

PART I

Item 1. Financial Statements

Flora Growth Corp.

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Flora Growth Corp.

Unaudited Condensed Interim Consolidated Statements of Financial Position

(in thousands of United States dollars, except share amounts which are in thousands of shares)

As at:	September 30, 2024	December 31, 2023
ASSETS		
Current		
Cash	\$ 4,209	\$ 4,350
Restricted cash	35	35
Trade and amounts receivable, net of \$469 allowance (\$315 at December 31, 2023)	3,922	3,950
Prepaid expenses and other current assets	1,031	1,368
Indemnification receivables	4,234	3,153
Inventory	7,857	8,508
Total current assets	21,288	21,364
Non-current		
Property, plant and equipment	518	847
Operating lease right of use assets	1,448	389
Intangible assets	3,778	946
Goodwill	2,150	
Other assets	102	80
Total assets	\$ 29,284	\$ 23,626
LIABILITIES		
Current		
Trade payables	\$ 6,654	\$ 5,111
Contingencies	6,843	5,500
Debt	2,235	1,931
Current portion of operating lease liability	832	799
Contingent purchase considerations	1,152	1,095
Other accrued liabilities	3,177	1,844
Total current liabilities	20,893	16,280
Non-current		
Non-current operating lease liability	2,233	942
Deferred tax	971	-
Total liabilities	24,097	17,222
SHAREHOLDERS' EQUITY		
Share capital, no par value, unlimited authorized, 13,367 issued and outstanding (8,935 at December 31, 2023)	-	-
Additional paid-in capital	156,075	149,093
Accumulated other comprehensive loss	185	(140)
Deficit	(152,010)	(142,549)
Total Flora Growth Corp. shareholders' equity	4,250	6,404
Non-controlling interest in subsidiaries	937	-
Total shareholders' equity	5,187	6,404
Total liabilities and shareholders' equity	\$ 29,284	\$ 23,626

The accompanying notes are an integral part of these unaudited condensed interim consolidated financial statements. Commitments and contingencies - see Note 15.
Going concern - see Note 2.

Flora Growth Corp.

Unaudited Condensed Interim Consolidated Statements of (Loss) Income
and Comprehensive (Loss) Income
(in thousands of United States dollars, except per share amounts which
are in thousands of shares)

	For the three months ended September 30, 2024	For the three months ended September 30, 2023	For the nine months ended September 30, 2024	For the nine months ended September 30, 2023
Revenue	\$ 12,465	\$ 17,317	\$ 46,179	\$ 58,096
Cost of sales	9,626	12,375	36,319	43,848
Gross profit	2,839	4,942	9,860	14,248
Operating expenses				
Consulting and management fees	2,479	2,346	7,130	9,679
Professional fees	650	415	2,249	1,080
General and administrative	416	340	1,445	1,376
Promotion and communication	1,206	1,142	3,435	3,713
Travel expenses	126	77	318	333
Share based compensation	406	4	428	996
Research and development	118	8	227	37
Operating lease expense	178	286	542	910
Depreciation and amortization	226	305	557	2,043
Bad debt expense	47	(14)	266	33
Asset impairment	413	-	1,471	34,941
Other expenses (income), net	266	573	1,507	2,078
Total operating expenses	6,531	5,482	19,575	57,219
Operating loss	(3,692)	(540)	(9,715)	(42,971)
Interest expense	27	16	24	67
Foreign exchange (gain) loss	(77)	98	106	(78)
Unrealized loss (gain) from changes in fair value	322	(1,233)	57	(2,165)
Net (loss) income before income taxes and discontinued operations	(3,964)	579	(9,902)	(40,795)
Income tax benefit	(164)	(51)	(71)	(1,247)
Net (loss) income from continuing operations	(3,800)	630	(9,831)	(39,548)
Income (loss) from discontinued operations, net of taxes	-	492	-	(7,791)
Net (loss) income for the period	(3,800)	1,122	(9,831)	(47,339)
Net loss attributable to noncontrolling interest	(27)	(115)	(54)	(410)
Net (loss) income attributable to Flora Growth Corp.	\$ (3,773)	\$ 1,237	\$ (9,777)	\$ (46,929)
Basic (loss) income per share from continuing operations	\$ (0.28)	\$ 0.09	\$ (0.85)	\$ (5.84)
Diluted (loss) income per share from continuing operations	\$ (0.28)	\$ 0.08	\$ (0.85)	\$ (5.84)
Basic (loss) income per share attributable to Flora Growth Corp.	\$ (0.28)	\$ 0.18	\$ (0.85)	\$ (6.93)
Diluted (loss) income per share attributable to Flora Growth Corp.	\$ (0.28)	\$ 0.16	\$ (0.85)	\$ (6.93)
Weighted average number of common shares outstanding - basic	13,353	6,940	11,522	6,770
Weighted average number of common shares outstanding - diluted	13,353	7,637	11,522	6,770
Other comprehensive (loss) income				
Net (loss) income for the period	\$ (3,800)	\$ 1,122	\$ (9,831)	\$ (47,339)
Foreign currency translation, net of income taxes of \$nil (\$nil in 2023)	(317)	274	(325)	(932)
Comprehensive (loss) income for the period	(3,483)	848	(9,506)	(46,407)
Comprehensive loss attributable to noncontrolling interests	(27)	(115)	(54)	(410)
Comprehensive (loss) income attributable to Flora Growth Corp.	\$ (3,456)	\$ 963	\$ (9,452)	\$ (45,997)

The accompanying notes are an integral part of these unaudited condensed interim consolidated financial statements.

Flora Growth Corp.

Unaudited Condensed Interim Consolidated Statement of Shareholders' Equity (Deficiency)

(in thousands of United States dollars, except for share amounts which are in thousands of shares)

	Common shares	Additional paid-in capital	Accumulated other comprehensive (loss) income	Accumulated deficit	Non-controlling interests in subsidiaries (deficiency)	Shareholders' equity (deficiency)
	#					
For the nine months ended September 30, 2024						
Balance, December 31, 2023	8,935	\$ -	\$ 149,093	\$ (140)	\$ (142,549)	\$ -
April unit offering	1,700	-	3,230	-	-	-
April unit offering issuance costs	-	-	(398)	-	-	-
Equity issued for business combinations	2,685	-	3,969	-	-	991
Equity issued for other agreements	50	-	55	-	-	-
Options vested	-	-	5	-	-	-
Options forfeited	-	-	(316)	-	316	-
Restricted stock vested	-	-	34	-	-	-
Restricted stock cancelled	(3)	-	(9)	-	-	-
SARs vested	-	-	398	-	-	-
Share issuance costs	-	-	14	-	-	-
Other comprehensive income - exchange differences (net of income taxes of \$nil)	-	-	-	325	-	-
Net loss	-	-	-	-	(9,777)	(54)
Balance, September 30, 2024	13,367	\$ -	\$ 156,075	\$ 185	\$ (152,010)	\$ 937
For the three months ended September 30, 2024						
Balance, June 30, 2024	13,367	\$ -	\$ 155,678	\$ (132)	\$ (148,237)	\$ 964
Restricted stock vested	-	-	8	-	-	-
SARs vested	-	-	398	-	-	-
Share issuance costs	-	-	(9)	-	-	-
Other comprehensive income - exchange differences (net of income taxes of \$nil)	-	-	-	317	-	-
Net loss	-	-	-	-	(3,773)	(27)
Balance, September 30, 2024	13,367	\$ -	\$ 156,075	\$ 185	\$ (152,010)	\$ 937
For the nine months ended September 30, 2023						
Balance, December 31, 2022	6,776	\$ -	\$ 150,420	\$ (2,732)	\$ (90,865)	\$ (411)
September unit offering	1,369	-	2,738	-	-	-
September unit offering issuance costs	-	-	(254)	-	-	-
Equity issued for other agreements	126	-	542	-	-	-
Options vested	-	-	219	-	-	-
Options forfeited	-	-	(4,335)	-	4,060	-
Restricted stock granted	112	-	1,415	-	-	-
Restricted stock cancelled	(167)	-	(810)	-	-	-
Share issuance costs	-	-	(78)	-	-	-
Derecognition of equity related to Colombia assts	-	-	-	(195)	-	(380)
Other comprehensive income - exchange differences (net of income taxes of \$nil)	-	-	-	1,127	-	-
Net loss	-	-	-	-	(46,929)	(410)
Balance, September 30, 2023	8,216	\$ -	\$ 149,857	\$ (1,800)	\$ (133,734)	\$ (1,201)
For the three months ended September 30, 2023						
Balance, June 30, 2023	6,859	\$ -	\$ 150,726	\$ (1,526)	\$ (138,266)	\$ (706)
September unit offering	1,369	-	2,738	-	-	-
September unit offering issuance costs	-	-	(254)	-	-	-
Options vested	-	-	8	-	-	-
Options forfeited	-	-	(3,312)	-	3,295	-
Restricted stock granted	-	-	43	-	-	-
Restricted stock cancelled	(12)	-	(30)	-	-	-
Share issuance costs	-	-	(62)	-	-	-
Derecognition of equity related to Colombia assts	-	-	-	(195)	-	(380)
Other comprehensive loss - exchange differences (net of income taxes of \$nil)	-	-	-	(79)	-	-
Net income (loss)	-	-	-	-	1,237	(115)
Balance, September 30, 2023	8,216	\$ -	\$ 149,857	\$ (1,800)	\$ (133,734)	\$ (1,201)

The accompanying notes are an integral part of these unaudited condensed interim consolidated financial statements.

