Cansortium Inc.

Condensed Interim Consolidated Financial Statements (Unaudited)

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

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

Index to the Condensed Interim Consolidated Financial Statements (unaudited)

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

		September 30, 2023	December 31, 2022
Assets			
Current assets			
Cash		$ 12,105	$ 8,359
Trade receivable		48	28
Inventory, net	*Note 3*	8,471	8,973
Biological assets	*Note 4*	418	996
Prepaid expenses and other current assets	*Note 5*	1,380	883
Total current assets		22,422	19,239
Property and equipment, net	*Note 6*	28,618	31,743
Intangible assets, net	*Note 7*	93,327	94,291
Right-of-use assets, net	*Note 11*	30,103	30,464
Goodwill		1,525	1,526
Other assets	*Note 21*	4,889	768
Total assets		**$ 180,884**	**$ 178,031**
Liabilities			
Current liabilities			
Trade payable		$ 3,675	$ 6,931
Accrued liabilities		5,329	5,534
Income taxes payable		25,721	13,952
Derivative liabilities	*Note 9*	8,938	8,676
Current portion of notes payable	*Note 10*	606	741
Current portion of lease obligations	*Note 11*	4,984	2,123
Total current liabilities		49,253	37,957
Notes payable	*Note 10*	60,024	56,969
Lease obligations	*Note 11*	32,164	33,922
Deferred tax liability	*Note 8*	19,287	20,290
Other long-term liabilities	*Note 21*	4,471	1,333
Total liabilities		**165,199**	**150,471**
Shareholders' equity			
Share capital	*Note 12*	183,576	180,954
Share-based compensation reserve	*Note 13*	6,695	6,395
Equity conversion feature		6,677	6,677
Warrants	*Note 12*	29,634	28,939
Accumulated deficit		(210,563)	(195,071)
Foreign currency translation reserve		(334)	(334)
Total shareholders' equity		15,685	27,560
Total liabilities and shareholders' equity		**$ 180,884**	**$ 178,031**

Nature of Operations (Note 1)
Summary of Significant Accounting Policies (Note 2)
Expenses By Nature (Note 14)
Contingencies (Note 15)

Related-Party Transactions (Note 16)
Financial Instruments and Financial Risk Management (Note 17)
Capital Management (Note 18)

Approved and authorized for issue on behalf of the Shareholders
on November 29, 2023:

Robert Beasley
Chief Executive Officer

Jeffrey Batliner
Chief Financial Officer

Cansortium Inc.
Condensed Interim Consolidated Statements of Loss and Other Comprehensive Loss (unaudited)
For the three and nine months ended September 30, 2023 and September 30, 2022
(Amounts expressed in thousands of United States Dollars unless otherwise stated)

		For the three months ended September 30, 2023	For the three months ended September 30, 2022	For the nine months ended September 30, 2023	For the nine months ended September 30, 2022
Revenue, net of discounts		$ 25,260	$ 22,100	$ 71,746	$ 64,228
Cost of goods sold		9,121	5,419	25,730	20,990
Gross profit before fair value adjustments		16,139	16,681	46,016	43,238
Fair value adjustments on inventory sold		3,415	(9,605)	2,336	(25,023)
Unrealized (loss) gain on changes in fair value of biological assets	*Note 4*	(3,627)	2,558	(11,719)	13,224
Gross profit		15,927	9,634	36,633	31,439
Expenses					
General and administrative	*Note 14*	2,705	2,188	7,586	7,348
Share-based compensation	*Note 13*	228	53	644	153
Sales and marketing	*Note 14*	5,354	4,556	14,929	12,833
Depreciation and amortization	*Notes 6, 7, 11*	3,412	1,656	8,223	5,014
Total expenses		11,699	8,453	31,382	25,348
Income (loss) from operations		4,228	1,181	5,251	6,091
Other expense (income)					
Finance costs, net	*Notes 10, 19*	4,562	4,422	13,135	11,922
Income from ERTC tax credit	*Note 21*	(4,055)	-	(4,055)	-
Loss on sale of ERTC tax credit	*Note 21*	608	-	608	-
Loss on change in fair value of derivative liability	*Note 9*	426	313	262	5,021
Loss (gain) on debt settlement	*Note 10*	(116)	-	(116)	1,136
Loss (gain) on disposal of assets	*Note 20*	-	(22)	70	(22)
Loss from termination of a contract		2	-	5	-
Other expense (income)		-	(1)	67	(373)
Total other expense		1,427	4,712	9,976	17,684
Gain (loss) before income taxes		2,800	(3,531)	(4,726)	(11,593)
Income tax expense	*Note 8*	5,561	2,026	10,766	7,542
Net loss from continuing operations		(2,761)	(5,557)	(15,492)	(19,135)
Net loss from discontinued operations		-	19	-	8,594
Net loss		$ (2,761)	$ (5,576)	$ (15,492)	$ (27,729)
Other comprehensive gain that may be reclassified to profit or loss in subsequent years					
Exchange differences on translation of foreign operations and reporting currency		-	62	-	87
Comprehensive loss		$ (2,761)	$ (5,514)	$ (15,492)	$ (27,642)
Net loss per share					
Basic and diluted - continuing operations		$ (0.01)	$ (0.02)	$ (0.05)	$ (0.11)
Weighted average number of shares					
Basic number of shares		298,963,366	252,276,742	290,693,488	252,230,588
Diluted number of shares		358,650,277	309,136,061	345,906,048	308,192,639

