# Cansortium Inc.

## Condensed Interim Consolidated Financial Statements
## (Unaudited)

## For the three months ended
## March 31, 2024 and 2023

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

**Cansortium Inc.**
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**Cansortium Inc.**
**Condensed Interim Consolidated Statements of Financial Position (unaudited)**
**As of March 31, 2024 and December 31, 2023**
*(Amounts expressed in thousands of United States Dollars unless otherwise stated)*

| | | March 31, 2024 | December 31, 2023 |
|---|---|---|---|
| **Assets** | | | |
| Current assets | | | |
| Cash | | $ 8,521 | $ 10,521 |
| Trade receivable | | 232 | 215 |
| Inventory, net | *Note 3* | 9,818 | 9,244 |
| Biological assets | *Note 4* | 2,043 | 331 |
| Prepaid expenses and other current assets | *Note 5* | 1,456 | 1,882 |
| Total current assets | | 22,070 | 22,193 |
| Property and equipment, net | *Note 6* | 27,815 | 27,642 |
| Intangible assets, net | *Note 7* | 93,553 | 93,593 |
| Right-of-use assets, net | *Note 12* | 33,115 | 31,943 |
| Goodwill | *Note 8* | 1,525 | 1,525 |
| Other assets | | 997 | 907 |
| **Total assets** | | **$ 179,075** | **$ 177,803** |
| **Liabilities** | | | |
| Current liabilities | | | |
| Trade payable | | $ 6,154 | $ 5,525 |
| Accrued liabilities | | 5,587 | 9,779 |
| Income taxes payable | | 28,947 | 22,009 |
| Derivative liabilities | *Note 10* | 7,422 | 9,109 |
| Current portion of notes payable, net | *Note 11* | 476 | 213 |
| Current portion of lease liabilities | *Note 12* | 2,918 | 2,872 |
| Total current liabilities | | 51,504 | 49,507 |
| Notes payable, net | *Note 11* | 62,381 | 61,189 |
| Lease liabilities | *Note 12* | 38,597 | 37,242 |
| Deferred tax liability | | 18,615 | 17,398 |
| Other long-term liabilities | *Note 20* | 3,507 | 3,882 |
| Total liabilities | | **174,604** | **169,218** |
| **Shareholders' equity** | | | |
| Share capital | *Note 13* | 183,690 | 183,690 |
| Share-based compensation reserve | | 6,788 | 6,739 |
| Equity conversion feature | | 6,677 | 6,677 |
| Warrants | *Notes 13* | 29,634 | 29,634 |
| Accumulated deficit | | (221,984) | (217,821) |
| Foreign currency translation reserve | | (334) | (334) |
| Total shareholders' equity | | 4,471 | 8,585 |
| **Total liabilities and shareholders' equity** | | **$ 179,075** | **$ 177,803** |

Other notes include:
Nature of Operations (Note 1)
Summary of Significant Accounting Policies (Note 2)
Commitments and Contingencies (Note 15)
Related-Party Transactions (Note 16)
Financial Instruments and Financial Risk (Note 17)
Capital Management (Note 18)
Employee Retention Tax Credits (Note 20)
Subsequent Event (Note 21)

Approved on behalf of the Board:

Robert Beasley
**Chief Executive Officer**

Patricia Fonseca
**Chief Financial Officer**

**Cansortium Inc.**
**Condensed Interim Consolidated Statements of Income (Loss) and Comprehensive Loss (unaudited)**
**For the three months ended March 31, 2024 and 2023**
*(Amounts expressed in thousands of United States Dollars unless otherwise stated)*

| | | For the three months ended March 31, | |
|---|---|---|---|
| | | **2024** | **2023** |
| Revenue, net of discounts | | $ 25,227 | $ 22,056 |
| Cost of goods sold | | 12,966 | 11,827 |
| Gross profit before fair value adjustments | | 12,261 | 10,229 |
| Fair value adjustments on inventory sold | | 1,628 | 2,341 |
| Unrealized gain (loss) on changes in fair value of biological assets | *Note 4* | 1,047 | (5,057) |
| Gross profit | | 14,936 | 7,513 |
| Expenses | | | |
| General and administrative | *Note 14* | 3,963 | 2,312 |
| Share-based compensation | | 49 | 238 |
| Sales and marketing | *Note 14* | 5,434 | 3,998 |
| Depreciation and amortization | *Notes 6,7* | 1,730 | 1,848 |
| Total expenses | | 11,176 | 8,396 |
| Income (loss) from operations | | 3,760 | (883) |
| Other expense (income) | | | |
| Finance costs, net | *Note 19* | 4,711 | 4,249 |
| (Gain) loss on change in fair value of derivative liability | *Notes 10* | (1,687) | 278 |
| Loss on disposal of assets | | 212 | 70 |
| Other miscellaneous (income) expense | | 2 | (11) |
| Total other expense | | 3,238 | 4,586 |
| Income (loss) before income taxes | | 522 | (5,469) |
| Income tax expense | *Note 9* | 4,685 | 1,914 |
| Net comprehensive income (loss) | | $ (4,163) | $ (7,383) |
| Net loss per share | | | |
| Basic and diluted - continuing operations | | $ (0.01) | $ (0.03) |
| Weighted average number of shares | | | |
| Basic number of shares | | 299,529,367 | 276,556,965 |
| Diluted number of shares | | 342,504,514 | 325,342,276 |

