Cansortium Inc.

Consolidated Financial Statements

For the years ended
December 31, 2022 and 2021

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

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Independent Auditors' Report

To the Shareholders of Cansortium Inc.

Opinion

We have audited the consolidated financial statements of Cansortium Inc. and its subsidiaries (together, the "Company"), which comprise the consolidated statements of financial position as at December 31, 2022 and 2021, 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, 2022 and 2021, 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, 2022, the carrying amount of the Company's biological assets was $996 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 reasonable profit margin.

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 2022

ii. The estimated reasonable profit margin was tested by comparing the reasonable profit margin included in the valuation to market participants profit margins

iii. We performed sensitivity analyses over both significant assumptions

2. Impairment of goodwill and indefinite-lived intangible assets

As at December 31, 2022, the carrying amount of goodwill was $1,526 thousand and the carrying amount of indefinite-lived intangible assets was $93,327 thousand, which related to the Florida cash generating unit ("CGU"). The Company performs impairment testing on an annual basis, or whenever events or change 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. Impairment indicators existed during the year due to a decline in the Company's market capitalization. As a result of the Company performing impairment tests for the CGU, no impairment loss on goodwill and indefinite-lived intangible assets was necessary at December 31, 2022.

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, gross margin, terminal growth rates, and pre-tax 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 restricted to, the following:

i. evaluated the reasonableness of the assumptions applied to key inputs, such as sales volumes and prices, gross margin, and terminal growth rates by comparing these assumptions to historical actual performance, approved budgets and external market and industry data

ii. tested the underlying data used in the discounted cash flow model

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 and external 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

3. Convertible debenture issued with warrants and a lease modification

As described in Note 2(u)(vii) Critical accounting judgments, estimates and assumptions and Note 14(d) to the consolidated financial statements, on April 29, 2022 the Company completed a private placement (the "Private Placement") that included a 10.0% unsecured convertible debenture in the principal amount of $3,500 thousand (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 thousand. Concurrently, the Company modified a lease agreement with the same counterparty.

Why the matter is a key audit matter

We identified the accounting for the convertible debenture issued with warrants and a lease modification described above as a key audit matter as the transaction involved complex accounting and valuation considerations.

How the matter was addressed in the audit

We responded to this matter by performing audit procedures in relation to the accounting and valuation treatment which included the following: Our audit work in relation to this included, but was not restricted to, the following:

i. Evaluated the appropriateness of the methods used to record the various components of the transaction at their respective values

ii. Assessed the proper classification between liabilities and equity for each component of the transaction

iii. Involved technical accounting and valuation professionals with specialized skills and knowledge, to assist with verifying that management assumptions and conclusions reached were reasonable

iv. Agreed the underlying assumptions to executed agreements or third party supporting documentation

v. Recalculated managements value for each component in the transaction

vi. We reviewed the appropriateness of the disclosures made in the consolidated financial statements with respect to this matter

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 Sam Salty.

Baker Tilly US, LLP

Irvine, California
May 1, 2023

Cansortium Inc.
Consolidated Statements of Financial Position
As of December 31, 2022 and 2021
(Amounts expressed in thousands of United States Dollars unless otherwise stated)

		December 31, 2022	December 31, 2021
Assets			
Current assets			
Cash		$ 8,359	$ 9,024
Trade receivable		28	26
Inventory, net	*Note 3*	8,973	8,981
Biological assets	*Note 4*	996	3,297
Investment held for sale	*Note 7*	-	200
Prepaid expenses and other current assets	*Note 6*	883	2,007
Total current assets		19,239	23,535
Property and equipment, net	*Note 8*	31,743	34,160
Intangible assets, net	*Note 9*	94,291	95,822
Right-of-use assets, net	*Note 15*	30,464	19,169
Note receivable	*Note 5*	-	4,886
Deposit	*Note 10*	-	2,727
Goodwill	*Note 11*	1,526	1,526
Other assets		768	632
Total assets		**$ 178,031**	**$ 182,457**
Liabilities			
Current liabilities			
Trade payable		6,931	8,518
Accrued liabilities		5,534	5,846
Income taxes payable		13,952	2,120
Derivative liabilities	*Note 13*	8,676	3,960
Current portion of notes payable	*Note 14*	741	619
Current portion of lease obligations	*Note 15*	2,123	2,500
Total current liabilities		37,957	23,563
Notes payable	*Note 14*	56,969	53,674
Lease obligations	*Note 15*	33,922	21,091
Deferred tax liability	*Note 12*	20,290	21,563
Other long-term liabilities	*Note 14, 16*	1,333	-
Total liabilities		**150,471**	**119,891**
Shareholders' equity			
Share capital	*Note 16*	180,954	180,657
Share-based compensation reserve	*Note 16*	6,395	6,176
Equity conversion feature	*Notes 14, 16*	6,677	4,933
Warrants	*Note 16*	28,939	28,869
Accumulated deficit		(195,071)	(157,648)
Foreign currency translation reserve		(334)	(421)
Total shareholders' equity		27,560	62,566
Total liabilities and shareholders' equity		**$ 178,031**	**$ 182,457**

Contingencies (Note 19) Discontinued Operations (Note 25) Subsequent Events (Note 26)

Approved and authorized for issue on behalf of the Shareholders on May 1, 2023

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, 2022 and 2021
(Amounts expressed in thousands of United States Dollars unless otherwise stated)