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

	Share capital			Reserves					
	Number of unrestricted common shares	**Number of restricted common shares**	**Amount**	**Share-based compensation reserve**	**Equity conversion feature**	**Warrants**	**Accumulated deficit**	**Foreign currency translation reserve**	**Total shareholders' equity**
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/(loss) 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.)	3,385,417	-	325	-	-	-	-	-	325
Issuance of options	-	-	-	154	-	-	-	-	154
Issuance of restricted stock units				151					151
Cancellation of options	-	-	-	(5)	-	-	-	-	(5)
Privat placement issuance of shares and warrants (Note 16 f.)	30,000,000	-	2,297	-	-	695	-	-	2,992
Net loss	-	-	-	-	-	-	(15,492)	-	(15,492)
Balance, September 30, 2023	**298,345,160**	**-**	**$ 183,576**	**$ 6,695**	**$ 6,677**	**$ 29,634**	**$ (210,563)**	**$ (334)**	**$ 15,685**

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

	For the nine months ended September 30, 2023	2022
Operating activities		
Net loss from continuing operations	$ (15,492)	$ (27,729)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Unrealized gain (loss) on changes in fair value of biological assets	11,719	(13,224)
Realized (loss) gain on changes in fair value of biological assets	(2,336)	25,023
Share-based compensation	644	153
Depreciation and amortization	10,961	9,534
Accretion and interest of convertible debentures	400	-
Accretion and interest of term loan	9,534	9,359
Interest income on notes receivable	-	(71)
Interest of equipment loan	37	-
Loss (gain) on disposal of assets	70	(22)
Loss on debt settlement	-	1,136
Discontinued operations	-	8,594
Change in fair market value of derivative	262	5,021
Interest on lease liabilities	3,041	2,546
Deferred tax expense	(1,003)	(703)
Changes in operating assets and liabilities:		
Trade receivable	(20)	(27)
Inventory	4,632	1,185
Biological assets	(12,609)	(15,495)
Prepaid expenses and other current assets	(497)	(477)
Right of Use Assets/Liabilities	455	236
Other assets	(4,121)	-
Trade payable	(3,277)	333
Accrued liabilities	(205)	2,060
Other long-term liabilities	3,141	-
Income taxes payable	11,769	8,053
Net cash provided by operating activities	17,105	15,486
Investing activities		
Purchases of property and equipment	(4,500)	(5,439)
Payment of notes receivable	-	119
Advances for notes receivable	-	(94)
Net cash used in investing activities	(4,500)	(5,414)
Financing activities		
Net proceeds from issuance of shares and warrants	2,993	-
Proceeds from issuance of convertible debenture and warrants	-	4,710
Net proceeds from insurance financing	800	-
Payment of lease obligations	(4,800)	(4,226)
Exercise of Options	-	135
Principal repayments of notes payable	(7,852)	(10,703)
Net cash used in financing activities	(8,859)	(10,084)
Effect of foreign exchange on cash and cash equivalents	-	87
Net increase in cash	3,746	75
Cash, beginning of period	8,359	9,024
Cash, end of period	$ 12,105	$ 9,099

1. NATURE OF OPERATIONS

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

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

The Company’s medical cannabis products are offered in oral drops, capsules, topicals, syringes, dried flower, pre-rolls, cartridges, 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.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Preparation

The condensed interim unaudited consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”). They have been prepared under the assumption the Group operates on a going concern basis, which assumes the Group will be able to discharge its liabilities as they fall due.

