Avicanna Inc.
Consolidated Financial Statements
For the Year Ended December 31, 2021 and 2020
(Expressed in Canadian dollars, except share and per share amounts)

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March 31, 2022
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 statements of financial position as at December 31, 2021 and 2020, and the consolidated statements of operations and comprehensive loss, changes in shareholders' equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2021 and 2020, and the consolidated financial performance and consolidated cash flows for the years 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 $77,407,467, cash of $31,004 and a working capital deficit of $4,842,035 as at December 31, 2021. Additionally, the Company incurred a net loss after taxes of $16,774,540 and used $11,663,025 of cash for operating activities during the year ended December 31, 2021.

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.

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 Capital Assets Held by the Colombian Entities

Key Audit Matter Description

As discussed in Notes 3, 8, and 10 to the consolidated financial statements, during the year ending December 31, 2021, the Company analyzed the fair value of the Colombian entities' capital assets and recorded impairment to its capital assets.

How the Key Audit Matter was Addressed in our Audit

We identified the impairment of capital assets held by the Colombian entities as a key audit matter as subjective auditor judgment was required to evaluate whether these notes contain impairment of capital assets disclosures 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 such capital assets held by the Colombian entities;
- Reviewed management's fair market valuations of the capital assets held by the Colombian entities;
- Obtained an understanding of management's knowledge, skill and ability to assess the fair market of capital assets held by the Colombian entities;
- Challenged and assessed the reasonableness of assumptions used within the evaluation of such capital assets;
- Reviewed the market offer from potential third-party buyer;
- Completed a sensitivity analysis over Management's assumptions applied within the valuation model; and
- Mathematically tested and reviewed the overall calculations.

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, which includes Management's Discussion and Analysis.

Our opinion on the 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 financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. 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.

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

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

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

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

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

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

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

Kingston Ross Pasnak LLP

Kingston Ross Pasnak LLP
Chartered Professional Accountants

Avicanna Inc.
Consolidated Statements of Financial Position
(Expressed in Canadian Dollars)

	Note		December 31, 2021		December 31, 2020
ASSETS					
Current assets					
Cash		$	31,004	$	1,266,732
Short-term investments	4		-		1,250,000
Amounts receivable	5		2,335,828		1,005,290
Prepaid assets			901,292		1,321,586
Biological assets	6		1,083,447		650,780
Inventory	7		3,002,059		1,276,078
Total current assets			**7,353,630**		**6,770,466**
Right of use asset	11		147,192		343,452
Property and equipment	8,10		14,321,597		21,465,199
Intangible assets	9,10		299,195		497,468
Deferred tax asset	26		-		34,451
Derivative asset	12		-		526,312
Investment	13		180,000		518,213
Total assets		**$**	**22,301,614**	**$**	**30,155,561**
LIABILITIES AND SHAREHOLDERS' EQUITY					
Current liabilities					
Trade payables and accrued liabilities		$	7,289,380	$	6,562,339
Lease liability – current portion	15		156,247		203,155
Income tax payable	26		-		20,684
Loan payable – current portion	17		1,090,107		-
Convertible debentures	16		-		1,573,695
Derivative liability	18		-		145,151
Due to related party	19		3,659,931		4,319,545
Total current liabilities			**12,195,665**		**12,824,569**
Loan payable	17		415,826		-
Lease liability	15		-		161,061
Deferred revenue	14		2,782,101		3,260,101
Total liabilities			**15,393,592**		**16,245,731**
Shareholders' Equity					
Share capital	20		66,243,911		57,468,839
Warrants	20		9,621,935		6,780,037
Share-based payment reserve	21		6,847,200		5,916,475
Accumulated other comprehensive loss			(4,159,392)		(2,112,995)
Deficit			(77,407,467)		(62,036,238)
Equity attributable to owners of the parent			1,146,187		6,016,118
Non-controlling interest	22		5,761,835		7,893,712
Total equity			**6,908,022**		**13,909,830**
Total liabilities and shareholders' equity		**$**	**22,301,614**	**$**	**30,155,561**

Nature of operations and going concern uncertainty – Note 1
Subsequent events – Note 30

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 Year Ended December 31, 2021 and 2020
(Expressed in Canadian Dollars)

	Note		For the Year ended December 31, 2021		2020
Revenue					
Service revenue	14	$	87,945	$	13,471
License revenue	14		403,000		530,264
Product sales			2,777,961		1,026,325
Total Revenue			**3,268,906**		**1,570,060**
Cost of goods sold			(1,902,440)		(2,903,470)
Gross margin before the undernoted			**1,366,466**		**(1,333,410)**
Fair value changes in biological assets included in inventory sold	6		(149,313)		(553,952)
Unrealized gain on changes in fair value of biological assets	6		1,614,667		1,317,247
Gross margin			**2,831,820**		**(570,115)**
Expenses					
General and administrative	24		11,869,833		13,501,808
Share-based compensation	21		1,312,768		3,115,915
Depreciation and amortization	8,9,11		893,987		1,086,991
Expected credit loss	23		168,641		713,582
Impairment of intangible assets	10		-		10,255,672
Impairment of goodwill	10		-		3,207,227
Impairment of capital assets	10		4,160,727		-
Total Expenses			**(18,405,956)**		**(31,881,195)**
Other income (expenses)					
Foreign exchange loss			(77,419)		(77,526)
Gain on disposal of capital assets	9		51,975		-
Unrealized (loss) gain on investment	13		(338,213)		518,141
Gain (loss) on revaluation of derivative liability	18		(138,904)		23,434
Loss on revaluation of derivative asset	12		(526,312)		(3,253,688)
Other income			580,292		454,759
Interest expense	15,16,17		(738,056)		(263,111)
Net loss before taxes		**$**	**(16,760,773)**	**$**	**(35,049,301)**
Deferred tax (expense) recovery	26		(34,451)		2,208,285
Income tax recovery (expense)	26		20,684		(20,684)
Net loss			**(16,774,540)**		**(32,861,700)**
Exchange differences on translation of foreign operations			(2,774,963)		(1,934,890)
Net comprehensive loss		**$**	**(19,549,503)**	**$**	**(34,796,590)**
Net comprehensive loss attributable to non – controlling interest	22		(2,131,877)		(2,454,184)
Net comprehensive loss attributable to shareholders	22		(17,417,626)		(32,342,406)
		$	**(19,549,503)**	**$**	**(34,796,590)**
Weighted average number of common shares – basic and diluted			41,285,084		29,395,738
Net loss per share – basic and diluted		$	(0.47)	$	(1.18)

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

Avicanna Inc.
Consolidated Statements of Changes in Shareholders' Equity
For the Years Ended December 31, 2021 and 2020
(Expressed in Canadian Dollars)

		Common shares		Common shares to be Issued		Warrants	Share-based payment Reserve	Deficit	Accumulated other comprehensive loss	Non-controlling interest	Total
	Note	#	$	#	$	$	$	$	$	$	$
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**
Settlement of shares to be issued	20	101,722	113,526	(101,722)	(113,526)	-	-	-	-	-	-
Share-based compensation	21	-	-	-	-	-	1,312,768	-	-	-	1,312,768
Exercise of RSUs	21	130,467	361,827	-	-	-	(382,043)	-	-	-	(20,216)
Conversion of debentures	16	613,535	1,502,735	-	-	-	-	-	-	-	1,502,735
Exercise of warrants	20	99,595	124,883	-	-	(40,227)	-	-	-	-	84,656
Issuance of units	20	9,067,022	6,785,627	-	-	2,305,065	-	-	-	-	9,090,692
Warrants issued with term loan	17	-	-	-	-	577,060	-	-	-	-	577,060
Foreign exchange translation		-	-	-	-	-	-	-	(2,046,397)	(728,566)	(2,774,963)
Net loss		-	-	-	-	-	-	(15,371,229)	-	(1,403,311)	(16,774,540)
December 31, 2021		**45,884,282**	**66,243,911**	**-**	**-**	**9,621,935**	**6,847,200**	**(77,407,467)**	**(4,159,392)**	**5,761,835**	**6,908,022**

