

Cansortium Inc.

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

**For the three and six months ended June
30, 2019 and June 30, 2018**

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

Cansortium Inc.
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Cansortium Inc.

Unaudited Condensed Interim Consolidated Statements of Financial Position

As at June 30, 2019 and December 31, 2018

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

	June 30, 2019	December 31, 2018
Assets		
Current assets		
Cash	\$ 21,375	\$ 2,026
Accounts receivable	166	62
Inventory	Note 3 6,718	2,837
Biological assets	Note 4 2,421	2,549
Prepaid expenses and other current assets	Note 5 2,347	543
Total current assets	33,027	8,017
Property and equipment, net	Note 6 28,886	22,398
Intangible assets, net	Note 7 103,320	106,417
Right-of-use assets	Notes 2, 12 13,819	-
Goodwill	Note 9 17,911	10,315
Other assets	319	721
Total assets	\$ 197,282	\$ 147,868
Liabilities		
Current liabilities		
Accounts payable	\$ 5,866	\$ 4,910
Accrued expenses	3,137	3,936
Income taxes payable	1,406	-
Derivative liabilities	Note 10 11,015	9,242
Current portion of notes payable	Note 11 26,792	51,463
Lease obligations	Notes 2, 12 1,423	-
Other current liabilities	1,379	1,350
Total current liabilities	51,018	70,901
Notes payable, net of current portion	Note 11 10,324	1,910
Lease obligations, net of current portion	Notes 2, 12 13,962	-
Other long-term liabilities	1,397	451
Total liabilities	76,701	73,262
Shareholders' equity		
Share capital	Note 13 164,893	92,000
Share-based compensation reserve	Note 13 738	-
Equity conversion feature	341	-
Warrants	8,686	296
Retained earnings (accumulated deficit)	(53,356)	(16,687)
Non-controlling interests	(199)	(515)
Accumulated other comprehensive income (loss)	(522)	(488)
Total shareholders' equity	120,581	74,606
Total liabilities and shareholders' equity	\$ 197,282	\$ 147,868

Nature of operations (Note 1)

Commitments and contingencies (Note 15)

Subsequent events (Note 18)

Jose Hidalgo

Chief Executive Officer

Henry Batievsky

Chief Financial Officer

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

Cansortium Inc.

Unaudited Condensed Interim Consolidated Statements of Operations

For the three and six months ended June 30, 2019 and June 30, 2018

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

	For the three months ended June 30,		For the six months ended June 30,	
	2019	2018	2019	2018
Revenue	\$ 6,091	\$ 155	\$ 11,619	\$ 224
Cost of goods sold	1,540	25	4,100	55
Gross profit before fair value adjustments	4,551	130	7,519	169
Realized fair value of increments on inventory sold	Note 4	2,233	-	3,351
Unrealized change in fair value of biological assets	Note 4	(972)	-	(2,073)
Gross profit	3,290	130	6,241	169
Expenses				
General and administrative	Note 14	5,369	1,763	15,022
Shared-based compensation		883	-	1,487
Sales and marketing	Note 14	2,705	236	5,623
Depreciation and amortization		2,403	165	4,701
Total expenses		11,360	2,164	26,833
Loss from operations		(8,070)	(2,034)	(20,592)
Other expense (income)				
Interest expense, net	Notes 10, 11	2,543	586	6,860
Change in fair market value of derivative	Note 10	(1,662)	(2,994)	(3,542)
Loss on investment in associate	Note 7	-	1,594	-
Gain in fair market value of investment in associate	Note 9	(3,388)	-	(3,388)
Other expense (income)		(1,562)	(27)	28
Total other expense (income)		(4,069)	(841)	(42)
Loss before taxes		(4,001)	(1,193)	(20,550)
Income taxes		1,276	-	1,276
Net loss		(5,277)	(1,193)	(21,826)
Net loss attributable to non-controlling interest		(270)	(57)	(353)
Net loss attributable to controlling interest		\$ (5,007)	\$ (1,136)	\$ (21,473)
Net loss per share				
Basic	Note 13	\$ (0.03)	\$ (0.01)	\$ (0.12)
Diluted	Note 13	\$ (0.03)	\$ (0.01)	\$ (0.11)

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

Cansortium Inc.

Unaudited Condensed Interim Consolidated Statements of Changes in Stockholders' Equity

For the three six months ended June 30, 2019 and June 30, 2018

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

	Share capital			Reserves			Accumulated deficit	Non-controlling interests	Accumulated other comprehensive income (loss)	Total shareholders' equity
	Number of unrestricted common shares	Number of restricted common shares	Amount	Share-based options compensation	Equity conversion feature	Warrants				
Balance, December 31, 2017	125,456,808	-	\$ 32,970	\$ -	\$ -	296	\$ (21,274)	\$ (210)	\$ 5	\$ 11,787
Issuance of shares	3,372,469	-	9,274	-	-	-	-	-	-	9,274
Issuance of shares to acquire additional non-controlling interest of subsidiaries	1,272,728	-	3,500	-	-	-	(3,495)	(5)	-	-
Shares issued for professional services	23,637	-	65	-	-	-	-	-	-	65
Debentures Conversion	2,804,243	-	7,493	-	-	-	-	-	-	7,493
Foreign currency gain on translation	-	-	-	-	-	-	-	-	15	15
Net loss	-	-	-	-	-	-	(8,589)	(304)	-	(8,893)
Balance, June 30, 2018	132,929,885	-	\$ 53,302	\$ -	\$ -	296	\$ (33,358)	\$ (519)	\$ 20	\$ 19,741
Balance, December 31, 2018	144,379,175	11,166,850	\$ 92,000	\$ -	\$ -	296	\$ (16,687)	\$ (515)	\$ (488)	\$ 74,606
Adjustment on initial application of IFRS 16	-	-	-	-	-	-	(741)	-	-	(741)
Issuance of shares	28,089,099	-	56,178	-	341	-	-	-	-	56,519
Issuance of shares to acquire additional non-controlling interest of subsidiaries	5,013,161	(648,545)	13,786	-	-	-	(14,455)	669	-	-
Shares issued for professional services	208,432	-	600	-	-	-	-	-	-	600
Vesting of employee compensation shares	-	-	117	-	-	-	-	-	-	117
Vesting of professional services shares	-	-	342	-	-	-	-	-	-	342
Shares forfeited	(66,667)	(50,000)	(50)	-	-	-	-	-	-	(50)
Issuance of shares, see Note 9(b)	4,124,166	-	-	-	-	-	-	-	-	-
Issuance of options	-	-	-	738	-	-	-	-	-	738
Conversion of notes payable to equity	1,220,000	-	1,830	-	-	-	-	-	-	1,830
Conversion of warrants	59,790	-	90	-	-	(90)	-	-	-	-
Issuance of warrants	-	-	-	-	-	8,480	-	-	-	8,480
Foreign currency gain on translation	-	-	-	-	-	-	-	-	(34)	(34)
Net loss	-	-	-	-	-	-	(21,473)	(353)	-	(21,826)
Balance, June 30, 2019	183,027,156	10,468,305	\$ 164,893	\$ 738	\$ 341	\$ 8,686	\$ (53,356)	\$ (199)	\$ (522)	\$ 120,581