**Cansortium Inc.**

**Condensed Interim Consolidated Statements of Changes in Shareholders' Equity (unaudited)**

**For the three months ended March 31, 2024 and the twelve months ended December 31, 2023**

*(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 | Accumulated other comprehensive loss | Total shareholders' equity |
| **Balance, December 31, 2022** | **264,959,743** | **-** | **180,954** | **6,395** | **6,677** | **28,939** | **(195,071)** | **(334)** | **27,560** |
| Shares issued for professional services (Note 13 a.) | 4,569,624 | - | 439 | - | - | - | - | - | 439 |
| Issuance of options | - | - | - | 154 | - | - | - | - | 154 |
| Issuance of restricted stock units | - | - | - | 195 | - | - | - | - | 195 |
| Option cancellations | - | - | - | (5) | - | - | - | - | (5) |
| Private placement issuance of shares and warrants (Note 13 b.) | 30,000,000 | - | 2,297 | - | - | 695 | - | - | 2,992 |
| Net loss | - | - | - | - | - | - | (22,750) | - | (22,750) |
| **Balance, December 31, 2023** | **299,529,367** | **-** | **183,690** | **6,739** | **6,677** | **29,634** | **(217,821)** | **(334)** | **8,585** |
| Issuance of restricted stock units | - | - | - | 49 | - | - | - | - | 49 |
| Net loss | - | - | - | - | - | - | (4,163) | - | (4,163) |
| **Balance, March 31, 2024** | **299,529,367** | **-** | **183,690** | **6,788** | **6,677** | **29,634** | **(221,984)** | **(334)** | **4,471** |

**Cansortium Inc.**
**Condensed Interim Consolidated Statements of Cash Flows (unaudited)**
**For the three months ended March 31, 2024 and 2023**
*(Amounts expressed in thousands of United States Dollars unless otherwise stated)*

| | For the three months ended March 31, 2024 | 2023 |
|---|---|---|
| **Operating activities** | | |
| Net loss from continuing operations | $ (4,163) | $ (7,383) |
| Adjustments to reconcile net loss to net cash provided by operating activities: | | |
| Unrealized loss (gain) on changes in fair value of biological assets | (1,047) | 5,057 |
| Realized gain on changes in fair value of biological assets | (1,628) | (2,341) |
| Share-based compensation | 49 | 238 |
| Depreciation and amortization | 3,703 | 3,717 |
| Accretion and interest of convertible debentures | 110 | 132 |
| Accretion and interest of term loan | 3,365 | 3,086 |
| Interest of equipment loan | - | 8 |
| Loss on disposal of assets | 212 | 70 |
| Change in fair market value of derivative | (1,687) | 278 |
| Interest on lease liabilities | 1,211 | 1,021 |
| Deferred tax expense | 1,216 | (1,198) |
| Changes in operating assets and liabilities: | | |
| Trade receivable | (17) | (5) |
| Inventory | 3,939 | 3,981 |
| Biological assets | (3,551) | (4,566) |
| Prepaid expenses and other current assets | 747 | 358 |
| Right of Use Assets/Liabilities | (1,317) | 67 |
| Other assets | (90) | (39) |
| Trade payable | 630 | 598 |
| Accrued liabilities | (4,192) | (963) |
| Other long-term liabilities | (375) | (83) |
| Income taxes payable | 6,938 | 3,111 |
| Net cash provided by operating activities | 4,053 | 5,144 |
| **Investing activities** | | |
| Purchases of property and equipment | (2,948) | (2,949) |
| Net cash used in investing activities | (2,948) | (2,949) |
| **Financing activities** | | |
| Net proceeds from issuance of shares and warrants | - | 2,993 |
| Payment of lease obligations | (765) | (1,585) |
| Principal repayments of notes payable | (2,340) | (2,494) |
| Net cash used in financing activities | (3,105) | (1,086) |
| Net increase (decrease) in cash | (2,000) | 1,109 |
| Cash, beginning of period | 10,521 | 8,359 |
| Cash, end of period | $ 8,521 | $ 9,468 |

