Cansortium Inc.

Condensed Interim Consolidated Financial Statements
(Unaudited)

For the three and nine months ended September 30, 2019 and September 30, 2018

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

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Cansortium Inc.
Unaudited Condensed Interim Consolidated Statements of Financial Position
As at September 30, 2019 and December 31, 2018
(Amounts expressed in thousands of United States Dollars unless otherwise stated)

		September 30, 2019	December 31, 2018
Assets			
Current assets			
Cash		$ 5,014	$ 2,026
Accounts receivable		113	62
Inventory	*Note 3*	6,552	2,837
Biological assets	*Note 4*	2,985	2,549
Prepaid expenses and other current assets	*Note 5*	6,353	543
Total current assets		21,017	8,017
Property and equipment, net	*Note 6*	28,766	22,398
Intangible assets, net	*Note 7*	102,220	106,417
Right-of-use assets	*Notes 2, 12*	16,309	-
Goodwill	*Note 9*	17,911	10,315
Other assets		320	721
Total assets		**$ 186,543**	**$ 147,868**
Liabilities			
Current liabilities			
Accounts payable		$ 5,012	$ 4,910
Accrued expenses		3,166	3,936
Income taxes payable		1,838	-
Derivative liabilities	*Note 10*	8,386	9,242
Current portion of notes payable	*Note 11*	8,930	51,463
Lease obligations	*Notes 2, 12*	1,637	-
Other current liabilities		1,388	1,350
Total current liabilities		30,357	70,901
Notes payable, net of current portion	*Note 11*	28,761	1,910
Lease obligations, net of current portion	*Notes 2, 12*	16,389	-
Other long-term liabilities		1,497	451
Total liabilities		**77,004**	**73,262**
Shareholders' equity			
Share capital	*Note 13*	165,079	92,000
Share-based compensation reserve	*Note 13*	810	-
Equity conversion feature		341	-
Warrants		8,686	296
Accumulated deficit		(64,780)	(16,687)
Non-controlling interests		(50)	(515)
Accumulated other comprehensive loss		(547)	(488)
Total shareholders' equity		109,539	74,606
Total liabilities and shareholders' equity		**$ 186,543**	**$ 147,868**

Nature of operations *(Note 1)*
Commitments and contingencies *(Note 15)*
Subsequent events *(Note 18)*

Jose Hidalgo
Chief Executive Officer

Henry Batievsky
Chief Financial Officer

The accompanying notes are an integral part of these Unaudited Condensed Interim Consolidated Financial Statements.

Cansortium Inc.
Unaudited Condensed Interim Consolidated Statements of Operations
For the three and nine months ended September 30, 2019 and September 30, 2018
(Amounts expressed in thousands of United States Dollars unless otherwise stated)

		For the three months ended September 30,		For the nine months ended September 30,	
		2019	**2018**	**2019**	**2018**
Revenue		$ 7,387	$ 2,938	$ 19,005	$ 3,162
Cost of goods sold		2,722	1,056	6,822	1,111
Gross profit before fair value adjustments		4,665	1,882	12,183	2,051
Realized fair value of increments on inventory sold	*Note 4*	3,341	973	6,692	973
Unrealized change in fair value of biological assets	*Note 4*	(1,109)	(387)	(3,182)	(387)
Gross profit		2,433	1,296	8,673	1,465
Expenses					
General and administrative	*Note 14*	4,362	5,100	19,384	8,769
Shared-based compensation		258	-	1,744	-
Sales and marketing	*Note 14*	3,348	1,553	8,972	1,924
Depreciation and amortization	*Notes 6 and 7*	2,549	551	7,250	868
Total expenses		10,517	7,204	37,350	11,561
Loss from operations		(8,084)	(5,908)	(28,677)	(10,096)
Other expense (income)					
Interest expense, net	*Notes 10, 11*	2,926	458	9,786	1,577
Change in fair market value of derivative	*Note 10*	(2,631)	(1)	(6,172)	2,939
Gain on investment in associate	*Note 8*	-	(3,409)	-	(2,762)
Gain in fair market value of investment in associate	*Note 9*	-	(31,849)	(3,388)	(31,849)
Loss on disposal of assets		2,205	-	2,205	-
Other expense		257	1	285	-
Total other expense (income)		2,757	(34,800)	2,716	(30,095)
Income (loss) before taxes		(10,841)	28,892	(31,393)	19,999
Income taxes		432	-	1,708	-
Net income (loss)		(11,273)	28,892	(33,101)	19,999
Net income (loss) attributable to non-controlling interest		83	(252)	(204)	(556)
Net income (loss) attributable to controlling interest		$ (11,356)	$ 29,144	$ (32,897)	$ 20,555
Net income (loss) per share					
Basic	*Note 13*	$ (0.06)	$ 0.20	$ (0.18)	$ 0.15
Diluted	*Note 13*	$ (0.05)	$ 0.20	$ (0.15)	$ 0.15

The accompanying notes are an integral part of these Unaudited Condensed Interim Consolidated Financial Statements.

Cansortium Inc.

Unaudited Condensed Interim Consolidated Statements of Changes in Shareholders' Equity

For the three nine months ended September 30, 2019 and September 30, 2018

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

	Share capital			Reserves						
	Number of unrestricted common shares	Number of restricted common shares	Amount	Share-based options compensation	Equity conversion feature	Warrants	Accumulated deficit	Non-controlling interests	Accumulated other comprehensive income (loss)	Total shareholders' equity
Balance, December 31, 2017	**125,456,808**	**-**	**$ 32,970**	**$ -**	**$ -**	**$ 296**	**$ (21,274)**	**$ (210)**	**$ 5**	**$ 11,787**
Issuance of shares	6,045,768	-	16,626	-	-	-	-	-	-	16,626
Issuance of shares to acquire additional non-controlling interest of subsidiaries	6,547,748	5,484,909	18,006	-	-	-	373	417	-	18,796
Shares issued for professional services	417,729	1,573,759	1,149	-	-	-	-	-	-	1,149
Issuance of shares for employee compensation	172,413	131,818	474							474
Debentures Conversion	3,373,033	-	9,013	-	-	-	-	-	-	9,013
Share swap agreement to acquire additional non-controlling interest of subsidiary	-	-	11,341	-	-	-	-	-	-	11,341
Foreign currency gain on translation	-	-	-	-	-	-	-	-	(78)	(78)
Distribution to initial investors	-	-	-	-	-	-	(600)	-	-	(600)
Net loss	-	-	-	-	-	-	20,555	(556)	-	19,999
Balance, September 30, 2018	**142,013,499**	**7,190,486**	**$ 89,579**	**$ -**	**$ -**	**$ 296**	**$ (946)**	**$ (349)**	**$ (73)**	**$ 88,507**
Balance, December 31, 2018	**144,379,175**	**11,166,850**	**$ 92,000**	**$ -**	**$ -**	**$ 296**	**$ (16,687)**	**$ (515)**	**$ (488)**	**$ 74,606**
Adjustment on initial application of IFRS 16, see Note 2(i)	-	-	-	-	-	-	(741)	-	-	(741)
Issuance of shares	28,089,099	-	56,178	-	341	-	-	-	-	56,519
Issuance of shares to acquire additional non-controlling interest of subsidiaries	5,013,161	(648,545)	13,786	-	-	-	(14,455)	669	-	-
Shares issued for professional services	208,432	-	600	-	-	-	-	-	-	600
Vesting of employee compensation shares	-	-	175	-	-	-	-	-	-	175
Vesting of professional services shares	-		470	-	-	-	-	-	-	470
Shares forfeited	(66,667)	(50,000)	(50)	-	-	-	-	-	-	(50)
Issuance of shares, see Note 9(b)	4,124,166	-	-	-	-	-	-	-	-	-
Issuance of options	-	-	-	810	-	-	-	-	-	810
Conversion of notes payable to equity	1,220,000	-	1,830	-	-	-	-	-	-	1,830
Conversion of warrants	59,790	-	90	-	-	(90)	-	-	-	-
Issuance of warrants	-	-	-	-	-	8,480	-	-	-	8,480
Foreign currency gain on translation	-	-	-	-	-	-	-	-	(59)	(59)
Net loss	-	-	-	-	-	-	(32,897)	(204)	-	(33,101)
Balance, September 30, 2019	**183,027,156**	**10,468,305**	**$ 165,079**	**$ 810**	**$ 341**	**$ 8,686**	**$ (64,780)**	**$ (50)**	**$ (547)**	**$ 109,539**

The accompanying notes are an integral part of these Unaudited Condensed Interim Consolidated Financial Statements.

