related parties	**676,000**	1,368,763
Interest expense	**519,879**	452,477
Reclassification	**-**	200,000
Repayments	**(710,130)**	(1,660,044)
	6,783,569	6,297,820
Current portion of due to related parties	**5,499,503**	4,930,898
Non-current portion of due to related parties	**1,284,066**	1,366,922

Due to related parties are unsecured and bear interest ranging from 0% to 16% per annum. The current portion is due on demand and the non-current portion is due in 2029.

On February 2, 2022, following the issuance of Class D membership units (Note 14) and the holders of these units becoming related parties of the Company, $200,000 was reclassified from loans payable to due to related parties.

During the year ended December 31, 2023, the Company incurred interest expense of $519,879 (2022 - $452,477), in connection with due to related parties.

11. RELATED PARTY TRANSACTIONS AND KEY MANAGEMENT COMPENSATION

A summary of the Company's related party transactions is as follows:

	December 31, 2023	December 31, 2022
	$	$
Lease payments to a company controlled by the Chief Executive Officer	**477,600**	477,600
Salaries paid to officers	**265,321**	200,000
Interest expense incurred due to related parties	**519,879**	452,477
	1,262,800	1,130,077

Key management includes the Chief Executive Officer, the President and Chief Revenue Officer.

12. LOANS PAYABLE

A summary of the Company's loans payable for the years ended December 31, 2023 and 2022 is as follows:

	2023	2022
	$	$
Opening balance	**2,963,542**	2,803,141
Reclassification (Note 10)	**-**	(200,000)
Advances	**413,500**	-
Interest	**376,597**	398,401
Repayments	**(506,552)**	(38,000)
	3,247,087	2,963,542

On March 11, 2021, the Company entered into a third-party loan agreement with Top Strike Resources Corp. ("Vencanna"), whereby Vencanna loaned Cannavative $2,000,000 for facility expansion and general working capital purposes. The loan matured on March 11, 2022 and bears interest at 17.5% per annum. On January 9, 2023, the terms of the Vencanna loan were amended and the maturity date was extended to April 9, 2023. As at December 31, 2023, the loan matured and is payable on demand.

(Expressed in United States dollars, except where noted)

12. LOANS PAYABLE (continued)

The loans payable as at December 31, 2023 are unsecured and bear interest ranging from 8% to 17.5%.

During the year ended December 31, 2023, the Company incurred interest expense of $376,597 (2022 - $398,401), on loans payable.

13. LEASE LIABILITY AND RIGHT-OF-USE ASSET - RELATED PARTY

In July 2014, the Company entered into a five-year lease agreement for a commercial premise with a company controlled by an officer of the Company, including three additional five-year renewal options. During 2019, the lease was amended to extend the lease term for an additional five years expiring in October 2024. Pursuant to the amended agreement, the base monthly rent was $39,800 during the extension term and the lessor reserves an option to increase the base monthly rent by 5% no more frequently than annually. The incremental borrowing rate used to determine discount the lease liability was 10%. As it is not reasonably certain that the extension or early termination options will be exercised, the Company determined that the term of its leases are the lesser of original lease term or the life of the leased asset.

A summary of the Company's lease liability for the years ended December 31, 2023 and 2022 is as follows:

	2023	2022
	$	$
Opening balance	**3,981,609**	4,056,907
Repayments	**(477,600)**	(477,600)
Interest on lease liability	**394,417**	402,302
	3,898,426	3,981,609
Current portion of lease liability - related party	**95,890**	83,183
Non-current portion of lease liability - related party	**3,802,536**	3,898,426

During the year ended December 31, 2023, the Company recognized rent expense with respect to short-term and low value third-party leases of $44,575 (2022 - $51,481).

A summary of the Company's right-of-use asset is as follows:

	$
Cost	
Balance, December 31, 2023, 2022 and 2021	**3,998,660**
Accumulated depreciation	
Balance, December 31, 2021	950,178
Depreciation	237,544
Balance, December 31, 2022	1,187,722
Depreciation	237,544
Balance, December 31, 2023	**1,425,266**
Carrying amount	
Balance, December 31, 2022	2,810,938
Balance, December 31, 2023	**2,573,394**

14. MEMBERS' DEFICIT

The Company is authorized to issue a total of 1,000,000 membership units ("Units") of the Company and the authorized members' deficit of the Company consists of four classes of Units: Class A, Class B, Class C and Class D.

Allocations and distributions are allocated among, or distributed to, each Unit according to the ratio of the member's respective unit to the aggregate of all units for which allocations or distributions are being made.

During the year ended December 31, 2023, the Company made cash distributions of $52,383 (2022 - $1,182,807) to the members.

(Expressed in United States dollars, except where noted)

14. MEMBERS' DEFICIT (continued)

During the year ended December 31, 2022, 51,944 Class C units were cancelled and replaced with Class D Units.

On February 2, 2022, pursuant to the approval of the State of Nevada Cannabis Compliance Board, the Company amended its articles of organization to authorize the issuance of Class D Units. The Company issued 51,944 Class D Units with a fair value of $1,402,056 ($27 per Unit) to satisfy subscription deposits received prior to the approval of the Class D Units.

15. OTHER INCOME

During the year ended December 31, 2023, the Company received $581,866 (2022 - $nil) in connection with the ERC, a refundable tax credit for businesses and tax-exempt organizations with employees that were affected by the COVID-19 pandemic. As the ERC is intended to provide immediate financial support for periods that have already occurred, and not for future expenses, the ERC has been recognized in income in the period it was received.