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

Cansortium Inc.

Unaudited Condensed Interim Consolidated Statements of Cash Flows

For the six months ended June 30, 2019 and June 30, 2018

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

	For the six months ended June 30,	
	2019	2018
Operating activities		
Net income (loss)	\$ (21,826)	\$ (5,581)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	5,412	423
Amortization of debt discount	2,910	876
Equity based compensation	1,747	65
(Gain) loss from equity method investments	-	(2,904)
Gain in fair market value of investment in associate	(3,388)	-
Change in fair market value of derivative	(3,542)	2,940
Unrealized gain on changes in fair value of biological assets	(2,073)	-
Changes in operating assets and liabilities:		
Accounts receivable	(104)	-
Inventory	(3,881)	(795)
Biological assets	2,201	-
Prepaid expenses and other current assets	(1,555)	(869)
Other assets	1,375	(32)
Accounts payable	956	532
Accrued expenses	(3,386)	61
Income taxes	1,406	-
Lease obligations	1,357	-
Other current and long-term liabilities	285	-
Net cash used in operating activities	(22,106)	(5,283)
Investing activities		
Purchases of property and equipment	(9,049)	(1,567)
Due from associate	-	(486)
Net cash used in investing activities	(9,049)	(2,053)
Financing activities		
Proceeds from IPO	56,178	-
Proceeds from issuance of shares	-	9,274
Proceeds from issuance of notes payable	41,006	-
Payment of lease obligations	(1,305)	-
Principal repayments of notes payable	(45,341)	(9)
Net cash provided by financing activities	50,538	9,265
Effect of foreign exchange on cash and cash equivalents	(34)	15
Net increase in cash and cash equivalents	19,349	1,944
Cash and cash equivalents, beginning of period	2,026	3,033
Cash and cash equivalents, end of period	\$ 21,375	\$ 4,976
Cash paid during the period for interest	\$ 2,124	\$ 2
Non-cash transactions:		
Issuance of equity for additional interest in consolidated entity	\$ 13,786	\$ -
Conversion of accrued interest and notes payable to equity	\$ -	\$ 7,493

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

Cansortium Inc.

Notes to the Unaudited Condensed Interim Consolidated Financial Statements

For the three and six months ended June 30, 2019 and June 30, 2018

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

1. NATURE OF OPERATIONS

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

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

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

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Preparation

The condensed interim consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and interpretations of the IFRS Interpretations Committee (“IFRIC”).

The condensed interim consolidated financial statements have been prepared in accordance with International Accounting Standard 34 – Interim Financial Reporting, following the same accounting policies and methods of application as those disclosed in the annual audited consolidated financial statements for the years ended December 31, 2018 and 2017, except as described in Note 2(i). These condensed interim consolidated financial statements should be read in conjunction with the annual consolidated financial statements of the Company for the years ended December 31, 2018 and 2017, including the accompanying notes thereto.

These condensed interim consolidated financial statements were approved and authorized for issue by the Board of Directors of the Company on August 29, 2019.

(b) Basis of Measurement

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

(c) Basis of Consolidation

These condensed interim consolidated financial statements include the accounts of the Company and its majority-owned subsidiaries. Subsidiaries over which the Company has control are fully consolidated from the date control commences until the date control ceases. Control exists when the Company is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. In assessing control, potential voting rights that are currently exercisable are taken into account. Non-controlling interests in the equity of consolidated subsidiaries are shown separately in the consolidated statement of operations and in the consolidated statement of changes in members’ equity. All intercompany balances and transactions are eliminated on consolidation. The information below lists the Company’s subsidiaries that are consolidated in these condensed interim consolidated financial statements and the ownership interest held as of June 30, 2019 and December 31, 2018.

Cansortium Inc.**Notes to the Unaudited Condensed Interim Consolidated Financial Statements****For the three and six months ended June 30, 2019 and June 30, 2018***(Amounts expressed in thousands of United States Dollars unless otherwise stated)***2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)****(c) Basis of Consolidation (Continued)**

