Cansortium Inc.

Consolidated Financial Statements

For the years ended
December 31, 2020 and 2019

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

To the Shareholders of Cansortium Inc.:

The accompanying consolidated financial statements in this annual report were prepared by management of Cansortium Inc. (the "Company") and were reviewed and approved by the Board of Directors of Cansortium Inc.

Management is responsible for the consolidated financial statements and believes that they fairly present the Company's consolidated financial condition and results of operations in conformity with International Financial Reporting Standards. Management has included in the Company's consolidated financial statements amounts based on estimates and judgments that it believes are reasonable, under the circumstances.

To discharge its responsibilities for financial reporting and safeguarding of assets, management believes that it has established appropriate systems of internal accounting control which provide reasonable assurance that the financial records are reliable and form a proper basis for the timely and accurate preparation of consolidated financial statements. Consistent with the concept of reasonable assurance, the Company recognizes that the relative cost of maintaining these controls should not exceed their expected benefits. Management further assures the quality of the financial records through careful selection and training of personnel and through the adoption and communication of financial and other relevant policies.

These consolidated financial statements have been audited by the Company's auditor, MNP LLP, and their report is represented herein.

Robert Beasley
Chief Executive Officer

Patricia Fonseca
Chief Financial Officer

April 30, 2021

Independent Auditor's Report

To the Shareholders of Cansortium Inc.:

Opinion

We have audited the consolidated financial statements of Cansortium Inc. and its subsidiaries (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2020 and December 31, 2019, and the consolidated statements of operations, changes in shareholders' equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2020 and December 31, 2019, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

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

Material Uncertainty Related to Going Concern

We draw attention to Note 1 of the consolidated financial statements, which indicates that the Company had a net loss during the year ended December 31, 2020 and, as of that date, had an accumulated deficit. As stated in Note 1, these events or conditions, along with other matters as set forth in Note 1, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other Information

Management is responsible for the other information. The other information comprises Management's Discussion and Analysis.

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

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

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

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

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

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

The engagement partner on the audit resulting in this independent auditor's report is Shaila Rani Mehta.

MNP LLP

Mississauga, Ontario — Chartered Professional Accountants

April 30, 2021 — Licensed Public Accountants

MNP

Cansortium Inc.
Consolidated Statements of Financial Position
As of December 31, 2020 and 2019
(Amounts expressed in thousands of United States Dollars unless otherwise stated)

		December 31, 2020	December 31, 2019
Assets			
Current assets			
Cash and cash equivalents		$ 3,392	$ 2,516
Accounts receivable		148	144
Inventory, net	*Note 3*	5,006	6,709
Biological assets	*Note 4*	1,914	3,845
Note receivable	*Note 5*	3,859	3,870
Prepaid expenses and other current assets	*Note 6*	1,365	556
Total current assets		15,684	17,640
Investment held for sale	*Note 7*	200	-
Assets held for sale	*Note 7*	-	6,301
Property and equipment, net	*Note 8*	19,517	19,128
Intangible assets, net	*Note 9*	97,035	98,566
Right-of-use assets	*Note 15*	19,094	20,190
Investment in associate	*Note 10*	-	3,424
Deposit	*Note 10*	1,050	-
Goodwill	*Note 11*	1,526	1,526
Other assets		425	291
Total assets		**$ 154,531**	**$ 167,066**
Liabilities			
Current liabilities			
Accounts payable		4,808	7,860
Accrued liabilities		7,614	5,135
Income taxes payable	*Note 12*	8,925	1,492
Derivative liabilities	*Note 13*	7,412	13,198
Current portion of notes payable	*Note 14*	38,583	9,350
Lease obligations	*Note 15*	1,894	1,761
Total current liabilities		69,236	38,796
Liabilities held for sale	*Note 7*	-	3,240
Notes payable, net of current portion	*Note 14*	13,182	31,729
Lease obligations, net of current portion	*Note 15*	20,811	21,166
Deferred income taxes	*Note 12*	23,471	24,957
Total liabilities		**126,700**	**119,888**
Shareholders' equity			
Share capital	*Note 16*	137,835	149,322
Share-based compensation reserve	*Note 16*	4,675	2,977
Equity conversion feature	*Notes 14, 16*	11,044	7,613
Warrants		13,265	11,773
Accumulated deficit		(138,609)	(123,785)
Accumulated other comprehensive loss		(379)	(563)
Total shareholders' equity attributable to Cansortium Inc. shareholders		27,831	47,337
Non-controlling interests		-	(159)
Total shareholders' equity		27,831	47,178
Total liabilities and shareholders' equity		**$ 154,531**	**$ 167,066**

Nature of Operations *(Note 1)*
Commitments and Contingencies *(Note 19)*
Subsequent Events *(Note 22)*

Approved and authorized for issue on behalf of the Shareholders on April 30, 2021:

Robert Beasley	Patricia Fonseca
Chief Executive Officer	**Chief Financial Officer**

Cansortium Inc.
Consolidated Statements of Operations
For the years ended December 31, 2020 and 2019
(Amounts expressed in thousands of United States Dollars unless otherwise stated)

		For the years ended December 31, 2020	2019
Revenue, net of discounts		$ 52,388	$ 28,511
Cost of goods sold		19,113	10,596
Inventory and biological assets reserve	*Note 3 and 4*	1,918	-
		31,357	17,915
Realized fair value of increments on inventory sold		(18,998)	(9,594)
Unrealized change in fair value of biological assets	*Note 4*	17,516	9,735
Gross profit		29,875	18,056
Expenses			
General and administrative	*Note 17*	12,517	21,720
Share-based compensation		5,744	7,161
Sales and marketing	*Note 17*	13,855	12,165
Depreciation and amortization	*Notes 8, 9, 15*	6,173	7,869
Total expenses		38,289	48,915
Loss from operations		(8,414)	(30,859)
Other expense (income)			
Interest expense, net	*Note 14*	13,760	14,811
Change in fair market value of derivative liability	*Note 13*	(1,065)	(328)
Change in derivative for equity price guarantee	*Note 10, 14*	(1,188)	-
Equity loss on investment in associate	*Note 10*	153	353
Loss on debt restructuring	*Note 14*	8,065	-
Loss on disposal of assets		964	2,909
Expected credit loss on note receivable	*Note 5*	1,286	-
Other expense		9	462
Total other expense (income)		21,984	18,207
Loss before income taxes		(30,398)	(49,066)
Income taxes	*Note 12*	6,336	4,164
Net loss		(36,734)	(53,230)
(Gain)/Loss from discontinued operations	*Note 7*	(115)	12,415
Net loss after discontinued operations		$ (36,619)	$ (65,645)
Other comprehensive loss:			
Foreign exchange translation gain (loss)		184	(75)
Comprehensive loss		$ (36,435)	$ (65,720)
Net income (loss) attributable to non-controlling interest		-	(313)
Net loss attributable to controlling interest		$ (36,619)	$ (65,332)
Net loss per share			
Basic	*Note 16*	$ (0.18)	$ (0.36)
Diluted	*Note 16*	$ (0.18)	$ (0.36)

Cansortium Inc.
Consolidated Statements of Changes in Shareholders' Equity
For the years ended December 31, 2020, and 2019
(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	Non-controlling interests	Accumulated other comprehensive loss	Total shareholders' equity
Balance, December 31, 2018	**144,379,176**	**11,166,850**	**$ 91,655**	**$ -**	**$ -**	**$ 296**	**$ (25,237)**	**$ (515)**	**$ (488)**	**$ 65,711**
Adjustment on initial application of IFRS 16 (Note 15)	-	-	-	-	-	-	(1,261)	-	-	(1,261)
Deferred income tax adjustment (Note 12)	-	-	-	-	-	-	(22,286)			(22,286)
Issuance of shares (Note 16)	28,089,099	-	40,944	-	5,091	9,892	-	-	-	55,927
Issuance of shares to acquire additional non-controlling interest of subsidiaries (Note 16)	5,013,161	(648,545)	9,000	-	-	-	(9,669)	669	-	-
Shares issued for professional services (Note 16)	208,432	-	374	-	-	-	-	-	-	374
Vesting of employee compensation shares	84,091	(84,091)	231	-	-	-	-	-	-	231
Vesting of professional services shares	437,113	(437,113)	3,458	-	-	-	-	-	-	3,458
Vesting of shares issued to acquire Green Standard assets (Note 10)	1,000,000	(1,000,000)	1,180							1,180
Shares forfeited (Note 16)	(66,667)	(50,000)	(50)	-	-	-	-	-	-	(50)
Issuance of shares (Note 16)	4,124,166	-	-	-	-	-	-	-	-	-
Issuance of options (Note 16)	-	-	-	2,639	-	-	-	-	-	2,639
Conversion of notes payable to equity	1,220,000	-	2,440	-	-	-	-	-	-	2,440
Conversion of warrants	59,790	-	90	-	-	(90)	-	-	-	-
Issuance of warrants	-	-	-	338	2,522	1,675	-	-	-	4,535
Foreign currency loss on translation	-	-	-	-	-	-	-	-	(75)	(75)
Net loss	-	-	-	-	-	-	(65,332)	(313)	-	(65,645)
Balance, December 31, 2019	**184,548,361**	**8,947,101**	**$ 149,322**	**$ 2,977**	**$ 7,613**	**$11,773**	**$ (123,785)**	**$ (159)**	**$ (563)**	**$ 47,178**
Founders shares return (Note 16 a.)	(14,215,385)	-	(10,970)	-	-	-	10,970	-	-	-
Note payable amendment (Note 16 b.)	14,215,385	-	5,743	-	3,431	-	-	-	-	9,174
Shares returns for sale of interest in subsidiaries (Note 16 c.)	(4,124,166)	-	(3,071)	-	-	-	1,056	159	-	(1,856)
Issuance of shares and warrants (Note 16 d.)	10,189,758	-	2,996	-	-	1,355	-	-	-	4,351
Shares issued for consulting services (Note 16 e.)	1,000,000	-	245	-	-	-	-	-	-	245
Shares returns for sale of interest in Canada subsidiary (Note 16 f.)	(1,500,000)	-	(1,080)	-	-	-	197	-	-	(883)
Shares issued for debenture consent (Note 16 f.)	1,492,854	-	575	-	-	-	-	-	-	575
Warrants and shares issued for professional services (Note 16 g.)	1,250,000	-	431	-	-	137	-	-	-	568
Shares return for settlement with former partner (Note 16 g.)	-	(4,836,364)	-	-	-	-	-	-	-	-
Shares issued for convertible debentures amendment (Note 16 h.)	4,626,895	-	1,550	-	-	-	-	-	-	1,550
Founders shares return (Note 16 i.)	(13,008,870)	-	(9,572)	-	-	-	9,572	-	-	-
Shares issued for professional services	408,286	-	155	-	-	-	-	-	-	155
Vesting of professional services shares	905,364	(905,364)	2,303	-	-	-	-	-	-	2,303
Cancellation of professional services shares	-	(1,078,104)	(713)	-	-	-	-	-	-	(713)
Vesting of employee compensation shares	-	-	51	-	-	-	-	-	-	51
Issuance of shares to acquire GSI (Note 10)	2,727,723	-	1,050	-	-	-	-	-	-	1,050
Return of shares from GSI (Note 10)	(2,727,723)	-	(1,180)	-	-	-	-	-	-	(1,180)
Issuance of options	-	-	-	1,698	-	-	-	-	-	1,698
Foreign currency gain on translation	-	-	-	-	-	-	-	-	184	184
Net loss	-	-	-	-	-	-	(36,619)	-	-	(36,619)
Balance, December 31, 2020	**185,788,482**	**2,127,269**	**$ 137,835**	**$ 4,675**	**$ 11,044**	**$13,265**	**$ (138,609)**	**$ -**	**$ (379)**	**27,831**

Cansortium Inc.
Consolidated Statements of Cash Flow
For the years ended December 31, 2020, and 2019
(Amounts expressed in thousands of United States Dollars unless otherwise stated)