Cansortium Inc.
Unaudited Condensed Interim Consolidated Statements of Cash Flows
For the nine months ended September 30, 2019 and September 30, 2018
(Amounts expressed in thousands of United States Dollars unless otherwise stated)

	For the nine months ended September 30, 2019	2018
Operating activities		
Net income (loss)	$ (33,101)	$ 19,999
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	8,252	1,098
Loss on disposal of assets	2,205	-
Amortization of debt discount	4,497	896
Equity based compensation	2,005	1,623
Gain on investment in associate	-	(2,761)
Gain in fair market value of investment in associate	(3,388)	(31,849)
Change in fair market value of derivative	(6,172)	2,939
Unrealized gain on changes in fair value of biological assets	(3,182)	-
Changes in operating assets and liabilities:		
Accounts receivable	(51)	3
Inventory	(3,715)	(996)
Biological assets	2,746	-
Prepaid expenses and other current assets	(5,561)	289
Other assets	(1,116)	(830)
Accounts payable	102	1,814
Accrued expenses	(3,357)	482
Income taxes	1,838	-
Lease obligations	1,772	-
Other current and long-term liabilities	398	1,250
Net cash used in operating activities	(35,828)	(6,043)
Investing activities		
Purchases of property and equipment	(12,558)	(6,117)
Purchase of intangible assets	(319)	-
Due from associate	-	(1,588)
Net cash used in investing activities	(12,877)	(7,705)
Financing activities		
Proceeds from IPO	56,178	-
Proceeds from issuance of shares	-	16,626
Proceeds from issuance of notes payable	41,006	-
Distribution to initial investors	-	(600)
Payment of lease obligations	921	-
Principal repayments of notes payable	(46,353)	(92)
Net cash provided by financing activities	51,752	15,934
Effect of foreign exchange on cash and cash equivalents	(59)	(78)
Net increase in cash and cash equivalents	2,988	2,108
Cash and cash equivalents, beginning of period	2,026	3,033
Cash and cash equivalents, end of period	$ 5,014	$ 5,141
Cash paid during the period for interest	$ 585	$ 2
Non-cash transactions:		
Notes payable issued to acquire additional non-controlling interest of subsidiary	$ -	$ 52,008
Share swap agreement issuance of shares to acquire non-controlling interest of subsidiary	$ -	$ 11,341
Issuance of equity for business acquisition	$ -	$ 18,796
Issuance of equity for additional interest in consolidated entity	$ 13,786	$ -
Conversion of capital contributions to notes payable	$ -	$ 1,809
Conversion of accrued interest and notes payable to equity	$ -	$ 9,013

The accompanying notes are an integral part of these Unaudited Condensed Interim Consolidated Financial Statements.

1. NATURE OF OPERATIONS

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

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

The Company, through its various subsidiaries, is licensed to produce and sell cannabis in Canada, is licensed and operates an industrial hemp production in Canada, is licensed to operate a seed bank and to produce and export medical cannabis in Colombia and secured a distribution agreement in Brazil.

During 2017, the Company, through Cansortium Holdings and its various subsidiaries, initiated operations in Texas, Puerto Rico and Pennsylvania and began to generate revenue in its investment in Knox Servicing, LLC ("Knox Servicing").

Knox Servicing was formed on July 1, 2015 for the purpose of cultivating, manufacturing and retailing in the cannabis industry and operates cultivation and production facilities in Florida, producing various products ranging from oral drops, capsules, suppositories, topicals, syringes, dried flower, pre-roll and cartridges. Knox Servicing owns and operates sixteen dispensaries in the state of Florida as of September 30, 2019. On August 15, 2018, the Company acquired the remaining interest in Knox Servicing becoming the sole member (see Note 9). During 2019, Knox Servicing changed its name to Fluent Servicing, LLC ("Fluent Servicing").

Substantially all of the Company's operations are in one segment, the production and sale of medical cannabis. All revenues for the three and nine months ended September 30, 2019 and 2018 were generated in the United States.

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, 2018 and 2017, except as described in Note 2(i). 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, 2018 and 2017, 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 November 29, 2019.

(b) Basis of Measurement

These condensed interim consolidated financial statements have been prepared on the going concern basis, under the historical cost convention except for certain financial debt instruments and biological assets that are measured at fair value and the Company's investment in Fluent Servicing, which was recorded using the equity method of accounting until August 15, 2018, the date on which the Company became the sole member of Fluent Servicing (see Note 9).

(c) Basis of Consolidation

These 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 taken into account. 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 consolidated in these condensed interim consolidated financial statements and the ownership interest held as of September 30, 2019 and December 31, 2018.

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

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

(c) Basis of Consolidation *(Continued)*

	% Ownership September 30, 2019	% Ownership December 31, 2018
Cansortium Holdings LLC	100.00%	100.00%
Cansortium Puerto Rico, LLC (see Note 13)	100.00%	100.00%
Cansortium Texas, LLC (see Note 13)	100.00%	100.00%
Cansortium Canada Holdings Inc.	100.00%	100.00%
1931074 Ontario, Inc.	100.00%	100.00%
Cansortium Canada Servicing, Inc. (see Note 13)	100.00%	60.00%
Cansortium Pennsylvania, LLC (see Note 13)	100.00%	70.00%
Cansortium Brazil, Ltda. (see Note 13)	100.00%	100.00%
Cansortium Australia Pty. Ltd	84.51%	84.51%
Cansortium Health Partners, LLC (see Note 13)	100.00%	100.00%
Cansortium Florida, LLC	100.00%	100.00%
Fluent Servicing, LLC (see Note 9)	100.00%	100.00%
Cansortium Colombia S.A.S (see Note 9)	100.00%	100.00%
Arcadia EcoEnergies, Ltd. (see Note 9)	52.00%	52.00%
Spirit Lake Road Nursery, LLC (see Note 9)	100.00%	100.00%
16171 Slater Road Investors LLC	100.00%	100.00%
Cansortium Oregon LLC	100.00%	100.00%
Cansortium Washington, LLC	100.00%	100.00%
Cansortium California 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%
Cansortium Property Holdings, Inc.	100.00%	100.00%
Fluent Hemp LLC	100.00%	-
Cansortium Ohio, LLC	85.00%	85.00%
Cansortium Beverage Company Inc.	100.00%	100.00%
Cansortium International Inc.	100.00%	100.00%

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

(d) Business Combinations

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

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

(e) Investment in Associate

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

On August 15, 2018, the Company acquired the remaining ownership of Fluent Servicing which has changed the accounting method of its investment in Fluent Servicing from equity to full consolidation (see Note 9).

(f) Derivative Liability

The Company uses the fair-value method of accounting for derivative liability and such liability is re-measured at each reporting date with changes in fair value recorded in the period incurred. The fair value is estimated using a Black-Scholes model or the Monte-Carlo simulation model. Critical estimates and assumptions used in the model are discussed in Note 10.

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

(g) Income Taxes

Certain of the Company's subsidiaries are subject to income taxes, however there were no material current or deferred taxes associated with such entities for the three months ended March 31, 2019 as the Company was a limited liability company treated as a partnership for federal income tax purposes until March 22, 2019, date of the Company's initial public offering and listing on the CSE (see Note 1). Under federal law, the taxable income or loss of a limited liability company is allocated to its members. Accordingly, no provision has been made for federal income taxes for the three months ended March 31, 2019.

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 estimated average annual tax rate used for the nine months ended September 30, 2019 is -5.48%, compared to 0% for the nine months ended September 30, 2018. The difference in the rate was mainly the result of a restructuring that converted the Company from non-taxable to taxable in March 22, 2019.

(i) New Standards Adopted in Current Year

(i) IFRS 16, Leases ("IFRS 16")

In January 2016, the IASB issued IFRS 16, which replaced the previous guidance on leases, IAS 17, *Leases*. IFRS 16 introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than twelve months unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments.

The Company has applied IFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognized in deficit at January 1, 2019. Accordingly, the comparative information presented for previous periods have not been restated.

The Company has elected to apply the practical expedient to account for leases for which the lease term ends within 12 months of the date of initial application as short-term leases. The Company's borrowing rates used for IFRS 16 purposes ranged from 8.60% to 8.76% defined based on the underlying countries and asset classes related risks.

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

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

(i) New Standards Adopted in Current Year *(Continued)*

(i) IFRS 16, Leases ("IFRS 16") (Continued)

The following table summarizes the impacts of adopting IFRS 16 on the Company's condensed interim consolidated financial statements as at January 1, 2019, the date of initial application:

		January 1, 2019
Assets		
Right-of-use assets	$	14,792
Liabilities		
Accrued expenses	$	(487)
Lease liability	$	16,020
Shareholders' equity		
Deficit	$	(741)

The following is the Company's policy for accounting for lease contracts in accordance with IFRS 16:

Definition of a lease

Under IFRS 16, a contract is or contains a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration.

Measurement

The Company recognizes a right-of-use asset and a lease liability at the commencement date of the lease. The right-of-use asset is initially measured at cost, and subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. In addition, the right-of-use assets are adjusted for impairment losses, if any.

