

Cansortium Inc.

**Condensed Interim Consolidated Financial Statement
(Unaudited)**

**For the three months ended
March 31, 2021 and March 31, 2020**

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

Cansortium Inc.

Condensed Interim Consolidated Statements of Financial Position (unaudited)

As of March 31, 2021 and December 31, 2020

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

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Cansortium Inc.
Condensed Interim Consolidated Statements of Financial Position (unaudited)
As of March 31, 2021 and December 31, 2020

| | March 31, 2021 | December 31, 2020 |
|---|------------------------|----------------------|
| Assets | | |
| Current assets | | |
| Cash and cash equivalents | \$ 3,114 | \$ 3,392 |
| Accounts receivable | 115 | 148 |
| Inventory, net | Note 3 6,860 | 5,006 |
| Biological assets | Note 4 5,536 | 1,914 |
| Note receivable | Note 5 3,887 | 3,859 |
| Prepaid expenses and other current assets | Note 6 1,052 | 1,365 |
| Total current assets | 20,564 | 15,684 |
| Investment held for sale | Note 7 200 | 200 |
| Property and equipment, net | Note 8 20,880 | 19,517 |
| Intangible assets, net | Note 9 96,652 | 97,035 |
| Right-of-use assets | Note 15 18,427 | 19,094 |
| Deposit | Note 10 1,050 | 1,050 |
| Goodwill | Note 11 1,526 | 1,526 |
| Other assets | 481 | 425 |
| Total assets | \$ 159,780 | \$ 154,531 |
| Liabilities | | |
| Current liabilities | | |
| Accounts payable | 7,281 | 4,808 |
| Accrued liabilities | 7,803 | 7,614 |
| Income taxes payable | Note 12 10,028 | 8,925 |
| Derivative liabilities | Note 13 7,004 | 7,412 |
| Current portion of notes payable | Note 14 39,658 | 38,583 |
| Lease obligations | Note 15 2,006 | 1,894 |
| Total current liabilities | 73,780 | 69,236 |
| Notes payable, net of current portion | Note 14 13,224 | 13,182 |
| Lease obligations, net of current portion | Note 15 20,265 | 20,811 |
| Deferred income taxes | Note 12 23,465 | 23,471 |
| Total liabilities | 130,734 | 126,700 |
| Shareholders' equity | | |
| Share capital | Note 16 141,176 | 137,835 |
| Share-based compensation reserve | Note 16 5,704 | 4,675 |
| Equity conversion feature | Notes 14, 16 11,044 | 11,044 |
| Warrants | 15,200 | 13,265 |
| Accumulated deficit | (143,705) | (138,609) |
| Accumulated other comprehensive loss | (374) | (379) |
| Total shareholders' equity | 29,046 | 27,831 |
| Total liabilities and shareholders' equity | \$ 159,780 | \$ 154,531 |

Nature of Operations (Note 1)

Commitments and Contingencies (Note 18)

Subsequent Events (Note 21)

Approved and authorized for issue on behalf of the Shareholders on May 27, 2021:

Robert Beasley
Chief Executive Officer

Patricia Fonseca
Chief Financial Officer

The accompanying notes are an integral part of these Consolidated Financial statements.

Cansortium Inc.**Condensed Interim Consolidated Statements of Operations (unaudited)****For the three months ended March 31, 2021 and March 31, 2020***(Amounts expressed in thousands of United States Dollars unless otherwise stated)*

| | For the three months ended | |
|--|-----------------------------------|-------------|
| | March 31, | |
| | 2021 | 2020 |
| Revenue, net of discounts | \$ 15,116 | \$ 10,163 |
| Cost of goods sold | 5,407 | 3,660 |
| Gross profit before fair value adjustments | 9,709 | 6,503 |
| Realized fair value of increments on inventory sold | (4,593) | (7,562) |
| Unrealized change in fair value of biological assets | Note 4 6,879 | 12,110 |
| Gross profit | 11,995 | 11,051 |
| Expenses | | |
| General and administrative | Note 17 3,289 | 3,139 |
| Share-based compensation | 3,232 | 886 |
| Sales and marketing | Note 17 3,546 | 3,121 |
| Depreciation and amortization | Notes 8, 9, 15 1,530 | 1,502 |
| Total expenses | 11,597 | 8,648 |
| Loss from operations | 398 | 2,403 |
| Other expense (income) | | |
| Interest expense, net | Note 14 3,130 | 3,759 |
| Change in fair market value of derivative liability | Note 13 (408) | 1,835 |
| Equity loss on investment in associate | Note 10 - | 183 |
| Loss on debt restructuring | Note 14 - | 8,065 |
| Loss on disposal of assets | 48 | - |
| Other (income) expense | (113) | 16 |
| Total other expense (income) | 2,657 | 13,858 |
| Loss before income taxes | (2,259) | (11,455) |
| Income taxes | Note 12 2,838 | 2,833 |
| Net loss | (5,097) | (14,288) |
| (Gain)/Loss from discontinued operations | Note 7 (2) | (376) |
| Net loss after discontinued operations | \$ (5,095) | \$ (13,912) |
| Other comprehensive loss: | | |
| Foreign exchange translation gain (loss) | 5 | (70) |
| Comprehensive loss | \$ (5,090) | \$ (13,982) |
| Net loss per share | | |
| Basic | Note 16 \$ (0.03) | \$ (0.07) |
| Diluted | Note 16 \$ (0.03) | \$ (0.07) |

The accompanying notes are an integral part of these Consolidated Financial statements.

Cansortium Inc.

