

Cansortium Inc.

Consolidated Financial Statements

**For the years ended
December 31, 2023 and 2022**

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

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Independent Auditors' Report

To the Shareholders of Consortium Inc.

Opinion

We have audited the consolidated financial statements of Consortium Inc. and its subsidiaries (together, the "Company"), which comprise the consolidated statements of financial position as at December 31, 2023 and 2022, and the consolidated statements of loss and other comprehensive loss, changes in shareholders' equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2023 and 2022, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

1. Valuation of biological assets in connection with certain key management assumptions

As described in Note 4 to the consolidated financial statements, the Company measures biological assets at fair value less costs to sell at the end of each reporting period in accordance with IAS 41 - *Agriculture*. As at December 31, 2023, the carrying amount of the Company's biological assets was \$331 thousand. The Company applies a model that utilizes an income approach to determine the fair value less costs to sell at a specific measurement date, based on the existing cannabis plant's stage of completion up to the point of harvest.

Why the matter is a key audit matter

We identified the valuation of biological assets as a key audit matter due to the high degree of auditor judgment required and the degree of subjectivity involved in assessing the significant assumptions used to measure biological assets. The significant assumptions used to measure biological assets were (i) the estimated selling price per gram, and (ii) the estimated cost to sell per gram.

How the matter was addressed in the audit

We responded to this matter by testing the following significant management assumptions:

- i. The estimated selling price per gram was tested by comparing the sales price per gram assumption to actual sales prices during 2023 and assessing whether the sales price per gram assumption was consistent with other market participants
- ii. The estimated cost to sell per gram was tested by comparing the estimated cost to sell per gram assumption to actual costs to sell per gram incurred during 2023 and assessing whether the cost to sell per gram assumption was consistent with other market participants
- iii. We performed sensitivity analyses over both assumptions

2. Impairment of goodwill and indefinite-lived intangible assets

As of December 31, 2023, the carrying amount of goodwill was \$1,525 thousand and the carrying amount of indefinite-lived intangible assets was \$93,593 thousand, which related to the Florida cash generating unit ("CGU"). The Company performs impairment testing on an annual basis, or whenever events or changes in circumstances indicate that the carrying value of a CGU might exceed its recoverable amount, which is determined using the fair value less costs of disposal method. As a result of the Company performing impairment tests for the CGU, no impairment loss on goodwill or indefinite-lived intangible assets was necessary.

Why the matter is a key audit matter

We identified the impairment of goodwill and indefinite-lived intangible assets as a key audit matter due to the high degree of auditor judgment required to evaluate the significant assumptions used in determining the recoverable amount including forecasted revenues, EBITDA margin, terminal growth rates, and discount rates. The sensitivity of reasonable changes to the significant assumptions could have a significant impact on the calculation of the recoverable amount of the CGUs and the Company's measurement of impairment.

How the matter was addressed in the audit

We responded to this matter by performing audit procedures in relation to the impairment of goodwill and indefinite-lived intangible assets. Our audit work in relation to this included, but was not limited to the following:

- i. evaluated the reasonableness of the assumptions applied to key inputs, such as sales volumes and prices, EBITDA margin, and terminal growth rates by comparing these assumptions to historical actual performance and external market and industry data
- ii. tested the underlying data used in the discounted cash flow models
- iii. performed a sensitivity analysis on the key assumptions to assess the impact of reasonable changes on the calculation of the recoverable amounts
- iv. involved internal valuation professionals with specialized skills and knowledge in the field of valuation to assist in testing the appropriateness of the models used in determining fair

value less costs of disposal and whether the models used were in accordance with IAS 36 - *Impairment of Assets*

- v. evaluated the reasonability of the discount rate and other inputs used in the impairment analysis based on industry data and other benchmarks

Other Information

Management is responsible for the other information. The other information comprises the information included in the Management's Discussion and Analysis filed with the relevant Canadian securities commissions.

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

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

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

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

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

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

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

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

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

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

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

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

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

The engagement partner on the audit resulting in this independent auditors' report is Jeffrey Smith.

Baker Tilly US, LLP

Tyson, Virginia
April 29, 2024

Cansortium Inc.
Consolidated Statements of Financial Position

As of December 31, 2023 and 2022

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

| | | December 31, | |
|---|--------------|-------------------|-------------------|
| | | 2023 | 2022 |
| Assets | | | |
| Current assets | | | |
| Cash | | \$ 10,521 | \$ 8,359 |
| Trade receivable | | 215 | 28 |
| Inventory, net | Note 3 | 9,244 | 8,973 |
| Biological assets | Note 4 | 331 | 996 |
| Prepaid expenses and other current assets | Note 6 | 1,882 | 883 |
| Total current assets | | 22,193 | 19,239 |
| Property and equipment, net | Note 8 | 27,642 | 31,743 |
| Intangible assets, net | Note 9 | 93,593 | 94,291 |
| Right-of-use assets, net | Note 15 | 31,943 | 30,464 |
| Goodwill | Note 11 | 1,525 | 1,526 |
| Other assets | Notes 6, 10 | 907 | 768 |
| Total assets | | \$ 177,803 | \$ 178,031 |
| Liabilities | | | |
| Current liabilities | | | |
| Trade payable | | \$ 5,525 | \$ 6,931 |
| Accrued liabilities | | 9,779 | 5,534 |
| Income taxes payable | | 22,009 | 13,952 |
| Derivative liabilities | Note 13 | 9,109 | 8,676 |
| Current portion of notes payable, net | Note 14 | 213 | 741 |
| Current portion of lease liabilities | Note 15 | 2,872 | 2,123 |
| Total current liabilities | | 49,507 | 37,957 |
| Notes payable, net | Note 14 | 61,189 | 56,969 |
| Lease liabilities | Note 15 | 37,242 | 33,922 |
| Deferred tax liability | Note 12 | 17,398 | 20,290 |
| Other long-term liabilities | Note 26 | 3,882 | 1,333 |
| Total liabilities | | 169,218 | 150,471 |
| Shareholders' equity | | | |
| Share capital | Note 16 | 183,690 | 180,954 |
| Share-based compensation reserve | Note 17 | 6,739 | 6,395 |
| Equity conversion feature | | 6,677 | 6,677 |
| Warrants | Notes 14, 16 | 29,634 | 28,939 |
| Accumulated deficit | | (217,821) | (195,071) |
| Foreign currency translation reserve | | (334) | (334) |
| Total shareholders' equity | | 8,585 | 27,560 |
| Total liabilities and shareholders' equity | | \$ 177,803 | \$ 178,031 |

Other notes include:

Note Receivable (Note 5)
Deposit (Investment) (Note 10)
Commitments and Contingencies (Note 19)
Discontinued Operations (Note 25)
Employee Retention Tax Credits (Note 26)
Subsequent Event (Note 27)

Approved on behalf of the Board:

Robert Beasley

Chief Executive Officer

Jeffrey Batliner

Chief Financial Officer

Cansortium Inc.
Consolidated Statements of Loss and Comprehensive Loss
For the years ended December 31, 2023 and 2022
(Amounts expressed in thousands of United States Dollars unless otherwise stated)

| | For the Years Ended December | |
|---|------------------------------|-------------|
| | 31, | |
| | 2023 | 2022 |
| Revenue, net of discounts | \$ 97,290 | \$ 87,692 |
| Cost of goods sold | 47,814 | 43,731 |
| Gross profit before fair value adjustments | 49,476 | 43,961 |
| Fair value adjustments on inventory sold | 12,659 | 2,622 |
| Unrealized loss on changes in fair value of biological assets | Note 4 (14,602) | (9,620) |
| Gross profit | 47,533 | 36,963 |
| Expenses | | |
| General and administrative | Note 18 10,022 | 8,288 |
| Share-based compensation | Note 17 638 | 545 |
| Sales and marketing | Note 18 20,193 | 17,510 |
| Depreciation and amortization | Notes 3,8 7,414 | 6,765 |
| Total expenses | 38,267 | 33,108 |
| Income from operations | 9,266 | 3,855 |
| Other expense (income) | | |
| Finance costs, net | Note 23 17,941 | 16,087 |
| Loss on change in fair value of derivative liability | Notes 13, 21 433 | 4,716 |
| Loss on debt settlement | Note 14 - | 1,136 |
| Loss (gain) on disposal of assets | Note 24 (26) | 672 |
| Loss on lease modifications | 67 | - |
| Loss from termination of a contract | 7 | 8,011 |
| Other expense | - | 3 |
| Total other expense | 18,422 | 30,625 |
| Loss before income taxes | (9,156) | (26,770) |
| Income tax expense | Note 12 13,594 | 10,376 |
| Net loss from continuing operations | (22,750) | (37,146) |
| Net loss from discontinued operations | - | 277 |
| Net loss | \$ (22,750) | \$ (37,423) |
| Other comprehensive gain that may be reclassified to profit or loss in subsequent years | | |
| Exchange differences on translation of foreign operations and reporting currency | - | 88 |
| Comprehensive loss | \$ (22,750) | \$ (37,335) |
| Net loss per share | | |
| Basic and diluted - continuing operations | \$ (0.08) | \$ (0.15) |
| Weighted average number of shares | | |
| Basic number of shares | 292,622,129 | 252,698,567 |
| Diluted number of shares | 349,037,476 | 308,498,834 |

Cansortium Inc.
Consolidated Statements of Changes in Shareholders' Equity
For the years ended December 31, 2023 and 2022
(Amounts expressed in thousands of United States Dollars unless otherwise stated)

| | Share capital | | | Reserves | | | | Accumulated deficit | Foreign currency translation reserve | Total shareholders' equity |
|--|--------------------------------------|------------------------------------|-------------------|----------------------------------|---------------------------|------------------|---------------------|---------------------|--------------------------------------|----------------------------|
| | Number of unrestricted common shares | Number of restricted common shares | Amount | Share-based compensation reserve | Equity conversion feature | Warrants | | | | |
| Balance, December 31, 2021 | 251,576,742 | 400,000 | \$ 180,657 | \$ 6,176 | \$ 4,933 | \$ 28,869 | \$ (157,648) | \$ (421) | \$ 62,566 | |
| Exercise of options | 300,000 | - | 135 | - | - | - | - | - | 135 | |
| Issuance of options | - | - | - | 219 | - | - | - | - | 219 | |
| Shares issued for professional services (Note 16 a.) | 1,048,386 | - | 162 | - | - | - | - | - | 162 | |
| Foreign currency gain on translation | - | - | - | - | - | - | - | 87 | 87 | |
| Issuance of warrants for convertible debenture (Note 16 c.) | - | - | - | - | 1,744 | 70 | - | - | 1,814 | |
| Release of restricted stock for consulting agreement (Note 14 c., 16 b.) | 400,000 | (400,000) | - | - | - | - | - | - | - | |
| Issuance of share for equity price guarantee (Note 16 d.) | 11,634,615 | - | - | - | - | - | - | - | - | |
| Net loss | - | - | - | - | - | - | (37,423) | - | (37,423) | |
| Balance, December 31, 2022 | 264,959,743 | - | \$ 180,954 | \$ 6,395 | \$ 6,677 | \$ 28,939 | \$ (195,071) | \$ (334) | \$ 27,560 | |
| 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 e.) | 4,569,624 | - | 439 | - | - | - | - | - | 439 | |
| Issuance of options | - | - | - | 154 | - | - | - | - | 154 | |
| Issuance of restricted stock units | - | - | - | 195 | - | - | - | - | 195 | |
| Cancellation of options | - | - | - | (5) | - | - | - | - | (5) | |
| Private placement issuance of shares and warrants (Note 16 f.) | 30,000,000 | - | 2,297 | - | - | 695 | - | - | 2,992 | |
| Net loss | - | - | - | - | - | - | (22,750) | - | (22,750) | |
| Balance, December 31, 2023 | 299,529,367 | - | \$ 183,690 | \$ 6,739 | \$ 6,677 | \$ 29,634 | \$ (217,821) | \$ (334) | \$ 8,585 | |