The estimated useful lives and recoverable amounts of right-of-use assets are determined on the same basis as those of property and equipment. The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate.

The lease liability is subsequently measured at amortized cost using the effective interest method. The Company recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

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

3. INVENTORY

As of September 30, 2019 and December 31, 2018, inventories consisted of the following:

	September 30, 2019	December 31, 2018
Supplies, packaging and materials	$ 786	$ 956
Finished goods	5,966	2,231
Inventory reserve	(200)	(350)
Balance at end of period	**$ 6,552**	**$ 2,837**

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 nine months ended September 30, 2019 and year ended December 31, 2018 is as follows:

	September 30, 2019	December 31, 2018
Balance at beginning of period	$ 2,549	$ -
Purchased as part of business acquisition	-	1,445
Cost incurred until harvest	5,161	333
Effect of unrealized change in fair value of biological assets	3,182	2,866
Transferred to inventory upon harvest	(7,907)	(2,095)
Balance at end of period	**$ 2,985**	**$ 2,549**

As of September 30, 2019, all biological assets were live plants.

The Company initially values its cannabis plants as biological assets from the date of initial cloning from mother plants until the point of harvest. On average, the growing time for a full harvest approximates 14 weeks. The Company has determined the fair value less cost to sell of harvested cannabis to be $0.052 per active milligram. As of September 30, 2019 and December 31, 2018, the Company's biological assets were on average 43.7% and 49.1% complete, respectively. As of September 30, 2019 and December 31, 2018, the Company had 46,490 and 39,692 plants that were classified as biological assets, respectively.

As listed below, key estimates are involved in the valuation process of the cannabis plants. The Company's estimates are subject to certain changes that could result in future gains or losses of biological assets. Changes in estimates could result from volatility of sales prices, changes in yields, and variability of the costs necessary to complete the harvest and those costs incurred from the point of harvest.

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

4. BIOLOGICAL ASSETS *(Continued)*

The fair value of biological assets is considered a Level 3 categorization in the IFRS fair value hierarchy. The significant estimates and inputs used to assess the fair value of biological assets include the following assumptions:

(a) Estimated wholesale price of $0.052 per active milligram during the nine months ended September 30, 2019;

(b) The Company measures the yield of cannabis in active milligrams extracted from a plant. The average yield from each cannabis plant is 2,300 active milligrams;

(c) Wastage of cannabis plants is 20.2%.

(d) Average of 98 days to grow.

The Company has quantified the sensitivity of the inputs in relation to the biological assets for the periods ended September 30, 2019 and December 31, 2018 and determined the following:

(a) A 5% increase or decrease in the selling price per active milligram would increase or decrease the fair value of biological assets by approximately $125 and $123, respectively.

(b) A 5% increase or decrease in the estimated yield per cannabis plant would result in an increase or decrease in the fair value of biological assets by approximately $125 and $123, respectively.

(c) A 5% increase or decrease in the estimated wastage of cannabis plants would increase or decrease the fair value of biological assets by approximately $25 and $22, respectively.

5. PREPAID EXPENSES AND OTHER CURRENT ASSETS

As of September 30, 2019 and December 31, 2018, prepaid expenses and other current assets consisted of the following:

	September 30, 2019	December 31, 2018
Prepaid expenses	$ 497	$ 172
Security deposits held	2,154	135
Note receivable	3,314	-
Other current assets	388	236
Balance at end of period	**$ 6,353**	**$ 543**

In connection with the Company's agreement entered in October 2018 with Green Standard Holdings LLC and Green Standard Cultivation LLC and Green Standard, Inc. (collectively, "Green Standard") to acquire the current assets of Green Standard, the Company entered into a line of credit note with Green Standard, Inc. ("Green Standard Note Receivable"), pursuant to which the Company agreed to make advances to Green Standard connection with the Michigan cultivation and operational expenses, which note bears interest of 2.7% per annum. During the nine months ended September 30, 2019, the Company advanced $3,314 under the Green Standard Note Receivable. As of September 30, 2019, the balance of the Green Standard Note Receivable was $3,314.

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

6. PROPERTY AND EQUIPMENT

A reconciliation of the beginning and ending balances of property and equipment for nine months ended September 30, 2019 and 2018 is as follows:

	Land	Furniture and fixtures	Computer equipment	Manufacturing equipment	Leasehold improvements	Buildings	Construction in progress	Vehicles	Total
Balance as of January 1, 2018									
Cost	$ -	$ 219	$ 103	$ 1,053	$ 2,576	$ -	$ 74	$ 67	$ 4,092
Business acquisition	-	129	220	1,378	6,706	1,253	-	349	10,035
Additions	54	69	97	2,061	2,431	1,364	40	-	6,116
Construction completed	-	-	-	-	57	-	(57)	-	-
Balance as of September 30, 2018	54	417	420	4,492	11,770	2,617	57	416	20,243
Balance as of January 1, 2018									
Accumulated depreciation	-	24	13	96	129	-	-	1	263
Additions	-	28	47	172	376	2	-	10	635
Balance as of September 30, 2018	-	52	60	268	505	2	-	11	898
Property and equipment, net	**$ 54**	**$ 365**	**$ 360**	**$ 4,224**	**$ 11,265**	**$ 2,615**	**$ 57**	**$ 405**	**$ 19,345**
Balance as of January 1, 2019									
Cost	$ 764	$ 475	$ 464	$ 4,560	$ 12,826	$ 3,224	$ 1,585	$ 492	$ 24,390
Additions	-	283	287	2,005	3,800	51	6,132	-	12,558
Construction completed	-	-	-	-	4,530	-	(4,530)	-	-
Disposals	-	-	(15)	(18)	(1,024)	-	(1,476)	-	(2,533)
Balance as of September 30, 2019	764	758	736	6,547	20,132	3,275	1,711	492	34,415
Balance as of January 1, 2019									
Accumulated depreciation	-	68	106	417	1,362	16	-	23	1,992
Additions	-	67	170	589	3,090	30	-	39	3,985
Disposals	-	-	(4)	(4)	(320)	-	-	-	(328)
Balance as of September 30, 2019	-	135	272	1,002	4,132	46	-	62	5,649
Property and equipment, net	**$ 764**	**$ 623**	**$ 464**	**$ 5,545**	**$ 16,000**	**$ 3,229**	**$ 1,711**	**$ 430**	**$ 28,766**

For the three and nine months ended September 30, 2019 the Company charged $291 and $1,002 of depreciation to the production of inventory, respectively. For the three and nine months ended September 30, 2018 the Company charged $125 and $231 of depreciation to the production of inventory, respectively.

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

7. INTANGIBLE ASSETS

Intangible assets consist of cannabis licenses, acquired intellectual property at 1931074 Ontario, Inc, customer relationships, non-compete agreements and trademarks and brands. A reconciliation of the beginning and ending balances of intangible assets for the nine months ended September 30, 2019 and 2018 is as follows:

	Licenses	Intellectual property	Customer relationships	Non-compete agreements	Trademarks and brands	Total
Balance as of January 1, 2018						
Cost	$ 518	$ 596	$ -	$ -	$ -	$ 1,114
Additions	91,911	-	13,608	-	4,897	110,416
Balance as of September 30, 2018	92,429	596	13,608	-	4,897	111,530
Balance as of January 1, 2018						
Accumulated amortization	81	-	-	-	-	81
Additions	219	-	113	-	132	464
Balance as of September 30, 2018	300	-	113	-	132	545
Intangible assets, net	**$ 92,129**	**$ 596**	**$ 13,495**	**$ -**	**$ 4,765**	**$ 110,985**
Balance as of January 1, 2019						
Cost	$ 89,568	$ 596	$ 3,070	$ 30	$ 15,550	$ 108,814
Additions	319	-	-	-	-	319
Disposals	(249)	-	-	-	-	(249)
Balance as of September 30, 2019	89,638	596	3,070	30	15,550	108,884
Balance as of January 1, 2019						
Accumulated amortization	351	-	229	2	1,815	2,397
Additions	176	-	458	5	3,628	4,267
Balance as of September 30, 2019	527	-	687	7	5,443	6,664
Intangible assets, net	**$ 89,111**	**$ 596**	**$ 2,383**	**$ 23**	**$ 10,107**	**$ 102,220**

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

8. INVESTMENT IN ASSOCIATE

The Company's investment in Fluent Servicing was accounted for as an equity method investment, as the Company has determined that it had significant influence over the investee but did not have control until August 15, 2018, the date on which the Company acquired the remaining interest in Fluent Servicing and became the sole member (see Note 9).