	For the years ended December	
	2020	**2019**
Operating activities		
Net loss	$ (36,619)	$ (65,645)
Adjustments to reconcile net loss to net cash used in operating activities:		
Unrealized gain on changes in fair value of biological assets	(17,516)	(9,735)
Realized gain on changes in fair value of biological assets	18,998	9,594
Expected credit loss on note receivable	1,286	-
Inventory and biological assets reserve	1,918	-
Share-based compensation	5,744	6,652
Depreciation and amortization	8,276	8,871
Discontinued operations	459	12,415
Accretion of convertible debentures	7,344	5,578
Interest on lease liabilities	2,516	2,281
Change in fair market value of derivative	(1,065)	(328)
Loss on investment in associate	153	353
Loss on debt restructuring	8,065	-
Loss on disposal of assets	828	2,909
Deferred tax expense	(2,692)	2,671
Changes in operating assets and liabilities:		
Accounts receivable	(4)	(165)
Inventory	(100)	(4,026)
Biological assets	269	(1,155)
Prepaid expenses and other current assets	(484)	(506)
Other assets	(134)	403
Accounts payable	(4)	3,565
Accrued liabilities	3,268	1,226
Income taxes payable	7,433	1,492
Other liabilities	149	870
Net cash provided by (used in) operating activities	8,088	(22,680)
Investing activities		
Purchases of property and equipment	(5,192)	(13,844)
Purchase of intangible assets	-	(319)
Payment of notes receivable	372	-
Notes receivable	(1,647)	(3,870)
Proceeds from sale of subsidiary	600	-
Net cash used in investing activities	(5,867)	(18,033)
Financing activities		
Proceeds from IPO	-	50,836
Proceeds from issuance of shares and warrants	4,351	-
Proceeds from issuance of notes payable	65	37,584
Proceeds from sale of property and equipment	-	204
Payment of lease obligations	(4,278)	(3,500)
Return of shares	(1,180)	-
Principal repayments of notes payable	(487)	(43,840)
Net cash provided by financing activities	(1,529)	41,284
Effect of foreign exchange on cash and cash equivalents	184	(75)
Net increase in cash and cash equivalents	876	496
Cash and cash equivalents, beginning of year	2,516	2,026
Cash and cash equivalents, end of year	$ 3,392	$ 2,522
Cash	3,392	2,516
Cash included in assets held for sale	-	6
Cash and cash equivalents, end of year	$ 3,392	$ 2,522
Cash paid during the period for interest	$ 3,253	$ 4,144
Non-cash transactions:		
Founders shares return	$ 10,970	$ -
Note payable amendment	$ 10,380	$ -
Issuance of shares to acquire additional non controlling interest of subsidiary	$ -	$ 9,000
Shares returns for sale of interest in subsidiaries	$ 4,374	$ -
Issuance of shares for Investent in Green Standard	$ -	$ 3,777
Future equity price guarantee	$ -	$ 2,597
Conversion of accrued interest and notes payable equity	$ -	$ 2,440

1. NATURE OF OPERATIONS

Cansortium Inc. was incorporated under the laws of the Province of Ontario, Canada pursuant to the Ontario Business Corporations Act. (“OBCA”) on August 31, 2018. The Company’s registered office is located at 295 The West Mall, Suite 600, Toronto, Ontario, M9C 4Z4 and its head office is located at 82 North East 26th Street, Suite 110, Miami, Florida, United States, 33137.

On March 22, 2019, the Company acquired all shares 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, suppositories, topicals, syringes, dried flower, pre-rolls, cartridges and edibles. All of its products are marketed under the Fluent™ brand name, which was launched in May 2019. Prior to the launch of the Fluent brand the Company had operated under the Knox Medical™ brand. In Pennsylvania, the Company’s product portfolio includes a variety of third-party branded medical cannabis products.

During the year ended December 31, 2019, the Company discontinued its operations in Puerto Rico, Canada and Colombia and, as a result, classified the assets and liabilities associated with these operations as held for sale, measured at the lower of carrying amount and fair value less costs to sell, and has disclosed such assets separately in the statement of financial position. Discontinued operations are excluded from the results of continuing operations and are presented as a single amount in the consolidated statements of operations. The Company completed the sale of its Puerto Rican business on April 28, 2020 and completed the sale of its Canadian business on May 29, 2020. Additionally, on January 22, 2020, the Company reduced its ownership of Cansortium Colombia S.A.S (Cansortium Colombia) to 50% (see Notes 7 and 16) and classified its Cansortium Colombia investment held for sale separately in the statement of financial position.

The Company, through its wholly-owned subsidiary Cansortium Brazil Ltda. (“Cansortium Brazil”), obtained a permit for a Pharmaceutical Industry and Distribution License in Brazil, issued by the National Health Surveillance Agency (“ANVISA”), and has an exclusive distribution agreement with a pharmacy supply company in Brazil, Distribuidora de Medicamentos Santa Cruz Ltda. No activities were undertaken during 2020.

All of the Company’s operations are in one segment, the production and sale of medical cannabis. All revenues for the years ended December 31, 2020 and 2019 were generated in the United States.

1. NATURE OF OPERATIONS *(Continued)*

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

The Company has recorded a net loss of $36,619 on its consolidated statement of operations, a positive cash flows from operations of $8,088 during the year ended December 31, 2020 and, as of that date, the Company had an accumulated deficit in the amount of $138,609. These events or conditions indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern.

To date, the Company has been successful in obtaining enough funding for operating and capital requirements primarily through equity and debt financings. The ability of the Company to continue as a going concern is dependent upon its ability to achieve profitable operations and renegotiate existing financings. While the Company has been effective in raising financing in the past, there is no assurance that it will be able to successfully obtain additional financing as needed. These financial statements do not reflect any adjustments to the carrying values of assets and liabilities and the reported amounts of expenses and classifications on the statement of financial position that would be necessary if the going concern assumption was not appropriate. On April 29, 2021, the Company raised $71 million through a Senior Secured Term Loan. The proceeds from this new debt will be used to repay its current debt and provide capital to expand the Company's operations (see also Note 21).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Preparation

The consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

These consolidated financial statements were approved and authorized for issue by the Board of Directors of the Company on April 30, 2021.

(b) Basis of Measurement

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

(c) Functional and Presentation of Foreign Currency

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

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

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

(c) Functional and Presentation of Foreign Currency *(Continued)*

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 other comprehensive income and accumulated in equity.

(d) Basis of Consolidation

The consolidated financial statements include the accounts of the Company and its majority-owned subsidiaries. Subsidiaries over which the Company has control are fully consolidated from the date control commences until the date control ceases. Control exists when the Company is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. In assessing control, potential voting rights that are currently exercisable are considered. Non-controlling interests in the equity of consolidated subsidiaries are shown separately in the consolidated statement of operations and in the consolidated statement of changes in stakeholders' equity. All intercompany balances and transactions are eliminated on consolidation. The information below lists the Company's subsidiaries that are included in these consolidated financial statements and the ownership interest held as of December 31, 2020 and 2019, respectively.

	% Ownership December 31, 2020	% Ownership December 31, 2019
Cansortium Holdings LLC	100.00%	100.00%
Cansortium Puerto Rico, LLC (see Note 17)	100.00%	100.00%
Cansortium Texas, LLC	100.00%	100.00%
Cansortium Canada Holdings Inc.	100.00%	100.00%
1931074 Ontario, Inc. (see note 17)	-	100.00%
Cansortium Canada Servicing Inc. (see Note 17)	-	100.00%
Cansortium Pennsylvania, LLC	100.00%	100.00%
Cansortium Brazil, Ltda.	100.00%	100.00%
Cansortium Australia Pty. Ltd	50.00%	84.51%
Cansortium Health Partners, LLC	100.00%	100.00%
Cansortium Florida, LLC	100.00%	100.00%
Fluent Servicing, LLC	100.00%	100.00%
Cansortium Colombia S.A.S (see Note 17)	50.00%	100.00%
Arcadia EcoEnergies, Ltd. (see Note 17)	-	52.00%
Spirit Lake Road Nursery, LLC	100.00%	100.00%
16171 Slater Road Investors LLC	100.00%	100.00%
Cansortium Oregon LLC	-	100.00%
Cansortium Washington, LLC	-	100.00%
Cansortium California LLC	-	100.00%
Cansortium Michigan LLC	100.00%	100.00%
Cloud Nine Capital, LLC	100.00%	100.00%
Cavern Capital Holdings LLC	100.00%	100.00%
Harvest Park Lot 9 Investors LLC	100.00%	100.00%

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

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

(d) Basis of Consolidation *(Continued)*

	% Ownership December 31, 2020	% Ownership December 31, 2019
Harvest Park Lot 9 Investors No. 2 LLC	100.00%	100.00%
Cansortium Property Holdings, Inc. (see Note 7)	-	100.00%
Fluent Hemp LLC	100.00%	100.00%
Cansortium Ohio, LLC	-	85.00%
Cansortium Beverage Company Inc.	100.00%	100.00%
Cansortium International Inc.	100.00%	100.00%

(e) Cash and cash equivalents

Cash and cash equivalents include cash deposits in financial institutions, other deposits that are readily convertible into cash, and cash held at retail locations.

(f) Investment

The Company accounted for its investment in associate using the equity method in accordance with *IAS 28 "Investments in Associates and Joint Ventures"*. Investments in associates are recognized initially at cost, which includes transaction costs. After initial recognition, the consolidated financial statements include the Company's share of the net income or loss and other comprehensive income of equity until the date on which significant influence ceases. If the Company's share of losses in an equity-method investee equals or exceeds its interest in the entity, including any other unsecured long-term receivables, no further losses are recognized, unless it has incurred obligations or made additional investments in or payments on behalf of the investee.

(g) Inventory

Inventory of harvested work-in-progress and finished goods are valued at the lower of cost or net realizable value. Cost is determined using the average cost method. Net realizable value is determined as the estimated selling price in the ordinary course of business less estimated costs to completion and the estimated costs to sell. All subsequent direct and indirect postharvest costs are capitalized to inventory at cost, as incurred, including labor related costs, consumables, materials, packaging supplies, utilities, facilities costs, quality and testing costs, and production related depreciation. The Company reviews inventory for obsolete, redundant and slow-moving goods and any such inventory is written down to net realizable value.

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

(h) Biological Assets

The Company's biological assets consist of medical cannabis plants which are not yet harvested. In accordance with *IAS 41 "Agriculture"*, the Company is required to record its biological assets at fair value. During the main growth phase, the cost of each plant is accumulated over the grow period after the plant reaches the vegetative state. For the remainder growing period, in accordance with *IAS 2 "Inventories"*, the cost of each plant is accumulated, including both direct and indirect costs of production. Pre harvest costs are capitalized to biological assets and include all direct and indirect costs including labor related costs, grow consumables, materials, utilities, facilities costs, quality and testing costs, and production related depreciation. At the point of harvest, the biological assets are transferred to inventory at their fair value less costs to sell. Unrealized and realized gains or losses arising from changes in fair value less cost to sell during the year are included in the consolidated statements of operations.

(i) Assets Held for Sale

Assets and liabilities held for sale are no longer depreciated and are presented separately in the consolidated statements of financial position at the lower of their carrying amount and fair value less costs to sell. An asset is regarded as held for sale if its carrying amount will be recovered principally through a sale transaction, rather than through continuing use. For this to be the case, the asset must be available for immediate sale and its sale must be highly probable.

(j) Business Combinations

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

Contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with *IFRS 9 "Financial Instruments"*, or *IAS 37 "Contingent Liabilities and Contingent Assets"*, as appropriate, with the corresponding gain or loss being recognized in the consolidated statements of operations.

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

(k) Property and Equipment, net

Property and equipment are stated at cost (including capitalized borrowing costs), net of accumulated depreciation and impairment losses, if any. Expenditures that materially increase the life of the assets are capitalized. Ordinary repairs and maintenance are expensed as incurred. Depreciation is calculated on a straight-line basis over the estimated useful life of the asset using the following terms:

Land	Not depreciated
Furniture and fixtures	7 Years
Computer equipment	3-7 Years
Manufacturing equipment	7 Years
Leasehold improvements	5-20 Years
Buildings	20 Years
Vehicles	10 Years

The assets' residual values, useful lives and methods of depreciation are reviewed at each financial year-end and adjusted prospectively if appropriate. An item of equipment is derecognized upon disposal or when no future economic benefits are expected from its use. Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying value of the asset) is included in the consolidated statement of operations in the year the asset is derecognized.

(l) Right of Use Assets and Lease Obligations

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

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

After the commencement date, the Company recognizes depreciation and impairment of the right-of-use asset and the interest on the lease liability in the consolidated statement of operations. Right of use assets depreciation is calculated based on estimated useful life range from 5 to 12 years.

(m) Non-controlling Interests

Non-controlling interests ("NCI") represent equity interests owned by outside parties. NCI may be initially measured at fair value or at the NCI's proportionate share of the recognized amounts of the acquiree's identifiable net assets. The choice of measurement is made on a transaction-by-transaction basis. The share of net assets attributable to NCI are presented as a component of equity. Their share of net income or loss and comprehensive income or loss is recognized directly in equity. Total comprehensive income or loss of subsidiaries is attributed to the shareholders of the Company and to the NCI, even if this results in the NCI having a deficit balance.