The condensed interim consolidated financial statements have been prepared in accordance with International Accounting Standard 34 – Interim Financial Reporting, following the same accounting policies and methods of application as those disclosed in the annual audited consolidated financial statements for the years ended December 31, 2022 and 2021. These condensed interim consolidated financial statements should be read in conjunction with the annual audited consolidated financial statements of the Company for the years ended December 31, 2022 and 2021, including the accompanying notes thereto.

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

(b) Basis of Measurement

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

(c) Functional and Presentation of Currency

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

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

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

(d) Basis of Consolidation

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

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

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

e) Critical Accounting Judgments, Estimates and Assumptions

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

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

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

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

3. INVENTORY

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

	September 30, 2023	December 31, 2022
Supplies, packaging and materials	$ 4,164	$ 2,685
Work in progress	1,597	1,906
Finished goods	2,710	4,382
Balance at end of period	**$ 8,471**	**$ 8,973**

Inventory material costs included in cost of goods sold during the nine months ended September 30, 2023 and 2022, were $3,943 and $12,917, respectively. Capitalized depreciation expensed to costs of sales for the nine months ended September 30, 2023 and the twelve months ended December 31, 2022, were $3,268 and $5,075 respectively.

4. BIOLOGICAL ASSETS

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

	September 30, 2023	December 31, 2022
Balance at beginning of period	$ 996	$ 3,297
Cost incurred until harvest	12,609	16,355
Effect of unrealized change in fair value of biological assets	(11,719)	(9,620)
Transferred to inventory upon harvest	(1,468)	(9,036)
Balance at end of period	**$ 418**	**$ 996**

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

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

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

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

4. BIOLOGICAL ASSETS *(Continued)*

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

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

	As at September 30, 2023		As at December 31, 2022	
Assumptions	**Input**	**10% Change**	**Input**	**10% Change**
(i) Weighted average of expected loss of plants until harvest (a)	14%	$4	15%	$17
(ii) Expected yields for cannabis plants (average grams per plant) (b)	60	$23	47	$100
(iii) Weighted average number of growing weeks completed as percentage of total growing weeks as at period end	52%	$23	47%	$100
(iv) FL Estimated selling price per gram (c)	$7.12 per gram	$846	$7.12	$1,121
(v) FL Cost to sell per gram per flower and trim, respectively	$6.90 per gram	$823	$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 September 30, 2023, it is expected that the Company's biological assets will yield approximately 3,245,323 grams of dry cannabis when harvested, as of December 31, 2022 the Company expected to harvest 3,322,073 grams. As of September 30, 2023 and December 2022, the Company had 62,091 and 82,667 plants that were classified as biological assets, respectively.

5. PREPAID EXPENSES AND OTHER CURRENT ASSETS

Prepaid expenses and other current assets consist of the following:

	September 30, 2023	December 31, 2022
Prepaid insurance	$ 249	$ 576
Other prepaid expenses	1,076	283
Deposits	55	24
Balance at end of period	**$ 1,380**	**$ 883**

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

6. PROPERTY AND EQUIPMENT

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

	Land	Furtinure and Fixtures	Computer Equipment	Manufacturing equipment	Leasehold improvements	Buildings	Construction in Progress	Vehicles	Total
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
Balance as of January 1, 2021	-	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	$53,024
Additions	-	16	86	465	2,791	-	1,078	65	4,500
Construction completed	-	358	349	74	1,329	-	(2,110)	-	-
Disposals	-	-	-	-	(15)	-	(56)	-	(70)
Balance as of September 30, 2023	212	1,566	2,099	10,839	41,746	-	539	454	57,454
Balance as of January 1, 2023	-	505	1,112	3,903	15,648	-	-	114	21,281
Additions	-	162	329	1,158	5,871	-	-	35	7,555
Balance as of September 30, 2023	-	667	1,441	5,061	21,519	-	-	149	28,836
Property and equipment, net	**$ 212**	**$ 899**	**$ 658**	**$ 5,778**	**$ 20,227**	**$ -**	**$ 539**	**$ 305**	**$28,618**

For the nine months ended September 30, 2023 and 2022, the Company charged $4,873 and $5,174 of depreciation to the production of biological assets and inventory, respectively.