Summarized financial information of Fluent Servicing for the seven and a half months ended August 15, 2018 is as follows:

		August 15, 2018
Current assets	$	6,944
Non-current assets	$	8,541
Current liabilities	$	9,304
Non-current liabilities	$	-

		Seven and a half months ended August 15, 2018
Revenue	$	10,789
Net income	$	6,312

A reconciliation of the beginning and ending balances of the investment in associate seven and a half months ended August 15, 2018 is as follows:

		Seven and a Half Months Ended August 15, 2018
Beginning balance	$	7,441
Company's share of income		2,761
Consolidation of entity at acquisition		(10,202)
Ending balance	$	-

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

9. BUSINESS ACQUISITIONS AND GOODWILL

During the year ended December 31, 2018 the Company made the following acquisitions, and has allocated each purchase price as follows:

	(a) Fluent Servicing, LLC	(b) Cansortium Colombia	(c) Spirit Lake Road Nursery, LLC	(d) Arcadia EcoEnergies Ltd.	Total
Cash	$ 2,463	$ 116	$ 3	$ 45	$ 2,627
Accounts receivable	-	-	-	32	32
Inventory	2,674	-	-	102	2,776
Biological assets	1,445	-	-	-	1,445
Prepaid expenses and other current assets	362	207	-	96	665
Property and equipment	8,541	2,503	50	190	11,284
Intangible assets - Licenses	79,870	8,660	71	230	88,831
Intangible assets - Customer relationship	3,030	-	-	40	3,070
Intangible assets - Trademarks and brands	15,550	-	-	-	15,550
Intangible assets - Non-compete agreements	-	-	-	30	30
Goodwill	14,942	2,840	-	129	17,911
Accounts payable	(1,303)	(485)	-	(230)	(2,018)
Accrued expenses	(2,789)	-	-	(51)	(2,840)
Due to related party	(4,996)	-	-	-	(4,996)
Current portion of notes payable	(216)	-	-	(16)	(232)
Notes payable, net of current portion	-	-	-	(37)	(37)
Net assets	119,573	13,841	124	560	134,098
Controlling interests	(10,201)	-	-	-	(10,201)
Non-controlling interests	-	-	-	(63)	(63)
Gain on fair market value of investment	(35,237)	-	-	-	(35,237)
Net assets acquired	$ 74,135	$ 13,841	$ 124	$ 497	$ 88,597
Consideration paid in cash	$ 2,400	$ -	$ 124	$ 191	$ 2,715
Future cash consideration	53,974	2,500	-	-	56,474
Consideration paid in equity	14,200	-	-	306	14,506
Future equity price guarantee	3,561	-	-	-	3,561
Future equity consideration	-	11,341	-	-	11,341
Total purchase consideration	$ 74,135	$ 13,841	$ 124	$ 497	$ 88,597

9. BUSINESS ACQUISITIONS AND GOODWILL *(Continued)*

The consideration has been allocated to the assets acquired and liabilities assumed based on their estimated fair values at the date of acquisition. The purchases have been accounted for by the acquisition method, with the results included in the Company's net earnings from the date of acquisition.

(a) Acquisition of Fluent Servicing, LLC

On August 15, 2018, the Company acquired the remaining interest in Fluent Servicing becoming the sole member of Fluent Servicing. The purchase price was $74,135 facilitated by (i) a $2,400 cash payment; (ii) issuance of a promissory note in the amount of $40,783; (iii) issuance of a promissory note in the amount of $12,359; (iv) issuance of 5,163,636 of membership units of Cansortium Holdings LLC valued at $2.75 dollars per unit, and issuance of a share price guarantee instrument fair valued at $3,561 (see Note 10 and Note 11) and (iv) commitment to pay income tax liabilities in the amount of $832.

The difference of $35,237 between the Company's equity interest previously held in Fluent Servicing before the acquisition date fair value of $45,438 and book value of $10,201 was recorded as a gain in fair market value of investment in associate in the Statement of Operations.

During the quarter ended June 30, 2019, the Company finalized the purchase price allocation to the individual to the assets acquired and liabilities assumed. The measurement period adjustments recorded as an increase in goodwill of $7,596 included the following: (i) liability recognition of $2,242 associated with the fair value of Fluent Servicing obligations under the dispensary termination agreement executed on January 1, 2019; (ii) increased cash consideration of $1,966 from the fair value of tax liability obligations of $832 and promissory note payable amendment of 1,134; and (iv) gain in fair market value of investment in associate of $3,338 associated with final purchase price consideration.

This acquisition provided the Company full control of Fluent Servicing and allowed the Company to transfer the MMTC License that was originally issued to Knox Nursery Inc. to Spirit Lake Road Nursery, LLC, a wholly-owned subsidiary of the Company.

Net loss and comprehensive loss for the Company for the nine months ended September 30, 2018 would have been lower by approximately $6,312 if the acquisition had taken place on January 1, 2018.

(b) Acquisition of Cansortium Colombia S.A.S.

On August 24, 2018, the Company acquired 100% of the issued and outstanding shares of a company in Colombia, Cansortium Colombia S.A.S. ("Cansortium Colombia") for a purchase price of $13,841 wherein the Company agreed to issue concurrently with the listing of the Company on the Canadian Securities Exchange 4,124,166 common shares at $2.75 per share in satisfaction of the obligations of Cansortium Canada and the Company under the Share Swap Agreement and Share Issuance Covenant Agreement and agreed to pay $2,500 for a real property located in Colombia with an initial payment of $1,150 in August, 2018. In connection with this transaction, the Company agreed that the president of Cansortium Colombia would be entitled to 5% of the net profit of Cansortium Colombia, if any, for the fiscal years of 2019, 2020 and 2021, subject to his continued employment.

9. BUSINESS ACQUISITIONS AND GOODWILL *(Continued)*

(b) Acquisition of Cansortium Colombia S.A.S. *(Continued)*

During the quarter ended June 30, 2019, the Company finalized the purchase price allocation to the individual to the assets acquired and liabilities assumed, and no measurement period adjustments were recorded.

Through this acquisition, Cansortium Colombia has secured licenses for the cultivation, production, research and development in Colombia and domestic sales and export of medical cannabis, which is anticipated to provide substantial first mover advantage in Colombia and to other Latin America countries.

Net loss and comprehensive loss for the Company for the nine months ended September 30, 2018 would have been higher by approximately $93 if the acquisition had taken place on January 1, 2018.

(c) Acquisition of Spirit Lake Road Nursery, LLC

On August 20, 2018, the Company acquired 100% of the issued and outstanding member units of Spirit Lake Road Nursery, LLC, ("Spirit Lake Nursery") for a total cash consideration of $124.

During the quarter ended June 30, 2019, the Company finalized the purchase price allocation to the individual to the assets acquired and liabilities assumed, and no measurement period adjustments were recorded.

Florida law requires that an MMTC License be held by a commercial nursery or stock dealer registered with the Florida Department of Agriculture and Consumer Services. Spirit Lake Nursery, which possesses such registration, was acquired by the Company for purposes of transferring the MMTC License held by Knox Nursery Inc. to Spirit Lake Nursery, in connection with the Fluent Servicing acquisition (see Note 9(a)).

Net loss and comprehensive loss for the Company for the nine months ended September 30, 2018 would have been lower by approximately $70 if the acquisition had taken place on January 1, 2018.

(d) Acquisition of Arcadia EcoEnergies Ltd.

On September 1, 2018, the Company, through its wholly-owned subsidiary Cansortium Canada Holdings, Inc. acquired 52% of the issued and outstanding shares of Arcadia EcoEnergies, an existing licensed operation for industrial hemp production for a combined purchase price of CAD $650 ($498), satisfied through a cash payment of CAD $250 ($191) and the issuance of 111,384 member units of Cansortium Holdings LLC at a price equal to $2.75 per unit.

During the quarter ended June 30, 2019, the Company finalized the purchase price allocation to the individual to the assets acquired and liabilities assumed, and no measurement period adjustments were recorded.

Net loss and comprehensive net loss for the Company for the nine months ended September 30, 2018 would have been higher by approximately $129 if the acquisition had taken place on January 1, 2018.

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

9. BUSINESS ACQUISITIONS AND GOODWILL *(Continued)*

(d) Acquisition of Arcadia EcoEnergies Ltd. *(Continued)*

In connection with this acquisition, the Company also entered into a purchase agreement with Arcadia EcoEnergies to secure a right of first refusal for all harvest production from the 2018 anticipated harvest. This purchase agreement is for cold pressed hemp oil, protein powder and flower and leaf for extraction procedures. This extraction process will be carried out by the anticipated limited partner of Cansortium Canada at the Grimsby Location. Cansortium Canada Holdings, Inc. has agreed to a minimum purchase agreement equal to $500 Canadian dollars per acre to ensure all costs of planting and harvest are covered (see Note 15).