16. ADMINISTRATIVE EXPENSES

A summary of the Company's administrative expenses is as follows:

	December 31, 2023	December 31, 2022
	$	$
Employee benefits, dues, and subscriptions	**146,073**	139,687
Office facilities and administrative	**575,384**	492,388
Other expenses (income)	**(35,122)**	16,425
Provision for expected credit losses	**100,326**	-
Telephone and internet	**11,830**	9,774
Travel and entertainment	**89,675**	95,514
	888,166	753,788

17. SEGMENTED INFORMATION

The Company operates in a single reportable segment, being the manufacturing and distribution of cannabis flower and extract products in the United States within the State of Nevada. All the Company's revenues were generated through sales in the State of Nevada, and all the Company's inventory and long-term assets are located in Nevada.

18. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

a) Fair value measurement of financial assets and liabilities

The Company's cash, accounts receivable, accounts payable and accrued liabilities, due to related parties, and loans payable are financial instruments carried at amortized cost.

b) Risk management

The Company examines its various financial risks to which it is exposed and assesses the impact and likelihood of occurrence. The risks may include credit risk, currency risk, liquidity risk and interest rate risk. The Company's risk management program strives to evaluate the unpredictability of financial markets and its objective is to minimize the potential adverse effects of such risks on the Company's financial performance where financially feasible to do so. When deemed material these risks are monitored by the Company's finance group and are regularly discussed with the Board of Directors.

<u>Credit risk</u>

Credit risk is the risk of a potential loss to the Company if a customer or third party to a financial instrument fails to meet its contractual obligations. The maximum credit exposure to the Company is the carrying amount of cash and accounts receivable.

(Expressed in United States dollars, except where noted)

18. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

As at December 31, 2023 the Company had cash of $31,698 (December 31, 2022 - $70,835). The Company's cash is held in a bank account with a major U.S. financial institution. Management believes the exposure to credit risk associated with cash held in the financial institution is not significant.

The Company is exposed to credit risk inherent in its accounts receivable via credit extended to customers. The Company manages its exposure to bad debt by limiting the total accounts receivable that customers can accumulate before payment is collected.

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Company's liquidity risk relates primarily to accounts payable and accrued liabilities, due to related parties, loans payable, as well as its lease liability. The Company has a planning and budgeting process in place to help determine the funds required to support the Company's normal operating requirements and its expansion plans.

In the normal course of business, the Company enters into contracts and performs business activities that give rise to commitments for future minimum payments. The Company has no concentrations of liquidity risk.

A summary of the Company's undiscounted liabilities and future operating commitments at December 31, 2023, is as follows:

	Within 1 year	**2 - 5 years**	**Greater than 5 years**	**Total**
	$	$	$	**$**
Accounts payable and accrued liabilities	1,915,803	-	-	**1,915,803**
Due to related parties	5,499,503	1,284,066	-	**6,783,569**
Loans payable	3,247,087	-	-	**3,247,087**
Lease liability - related party	481,580	2,179,454	4,044,528	**6,705,562**
	11,143,973	3,463,520	4,044,528	**18,652,021**

As at December 31, 2023, liquidity risk is assessed as high as the Company had total liabilities of $15,844,885 (December 31, 2023 - $15,278,863).

Price risk

The Company is exposed to price risk with respect to movements in market prices for goods which may impact revenue, cost of sales and the results of operations. The Company closely monitors demand and market prices of its finished goods and raw materials to determine the appropriate course of action to be taken by the Company.

19. MANAGEMENT OF CAPITAL

The Company's objectives of capital management are intended to safeguard the Company's normal operating requirements on an ongoing basis. As at December 31, 2023, the capital of the Company consists of members' deficit, due to related parties, and loans payable.

A summary of the capital of the Company is as follows:

	December 31, 2023	December 31, 2022
	$	$
Members' deficit	**(6,987,925)**	(5,637,376)
Due to related parties	**6,783,569**	6,297,820
Loans payable	**3,247,087**	2,963,542
	3,042,731	3,623,986

19. MANAGEMENT OF CAPITAL (continued)

The Board of Directors does not establish a quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business. Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable.

In order to manage capital, the Company prepares expenditure budgets that are updated as necessary depending on various factors, including successful capital deployment and general industry conditions. The Company has in place a planning, budgeting, and forecasting process which is used to identify the amount of funds required to ensure the Company has appropriate liquidity to meet short and long-term operating objectives. The Company is dependent on cash flows generated from its clinical operations and from external financing to fund its activities. In order to maintain or adjust its capital structure, the Company may issue new membership units or debt.

As at December 31, 2023, the Company was not subject to any externally imposed capital requirements. There were no changes in the Company's management of capital as at December 31, 2023.

20. SUBSEQUENT EVENT

On April 30, 2024, Vencanna acquired all Units of the Company of Cannavative pursuant to a previously announced definitive agreement. Vencanna Acquisition Inc. ("AcquisitionCo"), a wholly-owned subsidiary of Vencanna purchased all of the Units of Cannavative in exchange for contingent consideration in the form of earn-out units. Contingent upon the business of Cannavative achieving specific 2024 and 2025 financial milestones, holders of membership units will be eligible to receive up to 94,271,194 additional earn-out units ("Earn-out Units"). Each Earn-out Unit consists of one common share of AcquisitionCo which is exchangeable securities are exchangeable on a one-for-one basis for equivalent securities of Vencanna (each an "Exchangeable Share") and 1/2 of an Exchangeable Share purchase warrant. Each whole earn-out warrant is exercisable for one Exchangeable Share for 12 months from the date of issuance at an exercise price of the greater of C$0.10 and the market price at the time of issue.