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

7. INTANGIBLE ASSETS

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

	Licenses	Trademarks and brands	Total
Balance as of January 1, 2022			
Cost	$ 94,488	$ 8,850	$ 103,338
Additions	-	-	-
Disposals	-	-	-
Balance as of December 31, 2022	$ 94,488	$ 8,850	$ 103,338
Balance as of January 1, 2022			
Accumulated amortization	$ 904	$ 6,612	$ 7,516
Additions	159	1,372	1,531
Disposals	-	-	-
Balance as of December 31, 2022	$ 1,063	$ 7,984	$ 9,047
Intangible assets, net	**$ 93,425**	**$ 866**	**$ 94,291**
Balance as of January 1, 2023			
Cost	$ 94,488	$ 8,850	$ 103,338
Additions	-	-	-
Disposals	-	-	-
Balance as of September 30, 2023	$ 94,488	$ 8,850	$ 103,338
Balance as of January 1, 2023			
Accumulated amortization	$ 1,063	$ 7,984	$ 9,047
Additions	106	858	964
Disposals			-
Balance as of September 30, 2023	$ 1,169	$ 8,842	$ 10,011
Intangible assets, net	**$ 93,319**	**$ 8**	**$ 93,327**

Amortization expense for the three and nine months ended September 30, 2023 was $383 and $964 respectively, and $383 and $1,148 for the same periods in 2022.

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

8. INCOME TAXES

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

	Three months ended		Nine months ended	
	September 30, 2023	September 30, 2022	September 30, 2023	September 30, 2022
Current Tax Expense	$ 5,047	$ 2,355	$ 11,769	$ 8,246
Deferred Tax Expense	514	(329)	(1,003)	(704)
Total income taxes	**$ 5,561**	**$ 2,026**	**$ 10,766**	**$ 7,542**

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

9. DERIVATIVE LIABILITIES

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

Balance as of January 1, 2022	$ 3,960
Fair value change	4,716
Balance as of December 31, 2022	**$ 8,676**
Fair value change	262
Balance as of September 30, 2023	**$ 8,938**

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

Fluent Servicing Acquisition

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

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

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

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

9. DERIVATIVE LIABILITIES *(Continued)*

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

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

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

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

	September 30, 2023	**December 31, 2022**
Volatility	123.90%	105.00%
Risk-free interest rate	4.81%	4.02%
Expected life (years)	2.25 years	3.0 years
Share price	$0.10	$0.16
Exercise price	$0.33	$0.65

For the three and nine month period ended September 30, 2023, the Company recorded a loss of $426 and $262 respectively. The Company recorded a loss of $313 and $5,021 for the three and nine month period ended September 30, 2022, respectively.

10. NOTES PAYABLE

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

	September 30, 2023	**December 31, 2022**
Automobile loan (a)	$ 24	$ 32
Senior secured term loan (b)	57,231	54,096
Equipment loan (c)	101	744
Convertible debenture (d)	2,822	2,838
Insurance financing (e)	452	-
Total notes payable	60,630	57,710
Less current portion of notes payable	(606)	(741)
Notes payable, net of current portion	**$ 60,024**	**$ 56,969**

10. NOTES PAYABLE *(Continued)*

(a) Automobile Loan

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

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

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

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

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

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

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

On May 6, 2022 and June 6, 2022, the Company completed repayments of the Term Loan in the aggregate amount of $3,418, incurring in a loss on debt settlement of $1,136. As of September 30, 2023 and December 31, 2022, the principal amount outstanding under the Term Loan was $57,231 and $54,096, Unamortized debt issuance costs related to the term loan was $8,637 as of September 30, 2023 and $11,739 as of December 31, 2022.