Selected line items from the Company's consolidated financial statements adjusted for the acquisitions above for the nine months ended September 30, 2018 are as follows:

		Cansortium Inc.		Pro-forma adjustments		Pro-forma results
Revenue	$	3,162	$	11,040	$	14,202
Gross profit	$	1,465	$	12,769	$	14,234
Net income (loss)	$	19,999	$	6,161	$	26,160

10. DERIVATIVE LIABILITY

A reconciliation of the beginning and ending balances of the derivative liabilities from the time of issuance and for nine months ended September 30, 2019 and year ended December 31, 2018 is as follows:

		Convertible debentures		Warrants		Equity price guarantee		Derivative liability total
As of January 1, 2018	$	1,014	$	-	$	-	$	1,014
Fair value of derivative liabilities on issuance date		-		4,102		3,560		7,662
Fair value change in derivative liability		2,939		1,824		(244)		4,519
Conversion of convertible debentures to equity		(3,953)		-		-		(3,953)
As of December 31, 2018	**$**	**-**	**$**	**5,926**	**$**	**3,316**	**$**	**9,242**
As of January 1, 2019		-		5,926		3,316		9,242
Fair value of derivative liabilities on issuance date		4,933		383		-		5,316
Fair value change in derivative liability		(2,336)		(5,926)		2,090		(6,172)
As of September 30, 2019	**$**	**2,597**	**$**	**383**	**$**	**5,406**		**8,386**

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

10. DERIVATIVE LIABILITY *(Continued)*

(a) Convertible Debentures

During the year ended December 31, 2017, the Company completed a brokered private placement financing by issuing convertible notes payable ("Convertible Debentures") (see Note 11) which contained down round protection on the conversion feature. If the down round protection is enacted, there would be variability in the number of member units of Cansortium Holdings issuable on conversion. In accordance with IFRS, a contract to issue a variable number of equity shares fails to meet the definition of equity and must instead be classified as a derivative liability and measured at fair value with changes in fair value recognized in the consolidated statements of operations at each period-end. The derivative liability will ultimately be converted into the Company's equity when the convertible notes payable is converted or will be extinguished on the repayment of the convertible notes payable, and will not result in the outlay of any additional cash by the Company.

The Company used the Black-Scholes option-pricing model to estimate fair value of the derivative liability at each reporting date. This is a Level 3 recurring fair value measurement. The key Level 3 inputs used by management to determine the fair value are the expected future volatility in the price of the Company's member units and the expected life of the convertible debentures.

The following range of assumptions were used to value the derivative liability during the nine months ended September 30, 2019:

	2019
Volatility	60.00%
Risk-free interest rate	1.87% - 1.91%
Expected life (years)	0.09 - 0.15 years
Share price	$0.63
Exercise price	$1.88

During the three and nine months ended September 30, 2018, the Company recorded a gain of $1 and a loss of $2,939 on revaluation of the derivative liability, respectively.

Pursuant to the above brokered private placement financing by issuing Convertible Debentures, each subscriber of the Convertible Debenture will be entitled to one-half of a share purchase warrant for each $1 of the Convertible Debenture ("Debenture Warrant"). In addition, upon conversion of the Convertible Debentures, each subscriber will also receive one-half of a share purchase warrant for each unit for each $1 principal amount of the Convertible Debentures converted ("Conversion Warrant"). These warrants will be exercisable for a period for 24 months from the date of closing of the Convertible Debentures financing at a price that is 125% of the conversion price. Accordingly, the Company issued 2,372,071 Debenture Warrants and 3,162,761 Conversion Warrants. The Company used the Black-Scholes option-pricing model to estimate fair values of these warrants amounting to $383 and $5,926 at September 30, 2019 and December 31, 2018, respectively. These warrants are classified as a derivative liability. The net change in fair values were expensed in the statement of operations with a corresponding credit to derivative liability. This is a Level 3 recurring fair value measurement. The key Level 3 inputs used by management to determine the fair value as at September 30, 2019 and September 30, 2018 are the expected future volatility of 60% in the price of the Company's shares of $2.75 and the expected remaining life of the convertible debentures of 24 months from the date of issuance of the Convertible Debentures.

10. DERIVATIVE LIABILITY *(Continued)*

(b) Equity Price Guarantee

In connection with the acquisition of the remaining interest of Fluent Servicing performed on August 15, 2018 (see Note 9), the Company issued 5,163,636 of membership units of Cansortium Holdings valued at $2.75 dollars per unit subject to a price floor of $2.75 ("Equity Price Guarantee"). The Equity Price Guarantee expires on March 21, 2021. 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 $2.75 per share, then the Company shall have the obligation to pay the holder the difference between $2.75 and the actual sale price of shares. The Equity Price Guarantee shall be cancelled if the value of the shares of the Company close at $4.13 per share for more than twenty (20) consecutive trading days while maintaining a trading volume of at least three (3) 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 of 60% in the price of the Company's shares and the expected life of the Equity Price Guarantee ranging from 2-2.5 years.

During the three and nine months ended September 30, 2019, the Company recorded a loss of $12 and $2,090 on revaluation of the Equity Price Guarantee derivative liability, respectively.

(c) Bridge Loan Agreement

On February 8, 2019, the Company completed a brokered private placement financing by issuing convertible notes payable (the "Bridge Loan Agreement") in the amount of $1,830 bearing interest of 3% per month (see Note 11).

The Bridge Loan Agreement, when repaid on the IPO Closing Date, had a conversion feature that the Lender could exercise for a period of no more than 30 days from the IPO Closing Date to convert the loan amount into common shares of the Company at a price per common share equal to a 25% discount on the IPO closing price, which was exercised on April 22, 2019 (see Note 11).

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

The Company used the Black-Scholes option-pricing model to estimate fair value of the derivative liability at each reporting date. This is a Level 3 recurring fair value measurement. The key Level 3 inputs used by management to determine the fair value are the expected future volatility in the price of the Company's member units and the expected life of the convertible debentures.

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

10. DERIVATIVE LIABILITY *(Continued)*

(c) Bridge Loan Agreement *(Continued)*

The following range of assumptions were used to value the derivative liability during the nine months ended September 30, 2019:

	2019
Volatility	60.00%
Risk-free interest rate	1.63%
Expected life (years)	2.38 years
Share price	$0.63
Exercise price	$0.47

Upon initial recognition, the Company recorded a derivative liability and debt discount of $631 in relation to the derivative liability portion of the Bridge Loan Agreement. See note 11 for further details. During the three and nine months ended September 30, 2019, the Company recorded a gain of $19 and $104 on revaluation of the Bridge Loan Agreement derivative liability, respectively.

Pursuant to the above Bridge Loan Agreement, each subscriber was entitled to one-fourth of a share purchase warrants for each $1 dollars of the Bridge Loan Agreement at the IPO closing price. The Company used the Black-Scholes option-pricing model to estimate fair values of these warrants amounting to $383 at September 30, 2019. These warrants are classified as a derivative liability.

(d) Convertible Debentures - $10M Convertible Note

On February 15, 2019 the Company completed a brokered private placement financing by issuing convertible notes payable (the "$10M Convertible Note") in the amount of $10,000 bearing interest of 12% per annum (see Note 11), which contained a conversion feature with variability in the number of common shares issuable on conversion. Pursuant to the $10M Convertible Note, each subscriber was entitled to one-half of a share purchase warrants for each $1 of the $10M Convertible Note at a price 30% above the IPO closing price

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

The Company used the Black-Scholes option-pricing model to estimate fair value of the derivative liability at each reporting date. This is a Level 3 recurring fair value measurement. The key Level 3 inputs used by management to determine the fair value are the expected future volatility in the price of the Company's common shares and the expected life of the convertible notes payable.

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

10. DERIVATIVE LIABILITY *(Continued)*

(d) Convertible Debentures - $10M Convertible Note *(Continued)*

The following range of assumptions were used to value the derivative liability during the nine months ended September 30, 2019:

	2019
Volatility	60.00%
Risk-free interest rate	1.63%
Expected life (years)	0.88 years
Share price	$0.63
Exercise price	$2.00

Upon initial recognition, the Company recorded a derivative liability and debt discount of $4,302 in relation to the derivative liability portion of the $10M Convertible Note. See Note 11 for further details. During the three and nine months ended September 30, 2019, the Company recorded a gain of $1,876 and $2,232 on revaluation of the $10M Convertible Note derivative liability, respectively.

11. NOTES PAYABLE

As of September 30, 2019 and December 31, 2018 notes payable consisted of the following:

	September 30, 2019	December 31, 2018
Machinery and equipment loan (a)	$ 34	$ 46
Automobile loan (b)	114	134
Notes payable (c)	11,561	53,193
Convertible debentures (d)	25,982	-
Total notes payable	37,691	53,373
Less current portion of notes payable	(8,930)	(51,463)
Notes payable, net of current portion	**$ 28,761**	**$ 1,910**

(a) Machinery and Equipment Loan

Machinery and equipment lease agreements bearing interest ranging from of 11.75% to 11.95% per annum, maturing through December 2021.