On April 30, 2024, as part of the acquisition, due to related parties of $6,879,643 was settled for the following consideration:

- 49,662,578 Exchangeable Shares;
- 1,128,136 Earn-out Units;
- 9,932,516 Exchangeable Share purchase warrants, each exercisable for one Exchangeable Share at an exercise price of C$0.10 for a period of 9 months, and
- 9,932,516 Exchangeable Share purchase warrants each exercisable for one Exchangeable Share at an exercise price of C$0.13 for a period of 18 months.

On April 30, 2024, as part of the acquisition, loans payable of $350,000 was settled for the following consideration:

- 2,526,570 Exchangeable Shares;
- 2,140,096 Earn-out Units;
- 505,314 Exchangeable Share purchase warrants, each exercisable for one Exchangeable Share at an exercise price of C$0.10 for a period of 9 months, and
- 505,314 Exchangeable Share purchase warrants each exercisable for one Exchangeable Share at an exercise price of C$0.13 for a period of 18 months.

SCHEDULE "B"

FINANCIAL STATEMENTS OF CANNAVATIVE AS AT AND FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2023 AND 2022

(UNAUDITED)

THE CANNAVATIVE GROUP LLC

Condensed Interim Consolidated Financial Statements

For the three and nine months ended September 30, 2023 and 2022

(Unaudited - Expressed in United States dollars)

NOTICE OF NO AUDITOR REVIEW OF CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

The unaudited condensed interim consolidated financial statements of The Cannavative Group LLC as at and for the three and nine months ended September 30, 2023 have been prepared by and are the responsibility of the Company's management. The Company discloses that its independent auditor has not performed an audit or review of these unaudited condensed interim consolidated financial statements.

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THE CANNAVATIVE GROUP LLC
Condensed Interim Consolidated Statements of Financial Position
(Unaudited - Expressed in United States dollars)

	Note	**September 30, 2023**	December 31, 2022
		$	$
ASSETS			
Current			
Cash		**485,969**	70,835
Accounts receivable	4	**749,385**	1,207,849
Prepaid expenses	5	**137,713**	71,643
Inventory	6	**1,093,883**	1,097,501
Biological assets	7	**109,544**	347,632
Other current assets		**3,974**	12,773
		2,580,468	2,808,233
Property and equipment, net	8	**3,705,528**	4,022,316
Right-of-use asset	13	**2,632,780**	2,810,938
Total assets		**8,918,776**	9,641,487
LIABILITIES			
Current			
Accounts payable and accrued liabilities	9	**2,282,095**	2,035,892
Current portion of due to related parties	10	**5,389,537**	4,930,898
Loans payable	12	**3,186,640**	2,963,542
Current portion of lease liability - related party	13	**89,634**	83,183
		10,947,906	10,013,515
Due to related parties	10	**1,284,066**	1,366,922
Lease liability - related party	13	**3,830,371**	3,898,426
Total liabilities		**16,062,343**	15,278,863
MEMBERS' DEFICIT	14	**(7,143,567)**	(5,637,376)
Total liabilities and members' deficit		**8,918,776**	9,641,487

Nature of operations and going concern (Note 1)
Subsequent event (Note 21)

Approved and authorized for issue on behalf of the Board of Directors on February 21, 2024:

/s/ "Zara Ehasz"	*/s/ "Scott Wrye"*
Director of Finance	Director and CEO

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

THE CANNAVATIVE GROUP LLC
Condensed Interim Consolidated Statements of Operations
(Unaudited - Expressed in United States dollars, except for per unit amounts and number of units)

	Note	Three months ended September 30, 2023	Three months ended September 30, 2022	Nine months ended September 30, 2023	Nine months ended September 30, 2022
		$	$	**$**	$
Revenues		**2,119,490**	2,676,613	**8,067,190**	8,269,971
Cost of sales	6,7,8	**(995,106)**	(875,507)	**(5,421,435)**	(5,585,923)
Gross profit, before fair value adjustments		**1,124,384**	1,801,106	**2,645,755**	2,684,048
Fair value amounts realized on sale of inventory	6	**(419,902)**	(81,696)	**(1,197,866)**	(446,289)
Fair value adjustment on biological assets	7	**(1,307,955)**	(2,619,329)	**(170,788)**	(951,396)
Gross profit		**(603,473)**	(899,919)	**1,277,101**	1,286,363
Operating expenses					
Administrative expenses	16	**249,005**	198,725	**760,342**	560,235
Depreciation	8	**3,134**	3,425	**9,572**	7,533
Marketing		**75,911**	78,869	**272,170**	308,421
Professional and consulting fees		**182,486**	133,363	**453,765**	244,658
Rent	13	**11,386**	10,484	**33,188**	40,977
Salaries and wages	11	**253,797**	274,139	**818,385**	905,829
		(775,719)	(699,005)	**(2,347,422)**	(2,067,653)
Operating income		**(1,379,192)**	(1,598,924)	**(1,070,321)**	(781,290)
Other income (expenses)					
Gain on trade-in of equipment	8	**-**	-	**3,000**	-
Interest expense	10-13	**(320,710)**	(302,712)	**(968,505)**	(949,160)
Interest income		**47**	69	**152**	463
Other income	15	**581,866**	-	**581,866**	-
Net loss		**(1,117,989)**	(1,901,567)	**(1,453,808)**	(1,729,987)
Net (loss) earnings per unit					
Basic and diluted		**(1.12)**	(1.90)	**(1.45)**	(1.73)
Weighted average number of units outstanding					
Basic and diluted		**1,000,000**	1,000,000	**1,000,000**	1,000,000

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

THE CANNAVATIVE GROUP LLC
Condensed Interim Consolidated Statements of Changes in Members' Deficit
(Unaudited - Expressed in United States dollars, except number of units)

