

**Cansortium Inc.**

**Condensed Interim Consolidated Financial Statements  
(unaudited)**

**For the three and nine months ended September  
30, 2020 and September 30, 2019**

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

**Cansortium Inc.**  
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**Cansortium Inc.****Condensed Interim Consolidated Statements of Financial Position (unaudited)****As of September 30, 2020 and December 31, 2019***(Amounts expressed in thousands of United States Dollars unless otherwise stated)*

		September 30, 2020	December 31, 2019
<b>Assets</b>			
Current assets			
Cash and cash equivalents		\$ 4,072	\$ 2,516
Accounts receivable		65	144
Inventory	Note 3	9,574	6,709
Biological assets	Note 4	6,128	3,845
Note receivable	Note 5	4,895	3,870
Prepaid expenses and other current assets	Note 6	1,311	556
<b>Total current assets</b>		<b>26,045</b>	<b>17,640</b>
Investment held for sale	Note 7	324	-
Assets held for sale	Note 7	-	6,301
Property and equipment, net	Note 8	18,677	19,128
Intangible assets, net	Note 9	97,418	98,566
Right-of-use assets	Note 14	19,410	20,190
Investment in associate	Note 10	3,043	3,424
Goodwill	Note 11	1,526	1,526
Other assets		390	291
<b>Total assets</b>		<b>\$ 166,833</b>	<b>\$ 167,066</b>
<b>Liabilities</b>			
Current liabilities			
Accounts payable		4,558	7,860
Accrued liabilities		4,107	5,135
Income taxes payable		6,401	1,492
Derivative liabilities	Note 12	13,436	13,198
Current portion of notes payable	Note 13	37,211	9,350
Lease obligations	Note 14	1,979	1,761
Other current liabilities		350	-
<b>Total current liabilities</b>		<b>68,042</b>	<b>38,796</b>
Liabilities held for sale	Note 7	-	3,240
Notes payable, net of current portion	Note 13	12,695	31,053
Lease obligations, net of current portion	Note 14	20,728	21,166
Deferred income taxes		26,657	24,957
Other long-term liabilities		468	676
<b>Total liabilities</b>		<b>128,590</b>	<b>119,888</b>
<b>Shareholders' equity</b>			
Share capital	Note 15	147,846	149,322
Share-based compensation reserve	Note 15	4,148	2,977
Equity conversion feature	Notes 13, 15	12,250	7,613
Warrants		13,265	11,773
Accumulated deficit		(138,891)	(123,785)
Accumulated other comprehensive loss		(375)	(563)
<b>Total shareholders' equity attributable to Cansortium Inc. shareholders</b>		<b>38,243</b>	<b>47,337</b>
Non-controlling interests		-	(159)
<b>Total shareholders' equity</b>		<b>38,243</b>	<b>47,178</b>
<b>Total liabilities and shareholders' equity</b>		<b>\$ 166,833</b>	<b>\$ 167,066</b>

Nature of operations (Note 1)

Commitments and contingencies (Note 18)

Subsequent events (Note 21)

Approved and authorized for issue on behalf of the Shareholders on November 23, 2020:

Robert Beasley  
 Chief Executive Officer

Marcos Pedreira  
 Chief Financial Officer

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

**Cansortium Inc.**

**Condensed Interim Consolidated Statements of Operations (unaudited)**

**For the three and nine months ended September 30, 2020 and September 30, 2019**

*(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,	
	2020	2019	2020	2019
Revenue, net of discounts	\$ 14,313	\$ 7,387	\$ 37,718	\$ 19,005
Cost of goods sold	4,784	2,722	13,011	6,822
Gross profit before fair value adjustments	9,529	4,665	24,707	12,183
Realized fair value of increments on inventory sold	6,051	3,341	18,566	6,692
Unrealized change in fair value of biological assets	Note 4 (4,263)	(1,109)	(23,945)	(3,182)
Gross profit	7,741	2,433	30,086	8,673
Expenses				
General and administrative	Note 16 2,861	4,362	9,064	19,384
Share-based compensation	1,689	258	4,938	1,744
Sales and marketing	Note 16 3,561	3,348	10,162	8,972
Depreciation and amortization	Notes 8, 9 1,561	2,549	4,635	7,250
Total expenses	9,672	10,517	28,799	37,350
Income (loss) from operations	(1,931)	(8,084)	1,287	(28,677)
Discontinued operations	Note 7 236	-	(106)	-
Other expense (income)				
Interest expense, net	Note 13 3,892	2,926	11,448	9,786
Change in fair market value of derivative	Note 12 673	(2,631)	1,680	(6,172)
Loss on investment in associate	Note 10 166	-	381	-
Gain in fair market value of investment in associate	-	-	-	(3,388)
Loss on debt restructuring	Note 13 -	-	8,065	-
Loss on disposal of assets	710	2,205	656	2,205
Other expense	1	257	7	285
Total other expense (income)	5,442	2,757	22,237	2,716
Loss before taxes	(7,609)	(10,841)	(20,844)	(31,393)
Income taxes	Note 17 1,281	432	7,422	1,708
Net loss	(8,890)	(11,273)	(28,266)	(33,101)
Net income (loss) attributable to non-controlling interest	-	83	-	(204)
Net loss attributable to controlling interest	\$ (8,890)	\$ (11,356)	\$ (28,266)	\$ (32,897)
Net loss per share				
Basic	Note 15 \$ (0.04)	\$ (0.06)	\$ (0.14)	\$ (0.18)
Diluted	Note 15 \$ (0.04)	\$ (0.06)	\$ (0.14)	\$ (0.18)

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

**Cansortium Inc.**

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

**For the nine months ended September 30, 2020 and September 30, 2019**

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

	Share capital			Reserves			Accumulated deficit	Non-controlling interests	Accumulated other comprehensive loss	Total shareholders' equity
	Number of unrestricted common shares	Number of restricted common shares	Amount	Share-based compensation reserve	Equity conversion feature	Warrants				
<b>Balance, December 31, 2018</b>	<b>144,379,176</b>	<b>11,166,850</b>	<b>\$ 91,655</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 296</b>	<b>\$ (25,237)</b>	<b>\$ (515)</b>	<b>\$ (488)</b>	<b>\$ 65,711</b>
Adjustment on initial application of IFRS 16 (Note 15)	-	-	-	-	-	-	(741)	-	-	(741)
Issuance of shares (Note 15)	28,089,099	-	56,178	-	341	-	-	-	-	56,519
Issuance of shares to acquire additional non-controlling interest of subsidiaries (Note 15)	5,013,161	(648,545)	13,786	-	-	-	(14,455)	669	-	-
Shares issued for professional services (Note 15)	208,432	-	600	-	-	-	-	-	-	600
Vesting of employee compensation shares	-	-	175	-	-	-	-	-	-	175
Vesting of professional services shares	-	-	470	-	-	-	-	-	-	470
Shares forfeited (Note 15)	(66,667)	(50,000)	(50)	-	-	-	-	-	-	(50)
Issuance of shares (Note 15)	4,124,166	-	-	-	-	-	-	-	-	-
Issuance of options (Note 15)	-	-	-	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 loss on translation	-	-	-	-	-	-	-	-	(59)	(59)
Net loss	-	-	-	-	-	-	(32,897)	(204)	-	(33,101)
<b>Balance, September 30, 2019</b>	<b>183,027,157</b>	<b>10,468,305</b>	<b>\$ 164,734</b>	<b>\$ 810</b>	<b>\$ 341</b>	<b>\$ 8,686</b>	<b>\$ (73,330)</b>	<b>\$ (50)</b>	<b>\$ (547)</b>	<b>\$ 100,644</b>
<b>Balance, December 31, 2019</b>	<b>184,548,361</b>	<b>8,947,101</b>	<b>\$ 149,322</b>	<b>\$ 2,977</b>	<b>\$ 7,613</b>	<b>\$ 11,773</b>	<b>\$ (123,785)</b>	<b>\$ (159)</b>	<b>\$ (563)</b>	<b>\$ 47,178</b>
Issuance of shares (Note 15)	10,189,758	-	2,996	-	-	-	-	-	-	2,996
Shares returns for sale of interest in subsidiaries (Note 15)	(5,624,166)	-	(4,374)	-	-	-	1,636	-	-	(2,738)
Shares issued for professional services	4,151,140	-	1,406	-	-	-	-	-	-	1,406
Shares issued for convertible debentures amendment (Note 15)	4,626,895	-	2,082	-	-	-	-	-	-	2,082
Founders shares return (Note 15)	-	-	(10,970)	-	-	-	10,970	-	-	-
Note payable amendment (Notes 13, 15)	-	-	5,743	-	4,637	-	-	-	-	10,380
Issuance of warrants	-	-	-	-	-	1,492	-	-	-	1,492
Vesting of employee compensation shares	-	-	51	-	-	-	-	-	-	51
Vesting of professional services shares	905,364	(905,364)	2,303	-	-	-	-	-	-	2,303
Cancellation of professional services shares (Note 15)	-	(5,914,468)	(713)	-	-	-	713	-	-	-
Issuance of options (Note 15)	-	-	-	1,171	-	-	-	-	-	1,171
Foreign currency gain on translation	-	-	-	-	-	-	-	-	188	188
Net loss	-	-	-	-	-	-	(28,425)	159	-	(28,266)
<b>Balance, September 30, 2020</b>	<b>198,797,352</b>	<b>2,127,269</b>	<b>\$ 147,846</b>	<b>\$ 4,148</b>	<b>\$ 12,250</b>	<b>\$ 13,265</b>	<b>\$ (138,891)</b>	<b>\$ -</b>	<b>\$ (375)</b>	<b>\$ 38,243</b>