	% Ownership June 30, 2019	% Ownership December 31, 2018
Cansortium Holdings LLC	100.00%	100.00%
Cansortium Puerto Rico, LLC (see Note 13)	100.00%	100.00%
Cansortium Texas, LLC (see Note 13)	100.00%	100.00%
Cansortium Canada Holdings Inc.	100.00%	100.00%
1931074 Ontario, Inc.	100.00%	100.00%
Cansortium Canada Servicing, Inc. (see Note 13)	100.00%	60.00%
Cansortium Pennsylvania, LLC (see Note 13)	100.00%	70.00%
Cansortium Brazil, Ltda. (see Note 13)	100.00%	100.00%
Cansortium Australia Pty. Ltd	84.51%	84.51%
Cansortium Health Partners, LLC (see Note 13)	100.00%	100.00%
Cansortium Florida, LLC	100.00%	100.00%
Fluent Servicing, LLC (see Note 9)	100.00%	100.00%
Cansortium Colombia S.A.S (see Note 9)	100.00%	100.00%
Arcadia EcoEnergies, Ltd. (see Note 9)	52.00%	52.00%
Spirit Lake Road Nursery, LLC (see Note 9)	100.00%	100.00%
16171 Slater Road Investors LLC	100.00%	100.00%
Cansortium Oregon LLC	100.00%	100.00%
Cansortium Washington, LLC	100.00%	100.00%
Cansortium California LLC	100.00%	100.00%
Cansortium Michigan LLC	100.00%	100.00%
Cloud Nine Capital, LLC	100.00%	100.00%
Cavern Capital Holdings LLC	100.00%	100.00%
Harvest Park Lot 9 Investors LLC	100.00%	100.00%
Harvest Park Lot 9 Investors No. 2 LLC	100.00%	100.00%
Cansortium Property Holdings, Inc.	100.00%	100.00%
Fluent Hemp LLC	100.00%	-
Cansortium Ohio, LLC	85.00%	85.00%
Cansortium Beverage Company Inc.	100.00%	100.00%
Cansortium International Inc.	100.00%	100.00%

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Business Combinations

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

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

(e) Investment in Associate

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

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

(f) Derivative Liability

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

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

(g) Income Taxes

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

Income tax expense is recognized based on Management's estimate of the weighted average effective annual income tax rate expected for the full financial year. The estimated average annual tax rate used for the six months ended June 30, 2019 is -6.18%, compared to 0% for the six months ended June 30, 2018. The difference in the rate was mainly the result of a restructuring that converted the Company from non-taxable to taxable in March 22, 2019.

(i) New Standards Adopted in Current Year

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

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

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

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

Cansortium Inc.

Notes to the Unaudited Condensed Interim Consolidated Financial Statements

For the three and six months ended June 30, 2019 and June 30, 2018

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

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

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

Definition of a lease

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

Measurement

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

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

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

Cansortium Inc.**Notes to the Unaudited Condensed Interim Consolidated Financial Statements****For the three and six months ended June 30, 2019 and June 30, 2018***(Amounts expressed in thousands of United States Dollars unless otherwise stated)***3. INVENTORY**

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

	June 30, 2019	December 31, 2018
Supplies, packaging and materials	\$ 764	\$ 956
Finished goods	6,154	2,231
Inventory reserve	(200)	(350)
Balance at end of period	\$ 6,718	\$ 2,837

4. BIOLOGICAL ASSETS

The Company's biological assets consist of cannabis plants. A reconciliation of the beginning and ending balances of biological assets for the three months ended June 30, 2019 and year ended December 31, 2018 is as follows:

	June 30, 2019	December 31, 2018
Balance at beginning of period	\$ 2,549	\$ -
Purchased as part of business acquisition	-	1,445
Cost incurred until harvest	2,721	333
Effect of unrealized change in fair value of biological assets	2,073	2,866
Transferred to inventory upon harvest	(4,922)	(2,095)
Balance at end of period	\$ 2,421	\$ 2,549

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

The Company initially values its cannabis plants as biological assets approximately 3 weeks into the growing stage until the point of harvest. On average, the growing time for a full harvest approximates 14 weeks. The Company has determined the fair value less cost to sell of harvested cannabis to be \$0.052 per milligram. As of June 30, 2019 and December 31, 2018, the Company's biological assets were on average 45.6% and 49.1% complete, respectively. As of June 30, 2019 and December 31, 2018, the Company had 39,791 and 39,692 plants that were classified as biological assets, respectively.

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

Cansortium Inc.**Notes to the Unaudited Condensed Interim Consolidated Financial Statements****For the three and six months ended June 30, 2019 and June 30, 2018***(Amounts expressed in thousands of United States Dollars unless otherwise stated)***4. BIOLOGICAL ASSETS (Continued)**

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

- (a) Estimated wholesale price of \$0.052 per active milligram during the six months ended June 30, 2019;
- (b) The Company measures the yield of cannabis in active milligrams extracted from a plant. The average yield from each cannabis plant is 2,300 milligrams;
- (c) Wastage of cannabis plants is 20.2%.
- (d) Average of 98 days to grow.

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

- (a) A 5% increase or decrease in the selling price per active milligram would increase or decrease the fair value of biological assets by approximately \$112 and \$123, respectively.
- (b) A 5% increase or decrease in the estimated yield per cannabis plant would result in an increase or decrease in the fair value of biological assets by approximately \$112 and \$123 respectively.
- (c) A 5% increase or decrease in the estimated wastage of cannabis plants would increase or decrease the fair value of biological assets by approximately \$22 and \$22, respectively.

5. PREPAID EXPENSES AND OTHER CURRENT ASSETS

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

	June 30, 2019	December 31, 2018
Prepaid expenses	\$ 451	\$ 172
Security deposits held	509	135
Note receivable	1,095	-
Other current assets	292	236
Balance at end of period	\$ 2,347	\$ 543

In connection with the Company's agreement entered in October 2018 with Green Standard Holdings LLC and Green Standard Cultivation LLC to acquire the current Production License from Green Standard Processing LLC and future Retail Dispensary Licenses from Green Standard Retail LLC, the Company entered into a line of credit note with Green Standard, Inc. ("Green Standard Note Receivable"), where the Company agrees to make advances to fund the construction of the Michigan cultivation facility and operational expenses bearing interest of 2.70% per annum. During the six months ended June 30, 2019 the Company advanced \$1,095 under the Green Standard Note Receivable. As of June 30, 2019 the balance of the Green Standard Note Receivable was \$1,095.

Cansortium Inc.