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

(n) Intangible Assets

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

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

Asset type	Amortization term
Trademarks and brands	5 years
Non-compete agreements	5 years
Licenses Fees (Texas)	2 years

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

(o) Goodwill

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

(p) Impairment of Non-Financial Assets

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

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

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

(q) Derivative Liabilities

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

(r) Income Taxes

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

As the Company operates in the legal cannabis industry, the Company is subject to the limits of IRC Section 280E for under which the Company is only allowed to deduct expenses directly related to the cost of producing the products or cost of production. This results in permanent differences between ordinary and necessary business expenses deemed unallowable under IRC Section 280E.

During the period from January 1, 2019 to March 22, 2019, date of acquisition of the shares of Cansortium Holdings, LLC and the Company's initial public offering and listing on the CSE (see Note 1), certain of the Company's subsidiaries were subject to income taxes, however there were no material current or deferred taxes associated with such entities for these periods as the Company was a limited liability company treated as a partnership for federal income tax purposes until March 22, 2019. Under federal law, the taxable income or loss of a limited liability company is allocated to its members.

Current Tax

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

Deferred Tax

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

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

(s) Revenue

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

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

Revenue from the direct sale of cannabis to customers for a fixed price is recognized when the Company transfers control of the goods to the customer at the point of sale and the customer has paid for the goods. The Company has a loyalty rewards program that allows customers to earn reward credits to be used on future purchases. Loyalty reward credits issued as part of a sales transaction results in revenue being deferred until the loyalty reward is redeemed by the customer. The loyalty rewards are shown as reductions to 'revenue, net of discounts' line on the accompanying consolidated statements of operations.

(t) Shared-Based Compensation

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

(u) Share Issuance Costs

Costs incurred in connection with the issuance of share capital are netted against the proceeds received.

(v) Basic and Diluted Net Loss per Share

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

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

(w) Borrowing costs

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

(x) Financial Instruments *(See also Note 20)*

Recognition and Initial Measurement

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

Classification and Subsequent Measurement

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

Financial assets are classified as follows:

- Amortized cost - Assets that are held for collection of contractual cash flows where those cash flows are solely payments of principal and interest are measured at amortized cost. Interest revenue is calculated using the effective interest method and gains or losses arising from impairment, foreign exchange and derecognition are recognized in the consolidated statements of operations when incurred.

- Fair value through other comprehensive income - Assets that are held for collection of contractual cash flows and for selling the financial assets, and for which the contractual cash flows are solely payments of principal and interest, are measured at fair value through other comprehensive income. Interest income calculated using the effective interest method and gains or losses arising from impairment and foreign exchange are recognized in profit or loss. All other changes in the carrying amount of the financial assets are recognized in other comprehensive income. Upon derecognition, the cumulative gain or loss previously recognized in other comprehensive income is reclassified to profit or loss. The Company does not hold any financial assets measured at fair value through other comprehensive income.

- Mandatorily at fair value through profit or loss - Assets that do not meet the criteria to be measured at amortized cost, or fair value through other comprehensive income, are measured at fair value through profit or loss. All interest income and changes in the financial assets' carrying amount are recognized in profit or loss.

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

(x) Financial Instruments *(See also Note 20)*

Designated at fair value through profit or loss – On initial recognition, the Company may irrevocably designate a financial asset to be measured at fair value through profit or loss in order to eliminate or significantly reduce an accounting mismatch that would otherwise arise from measuring assets or liabilities, or recognizing the gains and losses on them, on different bases. All interest income and changes in the financial assets' carrying amount are recognized in profit or loss. The Company does not hold any financial assets designated to be measured at fair value through profit or loss.
Business Model Assessment

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

Contractual Cash Flow Assessment

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

Impairment

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

The Company assesses whether a financial asset is credit-impaired at the reporting date. Regular indicators that a financial instrument is credit-impaired include significant financial difficulties as evidenced through borrowing patterns or observed balances in other accounts and breaches of borrowing contracts such as default events or breaches of borrowing covenants. For the years ended December 31, 2020, and 2019, the Company had no credit-impaired financial assets.

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

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

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

(x) Financial Instruments *(Continued, see also Note 20)*

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

Derecognition of Financial Assets

The Company derecognizes a financial asset when its contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive.

Financial Liabilities

Recognition and Initial Measurement

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

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

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

Classification and Subsequent Measurement

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

Derecognition of financial liabilities

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

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

(x) Financial Instruments *(Continued, see also Note 20)*

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

	Classification
Cash and cash equivalents	FVTPL
Accounts receivable	Amortized cost
Note receivable	Amortized cost
Accounts payable	Amortized cost
Accrued liabilities	Amortized cost
Derivative liabilities	FVTPL
Notes payable	Amortized cost
Lease obligations	Amortized cost
Other current liabilities	Amortized cost
Other long-term liabilities	Amortized cost

(y) Critical Accounting Judgments, Estimates and Assumptions

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

Critical judgments estimate and assumptions that have the most significant effect on the amounts recognized in the consolidated financial statements are described below.

(i) Biological Assets and Inventory

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

(ii) Estimated Useful Lives and Depreciation of Property and Equipment, and Intangibles Assets

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

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

(y) Critical Accounting Judgments, Estimates and Assumptions *(Continued)*

(ii) Estimated Useful Lives and Depreciation of Property and Equipment, and Intangibles Assets (Continued)

Goodwill and indefinite life intangible asset impairment testing require management to make estimates in the impairment testing model. Annually, the Company tests whether goodwill and indefinite life intangible assets are impaired. Impairment of definite long-lived assets is influenced by judgment in defining a CGU and determining the indicators of impairment, and estimates used to measure impairment losses.

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

(iii) Customers Loyalty Program

In calculating the customers loyalty points liability, the Company used estimated historical and industry forfeiture rates. The key assumptions used for the for rate is based on 2 years lookback of the Company's customers behavior and comparison to Florida as well as the national rates.

(iv) Derivative Liabilities

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

(v) Leases

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

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

(y) Critical Accounting Judgments, Estimates and Assumptions *(Continued)*

(vi) Impairment of Non-Financial Assets

Property, plant and equipment, inventory, investments in associate and definite life intangible assets, are reviewed for indicators of impairment at each reporting period or whenever events or changes in circumstances indicate that the carrying amount of an asset exceeds its recoverable amount. The recoverable amount of an asset or a CGU is the higher of its fair value less costs to sell or its value in use. If the carrying amount of an asset exceeds its recoverable amount, an impairment charge is recognized immediately in profit or loss for the amount by which the carrying amount of the asset exceeds the recoverable amount. Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the lesser of the revised estimate of recoverable amount, and the carrying amount that would have been recorded if no impairment loss been recognized previously.

(vii) Business Combinations

Judgment is used in determining whether an acquisition is a business combination or an asset acquisition and in determining date of acquisition. In determining the allocation of the purchase price in a business combination, including any acquisition-related contingent consideration, estimates including market based and appraisal values are used. The contingent consideration is measured at its acquisition date fair value and included as part of the consideration transferred in a business combination. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or liability is remeasured at subsequent reporting dates in accordance with *IAS 39 "Financial Instruments: Recognition and Measurement"*, or *IAS 37 "Provisions, Contingent Liabilities and Contingent Assets"*, as appropriate, with the corresponding gain or loss being recognized in profit or loss.

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

(viii) COVID-19 outbreak

Since December 31, 2019, the outbreak of the novel strain of coronavirus, specifically identified as "COVID-19", has resulted in a widespread international health crisis that has materially affected economies and financial markets, resulting in the rapid onset of an economic downturn. As a result, the Governments of Canada and the U.S. have instituted various recommendation and laws to help limit its spread. This has resulted in, among other things, supply chain issues, a decrease in availability of production materials, transportation delays, personnel shortages, changes in customer demand for the Company's products, increased government regulations or interventions, and ongoing economic uncertainty, all of which has impacted the business, financial condition or results of operations of the Company. The duration and impact of the COVID-19 pandemic is unknown at this time. The Company continues to monitor COVID-19 developments and its production facilities have continued operations.

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

(y) Critical Accounting Judgments, Estimates and Assumptions *(Continued)*

(vii) Convertible debentures debt component

In calculating the fair value of its convertible debentures debt component, the Company uses either the Black-Scholes option-pricing model or the Monte-Carlo simulation model, for Level 3 recurring fair value measurements to estimate fair value at each reporting date. The key assumptions used in the models are similar and include the expected future volatility in the price of the Company's shares, the fair market value of the price of the Company's shares and the expected life of the underling instrument. The discount rates used in the model are based on past experience and the weighted average cost of capital of debt.

(viii) Expected credit loss on note receivable

The Company assesses all information available, including on a forward-looking basis the expected credit loss associated with its assets carried at amortized cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk. To assess whether there is a significant increase in credit risk, the Company compares the risk of a default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition based on all information available, and reasonable and supportive forward-looking information.

(y) New, amended and future IFRS pronouncements

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

Amendment to IFRS 3: Definition of a Business

In October 2018, the IASB issued the IFRS 3 Amendment. The IFRS 3 Amendment clarifies the definition of a business, with the objective of assisting entities to determine whether a transaction should be accounted for as a business combination or as an asset acquisition. The IFRS 3 Amendment provides an assessment framework to determine when a series of integrated activities is not a business. The IFRS 3 Amendment is effective for business combinations occurring on or after the beginning of the first annual reporting period beginning on or after January 1, 2020, however early application is permitted. The adoption of the amendment to IFRS 3 did not have a material impact on the consolidated financial statements.

IAS 1 – Presentation of Financial Statements & IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors

In October 2018, the IASB issued "Definition of Material", an amendment to IAS 1 – Presentation of Financial Statements and IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors, to clarify the definition of materiality and to align the definition used in the Conceptual Framework and the standards themselves. The amendment clarifies that "information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users.

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

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

of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.” This amendment is effective for the annual period beginning January 1, 2020. The adoption of the IAS 1 & IAS 8 did not have a material impact on the consolidated financial statements.

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

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

In January 2020, the IASB issued Classification of Liabilities as Current or Non-Current (“Amendments to IAS 1”). The Amendments to IAS 1 aim to promote consistency in applying the requirements by helping companies determine whether, in the statement of financial position, debt and other liabilities with an uncertain settlement date should be classified as current (due or potentially due to be settled within one year) or non-current. The Amendments to IAS 1 include clarifying the classification requirements for debt a company might settle by converting it into equity. The Amendments to IAS 1 are effective for annual reporting periods beginning on or after January 1, 2022, with earlier application permitted. The extent of the impact of the adoption of this amendment has not yet been determined.

Amendments to IAS 37: Onerous Contracts – Cost of Fulfilling a Contract

In May 2020, the IASB issued Onerous Contracts – Cost of Fulfilling a Contract amending the standard regarding costs a company should include as the cost of fulfilling a contract when assessing whether a contract is onerous. The amendment is effective for annual reporting periods beginning on or after January 1, 2022. The extent of the impact of the adoption of this amendment has not yet been determined.

3. INVENTORY

As of December 31, 2020, and 2019, inventories consisted of the following:

	December 31, 2020	December 31, 2019
Supplies, packaging and materials	$ 711	$ 702
Work in progress	3,562	3,929
Finished goods	2,471	2,078
Inventory reserve	(1,738)	-
Balance at end of year	**$ 5,006**	**$ 6,709**

Inventory material costs included in cost of goods sold during the year ended December 31, 2020 and 2019 were $7,667 and $1,968, respectively. Salaries and benefits charged to cost of goods sold for the years ended December 31, 2020 and 2019 were $4,761 and $3,561, respectively.

During the year ended December 31, 2020, the Company recorded an allowance of $1,738 to reflect net realizable value adjustments related to its Texas inventory. As of December 31, 2020 and December 31, 2019 inventory reserve was $1,738 and $0, respectively.

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

4. BIOLOGICAL ASSETS

The Company's biological assets consist of cannabis plants. A reconciliation of the beginning and ending balances of biological assets for the years ended December 31, 2020 and 2019 is as follows:

	December 31, 2020	December 31, 2019
Balance at beginning of year	$ 3,845	$ 2,549
Cost incurred until harvest	6,856	5,791
Biological assets reserve	(180)	-
Effect of unrealized change in fair value of biological assets	17,516	9,735
Transferred to inventory upon harvest	(26,123)	(14,230)
Balance at end of year	**$ 1,914**	**$ 3,845**

As of December 31, 2020, 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 then adjusts that amount for 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 values hierarchy as there is no actively traded commodity market for plants or dried product. The significant unobservable inputs used to assess the fair value of biological assets during the years ended December 31, 2020 and 2019 used the following assumptions:

(a) Expected yields of the average grams of dried flower and trim per plant of 13 grams and 21 grams, respectively.
(b) Weighted average number of growing weeks completed as percentage of total growing weeks at the period end of 50% and 44%, respectively.
(c) Expected weighted average selling price in the retail market of $10.81 per gram and $12.86 per gram, respectively.
(d) Estimated weighted average costs to complete, sell, and estimated margin from post harvest activities of $6.29 per gram and $7.16 per gram, respectively.
(e) Expected loss of plants until harvest of 25% and 27%, respectively.