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

**Cansortium Inc.**

**Condensed Interim Consolidated Statements of Cash Flows (unaudited)**

**For the nine months ended September 30, 2020 and September 30, 2019**

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

	For the nine months ended September 30,	
	2020	2019
<b>Operating activities</b>		
Net loss	\$ (28,266)	\$ (33,101)
Adjustments to reconcile net loss to net cash used in operating activities:		
Unrealized gain on changes in fair value of biological assets	(23,945)	(3,182)
Share-based compensation	4,938	2,005
Depreciation and amortization	6,146	8,252
Discontinued operations	(106)	-
Amortization of debt discount	-	4,497
Accretion of convertible debentures	5,974	-
Interest on lease liabilities	3,324	-
Change in fair market value of derivative	1,680	(6,172)
Loss on investment in associate	381	-
Gain in fair market value of investment in associate	-	(3,388)
Loss on debt restructuring	8,066	-
Loss on disposal of assets	656	2,205
Deferred tax expense	1,700	-
Changes in operating assets and liabilities:		
Accounts receivable	79	(51)
Inventory	(2,930)	(3,715)
Biological assets	21,662	2,746
Prepaid expenses and other current assets	(492)	(5,561)
Right-of-use assets	(1,439)	-
Other assets	(99)	(1,116)
Accounts payable	(309)	102
Accrued liabilities	2,205	(3,357)
Income taxes payable	4,909	1,838
Lease obligations	-	1,772
Other current liabilities	(251)	398
Other liabilities	(160)	-
<b>Net cash provided by (used in) operating activities</b>	<b>3,723</b>	<b>(35,828)</b>
<b>Investing activities</b>		
Purchases of property and equipment	(3,136)	(12,558)
Purchase of intangible assets	-	(319)
Payment of notes receivable	350	-
Notes receivable	(1,375)	-
Proceeds from sale of subsidiary	600	-
<b>Net cash used in investing activities</b>	<b>(3,561)</b>	<b>(12,877)</b>
<b>Financing activities</b>		
Proceeds from IPO	-	56,178
Proceeds from issuance of shares and warrants	4,351	-
Proceeds from issuance of notes payable	62	41,006
Payment of lease obligations	(3,207)	921
Interest repayments of notes payable	-	-
Principal repayments of notes payable	-	(46,353)
<b>Net cash provided by financing activities</b>	<b>1,206</b>	<b>51,752</b>
Effect of foreign exchange on cash and cash equivalents	188	(59)
Net increase in cash and cash equivalents	1,556	2,988
Cash and cash equivalents, beginning of period	2,516	2,026
Cash and cash equivalents, end of period	\$ 4,072	\$ 5,014
Cash paid during the period for interest	\$ 2,457	\$ 585
Non-cash transactions:		
Issuance of shares to acquire additional interest in consolidated entity	\$ -	\$ 13,786
Shares returns for sale of interest in subsidiaries	\$ (4,374)	\$ -
Founders shares return	\$ (10,970)	\$ -
Note payable amendment	\$ 10,380	\$ -
Issuance of share for convertible debentures amendment	\$ 2,082	\$ -

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

**Cansortium Inc.**

**Notes to Condensed Interim Consolidated Financial Statements (unaudited)**

**For the three and nine months ended September 30, 2020 and September 30, 2019**

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

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**1. NATURE OF OPERATIONS**

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

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

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

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

During the year ended December 31, 2019, the Company discontinued its operations in Puerto Rico, Canada and Colombia and, as a result, classified the assets and liabilities associated with these operations as held for sale, measured at the lower of carrying amount and fair value less costs to sell, and has disclosed such assets separately in the statement of financial position. Discontinued operations are excluded from the results of continuing operations and are presented as a single amount in the consolidated statements of operations. The Company completed the sale of its Puerto Rican business on April 28, 2020 and completed the sale of its Canadian business on May 29, 2020. Additionally, on January 22, 2020, the Company reduced its ownership of Cansortium Colombia to 50% (see Notes 7 and 15) and classified its Cansortium Colombia investment held for sale separately in the statement of financial position.

The Company, through its wholly-owned subsidiary Cansortium Brazil Ltda. ("Cansortium Brazil"), obtained a permit for a Pharmaceutical Industry and Distribution License in Brazil, issued by the National Health Surveillance Agency ("ANVISA"), and has an exclusive distribution agreement with a pharmacy supply company in Brazil, Distribuidora de Medicamentos Santa Cruz Ltda.

The Company, through its subsidiary Cansortium Australia Pty. Ltd, ("Cansortium Australia") obtained a cultivation and manufacturing license from the Office of Drug Control in Australia on February 5, 2020 and submitted an application to the New South Wales Biosecurity License to be able to grow industrial hemp and process seeds.

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, 2020 and 2019 were generated in the United States.

**Cansortium Inc.**

**Notes to Condensed Interim Consolidated Financial Statements (unaudited)**

**For the three and nine months ended September 30, 2020 and September 30, 2019**

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

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**1. NATURE OF OPERATIONS** *(Continued)*

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

The Company has recorded a net loss of \$28,266 during the nine months ended September 30, 2020 and, as of that date, had an accumulated deficit in the amount of \$138,891. These events or conditions indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern.

To date, the Company has been successful in obtaining enough funding for operating and capital requirements primarily through equity and debt financings. Further, the Company recorded a positive cash flows from operations of \$3,723 for the nine months ended September 30, 2020. The ability of the Company to continue as a going concern is dependent upon its ability to achieve profitable operations and renegotiate existing financings. While the Company has been effective in raising financing in the past, there is no assurance that it will be able to successfully obtain additional financing as needed. These financial statements do not reflect any adjustments to the carrying values of assets and liabilities and the reported amounts of expenses and classifications on the statement of financial position that would be necessary if the going concern assumption was not appropriate.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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**(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, 2019 and 2018. 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, 2019 and 2018, 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 23, 2020.



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

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**(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.

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

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

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

**(d) Basis of Consolidation**

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 considered. Non-controlling interests in the equity of consolidated subsidiaries are shown separately in the consolidated statement of operations and in the consolidated statement of changes in shareholders' equity. All intercompany balances and transactions are eliminated on consolidation. The information below lists the Company's subsidiaries that are included in these condensed interim consolidated financial statements and the ownership interest held as of September 30, 2020 and December 31, 2019.

**Cansortium Inc.****Notes to Condensed Interim Consolidated Financial Statements (unaudited)****For the three and nine months ended September 30, 2020 and September 30, 2019***(Amounts expressed in thousands of United States Dollars unless otherwise stated)***2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)****(d) Basis of Consolidation (Continued)**

	<b>% Ownership September 30, 2020</b>	<b>% Ownership December 31, 2019</b>
Cansortium Holdings LLC	100.00%	100.00%
Cansortium Pennsylvania, LLC	100.00%	100.00%
Cansortium Puerto Rico, LLC (Note 7)	100.00%	100.00%
Cansortium Texas, LLC	100.00%	100.00%
Cansortium Canada Holdings Inc.	100.00%	100.00%
1931074 Ontario Inc. (Note 7)	0.00%	100.00%
Cansortium Canada Servicing, Inc. (Note 7)	0.00%	100.00%
Fluent Servicing, LLC	100.00%	100.00%
Cansortium Brazil Ltda.	100.00%	100.00%
Cansortium Australia Pty. Ltd	50.00%	84.51%
Cansortium Health Partners, LLC	100.00%	100.00%
Cansortium Florida, LLC	100.00%	100.00%
Cansortium Colombia S.A.S. (Notes 7, 15)	50.00%	100.00%
Arcadia EcoEnergies Ltd. (Note 7)	0.00%	52.00%
Spirit Lake Road Nursery, LLC	100.00%	100.00%
16171 Slater Road Investors LLC	100.00%	100.00%
Cansortium Oregon LLC	0.00%	100.00%
Cansortium Washington, LLC	0.00%	100.00%
Cansortium California LLC	0.00%	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. (Note 7)	0.00%	100.00%
Fluent Hemp LLC	100.00%	100.00%
Cansortium Ohio, LLC	0.00%	85.00%
Cansortium Beverage Company Inc.	100.00%	100.00%
Cansortium International Inc.	100.00%	100.00%

**(e) Critical Accounting Judgments, Estimates and Assumptions**

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

**Cansortium Inc.**

**Notes to Condensed Interim Consolidated Financial Statements (unaudited)**

**For the three and nine months ended September 30, 2020 and September 30, 2019**

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

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

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

Critical judgments, estimates and assumptions that have the most significant effect on the amounts recognized on these condensed interim consolidated financial statements have been set out in Note 2 of the audited annual consolidated financial statements for the years ended December 31, 2019 and 2018.

**(f) COVID-19 Pandemic**

The Company's business could be materially and adversely affected by the outbreak of a widespread epidemic, pandemic or other public health crisis, including the COVID-19 pandemic.

Beginning in February 2020, various U.S. States began to implement progressively restrictive guidelines on social interactions and business operations in an effort to slow the spread of the global COVID-19 pandemic, including the closure of non-essential business. Such restrictive guidelines did not materially impact the Company's operations for the three and nine months ended September 30, 2020, as medical cannabis was deemed one of several essential businesses and all the Company's dispensaries, cultivation and production facilities remained open.