		Common shares		Common shares to be Issued		Warrants	Share-based payment Reserve	Deficit	Accumulated other comprehensive loss	Non-controlling interest	Total
	Note	#	$	#	$	$	$	$	$	$	$
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	20	12,837,065	10,336,712	-	-	2,518,572	-	-	-	-	12,855,284
Share-based compensation	21	-	-	-	-	-	3,115,915	-	-	-	3,115,915
Settlement of RSUs	21	570,153	985,136	101,722	113,526	-	(1,098,662)	-	-	-	-
Forfeiture of RSUs	21	-	-	-	-	-	(38,053)	38,053	-	-	-
Forfeiture of options	21	-	-	-	-	-	(73,549)	73,549	-	-	-
SMGH Recapitalization	19	-	-	-	-	-	-	-	-	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)
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 Cash Flows
For the Years Ended December 31, 2021 and 2020
(Expressed in Canadian Dollars)

	Note	For the Year ended December 31, 2021	2020
Cash flows from operating activities			
Net loss		$ (16,774,540)	$ (32,861,700)
Depreciation and amortization	8,9,11	893,987	1,086,991
Interest on lease liability	15	21,486	37,552
Accretion of loans and convertible debentures	16,17	443,038	103,146
Share-based compensation	21	1,312,768	3,115,915
Loss on long-term investment	13	338,213	(518,141)
Loss (gain) on fair value of derivative liability	18	138,904	(23,434)
Loss on derivative asset	12	526,312	3,253,688
Recognition of deferred revenue	14	(478,000)	(63,417)
Expected credit losses	23	168,641	713,582
Future tax recovery (expense)	26	34,451	(2,208,285)
Impairment of capital assets	10	4,160,727	-
Impairment of goodwill	10	-	3,207,227
Impairment of intangible assets	10	-	10,255,672
Changes in non-cash operating elements of working capital	28	(2,449,012)	(69,249)
Cash used in operating activities		**(11,663,025)**	**(13,970,453)**
Cash flows from investing activities			
Sale (purchase) of short-term investments	4	1,250,000	(1,250,000)
Purchase of capital assets	8	(769,166)	(1,620,125)
Proceeds from disposal of capital assets	8	300,059	232,996
Purchase of intangible assets	9	(20,065)	(69,984)
Cash used in investing activities		**760,828**	**(2,707,113)**
Cash flows from financing activities			
Payment of lease liability	15	(229,455)	(228,675)
Issuance of loans payable, net of costs	17	2,359,086	-
Proceeds from issuance of common shares, net of costs	20	9,090,692	12,855,284
Increase in balance due to related parties	19	(68,120)	3,859,869
Repayment of debentures	16	(600,000)	-
Repayment of loan payable	17	(576,843)	-
Issuance of debentures	16	-	900,074
Proceeds from exercise of warrants	20	84,656	-
Cash provided by financing activities		**10,060,016**	**17,386,552**
Net decrease in cash		**(842,181)**	**824,975**
Effect of foreign exchange differences		(393,547)	115,989
Cash, beginning of year		1,266,732	441,757
Cash, end of year		**$ 31,004**	**$ 1,266,732**

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 of December 31, 2021, the Company has an accumulated deficit of $77,407,467 (December 31, 2020 - $62,036,238), cash of $31,004 (December 31, 2020 – $1,266,732), and a working capital deficit of $4,842,035 (December 31, 2020 – deficit of $6,054,103). Additionally, the Company incurred a net loss after taxes of $16,774,540 and used $11,663,025 of cash from operating activities during the year ended on December 31, 2021. In the prior year, the Company incurred a net loss of $32,861,700 and used $13,970,453 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 PRESENTATION

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 March 31, 2022.

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 operates in four business segments: three based on geographic region; North America, South America and Rest of World, and Corporate, which is comprised of costs which serve the Company’s global administrative responsibilities.

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 PRESENTATION (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 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 Inc.	United States of America	100%	United States Dollar
2516167 Ontario Inc. ("MyCannabis")	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%	Colombian Peso
Santa Marta Golden Hemp S.A.S. ("SMGH")	Republic of Colombia	60%	Colombian Peso
Avicanna LATAM S.A.S.	Republic of Colombia	100%	Colombian Peso
Sativa Nativa S.A.S. ("SN")	Republic of Colombia	63%	Colombian 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 other comprehensive income ("OCI") and accumulated in the translation reserve, except to the extent that the translation difference is allocated to non-controlling interests ("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.

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:

2. BASIS OF PRESENTATION (CONTINUED)

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, 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.

Long-term investment
The fair value of the Company's long-term investments is 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.

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.

2. BASIS OF PRESENTATION (CONTINUED)

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.

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.

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.

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.

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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 MyCannabis. 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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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 straight-line 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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

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:

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

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, 2020.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

New Accounting Policies

Future accounting standards not adopted in the current year

IAS 1, Presentation of Financial Statements
On January 23, 2020, the International Accounting Standards Board (“IASB”) issued 'Classification of Liabilities as Current or Non-current (Amendments to IAS 1)' providing a more general approach to the classification of liabilities under IAS 1 based on the contractual arrangements in place at the reporting date. The amendments are effective for annual reporting periods beginning on or after January 1, 2023. No significant impact to the Company’s financial statements is expected.

IAS 12, Income Taxes
On May 7, 2021, the IASB issued 'Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12)' that clarify how companies account for deferred tax on transactions such as leases and decommissioning obligations. The amendments are effective for annual periods beginning on or after January 1, 2023. No significant impact to the Company’s financial statements is expected.

IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors
The amendments to IAS 8 are 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 amendments effective for annual periods beginning on or after January 1, 2023, with early application permitted. No significant impact to the Company’s financial statements is expected.

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

IAS 16, Property, Plant, and Equipment
The amendments to IAS 16 prohibit deducting from the cost of an item of property, plant, and equipment any proceeds from selling items produced before that asset is available for use, i.e., proceeds while bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Consequently, an entity recognizes such sales proceeds and related costs in profit or loss. The amendment also clarifies the meaning of 'testing whether an asset is functioning properly'. The amendments are applied retrospectively for period beginning on or after 1 January 2022, with early application permitted. No significant impact to the Company's property and equipment balance is expected.

IFRS 3, Reference to the Conceptual Framework
The amendments update IFRS 3 so that it refers to the 2018 Conceptual Framework instead of the 1989 Framework. They also add to IFRS 3 a requirement that, for obligations within the scope of IAS 37, an acquirer applies IAS 37 to determine whether at the acquisition date a present obligation exists as a result of past events. For a levy that would be within the scope of IFRIC 21 Levies, the acquirer applies IFRIC 21 to determine whether the obligating event that gives rise to a liability to pay the levy has occurred by the acquisition date. Finally, the amendments add an explicit statement that an acquirer does not recognize contingent assets acquired in a business combination. The amendments are effective for business combinations for which the date of acquisition after the beginning of the first annual period beginning on or after 1 January 2022. Early application is permitted if an entity also applies all other updated references (published with the updated Conceptual Framework) at the same time or earlier. No significant impact to the Company's financial statements is expected.