## 1. Nature of Operations

Cansortium Inc. was incorporated under the laws of the Province of Ontario, Canada pursuant to the Ontario Business Corporations Act. ("OBCA") on August 31, 2018. The Company's registered office is located at 295 The West Mall, Suite 600, Toronto, Ontario, M9C 4Z4 and its head office is located at 5540 W. Executive Drive, Suite 100, Tampa, Florida 33609.

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

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

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

All of the Company's operations are in one segment, the production and sale of medical cannabis. All revenues for the three months ended March 31, 2024, and 2023, were generated in the United States.

These condensed interim 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 condensed interim 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") and interpretations of the IFRS Interpretations Committee ("IFRIC").

The condensed interim consolidated financial statements have been prepared in accordance with International Accounting Standard 34 – Interim Financial Reporting, following the same accounting policies and methods of application as those disclosed in the annual audited consolidated financial statements for the years ended December 31, 2023, and 2022. These condensed interim consolidated financial statements should be read in conjunction with the annual consolidated financial statements of the Company for the years ended December 31, 2023, and 2022, including the accompanying notes thereto.

These condensed interim consolidated financial statements were approved and authorized for issue by the Board of Directors of the Company on May 30, 2024.

### (b) Basis of measurement

The condensed interim 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 condensed interim 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 March 31, 2024 and December 31, 2023, respectively.

| | % Ownership March 31, 2024 | % Ownership December 31, 2023 |
|---|---|---|
| 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. | 50.00% | 50.00% |
| Spirit Lake Road Nursery, LLC | 100.00% | 100.00% |
| Cansortium Michigan LLC | 100.00% | 100.00% |
| Cavern Capital Holdings LLC | 100.00% | 100.00% |
| Harvest Park Lot 9 Investors LLC | 100.00% | 100.00% |
| Harvest Park Lot 9 Investors No. 2 LLC | 100.00% | 100.00% |
| Fluent Hemp LLC | 100.00% | 100.00% |
| Cansortium International Inc. | 100.00% | 100.00% |
| Trick Tail Capital LLC | 100.00% | 100.00% |

### (d) Functional and presentation of currency

The condensed interim 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.

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

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

**(e) Critical accounting judgments, estimates and assumptions**

The preparation of the Company's condensed interim consolidated financial statements requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, and revenue and expenses. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the review affects both current and future periods.

Critical judgments, estimates and assumptions that have the most significant effect on the amounts recognized on these condensed interim consolidated financial statements have been set out in Note 2 of the audited annual consolidated financial statements for the years ended December 31, 2023, and 2022.

## 3. Inventory

As of March 31, 2024 and December 31, 2023, inventory consisted of the following:

| | March 31, 2024 | December 31, 2023 |
|---|---|---|
| Supplies, packaging and materials | $ 2,587 | $ 4,761 |
| Work in progress | 2,312 | 1,988 |
| Finished goods | 4,919 | 2,495 |
| **Balance at end of period** | **$ 9,818** | **$ 9,244** |

Inventory material costs included in the cost of goods sold during the three months ended March 31, 2024 and 2023, were $4,279 and $(444), respectively. Salaries and benefits charged to cost of goods sold for the three months ended March 31, 2024 and 2023, were $2,529 and $2,470, respectively. Capitalized depreciation expensed to costs of sales for the three months ended March 31, 2024 and twelve months ended December 31, 2023 was $1,293 and $1,927, respectively.

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

## 4. Biological assets

The Company's biological assets consist of cannabis plants, which are not yet harvested. A reconciliation of the beginning and ending balances of biological assets for the three months ended March 31, 2024 and 2023 is as follows:

| | March 31, 2024 | December 31, 2023 |
|---|---|---|
| Balance at beginning of period | $ 331 | $ 996 |
| Cost incurred until harvest | 3,550 | 17,145 |
| Effect of unrealized change in fair value of biological assets | 1,047 | (14,602) |
| Transferred to inventory upon harvest | (2,885) | (3,208) |
| **Balance at end of period** | **$ 2,043** | **$ 331** |

As of December 31, 2023, all biological assets were live plants. The Company measures its biological assets at their fair value less costs to sell. This is determined using a model which estimates the expected harvest yield in grams for plants currently being cultivated, and the expected selling price less costs to sell per gram.

