**Avicanna Inc.**
**Consolidated Financial Statements**
**For the Year Ended December 31, 2020 and 2019**
(expressed in Canadian dollars, except share and per share amounts)

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September 3, 2021
Edmonton, Alberta

**INDEPENDENT AUDITOR'S REPORT**

To the Shareholders of Avicanna Inc.

**Opinion**

We have audited the consolidated financial statements of Avicanna Inc. (the Company), which comprise the consolidated statements of financial position as at December 31, 2020, and the consolidated statements of operations and comprehensive loss, changes in shareholders' equity and cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2020, and the consolidated financial performance and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

**Basis for Opinion**

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

**Emphasis of Matter - Material Uncertainty Relating to Going Concern**

We draw attention to Note 1 in the consolidated financial statements, which indicates the Company had an accumulated deficit of $62,036,238, cash of $1,266,732 and a working capital deficit of $6,054,103 as at December 31, 2020. Additionally, the Company incurred a net loss after taxes of $32,861,700 and used $13,970,453 of cash for operating activities during the year ended December 31, 2020.

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.

**Other Matter**

The consolidated financial statements for the year ended December 31, 2019 were audited by another auditor who expressed an unmodified opinion on those financial statements on April 14, 2020.

**Key Audit Matters**

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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***Impairment of Goodwill and Intangible Assets***

*Key Audit Matter Description*

As discussed in Notes 3, 10, and 11 to the consolidated financial statements, during the year ending December 31, 2020, the Company analysed the fair value of intangibles and recorded impairment to goodwill and certain indefinite lived intangible assets.

*How the Key Audit Matter was Addressed in our Audit*

We identified the impairment of intangible assets as a key audit matter as subjective auditor judgment was required to evaluate whether these notes contain impairment of intangible assets and assess the proper valuation of such activity.

The following are the primary procedures we performed to address this key audit matter:

- Evaluated and discussed with management, their analysis over the valuation and accounting treatment over intangible assets;
- Reviewed management's specialist’s fair market valuations of each intangible assets component;
- Obtained an understanding of management’s knowledge, skill and ability of the specialist;
- Evaluated the work of management’s specialist to assess the reasonableness of assumptions used in the evaluation and the accounting treatment of the intangible assets;
- Tested and reviewed the overall calculations; and
- Tested the design and implementation of management's controls surrounding management's valuation of the convertible debenture process.

***Convertible Debentures and Derivative Instruments***

*Key Audit Matter Description*

As discussed in Notes 3, 12, 18 and 19 to the consolidated financial statements, during the year ending December 31, 2020, the Company had two convertible debentures, one issued in March 2019 and the other issued in November 2020. The Company analysed these convertible debentures for embedded derivatives and determined they contained conversion options and embedded derivatives, which were recorded at fair value as a liability upon inception of the convertible debentures and were revalued at the reporting date at fair value.

*How the Key Audit Matter was Addressed in our Audit*

We identified convertible debentures as a key audit matter as subjective auditor judgment was required to evaluate whether these convertible debentures contain derivative financial instruments and assess the proper valuation of such instruments.

The following are the primary procedures we performed to address this key audit matter:

- Evaluated and discussed with management, their analysis over the valuation and accounting treatment over the convertible debentures, as well as, the embedded conversion options and derivatives that require recognition as derivative liabilities;
- Read and analysed the convertible debentures agreements;
- Reviewed management's specialist’s valuations for the convertible debentures, including the embedded derivative components;
- Obtained an understanding of the work of the specialist, including assessing the knowledge, skill and ability of the specialist;
- Evaluated the work of management’s specialist to assess the reasonableness of assumptions used in the evaluation and the accounting treatment of the convertible debentures and related derivatives;
- Tested and reviewed the overall calculations; and

*(continues)*

- Tested the design and implementation of management's controls surrounding management's valuation of the convertible debenture process.

**Other Information**

Management is responsible for the other information. The other information comprises the information, other than the consolidated financial statements and our auditor's report thereon, including Management's Discussion and Analysis.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. We obtained Management's Discussion and Analysis prior to the date of this auditors' 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.

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- 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 Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Justin Rousseau.

Kingston Ross Pasnak LLP

***Kingston Ross Pasnak LLP***
Chartered Professional Accountants

**Avicanna Inc.**
**Consolidated Statements of Financial Position**
**As at December 31, 2020 and 2019**
**(Expressed in Canadian Dollars)**

| | Note | December 31, 2020 | December 31, 2019 |
|---|---|---|---|
| **ASSETS** | | | |
| **Current assets** | | | |
| Cash | | $ 1,266,732 | $ 441,757 |
| Short-term investments | 5 | 1,250,000 | - |
| Amounts receivable | 6 | 1,005,290 | 1,202,924 |
| Prepaid assets | | 1,321,586 | 704,632 |
| Biological assets | 7 | 650,780 | 117,367 |
| Inventory | 8 | 1,276,078 | 1,484,371 |
| **Total current assets** | | **6,770,466** | **3,951,051** |
| Right of use asset | 16 | 343,452 | 539,710 |
| Property and equipment | 9 | 21,465,199 | 22,622,322 |
| Intangible assets | 10,11 | 497,468 | 11,063,900 |
| Deferred tax asset | 26 | 34,451 | - |
| Derivative asset | 12 | 526,312 | 3,780,000 |
| Investments | 14 | 518,213 | 72 |
| Goodwill | 11 | - | 3,207,227 |
| **Total assets** | | **$ 30,155,561** | **$ 45,164,282** |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | | |
| **Current liabilities** | | | |
| Trade payables and accrued liabilities | | $ 6,562,339 | $ 5,177,634 |
| Lease liability – current | 15 | 203,155 | 224,950 |
| Income tax payable | 26 | 20,684 | - |
| Convertible debentures – current | 18 | 1,573,695 | - |
| Derivative liability - current | 19 | 145,151 | - |
| Due to related party | 17 | 4,319,545 | 3,319,116 |
| **Total current liabilities** | | **12,824,569** | **8,721,700** |
| Convertible debentures | 18 | - | 715,626 |
| Derivative liability | 19 | - | 23,434 |
| Lease liability | 15 | 161,061 | 330,389 |
| Deferred revenue | 13 | 3,260,101 | 3,323,518 |
| Deferred tax liability | 26 | - | 2,173,834 |
| **Total liabilities** | | **16,245,731** | **15,288,501** |
| **Shareholders' Equity** | | | |
| Share capital | 20 | 57,468,839 | 46,033,465 |
| Warrants | 20 | 6,780,037 | 4,267,996 |
| Share-based payment reserve | 21 | 5,916,475 | 4,010,824 |
| Accumulated other comprehensive loss | | (2,112,995) | (1,124,524) |
| Deficit | | (62,036,238) | (30,800,436) |
| **Equity attributable to owners of the parent** | | **6,016,118** | **22,387,325** |
| Non-controlling interest | | 7,893,712 | 7,488,456 |
| **Total equity** | | **13,909,830** | **29,875,781** |
| | | **$ 30,155,561** | **$ 45,164,282** |

Nature of Operations and Going Concern Uncertainty (Note 1)
Subsequent Events (Note 31)

Approved by the Board
/s/ Dr. Chandra Panchal, Chairman of the Board of Directors    /s/ John McVicar, Audit Committee Chair, 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, 2020 and 2019**
**(Expressed in Canadian Dollars)**

| | Note | | For the Year Ended December 31, 2020 | December 31, 2019 |
|---|---|---|---|---|
| **Revenue** | | | | |
| Service Revenue | | $ | 13,471 | 49,396 |
| License Revenue | 13 | | 530,264 | - |
| Product Sales | | | 1,026,325 | 118,856 |
| **Total Revenue** | | | **1,570,060** | **168,252** |
| Impairment on inventory | 8 | | (2,397,925) | - |
| Inventory production costs expensed to cost of sales | | | (505,545) | (103,734) |
| **Gross margin before the undernoted** | | | **(1,333,410)** | **64,518** |
| Fair value changes in biological assets included in inventory sold | | | (553,952) | (76,264) |
| Unrealized gain on changes in fair value of biological assets | | | 1,317,247 | 103,887 |
| **Gross margin** | | | **(570,115)** | **92,141** |
| **Expenses** | | | | |
| General and administrative | 24 | | 13,501,808 | 19,706,578 |
| Share-based compensation | 21 | | 3,115,915 | 2,685,629 |
| Depreciation | 9,16 | | 875,285 | 558,820 |
| Amortization of intangible assets | 10 | | 211,706 | 364,694 |
| Impairment of intangible assets | 11 | | 10,255,672 | - |
| Impairment of goodwill | 11 | | 3,207,227 | - |
| **Total Expenses** | | | **(31,167,613)** | **(23,315,721)** |
| Other income (Other expenses) | 27 | | (3,234,047) | 475,150 |
| Gain (loss) on foreign exchange | | | (77,526) | (498,000) |
| **Net loss before taxes** | | **$** | **(35,049,301)** | **(23,246,430)** |
| Income tax expense | 26 | | (20,684) | - |
| Deferred tax recovery | 26 | | 2,208,285 | 1,033,393 |
| **Net loss after taxes** | | | **(32,861,700)** | **(22,213,037)** |
| Exchange differences on translation of foreign subsidiaries | | | (1,934,890) | (1,425,378) |
| **Net comprehensive loss** | | | **(34,796,590)** | **(23,638,415)** |
| Total comprehensive loss attributable to non - controlling interest | | | (2,454,184) | (1,630,688) |
| Total comprehensive loss attributable to shareholders of the company | | | (32,342,406) | (22,007,727) |
| **Weighted average number of common shares – basic and diluted** | | | 29,395,738 | 20,504,013 |
| **Net loss per share – basic and diluted** | | $ | (1.18) | (1.16) |