Flora Growth Corp.

Unaudited Condensed Interim Consolidated Statement of Cash Flows
(in thousands of United States dollars)

	For the nine months ended September 30, 2024	For the nine months ended September 30, 2023
Cash flows from operating activities:		
Net loss	\$ (9,831)	\$ (47,339)
Adjustments to net loss:		
Depreciation and amortization	557	2,192
Share based compensation	428	996
Inventory impairments	1,423	1,396
Other asset impairments	1,471	39,645
Unrealized loss (gain) from changes in fair value	57	(2,165)
Bad debt expense	266	598
Loss on fixed asset disposals	47	-
Loss on disposal of Colombia assets	-	1,310
Interest expense	24	69
Interest paid	(24)	(69)
Income tax	(71)	(1,236)
	(5,653)	(4,603)
Net change in non-cash working capital:		
Trade and other receivables	(1,394)	1,889
Inventory	(350)	(2,949)
Prepaid expenses and other assets	330	(213)
Trade payables and accrued liabilities	3,381	(1,389)
Net cash used in operating activities	(3,686)	(7,265)
Cash flows from financing activities:		
Units issued	3,230	2,738
Equity issue costs	(398)	(329)
Loan borrowings, net	279	37
Net cash provided by financing activities	3,111	2,446
Cash flows from investing activities:		
Purchases of property, plant and equipment and intangible assets	(134)	(201)
Net cash on asset disposals	273	(71)
Business combinations, net of cash acquired	64	-
Net cash provided (used) in investing activities	203	(272)
Effect of exchange rate on changes on cash	231	954
Change in cash during the period	(141)	(4,137)
Cash and restricted cash at beginning of period	4,385	8,935
Cash and restricted cash at end of period	\$ 4,244	\$ 4,798
Supplemental disclosure of non-cash investing and financing activities		
Assets acquired for contingent consideration	-	303
Common shares issued for other agreements	55	95
Option cancellations reclassified to equity	316	4,060
Share issuance costs	-	297
Operating lease additions to right of use assets	2,172	200
Common shares issued for business combinations	3,969	-

The accompanying notes are an integral part of these unaudited condensed interim consolidated financial statements.

Flora Growth Corp.

Notes to the unaudited condensed interim consolidated financial statements

For the three and nine months ended September 30, 2024 and 2023

(In thousands of United States dollars, except shares and per share amounts)

1. NATURE OF OPERATIONS

Flora Growth Corp. (the "Company" or "Flora") was incorporated under the laws of the Province of Ontario, Canada on March 13, 2019. The Company is a global cannabis company that is committed to building a connected ecosystem of innovative brands and products, and is dedicated to advancing technology to deliver a more personalized wellness experience. The Company's registered office is located at 365 Bay Street, Suite 800, Toronto, Ontario, M5H 2V1, Canada and our principal place of business in the United States is located at 3230 W. Commercial Boulevard, Suite 180, Fort Lauderdale, Florida 33309.

Presentation of comparative financial statements

On June 9, 2023, the Company consolidated its issued and outstanding common shares based on one new common share of the Company for every twenty existing common shares of the Company. All common shares and per share amounts have been restated to give retroactive effect to the share consolidation. See discussion in Note 12.

2. BASIS OF PRESENTATION

These unaudited condensed interim consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States of America ("U.S. GAAP") pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC") for interim financial information. Accordingly, they do not include all of the information and notes required by U.S. GAAP. The Company believes that the disclosures made are adequate to make the information presented not misleading. These financial statements should be read in conjunction with the consolidated financial statements and the notes thereto included in the Company's Annual Report filed on Form 10-K for the year ended December 31, 2023. These unaudited condensed interim consolidated financial statements reflect all adjustments, which, in the opinion of management, are necessary for a fair presentation of the results for the interim periods presented. Interim results are not necessarily indicative of results for a full year.

These unaudited condensed interim consolidated financial statements apply the same accounting policies as those used in the financial statements included in the Company's Annual Report filed on Form 10-K for the year ended December 31, 2023.

These unaudited condensed interim consolidated financial statements have been prepared on a going concern basis, meaning that the Company will continue in operation for the foreseeable future and will be able to realize assets and discharge liabilities in the ordinary course of operations.

Prior to January 1, 2023, Flora was a foreign private issuer reporting its financial statements under International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standard Boards. These consolidated financial statements, for all periods, are presented in accordance with U.S. GAAP.

Going concern

The accompanying unaudited condensed interim consolidated financial statements have been prepared assuming the Company will continue as a going concern. The going concern basis of presentation assumes that the Company will continue one year after the date these unaudited condensed interim consolidated financial statements are issued and will be able to realize its assets and discharge its liabilities and commitments in the normal course of business.

The Company had cash of \$4.2 million at September 30, 2024, net loss of \$9.8 million for the nine months ended September 30, 2024, and an accumulated deficit of \$152.0 million at September 30, 2024. Current economic and market conditions have put pressure on the Company's growth plans. The Company's ability to continue as a going concern is dependent on its ability to obtain additional capital. The Company believes that its current level of cash is not sufficient to continue investing in growth, while at the same time meeting its obligations as they become due. These conditions raise substantial doubt regarding the Company's ability to continue as a going concern for a period of at least one year from the date of issuance of these unaudited condensed interim consolidated financial statements. To alleviate these conditions, management is currently evaluating various cost reductions and other alternatives and may seek to raise additional funds through the issuance of equity, debt securities, through arrangements with strategic partners, through obtaining credit from financial institutions or otherwise. The actual amount that the Company may be able to raise under these alternatives will depend on market conditions and other factors. As it seeks additional sources of financing, there can be no assurance that such financing would be available to the Company on favorable terms or at all. The Company's ability to obtain additional financing in the debt and equity capital markets is subject to several factors, including but not limited to market and economic conditions, the Company's performance and investor sentiment with respect to it and its industry. The unaudited condensed interim consolidated financial statements do not include any adjustments for the recovery and classification of assets or the amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern.

Flora Growth Corp.

Notes to the unaudited condensed interim consolidated financial statements

For the three and nine months ended September 30, 2024 and 2023

(In thousands of United States dollars, except shares and per share amounts)

Basis of consolidation

These unaudited condensed interim consolidated financial statements include the accounts of the Company and its subsidiaries. All intercompany balances and transactions were eliminated on consolidation. Subsidiaries are entities the Company controls when it is exposed, or has rights, to variable returns from its involvement in the entity and can affect those returns through its power to direct the relevant activities of the entity. Subsidiaries are included in the consolidated financial results of the Company from the date of acquisition up to the date of disposition or loss of control. At September 30, 2024, the Company's subsidiaries and respective ownership percentage have not changed from the year ended December 31, 2023, except as noted below.

On April 22, 2024, the Company completed the first closing of the share purchase agreement to acquire 77% of the issued and outstanding shares of TruHC Pharma GmbH, a German entity. On June 4, 2024, the Company purchased 100% of the issued and outstanding shares of Australian Vaporizers Pty Ltd., an Australian entity. See discussion of both acquisitions in Note 7.

During the nine months ended September 30, 2024, the Company voluntarily dissolved the Cardiff Brand Corp., Kasa Wholefoods Company LLC and Flora Beauty LLC, each of which were U.S. entities. Also during the nine months ended September 30, 2024, the Company signed articles of organization for Just Brands FL LLC, a United States domestic limited liability company, which is 100% owned by the Company and has a functional currency of the United States dollar.

3. ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS

On July 5, 2023, the Company entered into a Share Purchase Agreement with Lisan Farma Colombia LLC ("Lisan"), a Delaware limited liability company, to sell all its shares in its Colombian related subsidiaries and its Colombian assets for a purchase price of CAD \$0.8 million (USD \$0.6 million). The sale relates to all of Flora's operations in Colombia, including its interest in (i) its 361-acre Cosechemos farm located in Giron, Colombia and its related processing facilities and inventory and (ii) all other assets relating to Flora Lab 2, Flora Lab 4 and Flora's Colombian food and beverage and consumer products business. The Company received proceeds of CAD \$0.5 million during the year ended December 31, 2023 which completed the sale and transfer of Flora Growth Corp Colombia S.A.S, Flora Lab S.A.S., Flora Med S.A.S., Labcofarm Laboratorios S.A.S., Kasa Wholefoods Company S.A.S., Flora Growth Corp. Sucursal Colombia and Flora Beauty LLC Sucursal Colombia. The Company and Lisan completed the sale of Cosechemos Ya S.A.S on November 1, 2023.

The sale enabled the Company to concentrate on its core business divisions, which are lifestyle brands in the United States and international pharmaceutical distribution. The sale was part of several strategic changes to cut costs and streamline operations.

The following table summarizes the major classes of line items included in income (loss) from discontinued operations, net of tax, for the three and nine months ended September 30, 2024 and 2023:

	For the three months ended September 30, 2024	For the three months ended September 30, 2023	For the nine months ended September 30, 2024	For the nine months ended September 30, 2023
Revenue	\$ -	\$ -	\$ -	\$ 1,450
Cost of sales	-	-	-	1,123
Gross profit from discontinued operations	-	-	-	327
Operating expenses				
Consulting and management fees	-	171	-	847
Professional fees	-	-	-	82
General and administrative	-	-	-	282
Promotion and communication	-	-	-	14
Operating lease expense	-	-	-	93
Depreciation and amortization	-	-	-	148
Bad debt expense	-	-	-	565
Asset impairment	-	-	-	4,704
Other expense	-	(64)	-	60
Operating loss from discontinued operations	-	(107)	-	(6,468)
Interest expense	-	-	-	2
Net loss before income taxes	-	(107)	-	(6,470)
(Gain) loss on disposal of discontinued operations	-	(599)	-	1,310
Income tax expense	-	-	-	11
Income (loss) from discontinued operations	\$ -	\$ 492	\$ -	\$ (7,791)
Basic income (loss) per share from discontinued operations	\$ 0.00	\$ 0.09	\$ 0.00	\$ (1.09)
Diluted income (loss) per share from discontinued operations	\$ 0.00	\$ 0.08	\$ 0.00	\$ (1.09)

The following table summarizes the significant operating and investing items related to the Colombian subsidiaries for the nine months ended September 30, 2024 and 2023

Flora Growth Corp.

Notes to the unaudited condensed interim consolidated financial statements

For the three and nine months ended September 30, 2024 and 2023

(In thousands of United States dollars, except shares and per share amounts)

	For the nine months ended September 30, 2024	For the nine months ended September 30, 2023
Operating activities of discontinued operations		
Depreciation and amortization	\$ -	\$ 148
Bad debt expense	-	565
Asset impairment	-	4,704
Investing activities of discontinued operations		
Purchases of property, plant and equipment	\$ -	\$ 94

The subsidiaries sold included Cosechemos Ya S.A.S, which was part of the commercial and wholesale segment; Flora Lab S.A.S, Flora Med S.A.S. and Labcofarm Laboratories S.A.S, which were part of the pharmaceuticals segment; Flora Growth Corp Colombia S.A.S., Kasa Wholefoods Company S.A.S. and Flora Beauty LLC Sucursal Colombia which were part of the house of brands segment.

The Company applies significant judgement in determining whether a disposal meets the criteria to present as held for sale at the reporting date, and whether the disposal represents a strategic shift that has (or will have) a major effect on its operations and financial results in order to be classified as a discontinued operation. The criteria evaluated are both quantitative and qualitative in nature, to evaluate the significance of the disposal relative to the operations of the Company as a whole. The Company has determined this disposition represents a strategic shift in operations that will have a major effect on the Company's operations and financial results, and accordingly, has been presented as discontinued operations.

During the nine months ended September 30, 2023, the Company recorded a loss on disposal of \$1.3 million as the carrying value of the assets being sold exceeded the expected sale price. During the three months ended September 30, 2023, the Company recorded a gain on disposal of \$0.6 million because of the derecognition of equity components related to the Colombian entities for which the Company lost control.

4. TRADE AND AMOUNTS RECEIVABLE

The Company's trade and amounts receivable are recorded at amortized cost. The trade and other receivables balance as at September 30, 2024 and December 31, 2023 consists of trade accounts receivable, amounts recoverable from the Government of Canada for Harmonized Sales Taxes ("HST"), as well as Value Added Tax ("VAT") from various jurisdictions, and other receivables.

	September 30, 2024	December 31, 2023
Trade accounts receivable	\$ 3,034	\$ 2,299
Allowance for expected credit losses	(469)	(315)
HST/VAT receivable	998	1,840
Other receivables	359	126
Total	\$ 3,922	\$ 3,950

Changes in the trade accounts receivable allowance in the three and nine months ended September 30, 2024 relate to establishing an allowance for expected credit losses. There were \$0.1 million in write-offs of trade receivables during the three and nine months ended September 30, 2024 (September 30, 2023 - \$0.1 million and \$0.1 million, respectively). The Company has no amounts written-off that are still subject to collection enforcement activity as at September 30, 2024. The Company's aging of trade accounts receivable is as follows:

Flora Growth Corp.

Notes to the unaudited condensed interim consolidated financial statements

For the three and nine months ended September 30, 2024 and 2023

(In thousands of United States dollars, except shares and per share amounts)

	September 30, 2024	December 31, 2023
Current	\$ 697	\$ 218
1-30 Days	1,136	588
31-60 Days	425	577
61-90 Days	158	448
91-180 Days	614	401
180+ Days	4	67
Total trade receivables	<u>\$ 3,034</u>	<u>\$ 2,299</u>

5. INVENTORY

Inventory is comprised of the following:

	September 30, 2024	December 31, 2023
Raw materials and supplies	\$ 873	\$ 1,180
Finished goods	6,984	7,328
Total	<u>\$ 7,857</u>	<u>\$ 8,508</u>

During the nine months ended September 30, 2024, the Company recorded inventory impairment as a write-down to cost of sales in the amount of \$1.4 million (2023 - \$1.4 million). Approximately \$0.7 million of the write-down in the current period is related to inventory theft and recoveries of stolen inventory that is no longer saleable.

6. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consist of the following:

	September 30, 2024	December 31, 2023
Land	\$ -	\$ 298
Buildings	102	78
Machinery and office equipment	781	696
Vehicles	22	37
Total	905	1,109
Less: accumulated depreciation	(387)	(262)
Property, plant and equipment, net	<u>\$ 518</u>	<u>\$ 847</u>

Depreciation expense for the three and nine months ended September 30, 2024 was less than \$0.1 million and \$0.1 million, respectively (September 30, 2023 - less than \$0.1 million and \$0.2 million, respectively) and was recorded in depreciation and amortization in the unaudited condensed interim consolidated statements of loss and comprehensive loss.

See Note 9 for discussion of impairment of property, plant and equipment during the nine months ended September 30, 2024.

7. BUSINESS COMBINATIONS

TruHC Pharma GmbH ("TruHC") asset acquisition

On April 16, 2024, the Company entered into a Stock Purchase Agreement (the "Purchase Agreement") with TruHC Holding GmbH (the "Seller") pursuant to which the Company will acquire all of the issued and outstanding shares of TruHC in exchange for 2,770,562 common shares of the Company (the "Purchase Price"), valued at \$4.3 million.

The Purchase Price will be paid and satisfied by the Company in two closings. At the first closing on April 22, 2024, the Company issued 2,135,199 of its common shares, which was equal to 19.99% of the Company's issued and outstanding common shares prior to signing the Purchase Agreement, to Seller. On the second closing (the "Second Closing"), the Company will issue 635,363 of its common shares, valued at \$1.0 million, to Seller after receiving shareholder approval for such issuance in accordance with the rules of the Nasdaq Capital Market at its next special and annual general meeting of shareholders, which was held on August 14, 2024. The common shares issued at the first closing on April 22, 2024, valued at \$3.3 million, represent a 77% ownership in TruHC. The remaining 23% noncontrolling interest was valued at \$1.0 million, which represents the 635,363 common shares to be issued at the Second Closing multiplied by the \$1.56 share price at the first closing. As of September 30, 2024, the Company has not issued the 635,363 common shares associated with the Second Closing.