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 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.

4. BIOLOGICAL ASSETS *(Continued)*

The Company has quantified the sensitivity of the unobservable inputs in relation to the biological assets for the years ended December 31, 2020 and 2019 and determined the following:

(a) A 10% increase or decrease on the expected yield of dry flower and trim per plant would increase or decrease the fair value of biological assets by $191 and $382, respectively.
(b) A 10% increase or decrease on the weighted average of growing weeks completed as a percentage of total estimated growing weeks would increase or decrease the fair value of biological assets by $191 and $382, respectively.
(c) A 10% increase or decrease in the expected selling price per gram of dried flower or trim would increase or decrease the fair value of biological assets by $94 and $862, respectively.
(d) A 10% increase or decrease in the expected costs to complete and sell per gram would increase or decrease the fair value of biological assets by $77 and $480, respectively.
(e) A 10% increase or decrease on the expected loss of plants until harvest would increase or decrease the fair value of biological assets by $33 and $136, respectively.

The Company estimates the harvest yields for cannabis at various stages of growth. As of December 31, 2020, it is expected that the Company's biological assets will yield approximately 846,531 grams of dry cannabis when harvested.

As of December 31, 2020 and 2019, the Company had 85,268 and 98,094 plants that were classified as biological assets, respectively.

During the year ended December 31, 2020, the Company recorded an allowance of $180 to reflect net realizable value adjustments related to its Texas biological assets. As of December 31, 2020 and December 31, 2019 inventory reserve was $180 and $0, respectively.

5. NOTE RECEIVABLE

In connection with the Company's agreement entered in October 2018 with Green Standard Holdings LLC, Green Standard Cultivation LLC and Green Standard, Inc. (collectively, "Green Standard") to acquire the assets of Green Standard (see Notes 10 and 16), the Company entered into a line of credit note with Green Standard, Inc. ("Green Standard Note"), pursuant to which the Company agreed to make advances to Green Standard in connection with the Michigan cultivation and operational expenses in an aggregate principal amount not to exceed at any one time outstanding balance of $14,700.

The Green Standard Note bears interest of 2.7% per annum and Green Standard shall pay the entire principal amount and all accrued interest to the Company not later than the earlier of 3 years from the Green Standard Note issuance date or earlier, based on certain triggering events.

On May 19, 2020, the Company amended the terms of the Green Standard note to reduce the principal amount available not to exceed at any one time outstanding balances of $7,500 and to increase the interest rate to 5% per annum.

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

5. NOTE RECEIVABLE *(Continued)*

A reconciliation of the beginning and ending balances of note receivable for years ended December 31, 2020 and 2019 is as follows:

	December 31, 2020	December 31, 2019
Balance at beginning of year	$ 3,870	$ -
Advances	1,647	3,870
Payments	(372)	-
Reserve for expected credit losses	(1,286)	-
Balance at end of year	**$ 3,859**	**$ 3,870**

The expected loss rate is based on the likelihood of the completion of the acquisition of GSI, the recovery of the note receivable amount against the expected GSI net profit, and any historical credit losses experienced within the period. The historical loss rates are adjusted to reflect current and forward looking information on macroeconomic factors affecting the ability to settle the note receivable. The note receivable was considered to have low credit risk, and the loss allowance recognized during the year was therefore limited to 12 months' expected losses. Management considered an equivalent CCC rating for the note receivable.

During the years ended December 31, 2020 and December 31, 2019, the Company recorded expected credit loss adjustment of $1,286 and $0, respectively, related to the Note Receivable. Interest income for the years ended December 31, 2020 and December 31, 2019, was $188 and $54, respectively.

As of December 31, 2020 and 2019, accrued interest of note receivable was $242 and $54, respectively and was recorded in prepaid expenses and other current assets (See Note 6).

6. PREPAID EXPENSES AND OTHER CURRENT ASSETS

Prepaid expenses and other current assets consisted of the following:

	December 31, 2020	December 31, 2019
Prepaid insurance	$ 477	$ 186
Prepaid rent	43	102
Other prepaid expenses	579	53
Security deposits held	23	161
Interest receivable - Green Standard (Note 5)	242	54
Other current assets	1	-
Balance at end of year	**$ 1,365**	**$ 556**

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

7. INVESTMENTS AND ASSETS HELD FOR SALE

During the year ended December 31, 2019, the Company discontinued its operations from Cansortium Colombia S.A.S ("Cansortium Colombia") and Cansortium Puerto Rico LLC ("Cansortium Puerto Rico"), as well as those for 1931074 Ontario, Inc, Cansortium Canada Servicing Inc., Cansortium Property Holdings Inc., and Arcadia EcoEnergies, Ltd. (collectively, the "Canadian Subsidiaries"). These operations are classified as held for sale, measured at the lower of carrying amount and fair value less costs to sell.

Assets held for sale were $0 and 3,061 as of December 31, 2020 and December 31, 2019, respectively:

	December 31, 2019			
	Cansortium Colombia	Cansortium Puerto Rico	Canadian Subsidiaries	Total
Cash and cash equivalents	$ 1	$ -	$ 5	$ 6
Accounts receivable	-	-	83	83
Inventory	-	-	154	154
Other current assets	95	114	284	493
Property and equipment, net	526	665	1,362	2,553
Intangible assets	1,563	-	-	1,563
Right of use assets	-	1,422	-	1,422
Other non-current assets	-	5	22	27
	2,185	2,206	1,910	6,301
Accounts payable	(148)	-	(467)	(615)
Accrued liabilities	(227)	(150)	(424)	(801)
Lease obligations	-	(1,688)	-	(1,688)
Other current liabilities	-	-	(121)	(121)
Other non-current liabilities	-	-	(15)	(15)
	(375)	(1,838)	(1,027)	(3,240)
Assets held for sale, net	**$ 1,810**	**$ 368**	**$ 883**	**$ 3,061**

During the years ended December 31, 2020 and 2019, the Company recorded a gain of $115 and a loss of $12,415 on discontinued operations, respectively. In the years ended December 31, 2020 and 2019, results for discontinued operations were as follows:

December 31, 2020	Cansortium Colombia	Cansortium Puerto Rico	Canadian Subsidiaries	Total
Revenue, net of discounts	$ -	$ 419	$ -	$ 419
Cost of goods sold	-	254	-	254
Gross profit	-	165	-	165
Expenses	-	410	214	624
Income from operations	-	(245)	(214)	(459)
Proceeds from sales of assets	1,856	600	-	2,456
Net assets sold	(905)	(272)	-	(1,177)
Gain on Sale of Assets	951	328	-	1,279
Fair value adjustment of investment	(705)	-	-	(705)
Loss from discontinued operations	**$ 246**	**$ 84**	**$ (214)**	**$ 115**

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

7. INVESTMENTS AND ASSETS HELD FOR SALE *(Continued)*

December 31, 2019	Cansortium Colombia	Cansortium Puerto Rico	Canadian Subsidiaries	Total
Revenue, net of discounts	$ -	$ 21	$ -	$ 21
Cost of goods sold	-	(8)	-	(8)
Gross profit	-	29	-	29
Expenses	-	111	109	220
Income from operations	-	(82)	(109)	(191)
Property and equipment impairment	1,150	-	2,345	3,495
Goodwill and intangibles impairment	7,743	-	986	8,729
Loss from discontinued operations	$ (8,893)	$ (82)	$ (3,440)	$ (12,415)

Cansortium Colombia S.A.S

As of December 31, 2019, the Company classified the net assets of Consortium Colombia of $1,810 as held for sale in the consolidated statements of financial position. In connection with this change, the Company recorded a goodwill and intangible asset impairment charge of $7,743 (see Notes 9 and 11) and an asset impairment charge of $1,150 in the consolidated statements of operations.

On January 22, 2020, the Company completed the return to treasury of 4,124,166 shares of Cansortium Inc. previously issued to acquire 100% of Cansortium Colombia (see Note 16), thereby reducing its ownership of Cansortium Colombia to 50%. In connection with this change, the Company recorded a gain of $246 in the sale of the assets held for sale for the year ended December 31, 2020, and classified its non-controlling investment in Cansortium Colombia as investment held for sale on the Company's condensed interim consolidated financial statements in the amount of $200 as of December 31, 2020:

Balance as of December 31, 2019 - Asset held for sale	$	1,810
Net assets sold (50%)		(905)
Loss in fair value of assets		(705)
Balance as of December 31, 2020 - Investment	**$**	**200**

Cansortium Puerto Rico LLC

On December 12, 2019, the Company entered into a non-binding agreement with PRICH Biotech Corp. ("PRICH") to sell certain assets of Cansortium Puerto Rico and classified the net assets of Consortium Puerto Rico of $368 as held for sale in the consolidated statements of financial position. The sale of the Puerto Rican assets closed on April 28, 2020, resulting in a gain of $328.

Cansortium Puerto Rico recorded as loss from discontinued operations of $245 and $82 in the years ended December 31, 2020 and 2019, respectively.

Canadian Subsidiaries

During November and December of 2019, the Company entered into non-binding agreements to sell the Company's Canadian net assets in the Canadian subsidiaries and classified these net assets of $883 as held for sale in the consolidated statements of financial position, resulting from the following transactions:

7. INVESTMENTS AND ASSETS HELD FOR SALE *(Continued)*

Canadian Subsidiaries *(Continued)*

On November 14, 2019, the Company entered into a share purchase agreement to sell 100% of the shares of 1931074 Ontario Inc. for a purchase price of CAD $250,000 with the shareholder of 1931074 Ontario Inc. Consideration included return of 500,000 shares of the Company. 1931074 Ontario Inc. owns 100% of Cansortium Canada Servicing Inc.

On December 3, 2019, the Company entered into a share purchase agreement with 2638116 Ontario Inc. to sell 100% of the shares of Cansortium Property Holdings Inc. for a purchase price of $1 and repayment of $750 of debts and obligations owed by 2638116 Ontario Inc. to Cansortium Property Holdings Inc. satisfied by return of 1,500,000 shares of the Company.

On December 3, 2019, Cansortium Canada Holdings entered into a share purchase agreement with 2638116 Ontario Inc. to sell 5,196 Class A common shares of Arcadia EcoEnergies, Ltd. (representing approximately 52% of the issues and outstanding shares of Arcadia EcoEnergies, Ltd.) for a purchase price of CAD $1.

On May 29, 2020, the Company completed the sale of its Canadian Subsidiaries. As part of the consideration for the sale of its Canadian Subsidiaries, a total of number of shares was reduced from 2,000,000 to 1,500,000 common shares and returned by 2638116 Ontario Inc. to the Company for cancellation. The net gain on the transaction was $197, recorded in accumulated deficit (See Note 16 f.).

In connection with the above transactions, the Company recorded a goodwill and intangible asset impairment charge of $986 (see Notes 9 and 11) and an asset impairment charge of $2,345 in the consolidated statements of operations.

The Canadian Subsidiaries net loss of $214 and $109 from the date of the sale agreements to December 31, 2020 and for the year ended December 31, 2019 were recorded under discontinued operations in the consolidated statements of operations, respectively.

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

8. PROPERTY AND EQUIPMENT

A reconciliation of the beginning and ending balances of property and equipment for years ended December 31, 2020 and 2019 is as follows:

	Land	Furniture and fixtures	Computer equipment	Manufacturing equipment	Leasehold improvements	Buildings	Construction in progress	Vehicles	Total
Cost									
Balance as of January 1, 2019	$ 764	$ 475	$ 464	$ 4,560	$ 8,389	$ 3,224	$ 1,585	$ 492	$ 19,953
Additions	-	391	331	2,154	4,356	56	6,556	-	13,844
Construction completed	-	-	-	-	4,170	-	(4,170)	-	-
Assets held for sale (Note 7)	(53)	(219)	(151)	(1,969)	(2,380)	(2,896)	(320)	(61)	(8,049)
Disposals	(500)	-	(15)	(18)	(1,024)	(300)	(1,475)	-	(3,332)
Balance as of December 31, 2019	211	647	629	4,727	13,511	84	2,176	431	22,416
Accumulated depreciation									
Balance as of January 1, 2019	-	68	106	417	750	16	-	23	1,380
Additions	-	99	236	832	2,296	35	-	52	3,550
Assets held for sale (Note 7)	-	(61)	(54)	(552)	(586)	(55)	-	(6)	(1,314)
Disposals	-	-	(4)	(4)	(320)	-	-	-	(328)
Balance as of December 31, 2019	-	106	284	693	2,140	(4)	-	69	3,288
Property and equipment, net	**$ 211**	**$ 541**	**$ 345**	**$ 4,034**	**$ 11,371**	**$ 88**	**$ 2,176**	**$ 362**	**$ 19,128**
Cost									
Balance as of January 1, 2020	211	647	629	4,727	13,511	84	2,176	431	$ 22,416
Additions	-	92	78	467	-	-	4,649	93	5,379
Construction completed	-	177	8	538	3,834	-	(4,556)	-	-
Disposals	-	(77)	(1)	(106)	(1,808)	-	(142)	(101)	(2,236)
Balance as of December 31, 2020	211	838	714	5,626	15,537	84	2,127	423	25,559
Accumulated depreciation									
Balance as of January 1, 2020	-	106	284	693	2,140	(4)	-	69	3,288
Additions	-	111	196	732	2,898	-	-	53	3,989
Disposals	-	(12)	(1)	(29)	(1,160)	-	-	(33)	(1,235)
Balance as of December 31, 2020	-	205	479	1,396	3,877	(4)	-	89	6,042
Property and equipment, net	**$ 211**	**$ 633**	**$ 235**	**$ 4,229**	**$ 11,660**	**$ 88**	**$ 2,127**	**$ 334**	**$ 19,517**

For the years ended December 31, 2020 and 2019, the Company charged $2,103 and $907 of depreciation to the biological assets and inventory. Capitalized borrowing costs were $187 and $0 for the same years, respectively.

