Avicanna Inc.
Consolidated Financial Statements
For the Year Ended December 31, 2019 and 2018
(expressed in Canadian dollars, except share and per share amounts)

Independent Auditor's Report

To the Shareholders of Avicanna Inc.:

Opinion

We have audited the consolidated financial statements of Avicanna Inc. and its subsidiaries (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2019 and December 31, 2018, and the consolidated statements of operations and comprehensive loss, changes in shareholders' equity and cash flows for the years 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 December 31, 2018, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

We conducted our audits 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 audits 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 in the consolidated financial statements, which indicates the Company had an accumulated deficit of $30,800,436, cash of $441,757, and a working capital deficit of $4,770,649 as at December 31, 2019. Additionally, the Company incurred a net loss after taxes of $22,213,037 and used $19,449,616 of cash for operating activities during the year ended December 31, 2019. These events or conditions, along with other matters as 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 Notes 4, 23, 24 and 25 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.

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 audits 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 audits 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 audits and significant audit findings, including any significant deficiencies in internal control that we identify during our audits.

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 Anand Beejan.

Montréal, Québec

April 14, 2020

MNP SENCRL, srl [1]

[1] CPA auditor, CA, public accountancy permit no. A126822

MNP SENCRL srl / LLP

Avicanna Inc.
Consolidated Statements of Financial Position
As at December 31, 2019 and 2018
(Expressed in Canadian Dollars)

	December 31, 2019	December 31, 2018 (Restated) (Notes 4, 23, 24, 25)
ASSETS		
Current assets		
Cash	$ **441,757**	$ 69,295
Amounts receivable (Note 5)	**1,202,924**	258,608
Prepaid assets	**704,632**	863,624
Biological assets (Note 6)	**117,367**	-
Inventory (Note 7)	**1,484,371**	-
Total current assets	**3,951,051**	1,191,527
Right to use asset (Note 10)	**539,710**	-
Property and equipment (Note 8)	**22,622,322**	16,256,136
Intangible assets (Note 9)	**11,063,900**	10,733,266
Derivative asset (Note 11)	**3,780,000**	-
Investment	**72**	72
Goodwill (Note 4, 23)	**3,207,227**	3,207,227
Total assets	$ **45,164,282**	$ 31,388,228
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Amounts payable	$ **5,177,634**	$ 1,455,565
Lease liability – current portion (Note 12)	**224,950**	-
Due to related party (Note 14)	**3,319,116**	331,320
Total current liabilities	**8,721,700**	1,786,885
Convertible debentures (Note 13)	**715,626**	-
Derivative liability (Note 13)	**23,434**	-
Lease liability (Note 12)	**330,389**	-
Term loan	**-**	14,441
Deferred revenue (Note 11)	**3,323,518**	-
Deferred tax liability (Note 24)	**2,173,834**	3,207,227
Total liabilities	**15,288,501**	5,008,553
Shareholders' Equity		
Share capital (Note 15)	**46,033,465**	21,492,039
Warrants (Note 15)	**4,267,996**	5,218,984
Share-based payment reserve (Note 16)	**4,010,824**	1,515,107
Accumulated other comprehensive loss	**(1,124,524)**	(188,771)
Deficit	**(30,800,436)**	(9,728,462)
Non-controlling interest (Note 17)	**7,488,456**	8,070,778
	29,875,781	26,379,675
	$ **45,164,282**	$ 31,388,228

Nature of Operations and Going Concern Uncertainty (Note 1)
Subsequent Events (Note 26)
Approved by the Board
/s/ David White, Director

The accompanying notes are an integral part of these consolidated financial statements

Avicanna Inc.
Consolidated Statements of Operations and Comprehensive Loss
For the Years Ended December 31, 2019 and 2018
(Expressed in Canadian Dollars)

	For the Year Ended December 31, 2019	For the Year Ended December 31, 2018
Revenue		
Service Revenue	$ 49,396	$ 117,971
Product Sales	118,856	-
Total Revenue	168,252	117,971
Inventory production costs expensed to cost of sales	103,734	-
Gross margin before the undernoted	64,518	117,971
Fair value changes in biological assets included in inventory sold	76,264	-
Unrealized gain on changes in fair value of biological assets	(103,887)	-
Gross margin	92,141	117,971
Expenses		
General and administrative (Note 20)	19,706,578	6,990,041
Share-based compensation (Note 16)	2,685,629	1,401,320
Depreciation (Note 8, 10)	558,820	144,440
Amortization of intangible assets (Note 9)	364,694	28,266
Total Expenses	23,315,721	8,564,066
Other (expenses) income (Note 21)	(22,850)	1,156,698
Net loss before taxes	**$ (23,246,430)**	**$ (7,289,397)**
Income tax recovery		
Deferred tax recovery (Note 24)	1,033,393	-
Net loss after taxes	**(22,213,037)**	**(7,289,397)**
Net loss attributable to non – controlling interest (Note 17)	(1,141,063)	(190,336)
Net loss attributable to Shareholders of the Company	(21,071,974)	(7,099,061)
	(22,213,037)	**(7,289,397)**
Exchange differences attributed to non - controlling interest (Note 17)	(489,625)	-
Exchange differences attributed to Shareholders of the Company	(935,753)	(188,771)
	(1,425,378)	**(188,771)**
Net comprehensive loss	**$ (23,638,415)**	**$ (7,478,168)**
Weighted average number of common shares – basic and diluted	20,054,013	13,587,925
Net loss per share – basic and diluted	$ (1.16)	$ (0.55)

The accompanying notes are an integral part of these consolidated financial statements

Avicanna Inc.
Consolidated Statements of Changes in Shareholders' Equity
For the Years Ended December 31, 2019 and 2018
(Expressed in Canadian Dollars)

	Common Shares		Warrants	Share Based Reserve	Deficit	Accumulated Other Comprehensive Loss	Non-controlling Interest	Total
	#	$	$	$	$	$	$	$
Balance at December 31, 2017	**10,881,201**	**2,768,649**	**581,185**	**120,634**	**(2,629,401)**	**-**	**-**	**841,067**
Issuance of units (Note 15(ii))	2,007,508	3,412,234	602,782	-	-	-	-	4,015,016
Issuance of common shares (Note 15(iv))	325,323	2,374,858	-	-	-	-	-	2,374,858
Special warrants issued (Note 15(vii))	-	-	4,179,156	-	-	-	-	4,179,156
Issuance on purchase of Sativa Nativa (Note 15(iii))	150,000	300,000	-	-	-	-	-	300,000
Issuance on acquisition (Note 15 (vi))	1,477,818	10,788,071	-	-	-	-	-	10,788,071
Exercise of options (Note 15(i)(ix))	225,000	51,847	-	(6,847)	-	-	-	45,000
Exercise of warrants (Note 15(v)(x))	303,510	761,914	(144,139)	-	-	-	-	617,775
Shares issued for services (Note 15(viii))	276,605	1,034,466	-	-	-	-	-	1,034,466
Share-based compensation expense (Note 16)	-	-	-	1,401,320	-	-	-	1,401,320
Non-controlling interest (Note 17)	-	-	-	-	-	-	8,261,114	8,261,114
Foreign exchange translation	-	-	-	-	-	(188,771)	-	(188,771)
Net loss	-	-	-	-	(7,099,061)	-	(190,336)	(7,289,397)
Balance at December 31, 2018	**15,646,965**	**21,492,039**	**5,218,984**	**1,515,107**	**(9,728,462)**	**(188,771)**	**8,070,778**	**26,379,675**
Exercise of options (Note 15(xi))	1,155,000	410,402	-	(100,402)	-	-	-	310,000
Exercise of warrants (Note 15(xiii))	2,701,598	4,150,196	(696,223)	-	-	-	-	3,453,973
Options expired (Note 16)		89,510		(89,510)	-	-	-	-
Warrants expired (Note 15)	-	318,423	(318,423)	-	-	-	-	-
Exercise of first tranche special warrants (Note 15(xiv))	540,484	3,599,560	(3,599,560)	-	-	-	-	-
Issuance of special warrants (Note 15(xv))	-	-	17,139,612	-	-	-	-	17,139,612
Exercise of second tranche special warrants (Note 15(xvii))	2,228,328	13,482,925	(13,482,925)	-	-	-	-	-
Shares issued for services (Note 15(xvi))	92,348	738,776	-	-	-	-	-	738,776
Share-based compensation (Note 16)	-	-	-	2,685,629	-	-	-	2,685,629
Warrants issued with convertible debentures (Note 15(xii))	-	-	6,531	-	-	-	-	6,531
Partial sale of Sativa Nativa (Note 17)	-	1,751,634	-	-	-	-	1,048,366	2,800,000
Foreign exchange translation	-	-	-	-	-	(935,753)	(489,625)	(1,425,378)
Net loss	-	-	-	-	(21,071,974)	-	(1,141,063)	(22,213,037)
Balance at December 31, 2019	**22,364,723**	**46,033,465**	**4,267,996**	**4,010,824**	**(30,800,436)**	**(1,124,524)**	**7,488,456**	**29,875,781**

The accompanying notes are an integral part of these consolidated financial statements

Avicanna Inc.
Consolidated Statements of Cash Flows
For the Year Ended December 31, 2019 and 2018
(Expressed in Canadian Dollars)

	For the Year Ended December 31, 2019	For the Year Ended December 31, 2018
Cash flows from operating activities:		
Net loss	$ (22,213,037)	$ (7,289,397)
Depreciation and amortization	923,514	172,705
Interest incurred on lease liability	33,157	-
Accretion of convertible debentures	40,160	-
Share-based compensation	2,685,629	1,401,320
Impact of foreign exchange translation	(1,425,378)	(188,771)
Issuance of common shares for services	738,776	1,034,466
Gain on fair value of derivative liability	(77,569)	-
Recognition of deferred revenue (Note 11)	3,323,518	-
Recognition of derivative asset (Note 11)	(3,780,000)	-
Deferred tax recovery (Note 23)	(1,033,393)	-
Loss attributed to equity accounted investee	-	27,607
Gain in fair value of equity accounted investees	-	(1,126,976)
Changes in non-cash operating elements of working capital (Note 22)	1,335,007	978,260
Cash used in operating activities	**(19,449,616)**	**(4,990,786)**
Cash flows from investing activities:		
Purchase of capital assets	(6,794,166)	(3,867,701)
Redemption in marketable securities	-	10,000
Cash advanced to controlled entities prior to acquisition	-	(3,183,957)
Investment in minority company	-	(72)
Cash acquired on acquisition of Santa Marta Golden Hemp SAS (Note 4)	-	25,177
Cash acquired on acquisition of Sativa Nativa SAS (Note 4)	-	26,804
Purchase of intangible asset	(695,329)	(50,670)
Cash used in investing activities	**(7,489,495)**	**(7,040,419)**
Cash flows from financing activities:		
Issuance of convertible debentures	783,000	-
Funds received from shareholder advances	-	331,320
Cash from partial sale of Sativa Nativa SAS (Note 17)	2,800,000	-
Payment towards lease liability	(148,367)	-
(Repayment of) Proceeds from loan	(14,441)	14,441
Increase in balance due to related parties	2,987,796	74,888
Proceeds from exercise of warrants	3,453,973	617,775
Proceeds from issuance of common shares	-	5,661,374
Proceeds from exercise of options	310,000	45,000
Proceeds from issuance of special warrants	17,139,612	4,179,156
Cash provided by financing activities	**27,311,573**	**10,923,954**
Net increase (decrease) in cash	**372,462**	**(1,107,251)**
Cash, beginning of year	**69,295**	**1,176,546**
Cash, end of year	**$ 441,757**	**$ 69,295**

The accompanying notes are an integral part of these consolidated financial statements.