Notes to the Unaudited Condensed Interim Consolidated Financial Statements

For the three and six months ended June 30, 2019 and June 30, 2018

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

6. PROPERTY AND EQUIPMENT

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

	Land	Furniture and fixtures	Computer equipment	Manufacturing equipment	Leasehold improvement	Buildings	Construction in progress	Vehicles	Total
Balance as of January 1, 2018									
Cost	\$ -	\$ 219	\$ 103	\$ 1,053	\$ 2,576	\$ -	\$ 74	\$ 67	\$ 4,092
Additions	-	19	39	302	1,167	-	40	-	1,567
Balance as of June 30, 2018	-	238	142	1,355	3,743	-	114	67	5,659
Balance as of January 1, 2018									
Accumulated depreciation	-	24	13	96	129	-	-	1	263
Additions	-	16	21	89	157	-	-	3	286
Balance as of June 30, 2018	-	40	34	185	286	-	-	4	549
Property and equipment, net	\$ -	\$ 198	\$ 108	\$ 1,170	\$ 3,457	\$ -	\$ 114	\$ 63	\$ 5,110
Balance as of January 1, 2019									
Cost	\$ 764	\$ 475	\$ 464	\$ 4,560	\$ 12,826	\$ 3,224	\$ 1,585	\$ 492	\$ 24,390
Transfers	-	-	-	-	262	-	(262)	-	-
Additions	-	111	214	1,158	2,461	54	5,051	-	9,049
Balance as of June 30, 2019	764	586	678	5,718	15,549	3,278	6,374	492	33,439
Balance as of January 1, 2019									
Accumulated depreciation	-	68	106	417	1,362	16	-	23	1,992
Additions	-	41	107	371	1,990	28	-	27	2,564
Balance as of June 30, 2019	-	109	213	788	3,352	44	-	50	4,556
Property and equipment, net	\$ 764	\$ 477	\$ 465	\$ 4,930	\$ 12,197	\$ 3,234	\$ 6,374	\$ 442	\$ 28,883

For the three and six months ended June 30, 2019 the Company charged \$355 and \$710 of depreciation to the production of inventory, respectively. For the three and six months ended June 30, 2018 the Company charged \$80 and \$106 of depreciation to the production of inventory, respectively.

Cansortium Inc.

Notes to the Unaudited Condensed Interim Consolidated Financial Statements

For the three and six months ended June 30, 2019 and June 30, 2018

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

7. INTANGIBLE ASSETS

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

	Licenses	Intellectual property	Customer relationships	Non-compete agreements	Trademarks and brands	Total
Balance as of January 1, 2018						
Cost	\$ 518	\$ 596	\$ -	\$ -	\$ -	\$ 1,114
Balance as of June 30, 2018	518	596	-	-	-	1,114
Balance as of January 1, 2018						
Accumulated amortization	81	-	-	-	-	81
Additions	137	-	-	-	-	137
Balance as of June 30, 2018	218	-	-	-	-	218
Intangible assets, net	\$ 300	\$ 596	\$ -	\$ -	\$ -	\$ 896
Balance as of January 1, 2019						
Cost	\$ 89,568	\$ 596	\$ 3,070	\$ 30	\$ 15,550	\$ 108,814
Additions	-	-	-	-	-	-
Disposals	(249)	-	-	-	-	(249)
Balance as of June 30, 2019	89,319	596	3,070	30	15,550	108,565
Balance as of January 1, 2019						
Accumulated amortization	351	-	229	2	1,815	2,397
Additions	123	-	305	3	2,417	2,848
Balance as of June 30, 2019	474	-	534	5	4,232	5,245
Intangible assets, net	\$ 88,845	\$ 596	\$ 2,536	\$ 25	\$ 11,318	\$ 103,320

Cansortium Inc.**Notes to the Unaudited Condensed Interim Consolidated Financial Statements****For the three and six months ended June 30, 2019 and June 30, 2018***(Amounts expressed in thousands of United States Dollars unless otherwise stated)***8. INVESTMENT IN ASSOCIATE**

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

Summarized financial information of Fluent Servicing for the six months ended June 30, 2018 and seven and a half months ended August 15, 2018 is as follows:

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

	Seven and a half months ended August 15, 2018		Six months ended June 30, 2018	
Revenue	\$	10,789	\$	8,251
Net income	\$	6,312	\$	6,599

A reconciliation of the beginning and ending balances of the investment in associate for six months ended June 30, 2018 and seven and a half months ended August 15, 2018 is as follows:

	Seven and a Half Months Ended August 15, 2018		Six months ended June 30, 2018	
Beginning balance	\$	7,441	\$	4,231
Company's share of income		2,761		(1,594)
Consolidation of entity at acquisition		(10,202)		-
Ending balance	\$	-	\$	2,637

Cansortium Inc.

Notes to the Unaudited Condensed Interim Consolidated Financial Statements

For the three and six months ended June 30, 2019 and June 30, 2018

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

9. BUSINESS ACQUISITIONS AND GOODWILL

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

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

Cansortium Inc.

Notes to the Unaudited Condensed Interim Consolidated Financial Statements

For the three and six months ended June 30, 2019 and June 30, 2018

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

9. BUSINESS ACQUISITIONS AND GOODWILL (Continued)

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

(a) Acquisition of Fluent Servicing, LLC

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

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

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

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

Net loss and comprehensive loss for the Company for the six months ended June 30, 2018 would have been lower by approximately \$6,599 if the acquisition had taken place on January 1, 2018.

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

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

Cansortium Inc.

Notes to the Unaudited Condensed Interim Consolidated Financial Statements

For the three and six months ended June 30, 2019 and June 30, 2018

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

9. BUSINESS ACQUISITIONS AND GOODWILL *(Continued)*

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

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

Net loss and comprehensive loss for the Company for the six months ended June 30, 2018 would have zero impact if the acquisition had taken place on January 1, 2018.

(c) Acquisition of Spirit Lake Road Nursery, LLC

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

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

Net loss and comprehensive loss for the Company for the six months ended June 30, 2018 would have been lower by approximately \$83 if the acquisition had taken place on January 1, 2018.

(d) Acquisition of Arcadia EcoEnergies Ltd.

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

Net loss and comprehensive net loss for the Company for the six months ended June 30, 2018 would have been higher by approximately \$21 if the acquisition had taken place on January 1, 2018.