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

9. INTANGIBLE ASSETS

Intangible assets consist of cannabis licenses, acquired intellectual property at 1931074 Ontario, Inc, customer relationships, non-compete agreements and trademarks and brands. A reconciliation of the beginning and ending balances of intangible assets for the years ended December 31, 2020 and 2019, is as follows:

	Licenses	Intellectual property	Customer relationships	Non-compete agreements	Trademarks and brands	Total
Balance as of January 1, 2019						
Cost	$ 97,757	$ 596	$ 40	$ 30	$ 8,850	$ 107,273
Additions	319	-	-	-	-	319
Assets held for sale (Note 7)	(1,563)	-	-	-	-	(1,563)
Disposals	(2,345)	(596)	(40)	(30)	-	(3,011)
Balance as of December 31, 2019	94,169	-	-	-	8,850	103,019
Balance as of January 1, 2019						
Accumulated amortization	352	-	2	2	1,261	1,617
Additions	216	-	2	6	2,623	2,847
Disposals	-	-	(4)	(8)	-	(12)
Balance as of December 31, 2019	568	-	-	-	3,884	4,452
Intangible assets, net	**$ 93,600**	**$ -**	**$ -**	**$ -**	**$ 4,966**	**$ 98,566**
Balance as of January 1, 2020						
Cost	$ 94,169	$ -	$ -	$ -	$ 8,850	$ 103,019
Balance as of December 31, 2020	94,169	-	-	-	8,850	103,019
Balance as of January 1, 2020						
Accumulated amortization	568	-	-	-	3,884	4,452
Additions	168	-	-	-	1,364	1,532
Balance as of December 31, 2020	736	-	-	-	5,248	5,984
Intangible assets, net	**$ 93,433**	**$ -**	**$ -**	**$ -**	**$ 3,602**	**$ 97,035**

During the year ended December 31, 2019, the Company adjusted the Fluent Servicing acquisition purchase price allocation and restated the fair value of the licenses, customer relationships and trademarks and brands intangible assets from $79,870 to 93,256, $3,030 to $0 and $15,550 to $8,850.

During the year ended December 31, 2019, the Company recognized impairment charges of $1,900, $569 and $288 for Cansortium Colombia licenses, 1931074 Ontario, Inc. intellectual property and Arcadia EcoEnergies, Ltd. licenses, customer relationships and non-compete agreements, respectively (See Notes 1, 7 and 11).

Amortization expense for the years ended December 31, 2020 and 2019 were $1,532 and $2,847, respectively.

Refer to Note 11 for impairment testing assumptions related to indefinite life assets.

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

10. INVESTMENT

		December 31, 2020		December 31, 2019
Balance at beginning of year	$	3,424	$	-
Additions	$	-		3,777
Return of shares	$	(1,180)		-
Cancellation of derivative liability	$	(2,091)		-
Company's share of loss	$	(153)		(353)
Balance at end of year	**$**	**-**	**$**	**3,424**

Green Standard

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

On May 19, 2020, the Company amended and restated the abovementioned agreement pursuant to which Cansortium Michigan, LLC, the Company's indirect wholly-owned subsidiary, intends to acquire 100% of the outstanding shares of Green Standard. Under the amended terms, Green Standard shareholders will receive $10 million in aggregate consideration to consist of common shares and proportionate voting shares exchangeable into an aggregate of 2,727,723 common shares of the Company, which are escrowed until May 15, 2021, plus cash consideration for the difference between the fair value of a common share on May 15, 2021 and total purchase price of $10,000,000 to be generated by profits from Green Standard's Michigan business. The same number of shares of the Company that were previously issued to Green Standard shareholders and subject to vesting conditions have been returned to treasury for cancellation and removal of the equity price guarantee that existed as through May 19, 2020.

During the year ended December 31, 2020, a loss of investment of $153 was recognized for the Company's share of loss in Green Standard.

During the year ended December 31, 2019, the Company recognized an investment of $3,777 associated with the vesting of the Company's shares issued to Green Standard and a loss of investment of $353 for the Company's share of loss for the period from August 24, 2019, date the cultivation licenses were granted to Green Standard, to December 31, 2019.

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

11. GOODWILL

Below is a continuity of goodwill for the years ended December 31, 2020 and 2019:

	Fluent Servicing	Cansortium Colombia	Arcadia EcoEnergies	Total
Balance as of January 1, 2019	$ 1,526	$ 5,843	$ 129	$ 7,498
Goodwill impairment	-	(5,843)	(129)	(5,972)
Balance as of December 31, 2019	**$ 1,526**	**$ -**	**$ -**	**$ 1,526**
Balance as of January 1, 2020	$ 1,526	$ -	$ -	$ 1,526
Balance as of December 31, 2020	**$ 1,526**	**$ -**	**$ -**	**$ 1,526**

Annual impairment testing involves determining the recoverable amount of the CGU group to which goodwill and indefinite life intangibles are located and comparing this to the carrying value of the CGU groups. The measurement of the recoverable amount of the CGU groups was calculated based on fair value less costs of disposal using level 3 inputs in a discounted cash flow model. The fair value less costs of disposal was determined to be greater than the CGUs value in use. The key assumptions used in the estimates of the recoverable amounts are described below:

- Cash flows were projected based on the Company's long-term business plan. The business plan contains forecasts based on actual operating results in conjunction with anticipated future growth opportunities, as well as industry and market trends. The forecasts were extended to a total of five years (with a terminal year thereafter). Revenue annual growth rate of 25% was based on new stores opening over the next few years and then 5% afterwards.
- The terminal growth rate of 2% was based on historical and projected industry data (2019 – 2%).
- The post-tax discount rate applied in determining the recoverable amount of the CGU group was 28%. The discount rates were estimated based on past experience and the weighted average cost of capital of each CGU, other competitors in the industry and adjusted for risks in the cash flow.

As of December 31, 2020 and 2019, the Company did not have an impairment to its goodwill and indefinite life intangibles.

12. INCOME TAXES

Income tax for the years ended December 31, 2020 and 2019 consisted of the following:

	Year ended December 31, 2020	Year ended December 31, 2019
Provision for income taxes:		
Current Tax Expense	$ 9,028	$ 1,492
Deferred Tax Expense (Recovery)	(2,692)	2,672
Total current income taxes	**$ 6,336**	**$ 4,164**

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

12. INCOME TAXES *(Continued)*

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

	Year ended December 31, 2020	Year ended December 31, 2019
Tax at U.S. statutory rate of 21%	$ (6,359)	$ (12,911)
State taxes, net of federal impact	901	557
Pass-through income taxed directly to shareholders	-	3,087
Non-deductible items	10,816	9,937
Foreign tax rate differential	(250)	(204)
Change in tax benefits not recognized	1,228	3,698
Total	**$ 6,336**	**$ 4,164**

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

As a result of the acquisition of the shares of Cansortium Holdings, LLC on March 22, 2019 the Company now accounts for income taxes in accordance with IAS 12 - Income Taxes, under which deferred tax assets and liabilities are recognized based upon anticipated future tax consequences attributable to differences between financial statement carrying values of assets and liabilities and the respective tax bases. As a result of the transaction, the Company recorded a deferred tax liability of $22,285 with a corresponding adjustment to equity during the year ended December 31, 2019.

All income prior to this acquisition was taxed directly to the shareholders as the Cansortium Holdings, LLC was taxed as a pass-through entity. Accordingly, no income tax assets or liabilities were recognized for the period from January 1, 2019 to March 22, 2019.

The Company has unused tax losses and other attributes of $7,673 and $13,854 in various foreign jurisdictions for the years ended December 31, 2020 and 2019, respectively, and $12,643 of capital loss carryforwards in the United States. No deferred tax asset has been recognized as the utilization of these losses and other tax attributes is not likely in the future.

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

12. INCOME TAXES *(Continued)*

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

		Year ended December 31, 2020		Year ended December 31, 2019
Deferred income tax liabilities:				
Property and equipment	$	3,122	$	3,705
Intangible assets		18,479		18,258
Convertible debentures		1,666		2,336
Biological assets		204		658
Total deferred income tax liabilities	$	23,471	$	24,957

Movement in net deferred tax liabilities:

		Year ended December 31, 2020		Year ended December 31, 2019
Movement in net deferred tax liabilities:				
Balance at the beginning of the year	$	24,957	$	-
Recognized in profit/loss		(2,692)		2,671
Recognized in equity		1,206		22,285
Ending balance in deferred income tax liabilities	$	23,471	$	24,956

13. DERIVATIVE LIABILITIES

A reconciliation of the beginning and ending balances of the derivative liabilities from the time of issuance and during the years ended December 31, 2020 and 2019 are as follows:

		Convertible debentures		Warrants		Equity price guarantee		Derivative liability total
Balance as of January 1, 2019	$	-	$	5,926	$	4,884	$	10,810
Fair value of derivative liabilities on issuance date		5,820		-		2,597		8,417
Fair value change in derivative liability		(119)		(5,926)		5,717		(328)
Convertible debentures reclassified to equity		(5,701)		-		-		(5,701)
Balance as of December 31, 2019	**$**	**-**	**$**	**-**	**$**	**13,198**	**$**	**13,198**
Balance as of January 1, 2020		-		-		13,198		13,198
Fair value change from note payable amendment		-		-		(1,442)		(1,442)
Fair value change in derivative liability		-		-		(1,065)		(1,065)
Removal of GSI equity price guarantee						(3,279)		(3,279)
Balance as of December 31, 2020	**$**	**-**	**$**	**-**	**$**	**7,412**	**$**	**7,412**

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

13. DERIVATIVE LIABILITIES *(Continued)*

(a) Equity Price Guarantees

Fluent Servicing Acquisition

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 guaranty. These liabilities are marked–to–market each quarter with the change in fair value recorded in the consolidated statements of operations.

In connection with the acquisition of the remaining interest of Fluent Servicing on August 15, 2018, the Company issued 4,400,000 membership interest of Cansortium Holdings LLC that were exchanged into 4,400,000 of 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 (see Note 14), 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 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.

The new Equity Price Guarantee expires on May 31, 2023. If during that time period, the holder of the Equity Price Guarantee elects to sell some or all of its shares and the purchase price is less than $0.65 per share, then the Company shall have the first right, subject to applicable legal requirements, to purchase or arrange to purchase all or any portion of the contemplated common shares to be sold for $0.65 per common share. Alternatively, the Company may elect to pay the holder the difference between $0.65 and the actual sale price of shares in cash or additional shares at the election of the Company. The Equity Price Guarantee shall be cancelled if the value of the shares of the Company closes at $4.13 per share for more than twenty consecutive trading days while maintaining a trading volume of at least three million shares each trading day of such period.

The Company used a Monte-Carlo simulation model to estimate 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 and recorded the fair value of the derivative liability of $7,412 in the consolidated statement of operations. 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 range of assumptions were used to value the Equity Price Guarantee derivative liability during the years ended December 31, 2020 and 2019:

	December 31, 2020	December 31, 2019
Volatility	100.00%	100.00%
Risk-free interest rate	0.20%	2.43%
Expected life (years)	2.5 years	1 - 1.2 years
Share price	$0.76	$0.44
Exercise price	$0.65	$2.75

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

13. DERIVATIVE LIABILITIES *(Continued)*

(a) Equity Price Guarantees *(Continued)*

During the years ended December 31, 2020 and 2019, the Company recorded a gain and loss of $1,165 and $5,138, respectively on revaluation of the Equity Price Guarantee derivative liability.