		For the years ended December 31, 2022	For the years ended December 31, 2021
Revenue, net of discounts		$ 87,692	$ 65,437
Cost of goods sold		43,731	23,488
Gross profit before fair value adjustments		43,961	41,949
Fair value adjustments on inventory sold		2,622	(21,015)
Unrealized (loss) gain on changes in fair value of biological assets	*Note 4*	(9,620)	14,853
Gross profit		36,963	35,787
Expenses			
General and administrative	*Note 18*	8,288	10,326
Share-based compensation	*Note 17*	545	4,304
Sales and marketing	*Note 18*	17,510	15,416
Depreciation and amortization	*Notes 8, 9, 15*	6,765	6,384
Total expenses		33,108	36,430
Income (loss) from operations		3,855	(643)
Other expense (income)			
Finance costs, net	*Note 14*	16,087	15,760
Loss (gain) on change in fair value of derivative liability	*Note 13*	4,716	(3,452)
Equity loss on investment in associate	*Note 10*	-	-
Private Placement issuance expense		-	(1,501)
Loss on debt settlement	*Note 14*	1,136	31
Loss on disposal of assets	*Note 24*	672	-
Loss from termination of a contract	*Notes 5,10*	8,011	
Other expense (income)		3	(123)
Total other expense		30,625	10,715
Loss before income taxes		(26,770)	(11,358)
Income tax expense	*Note 12*	10,376	7,646
Net loss from continuing operations		(37,146)	(19,004)
Net loss (income) from discontinued operations	*Note 25*	277	35
Net loss		$ (37,423)	$ (19,039)
Other comprehensive gain (loss) that may be reclassified to profit or loss in subsequent years			
Exchange differences on translation of foreign operations and reporting currency		88	(42)
Comprehensive loss		$ (37,335)	$ (19,081)
Net loss per share			
Basic and diluted - continuing operations	*Note 16*	$ (0.15)	$ (0.08)
Weighted average number of shares			
Basic number of shares		252,698,567	228,628,703
Diluted number of shares		308,498,834	275,231,404

Cansortium Inc.
Consolidated Statements of Changes in Shareholders' Equity
For the years ended December 31, 2022 and 2021
(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, 2020	**185,788,482**	**2,127,269**	**137,835**		**$ 4,675**	**$ 11,044**	**$ 13,265**	**$ (138,609)**	**$ (379)**	**$ 27,831**
Issuance of warrants	-	-	-		-	-	45	-	-	45
Exercise of warrants	3,033,332	-	1,365		-	-	-	-	-	1,365
Issuance of options	-	-	-		1,501	-	-	-	-	1,501
Exercise of options	56,287	-	-		-	-	-	-	-	-
Shares issued for professional services (Note 16 j.)	1,505,344	-	1,174		-	-	-	-	-	1,174
Issuance of share and warrants for note payable extension (Note 16 k.)	1,498,264	-	1,049		-	-	1,891	-	-	2,940
Private placement issuance of shares and warrants (Note 16 l.)	24,414,279	-	9,970		-	-	4,650	-	-	14,620
Issuance of warrants for term loan (Note 16 m.)	-	-	-		-	-	9,018	-	-	9,018
Shares issued for convertible debentures repayment (Note 16 n.)	21,555,483	-	17,312		-	(3,565)	-	-	-	13,747
Release of restricted stock to acquire GSI (Noe 16 o.)	1,727,269	(1,727,269)	1,705		-	-	-	-	-	1,705
Issuance of shares for note payable repayment (Note 16 j, 16p.)	8,426,574	-	7,640		-	(2,546)	-	-	-	5,094
Private placement issuance of shares (Note 16 q.)	3,571,428	-	2,607		-	-	-	-	-	2,607
Foreign currency gain/(loss) on translation	-	-	-		-	-	-	-	(42)	(42)
Net loss	-	-	-		-	-	-	(19,039)	-	(19,039)
Balance, December 31, 2021	**251,576,742**	**400,000**	**180,657**	**-**	**6,176**	**4,933**	**28,869**	**(157,648)**	**(421)**	**62,566**
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 h.)	1,048,386	-	162	-	-	-	-	-	-	162
Foreign currency gain/(loss) on translation	-	-	-	-	-	-	-	-	87	87
Issuance of warrants for convertible debenture (Note 16 k.)	-	-	-	-	-	1,744	70	-	-	1,814
Release of restricted stock for consuting ageement (Note 14 c., 16)	400,000	(400,000)	-	-	-	-	-	-	-	-
Issuance of share for equity price guarantee (Note 16 j.)	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**

Cansortium Inc.
Consolidated Statements of Cash Flow
For the years ended December 31, 2022 and 2021
(Amounts expressed in thousands of United States Dollars unless otherwise stated)

