Cansortium Inc.

Consolidated Financial Statements

For the years ended
December 31, 2019 and 2018

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

To the Shareholders of Cansortium Inc.:

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

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

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

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

Neal Hochberg	Henry Batievsky
Executive Chairman	**Chief Financial Officer**

May 18, 2020

Independent Auditor's Report

To the Shareholders of Cansortium Inc.:

Opinion

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

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

Basis for Opinion

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

Material Uncertainty Related to Going Concern

We draw attention to Note 1 of the consolidated financial statements, which indicates that the Company had a net loss of $65,645,000 and had negative cash flows from operations of $22,679,000 during the year ended December 31, 2019 and, as of that date, had an accumulated deficit of $123,785,000 as at December 31, 2019. These conditions, along with the other matters set forth in Note 1, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Emphasis of Matter - Restated Comparative Information

We draw attention to Note 22 to the consolidated financial statements, which explains that certain comparative information for the year ended December 31, 2018 has been restated. Our opinion is not modified in respect of this matter.

The consolidated financial statements for the year ended December 31, 2018 excluding the adjustments that were applied to restate certain comparative information were audited by another auditor who expressed an unmodified opinion on those financial statements on April 30, 2019.

As part of our audit of the consolidated financial statements for the year ended December 31, 2019, we also audited the adjustments applied to restate certain comparative information presented. In our opinion, such adjustments are appropriate and have been properly applied.

Other than with respect to the adjustments that were applied to restate certain comparative information, we were not engaged to audit, review, or apply any procedures to the consolidated financial statements for the year ended December 31, 2018. Accordingly, we do not express an opinion or any other form of assurance on those consolidated financial statements taken as a whole.

Emphasis of Matter - Change in Accounting Policy

We draw attention to Note 2 (aa) to the consolidated financial statements, which explains that the Company has changed its accounting policy for leases during 2019 due to the adoption of IFRS 16, Leases, and has applied that change using a modified retrospective approach. Our opinion is not modified with respect of this matter.

Other Information

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

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

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

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

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

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

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

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

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

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

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

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

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

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

MNP LLP

Mississauga, Ontario

Chartered Professional Accountants

May 18, 2020

Licensed Public Accountants

MNP

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

		December 31, 2019	Restated (Note 22) December 31, 2018
Assets			
Current assets			
Cash and cash equivalents		$ 2,516	$ 2,026
Accounts receivable		144	62
Inventory	*Note 3*	6,709	2,837
Biological assets	*Note 4*	3,845	2,549
Note receivable	*Note 5*	3,870	-
Prepaid expenses and other current assets	*Note 6*	556	543
Total current assets		17,640	8,017
Assets held for sale	*Note 7*	6,301	-
Property and equipment, net	*Note 8*	19,128	18,573
Intangible assets, net	*Note 9*	98,566	105,657
Right-of-use assets	*Notes 2, 15*	20,190	-
Investment in associate	*Note 10*	3,424	-
Goodwill	*Note 11*	1,526	7,498
Other assets		291	721
Total assets		**$ 167,066**	**$ 140,466**
Liabilities			
Current liabilities			
Accounts payable		$ 7,860	$ 4,910
Accrued liabilities		5,135	3,936
Income taxes payable	*Note 12*	1,492	-
Derivative liabilities	*Note 13*	13,198	10,810
Current portion of notes payable	*Note 14*	9,350	43,845
Lease obligations	*Notes 2, 15*	1,761	-
Other current liabilities		-	1,350
Total current liabilities		38,796	64,851
Liabilities held for sale	*Note 7*	3,240	-
Notes payable, net of current portion	*Note 14*	31,053	9,454
Lease obligations, net of current portion	*Notes 2, 15*	21,166	-
Deferred income taxes	*Note 12*	24,957	-
Other long-term liabilities		676	450
Total liabilities		**119,888**	**74,755**
Shareholders' equity			
Share capital	*Note 16*	149,322	91,655
Share-based compensation reserve	*Note 16*	2,977	-
Equity conversion feature	*Note 14*	7,613	-
Warrants		11,773	296
Accumulated deficit		(123,785)	(25,237)
Accumulated other comprehensive loss		(563)	(488)
Total shareholders' equity attributable to Cansortium Inc. shareholders		47,337	66,226
Non-controlling interests		(159)	(515)
Total shareholders' equity		47,178	65,711
Total liabilities and shareholders' equity		**$ 167,066**	**$ 140,466**

Nature of Operations *(Note 1)*
Commitments and Contingencies *(Note 18)*
Subsequent Events *(Note 21)*

Approved and authorized for issue on behalf of the Shareholders on May 18, 2020:

Neal Hochberg
Board Chairman

Henry Batievsky
Chief Financial Officer

Cansortium Inc.
Consolidated Statements of Operations
For the years ended December 31, 2019 and 2018
(Amounts expressed in thousands of United States Dollars unless otherwise stated)

		For the years ended December 31, 2019	Restated (Note 22) 2018
Revenue, net of discounts		$ 28,511	$ 8,061
Cost of goods sold		10,596	6,447
Gross profit before fair value adjustments		17,915	1,614
Realized fair value of increments on inventory sold		9,594	1,612
Unrealized change in fair value of biological assets	*Note 4*	(9,735)	(2,866)
Gross profit		18,056	2,868
Expenses			
General and administrative	*Note 17*	21,720	16,094
Share-based compensation		7,161	963
Sales and marketing		12,165	4,333
Depreciation and amortization	*Notes 8, 9*	7,869	1,729
Total expenses		48,915	23,119
Loss from operations		(30,859)	(20,251)
Discontinued operations	*Note 7*	12,415	-
Other expense (income)			
Interest expense, net	*Notes 14*	14,811	3,794
Change in fair market value of derivative	*Notes 13, 14*	(328)	4,519
Loss (gain) on investment in associate	*Note 10*	353	(2,761)
Gain in fair market value of investment in associate	*Note 11*	-	(25,693)
Loss on disposal of assets		2,909	570
Other expense		462	374
Total other expense (income)		18,207	(19,197)
Loss before taxes		(61,481)	(1,054)
Income taxes	*Note 12*	4,164	-
Net loss		(65,645)	(1,054)
Net loss attributable to non-controlling interest		(313)	(727)
Net loss attributable to controlling interest		$ (65,332)	$ (327)
Net loss per share			
Basic	*Note 16*	$ (0.35)	$ (0.01)
Diluted	*Note 16*	$ (0.35)	$ (0.01)

Cansortium Inc.
Consolidated Statements of Changes in Shareholders' Equity
For the years ended December 31, 2019, and 2018
(Amounts expressed in thousands of United States Dollars unless otherwise stated)