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

**Avicanna Inc.**
**Consolidated Statements of Changes in Shareholder's Equity**
**For the Years Ended December 31, 2020 and 2019**
**(Expressed in Canadian Dollars)**

| | | Common Shares | | Common Share to be Issued | | Warrants | Share Based Reserve | Deficit | Accumulated Other Comprehensive Loss | Non-controlling Interest | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Note | # | $ | # | $ | $ | $ | $ | $ | $ | $ |
| **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** |
| Exercise of options | 21 | 100,000 | - | - | - | - | - | - | - | - | - |
| Warrants expired | 20 | - | - | - | - | (6,531) | - | 6,531 | - | - | - |
| Issuance of shares - January 2020 | 20[viii] | 822,721 | 1,548,317 | - | - | 508,485 | - | - | - | - | 2,056,802 |
| Issuance of shares - April 2020 | 20[ix] | 3,200,000 | 2,410,874 | - | - | 149,126 | - | - | - | - | 2,560,000 |
| Issuance of shares - August 2020 | 20[x] | 1,952,410 | 2,182,117 | - | - | 551,257 | - | - | - | - | 2,733,374 |
| Share based compensation | 21 | - | - | - | - | - | 3,115,915 | - | - | - | 3,115,915 |
| Settlement of restricted stock units | 21 | 570,153 | 985,136 | 101,722 | 113,526 | - | (1,098,662) | - | - | - | - |
| Forfeiture of restricted stock units | 21 | - | - | - | - | - | (38,053) | 38,053 | - | - | - |
| Forfeiture of options | 21 | - | - | - | - | - | (73,549) | 73,549 | - | - | - |
| Short form prospectus | 20[xi] | 6,861,934 | 4,195,404 | - | - | 1,309,704 | - | - | - | - | 5,505,108 |
| Recapitalization of Subsidiary | 17 | - | - | - | - | - | - | - | - | 2,859,440 | 2,859,440 |
| Foreign exchange translation | | - | - | - | - | - | - | | (988,471) | (946,419) | (1,934,890) |
| Net loss | | - | - | - | - | - | - | (31,353,935) | | (1,507,765) | (32,861,700) |
| **Balance at December 31, 2020** | | **35,871,941** | **57,355,313** | **101,722** | **113,526** | **6,780,037** | **5,916,475** | **(62,036,238)** | **(2,112,995)** | **7,893,712** | **13,909,830** |

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

# Avicanna Inc.
## Consolidated Statements of Changes in Shareholder's Equity
## For the Years Ended December 31, 2020 and 2019
## (Expressed in Canadian Dollars)

| | | Common Shares | | Common Share to be Issued | | Warrants | Share Based Reserve | Deficit | Accumulated Other Comprehensive Loss | Non-controlling Interest | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Note | # | $ | # | $ | $ | $ | $ | $ | $ | $ |
| **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 | 20[iv] | 1,155,000 | 410,402 | - | - | - | (100,402) | - | - | - | 310,000 |
| Exercise of warrants | 20[vi] | 2,701,598 | 4,150,196 | - | - | (696,223) | - | - | - | - | 3,453,973 |
| Warrants expired | 20 | - | 318,423 | - | - | (318,423) | - | - | - | - | - |
| Warrants issued with convertible debentures | 18, 20[v] | - | - | - | - | 6,531 | - | - | - | - | 6,531 |
| Exercise of special warrants | 20[vii] | 540,484 | 3,599,560 | - | - | (3,599,560) | - | - | - | - | - |
| Second tranche financing | 20[iii] | 2,228,328 | 13,482,925 | - | - | 3,138,905 | - | - | - | - | 16,621,830 |
| Share based compensation | 21 | - | - | - | - | - | 2,685,629 | - | - | - | 2,685,629 |
| Expiry of options | 21 | - | 89,510 | - | - | - | (89,510) | - | - | - | - |
| Compensation Warrants with Second Tranche | 20[i] | - | - | - | - | 517,782 | - | - | - | - | 517,782 |
| Shares issued for services | 20[ii] | 92,348 | 738,776 | - | - | - | - | - | - | - | 738,776 |
| MVM Transaction | 20 | - | 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 Years Ended December 31, 2020 and 2019**
**(Expressed in Canadian Dollars)**

| | Note | For the year ended December 31, 2020 | December 31, 2019 (Reclassified – note 29) |
|---|---|---|---|
| **Cash flows from operating activities:** | | | |
| Net loss | | $ (32,861,700) | $ (22,213,037) |
| Depreciation and amortization | | 1,086,991 | 923,514 |
| Implied interest on lease liability | | 37,552 | 33,158 |
| Accretion of convertible debentures | | 103,146 | 40,160 |
| Share-based compensation | | 3,115,915 | 2,685,629 |
| Gain on long-term investment | | (518,141) | - |
| Expected credit losses | | 713,582 | - |
| Issuance of common shares for services | | - | 738,776 |
| Gain on fair value of derivative liability | | (23,434) | (77,569) |
| Recognition of deferred revenue | | (63,417) | 3,323,518 |
| Loss on recognition of derivative asset | | 3,253,688 | (3,780,000) |
| Future tax recovery | | (2,208,285) | (1,033,393) |
| Changes in fair value of biological assets | | (533,413) | (119,165) |
| Impairment of goodwill | | 3,207,227 | - |
| Impairment of intangible assets | | 10,255,672 | - |
| Changes in non-cash operating elements of working capital | 28 | 464,164 | 1,707,377 |
| **Cash used in operating activities** | | **(13,970,453)** | **(17,771,032)** |
| **Cash flows from investing activities:** | | | |
| Purchase of short-term investments | | (1,250,000) | - |
| Purchase of capital assets, net of disposals | | (1,387,129) | (7,915,075) |
| Purchase of intangible asset, net of disposals | | (69,984) | (842,181) |
| **Cash used in investing activities** | | **(2,707,113)** | **(8,757,256)** |
| **Cash flows from financing activities:** | | | |
| Issuance of convertible debentures | | 900,074 | 783,000 |
| Payment towards lease liability | | (228,675) | (148,367) |
| Cash from partial sale of Sativa Nativa S.A.S. | | - | 2,800,000 |
| Proceeds from issuance of common shares | | 12,855,284 | - |
| Change in funds due to related parties | | 3,859,869 | 2,568,987 |
| Proceeds from exercise of warrants | | - | 3,453,973 |
| Proceeds from issuance of special warrants | | - | 517,782 |
| Proceeds from exercise of options | | - | 310,000 |
| Proceeds from exercise of special warrants | | - | 16,621,830 |
| **Cash provided by financing activities** | | **17,386,552** | **26,907,205** |
| Effect of foreign exchange on cash | | **115,989** | (6,455) |
| **Net increase (decrease) in cash** | | **824,975** | **372,461** |
| **Cash, beginning of year** | | **441,757** | **69,295** |
| **Cash, end of year** | | **$ 1,266,732** | **$ 441,757** |

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, Canada. Avicanna is a Canadian vertically integrated biopharmaceutical company developing and driving biopharmaceutical advancements of plant-derived cannabinoid-based products with operations in both North and South America. To date, the Company has commercialized several product lines in both North and South America.

The registered office of the Company is located at 480 University Avenue, Suite 1502, Toronto, Ontario. The Company's common shares are listed under the symbol "AVCN" on the Toronto Stock Exchange ("TSX"); the OTC US exchange under the symbol "AVCNF"; and the Frankfurt Stock Exchange under the symbol "0NN".

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.

As at December 31, 2020, the Company has an accumulated deficit of $62,036,238 (December 31, 2019 - $30,800,436), cash of $1,266,732 (December 31, 2019 – $441,757), and a working capital deficit of $6,054,103 (December 31, 2019 – deficit of $4,770,649). Additionally, the Company incurred a net loss after taxes of $32,861,700 and used $13,970,453 of cash from operating activities during the year ended on December 31, 2020. When compared to the same period in prior year, the Company incurred a net loss of $22,213,037 and used $17,771,032 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.

## 2. BASIS OF PREPARATION

**Statement of compliance**
These consolidated financial statements have been prepared by management in accordance with International Financial Reporting Standard ("IFRS") as issued by the International Accounting Standards Board ("IASB") and Interpretations of the IFRS Interpretations Committee ("IFRIC"). 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 September 3, 2021.

**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. 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.

**Functional and presentation currency**
These consolidated financial statements are presented in Canadian dollars, which is the functional currency of the Company. The functional currency of each subsidiary is presented in the table below.

## 2. BASIS OF PREPARATION (CONTINUED)

### Basis of consolidation

Subsidiaries are entities controlled by the Company. Control exists when the Company has power, directly or indirectly, over an entity and be is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through the power it has. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The following is a list of the Company's operating subsidiaries.

| Subsidiaries | Jurisdiction of Incorporation | Ownership Interest | Functional currency |
|---|---|---|---|
| Avicanna UK | England | 100% | British Pound Sterling |
| Avicanna USA | United States of America | 100% | United States Dollar |
| 2516167 Ontario Inc. ("My Cannabis") | Ontario, Canada | 100% | Canadian Dollar |
| Sigma Magdalena Canada Inc. | Ontario, Canada | 60% | Canadian Dollar |
| Sigma Analytical Magdalena S.A.S. ("Sigma Colombia") | Republic of Colombia | 60% | Columbian Peso |
| Santa Marta Golden Hemp S.A.S. ("SMGH") | Republic of Colombia | 60% | Columbian Peso |
| Avicanna LATAM S.A.S. | Republic of Colombia | 100% | Columbian Peso |
| Sativa Nativa S.A.S. ("SN") | Republic of Colombia | 63% | Columbian Peso |

Intragroup balances, and any unrealized gains and losses or income and expenses arising from transactions with jointly controlled entities are eliminated to the extent of the Company's interest in the entity.

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.

### Foreign currency transactions

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. Foreign currency differences are generally recognized in profit or loss and presented within gain (loss) on foreign exchange.

### Foreign currency translation

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated into Canadian dollars at the exchange rates at the reporting date. The income and expenses of foreign operation are translated into Canadian dollars at the dates of the transactions. Foreign currency differences due to translation are recognized in OCI and accumulated in the translation reserve, except to the extent that the translation difference is allocated to NCI.

### 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.

## 2. BASIS OF PREPARATION (CONTINUED)

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.

In a business combination, substantially all identifiable assets, liabilities and contingent liabilities acquired are recorded at the date of acquisition at their respective fair values. One of the most significant areas of judgment and estimation relates to the determination of the fair value of these assets and liabilities, including the fair value of contingent consideration, if applicable. If any intangible assets are identified, depending on the type of intangible asset and the complexity of determining its fair value, the Company may utilize an independent external valuation expert to develop the fair value, using appropriate valuation techniques, which are generally based on a forecast of the total expected future net cash flows. These valuations are linked closely to the assumptions made by management regarding the future performance of the assets concerned and any changes in the discount rate applied.

*Biological assets and inventory*
In calculating the fair 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. Inventories of harvested cannabis are valued at the lower of cost or net realizable value. The Company estimates the net realizable value of inventories, considering the most reliable evidence available at the reporting date. The future realization of these inventories may be affected by market-driven changes that may reduce future selling prices. A change to these assumptions could impact the Company's inventory valuation and gross profit.

*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.

*Impairment of long-lived assets*
When there are indications that an asset may be impaired, the Company is required to estimate the asset's recoverable amount. The recoverable amount is the greater of value in use and fair value less costs to sell. Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. Determining the value in use requires the Company to estimate expected future cash flows associated with the assets and a suitable discount rate to calculate present value.