	For the years ended December 31,	
	2,022	**2021**
Operating activities		
Net loss from continuing operations	$ (37,146)	$ (19,004)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Unrealized gain (loss) on changes in fair value of biological assets	9,620	(14,853)
Realized (loss) gain on changes in fair value of biological assets	(2,622)	21,015
Share-based compensation	545	4,304
Depreciation and amortization	13,428	9,808
Accretion and interest of convertible debentures	362	8,901
Accretion and interest of term loan	12,232	2,700
Interest income on notes receivable	(71)	(266)
Loss on disposal of assets	672	(4)
Loss on debt settlement	1,136	-
Loss from termination of a contract	8,011	-
Change in fair market value of derivative	4,716	(3,452)
Interest on lease liabilities	3,612	2,554
Deferred tax expense	(1,273)	(836)
Changes in operating assets and liabilities:		
Trade receivable	(2)	122
Inventory	11,927	3,490
Biological assets	(16,355)	(14,127)
Prepaid expenses and other current assets	404	(641)
Right of Use Assets/Liabilities	197	-
Other assets	(137)	(207)
Trade payable	(1,208)	3,710
Accrued liabilities	(811)	(1,435)
Income taxes payable	11,832	(6,805)
Net cash provided by (used in) continuing operating activities	19,069	(5,026)
Net cash provided by (used in) operating activities	19,069	(5,026)
Investing activities		
Purchases of property and equipment	(6,799)	(21,060)
Purchase of intangible assets	-	(319)
Payment of notes receivable	119	1,419
Proceeds from sale of property and equipment	-	-
Advances for notes receivable	(94)	(2,180)
Net cash used in continuing investing activities	(6,774)	(22,140)
Net cash provided by discontinued investing activities	-	29
Net cash used in investing activities	(6,774)	(22,111)
Financing activities		
Net proceeds from issuance of shares and warrants	-	17,228
Issuance of warrants from term loan	-	9,018
Issuance of shares for note payable interest and extention expenses	-	1,049
Net proceeds from issuance of convertible debenture and warrants	4,660	-
Net proceeds from issuance of secure term loan	-	52,659
Payment of lease obligations	(5,771)	(4,544)
Net proceeds from equipment loan	748	-
Exercise of Options	135	-
Exercise of warrants	-	1,365
Principal repayments of notes payable	(12,982)	(43,964)
Net cash (used in) provided by continuing financing activities	(13,048)	32,811
Net cash (used in) provided by financing activities	(13,048)	32,811
Effect of foreign exchange on cash	88	(42)
Net (decrease) increase in cash	(665)	5,632
Cash, beginning of period	9,024	3,392
Cash, end of period	8,359	9,024

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 82 North East 26th Street, Suite 110, Miami, Florida, United States, 33137.

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, 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, 2022, and 2021, 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.

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 were approved and authorized for issue by the Board of Directors of the Company on May 1, 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, 2022 and 2021, respectively.

	% Ownership December 31, 2022	% Ownership December 31, 2021
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. (Note 7) [1]	50%	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%	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.

(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 income and accumulated in 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 statement 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 medical 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.

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 Company's financial statements for the year ended December 31, 2022.

(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 and term of the lease
Buildings	20 Years
Vehicles	10 Years

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 on 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 and 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:

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 income or directly in 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.

<u>Current tax</u>

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.

<u>Deferred tax</u>

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 a 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 has implemented an expiry date for unredeemed loyalty points with the first date loyalty points expired being March 10, 2022 for all points earned on or before March 10, 2021. As a result, all loyalty points issued after March 10, 2021 expire after one year.

(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 are 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 statement 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.

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 the 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 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, 2022, and 2021, 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.

Derecognition of financial liabilities

The Company derecognizes a 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:

	Classification
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.

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 behavior in comparison to Florida as well as the national 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 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.

(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), 15(b), and 16(k).

(v) 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: 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 extent of the impact of the adoption of this amendment has not yet been determined.

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.

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

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

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.

3. Inventory

As of December 31, 2022 and December 31, 2021, inventory consisted of the following:

	December 31, 2022	December 31, 2021
Supplies, packaging and materials	$ 2,685	$ 2,139
Work in progress	1,906	4,489
Finished goods	4,382	2,353
Balance at end of period	**$ 8,973**	**$ 8,981**

Inventory material costs included in cost of goods sold during the years ended December 31, 2022 and 2021, were $16,752 and $9,302, respectively. Salaries and benefits charged to cost of goods sold for the years ended December 31, 2022 and 2021, were $8,248 and $7,204, respectively. Capitalized depreciation expensed to costs of sales for the years ended December 31, 2022 and 2021 was $6,924 and $3,424, respectively.

During the years ended December 31, 2022, and 2021, the Company recorded an impairment loss of $0 and $0, respectively, to reflect net realizable value adjustments related to its Texas inventory. As of December 31, 2022, and December 31, 2021, inventory was recorded net of impairment provision of $1,738.

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 years ended December 31, 2022 and 2021 is as follows:

	December 31, 2022	December 31, 2021
Balance at beginning of period	$ 3,297	$ 1,914
Cost incurred until harvest	16,355	14,127
Effect of unrealized change in fair value of biological assets	(9,620)	14,583
Transferred to inventory upon harvest	(9,036)	(27,597)
Balance at end of period	**$ 996**	**$ 3,297**

As of December 31, 2022, all biological assets were live plants.

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

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:

	December 31, 2022		December 31, 2021	
Assumptions	**Input**	**10% change**	**Input**	**10% change**
(i) Weighted average of expected loss of plants until harvest (a)	15%	$17	27%	$64
(ii) Expected yields for cannabis plants (average grams per plant) (b)	47	$100	45	$330
(iii) Weighted average number of growing weeks completed as a percentage of total growing weeks as at period end	47%	$100	27%	$330
(iv) Estimated selling price per gram (c)	$7.12	$1,121	$10.14	$338
(v) Cost to sell per gram per flower and trim, respectively	$4.03 / $7.79	$1,021	$6.88 / $2.09	$63

(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, 2022, it is expected that the Company's biological assets will yield approximately 3,322,073 grams of dry cannabis when harvested (2021 – 2,287,825 grams). As of December 31, 2022 and 2021, the Company had 82,667 and 69,627 plants that were classified as biological assets, respectively.