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

For the three months ended March 31, 2021 and March 31, 2020

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

| | Share capital | | | Reserves | | | Accumulated deficit | Non-controlling interests | Accumulated other comprehensive loss | Total shareholders' equity |
|---|--------------------------------------|------------------------------------|-------------------|----------------------------------|---------------------------|------------------|---------------------|---------------------------|--------------------------------------|----------------------------|
| | Number of unrestricted common shares | Number of restricted common shares | Amount | Share-based compensation reserve | Equity conversion feature | Warrants | | | | |
| 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 |
| Issuance of warrants | - | - | - | - | - | 44 | - | - | - | 44 |
| Exercise of warrants | 2,833,332 | - | 1,275 | - | - | - | - | - | - | 1,275 |
| Issuance of options | - | - | - | 1,029 | - | - | - | - | - | 1,029 |
| Exercise of options | 28,068 | - | - | - | - | - | - | - | - | - |
| Shares issued for professional services (Note 16 k.) | 1,361,666 | - | 1,017 | - | - | - | - | - | - | 1,017 |
| Issuance of warrants for note payable extension (Note 16 j.) | - | - | - | - | - | 1,891 | - | - | - | 1,891 |
| Issuance of shares for note payable extension (Note 16 j.) | 1,498,264 | - | 1,049 | - | - | - | - | - | - | 1,049 |
| Foreign currency gain on translation | - | - | - | - | - | - | - | - | 5 | 5 |
| Net loss | - | - | - | - | - | - | (5,095) | - | - | (5,095) |
| Balance, March 31, 2021 | 191,509,812 | 2,127,269 | \$ 141,176 | \$ 5,704 | \$ 11,044 | \$ 15,200 | \$ (143,704) | \$ - | \$ (374) | \$ 29,046 |

The accompanying notes are an integral part of these Consolidated Financial statements.

Cansortium Inc.**Condensed Interim Consolidated Statements of Cash Flows (unaudited)****For the three months ended March 31, 2021 and March 31, 2020***(Amounts expressed in thousands of United States Dollars unless otherwise stated)*

| | For the three months ended | |
|---|----------------------------|-------------|
| | March 31, | |
| | 2021 | 2020 |
| Operating activities | | |
| Net loss | \$ (5,095) | \$ (13,912) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | |
| Unrealized gain on changes in fair value of biological assets | (6,879) | (12,110) |
| Realized gain on changes in fair value of biological assets | 4,593 | 7,562 |
| Share-based compensation | 2,151 | 806 |
| Depreciation and amortization | 2,231 | 1,990 |
| Discontinued operations | (2) | (370) |
| Accretion of convertible debentures | 1,123 | 1,822 |
| Interest on lease liabilities | 618 | 663 |
| Change in fair market value of derivative | (408) | 1,835 |
| Loss on investment in associate | - | 183 |
| Loss on debt restructuring | - | 8,065 |
| Loss on disposal of assets | 48 | - |
| Deferred tax expense | (6) | 1,108 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | 33 | 8 |
| Inventory | (1,854) | (1,627) |
| Biological assets | (1,336) | 1,715 |
| Prepaid expenses and other current assets | 417 | (592) |
| Other assets | (56) | 1 |
| Accounts payable | 2,473 | 998 |
| Accrued liabilities | 191 | 660 |
| Income taxes payable | 1,103 | 1,726 |
| Net cash provided by (used in) operating activities | (655) | 531 |
| Investing activities | | |
| Purchases of property and equipment | (2,610) | (1,132) |
| Payment of notes receivable | 284 | - |
| Proceeds from sale of property and equipment | 17 | - |
| Notes receivable | (311) | (339) |
| Net cash used in investing activities | (2,620) | (1,471) |
| Financing activities | | |
| Proceeds from issuance of shares and warrants | 1,891 | 4,351 |
| Proceeds from issuance of notes payable | - | 62 |
| Payment of lease obligations | (1,052) | (1,064) |
| Shares issued for interest repayments of notes payable | 884 | - |
| Exercise of warrants | 1,275 | - |
| Principal repayments of notes payable | (6) | (9) |
| Net cash provided by financing activities | 2,992 | 3,340 |
| Effect of foreign exchange on cash and cash equivalents | 5 | (70) |
| Net increase (decrease) in cash and cash equivalents | (278) | 2,330 |
| Cash and cash equivalents, beginning of period | 3,392 | 2,516 |
| Cash and cash equivalents, end of period | \$ 3,114 | \$ 4,846 |
| Cash paid during the period for interest | \$ 796 | \$ 409 |
| Non-cash transactions: | | |
| Founders shares return | \$ - | \$ 10,970 |
| Note payable amendment | \$ - | \$ 10,380 |
| Shares returns for sale of interest in subsidiaries | \$ - | \$ 3,294 |
| Conversion of accrued interest and notes payable equity | \$ 884 | \$ - |

The accompanying notes are an integral part of these Consolidated Financial statements.

Cansortium Inc.

Notes to Condensed Interim Consolidated Financial Statements (unaudited)

For the three months ended March 31, 2021 and March 31, 2020

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

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 is comprised of 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 c.) and classified its Cansortium Colombia investment held for sale separately in the statement of financial position.

All of the Company's operations are in one segment, the production and sale of medical cannabis. All revenues for the three months ended March 31, 2021 and 2020 were generated in the United States.

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

The Company has recorded a net loss of \$6,836 on its consolidated statement of operations, a negative cash flows from operations of \$655 during the three months ended March 31, 2021 and, as of that date, the Company had an accumulated deficit in the amount of \$145,446. 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.

1. NATURE OF OPERATIONS *(Continued)*

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. In April 2021, the Company raised approximately \$88 million, \$17 million of which was through an equity private placement completed on April 5 and 9, 2021, and \$71 million of which was through a Senior Secured Term Loan that closed on April 29, 2021. The proceeds from this new debt were 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 condensed interim consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations of the IFRS Interpretations Committee ("IFRIC").

The condensed interim consolidated financial statements have been prepared in accordance with International Accounting Standard 34 – Interim Financial Reporting, following the same accounting policies and methods of application as those disclosed in the annual audited consolidated financial statements for the years ended December 31, 2020 and 2019. These condensed interim consolidated financial statements should be read in conjunction with the annual consolidated financial statements of the Company for the years ended December 31, 2020 and 2019, including the accompanying notes thereto.

These condensed interim consolidated financial statements were approved and authorized for issue by the Board of Directors of the Company on May 27, 2021.

