Cansortium Inc.

Condensed Interim Consolidated Financial Statements (Unaudited)

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

(Expressed in thousands of United States Dollars unless otherwise stated)

Note to Reader

The condensed interim consolidated financial statements for the period ended June, 2023 was filed on August 28, 2023 for Cansortium Inc. (the “Issuer”). Management has identified errors related to the accounting for the biological asset and inventory valuation and overstatement of depreciation expense for the quarter ended June 30, 2023. We are filing the corrected condensed interim consolidated financial statements. See further discussion of the restatement in Note 2 in "Condensed Interim Notes to the Consolidated Financial Statements (unaudited).”

Cansortium Inc.
Condensed Interim Consolidated Statements of Financial Position (unaudited)
As of June 30, 2023 and December 31, 2022
(Amounts expressed in thousands of United States Dollars unless otherwise stated)

		June 30, 2023	December 31, 2022
Assets			
Current assets			
Cash		$ 8,797	$ 8,359
Trade receivable		27	28
Inventory, net	*Note 3*	7,023	8,973
Biological assets	*Note 4*	511	996
Prepaid expenses and other current assets	*Note 5*	872	883
Total current assets		17,230	19,239
Property and equipment, net	*Note 6*	30,956	31,743
Intangible assets, net	*Note 7*	93,525	94,291
Right-of-use assets, net	*Note 11*	29,148	30,464
Goodwill		1,525	1,526
Other assets		808	768
Total assets		**$ 173,192**	**$ 178,031**
Liabilities			
Current liabilities			
Trade payable		6,813	6,931
Accrued liabilities		4,911	5,534
Income taxes payable		20,674	13,952
Derivative liabilities	*Note 9*	8,512	8,676
Current portion of notes payable	*Note 10*	339	741
Current portion of lease obligations	*Note 11*	2,586	2,123
Total current liabilities		43,835	37,957
			-
Notes payable	*Note 10*	58,925	56,969
Lease obligations	*Note 11*	32,900	33,922
Deferred tax liability	*Note 8*	18,773	20,290
Other long-term liabilities	*Note 10, 12*	542	1,333
Total liabilities		**154,975**	**150,471**
Shareholders' equity			
Share capital	*Note 12*	183,577	180,954
Share-based compensation reserve	*Note 13*	6,466	6,395
Equity conversion feature		6,677	6,677
Warrants	*Note 12*	29,634	28,939
Accumulated deficit		(207,803)	(195,071)
Foreign currency translation reserve		(334)	(334)
Total shareholders' equity		18,217	27,560
Total liabilities and shareholders' equity		**$ 173,192**	**$ 178,031**

Nature of Operations (Note 1)
Summary of Significant Accounting Policies (Note 2)
Expenses By Nature (Note 14)
Contingencies (Note 15)
Related-Party Transactions (Note 16)
Financial Instruments and Financial Risk Management (Note 17)
Capital Management (Note 18)
Subsequent Events (Note 21)

Approved and authorized for issue on behalf of the Shareholders on April 29, 2024:

Robert Beasley
Chief Executive Officer

Jeffrey Batliner
Chief Financial Officer

Cansortium Inc.

Condensed Interim Consolidated Statements of Loss and Other Comprehensive Loss (unaudited)

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

(Amounts expressed in thousands of United States Dollars unless otherwise stated)

		For the three months ended June 30, 2023	For the three months ended June 30, 2022	For the six months ended June 30, 2023	For the six months ended June 30, 2022
Revenue, net of discounts		24,430	$ 22,416	$ 46,486	$ 42,128
Cost of goods sold		11,448	7,405	23,275	15,571
Gross profit before fair value adjustments		12,982	15,011	23,211	26,557
Fair value adjustments on inventory sold		2,211	(8,594)	4,552	(15,418)
Unrealized (loss) gain on changes in fair value of biological assets	*Note 4*	(3,035)	9,467	(8,092)	10,665
Gross profit		12,158	15,884	19,671	21,804
Expenses					
General and administrative	*Note 14*	2,571	2,319	4,883	5,160
Share-based compensation	*Note 13*	177	-	415	100
Sales and marketing	*Note 14*	5,576	4,190	9,574	8,277
Depreciation and amortization	*Notes 6, 7, 11*	1,929	1,694	3,777	3,358
Total expenses		10,253	8,203	18,649	16,895
Income (loss) from operations		1,905	7,681	1,022	4,909
Other expense (income)					
Finance costs, net	*Notes 10, 19*	4,324	3,843	8,573	7,500
Loss (gain) on change in fair value of derivative liability	*Note 9*	(442)	3,007	(164)	4,709
Loss on debt settlement	*Note 10*	-	1,136	-	1,136
Loss on disposal of assets	*Note 20*	-	-	70	-
Loss from termination of a contract		82	-	3	-
Other expense (income)		-	(373)	67	(375)
Total other expense		3,964	7,613	8,549	12,970
Loss before income taxes		(2,059)	68	(7,527)	(8,061)
Income tax expense	*Note 12*	3,291	3,504	5,205	5,517
Net loss from continuing operations		(5,350)	(3,436)	(12,732)	(13,578)
Net loss from discontinued operations	*Note 25*	-	8,574	-	8,576
Net loss		$ (5,350)	$ (12,010)	$ (12,732)	$ (22,154)
Other comprehensive gain (loss) that may be reclassified to profit or loss in subsequent years					
Exchange differences on translation of foreign operations and reporting currency		-	62	-	87
Comprehensive loss		$ (5,350)	$ (11,948)	$ (12,732)	$ (22,067)
Net loss per share					
Basic and diluted - continuing operations	*Note 16*	$ (0.02)	$ (0.05)	$ (0.04)	$ (0.09)
Weighted average number of shares					
Basic number of shares		296,938,910	352,230,174	286,804,241	252,698,567
Diluted number of shares		352,230,174	307,984,934	339,972,379	308,498,834

Cansortium Inc.
Condensed Interim Consolidated Statements of Changes in Shareholders’ Equity (unaudited)
For the six months ended June 30, 2023 and the twelve months ended December 31, 2022
(Amounts expressed in thousands of United States Dollars unless otherwise stated)

	Share capital			Reserves						
	Number of unrestricted common shares	Number of restricted common shares	Amount	Share-based compensation reserve	Equity conversion feature	Warrants	Accumulated deficit	Non-controlling interests	Accumulated other comprehensive loss	Total shareholders' equity
Balance, December 31, 2021	**251,576,742**	**400,000**	**$ 180,657**	**$ 6,176**	**$ 4,933**	**$ 28,869**	**$ (157,648)**	**$ -**	**$ (421)**	**$ 62,565**
										-
Exercise of options	300,000	-	135							135
Issuance of options				219						219
Shares issued for professional services (Note 16 x.)	1,048,386		162							162
Issuance of warrants for convertible debenture and lease amendment					1,744	70				1,814
Release of restricted stock for consuting ageement	400,000	(400,000)								
Issuance of share for equity price guarantee (Note 16xx)	11,634,615									
Comprehensive loss		-					(37,423)		87	(37,336)
Balance, December 31, 2022	**264,959,743**	**-**	**$ 180,954**	**$ 6,395**	**$ 6,677**	**$ 28,939**	**$ (195,071)**	**-**	**$ (334)**	**$ 27,560**
Shares issued for professional services (Note 16 x.)	3,385,417	-	326							326
Issuance of options				76						76
Option cancellations				(5)						(5)
Privat placement issuance of shares and warrants (Note xx)	30,000,000		2,297			695				2,993
Net loss	-						(12,732)			(12,732)
Balance, June 30, 2023	**298,345,160**	**-**	**$ 183,577**	**$ 6,466**	**$ 6,677**	**$ 29,634**	**$ (207,803)**	**-**	**$ (334)**	**$ 18,217**