Flora Growth Corp.

Notes to the unaudited condensed interim consolidated financial statements

For the three and nine months ended September 30, 2024 and 2023

(In thousands of United States dollars, except shares and per share amounts)

TruHC is an early-stage cannabis company based in Hamburg, Germany, that holds wholesale, processing and production licenses for medical cannabis as well as a facility offering flexible production space with EU-GMP certified modules. The acquisition will allow the Company to leverage TruHC's German network and EU-GMP production facility and maximize the benefits of the recent cannabis legislation passed in Germany.

The purchase is accounted for as a business combination with amounts recognized as at the acquisition date for each major class of assets acquired and liabilities assumed are as follows:

(Thousands of United States dollars)

Current assets	
Cash	\$ 5
Trade and amounts receivable	27
Prepaid expenses and other current assets	22
Total current assets	54
Non-current assets	
Property, plant and equipment, net	109
Operating lease right of use assets	448
Intangible assets	3,193
Goodwill	2,050
Total assets	5,854
Current liabilities	
Trade and amounts payable	(48)
Current portion of operating lease liability	(51)
Other accrued liabilities	(6)
Total current liabilities	(105)
Non-current operating lease liability	(398)
Deferred tax	(1,029)
Total liabilities	(1,532)
Total net assets acquired	\$ 4,322

Since the acquisition date through September 30, 2024, TruHC reported revenue of \$nil and net loss and comprehensive loss of \$0.5 million.

The intangible assets of \$3.2 million are comprised of licenses with a 5-year useful life.

The goodwill is attributable to the assembled workforce of TruHC and the expected synergies between TruHC and Flora's existing operations. This includes:

- the ability to leverage TruHC's licenses to import, process and sell medicinal cannabis;
- the opportunity to process and produce medical cannabis for other third party customers in the German market; and
- the potential to obtain the requisite licenses to process and produce recreational cannabis for sale in the future should German regulations allow.

The Company does not expect the goodwill and intangible asset values to be deductible for Canadian tax purposes. The goodwill is assigned to the commercial and wholesale segment.

If TruHC was acquired at January 1, 2023, the combined revenue of TruHC and the Company would not have changed for the nine months ending September 30, 2024 and 2023. The combined net loss of TruHC and the Company would have increased by approximately \$0.7 million and \$0.2 million for the nine months ending September 30, 2024 and 2023, respectively (unaudited).

The Company incurred acquisition-related costs of \$0.2 million which were expensed as incurred in professional fees on the unaudited condensed interim consolidated statements of loss and comprehensive loss.

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Australian Vaporizers Pty LTD ("AV") business combination

On June 4, 2024, the Company acquired 100% of the issued and outstanding common shares of AV in exchange for 550,000 common shares of the Company, valued at \$0.6 million. AV was founded in 2010 and is an online retailer of vaporizers, hardware, and accessories in Australia. The acquisition provides the Company with a historically profitable business and allows the Company to drive synergies with its existing portfolio of brands.

The purchase is accounted for as a business combination with amounts recognized as at the acquisition date for each major class of assets acquired and liabilities assumed are as follows:

(Thousands of United States dollars)		
Current assets		
Cash	\$ 59	
Inventory	422	
Prepaid expenses and other current assets	21	
Total current assets	502	
Non-current assets		
Property, plant and equipment, net	49	
Operating lease right of use assets	123	
Intangible assets	180	
Goodwill	230	
Total assets	1,084	
Current liabilities		
Trade and amounts payables	(139)	
Current portion of operating lease liability	(33)	
Other accrued liabilities	(134)	
Total current liabilities	(306)	
Non-current operating lease liability		(95)
Deferred tax	(45)	
Total liabilities	(446)	
Total net assets acquired	\$ 638	

Since the acquisition date through September 30, 2024, AV reported revenue of \$0.4 million and net income and comprehensive loss of \$0.4 million.

The intangible assets of \$0.2 million are comprised of brands with an 8-year useful life.

The goodwill is attributable to the assembled workforce of AV and the significant synergies expected to arise after its acquisition. The Company does not expect the goodwill and intangible asset values to be deductible for Canadian income tax purposes. The goodwill is assigned to the house of brands segment.

If AV was acquired at January 1, 2023, the combined revenue of AV and the Company would have increased approximately \$2.0 million and \$3.7 million for the nine months ended September 30, 2024 and 2023, respectively (unaudited). The combined net loss of AV and the Company would have increased by approximately \$0.1 million for the nine months ended September 30, 2024, and decreased by \$0.4 million for the nine months ended September 30, 2023 (unaudited).

The Company incurred acquisition related costs of less than \$0.1 million which were expensed as incurred in professional fees on the unaudited condensed interim consolidated statements of loss and comprehensive loss.

8. INTANGIBLE ASSETS AND GOODWILL

A continuity of intangible assets for the nine months ended September 30, 2024 is as follows:

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	Licenses	Trademarks and Brands	Patents	Goodwill	Total
Cost					
At December 31, 2023	\$ -	\$ 1,892	\$ 1,098	\$ -	\$ 2,990
Acquired through business combinations	3,193	180	-	2,280	5,653
Impairment	-	(177)	(70)	(238)	(485)
At September 30, 2024	\$ 3,193	\$ 1,895	\$ 1,028	\$ 2,042	\$ 8,158
Accumulated Amortization					
At December 31, 2023	\$ -	\$ 1,132	\$ 912	\$ -	\$ 2,044
Additions	326	101	18	-	445
At September 30, 2024	\$ 326	\$ 1,233	\$ 930	\$ -	\$ 2,489
Foreign currency translation	146	4	1	108	259
Net book value at September 30, 2024	\$ 3,013	\$ 666	\$ 99	\$ 2,150	\$ 5,928

Amortization expense for the three and nine months ended September 30, 2024 was \$0.2 million and \$0.4 million, respectively (September 30, 2023 - \$0.3 million and \$1.9 million, respectively) and was recorded in depreciation and amortization in the unaudited condensed interim consolidated statements of loss and comprehensive loss.

The Company's intangible assets acquired through business combinations consist of assets acquired as part of the April 2024 purchase of TruHC and the June 2024 purchase of AV (Note 7). Information regarding the TruHC intangible assets within the indicated categories of the table above is as follows as at September 30, 2024:

- Licenses: carrying amount \$3.0 million with a remaining amortization period of 54 months

Information regarding the AV intangible assets within the indicated categories of the table above is as follows as at September 30, 2024:

- Trademark and brands: carrying amount \$nil million after full impairment of \$0.2 million recorded during the period ending September 30, 2024

At September 30, 2024, the weighted average amortization period remaining for intangible assets was 4.7 years.

At September 30, 2024, the estimated future amortization expense related to intangible assets is as follows:

2024	\$ 203
2025	811
2026	811
2027	811
2028	811
Thereafter	331
Total	\$ 3,778

The Company's goodwill is assigned to the following reporting units:

	TruHC	AV	Total
Net book value as at December 31, 2023	\$ -	\$ -	\$ -
Acquired through business combinations	2,050	230	2,280
Impairment	-	(238)	(238)
Foreign currency translation	100	8	108
Net book value as at September 30, 2024	\$ 2,150	\$ -	\$ 2,150

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9. ASSET IMPAIRMENT

Goodwill

The Company tests its goodwill for impairment as part of its annual fourth quarter impairment test, and at interim periods when impairment indicators exist. The Company's goodwill is assigned to the reporting units associated with the original acquisition of those operations. At September 30, 2024, the Company determined that there were no indicators present for its TruHC reporting unit.

At September 30, 2024, the Company's AV reporting unit had external indicators of impairment due to new limitations by the Australian government that limits the sales of vaporizers containing nicotine to only pharmacies, which will likely negatively impact AV's direct-to-consumer online sales. As such, the Company tested the AV reporting unit for impairment as at September 30, 2024 and determined that the carrying value of the AV reporting unit's assets exceeded the recoverable amount, resulting in goodwill impairment of \$0.2 million recorded in the nine months ended September 30, 2024. The impairment is recorded in the goodwill impairment caption on the consolidated statements of loss and comprehensive loss. The reporting unit's fair value was determined based on an income approach discounted cash flow model of \$nil. The income approach used a discount rate of 16%, operating margins from -31% to -41%, working capital requirements of 3% revenue, and a terminal period growth rate of 2.5%. Revenue is expected to decrease 46% in 2024, decrease another 30% in 2025, then increase at 2.5% in 2026 and thereafter.