In addition to assessing evidence of possible impairment, the Company also determines whether there is any indication that a previously recognized impairment loss for an asset other than goodwill no longer exists or may have decreased. The Company determines whether there has been a change in the estimate used to determine the asset's recoverable amount since the last impairment loss is recognized.

## 2. BASIS OF PREPARATION (CONTINUED)

*Long-term investment*
The fair value of the Company's long-term investments are subject to limitation as the financial information for private companies in which the Company holds investments may not be readily available. Adjustment to the fair value of a long-term investment is based on management's judgement and may be a result of subsequent equity financing provided by third-party investors resulting in a valuation different than the current value of the investee company, significant events and restructuring of the investment company that may result in a material impact on the company's fair value, and financial information received from the investor company.

*Leases*
The Company exercises judgment when contracts are entered into that may give rise to a right-of-use asset that would be accounted for as a lease. Judgment is required in determining the appropriate lease term on a lease by lease basis. The Company considers all facts and circumstances that create an economic incentive to exercise a renewal option or to not exercise a termination option at inception and over the term of the lease, including investments in major leaseholds, operating performance, and changed circumstances. The periods covered by renewal or termination options are only included in the lease term if the Company is reasonably certain to exercise that option.

*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 tax Provisions*
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. 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.

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.

## 2. BASIS OF PREPARATION (CONTINUED)

*Fair value measurements*
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.

## 3. SIGNIFICANT ACCOUNTING POLICIES

**Leases**
At the inception of a contract, the Company assesses if the agreement is or contains a lease arrangement. A lease arrangement exists if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The Company recognizes a right-of-use asset and lease obligation with respect to all lease arrangements with a lease term greater than twelve months. Leases with a term of twelve months, less and variable rent expenses, or leases of low-value assets are recognized on a straight-line basis as an expense in the consolidated statements of net earnings when performance relating to those expenses has occurred. Low-value assets comprise primarily small equipment.

*Right-of-use Asset*
A right-of-use asset is measured at the amount of the initial lease obligation and adjusted for any lease payments made at or before the commencement date of the lease less any incentives, initial direct costs, or the estimate of costs to restore the right-of-use asset at the conclusion of the lease term. They are subsequently measured at cost less accumulated depreciation and impairment losses. Right-of-use assets are depreciated on a straight-line basis over the shorter of the useful life of the underlying asset or the lease term. If it is reasonably certain at the commencement of the lease arrangement that the Company will exercise its purchase option or otherwise obtain ownership of the underlying asset at the end of the lease term, the right-of-use asset is depreciated over the useful life of the underlying asset.

*Lease liability*
The Company measures its lease obligation as the present value of the outstanding lease payments, discounted using the interest rate implicit in the lease and the term of the contract adjusted for reasonably certain renewal or termination options. If the interest rate implicit in the lease is not readily available, the payments are discounted using the Company's incremental borrowing rate. The lease obligation is subsequently measured by increasing the carrying amount for interest using the effective interest method. Lease payments are recognized as reductions to the carrying amount of the lease obligation.

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.

The Company remeasures the lease obligation and right-of-use asset as a result of material modifications to a lease arrangement.

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..

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**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, sale of its cannabis-based products and license, development, and royalties from its intellectual property. 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.

Revenue from license and royalties is recognized when the Company has fulfilled its duties under the terms of the specific license and royalty contracts, or when a related sale is completed by the licensees to their end customers.

Revenue from development projects is recognized when the Company has fulfilled its obligations under the specific agreements with customers. Consideration for development projects is collected at the commencement of the project and recorded into deferred revenue. Revenue is transferred to the consolidated statement of operations and comprehensive loss on a reasonable basis based on the terms of the agreement with the customer.

**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.

Construction-in-progress includes property and equipment not ready for use 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.

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 using a declining balance method based on the asset's useful life as presented below:

| | Estimated useful life (years) |
|---|---|
| **Equipment** | |
| Computer | 2-5 |
| Machinery and Equipment | 5-35 |
| Vehicles | 5-15 |
| **Infrastructure and Buildings** | 20-25 |

**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. After 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 and permits | 20-25 |
| E-commerce platform | 5 |
| Software licenses | 2 |
| Intellectual property | 5 |
| Customer relationships | 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.

**Impairment of long-lived assets**

Property and equipment are tested for impairment when events or changes in circumstances arise that indicate the carrying value may not be recoverable. Definite-lived intangible assets are assessed annually for indicators of impairment. If indicators exist, the asset will be tested for impairment by comparing the recoverable amount to the carrying value. Goodwill and indefinite-lived intangible assets are tested for impairment annually.

For the purposes of measuring recoverable amounts, assets are grouped together into the smallest group of assets that generate cash flows from continuing use that are largely independent of cash inflows of other assets or groups of assets, referred to as a cash generating unit ("CGU"). The recoverable value of a CGU is the greater of its fair value less costs of disposal or 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 CGU. An impairment loss is recognized if the carrying amount of the CGU exceeds its recoverable amount. For asset impairments other than goodwill, the impairment loss reduces the carrying amounts of the non-financial assets in the CGU on a pro-rata basis, up to an asset's individual recoverable amount.

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Business Combinations

Acquisitions of businesses are 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 which are accounted for in accordance with IAS 12 and IFRS 2, respectively. Acquisition costs are recognized in the consolidated statement of operations and comprehensive loss as incurred.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed.

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 which are not yet harvested. 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 Active Pharmaceutical Ingredient ("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.

### Inventories

Inventories consisting of work-in-process and finished goods are valued at the lower of cost or 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 of inventories. 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 costs and testing costs. 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, raw materials 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 and comprehensive loss 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.

Realized fair value amounts from biological assets included in the cost of inventory sold are separately presented for cost of sales as fair value changes in biological assets included in inventory sold.

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Income Taxes

Income tax comprises current and deferred tax. Income tax is recognized in profit or loss except to the extent that it relates to items recognized directly in equity or other comprehensive income, in which case the income tax is also recognized directly in equity or other comprehensive income.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years. Current tax assets and current 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.

Deferred tax is recognized in respect of all qualifying temporary differences arising between the tax basis of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined on a non-discounted basis using tax rates an laws that have been enacted or substantively enacted at the end of the reporting period and are expected to apply when the deferred tax asset or liability is settled. Deferred tax assets are recognized to the extent that it is probable that the assets can be recovered. Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset tax assets and liabilities and when the deferred tax balances relate to the same taxation authority.

Deferred tax assets are recognized to the extent future recovery is probable. At each reporting period end, deferred tax assets are reduced to the extent that it is no longer probable that sufficient taxable earnings will be available to allow all or part of the asset to be recovered.

### Earnings per share

Basic earnings per share is calculated using the weighted average number of common shares outstanding during the year. The dilutive effect on earnings per share is calculated presuming exercise of outstanding options, warrants, convertible debentures and similar instruments.

### Share-based compensation

The Company has an omnibus long-term incentive plan which includes issuances of stock options and restricted share units in place. The Company measures equity settled share-based payments based on their fair value at the grant date and recognizes compensation expense over the vesting period based on the Company's estimate of equity instruments that will eventually vest. Fair value is measured using the Black-Scholes option pricing model. Expected forfeitures are estimated at the date of grant and subsequently adjusted if further information indicates actual forfeitures may vary from the original estimate. Any revisions are recognized in the consolidated statements of loss and comprehensive loss such that the cumulative reflects the revised estimate.

### Research and Development

Research costs are expensed as incurred. Development expenditures are capitalized only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Company intends to and has sufficient resources to complete development to use or sell the asset. Other development expenditures that do not meet the above criteria are recognized in the consolidated statements of operations and comprehensive loss as incurred.

### Financial Instruments

The Company classifies its financial assets and financial liabilities into the following measurement categories;

(i) measured at amortized cost
(ii) subsequently measured at fair value through other comprehensive income ("FVOCI")
(iii) subsequently measured at fair value through profit or loss ("FVPTL").

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

| | Classification |
|---|---|
| **Financial Assets** | |
| Cash | Amortized cost |
| Short-term investments | FVTPL |
| Amounts receivable | Amortized cost |
| Derivative asset | FVTPL |
| Investments | FVTPL |
| **Financial Liabilities** | |
| Trade payables and accrued liabilities | Amortized cost |
| Lease liability | Amortized cost |
| Due to related party | Amortized cost |
| Convertible debentures | Amortized cost |
| Derivative liability | FVTPL |

*(i) Financial assets*
Financial assets are initially measured at fair value. On initial recognition, the Company classifies its financial assets at either amortized cost, FVOCI or FVTPL, 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.

*(ii) FVTPL financial assets*
Financial assets are classified as FVTPL when the financial asset is held for trading, or it is designed as FVTPL. Financial assets classified as FVTPL are stated at fair value with any resulting gain or loss recognized in the consolidated statements of operations and comprehensive loss. Transaction costs are expensed as incurred.

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.

*(iii) 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.

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

*(iv) 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 considering 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.

**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 (note 19) is determined to be an embedded derivative liability and is separately valued and accounted for on the consolidated 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 (note 12). 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.

**Long-term investments**
Long-term investments (other than Level 3 warrants) are initially recorded at cost, being the fair value at the time of acquisition. The investment is subsequently recorded at fair value with any unrealized gain or loss recognized on the consolidated statement of operations and comprehensive loss.

**Share capital**
Common shares are classified as equity. Transaction costs directly attributable to the issuance of common shares are recognized as a reduction in equity. Proceeds received on the issuance of Equity Units, comprised of common shares and warrants, are allocated to common shares and warrants based on the residual method.

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Comparative figures

The presentation of certain comparative figures on the consolidated statements of changes in equity, has been modified on the consolidated financial statements to conform to current year presentation. All modifications are on the presentation only and have not resulted in changes to either the nature or quantity of any balance reported on the consolidated financial statements for the year ended December 31, 2019.

### Non-controlling interests

Non-controlling interests in the net assets of consolidated subsidiaries are identified separately from the Corporation's equity therein. The interest of non-controlling shareholders may be initially measured either at fair value of the consideration received or receivable, or at the non-controlling interest's proportionate share in the recognized amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on an acquisition-by-acquisition basis. Subsequent to acquisition, non-controlling interests consist of the amount attributed to such interests at initial recognition and the non-controlling interest's share of changes in equity since the date of the acquisition

### Comprehensive income

Comprehensive income is the change in the equity of the Company during a reporting period from transactions and other events and circumstances from non-shareholder sources. It includes all changes to equity during a period except those resulting from investments and distributions to shareholders. Comprehensive income is comprised of net income for the period and other comprehensive income. This standard requires certain gains and losses that would otherwise be recorded as part of net income to be presented in "other comprehensive income" until it is considered appropriate to recognize in net income.