Cansortium Inc.
Condensed Interim Consolidated Statements of Cash Flow (unaudited)
For the six months ended June 30, 2023 and 2022
(Amounts expressed in thousands of United States Dollars unless otherwise stated)

	For the six months ended June 30,	
	2023	**2022**
Operating activities		
Net loss from continuing operations	$ (12,732)	$ (22,153)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Unrealized gain (loss) on changes in fair value of biological assets	8,092	(10,666)
Realized (loss) gain on changes in fair value of biological assets	(4,552)	15,418
Share-based compensation	415	100
Depreciation and amortization	8,041	6,072
Accretion and interest of convertible debentures	266	-
Accretion and interest of term loan	6,262	6,219
Interest income on notes receivable	-	(71)
Interest of equipment loan	13	-
Loss on disposal of assets	70	-
Loss on debt settlement	-	1,136
Discontinued operations	-	8,576
Change in fair market value of derivative	(164)	4,709
Interest on lease liabilities	2,037	1,310
Deferred tax expense	(1,517)	(304)
Changes in operating assets and liabilities:		
Trade receivable	1	(33)
Inventory	7,402	1,044
Biological assets	(8,886)	(9,290)
Prepaid expenses and other current assets	11	117
Right of Use Assets/Liabilities	67	-
Other assets	(40)	5
Trade payable	(135)	374
Accrued liabilities	(623)	1,877
Other long-term liabilities	(791)	-
Income taxes payable	6,722	5,627
Net cash provided by operating activities	9,960	10,067
Investing activities		
Purchases of property and equipment	(4,339)	(4,214)
Payment of notes receivable	-	119
Advances for notes receivable	-	(94)
Net cash used in investing activities	(4,339)	(4,189)
Financing activities		
Net proceeds from issuance of shares and warrants	2,993	4,656
Payment of lease obligations	(3,188)	(2,521)
Exercise of Options	-	135
Principal repayments of notes payable	(4,988)	(8,401)
Net cash used in financing activities	(5,183)	(6,131)
Effect of foreign exchange on cash and cash equivalents	-	87
Net increase (decrease) in cash	438	(166)
Cash, beginning of period	8,359	9,024
Cash, end of period	8,797	8,858

1. NATURE OF OPERATIONS

Cansortium Inc. was incorporated under the laws of the Province of Ontario, Canada pursuant to the Ontario Business Corporations Act. ("OBCA") on August 31, 2018. The Company's registered office is located at 365 Bay Street, Suite 800, Toronto, Ontario, M5H2V1 and its head office is located at 5540 W. Executive Drive, Suite 100, Tampa, Florida 33609.

The Company, through its subsidiaries, is licensed to produce and sell medical cannabis in Florida and Texas and is licensed to sell medical cannabis in Pennsylvania.

The Company's medical cannabis products are offered in oral drops, capsules, topicals, syringes, dried flower, pre-rolls, cartridges, and edibles. All of its products are marketed under the Fluent™ brand name, which was launched in May 2019. Prior to the launch of the Fluent brand the Company had operated under the Knox Medical brand. In Pennsylvania, the Company's product portfolio is comprised of a variety of third-party branded medical cannabis products.

All of the Company's operations are in one segment, the production and sale of medical cannabis. All revenues for the three and six months ended June 30, 2023 and 2022 were generated in the United States.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Preparation

The condensed interim unaudited consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). They have been prepared under the assumption the Group operates on a going concern basis, which assumes the Group will be able to discharge its liabilities as they fall due.
The condensed interim consolidated financial statements have been prepared in accordance with International Accounting Standard 34 – Interim Financial Reporting, following the same accounting policies and methods of application as those disclosed in the annual audited consolidated financial statements for the years ended December 31, 2022 and 2021. These condensed interim consolidated financial statements should be read in conjunction with the annual audited consolidated financial statements of the Company for the years ended December 31, 2022 and 2021, including the accompanying notes thereto.

These restated condensed interim consolidated financial statements were approved and authorized for issue by the Board of Directors of the Company on April 29, 2024.

Restatement

In connection with the preparation of its audited consolidated financial statements for the year ended December 31, 2023, the Company identified errors related to:

- The accounting for the biological asset and inventory valuation for the quarters ended March 31, 2023 and June 30, 2023. The financial statements were prepared based on incorrect data inputs into the valuation model which resulted in an understatement of costs of goods sold and an overstatement of the realized fair value adjustments on inventory sold.

- A mis-classification of depreciation and amortization expense for the quarter ended June 30, 2023, which resulted in an understatement of cost of goods sold and an overstatement of SG&A expense.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

As a result, this report reflects a restatement of the Company's interim financial statements for the three and six months ended June 30, 2023. With respect to the unaudited condensed consolidated balance sheets there was no impact to total assets, liabilities, or stockholders' equity. With respect to the unaudited condensed consolidated statement of cash flows, all adjustments are to line items within operating cash flows and there was no impact to the subtotal of operating cash flows for the period.

A summary of the impact of the error on the unaudited condensed consolidated statement of loss and other comprehensive loss for the three and six months ended June 30, 2023 is as follows:

	Three Months Ended June 30, 2023		
	As Reported	**Adjustment**	**As Restated**
Cost of goods sold	8,644	2,804	11,448
Gross profit before fair value adjustment	15,786	(2,804)	12,982
Fair value adjustments on inventory sold	441	1,770	2,211
Gross profit	13,192	(1,034)	12,158
Depreciation and amortiation	2,963	(1,034)	1,929

	Six Months Ended June 30, 2023		
	As Reported	**Adjustment**	**As Restated**
Cost of goods sold	16,610	6,665	23,275
Gross profit before fair value adjustment	29,876	(6,665)	23,211
Fair value adjustments on inventory sold	(1,079)	5,631	4,552
Gross profit	20,705	(1,034)	19,671
Depreciation and amortiation	4,811	(1,034)	3,777

(b) Basis of Measurement

The condensed interim unaudited consolidated financial statements have been prepared on the going concern basis, under the historical cost convention except for certain financial assets, liabilities and biological assets that are measured at fair value.

(c) Functional and Presentation of Currency

The condensed interim unaudited consolidated financial statements are presented in thousands of United States ("U.S.") dollars unless otherwise stated.

(d) Basis of Consolidation

The condensed interim unaudited consolidated financial statements include the accounts of the Company and its majority-owned subsidiaries. Subsidiaries over which the Company has control are fully consolidated from the date control commences until the date control ceases. Control exists when the Company is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. In assessing control, potential voting rights that are currently exercisable are considered. Non-controlling interests in the equity of consolidated subsidiaries are shown separately in the consolidated statement of loss and comprehensive loss and in the consolidated statement of changes in shareholders' equity. All intercompany balances and transactions are eliminated on consolidation. The information below lists the Company's subsidiaries that are included in these condensed interim unaudited consolidated financial statements and the ownership interest held as of June 30, 2023 and December 31, 2022, respectively.