Due to the rapid developments and uncertainty surrounding COVID-19, it is difficult to reliably measure the potential impact of this uncertainty on the Company's future financial position and operating results.

**3. INVENTORY**

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As of September 30, 2020, and December 31, 2019, inventories consisted of the following:

	<b>September 30, December 31,</b>	
	<b>2020</b>	<b>2019</b>
Supplies, packaging and materials	\$ 776	\$ 702
Work in progress	6,272	3,929
Finished goods	2,526	2,078
<b>Balance at end of period</b>	<b>\$ 9,574</b>	<b>\$ 6,709</b>

Inventory expensed during the three and nine months ended September 30, 2020 were \$1,106 and \$2,877, respectively. Inventory expensed during the three and nine months ended September 30, 2019 were \$492 and \$1,206, respectively. Salaries and benefits charged to cost of goods sold for the three and nine months ended September 30, 2020 were \$1,209 and \$3,532 respectively. Salaries and benefits charged to cost of goods sold for the three and nine months ended September 30, 2019 were \$1,124 and \$2,437, respectively.

**Cansortium Inc.**

**Notes to Condensed Interim Consolidated Financial Statements (unaudited)**

**For the three and nine months ended September 30, 2020 and September 30, 2019**

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

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**4. BIOLOGICAL ASSETS**

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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, 2020 and year ended December 31, 2019 is as follows:

	<b>September 30, 2020</b>	<b>December 31, 2019</b>
Balance at beginning of period	\$ 3,845	\$ 2,549
Cost incurred until harvest	6,505	5,791
Effect of unrealized change in fair value of biological assets	23,945	9,735
Transferred to inventory upon harvest	(28,167)	(14,230)
<b>Balance at end of period</b>	<b>\$ 6,128</b>	<b>\$ 3,845</b>

As of September 30, 2020, all biological assets were live plants.

The Company measures its biological assets at their fair value less costs to sell. This is determined using a model which estimates the expected harvest yield in grams for plants currently being cultivated, and then adjusts that amount for the expected selling price less costs to sell per gram.

The fair value measurements for biological assets have been categorized as Level 3 in the IFRS 13 fair values hierarchy as there is no actively traded commodity market for plants or dried product. The significant unobservable inputs used to assess the fair value of biological assets during the nine months ended September 30, 2020 and the year ended December 31, 2019 include the following assumptions:

- (a) Expected yields of the average grams of dried flower and trim per plant of 21 grams for both periods.
- (b) Expected 84 growing days for both periods.
- (c) Weighted average number of growing days completed as percentage of total growing days at the period end of 57% and 44%, respectively.
- (d) Expected weighted average selling price in the retail market of \$12.63 and \$12.86 per gram, respectively.
- (e) Estimated weighted average costs to complete and sell of \$7.14 and \$7.16 per gram, respectively.
- (f) Expected loss of plants until harvest of 17% and 27%, respectively.

These estimates are subject to volatility in market prices and a number of uncontrollable factors, which could significantly affect the fair value of biological assets which will affect the amount reflected in the gain or loss on biological assets in future periods.

The Company's method of accounting for biological assets attributes value accretion on a straight-line basis throughout the life of the biological asset from initial cloning to the point of harvest.

The Company has quantified the sensitivity of the unobservable inputs in relation to the biological assets for the nine months ended September 30, 2020 and the year ended December 31, 2019 and determined the following:

- (a) A 10% increase or decrease on the expected yield of dry flower and trim per plant would increase or decrease the fair value of biological assets by \$590 and \$382, respectively.
- (b) A 10% increase or decrease on the weighted average of growing days completed as a percentage of total estimated growing days would increase or decrease the fair value of biological assets by \$590 and \$382, respectively.

**Cansortium Inc.**

**Notes to Condensed Interim Consolidated Financial Statements (unaudited)**

**For the three and nine months ended September 30, 2020 and September 30, 2019**

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

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**4. BIOLOGICAL ASSETS (Continued)**

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- (c) A 10% increase or decrease in the expected selling price per gram of dried flower or trim would increase or decrease the fair value of biological assets by \$208 and \$862, respectively.
- (d) A 10% increase or decrease in the expected costs to complete and sell per gram would increase or decrease the fair value of biological assets by \$254 and \$480, respectively.
- (e) A 10% increase or decrease on the expected loss of plants until harvest would increase or decrease the fair value of biological assets by \$51 and \$136, respectively.

The Company estimates the harvest yields for cannabis at various stages of growth. As of September 30, 2020 and December 31, 2019, it is expected that the Company's biological assets will yield approximately 1,508,477 and 1,510,148 grams of dry cannabis when harvested, respectively.

As of September 30, 2020 and December 31, 2019, the Company had 85,976 and 98,094 plants that were classified as biological assets, respectively.

**5. NOTE RECEIVABLE**

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In connection with the Company's agreement entered in October 2018 with Green Standard Holdings LLC, Green Standard Cultivation LLC and Green Standard, Inc. (collectively, "Green Standard") to acquire the assets of Green Standard (see Notes 10 and 15), the Company entered into a line of credit note with Green Standard, Inc. ("Green Standard Note"), pursuant to which the Company agreed to make advances to Green Standard in connection with the Michigan cultivation and operational expenses in an aggregate principal amount not to exceed at any one time outstanding balance of \$14,700.

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

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

A reconciliation of the beginning and ending balances of note receivable for the nine months ended September 30, 2020 and the year ended December 31, 2019 is as follows:

	<b>September 30, 2020</b>	<b>December 31, 2019</b>
Balance at beginning of period	\$ 3,870	\$ -
Advances	1,374	3,870
Payments	(350)	-
<b>Balance at end of period</b>	<b>\$ 4,895</b>	<b>\$ 3,870</b>

**Cansortium Inc.****Notes to Condensed Interim Consolidated Financial Statements (unaudited)****For the three and nine months ended September 30, 2020 and September 30, 2019***(Amounts expressed in thousands of United States Dollars unless otherwise stated)***6. PREPAID EXPENSES AND OTHER CURRENT ASSETS**

As of September 30, 2020, and December 31, 2019, prepaid expenses and other current assets consisted of the following:

	<b>September 30,</b>	<b>December 31,</b>
	<b>2020</b>	<b>2019</b>
Prepaid expenses	\$ 1,068	\$ 341
Security deposits held	66	161
Other current assets	178	54
<b>Balance at end of period</b>	<b>\$ 1,311</b>	<b>\$ 556</b>

**7. ASSETS AND INVESTMENT HELD FOR SALE**

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

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

Assets held for sale were \$0 as of September 30, 2020.

**Cansortium Inc.**  
**Notes to Condensed Interim Consolidated Financial Statements (unaudited)**  
**For the three and nine months ended September 30, 2020 and September 30, 2019**  
*(Amounts expressed in thousands of United States Dollars unless otherwise stated)*

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

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**Cansortium Colombia S.A.S**

As of December 31, 2019, the Company classified the net assets of Consortium Colombia of \$1,810 as held for sale in the consolidated statements of financial position.

On January 22, 2020, the Company completed the return to treasury of 4,124,166 shares of Cansortium Inc. previously issued to acquire 100% of Consortium Colombia (see Note 15), thereby reducing its ownership of Consortium Colombia to 50%. In connection with this change, the Company recorded a gain of \$370 under discontinued operations for the nine months ended September 30, 2020 and classified its non-controlling investment in Consortium Colombia as investment held for sale on the Company's condensed interim consolidated financial statements.

**Cansortium Puerto Rico LLC**

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

Cansortium Puerto Rico net loss of \$236 and \$402 were recorded under discontinued operations in the consolidated statements of operations for the three and nine months ended September 30, 2020, respectively.

**Canadian Subsidiaries**

During November and December of 2019, the Company entered into non-binding agreements to sell the Company's Canadian net assets in the Canadian Subsidiaries and classified these net assets of \$883 as held for sale in the consolidated statements of financial position. The sale of the Canadian Subsidiaries closed on May 29, 2020. Summary of the transactions:

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

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

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

The Canadian Subsidiaries net gain of \$0 and \$138 were recorded under discontinued operations in the consolidated statements of operations for the three and nine months ended September 30, 2020, respectively.