(b) Basis of Measurement

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

(c) Functional and Presentation of Foreign Currency

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

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

Cansortium Inc.**Notes to Condensed Interim Consolidated Financial Statements (unaudited)****For the three months ended March 31, 2021 and March 31, 2020***(Amounts expressed in thousands of United States Dollars unless otherwise stated)***2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)****(d) Basis of Consolidation**

The condensed interim 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 condensed interim consolidated financial statements and the ownership interest held as of March 31, 2021 and December 31, 2020.

| | % Ownership | % Ownership |
|--|--------------------|---------------------|
| | March 31, | December 31, |
| | 2021 | 2020 |
| Cansortium Holdings LLC | 100.00% | 100.00% |
| Cansortium Pennsylvania, LLC | 100.00% | 100.00% |
| Cansortium Puerto Rico, LLC (Note 7) | 100.00% | 100.00% |
| Cansortium Texas, LLC | 100.00% | 100.00% |
| Cansortium Canada Holdings Inc. | 100.00% | 100.00% |
| Fluent Servicing, LLC | 100.00% | 100.00% |
| Cansortium Brazil Ltda. | 100.00% | 100.00% |
| Cansortium Australia Pty. Ltd | 0.00% | 50.00% |
| Cansortium Health Partners, LLC | 0.00% | 100.00% |
| Cansortium Florida, LLC | 100.00% | 100.00% |
| Cansortium Colombia S.A.S. (Notes 7, 15) | 50.00% | 50.00% |
| Spirit Lake Road Nursery, LLC | 100.00% | 100.00% |
| 16171 Slater Road Investors LLC | 100.00% | 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% |
| Harvest Park Lot 9 Investors No. 2 LLC | 100.00% | 100.00% |
| Fluent Hemp LLC | 100.00% | 100.00% |
| Cansortium Beverage Company Inc. | 100.00% | 100.00% |
| Cansortium International Inc. | 100.00% | 100.00% |

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.

Cansortium Inc.

Notes to Condensed Interim Consolidated Financial Statements (unaudited)

For the three months ended March 31, 2021 and March 31, 2020

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Critical Accounting Judgments, Estimates and Assumptions

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

Critical judgments, estimates and assumptions that have the most significant effect on the amounts recognized on these condensed interim consolidated financial statements have been set out in Note 2 of the audited annual consolidated financial statements for the years ended December 31, 2020 and 2019.

(f) COVID-19 outbreak

Since February 2020, 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. 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.

3. INVENTORY

As of March 31, 2021, and December 31, 2020, inventories consisted of the following:

| | March 31, | December 31, |
|-----------------------------------|------------------|---------------------|
| | 2021 | 2020 |
| Supplies, packaging and materials | \$ 1,596 | \$ 711 |
| Work in progress | 2,934 | 3,562 |
| Finished goods | 4,068 | 2,471 |
| Inventory reserve | (1,738) | (1,738) |
| Balance at end of period | \$ 6,860 | \$ 5,006 |

Inventory material costs included in cost of goods sold during the three months ended March 31, 2021 and 2020, were \$683 and \$920, respectively. Salaries and benefits charged to cost of goods sold for the three months ended March 31, 2021 and 2020, were \$1,511 and \$1,010, respectively.

During the three months ended March 31, 2021 and 2020, the Company recorded an allowance of \$0 to reflect net realizable value adjustments related to its Texas inventory. As of March 31, 2021, and December 31, 2020, inventory reserve was \$1,738.

Cansortium Inc.

Notes to Condensed Interim Consolidated Financial Statements (unaudited)

For the three months ended March 31, 2021 and March 31, 2020

(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 three months ended March 31, 2021 and year ended December 31, 2020 is as follows:

| | March 31, 2021 | December 31, 2020 |
|--|---------------------------|------------------------------|
| Balance at beginning of period | \$ 1,914 | \$ 3,845 |
| Cost incurred until harvest | 2,221 | 6,856 |
| Biological assets reserve | - | (180) |
| Effect of unrealized change in fair value of biological as | 6,879 | 17,516 |
| Transferred to inventory upon harvest | (5,478) | (26,123) |
| Balance at end of period | \$ 5,536 | \$ 1,914 |

As of March 31, 2021, 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 three months ended March 31, 2021 and the year ended December 31, 2020 used the following assumptions:

- (a) Expected yields of the average grams of dried flower and trim per plant of 21 grams and 13 grams, respectively.
- (b) Weighted average number of growing weeks completed as percentage of total growing weeks at the period end of 41% and 50%, respectively.
- (c) Expected weighted average selling price in the retail market of \$12.61 per gram and \$10.81 per gram, respectively.
- (d) Estimated weighted average costs to complete, sell, and estimated margin from post harvest activities of \$6.11 per gram and \$6.29 per gram, respectively.
- (e) Expected loss of plants until harvest of 25% and 25%, 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.

The Company has quantified the sensitivity of the unobservable inputs in relation to the biological assets for the three months ended March 31, 2021 and the year ended December 31, 2020 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 \$554 and \$191, respectively.

Cansortium Inc.

Notes to Condensed Interim Consolidated Financial Statements (unaudited)

For the three months ended March 31, 2021 and March 31, 2020

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

4. BIOLOGICAL ASSETS *(Continued)*

- (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 \$554 and \$191, 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 \$720 and \$94, 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 \$106 and \$77, 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 \$65 and \$33, respectively.

The Company estimates the harvest yields for cannabis at various stages of growth. As of March 31, 2021, it is expected that the Company's biological assets will yield approximately 1,420,256 grams of dry cannabis when harvested.

As of March 31, 2021 and December 31, 2020, the Company had 90,087 and 85,268 plants that were classified as biological assets, respectively.

During the three months ended March 31, 2021 and 2020, the Company recorded an allowance of \$0 to reflect net realizable value adjustments related to its Texas biological assets. As of March 31, 2021 and December 31, 2020 biological assets reserve was \$180.

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.

A reconciliation of the beginning and ending balances of note receivable for the three months ended March 31, 2021 and the year ended December 31, 2020 is as follows:

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.

Cansortium Inc.**Notes to Condensed Interim Consolidated Financial Statements (unaudited)****For the three months ended March 31, 2021 and March 31, 2020***(Amounts expressed in thousands of United States Dollars unless otherwise stated)***5. NOTE RECEIVABLE**

During the three months ended March 31, 2021 and the year ended December 31, 2020, the Company recorded expected credit loss adjustment of \$0 and \$1,286, respectively, related to the Note Receivable.

Interest income for the three months ended March 31, 2021 and 2020, was \$63 and \$21, respectively.