(Amounts expressed in thousands of United States Dollars unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

	% Ownership June 30, 2023	% Ownership December 31, 2022
Cansortium Holdings LLC	100.00%	100.00%
Cansortium Pennsylvania, LLC	100.00%	100.00%
Cansortium Puerto Rico, LLC	100.00%	100.00%
Cansortium Texas, LLC	100.00%	100.00%
Cansortium Canada Holdings Inc.	100.00%	100.00%
Fluent Servicing, LLC	100.00%	100.00%
Cansortium Brazil Ltda.	100.00%	100.00%
Cansortium Florida, LLC	100.00%	100.00%
Cansortium Colombia S.A.S. [1]	50.00%	50.00%
Spirit Lake Road Nursery, LLC	100.00%	100.00%
Cansortium Michigan LLC	100.00%	100.00%
Cavern Capital Holdings LLC	100.00%	100.00%
Harvest Park Lot 9 Investors LLC	100.00%	100.00%
Harvest Park Lot 9 Investors No. 2 LLC	100.00%	100.00%
Fluent Hemp LLC	100.00%	100.00%
Cansortium Beverage Company Inc. [2]	-	100.00%
Cansortium International Inc.	100.00%	100.00%
Trick Tail Capital LLC	100.00%	100.00%

[1] The Company wrote-off its investment in Cansortium Colombia S.A.S as of December 31, 2022
[2] Cansortium Beverage Company Inc. was dissolved in May of 2022.

e) Critical Accounting Judgments, Estimates and Assumptions

The preparation of the Company's condensed interim consolidated financial statements requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, and revenue and expenses. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the review affects both current and future periods.

Critical judgments, estimates and assumptions that have the most significant effect on the amounts recognized on these condensed interim consolidated financial statements have been set out in Note 2 of the audited annual consolidated financial statements for the years ended December 31, 2022, and 2021.

3. INVENTORY

As of June 30, 2023 and December 31, 2022, inventory consisted of the following:

(Amounts expressed in thousands of United States Dollars unless otherwise stated)

	June 30, 2023	December 31, 2022
Supplies, packaging and materials	$ 2,676	$ 2,685
Work in progress	1,066	1,906
Finished goods	3,281	4,382
Balance at end of period	**$ 7,023**	**$ 8,973**

Inventory material costs included in cost of goods sold during the six months ended June 30, 2023 and 2022, were $(444) and $4,854, and respectively. Salaries and benefits charged to cost of goods sold for the three and six months ended June 30, 2023 and 2022, were $2,470 and $1,975, respectively. Capitalized depreciation expensed to costs of sales for the three and six months ended June 30, 2023 and 2022, were $1,927 and $1,322 respectively.

4. BIOLOGICAL ASSETS

The Company's biological assets consist of cannabis plants. A reconciliation of the beginning and ending balances of biological assets for the three months ended June 30, 2023 and year ended December 31, 2022 is as follows:

	June 30, 2023	December 31, 2022
Balance at beginning of period	$ 996	$ 3,297
Cost incurred until harvest	8,885	16,355
Effect of unrealized change in fair value of biological assets	(8,092)	(9,620)
Transferred to inventory upon harvest	(1,279)	(9,036)
Balance at end of period	**$ 511**	**$ 996**

As of June 30, 2023, all biological assets were live plants.

The Company measures its biological assets at their fair value less costs to sell. This is determined using a model which estimates the expected harvest yield in grams for plants currently being cultivated, and the expected selling price less costs to sell per gram.

The fair value measurements for biological assets have been categorized as Level 3 in the IFRS 13 fair value hierarchy as there is no actively traded commodity market for plants or dried product. The Company's method of accounting for biological assets attributes value accretion on a straight-line basis throughout the life of the biological asset from initial cloning to the point of harvest.

4. BIOLOGICAL ASSETS *(Continued)*

These estimates are subject to volatility in market prices and a number of uncontrollable factors, which could significantly affect the fair value of biological assets which will affect the amount reflected in the gain or loss on biological assets in future periods.

The following table quantifies each significant unobservable input, and provides the impact a 10% increase or decrease in each input would have on the fair value of biological assets:

(Amounts expressed in thousands of United States Dollars unless otherwise stated)

	As at June 30, 2023		As at December 31, 2022	
Assumptions	**Input**	**10% Change**	**Input**	**10% Change**
(i) Weighted average of expected loss of plants until harvest (a)	13%	$7	15%	$17
(ii) Expected yields for cannabis plants (average grams per plant) (b)	67	$46	47	$100
(iii) Weighted average number of growing weeks completed as percentage of total growing weeks as at period end	55%	$46	47%	$100
(iv) FL Estimated selling price per gram (c)	$7.12 per gram	$1,206	$7.12	$1,121
(v) FL Cost to sell per gram per flower and trim, respectively	$6.90 per gram	$1,160	$4.03 | $7.79	$78

(a) Weighted average of expected loss of plants until harvest represents the expected loss of plants that will not survive to the point of harvest. It does not include any financial loss on a surviving plant.
(b) Expected average yields for cannabis plants vary based on the mix of strains existing at each reporting date.
(c) The estimated selling price per gram represents the actual sales price for the Company's various strains sold as retail products. The selling price is impacted by the mix of expected THC levels from the plants.

The Company estimates the harvest yields for cannabis at various stages of growth. As of June 30, 2023, it is expected that the Company's biological assets will yield approximately 3,707,794 grams of dry cannabis when harvested, as of December 31, 2022 the Company expected to harvest.3,322,073 grams. As of June 30, 2023 and December 2022, the Company had 66,161 and 82,667 plants that were classified as biological assets, respectively.

5. PREPAID EXPENSES AND OTHER CURRENT ASSETS

Prepaid expenses and other current assets consist of the following:

	June 30, 2023	December 31, 2022
Prepaid insurance	$ 570	$ 576
Other prepaid expenses	276	283
Deposits	25	24
Balance at end of period	**$ 872**	**$ 883**

(Amounts expressed in thousands of United States Dollars unless otherwise stated)

6. PROPERTY AND EQUIPMENT

A reconciliation of the beginning and ending balances of property and equipment for the six months ended June 30, 2023 and the year ended December 31, 2022, is as follows:

	Land	Furniture and fixtures	Computer equipment	Manufacturing equipment	Leasehold improvements	Buildings	Construction in progress	Vehicles	Total
Cost									
Balance as of January 1, 2022	$ 212	$ 1,036	$ 1,774	$ 9,305	$ 32,293	$ -	$ 1,463	$ 389	$ 46,472
Additions	-	53	(134)	320	1,313	-	5,246	-	6,797
Construction completed	-	103	24	675	4,252	-	(5,054)	-	-
Disposals	-		-	-	(218)	-	(26)	-	(245)
Balance as of December 31, 2022	212	1,192	1,664	10,300	37,639	-	1,628	389	53,024
Accumulated depreciation									
Balance as of January 1, 2022	-	347	725	2,477	8,692	-	-	70	12,310
Additions	-	158	386	1,428	6,998	-	-	44	9,014
Disposals	-	(0)	-	(2)	(41)	-	-	-	(43)
Balance as of December 31, 2022	-	505	1,112	3,903	15,648	-	-	114	21,281
Property and equipment, net	**$ 212**	**$ 687**	**$ 552**	**$ 6,398**	**$ 21,991**	**$ -**	**$ 1,628**	**$ 275**	**$ 31,743**
Cost									
Balance as of January 1, 2023	$ 212	$ 1,192	$ 1,664	$ 10,300	$ 37,639	$ -	$ 1,628	$ 389	$ 53,024
Additions	-	0	70	391	3,109	-	769	-	4,339
Construction completed	-	358	349	74	1,329	-	(2,110)	-	-
Disposals	-		-	-	(15)	-	(56)	-	(70)
Balance as of June 30, 2023	212	1,550	2,083	10,765	42,062	-	231	389	57,293
Accumulated depreciation									
Balance as of January 1, 2023	-	505	1,112	3,903	15,648	-	-	114	21,281
Additions	-	105	209	766	3,954	-	-	22	5,056
Disposals	-	-	-	-	-	-	-	-	-
Balance as of June 30, 2023	-	610	1,320	4,669	19,602	-	-	136	26,337
Property and equipment, net	**$ 212**	**$ 940**	**$ 763**	**$ 6,097**	**$ 22,461**	**$ -**	**$ 231**	**$ 253**	**$ 30,956**

For the six months ended June 30, 2023 and 2022, the Company charged $3,390 and $3,269 of depreciation to the production of biological assets and inventory, respectively.

(Amounts expressed in thousands of United States Dollars unless otherwise stated)

7. INTANGIBLE ASSETS

Intangible assets consist of cannabis licenses and trademarks and brands. A reconciliation of the beginning and ending balances of intangible assets for the six months ended June 30, 2023 and year ended December 31, 2022, are as follows:

	Licenses	Trademarks and brands	Total
Balance as of January 1, 2022			
Cost	94,488	8,850	103,338
Additions	-	-	-
Disposals	-	-	-
Balance as of December 31, 2022	94,488	8,850	103,338
Balance as of January 1, 2022			
Accumulated amortization	904	6,612	7,516
Additions	159	1,372	1,531
Disposals	-	-	-
Balance as of December 31, 2022	1,063	7,984	9,047
Intangible assets, net	**93,425**	**866**	**94,291**
Balance as of January 1, 2023			
Cost	94,488	8,850	103,338
Additions	-	-	-
Disposals	-	-	-
Balance as of June 30, 2023	94,488	8,850	103,338
Balance as of January 1, 2023			
Accumulated amortization	1,063	7,984	9,047
Additions	80	686	766
Disposals	-	-	-
Balance as of June 30, 2023	1,143	8,670	9,813
Intangible assets, net	**93,345**	**180**	**93,525**

Amortization expense for the three and six months ended June 30, 2023 and 2022, was $383 and $766, respectively for both periods.

(Amounts expressed in thousands of United States Dollars unless otherwise stated)

8. INCOME TAXES

Income tax for the three and six months ended June 30, 2023 and 2022 consisted of the following:

	Three months ended		Six months ended	
	June 30, 2023	June 30, 2022	June 30, 2023	June 30, 2022
Current Tax Expense	$ 3,610	$ 3,165	$ 6,722	$ 5,891
Deferred Tax Expense	(319)	339	(1,517)	(375)
Total income taxes	**$ 3,291**	**$ 3,504**	**$ 5,205**	**$ 5,516**

Income tax expense is recognized based on management's estimate of the weighted average effective annual income tax rate expected for the full financial year. The U.S. statutory tax rate used for the three and six months ended June 30, 2023 and 2022 was 21%.

9. DERIVATIVE LIABILITIES

A reconciliation of the beginning and ending balances of the equity price guarantee derivative liabilities during the six months ended June 30, 2023 and year ended December 31, 2022 is as follows:

Balance as of January 1, 2022	$	3,960
Fair value change		4,716
Balance as of December 31, 2022	**$**	**8,676**
Fair value change		(164)
Balance as of June 30, 2023	**$**	**8,512**

Price guarantees are recorded as a liability measured at fair value on the consolidated statement of financial position. In determining the fair value of the price guarantee, these liabilities are marked–to–market at each reporting period with the change in fair value recorded in the consolidated statements of loss and comprehensive loss.

Fluent Servicing Acquisition

In connection with the acquisition of the remaining interest of Fluent Servicing on August 15, 2018, the Company issued 4,400,000 membership interest units of Cansortium Holdings LLC that were exchanged into 4,400,000 common shares (or equivalent proportionate voting shares) of Cansortium subject to a price floor of $2.75 ("Equity Price Guarantee"), expiring on March 21, 2021.

On January 16, 2020, the Company completed the restructuring of its existing promissory note issued in connection with the acquisition of Fluent Servicing, as well as the terms pertaining to the Equity Price Guarantee, reducing the price floor from $2.75 to $0.65 per share for the 4,400,000 common shares originally issued and agreeing to transfer to the seller, Can Endeavour LLC ("Can Endeavour") an additional 14,215,385 common shares (or equivalent proportionate voting shares) that were previously returned by the Company's founders, subject to a price floor of $0.65 per share which expires on May 23, 2023.

On May 6, 2021, the Company satisfied its obligations under the amended note payable dated January 16, 2020, in the principal amount of $12,933 to Can Endeavour. Pursuant to the terms of the amended note, Can Endeavour elected to convert the principal amount of the amended note into 21,555,483 common shares of the

(Amounts expressed in thousands of United States Dollars unless otherwise stated)

9. DERIVATIVE LIABILITIES *(Continued)*

Company at a price of $0.60 per share. The common shares have been issued by the Company to Can Endeavour and all accrued interest on the amended note has been repaid in cash. Accordingly, the Company has satisfied its obligations under the amended note.

On December 21, 2022, the Company amended its agreement of the terms pertaining to the Equity Price Guarantee, reducing the price floor from $0.65 to $0.40 per share for the 18,615,385 common shares issued and agreeing to transfer Can Endeavour an additional 11,634,615 common shares resulting in a total 30,250,000 common shares (or equivalent proportionate voting shares). If Can Endeavour elects to sell some or all of its common shares, and the proposed purchase price is less than the floor of $0.40 per share, then the Company shall have the first right to purchase some or all of its common shares for $0.40 per share. The price floor expires at the earlier of December 31, 2025 or 20 consecutive days where common shares trade at a minimum or $4.13 while maintaining a minimum trade volume of minimum of 3 million.

The Company used a Monte-Carlo simulation model to estimate the fair value of the Equity Price Guarantee derivative liability. This is a Level 3 recurring fair value measurement. The key Level 3 inputs used by management to determine the fair value are the expected future volatility in the price of the Company's shares and the expected life of the Equity Price Guarantee. The Company believes that a 1 % difference in the inputs used for this fair value measurement would not cause a material difference to the fair value amount.

The following assumptions were used to value the Equity Price Guarantee derivative liability using the Monte-Carlo simulation model as of June 30, 2023 and December 31, 2022:

	June 30, 2023	December 31, 2022
Volatility	85.00%	105.00%
Risk-free interest rate	4.54%	4.02%
Expected life (years)	2.5 years	3.0 years
Share price	$0.10	$0.16
Exercise price	$0.40	$0.40

For the three and six month period ended June 30, 2023, the Company recorded a loss of $442 and $164, respectively. The Company recorded a gain of $3,007 and $4,709 for the three and six month period ended June 30, 2022, respectively.