Cansortium Inc.
Consolidated Statements of Cash Flow
For the years ended December 31, 2023 and 2022
(Amounts expressed in thousands of United States Dollars unless otherwise stated)

| | For the twelve months ended December 31, | |
|---|--|-----------------|
| | 2023 | 2022 |
| Operating activities | | |
| Net loss from continuing operations | \$ (22,750) | \$ (37,146) |
| Adjustments to reconcile net loss to net cash provided by operating activities: | | |
| Unrealized loss (gain) on changes in fair value of biological assets | 14,602 | 9,620 |
| Realized gain on changes in fair value of biological assets | (12,659) | (2,622) |
| Share-based compensation | 638 | 545 |
| Depreciation and amortization | 15,078 | 13,428 |
| Accretion and interest of convertible debentures | 535 | 362 |
| Accretion and interest of term loan | 12,873 | 12,232 |
| Interest income on notes receivable | - | (71) |
| Interest on insurance financing | 48 | - |
| Loss on disposal of assets | 253 | 672 |
| Loss on debt settlement | - | 1,136 |
| Loss on termination of contract | - | 8,011 |
| Change in fair market value of derivative | 433 | 4,716 |
| Interest on lease liabilities | 4,472 | 3,612 |
| Deferred tax expense | (2,892) | (1,273) |
| Changes in operating assets and liabilities: | | |
| Trade receivable | (187) | (2) |
| Inventory | 15,596 | 11,927 |
| Biological assets | (17,145) | (16,355) |
| Prepaid expenses and other current assets | (999) | 404 |
| Right of Use Assets/Liabilities | (3,698) | 197 |
| Other assets | 661 | (137) |
| Trade payable | (1,400) | (1,208) |
| Accrued liabilities | 4,390 | (811) |
| Other long-term liabilities | 2,549 | - |
| Income taxes payable | 8,057 | 11,832 |
| Net cash provided by operating activities | 18,455 | 19,069 |
| Investing activities | | |
| Purchases of property and equipment | (6,019) | (6,799) |
| Purchase of intangible assets | (319) | - |
| Payment of notes receivable | - | 119 |
| Advances for notes receivable | - | (94) |
| Net cash used in investing activities | (6,338) | (6,774) |
| Financing activities | | |
| Net proceeds from issuance of shares and warrants | 2,992 | - |
| Proceeds from issuance of convertible debenture and warrants | - | 4,660 |
| Payment of lease obligations | (2,381) | (5,771) |
| Net proceeds from equipment loan | - | 748 |
| Exercise of options | - | 135 |
| Issuance of shares for note payable extension | - | 162 |
| Principal repayments of notes payable | (10,566) | (12,982) |
| Net cash used in financing activities | (9,955) | (13,048) |
| Effect of foreign exchange on cash and cash equivalents | - | 88 |
| Net increase (decrease) in cash | 2,162 | (665) |
| Cash, beginning of year | 8,359 | 9,024 |
| Cash, end of year | \$ 10,521 | \$ 8,359 |

Cansortium Inc.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2023 and 2022

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

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 295 The West Mall, Suite 600, Toronto, Ontario, M9C 4Z4 and its head office is located at 5540 W. Executive Drive, Suite 100, Tampa, Florida 33609.

On March 22, 2019, the Company acquired all outstanding units of Cansortium Holdings LLC ("Cansortium Holdings"), in connection with the Company's initial public offering and listing on the Canadian Securities Exchange. The Company's shares are listed on the Canadian Securities Exchange ("CSE") under the trading symbol "TIUM.U" and on the OTCQB Venture Market under the trading symbol "CNTMF."

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, concentrates, 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.

During the year ended December 31, 2022, the Company discontinued its operations in Brazil. Discontinued operations are excluded from the results of continuing operations and are presented as a single amount in the consolidated statements of loss and comprehensive loss (see Note 25).

All of the Company's operations are in one segment, the production and sale of medical cannabis. All revenues for the years ended December 31, 2023, and 2022, were generated in the United States.

These consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and settlement of liabilities in the normal course of business as they become due for the near future.

The Company's \$71 million term loan will come due on April 29, 2025, with a required \$65.8 million payment. The Company has a two-pronged plan to meet this and all our obligations. The Company is continuing to expand our operations, both cultivation/production and dispensaries, to drive more revenue, operating profit, and cash flow. The Company now has 35 dispensaries operating in Florida and more planned. To supply our growing demand, the Company has added two new cultivation facilities, Ruskin and Roza. The Ruskin facility has greenhouses and indoor grow space that combine for 20,000 square feet of canopy. Ruskin is currently operating with the first harvest anticipated for June. The Roza facility will have 24,500 square feet of canopy and is anticipated to begin operations in the 4th Quarter of 2024. In addition, the Company has commenced its refinancing efforts of the note that will come due in April of 2025, and has received an initial term sheet from a reputable lender that services the cannabis industry.

2. Summary of significant accounting policies

(a) Basis of preparation

The 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"). These consolidated financial statements have been prepared on a going

Cansortium Inc.**Notes to the Consolidated Financial Statements****For the years ended December 31, 2023 and 2022***(Amounts expressed in thousands of United States Dollars unless otherwise stated)*

concern basis, which contemplates the realization of assets and settlement of liabilities in the normal course of business as they become due for the near future.

These consolidated financial statements were approved and authorized for issue by the Board of Directors of the Company on April 29, 2023.

(b) Basis of measurement

The 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) Basis of consolidation

The 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 consolidated financial statements and the ownership interest held as of December 31, 2023 and 2022, respectively.

| | % Ownership December 31, 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.

Cansortium Inc.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2023 and 2022

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

(d) Functional and presentation of currency

The consolidated financial statements are presented in thousands of United States (“U.S.”) dollars unless otherwise stated. The functional currency of the U.S. subsidiaries is the U.S. dollar. The functional currency of the Canadian subsidiaries is the Canadian dollar. The functional currency of the Brazilian subsidiary is the Brazilian real. The functional currency of the Colombian subsidiary is the Colombian peso.

The assets and liabilities of foreign operations are translated into U.S. dollars at period end exchange rates. Income and expenses, and cash flows of foreign operations are translated into U.S. dollars using average exchange rates. Exchange differences resulting from the translation of foreign operations are recognized in comprehensive loss and comprehensive loss in shareholders’ equity.

(e) Cash

Cash includes cash deposits in financial institutions, and cash held at retail locations.

(f) Inventory

Inventory includes harvested work-in-progress, finished goods, supplies, packaging and materials. Cost is determined using the average cost method.

The direct and indirect costs of inventory initially include the fair value of the biological assets at the time of harvest. They also include subsequent costs such as materials, labor and depreciation expense on equipment involved in packaging, labeling and inspection. All direct and indirect costs related to inventory are capitalized as they are incurred and they are subsequently recorded within ‘cost of goods sold’ on the consolidated statements of loss and comprehensive loss at the time cannabis is sold, except for realized fair value amounts included in inventory sold, which are recorded as a separate line on the consolidated statements of loss and comprehensive loss.

Inventory is measured at lower of cost or net realizable value on the statements of financial position. Net realizable value is determined as the estimated selling price in the ordinary course of business less estimated costs to completion and the estimated costs to sell. The Company reviews inventory for obsolete, redundant, and slow-moving goods and any such inventory is written down to net realizable value.

(g) Biological assets

The Company’s biological assets consist of cannabis plants which are not yet harvested. In accordance with International Accounting Standard (“IAS”) 41, *Agriculture* (“IAS 41”), the Company is required to record its biological assets at fair value. During the main growth phase, the cost of each plant is accumulated over the grow period after the seed state and until the plant reaches the vegetative state. For the remainder of the growing period, in accordance with IAS 2 “*Inventories*”, the cost of each plant is accumulated, including both direct and indirect costs of production. Pre-harvest costs are capitalized to biological assets and include all direct and indirect costs including labor related costs, grow consumables, materials, utilities, facilities costs, quality and testing costs, and production related depreciation. All direct and indirect costs of biological assets are subsequently recorded within “costs of goods sold” in the statements of loss and comprehensive loss.

Cansortium Inc.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2023 and 2022

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

At the point of harvest, the biological assets are transferred to inventory at their fair value less costs to sell. Unrealized and realized gains or losses arising from changes in fair value less cost to sell during the year are included in a separate line on the face of the consolidated statements of loss and comprehensive loss. Biological assets are measured at their fair value less costs to sell on the statement of financial position.

The Company adopted the amendment to IAS 41, effective January 1, 2022. The amendment removed the requirement to exclude cash flows for taxation when measuring fair value, thereby aligning the fair value measurement requirements in IAS 41 with those in IFRS 13 *Fair Value Measurement*. The amendment change did not have a material impact on the consolidated financial statements for the year ended December 31, 2023.

(h) Business combinations

Acquisition of subsidiaries and business combinations are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value at the date of acquisition. Acquisition-related transaction costs are expensed as incurred. Identifiable assets and liabilities, including intangible assets, of acquired businesses are recorded at their fair value at the date of acquisition. When the Company acquires control of a business, any previously held equity interest also is remeasured to fair value. The excess of the purchase consideration and any previously held equity interest over the fair value of identifiable net assets acquired is goodwill. If the fair value of identifiable net assets acquired exceeds the purchase consideration and any previously held equity interest, the difference is recognized in the consolidated statements of loss and comprehensive loss immediately as a gain or loss on acquisition.

Contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with *IFRS 9 "Financial Instruments"*, with the corresponding gain or loss being recognized in the consolidated statements of loss and comprehensive loss.

(i) Property and equipment

Property and equipment is measured at cost less accumulated depreciation and impairment losses.

The cost of an item of property and equipment includes expenditures that are directly attributable to the acquisition or construction of the asset, including eligible borrowing costs. Expenditures incurred relating to ordinary repairs and maintenance are expensed as incurred unless they meet the criteria for capitalization. Depreciation is calculated on a straight-line basis over the estimated useful life of the asset using the following terms:

| | |
|-------------------------|---|
| Land | Not depreciated |
| Furniture and fixtures | 7 Years |
| Computer equipment | 3-7 Years |
| Manufacturing equipment | 7 Years |
| Leasehold improvements | Straight line over the lesser of useful life or term of the lease |
| Buildings | 20 Years |
| Vehicles | 10 Years |

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The Company assesses an asset's residual value, useful life and method of depreciation on an annual basis and if any events have indicated a change, then adjustments are made as required. An item of property or equipment is derecognized upon disposal or when no future economic benefits are expected from its use. Any gains or losses arising from derecognition of an asset are calculated as the difference between the net disposal proceeds and the carrying value of the asset and are recognized in the consolidated statements of loss and comprehensive loss.

Costs incurred by the Company for tangible assets of Property, Plant and Equipment that are under construction are capitalized to Property, Plant and Equipment as incurred. Depreciation on tangible assets under construction does not commence until the assets are ready for use, that is, when the assets are in the location and condition capable of operating in the manner intended by management. Depreciation on Property, Plant and Equipment ceases when the asset is no longer available for use, or when management has determined a plan for sale that is highly probable, and the assets are available for sale in their present condition and subject to terms that are usual and customary for the sale of such assets.

The Company's policy on impairment of Property, Plant and Equipment is included in 2(m) Impairment of Non-Financial Assets.