(b) Automobile Loan

Notes payable collateralized by vehicles purchased, bearing interest ranging from 4.09% to 6.54% per annum, maturing through September 2023.

11. NOTES PAYABLE *(Continued)*

(c) Notes Payable

On September 1, 2018, the Company issued a promissory note in the amount of $40,783 in connection with the acquisition of Fluent Servicing member units, bearing interest of 12% per annum until November 30, 2018 with a 6% per annum monthly rate increase up to 24% per annum until the February 28, 2019 maturity date with minimum monthly payments of $500 from September 30, 2018 to December 31, 2018 and minimum monthly payments of $1,000 on January 1, 2019 and February 28, 2019 (see Note 9). The outstanding promissory note balance was repaid by the Company in March, 2019.

On August 14, 2018, the Company issued a promissory note in the amount of $11,225 in connection with the acquisition of Fluent Servicing member units, bearing interest of 6% per annum to be repaid in monthly installments over a period of one year from January 1, 2019 to December 1, 2019, if such payments do not exceed a cap of 25% of the monthly net profits of Fluent Servicing in the full calendar month prior to the date a monthly payment is due. In the event the payments are not performed in full during the first year, the remaining principal will bear interest of 10% per annum to be repaid in equal payments over a period of up to 12 additional months until all sums are paid in full (see Note 9).

On January 1, 2019, the Company executed an amendment to the August 14, 2018 promissory note, adjusting the aggregate principal amount of the new promissory note to $12,561, including among other amounts, $261 of accrued interest from August 14, 2018 to December 31, 2018 and bearing interest of 10% per annum for the first year and interest of 12% per annum for the second year to be repaid in four monthly installments of $1,000 over a period from September 1, 2019 to December 1, 2020 and twelve monthly installments of $863 over a period from January 1, 2020 to December 1, 2020. The loss on debt extinguishment of $1,124 recognized by the Company in connection with the above promissory note amendment during the three months ended March 31, 2019 was adjusted during the three months ended June 30, 2019 due to the completion of the Fluent Servicing acquisition purchase price allocation (see Note 9) performed subsequent to the acquisition and during the measurement period.

On November 30, 2018, the Company entered into a note payable agreement in the amount of $1,800, in exchange for cash receipts of $1,495 maturing the earlier of March 25, 2019 or 30 days after the completion of the Company's initial public offering listing on the Canadian Securities Exchange (the "Go Public Transaction"). The outstanding note payable balance was repaid by the Company on February 15, 2019.

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

11. NOTES PAYABLE *(Continued)*

(d) Convertible Debentures

October and November 2017 Convertible Debentures

In October and November of 2017, the Company issued Convertible Debentures in exchange for cash proceeds of $4,744. The Convertible Debentures bear interest at an annualized rate of 10 percent, calculated daily, and mature eight months after the issuance. The holders of the Convertible Debentures could convert, in whole or in part, the principal and any outstanding accrued interest into member units of Cansortium Holdings LLC.

At the subscription of the Convertible Debentures, each investor was also issued a one-half warrant “Subscription Warrants” to be utilized for the future purchase of shares of the Company post a Go Public Transaction. The total number of Subscription Warrants issued were 2,372. These Subscription Warrants were issued based on the original amount invested into the Convertible Debentures. The strike price of the warrant is to be set at 125% of the future conversion price of the Convertible Debentures as described above. The expiry of the Subscription Warrants is 2 years from the issue date of the Convertible Debentures, subject to an accelerator clause. Once the Company has 20 straight trading days at or above 2x the strike price, the Company may elect to notify the holders of a 30-day expiry notice from that point.

Once a Convertible Debenture holder elected to convert their Convertible Debenture, on or before the expiry of the original eight-month term, the holder would earn an additional one-half warrant “Conversion Warrants” carrying the same rights and definitions as the Subscription Warrants.

In connection with issuance of the Convertible Debentures, the Company paid cash of $529 for debt issuance fees and incurred transaction costs of $109 related to 457,940 warrants issued. The portion of the debt issuance fees paid in cash that was attributed to the derivative liability were expensed at the time of the transaction and the remainder of $489 balance has been amortized over the term of Convertible Debentures.

The warrants were valued by the Company based on substantially the same inputs used for the valuation of the derivative liability as noted in Note 10. Each broker warrant entitles the holder to acquire one conversion unit at an exercise price of $1.50 any time until the 24th month anniversary.

On June 30, 2018, Convertible Debentures of $3,944 were converted into 2,629,429 member units and the accrued interest of $262 was converted into 174,814 units, each at $1.50 dollars per unit. On July 22, 2018, the Company Convertible Debentures of $800 were converted into 533,333 member units and the accrued interest of $53 was converted into 35,458 units, each at $1.50 dollars per unit.

February 2019 Bridge Loan Agreement

On February 8, 2019, the Company issued a Bridge Loan Agreement in exchange for cash proceeds of $1,830. The Bridge Loan Agreement bear interest at a monthly rate of 3 percent, maturing at the IPO Closing Date. The holders of the Bridge Loan Agreement may convert the principal into shares of the Company up to 30 days after the maturity date at a price per share equal to a 25% discount on the IPO closing price.

11. NOTES PAYABLE *(Continued)*

(d) Convertible Debentures *(Continued)*

February 2019 Bridge Loan Agreement *(Continued)*

In March, 2019, the Company repaid the outstanding balance of $1,830, which was returned to the Company on April 22, 2019 as the lender of the Bridge Loan Agreement exercised its right to convert the principal amount due thereunder to 1,220,000 shares of the Company's stock.

In connection with the issuance of the above Bridge Loan Agreement, the Company paid cash of $92 for debt issuance fees and recorded interest expense of $25 and $54 and accretion expense of $1,014 and $1,105 for the three and nine months ended September 30, 2019, respectively.

February 2019 $10M Convertible Note

On February 15, 2019, the Company issued a $10M Convertible Note in exchange for cash proceeds of $10,000. The $10M Convertible Note bear interest at an annual rate of 12 percent, maturing 18 months after issuance. The holders of the $10M Convertible Note may convert, in whole or in part, the principal and any outstanding accrued interest into shares of the Company at the IPO price. The $10M Convertible Note automatically lose the conversion privilege twenty-four months from issue. Pursuant to the terms of $10M Convertible Note, subject to an accelerator clause. Provided that four months have elapsed after the date of the IPO and the Company has 10 straight trading days at a price that is 50% greater than the IPO price, the Company may elect to convert the principal into shares of the Company at the IPO price and convert the accrued interest into shares of the Company at a price equal to the closing trading price on the day prior to the conversion.

In connection with the issuance of the $10M Convertible Note, the Company paid cash of $600 for debt issuance fees and recorded interest expense of $300 and $600 and accretion expense of $650 and $1,509 for the three and nine months ended September 30, 2019, respectively.

May 2019 Convertible Debentures

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, to be utilized for future purchase of shares at a 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 $411 and $582 and accretion expense of $874 and $1,820 for the three and nine months ended September 30, 2019, respectively.

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

11. NOTES PAYABLE *(Continued)*

(d) Convertible Debentures *(Continued)*

May 2019 Convertible Debentures *(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.

The Company used the Black-Scholes option-pricing model to estimate fair value of the agent option, embedded warrant and conversion feature of loan. The inputs used by management to determine the fair value are the expected future volatility in the price of the Company's member units and the expected life of the Secured Convertible Debentures.

The conversion features, embedded warrants and agent option require a fixed number of shares to settle, therefore, they meet the criteria of fixed to fixed under IFRS, and hence classified as equity. Accordingly, the fair values of these were deducted from the gross proceeds and were accreted over the term of the note.

The following range of assumptions were used to value the note during the period ended September 30, 2019.