1. NATURE OF OPERATIONS AND GOING CONCERN UNCERTAINTY

Avicanna Inc. ("Avicanna" or the "Company") was incorporated in Ontario. The Company is focused on innovative product development and research in the medical cannabis industry. To date, the Company has not generated significant revenues from its operations and is considered to be in development stage.

During the year ended December 31, 2018, Avicanna obtained control of Sativa Nativa S.A.S. ("Sativa Nativa") by acquiring an additional 35% of the issued and outstanding shares, bringing the Company's total ownership up to 70%. As such, the results for Sativa Nativa for the year ending December 31, 2018 have been consolidated with the Company's. On April 5, 2019 Mountain Valley MD Inc. ("MVMD") subscribed to and purchased 25% of the issued and outstanding shares of Sativa Nativa, following the close of the transaction, the Company's interest in Sativa Nativa was diluted to 63% of the then total issued and outstanding shares. In addition, during the year ended December 31, 2018, Avicanna obtained control of Santa Marta Golden Hemp S.A.S. ("SMGH") by acquiring 60% of the issued and outstanding shares. As such, the results for SMGH for the year end December 31, 2018 have been consolidated with the Company's.

On August 8, 2019 the Company entered into an agreement with Sigma Analytical Services Inc. ("Sigma Analytical") to establish an Ontario based corporation, Sigma Magdalena Canada Inc. ("Sigma Canada"), for the testing cannabis-based products. The Company will own 61% of the Sigma Canada and the remaining 39% will be owned by a subsidiary of Sigma Analytical. Additionally, Sigma Canada will own 100% of Sigma Magdalena S.A.S ("Sigma Colombia"), incorporated in Colombia.

As at December 31, 2019 the Company has an accumulated deficit of $30,800,436 (December 31, 2018 - $9,728,462), cash of $441,757 (December 31, 2018 – $69,295), and a working capital deficit of $4,770,649 (December 31, 2018 – deficit of $595,358). Additionally, the Company incurred a net loss after taxes of $22,213,037 and used $19,449,616 of cash from operating activities during the year ended on December 31, 2019. When compared to the same period in prior year, the Company incurred a net loss of $7,289,397 and used $4,990,786 of cash from operating activities. The Company will need to raise additional financing to continue operations, product development and clinical research. Although the Company has been successful in the past in obtaining financing and it believes that it will continue to be successful, there is no assurance that it will be able to obtain adequate financing in the future or that such financing will be available on terms that are advantageous to the Company. These material uncertainties may cast significant doubt as to the Company's ability to continue as a going concern.

These consolidated financial statements have been prepared on a going concern basis which contemplates that the Company will continue operations for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of business. These consolidated financial statements do not give effect to adjustments that would be necessary to the carrying values and classification of assets and liabilities should the Company be unable to continue as a going concern.

2. BASIS OF PRESENTATION

Statement of compliance

These consolidated financial statements have been prepared by management in accordance with International Financial Reporting Standard ("IFRS"), as set out in the CPA Canada Handbook – Accounting ("CPA Handbook") as issued by the International Accounting Standards Board ("IASB"). The policies set out below have been consistently applied to all periods presented unless otherwise noted.

These consolidated financial statements were approved and authorized for issuance by the Company's Board of Directors on April 14, 2020.

2. BASIS OF PRESENTATION (continued)

Basis of presentation

These consolidated financial statements have been prepared on a historical cost basis except for biological assets and derivative financial instruments, which are measured at fair value through profit and loss, as explained in the accounting policies below. Historical costs are generally based upon the fair value of the consideration given in exchange for goods and services. These consolidated financial statements are presented in Canadian dollars, which is the Company's functional currency. The Company currently views the business as one operating segment but expects this to change in future periods.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Company takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date.

Basis of consolidation

These consolidated financial statements include the accounts of the Company, its wholly owned subsidiaries, 2516167 Ontario Inc. ("My Cannabis") and Avicanna LATAM S.A.S. ("LATAM"), and its majority owned subsidiaries, Sativa Nativa in which the Company owns 63% of the issued and outstanding shares and SMGH in which the Company owns 60% of the issued and outstanding shares. Additionally, the company consolidates Sigma Canada. As of December 31, 2019, the company owned 39% of Sigma Canada and has the right to increase its ownership to 61% in future periods. Although the Company did not have legal control through its share ownership as of the reporting date, the share purchase agreement provides substantive rights to Avicanna which resulted in control under IFRS. More specifically, the Company elects a majority of the board members and significantly directs the relevant activities that affect the investee's returns through its direct involvement in the day to day operations of the business. For all other subsidiaries, the Company is deemed to control a subsidiary when it is exposed to, or has the right to, variable returns from its involvement with an investee and it has the ability to direct the activities of the investee that significantly affects the investee's returns through its power over the subsidiary. Where the Company's interest in a subsidiary is less than one hundred percent, the Company recognizes a non-controlling interest in the investee. The results of subsidiaries acquired during the year are consolidated from the date of acquisition. All intercompany transactions, balances, revenues and expenses are eliminated on consolidation.

Subsequent to acquisition, the carrying amount of non-controlling interests is the amount recognized initially, plus the non-controlling interests' share of changes in the capital of the company in addition to changes in ownership interests. Total comprehensive income or loss is attributed to non-controlling interests, even if this results in the non-controlling interests having a deficit balance.

The financial statements of controlled entities are included in these consolidated financial statements from the date control is effective until control ceases to exist.

Foreign currency translation

These consolidated financial statements are presented in Canadian dollars, which is the functional currency of the Company and its subsidiaries, except for Sativa Nativa, LATAM, Sigma Colombia and SMGH. The functional currency of Sativa Nativa, LATAM, Sigma Colombia, and SMGH is the Colombian Peso. Foreign currency transactions are translated into Canadian dollars at exchange rates in effect on the date of the transactions. At the end of each reporting period, monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the foreign exchange rate applicable at that period-end date. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Expenses are translated at the exchange rates that approximate those in effect on the date of the transaction. Realized and unrealized exchange gains and losses are recognized in the consolidated statements of operations and comprehensive loss.

Foreign exchange gains or losses arising from a monetary item receivable from or payable to a foreign operation, the settlement of which is neither planned nor likely to occur in the foreseeable future and which in substance is considered to form part of the net investment in the foreign operation, are recognized in other comprehensive income in the translation reserve.

2. BASIS OF PRESENTATION (continued)

Use of judgments, estimates and assumptions

The preparation of the consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates are based on management's best knowledge of current events and actions that the Company may undertake in the future. 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 revision affects both current and future periods.

The following are the critical judgments, apart from those involving estimations, that management have made in the process of applying the Company's accounting policies and that have the most significant effect on the amounts recognized in the consolidated financial statements:

Functional currency

The functional currency for each of the Company's subsidiaries is the currency of the primary economic environment in which the respective entity operates. Such determination involves certain judgements to identify the primary economic environment. The Company reconsiders the functional currency of its subsidiaries if there is a change in events and/or conditions which determine the primary economic environment.

Business combinations

Determining whether an acquisition meets the definition of a business combination or represents an asset purchase requires judgment on a case by case basis. As outlined in IFRS 3, the components of a business must include inputs, processes and outputs.

Management makes judgments in the valuation of the consideration transferred, including determining the value of any contingent consideration. The consideration transferred for an acquired business ("purchase price") is assigned to the identifiable tangible and intangible assets purchased and liabilities assumed on the basis of their fair values at the date of acquisition. The identification of assets acquired, and liabilities assumed, and the valuation thereof is judgmental. Any excess of purchase price over the fair value of the identifiable tangible and intangible assets purchased and liabilities assumed is allocated to goodwill. Goodwill is initially recognized at cost and is allocated to the cash-generating unit ("CGU") expected to benefit from the acquisition. A CGU is the smallest group of assets for which there are separately identifiable cash flows.

Biological assets and inventory

In calculating the value of the biological assets and inventory, management is required to make a number of estimates, including estimating the stage of growth of the cannabis up to the point of harvest, harvesting costs, selling costs, average or expected selling prices and list prices, expected yields for the cannabis plants, and oil conversion factors. 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 contained in Note 4.

Estimated useful life of long-lived assets

Judgment is used to estimate each component of a long-lived asset's useful life and is based on an analysis of all pertinent factors including, but not limited to, the expected use of the asset and in the case of an intangible asset, contractual provisions that enable renewal or extension of the asset's legal or contractual life without substantial cost, and renewal history. If the estimated useful lives were incorrect, it could result in an increase or decrease in the annual amortization expense, and future impairment charges or recoveries.

2. BASIS OF PRESENTATION (continued)

Use of judgments, estimates and assumptions (continued)

Impairment of long-lived assets
Property and equipment and definite lived intangible assets are tested for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. Indefinite lived Intangible assets, including goodwill, are tested for impairment annually. For the purposes of measuring recoverable values, assets are aggregated into cash generating units ("CGUs") based on an assessment of the lowest levels for which there are separately identifiable cash flows. The determination of individual CGUs is based on management's judgement regarding shared infrastructure, geographical proximity and similar exposure to market risk. The recoverable value is the greater of an asset's fair value less costs of disposal and value in use. In assessing the value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and risk specific to the asset. An impairment loss is recognized for the value by which the asset's carrying value exceeds its recoverable value.

Determination of share-based payments
The estimation of share-based payments (including warrants and stock options) requires the selection of an appropriate valuation model and consideration as to the inputs necessary for the valuation model chosen. The model used by the Company is the Black-Scholes valuation model at the date of the grant. The Company makes estimates as to the volatility, the expected life, dividend yield and the time of exercise, as applicable. The expected volatility is based on the average volatility of share prices of similar companies over the period of the expected life of the applicable warrants and stock options. The expected life is based on historical data. These estimates may not necessarily be indicative of future actual patterns

Provisions
Provisions are accrued for liabilities with uncertain timing or amounts, if, in the opinion of management, it is both likely that a future event will confirm that a liability had been incurred at the date of the consolidated financial statements and the amount can be reasonably estimated. In cases where it is not possible to determine whether such a liability has occurred, or to reasonably estimate the amount of loss until the performance of some future event, no accrual is made until that time. In the ordinary course of business, the Company may be party to legal proceedings which include claims for monetary damages asserted against the Company. The adequacy of provisions is regularly assessed as new information becomes available.