(j) Right of use assets and lease obligations

The right-of-use asset is a lessee's right to use an asset over the life of a lease. The asset is calculated as the initial amount of the lease obligation, along with any lease payments made to the lessor before the lease commencement date, in addition to any initial direct costs incurred, excluding any lease incentives received.

Lease obligations are calculated as present value of the lease payments at the lease commencement date that are not paid at that date. The lease payments are discounted using the interest rate implicit in the lease if that rate can be readily determined. If that rate cannot be readily determined, the lessee uses the lessee's incremental borrowing rate.

After the commencement date, the Company recognizes depreciation and impairment of the right-of-use assets and the interest on the lease obligations in the consolidated statement of loss and comprehensive loss. Depreciation on right-of-use assets is calculated based on the shorter of the lease term or the estimated useful life, which range from 5 to 12 years. Lease payments that are not fixed and vary based on a variable other than an index or rate are expensed as incurred.

(k) Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses. Subsequent expenditures are capitalized only when they increase the future economic benefits embodied in the specific asset to which they relate. All other expenditures are recognized in the consolidated statements of loss and comprehensive loss as incurred.

Cannabis licenses and intellectual property acquired in a business combination are recognized initially at fair value at the acquisition date and have an indefinite useful life. The cannabis license in Florida has an indefinite useful life. Cannabis license fees in Texas are capitalized and amortized on a straight-line basis over the term of the license. Trademarks and brands acquired in a business combination are recognized initially at fair value at the acquisition date and amortized on a straight-line basis, using the following amortization terms:

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| | |
|-----------------------|---------|
| Trademarks and brands | 5 years |
| Licenses Fees (Texas) | 2 Years |

The estimated useful life and amortization method are reviewed at the end of each reporting year with the effect of any changes in estimate being accounted for on a prospective basis.

(l) Goodwill

Goodwill represents the excess of the purchase price paid for business combination acquisitions over the fair value of the net tangible and intangible assets acquired and liabilities assumed. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

(m) Impairment of non-financial assets

Goodwill and intangible assets that have indefinite useful lives are not subject to amortization and in accordance with the Company's policy, are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

For the purpose of testing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating unit, or "CGU"). An impairment loss is recognized for the amount, if any, by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of the asset's fair value less costs of disposal and the value in use (being the present value of expected future cash flows of the asset or CGU). Where an impairment loss subsequently reverses, the carrying amount of the asset, except for goodwill, is increased to the lesser of the revised estimate of recoverable amount and the carrying amount that would have been recorded had no impairment loss been previously recognized.

(n) Derivative liabilities

The Company uses the fair-value method of accounting for derivative liabilities and such liabilities are re-measured at each reporting date with changes in fair value recorded in the period incurred. The fair value is estimated using a Monte-Carlo simulation model. Critical estimates and assumptions used in the model are discussed in Note 13.

(o) Income taxes

Tax expense recognized in profit or loss comprises the sum of current and deferred taxes not recognized in comprehensive loss or directly in shareholders' equity.

As the Company operates in the legal cannabis industry, the Company is subject to the limits of IRC Section 280E for under which the Company is only allowed to deduct expenses directly related to the cost of producing the products or cost of production. This results in differences in the tax based and accounting cost base that will not resolve between ordinary and necessary business expenses deemed unallowable under IRC Section 280E.

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Current tax

Current tax assets and/or liabilities comprise those claims from, or obligations to, fiscal authorities relating to the current or prior reporting periods that are unpaid at the reporting date. Current tax is payable on taxable profit, which differs from profit or loss in the financial statements. Calculation of current tax is based on tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax

Deferred taxes are calculated using the liability method on temporary differences between the carrying amounts of assets and liabilities and their tax bases. Deferred tax assets and liabilities are calculated, without discounting, at tax rates that are expected to apply to their respective period of realization, provided they are enacted or substantively enacted by the end of the reporting period. Deferred tax liabilities are always provided for in full. Deferred tax assets are recognized to the extent that it is probable that they will be able to be utilized against future taxable income. Deferred tax assets and liabilities are offset only when the Company has the right and intention to offset current tax assets and liabilities from the same taxation authority. Changes in deferred tax assets or liabilities are recognized as a component of tax income or expense in profit or loss, except where they relate to items that are recognized in comprehensive income or directly in equity, in which case the related deferred tax is also recognized in comprehensive income or equity, respectively.

(p) Revenue

The Company follows the following steps for accounting for revenue from contracts with customers:

1. Identify the contract with a customer
2. Identify the performance obligation(s)
3. Determine the transaction price
4. Allocate the transaction price to the performance obligation(s)
5. Recognize revenue when/as performance obligation(s) are satisfied

Revenue from the direct sale of cannabis to customers for a fixed price is recognized when the Company transfers control of the goods to the customer at the point of sale and the customer has paid for the goods.

The Company has a loyalty rewards program (the "Loyalty Program") that allows customers to earn loyalty points to be used on future purchases. The Company estimates the stand-alone selling price of the loyalty points awarded under the Loyalty Program. The stand-alone selling price is calculated by multiplying the estimated redemption rate and the monetary value assigned to the loyalty points. In estimating the redemption rate the Company considers breakage which represents the portion of the points issued that will never be redeemed. The redemption rate is updated on a quarterly basis and the liability for unredeemed loyalty points is adjusted accordingly. In estimating the fair value of the loyalty points issued the Company considers the products available to customers in exchange for loyalty points and customers' preferences. The Company ensures the value assigned to the loyalty points is commensurate to the stand-alone selling price of the products eligible for redemption.

The Company's loyalty points expire one year after the loyalty points are earned, for all loyalty points earned after March 10, 2021.

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(q) Share based compensation

The Company measures equity settled share-based payments based on their fair value at the grant date based on the Black-Scholes model and recognizes compensation expense over the vesting period based on the Company's estimate of equity instruments that will eventually vest. The impact of the revision of the original estimate is recognized in the consolidated statements of loss and comprehensive loss. For share-based payments granted to non-employees, the compensation expense is measured at the fair value of the goods and services received except where the fair value cannot be estimated, in which case it is measured at the fair value of the equity instruments granted. The fair value of share-based compensation to non-employees is periodically re-measured until counterparty performance is complete, and any change therein is recognized over the period and in the same manner as if the Company had paid cash instead of paying with or using equity instruments.

(r) Basic and diluted net loss per share

Basic (loss) earnings per share ("EPS") is calculated by dividing the net (loss) income attributable to common shareholders by the weighted average number of common shares outstanding in the period. Diluted EPS is calculated by the treasury stock method. Under the treasury stock method, the weighted average number of common shares outstanding for the calculation of diluted (loss) earnings per share assumes that the proceeds to be received on the exercise of dilutive share options and warrants are used to repurchase common shares at the average market price during the period.

When a loss is incurred during a period, basic and diluted loss per share is the same because the exercise of share equivalents is then considered to be "anti-dilutive."

(s) Borrowing costs

Borrowing costs are recognized in profit or loss in the period in which they are incurred, using the effective interest method. Borrowing costs attributable to the acquisition, construction or production of qualifying assets are added to the cost of those assets for periods preceding the dates the assets are available for their intended use.

(t) Financial instruments (See also Note 21)

Recognition and initial measurement

The Company recognizes financial assets when it becomes party to the contractual provisions of the instrument. Financial assets are measured initially at their fair value plus, in the case of financial assets not subsequently measured at fair value through profit or loss ("FVTPL"), transaction costs that are directly attributable to their acquisition. Transaction costs attributable to the acquisition of financial assets subsequently measured FVTPL are expensed in the consolidated statements of loss and comprehensive loss when incurred.

Classification and subsequent measurement

On initial recognition, financial assets are classified as subsequently measured at amortized cost, fair value through comprehensive income ("FVOCI") or FVTPL. The Company determines the classification of its financial assets, together with any embedded derivatives, based on the business model for managing the financial assets and their contractual cash flow characteristics.

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Financial assets are classified as follows:

- Amortized cost - Assets that are held for collection of contractual cash flows where those cash flows are solely payments of principal and interest are measured at amortized cost. Interest revenue is calculated using the effective interest method and gains or losses arising from impairment, foreign exchange and derecognition are recognized in the consolidated statements of loss and comprehensive loss when incurred.
- Fair value through comprehensive income - Assets that are held for collection of contractual cash flows and for selling the financial assets, and for which the contractual cash flows are solely payments of principal and interest, are measured at fair value through comprehensive income. Interest income calculated using the effective interest method and gains or losses arising from impairment and foreign exchange are recognized in profit or loss. All other changes in the carrying amount of financial assets are recognized in comprehensive income. Upon derecognition, the cumulative gain or loss previously recognized in comprehensive income is reclassified to profit or loss. The Company does not hold any financial assets measured at fair value through comprehensive income.
- Mandatorily at fair value through profit or loss - Assets that do not meet the criteria to be measured at amortized cost, or fair value through comprehensive income, are measured at fair value through profit or loss. All interest income and changes in the financial assets' carrying amount are recognized in profit or loss.
- Designated at fair value through profit or loss – On initial recognition, the Company may irrevocably designate a financial asset to be measured at fair value through profit or loss in order to eliminate or significantly reduce an accounting mismatch that would otherwise arise from measuring assets or liabilities, or recognizing the gains and losses on them, on different bases. All interest income and changes in the financial assets' carrying amount are recognized in profit or loss. The Company does not hold any financial assets designated to be measured at fair value through profit or loss.

Business model assessment

The Company assesses the objective of its business model for holding a financial asset at a level of aggregation which best reflects the way the business is managed, and information is provided to management. Information considered in this assessment includes stated policies and objectives.

Contractual cash flow assessment

The cash flows of financial assets are assessed as to whether they are solely payments of principal and interest based on their contractual terms. For this purpose, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money, the credit risk associated with the principal amount outstanding, and other basic lending risks and costs. In performing this assessment, the Company considers factors that would alter the timing and amount of cash flows such as prepayment and extension features, terms that might limit the Company's claim to cash flows, and any features that modify consideration for the time value of money.

Impairment

The Company recognizes a loss allowance for the expected credit losses associated with its financial assets, other than financial assets measured at fair value through profit or loss. Expected credit losses are measured to reflect a probability-weighted amount, the time value of money, and reasonable and

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supportable information regarding past events, current conditions, and forecasts of future economic conditions.

The Company assesses whether a financial asset is credit-impaired at the reporting date. Regular indicators that a financial instrument is credit-impaired include significant financial difficulties as evidenced through borrowing patterns or observed balances in other accounts and breaches of borrowing contracts such as default events or breaches of borrowing covenants. For the years ended December 31, 2023, and 2022, the Company had no credit-impaired financial assets.

Financial assets are impaired when the Company has no reasonable expectations of recovering all or any portion thereof.

A financial asset not carried at fair value is reviewed at each reporting date to determine whether there is any indication of impairment. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

An impairment with respect to a financial asset measured at amortized cost is calculated as the difference between the carrying amount and the present value of the estimated future cash flows discounted at the assets original effective interest rate. Losses are recognized in profit or loss with a corresponding reduction in the financial asset, or, in the case of amounts receivable, are reflected in an allowance account against receivables. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment is reversed through profit or loss.

Derecognition of financial assets

The Company derecognizes a financial asset when its contractual rights to the cash flows from the financial asset expires, or when a transaction qualifies as a transfer.

Financial liabilities

Recognition and initial measurement

The Company recognizes a financial liability when it becomes party to the contractual provisions of the instrument. At initial recognition, the Company measures financial liabilities at their fair value plus transaction costs that are directly attributable to their issuance, with the exception of financial liabilities subsequently measured at fair value through profit or loss for which transaction costs are immediately recorded in profit or loss.