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

10. NOTES PAYABLE *(Continued)*

(c) Equipment Loan

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

(d) Convertible debenture

On April 29, 2022, the Company completed a non-brokered private placement (the “Private Placement”) that includes a 10.0% unsecured convertible debenture in the principal amount of $3,500 (the “Debenture”), as well as 3,076,923 pre-funded common share purchase warrants (each a “Pre-Funded Warrant”) at a price of $0.39 per Pre-Funded Warrant, for aggregate gross proceeds of $4,700, resulting in an increase of $1,744 and $70 to equity conversion feature and warrants, respectively. The Debenture will come due in 2032 and the principal amount then outstanding is convertible into common shares of the Company at a conversion price of $0.79 per common share. Each Pre-Funded Warrant shall entitle the holder to purchase one common share at an additional exercise price of $0.40 per common share (for a total common share issue price equal to $0.79) for a period of 12 months from the date of issuance. As of September 30, 2023, the principal amount outstanding under the Debenture was $3,191 and unamortized debt issuance costs was $1,683.

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

- The right of use asset and lease liability were remeasured based on the revised lease terms and payments. The Company allocated incremental payments from the lease amendment that were not representative of the fair value of the lease. For the nine months ended September 30, 2023 and the year ended December 31, 2022, incremental lease payments of $28 and $27, respectively were allocated to the Debenture.
- The debt component of the convertible debenture was measured based on interest rates applicable to the Company for comparable instruments without a conversion feature, and the residual amount was attributed to the equity components consisting of warrants and the conversion feature.
- The Pre-Funded Warrants were measured at their fair value using the Black-Scholes model and the remaining proceeds were then allocated to the conversion feature and recognized in the equity conversion feature reserve in equity. Total transaction costs of $40 were allocated proportionately to the debt, conversion feature and Pre-Funded Warrants.

(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 September 30, 2023, the principal amount outstanding is $452k.

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

10. NOTES PAYABLE *(Continued)*

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

	September 30, 2023	December 31, 2022
Balance at the beginning of the period	$ 2,838	$ -
Proceeds	-	2,846
Interest and accretion	400	362
Prepayments of principal and interest	(416)	(370)
Balance at the end of the period	**$ 2,822**	**$ 2,838**

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

	September 30, 2023	December 31, 2022
Balance at the beginning of the period	$ 57,710	$ 54,293
Proceeds from convertible debenture and warrants	-	4,700
Transaction costs on convertible debenture and warrants	-	(40)
Issuance of warrants for convertible loan	-	(1,814)
Proceeds from insurance financing	800	-
Proceeds from equipment loans	-	748
Note settlement	-	(924)
Interest and accretion	9,972	12,594
Repayments of principal and interest	(7,852)	(12,982)
Loss on debt settlement	-	1,136
Balance at the end of the period	**$ 60,630**	**$ 57,710**

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

11. LEASES

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

(a) Right-of-use assets

	September 30, 2023	December 31, 2022
Cost		
Balance at beginning of period	$ 44,029	$ 29,590
Additions	2,406	14,818
Disposals	-	(379)
Balance at end of period	$ 46,435	$ 44,029
Accumulated depreciation		
Balance at beginning of period	$ 13,565	$ 10,421
Additions	2,767	3,144
Balance at end of period	$ 16,332	$ 13,565
Right-of-use-assets, net	**$ 30,103**	**$ 30,464**

(b) Lease Liabilities

	September 30, 2023	December 31, 2022
Balance at beginning of period	$ 36,045	$ 23,591
Additions	2,861	15,014
Disposals	-	(401)
Interest on lease liabilities	3,041	3,612
Interest payments on lease obligations	(3,041)	(3,611)
Principal payments on lease obligations	(1,758)	(2,160)
Balance at end of period	**$ 37,148**	**$ 36,045**
Less current portion of lease obligations	(4,984)	(2,123)
Lease obligations, net of current portion	**$ 32,164**	**$ 33,922**

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

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

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

12. SHAREHOLDERS' EQUITY

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

Equity shares transactions

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

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

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

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

12. SHAREHOLDERS' EQUITY *(Continued)*

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

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

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

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

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

Share Capital

As of September 30, 2023, the share capital of the Company is comprised of 272,418,520 common shares, 2,592,664 proportionate voting shares (each proportionate voting share is convertible into ten common shares), 43,534,060 warrants, 11,736,725 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.