As of March 31, 2021 and December 31, 2020, accrued interest of note receivable was \$305 and \$242, respectively and was recorded in prepaid expenses and other current assets (See Note 6).

| | March 31, 2021 | December 31, 2020 |
|------------------------------------|---------------------------|------------------------------|
| Balance at beginning of period | \$ 3,859 | 3,870 |
| Advances | 312 | 1,647 |
| Payments | (284) | (372) |
| Reserve for expected credit losses | - | (1,286) |
| Balance at end of period | \$ 3,888 | \$ 3,859 |

6. PREPAID EXPENSES AND OTHER CURRENT ASSETS

Prepaid expenses and other current assets consisted of the following:

| | March 31, 2021 | December 31, 2020 |
|---|---------------------------|------------------------------|
| Prepaid insurance | \$ 373 | \$ 477 |
| Prepaid rent | 57 | 43 |
| Other prepaid expenses | 293 | 579 |
| Security deposits held | 23 | 23 |
| Interest receivable - Green Standard (Note 5) | 305 | 242 |
| Other current assets | - | 1 |
| Balance at end of period | \$ 1,051 | \$ 1,365 |

7. INVESTMENTS AND ASSETS HELD FOR SALE**Cansortium Colombia S.A.S**

On January 22, 2020, the Company completed the return to treasury of 4,124,166 shares of Cansortium Inc. previously issued to acquire 100% of Cansortium Colombia (see Note 16 c.), thereby reducing its ownership of Cansortium Colombia to 50%. In connection with this change, the Company classified its non-controlling investment in Cansortium Colombia as investment held for sale on the Company's condensed interim consolidated financial statements in the amount of \$200 as of March 31, 2021, and 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 March 31, 2021 and December 31, 2020 - Investment | \$ 200 |

Cansortium Colombia recorded a net gain from discontinued operations of \$370 in the three months ended March 31, 2020.

Cansortium Inc.

Notes to Condensed Interim Consolidated Financial Statements (unaudited)

For the three months ended March 31, 2021 and March 31, 2020

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

7. INVESTMENTS AND ASSETS HELD FOR SALE

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 Cansortium 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.

Cansortium Puerto Rico recorded as net gain from discontinued operations of \$2 and \$6 in the three months ended March 31, 2021 and 2020, respectively.

Canadian Subsidiaries

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.).

Cansortium Inc.

Notes to Condensed Interim Consolidated Financial Statements (unaudited)

For the three months ended March 31, 2021 and March 31, 2020

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

8. PROPERTY AND EQUIPMENT

A reconciliation of the beginning and ending balances of property and equipment for the three months ended March 31, 2021 and year ended December 31, 2020 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, 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 |
| Cost | | | | | | | | | |
| Balance as of January 1, 2021 | 211 | 838 | 714 | 5,626 | 15,537 | 84 | 2,127 | 423 | \$ 25,559 |
| Additions | - | 32 | 11 | 233 | 559 | - | 1,776 | - | 2,611 |
| Construction completed | - | 70 | 25 | 89 | 1,570 | - | (1,754) | - | - |
| Disposals | - | - | - | - | - | - | - | (104) | (104) |
| Balance as of March 31, 2021 | 211 | 941 | 749 | 5,948 | 17,666 | 84 | 2,148 | 319 | 28,066 |
| Accumulated depreciation | | | | | | | | | |
| Balance as of January 1, 2021 | - | 106 | 284 | 693 | 2,140 | (4) | - | 69 | 6,042 |
| Additions | - | 34 | 42 | 214 | 882 | - | - | 9 | 1,181 |
| Disposals | - | - | - | - | - | - | - | (38) | (38) |
| Balance as of March 31, 2021 | - | 140 | 326 | 907 | 3,022 | (4) | - | 41 | 7,186 |
| Property and equipment, net | \$ 211 | \$ 801 | \$ 423 | \$ 5,041 | \$ 14,644 | \$ 88 | \$ 2,148 | \$ 278 | \$ 20,880 |

For the three months ended March 31, 2021 and 2020, the Company charged \$702 and \$488 of depreciation to the biological assets and inventory. For the periods ended March 31, 2021 and December 31, 2020 capitalized borrowing costs were \$0 and \$187, respectively.

Cansortium Inc.**Notes to Condensed Interim Consolidated Financial Statements (unaudited)****For the three months ended March 31, 2021 and March 31, 2020***(Amounts expressed in thousands of United States Dollars unless otherwise stated)***9. INTANGIBLE ASSETS**

Intangible assets consist of cannabis licenses and trademarks and brands. A reconciliation of the beginning and ending balances of intangible assets for the three months ended March 31, 2021 and year ended December 31, 2020, is as follows:

| | Licenses | Trademarks and brands | Total |
|---------------------------------|------------------|----------------------------------|------------------|
| 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 |
| Balance as of January 1, 2021 | | | |
| Cost | \$ 94,169 | \$ 8,850 | \$ 103,019 |
| Balance as of March 31, 2021 | 94,169 | 8,850 | 103,019 |
| Balance as of January 1, 2021 | | | |
| Accumulated amortization | 736 | 5,248 | 5,984 |
| Additions | 48 | 335 | 383 |
| Balance as of March 31, 2021 | 784 | 5,583 | 6,367 |
| Intangible assets, net | \$ 93,385 | \$ 3,267 | \$ 96,652 |

Amortization expense for the three months ended March 31, 2021 and 2020, was \$383.

10. DEPOSIT (INVESTMENT)**Green Standard**

On October 8, 2018, Cansortium Holdings LLC, entered into an agreement with Green Standard Holdings, LLC and Green Standard, Inc., collectively ("Green Standard" or "GSI") to acquire the cultivation, production and retail licenses applied for by Green Standard Cultivation LLC, Green Standard Processing LLC and Green Standard Retail LLC, for a purchase price of \$7,500 payable through the issuance of 2,727,273 shares of Cansortium Holdings LLC at a price equal to \$2.75 dollars per shares (see Notes 13(a) and 16).