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

Cansortium Inc.**Notes to the Unaudited Condensed Interim Consolidated Financial Statements****For the three and six months ended June 30, 2019 and June 30, 2018***(Amounts expressed in thousands of United States Dollars unless otherwise stated)***9. BUSINESS ACQUISITIONS AND GOODWILL (Continued)**

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

	Cansortium Inc. six months ended June 30, 2018	Pro-forma adjustments six months ended June 30, 2018	Pro-forma results six months ended June 30, 2018
Revenue	\$ 224	\$ 8,363	\$ 8,587
Gross Profit	\$ 169	\$ 11,506	\$ 11,675
Net Income (Loss)	\$ (8,893)	\$ 6,660	\$ (2,233)

10. DERIVATIVE LIABILITY

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

	Convertible debentures	Warrants	Equity price guarantee	Derivative liability total
As of January 1, 2018	\$ 1,014	\$ -	\$ -	\$ 1,014
Fair Value of Derivative Liabilities Value on Issuance Date	-	4,102	3,560	7,662
Fair Value Change in Derivative Liability	2,939	1,824	(244)	4,519
Conversion of Convertible Debentures to Equity	(3,953)	-	-	(3,953)
As of December 31, 2018	\$ -	\$ 5,926	\$ 3,316	\$ 9,242
As of January 1, 2019	-	5,926	3,316	9,242
Fair Value of Derivative Liabilities Value on Issuance Date	4,932	383	-	5,315
Fair Value Change in Derivative Liability	(442)	(5,178)	2,078	(3,542)
As of June 30, 2019	\$ 4,490	\$ 1,131	\$ 5,394	11,015

(a) Convertible Debentures

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

Cansortium Inc.

Notes to the Unaudited Condensed Interim Consolidated Financial Statements

For the three and six months ended June 30, 2019 and June 30, 2018

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

10. DERIVATIVE LIABILITY (Continued)

(a) Convertible Debentures (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 member units and the expected life of the convertible debentures.

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

	2019
Volatility	60.00%
Risk-free interest rate	2.43% - 2.55%
Expected life (years)	0 - 0.25 years
Share price	\$2.75
Exercise price	\$1.50

During the three and six months ended June 30, 2018, the Company recorded a gain of \$77 and a loss of \$2,940 on revaluation of the derivative liability, respectively.

Pursuant to the above brokered private placement financing by issuing Convertible Debentures, each subscriber of the Convertible Debenture will be entitled to one-half of a share purchase warrant for each \$1 of the Convertible Debenture ("Debenture Warrant"). In addition, upon conversion of the Convertible Debentures, each subscriber will also receive one-half of a share purchase warrant for each unit for each \$1 principal amount of the Convertible Debentures converted ("Conversion Warrant"). These warrants will be exercisable for a period for 24 months from the date of closing of the Convertible Debentures financing at a price that is 125% of the conversion price. Accordingly, the Company issued 2,372,071 Debenture Warrants and 3,162,761 Conversion Warrants. The Company used the Black-Scholes option-pricing model to estimate fair values of these warrants amounting to \$1,131 and \$5,926 at June 30, 2019 and December 31, 2018, respectively. These warrants are classified as a derivative liability. The net change in fair values were expensed in the statement of operations with a corresponding credit to derivative liability. This is a Level 3 recurring fair value measurement. The key Level 3 inputs used by management to determine the fair value as at June 30, 2019 and June 30, 2018 are the expected future volatility of 60% in the price of the Company's shares of \$2.75 and the expected remaining life of the convertible debentures of 24 months from the date of issuance of the Convertible Debentures.

Cansortium Inc.

Notes to the Unaudited Condensed Interim Consolidated Financial Statements

For the three and six months ended June 30, 2019 and June 30, 2018

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

10. DERIVATIVE LIABILITY (Continued)

(b) Equity Price Guarantee

In connection with the acquisition of the remaining interest of Fluent Servicing performed on August 15, 2018 (see Note 9), the Company issued 5,163,636 of membership units of Cansortium Holdings valued at \$2.75 dollars per unit subject to a price floor of \$2.75 ("Equity Price Guarantee"). The Equity Price Guarantee shall expire two (2) years after public trading of the Company begins. If during that time period, the holder of the Equity Price Guarantee elects to sell some or all of its shares and the purchase price is less than \$2.75 per share, then the Company shall have the obligation to pay the holder the difference between \$2.75 and the actual sale price of shares. The Equity Price Guarantee shall be cancelled if the value of the shares of the Company close at \$4.13 per share for more than twenty (20) consecutive trading days while maintaining a trading volume of at least three (3) million shares each trading day of such period.

The Company used a Monte-Carlo simulation model to estimate fair value of the Equity Price Guarantee derivative liability. This is a Level 3 recurring fair value measurement. The key Level 3 inputs used by management to determine the fair value are the expected future volatility of 60% in the price of the Company's shares and the expected life of the Equity Price Guarantee ranging from 2-2.5 years.

During the three and six months ended June 30, 2019, the Company recorded a loss of \$145 and \$2,078 on revaluation of the Equity Price Guarantee derivative liability, respectively.

(c) Convertible Debentures – Bridge Loan Agreement

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

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

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

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

Cansortium Inc.

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10. DERIVATIVE LIABILITY (Continued)

(c) Convertible Debentures – Bridge Loan Agreement (Continued)

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

	<u>2019</u>
Volatility	60.00%
Risk-free interest rate	2.43%
Expected life (years)	0.12 years
Share price	\$2.00
Exercise price	\$1.50

Upon initial recognition, the Company recorded a derivative liability and debt discount of \$631 in relation to the derivative liability portion of the Bridge Loan Agreement. See note 11 for further details. During the three and six months ended June 30, 2019, the Company recorded a loss of \$285 and a gain of \$85 on revaluation of the Bridge Loan Agreement derivative liability, respectively.