The fair value measurements for biological assets have been categorized as Level 3 in the IFRS 13 fair value hierarchy as there is no actively traded commodity market for plants or dried products. 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:

| | As at March 31, 2024 | | As at December 31, 2023 | |
|---|---|---|---|---|
| **Assumptions** | **Input** | **10% Change** | **Input** | **10% Change** |
| (i) Weighted average of expected loss of plants until harvest (a) | 17% | $41 | 19% | $7 |
| (ii) Expected yields for cannabis plants (average grams per plant) (b) | 70 | $202 | 71 | $33 |
| (iii) Weighted average number of growing weeks completed as percentage of total growing weeks as at period end | 48% | $202 | 44% | $33 |
| (iv) FL Estimated selling price per gram (c) | $7.72 per gram | $1,369 | $7.12 per gram | $824 |
| (v) FL Cost to sell per gram per flower and trim, respectively | $6.72 per gram | $1,167 | $6.90 per gram | $792 |

(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 March 31, 2024, it is expected that the Company's biological assets will yield approximately 4,558,780 grams of dry cannabis when harvested (2023 – 3,758,466 grams). As of March 31, 2024 and December 31, 2023, the Company had 75,707 and 63,838 plants that were classified as biological assets, respectively.

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

## 5. Prepaid expenses and other current assets

Prepaid expenses and other current assets consist of the following:

| | March 31, 2024 | December 31, 2023 |
|---|---|---|
| Prepaid insurance | $ 630 | $ 286 |
| Prepaid rent | - | - |
| Prepaid consulting fee | - | - |
| Other receivables | 13 | - |
| Employee Advances | 1 | - |
| Other prepaid expenses | 218 | 222 |
| Tenant improvement allowance | 340 | 529 |
| Prepaid inventory | 47 | 273 |
| Other current assets | 207 | 572 |
| **Balance at end of period** | **$ 1,456** | **$ 1,882** |

## 6. Property and equipment

A reconciliation of the beginning and ending balances of property and equipment for the three months ended March 31, 2024 and the year ended December 31, 2023, is as follows:

| | Land | Furtinure and Fixtures | Computer Equipment | Manufacturing equipment | Leasehold improvements | Construction in Progress | Vehicles | Total |
|---|---|---|---|---|---|---|---|---|
| Cost | | | | | | | | |
| Balance as of January 1, 2023 | 212 | 1,192 | 1,664 | 10,300 | 37,641 | 1,627 | 389 | 53,025 |
| Additions | - | 398 | 461 | 783 | 4,985 | (677) | 69 | 6,019 |
| Disposals | - | - | - | - | (197) | (56) | - | (253) |
| Balance as of December 31, 2023 | 212 | 1,590 | 2,125 | 11,083 | 42,429 | 894 | 458 | 58,791 |
| Accumulated depreciation | | | | | | | | |
| Balance as of January 1, 2023 | - | 505 | 1,111 | 3,902 | 15,649 | - | 115 | 21,282 |
| Additions | - | 220 | 446 | 1,557 | 7,774 | - | 46 | 10,043 |
| Disposals | - | - | - | - | (176) | - | - | (176) |
| Balance as of December 31, 2023 | - | 725 | 1,557 | 5,459 | 23,247 | - | 161 | 31,149 |
| **Property and equipment, net** | **$ 212** | **$ 865** | **$ 568** | **$ 5,624** | **$ 19,182** | **$ 894** | **$ 297** | **$ 27,642** |
| Cost | | | | | | | | |
| Balance as of January 1, 2024 | 212 | 1,590 | 2,125 | 11,083 | 42,429 | 894 | 458 | 58,791 |
| Additions | - | 21 | 24 | 287 | 890 | 1,726 | - | 2,948 |
| Disposals | (212) | - | - | - | - | - | - | (212) |
| Balance as of March 31, 2024 | - | 1,611 | 2,149 | 11,370 | 43,319 | 2,620 | 458 | 61,527 |
| Accumulated depreciation | | | | | | | | |
| Balance as of January 1, 2024 | - | 725 | 1,557 | 5,459 | 23,247 | - | 161 | 31,149 |
| Additions | - | 56 | 117 | 405 | 1,972 | - | 13 | 2,563 |
| Balance as of March 31, 2024 | - | 781 | 1,674 | 5,864 | 25,219 | - | 174 | 33,712 |
| **Property and equipment, net** | **$ -** | **$ 830** | **$ 475** | **$ 5,506** | **$ 18,100** | **$ 2,620** | **$ 284** | **$ 27,815** |

For the three months ended March 31, 2024 and December 31, 2023, the Company charged $1,972 and $1,927 of depreciation to the production of biological assets and inventory.