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.

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

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).

A reconciliation of the beginning and ending balances of the Green Standard Note receivable for the years ended December 31, 2022 and 2021, is as follows:

	December 31, 2022	December 31, 2021
Balance at beginning of year	$ 4,886	$ 4,101
Advances	94	1,938
Payments	(119)	(1,419)
Interest	71	266
Loss from termination of a contract	(4,932)	—
Balance at end of period	**$ —**	**$ 4,886**

Interest income for the year ended December 31, 2022 and the year ended December 31, 2021 was $71 and $266, respectively.

6. Prepaid expenses and other current assets

Prepaid expenses and other current assets consist of the following:

	December 31, 2022	December 31, 2021
Prepaid insurance	$ 576	$ 588
Prepaid consulting fee	—	510
Other prepaid expenses	283	100
Deposits	24	579
Other current assets	—	230
Balance at end of period	**$ 883**	**$ 2,007**

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).

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

8. Property and equipment

A reconciliation of the beginning and ending balances of property and equipment for the years ended December 31, 2022 and 2021, 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, 2021	$ 211	$ 838	$ 714	$ 5,625	$ 15,537	$ 84	$ 2,127	$ 423	$ 25,559
Additions	1	63	959	2,381	8,033	(84)	9,593	130	21,076
Construction completed	-	135	101	1,299	8,724	-	(10,259)	-	-
Disposals	-	-	-	-	-	-	-	(164)	(164)
Balance as of December 31, 2021	212	1,036	1,774	9,305	32,294	-	1,461	389	46,471
Accumulated depreciation									
Balance as of January 1, 2021	-	205	479	1,396	3,878	(4)	-	89	6,043
Additions	-	142	246	1,080	4,814	4	-	43	6,329
Disposals	-	-	-	-	-	-	-	(61)	(61)
Balance as of December 31, 2021	-	347	725	2,476	8,692	-	-	71	12,311
Property and equipment, net	**$ 212**	**$ 689**	**$ 1,049**	**$ 6,829**	**$ 23,602**	**$ -**	**$ 1,461**	**$ 318**	**$ 34,160**
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, 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**

For the years ended December 31, 2022 and 2021, the Company charged $6,663 and $4,307 of depreciation to the production of biological assets and inventory. For the years ended December 31, 2022 and 2021, there were no capitalized borrowing costs.

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

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, 2022 and 2021, is as follows:

	Licenses $	Trademarks and brands $	Total $
Cost			
Balance as of January 1, 2021	94,169	8,850	103,019
Additions	319	—	319
Balance as of December 31, 2021	94,488	8,850	103,338
Accumulated amortization			
Balance as of January 1, 2021	736	5,248	5,984
Additions	168	1,364	1,532
Balance as of December 31, 2021	904	6,612	7,516
Intangible assets, net	**$ 93,584**	**$ 2,238**	**$ 95,822**
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**

Amortization expense for the years ended December 31, 2022 and 2021, was $1,531 and $1,532, respectively.

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.

(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 deposit in Green Standard, and resulting in a loss from termination of a contract of $2,727 (Note 5). The Company also incurred $352 in other expenses due to the termination of the agreement.

11. Goodwill

Goodwill as of December 31, 2022 and 2021 was $1,526.

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 carrying value of the indefinite life intangibles as at December 31, 2022 is $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 25% was based on new stores opening over the next few years (2021 – 6%).
- The terminal growth rate of 3% was based on historical and projected industry data (2021 – 3%).
- The pre-tax discount rate applied in determining the recoverable amount of the CGU was 21% (2021 – 25.5%). 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, 2022 and 2021, the Company did not have an impairment to its goodwill and indefinite life intangibles.

12. Income taxes

Income tax for the years ended December 31, 2022 and 2021 consisted of the following:

		2022		**2021**
Current Tax Expense	$	11,649	$	8,482
Deferred Tax Expense		(1,273)		(836)
Total income taxes	**$**	**10,376**	**$**	**7,646**

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

Income tax from continued and discontinued operations for the years ended December 31, 2022 and 2021 consisted of the following:

		2022		2021
Income tax expense form continuing operations	$	10,376	$	7,646
Income tax expense from discontinued operations		—		—
Total income taxes	**$**	**10,376**	**$**	**7,646**

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

		2022		2021
Tax at U.S. statutory rate of 21%	$	(5,664)	$	(3,306)
State taxes, net of federal impact		1,731		1,275
Non-deductible items		12,631		9,709
Return-to-provision true-ups		518		(71)
Foreign tax rate differential		—		(11)
Change in statutory rates		301		39
Change in tax benefits not recognized		(722)		(54)
Disposal of foreign investment, net		1,581		—
Other, net		—		65
Total	**$**	**10,376**	**$**	**7,646**

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 and $7,481 in various foreign jurisdictions for the years ended December 31, 2022 and 2021, respectively. Additionally, the Company has $17,341 and $12,643 of capital loss carryforwards in the United States as of December 31, 2022 and 2021, respectively. No deferred tax asset has been recognized as the utilization of these losses and other tax attributes is not likely in the future.