**Cansortium Inc.**

**Notes to Condensed Interim Consolidated Financial Statements (unaudited)**  
**For the three and nine months ended September 30, 2020 and September 30, 2019**  
*(Amounts expressed in thousands of United States Dollars unless otherwise stated)*

**8. PROPERTY AND EQUIPMENT**

A reconciliation of the beginning and ending balances of property and equipment for nine months ended September 30, 2020 and year ended December 31, 2019 is as follows:

	Land	Furniture and fixtures	Computer equipment	Manufacturing equipment	Leasehold improvements	Buildings	Construction in progress	Vehicles	Total
<b>Cost</b>									
Balance as of January 1, 2019	\$ 764	\$ 475	\$ 464	\$ 4,560	\$ 8,389	\$ 3,224	\$ 1,585	\$ 492	\$ 19,953
Additions	-	391	331	2,154	4,356	56	6,556	-	13,844
Construction completed	-	-	-	-	4,170	-	(4,170)	-	-
Assets held for sale (Note 7)	(53)	(219)	(151)	(1,969)	(2,380)	(2,896)	(320)	(61)	(8,049)
Disposals	(500)	-	(15)	(18)	(1,024)	(300)	(1,475)	-	(3,332)
Balance as of December 31, 2019	211	647	629	4,727	13,511	84	2,176	431	22,416
<b>Accumulated depreciation</b>									
Balance as of January 1, 2019	-	68	106	417	750	16	-	23	1,380
Additions	-	99	236	832	2,296	35	-	52	3,550
Assets held for sale (Note 7)	-	(61)	(54)	(552)	(586)	(55)	-	(6)	(1,314)
Disposals	-	-	(4)	(4)	(320)	-	-	-	(328)
Balance as of December 31, 2019	-	106	284	693	2,140	(4)	-	69	3,288
<b>Property and equipment, net</b>	<b>\$ 211</b>	<b>\$ 541</b>	<b>\$ 345</b>	<b>\$ 4,034</b>	<b>\$ 11,371</b>	<b>\$ 88</b>	<b>\$ 2,176</b>	<b>\$ 362</b>	<b>\$ 19,128</b>
<b>Cost</b>									
Balance as of January 1, 2020	213	670	749	4,885	14,276	-	2,156	475	23,424
Additions	-	82	67	446	446	-	2,190	93	3,322
Construction completed	-	167	8	538	2,792	-	(3,505)	-	-
Disposals	-	(6)	(1)	(18)	(1,779)	-	(158)	(53)	(2,015)
Balance as of September 30, 2020	213	912	822	5,850	15,735	-	683	515	24,731
<b>Accumulated depreciation</b>									
Balance as of January 1, 2020	-	129	410	836	2,809	-	-	114	4,298
Additions	-	81	152	526	2,123	-	-	40	2,922
Disposals	-	(2)	(1)	(9)	(1,136)	-	-	(18)	(1,167)
Balance as of September 30, 2020	-	207	561	1,353	3,796	-	-	136	6,054
<b>Property and equipment, net</b>	<b>\$ 213</b>	<b>\$ 705</b>	<b>\$ 261</b>	<b>\$ 4,497</b>	<b>\$ 11,939</b>	<b>\$ -</b>	<b>\$ 683</b>	<b>\$ 379</b>	<b>\$ 18,677</b>

For the three and nine months ended September 30, 2020, the Company charged \$526 and \$1,511 of depreciation to the production of inventory, respectively. 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.



**Cansortium Inc.**

**Notes to Condensed Interim Consolidated Financial Statements (unaudited)**  
**For the three and nine months ended September 30, 2020 and September 30, 2019**  
*(Amounts expressed in thousands of United States Dollars unless otherwise stated)*

**9. INTANGIBLE ASSETS**

Intangible assets consist of cannabis licenses, acquired intellectual property at 1931074 Ontario, Inc, customer relationships, non-compete agreements and trademarks and brands. A reconciliation of the beginning and ending balances of intangible assets for the nine months ended September 30, 2020 and year ended December 31, 2019 is as follows:

	Licenses	Intellectual property	Customer relationships	Non-compete agreements	Trademarks and brands	Total
Balance as of January 1, 2019						
Cost	\$ 97,757	\$ 596	\$ 40	\$ 30	\$ 8,850	\$ 107,273
Additions	319	-	-	-	-	319
Assets held for sale (Note 7)	(1,563)	-	-	-	-	(1,563)
Disposals	(2,345)	(596)	(40)	(30)	-	(3,011)
Balance as of December 31, 2019	94,169	-	-	-	8,850	103,019
Balance as of January 1, 2019						
Accumulated amortization	352	-	2	2	1,261	1,617
Additions	216	-	2	6	2,623	2,847
Disposals	-	-	(4)	(8)	-	(12)
Balance as of December 31, 2019	568	-	-	-	3,884	4,452
<b>Intangible assets, net</b>	<b>\$ 93,600</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 4,966</b>	<b>\$ 98,566</b>
Balance as of January 1, 2020						
Cost	\$ 94,169	\$ -	\$ -	\$ -	\$ 8,850	\$ 103,019
Additions	-	-	-	-	-	-
Disposals	-	-	-	-	-	-
Balance as of September 30, 2020	94,170	-	-	-	8,850	103,019
Balance as of January 1, 2020						
Accumulated amortization	569	-	-	-	3,884	4,453
Additions	127	-	-	-	1,021	1,148
Balance as of September 30, 2020	696	-	-	-	4,905	5,601
<b>Intangible assets, net</b>	<b>\$ 93,473</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 3,945</b>	<b>\$ 97,418</b>

Amortization expense for the three and nine months ended September 30, 2020 was \$383 and \$1,148, respectively. Amortization expense for the three and nine months ended September 30, 2019 was \$1,418 and \$4,271, respectively.

**Cansortium Inc.**

**Notes to Condensed Interim Consolidated Financial Statements (unaudited)**

**For the three and nine months ended September 30, 2020 and September 30, 2019**

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

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**10. INVESTMENT**

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A reconciliation of the beginning and ending balances of the investment in associate for the nine months ended September 30, 2020 and the year ended December 31, 2019 is as follows:

	<b>September 30, 2020</b>	<b>December 31, 2019</b>
Balance at beginning of period	\$ 3,424	\$ -
Additions	-	3,777
Company's share of loss	(381)	(353)
<b>Balance at end of period</b>	<b>\$ 3,043</b>	<b>\$ 3,424</b>

**Green Standard**

On October 8, 2018, Cansortium Holdings LLC, a wholly-owned subsidiary of Cansortium, has entered into an agreement with Green Standard Holdings, LLC and Green Standard, Inc., collectively ("Green Standard") to acquire the cultivation, production and retail licenses applied for by Green Standard Cultivation LLC, Green Standard Processing LLC and Green Standard Retail LLC, for a purchase price of \$7,500 payable through the issuance of 2,727,273 units of Cansortium Holdings LLC at a price equal to \$2.75 dollars per unit (see Notes 12(a) and 15), subject to forfeiture as follows: (a) 1,000,000 units would be forfeited if regulatory approval of the twelve Class C licenses is not received prior to December 31, 2019; (b) 727,273 units would be forfeited if \$1,000 of retail sales are not achieved in Michigan by the Company or its affiliates on or before January 1, 2021; and (c) the remaining 1,000,000 units would be forfeited if \$2,000 of retail sales are not achieved in Michigan by the Company and/or its affiliates on or prior to January 1, 2022; provided, however, that with respect to (b) and (c), if the Company and/or its affiliates fails to open one dispensary in Michigan prior to January 1, 2020, the sales threshold requirements would be based on wholesale sales in Michigan by the Company and/or its affiliates to third-party retail locations.

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

During the three and nine months ended September 30, 2020, a loss of investment of \$166 and \$381, was recognized for the Company's share of loss in Green Standard, respectively.

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

**Cansortium Inc.****Notes to Condensed Interim Consolidated Financial Statements (unaudited)****For the three and nine months ended September 30, 2020 and September 30, 2019***(Amounts expressed in thousands of United States Dollars unless otherwise stated)***11. GOODWILL**

Below is a continuity of goodwill for the nine months ended September 30, 2020 and the year ended December 31, 2019:

	Fluent Servicing	Cansortium Colombia	Arcadia EcoEnergies	Total
Balance as of January 1, 2019	\$ 1,526	\$ 5,843	\$ 129	\$ 7,498
Goodwill impairment	-	(5,843)	(129)	(5,972)
<b>Balance as of December 31, 2019</b>	<b>\$ 1,526</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 1,526</b>
Balance as of January 1, 2020	\$ 1,526	-	-	\$ 1,526
<b>Balance as of September 30, 2020</b>	<b>\$ 1,526</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 1,526</b>

**12. DERIVATIVE LIABILITY**

A reconciliation of the beginning and ending balances of the derivative liabilities for the nine months ended September 30, 2020 and the year ended December 31, 2019 is as follows:

	Convertible debentures	Warrants	Equity price guarantee	Derivative liability total
Balance as of January 1, 2019	\$ -	\$ 5,926	\$ 4,884	\$ 10,810
Fair value of derivative liabilities on issuance date	5,820	-	2,597	8,417
Fair value change in derivative liability	(119)	(5,926)	5,717	(328)
Convertible debentures reclassified to equity	(5,701)	-	-	(5,701)
<b>Balance as of December 31, 2019</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 13,198</b>	<b>\$ 13,198</b>
Balance as of January 1, 2020	-	-	13,198	13,198
Fair value change from note payable amendment	-	-	(1,442)	(1,442)
Fair value change in derivative liability	-	-	1,680	1,680
<b>Balance as of September 30, 2020</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 13,436</b>	<b>\$ 13,436</b>

**a) Equity Price Guarantees**Fluent Servicing Acquisition

In connection with the acquisition of the remaining interest of Fluent Servicing performed on August 15, 2018, the Company issued 4,400,000 of shares of Cansortium Inc 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 in cash or additional shares at the election of the Company. The Equity Price Guarantee shall be cancelled if the value of the shares of the Company close at \$4.13 per share for more than twenty consecutive trading days while maintaining a trading volume of at least three million shares each trading day of such period.

**Cansortium Inc.****Notes to Condensed Interim Consolidated Financial Statements (unaudited)****For the three and nine months ended September 30, 2020 and September 30, 2019***(Amounts expressed in thousands of United States Dollars unless otherwise stated)***12. DERIVATIVE LIABILITY (Continued)****(a) Equity Price Guarantees (Continued)**Fluent Servicing Acquisition (Continued)

Price Guarantees are recorded as a liability measured at fair value on the consolidated statement of financial position. In determining the fair value of the price guaranty, these liabilities are marked-to-market each quarter with the change in fair value recorded in the consolidated statements of operations.