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

## 7. Intangible assets

Intangible assets consist of cannabis licenses and trademarks and brands. A reconciliation of the beginning and ending balances of intangible assets for the three months ended March 31, 2024 and year ended December 31, 2023, is as follows:

| | Licenses | Trademarks and brands | Total |
|---|---|---|---|
| **Cost** | | | |
| Balance as of January 1, 2023 | 94,488 | 8,850 | 103,338 |
| Additions | 319 | - | 319 |
| Disposals | (842) | - | (842) |
| Balance as of December 31, 2023 | 93,965 | 8,850 | 102,815 |
| **Accumulated amortization** | | | |
| Balance as of January 1, 2023 | 1,063 | 7,984 | 9,047 |
| Additions | 159 | 858 | 1,017 |
| Disposals | (842) | - | (842) |
| Balance as of December 31, 2023 | 380 | 8,842 | 9,222 |
| **Intangible assets, net** | **$ 93,585** | **$ 8** | **$ 93,593** |
| **Cost** | | | |
| Balance as of January 1, 2024 | 93,965 | 8,850 | 102,815 |
| Balance as of March 31, 2024 | 93,965 | 8,850 | 102,815 |
| **Accumulated amortization** | | | |
| Balance as of January 1, 2024 | 380 | 8,842 | 9,222 |
| Additions | 40 | - | 40 |
| Balance as of March 31, 2024 | 420 | 8,842 | 9,262 |
| **Intangible assets, net** | **$ 93,545** | **$ 8** | **$ 93,553** |

Amortization expense for the three months ended March 31, 2024 and 2023, was $40 and $383, respectively. Amortization expense of intangible assets is located in depreciation and amortization expense of the Condensed Interim Consolidated Statements of Loss and Comprehensive Loss. The remaining amortization period as of March 31, 2024 is 1.5 years.

## 8. Goodwill

Goodwill as of March 31, 2024 and December 31, 2023 was $1,525.

As of March 31, 2024 and December 31, 2023, the Company did not have an impairment to its goodwill and indefinite life intangibles.

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

## 9. Income taxes

Income tax for the three months ended March 31, 2024 and 2023 consisted of the following:

| | | 2024 | | 2023 |
|---|---|---|---|---|
| Current Tax Expense | $ | 3,469 | $ | 3,112 |
| Deferred Tax Expense | | 1,216 | | (1,198) |
| **Total income taxes** | **$** | **4,685** | **$** | **1,914** |

Income tax expense is recognized based on Management's estimate of the weighted average effective annual income tax rate expected for the full financial year. The U.S statutory tax rate used for the three months ended March 31, 2024 and 2023 was 21%.

## 10. 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 three months ended March 31, 2024 and year ended December 31, 2023, is as follows:

| | | |
|---|---|---|
| **Balance as of January 1, 2023** | $ | 8,676 |
| Fair value change | | 433 |
| **Balance as of December 31, 2023** | **$** | **9,109** |
| Fair value change | | (1,687) |
| **Balance as of March 31, 2024** | **$** | **7,422** |

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 condensed interim 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 with expiration 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

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

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.

The following assumptions were used to value the Equity Price Guarantee derivative liability using the Monte-Carlo simulation model as of March 31, 2024 and December 31, 2023:

| | **March 31, 2024** | **December 31, 2023** |
|---|---|---|
| Volatility | 110% | 105% |
| Risk-free interest rate | 4.17% | 3.88% |
| Expected life (years) | 1.75 | 2.00 |
| Share price | $0.21 | $0.09 |
| Exercise price | $0.40 | $0.40 |

During the three months ended March 31, 2024 the Company recorded a gain of $1,687 and for the year ended December 31, 2023 a loss of $433, on the revaluation of the Equity Price Guarantee derivative liability.