The Company's comprehensive income transactions include foreign currency translations recognized due to the consolidation of subsidiaries with a functional currency that differs from the presentation currency. This foreign exchange difference is recognized on the consolidated statements of operations and comprehensive loss, and balance recorded in prior periods is accumulated on the consolidated statements of financial position.

### Related party transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Related parties may be individuals or corporate entities. A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties.

### Government Grants

Government grants and assistance are recognized as other income, or as a deduction to a specific expense depending on the nature of the assistance. Grants are recognized in the period where there is reasonable assurance that the grant or assistance has become receivable and all conditions, if any, have been or will be satisfied.

## 4. NEW ACCOUNTING POLICIES

*Accounting standards adopted in the current period*

Amendments to IAS 1 *"Presentation of Financial Statements"* ("IAS 1")
IAS 1 sets out the overall requirements for financial statements, including how they should be structured, the minimum requirements for their content and overriding concepts such as going concern, the accrual basis of accounting and the current/non-current distinction. The standard requires a complete set of financial statements to comprise a statement of financial position, a statement of profit or loss and other comprehensive income, a statement of changes in equity and a statement of cash flows. IAS 1 has been revised to incorporate a new definition of "material" and IAS 8 has been revised to refer to this new definition in IAS 1. The amendments are effective for annual reporting periods beginning on or after January 1, 2020. Earlier application is permitted.

On January 1, 2020, the Company adopted the amendments to IAS 1 and has concluded that, based on its current operations, the adoption of IAS 1 had no significant impact on the Company's financial statements.

Amendments to IAS 8 *"Accounting Policies, Changes in Accounting Estimates and Errors"* ("IAS 8")
IAS 8 is applied in selecting and applying accounting policies, accounting for changes in estimates and reflecting corrections of prior period errors. The standard requires compliance with any specific IFRS applying to a transaction, event or condition, and provides guidance on developing accounting policies for other items that result in relevant and reliable information. Changes in accounting policies and corrections of errors are generally retrospectively accounted for, whereas changes in accounting estimates are generally accounted for on a prospective basis. The amendment is effective for annual reporting periods beginning on or after January 1, 2020. Earlier application is permitted.

On January 1, 2020, the Company adopted the amendments to IAS 8 and has concluded that, based on its current operations, the adoption of IAS 8 had no significant impact on the Company's financial statements.

Amendments to IFRS 3*, "Business Combinations – Definition of a Business"* ("IFRS 3")
In October 2018, the IASB issued amendments to the definition of a business in IFRS 3 to help entities determine whether an acquired set of activities and assets is a business or not. The amendments clarify the minimum requirements for a business, removed the assessment of whether market participants are capable of replacing any missing elements, added guidance to help entities assess whether an acquired process is substantive, narrowed the definitions of a business and of outputs, and introduced an optional fair value concentration test. The amendments are effective January 1, 2020, with early adoption permitted. The amendments are applied prospectively to transactions or other events that occur on or after the date of first application and are not expected to have a significant impact on the Company's consolidated financial statements.

## 5. SHORT-TERM INVESTMENTS

Short-term investments of $1,250,000 held at December 31, 2020 (2019 - $nil) included guaranteed investment certificates maturing in one year, bearing an annual interest of 0.25%.

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

## 6. AMOUNTS RECEIVABLE

| | | December 31, 2020 | | December 31, 2019 |
|---|---|---|---|---|
| Trade and other receivables | $ | 708,673 | $ | 384,846 |
| Sales tax receivable | | 1,010,199 | | 818,078 |
| Expected credit loss provision | | (713,582) | | - |
| **Total amounts receivable** | **$** | **1,005,290** | **$** | **1,202,924** |

All amounts are short-term. The net carrying value of trade receivables is considered a reasonable approximation of fair value.

## 7. BIOLOGICAL ASSETS

Biological assets consist of cannabis plants and active pharmaceutical ingredients. The changes in the carrying value of biological assets are as follows:

| | | December 31, 2020 | | December 31, 2019 |
|---|---|---|---|---|
| Balance at the beginning of the year | $ | 117,367 | $ | - |
| Foreign exchange adjustment | | (8,372) | | |
| Production costs capitalized | | $848,931 | | 858,698 |
| Gain in fair value less costs to sell due to biological transformation | | $1,340,996 | | 103,887 |
| Transferred to inventory upon harvest | | ($1,648,142) | | (845,218) |
| **Balance at end of the year** | **$** | **$650,780** | **$** | **$117,367** |

The Company measures its biological assets at their fair value less costs to sell. The fair value is calculated based on the expected use, which is determined on a strain-by-strain basis. The Company uses an income approach which estimates the expected harvest yield in grams for plants and seeds currently being cultivated, and then adjusts that amount for the expected selling price less costs to sell per gram. During the year, the Company also cultivated seeds which have been transferred into inventory.

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.

The following table quantifies each significant unobservable input and provides the impact that a 10% increase/decrease in each input would have on the fair value of biological assets.

| | | As of December 31, 2020 | | As of December 31, 2019 | |
|---|---|---|---|---|---|
| | **Assumptions: THC Resin** | **Input** | **Effect on Fair Value** | **Input** | **Effect on Fair Value** |
| [i] | THC Resin Yield | 12.0% | $65,324 | - | - |
| [ii] | THC Resin Price (USD/KG) | 4,400 | $65,306 | - | - |
| [iii] | Weighted average of expected loss of plants until harvest | 28.9% | $173 | - | - |
| [iv] | Expected yields for cannabis plants (average grams per plant) | 134 | $53,173 | - | - |
| [v] | Weighted average number of growing weeks completed as a percentage of total growing weeks as at period end | 88% | $53,173 | - | - |
| [vi] | Estimated fair value less costs to complete and sell (per gram) | $0.63 | $63,271 | - | - |
| [vii] | After harvest cost to complete and sell (per gram) | $0.10 | $10,097 | - | - |

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

## 7. BIOLOGICAL ASSETS (CONTINUED)

| | Assumptions: CBD Resin | As of December 31, 2020 | | As of December 31, 2019 | |
|---|---|---|---|---|---|
| | | Input | Effect on Fair Value | Input | Effect on Fair Value |
| [i] | CBD Resin Yield | - | - | - | - |
| [ii] | CBD Resin Price (USD/KG) | - | - | - | - |
| [iii] | Weighted average of expected loss of plants until harvest | - | - | 8.8% | $21,173 |
| [iv] | Expected yields for cannabis plants (average grams per plant) | - | - | 60 | $29,995 |
| [v] | Weighted average number of growing weeks completed as a percentage of total growing weeks as at period end | - | - | 29% | $24,772 |
| [vi] | Estimated fair value less costs to complete and sell (per gram) | - | - | $0.23 | $41,753 |
| [vii] | After harvest cost to complete and sell (per gram) | - | - | $0.23 | $37,517 |

| | Assumptions: CBD Isolate | As of December 31, 2020 | | As of December 31, 2019 | |
|---|---|---|---|---|---|
| | | Input | Effect on Fair Value | Input | Effect on Fair Value |
| [i] | CBD Isolate Yield | 6% | $2,465 | 6% | $45,928 |
| [ii] | CBD Isolate Price (USD/KG) | 1,100 | $2,462 | 3,000 | 45,928 |
| [iii] | Weighted average of expected loss of plants until harvest | 3.0% | $58 | 8.8% | $21,173 |
| [iv] | Expected yields for cannabis plants (average grams per plant) | 112 | $1,893 | 60 | $29,995 |
| [v] | Weighted average number of growing weeks completed as a percentage of total growing weeks as at period end | 56% | $1,893 | 29% | $24,772 |
| [vi] | Estimated fair value less costs to complete and sell (per gram) | $0.04 | $1,165 | $0.23 | $41,753 |
| [vii] | After harvest cost to complete and sell (per gram) | $0.10 | $3,057 | $0.23 | $37,517 |

| | Assumptions: CBD Seeds | As of December 31, 2020 | | As of December 31, 2019 | |
|---|---|---|---|---|---|
| | | Input | Effect on Fair Value | Input | Effect on Fair Value |
| [i] | CBD Seeds Price (USD/UN) | $0.50 | $2,506 | - | - |
| [ii] | Weighted average of expected loss of plants until harvest | 11.1% | $311 | - | - |
| [iii] | Expected yields for cannabis plants (average units per plant) | 2,500 | $2,491 | - | - |
| [iv] | Weighted average number of growing weeks completed as a percentage of total growing weeks as at period end | 26% | $2,491 | - | - |
| [v] | Estimated fair value less costs to complete and sell (per gram) | $0.62 | $2,504 | - | - |
| [vi] | After harvest cost to complete and sell (per gram) | $0.00 | $13 | - | - |

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.

## 7. BIOLOGICAL ASSETS (CONTINUED)

The estimated fair value less costs to complete and sell (per gram) represents the expected sales price for the Company's active ingredients including isolate and resins 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 several 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, 2020, it is expected that the Company's cannabis plants biological assets will yield approximately 1,704,055 grams of dry cannabis and 1,653,333 seeds in Santa Marta Golden Hemp and 6,385,393 seeds in Sativa Nativa when harvested in 2021.

The Company has decided not to value at fair value certain seeds batches given the novelty of the market it will trade once harvested. Therefore, the Company has decided to reclassify as an expense the $16,350 capitalized cost as of December 31st, 2020.

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.

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

## 8. INVENTORY

| | Capitalized Cost | Biological assets fair value adjustment | Impairment | Carrying Value |
|---|---|---|---|---|
| **Harvested Cannabis** | | | | |
| Seeds | $ 440,950 | $ (3,266) | $ (437,598) | $ 86 |
| Wet Flower | 72,550 | 103,751 | (12,651) | 163,650 |
| Dried Flower | 153,997 | 188,943 | (276,501) | 66,439 |
| | 667,497 | 289,428 | (726,750) | 230,175 |
| **Active Pharmaceutical Ingredients** | | | | |
| Work in process | 891,575 | (92,736) | (793,801) | 5,038 |
| Finished goods | 870,622 | 50,347 | (179,810) | 741,158 |
| | 1,762,197 | (42,389) | (973,611) | 746,196 |
| Supplies and consumables | 816,803 | - | (596,560) | 220,243 |
| Finished goods | 180,468 | - | (101,004) | 79,464 |
| **At December 31, 2020** | **$ 3,426,965** | **$ 247,039** | **$ (2,397,925)** | **$ 1,276,078** |

| | Capitalized Cost | Biological assets fair value adjustment | Impairment | Carrying Value |
|---|---|---|---|---|
| **Harvested Cannabis** | | | | |
| Seeds | $ - | $ - | $ - | $ - |
| Wet Flower | 259,098 | (120,492) | - | 138,606 |
| Dried Flower | - | - | - | - |
| | 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 | 308,099 | - | - | 308,099 |
| **At December 31, 2019** | **$ 1,369,396** | **$ 114,975** | **$ -** | **$ 1,484,371** |

As of December 31, 2020, the Company recorded inventory impairment of $2,397,925 (December 31, 2019 - $nil) due to the costs capitalized exceeding the net realizable value of the inventory. The impairment loss has been included in the cost of goods sold in the consolidated statement of operations and comprehensive loss.