During the nine-month period ending September 30, 2023, stock options granted to third-party consultants totaling 3,150,000 with a weighted average exercise price of $0.33 expired.

Earnings per share have been calculated using the weighted average number of shares outstanding during a period on a total outstanding and fully dilutive basis. The potential conversion of warrants, convertible debt, and stock options into common shares. The weighted average number of basic and diluted shares for the nine- and twelve-month periods ended September 30, 2023 and December 31, 2022 are presented in the table below:

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

12. SHAREHOLDERS' EQUITY *(Continued)*

	September 30, 2023	December 31, 2022
Weighted average number of shares - basic	290,693,488	252,698,567
Weighted average warrants	41,590,073	39,389,699
Weighted average options	11,902,637	16,410,568
Weighted average restricted stock units	1,738,714	-
Weighted average number of shares - diluted	345,924,913	308,498,834

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

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

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

	Options Issued	Weighted Average Exercise Price
Balance as of December 31, 2021	**16,955,500**	**$ 0.52**
Granted	700,000	$ 0.20
Exercised	(300,000)	$ 0.45
Forfeited	(3,924,444)	$ 0.44
Balance as of December 31, 2022	**13,431,056**	**$ 0.53**
Forfeited	(7,886,056)	$ 0.72
Granted	6,016,725	$ 0.24
Balance as of September 30, 2023	**11,561,725**	**$ 0.32**

13. STOCK BASED COMPENSATION

On March 14, 2019, the Board of Directors (the "Board") of the Company approved a Stock Option Plan (the "Plan"). Under the Plan, the Board may grant options to acquire common shares of the Company to officers, employees, and consultants, to a limit of 10% of the outstanding common shares of the Company, including proportionate voting shares. On July 17, 2023, the Board cancelled 1,163,334 stock options issued under the Plan and issued 58,920 restricted stock units ("RSU's") under the May 17, 2021 Restricted Share Unit Award Plan (the "RSU Plan") to ten employees. An additional 6,270,000 RSU's were granted to identified key employees on the same date under the RSU Plan. 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.

The issuance of RSU's in exchange for options was treated as a modification and, as a result, additional stock-based compensation expense of $1 was recorded for the three and nine months ended September 30, 2023.

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

13. STOCK BASED COMPENSATION *(Continued)*

Stock Compensation for additional RSU's and Stock Options totaled $150K and $77K, respectively for the three months ended September 30, 2023. The fair value on the grant date of the RSUs was valued at $.10 based on the intrinsic value on the grant date. As of September 30, 2023, the Company had an aggregate of 5,273,889 RSUs outstanding.

On June 14, 2023, the Board cancelled 2,600,000 options issued under the Plan and issued on July 17, 2023 2,600,000 options, with exercise prices ranging from $.30 to $.40. On July 17, 2023, an additional 2,916,725 options were issued under the Plan with exercise prices ranging from $.10 to $.30 per share. Stock based compensation recorded for the three and nine months ended September 30, 2023 for options granted during the period is $77.

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

14. EXPENSE BY NATURE

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

	For the three months ended September 30, 2023	For the three months ended September 30, 2022	For the nine months ended September 30, 2023	For the nine months ended September 30, 2022
General and administrative				
Legal and professional fees	$ 545	$ 666	$ 2,144	$ 2,289
Salaries and benefits	1,540	761	3,820	2,578
Insurance	458	238	1,170	1,014
Variable rent expenses	(0)	23	61	69
Travel and entertainment	36	23	114	76
Recruiting	127	34	187	97
Investor relations and regulatory fees	-	71	-	153
Payroll processing fees	6	39	28	109
Other	221	333	706	963
Total general and administrative	**$ 2,933**	**$ 2,188**	**$ 8,230**	**$ 7,348**