IFRS 10, Consolidated Financial Statements and IAS 28, Investments in Associates and Joint Ventures
IFRS 10 – Consolidated Financial Statements ("IFRS 10") and IAS 28 – Investments in Associates and Joint Ventures ("IAS 28") were amended in September 2014 to address a conflict between the requirements of IAS 28 and IFRS 10 to clarify that in a transaction involving an associate or joint venture, the extent or gain or loss recognition depends on whether the assets sold or contributed constitute a business. The effective date of these amendments is yet to be determined; however early adoption is permitted.

IAS 37, Provisions, Contingent Liabilities, and Contingent Assets
The amendments update IAS 37 to clarify that when assessing if a contract is onerous, the cost of fulfilling the contract includes all the costs that relate directly to the contract – i.e., a full-cost approach. Such costs include both the incremental costs of the contract (costs a company would avoid if it did not have the contract) and an allocation of other direct costs incurred on activities required to fulfill the contract – e.g., contract management and supervision, or depreciation of equipment used in fulfilling the contract. The amendments are effective for annual periods begging on January 1, 2022. No significant impact to the Company's financial statements is expected.

4. SHORT-TERM INVESTMENTS

As of December 31, 2020, the Company held short-term investments which was comprised of guaranteed investment certificates for $1,250,000 maturing in one year, bearing an annual interest of 0.25%. During the year ended December 31, 2021, the short-term investment was redeemed.

5. AMOUNTS RECEIVABLE

		December 31, 2021		December 31, 2020
Trade and other receivables	$	1,130,087	$	708,673
Sales tax receivable		2,088,844		1,010,199
Expected credit loss provision		(883,103)		(713,582)
Total amounts receivable	**$**	**2,335,828**	**$**	**1,005,290**

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

6. BIOLOGICAL ASSETS

Biological assets consist of cannabis on plants. The changes in the carrying value of biological assets are as follows:

		December 31, 2021		December 31, 2020
Opening balance	$	650,780	$	108,995
Production costs capitalized		501,975		848,931
Gain in fair value less costs to sell due to biological transformation		1,522,038		1,340,996
Transferred to inventory upon harvest		(1,498,034)		(1,648,142)
Foreign exchange translation		(93,312)		-
Ending balance	**$**	**1,083,447**	**$**	**650,780**

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

Assumptions: THC Resin	As of December 31, 2021		As of December 31, 2020	
	Input	Effect on Fair Value	Input	Effect on Fair Value
THC Resin Yield	12.6%	$100,963	12.0%	$65,324
THC Resin Price (USD/KG)	$5,189	$102,689	$4,400	$65,306
Weighted average of expected loss of plants until harvest [i]	6.7%	$3,135	28.9%	$173
Expected yields for cannabis plants (average grams per plant)	145	$90,078	134	$53,173
Weighted average number of growing weeks completed as a percentage of total growing weeks as at period end	50%	$90,078	88.0%	$53,173
Estimated fair value less costs to complete and sell (per gram) [ii]	$0.65	$94,325	$0.63	$63,271
After harvest cost to complete and sell (per gram)	$0.04	$4,247	$0.10	$10,097

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

6. BIOLOGICAL ASSETS (CONTINUED)

Assumptions: CBD Isolate	As of December 31, 2021		As of December 31, 2020	
	Input	Effect on Fair Value	Input	Effect on Fair Value
CBD Isolate Yield	-	-	6%	$2,465
CBD Isolate Price (USD/KG)	-	-	$1,100	$2,462
Weighted average of expected loss of plants until harvest [i]	-	-	3.0%	$58
Expected yields for cannabis plants (average grams per plant)	-	-	112	$1,893
Weighted average number of growing weeks completed as a percentage of total growing weeks as at period end	-	-	56.0%	$1,893
Estimated fair value less costs to complete and sell (per gram) [ii]	-	-	$0.04	$1,165
After harvest cost to complete and sell (per gram)	-	-	$0.10	$3,057

Assumptions: CBD Resin	As of December 31, 2021		As of December 31, 2020	
	Input	Effect on Fair Value	Input	Effect on Fair Value
CBD Resin Yield	8.8%	$23,497	-	-
CBD Resin Price (USD/KG)	$3,022	$24,198	-	-
Weighted average of expected loss of plants until harvest [i]	3.5%	$668	-	-
Expected yields for cannabis plants (average grams per plant)	145	$18,276	-	-
Weighted average number of growing weeks completed as a percentage of total growing weeks as at period end	74%	$18,276	-	-
Estimated fair value less costs to complete and sell (per gram) [ii]	$0.23	$19,653	-	-
After harvest cost to complete and sell (per gram)	$0.02	$1,377	-	-

Assumptions: CBD Seeds	As of December 31, 2021		As of December 31, 2020	
	Input	Effect on Fair Value	Input	Effect on Fair Value
CBD Seeds Price (USD/unit)	$0.90	$40,913	$0.50	$2,506
Weighted average of expected loss of plants until harvest [i]	10%	$4,531	11.1%	$311
Expected yields for cannabis plants (average units per plant)	3,000	$40,783	2,500	$2,491
Weighted average number of growing weeks completed as a percentage of total growing weeks as at period end	45%	$40,783	26.0%	$2,491
Estimated fair value less costs to complete and sell (per unit) [ii]	$0.97	$40,896	$0.62	$2,504
After harvest cost to complete and sell (per unit)	$0.00	$113	$0.00	$13

[i] 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.

[ii] The estimated fair value less costs to complete and sell (per gram/unit) 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.

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

6. BIOLOGICAL ASSETS (CONTINUED)

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, 2021, it is expected that the Company's cannabis plant biological assets will yield approximately 4,022,145 grams of dry cannabis (December 31, 2020 – 1,704,055 grams) and 942,300 seeds (December 31, 2020 – 1,653,333) in Santa Marta Golden Hemp S.A.S. As of December 31, 2021, Sativa Nativa S.A.S. is only growing R&D batches to enhance its genetic base.

The Company has decided not to value, at fair value, certain seeds batches given the novelty of the market in which it will trade once harvested.

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

An unrealized gain on biological assets of $1,614,667 was included in cost of goods sold for the year ended December 31, 2021 (December 31, 2020 – $1,317,247).

7. INVENTORY

	Capitalized Cost	Biological assets fair value adjustment	Impairment	Carrying Value
Harvested Cannabis				
Seeds	$ 322,552	$ -	$ (339,072)	$ (16,520)
Wet Flower	113,909	204,705	(33,940)	284,674
Dried Flower	232,181	680,139	(179,397)	732,923
	668,642	**884,844**	**(552,409)**	**1,001,077**
Active Pharmaceutical Ingredients				
Work in process	548,276	229,329	(407,163)	370,442
Finished goods	70,013	(51,633)	(18,380)	-
	618,289	**177,696**	**(425,543)**	**370,442**
Supplies and consumables	**1,420,053**	**-**	**(394,399)**	**1,025,654**
Finished goods	**688,221**	**-**	**(83,335)**	**604,886**
December 31, 2021	**$ 3,395,205**	**$ 1,062,540**	**$ (1,455,686)**	**$ 3,002,059**

	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**
December 31, 2020	**$ 3,426,965**	**$ 247,039**	**$ (2,397,925)**	**$ 1,276,078**

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

7. INVENTORY (CONTINUED)

The value of inventory transferred to cost of goods sold during the year ended December 31, 2021, was $2,571,556 (December 31, 2020 - $505,545).