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

(d) Convertible Debentures - \$10M Convertible Note

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

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

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

Cansortium Inc.**Notes to the Unaudited Condensed Interim Consolidated Financial Statements****For the three and six months ended June 30, 2019 and June 30, 2018***(Amounts expressed in thousands of United States Dollars unless otherwise stated)***10. DERIVATIVE LIABILITY (Continued)****(d) Convertible Debentures - \$10M Convertible Note (Continued)**

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

	<u>2019</u>
Volatility	60.00%
Risk-free interest rate	2.43%
Expected life (years)	1.5 -2 years
Share price	\$2.00
Exercise price	\$2.00

Upon initial recognition, the Company recorded a derivative liability and debt discount of \$4,302 in relation to the derivative liability portion of the Convertible Note. See note 11 for further details. During the three and six months ended June 30, 2019, the Company recorded a gain of \$1,244 and \$357 on revaluation of the 10M Convertible Note derivative liability, respectively.

11. NOTES PAYABLE

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

	<u>June 30,</u> <u>2019</u>	<u>December 31,</u> <u>2018</u>
Machinery and equipment loan (a)	\$ 39	\$ 46
Automobile loan (b)	121	134
Notes payable (c)	12,561	53,193
Convertible debentures (d)	24,395	-
Total notes payable	37,116	53,373
Less current portion of notes payable	(26,792)	(51,463)
Notes payable, net of current portion	\$ 10,324	\$ 1,910

(a) Machinery and Equipment Loan

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

(b) Automobile Loan

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

11. NOTES PAYABLE (Continued)

(c) Notes Payable

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

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

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

On November 30, 2018, the Company entered into a note payable agreement in the amount of \$1,800, in exchange for cash receipts of \$1,495,000 maturing the earlier of March 25, 2019 or 30 days after the completion of the Company's initial public offering listing on the Canadian Securities Exchange (the "Go Public Transaction"). The outstanding note payable balance was repaid by the Company on February 15, 2019.

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

Cansortium Inc.

Notes to the Unaudited Condensed Interim Consolidated Financial Statements

For the three and six months ended June 30, 2019 and June 30, 2018

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11. NOTES PAYABLE (Continued)

(d) Convertible Debentures

October and November 2017 Convertible Debentures

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

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

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

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

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

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

February 2019 Convertible Debentures

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

Cansortium Inc.

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

11. NOTES PAYABLE (Continued)

(d) Convertible Debentures (Continued)

February 2019 Convertible Debentures (Continued)

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

In connection with the issuance of the above Convertible Debentures, the Company paid cash of \$92 for debt issuance fees and recorded interest expense of \$25 and accretion expense of \$1,014 for the three months ended March 31, 2019.

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

In connection with the issuance of the above Convertible Debentures, the Company paid cash of \$600 for debt issuance fees and recorded interest expense of \$150 and \$300 and accretion expense of \$586 and \$950 for the three and six months ended June 30, 2019, respectively.

May 2019 Convertible Debentures

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

In connection with the issuance of the above Convertible Debentures, the Company paid cash of \$1,172 for debt issuance fees and recorded interest expense of \$172 and accretion expense of \$946 for the three months ended June 30, 2019.

Cansortium Inc.

Notes to the Unaudited Condensed Interim Consolidated Financial Statements

For the three and six months ended June 30, 2019 and June 30, 2018

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

11. NOTES PAYABLE (Continued)

(d) Convertible Debentures (Continued)

May 2019 Convertible Debentures (Continued)

At the subscription of the 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 Convertible Debentures. The expiry of the Subscription Warrants is 2 years from the issue date of the Convertible Debentures.

The Agent will receive a cash fee equal to 4% of the gross receipt of the debenture issued in the offering. The Agent will receive 478,933 shares at an exercise price of \$2.10 any time until the 24th month anniversary. 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.

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

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

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

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

Cansortium Inc.

Notes to the Unaudited Condensed Interim Consolidated Financial Statements

For the three and six months ended June 30, 2019 and June 30, 2018

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

11. NOTES PAYABLE (Continued)

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

	Convertible debentures	Derivative liability	Equity conversion feature	Warrants	Expense
As of January 1, 2018	\$ 3,849	\$ 1,014	\$ -	\$ 296	\$ -
Accretion expense	895	-	-	-	(895)
Fair value change in derivative liability	-	2,939	-	-	(2,939)
Conversion of convertible debentures to equity	(4,744)	(3,953)	-	-	-
As of December 31, 2018	\$ -	\$ -	\$ -	\$ 296	\$ (3,834)
As of January 1, 2019	\$ -	\$ -	\$ -	\$ 296	\$ -
Fair value of convertible debentures on issuance date	30,494	-	-	8,480	-
Fair value of derivative liabilities value on issuance date	(5,315)	4,932	-	-	-
Fair value of equity conversion feature on issuance date	(341)	-	341	-	-
Cash paid for debt issuance fees	(1,523)	-	-	-	-
Accretion expense	2,910	-	-	-	(2,910)
Fair value change in derivative liability	-	(442)	-	-	-
Conversion of warrants	-	-	-	(90)	-
Convertible debentures repayment	(1,830)	-	-	-	-
As of June 30, 2019	\$ 24,395	\$ 4,490	\$ 341	\$ 8,686	\$ (2,910)

12. LEASES

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

(a) Right-of-use Assets

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

	Manufacturing equipment	Buildings	Total
Balance as of December 31, 2018	\$ -	\$ -	\$ -
Additions (IFRS 16)	347	17,081	17,428
Balance as of June 30, 2019	347	17,081	17,428
Balance as of December 31, 2018	\$ -	\$ -	\$ -
Accumulated depreciation (IFRS 16)	54	2,582	2,636
Additions	46	927	973
Balance as of June 30, 2019	100	3,509	3,609
Right-of-use-assets	\$ 247	\$ 13,572	\$ 13,819

Cansortium Inc.**Notes to the Unaudited Condensed Interim Consolidated Financial Statements****For the three and six months ended June 30, 2019 and June 30, 2018***(Amounts expressed in thousands of United States Dollars unless otherwise stated)***12. LEASES (Continued)****(b) Lease Liabilities**