On January 16, 2020, the Company completed the restructuring of its existing promissory note issued in connection with the acquisition of Fluent Servicing (see Note 13), as well as the terms pertaining to the Equity Price Guarantee, reducing the price floor from \$2.75 to \$0.65 per share for the 4,400,000 common shares originally issued and agreeing to transfer to the seller an additional 14,215,385 common shares (or equivalent proportionate voting shares) that were previously returned by the Company's founders, subject to a price floor of \$0.65 per share.

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

The Company used a Monte-Carlo simulation model to estimate fair value of the Equity Price Guarantee derivative liability. This is a Level 3 recurring fair value measurement. The key Level 3 inputs used by management to determine the fair value are the expected future volatility in the price of the Company's shares and the expected life of the Equity Price Guarantee and recorded the fair value of the derivative liability of \$5,129 in the consolidated statement of operations at the original issuance date and a subsequent fair value of \$8,782 on January 16, 2020, date of the Equity Price Guarantee terms amendment. The Company believes that a 1 % difference in the inputs used for this fair value measurement would not cause a material difference to the fair value amount.

The following range of assumptions were used to value the Equity Price Guarantee derivative liability during the periods ended September 30, 2020, June 30, 2020, March 31, 2020, January 16, 2020 and December 31, 2019:

	<b>September 30, 2020</b>	<b>June 30, 2020</b>	<b>March 31, 2020</b>	<b>January 16, 2020</b>	<b>December 31, 2019</b>
Volatility	100.00%	100.00%	100.00%	100.00%	100.00%
Risk-free interest rate	0.23%	0.25%	0.42%	1.67%	2.43%
Expected life (years)	2.7 years	2.9 years	3.2 years	1.2 - 3.4 years	1 - 1.2 years
Share price	\$0.325	\$0.33	\$0.14	\$0.40	\$0.44
Exercise price	\$0.65	\$0.65	\$0.65	\$0.65	\$2.75

**Cansortium Inc.**

**Notes to Condensed Interim Consolidated Financial Statements (unaudited)**

**For the three and nine months ended September 30, 2020 and September 30, 2019**

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

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**12. DERIVATIVE LIABILITY (Continued)**

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**(a) Equity Price Guarantees (Continued)**

Fluent Servicing Acquisition (Continued)

During the three and nine months ended September 30, 2020, the Company recorded a loss of \$667 and \$1,516 on revaluation of the Equity Price Guarantee derivative liability, respectively. 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.

Green Standard

In connection with the agreement to buy the shares of Green Standard performed on October 5, 2018 (see Note 15) and amended on January 1, 2019, the Company issued 2,727,273 of shares of Cansortium Inc. valued at \$2.75 dollars per unit and subject to a price floor of \$2.75 ("GSI Equity Price Guarantee").

The GSI Equity Price Guarantee shall expire on December 31, 2020. As of the maturity date, if the total valuation of the Consortium Inc. shares issued is less than \$10.0 million, the Company shall pay additional consideration in an amount equal to the \$10.0 million minus the Company's share valuation as of the maturity date. If the Company's share valuation as of the maturity date is at least \$10.0 million, there shall be no additional consideration paid. If during that time period, the holder of the GSI Equity Price Guarantee elects to sell, redeem, transfer, or otherwise dispose of twenty percent (20%) or more, of the stock they hold, any rights they hold to receive the additional compensation shall expire.

The Company used a Monte-Carlo simulation model to estimate fair value of the Equity Price Guarantee derivative liability. This is a Level 3 recurring fair value measurement. The key Level 3 inputs used by management to determine the fair value are the expected future volatility in the price of the Company's shares and the expected life of the GSI Equity Price Guarantee and recorded the fair value of the derivative liability of \$2,597 in the consolidated statement of operations at issuance date. The Company believes that a 1 % difference in the inputs used for this fair value measurement would not cause a material difference to the fair value amount.

The following range of assumptions were used to value the Equity Price Guarantee derivative liability during the periods ended September 30, 2020, June 30, 2020, March 31, 2020, and December 31, 2019:

	<b>September 30, 2020</b>	<b>June 30, 2020</b>	<b>March 31, 2020</b>	<b>December 31, 2019</b>
Volatility	100.00%	100.00%	100.00%	100.00%
Risk-free interest rate	0.13%	0.16%	0.17%	1.59%
Expected life (years)	0.25 years	0.5 years	0.75 years	1 year
Share price	\$0.325	\$0.33	\$0.14	\$0.44
Exercise price	\$3.67	\$3.67	\$3.67	\$3.67

During the three and nine months ended September 30, 2020, the Company recorded a loss of \$7 and \$164 on revaluation of the GSI Equity Price Guarantee derivative liability, respectively.

**12. DERIVATIVE LIABILITY (Continued)**

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**(b) Bridge Loan Agreement**

On February 8, 2019, the Company completed a brokered private placement financing by issuing convertible notes payable (the "Bridge Loan Agreement") in the amount of \$1,830 bearing interest of 3% per month (see Note 13).

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 13).

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 of each reporting date. This is a Level 3 recurring fair value measurement. The key Level 3 inputs used by management to determine the fair value are the expected future volatility in the price of the Company's shares and the expected life of the convertible debentures. The Company believes that a 1 % difference in the inputs used for this fair value measurement would not cause a material difference to the fair value amount.

Upon initial recognition, the Company recorded a derivative liability and debt discount of \$1,630 in relation to the derivative liability portion of the Bridge Loan Agreement (see Note 13). The Bridge Loan Agreement was converted into equity during the year ended December 31, 2019.

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

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

On February 15, 2019, the Company completed a brokered private placement financing by issuing convertible notes payable (the "\$10M Convertible Note") in the amount of \$10,000 bearing interest of 12% per annum (see Note 13), which contained a conversion feature with variability in the number of common shares issuable on conversion, as the conversion price was based on the IPO closing price. Pursuant to the \$10M Convertible Note, each subscriber was entitled to one-half of a share purchase warrants for each \$1 of the \$10M Convertible Note at a price 30% above the IPO closing price

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

**Cansortium Inc.**

**Notes to Condensed Interim Consolidated Financial Statements (unaudited)**

**For the three and nine months ended September 30, 2020 and September 30, 2019**

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

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**12. DERIVATIVE LIABILITY (Continued)**

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**(c) Convertible Debentures - \$10M Convertible Note (Continued)**

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. The Company believes that a 1 % difference in the inputs used for this fair value measurement would not cause a material difference to the fair value amount.

Upon initial recognition, the Company recorded a derivative liability and debt discount of \$5,210 in relation to the derivative liability portion of the \$10M Convertible Note. See Note 13 for further details. During the year December 31, 2019, the Company recorded a gain of \$4,951 on revaluation of the \$10M Convertible Note derivative liability. Upon the IPO transaction, this derivative liability was reclassified to equity.

**13. NOTES PAYABLE**

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As of September 30, 2020, and December 31, 2019 notes payable consisted of the following:

	<b>September 30, 2020</b>	<b>December 31, 2019</b>
Automobile loan (a)	\$ 125	\$ 106
Notes payable (b)	22,607	9,321
Convertible debentures (c)	27,175	30,976
<b>Total notes payable</b>	<b>49,906</b>	<b>40,403</b>
Less current portion of notes payable	(37,211)	(9,350)
<b>Notes payable, net of current portion</b>	<b>\$ 12,695</b>	<b>\$ 31,053</b>

**(a) Automobile Loan**

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

**(b) Notes Payable**

On August 15, 2018, the Company issued a promissory note in the amount of \$40,783 in connection with the acquisition of Fluent Servicing shares, 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. The outstanding promissory note balance of \$40,783 was repaid by the Company in March 2019.

**Cansortium Inc.**

**Notes to Condensed Interim Consolidated Financial Statements (unaudited)**

**For the three and nine months ended September 30, 2020 and September 30, 2019**

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

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**13. NOTES PAYABLE (Continued)**

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**(b) Notes Payable (Continued)**

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

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

On January 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 IPO. This outstanding note payable balance of \$1,100 was repaid by the Company on February 15, 2019.

On January 16, 2020, the Company completed the restructuring of its existing promissory note issued in connection with the acquisition of Fluent Servicing shares and amended on January 1, 2019 (the "Amended Note") as well as the terms pertaining to the Equity Price Guarantee (see Note 12). Specifically, the Company amended the promissory note to (i) eliminate the principal amortization until maturity date, (ii) defer payment of cash interest until April 1, 2020, and (iii) extend the maturity date to December 1, 2022. In addition, at the option of the holder of the Amended Note, the Amended Note is convertible into common shares of the Company at any time at a price of \$0.60 per share. Furthermore, the Company reduced from \$2.75 to \$0.65 the Equity Price Guarantee per share associated with the 4,400,000 common shares originally issued by agreeing to transfer to the seller an additional 14,215,385 common shares that were returned by the Company's founders (see Note 15), subject to a price floor of \$0.65 per share.

In connection with the January 16, 2020 promissory note restructuring, the Company recorded a loss of debt restructuring of \$8,065 in the consolidated statement of operations during the three months ended March 31, 2020.

**(c) Convertible Debentures**

February 2019 Bridge Loan Agreement

On 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.