	Share capital			Reserves						
	Number of unrestricted common shares	Number of restricted common shares	Amount	Share-based compensation reserve	Equity conversion feature	Warrants	Accumulated deficit	Non-controlling interests	Accumulated other comprehensive income (loss)	Total shareholders' equity
Balance, December 31, 2017	**125,456,808**	**-**	**$ 32,970**	**$ -**	**$ -**	**$ 296**	**$ (21,274)**	**$ (210)**	**$ 5**	**$ 11,787**
Issuance of shares	8,016,591	-	22,046	-	-	-	-	-	-	22,046
Issuance of shares to acquire additional non-controlling interest of subsidiaries	6,547,748	8,212,182	18,006	-	-	-	(1,554)	422	-	16,874
Shares issued for professional services	812,583	2,822,850	2,235	-	-	-	-	-	-	2,235
Issuance of shares for employee compensation	172,413	131,818	492							492
Debentures Conversion	3,373,033	-	4,910	-	-	-	-	-	-	4,910
Shares to be issued, see Note 11(b)	-	-	11,341	-	-	-	-	-	-	11,341
Foreign currency gain on translation	-	-	-	-	-	-	-	-	(493)	(493)
Distribution to initial investors	-	-	-	-	-	-	(600)	-	-	(600)
Net income (loss)	-	-	-	-	-	-	6,741	(727)	-	6,014
Balance, December 31, 2018, as previously reported	**144,379,176**	**11,166,850**	**$ 92,000**	**$ -**	**$ -**	**$ 296**	**$ (16,687)**	**$ (515)**	**$ (488)**	**$ 74,606**
Restatement to accumulated defict (Note 22)	-	-	-	-	-	-	(1,482)	-	-	(1,482)
Restatement to net income (Note 22)	-	-	(345)	-	-	-	(7,068)	-	-	(7,413)
Balance, December 31, 2018, as restated	**144,379,176**	**11,166,850**	**$ 91,655**	**$ -**	**$ -**	**$ 296**	**$ (25,237)**	**$ (515)**	**$ (488)**	**$ 65,711**
Adjustment on initial application of IFRS 16, see Note 2(i)	-	-	-	-	-	-	(1,261)	-	-	(1,261)
Deferred income tax adjustment, see Note 11	-	-	-	-	-	-	(22,286)	-	-	(22,286)
Issuance of shares	28,089,099	-	40,944	-	5,091	9,892	-	-	-	55,927
Issuance of shares to acquire additional non-controlling interest of subsidiaries	5,013,161	(648,545)	9,000	-	-	-	(9,669)	669	-	-
Shares issued for professional services	208,432	-	374	-	-	-	-	-	-	374
Vesting of employee compensation shares	84,091	(84,091)	231	-	-	-	-	-	-	231
Vesting of professional services shares	437,113	(437,113)	3,458	-	-	-	-	-	-	3,458
Vesting of shares issued to acquire Green Standard assets, see Note 10	1,000,000	(1,000,000)	1,180	-	-	-	-	-	-	1,180
Shares forfeited	(66,667)	(50,000)	(50)	-	-	-	-	-	-	(50)
Issuance of shares, see Note 11(b)	4,124,166	-	-	-	-	-	-	-	-	-
Issuance of options	-	-	-	2,639	-	-	-	-	-	2,639
Conversion of notes payable to equity	1,220,000	-	2,440	-	-	-	-	-	-	2,440
Conversion of warrants	59,790	-	90	-	-	(90)	-	-	-	-
Issuance of warrants	-	-	-	338	2,522	1,675	-	-	-	4,535
Foreign currency gain on translation	-	-	-	-	-	-	-	-	(75)	(75)
Net loss	-	-	-	-	-	-	(65,332)	(313)	-	(65,645)
Balance, December 31, 2019	**184,548,361**	**8,947,101**	**$ 149,322**	**$ 2,977**	**$ 7,613**	**$ 11,773**	**$ (123,785)**	**$ (159)**	**$ (563)**	**$ 47,178**

Cansortium Inc.
Consolidated Statements of Cash Flow
For the years ended December 31, 2019, and 2018
(Amounts expressed in thousands of United States Dollars unless otherwise stated)

	For the Year Ended December 31, 2019	Restated (Note 22) 2018
Operating activities		
Net loss	$ (65,645)	$ (1,054)
Adjustments to reconcile net loss to net cash used in operating activities:		
Share-based compensation	6,652	3,690
Depreciation and amortization	8,871	2,599
Unrealized gain on changes in fair value of biological assets	(9,735)	(2,866)
Accretion of convertible debentures	5,578	895
Discontinued operations	12,415	-
Change in fair market value of derivative	(328)	4,519
Loss (gain) on investment in associate	353	(2,761)
Loss of disposal of property and equipament	2,909	570
Gain in fair market value of investment in associate	-	(25,693)
Interest on lease liabilities	2,281	-
Deferred tax expense	2,671	-
Changes in operating assets and liabilities:		
Accounts Receivable	(165)	(30)
Inventory	(4,026)	27
Biological assets	8,439	1,762
Prepaid expenses and other current assets	(506)	148
Other assets	403	(713)
Accounts payable	3,565	1,743
Accrued liabilities	2,487	3,398
Income taxes	1,492	-
Other current liabilities	(1,261)	-
Other liabilities	870	1,747
Net cash used in operating activities	(22,680)	(12,019)
Investing activities		
Purchases of property and equipment	(13,844)	(9,529)
Purchase of intangible assets	(319)	(219)
Notes receivable	(3,870)	-
Business acquisitions, net of cash acquired	-	(88)
Net cash used in investing activities	(18,033)	(9,836)
Financing activities		
Proceeds from IPO	50,836	-
Proceeds from issuance of shares	-	22,046
Proceeds from issuance of notes payable	37,584	1,495
Proceeds from sale of property and equipment	204	-
Distribution to initial investors	-	(600)
Payment of lease obligations	(3,500)	-
Payment of business acquisition contractual obligation	-	(1,150)
Principal repayments of notes payable	(43,840)	(448)
Net cash provided by financing activities	41,284	21,343
Effect of foreign exchange on cash and cash equivalents	(75)	(495)
Net increase in cash and cash equivalents	496	(1,007)
Cash and cash equivalents, beginning of period	2,026	3,033
Cash and cash equivalents, end of period	$ 2,522	$ 2,026
Cash	$ 2,516	$ 2,026
Cash included in assets held for sale	6	-
Total cash	$ 2,522	$ 2,026
Cash paid during the period for interest	$ 4,144	$ 641
Non-cash transactions:		
Notes payable issued to acquire additional non-controlling interest of subsidiary	$ -	$ 50,199
Issuance of shares to acquire additional non-controlling non-controlling interest of subsidiary	$ 9,000	$ 11,341
Issuance of equity for business acquisition	$ -	$ 16,874
Issuance of shares for investment in Green Standard	$ 3,777	$ -
Future equity price guarantee	$ 2,597	$ 3,561
Conversion of capital contributions to notes payable	$ -	$ 1,809
Conversion of accrued interest and notes payable to equity	$ 2,440	$ 4,910

1. NATURE OF OPERATIONS

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

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

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

The Company through its subsidiaries, is licensed to produce and sell medical cannabis in Puerto Rico and Canada, secured licenses to operate a seed bank and to produce and export medical cannabis in Colombia and is licensed and operates an industrial hemp production facility in Canada.

Knox Servicing, LLC ("Knox Servicing"), subsidiary formed in 2015 for the purpose of cultivating, manufacturing and retailing in the cannabis industry, operates cultivation and production facilities in Florida, producing various products ranging from oral drops, capsules, suppositories, topicals, syringes, dried flower, pre-roll and cartridges. On August 15, 2018, the Company acquired the remaining interest in Knox Servicing, becoming the sole owner (see Note 11). During 2019, Knox Servicing changed its name to Fluent Servicing, LLC ("Fluent Servicing"). Fluent Servicing owned and operated eighteen dispensaries in the state of Florida as of December 31, 2019.

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

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

During the year ended December 31, 2019, the Company discontinued its operations in Puerto Rico, Canada and Colombia and, as a result, classified the assets and liabilities associated with these operations as held for sale, measured at the lower of carrying amount and fair value less costs to sell, and has disclosed such assets separately in the statement of financial position (See Note 7). Discontinued operations are excluded from the results of continuing operations and are presented as a single amount in the consolidated statements of operations.

All of the Company's operations are in one segment, the production and sale of medical cannabis. All revenues for the years ended December 31, 2019 and 2018 were generated in the United States.

1. NATURE OF OPERATIONS *(Continued)*

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

The Company has recorded a net loss of $65,645 on its consolidated statement of operations, a negative cash flows from operations of $22,679 during the year ended December 31, 2019 and, as of that date, the Company had an accumulated deficit in the amount of $123,785. These events or conditions indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Preparation

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

These consolidated financial statements were approved and authorized for issue by the Board of Directors of the Company on May 18, 2020.

(b) Basis of Measurement

The consolidated financial statements have been prepared on the going concern basis, under the historical cost convention except for certain financial assets, liabilities and biological assets that are measured at fair value 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 11).

(c) Functional and Presentation of Foreign Currency

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

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

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

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

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

(d) Basis of Consolidation

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

	% Ownership December 31, 2019	% Ownership December 31, 2018
Cansortium Holdings LLC	100.00%	100.00%
Cansortium Puerto Rico, LLC (see Note 16)	100.00%	100.00%
Cansortium Texas, LLC	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 16)	100.00%	60.00%
Cansortium Pennsylvania, LLC (see Note 16)	100.00%	70.00%
Cansortium Brazil, Ltda. (see Note 16)	100.00%	100.00%
Cansortium Australia Pty. Ltd	84.51%	84.51%
Cansortium Health Partners, LLC (see Note 16)	100.00%	100.00%
Cansortium Florida, LLC	100.00%	100.00%
Fluent Servicing, LLC (see Note 11)	100.00%	100.00%
Cansortium Colombia S.A.S (see Note 11)	100.00%	100.00%
Arcadia EcoEnergies, Ltd. (see Note 11)	52.00%	52.00%
Spirit Lake Road Nursery, LLC (see Note 11)	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%

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

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

(d) Basis of Consolidation *(Continued)*

	% Ownership December 31, 2019	% Ownership December 31, 2018
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%

(e) Cash and cash equivalents

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

(f) Inventory

Inventory of harvested work-in-progress and finished goods are valued at the lower of cost or net realizable value. Cost is determined using the average cost method. Net realizable value is determined as the estimated selling price in the ordinary course of business less estimated costs to completion and the estimated costs to sell. All subsequent direct and indirect postharvest costs are capitalized to inventory at cost, as incurred, including labor related costs, consumables, materials, packaging supplies, utilities, facilities costs, quality and testing costs, and production related depreciation. The Company reviews inventory for obsolete, redundant and slow-moving goods and any such inventory is written down to net realizable value. The Company determined that no inventory reserve was necessary as of December 31, 2019. As of December 31, 2018, the Company determined that an inventory reserve of $350 was necessary.