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

		2022		2021
Property and equipment	$	2,090	$	2,528
Intangible assets		18,938		18,613
Convertible debentures		—		—
Biological assets		(738)		422
Total deferred income tax liabilities	**$**	**20,290**	**$**	**21,563**

Movement in net deferred tax liabilities:

		2022		2021
Balance at the beginning of the year	$	21,563	$	23,472
Recognized in profit/loss		(1,273)		(837)
Recognized in equity		—		(1,072)
Ending balance in deferred income tax liabilities	**$**	**20,290**	**$**	**21,563**

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

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, 2022 and December 31, 2021, is as follows:

Balance as of January 1, 2021	**$**	**7,412**
Fair value change		(3,452)
Balance as of December 31, 2021		**3,960**
Fair value change		4,716
Balance as of December 31, 2022	**$**	**8,676**

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 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 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.

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

The following assumptions were used to value the Equity Price Guarantee derivative liability using the Monte-Carlo simulation model as of December 31, 2022 and December 31, 2021:

	December 31, 2022	**December 31, 2021**
Volatility	105%	75%
Risk-free interest rate	4.02%	0.91%
Expected life (years)	3.0 years	1.4 years
Share price	$0.16	$0.66
Exercise price	$0.65	$0.65

During the years ended December 31, 2022 and 2021, the Company recorded a loss of $4,716 and a gain of $3,452, respectively, on the revaluation of the Equity Price Guarantee derivative liability.

14. Notes payable

As of December 31, 2022 and 2021, notes payable consisted of the following:

	December 31, 2022	**December 31, 2021**
Automobile loan (a)	$ 32	$ 52
Senior Secured Term Loan (b)	54,096	53,317
Equipment loan (c)	744	924
Convertible Debenture (d)	2,838	—
Total notes payable	57,710	54,293
Less current portion of notes payable	(741)	(619)
Notes payable, net of current portion	**$ 56,969**	**$ 53,674**

(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 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 at December 31, 2022.
- 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 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, 2021, the principal amount outstanding under the Term Loan was $66,235 and unamortized debt issuance costs was $15,918.

As at December 31, 2022, the Company was in compliance with its covenants under the Term Loan.

(c) Equipment loan

As of December 31, 2021, notes payable balance is collateralized by equipment purchased, bearing interest ranging of 12% per annum, maturing through July 2024.

(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 (see Note 16(k)). As of December 31, 2022, the principal amount outstanding under the Debenture was $3,362 and unamortized debt issuance costs was $1,867.

The Private Placement was entered into at the same time as the modification of the existing lease for the Sweetwater facility (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

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

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.

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

	December 31, 2022
Balance at beginning of period	$ —
Proceeds	2,846
Interest and accretion	362
Repayments of principal and interest	(370)
Balance at end of period	**$ 2,838**

A reconciliation of the beginning and ending balances of the notes payable for the years ended December 31, 2022 and 2021 is as follows:

	December 31, 2022	December 31, 2021
Balance at beginning of period	$ 54,293	$ 51,765
Senior Secured Term Loan (b)	—	52,659
Note settlement (Note 16)	(924)	—
Proceeds from equipment loans	748	—
Proceeds from issuance of convertible debt and warrants	4,700	—
Transaction costs on convertible debenture and warrants	(40)	—
Issuance of warrants for convertible debenture (Note 16(k))	(1,814)	—
Interest and accretion	12,594	11,601
Repayments of principal and interest	(12,982)	(61,732)
Loss on debt settlement	1,136	—
Balance at end of period	**$ 57,710**	**$ 54,293**

Refer to Note 23 for a reconciliation of finance costs for the years ended December 31, 2022 and December 31, 2021.

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.

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

(a) Right-of-use assets

	December 31, 2022	December 31, 2021
Cost		
Balance at beginning of year	$ 29,590	$ 26,686
Additions	14,818	2,995
Disposals	(379)	(91)
Balance at end of year	$ 44,029	$ 29,590
Accumulated Depreciation		
Balance at beginning of year	10,421	7,591
Additions	3,144	2,830
Balance at end of year	$ 13,565	$ 10,421
Right-of-use-assets, net	**$ 30,464**	**$ 19,169**

(b) Lease liabilities

	December 31, 2022	December 31, 2021
Balance at beginning of year	$ 23,591	22,705
Additions	15,014	2,995
Disposals	(401)	(119)
Interest on lease liabilities	3,612	2,554
Interest payments on lease obligations	(3,611)	(2,554)
Principal payments on lease obligations	(2,160)	(1,990)
Balance at end of year	**$ 36,045**	**$ 23,591**
Less current portion of lease obligations	(2,123)	(2,500)
Lease obligations, net of current portion	**$ 33,922**	**$ 21,091**

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.

During the years ended December 31, 2022 and 2021, the Company incurred variable lease payments of $613 and $1,043, respectively.