	2019
Volatility	60.00%
Risk-free interest rate	2.12%
Expected life (years)	2 years
Share price	$1.60
Exercise price	$2.10 - $2.40

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

11. NOTES PAYABLE *(Continued)*

A reconciliation of the beginning and ending balances of the Convertible debentures, derivative liability and warrants from the time of issuance and for the nine months ended September 30, 2019 and year ended December 31, 2018 is as follows:

	Convertible debentures	Derivative liability	Equity conversion feature	Warrants	Expense
As of January 1, 2018	$ 3,849	$ 1,014	$ -	$ 296	$ -
Accretion expense	895	-	-	-	(895)
Fair value change in derivative liability	-	2,939	-	-	(2,939)
Conversion of convertible debentures to equity	(4,744)	(3,953)	-	-	-
As of December 31, 2018	**$ -**	**$ -**	**$ -**	**$ 296**	**$ (3,834)**
As of January 1, 2019	$ -	$ -	$ -	$ 296	$ -
Fair value of convertible debentures on issuance date	30,494	-	-	8,480	-
Fair value of derivative liabilities value on issuance date	(5,315)	4,933	-	-	-
Fair value of equity conversion feature on issuance date	(341)	-	341	-	-
Cash paid for debt issuance fees	(1,523)	-	-	-	-
Accretion expense	4,497	-	-	-	(4,497)
Fair value change in derivative liability	-	(2,336)	-	-	-
Conversion of warrants	-	-	-	(90)	-
Convertible debentures repayment	(1,830)	-	-	-	-
As of September 30, 2019	**$ 25,982**	**$ 2,597**	**$ 341**	**$ 8,686**	**$ (4,497)**

12. LEASES

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

(a) Right-of-use Assets

A reconciliation of the beginning and ending balances of right-of-use assets for the nine months ended September 30, 2019 is as follows:

	Manufacturing equipment	Buildings	Total
Balance as of December 31, 2018			
Cost - Initial application of IFRS 16	$ 347	$ 17,081	$ 17,428
Additions	-	3,085	3,085
Balance as of September 30, 2019	347	20,166	20,513
Balance as of December 31, 2018			
Accumulated depreciation - Initial application of IFRS 16	$ 54	$ 2,582	$ 2,636
Additions	87	1,481	1,568
Balance as of September 30, 2019	141	4,063	4,204
Right-of-use-assets, net	**$ 206**	**$ 16,103**	**$ 16,309**

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

12. LEASES *(Continued)*

(b) Lease Liabilities

A reconciliation of the beginning and ending balances of lease liabilities for the nine months ended September 30, 2019 is as follows:

		September 30, 2019
Balance as of December 31, 2018	$	-
Effect of adoption of IFRS 16, January 1, 2019		16,020
Additions		3,085
Interest on lease liabilities		1,085
Interest payments on lease obligations		(1,085)
Principal payments on lease obligations		(1,079)
Balance as of September 30, 2019	**$**	**18,026**
Less current portion of lease obligations		(1,637)
Lease obligations, net of current portion	**$**	**16,389**

(c) Future Minimum Lease Payments

The Company leases certain business facilities from third parties under operating lease agreements that specify minimum rentals. The leases expire through 2029 and contain certain renewal provisions. The Company's rent expense for the three and nine months ended September 30, 2019 were $1,391 and $3,744, respectively. The Company's rent expense for the three and nine months ended September 30, 2018 were $410 and $996, respectively. 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 September 30,		Scheduled payments
2019	$	1,637
2020		1,834
2021		1,968
2022		2,116
2023		2,312
Thereafter		8,159
Total future minimum lease payments	**$**	**18,026**

13. SHAREHOLDERS' EQUITY

On February 7, 2019, the Company issued 512,536 member units of Cansortium Holdings to acquire the remaining 30 percent ownership of Cansortium Pennsylvania, LLC. The fair market value of the member units issued was $1,409. As a result of the acquisition of the remaining membership units of Cansortium Pennsylvania, LLC, Cansortium Holdings became the sole owner. As a result of the transaction, the Company adjusted its carrying interest by $219 for the non-controlling's interest in Cansortium Pennsylvania, LLC and recognized directly to equity the difference of $1,628 between the non-controlling interest and the fair value of the units issued.

On March 22, 2019, the Company issued 3,852,080 shares of the Company to acquire the remaining 40 percent ownership of Cansortium Canada Servicing. The fair market value of the shares issued was $10,593. As a result of the acquisition of the remaining interest in Cansortium Canada Servicing, the Company became the sole owner. As a result of the transaction, the Company adjusted its carrying interest by $450 for the non-controlling's interest in Cansortium Canada Servicing and recognized directly to equity the difference of $11,043 between the non-controlling interest and the fair value of the units issued.

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

On April 22, 2019, the lender of the Bridge Loan Agreement exercised its right to convert the principal amount due thereunder to 1,220,000 shares of the Company's common stock. As a result, $1,830 was returned to the Company (see Note 11).

During the nine months ended September 30, 2019, the Company issued 208,432 member units of Cansortium Holdings valued at $600 for third-party related services.

During the nine months ended September 30, 2018, the Company issued 1,191,488 member units of Cansortium Holdings valued at $1,149 for third-party related services.

During the nine months ended September 30, 2018, the Company issued 6,045,768 member units for cash proceeds of $16,626.

On June 30, 2018, the Company acquired the remaining 10% interest in Cansortium Brazil Ltda. for a purchase price of $3,500, satisfied through the issuance of 1,272,728 member units of the Company at a price equal to $2.75 dollars per unit. As a result of the acquisition of the remaining interest in Cansortium Brazil Ltda., the Company became the sole owner. As a result of the transaction, the Company adjusted its carrying interest by $5 for the non-controlling interest in Cansortium Brazil and recognized directly to equity the difference of $3,495 between the non-controlling interest and the fair value of the units issued.

On August 1, 2018, the Company acquired the remaining 49% membership units of Cansortium Health Partners, LLC for a purchase price of $13,300 payable through the issuance of 4,836,364 restricted member units of Cansortium Holdings LLC at a price equal to $2.75 per unit.

On August 15, 2018, the Company issued 5,163,636 member units of Cansortium Holdings LLC at a price equal to $2.75 per unit, pursuant to the acquisition of the remaining interest in Fluent Servicing (see Note 9).

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

13. SHAREHOLDERS' EQUITY *(Continued)*

On August 1, 2018, the Company acquired the remaining 51% membership units of Cansortium Puerto Rico, LLC for a purchase price of $1,784 payable through the issuance of 648,545 restricted member units of Cansortium Holdings LLC at a price equal to $2.75 per unit. As a result of the transaction, the Company adjusted its carrying interest by $422 for the non-controlling's interest in Cansortium Puerto Rico.

On September 1, 2018, the Company issued 111,384 member units of Cansortium Holdings LLC at a price equal to $2.75 per unit, pursuant to the acquisition of Arcadia EcoEnergies (see Note 9).

During the nine months ended September 30, 2018, the Company converted the convertible notes payable of $4,744, accrued interest of $315 and derivative liability of $3,954 for 3,337,033 conversion units.

Share capital

As of September 30, 2019, the share capital of the Company is comprised of 82,558,551 common shares, 11,093,691 proportionate voting shares (each proportionate voting share is convertible into ten common shares), 49,829,455 warrants and convertible debt allotments and 1,182,106 stock options.

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, have a dilutive effect on earnings per share. The weighted average number of basic and diluted shares are presented in the table below:

	Three months ended		Nine months ended	
	September 30, 2019	September 30, 2018	September 30, 2019	September 30, 2018
Weighted average number of shares - basic	193,480,689	141,301,685	183,115,347	130,462,922
Weighted average warrants	31,723,846	-	24,985,276	-
Weighted average convertible debt allotment	18,105,608	-	14,692,248	-
Weighted average options	1,182,106	-	831,371	-
Weighted average number of shares - diluted	244,492,249	141,301,685	223,624,242	130,462,922

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 nine months ended September 30, 2019 is as follows:

	Restricted shares	Grant date fair value per unit	Aggregate intrinsic value
Balance as of December 31, 2018	11,166,850	$ 2.75	$ 30,709
Granted	-	-	-
Vested	(648,545)	2.75	(1,783)
Forfeited	(50,000)	2.75	(138)
Balance as of September 30, 2019	10,468,305	$ 2.75	$ 28,788

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

13. SHAREHOLDERS' EQUITY *(Continued)*

Restricted shares *(Continued)*

As of September 30, 2019, there was approximately $109 of total unrecognized employee compensation cost related to non-vested time-based restricted shares that should be recognized as expense.

As of September 30, 2019, there was approximately $4,564 of total unrecognized compensation cost related to non-vested restricted shares issued for professional services that are expected to be recognized as expense.

As of September 30, 2019, there was approximately $7,500 non-vested restricted shares issued for the acquisition of Green Standard future production and retail dispensary licenses.

During the nine months ended September 30, 2019, the 648,545 shares issued for the acquisition of the remaining membership units of Cansortium Puerto Rico, LLC vested.

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. 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.

Pursuant to the above Plan, on March 21, 2019, the Company granted 1,182,106 options to various officers, directors, employees and consultants. The fair value of these options of $838,963 were measured at the date of grant using the Black-Scholes option pricing model, using the following assumptions:

Stock price	$2
Exercise price	$2
Original term	2 to 5 years
Dividend yield	0%
US treasury rate	2.34%
Volatility	60%
Forfeiture rate	0%

During the three and nine months ended September 30, 2019, the Company recognized $72 and $810 as stock-based compensation in the condensed interim consolidated statements of operations with corresponding credit to equity (share-based compensation option reserve), respectively. This expense was calculated based on the vesting conditions of each grant.