Where an instrument contains both a liability and equity component, these components are recognized separately based on the substance of the instrument, with the liability component measured initially at fair value and the equity component assigned the residual amount.

Classification and subsequent measurement

Subsequent to initial recognition, all financial liabilities other than those measured at FVTPL are measured at amortized cost using the effective interest method. Interest expense, gains, and losses relating to a financial liability are recognized in profit or loss.

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Derecognition of financial liabilities

The Company derecognizes financial liability only when its contractual obligations are discharged, cancelled, or expired.

Classification of financial assets and financial liabilities

The Company's financial assets and liabilities are classified as outlined below:

| | <u>Classification</u> |
|-----------------------------|-----------------------|
| Cash | FVTPL |
| Trade receivable | Amortized cost |
| Investment held for sale | FVTPL |
| Note receivable | Amortized cost |
| Trade payable | Amortized cost |
| Accrued liabilities | Amortized cost |
| Derivative liabilities | FVTPL |
| Notes payable | Amortized cost |
| Lease obligations | Amortized cost |
| Other long-term liabilities | Amortized cost |

(u) Critical accounting judgments, estimates and assumptions

The preparation of the Company's 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 in the consolidated financial statements are described below.

(i) Biological assets and inventory

In calculating the value of biological assets and inventory, management is required to make several estimates, including the stage of growth of the plant up to the point of harvest, harvesting costs, average or expected selling prices and expected yields for the plants. In calculating final inventory values, management compares the inventory cost to estimated net realizable value. Further information on estimates used in determining the fair value of biological assets is included in Note 4.

(ii) Estimated useful lives and depreciation of property and equipment, and intangible assets

Depreciation and amortization of property and equipment and intangible assets are dependent upon estimates of useful lives based on management's judgment. The assessment of any impairment of these assets is dependent upon estimates of recoverable amounts considering factors such as economic and market conditions and the useful lives of assets.

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Goodwill and indefinite life intangible asset impairment testing require management to make estimates in the impairment testing model. Annually, the Company tests whether goodwill and indefinite life intangible assets are impaired.

Impairment of definite long-lived assets is influenced by judgment in defining a CGU and determining the indicators of impairment, and estimates used to measure impairment losses.

The recoverable value of goodwill, indefinite and definite long-lived assets is determined using discounted future cash flow models, which incorporate assumptions regarding future events, specifically future cash flows, growth rates and discount rates.

(iii) Customers loyalty program

In calculating the customers' loyalty points liability, the Company used historical and industry forfeiture rates. The key assumptions used for the rate is based on 3 years lookback of the Company's customers historical forfeiture rates.

(iv) Derivative liabilities

In calculating the fair value of its derivative liabilities, the Company uses either the Black-Scholes model or the Monte-Carlo simulation model, for Level 3 recurring fair value measurements to estimate fair value at each reporting date. The key assumptions used in the models are similar and include the expected future volatility in the price of the Company's shares, the fair value of the price of the Company's shares and the expected life of the underlying instrument.

(v) Leases

Leases requires lessees to discount lease payments using the rate implicit in the lease if that rate is readily available. If that rate cannot be readily determined, the lessee is required to use its incremental borrowing rate. The Company generally uses the incremental borrowing rate when initially recording real estate leases as the implicit rates are not readily available as information from the lessor regarding the fair value of underlying assets and initial direct costs incurred by the lessor related to the leased assets is not available. The Company determines the incremental borrowing rate as the interest rate the Company would pay to borrow over a similar term the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. Leases requires lessees to estimate the lease term. In determining the period which the Company has the right to use an underlying asset, management considers the non-cancellable period along with all facts and circumstances that create an economic incentive to exercise an extension option, or not to exercise a termination option.

(vi) Business combinations

Judgment is used in determining whether an acquisition is a business combination or an asset acquisition and in determining date of acquisition. Estimates including market-based values and appraisal values are used in determining the allocation of the purchase price in a business combination, including any acquisition-related contingent consideration. The contingent consideration is measured at its acquisition date fair value and included as part of the consideration transferred in a business combination. Contingent consideration that is classified

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as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity.

Contingent consideration that is classified as an asset or liability is remeasured at subsequent reporting dates in accordance with *IFRS 9 "Financial Instruments"*, or *IAS 37 "Provisions, Contingent Liabilities and Contingent Assets"*, as appropriate, with the corresponding gain or loss being recognized in profit or loss.

The Company measures all assets acquired and liabilities assumed at their acquisition-date fair values. Non-controlling interests in the acquiree are measured based on the non-controlling interests' proportionate share of this equity in the acquiree's identifiable net assets. Acquisition-related costs are recognized as expenses in the periods in which the costs are incurred, and the services are received (except for the costs to issue debt or equity securities which are recognized according to specific requirements). The excess of the aggregate of (a) the consideration transferred to obtain control and the amount of any noncontrolling interest in the acquiree over (b) the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed, is recognized as goodwill as of the acquisition date.

(vii) Convertible debentures

The identification of convertible note components is based on interpretations of the substance of the contractual arrangement and therefore requires judgment from management. The separation of the components affects the initial recognition of the convertible debenture at issuance and the subsequent recognition of interest on the liability component. The determination of the fair value of the liability is also based on a number of assumptions, including contractual future cash flows, discount rates and the presence of any derivative financial instruments.

(viii) Going concern

At each reporting period, management assesses the basis of preparation of the financial statements. These financial statements have been prepared on a going concern basis in accordance with IFRS. The going concern basis of presentation assumes that the Company will continue its operations for the foreseeable future and be able to realize its assets and discharge its liabilities and commitments in the normal course of business.

(ix) Income taxes and recoverability of potential deferred tax assets

Income taxes and tax exposures recognized in the consolidated financial statements reflect management's best estimate based on facts known at the reporting date. When the Company anticipates a future income tax payment based on its estimates, it recognizes a liability.

The difference between the expected amount and the final tax outcome has an impact on current and deferred taxes when the Company becomes aware of this difference. In addition, when the Company incurs losses for income tax purposes, it assesses the probability of taxable income being available in the future based on its budgeted forecasts. These forecasts are adjusted to take into account certain non-taxable income and expenses and specific rules on the use of unused credits and tax losses. When the forecasts indicate that sufficient future taxable income will be available to deduct the temporary differences, a deferred tax asset is recognized for all deductible temporary differences.

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(x) Determining the unit of account

In circumstances where the Company enters into multiple transactions with the same party, and during the same time, the Company must determine whether these transactions should be accounted for by the substance of the rights and obligations, or from the legal form of the individual contracts. In determining the unit of account for the transactions, management uses judgment to consider the terms of the contracts, timing of when the contracts were entered into, who they were entered into with, the fair value of the contracts and whether the series of transactions were designed to achieve an overall commercial effect. All terms in a contract are considered unless they have no substance. Terms have no substance if there is no overall commercial effect. A group of contracts may achieve, or be designed to achieve, an overall commercial effect. In these cases, it may be necessary to treat the rights and obligations arising from that group of contracts as a single unit of account.

When determining fair value at initial recognition, management considers factors specific to the transaction and to the asset or liability. Fair value is considered the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Judgment is required by management to determine when the transaction price may not represent the fair value of an asset or a liability at initial recognition. This could be the case for transactions between related parties, transactions that take place under duress, or when the unit of account represented by the transaction price is different from the unit of account for the asset or liability measured at fair value.

Where management has determined that a transaction should be accounted for based on its substance, the transaction is measured according to the significant accounting policy for each financial statement element of the transaction, allocating fair value where applicable. See Notes 14(d), and 15(b).

(v) IFRS pronouncements effective in 2023

The following IFRS standards have been previously issued by the IASB. The Company has assessed the impact of these standards on consolidated financial statements for the period in which that became effective.

The following is a brief summary of the standards effective in 2023:

Amendments to IAS 1: Classification of Liabilities as Current or Non-Current

In January 2020, the IASB issued Classification of Liabilities as Current or Non-Current (“Amendments to IAS 1”). The Amendments to IAS 1 aim to promote consistency in applying the requirements by helping companies determine whether, in the statement of financial position, debt and other liabilities with an uncertain settlement date should be classified as current (due or potentially due to be settled within one year) or non-current. The Amendments to IAS 1 include clarifying the classification requirements for debt a company might settle by converting it into equity.

The Amendments to IAS 1 are effective for annual reporting periods beginning on or after January 1, 2022, with earlier application permitted. The Company has determined that the extent of the impact on the financial statements with the adoption of this amendment to be insignificant.

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

In February 2021, the IASB issued Definition of Accounting Estimates, which amends IAS 8. The amendment will require the disclosure of material accounting policy information rather than disclosing significant accounting policies and clarifies how to distinguish changes in accounting policies from changes in accounting estimates. Under the new definition, accounting estimates are "monetary amounts in financial statements that are subject to measurement uncertainty". The amendment provides clarification to help entities to distinguish between accounting policies and accounting estimates.

The amendments are effective for annual periods beginning on or after January 1, 2023. The Company has determined that the extent of the impact of the adoption of this amendment to be insignificant.

IAS 12, Income Taxes ("IAS 12")

In May 2021, the IASB issued Deferred Tax related to Assets and Liabilities arising from a single transaction (Amendments to IAS 12). The amendment narrows the scope of the initial recognition exemption so that it does not apply to transactions that give rise to equal taxable and deductible temporary differences. As a result, companies will need to recognize a deferred tax asset and deferred tax liability for temporary differences arising on initial recognition of transactions such as leases and decommissioning obligations.

The amendments are effective for annual reporting periods beginning on or after January 1, 2023 and are to be applied retrospectively. The Company is still assessing the impact of adopting these amendments on its financial statements.

(iv) New, amended and future IFRS pronouncements

The following IFRS standards have been recently issued by the IASB. The Company is assessing the impact of these new standards on future consolidated financial statements. Pronouncements that are not applicable or where it has been determined do not have a significant impact to the Company have been excluded herein.

The following is a brief summary of the new standards issued but not yet effective:

Amendments to IAS 1: Non-current Liabilities with Covenants

In October 2022, IASB issued *Non-current Liabilities with Covenants*, which amended IAS 1 *Presentation of Financial Statements*. The amendments improved the information an entity provides when its right to defer settlement of a liability for at least twelve months is subject to compliance with covenants. The amendments also responded to stakeholders' concerns about the classification of such a liability as current or non-current.

The Amendments to IASB are effective for annual reporting periods beginning on or after January 1, 2024. The amendments are applied retrospectively in accordance with IAS 8 and earlier application is permitted. The extent of the impact of the adoption of this amendment has not yet been determined.

Amendments to IAS 7 and IFRS 7: Supplier Finance Arrangements

In May 2023, the IASB issued *Supplier Finance Arrangements*, which amended IAS 7 *Statement of Cash Flows* and IFRS 7 *Financial Instruments: Disclosures*. This amendment is to require an entity to provide additional disclosures about its supplier finance arrangements, which will be used to complement

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presentation and disclosure requirements already in IFRS Accounting Standards that were established in 2020. The IASB developed the new requirements to provide users of financial statement with information to enable them with:

- a. To assess how supplier finance arrangements affect an entity's liabilities and cash flows; and
- b. To under the effect of supplier finance arrangements on an entity's exposure to liquidity risk and how the entity might be affected if the arrangements were no longer available to it.

The amendments to IAS 7 are effective for annual periods beginning on or after January 1, 2024, with earlier application permitted, and the amendments to IFRS 7 when the amendments to IAS 7 are applied. There is a certain amount of transition relief provided, including relief regarding comparative information and interim period information. The Company is still assessing the impact of adopting these amendments on its financial statements.