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

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

16. Shareholders' equity

	Share Capital		
	Number of unrestricted common shares	Number of restricted common shares	Amount
Balance, December 31, 2020	**185,788,482**	**2,127,269**	**$137,835**
Exercise of warrants	3,033,332	—	1,365
Exercise of options	56,287	—	—
Shares issued for professional services (a)	1,505,344	—	1,174
Issuance of shares for note payable extension (b)	1,498,264	—	1,049
Private placement issuance of shares and warrants (c)	24,414,279	—	9,970
Shares issued for convertible debentures repayment (d)	21,555,483	—	17,312
Release of restricted stock to acquire GSI (e)	1,727,269	(1,727,269)	1,705
Issuance of shares for note payable repayment (f)	8,426,574	—	7,640
Private placement issuance of shares (g)	3,571,428	—	2,607
Balance, December 31, 2021	**251,576,742**	**400,000**	**$ 180,657**
Exercise of options	300,000	—	$ 135
Shares issued for professional services (h)	1,048,386	—	162
Release of restricted stock for consulting agreement (i)	400,000	(400,000)	—
Issuance of shares for the equity price guarantee (j)	11,634,615	—	—
Balance, December 31, 2022	**264,959,743**	**—**	**$ 180,954**

Equity transactions

During the years ended December 31, 2022 and 2021, the following transactions were recorded in shareholders' equity:

a. On January 22, 2021, the Company issued to its Board of Directors members and certain members of senior management, 1,286,110 shares at $0.75 per share as compensation resulting in an increase to share capital of $965 (see Note 20). On January 31, 2021, in connection with the extension of the $10M Convertible Note, the Company issued 75,556 shares and 113,333 warrants to a consultant resulting in an increase to share capital and warrants of $53 and $44, respectively. On June 11, 2021, the Company issued a Board member, 143,678 shares at $1.09 per share as compensation resulting increase share capital of $156.

b. On January 31, 2021, the Company extended the maturity date of the $10M Convertible Note to December 1, 2022 and issued 1,263,407 common shares of the Company in satisfaction of all unpaid interest on the $10M Convertible Note accrued up to January 31, 2021, in the amount of $569. The Company also paid an extension fee equivalent to 1% of the total principal amount and accrued interest outstanding on the $10M Convertible Note as of January 31, 2021, satisfied by the Company through the issuance of 234,857 common shares of the Company at $0.45 per share and 5,000,000 warrants to the noteholders on a pro-rata basis. Each warrant is exercisable at $0.60 until December 1, 2022, increasing share capital by the shares and warrants cost by $1,049 and $1,891, respectively.

c. On April 5 and 9, 2021, the Company issued 7,499,997 units at $0.76 and 16,914,282 units at $0.83 per share, respectively, resulting in an increase to share capital of $9,970. Each unit consists of one common share of the Company and one-half of one common share purchase warrant. Each full warrant entitles the holder to purchase one common share of the Company at an exercise price of $0.90 for a period of 24 months from the issuance date, resulting in an increase to warrants of $4,650. The fair value of the warrants was determined using the Black-Scholes Model with the following assumptions: an underlying share price of $0.76 - $0.83, an exercise price of $0.90, a risk-free rate of 0.14% - 0.17%, an expected volatility of 100%, an expected life of 2 years and an expected dividend yield of 0%. The Company incurred transaction costs of $9,109 on issuance of the warrants.

d. On May 7, 2021, the Company satisfied its obligations under the amended note dated January 16, 2020, in the principal amount of $12,933 to Can Endeavour.

Pursuant to the terms, Can Endeavour elected to convert the principal amount of the amended note into 21,555,483 common shares of the Company at $0.60 per share, resulting in an increase to share capital of $17,312 and reduction to equity conversion reserve of $3,565 which is net of the deferred taxes in the amount of $1,072. 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 (see Note 13).

e. On May 19, 2021, the Company released the remaining of the 1,727,723 restricted common shares to GSI's shareholders resulting increase of $1,677 to its deposit and $28 share-based compensation expense (see Note 10).

f. On June 28, 2021, the Company exercised its right under the, $10M Convertible Note to force the conversion of the Notes into common shares of the Company. As a result, all obligations under the Notes have been satisfied and are thus canceled. Under the terms of the Notes, the Company had the right to force the conversion of all amounts outstanding thereunder upon the Company share price closing at $0.96 or greater for thirty consecutive trading days with an average trading volume over that period of at least 100,000 shares.

As a result of the conversion, 8,426,574 common shares have been issued, resulting in an increase to share capital of $7,640 and reduction to the equity conversion feature of $2,546. Per the terms of the Notes, the remaining aggregate principal amount of each Note was converted into common shares at $0.60 and the accrued but unpaid interest under each Note was converted into common shares at $1.01, representing the closing price of the common shares on the trading day prior to the conversion (see Note 13).

g. On December 6, 2021, the Company issued 3,571,428 shares at $0.70 per share resulting in an increase to share capital of $2,607.

h. On November 2, 2022, the Company issued to its Board of Directors members and certain members of senior management, 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 (see Note 20).

i. On July 25, 2022, under the Uriah Settlement (Note 14(c)), 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.

j. 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 (see Note 13).

k. 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

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

$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 (see Note 14(d)).

As a part of determining the unit of account (see Note 2(u)(x)), 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%.

Share capital

As of December 31, 2022, the share capital of the Company is comprised of 238,882,503 common shares, 2,607,724 proportionate voting shares (each proportionate voting share is convertible into ten common shares), 35,803,819 warrants and 13,431,056 stock options. For the purpose of the statement of changes in shareholders' equity, the proportionate voting shares have been included as part of common shares based on the 1 for 10 conversion ratio.

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, 2022	December 31, 2021
Weighted average number of shares - basic	252,698,567	228,628,703
Weighted average warrants	39,389,699	30,349,785
Weighted average options	16,410,568	16,252,916
Weighted average number of shares - diluted	**308,498,834**	**275,231,404**

Warrant activity for the Company for the years ended December 31, 2022 and 2021, is as follows:

	Warrants
Balance as of December 31, 2020	**37,977,896**
Expired	(26,580,639)
Exercised	(3,033,331)
Granted	29,820,470
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**

Restricted shares

Restricted shares issued and outstanding at December 31, 2021 represent shares are issued and outstanding shares 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.