	Class A Units	Class A members' deficit	Class B Units	Class B members' deficit	Class C Units	Class C members' deficit	Class D Units	Class D members' earnings (deficit)	Total members' deficit
	#	$	#	$	#	$	#	$	$
Balance, December 31, 2021	21,429	(58,456)	775,071	(2,114,375)	203,500	(555,144)	-	-	(2,727,975)
Distribution to members	-	(25,346)	-	(916,760)	-	(240,701)	-	-	(1,182,807)
Issuance of units	-	-	-	-	(51,944)	-	51,944	1,402,056	1,402,056
Net income for the period	-	(37,071)	-	(1,340,864)	-	(262,190)	-	(89,862)	(1,729,987)
Balance, September 30, 2022	21,429	(120,873)	775,071	(4,371,999)	151,556	(1,058,035)	51,944	1,312,194	(4,238,713)
Net loss for the period	-	(29,972)	-	(1,084,062)	-	(211,976)	-	(72,653)	(1,398,663)
Balance, December 31, 2022	21,429	(150,845)	775,071	(5,456,061)	151,556	(1,270,011)	51,944	1,239,541	(5,637,376)
Distribution to members	-	(1,122)	-	(40,601)	-	(7,939)	-	(2,721)	(52,383)
Net loss for the period	-	(31,153)	-	(1,126,805)	-	(220,333)	-	(75,517)	(1,453,808)
Balance, September 30, 2023	**21,429**	**(183,120)**	**775,071**	**(6,623,467)**	**151,556**	**(1,498,283)**	**51,944**	**1,161,303**	**(7,143,567)**

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

THE CANNAVATIVE GROUP LLC
Condensed Interim Consolidated Statements of Cash Flows
(Unaudited - Expressed in United States dollars)

	Nine months ended September 30, 2023	2022
	$	$
Operating activities:		
Net (loss) income for the period	**(1,453,808)**	(1,729,987)
Items not affecting cash:		
Net effect of fair value changes in biological assets and inventory	**1,368,654**	1,397,685
Depreciation	**9,572**	7,533
Gain on trade-in of equipment	**(3,000)**	-
Interest expense	**552,766**	567,678
Changes in non-cash working capital:		
Accounts receivable	**458,464**	(127,540)
Prepaid expenses	**(66,070)**	(150,545)
Inventory	**572,626**	(503,624)
Biological assets	**(1,130,566)**	(456,381)
Other current assets	**8,799**	1,320
Bank indebtedness	**-**	-
Accounts payable and accrued liabilities	**632,897**	1,156,190
Cash provided by operating activities	**950,334**	162,329
Investing activities:		
Purchases of property and equipment	**(51,587)**	(418,919)
Cash used in investing activities	**(51,587)**	(418,919)
Financing activities:		
Distribution to members	**(52,383)**	(1,182,807)
Advances due to related parties	**676,000**	1,265,672
Advances from loans	**113,500**	-
Repayments of amounts due to related parties	**(446,791)**	(1,094,158)
Repayments of lease liability - related party	**(358,200)**	(358,200)
Interest paid	**(415,739)**	(381,482)
Cash used in financing activities	**(483,613)**	(1,750,975)
Change in cash	**415,134**	(2,007,565)
Cash, beginning of period	**70,835**	2,060,620
Cash, end of period	**485,969**	53,055
Supplemental cash flow disclosure:		
Non-cash investing and financing activities		
Property and equipment included in accounts payable and accrued liabilities	**29,047**	126,979
Value assigned to equipment on trade-in	**3,000**	-
Subscription payable settled	**-**	1,402,056

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

1. NATURE OF OPERATIONS AND GOING CONCERN

The Cannavative Group LLC (the “Company” or “Cannavative”) was incorporated July 16, 2014, under the Articles of Organization for a Limited Liability Company (“LLC”) in Reno, Nevada. Its head office and registered office address is 14331 Lear Boulevard, Reno, NV, 89506. The Company, collectively with its subsidiaries, operates exclusively in the State of Nevada where the legal commercial production and vending of marijuana is permitted by Nevada state law under Medicinal and Adult-Use Cannabis Regulation and Safety Act (“MAUCRSA”). The Company is a private licensed manufacturer and distributor of cannabis flower and extracted products in the State of Nevada.

The Company operates as a licensed manufacturer and distributor of recreational cannabis and cannabis products and distributes its products through an arrangement with a cannabis distributor to licensed cannabis vendors in Nevada. The Company commenced revenue generating activity during the year ended December 31, 2016. Continuance of operations is dependent upon maintaining the necessary licensing under Nevada state law, and the ability to obtain the necessary financing to perform its operating activities and meet ongoing obligations.

Several states in the United States have enacted legislation to regulate the sale and use of medical cannabis without limits on tetrahydrocannabinol (“THC”), while other states have regulated the sale and use of medical cannabis with strict limits on the levels of THC. Notwithstanding the permissive regulatory environment of adult-use recreational and medical cannabis at the state level, cannabis continues to be categorized as a controlled substance under the Controlled Substances Act in the United States and as such, cannabis-related practices, or activities, including without limitation, the manufacture, importation, possession, use or distribution of cannabis are illegal under United States federal law. Strict compliance with state laws with respect to cannabis will neither absolve the Company of liability under United States federal law, nor provide a defense to any federal proceeding which may be brought against the Company. Any such proceedings brought against the Company may adversely affect the Company’s operations and financial performance.