The Company recorded unrealized gain on biological assets of $1,317,247 (December 31, 2019 - $103,887) during the year ended December 31, 2020 and $505,545 in cost of sales (December 31, 2019 - $103,734).

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

## 9. PROPERTY AND EQUIPMENT

| | Equipment | Land | Construction in Progress | Infrastructure and Buildings | Total |
|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ |
| **Cost** | | | | | |
| December 31, 2019 | 2,747,358 | 10,361,920 | 4,411,987 | 5,724,943 | 23,246,208 |
| Additions | 203,439 | - | 1,416,686 | - | 1,620,125 |
| Disposals | (39) | - | (232,957) | - | (232,996) |
| Transfers | - | - | 16,616 | - | 16,616 |
| Foreign exchange translation | 65,694 | (1,273,501) | (639,115) | (120,867) | (1,967,789) |
| At December 31, 2020 | **3,016,452** | **9,088,419** | **4,973,217** | **5,604,076** | **22,682,164** |
| **Accumulated Depreciation** | | | | | |
| December 31, 2019 | 532,771 | - | - | 91,115 | 623,886 |
| Depreciation | 543,626 | - | - | 135,401 | 679,027 |
| Foreign exchange translation | (83,762) | - | - | (2,186) | (85,948) |
| At December 31, 2020 | 992,635 | - | - | 224,330 | 1,216,965 |
| **Net Book Value** | | | | | |
| December 31, 2019 | 2,214,587 | 10,361,920 | 4,411,987 | 5,633,828 | 22,622,322 |
| December 31, 2020 | 2,023,817 | 9,088,419 | 4,973,217 | 5,379,746 | 21,465,199 |

| | 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 |
| Transfers | 1,511,173 | - | (6,604,059) | 6,230,365 | - |
| Foreign exchange translation | (242,548) | - | (389,509) | (505,422) | (1,137,480) |
| At December 31, 2019 | 2,747,358 | 10,361,920 | 4,411,987 | 5,724,943 | 23,246,208 |
| **Accumulated Depreciation** | | | | | |
| 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 |
| **Net Book Value** | | | | | |
| December 31, 2018 | 881,988 | 10,361,920 | 5,012,228 | - | 16,256,136 |
| December 31, 2019 | 2,214,587 | 10,361,920 | 4,411,987 | 5,633,828 | 22,622,322 |

During the year ended December 31, 2020, the Company recognized depreciation expense on its property and equipment of $679,027 (December 31, 2019 - $427,980) on the consolidated statement of operations and comprehensive loss.

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

## 10. INTANGIBLE ASSETS

| | Customer Relationships | Ecommerce Platform | Licenses and Permits | Software Licenses | Intellectual Property | Total |
|---|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ | $ |
| **Cost** | | | | | | |
| At December 31, 2019 | 141,327 | 386,010 | 10,737,198 | 92,488 | 111,614 | 11,468,637 |
| Additions | - | 69,984 | - | - | - | 69,984 |
| Impairment (Note 10) | - | - | (10,568,947) | - | - | (10,568,947) |
| Foreign exchange | - | - | (118,074) | (9,167) | (11,063) | (138,304) |
| At December 31, 2020 | 141,327 | 455,994 | 50,177 | 83,321 | 100,551 | 831,370 |
| **Accumulated Amortization** | | | | | | |
| At December 31, 2019 | 68,307 | 19,301 | 311,415 | 3,854 | 1,860 | 404,737 |
| Additions | 28,306 | 84,200 | 15,617 | 25,932 | 57,650 | 211,706 |
| Impairment (Note 11) | - | - | (313,275) | - | - | (313,275) |
| Foreign exchange | - | - | 4,103 | 8,883 | 17,748 | 30,734 |
| At December 31, 2020 | 96,613 | 103,501 | 17,860 | 38,669 | 77,259 | 333,902 |
| **Net Book Value** | | | | | | |
| December 31, 2019 | 73,020 | 366,709 | 10,425,783 | 88,634 | 109,754 | 11,063,900 |
| December 31, 2020 | 44,714 | 352,493 | 32,317 | 44,652 | 23,292 | 497,468 |

| | Customer Relationships | E-commerce 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 | 162,635 | 92,983 | 112,211 | 753,839 |
| Disposals | - | - | - | - | - | - |
| Foreign exchange translation | - | - | (57,418) | (495) | (597) | (58,510) |
| At December 31, 2019 | 141,327 | 386,010 | 10,737,198 | 92,488 | 111,614 | 11,468,637 |
| **Accumulated Amortization** | | | | | | |
| At December 31, 2018 | 40,042 | - | - | - | - | 40,042 |
| Additions | 28,265 | 19,301 | 311,415 | 3,854 | 1,860 | 364,695 |
| Disposals | - | - | - | - | - | - |
| At December 31, 2019 | 68,307 | 19,301 | 311,415 | 3,854 | 1,860 | 404,737 |
| **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 |

During the year ended December 31, 2020, the Company recognized amortization on its intangible assets of $211,706 (December 31, 2019 - $364,694) on consolidated statement of operations and comprehensive loss.

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

## 11. IMPAIRMENT

*Goodwill and Intangible Assets*
The Company conducts an impairment assessment annually or sooner in the event of changes in circumstances that may indicate that the carrying value of goodwill or intangible assets may be impaired. Potential impairment is identified by comparing the recoverable amounts of a CGU to its carrying value. During the year ended December 31, 2020, the Company conducted an impairment assessment on the goodwill and intangible assets.

The recoverable amount was calculated using a five-year discounted cash flow using a 3% terminal growth rate and a Weighted Average Cost of Capital ("WACC") ranging from 19.59% - 40.74%. The growth rate reflects the long-term average growth rate for Santa Marta Golden Hemp and Sativa Nativa, and the long-term inflation in Colombia. The WACC reflects appropriate adjustments relating to market risk and other relevant risk factors. Management's expected sales forecast is based on available inputs from the Company's most recent sales and profit margins and expenditures are based on the Company's past experience. Management's key assumptions include steadily improving profit margins. The estimate of the recoverable amount of the CGU is sensitive to changes in the discount rate used. If the discount rate used is increased by 1%, a further impairment loss of $293,000 would be recognized, which would be written off against goodwill, intangible assets, and property, plant and equipment.

| | **December 31, 2020** | | **December 31, 2019** | |
|---|---|---|---|---|
| | **SMGH** | **SN** | **SMGH** | **SN** |
| Intangible Asset | - | - | 8,090,219 | 2,478,728 |
| Goodwill | - | - | 2,520,382 | 686,845 |
| Total | **-** | **-** | **10,610,601** | **3,165,573** |

For the year ended December 31, 2020, the Company recorded impairment of $10,610,601 and $3,165,573 on the SMGH and SN CGUs, respectively, consisting of $3,207,227 goodwill and $10,568,947 of intangible assets. Amortization recognized on the intangible assets totalled $313,275 and was recognized as a reduction in the impairment.

## 12. DERIVATIVE ASSET

| | | **December 31, 2020** | | **December 31, 2019** |
|---|---|---|---|---|
| Balance at the beginning of the year | $ | 3,780,000 | $ | - |
| Additions | | - | | 3,780,000 |
| Change in fair value | | (3,253,688) | | - |
| **Balance at end of period** | **$** | **526,312** | **$** | **3,780,000** |

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. As of December 31, 2020, the Company has not exercised the Option, and therefore does not have control of the entity.

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

## 12. DERIVATIVE ASSET (CONTINUED)

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 Option was classified as a derivative financial instrument and was initially recorded at its fair value of $3,780,000 in the consolidated statements of financial position. During the year ended December 31, 2020, the Company determined the fair value of the Option to be $526,312. As a result, a loss from changes in fair value of ($3,253,688) was recorded in the consolidated statement of operations and comprehensive loss (December 31, 2019 - $nil). The Company valued the Option using a five-year discounted cash flow valuation model with a weighted average cost of capital between 23.91% - 28.91% and a probability of triggering event of 60%.

## 13. DEFERRED REVENUE

| | December 31, 2020 | December 31, 2019 |
|---|---|---|
| Balance at the beginning of the year | $ 3,323,518 | $ - |
| Additions | 400,000 | 3,323,518 |
| Revenue recognized | (463,417) | - |
| **Balance at end of year** | **$ 3,260,101** | **$ 3,323,518** |

[i] Pursuant to the terms of the License Agreement with LC2019 (note 12), the Company transfers 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 exists restrictions in the benefits that the Company can derive from this license. Consequently, the revenue derived from the above license has been recognized as deferred revenue to be recognized into revenue evenly over a period of ten years. For the year ended December 31, 2020, the Company recognized $378,000 into License Revenue in relation to this contract (December 31, 2019 - $nil).

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

## 13. DEFERRED REVENUE (CONTINUED)

[ii] On August 11, 2020, the Company entered into an exclusive Distribution Agreement with a third-party, granting them the exclusive right to promote, market and sell the Company's products. The Company received $250,000 as consideration of the exclusivity partnership for a period of five years plus an automatic renewal period of five years (the "Exclusivity Fee"). The Company determined that its performance obligation with regards to the contract occurs over a period of time and therefore, revenue is to be recognized straight-line over a ten year period based on the term of the contract and the automatic term renewal. For the year ended December 31, 2020, the Company recognized $10,417 into License Revenue in relation to this contract.

[iii] On January 7, 2020, the Company entered into a Development Project whereby the Company received $150,000 as consideration for formulation development. As of December 31, 2020, the Company had fulfilled 50% of its performance obligation with regards to the formulation development. As such, the Company recognized $75,000 into license revenue with the remainder included as deferred revenue.