(g) Biological Assets

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

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

(h) Assets Held for Sale

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

(i) Business Combinations

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

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

(j) Investment

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

On August 15, 2018, the Company acquired the remaining ownership of Fluent Servicing which changed the accounting method of its investment in Fluent Servicing from equity to full consolidation (see Note 11).

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

(k) Property and Equipment, net

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

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

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

(l) Right of Use Assets and Lease Obligations

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

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

After the commencement date, the Company recognizes depreciation and impairment of the right-of-use asset and the interest on the lease liability in the consolidated statement of operations. Right of use assets depreciation is calculated based on estimated useful life range from 1 to 11 years.

(m) Non-controlling Interests

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

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

(n) Intangible Assets

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

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

Asset type	Amortization term
Customer relationship	10 years
Trademarks and brands	5 years
Non-compete agreements	5 years

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

(o) Goodwill

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

(p) Impairment of Non-Financial Assets

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

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

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

(q) Derivative Liabilities

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

(r) Income Taxes

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

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

During the year ended December 31, 2018 and the period from January 1, 2019 to March 22, 2019, date of acquisition of the shares of Cansortium Holdings, LLC and the Company's initial public offering and listing on the CSE (see Note 1), certain of the Company's subsidiaries were subject to income taxes, however there were no material current or deferred taxes associated with such entities for these periods as the Company was a limited liability company treated as a partnership for federal income tax purposes until March 22, 2019. Under federal law, the taxable income or loss of a limited liability company is allocated to its members.

Current Tax

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

Deferred Tax

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

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

(s) Revenue

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

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

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

(t) Shared-Based Compensation

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

(u) Share Issuance Costs

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

(v) Basic and Diluted Net Loss per Share

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

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

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

Recognition and Initial Measurement

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

Classification and Subsequent Measurement

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

Financial assets are classified as follows:

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

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

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

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

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

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

Business Model Assessment

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

Contractual Cash Flow Assessment

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

Impairment

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

The Company assesses whether a financial asset is credit-impaired at the reporting date. Regular indicators that a financial instrument is credit-impaired include significant financial difficulties as evidenced through borrowing patterns or observed balances in other accounts and breaches of borrowing contracts such as default events or breaches of borrowing covenants. For the years ended December 31, 2019, and 2018, the Company had no credit-impaired financial assets.

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

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

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

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

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

Derecognition of Financial Assets

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

Financial Liabilities

Recognition and Initial Measurement

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

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

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

Classification and Subsequent Measurement

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

Derecognition of financial liabilities

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

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

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

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

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

(z) Critical Accounting Judgments, Estimates and Assumptions

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

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

(i) Biological Assets and Inventory

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

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

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

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

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

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

Goodwill and indefinite life intangible asset impairment testing require management to make estimates in the impairment testing model. On December 31st of every year, the Company tests whether goodwill and indefinite life intangible assets are impaired. Impairment of definite long-lived assets is influenced by judgment in defining a CGU and determining the indicators of impairment, and estimates used to measure impairment losses.

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

(iii) Derivative Liabilities

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

(iv) IFRS 16 – Leases

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

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

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

(v) Business Combinations

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

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

(aa) 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 was 11% defined based on the underlying jurisdictions and asset classes related risks.

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

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

(aa) New Standards Adopted in Current Year

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

A corresponding right of use asset of $16,255 was recognized in the consolidated statement of financial position as at January 1, 2019 at its carrying amount as if IFRS 16 had been applied since the commencement date, but discounted using the incremental borrowing rate at January 1, 2019.

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

		January 1, 2019
Assets		
Right-of-use assets	$	16,255
Liabilities		
Accrued expenses	$	(487)
Lease liability	$	18,003
Shareholders' equity		
Deficit	$	(1,261)

A reconciliation of the lease liability of $18,003 recognized as at January 1, 2019 lease liability is as follow:

Operating lease commitments as at December 31, 2018 - as restated	$27,704
Effect of discounting those lease commitments	(9,701)
Lease liability	**$18,003**

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 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.

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

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

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

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

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.

3. INVENTORY

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

	December 31, 2019	December 31, 2018
Supplies, packaging and materials	$ 702	$ 136
Work in progress	3,929	1,267
Finished goods	2,078	1,784
Inventory reserve	-	(350)
Balance at end of the year	**$ 6,709**	**$ 2,837**

Inventory expensed during the year ended December 31, 2019 and 2018 were $1,968 and $501, respectively. Salaries and benefits charged to cost of goods sold for the years ended December 31, 2019 were $3,561 and $744, respectively.

4. BIOLOGICAL ASSETS

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

	December 31, 2019	December 31, 2018
Balance at beginning of period	$ 2,549	$ -
Purchased as part of business acquisition	-	1,445
Cost incurred until harvest	5,791	333
Effect of unrealized change in fair value of biological assets	9,735	2,866
Transferred to inventory upon harvest	(14,230)	(2,095)
Balance at end of period	**$ 3,845**	**$ 2,549**

4. BIOLOGICAL ASSETS *(Continued)*

As of December 31, 2019 all biological assets were live plants.

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

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

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

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

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

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

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

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

As of December 31, 2019, the Company had 98,094 plants that were classified as biological assets.

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

5. NOTE RECEIVABLE

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

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

During the year ended December 31, 2019, the Company advanced $3,870 under the Green Standard Note. No payments were received during the year ended December 31, 2019.

6. PREPAID EXPENSES AND OTHER CURRENT ASSETS

Prepaid expenses and other current assets consisted of the following:

	December 31, 2019	December 31, 2018
Prepaid expenses	$ 341	$ 172
Security deposits held	161	135
Other current assets	54	236
Balance at end of year	**$ 556**	**$ 543**

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

7. ASSETS HELD FOR SALE

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

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

Following are the results for the discontinued operations for the year ended December 31, 2019:

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

7. ASSETS HELD FOR SALE *(Continued)*

Cansortium Colombia S.A.S

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

Cansortium Puerto Rico LLC

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

Additionally, Cansortium Puerto Rico net loss of $82 from December 13, 2019 to December 31, 2019 were recorded as loss from discontinued operations in the consolidated statements of operations.

Canadian Subsidiaries

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

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

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

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

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

Additionally, the Canadian Subsidiaries net loss of $109 from the date of the sale agreements to December 31, 2019 were recorded as loss from discontinued operations in the consolidated statements of operations.

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

8. PROPERTY AND EQUIPMENT

A reconciliation of the beginning and ending balances of property and equipment for years ended December 31, 2019 and 2018 is as follows:

	Land	Furniture and fixtures	Computer equipment	Manufacturing equipment	Leasehold improvements	Buildings	Construction in progress	Vehicles	Total
Cost									
Balance as of January 1, 2018	$ -	$ 219	$ 103	$ 1,053	$ 2,576	$ -	$ 74	$ 67	$ 4,092
Business acquisitions (restated - Note 22)	-	128	220	1,378	2,269	2,503	-	349	6,847
Additions	764	129	153	2,152	3,966	721	1,568	76	9,529
Construction completed	-	-	-	-	57	-	(57)	-	-
Disposals	-	(1)	(12)	(23)	(479)	-	-	-	(515)
Balance as of December 31, 2018	764	475	464	4,560	8,389	3,224	1,585	492	19,953
Accumulated depreciation									
Balance as of January 1, 2018	-	24	13	96	129	-	-	1	263
Additions (restated - Note 22)	-	44	93	321	568	16	-	22	1,064
Disposals	-	-	-	-	53	-	-	-	53
Balance as of December 31, 2018	-	68	106	417	750	16	-	23	1,380
Property and Equipment, Net	**$ 764**	**$ 407**	**$ 358**	**$ 4,143**	**$ 7,639**	**$ 3,208**	**$ 1,585**	**$ 469**	**$ 18,573**
Cost									
Balance as of January 1, 2019	$ 764	$ 475	$ 464	$ 4,560	$ 8,389	$ 3,224	$ 1,585	$ 492	$ 19,953
Additions	-	391	331	2,154	4,356	56	6,556	-	13,844
Construction completed	-	-	-	-	4,170	-	(4,170)	-	-
Assets held for sale (Note 7)	(53)	(219)	(151)	(1,969)	(2,380)	(2,896)	(320)	(61)	(8,049)
Disposals	(500)	-	(15)	(18)	(1,024)	(300)	(1,475)	-	(3,332)
Balance as of December 31, 2019	211	647	629	4,727	13,511	84	2,176	431	22,416
Accumulated depreciation									
Balance as of January 1, 2019	-	68	106	417	750	16	-	23	1,380
Additions	-	99	236	832	2,296	35	-	52	3,550
Assets held for sale (Note 7)	-	(61)	(54)	(552)	(586)	(55)	-	(6)	(1,314)
Disposals	-	-	(4)	(4)	(320)	-	-	-	(328)
Balance as of December 31, 2019	-	106	284	693	2,140	(4)	-	69	3,288
Property and equipment, net	**$ 211**	**$ 541**	**$ 345**	**$ 4,034**	**$ 11,371**	**$ 88**	**$ 2,176**	**$ 362**	**$ 19,128**

For the years ended December 31, 2019 and 2018, the Company charged $907 and $870 of depreciation to the production of inventory.

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

9. INTANGIBLE ASSETS

Intangible assets consist of cannabis licenses, acquired intellectual property at 1931074 Ontario, Inc, customer relationships, non-compete agreements and trademarks and brands. A reconciliation of the beginning and ending balances of intangible assets for the years ended December 31, 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	$ -	$ -	$ -	$ 1,115
Business acquisitions (restated - Note 22)	97,020	-	40	30	8,850	$ 105,940
Additions	219	-	-	-	-	219
Balance as of December 31, 2018	97,757	596	40	30	8,850	107,274
Balance as of January 1, 2018						
Accumulated amortization	82	-	-	-	-	82
Additions (restated - Note 22)	270	-	2	2	1,261	1,535
Balance as of December 31, 2018	352	-	2	2	1,261	1,617
Intangible assets, net	**$ 97,405**	**$ 596**	**$ 38**	**$ 28**	**$ 7,589**	**$ 105,657**
Balance as of January 1, 2019						
Cost	$ 97,757	$ 596	$ 40	$ 30	$ 8,850	$ 107,273
Additions	319	-	-	-	-	319
Assets held for sale (Note 7)	(1,563)	-	-	-	-	(1,563)
Disposals	(2,345)	(596)	(40)	(30)	-	(3,011)
Balance as of December 31, 2019	94,169	-	-	-	8,850	103,019
Balance as of January 1, 2019						
Accumulated amortization	352	-	2	2	1,261	1,617
Additions	216	-	2	6	2,623	2,847
Disposals	-	-	(4)	(8)	-	(12)
Balance as of December 31, 2019	568	-	-	-	3,884	4,452
Intangible assets, net	**$ 93,600**	**$ -**	**$ -**	**$ -**	**$ 4,966**	**$ 98,566**

During the year ended December 31, 2019 the Company adjusted the Fluent Servicing acquisition purchase price allocation and restated the fair value of the licenses, customer relationships and trademarks and brands intangible assets from $79,870 to 93,256, $3,030 to $0 and $15,550 to $8,850, respectively (see Notes 11 and 22).

During the year ended December 31, 2020, the Company recognized impairment charges of $1,900, $569 and $288 for Cansortium Colombia licenses, 1931074 Ontario, Inc. intellectual property and Arcadia EcoEnergies, Ltd. licenses, customer relationships and non-compete agreements, respectively (See Notes 1, 7 and 11).

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

10. INVESTMENT

A reconciliation of the beginning and ending balances of the investment in associate for years ended December 31, 2019 and 2018 were as follows:

	Year ended December 31, 2019	Year ended December 31, 2018
Beginning balance	$ -	$ 7,441
Additions	3,777	-
Company's share of (loss) income	(353)	2,761
Consolidation of entity at acquisition	-	(10,202)
Ending balance	$ 3,424	$ -

Green Standard

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

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

Fluent Servicing

The Company's investment in Fluent Servicing was accounted for as an equity method investment from January 1, 2018 until August 15, 2018, as the Company has determined that it had significant influence over the investee during the period. On August 15, 2018, the date on which the Company acquired the remaining interest in Fluent Servicing and became the sole shareholder, the Company acquired control of Fluent Servicing. In connection with this acquisition, the Company recorded a gain in the fair market value of the investment in Fluent Servicing of $25,693 during the year ended December 31, 2018 (See Notes 11 and 22).

Fluent Servicing revenue and net income for the seven and a half months ended August 15, 2018 were $10,789 and $6,312, respectively.

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

11. 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:

	Restated (Note 22) (a) Knox Servicing, LLC	Restated (Note 22) (b) Cansortium Colombia	(c) Spirit Lake Road Nursery, LLC	(d) Arcadia EcoEnergies	Total
Cash	$ 2,463	$ -	$ 3	$ 45	$ 2,511
Accounts receivable	-	-	-	32	32
Inventory	2,344	-	-	102	2,446
Biological assets	1,445	-	-	-	1,445
Prepaid expenses and other current assets	362	323	-	96	781
Property and equipment	4,104	2,503	50	190	6,847
Intangible assets - Licenses	93,256	3,463	71	230	97,020
Intangible assets - Customer relationship	-	-	-	40	40
Intangible assets - Trademarks and brands	8,850	-	-	-	8,850
Intangible assets - Non-compete agreements	-	-	-	30	30
Goodwill	1,526	5,843	-	129	7,498
Accounts payable	(1,303)	(485)	-	(230)	(2,018)
Accrued liabilities	(547)	-	-	(51)	(598)
Due to related party	(3,184)	-	-	-	(3,184)
Current portion of notes payable	(216)	-	-	(16)	(232)
Notes payable, net of current portion	-	-	-	(37)	(37)
Net assets	109,100	11,647	124	560	121,431
Controlling interests	(10,201)	-	-	-	(10,201)
Non-controlling interests	-	-	-	(63)	(63)
Gain on fair market value of investment	(25,693)	-	-	-	(25,693)
Net assets acquired	$ 73,206	$ 11,647	$ 124	$ 497	$ 85,474
Consideration paid in cash	$ 2,400	$ -	$ 124	$ 191	$ 2,715
Future cash consideration	51,477	2,500	-	-	53,977
Consideration paid in equity	14,200	-	-	306	14,506
Future equity price guarantee	5,129	-	-	-	5,129
Future equity consideration	-	9,147	-	-	9,147
Total purchase consideration	$ 73,206	$ 11,647	$ 124	$ 497	$ 85,474

11. 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. None of the goodwill arising from these acquisitions is expected to be deductible for tax purposes.

The Company completed its annual goodwill and intangible assets impairment testing on December 31, 2019 and determined that certain intangible assets and goodwill from the Cansortium Colombia and Arcadia EcoEnergies, Ltd. acquisitions below were impaired as of December 31, 2019, recording goodwill and intangible assets impairment charges of $11,500 and $986 for these assets, respectively (see Note 7).

On December 31, 2019, the Fluent Servicing acquisition intangible assets and goodwill impairment test results performed by the Company on December 31, 2019 determined that the intangible assets and goodwill amounts were not impaired based on a discounted statement of cash model utilizing an estimated revenue growth range of 10% to 25% through 2024 and an estimated weighted average cost of capital of 23%.

The Company believes that a 1 % difference in the inputs used for its annual goodwill and intangible assets impairment would not cause a material difference to the test results.

(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 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 $11,225 fair valued at $10,694; (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 $5,129 (see Notes 14 and 16).

The difference of $25,693 between the Company's equity interest previously held in Fluent Servicing before the acquisition date fair value and book value was recorded as a gain in fair market value of investment in associate in the consolidated statement of operations for the year ended December 31 2018.

During the year ended December 31, 2019, the Company restated the purchase price allocation to the individual assets acquired and liabilities assumed as a result of certain errors as follows: (i) decrease in fair value of property and equipment by $4,437; (ii) increase in fair value of licenses by $11,665; (iii) decrease in fair value of customer relationship by $3,030, (iv) decrease in fair value of trademarks and brands by $6,700; (iv) decrease in goodwill of $2,617; (v) increased cash consideration of $1,037 due to equity price guarantee derivative instrument fair value adjustment of $1,568 and decreased fair value adjustment of promissory note of $531 and (vi) decrease on gain in fair market value of investment in associate of $6,156 associated with the above adjustments.