Cansortium Inc.**Notes to Condensed Interim Consolidated Financial Statements (unaudited)****For the three months ended March 31, 2021 and March 31, 2020***(Amounts expressed in thousands of United States Dollars unless otherwise stated)***10. DEPOSIT (INVESTMENT) (continued)**

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 were escrowed until May 15, 2021, plus cash consideration for the difference between the fair value of a common share (as valued per the agreement) and total purchase price of \$10,000,000 to be generated by profits from Green Standard's Michigan business. The same number of shares of the Company that were previously issued to Green Standard shareholders and subject to vesting conditions were returned to treasury for cancellation and removal of the equity price guarantee that existed as through May 19, 2020. The balance of the shares in deposit as of March 31, 2021, and December 31, 2020, was \$1,050.

During the three months ended March 31, 2020, a loss of investment of \$183 was recognized for the Company's share of loss in Green Standard.

11. GOODWILL

Goodwill as of March 31, 2021, and December 31, 2020 was \$1,526.

As of the three months ended March 31, 2021 and the year ended December 31, 2020, the Company did not have an impairment to its goodwill and indefinite life intangibles.

12. INCOME TAXES

Income tax for the three months ended March 31, 2021 and 2020 consisted of the following:

| | Three months ended | |
|------------------------------------|--------------------|-------------------|
| | March 31, 2021 | March 31, 2020 |
| Provision for income taxes: | | |
| Current Tax Expense | \$ 2,844 | \$ 1,725 |
| Deferred Tax Expense | (6) | 1,108 |
| Total current income taxes | \$ 2,838 | \$ 2,833 |

Income tax expense is recognized based on Management's estimate of the weighted average effective annual income tax rate expected for the full financial year. The U.S. statutory tax rate used for the three months ended March 31, 2021 and 2020 was 21%.

Cansortium Inc.

Notes to Condensed Interim Consolidated Financial Statements (unaudited)

For the three months ended March 31, 2021 and March 31, 2020

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

13. DERIVATIVE LIABILITIES

A reconciliation of the beginning and ending balances of the equity price guarantee derivative liabilities from the time of issuance and during the three months ended March 31, 2021, and the year ended December 31, 2020 and 2019 are as follows:

| | |
|---|-----------------|
| Balance as of January 1, 2020 | 13,198 |
| Fair value change from note payable amendment | (1,442) |
| Fair value change in derivative liability | (1,065) |
| Removal of GSI equity price guarantee | (3,279) |
| Balance as of December 31, 2020 | \$ 7,412 |
| Fair value change in derivative liability | (408) |
| Balance as of March 31, 2021 | \$ 7,004 |

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.

Fluent Servicing Acquisition

In connection with the acquisition of the remaining interest of Fluent Servicing on August 15, 2018, the Company issued 4,400,000 membership interest 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 \$7,004 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.

Cansortium Inc.**Notes to Condensed Interim Consolidated Financial Statements (unaudited)****For the three months ended March 31, 2021 and March 31, 2020***(Amounts expressed in thousands of United States Dollars unless otherwise stated)***13. DERIVATIVE LIABILITIES (Continued)**

The following range of assumptions were used to value the Equity Price Guarantee derivative liability during the periods ended March 31, 2021 and December 31, 2020:

| | March 31, 2021 | December 31, 2020 |
|-------------------------|---------------------------|------------------------------|
| Volatility | 117.46% | 100.00% |
| Risk-free interest rate | 0.23% | 0.20% |
| Expected life (years) | 2.2 years | 2.5 years |
| Share price | \$0.76 | \$0.76 |
| Exercise price | \$0.65 | \$0.65 |

During the three months ended March 31, 2021 and 2020, the Company recorded a gain and loss of \$408 and \$1,489, 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.

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:

| | May 21, 2020 |
|-------------------------|-------------------------|
| Volatility | 100.00% |
| Risk-free interest rate | 0.17% |
| Expected life (years) | 0.61 years |
| Share price | \$0.39 |
| Exercise price | \$3.67 |

During the three months ended March 31, 2020, the Company recorded a loss of \$346 on revaluation of the GSI Equity Price Guarantee derivative liability.

Cansortium Inc.**Notes to Condensed Interim Consolidated Financial Statements (unaudited)****For the three months ended March 31, 2021 and March 31, 2020***(Amounts expressed in thousands of United States Dollars unless otherwise stated)***14. NOTES PAYABLE**

As of March 31, 2021 and December 31, 2020 notes payable consisted of the following:

| | March 31, 2021 | December 31, 2020 |
|---|---------------------------|------------------------------|
| Automobile loan (a) | \$ 75 | \$ 80 |
| Notes payable (b) | 12,664 | 12,638 |
| Convertible debentures - \$10M Convertible Note (c) | 10,000 | 10,000 |
| Convertible debentures - \$27M Convertible Note (d) | 29,284 | 28,209 |
| Equipment loan (e) | 860 | 838 |
| Total notes payable | 52,882 | 51,765 |
| Less current portion of notes payable | (39,658) | (38,583) |
| Notes payable, net of current portion | \$ 13,224 | \$ 13,182 |

(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 January 16, 2020, the Company completed the restructuring of its existing promissory note issued in connection with the acquisition that was issued to Can Endeavour LLC ("Can Endeavour") 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 |

On May 6, 2021, the Company satisfied its obligations under an Amended Note dated January 16, 2020 in the principal amount of \$12,933 as a result of the conversion of the Amended Note into common shares of the Company (See Note 21).

Cansortium Inc.

Notes to Condensed Interim Consolidated Financial Statements (unaudited)

For the three months ended March 31, 2021 and March 31, 2020

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

14. NOTES PAYABLE (Continued)

(c) Convertible Debentures - \$10M Convertible Debenture

On February 15, 2019, the Company issued a series of Convertible Notes in the aggregate principal amount of \$10 million in exchange for cash proceeds of \$10,000 (the “\$10M Convertible Notes”).

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.).

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. On May 7, 2021, the Company has exercised its right to redeem up to the maximum of \$5 million of the \$10M Convertible Notes (see Note 21).

During the three months ended March 31, 2021 and year ended December 31, 2020, the Company recorded interest expense of \$302 and \$1,376 and accretion expense of \$2,420 and \$0, 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 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.

On April 29, 2021, with the proceeds from the \$71 Million Senior Secured Term Loan, the Company repaid in full the Secured Convertible Debentures by cash payment.