## 14. LONG-TERM INVESTMENT

| | | December 31, 2020 | | December 31, 2019 |
|---|---|---|---|---|
| Balance at the beginning of the year | $ | 72 | $ | 72 |
| Unrealized gain on change in fair value | | 518,141 | | - |
| **Balance at end of year** | **$** | **518,213** | **$** | **72** |

Long-term investment consists of 720,000 shares in Southern Sun Pharma ("Southern Sun") purchased for a total cost of $72. During the year ended December 31, 2020, Southern Sun completed a financing through the sale of units at $1.25 per unit. Each unit was comprised of one common share and one-half common share purchase warrant. Each whole warrant entitled the holder to purchase an additional share at $1.50 at any time up to 18 months following the closing date. Due to this financing, the Company recognized an unrealized gain from the change in fair value of $518,141 (December 31, 2019 - $nil). The Company used an iterative calculation based on the Black-Scholes options pricing model to allocate the subscription price between the half-warrant and the common share. The residual value of each common share was valued at $1.08, the Company further applied a discount of 7.5 % for the lack of marketability of this investment.

## 15. LEASE LIABILITY

As of December 31, 2020, the lease liability consisted of the following:

| | | December 31, 2020 | | December 31, 2019 |
|---|---|---|---|---|
| **Balance at the beginning of the year** | **$** | **555,339** | **$** | **-** |
| Additions | | - | | 670,549 |
| Interest incurred on lease liability | | 37,552 | | 33,157 |
| Lease payments | | (228,675) | | (148,367) |
| **Balance at end of year** | **$** | **364,216** | **$** | **555,339** |
| Lease liability – current portion | | 203,155 | | 224,950 |
| Lease liability – noncurrent portion | | 161,061 | | 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, 2020 and 2019 was 8% percent.

During the year ended, December 31, 2020, the Company incurred expenses of $300,290 (December 31, 2019 - $438,691) related to short-term and low value leases.

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

## 15. LEASE LIABILITY (CONTINUED)

The total future minimum rent payable under the Company's lease at December 31, 2020 was as follows:

| | | |
|---|---|---|
| Due in less than 1 year | $ | 224,950 |
| Due between 1 and 2 years | | 168,713 |
| Total lease payments | | 393,663 |
| Amounts representing interest over the term of the lease | | 29,446 |
| **Present value of minimum lease payments** | **$** | **364,216** |

## 16. RIGHT OF USE ASSET

As of December 31, 2020, the Company's right of use asset consisted of a single leased property. The following table reflects the cost and accumulated depreciation of the Company's right of use asset:

| **Cost** | $ |
|---|---|
| At December 31, 2019 | 670,549 |
| Additions | - |
| At December 31, 2020 | 670,549 |
| **Accumulated Amortization** | |
| At December 31, 2019 | 130,839 |
| Additions | 196,258 |
| At December 31, 2020 | 327,097 |
| **Net Book Value** | |
| December 31, 2019 | 539,710 |
| December 31, 2020 | 343,452 |

| **Cost** | $ |
|---|---|
| At December 31, 2018 | - |
| Additions | 670,549 |
| At December 31, 2019 | 670,549 |
| **Accumulated Amortization** | |
| At December 31, 2018 | - |
| Additions | 130,839 |
| At December 31, 2019 | 130,839 |
| **Net Book Value** | |
| December 31, 2018 | - |
| December 31, 2019 | 539,710 |

Depreciation expense of $196,258 was incurred during the year ended December 31, 2020 (December 31, 2019 - $130,839).

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

## 17. RELATED PARTY TRANSACTIONS

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

| | | December 31, 2020 | | December 31, 2019 |
|---|---|---|---|---|
| Salaries | $ | 798,333 | $ | 1,292,089 |
| Share-based compensation | | 671,150 | | 302,332 |
| | **$** | **1,469,483** | **$** | **1,594,421** |

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

Additionally, as at December 31, 2020 the Company received advances from certain related parties who represent the minority shareholders of SMGH and SN in the amount of $4,319,545 (December 31, 2019- $3,319,116). 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. As these amounts become due, the outstanding balances are converted into common shares of SMGH, consistent with current ownership splits. During the year, the Company converted $2,859,440 into the equity of SMGH. Changes in the balances are disclosed in the following table:

| | | December 31, 2020 | | December 31, 2019 |
|---|---|---|---|---|
| Balance at the beginning of the year | $ | 3,319,116 | $ | - |
| Additions | | 3,859,869 | | 3,319,116 |
| Balance recapitalized into shares in SMGH | | (2,859,440) | | - |
| **Balance at end of year** | **$** | **4,319,545** | **$** | **3,319,116** |

## 18. CONVERTIBLE DEBENTURES

| | | December 31, 2020 | | December 31, 2019 |
|---|---|---|---|---|
| Balance at the beginning of the year | $ | 715,626 | $ | - |
| Additions | | 754,923 | | 675,466 |
| Accretion expense | | 103,146 | | 40,160 |
| **Balance at end of year** | **$** | **1,573,695** | **$** | **715,626** |

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, each holder received 62.5 common shares purchase 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.

The conversion feature was recorded as a derivative liability (note 19). A portion of the proceeds is allocated to the derivative liability and the warrants based on the respective fair values of each instrument. The company used the Black-Scholes option pricing model to determine the fair value using the following assumptions: a discount rate of 16% - 22%, volatility of 19% - 31% and the maturity and exercise prices of the respective options. As a result, the Company allocated proceeds of $101,003 to the derivative liability and $6,351 to warrants.

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

## 18. CONVERTIBLE DEBENTURES (CONTINUED)

On November 2, 2020, the Company completed a convertible debenture offering and raised gross proceeds of $1,100,000. The debentures bear interest at 8.0% per annum and have a maturity date one year from the date of issuance. The first year of interest payable will be capitalized and added to the principal amount under the Debenture on the date of issuance. Each debenture is convertible in whole or in part, any time while any principal amount or interest remains outstanding, into common shares of the Corporation at $1.00 per Share. Additionally, each subscriber received one half common share purchase warrant for each $1.00 of principal purchased. Each whole warrant entitles the holder to acquire one common share of the Company at a price of $1.50 per Common Share for a period of two years from the date of issuance of the warrants, subject to the Company's right to accelerate the expiry date of the Warrants in the event that the daily volume weighted average trading price is equal to or exceeds $2.00 on the TSX for a minimum of 10 consecutive trading days. Between the date that is 60 days from issuance and maturity date if the Company issues common shares at a price or exercise price below $1.00 then the conversion price would be reduced to match that price or exercise price. The debentures and warrants issued pursuant to the Offering is subject to a statutory hold period in Canada of four months and one day following the closing of the Offering. A commitment fee equal to 4% of the Principal Amount shall be payable to a subscriber on the date of issuance of the Debenture.

The conversion feature and warrants were both recorded as derivative liabilities. These value of $145,151 was allocated to these liabilities. (note 19). Additionally, the Company incurred $199,926 in issuance costs in connection with this offering of convertible debentures. These costs were capitalized with debt and will be accreted over the term of the debentures.

During the year ended December 31, 2020, the Company recognized accretion expense of $103,146 (December 31, 2019 - $40,160) and interest expense of $76,392 (December 31, 2019 - $52,343) in relation to these convertible debentures.

## 19. DERIVATIVE LIABILITIES

| | | December 31, 2020 | | December 31, 2019 |
|---|---|---|---|---|
| Balance at the beginning of the year | $ | 23,434 | $ | - |
| Additions | | 145,151 | | 101,003 |
| Gain on change in fair value | | (23,434) | | (77,569) |
| **Balance at end of year** | **$** | **145,151** | **$** | **23,434** |

On March 1, 2019, the Company completed a convertible debenture offering (note 18). The Conversion Option related to the convertible debentures was determined to represent a derivative liability. A portion of the proceeds was allocated to this financial instrument based on its respective fair value. To determine the fair value of the derivative liability at inception, the Company used the Black-Scholes option pricing model to determine the fair value using the following assumptions: a risk-free rate of 2.13%, volatility of 19.45% and the maturity and exercise prices of the respective options. On the day of issuance, the conversion option was allocated a fair value of $101,003. As of December 31, 2020, the conversion option was found to have a fair value of $nil. A gain on the change in fair value of $23,434 (December 31, 2019 – $77,569) was recognized on the consolidated statement of operations and comprehensive loss.

On November 2, 2020, the Company completed a convertible debenture offering (note 18). The Conversion Option and the warrants issued in relation to the convertible debentures was determined to represent a derivative liability. A portion of the proceeds was allocated to this financial instrument based on its respective fair value. At inception, the Company used the Black-Scholes option pricing model to determine the fair value using the following assumptions: risk-free rate of 0.26%, volatility of 40% based on comparative companies, a discount for lack of marketability due to the four-month restriction period from the issuance date, and the maturity and exercise prices of the respective options. As a result, the Company recognized, a derivative liability of $145,151, representing the conversion option of $111,297 and warrants of $33,854.

## 20. 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, 2020, the Company had 35,871,941 common shares issued and outstanding (December 31, 2019 – 22,364,723).

**Transactions:**

[i] 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.

[ii] 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.

[iii] 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. 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.

[iv] 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.

[v] During the year ended December 31, 2019, 48,937 common share purchase warrants were issued as part of the convertible debenture issuance (Note 18). 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.

## 20. SHARE CAPITAL (CONTINUED)

[vi] 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.

[vii] 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. 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.

[viii] On January 24, 2020, the Company issued 822,721 units for gross proceeds of $2,056,802. Each unit was comprised of one (1) common share in the capital of the Company and one-half of one (1/2) common share purchase 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. Fair value of the common share purchase warrants was determined using the Black-Scholes option pricing model with a market price per common share of $2.32, a risk-free interest rate of 1.62%, an expected annualized volatility of 90% and expected dividend yield of 0%. Gross proceeds of $2,056,801 were allocated to common shares and common share purchase warrants in the amount of $1,548,316 and $508,485, respectively.

[ix] On April 20, 2020, the Company issued an aggregate of 3,200,000 Units (the “Units”) at a price of $0.80 per Unit, for aggregate gross proceeds of approximately $2.56 million. Each Unit was comprised of one (1) common share in the capital of the Company (each, a “Common Share”) and one-quarter of one (1/4) 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 $1.20 per Warrant Share until April 20, 2022, 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 is equal to or exceeds $2.00 on the Toronto Stock Exchange. Gross proceeds of $2,560,000 were allocated to common shares and common share purchase warrants in the amount of $2,410,874 and $149,126, respectively.

[x] On August 18, 2020, the Company issued an aggregate of 1,952,410 Units (the “Units”) at a price of $1.40 per Unit, for aggregate gross proceeds of approximately $2.7 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 $2.00 per Warrant Share until August 18, 2022, 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 is equal to or exceeds $3.00 on the Toronto Stock Exchange. Gross proceeds of $2,733,374 were allocated to common shares and common share purchase warrants in the amount of $2,182,117 and $551,257, respectively.