Income taxes
Provisions for taxes are made using the best estimate of the amount expected to be paid based on a qualitative assessment of all relevant factors. The Company reviews the adequacy of these provisions at the end of the reporting period. However, it is possible that at some future date an additional liability could result from audits by taxing authorities. Where the final outcome of these tax-related matters is different from the amounts that were initially recorded, such differences will affect the tax provisions in the period in which such determination is made.

The Company's effective income tax rate can vary significantly for various reasons, including the mix and volume of business in lower income tax jurisdictions and in jurisdictions for which no deferred income tax assets have been recognized because management believed it was not probable that future taxable profit would be available against which income tax losses and deductible temporary differences could be utilized.

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.

2. BASIS OF PRESENTATION (continued)

Use of judgments, estimates and assumptions (continued)

Leases (continued)
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.

Fair values
Certain of the Company's assets and liabilities are measured at fair value. In estimating fair value the Company uses market-observable data to the extent it is available. In certain cases where Level 1 inputs are not available the Company will engage third party qualified valuers to perform the valuation.

Information about the valuation techniques and inputs used in determining the fair value of biological assets is disclosed in Note 6, derivative asset in Note 11, financial instruments in Note 18 and the acquired intangible assets in Note 23.

3. SIGNIFICANT ACCOUNTING POLICIES

Leases
Effective January 1, 2019, the Company adopted IFRS 16, Leases, replacing IAS 17, which resulted in changes in accounting policies as described below. In accordance with the transitional provisions in the standard, IFRS 16 was adopted retrospectively without restating comparatives, with the cumulative impact adjusted in the opening balances as at January 1, 2019. The Company also utilized certain practical expedient elections whereby (i) there is no need to reassess whether an existing contract is a lease, or contains an embedded lease if previously determined under IAS 17, (ii) short term and low value leases are treated as operating leases, and (iii) there is no need to reassess the previous assessments in respect of onerous contracts that confirmed there were no existing onerous lease contracts. Under IFRS 16, leases greater than 12 months are now recognized on the balance sheet for lessees, essentially eliminating the distinction between a finance lease and an operating lease under IAS 17, where operating leases were reflected in the consolidated statements of operations and comprehensive loss. There were no transitional adjustments upon adoption of this standard as all outstanding leases were entered in the current year.

The following are the Company's new accounting policies for its leases under IFRS 16:

The determination of whether an arrangement is, or contains, a lease is based on the substance of the agreement on the inception date.

As a lessee, the Company recognizes a lease obligation and a right-of-use asset in the consolidated statements of financial position on a present-value basis at the date when the leased asset is available for use. Each lease payment is apportioned between a finance charge and a reduction of the lease obligation. Finance charges are recognized in finance cost in the consolidated statements of operations and comprehensive loss. The right of-use asset is depreciated over the shorter of its estimated useful life and the lease term on a straight-line basis.

Lease obligations are initially measured at the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payment that are based on an index or a rate;
- amounts expected to be payable under residual value guarantees;
- the exercise price of a purchase option if the Company is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the Company exercising that option.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases (continued)

Lease payments are discounted using the interest rate implicit in the lease, or if this rate cannot be determined, the Company's incremental borrowing rate. Right-of-use assets are initially measured at cost comprising the following:

- the amount of the initial measurement of the lease obligation;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs; and
- rehabilitation costs.

Payments associated with short-term leases and leases of low-value assets are recognized on a straight-line basis as an expense in the consolidated statements of operations and comprehensive loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise primarily small equipment.

Revenue recognition

The Company recognizes revenue in accordance with IFRS 15. IFRS 15 specifies how and when revenue should be recognized based on a five-step model, which is applied to all contracts with customers. The Company's accounting policy for revenue recognition under IFRS 15 is to follow a five-step model to determine the amount and timing of revenue to be recognized:

1. Identifying the contract with a customer
2. Identifying the performance obligations within the contract
3. Determining the transaction price
4. Allocating the transaction price to the performance obligations
5. Recognizing revenue when/as performance obligation(s) are satisfied.

The Company currently generates revenue from patient referral services and sale of its cannabis-based products. Consulting and patient referral services are provided through the Company's wholly owned subsidiary My Cannabis. The Company recognizes revenue at the time when the consulting service is provided to the patient and consideration has been received in full. For its referral services, the Company recognizes revenue at the time when the customer acknowledges the referral and the consideration has been transferred in full. Revenue from the sale of the Company's cannabis-based products is recognized when the Company transfers control of the goods to the customers. Control of the product transfers at a point in time either upon shipment to, or receipt by, the customer, depending on the contractual terms. The Company recognizes revenue in an amount that reflects the consideration that the Company expects to receive considering any variation that may result from rights of return.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Property and equipment

Property and equipment is stated at cost, net of accumulated depreciation and accumulated impairment losses, if any. Such cost includes the cost of replacing part of the property and equipment. All other repair and maintenance costs are recognized in the consolidated statements of operations and comprehensive loss.

The initial cost of property and equipment comprises its purchase price or construction cost and any costs directly attributable to bringing it to a working condition for its intended use. The purchase price or construction cost is the aggregate amount of cash consideration paid and the fair value of any other consideration given to acquire the asset. Where an item of property and equipment is comprised of significant components with different useful lives, the components are accounted for as separate items of property and equipment.

For all property and equipment, depreciation is calculated over the depreciable amount, which is the cost of an asset less its residual value. Depreciation is calculated starting on the date that property and equipment is available for its intended use. For all other property and equipment, depreciation is calculated on a straight-line basis based on the asset's useful life as presented below:

	Estimated useful life (years)
Equipment	5-10
Infrastructure and Buildings	20-25

Construction-in-progress includes property and equipment in the course of construction and is carried at cost less any recognized impairment charge. These assets are reclassified to the appropriate category of property and equipment and depreciation of these assets commences when they are completed and ready for their intended use.

Intangible assets

Intangible assets acquired separately are measured upon initial recognition at cost, which comprises the purchase price plus any costs directly attributable to the preparation of the asset for its intended use. Intangible assets acquired through business combinations or asset acquisitions are initially recognized at fair value as at the date of acquisition. Subsequent to initial recognition, intangible assets are carried at cost less accumulated amortization and any accumulated impairment charges.

All intangible assets are amortized on a straight-line basis over their estimated useful lives as follows:

	Estimated useful life (years)
Licenses	20-25
E-commerce platform	5
Software licenses	2
Intellectual property	5
Customer list	5

Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the intangible assets require the use of estimates and assumptions and are accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense attributable to an intangible asset is recognized in the consolidated statements of operations and comprehensive loss in the expense category consistent with the function of the intangible asset.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Business Acquisitions
A business combination is a transaction or event in which an acquirer obtains control of one or more businesses and is accounted for using the acquisition method. The total consideration paid for the acquisition is the aggregate of the fair values of assets acquired, liabilities assumed, and equity instruments issued in exchange for control of the acquiree at the acquisition date. The acquisition date is the date when the Company obtains control of the acquiree. The identifiable assets acquired, and liabilities assumed are recognized at their acquisition date fair values, except for deferred taxes and share-based payment awards where IFRS provides exceptions to recording the amounts at fair value. Goodwill represents the difference between total consideration paid and the fair value of the net-identifiable assets acquired. Acquisition costs incurred are expensed to profit or loss. Contingent consideration is measured at its acquisition date fair value and is included as part of the consideration transferred in a business combination, subject to the applicable terms and conditions. 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 with the corresponding gain or loss recognized in profit or loss.

Based on the facts and circumstances that existed at the acquisition date, management will perform a valuation analysis to allocate the purchase price based on the fair values of the identifiable assets acquired and liabilities assumed on the acquisition date. Management has one year from the acquisition date to confirm and finalize the facts and circumstances that support the finalized fair value analysis and related purchase price allocation. Until such time, these values are provisionally reported and are subject to change. Changes to fair values and allocations are retrospectively adjusted in subsequent periods.

Biological assets
The Company's biological assets consist of cannabis plants. The Company capitalizes all the direct and indirect costs as incurred related to the biological transformation of the biological assets between the point of initial recognition and the point of harvest including labour related costs, grow consumables, materials, utilities, facilities costs, quality and testing costs. The Company then measures the biological assets at fair value less cost to sell up to the point of harvest, which becomes the basis for the cost of finished goods inventories after harvest. Cost to sell includes post-harvest production, which include API extraction, shipping and fulfillment costs. The net unrealized gains or losses arising from changes in fair value less cost to sell during the year are included in the consolidated statements of operations of the related reporting year.

Research and development
Research costs are expensed when incurred. Development costs are capitalized when the feasibility and profitability of the project can be reasonably considered certain. Expenditure on development activities, whereby research findings are applied to a plan or design for the production of new or substantially improved products and processes, is capitalized if the product or process is technically and commercially feasible and the Company has sufficient resources to complete development. The expenditure capitalized includes the cost of materials, direct labour and an appropriate proportion of overheads. Other development expenditure is recognized in the income statement as an expense as incurred. Capitalized development expenditure is stated at cost less accumulated amortization and impairment losses.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Inventories

Inventories of harvested work-in-process and finished goods are valued at the lower of cost and net realizable value. Inventories of harvested cannabis are transferred from biological assets at their fair value less cost to sell up to the point of harvest, which becomes the initial deemed cost. All subsequent direct and indirect postharvest costs are capitalized to inventory as incurred, including labour related costs, consumables, materials, packaging supplies, utilities, facilities costs, quality and testing costs, and production related depreciation. Net realizable value is determined as the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. Inventories for resale and supplies and consumables are valued at the lower of costs and net realizable value, with cost determined using the weighted average cost basis.

The line item "Inventory production costs expensed to cost of sales" in the consolidated statements of operations is comprised of the cost of inventories expensed in the year and the direct and indirect costs of shipping and fulfillment including labour related costs, materials, shipping costs and facilities costs

Financial Instruments

The classification of financial assets under IFRS 9 is based on the business model in which a financial asset is managed and its contractual cash flow characteristics.

The Company uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1	Valuation based on quoted prices (unadjusted) in active markets for identical assets or liabilities;
Level 2	Valuation techniques based on inputs, other than quoted prices included in Level 1, that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e., derived from prices); and
Level 3	Valuation techniques using inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The classifications for each class of the Company's financial assets and financial liabilities are summarized in the following table:

	Classification under IFRS 9
Financial Assets	
Cash	Amortized cost
Amounts receivable	Amortized cost
Derivative asset	FVTPL
Investment	FVTPL
Financial Liabilities	
Amounts payable	Amortized cost
Lease liability	Amortized cost
Due to related party	Amortized cost
Convertible debenture	Amortized cost
Derivative liability	FVTPL
Term loan	Amortized cost

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial Instruments (continued)

(i) Financial assets

Financial assets are initially measured at fair value. On initial recognition, the Company classifies its financial assets at either amortized cost, fair value through other comprehensive income or fair value through profit or loss, depending on its business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. Financial assets are not reclassified subsequent to their initial recognition, unless the Company changes its business model for managing financial assets.