(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, 2020	**3,127,269**	**$ 2.75**	**$ 8,600**
Vested	(2,727,269)	2.75	(7,500)
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, 2021, 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, 2022, the total outstanding amount was $1,000, which reflects the settlement amount and was reclassified from notes payable to accrued liabilities and long-term liabilities in the amount of $250 and $750, respectively based on the settlement terms.

17. Stock based compensation

On March 14, 2019, the Board of Directors (the "Board") of the Company approved a Stock Option Plan (the "Plan"). Under the Plan, the Board may grant options to acquire common shares of the Company to officers, employees, and consultants, to a limit of 10% of the outstanding common shares of the Company, including proportionate voting shares.

The purpose of the Plan is to provide the Company with a share-related mechanism to attract, retain and motivate qualified executives, employees and consultants to contribute toward the long-term goals of the Company, and to encourage such individuals to acquire shares of the Company as long-term investments.

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, 2022, and December 31, 2021, were as follows:

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

	2022	**2021**
Options granted	700,000	3,205,000
Fair value	$66	$141 –$968
Stock price	$0.13	$0.71 –$0.93
Exercise price	$0.20	$0.75 –$0.93
Original term	5 years	5 years
Dividend rate	0%	0%
US treasury rate	3.70%	0.44% –0.83%
Volatility	105%	100%
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, 2022 and 2021, the Company recognized $219 and $1,501 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, 2022, there were 13,431,056 options outstanding, comprising of 13,054,389 options vested and 376,667 options non-vested, with remaining contractual lives 0.3 to 5.0 years.

The following is a summary of the changes in the Company's stock options during the year ended December 31, 2022 and 2021:

	Options issued	**Weighted average exercise price**
Balance as of December 31, 2020	14,931,039	$ 0.53
Granted	3,205,000	$ 0.80
Forfeited	(1,063,873)	$ 1.48
Exercised	(116,666)	$ 0.44
Balance as of December 31, 2021	**16,955,500**	**$ 0.52**
Granted	700,000	$ 0.20
Forfeited	(3,924,444)	$ 0.45
Exercised	(300,000)	$ 0.44
Balance as of December 31, 2022	**13,431,056**	**$ 0.53**

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

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**

The following is a summary of the outstanding options as of December 31, 2021:

Exercise prices	Outstanding as of December 31, 2021	Weighted average remaining contractual life (years)	Exercisable as of December 31, 2021	Weighted average remaining contractual life (years)
$ 0.26	3,000,000	1.3	3,000,000	1.3
$ 0.30	1,750,000	1.8	1,750,000	1.8
$ 0.32	100,000	3.5	100,000	3.5
$ 0.40	2,400,000	3.4	2,400,000	3.4
$ 0.44	5,383,834	2.9	5,383,834	2.9
$ 0.45	300,000	0.1	300,000	0.1
$ 0.75	255,000	4.1	85,000	4.1
$ 0.77	1,700,000	4.1	1,700,000	4.1
$ 0.79	250,000	4.2	41,667	4.2
$ 0.83	500,000	4.7	500,000	4.7
$ 0.90	250,000	4.7	250,000	4.7
$ 0.93	250,000	4.5	41,667	4.5
$ 1.00	150,000	1.4	150,000	1.4
$ 2.00	666,666	2.2	666,666	2.2
	16,955,500	**2.8**	**16,368,833**	**2.8**

18. Expense by nature

General and administrative expenses for the years ended December 31, 2022, and 2021, are as follows:

	2022	2021
General and administrative		
Legal and professional fees	$ 2,823	$ 4,246
Litigation settlement	(980)	—
Salaries and benefits	3,349	2,536
Insurance	1,575	1,964
Variable rent expenses	(91)	107
Travel and entertainment	130	119
Other	1,482	1,354
Total general and administrative	**$ 8,288**	**$ 10,326**

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

Sales and marketing expenses for the years ended December 31, 2022 and 2021, are as follows:

	2022	2021
Sales and marketing		
Salaries and benefits	$ 12,007	$ 8,670
Advertising expenses	1,512	2,453
Variable rent expenses	1,346	1,751
Legal and professional fees	198	206
Security	291	498
Supplies	549	435
Software	336	287
Other	1,271	1,116
Total sales and marketing	**$ 17,510**	**$ 15,416**

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, 2022, 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, 2022, 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, 2022, the total outstanding amount was $1,000, which reflects the settlement amount and was reclassified from accounts payable to short-term and long-term liabilities in the amount of $417 and $583, respectively based on the settlement terms (see Note 26).

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

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

Company are the members of the Company's executive management team and Board of Directors. For the years ended December 31, 2022 and 2021, key management personnel compensation consisted of the following:

		2022		2021
Salary	$	2,269	$	2,135
Option-based compensation		219		1,815
Share-based compensation		—		1,255
All other compensation		733		646
Total	**$**	**3,221**	$	**5,851**

Transactions with related parties

On January 1, 2019, the Company entered into a consulting agreement with a third-party company for the provision of strategic and business advisory services for a total of $3,000, payable in equal monthly installments of $125 (the "2019 Consulting Agreement"). The company is owned 100% by the current Executive Chairman, who was elected as such on June 30, 2021. During 2021, the Company paid the $1,775 accrued but unpaid balance due satisfying the entire amount of the 2019 Consulting Agreement.