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

**20. SHARE CAPITAL (CONTINUED)**

[xi] On December 8, 2020, the Company issued an aggregate of 6,861,934 Units (the "Units") at a price of $0.85 per Unit, for aggregate proceeds of approximately $5.8 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 $1.20 per Warrants Share until December 8, 2022, 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 is equal to or exceeds $3.00 on the Toronto Stock Exchange. Gross proceeds of $5,832,644 were allocated to common shares and common share purchase warrants in the amount of $4,677,065 and $1,155,579, respectively. The Company incurred issuance costs of $327,536 for this financing. As part of the financing, the Company issued 339,830 broker warrants, which were valued at $154,125.

**Warrant Reserve**

As at December 31, 2020 the following warrants were outstanding and exercisable:

| | Warrants Issued / Exercised<br>\# | Weighted average exercise price<br>$ |
|---|---|---|
| **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 | (625,812) | 2.28 |
| Warrants exercised | (2,701,598) | 1.28 |
| **Outstanding as at December 31, 2019** | **1,630,721** | **$9.56** |
| Warrants issued | 6,529,335 | 1.28 |
| Warrants expired | (360,008) | 9.91 |
| **Outstanding as at December 31, 2020** | **7,800,048** | **$2.62** |

The following table is a summary of the Company's warrants outstanding as at December 31, 2020:

| **Warrants Outstanding** | | | **Warrants Exercisable** | |
|---|---|---|---|---|
| **Exercise price range**<br>$ | **Number outstanding**<br>\# | **Weighted average remaining life**<br>(years) | **Weighted average exercise price**<br>$ | **Number exercisable**<br>\# |
| $0.85 | 339,830 | 1.94 | $0.04 | 339,830 |
| $1.00 | 25,000 | 1.33 | $0.00 | 25,000 |
| $1.20 | 4,492,325 | 2.59 | $0.69 | 4,492,325 |
| $1.50 | 550,000 | 1.83 | $0.11 | 550,000 |
| $2.00 | 997,180 | 1.63 | $0.26 | 997,180 |
| $3.00 | 150,000 | 2.06 | $0.06 | 150,000 |
| $8.00 | 131,551 | 0.29 | $0.13 | 131,551 |
| $10.00 | 1,114,162 | 0.29 | $1.43 | 1,114,162 |
| **Balance December 31, 2020** | **7,800,048** | **2.00** | **$2.71** | **7,800,048** |

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

## 21. 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

*[i] Measurement of fair values*

The fair value of share options granted during the periods ended December 31, 2020, and December 31, 2019 was estimated at the date of grant using the Black Scholes option pricing model using the following inputs:

| | **2020** | **2019** |
|---|---|---|
| Grant date share price | \$0.85 -\$2.55 | \$8.00 |
| Exercise price | \$1.00 - \$5.00 | \$8.00 |
| Expected dividend yield | 0% | 0% |
| Risk-free interest rate | 0.44% - 1.62% | 1.7%-2.06% |
| Expected option life | 6 – 10 years | 7 – 10 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.

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

## 21. SHARE BASED PAYMENT RESERVE AND STOCK OPTIONS (CONTINUED)

*[ii] Reconciliation of outstanding equity-settled share options*

| | Options issued/(exercised) / Exercised # | Weighted average exercise price exercise price $ |
|---|---|---|
| **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** | **8.00** |
| Options issued [i] [ii] | 1,030,251 | 2.06 |
| Options cancelled and forfeited [i][iii] | (605,499) | 5.72 |
| Options exercised [iv] | (100,000) | 0.10 |
| **Outstanding as at December 31, 2020** | **1,952,667** | **2.94** |

[i] On January 23, 2020, 218,755 options were cancelled and repriced and subsequently, 191,556 options were reissued with an exercise price of $2.50. The vesting period remains the same and are fully vested in July 2022. Since fewer options were reissued, the Company accounted for the reduction as a cancellation and recognized an accelerated vesting totaling $544,850 in relation to such reduction. In addition, since the total fair value of the share-based payment arrangement was reduced as a result of the modification (measured immediately before and after the modification), the Company continued to measure the remaining options based on their grant date fair values.

[ii] During the year ended December 31, 2020, 838,695 stock options were issued through eleven separate issuances.

[iii] During the year ended December 31, 2020, 329,327 options were forfeited and 57,417 options were cancelled. Accelerated vesting was applied to options that were cancelled or expired prior to their vesting date. The company recognized $47,466 in accelerated share-based compensation expense during the quarter.

[iv] During the year ended December 31, 2020, 100,000 options were exercised with an exercise price of $0.10.

During the year ended December 31, 2020, the Company recognized a total Shared Based Payment expense relating to Stock Options of $1,736,557 (December 31, 2019 - $2,685,629).

The following table is a summary of the Company's share options outstanding as at December 31, 2020:

| | Options Outstanding | | Options Exercisable | |
|---|---|---|---|---|
| Exercise price range $ | Number outstanding # | Weighted average remaining life (years) | Weighted average exercise price $ | Number exercisable # |
| 1.00 | 623,000 | 1.53 | 0.32 | 285,000 |
| 1.24 | 7,500 | 0.02 | 0.00 | - |
| 1.39 | 38,000 | 0.10 | 0.03 | 28,500 |
| 2.00 | 377,500 | 0.81 | 0.39 | 377,500 |
| 2.50 | 174,372 | 0.76 | 0.22 | 59,624 |
| 2.75 | 362,450 | 0.94 | 0.51 | - |
| 5.00 | 17,595 | 0.01 | 0.05 | 16,562 |
| 7.30 | 67,000 | 0.16 | 0.25 | 67,000 |
| 8.00 | 285,250 | 0.74 | 1.17 | 278,083 |
| **Balance December 31, 2020** | **1,952,667** | **5.07** | **2.94** | **1,112,269** |

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

## 21. SHARE BASED PAYMENT RESERVE AND STOCK OPTIONS (CONTINUED)

*[i] Restricted stock units*

The following table summarized the continuity of the Company's RSUs:

| | RSUs Issued | Weighted average issue price |
|---|---|---|
| | # | $ |
| **Outstanding as at December 31, 2018** | - | - |
| RSUs issued | 108,658 | 8.00 |
| RSUs forfeited | (10,500) | 8.00 |
| **Outstanding as at December 31, 2019** | **98,158** | **8.00** |
| RSUs issued [i][ii] | 946,797 | 1.33 |
| RSUs exercised [iii] | (570,153) | 1.73 |
| RSUs forfeited [iv] | (34,166) | 2.86 |
| **Outstanding as at December 31, 2020** | **440,636** | **2.30** |

[i] During the year ended December 31, 2020, Restricted Stock Units were issued to employees of the Company as compensation for a temporary salary reduction. In April 2020 534,428 units were issued with a grant price of $1.46, vesting on October 27, 2020. In September 2020, another 258,913 restricted stock units were granted at a price of $1.24, vesting on November 30, 2020.

[ii] On November 9, 2020, 121,065 Restricted Stock Units were issued to employees of the Company with a grant price of $1.00 vesting on December 31, 2020. On December 9, 2020, 32,391 Restricted Stock Units were issued with a grant price of $0.85 vesting on March 31, 2021.

[iii] The fair value of the share-based payment expense was determined using the market value of the share price on grant date. RSUs are settled by delivery of a notice of settlement by the RSU holder or, if no notice of settlement is delivered, on the last vesting date. As of December 31, 2020, 570,153 RSUs were vested (December 31, 2019- nil).

[iv] During the year ended December 31, 2020, 34,166 restricted stock units were forfeited. All forfeited units were due to vest on or before December 31, 2020, as such, no accelerated vesting was applied.

[v] As of December 31, 2020, 101,722 shares to be issued under the settlement of restricted stock were not issued to the shareholder at year end and therefore, are classified as shares to be issued.

During the year ended December 31, 2020, the Company recognized a total Share Based Payment expense relating to Restricted Stock Units of $1,379,358 (December 31, 2019 - $nil).

## 22. NON-CONTROLLING INTEREST

The following table presents the summarized financial information about the Company's subsidiaries that have non-controlling interests. This information represents amounts before intercompany eliminations as at December 31, 2020 and 2019.

| **Santa Marta Golden Hemp S.A.S** | | **2020** | | **2019** |
|---|---|---|---|---|
| Current assets | $ | 5,689,891 | $ | 1,575,581 |
| Non-current assets | | 16,665,267 | | 29,503,952 |
| Current liabilities | | (3,581,022) | | (4,224,490) |
| Non-current liabilities | | (317,060) | | (10,806,923) |
| **Net assets** | $ | 18,457,076 | **$** | **16,048,120** |

| **Sativa Nativa S.A.S** | | **2020** | | **2019** |
|---|---|---|---|---|
| Current assets | $ | 123,267 | $ | 112,331 |
| Non-current assets | | 2,327,540 | | 5,712,534 |
| Current liabilities | | (210,856) | | (312,551) |
| Non-current liabilities | | (489,973) | | (298,171) |
| **Net assets** | $ | 1,749,978 | **$** | **5,214,143** |

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

## 22. NON-CONTROLLING INTEREST (CONTINUED)

| **Sigma Magdalena Canada Inc.** | **2020** | **2019** |
|---|---|---|
| Current assets | $ 7,170 | $ 7,151 |
| Non-current assets | 248,787 | 267,898 |
| Non-current liabilities | (262,422) | (281,993) |
| **Net assets** | $ (6,465) | **$ (6,944)** |

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

| | **2020** | **2019** |
|---|---|---|
| Opening Balance | 7,488,456 | 8,070,778 |
| Increase in NCI from MVMD transaction | - | 1,048,366 |
| SMGH Recapitalization | 2,859,440 | - |
| Foreign translation | (946,419) | (489,625) |
| Net loss attributed to non-controlling interest | (1,507,765) | (1,141,063) |
| **Ending Balance** | **7,893,712** | **7,488,456** |

## 23. 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, 2020, $708,673 in trade and other receivables remained outstanding (December 31, 2019 - $384,846). 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** | 84,452 | 64,578 | 279 | 295,370 | 263,994 | 708,673 |

The Company has recorded a loss provision of $713,582 during the year-ended December 31, 2020 (December 31, 2019 - $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)

## 23. 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 | $ | 6,562,339 | 6,562,339 | 6,562,339 | - | - |
| Convertible Debentures | | 1,573,695 | 1,657,114 | 1,657,114 | - | - |
| Lease liability | | 364,216 | 364,216 | 203,155 | 161,061 | - |
| | $ | 8,500,250 | 8,583,669 | 8,422,608 | 161,061 | - |

The due to related party balance of $4,319,545 is not intended to be repaid. As these amounts become due, the outstanding balances will convert 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 primarily exposed to foreign currency exchange risk associated with Colombian Pesos, as it has substantial operations based out of Colombia and record keeping is denominated in a foreign currency. To a lesser extent, the Company is also exposed to exchange risk from US dollars and British Pound Sterling due to operations in the United States and the United Kingdom, respectively.