These unaudited condensed interim consolidated financial statements for the three and nine months ended September 30, 2023 and 2022 (“financial statements”) have been prepared on a going concern basis, which assumes that the Company will be able to meet its obligations and continue its operations for at least the next twelve months. As at September 30, 2023, the Company had accumulated members’ deficit of $7,143,567 (December 31, 2022 - $5,637,376) and a working capital deficiency of $8,367,438 (December 31, 2022 - $7,205,282). For the period ended September 30, 2023, the Company incurred a net loss of $1,453,808 (2022 - $1,729,987). The Company has been successful in securing financing in the past, but there can be no assurance that it will be able to do so in the future, or that financing will be available on a timely basis or on terms acceptable to the Company. These conditions indicate a material uncertainty that may cast significant doubt on the Company’s ability to continue as a going concern. These financial statements do not give effect to adjustments that would be necessary to reported carrying values and classifications of assets and liabilities should the Company be unable to continue as a going concern. Such adjustments could be material.

2. BASIS OF PREPARATION

a) Statement of compliance

These financial statements were approved by the Board of Directors and authorized for issue on February 21, 2024.

These financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board and interpretations of the International Financial Reporting Interpretations Committee applicable to the preparation of interim financial statements including International Accounting Standard 34 *Interim Financial Reporting*. These financial statements do not include all disclosures required for annual audited financial statements. Accordingly, they should be read in conjunction with the notes to the Company’s audited financial statements for the years ended December 31, 2022 and 2021 (the “Annual Financial Statements”).

b) Basis of presentation

These financial statements have been prepared using the historical cost basis, except for certain financial assets and liabilities which are measured at fair value, as specified by IFRS for each type of asset, liability, income, and expense as set out in the accounting policies below.

c) Functional and presentation currency

These financial statements are presented in United States dollars, except as otherwise noted, which is the functional currency of the Company and each of the Company’s subsidiaries.

(Unaudited - Expressed in United States dollars, except where noted)

2. BASIS OF PREPARATION (continued)

d) Basis of consolidation

These financial statements incorporate the accounts of the Company and its owned subsidiaries. All intercompany transactions and balances are eliminated on consolidation. Control exists where the parent entity has power over the investee and is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Subsidiaries are included in the financial statements from the date control commences until the date control ceases.

A summary of the Company's subsidiaries included in these financial statements as at September 30, 2023 is as follows:

Name of subsidiary	**Country of incorporation**	**Principal activity**
Cannavative Farms, LLC	USA	Cannabis producer
Cannavative Extracts, LLC	USA	Cannabis processor

3. SIGNIFICANT ACCOUNTING POLICIES

The preparation of the financial statements in conformity with IFRS requires management to make estimates based on assumptions about future events that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period.

The Company's management makes judgments in its process of applying the Company's accounting policies in the preparation of the interim financial statements. In addition, the preparation of the financial data requires that the Company's management make assumptions and estimates of the impacts of uncertain future events on the carrying amounts of the Company's assets and liabilities at the end of the reporting period, and the reported amounts of expenses during the reporting period. Actual results may differ from those estimates as the estimation process is inherently uncertain. Estimates are reviewed on an ongoing basis based on historical experience and other factors considered to be relevant under the circumstances. Revisions to estimates and the resulting impacts on the carrying amounts of the Company's assets and liabilities are accounted for prospectively.

The accounting policies applied in the preparation of these financial statements are consistent with those applied and disclosed in Note 3 of the Annual Financial Statements.

4. ACCOUNTS RECEIVABLE

A summary of the Company's aging analysis of accounts receivable is as follows:

	September 30, 2023	December 31, 2022
	$	$
Neither past due nor impaired	**700,562**	1,095,386
31-60 days	**49,184**	52,449
61-90 days	**(6,392)**	39,445
90+ days	**160,851**	147,629
Total	**904,205**	1,334,909
Less: Allowance for doubtful accounts	**(154,820)**	(127,060)
	749,385	1,207,849

As at September 30, 2023, no customers had an accounts receivable balance representing more than 20% of the outstanding accounts receivable balance.

(Unaudited - Expressed in United States dollars, except where noted)

5. PREPAID EXPENSES

A summary of the Company's prepaid expenses is as follows:

	September 30, 2023	December 31, 2022
	$	$
Insurance	**-**	23,671
License, fees and permits	**49,153**	7,916
Other	**5,395**	558
Prepaid supplies and packaging	**68,783**	36,192
Property tax	**14,382**	3,306
	137,713	71,643

6. INVENTORY

A summary of the Company's inventory is as follows:

	September 30, 2023	December 31, 2022
	$	$
Work in progress	**654,177**	716,917
Finished goods	**439,706**	380,584
	1,093,883	1,097,501

Inventories expensed to cost of sales during three and nine months ended September 30, 2023, was $995,106 and $5,421,435, respectively (2022 - $875,507 and $5,585,923, respectively). For the three and nine months ended September 30, 2023, the Company realized a fair value adjustment on the sale of inventory of $419,902 and $1,197,866, respectively (2022 - $81,696 and $446,289, respectively).

7. BIOLOGICAL ASSETS

The Company's biological assets consist of cannabis plants. The Company measures its cannabis plants at their fair value less costs to sell which is determined using a model that estimates the expected harvest yield in grams for plants currently being cultivated, and then adjusts the amount for the expected selling price per gram at the point of harvest.

The following significant unobservable inputs, all of which are classified as Level 3 on the fair value hierarchy (Note 17(a)), were used by management as part of the model:

- Selling price - calculated as the weighted average selling price for all expected grades and strains of cannabis based on estimates published by the State of Nevada of the fair value of various cannabis forms on a per pound basis.
- Yield per plant - represents the number of grams of finished cannabis that are expected to be obtained from each harvested cannabis plant.
- Stage of growth - represents the weighted average number of weeks out of the expected 16-week growing cycle that cannabis plants have reached as of the measurement date.
- Wastage - represents the weighted average percentage of cannabis plants expected to fail to mature to the point of harvest.
- Post-harvest processing costs - calculated as the cost per gram of harvested cannabis to convert into finished dry bulk flower ready to be packaged into finished goods.