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

	June 30, 2019
Balance as of December 31, 2018	\$ -
Effect of adoption of IFRS 16, January 1, 2019	16,020
Interest on lease liabilities	670
Interest payments on lease obligations	(670)
Principal payments on lease obligations	(635)
Balance as of June 30, 2019	\$ 15,385
Less current portion of lease obligations	(1,423)
Lease obligations, net of current portion	\$ 13,962

(c) Future Minimum Lease Payments

The Company leases certain business facilities from third parties under operating lease agreements that specify minimum rentals. The leases expire through 2029 and contain certain renewal provisions. The Company's rent expense for the three and six months ended June 30, 2019 were \$1,215 and \$2,353, respectively. The Company's rent expense for the three and six months ended June 30, 2018 were \$216 and \$286, respectively. Future minimum lease payments under non-cancelable operating leases having an initial or remaining term of more than one year are as follows:

For the twelve months period ending June 30,	Scheduled payments
2019	\$ 2,999
2020	2,431
2021	2,306
2022	2,060
2023	1,839
Thereafter	7,243
Total future minimum lease payments	\$ 18,878

Cansortium Inc.

Notes to the Unaudited Condensed Interim Consolidated Financial Statements

For the three and six months ended June 30, 2019 and June 30, 2018

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

13. SHAREHOLDERS' EQUITY

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

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

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

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

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

During the six months ended June 30, 2018, the Company issued 23,637 member units of Cansortium Holdings valued at \$65 for third-party related services.

During the six months ended June 30, 2018, the Company issued 3,372,469 member units for cash proceeds of \$9,274.

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

During the six months ended June 30, 2018, the Company converted the convertible notes payable of \$3,944, accrued interest of \$262 and derivative liability of \$3,287 for 2,804,243 conversion units

Cansortium Inc.**Notes to the Unaudited Condensed Interim Consolidated Financial Statements****For the three and six months ended June 30, 2019 and June 30, 2018***(Amounts expressed in thousands of United States Dollars unless otherwise stated)***13. SHAREHOLDERS' EQUITY (Continued)****Share capital**

The share capital of the Company is comprised of 77,850,911 common shares, 11,564,455 proportionate voting shares (each proportionate voting share is convertible into ten common shares), 49,729,281 warrants and convertible debt allotments and 1,182,106 stock options as of June 30, 2019.

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

	Three months ended		Six months ended	
	June 30, 2019	June 30, 2018	June 30, 2019	June 30, 2018
Weighted average number of shares - basic	168,200,499	127,154,861	177,839,267	128,852,914
Weighted average warrants	26,828,637	-	18,071,296	-
Weighted average convertible debt allotment	10,430,847	-	7,599,886	-
Weighted average options	1,182,106	-	653,097	-
Weighted average number of shares - diluted	206,642,090	127,154,861	204,163,546	128,852,914

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 six months ended June 30, 2019 is as follows:

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

As of June 30, 2019, there was approximately \$167 of total unrecognized employee compensation cost related to non-vested time-based restricted shares that should be recognized as expense over a period of 15 months.

As of June 30, 2019, there was approximately \$4,680 of total unrecognized compensation cost related to non-vested restricted shares issued for professional services that are expected to be recognized as expense over a period between 6 months and 2 years.

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

Cansortium Inc.

Notes to the Unaudited Condensed Interim Consolidated Financial Statements

For the three and six months ended June 30, 2019 and June 30, 2018

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

13. SHAREHOLDERS' EQUITY (Continued)

Restricted shares (Continued)

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

Stock Option Plan

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

The term of an option grant is determined by the Board up to a maximum of 5 years from the grant date. Stock options granted generally vest over two to five years.

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

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

During the three and six months ended June 30, 2019, the Company recognized \$142 and \$738 as stock-based compensation in the statement of operations with corresponding credit to equity (share-based compensation option reserve), respectively. This expense was calculated based on the vesting conditions of each grant.

As at June 30, 2019, there were 1,182,106 options outstanding, comprising of 682,106 options vested and 500,000 options non-vested, with remaining contractual lives of 6 months.

Cansortium Inc.**Notes to the Unaudited Condensed Interim Consolidated Financial Statements****For the three and six months ended June 30, 2019 and June 30, 2018***(Amounts expressed in thousands of United States Dollars unless otherwise stated)***14. EXPENSE BY NATURE**

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

	For the three months		For the six months	
	ended June 30,		ended June 30,	
	2019	2018	2019	2018
General and administrative				
Salaries and benefits	1,826	680	4,076	1,117
Legal and professional fees	2,662	720	9,570	1,416
Rent expenses	156	205	737	422
Travel and entertainment	145	78	301	215
Insurance	174	16	216	27
Other	406	64	122	472
Total general and administrative	\$ 5,369	\$ 1,763	\$ 15,022	\$ 3,669

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

	For the three months		For the six months	
	ended June 30,		ended June 30,	
	2019	2018	2019	2018
Sales and marketing				
Salaries and benefits	1,691	19	3,271	19
Security	324	30	883	58
Marketing expenses	163	49	277	105
Rent expenses	296	33	213	58
Legal and professional fees	60	11	161	11
Other	171	94	818	120
Total sales and marketing	\$ 2,705	\$ 236	\$ 5,623	\$ 371

15. COMMITMENTS AND CONTINGENCIES**(a) Purchase Commitments**

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

(b) Contingencies

The Company's operations are subject to a variety of local and state regulation. Failure to comply with one or more of those regulations could result in fines, restrictions on its operations, or losses of permits that could result in the Company ceasing operations. While management of the Company believes that the Company is in compliance with applicable local and state regulation as of June 30, 2019, medical marijuana regulations continue to evolve and are subject to differing interpretations. As a result, the Company may be subject to regulatory fines, penalties, or restrictions in the future.

(c) Claims and Litigation

From time to time, the Company may be involved in litigation relating to claims arising out of operations in the normal course of business. As of June 30, 2019, there were no pending or threatened lawsuits that could reasonably be expected to have a material effect on the results of the Company's operations. 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.