## 11. Notes payable

As of March 31, 2024 and December 31, 2023, notes payable consisted of the following:

| | **March 31, 2024** | **December 31, 2023** |
|---|---|---|
| Automobile loan (b) | $ 19 | $ 21 |
| Senior secured term loan (c) | 59,675 | 58,437 |
| Equipment loan (d) | 30 | 33 |
| Convertible debenture (e) | 2,814 | 2,819 |
| Insurance financing (f) | 320 | 92 |
| Total notes payable (a) | 62,857 | 61,402 |
| Less current portion of notes payable | (476) | (213) |
| **Notes payable, net of current portion** | **$ 62,381** | **$ 61,189** |

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

### (a) Note payable

A reconciliation of the beginning and ending balances of the notes payable for the three months ended March 31, 2024 and the year ended December 31, 2023 is as follows:

| | March 31, 2024 | December 31, 2023 |
|---|---|---|
| Balance at the beginning of the period | $ 61,402 | $ 57,710 |
| Insurance financing | 320 | 800 |
| Interest and accretion | 3,475 | 13,458 |
| Repayments of principal and interest | (2,340) | (10,566) |
| **Balance at the end of the period** | **$ 62,857** | **$ 61,402** |

Refer to Note 19 for a reconciliation of finance costs for the three months ended March 31, 2024 and 2023.

### (b) Automobile loan

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

### (c) Senior secured term loan

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

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

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

As part of the Term Loan, the Company is required to be in compliance with the following financial covenants:

- Minimum liquidity of $4,500 as of March 31, 2024, and December 31, 2023.
- Minimum debt service coverage ratio of 2.5x.

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

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 March 31, 2024, the principal amount outstanding under the Term Loan was $65,817 and unamortized debt issuance costs was $6,142. As of December 31, 2023, the principal amount outstanding under the Term Loan was $65,830 and unamortized debt issuance costs was $7,464.

As of March 31, 2024, the Company was in compliance with its covenants under the Term Loan.

**(d) Equipment loan**

As of March 31, 2024, notes payable balance is collateralized by equipment purchased, maturing through July 2026.

**(e) Convertible debenture**

On April 29, 2022, the Company completed a non-brokered private placement (the “Private Placement”) that includes a 10.0% unsecured convertible debenture in the principal amount of $3,500 (the “Debenture”), as well as 3,076,923 pre-funded common share purchase warrants (each a “Pre-Funded Warrant”) at a price of US$0.39 per Pre-Funded Warrant, for aggregate gross proceeds of $4,700, resulting in an increase of $1,744 and $70 to equity conversion feature and warrants, respectively. The Debenture will come due in 2032 and the principal amount then outstanding is convertible into common shares of the Company at a conversion price of $0.79 per common share. Each Pre-Funded Warrant shall entitle the holder to purchase one common share at an additional exercise price of $0.40 per common share (for a total common share issue price equal to $0.79) for a period of 12 months from the date of issuance. As of March 31, 2024, the principal amount outstanding under the Debenture was $3,071 and unamortized debt issuance costs was $257.

The balance outstanding under the convertible debenture as of March 31, 2024 and December 31, 2023 is as follows:

| | March 31, 2024 | December 31, 2023 |
|---|---|---|
| Balance at the beginning of the period | $ 2,819 | $ 2,838 |
| Interest and accretion | 110 | 535 |
| Repayments of principal and interest | (115) | (554) |
| **Balance at the end of the period** | **$ 2,814** | **$ 2,819** |

**(f) Insurance financing**

In March 2024, the Company financed workers compensation insurance in the amount of $320, payable monthly with a six-month term and an 8.5% interest rate. As of March 31, 2024, the principal amount outstanding is $320.

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

## 12. Leases

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

### (a) Right-of-use assets

| | March 31, 2024 | December 31, 2023 |
|---|---|---|
| Cost | | |
| Balance at beginning of period | $ 48,990 | $ 44,029 |
| Additions | 2,272 | 5,675 |
| Disposals | - | (714) |
| Balance at end of period | $ 51,262 | $ 48,990 |
| Accumulated depreciation | | |
| Balance at beginning of period | $ 17,047 | $ 13,565 |
| Additions | 1,100 | 4,018 |
| Disposals | - | (536) |
| Balance at end of period | $ 18,147 | $ 17,047 |
| **Right-of-use-assets, net** | **$ 33,115** | **$ 31,943** |

### (b) Lease liabilities

| | March 31, 2024 | December 31, 2023 |
|---|---|---|
| Balance at beginning of period | $ 40,114 | $ 36,045 |
| Additions | 2,166 | 6,732 |
| Disposals | - | (282) |
| Interest on lease liabilities | 1,211 | 4,473 |
| Interest payments on lease liabilities | (1,211) | (4,473) |
| Principal payments on lease liabilities | (765) | (2,381) |
| **Balance at end of period** | **$ 41,515** | **$ 40,114** |
| Less current portion of lease liabilities | (2,918) | (2,872) |
| **Lease liabilities, net of current portion** | **$ 38,597** | **$ 37,242** |

The Company's lease obligation maturity has been disclosed within Note 17.