Long-lived assets

As discussed in Note 15, on May 7, 2024, Just Brands agreed to a settlement and general release, whereby Just Brands will remove the products subject to the stop sales orders from the state of Florida and accept a five-year revocation of its food permit in the state of Florida. As a result of this settlement, the Company began negotiations to exit its current warehouse lease in Pompano Beach, FL, and searching for a new warehousing facility in a different state. The Company considered this to be an indicator of impairment and, thus, performed a quantitative analysis as of March 31, 2024 to determine if impairment existed by comparing the carrying amount of the operating lease right of use asset and related leasehold improvements to the future undiscounted cash flows the asset is expected to generate over its remaining life. This analysis indicated the asset values may not be recoverable. The Company then calculated the fair value of this asset using an income approach. As a result, the Company recorded an impairment of operating lease right of use assets and property, plant and equipment within its Vessel asset group within the house of brands segment totaling \$0.9 million. These charges were recorded in the asset impairment caption on the unaudited condensed interim consolidated statements of loss and comprehensive loss during the three months ended March 31, 2024. There were no further indicators of impairment for these assets for the period ending September 30, 2024.

Likewise, a facility lease housing the High Roller operations expired on June 30, 2024, and the Company has completed the move of these operations to the new warehouse in Pompano Beach, FL. The Company determined that much of the machinery and office equipment at the old facility would not be used at the new facility. As such, the Company will look to sell these assets. The Company was able to estimate the selling price of each asset as well as any potential cost of sales, which was then compared to the current book value of the assets. The difference of \$0.1 million was recorded within its JustCBD asset group within the house of brands segment. These charges were recorded in the asset impairment caption on the unaudited condensed interim consolidated statements of loss and comprehensive loss during the three months ended June 30, 2024. There were no further indicators of impairment for these assets for the period ending September 30, 2024.

The Company determined that the reduced sales forecast of Vessel was an indicator of impairment as of June 30, 2024 and again at September 30, 2024. The Company performed a quantitative analysis to determine if impairment existed by comparing the carrying amount of each asset to the future undiscounted cash flows the asset is expected to generate over their remaining lives. This analysis indicated that the carrying amount of certain asset values may not be recoverable. The Company then calculated the fair value of these assets using an income approach, updating certain key variables, including estimated 2024 and 2025 sales, royalty savings rates, customer decay rates and discount rates. As a result, the Company recorded impairments of patents and tradenames within its Vessel asset group within the house of brands segment totaling \$0.1 million and \$nil million for the three months ended June 30, 2024 and September 30, 2024, respectively. These charges were recorded in the asset impairment caption on the unaudited condensed interim consolidated statements of loss and comprehensive loss.

The Company determined that the reduced sales forecast of JustCBD was an indicator of impairment as at September 30, 2024. The Company performed a quantitative analysis to determine if impairment existed by comparing the carrying amount of each asset to the future undiscounted cash flows the asset is expected to generate over their remaining lives. This analysis indicated that the carrying amount of certain asset values may not be recoverable. The Company then calculated the fair value of these assets using an income approach, updating certain key variables, including estimated 2024 and 2025 sales, royalty savings rates and discount rates. The resulting calculation concluded that the carrying amount of the JustCBD assets were recoverable, and, thus, no impairment was recorded for the period ending September 30, 2024.

The Company determined that the new limitations by the Australian government that limits the sales of vaporizers containing nicotine to only pharmacies was an indicator of impairment as at September 30, 2024. The Company performed a quantitative analysis to determine if impairment existed by comparing the carrying amount of each asset to the future undiscounted cash flows the asset is expected to generate over their remaining lives. This analysis indicated that the carrying amount of certain asset values may not be recoverable. The Company then calculated the fair value of these assets using an income approach, updating certain key variables, including estimated 2024 and 2025 sales, royalty savings rates and discount rates. As a result, the Company recorded impairments of brands within its AV asset group within the house of brands segment totaling \$0.2 million. These charges were recorded in the asset impairment caption on the unaudited condensed interim consolidated statements of loss and comprehensive loss.

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10. DEBT

Euro credit facility

The Company, through FGH, has credit facilities totaling 4.1 million Euro (\$4.6 million USD), at three different banks in Germany. These arrangements are open ended without predetermined maturity dates. Principal and interest payments are due at the end of each term. Interest rates can change with each new amount drawn. As of September 30, 2024, the total outstanding amount on these credit facilities was 2.0 million Euro (\$2.2 million USD) with interest rates ranging from 4.95% to 5.59% and due within the next twelve months. These credit facilities were secured by various guarantees, including payment guarantees upon default.

11. LEASES

The Company's leases primarily consist of administrative real estate leases in Germany, the United States and Australia. Management has determined all the Company's leases are operating leases through September 30, 2024. Information regarding the Company's leases is as follows:

	Three months ended September 30, 2024	Three months ended September 30, 2023	Nine months ended September, 2024	Nine months ended September 30, 2023
Components of lease expense				
Operating lease expense	\$ 178	\$ 286	\$ 542	\$ 910
Short-term lease expense	25	109	205	244
Sublease income	(92)	(17)	(270)	(17)
Total lease expense	\$ 111	\$ 378	\$ 477	\$ 1,137
Other Information				
Operating cash flows from operating leases	\$ 282	\$ 330	\$ 1,030	\$ 1,050
ROU assets obtained in exchange for new operating lease liabilities	29	103	2,172	200
Weighted-average remaining lease term in years for operating leases			3.8	2.7
Weighted-average discount rate for operating leases			10.8%	7.9%

Maturities of operating lease liabilities as of September 30, 2024 are as follows:

Thousands of United States dollars	Operating Leases
2024	\$ 286
2025	1,054
2026	969
2027	756
2028	470
Thereafter	205
Total future lease payments	3,740
Less: imputed interest	(675)
Total lease liabilities	3,065
Less: current lease liabilities	(832)
Total non-current lease liabilities	<u>\$ 2,233</u>

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Some of the Company's leases contain renewal options to continue the leases for another term equivalent to the original term, which are generally up to five years. The lease liabilities above include renewal terms that management has executed or is reasonably certain of renewing, which only included leases that would have expired in 2024 or 2025.

In April 2024, the Company began leasing 4,184 sq. ft. of office space in Fort Lauderdale, FL, for \$8,000 a month, pursuant to a lease agreement that expires in March 2028.

As part of the acquisition of TruHC in April 2024, the Company acquired a lease for warehouse and office space in Hamburg, Germany, for \$9,000 a month, pursuant to a lease agreement that expires in April 2025. The lease contains options to extend the lease in 5-year increments. The Company is reasonably certain of renewing this lease for another 5 years.

As part of the acquisition of AV in June 2024, the Company acquired a lease for warehouse and office space in Brisbane, Australia, for \$5,000 a month, pursuant to a lease agreement that expires in April 2027. The lease contains options to extend the lease in 5-year increments. The Company is not reasonably certain of renewing this lease.

The Company began subleasing retail space in Miami, Florida to a third party during the third quarter of 2023. The sublease agreement is effective through November 30, 2026 and contains one option to renew for five more years. The Company began subleasing warehousing and office space in Carlsbad, CA to a third party during the fourth quarter of 2023. The sublease is effective through August 31, 2027 and does not contain renewal options.

See Note 9 for discussion of impairment of operating lease right of use assets during the nine months ended September 30, 2024.

12. SHARE CAPITAL

Authorized and issued

The Company is authorized to issue an unlimited number of common shares, no par value. On June 9, 2023, the Company consolidated its issued and outstanding common shares based on one new common share of the Company for every twenty existing common shares of the Company. All common shares and per share amounts have been restated to give retroactive effect to the share consolidation.

The Company had the following significant common share transactions:

Nine months ended September 30, 2024

JUNE 2024 PAYMENT TO AV OWNERS

As discussed in Note 7, the Company issued 550,000 of its common shares valued at \$0.6 million to the prior owners of AV as part of the Company's acquisition of 100% of the issued and outstanding common shares of AV on June 4, 2024.