8. PROPERTY AND EQUIPMENT

	Equipment	Land	Construction in Progress	Infrastructure and Buildings	Total
	$	$	$	$	$
Cost					
December 31, 2020	3,016,452	9,088,419	4,973,217	5,604,076	22,682,164
Additions	580,339	-	182,936	5,891	769,166
Disposals	(522,506)	-	(36,760)	-	(559,266)
Transfers	3,040,200	-	(2,560,949)	(479,251)	-
Impairment	-	-	(1,950,592)	(2,210,135)	(4,160,727)
Foreign exchange translation	(698,034)	(1,303,147)	(345,884)	(720,736)	(3,067,801)
December 31, 2021	**5,416,451**	**7,785,272**	**261,968**	**2,199,845**	**15,663,536**
Accumulated Depreciation					
December 31, 2020	992,635	-	-	224,330	1,216,965
Depreciation	377,980	-	-	111,789	489,769
Disposals	(259,207)	-	-	-	(259,207)
Foreign exchange translation	(70,448)	-	-	(35,140)	(105,588)
December 31, 2021	**1,040,960**	**-**	**-**	**300,979**	**1,341,939**
Net Book Value					
December 31, 2020	2,023,817	9,088,419	4,973,217	5,379,746	21,465,199
December 31, 2021	**4,375,491**	**7,785,272**	**261,968**	**1,989,866**	**14,321,597**

	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)
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)
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**

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

8. PROPERTY AND EQUIPMENT (CONTINUED)

During the year ended December 31, 2021, the Company recognized depreciation expense on its property and equipment of $489,769 (December 31, 2020 - $679,027).

9. INTANGIBLE ASSETS

	Customer Relationships $	Ecommerce Platform $	Licenses and Permits $	Software Licenses $	Intellectual Property $	Total $
Cost						
December 31, 2020	141,327	455,994	50,177	83,321	100,551	831,370
Additions	-	-	568	16,741	2,756	20,065
Foreign exchange translation	-	-	(7,196)	(11,947)	(14,417)	(33,560)
December 31, 2021	**141,327**	**455,994**	**43,549**	**88,115**	**88,890**	**817,875**
Accumulated Amortization						
December 31, 2020	96,613	103,501	17,860	38,669	77,259	333,902
Amortization	28,265	91,199	24,157	46,606	17,731	207,958
Foreign exchange translation	-	-	(3,802)	(7,389)	(11,989)	(23,180)
December 31, 2021	**124,878**	**194,700**	**38,215**	**77,886**	**83,001**	**518,680**
Net Book Value						
December 31, 2020	44,714	352,493	32,317	44,652	23,292	497,468
December 31, 2021	**16,449**	**261,294**	**5,334**	**10,229**	**5,889**	**299,195**

	Customer Relationships $	Ecommerce Platform $	Licenses and Permits $	Software Licenses $	Intellectual Property $	Total $
Cost						
December 31, 2019	141,327	386,010	10,737,198	92,488	111,614	11,468,637
Additions	-	69,984	-	-	-	69,984
Impairment	-	-	(10,568,947)	-	-	(10,568,947)
Foreign exchange translation	-	-	(118,074)	(9,167)	(11,063)	(138,304)
December 31, 2020	**141,327**	**455,994**	**50,177**	**83,321**	**100,551**	**831,370**
Accumulated Amortization						
December 31, 2019	68,307	19,301	311,415	3.854	1,860	404,737
Amortization	28,306	84,200	15,617	25,932	57,650	211,706
Impairment	-	-	(313,275)	-	-	(313,275)
Foreign exchange translation	-	-	4,103	8,883	17,748	30,734
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**

During the year ended December 31, 2021, the Company recognized amortization on its intangible assets of $207,958 (December 31, 2020 - $211,706).

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

10. IMPAIRMENT

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, 2021, the Company conducted an impairment assessment on the assets of two subsidiaries, Santa Marta Golden Hemp S.A.S. ("SMGH") and Sativa Nativa S.A.S. ("SN").

As a result of the Company's impairment analysis, the capital assets of these subsidiaries were written down and an impairment of $4,160,727 was recorded for the year ended December 31, 2021 (December 31, 2020 - $nil). In the prior year ended December 31, 2020, impairment expenses of $10,255,672 and $3,207,227 were recognized on intangible assets and goodwill, respectfully. The impairment expenses are broken down by entity below:

Sativa Nativa S.A.S.

		December 31, 2021		December 31, 2020
Impairment on goodwill	$	-	$	686,845
Impairment on intangible assets		-		2,478,728
Impairment on capital assets		681,438		-
Ending Balance	**$**	**681,438**	**$**	**3,165,573**

Santa Marta Golden Hemp S.A.S.

		December 31, 2021		December 31, 2020
Impairment on goodwill	$	-	$	2,520,382
Impairment on intangible assets		-		8,090,219
Impairment on capital assets		3,479,289		-
Ending Balance	**$**	**3,479,289**	**$**	**10,610,601**

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 25.85% - 32.27%. The growth rate reflects the long-term average growth rate for SMGH and SN, 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 $39,667 would be recognized on the Company's capital assets.

11. RIGHT OF USE ASSETS

As of December 31, 2021, and 2020, the Company's right of use asset consisted of the following:

		December 31, 2021		December 31, 2020
Cost				
Opening balance	$	670,549	$	670,549
Additions		-		-
Ending balance	$	670,549	$	670,549
Accumulated Amortization				
Opening balance	$	327,097	$	130,839
Depreciation		196,260		196,258
Ending balance	$	523,357	$	327,097
Net Book Value	**$**	**147,192**	**$**	**343,452**

During the year ended December 31, 2021, the Company recognized depreciation on its right of use assets of $196,260 (December 31, 2020 - $196,258).

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

12. DERIVATIVE ASSET

		December 31, 2021		December 31, 2020
Opening balance	$	526,312	$	3,780,000
Change in fair value		(526,312)		(3,253,688)
Ending Balance	**$**	**-**	**$**	**526,312**

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 the Company the option (the "Option") to acquire 100 percent of the issued and outstanding shares of LC2019. The Option is exercisable in the event that cannabis cultivation, processing, distribution and possession becomes federally legal in the United States (the "Triggering Event"), within 10 years from the grant date. The Company 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. As of December 31, 2021, the option has not been exercised.

Pursuant to the terms of the Option Agreement, upon the occurrence of the Triggering Event, the Company 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 the Company provides notice of exercise to LC2019, up to a maximum aggregate amount of $10,000,000. The Company is entitled to elect to satisfy the purchase price in cash or through the issuance of common shares of the Company, in its sole discretion, subject to the approval of, and in accordance with the policies of, the TSX.

The Option was classified as a derivative financial instrument and was initially recorded at its fair value of $3,780,000. As of December 31, 2021, the fair value of the Option was $nil (2020 - $526,312).

13. LONG-TERM INVESTMENT

		December 31, 2021		December 31, 2020
Balance at the beginning of the year	$	518,213	$	72
Unrealized (loss) gain on change in fair value		(338,213)		518,141
Ending balance	**$**	**180,000**	**$**	**518,213**

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. 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.

Subsequent to December 31, 2021, all shares owned by the Company were redeemed by Southern Sun. The shares were redeemed for $0.25 per share for gross proceeds of $180,000. As a result, the Company recognized an unrealized loss on the value of these shares for the year ended December 31, 2021, of $338,213.