10. NOTES PAYABLE

As of June 30, 2023 and December 31, 2022, notes payable consisted of the following:

	June, 2023	December 31, 2022
Automobile loan (a)	$ 26	$ 32
Senior Secured Term Loan (b)	56,092	54,096
Equipment loan (c)	319	744
Convertible Debenture (d)	2,826	2,838
Total notes payable	59,264	57,710
Less current portion of notes payable	(339)	(741)
Notes payable, net of current portion	**$ 58,925**	**$ 56,969**

10. NOTES PAYABLE *(Continued)*

(a) Automobile Loan

Notes payable collateralized by vehicles purchased, bearing interest ranging from 4.59% to 5.44% per annum, maturing through December 2025.

(b) Senior Secured Term Loan (the "Term Loan")

On April 29, 2021, the Company entered into a senior secured term loan in the amount of $71,000 (the "Term Loan"). The Term Loan bears interest of 13% per annum, payable quarterly, with a maturity date of April 29, 2025. In connection with the transaction, 12.5 million warrants with an exercise price of $1.20 were issued to certain participants in the Term Loan. Subject to certain conditions of the Term Loan, the Company has the ability to prepay the Term Loan as well as to increase the Term Loan by up to $20 million. The Company assessed the prepayment option and determined that it is closely related as the exercise price of the option approximates the amortized cost of the note, and as such did not recognize a derivative instrument. The warrants had a down-round protection feature applicable for the first 60 days after the issuance of the warrants, which reduced the exercise price in the event the Company issued shares during the period for less than the exercise price.

As a result, the warrants failed fixed-for-fixed criteria and were accounted for as a derivative liability for the first 60 days accounted for at FVTPL. The Company valued the warrants at $11,207 based on the following assumptions used in the Black-Scholes model: exercise price of $1.20, underlying share price of $1.20, expected life of 4 years, risk-free interest rate of 0.77% and annualized volatility of 113%.

The Company incurred a total of $4,944 of transactions in relation to the Term Loan. The Company allocated $4,164 of transaction costs to the debt and immediately expensed $780 allocated to the warrants. The fair value of the debt component was measured as the residual value of $52,659 following the deduction of the warrants value and the transaction costs from the total proceeds received of $68,030.

As part of the Term Loan, the Company is required to be in compliance with the following financial covenants:
- Minimum liquidity of $4,500 as of June 30, 2023.
- Minimum debt service coverage ratio of 2.5x.

On June 28, 2021, the down-round protection feature expired triggering the warrants to meet fixed-for-fixed criteria and the Company accounted for the warrants as equity instruments. The Company revalued the warrants at $9,018 with a gain of $2,189 recognized on the change in fair value and reclassified the outstanding balance to warrants in equity. The Company valued the warrants at $9,018 based on the following assumptions used in the Black-Scholes model: exercise price of $1.20, underlying share price of $1.01, expected life of 3.84 years, risk-free interest rate of 0.87% and annualized volatility of 113%.

On May 6, 2022 and June 6, 2022, the Company completed repayments of the Term Loan in the aggregate amount of $3,418, incurring in a loss on debt settlement of $1,136. As of June 30, 2023 and December 31, 2022, the principal amount outstanding under the Term Loan was $56,092 and $54,096, Unamortized debt issuance costs related to the term loan was $9,743 as of June 30, 2023 and $11,739 as of December 31, 2022.

As of June 30, 2023, the Company was in compliance with its covenants under the Term Loan.

10. NOTES PAYABLE *(Continued)*

(c) Equipment Loan

As of June 30, 2023, notes payable balance comprised of two collateralized equipment loans, bearing interest ranging from 0% to 6.45% per annum, maturing through August 2026.

(d) Convertible debenture

On April 29, 2022, the Company completed a non-brokered private placement (the "Private Placement") that includes a 10.0% unsecured convertible debenture in the principal amount of $3,500 (the "Debenture"), as well as 3,076,923 pre-funded common share purchase warrants (each a "Pre-Funded Warrant") at a price of $0.39 per Pre-Funded Warrant, for aggregate gross proceeds of $4,700, resulting in an increase of $1,744 and $70 to equity conversion feature and warrants, respectively. The Debenture will come due in 2032 and the principal amount then outstanding is convertible into common shares of the Company at a conversion price of $0.79 per common share. Each Pre-Funded Warrant shall entitle the holder to purchase one common share at an additional exercise price of $0.40 per common share (for a total common share issue price equal to $0.79) for a period of 12 months from the date of issuance. As of December 31, 2022, the principal amount outstanding under the Debenture was $3,362 and unamortized debt issuance costs was $1,867.

The Private Placement was entered into at the same time as the modification of the existing lease for the Sweetwater facility. Both transactions were entered into with the same counterparty and as such, the Company performed an assessment to determine the unit of account. The Company determined that accounting for each separate individual transaction in accordance with its legal form would not faithfully represent the overall commercial substance and as such the transactions were accounted for as follows:

- The right of use asset and lease liability were remeasured based on the revised lease terms and payments. The Company allocated incremental payments from the lease amendment that were not representative of the fair value of the lease. For the year ended December 31, 2022, incremental lease payments of $27 were allocated to the Debenture.
- The debt component of the convertible debenture was measured based on interest rates applicable to the Company for comparable instruments without a conversion feature, and the residual amount was attributed to the equity components consisting of warrants and the conversion feature.
- The Pre-Funded Warrants were measured at their fair value using the Black-Scholes model and the remaining proceeds were then allocated to the conversion feature and recognized in the equity conversion feature reserve in equity. Total transaction costs of $40 were allocated proportionately to the debt, conversion feature and Pre-Funded Warrants.

(Amounts expressed in thousands of United States Dollars unless otherwise stated)

10. NOTES PAYABLE *(Continued)*

The balance outstanding under the convertible debenture as at June 30, 2023 and December 31, 2022 is as follows:

	June 30, 2023	December 31, 2022
Balance at the beginnig of the period	$ 2,838	$ -
Proceeds	-	2,846
Interest and accretion	266	362
Prepayments of principal and interest	(278)	(370)
Balance at the end of the period	**$ 2,826**	**$ 2,838**

A reconciliation of the beginning and ending balances of the notes payable for the six months ended June 30, 2023 and the year ended December 31, 2022 is as follows:

	June 30, 2023	December 31, 2022
Balance at the beginning of the period	$ 57,710	$ 54,293
Proceeds from convertible debenture and warrants	-	4,700
Transaction costs on convertible debenture and warrants	-	(40)
Issuance of warrants for convertible loan	-	(1,814)
Proceeds from equipment loans	-	748
Note Settlement	-	(924)
Interest and accretion	6,542	12,594
Repayments of principal and interest	(4,988)	(12,982)
Loss on debt settlement	-	1,136
Balance at the end of the period	**$ 59,264**	**$ 57,710**

(Amounts expressed in thousands of United States Dollars unless otherwise stated)

11. LEASES

The Company's leasing activities include the lease of cultivation and manufacturing facilities used in the production of cannabis and related products and office premises.