16. RELATED-PARTY TRANSACTIONS***Key management personnel compensation***

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

	For the three months ended June 30,		For the six months ended June 30,	
	2019	2018	2019	2018
Salary	\$ 497,307	\$ 383,331	\$ 910,833	\$ 775,000
Option-based compensation	-	-	46,845	-
All other compensation	12,433	7,196	26,705	13,673
	<u>\$ 509,740</u>	<u>\$ 390,527</u>	<u>\$ 984,383</u>	<u>\$ 788,673</u>

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

Cansortium Inc.

Notes to the Unaudited Condensed Interim Consolidated Financial Statements

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

16. RELATED-PARTY TRANSACTIONS (Continued)

Transactions with related parties

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

The Company purchases material from Knox Nursery Inc., a company owned by a member of the Company until August 15, 2018. Total purchases during the three and six months ended June 30, 2019 were \$216 and \$293, respectively. Total purchases during the three and six months ended June 30, 2018 were approximately \$80 and \$112, respectively. The balances due to this entity as of June 30, 2019 and December 31, 2018 were approximately \$9 and \$144, respectively, and were included in accounts payable.

17. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

Financial Instruments

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

Financial Assets

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

Financial Liabilities

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

Cansortium Inc.**Notes to the Unaudited Condensed Interim Consolidated Financial Statements****For the three and six months ended June 30, 2019 and June 30, 2018***(Amounts expressed in thousands of United States Dollars unless otherwise stated)***17. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (Continued)****Financial Instruments (Continued)**

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

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

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

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

	June 30, 2019			
	Level 1	Level 2	Level 3	Total
Cash	\$ 21,376	\$ -	\$ -	\$ 21,376
Derivative liabilities	\$ -	\$ 11,015	\$ -	\$ 11,015
Current portion of notes payable	\$ -	\$ -	\$ 26,792	\$ 26,792
Lease obligations	\$ 1,423	\$ -	\$ -	\$ 1,423
Notes payable, net of current portion	\$ 10,324	\$ -	\$ -	\$ 10,324
Lease obligations, net of current portion	\$ 13,962	\$ -	\$ -	\$ 13,962

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

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

Cansortium Inc.**Notes to the Unaudited Condensed Interim Consolidated Financial Statements****For the three and six months ended June 30, 2019 and June 30, 2018***(Amounts expressed in thousands of United States Dollars unless otherwise stated)***17. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (Continued)****Financial Instruments (Continued)**

The following table summarizes the Company's financial instruments as of June 30, 2019 and December 31, 2018:

	June 30, 2019		December 31, 2018	
	Fair value	Carrying value	Fair value	Carrying value
Financial assets:				
Amortized cost				
Cash	\$ 21,375	\$ 21,375	\$ 2,026	\$ 2,026
Accounts receivable	\$ 166	\$ 166	\$ 62	\$ 62
Financial liabilities:				
Amortized cost				
Accounts payable	\$ 5,866	\$ 5,866	\$ 4,910	\$ 4,910
Accrued expenses	\$ 3,137	\$ 3,137	\$ 3,936	\$ 3,936
Income taxes payable	\$ 1,406	\$ 1,406	\$ -	\$ -
Current portion of notes payable	\$ 26,792	\$ 26,792	\$ 51,463	\$ 51,463
Lease obligations	\$ 1,423	\$ 1,423	\$ -	\$ -
Other current liabilities	\$ 1,379	\$ 1,379	\$ 1,350	\$ 1,350
Notes payable, net of current portion	\$ 10,324	\$ 10,324	\$ 1,910	\$ 1,910
Lease obligations, net of current portion	\$ 13,962	\$ 13,962	\$ -	\$ -
Other long-term liabilities	\$ 1,397	\$ 1,397	\$ 451	\$ 451
Derivative liabilities	\$ 11,015	\$ 11,015	\$ 9,242	\$ 9,242

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 June 30, 2019 is the carrying amount of cash and accounts receivable. All cash is placed with major U.S. financial institutions. Credit risk from due from accounts receivable arises from the possibility that amounts due become uncollectible.

(b) Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations associated with financial liabilities. The Company manages liquidity risk through the management of its capital structure. The Company's approach to managing liquidity is to ensure that it will have sufficient liquidity to settle obligations and liabilities when due.

Cansortium Inc.**Notes to the Unaudited Condensed Interim Consolidated Financial Statements****For the three and six months ended June 30, 2019 and June 30, 2018***(Amounts expressed in thousands of United States Dollars unless otherwise stated)***17. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (Continued)****Financial Instruments (Continued)****(b) Liquidity Risk (Continued)**

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

	<u>< 1 year</u>	<u>1 to 3 years</u>	<u>3 to 5 years</u>	<u>Total</u>
Accounts payable	\$ 5,866	\$ -	\$ -	\$ 5,866
Accrued expenses	\$ 3,137	\$ -	\$ -	\$ 3,137
Income taxes payable	\$ 1,406			
Notes payable	\$ 8,353	\$ 28,686	\$ 77	\$ 37,116
Lease obligations	\$ 1,423	\$ 5,132	\$ 8,830	\$ 15,385

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

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

(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 June 30, 2019 and December 31, 2018, the Company had no hedging agreements in place with respect to foreign exchange rates. The Company has not entered into any agreements or purchased any instruments to hedge possible currency risks at this time.

(ii) Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company's financial debts have fixed rates of interest and therefore expose the Company to a limited interest rate fair value risk.

(iii) Price Risk

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

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

Financial Risk Management *(Continued)*

(d) Banking Risk

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

(e) Asset Forfeiture Risk

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

18. SUBSEQUENT EVENTS

On November 23, 2017, the Company entered into an agreement of purchase and sale for the acquisition of land for a 54-acre property on which the Grimsby Facility will be expanded to for a purchase price of \$750 thousands of Canadian dollars. This acquisition closed on March 15, 2019. To allow for the best and most efficient use for its Canadian operations, the Company also entered into a lease agreement for 130,000 square feet of existing greenhouses for a base rent of \$81 thousands of Canadian dollars plus taxes per month and has an option to purchase such property for \$3,100 thousands of Canadian dollars. This option is expected to close on or around November 29, 2019, unless extended.