*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 not exposed to interest rate as it does not have any borrowings.

*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 value hierarchy

The carrying values of cash, amounts receivable, prepaid assets, short -term investments and amounts payable approximate the fair values due to the short-term nature of these items. 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.

## 23. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (CONTINUED)

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:

| | |
|---|---|
| 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 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.

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 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 following table provides information about the sensitivity of the fair value measurement to changes in the most significant inputs for the company's Level 3 financial assets and liabilities.

| **Financial asset/liability** | **Significant unobservable input** | **Estimate of the input** | **Sensitivity of the fair value measurement of the input** |
|---|---|---|---|
| Long-term investments (Southern Sun) | Liquidity discount | 7.5% | An increase in the liquidity discount of 5% changes the fair value of the investment by $28,012. |
| Derivative Liability (LC 2019) | Probability of triggering event | 60% | An increase to 70% would increases fair value by $72,950. |

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

## 23. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (CONTINUED)

| | Level 1 | Level 2 | Level 3 | December 31, 2020 |
|---|---|---|---|---|
| **Financial assets at FVTPL** | | | | |
| Short-term investments | 1,250,000 | - | - | **1,250,000** |
| Long-term investments | - | - | 518,213 | **518,213** |
| Derivative Asset | - | - | 526,312 | **526,312** |
| **Financial liabilities at FVTPL** | | | | |
| Convertible debentures | - | - | 1,573,695 | **1,573,695** |
| Derivative Liability | - | - | 145,151 | **145,151** |

| | Level 1 | Level 2 | Level 3 | December 31, 2019 |
|---|---|---|---|---|
| **Financial assets at FVTPL** | | | | |
| Long-term investments | - | - | 72 | **72** |
| Derivative Asset | - | - | 3,780,000 | **3,780,000** |
| **Financial liabilities at FVTPL** | | | | |
| Convertible debentures | - | - | 715,626 | **715,626** |
| Derivative Liability | - | - | 23,434 | **23,434** |

The following table presents the changes in Level 3 items for the year ended December 31, 2020:

| | 2020 | 2019 | Change |
|---|---|---|---|
| **Financial assets at FVTPL** | | | |
| Long-term investments | 518,213 | 72 | **518,141** |
| Derivative Asset | 526,312 | 3,780,000 | **(3,253,688)** |
| **Financial liabilities at FVTPL** | | | |
| Convertible debentures | 1,573,695 | 715,626 | **858,069** |
| Derivative Liability | 145,151 | 23,434 | **121,717** |

## 24. GENERAL AND ADMINISTRATIVE EXPENSES

| | | 2020 | 2019 |
|---|---|---|---|
| General and administrative | $ | 3,725,797 | 6,331,984 |
| Selling marketing and promotion | | 425,641 | 649,324 |
| Consulting fees | | 1,515,156 | 2,519,005 |
| Professional fees | | 2,317,334 | 2,482,353 |
| Salaries and wages | | 5,115,859 | 6,411,611 |
| Research and development | | 376,271 | 1,216,626 |
| Board fees | | 25,750 | 95,675 |
| | **$** | **13,501,808** | **19,706,578** |

During the year as part of its inventory costing process, the Company capitalized $467,706 of salaries to inventory (December 31, 2019 - $473,133).

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

## 25. COMMITMENTS

The Company has agreements for select research activities which it is committed to pay the following amounts as at December 31, 2020:

| | | As at December 31, 2020 |
|---|---|---|
| 2021 | | 342,633 |
| 2022 | | 283,909 |
| Total Commitments | $ | 626,542 |

## 26. INCOME TAXES

### Current tax

The reconciliation of the combined Canadian federal and provincial statutory income tax rate of 26.5% (2019 – 26.5%) to the effective tax rate is as follows:

| | 2020<br>$ | 2019<br>$ |
|---|---|---|
| Net loss before recovery of income taxes | (35,049,301) | (23,246,430) |
| | | |
| Expected income tax recovery | (9,288,065) | (6,160,304) |
| Tax rate changes and other adjustments | 4,650 | (448,594) |
| Tax attributes of acquired entity | 162,630 | (21,122) |
| Share based compensation | 825,717 | 711,692 |
| Non-deductible expenses | 910,041 | 168,697 |
| Share issuance costs | (139.650) | (1,336,996) |
| Change in deferred tax asset not recognized | 5,336,583 | (6,053,235) |
| Income tax recovery | (2,187,600) | (1,033,393) |

The Company's income tax recovery is allocated as follows:

| | 2020<br>$ | 2019<br>$ |
|---|---|---|
| Current tax recovery | 20,684 | - |
| Deferred tax recovery | (2,208,284) | (1,033,393) |
| | (2,187,600) | (1,033,393) |

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

## 26. INCOME TAXES (CONTINUED)

### Deferred tax

The following table summarizes the components of deferred tax:

| | 2020 | 2019 |
|---|---|---|
| | $ | $ |
| **Deferred tax assets** | | |
| Property and equipment | 322,675 | - |
| Capital lease obligation | 96,517 | 147,165 |
| Deferred revenue | 431,963 | - |
| Convertible debentures | 21,124 | - |
| Inventory impairment | 260,315 | - |
| Impairment | 26,670 | - |
| Share issuance costs | 931,681 | - |
| Foreign Exchange | 468,548 | 126,316 |
| Losses Canada | 446,936 | 475,212 |
| Losses Colombia | 10,992,219 | 1,011,296 |
| Presumptive income excess | 91,226 | 44,193 |
| Valuation allowance | (13,887,904) | - |
| | **201,970** | **1,804,182** |
| **Deferred tax liabilities** | | |
| Property and equipment | (96) | (26,189) |
| Intangible assets | - | (3,286,852) |
| Capital lease assets | (91,015) | (143,023) |
| Derivative asset | (69,736) | (440,366) |
| Foreign exchange | (6,247) | (69,943) |
| Inventory impairment | (425) | - |
| Convertible debentures | - | (11,644) |
| | **(167,519)** | **(3,978,015)** |
| **Net deferred tax liability** | **34,451** | **(2,173,834)** |

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

| | 2020 | 2019 |
|---|---|---|
| | $ | $ |
| Balance at the beginning of the year | (2,173,834) | (3,207,227) |
| Recognized in profit and loss | 2,208,285 | 1,033,393 |
| Deferred tax asset (liabilities) | 34,451 | (2,173,834) |

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

## 26. INCOME TAXES (CONTINUED)

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

| | 2020<br>$ | 2019<br>$ |
|---|---|---|
| Other provision | - | 352,685 |
| Share issuance costs | 3,515,776 | 4,128,270 |
| Losses carried forward – Canada | 33,376,230 | 19,319,864 |
| Losses carried forward – Colombia | 5,377,314 | 5,612,632 |
| | 42,369,320 | 29,413,451 |

The Canadian non-capital loss carryforwards expire as noted in the table below. The Colombian 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 |
| 2040 | 12,193,324 |
| | 33,262,502 |

## 27. OTHER INCOME (EXPENSES)

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

| | | 2020 | 2019 |
|---|---|---|---|
| Gain on revaluation of derivative liability | $ | 23,434 | 77,569 |
| Loss on revaluation of derivative asset | | (3,253,688) | - |
| Other income | | 454,759 | 383,415 |
| Unrealized Gain on Investment | | 518,141 | - |
| Interest expense | | (263,112) | (54,763) |
| Interest income | | 1 | 68,929 |
| ECL Provision | | (713,582) | - |
| | **$** | **(3,234,047)** | **475,150** |

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

## 28. 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:

| | **For the Year Ended December 31, 2020** | **For the Year Ended December 31, 2019 [Reclassified]** |
|---|---|---|
| Accounts receivables | (515,948) | (1,136,240) |
| Inventory | 208,293 | (1,507,096) |
| Prepaids expenses | (633,570) | 189,487 |
| Accounts payable | 1,384,705 | 4,161,226 |
| Income tax payable | 20,684 | - |
| | **464,164** | **1,707,377** |

## 29. PRIOR PERIOD RECLASSIFICATION

**Reclassification of Comparative cash flows**

Certain comparative amounts in the Statements of Cash Flows for the year ended December 31, 2019, were reclassified to reflect the effect of foreign exchange differences translation consistent with the presentation of the Cash Flows for the year ended December 31, 2019. The impact of these reclassifications was as follows;

- Cash used in operating activities increased by $1,678,585
- Cash used in investing activities decreased by $1,267,761
- Cash provided by financing activities decreased by $404,368
- Effect of exchange difference on cash increased by $ 6,455

## 30. GOVERNMENT GRANTS

In response to COVID-19 many governments have provided various subsidy programs to assist companies during the pandemic. The Company has received government assistance in regions where such assistance was available and where the Company was eligible for the subsidy programs.

The Company participates in the Canadian Emergency Wage Subsidy ("CEWS") program in Canada, which was announced in March 2020. CEWS provides a wage subsidy on eligible remuneration, subject to limits per employee, to eligible employers based on certain criteria, including a demonstration of revenue declines as a result of COVID-19. Through the CEWS program, the Company has recovered $94,864 for the year ended December 31, 2020 (December 31, 2019 - $nil), of which $nil remained receivable at year end. This benefit has been recorded in the consolidated statements of operations and comprehensive loss as a deduction to salaries and wages.

## 31. SUBSEQUENT EVENTS

On March 4, 2021 the Company closed a private placement finance offering for $5.6 million. Under the terms of the offering the Company issued an aggregate of 4,480,000 units for proceeds of $5.6 million. Each unit is comprised of one common share and one common share purchase warrant. Each warrant is exercisable into one common share at a price of $1.75 per warrant till March 4, 2024.

On August 19, 2021, the Company closed a secured term loan financing of $2,118,000. The Term Loan is subject to an original issue discount of approximately 15%, such that $1,800,000 was advanced by the lender to the Company. The Term Loan is due October 19, 2022.

On March 29, 2021, due to an inability to meet deadlines on certain statutory filings, the Company filed an application with the Ontario Securities Commission ("OSC") for a Management Cease Trade Order ("MCTO"). Approval was granted on April 12, 2021. The MCTO prohibits the Company's management from trading in the securities of the Company until such time as the documents are filed.

On June 11, 2021, the Company was issued a Cease Trade Order ("CTO") by the OSC due to an inability to file the required statutory disclosure documents.