Cansortium Inc.**Notes to Condensed Interim Consolidated Financial Statements (unaudited)****For the three months ended March 31, 2021 and March 31, 2020***(Amounts expressed in thousands of United States Dollars unless otherwise stated)***14. NOTES PAYABLE (Continued)****(d) Convertible Debentures - \$27M Convertible Debenture (Continued)**

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.

A reconciliation of the beginning and ending balances of the Convertible debentures, derivative liability and warrants from the time of issuance and for the three months ended March 31, 2021, and the year ended December 31, 2020, is as follows:

| | Convertible debentures (c), (d) | Equity conversion feature | Warrants | Expense |
|---|--|--|------------------|-------------------|
| 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) |
| Accretion expense | 1,075 | - | - | (1,075) |
| Balance as of March 31, 2021 | \$ 39,283 | \$ 11,044 | \$ 13,265 | \$ (8,307) |

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

Cansortium Inc.**Notes to Condensed Interim Consolidated Financial Statements (unaudited)****For the three months ended March 31, 2021 and March 31, 2020***(Amounts expressed in thousands of United States Dollars unless otherwise stated)***14. NOTES PAYABLE (Continued)**

A reconciliation of the beginning and ending balances of the notes payable for the periods ended March 31, 2021, and December 31, 2020, is as follows:

| | March 31, 2021 | December 31, 2020 |
|---|---------------------------|------------------------------|
| Balance at beginning of period | \$ 51,765 | \$ 41,079 |
| Proceeds from issuance of notes payable | - | 65 |
| Accretion | 1,123 | 7,344 |
| Note amendment - Pre-amendment | - | 3,764 |
| Repayments of principal | (6) | (487) |
| Balance at end of period | \$ 52,882 | \$ 51,765 |

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

| | March 31, 2021 | December 31, 2020 |
|---------------------------------|---------------------------|------------------------------|
| Cost | | |
| Balance at beginning of year | \$ 26,686 | \$ 25,026 |
| Additions | - | 2,348 |
| Modifications | - | 443 |
| Disposals | - | (1,132) |
| Balance at end of year | 26,686 | 26,686 |
| Accumulated Depreciation | | |
| Balance at beginning of year | \$ 7,591 | \$ 4,836 |
| Additions | 667 | 2,755 |
| Balance at end of year | 8,259 | 7,591 |
| Right-of-use-assets, net | \$ 18,427 | \$ 19,094 |

Cansortium Inc.**Notes to Condensed Interim Consolidated Financial Statements (unaudited)****For the three months ended March 31, 2021 and March 31, 2020***(Amounts expressed in thousands of United States Dollars unless otherwise stated)***15. LEASES****(b) Lease Liabilities**

During the three months ended March 31, 2021 and 2020, the Company incurred variable lease payments of \$210 and \$155, respectively.

| | March 31, 2021 | December 31, 2020 |
|--|---------------------------|------------------------------|
| Balance at beginning of period | \$ 22,705 | \$ 22,927 |
| Additions | - | 2,348 |
| Modification | - | 443 |
| Disposals | - | (1,250) |
| Interest on lease liabilities | 617 | 2,516 |
| Interest payments on lease obligations | (617) | (2,516) |
| Principal payments on lease obligations | (435) | (1,762) |
| Balance at end of period | \$ 22,271 | \$ 22,705 |
| Less current portion of lease obligations | (2,006) | (1,894) |
| Lease obligations, net of current portion | \$ 20,265 | \$ 20,811 |

16. SHAREHOLDERS' EQUITY**Equity shares transactions**

During the three months ended March 31, 2021 and 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.

Cansortium Inc.

Notes to Condensed Interim Consolidated Financial Statements (unaudited)

For the three months ended March 31, 2021 and March 31, 2020

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

16. SHAREHOLDERS' EQUITY (Continued)

Equity shares transactions (Continued)

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.

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.

j. On January 31, 2021, the Company extended the maturity date of the \$10M Convertible Note to December 1, 2022 and issued 1,263,407 common shares of the Company in satisfaction of all unpaid interest on the \$10M Convertible Note accrued up to January 31, 2021 in the amount of \$569. The Company also paid an extension fee equivalent to 1% of the total principal amount and accrued interest outstanding on the \$10M Convertible Note as 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 increasing share capital by the shares and warrants cost by \$1,049 and \$1,891, respectively.

On May 7, 2021, the Company has exercised its right to redeem up to the maximum of \$5 million of the \$10M Convertible Notes. As a result of this redemption, the aggregate principal amount that remains outstanding on the Notes is \$5 million. The remaining Notes mature on December 1, 2022 if not earlier converted at the conversion price of \$0.60 per share. (See Note 21).

k. On January 22, 2021, the Company issued to its Board of Directors members and certain members of senior management, 1,286,110 shares at \$0.75 per share as compensation resulting in an increase to share capital of \$965 (See Note 19).

Cansortium Inc.**Notes to Condensed Interim Consolidated Financial Statements (unaudited)****For the three months ended March 31, 2021 and March 31, 2020***(Amounts expressed in thousands of United States Dollars unless otherwise stated)***16. SHAREHOLDERS' EQUITY (Continued)****Share Capital**

As of March 31, 2021, the share capital of the Company is comprised of 126,218,341 common shares, 6,741,874 proportionate voting shares (each proportionate voting share is convertible into ten common shares), 32,089,203 warrants and convertible debt allotments and 16,169,373 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:

| | Three months ended | |
|--|---------------------------|---------------------|
| | March 31, | December 31, |
| | 2021 | 2020 |
| Weighted Average Number of Shares - Basic | 196,381,815 | 198,999,746 |
| Weighted Average Warrants | 12,338,118 | 33,586,992 |
| Weighted Average Convertible Debt Allotment | 17,933,011 | 17,933,011 |
| Weighted Average Options | 15,704,040 | 11,623,649 |
| Weighted Average Number of Shares - Diluted | 242,356,984 | 262,143,398 |

The number of warrants outstanding as of March 31, 2021 and December 31, 2020, were 16,989,524 and 37,977,896, respectively, and the number of warrants granted during the three months ended March 31, 2021 and 2020, were 5,113,333 and 10,189,758, 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 year ended December 31, 2020, is as follows:

| | Restricted shares | Grant date fair value per unit | Aggregate intrinsic value |
|---|------------------------------|---|--------------------------------------|
| 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 March 31, 2021 and December 31, 2020 | 2,127,269 | \$ 2.75 | 5,850 |

During the three months ended March 31, 2021 no shares of restricted stock were vested or forfeited.