Green Standard

In connection with the agreement to buy the shares of Green Standard performed on October 5, 2018 (see Note 16) and amended on January 1, 2019, the Company issued 2,727,273 of shares of Cansortium Inc. valued at $2.75 dollars per unit and subject to a price floor of $2.75 ("GSI Equity Price Guarantee"). The agreement was amended and restated on May 21, 2020 to, among other things, eliminate the GSI Equity Price Guarantee.

As at the maturity date, if the total valuation of the Consortium Inc. shares issued is less than $10.0 million, the Company shall pay additional consideration in an amount equal to the $10.0 million minus the Company's share valuation as of the maturity date. If the Company's share valuation as of the maturity date is at least $10.0 million, there shall be no additional consideration paid. If during that time period, the holder of the GSI Equity Price Guarantee elects to sell, redeem, transfer, or otherwise dispose of twenty percent (20%) or more, of the stock they hold, any rights they hold to receive the additional compensation shall expire.

The Company used a Monte-Carlo simulation model to estimate 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 GSI Equity Price Guarantee and recorded the fair value of the derivative liability of $2,597 in the consolidated statement of operations at issuance date. 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 range of assumptions were used to value the GSI Equity Price Guarantee derivative liability during the period ended May 21, 2020, and for the year ended December 31, 2019:

	May 21, 2020	December 31, 2019
Volatility	100.00%	100.00%
Risk-free interest rate	0.17%	1.59%
Expected life (years)	0.61 years	1 year
Share price	$0.39	$0.44
Exercise price	$3.67	$3.67

During the years ended December 31, 2020 and 2019, the Company recorded a loss of $100 and $579 on revaluation of the GSI Equity Price Guarantee derivative liability, respectively.

13. DERIVATIVE LIABILITIES *(Continued)*

(b) Bridge Loan Agreement

On February 8, 2019, the Company completed a brokered private placement financing by issuing convertible notes payable (the "Bridge Loan Agreement") in the amount of $1,830 bearing interest of 3% per month (see Note 14).

The Bridge Loan Agreement, when repaid on the IPO Closing Date, had a conversion feature that the Lender could exercise for a period of no more than 30 days from the IPO Closing Date to convert the loan amount into common shares of the Company at a price per common share equal to a 25% discount on the IPO closing price, which was exercised on April 22, 2019 (see Note 14).

In accordance with IFRS, a contract to issue a variable number of equity shares fails to meet the definition of equity and must instead be classified as a derivative liability and measured at fair value with changes in fair value recognized in the consolidated statements of operations at each period-end. The derivative liability will ultimately be converted into the Company's equity when the convertible notes payable is converted or will be extinguished on the repayment of the convertible notes payable and will not result in the outlay of any additional cash by the Company.

The Company used the Black-Scholes option-pricing model to estimate fair value of the derivative liability at each reporting date. 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 convertible debentures. 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.

Upon initial recognition, the Company recorded a derivative liability and debt discount of $1,630 in relation to the derivative liability portion of the Bridge Loan Agreement (see Note 14). The Bridge Loan Agreement was converted into equity during the year ended December 31, 2019.

Pursuant to the above Bridge Loan Agreement, each subscriber was entitled to one-fourth of a share purchase warrants for each $1 dollars of the Bridge Loan Agreement at the IPO closing price.

(c) Convertible Debentures - $10M Convertible Note

On February 15, 2019, the Company completed a brokered private placement financing by issuing convertible notes payable (the "$10M Convertible Note") in the amount of $10,000 bearing interest of 12% per annum (see Note 14), which contained a conversion feature with variability in the number of common shares issuable on conversion, as the conversion price was based on the IPO closing price. Pursuant to the $10M Convertible Note, each subscriber was entitled to one-half of a share purchase warrants for each $1 of the $10M Convertible Note at a price 30% above the IPO closing price.

In accordance with IFRS, a contract to issue a variable number of equity shares fails to meet the definition of equity and must instead be classified as a derivative liability and measured at fair value with changes in fair value recognized in the consolidated statements of operations at each period-end. The derivative liability will ultimately be converted into the Company's equity when the convertible notes payable is converted or will be extinguished on the repayment of the convertible notes payable and will not result in the outlay of any additional cash by the Company.
The Company used the Black-Scholes option-pricing model to estimate fair value of the derivative liability at each reporting date. This is a Level 3 recurring fair value measurement. The key Level 3 inputs used by

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

13. DERIVATIVE LIABILITIES *(Continued)*

(c) Convertible Debentures - $10M Convertible Note *(continued)*

management to determine the fair value are the expected future volatility in the price of the Company's common shares and the expected life of the convertible notes payable. 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.

Upon initial recognition, the Company recorded a derivative liability and debt discount of $5,210 in relation to the derivative liability portion of the $10M Convertible Note. See Note 14 for further details. During the year ended December 31, 2019, the Company recorded a gain of $4,951 on revaluation of the $10M Convertible Note derivative liability. Upon the IPO transaction, this derivative liability was reclassified to equity.

14. NOTES PAYABLE

As of December 31, 2020 and 2019 notes payable consisted of the following:

	December 31, 2020	December 31, 2019
Automobile loan (a)	$ 81	$ 106
Notes payable (b)	12,637	9,321
Convertible debentures - $10M Convertible Note (c)	10,000	6,916
Convertible debentures - $27M Convertible Note (d)	28,209	24,060
Equipment loan (e)	838	676
Total notes payable	51,765	41,079
Less current portion of notes payable	(38,583)	(9,350)
Notes payable, net of current portion	**$ 13,182**	**$ 31,729**

(a) Automobile Loan

Notes payable collateralized by vehicles purchased, bearing interest ranging from 4.09% to 5.87% per annum, maturing through December 2025.

(b) Notes Payable

On August 15, 2018, the Company issued a promissory note in the amount of $11,225 in connection with the acquisition of Fluent Servicing units, bearing interest of 6% per annum to be repaid in monthly installments over a period of one year from January 1, 2019 to December 1, 2019, if such payments do not exceed a cap of 25% of the monthly net profits of Fluent Servicing in the full calendar month prior to the date a monthly payment is due. In the event the payments are not performed in full during the first year, the remaining principal will bear interest of 10% per annum to be repaid in equal payments over a period of up to 12 additional months until all sums are paid in full.

On January 1, 2019, the Company executed an amendment to the August 15, 2018 promissory note adjusting the aggregate principal amount of the new promissory note to $12,561, including among other amounts, $261 of accrued interest from August 15, 2018 to December 31, 2018 and bearing interest of 10% per annum for the first year and interest of 12% per annum for the second year to be repaid in four monthly installments of $1,000 over a period from September 1, 2019 to December 1, 2020 and twelve monthly installments of $863

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

14. NOTES PAYABLE *(Continued)*

(b) Notes Payable *(Continued)*

over a period from January 1, 2020 to December 1, 2020. Payments of this note payable amounted to $1,000 during the year ended December 31, 2019.

On January 16, 2020, the Company completed the restructuring of its existing promissory note issued in connection with the acquisition of Fluent Servicing units and amended on January 1, 2019 (the "Amended Note") as well as the terms pertaining to the Equity Price Guarantee (see Note 13). The amendment extended the maturity date to December 1, 2022, including any principal payments and deferred cash payment of interest until April 1, 2020. In addition, at the option of the holder of the Amended Note, the Amended Note is convertible into common shares of the Company at any time at a price of $0.60 per share. Furthermore, the Company amended the terms of the Equity Price Guarantee (see Note 13).

In connection with the January 16, 2020 promissory note restructuring, the Company recorded a loss on debt restructuring of $8,065 in the consolidated statement of operations during the year ended December 31, 2020, as follows:

		December 31, 2020
Shares issuance (Note 16 b.)	$	5,743
Conversion feature		4,637
Accrued interest		(873)
Fair value change in derivative (Note 13)		(1,442)
Debt restructuring loss	**$**	**8,065**

(c) Convertible Debentures - $10M Convertible Debenture

On February 15, 2019, the Company issued a $10M Convertible Note in exchange for cash proceeds of $10,000.

In connection with the issuance of the $10M Convertible Note, the Company paid cash of $600 for debt issuance fees.

On August 15, 2020, the Company extended the maturity date of the 10M Convertible Note to December 31, 2020 and issued 4,361,071 common shares of the Company at a deemed value of $0.45 per common share in satisfaction of all unpaid interest on the $10M Convertible Note accrued up to August 15, 2020 in the amount of $1,962. The Company has also agreed to pay an extension fee equivalent to 1% of the total principal amount and accrued interest outstanding on the $10M Convertible Note as at August 15, 2020, satisfied by the Company through the issuance of 265,824 common shares of the Company at $0.45 per share to the noteholders on a pro-rata basis, recorded as interest expense in the statement of operations (see Note 16h.).

During the years ended December 31, 2020 and December 31, 2019, the Company recorded interest expense of $1,376 and $1,049 and accretion expense of $3,083 and $2,420, respectively.

(d) Convertible Debentures - $27M Convertible Debenture

On May 23, 2019, the Company issued secured convertible debentures ("Secured Convertible Debentures") in exchange for gross proceeds of $27,144, bearing interest of 12% per annum, with quarterly 6% interest payments of remaining accrued interest paid at the maturity date of 24 months from issuance. The holders of the Secured Convertible Debentures may convert the principal amount into shares of the Company at a price

14. NOTES PAYABLE *(Continued)*

(d) Convertible Debentures - $27M Convertible Debenture *(Continued)*

of $2.10 per share. At the subscription of the Secured Convertible Debentures, each investor was also issued 292 common share purchase warrants for each one thousand dollars of the principal amount from $25,144 of the total gross proceeds, to be utilized for future purchase of shares at an exercise price of $2.40 per share at any time prior to March 21, 2021.

In connection with the issuance of the Secured Convertible Debentures, the Company paid cash of $1,172 for debt issuance fees and recorded interest expense of $981 and accretion expense of $2,098 for the year ended December 31, 2019. Payments of the Secured Convertible Debentures amounted to $957 during the year.

At the subscription of the Secured Convertible Debentures, each investor was also issued a warrant "Warrant Shares" to be utilized for the future purchase of shares of the Company. The total number of Subscription Warrants issued were 7,342,048. The holders of the Warrant Shares convert the principal amount into shares of the Company at a price of $2.40 per share. These Subscription Warrants were issued based on the original amount invested into the Secured Convertible Debentures. The expiry of the Subscription Warrants is 2 years from the issue date of the Secured Convertible Debentures.

The Agent received a cash fee equal to 4% of the gross receipt of the debenture issued in the offering. The Agent received 478,933 shares at an exercise price of $2.10 any time until the 24th month anniversary of the issuance of the Secured Convertible Debentures. Each broker warrant entitles the holder to acquire one conversion unit at an exercise price of $2.10 any time until the 24th month anniversary of the issuance of the Secured Convertible Debentures.

(e) Equipment Loan

Notes payable collateralized by equipment purchased, bearing interest ranging of 12% per annum, maturing through July 2024.

(f) Other Notes Payable

In March 2019, the Company settled the outstanding balance of $1,830, relating to the Bridge Loan that was converted into 1,220,000 shares of the Company's stock (see Note 13). In connection with the issuance of the above Bridge Loan Agreement, the Company paid cash of $92 during the year ended December 31, 2019. The Bridge Loan Agreement was converted into equity during the year ended December 31, 2019.

On January 15, 2019, the Company entered into a note payable agreement in the amount of $1,100 in exchange for cash receipts of $1,000 maturing the earlier of March 25, 2019 or 30 days after the Go Public Transaction. This outstanding note payable balance of $1,100 was repaid by the Company on February 15, 2019.

The following range of assumptions were used to value the equity components during the period ended December 31, 2019.

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

14. NOTES PAYABLE *(Continued)*

(f) Other Notes Payable *(continued)*

	2019
Volatility	100.00%
Risk-free interest rate	1.59%
Expected life (years)	2 years
Share price	$1.60
Exercise price	$2.10 - $2.40

A discount rate of 14% was used to value the debt component of the convertible debentures.