(a) Right-of-use assets

		June 30, 2023		December 31, 2022
Cost				
Balance at beginning of period	$	44,029	$	29,590
Additions		525	$	14,818
Disposals		-		(379)
Balance at end of period		44,554		44,029
Accumulated Depreciation				
Balance at beginning of period	$	13,565	$	10,421
Additions		1,841		3,144
Balance at end of period		15,406		13,565
Right-of-use-assets, net	**$**	**29,148**	**$**	**30,464**

(b) Lease Liabilities

		June 30, 2023		December 31, 2022
Balance at beginning of period	$	36,045	$	23,591
Additions		592		15,014
Disposals		-		(401)
Interest on lease liabilities		2,037		3,612
Interest payments on lease obligations		(2,037)		(3,611)
Principal payments on lease obligations		(1,151)		(2,160)
Balance at end of period	**$**	**35,486**	**$**	**36,045**
Less current portion of lease obligations		(2,586)		(2,123)
Lease obligations, net of current portion	**$**	**32,900**	**$**	**33,922**

On May 1, 2022, the Company modified its lease agreements on six retail store fronts. The purpose of the modifications was to eliminate the variable component of rent, which was based on a percentage of gross sales and extend the term. The lease payments for these retail store fronts are now fixed. As a result of the modifications, the Company recognized additional right-of-use asset and lease liability of $5,657.

On May 1, 2022, the Company modified its lease agreement on its Sweetwater facility. The modification extended the lease termination date, increased the monthly payments, and was entered into concurrently with the Private Placement as disclosed in Note 14(d). As a result of the modification, the Company recognized an additional right-of-use asset and lease liability of $235.

(Amounts expressed in thousands of United States Dollars unless otherwise stated)

12. SHAREHOLDERS' EQUITY

	Share capital		
	Number of unrestricted common shares	Number of restricted common shares	Amount
Balance, December 31, 2021	**251,576,742**	**400,000**	**$ 180,657**
Exercise of options	300,000	-	135
Issuance of options	-	-	-
Shares issued for professional services (Note 16 a.)	1,048,386	-	162
Foreign currency gain/(loss) on translation	-	-	-
Issuance of warrants for convertible debenture (Note 16 c.)	-	-	-
Release of restricted stock for consuting ageement (Note 14 c., 16 b.)	400,000	(400,000)	-
Issuance of share for equity price guarantee (Note 16 d.)	11,634,615	-	-
Net loss	-	-	-
Balance, December 31, 2022	**264,959,743**	**-**	**$ 180,954**
Balance, December 31, 2022	**264,959,743**	**-**	**$ 180,954**
Shares issued for professional services (Note 16 e.)	3,385,417	-	326
Issuance of options			
Cancellation of options			
Privat placement issuance of shares and warrants (Note 16 f.)	30,000,000	-	2,297
Net loss	-	-	-
Balance, June 30, 2023	**298,345,160**	**-**	**$ 183,577**

Equity shares transactions

During the three months ended June 30, 2023 and year ended December 31, 2022, the following transactions were recorded in shareholders' equity:

a. On November 2, 2022, the Company issued to its Board of Directors members, 1,048,386 shares at $0.155 per share as compensation resulting in an increase to share capital of $162 to satisfy the board of directors' fee obligation.

b. On July 25, 2022, under the Uriah Settlement, the Company released 400,000 restricted common shares previously issued to the noteholder which were subject to performance milestones that were not achieved. These shares were released as part of the settlement and resulted in no increase to share capital.

c. On April 29, 2022, the Company completed a non-brokered private placement (the "Private Placement") that included a 10.0% unsecured convertible debenture in the principal amount of $3,500 ("the Debenture"), as well as 3,076,923 pre-funded common share purchase warrants (each a "Pre-Funded Warrant") at a price of US$0.39 per Pre-Funded Warrant, for aggregate gross proceeds of $4,700 resulting increase of $1,744 and $70 to equity conversion feature and warrants, respectively. The Debenture will come due in 2032 and is convertible into common shares of the Company at a conversion price of $0.79 per common share. Each Pre-Funded Warrant shall entitle the holder to purchase one common share at an additional exercise price of $0.40 per common share (for a total common share issue price equal to $0.79) for a period of 12 months from the date of issuance.

12. SHAREHOLDERS' EQUITY *(Continued)*

As a part of determining the unit of account, the Company determined that the transaction price of $1,200 for the Pre-Funded Warrant was not representative of its fair value. Therefore, the Company used the Black-Scholes Model to determine the fair value of the Pre-Funded Warrant on the date of issuance. The fair value of the Pre-Funded Warrant was $71 using the Black-Scholes Model with the following assumptions: an underlying share price of $0.22, a risk-free rate of 2.60%, an expected volatility of 70%, an expected life of 1 year and an expected dividend yield of 0%.

d. On December 21, 2022, the Company amended its Equity Price Guarantee and issued 11,634,615 common shares, or equivalent proportionate voting shares, to a related party.

e. On January 6, 2023 and June 2, 2023, the Company issued to its Board of Directors' members, 1,354,167 and 2,031,250 shares at $0.12 per share and $0.08 per share, respectively, as compensation resulting in an increase in share capital of $325 for the six-month period ending June 30, 2023.

f. On February 28, 2023, the Company closed a non-brokered private placement offering of 30,000,000 units, at a price of $0.10 per unit, for aggregate gross proceeds of $3,000,000. Each unit consists of one common share of the Company and one-half common share purchase warrant. Each full warrant entitles the holder to purchase one common share of the Company at an exercise price of $0.15 per full common share purchase warrant for a period of 36 months from the issuance date.

The allocation of proceeds on initial recognition was based on the relative fair values of the common shares issued and the warrants. On the date of issuance, the Company determined that the fair value of the common shares was $3,300,000 based on an underlying share price of $0.11, and that the fair value of the warrants was $998,517. The fair value of the warrants was determined using the Black-Scholes option pricing model with the following assumptions: an underlying share price of $0.11, an exercise price of $0.15, a risk-free rate of 3.94%, an expected volatility of 105.9%, an expected life of 3 years and an expected dividend yield of 0%. After applying the relative fair values, the Company allocated $2,303 to the common shares, and $697 to the warrants. The Company also incurred transaction costs of $7 on issuance of the common shares warrants. The transaction costs were allocated based on the relative fair value of the shares and warrants and were recorded as a reduction to the transaction price of the instruments within equity.

Share Capital

As of June 30, 2023, the share capital of the Company is comprised of 272,418,520 common shares, 2,592,664 proportionate voting shares (each proportionate voting share is convertible into ten common shares), 43,534,060 warrants and 10,555,556 stock options. For the purpose of the statement of changes in shareholders' equity, the proportionate voting shares have been included as part of common shares based on the 1 for 10 conversion ratio.

During the three and six month periods ending June 30, 2023, stock options granted to third-party consultants totaling 3,150,000 with a weighted average exercise price of .33 expired.