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 indirect subsidiary of the Company.

11. BUSINESS ACQUISITIONS AND GOODWILL *(Continued)*

(a) Acquisition of Fluent Servicing, LLC *(Continued)*

Net revenue and net loss and comprehensive loss for the Company for the year ended December 31, 2018 would have been higher by $10,789 and lower by approximately $6,312, respectively, if the acquisition had taken place on January 1, 2018. During the year ended December 31, 2019, Fluent Servicing has contributed $24,800 in revenue and $2,608 in net loss.

In connection with this transaction, the Company expended transaction costs of $22.

(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., 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 Holdings Inc. 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.

During the year ended December 31, 2019, the Company restated the purchase price allocation to the individual assets acquired and liabilities assumed as a result of certain errors as follows: (i) decrease in fair value of licenses by $5,197; (iii) decrease in fair value of future equity consideration by $2,194, and (iii) increase in goodwill of $3,003.

Through this acquisition, Cansortium Colombia has secured licenses for the cultivation, production, research and development in Colombia and domestic sales and export of medical cannabis.

Net revenue and loss and comprehensive loss for the Company for the year ended December 31, 2018 would have been higher by approximately $0 and $93, respectively, if the acquisition had taken place on January 1, 2018. During the year ended December 31, 2019, Cansortium Colombia has contributed $0 in revenue and $771 in net loss during 2019.

In connection with this transaction, the Company expended transaction costs of $200.

(c) Acquisition of Spirit Lake Road Nursery, LLC

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

During the year ended December 31, 2019, the Company finalized the purchase price allocation to the individual assets acquired and liabilities assumed, and no measurement period adjustments were recorded.

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

11. BUSINESS ACQUISITIONS AND GOODWILL *(Continued)*

d) Acquisition of Arcadia EcoEnergies, Ltd.

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 11(a)).

Net revenue and loss and comprehensive loss for the Company for the year ended December 31, 2018 would have been higher by $191 and lower by approximately $70, respectively, if the acquisition had taken place on January 1, 2018. During the year ended December 31, 2019, Spirit Lake Nursery has contributed $61 in revenue and $93 in net loss.

In connection with this transaction, the Company expended transaction costs of $0.4.

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, Ltd., 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 shares of Cansortium Inc. at a price equal to $2.75 per unit.

Net revenue and loss and comprehensive loss for the Company for the year ended December 31, 2018 would have been higher by approximately $60 and $129, respectively, if the acquisition had taken place on January 1, 2018. During the year ended December 31, 2019, Arcadia EcoEnergies has contributed $34 in revenue and $226 in net loss.

Below is a continuity of goodwill for the years ended December 31, 2019 and 2018:

Balance as of January 1, 2018	$	-
Acquisition of Knox Servicing		7,346
Acquisition of Cansortium Colombia		2,840
Acquisition of Arcadia EcoEnergies		129
Balance as of December 31, 2018, as previously reported		10,315
Acquisition of Knox Servicing (restated - Note 22)		(5,820)
Acquisition of Cansortium Colombia (restated - Note 22)		3,003
Balance as of December 31, 2018, restated	$	7,498
Balance as of January 1, 2019	$	7,498
Impairment of goodwill - Cansortium Colombia		(5,843)
Impairment of goodwill - Arcadia EcoEnergies		(129)
Balance as of December 31, 2019	$	1,526

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

12. INCOME TAXES

Income tax for the years ended December 31, 2019 and 2018 consisted of the following:

	Year ended December 31, 2019	Year ended December 31, 2018
Current tax expense	$ 1,492	$ -
Deferred tax expense	2,672	-
Tax expense	$ 4,164	$ -

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

	Year ended December 31, 2019	Year ended December 31, 2018
Income (loss) before taxes	$ (61,481)	$ (1,054)
Income tax expense (benefit) calculated at the statutory rate of 21% and 0%	$ (12,911)	$ -
State income taxes	557	-
Pass-through income taxed directly to shareholders	3,087	-
Non-deductible expenses	9,937	-
Foreign tax rate differential	(204)	-
Change in tax benefits not recognized	3,698	-
Total	$ 4,164	$ -

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

As a result of the acquisition of the shares of Cansortium Holdings, LLC on March 22, 2019 the Company now accounts for income taxes in accordance with IAS 12 - Income Taxes, under which deferred tax assets and liabilities are recognized based upon anticipated future tax consequences attributable to differences between financial statement carrying values of assets and liabilities and the respective tax bases. As a result of the transaction, the Company recorded a deferred tax liability of $22,286 with a corresponding adjustment to equity.

All income prior to this acquisition was taxed directly to the shareholders as the Cansortium Holdings, LLC was taxed as a pass-through entity. Accordingly, no income tax assets or liabilities were recognized for the year ended December 31, 2018 and for the period from January 1, 2019 to March 22, 2019.

The Company has unused tax losses and other attributes of $13,854 in various foreign jurisdictions for which no deferred tax asset has been recognized as the utilization of these losses is not likely.

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

12. INCOME TAXES *(Continued)*

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

	Year ended December 31, 2019	Year ended December 31, 2018
Tax effect of temporary differences:		
Property and equipment	$ 3,705	$ -
Intangible assets	18,258	-
Convertible debentures	2,336	
Biological assets	658	-
Deferred tax liability	$ 24,957	$ -

13. DERIVATIVE LIABILITIES

A reconciliation of the beginning and ending balances of the derivative liabilities from the time of issuance and during the years ended December 31, 2019 and 2018 are as follows:

	Convertible debentures	Warrants	Equity price guarantee	Derivative liability total
As of January 1, 2018	$ 1,014	$ -	$ -	$ 1,014
Fair value of derivative liabilities on issuance date	-	4,102	3,560	7,662
Fair value change in derivative liability	2,939	1,824	(244)	4,519
Conversion of convertible debentures to equity	(3,953)	-	-	(3,953)
As of December 31, 2018, as previously reported	**$ -**	**$ 5,926**	**$ 3,316**	**$ 9,242**
Fair value change in derivative liability (restated - Note 22)	-	-	1,568	1,568
As of December 31, 2018, restated	**$ -**	**$ 5,926**	**$ 4,884**	**$ 10,810**
As of January 1, 2019	-	5,926	4,884	10,810
Fair value of derivative liabilities on issuance date	5,820	-	2,597	8,417
Fair value change in derivative liability	(119)	(5,926)	5,717	(328)
Convertible debentures reclassified to equity	(5,701)	-	-	(5,701)
As of December 31, 2019	**$ -**	**$ -**	**$ 13,198**	**$ 13,198**

(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”) which contained down round protection on the conversion feature. If the down round protection is enacted, there would be variability in the number of shares of Cansortium Inc. 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.

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

13. DERIVATIVE LIABILITIES *(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 shares and the expected life of the convertible debentures. The Company believes that a 1 % difference in the inputs used for this fair value measurement would not cause a material difference to the fair value amount.

The following range of assumptions were used to value the Convertible Debentures derivative liability during the year ended December 31, 2018:

	2018
Volatility	60.00%
Risk-free interest rate	1.76%
Expected life (years)	0 - 0.25 years
Share price	$2.75
Exercise price	$1.50

During the year ended December 31, 2018, the Company recorded a loss of $2,939 on revaluation of the derivative liability prior to converting the Convertible Debentures total amount of $3,953 to equity.

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. These warrants are classified as a derivative liability. The Company used the Black-Scholes option-pricing model to estimate fair values of these warrants amounting to $0 and $5,926 for the years ended December 31, 2019 and 2018, respectively. 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 for the year ended December 31, 2019 and 2018 are the expected future volatility of 100% and 60% in the price of the Company's shares of $2.75, respectively, and the expected remaining life of the convertible debentures of 24 months from the date of issuance of the Convertible Debentures. The Company believes that a 1 % difference in the inputs used for this fair value measurement would not cause a material difference to the fair value amount.