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

14. DEFERRED REVENUE

		December 31, 2021		December 31, 2020
Opening balance	$	3,260,101	$	3,323,518
Additions		-		400,000
Revenue recognized		(478,000)		(463,417)
Ending Balance	**$**	**2,782,101**	**$**	**3,260,101**

[i] Pursuant to the terms of the License Agreement with LC2019 (note 12), the Company transfers brand, trademark and intellectual property related to product development. For LC2019 to benefit from these assets, there are activities that the Company would need to perform to support and maintain brand value. Therefore, the license is considered a right to access and would be recognized over time, to represent the Company's continuing obligation to maintain the value of these licensed assets. 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, the term of the license. In relation to this contract, the Company recognized $378,000 as license revenue for the year ended December 31, 2021, (December 31, 2020 - $378,000).

[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. In relation to this contract, the Company recognized $25,000 into license revenue for the year ended December 31, 2021 (December 31, 2020 - $10,417).

[iii] On January 7, 2020, the Company entered a Development Project whereby the Company received $150,000 as consideration for formulation development. As of December 31, 2021, the Company has fulfilled its performance obligation with regards to the formulation development. The Company recognized $75,000 into service revenue during the year ended December 31, 2021 (December 31, 2020 - $75,000).

15. LEASE LIABILITY

As of December 31, 2021, the lease liability consisted of the following:

		December 31, 2021		December 31, 2020
Opening balance	$	**364,216**	$	**555,339**
Interest incurred on lease liability		21,486		37,552
Lease payments		(229,455)		(228,675)
Ending balance	$	**156,247**	$	**364,216**
Lease liability – current portion		156,247		203,155
Lease liability – non-current portion		-		161,061

The Company has lease liabilities for leases related to its corporate offices. The weighted average discount rate for the year ended December 31, 2021, and 2020, was 8% percent.

(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 on December 31, 2021 was as follows:

Due in less than 1 year	$	168,712
Due between 1 and 2 years		-
Total lease payments		168,712
Amounts representing interest over the term of the lease		(12,465)
Present value of minimum lease payments	**$**	**156,247**

16. CONVERTIBLE DEBENTURES

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

		December 31, 2021		December 31, 2020
Opening balance	$	1,573,695	$	715,626
Additions (ii)		-		754,923
Accretion expense		145,839		103,146
Converted to common shares		(1,172,639)		-
Repayments		(546,895)		-
Ending Balance	**$**	**-**	**$**	**1,573,695**

(i) On March 1, 2019, 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, representing a conversion rate of 125 common shares per $1,000 of principal, subject to adjustment in accordance with the debenture certificates. On March 1, 2021, the principal of these debentures, and accrued interest of $125,280, were converted into 113,535 common shares.

(ii) 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 the issuance of the debentures on November 2, 2021. The first year of interest payable will be capitalized into 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 common share purchase warrant per $2.00 of principal 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. Each whole warrant entitles the holder to acquire one common share of the Company at a price of $1.50 per common share. Between the issuance date and the date that is 60 days from the issuance date, if the Company issues common shares or securities convertible into common shares at a price or exercise price below $0.80 then the conversion price would be reduced to match that price or exercise price.

The debentures and warrants issued pursuant to the Offering are subject to a statutory hold period in Canada of four months and one day following the closing of the Offering.

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.

A portion of proceeds is allocated to the conversion option and 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: risk-free rate of 0.24-0.26%, 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.

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

16. CONVERTIBLE DEBENTURES (CONTINUED)

As a result, the Company recognized the following:

Convertible debenture	$	754,923
Issuance Costs		199,926
Derivative liability (Note 16)		145,151
	$	**1,100,000**

During the year ended December 31, 2021, the Company recognized accretion expense of $145,839 (December 31, 2020 - $103,146) and interest expense of $35,156 (December 31, 2020 - $76,392) in relation to these convertible debentures.

On February 25, 2021, holders of the convertible debenture exercised $200,000 of principal into 200,000 Common Shares of the Company and on March 17, 2021, an additional $300,000 of principal into 300,000 common shares were issued on the exercise of convertible debentures. The remaining balance was repaid during the year ended December 31, 2021.

17. LOANS PAYABLE

		December 31, 2021		December 31, 2020
Opening balance	$	-	$	-
Additions:				
Term loan		1,122,940		-
Bank loan		659,086		-
Repayments		(544,245)		
Accretion		297,198		-
Foreign exchange translation		(29,046)		-
Ending Balance	**$**	**1,505,933**	**$**	**-**
Current portion		1,090,107		-
Non-current portion		415,826		-

Term loan

On August 18, 2021, the Company entered into a term loan agreement for principal of $2,118,000, incurring 5% interest for a term of 14 months. The loan principal is to be repaid at the maturity date, with interest paid monthly, beginning 2 months after the issuance date. The balance was recognized net of the following discounts and issuance costs:

Principal	$	2,118,000
Discount		(318,000)
Issuance Costs		(100,000)
Warrants		(577,060)
	$	**1,122,940**

As part of the term loan agreement, the Company issued 1,636,364 common share purchase warrants to the lender, exercisable into common shares of the Company for 3 years from the date of issuance at a price of $1.10 per common share. The fair value of the warrants was determined using the Black-Scholes pricing model with the following assumptions: risk-free rate of 0.55%, volatility of 98%, expected life of 1.5 years, dividend yield 0% and share price of $1.08.

During the year ended December 31, 2021, the Company incurred accretion expense of $297,198 (December 31, 2020 - $nil) and interest expense of $35,904 (December 31, 2020 - $nil) in relation to this loan.

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

17. LOANS PAYABLE (CONTINUED)

Bank loan

On October 28, 2021, the Company's majority owned subsidiary, SMGH, received a bank loan from a financial institution in Colombia. SMGH borrowed principal of $659,086 (COL$2,000,000,000), incurring interest at 8.3% over a term of 3 years. The loan is to be repaid in 12 quarterly payments over the life of the loan.

During the year ended December 31, 2021, the Company incurred interest expense of $9,159 (December 31, 2020 - $nil) in relation to this loan.

18. DERIVATIVE LIABILITIES

		December 31, 2021		December 31, 2020
Opening balance	$	145,151	$	23,434
Additions		-		145,151
Repayment on convertible debenture		(79,789)		-
Conversions		(204,266)		-
Loss on change in fair value		138,904		(23,434)
Ending Balance	**$**	**-**	**$**	**145,151**

On March 1, 2019, the Company completed a convertible debenture offering. 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. During the year ended December 31, 2021, the debentures were fully converted.

On November 2, 2020, the Company completed a convertible debenture offering (note 16). 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. As of December 31, 2021, the fair value of the derivative liability was $nil, as all convertible debentures had been converted or repaid. A loss of $138,904 was recognized for the year ended December 31, 2021 (December 31, 2020 - $23,434).

On February 25, 2021, a fair value of $96,009 was transferred to share capital on the conversion of debentures into 200,000 common shares. On March 17,2021, a fair value of $108,807 was transferred to share capital on the conversion of debentures into 300,000 common shares.

19. RELATED PARTY TRANSACTIONS

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

		Year ended December 31, 2021		Year ended December 31, 2020
Salaries	$	477,061	$	798,333
Share-based compensation		186,644		671,150
	$	**663,705**	**$**	**1,469,483**

Salaries and shared based compensation include compensation paid to key management personnel. The Company defines key management personnel as the Chief Executive Officer, President, Chief Financial Officer, and President of LATAM.