A summary of each significant unobservable input used in the model to calculate fair value less costs to sell of cannabis plants is as follows:

Inputs	**September 30, 2023**	December 31, 2022
Selling price	**$2.54**	$2.93
Yield per plant (grams)	**187.1g**	188.2g
Stage of growth	**57%**	54%
Wastage	**10%**	12%
Post-harvest processing costs	**$0.65**	$0.67

(Unaudited - Expressed in United States dollars, except where noted)

7. BIOLOGICAL ASSETS (continued)

A summary of the impact that a 10% increase/decrease in each input would have on the fair value of cannabis plants is as follows:

Inputs	**September 30, 2023**	December 31, 2022
	$	$
Selling price	**14,746**	45,099
Yield per plant	**10,954**	34,763
Stage of growth	**10,954**	34,763
Wastage	**(760)**	(2,217)
Post-harvest processing costs	**(3,792)**	(10,335)

The continuity for biological assets is as follows:

	$
Balance, December 31, 2021	977,226
Increase in biological assets due to capitalized costs	2,230,266
Fair value adjustment on biological assets	2,374,021
Transferred to inventory upon harvest	(5,233,881)
Balance, December 31, 2022	347,632
Increase in biological assets due to capitalized costs	1,557,537
Fair value adjustment on biological assets	(170,788)
Transferred to inventory upon harvest	(1,624,837)
Balance, September 30, 2023	**109,544**

8. PROPERTY AND EQUIPMENT, NET

A summary of the Company's property and equipment, net is as follows:

	Leasehold improvements	**Furniture and equipment**	**Vehicles**	**Total**
	$	$	$	$
Cost				
Balance, December 31, 2021	3,979,200	3,085,520	23,059	7,087,779
Additions	6,043	551,221	-	557,264
Balance, December 31, 2022	3,985,243	3,636,741	23,059	7,645,043
Additions	-	66,317	17,317	83,634
Disposal	-	-	(5,818)	(5,818)
Balance, September 30, 2023	**3,985,243**	**3,703,058**	**34,558**	**7,722,859**
Accumulated depreciation				
Balance, December 31, 2021	1,107,951	1,874,219	19,817	3,001,987
Depreciation	228,971	389,521	2,248	620,740
Balance, December 31, 2022	1,336,922	2,263,740	22,065	3,622,727
Depreciation	194,040	204,073	2,309	400,422
Disposal	-	-	(5,818)	(5,818)
Balance, September 30, 2023	**1,530,962**	**2,467,813**	**18,556**	**4,017,331**
Carrying amount				
Balance, December 31, 2022	2,648,321	1,373,001	994	4,022,316
Balance, September 30, 2023	**2,454,281**	**1,235,245**	**16,002**	**3,705,528**

During the three and nine months ended September 30, 2023, the Company recognized a gain on trade-in of equipment of $nil and $3,000, respectively (2022 - $nil and $nil, respectively).

(Unaudited - Expressed in United States dollars, except where noted)

8. PROPERTY AND EQUIPMENT, NET (continued)

The total depreciation recognized for the three and nine months ended September 30, 2023 was $187,178 and $578,580, respectively (2022 - $226,710 and $668,603, respectively), which included $59,386 and $178,158, respectively, (2022 - $59,386 and $178,158, respectively) of depreciation expense on the right-of-use asset. Inventories expensed to cost of sales for the three and nine months ended September 30, 2023, included $184,044 and $569,008, respectively, of depreciation (2022 - $223,285 and $661,070, respectively).

9. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

A summary of the Company's accounts payable and accrued liabilities is as follows:

	September 30, 2023	December 31, 2022
	$	$
Accounts payable	**2,105,289**	1,902,006
Accrued liabilities	**176,806**	133,886
	2,282,095	2,035,892

10. DUE TO RELATED PARTIES

A summary of the Company's amount due to related parties is as follows:

	September 30, 2023	December 31, 2022
	$	$
Opening balance	**6,297,820**	5,936,624
Reclassification	**-**	200,000
Advances from related parties	**676,000**	1,368,763
Repayments	**(693,386)**	(1,660,044)
Interest	**393,169**	452,477
	6,673,603	6,297,820
Current portion of due to related parties	**5,389,537**	4,930,898
Non-current portion of due to related parties	**1,284,066**	1,366,922

Amounts due to related parties are unsecured and bear interest ranging from 5% to 16% per annum. The current portion is due on demand and the non-current portion is due in 2029.

On February 2, 2022, following the issuance of Class D membership units (Note 14) and the holders of these units becoming related parties of the Company, $200,000 was reclassified from loans payable to due to related parties.

During the three and nine months ended September 30, 2023, the Company incurred interest expense of $136,516 and $393,169, respectively (2022 - $104,669 and $327,496, respectively), on amounts due to related parties.

11. RELATED PARTY TRANSACTIONS AND KEY MANAGEMENT COMPENSATION

A summary of the Company's related party transactions is as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2023	2022	**2023**	2022
	$	$	**$**	$
Lease payments to a company controlled by the CEO	**118,400**	119,400	**358,200**	358,200
Salaries paid to officers	**46,846**	36,610	**214,436**	183,154
Interest expense incurred due to related parties	**136,516**	104,669	**393,169**	327,496
	301,762	260,679	**965,805**	868,850

(Unaudited - Expressed in United States dollars, except where noted)

11. RELATED PARTY TRANSACTIONS AND KEY MANAGEMENT COMPENSATION (continued)

Key management includes the Chief Executive Officer, and the President and Chief Revenue Officer. Other than the amounts disclosed above, there was no other compensation paid or payable to key management for employee services for the reported periods.