As at September 30, 2019, there were 1,182,106 options outstanding, comprising of 1,057,106 options vested and 125,000 options non-vested, with remaining contractual lives 1.5 to 4.5 years.

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

14. EXPENSE BY NATURE

General and administrative expenses for the three and nine months ended September 30, 2019 are as follows:

	For the three months ended September 30,		For the nine months ended September 30,	
	2019	**2018**	**2019**	**2018**
General and administrative				
Salaries and benefits	$ 1,820	$ 1,872	$ 5,896	$ 2,989
Legal and professional fees	1,726	2,527	11,296	3,943
Insurance	359	68	575	95
Rent expenses	111	159	848	581
Travel and entertainment	75	254	376	469
Other	271	220	393	692
Total general and administrative	**$ 4,362**	**$ 5,100**	**$ 19,384**	**$ 8,769**

Sales and marketing expenses for the three and nine months ended September 30, 2019 are as follows:

	For the three months ended September 30,		For the nine months ended September 30,	
	2019	**2018**	**2019**	**2018**
Sales and marketing				
Salaries and benefits	$ 1,834	$ 644	$ 5,105	$ 663
Security	410	205	1,293	263
Marketing expenses	326	272	603	377
Rent expenses	203	233	416	291
Legal and professional fees	58	6	219	17
Other	517	193	1,336	313
Total sales and marketing	**$ 3,348**	**$ 1,553**	**$ 8,972**	**$ 1,924**

15. COMMITMENTS AND CONTINGENCIES

(a) Purchase Commitments

In connection with the Arcadia EcoEnergies acquisition (Note 9), the Company agreed to a minimum purchase commitment equal to five hundred Canadian dollars per acre of the harvest production from the 2018 anticipated harvest for cold pressed hemp oil, protein powder and flower and leaf for extraction procedures.

(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 September 30, 2019, 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 September 30, 2019, 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 claim 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 claim disclosed below.

On September 3, 2019, the Company and Cansortium Holdings, LLC, 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 Holdings, 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, we are 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.

16. RELATED-PARTY TRANSACTIONS

Key management personnel compensation

Key management personnel are those persons having the authority and responsibility for planning, directing and controlling activities for the Company, directly and indirectly. The key management personnel of the Company are the members of the Company's executive management team and Board of Directors. For the three and nine months ended September 30, 2019 key management personnel compensation consisted of the following:

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

16. RELATED-PARTY TRANSACTIONS *(Continued)*

Key management personnel compensation *(Continued)*

	For the three months ended September 30,		For the nine months ended Setember 30,	
	2019	**2018**	**2019**	**2018**
Salary	$ 580,192	$ 883,037	$ 1,491,025	$ 775,000
Option-based compensation	-	-	70,268	-
All other compensation	185,948	13,048	212,653	26,721
	$ 766,140	**$ 896,085**	**$ 1,773,946**	**$ 801,721**

The Company maintains employment agreements with certain key management personnel which includes separation or severance payments.

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 terminates on August 15, 2020. The monthly rental fee is $1.5 per month.

The Company purchases material from Knox Nursery Inc., a company owned by a member of the Company until August 15, 2018. Total purchases during the three and nine months ended September 30, 2019 were $0 and $293, respectively. Total purchases during the three and nine months ended September 30, 2018 were approximately $33 and $145, respectively. The balances due to this entity as of September 30, 2019 and December 31, 2018 were approximately $2 and $144, respectively, and were included in accounts payable.

17. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

Financial Instruments

The Company's financial instruments consist of cash, due from associate, accounts payables and accrued liabilities, derivative liability, and notes payable.

Financial Assets

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

Financial Liabilities

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

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

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

Financial Instruments *(Continued)*

Financial Liabilities *(Continued)*

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

(iii) Other financial liabilities include the Company's accounts payable and accrued expenses, notes payable and lease obligations. The effective interest method is used to calculate the amortized cost of a financial liability and allocates interest income over the corresponding period. The effective interest rate is the rate that is used to discount estimated future cash receipts or payments over the expected life of the financial asset or liability.

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.

	September 30, 2019			
	Level 1	Level 2	Level 3	Total
Cash	$ 5,014	$ -	$ -	$ 5,014
Derivative liabilities	$ -	$ 8,386	$ -	$ 8,386
Current portion of notes payable	$ -	$ -	$ 8,930	$ 8,930
Lease obligations	$ 1,637	$ -	$ -	$ 1,637
Notes payable, net of current portion	$ -	$ -	$ 28,761	$ 28,761
Lease obligations, net of current portion	$ 16,389	$ -	$ -	$ 16,389

	December 31, 2018			
	Level 1	Level 2	Level 3	Total
Cash	$ 2,026	$ -	$ -	$ 2,026
Derivative liabilities	$ -	$ 9,242	$ -	$ 9,242
Current portion of notes payable	$ -	$ -	$ 51,463	$ 51,463
Notes payable, net of current portion	$ -	$ -	$ 1,910	$ 1,910

There have been no transfers between fair value levels during the year.

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

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

Financial Risk Management

The Company is exposed in varying degrees to a variety of financial instrument related risks. The Board mitigates these risks by assessing, monitoring and approving the Company's risk management processes:

(a) Credit Risk

Credit risk is the risk of a potential loss to the Company if a customer or third party to a financial instrument fails to meet its contractual obligations. The maximum credit exposure at September 30, 2019 is the carrying amount of cash and accounts receivable. All cash is placed with major U.S. financial institutions. Credit risk from due from accounts receivable arises from the possibility that amounts due become uncollectible.

(b) 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.

In addition to the commitments outlined in Note 12 and Note 15, the Company had the following contractual obligations as of September 30, 2019:

	< 1 year	1 to 3 years	3 to 5 years	> 5 years	Total
Accounts payable	$ 5,012	$ -	$ -	$ -	$ 5,012
Accrued expenses	$ 3,166	$ -	$ -	$ -	$ 3,166
Income taxes payable	$ 1,838	$ -	$ -	$ -	$ 1,838
Notes payable	$ 8,930	$ 28,690	$ 71	$ -	$ 37,691
Lease obligations	$ 1,637	$ 3,802	$ 4,428	$ 8,159	$ 18,026

In addition to the commitments outlined in Note 12 and Note 15, the Company had the following contractual obligations as of December 31, 2018:

	< 1 year	1 to 3 years	3 to 5 years	> 5 years	Total
Accounts payable	$ 4,910	$ -	$ -	$ -	$ 4,910
Accrued expenses	$ 3,936	$ -	$ -	$ -	$ 3,936
Notes payable	$ 51,463	$ 1,830	$ 80	$ -	$ 53,373

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

Financial Risk Management *(Continued)*

(c) Market Risk

(i) 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 September 30, 2019 and December 31, 2018, 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.

(ii) 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.

(iii) Price Risk

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

(d) Banking Risk

Notwithstanding that a majority of 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.

18. SUBSEQUENT EVENTS

On October 22, 2019, the Company announced the implementation of cost saving initiatives resulting in more than $4.5 million of aggregate annualized savings. Cost savings were primarily derived from reductions in the workforce, the elimination of senior management positions and reductions in executive management compensation, including termination of employment agreements for certain key management personnel which included separation or severance payments.

On November 6, 2019, the Company reached an agreement with co-founders José Hidalgo and Henry Batievsky, along with two other former senior executives, for their immediate return of more than 26 million shares of stock on an as-converted basis. The executives have agreed to transfer these shares for nominal consideration to the Company for cancellation or to assist in the recapitalization of the Company.

On November 6, 2019, the American Arbitration Association received a Demand for Arbitration filed by Woodmere Health Partners, LLC (“Woodmere”), a former member in Cansortium Health Partners, LLC (“CHP”), to determine its rights in approximately 4.8 million common shares of Cansortium Inc. Woodmere received certain rights to that stock, subject to vesting requirements, in exchange for converting its membership interests in CHP into units of Cansortium Holdings, LLC prior to the Company’s IPO. The common shares were subject to vesting requirements that were not satisfied, such as the receipt of a clinical registrant license in Pennsylvania. The Company is vigorously defending itself and does not believe that the outcome will have a material impact on the financial condition of the Company.

On November 14, 2019, the Company entered into a share purchase agreement with Brian Lagerwerf, Jennifer Weessies and 2638116 Ontario Inc. (their holding company) pursuant to which the Company agreed to sell 1931074 Ontario Inc. (the “Corporation”) for an undisclosed amount (the “Transaction”). Brian Lagerwerf and Jennifer Weessies were the former owners of the Corporation and the Company’s in-market partners in Canada. Closing of the Transaction is subject to obtaining approval from Health Canada as well as approval pursuant to the secured trust indenture dated May 23,2019.