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

19. RELATED PARTY TRANSACTIONS (CONTINUED)

Additionally, as of December 31, 2021, the Company accumulated advances from certain related parties who represent the minority shareholders of SMGH and SN in the amount of $3,659,931 (December 31, 2020- $4,319,545). The advances relate to minority partners contributions towards the expansion of cultivation facilities. The balance owed to the related party is interest free. As these amounts become due, the outstanding balances are converted into common shares of SMGH, consistent with current ownership splits. During the year ended December 31, 2021, $nil was converted into equity in SMGH (December 31, 2020 - $2,859,440).

Changes in the balances are disclosed in the following table:

		December 31, 2021		December 31, 2020
Opening Balance	$	4,319,545	$	3,319,116
Additions		68,120		3,859,869
Foreign exchange		(727,734)		-
Balance recapitalized into shares in SMGH		-		(2,859,440)
Ending Balance	**$**	**3,659,931**	**$**	**4,319,545**

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 with no par value. As of December 31, 2021, the Company had 45,884,282 common shares issued and outstanding (December 31, 2020 – 35,871,941).

[i] 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.

[ii] 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.

[iii] 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)

[iv] 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

[v] During the year ended December 31, 2020, 570,153 common shares were issued on the vesting of restricted stock units. The restricted stock units had a fair value of $985,136.

[vi] As of December 31, 2020, there were 101,722 Restricted Stock Units ("RSUs") that were exercised but not yet settled. These shares were subsequently issued in January 2021.

[vii] On February 25, 2021, 99,595 common shares were issued on the exercise of common share purchase warrants. A total of 99,595 warrants were exercised at a price of $0.85 per common share for gross proceeds of $84,656. The common share purchase warrants exercised held a fair value of $40,227.

[viii] During the year ended December 31, 2021, 130,467 common shares were issued on the vesting of restricted stock units. The restricted stock units had a fair value of $341,616.

[ix] On March 4, 2021, the Company issued an aggregate of 4,480,000 Units (the "Units") at a price of $1.25 per Unit for net proceeds of $5,350,050, comprised of aggregate gross proceeds of $5,600,000 less share issuance costs of $249,950. Each Unit was comprised of one (1) common share in the capital of the Company and one (1) common share purchase warrant ("Warrant"). Each Warrant is exercisable into one common share in the capital of the Company at a price of $1.75 until March 4, 2024.

The net proceeds of $5,350,050 were allocated between the common shares and the warrants by determining the fair value of the warrants, and allocating the residual to the common shares as follows:

Common shares	$	3,599,023
Warrants		1,751,027
	$	**5,350,050**

The 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 $1.17, a risk-free interest rate of 1.62%, an expected annualized volatility of 90% and expected dividend yield of 0%.

[x] On October 19, 2021, the Company issued an aggregate of 4,587,022 Units (the "Units") at a price of $0.85 per Unit for net proceeds of $3,740,642, comprised of aggregate gross proceeds of $3,898,969 less share issuance costs of $158,327. Each Unit was comprised of one (1) common share in the capital of the Company and one half common share purchase warrant ("Warrant"). Each whole Warrant is exercisable into one common share in the capital of the Company at a price of $1.10 until October 19, 2024.

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

20. SHARE CAPITAL (CONTINUED)

The net proceeds of $3,740,642 were allocated between the common shares and the warrants by determining the fair value of the warrants, and allocating the residual to the common shares as follows:

Common shares	$	3,186,604
Warrants		554,038
	$	**3,740,642**

The 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 $0.85, a risk-free interest rate of 0.74%, an expected annualized volatility of 96% and expected dividend yield of 0%.

Warrant Reserve

As of December 31, 2021 and 2020, the following warrants were outstanding and exercisable:

	Warrants #	Weighted average exercise price $
Outstanding as of December 31, 2019	**1,630,721**	**9.56**
Warrants issued	6,529,335	1.28
Warrants expired	(360,008)	9.91
Outstanding as of December 31, 2020	**7,800,048**	**2.62**
Warrants issued	8,409,875	0.82
Warrants exercised	(99,595)	0.01
Warrants expired	(1,245,713)	0.82
Outstanding as of December 31, 2021	**14,864,615**	**1.40**

The following table is a summary of the Company's warrants outstanding as of December 31, 2021:

	Warrants Outstanding		Warrants Exercisable	
Exercise price range $	**Number outstanding** #	**Weighted average remaining life** (years)	**Weighted average exercise price** $	**Number exercisable** #
0.85	240,235	0.02	0.01	240,235
1.00	25,000	0.00	0.02	25,000
1.20	4,642,325	0.49	0.37	4,642,325
1.50	550,000	0.03	0.06	550,000
1.75	4,480,000	0.66	0.53	4,480,000
2.00	997,180	0.04	0.13	997,180
1.10	3,929,875	0.72	0.29	3,929,875
Balance December 31, 2021	**14,864,615**	**1.96**	**1.41**	**14,864,615**

(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 years ended December 31, 2021 and 2020, were estimated at the date of grant using the Black Scholes option pricing model using the following inputs:

	2021	2020
Grant date share price	$0.85	$1.39 -$2.55
Exercise price	$1.00	$1.39 - $5.00
Expected dividend yield	0%	0%
Risk-free interest rate	0.74%	0.44% - 1.62%
Expected option life	6 years	7 – 10 years
Expected volatility	96%	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.

	Options \#	Weighted average exercise price $
Outstanding on December 31, 2019	**1,627,915**	**8.00**
Options issued	1,030,251	2.06
Options cancelled and forfeited	(605,499)	5.72
Options exercised	(100,000)	0.10
Outstanding on December 31, 2020	**1,952,667**	**2.94**
Options issued	320,000	**1.00**
Options forfeited [i]	(776,178)	**3.15**
Outstanding on December 31, 2021	**1,496,489**	**2.39**

[i] During the year ended December 31, 2021, 776,178 options were forfeited. The fair value of unvested units was removed from the share base reserve and accounted for as a reduction in share-based compensation.

During the year ended December 31, 2021, the Company recognized a total share-based compensation expense relating to options of $561,761 (December 31, 2020 - $1,736,557).

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

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

The following table is a summary of the Company's share options outstanding as of December 31, 2021:

	Options Outstanding		Options Exercisable	
Exercise price range	**Number outstanding**	**Weighted average remaining life**	**Weighted average exercise price**	**Number exercisable**
$	#	(years)	$	#
1.00	713,000	2.78	0.48	216,250
1.25	7,500	0.03	0.01	7,500
1.39	13,000	0.04	0.01	7,583
2.00	265,000	0.58	0.35	265,000
2.50	85,194	0.01	0.14	28,898
2.75	222,700	0.75	0.41	74,233
5.00	14,595	0.05	0.05	13,562
7.30	2,000	0.01	0.01	2,000
8.00	173,500	0.45	0.93	173,500
December 31, 2021	**1,496,489**	**4.70**	**2.39**	**788,526**

Restricted Stock Units

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

	RSUs Issued	**Weighted average issue price**
	#	$
Outstanding on December 31, 2019	98,158	8.00
RSUs issued	946,797	1.33
RSUs exercised	(570,153)	1.73
RSUs forfeited	(34,166)	2.86
Outstanding on December 31, 2020	440,636	2.30
RSUs vested [i]	(232,190)	1.96
RSUs issued [ii]	683,748	1.25
RSUs forfeited and cancelled [iv]	(180,186)	0.74
Outstanding on December 31, 2021	**712,008**	**1.45**

[i] During the year ended December 31, 2021, 232,190 common shares were issued for vested restricted stock units. The grant price of the exercised units ranged from $0.85 to $8.00. Of the common shares issued, 101,722 had vested in the year ended December 31, 2020, and were held as shares to be issued.
[ii] On October 20, 2021, restricted stock units were issued to employees of the Company. 683,748 units were issued with a grant price of $1.25, vesting on January 1, 2023.
[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.
[iv] During the year ended December 31, 2021, 101,482 restricted stock units were forfeited, and 78,704 units were cancelled. Unvested units were accounted for as a reduction in share-based compensation expense.