A financial asset is measured at amortized cost if it meets both of the following conditions: a) the asset is held within a business model whose objective is to hold assets to collect contractual cash flows and b) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Where the fair values of financial assets recorded on the consolidated statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques. The inputs to this model are derived from observable market date where possible, but where observable market data is not available, judgement is required to establish fair values.

(ii) Impairment of financial assets

For amounts receivable, the Company applies the simplified approach to providing for expected credit losses prescribed by IFRS 9, which requires the use of the lifetime expected credit loss provision for all amounts receivable. Expected credit losses are measured as the difference in the present value of the contractual cash flows that are due under the contract and the cash flows that the Company expects to receive. The expected cash flows reflect all available information, including the Company's historical experience, the past due status, the existence of third-party insurance and forward-looking macroeconomic factors.

(iii) Financial liabilities

Non-derivative financial liabilities are measured at amortized cost, unless they are required to be measured at FVTPL as is the case for held for trading or derivative instruments, or the Company has opted to measure the financial liability at FVTPL. The Company's financial liabilities include amounts payable and debt which are each measured at amortized cost.

All financial liabilities are recognized initially at fair value and in the case of loans and borrowings, net of directly attributable transaction costs.

After initial recognition, financial liabilities measured at amortized cost are subsequently measured at the end of each reporting period at amortized cost using the Effective Interest Rate ("EIR") method. Amortized cost is calculated by taking into account any discount or premium on acquisition and any fees or costs that are an integral part of the EIR. The EIR amortization is included in finance cost in the consolidated statements of operations and comprehensive loss.

Convertible debentures

Convertible debentures are recorded on the consolidated statement of financial position at amortized cost. The convertible debentures are separated out into their liability and derivative liability components. The fair value of the liability component at the time of issue was determined based on an estimated interest rate of the debentures without the conversion feature-less the value associated to derivative liability as mentioned below. The fair value of the derivative liability was determined as the difference between the total proceeds on issuance of the convertible note less the value of the convertible debenture. Subsequent to initial recognition, the company will accrete the debenture over its contractual term using the effective interest rate method.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Derivative liability

The Derivative liability is recorded on the consolidated statement of financial position at fair value. The conversion features of the convertible debentures, whereby the holder of the notes can convert any accrued interest payments to common shares (see note 8) is determined to be an embedded derivative liability and is separately valued and accounted for on the statement of financial position with changes in fair value recognized through profit and loss. The pricing model the Company uses for determining the fair value of the derivative liability is the Black Scholes Model. The model uses market sourced inputs such as interest rates and stock price volatilities. Selection of these inputs involves management's judgment and may impact net income.

Derivative asset

The Derivative asset is recorded on the consolidated statement of financial position at fair value. The asset relates to the call option which was granted to the company as part of Avicanna's transaction with LC2019 Inc (See Note 11). The fair value of the option is determined by using a discounted cash flow which involves calculating the net present value of cash flows that are expected to be derived from future activities. The forecast cash flows are discounted by a rate that reflects the time value of money and the risk inherent in the cash flows. The Company will revalue the Call Option each reporting period and will recognize any changes in the fair value through profit and loss.

Income taxes

Current income tax

Current income tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities on the taxable loss or income for the period. The tax rates and tax laws used to compute the amount are those enacted or substantively enacted by the end of the reporting period.

Current income tax assets and current income tax liabilities are only offset if a legally enforceable right exists to offset the amounts and the Company intends to settle on a net basis or to realize the asset and settle the liability simultaneously.

Investment tax credits on Scientific Research and Experimental Development expenditures are reflected in intangible assets as deductions from development costs when such expenditures have been capitalized to intangible assets. Otherwise, investment tax credits on Scientific Research and Experimental Development expenditures are recorded as other income.

Deferred income tax

Deferred income tax is provided on temporary differences on the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred income tax liabilities are recognized for all taxable temporary differences. Deferred income tax assets are recognized for all deductible temporary differences, and the carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable income will be generated in future periods to utilize these deductible temporary differences.

The carrying amount of deferred income tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient future taxable income will be generated to allow all or part of the deferred income tax asset to be utilized. Unrecognized deferred income tax assets are reassessed at the end of each reporting period and are recognized to the extent that it has become probable that future taxable income will be generated to allow the deferred income tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to be in effect in the period when the asset is expected to be realized or the liability is expected to be settled, based on tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred income tax assets and liabilities are offset if a legally enforceable right exists to offset current income tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Income taxes (continued)

Deferred income tax (continued)
Judgment is required in determining whether deferred income tax assets and liabilities are recognized on the consolidated statement of financial position. Deferred income tax assets, including those arising from unutilized tax losses, require management to assess the likelihood that the Company will generate future taxable income in order to utilize the deferred income tax assets. Estimates of future taxable income are based on forecasted cash flows from operations or other activities. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the Company to realize the net deferred income tax assets recorded on the reporting date could be impacted.

Provisions and contingencies
Provisions are recognized when: a) the Company has a present obligation (legal or constructive) as a result of a past event; and b) it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made for the amount of the obligation. If the effect of the time value of money is material, provisions are discounted using a current pre-tax discount rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision as a result of the passage of time is recognized in finance cost in the consolidated statements of operations and comprehensive loss.

A contingent liability is not recognized in the case where no reliable estimate can be made; however, disclosure is required unless the possibility of an outflow of resources embodying economic benefits is remote. By its nature, a contingent liability will only be resolved when one or more future events occur or fail to occur. The assessment of a contingent liability inherently involves the exercise of significant judgment and estimates of the outcome of future events.

Provisions represent liabilities of the Company for which the amount or timing is uncertain. Provisions are recorded when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated. Provisions are measured at the present value of the expected expenditures required to settle the obligation using a discount rate that reflects current market assessments of the time value of money and the risks specific to the obligation.

Loss per share
The Company presents basic and diluted loss per share for its common shares, calculated by dividing the loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted loss per share is determined by adjusting the loss attributable to common shareholders and the weighted average number of common shares outstanding for the effects of all warrants and options outstanding that may add to the total number of common shares.

Share-based compensation
The fair value of stock options and warrants is based on the application of the Black-Scholes option pricing model. This pricing model requires management to make various assumptions and estimates which are susceptible to uncertainty, including the share price, volatility of the share price, expected dividend yield and expected risk-free interest rate.

(expressed in Canadian dollars, except share and per share amounts)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Share capital

Common shares and warrants are classified as equity. The share capital represents the amount received upon issuance of shares. Incremental costs directly attributable to the issuance of shares or warrants are recognized as a deduction from the proceeds in equity in the period in which the transaction occurs. Proceeds from unit placements are allocated between shares and warrants issued on a pro-rata basis of their value within the unit using the Black-Scholes option pricing model to determine the fair value of warrants issued.

4. BUSINESS TRANSACTIONS (RESTATED)

Acquisition of Control of Sativa Nativa S.A.S.

Effective February 28, 2018, the Company acquired control of Sativa Nativa with the purchase of an additional 35% of the issued and outstanding shares of Sativa Nativa, bringing the Company's total holdings to 70% of the issued and outstanding shares. Sativa Nativa holds land in Santa Marta, Colombia and has a license to harvest and extract medical cannabis in Colombia.

Pursuant to the acquisition, Avicanna transferred cash consideration of $947,244 and issued an additional 150,000 common shares of the Company at a share price of $2.00 per share to acquire an additional 35% of the issued and outstanding common shares of Sativa Nativa. As a result, the fair value of the consideration transferred was $1,247,244.

At the acquisition date, the carrying value of the Company's initial investment in in Sativa Nativa, representing 35% of the issued and outstanding common shares, was $117,268. Therefore, the Company recorded a gain of $1,129,976 on the fair value of the initial investment in Sativa Nativa.

The purchase price allocation was as follows:

Fair value of consideration transferred		
Cash consideration	$	947,244
Fair value of shares transferred		300,000
Fair value of previously held common shares		1,247,244
Non-controlling interest		1,069,066
Total consideration	**$**	**3,563,554**
Fair value of net assets acquired		
Assets		
Cash on hand	$	977,048
Prepaid and other assets		42,292
Fair value of license		2,478,728
Fair value of land		241,861
Goodwill (Note 25)		686,845
Liabilities		
Accounts payable and accrued liabilities		(21,577)
Due to shareholders		(154,798)
Deferred tax liability (Note 25)		(686,845)
Total fair value of identifiable net assets	**$**	**3,563,554**

Acquisition of Control of Santa Marta Golden Hemp S.A.S.

Effective October 22, 2018, the Company acquired 60% of the issued and outstanding common shares of SMGH. SMGH is located in Santa Marta, Colombia and has a license to harvest, extract and sell medical cannabis. The total purchase price was $10,788,071 which was settled with the issuance of 1,477,817 common shares of the Company issued at a price of $7.30 per share.

(expressed in Canadian dollars, except share and per share amounts)

4. BUSINESS TRANSACTIONS (RESTATED) (continued)

The purchase price allocation was as follows:

Fair value of consideration transferred		
Fair value of shares transferred	$	10,788,071
Non-controlling interest		7,192,048
Total consideration	$	**17,980,119**
Fair value of net assets acquired		
Assets		
Cash	$	25,177
Prepaid and other assets		1,113,184
Property and equipment		1,710,062
Fair value of license		8,102,583
Fair value of land		10,120,059
Goodwill (Restated, Note 25)		2,520,382
Liabilities		
Accounts payable and accrued liabilities		(61,787)
Due to related parties		(3,029,159)
Deferred tax liability (Restated, Note 25)		(2,520,382)
Total fair value of identifiable net assets	**$**	**17,980,119**

5. AMOUNTS RECEIVABLE

		December 31, 2019		**December 31, 2018**
Trade and other receivables	$	384,846	$	111,571
Sales tax receivable		818,078		147,037
Total amounts receivable	**$**	**1,202,924**	**$**	**258,608**

6. BIOLOGICAL ASSETS

Biological assets consist of cannabis on plants and active pharmaceutical ingredients (“API”). The changes in the carrying value of biological assets are as follows:

		December 31, 2019		December 31, 2018
Balance at the beginning of the year	$	-	$	-
Production costs capitalized		858,698		122.284
Write down of biological assets		-		(122,284)
Gain in fair value less costs to sell due to biological transformation		103,887		-
Transferred to inventory upon harvest		(845,217)		-
Balance at end of the year	**$**	**117,367**	**$**	**-**

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 fair values based on the inputs to the valuation technique used. 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.