13. NOTES PAYABLE (Continued)

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(c) Convertible Debentures (Continued)

February 2019 Bridge Loan Agreement (Continued)

In connection with the issuance of the above Bridge Loan Agreement, the Company paid cash of \$92 during the year ended December 31, 2019. The Bridge Loan Agreement was converted into equity during the year ended December 31, 2019.

February 2019 Convertible Debentures

On February 15, 2019, the Company issued a series of convertible notes in exchange for cash proceeds of \$10,000, (collectively the "\$10M Convertible Note"). The \$10M Convertible Note bear interest at an annual rate of 12%, 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. The terms of \$10M Convertible Note are subject to an accelerator clause, whereby if 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.

Upon closing of the IPO, the conversion price of the \$10M Convertible Note became fixed at \$2.00. Accordingly, as the settlement of the \$10M Convertible Note will only occur in a fixed number of shares, the conversion feature met the fixed-for-fixed criteria, and accordingly was reclassified to equity.

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

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

During the three and nine months ended September 30, 2020, the Company recorded interest expense of \$326 and \$1,061 and accretion expense of \$1,156 and \$3,083, respectively. During the three and nine months ended September 30, 2019, the Company recorded interest expense of \$300 and \$600 and accretion expense of \$650 and \$1,509, respectively.

13. NOTES PAYABLE (Continued)

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(c) Convertible Debentures (Continued)

May 2019 Convertible Debentures (Continued)

On May 23, 2019, the Company issued secured convertible debentures (“Secured Convertible Debentures”) in exchange for gross proceeds of \$27,144, bearing interest of 12% per annum, with quarterly 6% interest payments of remaining accrued interest paid at the maturity date of 24 months from issuance. The holders of the Secured Convertible Debentures may convert the principal amount into shares of the Company at a price of \$2.10 per share. At the subscription of the Secured Convertible Debentures, each investor was also issued 292 common share purchase warrants for each one thousand dollars of the principal amount from \$25,144 of the total gross proceeds, to be utilized for future purchase of shares at an exercise price of \$2.40 per share at any time prior to March 21, 2021.

In connection with the issuance of the Secured Convertible Debentures, the Company paid cash of \$1,172 for debt issuance fees. During the three and nine months ended September 30, 2020, the Company recorded interest expense of \$407 and \$1,221 and accretion expense of \$995 and \$3,115, respectively. During the three and nine months ended September 30, 2019, the Company recorded interest expense of \$411 and \$582 and accretion expense of \$874 and 1,820, respectively. Interest payments related the Secured Convertible Debentures were \$407 and \$1,221 during the three and nine months ended September 30, 2020.

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 (see Note 15).

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 shares 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.

**Cansortium Inc.**

**Notes to Condensed Interim Consolidated Financial Statements (unaudited)**

**For the three and nine months ended September 30, 2020 and September 30, 2019**

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

**13. NOTES PAYABLE (Continued)**

**(c) Convertible Debentures (Continued)**

May 2019 Convertible Debentures (Continued)

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

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

A discount rate of 21.5% was used to value the debt component of the convertible debentures.

A reconciliation of the beginning and ending balances of the Convertible debentures, derivative liability and warrants for the nine months ended September 30, 2020 and the year ended December 31, 2019 is as follows:

	Convertible debentures	Derivative liability	Equity conversion feature	Warrants	Expense
Balance as of January 1, 2019	\$ -	\$ -	\$ -	\$ 296	\$ -
Fair value of convertible debentures on issuance date	28,458	5,820	-	1,675	-
Fair value of IPO warrants on issuance date	-	-	-	9,892	-
Fair value change in derivative liability	-	(119)	-	-	-
Fair value of equity conversion feature on issuance date	-	-	2,522	-	-
Cash paid for debt issuance fees	(1,800)	-	-	-	-
Accretion expense	5,578	-	-	-	(5,578)
Convertible debentures reclassified to equity	(1,260)	(5,701)	5,091	-	-
Conversion of warrants	-	-	-	(90)	-
<b>Balance as of December 31, 2019</b>	<b>\$ 30,976</b>	<b>\$ -</b>	<b>\$ 7,613</b>	<b>\$ 11,773</b>	<b>\$ (5,578)</b>
Balance as of January 1, 2020	\$ 30,976	\$ -	\$ 7,613	\$ 11,773	\$ -
Fair value of convertible notes payable on issuance date	12,786	-	-	-	-
Fair value of equity conversion feature on issuance date	-	-	4,637	-	-
Accretion expense	6,020	-	-	-	(6,020)
Fair value of private placement warrants on issuance date	-	-	-	1,355	-
<b>Balance as of September 30, 2020</b>	<b>\$ 49,782</b>	<b>\$ -</b>	<b>\$ 12,250</b>	<b>\$ 13,128</b>	<b>\$ (6,020)</b>

**Cansortium Inc.****Notes to Condensed Interim Consolidated Financial Statements (unaudited)****For the three and nine months ended September 30, 2020 and September 30, 2019***(Amounts expressed in thousands of United States Dollars unless otherwise stated)***13. NOTES PAYABLE (Continued)**

A reconciliation of the beginning and ending balances of the notes payable for the nine months ended September 30, 2020 and the year ended December 31, 2019 is as follows:

	<b>September 30,</b>	<b>December 31,</b>
	<b>2020</b>	<b>2019</b>
Balance at beginning of period	\$ 40,403	\$ 53,299
Proceeds from issuance of notes payable	62	27,228
Accretion	5,974	5,578
Conversion of notes payable to share capital	-	(1,830)
Reclassification to held for sale	-	(32)
Note amendment	3,466	-
Repayments	-	(43,840)
<b>Balance at end of period</b>	<b>\$ 49,906</b>	<b>\$ 40,403</b>

**14. 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, 2020 and the year ended December 31, 2019 is as follows:

	<b>September 30,</b>	<b>December 31,</b>
	<b>2020</b>	<b>2019</b>
<b>Cost</b>		
Balance at beginning of period	\$ 25,026	\$ 19,164
Additions	1,439	7,845
Modifications	449	-
Disposals	(593)	-
Assets held for sale (Note 7)	-	(1,983)
Balance at end of period	26,321	25,026
<b>Accumulated Depreciation</b>		
Balance at beginning of period	\$ 4,836	\$ 2,909
Additions	2,076	2,488
Assets held for sale (Note 7)	-	(561)
Balance at end of period	6,912	4,836
<b>Right-of-use-assets, net</b>	<b>\$ 19,410</b>	<b>\$ 20,190</b>

**Cansortium Inc.****Notes to Condensed Interim Consolidated Financial Statements (unaudited)****For the three and nine months ended September 30, 2020 and September 30, 2019***(Amounts expressed in thousands of United States Dollars unless otherwise stated)***14. LEASES (Continued)****(b) Lease Liabilities**

A reconciliation of the beginning and ending balances of lease liabilities for the nine months ended September 30, 2020 and the year ended December 31, 2019 is as follows:

	<b>September 30, 2020</b>	<b>December 31, 2019</b>
Balance at beginning of period	\$ 22,927	\$ 18,003
Additions	1,439	7,841
Modification	354	-
Disposals	(691)	-
Interest on lease liabilities	1,885	2,271
Interest payments on lease obligations	(1,885)	(2,271)
Principal payments on lease obligations	(1,322)	(1,229)
Liabilities held for sale (Note 7)	-	(1,688)
<b>Balance at end of period</b>	<b>\$ 22,707</b>	<b>\$ 22,927</b>
Less current portion of lease obligations	(1,979)	(1,761)
<b>Lease obligations, net of current portion</b>	<b>\$ 20,728</b>	<b>\$ 21,166</b>

During the three and nine months ended September 30, 2020, the Company performed variable lease payments of \$107 and \$370, respectively. During the three and nine months ended September 30, 2019, the Company performed variable lease payments of \$195 and \$585, respectively.

**15. SHAREHOLDERS' EQUITY**

On February 7, 2019, the Company issued 512,536 shares of Cansortium Holdings LLC to acquire the remaining 30 percent ownership of Cansortium Pennsylvania, LLC. The fair market value of the shares issued was \$847. As a result of the acquisition of the remaining membership units of Cansortium Pennsylvania, LLC, Cansortium Holdings became the sole owner. As a result of the transaction, the Company adjusted its carrying interest by \$219 for the non-controlling's interest in Cansortium Pennsylvania, LLC and recognized directly to equity the difference of \$1,066 between the non-controlling interest and the fair value of the 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 Inc. The fair market value of the shares issued was \$6,369. As a result of the acquisition of the remaining interest in Cansortium Canada Servicing Inc, the Company became the sole owner. As a result of the transaction, the Company adjusted its carrying interest by \$450 for the non-controlling's interest in Cansortium Canada Servicing Inc. and recognized directly to equity the difference of \$6,619 between the non-controlling interest and the fair value of the units issued.

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

**Cansortium Inc.**

**Notes to Condensed Interim Consolidated Financial Statements (unaudited)**

**For the three and nine months ended September 30, 2020 and September 30, 2019**

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

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**15. SHAREHOLDERS' EQUITY (Continued)**

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On April 22, 2019, the lender of the Bridge Loan Agreement exercised its right to convert the principal amount due thereunder to 1,220,000 shares of the Company's common stock. As a result, \$2,440 was transferred to share capital (see Note 13).

During the nine months ended September 30, 2019, the Company adjusted its initial application of IFRS 16 adding to the shareholders accumulated deficit on the amount of \$741.