APRIL 2024 PAYMENT TO TRUHC OWNERS

As discussed in Note 7, the Company issued 2,135,199 of its common shares valued at \$3.3 million to the prior owners of TruHC as part of the first closing of the Company's acquisition of TruHC on April 22, 2024. The first closing made up 77% of the total agreed upon share price of 2,770,562 common shares of the Company. The remaining 635,363 common shares of the Company are to be issued at the Second Closing, which was approved by Flora shareholders on August 14, 2024 in accordance with the rules of the Nasdaq Capital Market. As of September 30, 2024, the Company has not issued the 635,363 common shares associated with the Second Closing.

APRIL 2024 EQUITY OFFERING

On April 8, 2024, the Company closed an offering of 1,700,000 of the Company's common shares at a public offering price of \$1.90 per Common Share for gross proceeds of \$3.2 million. The Company paid \$0.4 million in issuance costs relating to the April 2024 equity offering.

The offering of the securities described above was made pursuant to the Company's effective shelf registration statement on Form S-3 (Registration No. 333-274204), filed with the SEC on August 25, 2023 and amended on August 30, 2023, which was declared effective, on September 6, 2023, and the base prospectus included therein, as supplemented by the preliminary prospectus supplement filed with the SEC on April 4, 2024 and the final prospectus supplement filed with the SEC on April 5, 2024.

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As part of the offering on April 8, 2024, YT Research Inc., a company in which the Company's CEO, Clifford Starke, is the sole director and equity owner, purchased 526,315 common shares at the public offering price of \$1.90 per Common Share, for a total of \$1.0 million.

AT THE MARKET ("ATM") OFFERING

On April 26, 2024, the Company entered into an ATM Issuances Sales Agreement (the "Sales Agreement") with Aegis Capital Corp. (the "Agent") pursuant to which the Company may sell from time to time, at its option, common shares through the Agent in its capacity as sales agent. The sale of common shares, if any, will be made under the Company's registration statement filed on Form S-3 (File No. 333-274204) (the "Registration Statement"), by any method that is deemed to be an "at the market offering" as defined in Rule 415(a)(4) under the Securities Act.

Subject to the terms and conditions of the Sales Agreement, the Agent will use its commercially reasonable efforts, consistent with its normal trading and sales practices and applicable state and federal laws, rules and regulations and the rules of the Nasdaq Capital Market to sell on the Company's behalf all of the common shares requested to be sold by the Company. The Agent will offer the common shares, subject to the terms and conditions of the Sales Agreement, on a daily basis or as otherwise agreed upon by the Company and the Agent. The Company will designate the maximum amount of common shares to be sold through the Agent on a daily basis or otherwise determine such maximum amount, together with the Agent. The Company may instruct the Agent not to sell common shares if the sales cannot be effected at or above the price designated by the Company in any such instruction. The Company or the Agent may suspend the offering of common shares being made through the Agent under the Sales Agreement upon proper notice to the other parties.

The aggregate compensation payable to the Agent, on behalf of the Agent, shall be up to 3.0% of the aggregate gross proceeds from each sale of the common shares sold through the Agent pursuant to the Sales Agreement. In addition, the Company has agreed in the Sales Agreement to provide indemnification and contribution to the Agent against certain liabilities, including liabilities under the Securities Act.

The Company is not obligated to make any sales of common shares under the Sales Agreement. The offering of common shares pursuant to the Sales Agreement will terminate upon the termination of the Sales Agreement by the Company or by the Agent, only with respect to itself, under the circumstances specified in the Sales Agreement. The Company has yet to sell any of its common shares under the Sales Agreement.

OTHER ISSUANCES

On March 8, 2024, the Company entered into a settlement agreement with a third party pursuant to which the Company issued 50,000 common shares of the Company, valued at \$0.1 million, to a third party to settle outstanding amounts owed.

13. SHARE BASED COMPENSATION

The Company's 2022 Incentive Compensation Plan (the "2022 Plan") and its previous "rolling" stock option plan (the "Prior Plan") are described in the Company's 2023 Form 10-K. The 2022 Plan was amended to increase the number of shares issuable thereunder from 950,000 to 2,500,000 shares at the Company's annual shareholder meeting on August 14, 2024.

OPTIONS

Stock options granted under the Prior Plan are non-transferable and non-assignable and may be granted for a term not exceeding five years. Under the 2022 Plan, stock options may be granted with a term of up to ten years and in the case of all stock options, the exercise price may not be less than 100% of the fair market value of a Common Share on the date the award is granted. Stock option vesting terms are subject to the discretion of the Compensation Committee of the Company's Board of Directors. Common shares are newly issued from available authorized shares upon exercise of awards. The Company no longer makes new grants of stock options under the Prior Plan.

Information relating to share options outstanding and exercisable as at September 30, 2024 and December 31, 2023 is as follows:

	Options Outstanding			
	Number of options (in thousands)	Weighted average exercise price	Weighted average remaining life (years)	Aggregate intrinsic value
Outstanding balance, December 31, 2023	49	\$ 27.04	2.8	\$ -
Forfeited	(28)	18.74	0.7	-
Outstanding balance, September 30, 2024	21	\$ 38.18	4.2	\$ -
Exercisable balance, September 30, 2024	21	\$ 38.18	4.2	\$ -

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The total expense related to the options granted in the three and nine months ended September 30, 2024 was \$nil and less than \$0.1 million, respectively (2023 total benefit - less than \$0.1 million and \$0.1 million, respectively). This expense (benefit) is included in the share based compensation line on the unaudited condensed interim consolidated statements of loss and comprehensive loss. Generally, the options granted in 2023 vest one to two years following the date of grant provided that the recipient is still employed or engaged by the Company.

At September 30, 2024 the total remaining stock option cost for nonvested awards is \$nil.

RESTRICTED STOCK AWARDS

Restricted stock is a grant of common shares which may not be sold or disposed of, and which is subject to such risks of forfeiture and other restrictions as the Committee, in its discretion, may impose. A participant granted restricted stock generally has all of the rights of a shareholder of the Company, unless otherwise determined by the Committee. Subject to certain exceptions, the vesting of restricted stock awards is subject to the holder's continued employment or engagement through the applicable vesting date. Unvested restricted stock awards will be forfeited if the holder's employment or engagement ceases during the vesting period and may, in certain circumstances, be accelerated. The Company values restricted stock awards based on the closing share price of the Company's common shares as of the date of grant. The fair value of the restricted stock award is recorded as an expense over the vesting period.

Information relating to restricted stock awards outstanding as at September 30, 2024 and December 31, 2023:

	Number of restricted stock awards	Weighted average grant date fair value
	Thousands	
Balance, December 31, 2023	391	\$ 1.41
Vested	(374)	(1.15)
Cancelled	(4)	(6.90)
Balance, September 30, 2024	13	\$ 7.41

The total expense related to the restricted stock awards in the three and nine months ended September 30, 2024 was less than \$0.1 million and less than \$0.1 million, respectively (2023 - less than \$0.1 million and \$0.6 million, respectively). This expense is included in the share based compensation line on the unaudited condensed interim consolidated statements of loss and comprehensive loss.

The outstanding restricted stock awards vest over the next two years provided the award holder is still employed or engaged by the Company. As of September 30, 2024, the Company had less than \$0.1 million of unrecognized compensation expense related to restricted stock awards which will be recognized over the next two years.

STOCK APPRECIATION RIGHTS ("SARs")

SARs grant a right to receive, upon exercise thereof, the excess of (A) the fair market value of one common share on the date of exercise over (B) the grant price of the SAR. The grant price of a SAR shall not be less than 100% of the fair market value of a common share on the date of the grant. During the period ending September 30, 2024, the Company granted SARs to its Chief Executive Officer and Chief Financial Officer, which was approved by a majority of the Company's shareholders at the Company's annual meeting held on August 14, 2024.

The fair value of the SARs at August 14, 2024 was determined using a Monte Carlo simulation incorporating Brownian motion with 100,000 trials through a binomial model. The significant inputs to the valuation include an 11-year term to maturity, the Company's closing share price at August 14, 2024 (\$0.91), estimated Company common share volatility (110%), and risk-free rate of 3.8% to discount the ending result to present value. The valuation also includes a derived service period, which is the median time to vest, as calculated by the model. This derived service period inherently contains some degree of estimation uncertainty.