(expressed in Canadian dollars, except share and per share amounts)

6. BIOLOGICAL ASSETS (continued)

The following table quantifies each significant unobservable input and provides the impact a 10% increase/decrease in each input would have on the fair value of biological assets. No comparative information is presented as the Company did not recognize biological assets at December 31, 2019.

		As at December 31, 2019		
Assumptions		Input	Change in Value	
Weighted average of expected loss of plants until harvest [a]	[i]	8.8%	$	21,173
Expected yields for cannabis plants	[ii]	60g	$	29,995
Weighted average number of growing weeks completed as a percentage of total growing weeks as at period end	[iii]	29%	$	24,772
Estimated fair value less costs to complete and sell (per gram) [b]	[iv]	$0.23	$	41,753
After harvest cost to complete and sell (per gram)	[v]	$0.23	$	37,517

a. Weighted average of expected loss of plants until harvest represents loss via plants that do not survive to the point of harvest. It does not include any financial loss on a surviving plant.

b. The estimated fair value less costs to complete and sell (per gram) represents the expected sales price for the Company's bulk dried flower less the remaining costs to complete and sell that product as finished product which is inclusive of all production activities.

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 in future periods.

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 cannabis plants biological assets will yield approximately 2,181,702 grams of dry cannabis when harvested.

The Company's estimates are, by their nature, subject to change and differences from the anticipated yield will be reflected in the gain or loss on biological assets in future periods.

7. INVENTORY

		Capitalized Cost		**Biological assets fair value adjustment**		**Carrying value**
Harvested Cannabis						
Raw materials	$	259,098	$	(120,492)	$	138,606
Finished goods		-		-		-
		259,098		(120,492)		138,606
Active Pharmaceutical Ingredients						
Work in process		448,825		122,874		571,699
Finished goods		110,131		112,593		222,724
		558,956		235,467		794,423
Supplies and consumables		243,243		-		243,243
Finished goods (Cosmetic products)		308,099		-		308,099
At December 31, 2019	$	1,369,396	$	114,975	$	1,484,371

During the year ended December 31, 2019, the Company successfully registered 19 of its genetics which provided the Company with the ability to sell its API and dried flower inventory.

(expressed in Canadian dollars, except share and per share amounts)

8. PROPERTY AND EQUIPMENT

		Equipment	Land	Construction in Progress	Infrastructure and Buildings	Total
Cost						
December 31, 2018	$	1,077,894	10,361,920	5,012,228	-	16,452,042
Additions		400,839	-	6,393,327	-	6,794,166
Disposals		-	-	-	-	-
Transfers		1,268,625	-	(6,993,568)	5,724,943	-
At December 31, 2019	$	2,747,358	10,361,920	4,411,987	5,724,943	23,246,208

		Equipment	Land	Construction in Progress	Infrastructure and Buildings	Total
Accumulated Depreciation						
Balance at, December 31, 2018	$	195,906	-	-	-	195,906
Depreciation		336,865	-	-	91,115	427,980
Disposals		-	-	-	-	-
At December 31, 2019	$	532,771	-	-	91,115	623,886

		Equipment	Land	Construction in Progress	Infrastructure and Buildings	Total
Net Book Value						
December 31, 2018	$	881,988	10,361,920	5,012,228	-	16,256,136
December 31, 2019	$	2,214,588	10,361,920	4,411,987	5,633,827	22,622,322

		Equipment	Land	Construction in Progress	Infrastructure and Buildings	Total
Cost						
Balance at December 31, 2017	$	512,359	-	-	-	512,359
Additions		565,535	10,361,920	5,012,228	-	15,939,683
Disposals		-	-	-	-	-
At December 31, 2018	$	1,077,894	10,361,920	5,012,228		16,452,042

		Equipment	Land	Construction in Progress	Infrastructure and Buildings	Total
Accumulated Depreciation						
Balance at, December 31, 2017	$	51,466	-	-	-	51,466
Depreciation		144,440	-	-	-	144,440
Disposals		-	-	-	-	-
At December 31, 2018	$	195,906	-	-	-	195,906

		Equipment	Land	Construction in Progress	Infrastructure and Buildings	Total
Net Book Value						
December 31, 2017	$	460,893	-	-	-	460,893
December 31, 2018	$	881,988	10,361,920	5,012,228	-	16,256,136

During the year ended December 31, 2019, the Company recognized depreciation expense on its property and equipment of $427,980 (December 31, 2018 - $144,440) on the consolidated statement of operations and comprehensive loss.

(expressed in Canadian dollars, except share and per share amounts)

9. INTANGIBLE ASSETS

		Customer Relationships	Ecommerce Platform	Licenses and Permits	Software Licenses	Intellectual Property	Total
Cost							
At December 31, 2018	$	141,327	-	10,631,981	-	-	10,773,308
Additions		-	386,010	105,217	92,488	111,614	695,329
Disposals		-	-	-	-	-	-
At December 31, 2019	$	141,327	386,010	10,737,198	92,488	111,614	11,468,637

		Customer Relationships	Ecommerce Platform	Licenses and Permits	Software Licenses	Intellectual Property	Total
Accumulated Amortization							
At December 31, 2018	$	40,042	-	-	-	-	40,042
Additions		28,265	19,301	311,415	3,854	1,860	364,694
Disposals		-	-	-	-	-	-
At December 31, 2019	$	68,307	19,301	311,415	3,854	1,860	404,736

		Customer Relationships	Ecommerce Platform	Licenses and Permits	Software Licenses	Intellectual Property	Total
Net Book Value							
December 31, 2018	$	101,285	-	10,631,981	-	-	10,733,266
December 31, 2019	$	73,020	366,709	10,425,783	88,634	109,754	11,063,900

		Customer Relationships	Ecommerce Platform	Licenses and Permits	Software Licenses	Intellectual Property	Total
Cost							
At December 31, 2017	$	141,327	-	-	-	-	141,327
Additions		-	-	10,631,981	-	-	10,631,981
Disposals		-	-	-	-	-	-
At December 31, 2018	$	141,327	-	10,631,981	-	-	10,773,308

		Customer Relationships	Ecommerce Platform	Licenses and Permits	Software Licenses	Intellectual Property	Total
Accumulated Amortization							
At December 31, 2017	$	11,776	-	-	-	-	11,776
Additions		28,266	-	-	-	-	28,266
Disposals		-	-	-	-	-	-
At December 31, 2018	$	40,042	-	-	-	-	40,042

		Customer Relationships	Ecommerce Platform	Licenses and Permits	Software Licenses	Intellectual Property	Total
Net Book Value							
December 31, 2017	$	129,551	-	-	-	-	129,551
December 31, 2018	$	101,285	-	10,631,981	-	-	10,733,266

During the year ended December 31, 2019, the Company recognized amortization on its intangible assets of $364,694 (December 31, 2018 - $28,266) on consolidated statement of operations and comprehensive loss.

(expressed in Canadian dollars, except share and per share amounts)

10. RIGHT TO USE ASSETS

As of December 31, 2019, the Company's right to use asset consisted of the following:

		December 31, 2019
Balance at the beginning of the year	$	-
Additions		670,549
Depreciation expense		(130,839)
Balance at end of year	**$**	**539,710**

The Company recognized a right to use asset during the year under IFRS 16. The right to use asset is depreciated on a straight-line basis over the term of its leases related to its corporate offices. Depreciation expense for the year was $130,839 which is included on the consolidated statement of operations and comprehensive loss.

11. DERIVATIVE ASSET AND DEFERRED REVENUE

On November 26, 2019, the Company entered into a license agreement (the "License Agreement") with LC2019, Inc. ("LC2019") pursuant to which the Company has agreed to license certain proprietary formulations and brand elements to LC2019 for commercialization in the United States. As consideration for entering into the License Agreement, LC2019 and its shareholders have entered into a definitive option agreement (the "Option Agreement") that grants Avicanna the option (the "Option") to acquire 100 percent of the issued and outstanding shares of LC2019, with such Option to be exercisable in the event that cannabis cultivation, processing, distribution and possession becomes federally legal in the United States (the "Triggering Event"). Avicanna may elect to waive the Triggering Event and exercise the Option at any time.

Pursuant to the terms of the Option Agreement, upon the occurrence of the Triggering Event, Avicanna will exercise the Option and purchase all of the issued and outstanding shares of LC2019, as follows: (i) all of the issued and outstanding Class A shares at a nominal amount; (ii) all of the issued and outstanding Class B shares at the applicable subscription price; and (iii) all of the issued and outstanding Class C shares for up to 10% of the increase in the fair market value of LC2019 between the date of the Option Agreement and the date that Avicanna provides notice of exercise to LC2019, up to a maximum aggregate amount of CDN$10,000,000. Avicanna is entitled to elect to satisfy the purchase price in cash or through the issuance of common shares of Avicanna, in its sole discretion, subject to the approval of the Toronto Stock Exchange ("TSX") and in accordance with the policies of the Toronto Stock Exchange at such time. Additionally, Avicanna may elect to exercise the Option prior to the occurrence of the Triggering Event in its sole discretion or to assign the Option at any time.

The Option is exercisable for 10 years from the date of grant. The Option Agreement contains standard negative covenants, representations and warranties.

The Call Option is a derivative financial instrument. The Call Option was recorded at its fair value of $3,780,000 and is included as a Derivative financial asset in the consolidated statement of financial position. The Company will subsequently revalue the call option each reporting period and recognize any fair value changes in the consolidated statement of operations and comprehensive loss.

The above license transfers both brand/ trademark as well as intellectual property related to product development. For LC2019 to benefit from the brand, there are activities that the Company would need to perform in order to support and maintain the value of the brand/ trademark. As ongoing activities are required to maintain the brand, the license to the brand/ trademark would be considered a right to access and therefore would be recognized over time. In addition, given the license is for cannabis related to product development, the Company meets the criteria for right of use of intellectual property and recognize at a point time. However IFRS 15 states that revenue cannot be recognized for a license that provides a right to use intellectual property before the period during which the customer is able to use and benefit from the license. As at December 31, 2019, cannabis is federally illegal in the US, therefore there exist restrictions in the benefits that the Company can derive from this license. Consequently, the whole revenue derived from the above license has been recognized as deferred revenue.

(expressed in Canadian dollars, except share and per share amounts)

12. LEASE LIABILITY

As of December 31, 2019, the lease liability consisted of the following:

		December 31, 2019
Balance at the beginning of the year	$	-
Additions		670,549
Interest incurred on lease liability		33,157
Lease payments and interest		(148,367)
Balance at end of year	**$**	**555,339**
Lease liability – current portion		224,950
Lease liability – non-current portion		330,389

The Company has lease liabilities for leases related to its corporate offices. The weighted average discount rate for the year ended December 31, 2019 was 8% percent. During the year ended December 31, 2019, the Company recorded rent expense of $115,210 to general and administrative expenses in relation to the lease liabilities (December 31, 2018 - $nil).