12. LOANS PAYABLE

A summary of the Company's loans payable is as follows:

	September 30, 2023	December 31, 2022
	$	$
Opening balance	**2,963,542**	2,803,141
Reclassification (Note 10)	**-**	(200,000)
Advances	**113,500**	-
Repayments	**(169,142)**	(38,000)
Interest	**278,740**	398,401
	3,186,640	2,963,542

On March 11, 2021, the Company entered into a third-party loan agreement with Top Strike Resources Corp. ("Vencanna"), whereby Vencanna loaned Cannavative $2,000,000 for facility expansion and general working capital purposes. The loan matured on March 11, 2022 and bears interest at 17.5% per annum. On January 9, 2023, the terms of the Vencanna loan were amended and the maturity date was extended to April 9, 2023. As at September 30, 2023, the loan matured and is payable on demand.

The loans payable as at September 30, 2023 are unsecured and bear interest ranging from 8% to 17.5% and are payable on demand.

During the three and nine months ended September 30, 2023, the Company incurred interest expense of $95,341 and $278,740, respectively (2022 - $186,876 and $319,229, respectively), on loans payable.

13. LEASE LIABILITY - RELATED PARTY

In July 2014, the Company entered into a five-year lease agreement for a commercial premise with a company controlled by an officer of the Company, including three additional five-year renewal options. During 2019, the lease was amended to extend the lease term for an additional five years expiring in October 2024. Pursuant to the amended agreement, the base monthly rent was $39,800 during the extension term and the lessor reserves an option to increase the base monthly rent by 5% no more frequently than annually. The incremental borrowing rate used to determine discount the lease liability was 10%.

A summary of the Company's lease liability is as follows:

	September 30, 2023	December 31, 2022
	$	$
Opening balance	**3,981,609**	4,056,907
Repayments	**(358,200)**	(477,600)
Interest on lease liability	**296,596**	402,302
	3,920,005	3,981,609
Current portion of lease liability - related party	**(89,634)**	83,183
Non-current portion of lease liability - related party	**3,830,371**	3,898,426

During the three and nine months ended September 30, 2023, the Company recognized rent expense with respect to short-term and low value third-party leases of $11,386 and $33,188, respectively (2022 - $10,484 and $40,977, respectively).

(Unaudited - Expressed in United States dollars, except where noted)

13. LEASE - RELATED PARTY (continued)

A summary of the Company's right-of-use asset is as follows:

	$
Cost	
Balance, September 30, 2023 and December 31, 2022	**3,998,660**
Accumulated depreciation	
Balance, December 31, 2021	950,178
Depreciation	237,544
Balance, December 31, 2022	1,187,722
Depreciation	178,158
Balance, September 30, 2023	**1,365,880**
Carrying amount	
Balance, December 31, 2022	2,810,938
Balance, September 30, 2023	**2,632,780**

14. MEMBERS' DEFICIT

The Company is authorized to issue a total of 1,000,000 membership units ("Units") of the Company and the authorized members' deficit of the Company consists of four classes of Units: Class A, Class B, Class C and Class D.

Allocations and distributions are allocated among, or distributed to, each Unit according to the ratio of the member's respective unit to the aggregate of all units for which allocations or distributions are being made.

During the nine months ended September 30, 2023, the Company made cash distributions of $52,383 (2022 - $1,182,807) to the members.

During the year ended December 31, 2022, 51,944 Class C units were disposed and replaced with Class D units.

On February 2, 2022, pursuant to the approval of the State of Nevada Cannabis Compliance Board, the Company amended its articles of organization to authorize the issuance of Class D membership units. The Company issued 51,944 Class D units with a fair value of $1,402,056 ($27 per share) to satisfy subscription deposits received prior to the approval of the Class D units.

15. OTHER INCOME

During the three months ended September 30, 2023, pursuant to the Employee Retention Tax Credit ("ERTC"), a refundable tax credit for businesses and tax-exempt organizations with employees and were affected during the COVID-19 pandemic, the Company received a refund of $581,866 (2022 - $nil).

16. ADMINISTRATIVE EXPENSES

A summary of the Company's administrative expenses is as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2023	2022	**2023**	2022
	$	$	**$**	$
Employee benefits, dues, and subscriptions	**49,112**	48,365	**139,658**	123,054
Office facilities and administrative	**166,010**	116,876	**434,513**	333,130
Other (income) expenses	**2,926**	(84)	**(37,882)**	16
Provision for expected credit losses	**(4,727)**	-	**105,103**	-
Telephone and internet	**19,223**	15,754	**59,702**	48,046
Travel and entertainment	**16,461**	17,814	**59,248**	55,989
	249,005	198,725	**760,342**	560,235

17. SEGMENTED INFORMATION

Reportable segments are defined as components of an enterprise for which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources, and in assessing performance.

The Company operates in a single reportable segment, being the manufacturing and distribution of cannabis flower and extract products in the United States within the State of Nevada. All the Company's revenues were generated through sales in the State of Nevada, and all the Company's inventory and long-term assets are located in Nevada.

18. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

a) Fair value measurement of financial assets and liabilities

Financial instruments measured at fair value are classified into one of three levels in the fair value hierarchy according to the relative reliability of the inputs used to estimate the fair values. The three levels of the fair value hierarchy are:

- Level 1 - quoted prices 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., from derived prices); and
- Level 3 - inputs for the asset or liability that are not based on observable market data.