IFRS 18 Presentation and Disclosure in Financial Statements

In April 2024 the IASB issued a new IFRS Accounting Standard to improve reporting of financial performance. IFRS 18 *Presentation and Disclosure in Financial Statements* replaces IAS 1 *Presentation of Financial Statements*.

As a result of IFRS 18, presentation and disclosure in financial statements will improve the quality of financial reporting by:

- a. Requiring defined subtotals in the statement of profit or loss;
- b. Requiring disclosure about management-defined performance measures; and
- c. Adding new principles for aggregation and disaggregation of information.

IFRS 18 has an effective date of 1 January 2027, with earlier application is permitted. The Company is still assessing the impact of adopting the new standard on its financial statements.

3. Inventory

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

| | December 31, 2023 | December 31, 2022 |
|-----------------------------------|------------------------------|------------------------------|
| Supplies, packaging and materials | \$ 4,761 | \$ 2,685 |
| Work in progress | 1,988 | 1,906 |
| Finished goods | 2,495 | 4,382 |
| Balance at end of period | \$ 9,244 | \$ 8,973 |

Inventory material costs included in the cost of goods sold during the years ended December 31, 2023 and 2022, were \$14,082 and \$16,752, respectively. Salaries and benefits charged to cost of goods sold for the years ended December 31, 2023 and 2022, were \$10,233 and \$8,498, respectively. Capitalized depreciation expensed to costs of sales for the years ended December 31, 2023 and 2022 was \$7,207 and \$6,924, respectively.

Cansortium Inc.**Notes to the Consolidated Financial Statements****For the years ended December 31, 2023 and 2022***(Amounts expressed in thousands of United States Dollars unless otherwise stated)***4. Biological assets**

The Company's biological assets consist of cannabis plants, which are not yet harvested. A reconciliation of the beginning and ending balances of biological assets for the years ended December 31, 2023 and 2022 is as follows:

| | December 31, 2023 | December 31, 2022 |
|--|------------------------------|------------------------------|
| Balance at beginning of period | \$ 996 | \$ 3,297 |
| Cost incurred until harvest | 17,145 | 16,355 |
| Effect of unrealized change in fair value of biological assets | (14,602) | (9,620) |
| Transferred to inventory upon harvest | (3,208) | (9,036) |
| Balance at end of period | \$ 331 | \$ 996 |

As of December 31, 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.

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:

| Assumptions | As at December 31, 2023 | | As at December 31, 2022 | |
|--|-------------------------|------------|-------------------------|------------|
| | Input | 10% Change | Input | 10% Change |
| (i) Weighted average of expected loss of plants until harvest (a) | 19% | \$7 | 15% | \$17 |
| (ii) Expected yields for cannabis plants (average grams per plant) (b) | 71 | \$33 | 47 | \$100 |
| (iii) Weighted average number of growing weeks completed as percentage of total growing weeks as at period end | 44% | \$33 | 47% | \$100 |
| (iv) FL Estimated selling price per gram (c) | \$7.12 per gram | \$824.00 | \$7.12 | \$1,121 |
| (v) FL Cost to sell per gram per flower and trim, respectively | \$6.90 per gram | \$792.00 | \$4.03 \$7.79 | \$1,021 |

- (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 December 31, 2023, it is expected that the Company's biological assets will yield approximately 2,015,938 grams of dry cannabis when harvested (2022 – 3,322,073 grams). As of December 31, 2023 and 2022, the Company had 63,838 and 82,667 plants that were classified as biological assets, respectively.

Cansortium Inc.**Notes to the Consolidated Financial Statements****For the years ended December 31, 2023 and 2022***(Amounts expressed in thousands of United States Dollars unless otherwise stated)***5. Note receivable**

In connection with the Company's agreement entered into in October 2018 with Green Standard Holdings LLC, Green Standard Cultivation LLC and Green Standard, Inc. (collectively, "Green Standard" or "GSI") to acquire the assets of Green Standard (see Note 10), the Company entered into a line of credit note with GSI (the "Green Standard Note"), pursuant to which the Company agreed to make advances to Green Standard in connection with the Michigan cultivation and operational expenses in an aggregate principal amount, not to exceed at any one time, up to \$14,700.

The Green Standard Note initially bear interest at a rate of 2.7% per annum and is payable no later than the earlier of three years from the Green Standard Note issuance date.

On May 19, 2020, in conjunction with the amending agreement to acquire GSI, the Company amended the terms of the Green Standard Note to reduce the principal amount available not to exceed at any one-time outstanding balances of \$7,500 and to increase the interest rate to 5% per annum.

On June 30, 2022, the Company terminated its acquisition agreement with GSI in Michigan and wrote off the Green Standard Note receivable, resulting in a loss from termination of a contract of \$4,932 (see Note 10).

6. Prepaid expenses and other current assets

Prepaid expenses and other current assets consist of the following:

| | December 31, 2023 | December 31, 2022 |
|---------------------------------|------------------------------|------------------------------|
| Prepaid insurance | \$ 286 | \$ 576 |
| Other prepaid expenses | 222 | 283 |
| Tenant improvement allowance | 529 | - |
| Prepaid inventory | 273 | - |
| Deposits | - | 24 |
| Other current assets | 572 | - |
| Balance at end of period | \$ 1,882 | \$ 883 |

7. Investments held for sale**Cansortium Colombia S.A.S**

On January 22, 2020, the Company completed the return to treasury of 4,124,166 shares of Cansortium Inc. previously issued to acquire 100% of Cansortium Colombia, thereby reducing its ownership of Cansortium Colombia to 50%. In connection with this change, the Company classified its non-controlling investment in Cansortium Colombia as investment held for sale on the Company's consolidated statement of financial position in the amount of \$200 as of December 31, 2021. During the year ended December 31, 2022, the Company wrote off its investment in Cansortium Colombia (see Note 25).

Cansortium Inc.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2023 and 2022

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8. Property and equipment

A reconciliation of the beginning and ending balances of property and equipment for the years ended December 31, 2023 and 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 | 32,294 | - | 1,461 | 389 | 46,471 |
| Additions | - | 53 | (134) | 320 | 1,314 | - | 5,246 | - | 6,799 |
| Construction completed | - | 103 | 24 | 675 | 4,252 | - | (5,054) | - | - |
| Disposals | - | - | - | - | (219) | - | (26) | - | (245) |
| Balance as of December 31, 2022 | 212 | 1,192 | 1,664 | 10,300 | 37,641 | - | 1,627 | 389 | 53,025 |
| Accumulated depreciation | | | | | | | | | |
| Balance as of January 1, 2022 | - | 347 | 725 | 2,476 | 8,692 | - | - | 71 | 12,311 |
| Additions | - | 158 | 386 | 1,428 | 6,998 | - | - | 44 | 9,014 |
| Disposals | - | - | - | (2) | (41) | - | - | - | (43) |
| Balance as of December 31, 2022 | - | 505 | 1,111 | 3,902 | 15,649 | - | - | 115 | 21,282 |
| Property and equipment, net | \$ 212 | \$ 687 | \$ 553 | \$ 6,398 | \$ 21,992 | \$ - | \$ 1,627 | \$ 274 | \$ 31,743 |
| Cost | | | | | | | | | |
| Balance as of January 1, 2023 | 212 | 1,192 | 1,664 | 10,300 | 37,641 | - | 1,627 | 389 | 53,025 |
| Additions | - | 398 | 461 | 783 | 4,985 | - | (677) | 69 | 6,019 |
| Disposals | - | - | - | - | (197) | - | (56) | - | (253) |
| Balance as of December 31, 2023 | 212 | 1,590 | 2,125 | 11,083 | 42,429 | - | 894 | 458 | 58,791 |
| Accumulated depreciation | | | | | | | | | |
| Balance as of January 1, 2023 | - | 505 | 1,111 | 3,902 | 15,649 | - | - | 115 | 21,282 |
| Additions | - | 220 | 446 | 1,557 | 7,774 | - | - | 46 | 10,043 |
| Disposals | - | - | - | - | (176) | - | - | - | (176) |
| Balance as of December 31, 2023 | - | 725 | 1,557 | 5,459 | 23,247 | - | - | 161 | 31,149 |
| Property and equipment, net | \$ 212 | \$ 865 | \$ 568 | \$ 5,624 | \$ 19,182 | \$ - | \$ 894 | \$ 297 | \$ 27,642 |

For the years ended December 31, 2023 and 2022, the Company charged \$7,206 and \$6,663 of depreciation to the production of biological assets and inventory. For the years ended December 31, 2023 and 2022, there were no capitalized borrowing costs.

9. 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 years ended December 31, 2023 and 2022, is as follows:

Cansortium Inc.**Notes to the Consolidated Financial Statements****For the years ended December 31, 2023 and 2022***(Amounts expressed in thousands of United States Dollars unless otherwise stated)*

| | Licenses | Trademarks and brands | Total |
|---------------------------------|------------------|--------------------------|------------------|
| Cost | | | |
| Balance as of January 1, 2022 | \$ 94,488 | \$ 8,850 | \$ 103,338 |
| Additions | - | - | - |
| Balance as of December 31, 2022 | 94,488 | 8,850 | 103,338 |
| Accumulated amortization | | | |
| Balance as of January 1, 2022 | 904 | 6,612 | 7,516 |
| Additions | 159 | 1,372 | 1,531 |
| Balance as of December 31, 2022 | 1,063 | 7,984 | 9,047 |
| Intangible assets, net | \$ 93,425 | \$ 866 | \$ 94,291 |
| Cost | | | |
| Balance as of January 1, 2023 | 94,488 | 8,850 | 103,338 |
| Additions | 319 | - | 319 |
| Disposals | (842) | - | (842) |
| Balance as of December 31, 2023 | 93,965 | 8,850 | 102,815 |
| Accumulated amortization | | | |
| Balance as of January 1, 2023 | 1,063 | 7,984 | 9,047 |
| Additions | 159 | 858 | 1,017 |
| Disposals | (842) | - | (842) |
| Balance as of December 31, 2023 | 380 | 8,842 | 9,222 |
| Intangible assets, net | \$ 93,585 | \$ 8 | \$ 93,593 |

Amortization expense for the years ended December 31, 2023 and 2022, was \$1,017 and \$1,531, respectively. Amortization expense of intangible assets are located in depreciation and amortization expense of the Statement of Loss and Comprehensive Loss. Remaining amortization period as of December 31, 2023 is 1.8 years.

10. Deposit (Investment)**Green Standard**

On October 8, 2018, Cansortium Holdings LLC, entered into an agreement with Green Standard Holdings, LLC and Green Standard, Inc., collectively ("Green Standard" or "GSI") to acquire the cultivation, production and retail licenses applied for by Green Standard Cultivation LLC, Green Standard Processing LLC and Green Standard Retail LLC, for a purchase price of \$7,500 payable through the issuance of 2,727,273 units of Cansortium Holdings LLC at a price equal to \$2.75 dollars per shares (see Notes 13 and 16), subject to forfeiture as follows: (a) 1,000,000 shares would be forfeited if regulatory approval of the twelve Class C licenses is not received prior to December 31, 2019; (b) 727,273 units would be forfeited if \$1,000 of retail sales are not achieved in Michigan by the Company or its affiliates on or before January 1, 2021; and (c) the remaining 1,000,000 units would be forfeited if \$2,000 of retail sales are not achieved in Michigan by the Company and/or its affiliates on or prior to January 1, 2022; provided, however, that with respect to (b) and (c), if the Company and/or its affiliates fails to open one dispensary in Michigan prior to January 1, 2020, the sales threshold requirements would be based on wholesale sales in Michigan by the Company and/or its affiliates to third-party retail locations.