13. CONVERTIBLE DEBENTURES

On March 1, 2019 ("Closing Date"), the Company completed a convertible debenture offering and raised gross proceeds of $783,000. The debentures incur interest at 8.0% per annum and have a maturity date of March 1, 2021. Each debenture is convertible, at the option of the holder, at any time before the maturity date, into fully paid and non-assessable Common Shares at the conversion price (the "Conversion Price"), representing a conversion rate of 125 Common Shares per $1,000 principal amount of debentures, subject to adjustment in accordance with the debenture certificates. Additionally, 48,938 common share purchase warrants were issued in relation to these debentures, with each holder receiving 62.5 warrants per debenture purchased. Each whole warrant entitles the holder to acquire one common share of the Company (a "Warrant Share") at a price of $10.00 per Warrant Share for a period of 12 months following the Closing Date. Upon conversion of any Debentures, the holder thereof will also receive all accrued and unpaid interest thereon in Common Shares issued at the Conversion Price. Fair value of the warrants was determined using the Black-Scholes option pricing model with a market price per common share of $8.00, a risk-free interest rate of 2.13%, an expected annualized volatility of 19.45% and expected dividend yield of 0%. A fair value of $6,531 has been allocated to the warrants.

The following table is a break down of the convertible debenture balance on initial recognition and subsequent accretion:

		December 31, 2019
Balance at the beginning of the year	$	-
Additions		675,466
Accretion expense		40,160
Balance at end of year	**$**	**715,626**

(expressed in Canadian dollars, except share and per share amounts)

14. RELATED PARTY TRANSACTIONS

The following outlines amounts that were paid to officers of the Company.

		December 31, 2019		December 31, 2018
Salaries	$	1,292,089	$	671,433
Share-based compensation		302,332		34,000
	$	**1,594,421**	**$**	**705,433**

Salaries and shared based compensation include compensation paid to key management personnel. The Company defines key management personnel as the Chief Executive Officer, President, Chief Financial Officer, Chief Scientific, Chief Agricultural Officer, Chief Technical Officer and Chief Medical Officer.

Additionally, as at December 31, 2019 the Company received advances from certain related parties who represent the minority shareholders of SMGH in the amount of $3,319,116 (December 31, 2018- $331,320). The advances relate to minority partners contributions towards the expansion of cultivation facilities. The balance owed to the related party is interest free and due on demand.

15. SHARE CAPITAL

Authorized and outstanding share capital:
The authorized share capital of the Company consists of an unlimited number of common shares and unlimited number of preferred shares. As at December 31, 2019 the Company had 22,364,723 common shares issued and outstanding (December 31, 2018 – 15,646,965).

Transactions:

[i] On January 29, 2018, common shares were issued on the exercise of 25,000 stock options. The options were exercised at a price of $1.00 per common share for gross proceeds of $25,000. These stock options had a fair value of $6,847.

[ii] On January 29, 2018, the company issued 2,007,508 units for gross proceeds of $4,015,016. Each unit was issued at $2.00 per unit and included one common share and one-half common share purchase warrant. Each whole warrant is exercisable to acquire one common share at an exercise price of $2.50 per common share for a period expiring on the earlier of: [i] 24 months from the date of issuance; and [ii] 12 months subsequent to the IPO date. Fair value of the common share purchase warrants was determined to be $0.61 per warrant using the Black-Scholes option pricing model with a market price per common share of $2, a risk-free interest rate of 1.77%, an expected annualized volatility of 90% and expected dividend yield of 0%. Gross proceeds of $4,015,016 were allocated to common shares and common share purchase warrants in the amount of $3,412,234 and $602,782, respectively.

[iii] On February 28, 2018, the Company issued 150,000 common shares to acquire 10% of the issued and outstanding common shares of Sativa Nativa S.A.S. The common shares of the Company were valued at $300,000 and were issued at a price of $2.00 per common share.

[iv] On July 31, 2018, the company issued 325,323 common shares for gross proceeds of $2,374,858. Each common share was issued at a price of $7.30 per share.

[v] On September 21, 2018, 94,000 common shares were issued on the exercise of 94,000 common share purchase warrants. The warrants were exercised at a price of $1.00 per common share for gross proceeds of $94,000. These warrants had a fair value of$18,322.

[vi] On October 22, 2018, the Company issued 1,477,818 common shares to acquire 60% of the issued and outstanding common shares of Santa Marta Golden Hemp S.A.S. The common shares issued by the Company were issued at a price of $7.30 per share and had a total fair value of $10,788,071.

15. SHARE CAPITAL (continued)

Transactions (continued):

[vii] On December 13, 2018 ("First Tranche Closing Date") the Company issued 540,484 Special Warrants at $8.00 each for gross proceeds of $4,323,872 which was the first tranche ("First Tranche") of the Company's Special Warrants offering. As part of this transaction the company incurred issuance cost of $144,716, resulting in net proceeds of $4,179,156. Each Special Warrant holder is entitled to receive upon conversion one unit (each, a "Unit") of the corporation with each Unit consisting of one common share ("Common Share") in the capital of the corporation and one half of one Common Share purchase warrant (each whole warrant, "Whole Warrant" and together with the Common Shares, "Underlying Securities") with each Whole Warrant entitling the holder thereof to purchase one Common Share in the capital of the corporation at a price of $10.00 for a period of two years after the closing date; subject to the Company's right to accelerate the expiry date of the Whole Warrants upon thirty (30) days' notice in the event that the Common Shares become listed on a recognized stock exchange in Canada and the volume weighted average trading price of the Common Shares is equal to or exceeds $12.50 for a period of ten (10) consecutive trading days on such exchange. The Special Warrants issued will be automatically exercised into Underlying Securities, without any action, including additional payment, on the part of the Special Warrant holder, upon the earlier to occur of: (i) the date that is three business days following the date on which the Corporation obtains a receipt, from the applicable securities regulatory authorities, for the Prospectus, and (ii) the date that is 120 days following the First Tranche Closing Date. Additionally, 18,090 compensation warrants were issued to finders related to this sale of Special Warrants. The compensation warrants are exercisable into a Unit for a period of 2 years and an exercise price of $8.00 per compensation warrant. Fair value of the compensation warrants was determined using the Black-Scholes option pricing model with a market price per common share of $8.00, a risk-free interest rate of 1.89%, an expected annualized volatility of 90% and expected dividend yield of 0%. A fair value of $70,281 has been allocated to the compensation warrants. The transaction costs were measured based on the fair value of the equity instruments granted as the fair value of services cannot be reliably measured.

[viii] During the year ended December 31, 2018, the Company issued 276,605 common shares for consulting services with a value of $1,034,466. Of these common shares, 195,638 common shares were issued at $2.00 per common share, 6,494 common shares were issued at $7.30 per common share and 74,473 common shares were issued at $8.00 per common share.

[ix] During the year ended December 31, 2018, 200,000 common shares were issued on the exercise of 200,000 stock options. The options were exercised at a price of $0.10 per common share for gross proceeds of $20,000.

[x] During the year ended December 31, 2018, 209,510 common shares were issued on the exercise of 209,510 common share purchase warrants. The warrants were exercised at a price of $2.50 per common share for gross proceeds of $523,775. The warrants had a fair value of $125,817.

[xi] During the year ended December 31, 2019, 1,155,000 common shares were issued on the exercise of 1,155,000 stock options. Of the total options exercised, 950,000 were exercised at a price of $0.10 per common share, 195,000 were exercised at a price of $1.00 per common share and 10,000 were exercised at a price of $2.00 per common share for gross proceeds of $310,000. The options exercised were held at a fair value of $100,402.

[xii] During the year ended December 31, 2019, 48,937 common share purchase warrants were issued as part of the convertible debenture issuance (Note 7). Each warrant entitles the holder to acquire one common share of the Company (a "Warrant Share") at a price of $10.00 per Warrant Share for a period of 12 months following the Closing Date. The warrants issued were allocated a fair value of $6,531.

[xiii] During the year ended December 31, 2019, 2,701,598 common shares were issued on the exercise of 2,701,598 common share purchase warrants. Of the total warrants exercised, 2,171,681 were exercised at a price of $1.00 per common share, 85,000 were exercised at a price of $2.00 per common share and 444,917 were exercised at a price of $2.50 per common share for gross proceeds of $3,453,974. The common share purchase warrants exercised were held at a fair value of $696,223.

15. SHARE CAPITAL (continued)

Transactions (continued):

[xiv] During the year ended December 31, 2019, 540,484 common shares were issued on the exercise of 540,484 special warrants. The special warrants exercised were held at a fair value of $4,108,875. As noted above in note 10 (vii), upon the conversion of each Unit, each unitholder received one half of one common share purchase warrant which provides the right to purchase one Common Share in the capital of the corporation at a price of $10.00 for a period of two years after the closing date. As such 270,242 common share purchase warrants were issued at the time of conversion. Fair value of the warrants was determined using the Black-Scholes option pricing model with a market price per common share of $8.00, a risk-free interest rate of 1.89%, an expected annualized volatility of 90% and expected dividend yield of 0%. A fair value of $509,315 has been allocated to the warrants. Each common share purchase warrant subject to acceleration such that, if the Common Shares are listed and posted for trading on a stock exchange and the volume weighted average price of the Common Shares on such stock exchange is equal to or greater than $12.50 for a period of 10 consecutive trading days, the Corporation may at its option elect to accelerate the expiry of the common share purchase warrants by providing notice to the holders thereof, in which case the common share purchase warrants will expire on the 30th calendar day following delivery of such notice.

[xv] On April 15, 2019 ("Second Tranche Closing Date") the Company issued 2,228,328 Special Warrants at $8.00 each for gross proceeds of $17,826,624 which was the second tranche ("Second Tranche") of the Company's Special Warrants offering. As part of this transaction the company incurred cash issuance cost of $670,800 and compensation warrant cost of 517,782, resulting in net proceeds of $16,638,042 Each Special Warrant holder is entitled to receive upon conversion one unit (each, a "Unit") of the corporation with each Unit consisting of one common share ("Common Share") in the capital of the corporation and one half of one Common Share purchase warrant (each whole warrant, "Whole Warrant" and together with the Common Shares, "Underlying Securities") with each Warrant entitling the holder thereof to purchase one Common Share in the capital of the corporation at a price of $10.00 for a period of two years after the closing date. Additionally, 129,290 compensation warrants were issued to finders related to this sale of Special Warrants. The compensation warrants are exercisable into a Unit for a period of 2 years and an exercise price of $8.00 per compensation warrant. Fair value of the compensation warrants was determined using the Black-Scholes option pricing model with a market price per common share of $8.00, a risk-free interest rate of 1.89%, an expected annualized volatility of 90% and expected dividend yield of 0%. A fair value of $517,782 has been allocated to the compensation warrants. The transaction costs were measured based on the fair value of the equity instruments granted as the fair value of services cannot be reliably measured. Each common share purchase warrant subject to acceleration such that, if the Common Shares are listed and posted for trading on a stock exchange and the volume weighted average price of the Common Shares on such stock exchange is equal to or greater than $12.50 for a period of 10 consecutive trading days, the Corporation may at its option elect to accelerate the expiry of the common share purchase warrants by providing notice to the holders thereof, in which case the common share purchase warrants will expire on the 30th calendar day following delivery of such notice.