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

On January 16, 2020, the Company recorded the receipt of 14,215,385 common shares returned by the Company's founders at a cost of \$0.01 (one cent of a dollar), reducing its share capital by the shares cost of \$10,970 with a corresponding adjustment to accumulated deficit.

On January 16, 2020, currently with the above transaction, the Company issued 14,215,385 common shares upon restructuring of its existing promissory note issued in connection with the acquisition of Fluent Servicing (see Note 13). The fair market value of the shares issued and equity conversion featured recorded in connection with this transaction were \$5,753 and \$4,637, respectively.

On January 22, 2020, the Company recovered 4,124,166 common shares previously issued to its in-market partner, Vision Science and Technology, S.A.S representing 50% of the equity of Cansortium Colombia. As a result of the transaction, the Company recorded the related shares cost of \$3,294 as a reduction of capital and recognized the difference of \$1,438 between cost and fair value of the units received to accumulated deficit. The shares have been returned to treasury and the Company, through its subsidiaries, is the 50% owner of Cansortium Colombia.

On February 7, 2020, the Company completed a non-brokered private placement offering of 10,189,758 equity units (each, a "Unit") at \$0.45 per Unit, or \$4,585. Each Unit consists of one common share of the Company (a "Share") and one common share purchase warrant which entitles holders to acquire one Share (a "Warrant Share") at an exercise price of \$0.45 per Warrant Share. The Company allocated the net cash proceeds fair value of \$2,996 and \$1,355 to capital and warrants, respectively.

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

On May 19, 2020, the Company amended and restated its agreement to acquire 100% of the outstanding shares of Green Standard (Note 10). Under the amended terms, Green Standard shareholders will receive \$10,000 in aggregate consideration to consist of common shares and proportionate voting shares exchangeable into an aggregate of 2,727,723 common shares of the Company, which shall be escrowed until May 15, 2021, plus cash consideration to be generated by profits from Green Standard's Michigan business. On May 29, 2020, the same number of shares of the Company that were previously issued to Green Standard shareholders and subject to vesting conditions have been returned to treasury for cancellation.

**Cansortium Inc.****Notes to Condensed Interim Consolidated Financial Statements (unaudited)****For the three and nine months ended September 30, 2020 and September 30, 2019***(Amounts expressed in thousands of United States Dollars unless otherwise stated)***15. SHAREHOLDERS' EQUITY (Continued)**

On May 29, 2020, the Company completed the sale of its Canadian Subsidiaries. As part of the consideration for the sale of its Canadian Subsidiaries, a total of 1,500,000 common shares were returned to the Company for cancellation. In connection with obtaining their consent to the Company's sale of its Canadian Subsidiaries, the Company issued 1,492,854 common shares at a deemed price of \$0.385 per share to the debentureholders of the Secured Convertible Debenture issued on May 23, 2019.

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

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

**Share Capital**

As of September 30, 2020, the share capital of the Company is comprised of 105,576,980 common shares, 9,534,764 proportionate voting shares (each proportionate voting share is convertible into ten common shares), 41,842,280 warrants and convertible debt allotments and 13,206,039 stock options. For the purpose of the statement of changes in shareholders' equity, the proportionate voting shares have been included as part of common shares based on the 1 for 10 conversion ratio.

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

	<b>Three months ended</b>		<b>Nine months ended</b>	
	<b>September 30,</b>	<b>September 30,</b>	<b>September 30,</b>	<b>September 30,</b>
	<b>2020</b>	<b>2019</b>	<b>2020</b>	<b>2019</b>
Weighted average number of shares - basic	203,155,546	193,480,689	199,445,422	183,115,347
Weighted average warrants	41,842,280	31,723,846	39,749,276	24,985,276
Weighted average convertible debt allotment	18,205,782	18,105,608	18,205,782	14,692,248
Weighted average options	13,206,039	1,182,106	10,546,623	831,371
<b>Weighted average number of shares - diluted</b>	<b>276,409,647</b>	<b>244,492,249</b>	<b>267,947,104</b>	<b>223,624,242</b>

**Cansortium Inc.****Notes to Condensed Interim Consolidated Financial Statements (unaudited)****For the three and nine months ended September 30, 2020 and September 30, 2019***(Amounts expressed in thousands of United States Dollars unless otherwise stated)***15. SHAREHOLDERS' EQUITY (Continued)****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, 2020 and year ended December 31, 2019 is as follows:

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

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

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

During the quarter ended September 30, 2020, 905,364 shares of restricted stock vested.

During the quarter ended September 30, 2020, 5,914,468 shares of restricted stock were cancelled, resulting in an adjustment to retained earnings of \$713.

As of September 30, 2020 and December 31, 2019, there were approximately \$0 and \$51 of total unrecognized employee compensation cost related to non-vested time-based restricted shares that should be recognized as expense, respectively.

As of September 30, 2020 and December 31, 2019, there were approximately \$0 and \$1,928 of total unrecognized compensation cost related to non-vested restricted shares issued for professional services that are expected to be recognized as expense, respectively.

As of September 30, 2020 and December 31, 2019, there were approximately \$4,750 non-vested restricted shares issued for the acquisition of Green Standard production licenses and retail dispensary licenses.



**Cansortium Inc.****Notes to Condensed Interim Consolidated Financial Statements (unaudited)****For the three and nine months ended September 30, 2020 and September 30, 2019***(Amounts expressed in thousands of United States Dollars unless otherwise stated)***15. SHAREHOLDERS' EQUITY (Continued)****Stock Option Plan**

On March 14, 2019, the Board of Directors (the "Board") of the Company approved a Stock Option Plan (the "Plan"). Under the Plan, the Board may grant options to acquire common shares of the Company to officers, employees and consultants, to a limit of 10% of the outstanding common shares of the Company. 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 following is a summary of the Company's grant of options to some of its officers, directors, employees and consultants using the Black-Scholes option pricing model. Assumptions for the nine months ended September 30, 2020 and year ended December 31, 2019 were the following:

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

Volatility rate for the above options estimated based on review of the historic volatility of publicly traded companies with similar operations.

In connection with the May 5, 2020 grant, the Company signed a Consulting Agreement with Zola Global Investors pursuant to which Zola received one million common shares and three million stock options. The fair value of these options of \$251 were measured at the date of grant using the Black-Scholes option pricing model.

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

For the nine months ended September 30, 2020 and 2019, the Company recognized \$1,171 and \$810 as stock-based compensation in the 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.

**Cansortium Inc.**

**Notes to Condensed Interim Consolidated Financial Statements (unaudited)**

**For the three and nine months ended September 30, 2020 and September 30, 2019**

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

**15. SHAREHOLDERS' EQUITY (Continued)**

**Stock Option Plan (Continued)**

The following is a summary of the changes in the Company's Stock Options Plan during the nine months ended September 30, 2020:

	<b>Options Issued</b>	<b>Weighted Average Exercise Price</b>
Balance as of December 31, 2019	8,041,039	\$ 0.77
Granted	6,150,000	\$ 0.33
Forfeited	(985,000)	\$ 0.92
<b>Balance as of September 30, 2020</b>	<b>13,206,039</b>	<b>\$ 0.56</b>

The following is a summary of the outstanding options as of September 30, 2020:

<b>Exercise prices</b>	<b>Outstanding as of September 30, 2020</b>	<b>Weighted average remaining contractual life (years)</b>	<b>Exercisable as of September 30, 2020</b>	<b>Weighted average remaining contractual life (years)</b>
\$ 0.26	3,000,000	2.8	3,000,000	2.8
\$ 0.40	2,400,000	4.9	2,400,000	4.9
\$ 0.44	5,695,000	3.8	4,988,150	3.8
\$ 0.45	300,000	1.6	300,000	1.6
\$ 1.00	150,000	2.9	150,000	2.9
\$ 2.00	882,106	3.0	882,106	3.0
\$ 2.10	478,933	0.9	478,933	0.9
\$ 0.32	300,000	4.8	100,000	4.8
	<b>13,206,039</b>	<b>3.6</b>	<b>12,299,189</b>	<b>3.5</b>

**16. EXPENSE BY NATURE**

General and administrative expenses for the three and nine months ended September 30, 2020 and 2019 are as follows:

	<b>For the three months ended September 30,</b>		<b>For the nine months ended September 30,</b>	
	<b>2020</b>	<b>2019</b>	<b>2020</b>	<b>2019</b>
General and administrative				
Salaries and benefits	\$ 647	\$ 1,820	\$ 2,115	\$ 5,302
Legal and professional fees	1,543	1,465	4,893	10,333
Travel and entertainment	9	75	36	376
Rent expenses	26	111	204	706
IT services and software	104	107	295	296
Utilities	2	27	4	106
Insurance	445	359	1,151	575
Licenses, permits and taxes	18	8	67	42
Bank fees and charges	(12)	37	62	135
Repairs and maintenance	4	16	12	51
Other	75	338	225	1,462
<b>Total general and administrative</b>	<b>\$ 2,861</b>	<b>\$ 4,362</b>	<b>\$ 9,064</b>	<b>\$ 19,384</b>

**Cansortium Inc.****Notes to Condensed Interim Consolidated Financial Statements (unaudited)****For the three and nine months ended September 30, 2020 and September 30, 2019***(Amounts expressed in thousands of United States Dollars unless otherwise stated)***16. EXPENSE BY NATURE (Continued)**

Sales and marketing expenses for the three and nine months ended September 30, 2020 and 2019 are as follows:

	For the three months ended September 30,		For the nine months ended September 30,	
	2020	2019	2020	2019
Sales and marketing				
Salaries and benefits	\$ 1,864	\$ 1,834	\$ 5,300	\$ 5,105
Security	650	410	1,783	1,293
Marketing expenses	302	394	1,163	816
Rent expenses	260	203	579	416
Supplies	116	93	279	229
IT services and software	69	71	226	179
Utilities	55	51	145	135
Legal and professional fees	38	58	90	220
Insurance	30	37	76	79
Repairs and maintenance	18	61	69	105
Bank fees and charges	22	11	55	13
Travel and entertainment	16	44	39	133
Other	121	81	358	249
<b>Total sales and marketing</b>	<b>\$ 3,561</b>	<b>\$ 3,348</b>	<b>\$ 10,162</b>	<b>\$ 8,972</b>

**17. INCOME TAXES**

The components of the income tax provision include:

	Three months ended September 30, 2020	Nine months ended September 30, 2020
Current tax expense	\$ 1,442	\$ 5,722
Deferred tax expense	(161)	1,700
<b>Tax expense</b>	<b>\$ 1,281</b>	<b>\$ 7,422</b>

During the period from January 1, 2019 to March 22, 2019, date of acquisition of the shares of Cansortium Holdings, LLC and the Company's initial public offering and listing on the CSE (see Note 1), certain of the Company's subsidiaries were subject to income taxes, however there were no material current or deferred taxes associated with such entities for these periods as the Company was a limited liability company treated as a partnership for federal income tax purposes until March 22, 2019. Under federal law, the taxable income or loss of a limited liability company is allocated to its members. Accordingly, no income tax assets or liabilities were recognized for the three months ended March 31, 2019.

**Cansortium Inc.**

**Notes to Condensed Interim Consolidated Financial Statements (unaudited)**

**For the three and nine months ended September 30, 2020 and September 30, 2019**

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

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**18. COMMITMENTS AND CONTINGENCIES**

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**(a) Office and Other Leases**

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

<b>For the twelve months period ending September 30,</b>	<b>Scheduled payments</b>
2021	\$ 4,359
2022	4,392
2023	4,510
2024	4,522
2025	4,161
Thereafter	12,270
<b>Total future minimum lease payments</b>	<b>\$ 34,214</b>

**(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, 2020, medical marijuana regulations continue to evolve and are subject to differing interpretations. As a result, the Company may be subject to regulatory fines, penalties, or restrictions in the future.

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, 2020, there were no pending or threatened lawsuits that could reasonably be expected to have a material effect on the results of the Company's operations, except for the 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 Inc, along with certain executives of the Company, were sued in Florida by Querrey Group, LLC, et al., wherein Querrey alleges, among other claims, breach of its consulting contract with Cansortium Inc, LLC and seeks approximately \$2,100 in damages. The Company denies the allegations set forth in the complaint and is vigorously defending itself. At this early stage of proceedings, the Company is unable to provide an evaluation of the likelihood that a loss will be incurred or an estimate of the amounts or range of possible loss.

**Cansortium Inc.****Notes to Condensed Interim Consolidated Financial Statements (unaudited)****For the three and nine months ended September 30, 2020 and September 30, 2019***(Amounts expressed in thousands of United States Dollars unless otherwise stated)*

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**18. COMMITMENTS AND CONTINGENCIES (Continued)**

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**(c) Claims and Litigation (Continued)**

On July 24, 2020 MXY Holdings, LLC and its affiliates (collectively "MXY") filed suit in California claiming breach by the Company of the Management Services Agreement ("MSA"). The terms of the MSA provided MXY with a fee for management consulting services, which services were supposed to include the creation and implementation of management plans and solutions, the provision of MXY personnel with industry expertise, and intellectual property. MXY's refusal or inability to materially deliver on its obligations prompted the Company to consider termination of the MSA and the Company sent MXY a default notice on July 8, 2020. The Company is aware of MXY lawsuit, seeking amounts it claims it is due under the MSA and denies all of MXY's claims and has a valid defense to such claims, and is vigorously defending the suit. This lawsuit was dismissed on October 1, 2020 for lack of personal jurisdiction.

**19. RELATED-PARTY TRANSACTIONS**

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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, 2020 and 2019 key management personnel compensation consisted of the following:

	<b>For the three months ended September 30,</b>		<b>For the nine months ended September 30,</b>	
	<b>2020</b>	<b>2019</b>	<b>2020</b>	<b>2019</b>
Salary	\$ 202	\$ -	\$ 650	\$ 675
Option-based compensation	86	-	743	-
All other compensation	190	138	550	138
<b>Total</b>	<b>\$ 477</b>	<b>\$ 138</b>	<b>\$ 1,943</b>	<b>\$ 813</b>

On February 1, 2020, Neal Hochberg and John McKimm, Directors of the Company, participated on the non-brokered private placement offering (see Note 15) contributing with \$100 and \$43 in satisfaction of a portion of accrued directors' fees, respectively.

## 20. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

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### Financial Instruments

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

### Financial Assets

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

### Financial Liabilities

- (i) Loans are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value and subsequently on an amortized cost basis using the effective interest method, less any impairment losses. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period, which are classified as non-current assets.
- (ii) Compound financial instruments issued by the Company comprise convertible notes payable that are convertible to share capital at either the option of the holder or upon consummation of a qualifying go-public transaction. The liability component of the compound financial instruments is initially recognized as the difference between the fair value of the derivative liability (i.e., conversion feature) and the fair value of the convertible notes payable. Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortized cost using the effective interest method and the derivative liability is re-measured with subsequent changes in fair market value.
- (iii) Other financial liabilities include the Company's accounts payable and accrued expenses, notes payable and lease obligations. The effective interest method is used to calculate the amortized cost of a financial liability and allocates interest income over the corresponding period. The effective interest rate is the rate that is used to discount estimated future cash receipts or payments over the expected life of the financial asset or liability.

Financial instruments recorded at fair value are classified using a fair value hierarchy that reflects the significance of the inputs to fair value measurements. The three levels of hierarchy are:

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;

Level 2 – Inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly; and

Level 3 – Inputs for the asset or liability that are not based on observable market data.

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

**20. 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, 2020 is the carrying amount of cash, accounts receivable and note receivable. All cash is placed with major U.S. financial institutions. Credit risk from due from accounts receivable and note receivable arises from the possibility that amounts due become uncollectible.

**(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 15 and Note 18, the Company had the following contractual obligations as of September 30, 2020:

	<u>&lt; 1 year</u>	<u>1 to 3 years</u>	<u>3 to 5 years</u>	<u>&gt; 5 years</u>	<u>Total</u>
Accounts payable	\$ 4,558	\$ -	\$ -	\$ -	\$ 4,558
Accrued liabilities	\$ 4,107	\$ -	\$ -	\$ -	\$ 4,107
Income taxes payable	\$ 6,401	\$ -	\$ -	\$ -	\$ 6,401
Notes payable	\$ 37,211	\$ 12,671	\$ 21	\$ 2	\$ 49,906
Lease obligations	\$ 1,979	\$ 4,868	\$ 5,856	\$ 10,004	\$ 22,707

In addition to the commitments outlined in Note 15 and Note 18, the Company had the following contractual obligations as of December 31, 2019:

	<u>&lt; 1 year</u>	<u>1 to 3 years</u>	<u>3 to 5 years</u>	<u>&gt; 5 years</u>	<u>Total</u>
Accounts payable	\$ 7,860	\$ -	\$ -	\$ -	\$ 7,860
Accrued liabilities	\$ 5,135	\$ -	\$ -	\$ -	\$ 5,135
Income taxes	\$ 1,492	\$ -	\$ -	\$ -	\$ 1,492
Notes payable	\$ 9,350	\$ 30,982	\$ 71	\$ -	\$ 40,403
Lease obligations	\$ 22,927	\$ 4,274	\$ 5,405	\$ 11,487	\$ 22,927

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

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**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, 2020, and December 31, 2019, the Company had no hedging agreements in place with respect to foreign exchange rates. The Company has not entered into any agreements or purchased any instruments to hedge possible currency risks at this time.

*(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 most of the states have legalized medical marijuana, there has been no change in U.S. federal banking laws related to the deposit and holding of funds derived from activities related to the marijuana industry. Given that U.S. federal law provides that the production and possession of cannabis is illegal, there is a strong argument that banks cannot accept for deposit funds from businesses involved with the marijuana industry. Consequently, businesses involved in the marijuana industry often have difficulty accessing the U.S. banking system and traditional financing sources. The inability to open bank accounts with certain institutions may make it difficult to operate the businesses of the Company and leaves their cash holdings vulnerable.

**(e) Asset Forfeiture Risk**

Because the cannabis industry remains illegal under U.S. federal law, any property owned by participants in the cannabis industry which are either used in the course of conducting such business, or are the proceeds of such business, could be subject to seizure by law enforcement and subsequent civil asset forfeiture. Even if the owner of the property was never charged with a crime, the property in question could still be seized and subject to an administrative proceeding by which, with minimal due process, it could be subject to forfeiture.



**Cansortium Inc.**

**Notes to Condensed Interim Consolidated Financial Statements (unaudited)**

**For the three and nine months ended September 30, 2020 and September 30, 2019**

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

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**21. SUBSEQUENT EVENTS**

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The Company has evaluated subsequent events through November 23, 2020, which is the date these condensed interim consolidated financial statements were issued and no material subsequent events were noted.