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Notes to the Consolidated Financial Statements

For the years ended December 31, 2023 and 2022

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

On May 19, 2020, the Company amended and restated the above-mentioned agreement pursuant to which Cansortium Michigan, LLC, the Company's indirect wholly owned subsidiary, intends to acquire 100% of the outstanding shares of Green Standard. Under the amended terms, Green Standard shareholders will receive \$10 million in aggregate consideration to consist of common shares and proportionate voting shares exchangeable into an aggregate of 2,727,269 common shares of the Company, which were escrowed until May 15, 2021, plus cash consideration for the difference between the fair value of a common share (as valued per the agreement) and total purchase price of \$10,000,000 to be generated by profits from Green Standard's Michigan business. The same number of shares of the Company that were previously issued to Green Standard shareholders and subject to vesting conditions were returned to treasury for cancellation and removal of the equity price guarantee that existed as through May 19, 2021.

On June 30, 2022, the Company terminated the Amended and Restated Michigan Agreement and all obligations of the Company thereunder, writing off its Green Standard Note receivable of \$4,932 (Note 5) and its deposit in Green Standard of \$2,727. The Company also incurred \$352 in other expenses due to the termination of the agreement resulting in a loss from termination of a contract of \$8,011.

11. Goodwill

Goodwill as of December 31, 2023 and 2022 was \$1,525 and \$1,526, respectively.

Annual impairment testing involves determining the recoverable amount of the CGU's to which goodwill and indefinite life intangibles are allocated and comparing this to the carrying value of the CGU. The Company elected to perform the annual impairment testing as of October 1, 2023. The carrying value of the indefinite life intangibles as of October 1, 2023 was \$93,327. The fair value less the costs of disposal of the CGU was calculated using a discounted cash flow model and level 3 inputs. The fair value less the costs of disposal was determined to be greater than the CGUs' carrying value, therefore the Company did not further assess the fair value less costs of disposal of the CGU. The key assumptions used in the estimates of the recoverable amounts are described below:

- Cash flows were projected based on the Company's long-term business plan. The business plan contains forecasts based on actual operating results in conjunction with anticipated future growth opportunities, as well as industry and market trends. The forecasts were extended to a total of five years (with a terminal year thereafter). Revenue annual growth rate of 14.9% and 23.3% for years ended December 31, 2024 and 2025, respectively. Annualized growth was estimated based on anticipated dates of new dispensaries and the applicable ramp up time. The remaining years utilized a conservative 10% per year for revenue growth.
- The terminal growth rate of 3% was based on U.S. real GDP growth & inflation estimates, industry growth rates, and the Company's historical and projected industry data.
- The pre-tax discount rate applied in determining the recoverable amount of the CGU was 23.2%. The discount rates were estimated based on past experience and the weighted average cost of capital of each CGU, other competitors in the industry and adjusted for risks in the cash flow.

As of December 31, 2023 and 2022, the Company did not have an impairment to its goodwill and indefinite life intangibles.

Cansortium Inc.**Notes to the Consolidated Financial Statements****For the years ended December 31, 2023 and 2022***(Amounts expressed in thousands of United States Dollars unless otherwise stated)***12. Income taxes**

Income tax for the years ended December 31, 2023 and 2022 consisted of the following:

| | 2023 | 2022 |
|---------------------------|------------------|------------------|
| Current Tax Expense | \$ 16,485 | \$ 11,648 |
| Deferred Tax Expense | (2,891) | (1,272) |
| Total income taxes | \$ 13,594 | \$ 10,376 |

Income tax from continued and discontinued operations for the years ended December 31, 2023 and 2022 consisted of the following:

| | 2023 | 2022 |
|---|------------------|------------------|
| Income tax expense from continuing operations | \$ 13,594 | \$ 10,376 |
| Income tax expense from discontinued operations | - | - |
| Total income taxes | \$ 13,594 | \$ 10,376 |

The income tax expense for the years can be reconciled to the accounting loss as follows:

| | 2023 | 2022 |
|---------------------------------------|------------------|------------------|
| Tax at U.S. statutory rate of 21% | \$ (1,923) | \$ (5,664) |
| State taxes | 2,450 | 1,731 |
| Non-deductible items | 10,821 | 12,631 |
| Penalty and interest accrual | 3,239 | - |
| Return-to-provision true-ups | (1,087) | 518 |
| Foreign tax rate differential | - | - |
| Change in statutory rates | - | 301 |
| Change in tax benefits not recognized | - | (722) |
| Disposal of foreign investment, net | - | 1,581 |
| Other, net | 94 | - |
| Total income tax expense | \$ 13,594 | \$ 10,376 |

Cansortium Inc. intends to be treated as a United States corporation for United States federal income tax purposes under section 7874 of the U.S. Tax Code and is expected to be subject to United States federal income tax. However, for Canadian tax purposes, Cansortium Inc. is expected, regardless of any application of section 7874 of the U.S. Tax Code, to be treated as a Canadian resident company (as defined in the Income Tax Act (Canada) (the "ITA") for Canadian income tax purposes. As a result, Cansortium Inc. will be subject to taxation both in Canada and the United States.

The Company has unused tax losses and other attributes of \$380 in various foreign jurisdictions for the year ended December 31, 2022 and no tax losses for year ended December 31, 2023. Additionally, the Company has \$17,341 of capital loss carryforwards in the United States as of December 31, 2023 and 2022. No deferred tax asset has been recognized as the utilization of these losses and other tax attributes is not likely in the future.

Cansortium Inc.**Notes to the Consolidated Financial Statements****For the years ended December 31, 2023 and 2022***(Amounts expressed in thousands of United States Dollars unless otherwise stated)*

The tax effects of the temporary differences giving rise to the deferred tax liability are as follows:

| | 2023 | 2022 |
|--|------------------|------------------|
| Deferred income tax assets: | | |
| Biological assets | \$ 1,630 | \$ 738 |
| Lease liability | 1,844 | - |
| Total deferred income tax assets | 3,474 | 738 |
| Deferred income tax liabilities: | | |
| Property and equipment | 195 | 2,090 |
| Intangible assets | 19,041 | 18,938 |
| Right of use assets | 1,636 | - |
| Total deferred income tax liabilities | \$ 20,872 | \$ 21,028 |
| Deferred income tax liabilities, net | \$ 17,398 | \$ 20,290 |

Movement in net deferred tax liabilities:

| | 2023 | 2022 |
|--|------------------|------------------|
| Movement in net deferred tax liabilities: | | |
| Balance at the beginning of the year | \$ 20,290 | \$ 21,563 |
| Recognized in profit/loss | (2,892) | (1,273) |
| Ending balance in deferred income tax liabilities | \$ 17,398 | \$ 20,290 |

13. Derivative liabilities

A reconciliation of the beginning and ending balances of the equity price guarantee derivative liabilities from the time of issuance and during the years ended December 31, 2023 and 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 | | 433 |
| Balance as of December 31, 2023 | \$ | 9,109 |

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.

Cansortium Inc.**Notes to the Consolidated Financial Statements****For the years ended December 31, 2023 and 2022***(Amounts expressed in thousands of United States Dollars unless otherwise stated)*

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 expired 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 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 (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 of \$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 December 31, 2023 and December 31, 2022:

| | December 31, 2023 | December 31, 2022 |
|-------------------------|------------------------------|------------------------------|
| Volatility | 105.00% | 105.00% |
| Risk-free interest rate | 3.88% | 4.02% |
| Expected life (years) | 2.0 years | 3.0 years |
| Share price | \$0.09 | \$0.16 |
| Exercise price | \$0.40 | \$0.65 |

During the years ended December 31, 2023 and 2022, the Company recorded losses of \$433 and \$4,716, respectively, on the revaluation of the Equity Price Guarantee derivative liability.

Cansortium Inc.**Notes to the Consolidated Financial Statements****For the years ended December 31, 2023 and 2022***(Amounts expressed in thousands of United States Dollars unless otherwise stated)***14. Notes payable**

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

| | December 31, 2023 | December 31, 2022 |
|--|----------------------|----------------------|
| Automobile loan (a) | \$ 21 | \$ 32 |
| Senior secured term loan (b) | 58,437 | 54,096 |
| Equipment loan (c) | 33 | 744 |
| Convertible debenture (d) | 2,819 | 2,838 |
| Insurance financing (e) | 92 | - |
| Total notes payable | 61,402 | 57,710 |
| Less current portion of notes payable | (213) | (741) |
| Notes payable, net of current portion | \$ 61,189 | \$ 56,969 |

(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

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 transaction costs 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 December 31, 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

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For the years ended December 31, 2023 and 2022

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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 December 31, 2023, the principal amount outstanding under the Term Loan was \$65,830 and unamortized debt issuance costs was \$7,464. As of December 31, 2022, the principal amount outstanding under the Term Loan was \$65,830 and unamortized debt issuance costs was \$11,739.

As of December 31, 2023, the Company was in compliance with its covenants under the Term Loan.

(c) Equipment loan

As of December 31, 2023, notes payable balance is collateralized by equipment purchased, maturing through July 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 US\$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, 2023, the principal amount outstanding under the Debenture was \$1,619 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 (see Note 15(b)). Both transactions were entered into with the same counterparty and as such, the Company performed an assessment to determine the unit of account (see Note 2(u)(x)). 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 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 warrants.

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

| | December 31, 2023 | December 31, 2022 |
|---|----------------------|----------------------|
| Balance at the beginning of the period | \$ 2,838 | \$ - |
| Proceeds | - | 2,846 |
| Interest and accretion | 535 | 362 |
| Prepayments of principal and interest | (554) | (370) |
| Balance at the end of the period | \$ 2,819 | \$ 2,838 |

A reconciliation of the beginning and ending balances of the notes payable for the years ended December 31, 2023 and 2021 is as follows:

| | December 31, 2023 | December 31, 2022 |
|---|----------------------|----------------------|
| Balance at the beginning of the period | \$ 57,710 | \$ 54,293 |
| Senior Secured Term Loan (b) | - | - |
| Proceeds from convertible debenture and warrants | - | 4,700 |
| Transaction costs on convertible debenture and warrants | - | (40) |
| Issuance of warrants for convertible loan insurance financing | 800 | - |
| Proceeds from equipment loans | - | 748 |
| Note settlement | - | (924) |
| Interest and accretion | 13,458 | 12,594 |
| Repayments of principal and interest | (10,566) | (12,982) |
| Loss on debt settlement | - | 1,136 |
| Balance at the end of the period | \$ 61,402 | \$ 57,710 |

Refer to Note 23 for a reconciliation of finance costs for the years ended December 31, 2023 and December 31, 2022.

(e) Insurance financing

On May 10, 2023, the Company financed liability insurance in the amount of \$800, payable monthly with a nine-month term and a 7.5% interest rate. As of December 31, 2023, the principal amount outstanding is \$92.

15. 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.

Cansortium Inc.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2023 and 2022

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

(a) Right-of-use assets

| | December 31, 2023 | December 31, 2022 |
|---------------------------------|----------------------|----------------------|
| Cost | | |
| Balance at beginning of period | \$ 44,029 | \$ 29,590 |
| Additions | 5,675 | 14,818 |
| Modifications | - | - |
| Disposals | (714) | (379) |
| Balance at end of period | \$ 48,990 | \$ 44,029 |
| Accumulated depreciation | | |
| Balance at beginning of period | \$ 13,565 | \$ 10,421 |
| Additions | 4,018 | 3,144 |
| Disposals | (536) | - |
| Balance at end of period | \$ 17,047 | \$ 13,565 |
| Right-of-use-assets, net | \$ 31,943 | \$ 30,464 |

(b) Lease liabilities

| | December 31, 2023 | December 31, 2022 |
|--|----------------------|----------------------|
| Balance at beginning of period | \$ 36,045 | \$ 23,591 |
| Additions | 6,732 | 15,014 |
| Disposals | (282) | (401) |
| Interest on lease liabilities | 4,473 | 3,612 |
| Interest payments on lease liabilities | (4,473) | (3,611) |
| Principal payments on lease liabilities | (2,381) | (2,160) |
| Balance at end of period | \$ 40,114 | \$ 36,045 |
| Less current portion of lease liabilities | (2,872) | (2,123) |
| Lease liabilities, net of current portion | \$ 37,242 | \$ 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 maturity 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.