During the year ended December 31, 2021, the Company recognized a total share-based compensation expense relating to restricted stock units of $751,007 (December 31, 2020 - $1,379,358).

Share based compensation is comprised of the following:

		Year ended December 31, 2021		**Year ended December 31, 2020**
Stock options	$	561,761	$	1,736,557
Restricted Stock Units		751,007		1,379,358
	$	**1,312,768**	**$**	**3,115,915**

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

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, 2021 and 2020.

Santa Marta Golden Hemp S.A.S.		**December 31, 2021**		**December 31, 2020**
Current assets	$	4,218,309	$	5,689,891
Non-current assets		12,295,771		16,665,267
Current liabilities		(9,554,576)		(3,581,022)
Non-current liabilities		(415,826)		(317,060)
Ending Balance	**$**	**6,543,678**	**$**	**18,457,076**

Sativa Nativa S.A.S.		**December 31, 2021**		**December 31, 2020**
Current assets	$	33,455	$	123,267
Non-current assets		1,332,886		2,327,540
Current liabilities		(990,264)		(210,856)
Non-current liabilities		-		(489,973)
Ending Balance	**$**	**376,077**	**$**	**1,749,978**

Sigma Magdalena Canada Inc.		**December 31, 2021**		**December 31, 2020**
Current assets	$	2,992	$	7,170
Current liabilities		(221,645)		248,787
Non-current liabilities		-		(262,422)
Ending Balance	**$**	**(218,653)**	**$**	**(6,465)**

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

		December 31, 2021		**December 31, 2020**
Opening Balance	$	7,893,712	$	7,488,456
SMGH Recapitalization		-		2,859,440
Foreign translation		(728,566)		(946,419)
Net loss attributed to non-controlling interest		(1,403,311)		(1,507,765)
Ending Balance	**$**	**5,761,835**	**$**	**7,893,712**

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

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.

As of December 31, 2021, a balance of $1,130,187 in trade and other receivables remained outstanding (December 31, 2020 - $708,673). 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:

December 31, 2021						
	Current	**1 - 30**	**31 - 60**	**61 - 90**	**90 +**	**Total**
	$	$	$	$	$	$
Trade and other receivables	618,883	48,922	16,274	9,975	436,133	1,130,187

December 31, 2020						
	Current	**1 - 30**	**31 - 60**	**61 - 90**	**90 +**	**Total**
	$	$	$	$	$	$
Trade and other receivables	84,452	64,578	279	295,370	263,994	708,673

During the year ended December 31, 2021, the Company has recognized a recovery on estimated credit losses of $48,292 on trade receivables and an expense of ($216,933) on sales tax refunds receivable (December 31, 2020 – expense of $335,521 and $378,521, respectively).

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 +
Trade payables and accrued liabilities	$ 7,289,380	$ 7,289,380	$ 7,289,380	$ -	$ -
Loan payable	1,505,933	2,207,029	1,791,203	214,214	201,613
Lease liability	156,247	224,455	224,950	-	-
	$ 8,951,560	**$ 9,725,864**	**$ 9,305,533**	**$ 214,214**	**$ 201,613**

The due to related party balance of $3,659,931 is not intended to be repaid. As these amounts become due, the outstanding balances can be converted into common shares of SMGH, consistent with current ownership splits.

Market risk

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

Currency risk

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

Interest risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company is 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 values

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

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

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. Warrants and derivative liability are classified as a level 2 financial instruments and the derivative asset is classified as a level 3 instrument. During the year ended December 31, 2021, long-term investments was transferred from a level 3 financial instrument to a level 1 financial instrument. The transfer between fair value classifications to due to the availability of a quoted price for this instrument, which was not available as of December 31, 2020.

As at December 31, 2020, the value of the derivative instrument was determined using a discounted cash flow model, with assumptions on the discount rate and the probability of the triggering event. The following table provides information about the sensitivity of the fair value measurement to changes in the most significant inputs for the LC2019 derivative asset classified as Level 3:

Financial asset/liability	Significant unobservable input	Estimate of the input	Sensitivity of the fair value measurement of the input
Derivative asset (LC2019)	Probability of triggering event	60%	An increase to 70% would increases fair value by $72,950.

As at December 31, 2021, the derivative asset was assessed to have a fair value of $nil.

	December 31, 2021			
	Level 1	Level 2	Level 3	Total
Financial assets at FVTPL				
Long-term investments	180,000	-	-	**180,000**

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

23. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (CONTINUED)

	December 31, 2020			
	Level 1	Level 2	Level 3	Total
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				
Derivative Liability	-	-	145,151	**145,151**

The following table presents the changes in Level 3 items for the years ended December 31, 2021, and 2020:

	December 31, 2021	December 31, 2020	Change
Financial assets at FVTPL			
Long-term investments	-	518,213	**518,213**
Derivative Asset	-	526,312	**526,312**
Financial liabilities at FVTPL			
Derivative Liability	-	145,151	**145,151**

24. GENERAL AND ADMINISTRATIVE EXPENSES

	Year ended December 31, 2021	Year ended December 31, 2020
Office and general	$ 2,023,852	$ 3,725,797
Selling marketing and promotion	345,908	425,641
Consulting fees	1,739,529	1,515,156
Professional fees	2,342,823	2,317,334
Salaries and wages	4,893,073	5,115,859
Research and development	304,312	376,271
Board fees	220,336	25,750
	$ 11,869,833	**$ 13,501,808**

During the year ended December 31, 2021, as part of its inventory costing process, the Company capitalized $327,711 of salaries to inventory and biological assets (December 31, 2020 - $467,706).

(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 of December 31, 2021:

		As at December 31, 2021
2022		283,909
Total Commitments	$	283,909

26. INCOME TAX

Current tax

The reconciliation of the combined Canadian federal and provincial statutory income tax rate of 26.5% (2020 – 26.5%) to the effective tax rate is as follows:

	Year ended December 31, 2021 $	**Year ended December 31, 2020** $
Net loss before recovery of income taxes	(16,760,773)	(35,049,301)
Expected income tax recovery	(4,441,605)	(9,288,065)
Tax rate changes and other adjustments	(821,521)	4,650
Permanent difference	(155,033)	1,596,600
Loan payable booked to warrant	152,921	-
Prior year true-up	3,346,839	-
Tax attributes of acquired entity	-	162,630
Change in tax benefits not recognized	1,932,165	-
Income tax recovery	13,766	(2,187,600)

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

	Year ended December 31, 2021 $	**Year ended December 31, 2020** $
Current tax (recovery) expense	(20,684)	20,684
Deferred tax (recovery) expense	34,450	(2,208,284)
	(13,766)	(2,187,600)

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

26. INCOME TAX (CONTINUED)

Deferred tax

The following table summarizes the components of deferred tax:

	Year ended December 31, 2021 $	Year ended December 31, 2020 $
Deferred tax assets		
Property and equipment	111,540	322,675
Capital lease obligation	41,405	96,517
Deferred revenue	737,257	431,963
Unrealized loss on investment	44,813	-
Convertible debentures	-	21,124
Term loan	232,112	-
Inventory impairment	468,711	260,315
Reserves	284,882	-
Impairment	-	26,670
Share issuance costs	460,473	931,681
Foreign Exchange	361,092	468,548
Losses Canada	8,214,685	446,936
Losses Colombia	4,674,963	10,992,219
Presumptive income excess	-	91,226
Valuation allowance	(15,561,533)	(13,887,904)
	70,396	**201,970**
Deferred tax liabilities		
Property and equipment	1,150,370	(96)
Intangible assets	(33,207)	-
Capital lease assets	(39,006)	(91,015)
Term loan	(420,953)	-
Derivative asset	-	(69,736)
Foreign exchange	-	(6,247)
Inventory impairment	(727,600)	(426)
	(70,396)	**(167,520)**
Net deferred tax liability	**-**	**34,450**

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

	December 31, 2021 $	December 31, 2020 $
Balance at the beginning of the year	34,450	(2,173,835)
Recognized in profit and loss	(34,450)	2,208,285
Deferred tax asset	**-**	**34,451**

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

26. INCOME TAX (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:

	December 31, 2021	December 31, 2020
	$	$
Other provision		-
Share issuance costs	1,737,633	3,515,776
Losses carried forward – Canada	30,990,168	33,376,230
Losses carried forward – Colombia	13,637,251	5,377,314
	46,365,051	**42,369,320**

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	10,569,004
2040	5,337,625
2041	7,863,096
	30,990,168

27. SEGMENT REPORTING

Operating segments are determined based on internal reporting that is regularly reviewed by the chief operating decision maker ("CODM") for the purpose of allocating resources to the segment and for assessing its performance. As of December 31, 2021, the Company determined that it has four operating segments: three organized by geographical region; North America, South America, and Rest of World, and Corporate, which is comprised of costs which serve the Company's global administrative responsibilities.

North America includes sales of the Company's pharmaceutical and health products as well as revenue generated from the licensing of intellectual property and research and development services, all developed in North America and serving customers within Canada and the United States. South America includes sales of the Company's pharmaceutical and health products and sales of API to customers worldwide, all grown and developed in Colombia. Rest of world includes sales of products to customers in Europe and Central America. Corporate includes overhead and financing costs incurred by the Company to support its public company infrastructure and operating segments.

The Company has retrospectively reported segmented information for the comparative periods to conform to the disclosed segmented information structure.

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

27. SEGMENT REPORTING (CONTINUED)

	North America	South America	Rest of World	Corporate	Total
Year ended December 31, 2021					
Segment revenue from external sources					
Service revenue	$ 87,945	$ -	$ -	$ -	$ 87,945
License revenue	403,000	-	-	-	403,000
Product revenue	1,765,271	981,499	31,191	-	2,777,961
Total Revenue	**2,256,216**	**981,499**	**31,191**	**-**	**3,268,906**
Gross Profit	720,032	2,095,027	16,761	-	2,831,820
Net loss before taxes	**$ (6,092,786)**	**$ (5,863,974)**	**$ (157,917)**	**$ (4,646,096)**	**$ (16,760,773)**
Included in the measure of loss above are the following items					
Share-based compensation	$ -	$ -	$ -	$ 1,312,768	$ 1,312,768
Depreciation and amortization	478,760	415,227	-	-	893,987
	478,760	415,227	-	1,312,768	2,206,755
Material expenses					
General and administrative	1,005,490	1,003,164	15,198	-	2,023,852
Selling marketing and promotion	257,081	82,538	6,289	-	345,908
Consulting fees	489,947	166,089	139,728	943,765	1,739,529
Professional fees	8,846	162,131	2,619	2,169,227	2,342,823
Salaries and wages	2,606,685	2,286,388	-	-	4,893,073
Research and development	291,423	-	12,889	-	304,312
Board fees	-	-	-	220,336	220,336
	$ 4,659,472	**$ 3,700,310**	**$ 176,723**	**$ 3,333,328**	**$ 11,869,833**

	North America	South America	Rest of World	Corporate	Total
Year ended December 31, 2020					
Segment revenue from external sources					
Service revenue	$ 13,471	$ -	$ -	$ -	$ 13,471
License revenue	530,264	-	-	-	530,264
Product revenue	454,374	571,951	-	-	1,026,325
Total revenue	**998,109**	**571,951**	**-**	**-**	**1,570,060**
Gross Profit	700,916	(1,271,031)	-	-	1,275,769
Net loss before taxes	**$ (8,531,059)**	**$ (21,239,630)**	**$ (129,719)**	**$ (5,148,618)**	**$ (35,049,026)**
Included in the measure of loss above are the following items					
Share-based compensation	$ -	$ -	$ -	$ 3,115,915	$ 3,115,915
Depreciation and amortization	641,436	445,552	-	-	1,086,990
Impairment of intangible assets	-	10,255,671	-	-	10,255,671
Impairment of goodwill	-	3,207,227	-	-	3,207,227
	641,438	13,908,450	-	3,115,915	17,665,803
Material expenses					
General and administrative	1,132,398	2,047,956	545,443	-	3,725,797
Selling marketing and promotion	315,415	-	110,226	-	425,641
Consulting fees	1,210,566	62,642	241,947	-	1,515,155
Professional fees	17,990	158,434	133,857	2,007,053	2,317,334
Salaries and wages	2,072,178	696,495	2,347,186	-	5,115,859
Research and development	376,271	-	-	-	376,271
Board fees	-	-	-	25,750	25,750
	$ 5,124,818	**$ 2,965,527**	**$ 3,378,659**	**$ 2,032,803**	**$ 13,501,807**

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

28. NON-CASH OPERATING ELEMENTS OF WORKING CAPITAL

		Year ended December 31, 2021		Year ended December 31, 2020
Amounts receivable	$	(1,499,179)	$	(515,948)
Biological assets		(432,667)		(533,413)
Inventory		(1,725,981)		208,293
Prepaid assets		420,294		(633,570)
Accounts payable		809,205		1,384,705
Income tax payable		(20,684)		20,684
	$	**(2,449,012)**	**$**	**(69,249)**

29. 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, 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.

No such recovery or government grants were utilized during the year ended December 31, 2021.

30. SUBSEQUENT EVENTS

[i] On January 28, 2022, the Company issued 1,626 convertible debenture units as a price of $800 per unit for gross proceeds of $1,550,400. Each unit consists of $1,000 of principal amount of secured subordinated convertible debentures, maturing one year after the issuance date, and 545 common shares purchase warrants.

[ii] On February 2, 2022, the Company entered a share repurchase agreement, whereby all shares in Southern Sun Pharma Inc. (the "Investee"), recognized as a long-term investment on the consolidated statement of financial position, were repurchased by the investee. The shares were repurchased at a price of $0.25 per share, for gross proceeds of $180,000.

[iii] On March 31, 2022, the Company closed a non-brokered private placement of 7,210,194 units of the Company, issued at a price of $0.35 per unit, for gross proceeds of $2,523,568. Each unit consists of one common share of the Company and one-half common share purchase warrant. Each whole warrant entitles the holder to acquire one common share of the Company, at an exercise price of $0.40 per share for a period of 3 year following the closing date.