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

## 13. Shareholders' equity

| | Share capital | | |
|---|---|---|---|
| | Number of unrestricted common shares | Number of restricted common shares | Amount |
| **Balance, December 31, 2022** | **264,959,743** | **-** | **$ 180,954** |
| Shares issued for professional services (Note 13 a.) | 4,569,624 | - | 439 |
| Private placement issuance of shares and warrants (Note 13 b.) | 30,000,000 | - | 2,297 |
| **Balance, December 31, 2023** | **299,529,367** | **-** | **$ 183,690** |
| **Balance, March 31, 2024** | **299,529,367** | **-** | **$ 183,690** |

### Equity transactions

During the three months ended March 31, 2024 and year ended December 31, 2023, the following transactions were recorded in shareholders' equity:

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

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

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

### Share capital

As of March 31, 2024, the share capital of the Company is comprised of 273,602,727 common shares, 2,592,664 proportionate voting shares (each proportionate voting share is convertible into ten common shares), 27,500,000 warrants, 9,146,725 stock options, and 5,850,220 restricted stock units . For the purpose of the statement of changes in shareholders' equity, the proportionate voting shares have been included as part of common shares based on the 1 for 10 conversion ratio.

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

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:

| | March 31, 2024 | December 31, 2023 |
|---|---|---|
| Weighted Average Number of Shares - Basic | 299,529,367 | 292,622,129 |
| Weighted Average Warrants | 27,676,198 | 42,080,064 |
| Weighted Average Options | 9,156,780 | 11,439,585 |
| Weighted Average Restricted Stock Units | 6,142,169 | 2,895,698 |
| **Weighted Average Number of Shares - Diluted** | **342,504,514** | **349,037,476** |

Warrant activity for the Company for the three months ended March 31, 2024 and year ended December 31, 2023, is as follows:

| | Warrants |
|---|---|
| **Balance as of December 31, 2022** | **35,803,819** |
| Expired | (23,303,819) |
| Granted | 15,000,000 |
| **Balance as December 31, 2023** | **27,500,000** |
| | |
| **Balance as of March 31, 2024** | **27,500,000** |

## 14. Expense by nature

General and administrative expenses for the three months ended March 31, 2024, and 2023, are as follows:

| | 2024 | 2023 |
|---|---|---|
| General and administrative | | |
| Legal and professional fees | $ 1,894 | $ 872 |
| Salaries and benefits | 1,392 | 698 |
| Insurance | 379 | 462 |
| Variable rent expenses | 5 | (68) |
| Travel and entertainment | 59 | 32 |
| IT services and software | 58 | - |
| Phone and Cellular | 32 | - |
| Payroll processing fees | 59 | - |
| Other | 85 | 316 |
| **Total general and administrative** | **$ 3,963** | **$ 2,312** |

Sales and marketing expenses for the three months ended March 31, 2024 and 2023, are as follows:

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

| | 2024 | 2023 |
|---|---|---|
| Sales and marketing | | |
| Salaries and benefits | $ 4,653 | $ 3,565 |
| Advertising expenses | 115 | 314 |
| Variable rent expenses | (373) | (603) |
| Legal and professional fees | 104 | 54 |
| Security | 62 | 46 |
| Supplies | 105 | 233 |
| Software | 139 | 82 |
| Travel and entertainment | 45 | - |
| Other | 585 | 307 |
| **Total sales and marketing** | **$ 5,434** | **$ 3,998** |

## 15. 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 March 31, 2024, 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 March 31, 2024, 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 March 31, 2024 and December 31, 2023, the total outstanding amount was $333 and $542, respectively.

## 16. Related-party transactions

### Key management personnel compensation

Key management personnel are those persons having the authority and responsibility for planning, directing and controlling activities for the Company, directly and indirectly. The key management personnel of the Company are the members of the Company's executive management team and Board of Directors. For the three months ended March 31, 2024 and 2023, key management personnel compensation consisted of the following:

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

| | | March 31, 2024 | | March 31, 2023 |
|---|---|---|---|---|
| Salary | $ | 679 | $ | 711 |
| Option-based compensation | | 8 | | 53 |
| Restricted stock unit compensation | | 20 | | - |
| All other compensation | | 34 | | 200 |
| Total | $ | 741 | $ | 964 |

**Transactions with related parties**

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

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

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

## 17. Financial instruments and financial risk management

**Financial instruments**

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

**Financial assets**

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

**Financial liabilities**

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

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

*(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.