On June 1, 2022, the Company modified its lease agreement on a cultivation facility. The purpose of the modification was to cancel its lease to purchase agreement and extend the term. As a result of the modification, the Company recognized an additional right-of-use asset and lease liability of \$4,863.

Cansortium Inc.**Notes to the Consolidated Financial Statements****For the years ended December 31, 2023 and 2022***(Amounts expressed in thousands of United States Dollars unless otherwise stated)*

During the years ended December 31, 2023 and 2022, the Company incurred variable lease payments of \$416 and \$613, respectively.

The Company's lease obligation maturity has been disclosed within Note 21.

16. 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 |
| Shares issued for professional services (Note 16 a.) | 1,048,386 | - | 162 |
| Release of restricted stock for consulting agreement (Note 16 b.) | 400,000 | (400,000) | - |
| Issuance of share for equity price guarantee (Note 16c) | 11,634,615 | - | - |
| Balance, December 31, 2022 | 264,959,743 | - | 180,954 |
| Shares issued for professional services (Note 16 d.) | 4,569,624 | - | 439 |
| Private placement issuance of shares and warrants (Note 16 e) | 30,000,000 | - | 2,297 |
| Balance, December 31, 2023 | 299,529,367 | - | 183,690 |

Equity transactions

During the years ended December 31, 2023 and 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 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.
- d. On January 6, 2023, June 2, 2023 and November 10, 2023, the Company issued to its Board of Directors' members, 1,354,167, 2,031,250 and 1,184,207 shares at \$0.12, \$0.08 and \$0.10 per share, respectively, as compensation resulting in an increase in share capital of \$439.
- e. 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. 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.

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Notes to the Consolidated Financial Statements

For the years ended December 31, 2023 and 2022

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

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 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 December 31, 2023, the share capital of the Company is comprised of 273,602,727 common shares, 2,592,664 proportionate voting shares (each proportionate voting share is convertible into ten common shares), 43,534,060 warrants, 10,061,725 stock options, and 6,328,920 restricted stock units. 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.

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:

| | December 31, 2023 | December 31, 2022 |
|--|----------------------|----------------------|
| Weighted Average Number of Shares - Basic | 292,622,129 | 252,698,567 |
| Weighted Average Warrants | 42,080,064 | 39,389,699 |
| Weighted Average Options | 11,439,585 | 16,410,568 |
| Weighted Average Restricted Stock Units | 2,895,698 | - |
| Weighted Average Number of Shares - Diluted | 349,037,476 | 308,498,834 |

Warrant activity for the Company for the years ended December 31, 2023 and 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 December 31, 2023 | 43,534,060 |

Restricted shares

Restricted shares issued and outstanding at December 31, 2022 represent shares issued and outstanding that are subject to a Company escrow agreement requiring achievement of certain performance or service metrics to release such restrictions. During 2022, the restricted shares vested and were reclassified to unrestricted shares.

Cansortium Inc.**Notes to the Consolidated Financial Statements****For the years ended December 31, 2023 and 2022***(Amounts expressed in thousands of United States Dollars unless otherwise stated)*

| | Restricted shares | Grant date fair value per unit | Aggregate intrinsic value |
|-----------------------------------|-------------------|--------------------------------|---------------------------|
| Balance, December 31, 2021 | 400,000 | \$ 2.75 | \$ 1,100 |
| Vested | (400,000) | 2.75 | (1,100) |
| Balance, December 31, 2022 | — | \$ — | \$ — |

During the year ended December 31, 2022, 2,727,269 restricted stock were vested to Green Standard shareholders resulting in an increase of \$1,677 to its deposit and \$27 share based compensation expense (see Note 10).

On July 25, 2022, the Company settled litigation related to a consulting agreement entered into with Uriah's Urban Farms, Inc. ("Uriah") on January 1, 2019 (the "Consulting Agreement"). Under the Consulting Agreement, the Company agreed, among other things, to purchase certain equipment from the consultant for \$1,500. The Company paid \$500 in April 2019 and did not make any further payments pending the outcome of the dispute with the consultant, and the remaining amount was accrued by the Company as an equipment loan. Under the terms of the settlement, the Company agreed to repayments of \$250 on April 1, 2023 and \$375 on each of April 1, 2024 and 2025 and the release of 400,000 restricted shares previously issued to the noteholder which were subject to performance milestones that were not achieved. As of December 31, 2023 and December 31, 2022 the total amounts outstanding was \$750 and \$1,000, respectively.

17. Stock based compensation**Stock option plan**

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.

The term of an option grant is determined by the Board up to a maximum of 5 years from the grant date. Stock options granted generally vest over two to five years.

The following is a summary of the Company's grant of options to its officers, directors, employees and consultants, including the assumptions used in the Black-Scholes model. The amount of options granted, their fair values and corresponding assumptions used through the years ended December 31, 2023, and December 31, 2022, were as follows:

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| | 2023 | 2022 |
|------------------|---------------|-------------|
| Options granted | 6,266,725 | 700,000 |
| Fair Value | \$0.01 | \$66 |
| Stock price | \$0.10 | \$0.13 |
| Exercise price | \$.10 - \$.40 | \$0.20 |
| Original term | 3-5 years | 5 years |
| Dividend rate | 0% | 0% |
| US treasury rate | 4.34%- 4.86% | 3.70% |
| Volatility | 69%-72% | 105% |
| Forfeiture rate | 0% | 0% |

Volatility rate for the above options estimated based on review of the historic volatility of publicly traded companies with similar operations. Fair value is for each option granted.

For the years ended December 31, 2023 and 2022, the Company recognized \$149 and \$219 as stock-based compensation for options granted, respectively.

These expenses were calculated based on the vesting conditions of each grant and recorded as stock-based compensation in the consolidated statements of loss and comprehensive loss with a corresponding credit to equity (share-based compensation reserve).

As of December 31, 2023, there were 10,061,725 options outstanding, comprising of 9,396,725 options vested and 665,000 options non-vested, with remaining contractual lives 2.1 to 3.1 years.

The following is a summary of the changes in the Company's stock options during the year ended December 31, 2023 and 2022:

| | 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 |
| Granted | 6,266,725 | \$ 0.22 |
| Forfeited | (9,636,056) | \$ 0.50 |
| Balance as of December 31, 2023 | 10,061,725 | \$ 0.31 |

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Notes to the Consolidated Financial Statements

For the years ended December 31, 2023 and 2022

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

The following is a summary of the outstanding options as of December 31, 2023:

| Exercise prices | Outstanding as of December 31, 2023 | Weighted average remaining contractual life (years) | Exercisable as of December 31, 2023 | Weighted average remaining contractual life (years) |
|------------------------|--|--|--|--|
| \$ 0.10 | 2,500,000 | 3.1 | 1,875,000 | 3.1 |
| \$ 0.13 | 700,000 | 4.0 | 700,000 | 4.0 |
| \$ 0.30 | 2,400,000 | 2.5 | 2,400,000 | 2.5 |
| \$ 0.32 | 1,166,725 | 2.5 | 1,166,725 | 2.5 |
| \$ 0.38 | 1,200,000 | 1.4 | 1,200,000 | 1.4 |
| \$ 0.40 | 200,000 | 2.5 | 200,000 | 2.5 |
| \$ 0.44 | 700,000 | 1.0 | 700,000 | 1.0 |
| \$ 0.71 | 750,000 | 2.7 | 750,000 | 2.7 |
| \$ 0.75 | 120,000 | 2.1 | 80,000 | 2.1 |
| \$ 0.77 | 200,000 | 2.1 | 200,000 | 2.1 |
| \$ 0.79 | 125,000 | 2.2 | 125,000 | 2.2 |
| | 10,061,725 | 2.5 | 9,396,725 | 2.5 |

The following is a summary of the outstanding options as of December 31, 2022:

| Exercise prices | Outstanding as of December 31, 2022 | Weighted average remaining contractual life (years) | Exercisable as of December 31, 2022 | Weighted average remaining contractual life (years) |
|------------------------|--|--|--|--|
| \$ 0.20 | 700,000 | 5.0 | 700,000 | 5.0 |
| \$ 0.26 | 3,000,000 | 0.3 | 3,000,000 | 0.3 |
| \$ 0.30 | 1,750,000 | 0.8 | 1,750,000 | 0.8 |
| \$ 0.40 | 1,200,000 | 2.4 | 1,200,000 | 2.4 |
| \$ 0.44 | 3,803,834 | 1.8 | 3,803,834 | 1.8 |
| \$ 0.75 | 255,000 | 3.1 | 170,000 | 3.1 |
| \$ 0.77 | 700,000 | 3.1 | 700,000 | 3.1 |
| \$ 0.79 | 250,000 | 0.9 | 125,000 | 0.9 |
| \$ 0.83 | 500,000 | 3.7 | 500,000 | 3.7 |
| \$ 0.90 | 250,000 | 3.7 | 250,000 | 3.7 |
| \$ 0.93 | 250,000 | 3.5 | 83,333 | 3.5 |
| \$ 1.00 | 150,000 | 0.4 | 150,000 | 0.4 |
| \$ 2.00 | 622,222 | 1.1 | 622,222 | 1.1 |
| | 13,431,056 | 1.8 | 13,054,389 | 1.8 |

RSU stock plan

On July 17, 2023, the Board issued 5,911,320 restricted stock units (“RSU’s”) under the May 17, 2021 Restricted Share Unit Award Plan (the “RSU Plan”) to identified key employees. The RSU’s granted vest 16.67% immediately upon issuance, 16.67% on December 31, 2023 and 16.67% every six months to December 31, 2025.

Stock Compensation for additional RSU’s totaled \$195K for the year ended December 31, 2023. The fair value on the grant date of the RSUs was valued at \$.10 based on the intrinsic value on the grant date.

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The number of RSUs awarded under the RSU Plan are as follows:

| | <u>2023</u> |
|----------------------------|------------------|
| Outstanding at January 1 | - |
| Granted during the year | 5,911,320 |
| Released during the year | - |
| Forfeited during the year | - |
| Outstanding at December 31 | <u>5,911,320</u> |
| RSUs vested at December 31 | <u>1,970,440</u> |

18. Expense by nature

General and administrative expenses for the years ended December 31, 2023, and 2022, are as follows:

| | <u>2023</u> | <u>2022</u> |
|---|------------------|-----------------|
| General and administrative | | |
| Legal and professional fees | \$ 2,973 | \$ 2,823 |
| Litigation settlement | - | (980) |
| Salaries and benefits | 4,141 | 3,349 |
| Insurance | 1,509 | 1,575 |
| Variable rent expenses | 43 | (91) |
| Travel and entertainment | 187 | 130 |
| Recruiting | 203 | 151 |
| Investor relations and regulatory fees | 202 | 210 |
| Payroll processing fees | 30 | 149 |
| Other | 734 | 972 |
| Total general and administrative | \$ 10,022 | \$ 8,288 |

Sales and marketing expenses for the years ended December 31, 2023 and 2022, are as follows:

| | <u>2023</u> | <u>2022</u> |
|----------------------------------|------------------|------------------|
| Sales and marketing | | |
| Salaries and benefits | \$ 16,192 | \$ 12,007 |
| Advertising expenses | 1,136 | 1,512 |
| Variable rent expenses | (138) | 1,346 |
| Legal and professional fees | 396 | 198 |
| Security | 282 | 291 |
| Supplies | 619 | 549 |
| Software | 423 | 336 |
| Other | 1,283 | 1,271 |
| Total sales and marketing | \$ 20,193 | \$ 17,510 |

19. Commitments and contingencies**(a) Contingencies**

The Company's operations are subject to a variety of local and state regulation. 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 December 31, 2023,

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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 December 31, 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.