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

	For the three months ended September 30, 2023	For the three months ended September 30, 2022	For the nine months ended September 30, 2023	For the nine months ended September 30, 2022
Sales and marketing				
Salaries and benefits	$ 4,310	$ 3,240	$ 11,750	$ 8,654
Advertising expenses	220	315	884	1,124
Variable rent expenses	162	114	83	1,066
Legal and professional fees	129	47	294	140
Security	69	41	189	255
Supplies	85	208	509	471
Software	90	91	304	255
Other	287	500	916	868
Total sales and marketing	**$ 5,354**	**$ 4,556**	**$ 14,929**	**$ 12,833**

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

15. COMMITMENTS AND CONTINGENCIES

(a) Contingencies

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

(b) Claims and Litigation

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

February 7, 2023, the Company settled litigation with MXY Holdings, LLC relating to a management agreement for $1,000. As of September 30, 2023 the total outstanding balance is $666, classified as a short-term liability and the balance as of December 31, 2022 is $1,000, of which $417 is classified as a short-term liability.

16. RELATED-PARTY TRANSACTIONS

Key management personnel compensation

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

	For the three months ended September 30, 2023	For the three months ended September 30, 2022	For the nine months ended September 30, 2023	For the nine months ended September 30, 2022
Salary	$ 727	$ 558	$ 2,152	$ 1,690
Option-based compensation	77	53	106	153
Restricted stock unit compensation	77	-	77	-
All other compensation	-	171	325	571
Total	$ 881	$ 782	$ 2,660	$ 2,414

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

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

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

17. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

Financial instruments

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

Financial assets

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

Financial liabilities

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

(ii) Other financial liabilities include the Company's trade payable and accrued liabilities and notes payable. The effective interest method is used to calculate the amortized cost of a financial liability and allocates interest
(iii) 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 September 30, 2023 are summarized in the following table:

	Amortized cost	FVTPL	Total
Financial Assets			
Cash and cash equivalents	—	12,105	12,105
Trade receivable	48	—	48
Financial Liabilities			
Trade payable	3,675	—	3,675
Accrued liabilities	31,050	—	31,050
Derivative liabilities	—	8,938	8,938
Notes payable	60,630	—	60,630
Lease obligations	37,148	—	37,148
Other long-term liabilities	3,850	—	3,850

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

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

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

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

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

	< 1 year	1 to 3 years	3 to 5 years	> 5 years	Total
Trade payable	$ 3,675	$ -	$ -	$ -	$ 3,675
Accrued liabilities	5,329	-	-	-	5,329
Notes payable	606	57,626	556	1,841	60,630
Lease obligations	4,984	5,944	6,773	19,447	37,148
Total	$ 14,594	$ 63,570	$ 7,330	$ 21,288	$106,782

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

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

18. CAPITAL MANAGEMENT

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

Total managed capital is as follows:

	September 30, 2023	December 31, 2022
Notes payable	$ 60,630	$ 57,710
Share capital	183,577	180,954
Total managed capital	**$ 244,207**	**$ 238,664**

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

18. CAPITAL MANAGEMENT *(Continued)*

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 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 nine months ended September 30, 2023 and the year ended December 31, 2022.

19. FINANCE COSTS

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

	For the three months ended September 30,		For the nine months ended September 30,	
	2023	**2022**	**2023**	**2022**
Interest income	$ (10)	$ (4)	$ (34)	$ (79)
Interest expense	2,263	2,246	6,685	6,791
Accretion costs	1,178	949	3,317	2,662
Interest on right of use assets	1,131	1,231	3,167	2,548
Finance costs, net	**$ 4,562**	**$ 4,422**	**$ 13,135**	**$ 11,922**

20. DISPOSAL OF ASSETS

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

21. 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 will file amended employment tax returns for certain periods in 2021 to claim refunds related to the ERTC in the approximate amount of $4.1 million. At September 30, 2023 a receivable was recorded in Other assets for this amount on the Company's balance sheet and the Company recognized income in Other Income (Loss) in the statement of income. The full amount is outstanding as of September 30, 2023.

In August 2023, the Company executed an agreement to sell its ERTC for $3.4 million. The Company recognized a loss of $0.6 million in Other Income (Loss) in the statement of income and a liability of $4.1 million in Other long-term liabilities in the Company's balance sheet. 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 of September 30, 2023, the Company had not repurchased any ERTC from the buyer.