Cansortium Inc.**Notes to Condensed Interim Consolidated Financial Statements (unaudited)****For the three months ended March 31, 2021 and March 31, 2020***(Amounts expressed in thousands of United States Dollars unless otherwise stated)***16. SHAREHOLDERS' EQUITY (Continued)****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 periods ended March 31, 2021 and December 31, 2020 were the following:

| | March 9, 2021 | Feb 5, 2021 | Jan 22, 2021 | Oct 6, 2020 | Jul 7, 2020 | May 26, 2020 | May 15, 2020 | May 5, 2020 | Feb 13, 2020 |
|------------------|--------------------------|------------------------|-------------------------|------------------------|------------------------|-------------------------|-------------------------|------------------------|-------------------------|
| Options granted | 250,000 | 255,000 | 1,700,000 | 1,750,000 | 300,000 | 2,400,000 | 150,000 | 3,000,000 | 300,000 |
| Fair Value | \$147 | \$141 | \$968 | \$289 | \$86 | \$657 | \$17 | \$251 | \$51 |
| Stock price | \$0.79 | \$0.75 | \$0.77 | \$0.28 | \$0.30 | \$0.38 | \$0.41 | \$0.16 | \$0.36 |
| Exercise price | \$0.79 | \$0.75 | \$0.77 | \$0.30 | \$0.32 | \$0.40 | \$1.00 | \$0.26 | \$0.45 |
| Original term | 5 years | 5 years | 5 years | 3 years | 5 years | 5 years | 3 years | 3 years | 2 years |
| Dividend rate | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% |
| US treasury rate | 0.83% | 0.47% | 0.44% | 0.17% | 0.29% | 0.35% | 0.19% | 0.24% | 1.58% |
| Volatility | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% |
| Forfeiture rate | 0% | 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.

On January 22, 2021, the Company issued to its Board of Directors members 1,700,000 options as compensation resulting increase to share capital \$968 (See Note 19).

For the three months ended March 31, 2021 and 2020, the Company recognized \$1,029 and \$122 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.

Cansortium Inc.

Notes to Condensed Interim Consolidated Financial Statements (unaudited)

For the three months ended March 31, 2021 and March 31, 2020

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

16. SHAREHOLDERS' EQUITY (Continued)

Stock Option Plan (Continued)

As of March 31, 2021, there were 16,169,373 options outstanding, comprising of 15,409,139 options vested and 760,234 options non-vested, with remaining contractual lives 0.1 to 4.9 years.

The following is a summary of the changes in the Company's Stock Options Plan during the three months ended March 31, 2021:

| | Options Issued | Average Exercise Price |
|-------------------------------------|---------------------------|-----------------------------------|
| Balance as of December 31, 2020 | 14,931,039 | \$ 0.53 |
| Granted | 2,205,000 | \$ 0.77 |
| Forfeited | (900,000) | \$ 0.76 |
| Exercised | (66,666) | \$ 0.44 |
| Balance as of March 31, 2021 | 16,169,373 | \$ 0.55 |

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

| Exercise prices | Outstanding as of March 31, 2021 | Weighted average remaining contractual life (years) | Exercisable as of March 31, 2021 | Weighted average remaining contractual life (years) |
|----------------------------|---|--|---|--|
| \$ 0.26 | 3,000,000 | 2.1 | 3,000,000 | 2.1 |
| \$ 0.30 | 1,750,000 | 2.5 | 1,750,000 | 2.5 |
| \$ 0.32 | 100,000 | 4.3 | 100,000 | 4.3 |
| \$ 0.40 | 2,400,000 | 4.2 | 2,400,000 | 4.2 |
| \$ 0.44 | 5,103,334 | 3.7 | 4,763,100 | 3.7 |
| \$ 0.45 | 300,000 | 0.8 | 300,000 | 0.8 |
| \$ 0.75 | 255,000 | 4.9 | 85,000 | 4.9 |
| \$ 0.79 | 250,000 | 4.9 | - | 4.9 |
| \$ 0.77 | 1,700,000 | 4.8 | 1,700,000 | 4.8 |
| \$ 1.00 | 150,000 | 2.1 | 150,000 | 2.1 |
| \$ 2.00 | 682,106 | 3.0 | 682,106 | 3 |
| \$ 2.10 | 478,933 | 0.1 | 478,933 | 0.1 |
| | 16,169,373 | 3.3 | 15,409,139 | 3.3 |

Cansortium Inc.**Notes to Condensed Interim Consolidated Financial Statements (unaudited)****For the three months ended March 31, 2021 and March 31, 2020***(Amounts expressed in thousands of United States Dollars unless otherwise stated)***17. EXPENSE BY NATURE**

General and administrative expenses for the three months ended March 31, 2021 and 2020, are as follows:

| | For the three months | |
|---|----------------------|-----------------|
| | March 31, | |
| | 2020 | 2019 |
| General and administrative | | |
| Legal and professional fees | \$ 1,787 | \$ 1,798 |
| Salaries and benefits | 706 | 627 |
| Insurance | 404 | 322 |
| Rent expenses | 27 | 146 |
| Travel and entertainment | 13 | 34 |
| Other | 352 | 212 |
| Total general and administrative | \$ 3,289 | \$ 3,139 |

Sales and marketing expenses for the three months ended March 31, 2021 and 2020 are as follows:

| | For the three months | |
|----------------------------------|----------------------|-----------------|
| | March 31, | |
| | 2020 | 2019 |
| Sales and marketing | | |
| Salaries and benefits | \$ 1,918 | \$ 1,623 |
| Marketing expenses | 521 | 292 |
| Rent expenses | 449 | 267 |
| Security | 138 | 522 |
| Supplies | 112 | 20 |
| Software | 60 | 70 |
| Other | 348 | 327 |
| Total sales and marketing | \$ 3,546 | \$ 3,121 |

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 March 31, | Scheduled payments |
|--|-----------------------|
| 2022 | \$ 4,347 |
| 2023 | 4,499 |
| 2024 | 4,579 |
| 2025 | 4,449 |
| 2026 | 4,136 |
| Thereafter | 11,371 |
| Total future minimum lease payments | \$ 33,381 |

Cansortium Inc.