On April 26, 2021, MXY Holdings, LLC and its affiliates (collectively "MXY") filed suit in Florida claiming breach by the Company of the Management Services Agreement ("MSA") in an amount not less than \$2,500. The terms of the MSA provided MXY with a fee for management consulting services, which services were supposed to include the creation and implementation of management plans and solutions, the provision of MXY personnel with industry expertise, and intellectual property.

On February 7, 2023, the company settled the litigation with MXY for \$1,000. As of December 31, 2023, the total outstanding amount was \$542.

20. 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 years ended December 31, 2023 and 2022, key management personnel compensation consisted of the following:

| | December 31, | |
|------------------------------------|---------------------|-----------------|
| | 2023 | 2022 |
| Salary | \$ 2,856 | \$ 2,269 |
| Option-based compensation | 83 | 219 |
| Restricted stock unit compensation | 118 | - |
| All other compensation | 554 | 733 |
| Total | \$ 3,611 | \$ 3,221 |

Transactions with related parties

On January 1, 2020, the Company entered into a consulting agreement with a third-party company for the provision of financial consulting services in connection with potential new investment into the Company (the "2020 Consulting Agreement"). The company is owned 100% by the current Executive Chairman.

Under the 2020 Consulting Agreement, the third-party company is entitled to a fee of five (5%) percent of the total value received by the Company in financings during the term of the 2020 Consulting Agreement, up to a cap of \$1,100. During 2022, the Company paid \$0 (2021 - \$230) under the 2020 Consulting Agreement. As

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Notes to the Consolidated Financial Statements

For the years ended December 31, 2023 and 2022

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of December 31, 2022, the company owes \$870 (2021 - \$870) under the 2020 Consulting Agreement. On April 21, 2023 the company fully repaid the consulting fees in the amount of \$870.

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.

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, June 2, 2023 and November 10, 2023 the Company issued to its Board of Directors' members, 1,354,167 shares, 2,031,250 shares and 1,184,207 shares at \$0.12, \$0.08 and \$0.10 per share, respectively, as compensation resulting in an increase to share capital of \$439 for the twelve-month period ending December 31, 2023.

On January 8, 2024, the Company entered into a commercial lease with Nittany Management, LLC. Nittany Management, LLC is owned by the Company's current Executive Chairmen. The lease is for property located in Tampa Florida, the property includes 20,000 square foot building. The commercial lease is for a ten-year term, with rent commencing six months after the Company has taken possession of the property. The Company shall pay a base rent of \$362 a year with 3% increases to base rent each year.

21. 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 assets are recognized initially at and subsequently on an amortized cost basis using the effective interest method, less any impairment losses. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period, which are classified as non-current assets.
- (ii) Compound financial instruments issued by the Company comprise convertible notes payable that are convertible to share capital at either the option of the holder or upon consummation of a qualifying go-public transaction. The liability component of the compound financial instruments is initially recognized as the difference between the fair value of the derivative liability (i.e., conversion feature) and the fair value of the convertible notes payable. Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortized cost using the effective interest method and the derivative liability is re-measured with subsequent changes in fair value.

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- (iii) 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.
- (iv) 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 December 31, 2023 are summarized in the following table:

| | Amortized cost | FVTPL | Total |
|------------------------------|----------------|-------|--------|
| Financial Assets | | | |
| Cash | 10,521 | — | 10,521 |
| Trade receivable | 215 | — | 215 |
| Financial Liabilities | | | |
| Trade payable | 5,525 | — | 5,525 |
| Accrued liabilities | 9,779 | — | 9,779 |
| Income taxes payable | 22,009 | — | 22,009 |
| Derivative liabilities | — | 9,109 | 9,109 |
| Notes payable | 61,402 | — | 61,402 |
| Lease obligations | 40,114 | — | 40,114 |
| Other long-term liabilities | 3,882 | — | 3,882 |

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

| | Amortized cost | FVTPL | Total |
|------------------------------|----------------|-------|--------|
| Financial Assets | | | |
| Cash | 8,359 | — | 8,359 |
| Trade receivable | 28 | — | 28 |
| Financial Liabilities | | | |
| Trade payable | 6,931 | — | 6,931 |
| Accrued liabilities | 5,534 | — | 5,534 |
| Income taxes payable | 13,952 | — | 13,952 |
| 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 |

Cansortium Inc.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2023 and 2022

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

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 December 31, 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 December 31, 2023, and 2022, 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.

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The Company had the following contractual obligations as of December 31, 2023:

| | <u>< 1 year</u> | <u>1 to 3 years</u> | <u>3 to 5 years</u> | <u>> 5 years</u> | <u>Total</u> |
|----------------------|--------------------|---------------------|---------------------|---------------------|-------------------|
| Trade payable | \$ 5,525 | \$ - | \$ - | \$ - | \$ 5,525 |
| Accrued liabilities | 9,779 | - | - | - | 9,779 |
| Income taxes payable | 22,009 | - | - | - | 22,009 |
| Notes payable | 9,160 | 69,761 | 1,110 | 1,850 | 81,881 |
| Lease obligations | 7,311 | 14,712 | 14,046 | 31,822 | 67,891 |
| Total | <u>\$ 53,784</u> | <u>\$ 84,473</u> | <u>\$ 15,156</u> | <u>\$ 33,672</u> | <u>\$ 187,085</u> |

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

| | <u>< 1 year</u> | <u>1 to 3 years</u> | <u>3 to 5 years</u> | <u>> 5 years</u> | <u>Total</u> |
|----------------------|--------------------|---------------------|---------------------|---------------------|-------------------|
| Trade payable | \$ 6,931 | \$ - | \$ - | \$ - | \$ 6,931 |
| Accrued liabilities | 5,534 | - | - | - | 5,534 |
| Income taxes payable | 13,952 | - | - | - | 13,952 |
| 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 | <u>\$ 41,982</u> | <u>\$ 23,000</u> | <u>\$ 83,110</u> | <u>\$ 35,732</u> | <u>\$ 183,824</u> |

(d) Regulatory risk

Notwithstanding that most of the states have legalized medical marijuana, there has been no change in U.S. federal banking laws related to the deposit and holding of funds derived from activities related to the marijuana industry. Given that U.S. federal law provides that the production and possession of cannabis is illegal, there is a strong argument that banks cannot accept for deposit funds from businesses involved with the marijuana industry. Consequently, businesses involved in the marijuana industry often have difficulty accessing the U.S. banking system and traditional financing sources. The inability to open bank accounts with certain institutions may make it difficult to operate the businesses of the Company and leaves their cash holdings vulnerable.

Because the cannabis industry remains illegal under U.S. federal law, any property owned by participants in the cannabis industry which are either used in the course of conducting such business, or are the proceeds of such business, could be subject to seizure by law enforcement and subsequent civil asset forfeiture. Even if the owner of the property was never charged with a crime, the property in question could still be seized and subject to an administrative proceeding by which, with minimal due process, it could be subject to forfeiture.

22. 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:

Cansortium Inc.**Notes to the Consolidated Financial Statements****For the years ended December 31, 2023 and 2022***(Amounts expressed in thousands of United States Dollars unless otherwise stated)*

| | December 31, 2023 | December 31, 2022 |
|------------------------------|------------------------------|------------------------------|
| Notes payable | \$ 61,402 | \$ 57,710 |
| Share capital | 183,690 | 180,954 |
| Total managed capital | \$ 245,092 | \$ 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 year ended December 31, 2023.

23. Finance costs

The Company's finance costs for the years ended December 31, 2023 and 2022 are as follows:

| | For the twelve months ended December 31, | |
|---------------------------------|---|------------------|
| | 2023 | 2022 |
| Interest income | \$ (41) | \$ (82) |
| Interest expense | 8,931 | 8,989 |
| Accretion costs | 4,579 | 3,605 |
| Interest on right of use assets | 4,472 | 3,612 |
| Other | - | (37) |
| Finance costs, net | \$ 17,941 | \$ 16,087 |

24. 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.

25. Discontinued operations

For the year-ended December 31, 2022, the Company wrote-off its investment in Cansortium Colombia, recognizing a loss of \$200 in the consolidated statement of loss and comprehensive loss.

During the year ended December 31, 2022, the Company discontinued its operations from Cansortium Brazil Ltda, recognizing \$77 in the consolidated statement of loss and comprehensive loss. During the years ended December 31, 2022, the Company recorded a loss of \$277 from its discontinued operations, respectively.

Cansortium Inc.**Notes to the Consolidated Financial Statements****For the years ended December 31, 2023 and 2022***(Amounts expressed in thousands of United States Dollars unless otherwise stated)*

The results for discontinued operations were as follows:

| | 2023 | 2022 |
|--|-------------|--------------|
| Revenue, net of discounts | \$ — | \$ — |
| Cost of goods sold | — | — |
| Gross profit | — | — |
| Expenses | — | 43 |
| Loss from operations | — | (43) |
| Finance costs, net | — | 31 |
| Other expense | — | 3 |
| Income tax expense | — | — |
| Net loss | — | (77) |
| Proceeds from sale of assets | — | — |
| Net assets sold | — | — |
| Loss on sale of assets | — | — |
| Fair value adjustment of investment | — | 200 |
| Loss from discontinued operations | — | (277) |

Cash flows from discontinued operations for the years ended December 31, 2023 and 2022 are comprised of the following:

| | 2023 | 2022 |
|--|-------------|-------------|
| Operating activities | | |
| Net loss from discontinued operations | \$ — | \$ (277) |
| Add (deduct) items not affective cash | | |
| Loss on sale of assets | — | — |
| Depreciation and amortization | — | 5 |
| Finance expense, net | — | 31 |
| Change in fair value of investment | — | 200 |
| Other expenses | — | 41 |
| Cash used in operating activities | — | — |
| Cash (used in) provided by from discontinued operations | \$ — | \$ — |

26. Employee Retention Tax Credits

During 2023, the Company made a determination that it was eligible to claim Employee Retention Tax Credits (ERTC) in the form of refunds of certain federal employment taxes as authorized and established under the CARES Act. As a result, in 2023 the Company filed amended employment tax returns for certain periods in 2021 to claim refunds related to the ERTC in the approximate amount of \$4.1 million.

In August 2023, the Company executed an agreement to sell its ERTC for \$3.4 million. The buyer shall have the right to put all or a portion of the ERTC back to the Company, whereupon the Company shall be obligated to pay a repurchase price within 10 business days after demand, equal to the portion of the claim amount, plus interest thereon at 10% per annum. As a result, the Company recorded a liability of \$3.4 million. As of December 31, 2023, the buyer had not put or pulled any portion of the ERTC from the Company.

Cansortium Inc.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2023 and 2022

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27. Subsequent Event

On January 8, 2024, the Company entered into a commercial lease with Nittany Management, LLC. Nittany Management, LLC is owned by the Company's current Executive Chairman. The lease is for property located in Tampa, Florida. The lease is for a ten-year term. The property will have 24,500 square feet of canopy and is anticipated to begin operations in the 4th Quarter of 2024.