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

13. DERIVATIVE LIABILITIES *(Continued)*

(b) Equity Price Guarantees

Fluent Servicing Acquisition

In connection with the acquisition of the remaining interest of Fluent Servicing performed on August 15, 2018 (see Note 11), the Company issued 4,400,000 of shares of Cansortium Inc valued at $2.75 dollars per unit subject to a price floor of $2.75 ("Equity Price Guarantee"). The Equity Price Guarantee expires on March 21, 2021. If during that time period, the holder of the Equity Price Guarantee elects to sell some or all of its shares and the purchase price is less than $2.75 per share, then the Company shall have the obligation to pay the holder the difference between $2.75 and the actual sale price of shares in cash or additional shares at the election of the Company. The Equity Price Guarantee shall be cancelled if the value of the shares of the Company close at $4.13 per share for more than twenty (20) consecutive trading days while maintaining a trading volume of at least three (3) million shares each trading day of such period.

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

The Company used a Monte-Carlo simulation model to estimate fair value of the Equity Price Guarantee derivative liability. This is a Level 3 recurring fair value measurement. The key Level 3 inputs used by management to determine the fair value are the expected future volatility in the price of the Company's shares and the expected life of the Equity Price Guarantee and recorded the fair value of the derivative liability of $3,560 in the consolidated statement of operations. The Company believes that a 1 % difference in the inputs used for this fair value measurement would not cause a material difference to the fair value amount.

The following range of assumptions were used to value the Convertible Debentures derivative liability during the years ended December 31, 2019 and 2018:

	2019	2018
Volatility	100.00%	100.00%
Risk-free interest rate	2.43%	1.76%
Expected life (years)	1 - 1.2 years	2 - 2.5 years
Share price	$2.75	$2.75
Exercise price	$2.75	$2.75

During the year ended December 31, 2019, the Company finalized the Fluent Servicing purchase price allocation (see Note 12(a)) and adjusted the issuance date fair value of the Equity Price Guarantee by $1,568 to $5,129 (see Note 22).

During the years ended December 31, 2019 and 2018, the Company recorded a loss of $5,138 and a gain of $244 on revaluation of the Equity Price Guarantee derivative liability, respectively.

13. DERIVATIVE LIABILITIES *(Continued)*

(b) Equity Price Guarantees (Continued)

Green Standard

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

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

The Company used a Monte-Carlo simulation model to estimate fair value of the Equity Price Guarantee derivative liability. This is a Level 3 recurring fair value measurement. The key Level 3 inputs used by management to determine the fair value are the expected future volatility of 100% in the price of the Company's shares and the expected life of the GSI Equity Price Guarantee of 1.0 year and recorded the fair value of the derivative liability of $2,597 in the consolidated statement of operations. The Company believes that a 1 % difference in the inputs used for this fair value measurement would not cause a material difference to the fair value amount.

During the year ended December 31, 2019, the Company recorded a fair value change of $579 on revaluation of the GSI Equity Price Guarantee derivative liability.

(c) Bridge Loan Agreement

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

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

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

13. DERIVATIVE LIABILITIES *(Continued)*

(c) Bridge Loan Agreement *(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 shares and the expected life of the convertible debentures. The Company believes that a 1 % difference in the inputs used for this fair value measurement would not cause a material difference to the fair value amount.

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

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

(d) Convertible Debentures - $10M Convertible Note

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

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

The Company used the Black-Scholes option-pricing model to estimate fair value of the derivative liability at each reporting date. This is a Level 3 recurring fair value measurement. The key Level 3 inputs used by management to determine the fair value are the expected future volatility in the price of the Company's common shares and the expected life of the convertible notes payable. The Company believes that a 1 % difference in the inputs used for this fair value measurement would not cause a material difference to the fair value amount.

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

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

14. NOTES PAYABLE

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

	December 31, 2019	December 31, 2018
Machinery and equipment loan	$ -	$ 46
Automobile loan (a)	106	134
Notes payable (b)	9,321	53,119
Convertible debentures (c)	30,976	-
Total notes payable	40,403	53,299
Less current portion of notes payable (restated - Note 22)	(9,350)	(43,845)
Notes payable, net of current portion	**$ 31,053**	**$ 9,454**

(a) Automobile Loan

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

(b) Notes Payable

On August 15, 2018, the Company issued a promissory note in the amount of $40,783 in connection with the acquisition of Fluent Servicing shares, bearing interest of 12% per annum until November 30, 2018 with a 6% per annum monthly rate increase up to 24% per annum until the February 28, 2019 maturity date with minimum monthly payments of $500 from September 30, 2018 to December 31, 2018 and minimum monthly payments of $1,000 on January 1, 2019 and February 28, 2019 (see Note 11). The outstanding promissory note balance of $40,783 was repaid by the Company in March 2019.

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

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

14. NOTES PAYABLE *(Continued)*

(b) Notes Payable *(Continued)*

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

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

(c) Convertible Debentures

February 2019 Bridge Loan Agreement

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

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

On February 15, 2019, the Company issued a $10M Convertible Note (see Note 13) in exchange for cash proceeds of $10,000. The $10M Convertible Note bear interest at an annual rate of 12 percent, maturing 18 months after issuance. The holders of the $10M Convertible Note may convert, in whole or in part, the principal and any outstanding accrued interest into shares of the Company at the IPO price. The $10M Convertible Note automatically lose the conversion privilege twenty-four months from issue. The terms of $10M Convertible Note are subject to an accelerator clause, whereby if four months have elapsed after the date of the IPO and the Company has 10 straight trading days at a price that is 50% greater than the IPO price, the Company may elect to convert the principal into shares of the Company at the IPO price and convert the accrued interest into shares of the Company at a price equal to the closing trading price on the day prior to the conversion.

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

In connection with the issuance of the $10M Convertible Note, the Company paid cash of $600 for debt issuance fees and recorded interest expense of $1,049 and accretion expense of $2,420 for the year ended December 31, 2019.

14. NOTES PAYABLE *(Continued)*

(c) Convertible Debentures *(Continued)*

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 from $25,144 of the total gross proceeds, to be utilized for future purchase of shares at an exercise price of $2.40 per share at any time prior to March 21, 2021.

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

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

The Agent received a cash fee equal to 4% of the gross receipt of the debenture issued in the offering. The Agent received 478,933 shares at an exercise price of $2.10 any time until the 24th month anniversary of the issuance of the Secured Convertible Debentures. Each broker warrant entitles the holder to acquire one conversion unit at an exercise price of $2.10 any time until the 24th month anniversary of the issuance of the Secured Convertible Debentures (see Note 16).

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

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

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

14. NOTES PAYABLE *(Continued)*

(c) Convertible Debentures *(Continued)*

May 2019 Convertible Debentures *(Continued)*

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

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

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

A reconciliation of the beginning and ending balances of the Convertible debentures, derivative liability and warrants from the time of issuance and for the years ended December 31, 2019 and 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	28,458	5,820	-	11,567	-
Fair value change in derivative liability	-	(119)	-	-	-
Fair value of equity conversion feature on issuance date	-	-	2,522	-	-
Cash paid for debt issuance fees	(1,800)	-	-	-	-
Accretion expense	5,578	-	-	-	(5,578)
Convertible debentures reclassified to equity	(1,260)	(5,701)	5,091	-	-
Conversion of warrants	-	-	-	(90)	-
As of December 31, 2019	**$ 30,976**	**$ -**	**$ 7,613**	**$ 11,773**	**$ (5,578)**

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

Balance as of December 31, 2018, as restated	$ 53,299
Proceeds from issuance of notes payable	27,228
Accretion	5,578
Conversion of notes payable to share capital	(1,830)
Reclassification to held for sale	(32)
Repayments	(43,840)
Balance as of December 31, 2019	**$ 40,403**

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

15. LEASES

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

(a) Right-of-use Assets

A reconciliation of the beginning and ending balances of right-of-use assets for the period ended December 31, 2019 is as follows:

	Manufacturing equipment	Buildings	Total
Balance as of December 31, 2018			
Cost - Initial application of IFRS 16	$ 347	$ 18,817	$ 19,164
Additions	-	7,845	7,845
Assets held for sale (Note 7)	(347)	(1,636)	(1,983)
Balance as of December 31, 2019	-	25,026	25,026
Balance as of December 31, 2018			
Accumulated depreciation - Initial application of IFRS 16	$ 54	$ 2,855	$ 2,909
Additions	93	2,395	2,488
Assets held for sale (Note 7)	(147)	(414)	(561)
Balance as of December 31, 2019	-	4,836	4,836
Right-of-use-assets, net	**$ -**	**$ 20,190**	**$ 20,190**

(b) Lease Liabilities

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

	December 31, 2019
Balance as of December 31, 2018	$ -
Effect of adoption of IFRS 16, January 1, 2019	18,003
Additions	7,841
Interest on lease liabilities	2,271
Interest payments on lease obligations	(2,271)
Principal payments on lease obligations	(1,229)
Assets held for sale (Note 7)	(1,688)
Balance as of December 31, 2019	**$ 22,927**
Less current portion of lease obligations	(1,761)
Lease obligations, net of current portion	**$ 21,166**

During the year ended December 31, 201 the Company performed variable lease payments of $684.