Earnings per share have been calculated using the weighted average number of shares outstanding during a period on a total outstanding and fully dilutive basis. The potential conversion of warrants, convertible debt, and stock options into common shares. The weighted average number of basic and diluted shares are presented in the table below:

(Amounts expressed in thousands of United States Dollars unless otherwise stated)

12. SHAREHOLDERS' EQUITY *(Continued)*

	June 30, 2023	December 31, 2022
Weighted average number of shares - basic	286,804,241	252,698,567
Weighted average warrants	40,601,969	39,389,699
Weighted average options	12,566,169	16,410,568
Weighted average number of shares - diluted	339,972,379	308,498,834

Warrant activity for the Company for the six-month period ended June 30, 2023 and year ended December 31, 2022, is as follows:

	Warrants
Balance as of December 31, 2021	**38,184,396**
Expired	(5,457,500)
Granted	3,076,923
Balance as of December 31, 2022	**35,803,819**
Expired	(7,269,759)
Granted	15,000,000
Balance as of June 30, 2023	**43,534,060**

Stock option activity for the Company for the six-month period ending June 30, 2023 and year ended December 31, 2022, is as follows:

	Options Issued	Weighted Average Exercise Price	
Balance as of December 31, 2021	**16,955,500**	**$**	**0.52**
Granted	700,000	$	0.20
Exercised	(300,000)	$	0.45
Forfeited	(3,924,444)	$	0.44
Balance as of December 31, 2022	**13,431,056**	**$**	**0.53**
Forfeited	(3,375,500)	$	0.33
Granted	500,000	$	0.10
Balance as of June 30, 2023	**10,555,556**	**$**	**0.57**

13. STOCK BASED COMPENSATION

On March 14, 2019, the Board of Directors (the "Board") of the Company approved a Stock Option Plan (the "Plan"). Under the Plan, the Board may grant options to acquire common shares of the Company to officers, employees, and consultants, to a limit of 10% of the outstanding common shares of the Company, including proportionate voting shares. The purpose of the Plan is to provide the Company with a share-related mechanism to attract, retain and motivate qualified executives, employees, and consultants to contribute toward the long-term goals of the Company, and to encourage such individuals to acquire shares of the Company as long-term investments.

On January 6, 2023 and June 2, 2023, the Company issued to its Board of Directors' members, 1,354,167 and 2,031,250 shares at $0.12 and $0.08 per share, respectively, as compensation resulting in an increase to share capital of $325 for the six-month period ending June 30, 2023.

(Amounts expressed in thousands of United States Dollars unless otherwise stated)

13. STOCK BASED COMPENSATION *(Continued)*

On March 14, 2019, the Board of Directors (the "Board") of the Company approved a Stock Option Plan (the "Stock Option Plan"). Under the Stock Option Plan, the Board may grant options to acquire common shares of the Company to officers, employees, and consultants. The aggregate number of shares available for issuance under the Stock Option Plan and RSU Plan (described below) is limited to 10% of the outstanding common shares of the Company, including proportionate voting shares. The purpose of the Stock Option Plan is to provide the Company with a share-related mechanism to attract, retain and motivate qualified executives, employees, and consultants to contribute toward the long-term goals of the Company, and to encourage such individuals to acquire shares of the Company as long-term investments.

On May 17, 2021, the Board approved a Restricted Share Unit Award Plan (the "RSU Plan"). Under the RSU Plan, the Board may grant restricted share units of the Company to officers, employees, and consultants. The aggregate number of shares available for issuance under the Stock Option Plan and RSU Plan (described below) is limited to 10% of the outstanding common shares of the Company, including proportionate voting shares. The purpose of the RSU Plan is to provide the Company with a share-related mechanism to attract, retain and motivate qualified executives, employees, and consultants to contribute toward the long-term goals of the Company.

July 14, 2023, the board approved an option cancellation agreement whereas options held by certain employees that were out of the money will be exchanged for restricted stock units. In addition, the board granted additional restricted stock units to key employees of the Company.

14. EXPENSE BY NATURE

General and administrative expenses for the three and six months ended June 30, 2023 and 2022, are as follows:

	For the three months ended June 30,		For the six months ended June 30,	
	2023	2022	2023	2022
General and administrative				
Legal and professional fees	$ 728	$ 898	$ 1,599	$ 1,622
Salaries and benefits	1,325	674	2,339	1,817
Insurance	250	227	712	776
Variable rent expenses	58	23	(67)	46
Travel and entertainment	46	23	78	44
Recruiting	-	28	-	63
Investor relations and regulatory fees	-	41	-	82
Payroll processing fees	-	46	-	70
Other	344	360	636	640
Total general and administrative	**$ 2,571**	**$ 2,319**	**$ 5,298**	**$ 5,160**

Sales and marketing expenses for the three and six months ended June 30, 2023 and 2022, are as follows:

	For the three months ended June 30,		For the six months ended June 30,	
	2023	2022	2023	2022
Sales and marketing				
Salaries and benefits	$ 3,827	$ 2,871	$ 7,440	$ 5,414
Advertising expenses	350	360	664	809
Variable rent expenses	(1,291)	343	(2,566)	759
Legal and professional fees	110	44	165	93
Security	74	110	119	214
Supplies	191	87	424	263
Software	130	82	212	164
Other	2,185	293	3,117	561
Total sales and marketing	**$ 5,576**	**$ 4,190**	**$ 9,574**	**$ 8,277**

(Amounts expressed in thousands of United States Dollars unless otherwise stated)

15. COMMITMENTS AND CONTINGENCIES

(a) Contingencies

The Company's operations are subject to a variety of local and state regulations. Failure to comply with one or more of those regulations could result in fines, restrictions on its operations, or losses of permits that could result in the Company ceasing operations. While management of the Company believes that the Company is in compliance with applicable local and state regulation as of June 30, 2023, medical marijuana regulations continue to evolve and are subject to differing interpretations. As a result, the Company may be subject to regulatory fines, penalties, or restrictions in the future.

(b) Claims and Litigation

From time to time, the Company may be involved in litigation relating to claims arising out of operations in the normal course of business. As of June 30, 2023, there were no pending or threatened lawsuits that could reasonably be expected to have a material effect on the results of the Company's operations, except for the claims disclosed below. There are also no proceedings in which any of the Company's directors, officers or affiliates is an adverse party or has a material interest adverse to the Company's interest.

February 7, 2023, the Company settled litigation with MXY Holdings, LLC relating to a management agreement for $1,000. As of March 31, 2023 and December 31, 2022, the total outstanding amount was $958 and $1,000, which was classified $542 and $417 as short-term liabilities based on the settlement terms.

16. RELATED-PARTY TRANSACTIONS

Key management personnel compensation

Key management personnel are those persons having the authority and responsibility for planning, directing and controlling activities for the Company, directly and indirectly. The key management personnel of the Company are the members of the Company's executive management team and Board of Directors. For the three and six months ended June 30, 2023 and 2022, key management personnel compensation consisted of the following:

	For the three months ended June 30,		For the six months ended June 30,	
	2023	2022	2023	2022
Salary	$ 714	$ 659	$ 1,425	1,132
Option-based compensation	-	-	29	-
All other compensation	163	200	325	400
Total	$ 876	$ 859	$ 1,779	$ 1,532

On February 28, 2023, the Company closed a non-brokered private placement offering of 30,000,000 units, at a price of $0.10 per unit, for aggregate gross proceeds of $3,000,000. Each unit consists of one common share of the Company and one-half common share purchase warrant. Each full warrant entitles the holder to purchase one common share of the Company at an exercise price of $0.15 per full common share purchase warrant for a period of 36 months from the issuance date. As part of the private placement, the Company issued to its Executive Chairman 10,000,000 shares and 5,000,000 warrants.

On January 6, 2023 and June 2, 2023, the Company issued to its Board of Directors' members, 1,354,167 and 2,031,250 shares at $0.12 and $0.08 per share, respectively, as compensation resulting in an increase to share capital of $325 for the six-month period ending June 30, 2023.

17. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

Financial instruments

The Company's financial instruments consist of cash, trade receivable, trade payable, accrued liabilities, derivative liabilities, notes payable, lease obligations, and other long-term liabilities.

Financial assets

(i) Cash is comprised of deposits held in financial institutions and cash on hand.

Financial liabilities

(i) Loans are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such liabilities are recognized initially at fair value and subsequently on an amortized cost basis using the effective interest method, less any impairment losses. They are included in current liabilities, except for maturities greater than 12 months after the end of the reporting period, which are classified as non-current liabilities.

(ii) Other financial liabilities include the Company's trade payable and accrued liabilities and notes payable. The effective interest method is used to calculate the amortized cost of a financial liability and allocates interest income over the corresponding period.

(Amounts expressed in thousands of United States Dollars unless otherwise stated)

17. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT *(Continued)*

(iii) The effective interest rate is the rate that is used to discount estimated future cash receipts or payments over the expected life of the financial asset or liability.

Financial instruments recorded at fair value are classified using a fair value hierarchy that reflects the reliability of the inputs to fair value measurements. The three levels of hierarchy are:

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;

Level 2 – Inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly; and

Level 3 – Inputs for the asset or liability that are not based on observable market data.

There have been no transfers between fair value levels during the year.

The carrying values of financial instruments at June 30, 2023 are summarized in the following table:

	Amortized cost	FVTPL	Total
Financial Assets			
Cash and cash equivalents	—	8,797	8,797
Trade receivable	27	—	27
Financial Liabilities			
Trade payable	6,813	—	6,813
Accrued liabilities	25,585	—	25,585
Derivative liabilities	—	8,512	8,512
Notes payable	59,264	—	59,264
Lease obligations	35,486	—	35,486
Other long-term liabilities	542	—	542

The carrying values of financial instruments at December 31, 2022 are summarized in the following table:

	Amortized cost	FVTPL	Total
Financial Assets			
Cash and cash equivalents	—	8,359	8,359
Trade receivable	28	—	28
Financial Liabilities			
Trade payable	6,931	—	6,931
Accrued liabilities	5,535	—	5,535
Derivative liabilities	—	8,676	8,676
Notes payable	57,710	—	57,710
Lease obligations	36,045	—	36,045
Other long-term liabilities	1,333	—	1,333

17. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT *(Continued)*

Financial risk management

The Company is exposed in varying degrees to a variety of financial instrument related risks. The Board mitigates these risks by assessing, monitoring, and approving the Company's risk management processes:

(a) Credit risk

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 as of June 30, 2023 is the carrying amount of cash, trade receivable and note receivable. All cash is placed with major U.S. financial institutions. Credit risk from due from trade receivable and note receivable arises from the possibility that amounts due become uncollectible.

(b) Market risk

Market risk is the risk that the future cash flows or the fair value of a financial instrument will fluctuate because of changes in market conditions.
(i) Other price risk

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market prices, other than those arising from interest rate risk.

The Company is not significantly exposed to other price risk with respect to its financial instruments, as their fair values and future cash flows are not impacted materially by fluctuations in market prices.

(ii) Currency risk

The consolidated operating results and consolidated financial position of the Company are reported in U.S. dollars. Some of the Company's financial transactions are denominated in currencies other than the U.S. dollar. The results of the Company's operations are subject to currency transaction and translation risks.

As of June 30, 2023, the Company had no hedging agreements in place with respect to foreign exchange rates. The Company has not entered into any agreements or purchased any instruments to hedge possible currency risks at this time as it deems its foreign currency exposure to be nominal.

(iii) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company's financial debts have fixed rates of interest and therefore expose the Company to a limited interest rate fair value risk.

(c) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations associated with financial liabilities. The Company manages liquidity risk through the management of its capital structure. The Company's approach to managing liquidity is to ensure that it will have sufficient liquidity to settle obligations and liabilities when due.

(Amounts expressed in thousands of United States Dollars unless otherwise stated)

17. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (*Continued)*

The Company had the following contractual obligations as of June 30, 2023:

	< 1 year	1 to 3 years	3 to 5 years	> 5 years	Total
Trade payable	$ 6,813	$ -	$ -	$ -	$ 6,813
Accrued liabilities	4,911	-	-	-	4,911
Notes payable	9,885	77,859	1,112	51	88,908
Lease obligations	6,482	12,756	11,853	26,403	57,493
Total	$ 28,091	$ 90,616	$ 12,965	$ 26,454	$158,125

The Company had the following contractual obligations as of December 31, 2022:

	< 1 year	1 to 3 years	3 to 5 years	> 5 years	Total
Trade payable	$ 6,931	$ -	$ -	$ -	$ 6,931
Accrued liabilities	5,534	-	-	-	5,534
Notes payable	9,873	10,706	70,783	1,706	93,068
Lease obligations	5,692	12,294	12,327	34,026	64,339
Total	$ 28,030	$ 23,000	$ 83,110	$ 35,732	$169,872

18. CAPITAL MANAGEMENT

The Company's capital management objectives are to maintain financial flexibility in order to pursue its strategy of organic growth and to provide returns to its shareholders. The Company defines capital as the aggregate of its capital stock and borrowings.

Total managed capital is as follows:

	June 30, 2023	December 31, 2022
Notes payable	$ 59,264	$ 57,710
Share capital	183,577	180,954
Total managed capital	**$ 242,841**	**$ 238,664**

The Company manages its capital structure in accordance with changes in economic conditions. In order to maintain or adjust its capital structure, the Company may elect to issue or repay financial liabilities, issue shares, repurchase shares, pay dividends or undertake any other activities as deemed appropriate under the specific circumstances. The Company is not subject to any externally imposed capital requirements. Management reviews its capital management approach on an ongoing basis. There were no material changes to this approach during the six months ended June 30, 2023 and the year ended December 31, 2022.

19. FINANCE COSTS

The Company's finance costs for the three and six month periods ended June 30, 2023 are as follows:

(Amounts expressed in thousands of United States Dollars unless otherwise stated)

	For the three months ended June 30,		For the six months ended June 30,	
	2023	**2022**	**2023**	**2022**
Interest income	$ (16)	$ (2)	$ (24)	$ (74)
Interest expense	2,221	2,286	4,422	4,544
Accretion costs	1,103	898	2,139	1,713
Interest on right of use assets	1,016	661	2,036	1,316
Finance costs, net	**$ 4,324**	**$ 3,843**	**$ 8,573**	**$ 7,500**

20. DISPOSAL OF ASSETS

In June 2022, the Company officially exited its Homestead Florida cultivation facility, thereby writing off certain receivables, and property and equipment, recognizing a loss of $672 in the statement of loss and comprehensive loss for six months ended June 30, 2023.

21. SUBSEQUENT EVENTS

Based on the advice of its legal and tax advisors, the Company determined that it was eligible to receive Employee Retention Credit ("ERC") initially enacted under the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act") from quarter one and quarter two of 2021 in the amount of $4,055 (the "Credit"). The Company submitted amended payroll tax returns to the IRS in the third quarter of 2023 for the Credit. In August 2023, the Company sold the Credit to a non-related third party for gross proceeds of $3,433.

On July 19, 2023, the Company entered into a seven-year lease to house our corporate office as part of the Company's headquarters relocation from Miami to Tampa Florida.