Information relating to SARs outstanding at September 30, 2024 and December 31, 2023 is as follows:

	SARs Outstanding			
	Number of SARs (in thousands)	Weighted average exercise price	Weighted average remaining life (years)	Aggregate intrinsic value
Outstanding balance, December 31, 2023	-			
Granted	2,139			
Outstanding balance, September 30, 2024	2,139	\$ 1.10	10.87	\$ 223
Exercisable balance, September 30, 2024	329	\$ 1.15	10.87	\$ 223

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The total expense related to SARs granted in both the three and nine months ended September 30, 2024 was \$0.4 million. The total expense related to SARs granted in both the three and nine months ended September 30, 2023 was \$nil. This expense is included in the share based compensation line on the unaudited condensed interim consolidated statements of loss and comprehensive loss. The SARs granted in 2024 will vest in tranches based on the derived service period, ranging from zero to three years, provided that the recipient is still employed or engaged by the Company.

14. WARRANTS

The following summarizes the number of warrants outstanding as of September 30, 2024:

	Number of warrants Thousands	Weighted average exercise price
Balance, December 31, 2023	2,384	\$ 9.90
Balance, September 30, 2024	2,384	\$ 9.90

Date of expiry	Warrants outstanding Thousands	Exercise price	Grant date fair value	Remaining life in years
November 18, 2026	221	\$ 75.00	\$ 6,729	2.13
November 18, 2027	23	66.00	1,055	3.13
December 8, 2027	25	8.80	149	3.19
September 21, 2028	691	2.50	712	3.98
September 21, 2028	55	2.39	81	3.98
March 21, 2029	1,369	2.50	1,120	4.47
	2,384	\$ 9.90	\$ 9,846	4.08

15. COMMITMENTS AND CONTINGENCIES

Provisions

The Company's current known provisions and contingent liabilities consist of the following as of September 30, 2024:

	Legal disputes	Sales tax	Total
Balance as at December 31, 2023	\$ 2,962	\$ 2,538	\$ 5,500
Payments/settlements	(7)	(380)	(387)
Additional provisions	1,183	451	1,634
Foreign currency translation	96	-	96
Balance as at September 30, 2024	\$ 4,234	\$ 2,609	\$ 6,843

The legal disputes balance as of September 30, 2024, relate to the settlement of a contractual dispute involving the Company. It involves a former shareholder of ACA Mueller, an entity that was part of the Company's acquisition of FGH in December 2022, who filed a statement of claim against a wholly owned subsidiary of the Company in the Constance Regional Court in Germany. In March 2024, the Constance Regional Court in Germany ordered the Company to pay the plaintiff \$3.0 million plus interest thereon at a rate of 5% above the prime rate since September 6, 2020 in addition to 83% of the legal fees. The Company has since filed an appeal. While the Company believes that this claim is without merit, at this time the Company believes it is probable that a liability has been incurred and the Company is able to reasonably estimate the loss of \$4.2 million, including \$1.2 million of interest accrued in the nine months ended September 30, 2024. As a result, without acknowledgement (explicitly or implicitly) of any amount of liability arising from this claim, the Company recognized a provision of \$4.2 million to reflect the value of the claim. This dispute is covered under an indemnification agreement between the Company and the former Chief Executive Officer and shareholder of FGH. The Company intends to vigorously defend itself through appropriate legal proceedings. The \$4.2 million is recorded within contingencies and within indemnification receivables on the unaudited condensed consolidated statements of financial position.

The settlement of legal disputes in 2024 related to the settlement of an action brought against the Company in the Ontario Superior Court of Justice by Gerardo Andres Garcia Mendez claiming that the Company was obligated to issue 3,000,000 common shares (pre-splits) to him for a purchase price of \$0.05 per share as a result of alleged consulting services he performed in 2019. In December 2023, the Company entered into a settlement agreement with Mr. Garcia Mendez pursuant to which the Company will pay less than \$0.1 million to Mr. Garcia Mendez to settle the dispute. The payment was made in January 2024. The amount was recorded within contingencies on the consolidated statements of financial position and expense on the consolidated statements of loss and comprehensive loss for the year ended December 31, 2023.

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On April 30, 2024, a group representing the sellers of Just Brands LLC to Flora in February 2022 brought an action against the Company in the United States District Court for the Southern District of New York claiming that the Company failed to promptly issue additional shares in accordance with a specific formula set forth in the securities purchase agreement after the two-year anniversary of the closing, which occurred on February 24, 2024. The plaintiffs claim that they are entitled to 182,889 common shares and \$38.0 million to complete the acquisition of Just Brands LLC. The Company has assessed the claims and concluded that it is probable that a liability has been incurred and that the Company is able to reasonably estimate the loss based on the fair value of 632,484 common shares of the Company. As at September 30, 2024, this value is \$1.0 million and has been recorded in the contingent purchase considerations on the unaudited condensed interim consolidated statement of financial position.

The Sales tax relates to estimated amounts owed to certain jurisdictions in the United States for sales from the Company's JustCBD operations. The ending balance is recorded within contingencies on the unaudited condensed interim consolidated statement of financial position, and additions to the provision as a reduction of revenue on the unaudited condensed interim consolidated statements of loss and comprehensive loss.

Legal proceedings

The Company records liabilities for legal proceedings in those instances where it can reasonably estimate the amount of the loss and where liability is probable. The Company is engaged from time-to-time in various legal proceedings and claims that have arisen in the ordinary course of business. The outcome of all the proceedings and claims against the Company is subject to future resolution, including the uncertainties of litigation. Based on information currently known to the Company and after consultation with outside legal counsel, management believes that the probable ultimate resolution of any such proceedings and claims, individually or in the aggregate, will not have a material adverse effect on the financial condition of the Company, taken as a whole as at September 30, 2024.

On November 1, 2023, Just Brands filed an Emergency Complaint for Declaratory Judgment and Injunctive Relief in the Southern District of Florida against the Florida Department of Agriculture and Consumer Services (the "Department") stemming from stop sale orders issued by the Department whereby the Department prohibited Just Brands from selling and moving most of its products. Relying on Florida Statute Section 581.217, which includes the definition of "attractive to children," the Department determined Just Brand's product could not be sold or moved because the products were manufactured in the shape of humans, cartoons, or animals; in a form that bears a reasonable resemblance to an existing candy product; and containing color additives. The Court ruled in favor of the Department and that Order was being appealed to the Eleventh Circuit Court of Appeals. Since then, the Department has initiated an Administrative Action claiming Just Brands moved product outside the State of Florida in violation of the stop sale orders. The statute provides for a penalty of up to \$5,000 per violation. The Department sought to assess penalties on what they claimed to be a total of 215,154 violations (one for each package). The Company disputed the Department's claim and vigorously defended against this action. The total value of inventory impacted by the stop sale orders was \$1.9 million. On May 7, 2024, Just Brands and the Department agreed to a settlement and general release, whereby Just Brands will remove the products subject to the stop sales orders from the state of Florida, pay the Department \$60,500 to reimburse the Department's attorney's fees, and accept a five-year revocation of its food permit in the state of Florida. By signing the release, Just Brands waived, settled and released all claims it had or might have against the Department. Similarly, on June 27, 2024, Just Brands and the Department agreed to a settlement and general release, whereby High Roller will remove the products subject to the Stop Sales Orders from the state of Florida, destroy products containing controlled substances, pay the Department \$5,000 to reimburse the Department's attorney's fees, and accept a two-year suspension of the manufacture, distribution and sale of gummy hemp extract products in the state of Florida. By signing the release, High Roller waived, settled and released all claims it had or might have against the Department.

On May 31, 2023, Maria Beatriz Fernandez Otero and Sara Cristina Jacome De Torres brought an action against the Company in the Ontario Superior Court of Justice claiming that the Company is obligated to issue 500,000 common shares (pre-splits) each for a purchase price of \$0.05 per share. The plaintiffs claim that they are entitled to such shares as compensation for alleged consulting services performed. The Company disputes their claim and intends to vigorously defend against this action. The Company believes that an unfavorable settlement in this matter is remote, and, as such, has not accrued a liability as of September 30, 2024.

On May 31, 2023, Ramon Ricardo Castellanos Saenz and Miriam Ortiz brought an action against the Company in the Ontario Superior Court of Justice claiming that the Company is obligated to issue 1,500,000 common shares (pre-splits) each for a purchase price of \$0.05 per share. The plaintiffs claim that they are entitled to such shares as compensation for alleged consulting services performed. The Company disputes their claim and intends to vigorously defend against this action. The Company believes that an unfavorable settlement in this matter is remote, and, as such, has not accrued a liability as of September 30, 2024.