Notes to Condensed Interim Consolidated Financial Statements (unaudited)

For the three months ended March 31, 2021 and March 31, 2020

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

18. COMMITMENTS AND CONTINGENCIES (Continued)

(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 March 31, 2021, 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 March 31, 2021, 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.

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 April 26, 2021, MXY Holdings, LLC and its affiliates (collectively "MXY") filed suit in Florida claiming breach by the Company of the Management Services Agreement ("MSA") in an amount not less than \$2,500. The terms of the MSA provided MXY with a fee for management consulting services, which services were supposed to include the creation and implementation of management plans and solutions, the provision of MXY personnel with industry expertise, and intellectual property. 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.

Cansortium Inc.**Notes to Condensed Interim Consolidated Financial Statements (unaudited)****For the three months ended March 31, 2021 and March 31, 2020***(Amounts expressed in thousands of United States Dollars unless otherwise stated)***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 three months ended March 31, 2021 and 2020, key management personnel compensation consisted of the following:

| | For the three months ended March 31, | |
|---------------------------|---|--------|
| | 2021 | 2020 |
| Salary | \$ 417 | \$ 245 |
| Option-based compensation | 1,114 | - |
| Share-based compensation | 848 | - |
| All other compensation | 190 | 173 |
| Total | \$ 2,569 | \$ 417 |

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 \$2 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.).

On January 22, 2021, the Company issued to its board of directors members and senior management, 1,286,110 shares at \$0.75 per share (See Note 16 k.) and 1,700,000 options (See Note 16) as compensation resulting increase to share capital of \$965 and \$968, respectively.

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.

20. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (Continued)

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 derivative 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.

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 of March 31, 2021 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.

Cansortium Inc.**Notes to Condensed Interim Consolidated Financial Statements (unaudited)****For the three months ended March 31, 2021 and March 31, 2020***(Amounts expressed in thousands of United States Dollars unless otherwise stated)***20. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (Continued)**

In addition to the commitments outlined in Note 18, the Company had the following contractual obligations as of March 31, 2021:

| | <u>< 1 year</u> | <u>1 to 3 years</u> | <u>3 to 5 years</u> | <u>> 5 years</u> | <u>Total</u> |
|---------------------|--------------------|---------------------|---------------------|---------------------|--------------|
| Accounts payable | \$ 5,540 | \$ - | \$ - | \$ - | \$ 5,540 |
| Accrued liabilities | \$ 7,804 | \$ - | \$ - | \$ - | \$ 7,804 |
| Notes payable | \$ 39,658 | \$ 13,206 | \$ 18 | \$ - | \$ 52,882 |
| Lease obligations | \$ 2,006 | \$ 5,164 | \$ 5,907 | \$ 9,194 | \$ 22,271 |

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

| | <u>< 1 year</u> | <u>1 to 3 years</u> | <u>3 to 5 years</u> | <u>> 5 years</u> | <u>Total</u> |
|---------------------|--------------------|---------------------|---------------------|---------------------|--------------|
| Accounts payable | \$ 4,808 | \$ - | \$ - | \$ - | \$ 4,808 |
| 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 |

(b) Market Risk*(i) Price Risk*

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

(ii) Currency Risk

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

As of March 31, 2021, and 2020, 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.

20. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (Continued)

(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 May 27, 2021, which is the date these condensed interim consolidated financial statements were issued.

On April 5, 2021, the Company issued \$11.8 million of units at a purchase price of \$0.70 per unit. Each unit consists of one common share of the Company and one-half of one common share purchase warrant. Each full warrant entitles the holder to purchase one common share of the Company at an exercise price of \$0.90 for a period of 24 months from the issuance date. 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 per unit. Each unit consists of one common share of the Company and one-half of one common share purchase warrant. Each full warrant entitles the holder to purchase one common share of the Company at an exercise price of \$0.90 for a period of 24 months from the issuance date. 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.

Cansortium Inc.

Notes to Condensed Interim Consolidated Financial Statements (unaudited)

For the three months ended March 31, 2021 and March 31, 2020

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

21. SUBSEQUENT EVENTS *(continued)*

On April 29, 2021, the Company entered into a Senior Secured Term Loan in the amount of \$71 million (the "Term Loan"). The Term Loan bears interest of 13% per annum, payable quarterly, with a maturity date of April 29, 2025. In connection with the transaction, 12.5 million warrants with an exercise price of \$1.20 were issued to certain participants in the Term Loan. Subject to certain conditions of the Term Loan, the Company has the ability to prepay the Term Loan as well as increase the Term Loan by up to \$20 million. In connection with the Term Loan, the Company satisfied in full its obligations under the Secured Trust Indenture made as of May 23, 2019 between the Company, Capital Transfer Agency and the debentureholders thereunder, relating to the issuance of \$27.1 million of debentures.

On May 6, 2021, the Company satisfied its obligations under the Amended Note payable dated January 16, 2020 in the principal amount of \$12,933 to Can Endeavour LLC ("Can Endeavour"). The Promissory Note had a maturity date of December 1, 2022; however, pursuant to the terms thereunder, Can Endeavour elected to convert the principal amount of the Promissory Note into 21,555,483 common shares of the Company at \$0.60 per share. The common shares have been issued by the Company to Can Endeavour and all accrued interest on the Promissory Note has been repaid in cash. Accordingly, the Company has satisfied its obligations under the Promissory Note (See Note 13 and 14 b.).

On May 7, 2021, the Company exercised its right to redeem up to the maximum of \$5 million of the \$10 million Convertible Notes that were initially issued in the aggregate principal amount of \$10 million in February 2019 (as amended in August 2020 and February 2021) (See Note 14 c. and 16 j.). As a result of this redemption, the aggregate principal amount that remains outstanding on the \$10 million Notes is \$5 million. The remaining balance matures on December 1, 2022 if not earlier converted at the conversion price of \$0.60 per share.