16. SHAREHOLDERS' EQUITY

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

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

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

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

During the year ended December 31, 2019, the Company adjusted its initial application of IFRS 16 adding to the shareholders accumulated deficit on the amount of $1,261. See Note 2(u).

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

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 shares of the Company at a price equal to $2.75 dollars per unit. As a result of the acquisition of the remaining interest in Cansortium Brazil Ltda., the Company became the sole owner. As a result of the transaction, the Company adjusted it's carrying interest by $5 for the non-controlling interest in Cansortium Brazil and recognized directly to equity the difference of $3,495 between the non-controlling interest and the fair value of the units issued.

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

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

On August 15, 2018, the Company issued 5,163,636 shares of Cansortium Holdings LLC at a price equal to $2.75 per unit, pursuant to the acquisition of the remaining interest in Fluent Servicing (see Note 11).

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

16. SHAREHOLDERS' EQUITY *(Continued)*

On September 1, 2018, the Company issued 111,384 shares of Cansortium Inc at a price equal to $2.75 per unit, pursuant to the acquisition of Arcadia EcoEnergies, Ltd. (see Note 11).

During the year ended December 31, 2018, the Company issued 8,016,591 member units for cash proceeds of $22,046.

During the year ended December 31, 2018, the Company issued 3,939,664 member units valued at $10,834 for employee and third-party related services, including 2,954,668 restricted member units that are subject to vesting conditions.

During the year ended December 31, 2018, the Company converted the convertible notes payable of $4,744, accrued interest of $315 and derivative liability of $3,954 for 3,337,033 conversion units.

Share Capital

As of December 31, 2019, the share capital of the Company is comprised of 90,124,401 common shares, 10,337,106 proportionate voting shares (each proportionate voting share is convertible into ten common shares), 31,244,913 warrants and convertible debt allotments and 8,041,039 stock options. For the purpose of the statement of changes in shareholders' equity, the proportionate voting shares have been included as part of common shares based on the 1 for 10 conversion ratio.

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

	December 31, 2019	December 31, 2018
Weighted average number of shares - basic	185,593,303	136,658,796
Weighted average warrants	24,339,927	833,047
Weighted average convertible debt allotment	12,355,276	-
Weighted average options	1,181,924	-
Weighted average number of shares - diluted	223,470,430	137,491,843

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

16. SHAREHOLDERS' EQUITY *(Continued)*

Restricted Shares

Restricted shares are issued and outstanding shares that are subject to a Company escrow agreement requiring achievement of certain performance or service metrics to release such restrictions. Restricted shares activity for the Company for the year ended December 31, 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	(2,169,749)	2.75	(5,967)
Forfeited	(50,000)	2.75	(138)
Balance as of December 31, 2019	8,947,101	$ 2.75	$ 24,605

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

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

As of December 31, 2019, there was approximately $189 of total unrecognized employee compensation cost related to non-vested time-based restricted shares that should be recognized as expense.

As of December 31, 2019, there was approximately $1,928 of total unrecognized compensation cost related to non-vested restricted shares issued for professional services that are expected to be recognized as expense.

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

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.

On March 21, 2019, the Company granted 1,182,106 options to various officers, directors, employees and consultants. The fair value of these options of $1,287 were measured at the date of grant using the Black-Scholes option pricing model, using the following assumptions:

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

16. SHAREHOLDERS' EQUITY *(Continued)*

Stock Option Plan *(Continued)*

Stock price	$1.59
Exercise price	$2.00
Original term	2 to 5 years
Dividend rate	0%
US treasury rate	2.34%
Volatility	100%
Forfeiture rate	0%

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

On December 31, 2019, the Company granted 6,380 options to various officers, directors, employees and consultants. The fair value of these options of $2,096 were measured at the date of grant using the Black-Scholes option pricing model, using the following assumptions:

Stock price	$0.44
Exercise price	$0.44
Original term	2 to 5 years
Dividend rate	0%
US treasury rate	1.69%
Volatility	100%
Forfeiture rate	0%

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

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

As of December 31, 2019, there were 7,562,106 options outstanding, comprising of 6,396,306 options vested and 1,165,800 options non-vested, with remaining contractual lives 1.2 to 4.9 years.

The following is a summary of the changes in the Company's Stock Options Plan during the years ended December 31, 2019 and 2018:

	Options issued	Weighted average exercise price
Balance as of December 31, 2018	-	$ -
Granted	8,041,039	$ 0.77
Balance as of December 31, 2019	8,041,039	$ 0.77

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

16. SHAREHOLDERS' EQUITY *(Continued)*

Stock Option Plan *(Continued)*

The following is a summary of the outstanding options as of December 31, 2019:

Exercice prices	Outstanding as of December 31, 2019	Weighted average remaining contractual life (years)	Exercisable as of December 31, 2019	Weighted average remaining contractual life (years)
$ 2.00	1,182,106	1.4	1,182,106	1.4
$ 2.10	478,933	1.4	478,933	1.4
$ 0.44	6,380,000	4.9	5,214,200	4.9
	8,041,039	4.2	6,875,239	4.1

17. EXPENSE BY NATURE

General and administrative expenses for the years ended December 31, 2019 and 2018 are as follows:

	December 31, 2019	December 31, 2018
General and administrative		
Salaries and benefits	$ 6,112	$ 5,103
Legal and professional fees (restated - Note 22)	9,331	7,101
Insurance	1,007	213
Rent expenses	731	803
Travel and entertainment	496	726
Other	4,043	1,263
Total general and administrative, as reported	**$ 21,720**	**$ 15,209**
Legal and professional fees (restated - Note 22)	-	885
Total general and administrative, restated	**$ 21,720**	**$ 16,094**

Sales and marketing expenses for the years ended December 31, 2019 and 2018 are as follows:

	December 31, 2019	December 31, 2018
Sales and marketing		
Salaries and benefits	$ 6,836	$ 2,057
Security	1,868	767
Marketing expenses	1,078	888
Rent expenses	387	291
Legal and professional fees	292	17
Other	1,704	313
Total sales and marketing	**$ 12,165**	**$ 4,333**

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

18. COMMITMENTS AND CONTINGENCIES

(a) Office and Other Leases

The Company leases certain business facilities from third parties under lease agreements that specify minimum rentals. The leases expire through 2029 and contain certain renewal provisions. The Company's rent expense for short term leases for the years ended December 31, 2019, and 2018 were $2,192, and $2,115, 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 December 31,		Scheduled payments
2020	$	4,204
2021		4,225
2022		4,197
2023		4,273
2024		4,244
Thereafter		14,118
Total future minimum lease payments	**$**	**35,261**

(b) Contingencies

The Company's operations are subject to a variety of local and state regulation. Failure to comply with one or more of those regulations could result in fines, restrictions on its operations, or losses of permits that could result in the Company ceasing operations. While management of the Company believes that the Company is in compliance with applicable local and state regulation as of December 31, 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 December 31, 2019, there were no pending or threatened lawsuits that could reasonably be expected to have a material effect on the results of the Company's operations, except for the claim disclosed below. There are also no proceedings in which any of the Company's directors, officers or affiliates is an adverse party or has a material interest adverse to the Company's interest, except for the claim disclosed below.

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

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

19. RELATED-PARTY TRANSACTIONS

Key management personnel compensation

Key management personnel are those persons having the authority and responsibility for planning, directing and controlling activities for the Company, directly and indirectly. The key management personnel of the Company are the members of the Company's executive management team and Board of Directors. For the years ended December 31, 2019 and 2018 key management personnel compensation consisted of the following:

	For the years ended December 31, 2019	2018
Salary	$ 1,761	$ 1,496
Option-based compensation	1,929	-
All other compensation	484	38
	$ 4,174	**$ 1,534**

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 years ended December 31, 2019 and 2018 were $0 and $293, respectively. The balances due to this entity as of December 31, 2019 and 2018 were approximately $2 and $144, respectively, and were included in accounts payable.

20. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

Financial Instruments

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

Financial Assets

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

Financial Liabilities

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

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

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

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

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

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

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

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

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

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

Financial Instruments *(Continued)*

Financial Risk Management

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

(a) Credit Risk

Credit risk is the risk of a potential loss to the Company if a customer or third party to a financial instrument fails to meet its contractual obligations. The maximum credit exposure at December 31, 2019 is the carrying amount of cash, accounts receivable and note receivable. All cash is placed with major U.S. financial institutions. Credit risk from due from accounts receivable and note receivable arises from the possibility that amounts due become uncollectible.

(b) Liquidity Risk

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

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

	< 1 year	1 to 3 years	3 to 5 years	> 5 years	Total
Accounts payable	$ 7,860	$ -	$ -	$ -	$ 7,860
Accrued liabilities	$ 5,135	$ -	$ -	$ -	$ 5,135
Income taxes	$ 1,492	$ -	$ -	$ -	$ 1,492
Notes payable	$ 9,350	$ 30,982	$ 71	$ -	$ 40,403
Lease obligations	$ 1,761	$ 4,274	$ 5,405	$ 11,487	$ 22,927

In addition to the commitments outlined in Note 15 and Note 18, the Company had the following contractual obligations as of December 31, 2018:

	< 1 year	1 to 3 years	3 to 5 years	> 5 years	Total
Accounts payable	$ 4,910	$ -	$ -	$ -	$ 4,910
Accrued liabilities	$ 3,936	$ -	$ -	$ -	$ 3,936
Notes payable	$ 43,845	$ 9,374	$ 80	$ -	$ 53,299

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

Financial Instruments *(Continued)*

(c) Market Risk

(i) Currency Risk

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

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

(ii) Interest Rate Risk

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

(iii) Price Risk

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

(d) Banking Risk

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

(e) Asset Forfeiture Risk

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

21. SUBSEQUENT EVENTS

The Company has evaluated subsequent events through May 18, 2020, which is the date these consolidated financial statements were issued.

On January 16, 2020, the Company completed the restructuring of its existing promissory note issued in connection with the acquisition of Fluent Servicing (see Note 14(b)) (the "Amended Note") as well as the terms pertaining to the Equity Price Guarantee (see Note 13(b)). Specifically, the Company amended the promissory note to (i) eliminate the principal amortization until maturity date, (ii) defer payment of cash interest until April 1, 2020, and (iii) extend the maturity date to December 1, 2022. In addition, at the option of the holder of the Amended Note, the Amended Note is convertible into common shares of the Company at any time at a price of $0.60 per share. Furthermore, the Company reduced from $2.75 to $0.65 the Equity Price Guarantee per share associated with the 4,400,000 common shares originally issued by agreeing to transfer to the seller an additional 14,215,385 common shares that were previously returned by the Company's founders, subject to a price floor of $0.65 per share.

On January 22, 2020, the Company recovered 4,124,166 common shares previously issued to its in-market partner, Vision Science and Technology, S.A.S representing 50% of the equity of Cansortium Colombia. The shares have been returned to treasury and the Company, through its subsidiaries is the 50% owner of Cansortium Colombia.

On February 7, 2020, the Company signed a Management Services Agreement (the "Management Agreement") with MXY Holdings LLC ("Moxie") under which Moxie provides management and operational consulting services to Cansortium for an initial term of two years.

On February 7, 2020, the Company completed a non-brokered private placement offering of 10,189,758 equity units (each, a "Unit") at $0.45 per Unit, or $4,585. Each Unit consists of one common share of the Company (a "Share") and one common share purchase warrant which entitles holders to acquire one Share (a "Warrant Share") at an exercise price of $0.45 per Warrant Share.

On May 5, 2020, the Company completed the sale of certain operational assets of Cansortium Puerto Rico to PRICH, including applicable cannabis licenses, in exchange for approximately $670 in cash and future royalties on sales of Fluent-branded products, commencing on the closing date.

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

Beginning in February 2020, various U.S. States began to implement progressively restrictive guidelines on social interactions and business operations in an effort to slow the spread of the global COVID-19 pandemic. In Florida, where the Company currently generates the vast majority of its revenues, medical cannabis was deemed one of several "Essential Businesses" by Florida Governor Ron DeSantis as part of his April 3,2020 Stay-At-Home order. As a result, all of the Company's 20 Florida dispensaries and cultivation facilities remained open to serve Florida's medical cannabis patients throughout the Stay-At-Home order. The Company has experienced increased consumer demand and has hired additional temporary employees and expanded working hours of existing employees in response.

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

21. SUBSEQUENT EVENTS *(Continued)*

To support slowing the spread of COVID-19 through its own operations and its interactions with medical cannabis patients, each of the Company's dispensaries has modified its operations to limit customer engagement to express pick-up orders, including curbside and drive-through pick-up, as well as home delivery. In addition, the Company has implemented incremental cleaning and sanitation procedures in accordance with Federal, State and local health guidelines, as well as social distancing protocols, at each of its dispensaries, cultivation and production operations. The Company has adopted a work-from-home model for a significant portion of its corporate office staff, has curtailed travel for in-person meetings, and has implemented other safety precautions to protect the health and safety of its employees and the public.

22. RESTATEMENT OF COMPARATIVE FIGURES

Certain comparative figures have been restated as a result of certain errors noted in the following areas: (i) purchase price allocation fair value adjustments for the acquisition of Fluent Servicing and Cansortium Colombia; (ii) valuation and vesting of certain shares issued for professional services; (iii) valuation and vesting of shares issued for acquisition of and Cansortium Health Partner assets; and (iv) short-term vs. long term Notes Payable reclassification.

The below line items in the previous year comparative consolidated statement of financial position as at December 31, 2018 were restated as follows:

		As previously reported	Adjustments	As restated
Assets				
Property and equipment, net	*Note 8*	$ 22,398	$ (3,825)	$ 18,573
Intangible assets, net	*Note 9*	$ 106,417	$ (760)	$ 105,657
Goodwill	*Note 11*	$ 10,315	$ (2,817)	$ 7,498
Total assets		$ 147,868	$ (7,402)	$ 140,466
Liabilities				
Derivative liabilities	*Note 13*	$ 9,242	$ 1,568	$ 10,810
Current portion of notes payable	*Note 14*	$ 51,463	$ (7,618)	$ 43,845
Notes payable, net of current portion	*Note 14*	$ 1,910	$ 7,544	$ 9,454
Total liabilities		$ 73,262	$ 1,493	$ 74,755
Shareholders' equity				
Share capital	*Note 16*	$ 92,000	$ (345)	$ 91,655
Accumulated deficit - retained earnings		$ (23,428)	$ (1,482)	$ (24,910)
Accumulated deficit - net income (loss)		$ 6,741	$ (7,068)	$ (327)
Total shareholders' equity		$ 74,606	$ (8,895)	$ 65,711
Total liabilities and shareholders' equity		$ 147,868	$ (7,402)	$ 140,466

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

22. RESTATEMENT OF COMPARATIVE FIGURES *(Continued)*

The previous year comparative consolidated statement of operations for the year ended December 31, 2018 was restated, as follows:

		As previously reported	Adjustments	As restated
General and administrative		$ 15,209	$ 885	$ 16,094
Shared-based compensation	*Note 16*	$ -	$ 963	$ 963
Depreciation and amortization	*Notes 8, 11*	$ 3,122	$ (1,393)	$ 1,729
Total expenses		$ 22,664	$ 455	$ 23,119
Loss from operations		$ (19,796)	$ (455)	$ (20,251)
Interest expense, net	*Note 14*	$ 3,337	$ 457	$ 3,794
Gain in fair market value of investment in associate	*Note 11*	$ (31,849)	$ 6,156	$ (25,693)
Total other expense (income)		$ (25,810)	$ 6,613	$ (19,197)
Net income (loss)		$ 6,014	$ (7,068)	$ (1,054)
Net income (loss) per share - Basic		$ 0.04	$ (0.05)	$ (0.01)
Net income (loss) per share - Diluted		$ 0.04	$ (0.05)	$ (0.01)

The previous year comparative consolidated statement of cash flows for the year ended December 31, 2018 was restated as follows:

	As previously reported	Adjustments	As restated
Net loss	$ 6,014	$ (7,068)	$ (1,054)
Adjustments to reconcile net loss to net cash used in operating activities:			
Share-based compensation	$ 2,726	$ 964	$ 3,690
Depreciation and amortization	$ 3,992	$ (1,393)	$ 2,599
Gain in fair market value of investment in associate	$ (31,849)	$ 6,156	$ (25,693)
Other liabilities	$ 406	$ 1,341	$ 1,747
Net cash used in operating activities	$ (12,019)	$ -	$ (12,019)