The carrying values of financial instruments at March 31, 2024 are summarized in the following table:

| | Amortized cost | FVTPL | Total |
|---|---|---|---|
| **Financial Assets** | | | |
| Cash | 8,521 | — | 8,521 |
| Trade receivable | 232 | — | 232 |
| **Financial Liabilities** | | | |
| Trade payable | 6,154 | — | 6,154 |
| Accrued liabilities | 5,587 | — | 5,587 |
| Income taxes payable | 28,947 | — | 28,947 |
| Derivative liabilities | — | 7,422 | 7,422 |
| Notes payable | 62,857 | — | 62,857 |
| Lease obligations | 41,515 | — | 41,515 |
| Other long-term liabilities | 3,507 | — | 3,507 |

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

The carrying values of financial instruments at December 31, 2023 are summarized in the following table:

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

**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 March 31, 2024 is the carrying amount of cash, trade receivable and note receivable. All cash is placed with major U.S. financial institutions. Credit risk from due from trade receivable and note receivable arises from the possibility that amounts due become uncollectible.

**(b) Market risk**

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

*(i) Other price risk*

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

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

*(ii) Currency risk*

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

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

As of March 31, 2024, and December 31, 2023, the Company had no hedging agreements in place with respect to foreign exchange rates. The Company has not entered into any agreements or purchased any instruments to hedge possible currency risks at this time as it deems its foreign currency exposure to be nominal.

*(iii) Interest rate risk*

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

**(c) Liquidity risk**

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

The Company had the following contractual obligations as of March 31, 2024:

| | < 1 year | 1 to 3 years | 3 to 5 years | > 5 years | Total |
|---|---|---|---|---|---|
| Trade payable | $ 6,154 | $ - | $ - | $ - | $ 6,154 |
| Accrued liabilities | 5,587 | - | - | - | 5,587 |
| Income taxes payable | 28,947 | - | - | - | 28,947 |
| Notes payable | 9,137 | 67,645 | 1,110 | 1,711 | 79,603 |
| Lease obligations | 7,562 | 15,555 | 14,497 | 32,507 | 70,121 |
| Total | $ 57,387 | $ 83,200 | $ 15,607 | $ 34,219 | $ 190,413 |

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

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

**(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.

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

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.

## 18. Capital management

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

| | March 31, 2024 | December 31, 2023 |
|---|---|---|
| Notes payable | $ 62,857 | $ 61,402 |
| Share capital | 183,690 | 183,690 |
| **Total managed capital** | **$ 246,547** | **$ 245,092** |

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 three months ended March 31, 2024.

## 19. Finance costs

The Company's finance costs for the three months ended March 31, 2024 and 2023 are as follows:

| | 2024 | 2023 |
|---|---|---|
| Interest income | $ (9) | $ (8) |
| Interest expense | 2,208 | 2,201 |
| Accretion costs | 1,300 | 1,035 |
| Interest on right of use assets | 1,211 | 1,021 |
| **Finance costs, net** | **$ 4,711** | **$ 4,249** |

## 20. Employee Retention Tax Credits

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

In August 2023, the Company executed an agreement to sell its ERTC for $3.4 million. The buyer shall have the right to put all or a portion of the ERTC back to the Company, whereupon the Company shall be obligated to pay a repurchase price within 10 business days after demand, equal to the portion of the claim amount, plus interest thereon at 10% per annum. As a result, the Company recorded a liability of $3.4 million. As of March 31, 2024, the buyer had not put or pulled any portion of the ERTC from the Company.

**21. Subsequent Event**

On May 30, 2024, the Company and RIV Capital Inc. announced that they have entered into a definitive arrangement agreement pursuant to which Cansortium will acquire all of the issued and outstanding Class A common shares of RIV Capital in exchange for Cansortium Shares.

Under the terms of the Arrangement Agreement, RIV Capital shareholders (the “RIV Capital Shareholders”) will receive 1.245 of a common share of Cansortium (the “Cansortium Shares”) in exchange for each RIV Capital Share held. Upon closing of the Transaction, shareholders of Cansortium (the “Cansortium Shareholders”) are expected to hold approximately 51.25% of the combined business of Cansortium and RIV Capital (the “Combined Company”) and the RIV Capital Shareholders and The Hawthorne Collective, together, are expected to hold approximately 48.75% of the Combined Company, each on a fully diluted basis.

See press release dated May 30, 2024 for additional information regarding the Arrangement Agreement, including but not limited to changes in the Company’s Credit Agreement, termination of the floor share agreement with Director and Executive Chair of the Company, and bridge financing between the Company and RIV Capital Inc.