A reconciliation of the beginning and ending balances of the Convertible debentures, derivative liability and warrants from the time of issuance and for the years ended December 31, 2020 and 2019 is as follows:

	Convertible debentures (c), (d)	Derivative liability	Equity conversion feature	Warrants	Expense
Balance as of January 1, 2019	$ -	$ -	$ -	$ 296	$ -
Fair value of convertible debentures on issuance date	28,458	5,820	-	1,675	-
Fair value of IPO warrants on issuance date	-	-	-	9,892	-
Fair value change in derivative liability	-	(119)	-	-	-
Fair value of equity conversion feature on issuance date	-	-	2,522	-	-
Cash paid for debt issuance fees	(1,800)	-	-	-	-
Accretion expense	5,578	-	-	-	(5,578)
Convertible debentures reclassified to equity	(1,260)	(5,701)	5,091	-	-
Conversion of warrants	-	-	-	(90)	-
Balance as of December 31, 2019	**$ 30,976**	**$ -**	**$ 7,613**	**$ 11,773**	**$ (5,578)**
Balance as of January 1, 2020	$ 30,976	$ -	$ 7,613	$ 11,773	$ -
Fair value of equity conversion feature on issuance date	-	-	3,431	-	-
Issuance of Warrants	-	-	-	137	-
Accretion expense	7,232	-	-	-	(7,232)
Fair value of private placement warrants on issuance date	-	-	-	1,355	-
Balance as of December 31, 2020	**$ 38,208**	**$ -**	**$ 11,044**	**$ 13,265**	**$ (7,232)**

The fair value of the equity conversion feature is presented in the table above net of deferred taxes in the amount of $1,206.

A reconciliation of the beginning and ending balances of the notes payable for the years ended December 31, 2020 and 2019, is as follows:

	December 31, 2020	December 31, 2019
Balance at beginning of year	$ 41,079	$ 53,299
Proceeds from issuance of notes payable	65	27,904
Accretion	7,344	5,578
Conversion of notes payable to share capital	-	(1,830)
Reclassification to held for sale	-	(32)
Note amendment - Pre-amendment	3,764	-
Repayments of principal	(487)	(43,840)
Balance at end of year	**$ 51,765**	**$ 41,079**

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

14. NOTES PAYABLE *(Continued)*

(f) Other Notes Payable *(continued)*

Interest expenses for the years ended December 31, 2020 and December 31, 2019, is as follows:

	December 31, 2020	December 31, 2019
Interest expense, net	$ 3,900	$ 6,969
Accretion expense - Notes payable	112	2,170
Accretion expense - Convertible Debentures	7,232	3,408
Right-of-use asset interest expense	2,516	2,264
Total interest expense, net	**$ 13,760**	**$ 14,811**

15. LEASES

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

(a) Right-of-use Assets

	December 31, 2020	December 31, 2019
Cost		
Balance at beginning of year	$ 25,026	$ 19,164
Additions	2,348	7,845
Modifications	443	-
Disposals	(1,132)	-
Assets held for sale (Note 7)	-	(1,983)
Balance at end of year	26,686	25,026
Accumulated Depreciation		
Balance at beginning of year	$ 4,836	$ 2,909
Additions	2,755	2,488
Assets held for sale (Note 7)	-	(561)
Balance at end of year	7,591	4,836
Right-of-use-assets, net	**$ 19,094**	**$ 20,190**

(b) Lease Liabilities

During the years ended December 31, 2020 and 2019, the Company incurred variable lease payments of $478 and $684, respectively.

	December 31, 2020	December 31, 2019
Balance at beginning of year	$ 22,927	$ 18,003
Additions	2,348	7,841
Modification	443	-
Disposals	(1,250)	-
Interest on lease liabilities	2,516	2,271
Interest payments on lease obligations	(2,516)	(2,271)
Principal payments on lease obligations	(1,762)	(1,229)
Liabilities held for sale (Note 7)	-	(1,688)
Balance at end of year	**$ 22,705**	**$ 22,927**
Less current portion of lease obligations	(1,894)	(1,761)
Lease obligations, net of current portion	**$ 20,811**	**$ 21,166**

16. SHAREHOLDERS' EQUITY

Equity shares transactions

During the year ended December 31, 2020, the following transactions were recorded in shareholders' equity:

a. On January 16, 2020, the Company recorded the receipt of 14,215,385 common shares returned by the Company's founders at a cost of $0.77, reducing its share capital by the shares cost of $10,970 with a corresponding adjustment to accumulated deficit.

b. On January 16, 2020, concurrently with the above transaction, the Company issued 14,215,385 common shares upon restructuring of its existing promissory note issued in connection with the acquisition of Fluent Servicing (see Note 14). The fair market value of the shares issued and equity conversion featured recorded in connection with this transaction were $5,753 and $4,637, respectively.

c. On January 22, 2020, the Company took back 4,124,166 common shares previously issued to its partner, Vision Science and Technology, S.A.S representing 50% of the equity of Cansortium Colombia. As a result of the transaction, the Company recorded the related shares cost of $3,071 as a reduction of capital and recognized the difference of $1,056 between cost of investment and fair value of the units received to accumulated deficit. The shares have been returned to treasury and the Company, through its subsidiaries, is the 50% owner of Cansortium Colombia.

d. On February 7, 2020, the Company completed a non-brokered private placement offering of 10,189,758 equity units (each, a "Unit") at $0.45 per Unit. Each Unit consists of one common share of the Company (a "Share") and one common share purchase warrant which entitles holders to acquire one Share (a "Warrant Share") at an exercise price of $0.45 per Warrant Share. The Company allocated the net cash proceeds fair value of $2,996 and $1,355 to capital and warrants, respectively.

e. On May 5, 2020, the Company signed a Consulting Agreement with Zola Global Investors ("Zola") pursuant to which Zola received 1,000,000 shares and 3,000,000 stock options with a three-year expiration date and exercise price of $0.255 per share.

f. On May 29, 2020, the Company completed the sale of its Canadian Subsidiaries. As part of the consideration for the sale of its Canadian Subsidiaries, a total of 1,500,000 common shares were returned by 2638116 Ontario Inc. to the Company for cancellation. In connection with obtaining consent from the debenture holders to the Company's sale of its Canadian Subsidiaries, the Company issued 1,492,854 common shares to the debenture holders at a deemed price of $0.385 per share to the debenture holders of the Secured Convertible Debenture issued on May 23, 2019. The issuance of shares issued in connection with this transaction was recorded as increase of $575 to share capital and expensed in the statement of operations.

g. On August 11, 2020, the Company settled its dispute with Woodmere Health Partners LLC ("Woodmere"), the Company's former partner in Pennsylvania in its pursuit of a clinical registrant. Pursuant to the terms of the settlement, Woodmere returned the equivalent of 4,836,364 restricted common shares to the Company for cancellation and released the Company from any further obligations, in exchange for the issuance of 1,250,000 common shares and 750,000 common share purchase warrants with a term of three years and an exercise price of $0.53.

16. SHAREHOLDERS' EQUITY *(Continued)*

h. On August 15, 2020, the Company extended the maturity date of the $10 million Convertible Note to December 31, 2020 and issued 4,361,071 common shares of the Company at a deemed value of $0.34 per common share in satisfaction of all unpaid interest on the $10 million Convertible Note accrued up to August 15, 2020 in the amount of $1,962. The Company also paid an extension fee equivalent to 1% of the total principal amount and accrued interest outstanding on the $10 million Convertible Note as at August 15, 2020, satisfied by the Company through the issuance of 265,824 common shares of the Company at $0.34 per share to the noteholders on a pro-rata basis resulting increase to share capital of $1,550.

i. On December 8, 2020, the Company recorded the receipt of 13,008,870 common shares returned by the Company's founders at a cost of $0.74, reducing its share capital by the shares cost of $9,572 with a corresponding adjustment to accumulated deficit.

During the year ended December 31, 2019, the following transactions were recorded in shareholders' equity:

On February 7, 2019, the Company issued 512,536 shares of Cansortium Holdings LLC to acquire the remaining 30 percent ownership of Cansortium Pennsylvania, LLC. The fair market value of the shares issued was $847. As a result of the acquisition of the remaining membership units of Cansortium Pennsylvania, LLC, Cansortium Holdings became the sole owner. As a result of the transaction, the Company adjusted its carrying interest by $219 for the non-controlling's interest in Cansortium Pennsylvania, LLC and recognized directly to equity the difference of $1,066 between the non-controlling interest and the fair value of the shares issued.

On March 22, 2019, the Company issued 3,852,080 shares of the Company to acquire the remaining 40 percent ownership of Cansortium Canada Servicing Inc. The fair market value of the shares issued was $6,369. As a result of the acquisition of the remaining interest in Cansortium Canada Servicing Inc., the Company became the sole owner. As a result of the transaction, the Company adjusted it's carrying interest by $450 for the non-controlling's interest in Cansortium Canada Servicing Inc. and recognized directly to equity the difference of $6,619 between the non-controlling interest and the fair value of the shares issued.

On March 22, 2019, the Company acquired all shares of Cansortium Inc. in connection with the Company's initial public offering and listing on the Canadian Securities Exchange and issued 28,089,099 common shares of the Company for cash gross proceeds of $56,178.

On April 22, 2019, the lender of the Bridge Loan Agreement exercised its right to convert the principal amount due thereunder to 1,220,000 shares of the Company's common stock. As a result, $2,440 was transferred to share capital (see Note 14).

During the year ended December 31, 2019, the Company adjusted its initial application of IFRS 16 adding to the shareholders accumulated deficit on the amount of $1,261.

During the year ended December 31, 2019, the Company issued 208,432 shares of the Company valued at $600 for third-party related services.

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

16. SHAREHOLDERS' EQUITY *(Continued)*

Share Capital

As of December 31, 2020, the share capital of the Company is comprised of 113,803,920 common shares, 7,411,183 proportionate voting shares (each proportionate voting share is convertible into ten common shares), 55,910,907 warrants and convertible debt allotments and 14,931,039 stock options. For the purpose of the statement of changes in shareholders' equity, the proportionate voting shares have been included as part of common shares based on the 1 for 10 conversion ratio.

Earnings per share have been calculated using the weighted average number of shares outstanding during a period on a total outstanding and fully dilutive basis. The potential conversion of warrants, convertible debt, and stock options into common shares. The weighted average number of basic and diluted shares are presented in the table below:

	December 31, 2020	December 31, 2019
Weighted average number of shares - basic	198,999,746	185,593,303
Weighted average warrants	33,586,992	24,339,927
Weighted average convertible debt allotment	17,933,011	12,355,276
Weighted average options	11,623,649	1,181,924
Weighted average number of shares - diluted	262,143,398	223,470,430

The number of warrants outstanding as of December 31, 2020 and 2019, were 37,977,896 and 27,038,138, respectively, and the number of warrants granted during the years ended December 31, 2020 and 2019, were 10,939,758 and 27,038,138, respectively.

Restricted Shares

Restricted shares are issued and outstanding shares that are subject to a Company escrow agreement requiring achievement of certain performance or service metrics to release such restrictions. Restricted shares activity for the Company for the years ended December 31, 2020 and 2019 is as follows:

	Restricted shares	Grant date fair value per unit	Aggregate intrinsic value
Balance as of December 31, 2017	-	$ -	$ -
Granted	11,166,850	2.75	30,709
Balance as of December 31, 2018	11,166,850	$ 2.75	$ 30,709
Vested	(2,169,749)	2.75	(5,967)
Forfeited	(50,000)	2.75	(138)
Balance as of December 31, 2019	**8,947,101**	**$ 2.75**	**24,605**
Balance as of December 31, 2019	8,947,101	$ 2.75	$ 24,605
Vested	(905,364)	2.75	$ (2,490)
Forfeited	(5,914,468)	2.75	(16,265)
Balance as of December 31, 2020	**2,127,269**	**$ 2.75**	**5,850**

During the year ended December 31, 2019, the 648,545 shares issued for the acquisition of the remaining membership units of Cansortium Puerto Rico, LLC and the 1,000,000 shares issued for the acquisition of Green Standard vested.

During the year December 31, 2019, 84,091 restricted shares issued for employee compensation and 437,113 shares issued for professional services vested and 50,000 shares issued for employee compensation forfeited.

During the year ended December 31, 2020, 905,364 shares of restricted stock vested.

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

16. SHAREHOLDERS' EQUITY *(Continued)*

Restricted Shares *(Continued)*

During the year ended December 31, 2020, 5,914,464 shares of restricted stock were forfeited, resulting in an adjustment to the statement of operations of $713.

Stock Option Plan

On March 14, 2019, the Board of Directors (the "Board") of the Company approved a Stock Option Plan (the "Plan"). Under the Plan, the Board may grant options to acquire common shares of the Company to officers, employees, and consultants, to a limit of 10% of the outstanding common shares of the Company, including proportionate voting shares. The purpose of the Plan is to provide the Company with a share-related mechanism to attract, retain and motivate qualified Executives, Employees and Consultants to contribute toward the long-term goals of the Company, and to encourage such individuals to acquire Shares of the Company as long-term investments.