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In connection with the Company's acquisition of FGH, the Company's current CEO and the former Chief Executive Officer of FGH, together with certain affiliated entities under his control, entered into an agreement pursuant to which they agreed to indemnify the Company for certain potential liabilities of FGH and its subsidiaries, up to a maximum of \$5.0 million. In addition to the matter regarding the former shareholder of ACA Mueller, discussed above, the following actions are pending as of the date hereof:

On February 3, 2023, an action was brought in the Ontario Superior Court of Justice by Nathan Shantz and Liberacion e Inversiones S.A. against various parties including Clifford Starke, the Company's current CEO and FGH's former Chief Executive Officer, and FGH. The statement of claim alleges that, prior to the closing of the Arrangement, 8,831,109 FGH shares purportedly owned by the plaintiffs were wrongfully transferred to third parties, in part through alleged unauthorized steps taken by Mr. Starke. Plaintiffs seek, among other things, a declaration that they are the rightful owners of the shares or, in the alternative, damages. Against FGH, they claim a declaration that, by virtue of the alleged unauthorized transfer of shares, FGH acted oppressively and seek damages in the amount of \$4.0 million. The defendants have brought motions to stay the proceedings on the grounds that the Ontario court lacks jurisdiction over the claim. In the event FGH should incur any losses in connection with this matter, such losses are to be indemnified by Mr. Starke subject to the maximum threshold of the indemnity agreement. The Company believes that an unfavorable settlement in this matter is remote, and, as such, has not accrued a liability as of September 30, 2024.

The total amount claimed against the former entities of FGH currently exceeds the maximum \$5.0 million of the indemnification agreement. However, the Company is estimating the likelihood of loss in these cases will not exceed \$4.2 million.

16. LOSS PER SHARE

The Company calculates basic earnings per share based upon the weighted average number of common shares outstanding during the period, while the calculation of diluted earnings per share includes the dilutive effect of potential common shares outstanding during the period. The calculation of diluted earnings per share excludes all potential common shares if their inclusion would have an anti-dilutive effect. Restricted stock award recipients under the 2022 Plan have a non-forfeitable right to receive dividends declared by the Company and are therefore included in computing earnings per share.

	Three months ended September 30, 2024	Three months ended September 30, 2023	Nine months ended September 30, 2024	Nine months ended September 30, 2023
Stock options	21	107	21	107
Warrants	2,384	2,384	2,384	2,384
Restricted stock awards	13	-	13	40
Stock appreciation rights, exercisable	329	-	329	-
JustCBD potential additional shares to settle contingent consideration	632	-	632	657
Total	3,379	2,491	3,379	3,188

17. FINANCIAL INSTRUMENTS

Fair value

The Company's financial instruments measured at amortized cost as at September 30, 2024 and December 31, 2023 consist of cash, trade and amounts receivable, loans receivable, trade payables, contingencies, accrued liabilities, lease liabilities, and debt and loans payable. The amounts reflected in the unaudited condensed interim consolidated statements of financial position approximate fair value due to the short-term maturity of these instruments.

Financial instruments recorded at the reporting date at fair value are classified into one of three levels based upon the fair value hierarchy. Items are categorized based on inputs used to derive fair value based on:

Level 1 - quoted prices that are unadjusted in active markets for identical assets or liabilities

Level 2 - inputs other than quoted prices included in level 1 that are observable for the asset/liability either directly or indirectly; and

Level 3 - inputs for the instruments are not based on any observable market data.

The Company's contingent purchase considerations consist of the estimated fair value of contingent purchase consideration from the acquisitions of JustCBD in February 2022 and Original Hemp in March 2023. The amount for JustCBD is measured at FVPL as a Level 2 fair value financial instrument within the fair value hierarchy as at September 30, 2024. The fair value was determined using a simplified calculation which took the expected shares to be issued (632,484) multiplied by the Company's closing share price at September 30, 2024 (\$1.53). The amount for Original Hemp is measured at FVPL as a Level 3 fair value financial instrument within the fair value hierarchy as at September 30, 2024. The fair value was determined using discounted cash flow models utilizing two different rates, high (25.0%) and low (19.4%), to estimate the present value of the future cash outflows. As valuations of investments for which market quotations are not readily available are inherently uncertain, may fluctuate within short periods of time and are based on estimates, determination of fair value may differ materially from the values that would have resulted if a ready market existed for the investments. Such changes may have a significant impact on the Company's financial condition or operating results.

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The following tables present information about the Company's financial instruments and their classifications as at September 30, 2024 and December 31, 2023 and indicate the fair value hierarchy of the valuation inputs utilized to determine such fair value.

Fair value measurements at September 30, 2024 using:

	Level 1	Level 2	Level 3	Total
Financial liabilities:				
Contingent purchase consideration from asset acquisitions and business combinations	\$ -	\$ 968	\$ 184	\$ 1,152

Fair value measurements at December 31, 2023 using:

	Level 1	Level 2	Level 3	Total
Financial liabilities:				
Contingent purchase consideration from asset acquisitions and business combinations	\$ -	\$ 854	\$ 241	\$ 1,095

The \$0.1 million change in the Level 3 contingent purchase consideration from the Original Hemp acquisition was recorded as a loss in the unrealized loss (gain) from changes in fair value on the unaudited condensed interim consolidated statements of loss and comprehensive loss.

18. SEGMENTED INFORMATION

The Company reports its financial results for the following two operating segments, which are also its reportable segments: commercial and wholesale (primarily FGH subsidiaries), which sells pharmaceutical products, and house of brands (primarily JustCBD and Vessel subsidiaries), which sells a mix of products across multiple categories including food and beverage, cannabis accessories and technology, personal care and wellness. TruHC, acquired in April 2024, is included in commercial and wholesale, while, AV, acquired in June 2024, is included in house of brands. These segments reflect how the Company's operations are managed, how the Company Chief Executive Officer, who is the chief operating decision maker, allocates resources and evaluates performance, and how the Company's internal management financial reporting is structured.

For the year ended December 31, 2023, the Company had three operating segments, which were also its reportable segments: commercial and wholesale, house of brands and pharmaceuticals (formerly the Grupo Farmaceutico Cronomed and Breeze Laboratory subsidiaries in Colombia). Due to the sale of the Colombian subsidiaries during 2023 and the resulting reclassification into discontinued operations, the Company no longer reports a pharmaceuticals segment.

The Company's operates its manufacturing and distribution business within its subsidiaries in the United States, Germany and Australia. Management has defined the reportable segments of the Company based on this internal business unit reporting, which is by major product line, and aggregates similar businesses into the house of brands segment below. The Corporate segment reflects balances and expenses that do not directly influence business unit operations and includes the Company's long-term investments.

Information regarding the Company's segments is summarized as follows:

	For the three months ended September 30, 2024	For the three months ended September 30, 2023	For the nine months ended September 30, 2024	For the nine months ended September 30, 2023
Net Sales				
Commercial & Wholesale	\$ 7,238	\$ 9,046	\$ 28,219	\$ 27,801
House of Brands	5,880	9,420	21,025	36,185
Eliminations	(653)	(1,149)	(3,065)	(5,890)
	\$ 12,465	\$ 17,317	\$ 46,179	\$ 58,096
Net (Loss) Income from Continuing Operations				
Commercial & Wholesale	\$ (481)	\$ (316)	\$ (816)	\$ (7,053)
House of Brands	(1,245)	1,232	(3,828)	(27,886)
Corp & Eliminations	(2,074)	(286)	(5,187)	(4,609)
	\$ (3,800)	\$ 630	\$ (9,831)	\$ (39,548)

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As at	September 30, 2024	December 31, 2023
Assets		
Commercial & Wholesale	\$ 17,599	\$ 9,096
House of Brands	9,219	11,608
Corp & Eliminations	2,466	2,922
	<u>\$ 29,284</u>	<u>\$ 23,626</u>

Disaggregation of net sales by geographic area:

	For the three months ended September 30, 2024	For the three months ended September 30, 2023	For the nine months ended September 30, 2024	For the nine months ended September 30, 2023
Net Sales				
United States	\$ 4,841	\$ 7,913	\$ 16,964	\$ 29,264
Germany	7,238	9,046	28,219	27,801
United Kingdom	197	358	567	1,031
Australia	189	-	429	-
	<u>\$ 12,465</u>	<u>\$ 17,317</u>	<u>\$ 46,179</u>	<u>\$ 58,096</u>