[xvi] During the year ended December 31, 2019, the Company issued 92,348 common shares for consulting services with a value of $738,776. All common shares were issued at a value of $8.00 per common share.

[xvii] During the year ended December 31, 2019, 2,228,328 common shares were issued on the exercise of 2,228,328 special warrants. The special warrants exercised were held at a fair value of $16,638,042. As noted above in note 11 (xv), upon the conversion of each Unit, each unitholder received one half of one common share purchase warrant which provides the right to purchase one Common Share in the capital of the corporation at a price of $10.00 for a period of two years after the closing date. As such 1,114,162 common share purchase warrants were issued at the time of conversion. Fair value of the warrants was determined using the Black-Scholes option pricing model with a market price per common share of $8.00, a risk-free interest rate of 2.00%, an expected annualized volatility of 90% and expected dividend yield of 0%. A fair value of $3,138,905 has been allocated to the warrants.

(expressed in Canadian dollars, except share and per share amounts)

15. SHARE CAPITAL (continued)

Warrant Reserve

As at December 31, 2019 the following warrants were outstanding and exercisable:

	Warrants Issued / Exercised #	Weighted average exercise price $
Outstanding as at December 31, 2017	**2,564,160**	**$0.99**
Warrants issued	1,116,910	2.45
Special warrants issued	540,484	8.00
Compensation warrants issued	18,090	8.00
Warrants exercised	(303,510)	(1.69)
Outstanding as at December 31, 2018	**3,936,134**	**$2.15**
Warrants issued	3,790,959	8.76
Special warrants exercised	(2,768,812)	8.00
Warrants expired	(625,962)	2.28
Warrants exercised	(2,701,598)	(1.28)
Outstanding as at December 31, 2019	**1,630,721**	**$9.56**

The common shares had a weight average share price of $7.72 on the date the warrants were exercised.

The following table is a summary of the Company's warrants outstanding as at December 31, 2019:

Warrants Outstanding			Warrants Exercisable	
Exercise price range $	Number outstanding #	Weighted average remaining life (years)	Weighted average exercise price $	Number exercisable #
1.00	25,000	2.33	0.02	25,000
2.00	25,000	0.09	0.03	25,000
8.00	147,380	1.12	0.72	147,380
10.00	1,433,341	1.04	8.79	1,433,341
Balance December 31, 2019	**1,630,721**	**1.19**	**9.56**	**1,630,721**

16. SHARE BASED PAYMENT RESERVE AND STOCK OPTIONS

The Company has established a stock option plan (the "Option Plan") for directors, officers, employees and consultants of the Company. The Company's Board of Directors determines, among other things, the eligibility of individuals to participate in the Option Plan and the term, vesting periods, and the exercise price of options granted to individuals under the Option Plan.

Each share option converts into one common share of the Company on exercise. No amounts are paid or payable by the individual on receipt of the option. The options carry neither the right to dividends nor voting rights. Options may be exercised at any time from the date of vesting to the date of their expiry.

The Company's Option Plan provides that the number of common shares reserved for issuance may not exceed 10% of the number of common shares outstanding. If any options terminate, expire, or are cancelled as contemplated by the Option Plan, the number of options so terminated, expired, or cancelled shall again be available under the Option Plan

(expressed in Canadian dollars, except share and per share amounts)

16. SHARE BASED PAYMENT RESERVE AND STOCK OPTIONS (continued)

[i] Measurement of fair values

The fair value of share options granted during the periods ended December 31, 2019 and December 31, 2018 was estimated at the date of grant using the Black Scholes option pricing model using the following inputs:

	2019	**2018**
Grant date share price	$8.00	$3.75
Exercise price	$8.00	$3.86
Expected dividend yield	0%	0%
Risk-free interest rate	1.7% - 2.06%	2.06%
Expected option life	7 – 10 years	7 years
Expected volatility	90%	90%

Employee and non-employee options

Expected volatility was estimated by using the historical volatility of other actively traded public companies that the Company considers comparable that have trading and volatility history. The expected option life represents the period of time that options granted are expected to be outstanding. The risk-free interest rate is based on Canada government bonds with a remaining term equal to the expected life of the options.

[ii] Reconciliation of outstanding equity-settled share options

	Options issued/(exercised)	**Weighted average exercise**
	#	$
Outstanding as at December 31, 2017	**1,960,000**	**0.36**
Options issued	877,500	5.10
Options expired	(150,000)	0.10
Options exercised	(225,000)	1.00
Outstanding as at December 31, 2018	**2,462,500**	**1.82**
Options issued	509,915	8.00
Options expired	(20,000)	2.00
Options cancelled	(169,500)	8.00
Options exercised	(1,155,000)	0.04
Outstanding as at December 31, 2019	**1,627,915**	**4.43**

The common shares had a weight average share price of $7.55 on the date the options were exercised.

(expressed in Canadian dollars, except share and per share amounts)

16. SHARE BASED PAYMENT RESERVE AND STOCK OPTIONS (continued)

The following table is a summary of the Company's share options outstanding as at December 31, 2019:

	Options Outstanding		Options Exercisable	
Exercise price range	Number outstanding	Weighted average remaining life	Weighted average exercise price	Number exercisable
$	#	(years)	$	#
$0.10	100,000	4.19	$0.01	100,000
$1.00	315,000	4.78	$0.24	315,000
$2.00	417,500	5.58	$0.49	417,500
$5.00	5,595	7.00	$0.02	887
$7.30	72,000	5.83	$0.30	72,000
$8.00	692,820	6.70	$3.25	438,943
$10.00	25,000	5.78	$0.14	25,000
Balance December 31, 2019	**1,627,915**	**5.78**	**$4.43**	**1,369,330**

17. NON-CONTROLLING INTEREST

The following presents the summarized financial information of the Company's subsidiaries that have material non-controlling interests. This information represents amounts before intercompany eliminations as at December 31, 2019 and 2018.

Santa Marta Golden Hemp S.A.S.

		2019		**2018**
Current assets	$	1,575,581	$	218,298
Non-current assets		29,503,952		24,594,592
Current liabilities		(4,224,490)		(23,673)
Non-current liabilities		(10,806,923)		(7,035,653)
Net assets	$	**16,048,120**	**$**	**17,753,564**

Sativa Nativa S.A.S.

		2019		**2018**
Current assets	$	112,331	$	119,337
Non-current assets		5,712,534		4,781,329
Current liabilities		(312,551)		(23,049)
Non-current liabilities		(298,171)		(1,814,567)
Net assets	**$**	**5,214,143**	**$**	**3,063,050**

Sigma Magdalena Canada Inc.

		2019		**2018**
Current assets	$	7,151	$	-
Non-current assets		267,898		-
Current liabilities		-		-
Non-current liabilities		(281,993)		-
Net assets	**$**	**(6,944)**	**$**	**-**

(expressed in Canadian dollars, except share and per share amounts)

17. NON-CONTROLLING INTEREST (continued)

The net change in non-controlling interest is as follows:

		2019	2018
As at December 31	$	8,070,778	-
Increase in NCI from acquisitions (Note 4)		-	8,261,114
Increase in NCI from MVMD transaction		1,048,366	-
FX translation		(489,625)	-
Net loss attributed to non-controlling interest		(1,141,063)	(190,336)
	$	**7,488,456**	**8,070,778**

On April 5, 2019 Mountain Valley MD Inc. ("MVMD") subscribed to and purchased 25% of the issued and outstanding shares of Sativa Nativa. As part of the transaction, MVMD directly subscribed for 17,892,248 shares of Sativa Nativa for an aggregate purchase price of $2.8 million. The remaining 15% interest was purchased from existing shareholders of Sativa Nativa, the Company not being one. Following the close of the transaction, the Company's interest in Sativa Nativa was reduced to 63% of the then total issued and outstanding shares.

18. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from deposits with banks and outstanding receivables. The Company does not hold any collateral as security but mitigates this risk by dealing only with what management believes to be financially sound counterparties and, accordingly, does not anticipate significant loss for non-performance.

The Company believes that the trade and other receivables balance is fully collectable. As of December 31, 2019, $384,846 in trade and other receivables remained outstanding (December 31, 2018 - $111,571). The Company applies the simplified approach to providing for expected credit losses as prescribed by IFRS 9, which permits the use of lifetime expected loss provision for all trade receivables. The loss allowance is based on the Company's historical collection and loss experience and incorporates forward looking factors, where appropriate.

A summary of aged trade and other receivables is included below:

	Current	1 - 30	31 - 60	61 - 90	90 +	Total
Trade and other receivables	$ 17,076	$ 313,116	$ 1,353	$ 52,774	$ 527	$ 384,846

The Company has recorded a loss provision of $nil during the year-ended December 31, 2019 (December 31, 2018 - $nil).

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company's exposure to liquidity risk is dependent on the Company's ability to raise additional financing to meet its commitments and sustain operations. The Company mitigates liquidity risk by management of working capital, cash flows and the issuance of share capital.

(expressed in Canadian dollars, except share and per share amounts)

18. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (continued)

In addition to the commitments disclosed, the Company is obligated to the following contractual maturities of undiscounted cash flows:

	Carrying amount	Contractual cash flows	Year 1	Year 2	Year 3
Amounts payable	$ 5,177,634	$ 5,177,634	$ 5,177,634	$ -	$ -
Convertible Debentures	715,626	715,626	-	715,626	-
Lease liability	555,339	555,339	224,950	224,950	168,713
	$ 6,448,599	$ 6,448,599	$ 5,402,584	$ 940,576	$ 168,713

The due to related party balance of $3,319,116 is not intended to be repaid. As these amounts become due, the outstanding balances can be converted into common shares of SMGH, consistent with current ownership splits.

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency rate risk, interest rate risk and other price risk.

Currency risk

Currency risk is the risk to the Company's earnings that arise from fluctuations of foreign exchange rates. The Company is exposed to foreign currency exchange risk as it has substantial operations based out of Colombia and record keeping is denominated in a foreign currency. As such the company has foreign currency risk associated with Colombian Pesos.

Interest 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 is exposed to interest rate risk on its convertible debentures which hold a fixed interest rate, but has determined that this risk is not significant.

Other price risk

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices of the Company's cannabis products (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

Fair values

The carrying values of cash, amounts receivable, prepaid assets, investments and amounts payable approximate the fair values due to the short-term nature of these items. The fair value of the convertible debentures is partially derived from market interest rates. The risk of material change in fair value is not considered to be significant due to a relatively short-term nature. The Company does not use derivative financial instruments to manage this risk.