The Company's cash, accounts receivable, bank indebtedness, accounts payable and accrued liabilities, due to related parties, loans payable, and lease liability are financial instruments carried at amortized cost.

b) Risk management

The Company examines its various financial risks to which it is exposed and assesses the impact and likelihood of occurrence. The risks may include credit risk, currency risk, liquidity risk and interest rate risk. The Company's risk management program strives to evaluate the unpredictability of financial markets and its objective is to minimize the potential adverse effects of such risks on the Company's financial performance where financially feasible to do so. When deemed material these risks are monitored by the Company's finance group and are regularly discussed with the Board of Directors.

<u>Credit risk</u>

Credit risk is the risk of a potential loss to the Company if a customer or third party to a financial instrument fails to meet its contractual obligations. The maximum credit exposure to the Company is the carrying amount of cash and accounts receivable.

The Company has cash of $485,969. The Company's cash is held in a bank account with a major U.S. financial institution. Management believes the exposure to credit risk associated with cash held in the financial institution is not significant.

The Company is exposed to credit risk inherent in its accounts receivable via credit extended to customers. The Company manages its exposure to bad debt by limiting the total accounts receivable that customers can accumulate before payment is collected.

<u>Liquidity risk</u>

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Company has a planning and budgeting process in place to help determine the funds required to support the Company's normal operating requirements and its expansion plans.

In the normal course of business, the Company enters into contracts and performs business activities that give rise to commitments for future minimum payments. The Company has no concentrations of liquidity risk. A summary of future operating commitments is presented in Note 19.

As at September 30, 2023, liquidity risk is assessed as high as the Company had cash of $485,969 and total financial liabilities of $16,062,343 (December 31, 2022 - $70,835 and $15,278,863, respectively).

(Unaudited - Expressed in United States dollars, except where noted)

18. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

Price risk

The Company is exposed to price risk with respect to movements in market prices for goods which may impact revenue, cost of sales and the results of operations. The Company closely monitors demand and market prices of its finished goods and raw materials to determine the appropriate course of action to be taken by the Company.

19. MANAGEMENT OF CAPITAL

The Company's objectives of capital management are intended to safeguard the Company's normal operating requirements on an ongoing basis. As at September 30, 2023, the capital of the Company consists of members' deficit, amounts due to related parties, and loans payable.

	September 30, 2023	December 31, 2022
	$	$
Members' deficit	**(7,143,567)**	(5,637,376)
Due to related parties	**6,673,603**	6,297,820
Loans payable	**3,186,640**	2,963,542
	2,716,676	3,623,986

The Board of Directors does not establish a quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business. Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable.

In order to manage capital, the Company prepares expenditure budgets that are updated as necessary depending on various factors, including successful capital deployment and general industry conditions. The Company has in place a planning, budgeting, and forecasting process which is used to identify the amount of funds required to ensure the Company has appropriate liquidity to meet short and long-term operating objectives. The Company is dependent on cash flows generated from its clinical operations and from external financing to fund its activities. In order to maintain or adjust its capital structure, the Company may issue new membership units or debt.

As at September 30, 2023, the Company was not subject to any externally imposed capital requirements. There were no changes in the Company's management of capital as at September 30, 2023.

20. COMMITMENTS AND CONTINGENCIES

a) Commitments

A summary of undiscounted liabilities and future operating commitments at September 30, 2023, are as follows:

	Total	**Within 1 year**	**2 - 5 years**	**Greater than 5 years**
	$	$	$	$
Accounts payable and accrued liabilities	**2,282,095**	2,282,095	-	-
Due to related parties	**6,673,603**	5,389,537	1,284,066	-
Loans payable	**3,186,640**	3,186,640	-	-
Lease liability - related party	**6,824,961**	477,600	2,152,864	4,194,498
	18,967,299	11,335,872	3,436,930	4,194,498

b) Contingencies

Various tax and legal matters are outstanding from time to time. In the event that management's estimate of the future resolution of these matters changes, the Company will recognize the effects of these changes in the financial statements in the period such changes occur.

21. SUBSEQUENT EVENT

The Company entered into a definitive unit exchange agreement with Vencanna on April 25, 2022 and later amended on August 15, 2023 and further amended on February 23, 2024, pursuant to which Vencanna would acquire all the issued and outstanding membership units of Cannavative in an all-share exchange (the “Transaction”). The Transaction values the Cannavative business at $8,111,700. Cannavative debt holders, other than Vencanna, will convert to Class E membership units valued at $10.00 per Class E unit. Each Class E unit shall receive, subject closing adjustments, 74.14 Debt Units and 59.2 Debt Earnout Units. Each Debt Unit shall consist of one common share of Vencanna (“Share”), 0.2 A Warrant and 0.2 B Warrant. Each A Warrant is exercisable for one Share at a price of $0.10 CAD for a period of 9 months following the closing date and each B Warrants is exercisable for one Share at a price of $0.13 CAD for a period of 18 months following the closing date. Class E unit holders shall receive 52,999,107 Shares, 10,599,821 A Warrants and 10,599,821 B Warrants, and 42,320560 Debt Earnout Units. Each Equity Unit (Class A, B, C, and D units) shall receive 13.33 Equity Earnout Units (collectively with Debt Earnout Units, “Earnout Units”). Equity Unit holders shall receive 53,333,333 Earnout Units. Each Earnout Unit consists of one Share plus ½ Earnout Warrant, where each Earnout Warrant is exercisable for one Share at the greater of $0.10 CAD or the share price at the time of issue. Earnout Units are contingent on revenue and EBITDA milestones being met in the full years 2024 and 2025, issued to Debt Earnout unit holders first, then the Equity Earnout unit holders.

Management has assessed that aggregate consideration in the Transaction exceeds the carrying value of the Company’s assets and has not noted any indications of impairment.