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 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.

During the three months ended March 31, 2021, the Company issued to its Board of Directors' members and senior management, 1,286,110 shares at $0.75 per share (See Note 16(a)) and 1,700,000 options as compensation resulting in an increase to share capital of $965 and $968, respectively.

During the three months ended June 30, 2021, the Company issued to a Board member 143,678 shares at $1.09 per share (See Note 16(a)) in exchange for accrued board of directors' fees, resulting in an increase to share capital of $157.

On April 29, 2021, two directors of the Company, participated as lenders in the Term Loan bearing interest of 13% per annum (Note 14(b)), with a $6 million principal contribution, containing an original issuance discount of 7% on the principal amount loaned. Both individuals ceased to serve as directors of the Company following the Company's annual general meeting on June 30, 2021.

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 (see Note 13).

21. Financial instruments and financial risk management

Financial instruments

The Company's financial instruments consist of cash and cash, trade receivable, investment held for sale, note 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 fair value 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 derivate liability is re-measured with subsequent changes in fair value.

(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.

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

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

	Amortized cost	FVTPL	Value
Financial Assets			
Cash	$ —	$ 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 carrying values of financial instruments at December 31, 2021 are summarized in the following table:

	Amortized cost	FVTPL	Value
Financial Assets			
Cash	$ —	$ 9,024	$ 9,024
Trade receivable	26	—	26
Note receivable	4,886	—	4,886
Financial liabilities			
Trade payable	8,518	—	8,518
Accrued liabilities	5,846	—	5,846
Derivative liabilities	—	3,960	3,960
Notes payable	54,293	—	54,293
Lease obligations	23,591	—	23,591

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, 2022 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.

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

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, 2022, and 2021, 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.

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

The Company had the following contractual obligations as of December 31, 2021:

	< 1 year	1 to 3 years	3 to 5 years	> 5 years	Total
	$	$	$		$
Trade payables	8,518	—	—	—	8,518
Accrued liabilities	5,846	—	—	—	5,846
Notes payable	619	346	53,328	—	54,293
Lease obligations	2,500	6,083	6,600	8,408	23,591
Total	17,483	6,429	59,928	8,408	92,248

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

(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:

	December 31, 2022	December 31, 2021
Notes payable	$ 57,710	$ 54,293
Share capital	180,954	180,657
Total managed capital	**$ 238,664**	**$ 234,950**

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, 2022.

23. Finance costs

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

	2022	2021
Interest income	$ (82)	$ (278)
Interest expenses	8,989	8,370
Accretion	3,605	2,284
Interest on right-of-use assets	3,612	2,554
Debt issuance costs	—	2,829
Other	(37)	—
Total finance costs	**$ 16,087**	**$ 15,760**

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

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

During the year ended December 31, 2019, the Company discontinued its operations from Cansortium Colombia S.A.S ("Cansortium Colombia"). As of December 31, 2021, Cansortium Colombia was classified as held for sale, measured at the lower of carrying amount and fair value less costs to sell. For the year ended December 31, 2022 and 2021, Cansortium Colombia recorded no gains or losses from 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 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 statement of loss and comprehensive loss. During the years ended December 31, 2022 and 2021, the Company recorded a loss of $277 and $35 from its discontinued operations, respectively.

The results for discontinued operations were as follows:

	2022	2021
Revenue, net of discounts	$ —	$ —
Cost of goods sold	—	—
Gross profit	—	—
Expenses	43	6
Loss from operations	(43)	(6)
Finance costs, net	31	—
Other expense	3	—
Income tax expense	—	—
Net loss	(77)	(6)
Proceeds from sale of assets	—	29
Net assets sold	—	(58)
Loss on sale of assets	—	(29)
Fair value adjustment of investment	200	—
Loss from discontinued operations	**(277)**	**(35)**

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

Cash flows from discontinued operations for the years ended December 31, 2022 and 2021 are comprised of the following:

		2022		2021
Operating activities				
Net loss from discontinued operations	$	(277)	$	(35)
Add (deduct) items not affective cash				
Loss on sale of assets		—		29
Depreciation and amortization		5		—
Finance expense, net		31		—
Change in fair value of investment		200		—
Other expenses		41		—
Change in non-cash working capital balances				
Income taxes payable		—		6
Cash used in operating activities		**—**		**—**
Investing activities				
Proceeds from sale of assets		—		29
Cash (used in) provided by from discontinued operations	**$**	**—**	**$**	**29**

26. Subsequent events

On February 7, 2023, the company settled the litigation with MXY for $1,000. As of December 31, 2022, the total outstanding amount was $1,000, which reflects the settlement amount and was reclassified from accounts payable to short-term and long-term liabilities in the amount of $417 and $583, respectively based on the settlement terms (see Note 19).

On February 28, 2023 the Company closed Company closed a non-brokered private placement offering of 30,000,000 shares of the Company at a price of $0.10 per Unit for aggregate gross proceeds of $3,000,000. Each share is comprised of one common share in the capital of the Company and one-half of one common share purchase warrant. Each Warrant will entitle the holder to purchase one Share at an exercise price of $0.15 per Share for a period of 36 months following the closing date of the Offering (see Note 20).