Financial instruments recorded at fair value on the consolidated statement of financial position are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The Company categorizes its fair value measurements according to a three-level hierarchy as disclosed in Note 3. The hierarchy prioritizes the inputs used by the Company's valuation techniques. A level is assigned to each fair value measurement based on the lowest-level input significant to the fair value measurement in its entirety.

(expressed in Canadian dollars, except share and per share amounts)

18. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (continued)

The Company's finance team performs valuations of financial items for financial reporting purposes, including level 3 fair values, in consultation with third party valuation specialists for complex valuations. Valuation techniques are selected based on the characteristics of each instrument, with the overall objective of maximizing the use of market – based information.

The fair value hierarchy requires the use of observable market inputs whenever such inputs exist. A financial instrument is classified to the lowest level of the hierarchy for which a significant input has been considered in measuring fair value. Cash is classified as a Level 1 financial instrument; convertible debentures are classified as a level 2 instrument and the derivative asset is classified as a level 3 instrument. During the year, there were no transfers of amounts between Level 1, Level 2 and Level 3.

The value of the derivative instrument was determined using a discounted cash flow model, using the following assumptions: 20% discount rate, a 20% probability that the triggering event will occur and 1% terminal growth. A reasonable change in any of the inputs will not cause a significant change in the value of the derivative asset.

19. COMMITMENTS

The Company has agreements for select research activities which it is committed to pay the following amounts as at December 31, 2019:

		As at December 31, 2019
2020	$	691,710
2021		776,064
2022		332,214
2023		332,214
Total Commitments	$	2,132,202

20. GENERAL AND ADMINISTRATIVE EXPENSES

		2019		2018
General and administrative	$	6,331,984	$	1,541,039
Selling marketing and promotion		649,324		248,731
Consulting fees		2,519,005		1,198,855
Professional fees		2,482,353		1,915,725
Salaries and wages		6,411,611		1,543,325
Research and development		1,216,626		456,622
Board fees		95,675		85,744
	$	**19,706,578**	**$**	**6,990,041**

During the year ended December 31, 2019, as part of its inventory costing process, the Company capitalized $473,133 of salaries to inventory and biological assets (December 31, 2018 - $nil).

(expressed in Canadian dollars, except share and per share amounts)

21. OTHER (EXPENSES) INCOME

The table is a breakdown of other income and expenses incurred in the period:

		2019		2018
Gain on revaluation of derivative liability	$	77,569	$	-
Foreign exchange loss		(498,000)		(136,501)
Gain on acquisition of previously equity accounted investee (Note 17)		-		1,129,976
Loss attributed from equity accounted investee		-		(27,607)
Other income		383,415		180,475
Interest expense		(54,763)		-
Interest income		68,929		10,355
	$	**(22,850)**	**$**	**1,156,698**

22. NON-CASH OPERATING ELEMENTS OF WORKING CAPITAL

The table is a breakdown of the non-cash elements of working capital presented on the statement of cash flows:

		2019		2018
Trade receivables	$	(944,316)	$	(183,271)
Biological assets		(117,367)		-
Inventory		(1,484,371)		-
Prepaids		158,992		337,233
Accounts payable		3,722,069		824,298
	$	**1,335,007**	**$**	**978,260**

23. IMPAIRMENT OF GOODWILL

For the purpose of the goodwill impairment testing, goodwill has been allocated to the Company's cash generating units ("CGUs"), which represents the lowest level within the Company at which goodwill is monitored for internal management papers.

The aggregate carrying amounts of goodwill allocated to each unit are as follows:

		2019		2018 (Restated, Note 25)
Santa Marta Golden Hemp S.A.S. (Note 25)	$	686,845	$	686,845
Sativa Nativa S.A.S. (Note 25)		2,520,382		2,520,382
	$	**3,207,227**	**$**	**3,207,227**

For the purposes of testing impairment, the recoverable amount of each CGU was based on the fair values less cost of disposal, estimated using discounted cash flows. As the carrying amount of each CGU was determined to be lower than its recoverable amount, no impairment was recorded as at December 31, 2019 (December 31, 2018 - $nil).

(expressed in Canadian dollars, except share and per share amounts)

23. IMPAIRMENT OF GOODWILL (continued)

Unless otherwise indicated, the fair less costs of disposal in 2019 was determined similarly as in 2018. The calculation of the fair value was based on the following key assumptions.

- Cash flows projections included estimates for five years with a terminal growth rate of 3%, based on current market conditions and past experience

- An after-tax discount rate of 25% (2018 – 32%) was applied in determining the recoverable amount of the unit.

The values assigned to the key assumptions represent management's assessment of future trends in the cannabis industry and are based on both external sources and internal sources. A reasonable change in any of the inputs will not cause a significant change in the recoverable amount.

24. INCOME TAXES

Current tax

The reconciliation of the combined Canadian federal and provincial statutory income tax rate of 26.5% (2018 – 26.5%) to the effective tax rate is as follows:

	2019 $	**2018** (Restated, Note 25) $
Net loss attributed to shareholders before recovery of income taxes	(23,246,430)	(7,289,397)
Expected income tax recovery	(6,160,304)	(1,931,690)
Tax rate changes and other adjustments	(448,594)	(119,042)
Tax attributes of acquired entity	(21,122)	-
Share based compensation	711,692	371,350
Non-deductible expenses	168,697	(176,904)
Share issuance costs	(1,336,996)	(38,350)
Change in deferred tax asset not recognized	(6,053,235)	1,894,636
Income tax recovery	(1,033,393)	-

The Company's income tax recovery is allocated as follows

	2019 $	**2018** (Restated, Note 25) $
Current tax (recovery) expense	-	-
Deferred tax (recovery) expense	(1,033,393)	-
	(1,033,393)	

(expressed in Canadian dollars, except share and per share amounts)

24. INCOME TAXES (continued)

Deferred tax

The following table summarizes the components of deferred tax:

	2019	2018
		(Restated, Note 25)
	$	$
Deferred tax assets		
Capital lease obligation	147,165	-
Foreign Exchange	126,316	-
Losses Canada	475,212	32,131
Losses Colombia	1,011,296	178,855
Presumptive income excess	44,193	-
	1,804,182	**210,986**
Deferred tax liabilities		
Property and equipment	(26,189)	(32,131)
Intangible assets	(3,286,852)	(3,386,083)
Capital lease assets	(143,023)	-
Derivative asset	(440,366)	-
Foreign exchange	(69,943)	-
Convertible Debentures	(11,644)	-
	(3,978,015)	**(3,418,214)**
Net deferred tax liability (Note 25)	**(2,173,834)**	**(3,207,227)**

Deferred tax assets and liabilities have been offset where they relate to income taxes levied by the same taxation authority and the Company has the legal right and intent to offset.

The following table represents the movement in net deferred tax liabilities

	2019	2018
		(Restated, Note 25)
	$	$
Balance at the beginning of the year	(3,207,227)	-
Recognized in profit and loss	1,033,393	-
Goodwill	-	(3,207,227)
Deferred tax liabilities	(2,173,834)	(3,207,227)

Unrecognized deferred tax assets

Deferred taxes are provided as a result of temporary differences that arise due to the differences between the income tax values and the carrying amount of assets and liabilities.

(expressed in Canadian dollars, except share and per share amounts)

24. INCOME TAXES (continued)

Deferred tax assets have not been recognized in respect of the following deductible temporary differences:

	2019 $	2018 (Restated, Note 25) $
Other provision	352,685	-
Share issuance costs	4,128,270	115,773
Losses carried forward – Canada	19,319,864	7,221,235
Losses carried forward – Columbia	5,612,632	1,464,284
	29,413,451	8,801,292

The Canadian non-capital loss carryforwards expire as noted in the table below. The Columbian loss carry forwards expire between 2019 and 2031. Share issue and financing costs will be fully amortized in 2022. The remaining deductible temporary differences may be carried forward indefinitely. Deferred tax assets have not been recognized in respect of these items because it is not probable that future taxable profit will be available against which the group can utilize the benefits therefrom.

	$
2036	11,567
2037	2,398,600
2038	4,810,276
2039	13,848,736
	21,069,179

25. CORRECTION OF ERRORS

Subsequent to the original issuance of the December 31, 2018 consolidated financial statements, management determined that the Company had incurred deferred tax liabilities upon acquisitions of SMGH and Sativa Nativa. Upon recognition of the deferred tax liabilities, the Company recognized goodwill in the amount of $3,207,227 related to both acquisitions. The following tables provide a breakdown of the corrections made by the Company.

Line items on the restated consolidated statement of financial position at:

		Previously reported as at December 31, 2018		Restatement		Restated as at December 31, 2018
Assets						
Goodwill	$	-	$	3,207,227	$	3,207,227
Total assets	$	**28,181,001**	$	**3,207,227**	$	**31,388,228**
Liabilities						
Deferred tax liability	$	-	$	3,207,227	$	3,207,227
Total liabilities	$	**1,801,326**	$	**3,207,227**	$	**5,008,553**
Total shareholders' equity and liabilities	$	**28,181,001**	$	**3,207,227**	$	**31,388,228**

25. CORRECTION OF ERRORS (continued)

The restatement did not have an impact on the Company's consolidated statements of operations and comprehensive loss, changes in shareholders' equity, cash flows or on net loss per share.

26. SUBSEQUENT EVENTS

On January 24, 2020 the Company issued an aggregate of 822,721 Units (the "Units") at a price of CAD$2.50 per Unit, for aggregate gross proceeds of approximately CAD$2.06 million.

Each Unit was comprised of one (1) common share in the capital of the Company (each, a "Common Share") and one-half of one (1/2) common share purchase warrant (each whole warrant, a "Warrant"). Each Warrant is exercisable into one common share in the capital of the Company (each, a "Warrant Share") at a price of CAD$3.00 per Warrant Share until January 24, 2023, subject to the Company's right to accelerate the expiry date of the Warrants upon thirty (30) days' notice in the event that the ten (10) day volume weighted average trading price of the Common Shares (subject to the average trading volume per day being at least 30,000 Common Shares) is equal to or exceeds CAD$4.00 on the Toronto Stock Exchange.

Subsequent to year-end, there was a global outbreak of COVID-19 (coronavirus), which has had a significant impact on businesses through the restrictions put in place by the Canadian, provincial and municipal governments regarding travel, business operations and isolation/quarantine orders. At this time, it is unknown the extent of the impact the COVID-19 outbreak may have on the Company as this will depend on future developments that are highly uncertain and that cannot be predicted with confidence. These uncertainties arise from the inability to predict the ultimate geographic spread of the disease, and the duration of the outbreak, including the duration of travel restrictions, business closures or disruptions, and quarantine/isolation measures that are currently, or may be put in place by Canada and other countries to fight the virus. While the extent of the impact is unknown, we anticipate this outbreak may cause reduced customer demand, supply chain disruptions, staff shortages, and increased government regulations, all of which may negatively impact the Company's business and financial condition.