The term of an option grant is determined by the Board up to a maximum of 5 years from the grant date. Stock options granted generally vest over two to five years.
The following is a summary of the Company's grant of options to some of its officers, directors, employees and consultants using the Black-Scholes option pricing model. Assumptions for the years ended December 31, 2020 and 2019 were the following:

	Oct 6, 2020	Jul 7, 2020	May 26, 2020	May 15, 2020	May 5, 2020	Feb 13, 2020	Dec 31, 2019	Mar 21, 2019
Options granted	1,750,000	300,000	2,400,000	150,000	3,000,000	300,000	6,380,000	1,182,106
Fair Value	$289	$86	$657	$17	$251	$51	$2,096	$1,287
Stock price	$0.28	$0.30	$0.38	$0.41	$0.16	$0.36	$0.44	$1.59
Exercise price	$0.30	$0.32	$0.40	$1.00	$0.26	$0.45	$0.44	$2.00
Original term	3 years	5 years	5 years	3 years	3 years	2 years	2 to 5 years	2 to 5 years
Dividend rate	0%	0%	0%	0%	0%	0%	0%	0%
US treasury rate	0.17%	0.29%	0.35%	0.19%	0.24%	1.58%	1.67%	2.34%
Volatility	100%	100%	100%	100%	100%	100%	100%	100%
Forfeiture rate	0%	0%	0%	0%	0%	0%	0%	0%

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

In connection with the May 5, 2020 grant, the Company signed a Consulting Agreement with Zola Global Investors pursuant to which Zola received one million common shares and three million stock options. The fair value of these options of $446 were measured at the date of grant using the Black-Scholes option pricing model.

In connection with May 15, 2020 grant, the Company signed Consulting Agreement for services to be rendered in connection with its Michigan cultivation and operation facilities of Green Standard pursuant to which the consultant received 150,000 options. The fair value of these options of $17 were measured at the date of grant using the Black-Scholes option pricing model.

For the year ended December 31, 2020 and 2019, the Company recognized $1,698 and $3,001 as stock-based compensation in the consolidated statements of operations with corresponding credit to equity (share-based compensation reserve), respectively. This expense was calculated based on the vesting conditions of each grant.

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

16. SHAREHOLDERS' EQUITY *(Continued)*

Stock Option Plan *(Continued)*

As of December 31, 2020, there were 14,931,039 options outstanding, comprising of 14,361,139 options vested and 539,900 options non-vested, with remaining contractual lives 0.4 to 4.5 years.

The following is a summary of the changes in the Company's Stock Options Plan during the years ended December 31, 2020 and 2019:

	Options Issued	Weighted Average Exercise Price
Balance as of December 31, 2019	8,041,039	$ 0.77
Granted	7,900,000	$ 0.33
Forfeited	(1,010,000)	$ 0.90
Balance as of December 31, 2020	**14,931,039**	**$ 0.53**

The following is a summary of the outstanding options as of December 31, 2020:

Exercise prices	Outstanding as of December 31, 2020	Weighted average remaining contractual life (years)	Exercisable as of December 31, 2020	Weighted average remaining contractual life (years)
$ 0.26	3,000,000	2.3	3,000,000	2.3
$ 0.40	2,400,000	4.4	2,400,000	4.4
$ 0.44	5,670,000	3.9	5,330,100	3.9
$ 0.45	300,000	1.1	300,000	1.1
$ 1.00	150,000	2.4	150,000	2.4
$ 2.00	882,106	2.5	882,106	2.5
$ 2.10	478,933	0.4	478,933	0.4
$ 0.32	300,000	4.5	100,000	4.5
$ 0.30	1,750,000	2.8	1,750,000	2.8
	14,931,039	**3.3**	**14,391,139**	**3.3**

17. EXPENSE BY NATURE

General and administrative expenses for the years ended December 31, 2020 and 2019 are as follows:

	December 31, 2020	December 31, 2019
General and administrative		
Legal and professional fees	6,727	9,331
Salaries and benefits	$ 2,813	$ 6,112
Insurance	1,561	1,007
Rent expenses	240	731
Travel and entertainment	80	496
Other	1,097	4,043
Total general and administrative	**$ 12,517**	**$ 21,720**

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

17. EXPENSE BY NATURE *(Continued)*

Sales and marketing expenses for the years ended December 31, 2020 and 2019 are as follows:

	December 31, 2020	December 31, 2019
Sales and marketing		
Salaries and benefits	$ 7,184	$ 6,836
Security	2,266	1,868
Marketing expenses	1,519	1,078
Rent expenses	857	387
Supplies	377	292
Other	1,652	1,704
Total sales and marketing	**$ 13,855**	**$ 12,165**

18. COMMITMENTS AND CONTINGENCIES

(a) Office and Other Leases

The Company leases certain business facilities from third parties under lease agreements that specify minimum rentals. The leases expire through 2032 and contain certain renewal provisions. Future minimum lease payments under non-cancelable operating leases having an initial or remaining term of more than one year are as follows:

For the twelve months period ending December 31,	Scheduled payments
2021	$ 4,288
2022	4,474
2023	4,572
2024	4,519
2025	4,179
Thereafter	12,401
Total future minimum lease payments	**$ 34,433**

(b) Contingencies

The Company's operations are subject to a variety of local and state regulation. Failure to comply with one or more of those regulations could result in fines, restrictions on its operations, or losses of permits that could result in the Company ceasing operations. While management of the Company believes that the Company is in compliance with applicable local and state regulation as of December 31, 2020, 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.

(c) Claims and Litigation

From time to time, the Company may be involved in litigation relating to claims arising out of operations in the normal course of business. As of December 31, 2020, 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, except for the claims disclosed below.

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

18. COMMITMENTS AND CONTINGENCIES *(Continued)*

(c) Claims and Litigation *(Continued)*

On September 3, 2019, the Company and Cansortium Inc., along with certain executives of the Company, were sued in Florida by Querrey Group, LLC, et al., wherein Querrey alleges, among other claims, breach of its consulting contract with Cansortium Inc, LLC and seeks approximately $2,100 in damages. The Company denies the allegations set forth in the complaint and is vigorously defending itself. At this early stage of proceedings, the Company is unable to provide an evaluation of the likelihood that a loss will be incurred or an estimate of the amounts or range of possible loss.

On July 17, 2020, the Company entered into management agreement with Freedom Town Holdings, LLC (‘FTH’) to advise on the construction and management of cultivation facilities for which FTH will receive certain percentages of sales dependent on products and amounts sold. During the year ended December 31, 2020, there were no sales made in connection with this agreement.

On July 24, 2020, MXY Holdings, LLC and its affiliates (collectively "MXY") filed suit in California 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. MXY's refusal or inability to materially deliver on its obligations prompted the Company to consider termination of the MSA and the Company sent MXY a default notice on July 8, 2020. This lawsuit was dismissed on October 1, 2020 for lack of personal jurisdiction. On December 10, 2020, MXY filed a new complaint for breach of contract in the US District Court for Southern District of Florida seeking similar damages. The Company continues to deny all claims related to the MSA and filed a Motion to Dismiss on March 16, 2021. On April 6, 2021, MXY submitted a proposed order to the court to dismiss the case.

19. RELATED-PARTY TRANSACTIONS

Key management personnel compensation

Key management personnel are those persons having the authority and responsibility for planning, directing and controlling activities for the Company, directly and indirectly. The key management personnel of the Company are the members of the Company’s executive management team and Board of Directors. For the years ended December 31, 2020 and 2019 key management personnel compensation consisted of the following:

	For the years ended December 31, 2020	2019
Salary	$ 917	$ 1,761
Option-based compensation	975	1,929
All other compensation	740	484
Total	$ 2,632	$ 4,174

19. RELATED-PARTY TRANSACTIONS *(Continued)*

Transactions with related parties

The Company leases one of its cultivation and production facilities from Knox Nursery Inc., a company owned by a member of Fluent Servicing until August 15, 2018. The lease began October 2017 and terminated on August 15, 2020. The monthly rental fee was $1.5 per month.

On February 1, 2020, Neal Hochberg and John McKimm, Directors of the Company, participated on the non-brokered private placement offering (see Note 16) contributing with $128 and $43 in satisfaction of a portion of accrued directors' fees, respectively.

On December 8, 2020, the Company recorded the receipt of 13,008,870 common shares returned by the Company's founders Jose Hidalgo, Henry Batievsky, and Pat Maloy, at a cost of $0.01 (one cent of a dollar) (See Note 16 i.).

20. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

Financial Instruments

The Company's financial instruments consist of cash and cash equivalents, note receivable, accounts payable and accrued liabilities, derivative liability, lease obligations and notes payable.

Financial Assets

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

Financial Liabilities

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

(ii) Compound financial instruments issued by the Company comprise convertible notes payable that are convertible to share capital at either the option of the holder or upon consummation of a qualifying go-public transaction. The liability component of the compound financial instruments is initially recognized as the difference between the fair value of the derivative liability (i.e., conversion feature) and the fair value of the convertible notes payable. Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortized cost using the effective interest method and the derivate liability is re-measured with subsequent changes in fair market value.

(iii) Other financial liabilities include the Company's accounts payable and accrued expenses, notes payable and lease obligations. The effective interest method is used to calculate the amortized cost of a financial liability and allocates interest income over the corresponding period. 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.

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

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

Financial instruments recorded at fair value are classified using a fair value hierarchy that reflects the significance 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.

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 at December 31, 2020 is the carrying amount of cash, accounts receivable and note receivable. All cash is placed with major U.S. financial institutions. Credit risk from due from accounts receivable and note receivable arises from the possibility that amounts due become uncollectible.

In addition to the commitments outlined in Note 18, the Company had the following contractual obligations as of December 31, 2020:

	< 1 year	years	years	> 5 years	Total
Accounts payable	$ 4,807	$ -	$ -	$ -	$ 4,807
Accrued liabilities	$ 7,614	$ -	$ -	$ -	$ 7,614
Notes payable	$ 38,583	$ 13,161	$ 21	$ -	$ 51,765
Lease obligations	$ 1,894	$ 4,993	$ 5,860	$ 9,959	$ 22,705

In addition to the commitments outlined in Note 18, the Company had the following contractual obligations as of December 31, 2019:

	< 1 year	1 to 3 years	3 to 5 years	> 5 years	Total
Accounts payable	$ 7,860	$ -	$ -	$ -	$ 7,860
Accrued liabilities	$ 5,135	$ -	$ -	$ -	$ 5,135
Notes payable	$ 9,350	$ 30,982	$ 71	$ -	$ 40,403
Lease obligations	$ 22,927	$ 4,274	$ 5,405	$ 11,487	$ 22,927

(b) Market Risk

(i) Price Risk

Price risk is the risk of variability in fair value due to movements in equity or market prices.

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

Financial Risk Management *(Continued)*

(b) Market Risk *(Continued)*

(ii) Currency Risk

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

As of December 31, 2020, and 2019, 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.

(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.

(d) Banking 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.

(e) Asset Forfeiture Risk

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.

21. SUBSEQUENT EVENTS

The Company has evaluated subsequent events through April 30, 2021, which is the date these consolidated financial statements were issued.

On January 31, 2021, the Company extended the maturity date of the $10M Convertible Note to December 1, 2022 and issued 1,263,407 common shares of the Company in satisfaction of all unpaid interest on the $10M Convertible Note accrued up to January 31, 2021 in the amount of $569. The Company has paid an extension fee equivalent to 1% of the total principal amount and accrued interest outstanding on the $10M Convertible Note as at January 31, 2021, satisfied by the Company through the issuance of 234,857 common shares of the Company at $0.45 per share and 5,000,000 warrants to the noteholders on a pro-rata basis (see Note 15). Each warrant is exercisable at $0.60 until December 1, 2022. The Company has the right to redeem up to $5 million of the $10M Convertible Note by May 10, 2021.

On January 31, 2021, the Company transferred all of its interest in Cansortium Australia PTY, LTD to its existing partners increasing their shares from 50% to 100% for the aggregate consideration of $0.01.

On April 5, 2021, the Company issued $11.8 million of units at a purchase price of $0.70. Each unit consists of one common share of the Company and one-half of one common share purchase warrant. Each warrant entitles the holder to purchase one common share of the Company through for a period of 24 months at an exercise price of $0.90. The proceeds from the issuance will be used to accelerate the Company's growth initiatives in both Florida and Michigan and for working capital purposes.

On April 9, 2021, the Company issued another $5.2 million of units at a purchase price of $0.70. Each unit consists of one common share of the Company and one-half of one common share purchase warrant. Each warrant entitles the holder to purchase one common share of the Company through for a period of 24 months at an exercise price of $0.90. The proceeds from the issuance will be used to accelerate the Company's growth initiatives in both Florida and Michigan and for working capital purposes.

On April 29, 2021, the Company entered into a Senior Secured Term Loan in the amount of $71 million. The Term Loan will bear interest of 13% semi-annually, with a 4-year maturity and is callable in 18 months. In connection with the transaction, 12.5 million warrants with an exercise price of $1.20 were granted. Subject to certain conditions of the agreement, the Company has the ability to increase the Term Loan by up to US$20 million.