

Avicanna Inc.
Condensed Consolidated Interim Financial Statements
For the Nine Months Ended September 30, 2020 and 2019
(expressed in Canadian dollars, except share and per share amounts)

Avicanna Inc.
Condensed Consolidated Interim Statements of Financial Position
As at September 30, 2020 and December 31, 2019
(Expressed in Canadian Dollars)

	September 30, 2020	December 31, 2019
ASSETS		
Current assets		
Cash	\$ 101,088	\$ 441,757
Amounts receivable (Note 3)	2,442,488	1,202,924
Prepaid assets	652,287	704,632
Biological assets (Note 4)	233,644	117,367
Inventory (Note 5)	2,084,414	1,484,371
Total current assets	5,513,921	3,951,051
Right of use asset (Note 9)	392,516	539,710
Property and equipment (Note 6)	19,951,265	22,622,322
Intangible assets (Note 7)	10,504,182	11,063,900
Derivative asset (Note 10)	1,501,034	3,780,000
Investment	72	72
Goodwill (Note 8)	-	3,207,227
Total assets	\$ 37,862,990	\$ 45,164,282
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Trade payables and accrued liabilities	\$ 4,815,132	\$ 5,177,634
Lease liability – current portion (Note 11)	224,950	224,950
Due to related party (Note 13)	4,952,124	3,319,116
Total current liabilities	9,992,206	8,721,700
Convertible debentures (Note 12)	757,400	715,626
Derivative liability (Note 12)	-	23,434
Lease liability (Note 11)	193,025	330,389
Deferred revenue (Note 10)	3,074,752	3,323,518
Deferred tax liability	2,173,834	2,173,834
Total liabilities	16,191,217	15,288,501
Shareholders' Equity		
Share capital (Note 14)	52,279,988	46,033,465
Warrants (Note 14)	5,470,333	4,267,996
Share-based payment reserve (Note 15)	6,368,055	4,010,824
Accumulated other comprehensive loss	(2,900,818)	(1,124,524)
Deficit	(47,087,957)	(30,800,436)
Equity attributable to owners of the parent	14,129,601	22,387,325
Non-controlling interest	7,542,172	7,488,456
Total equity	21,671,773	29,875,781
	\$ 37,862,990	\$ 45,164,282

“Approved by the Board
/s/ David White, Director”

Nature of Operations and Going Concern Uncertainty (Note 1)
Subsequent Events (Note 20)

Avicanna Inc.
Condensed Consolidated Interim Statements of Operations and Comprehensive Loss
For the Nine Months Ended September 30, 2020 and 2019
(Expressed in Canadian Dollars)

	Three months ended September 30,		Nine months ended September 30,	
	2020	2019	2020	2019
Revenue				
Service Revenue	\$ 6,579	4,943	13,471	45,537
License Revenue	316,847	-	565,613	-
Product Sales	558,530	-	1,273,243	-
Total Revenue	881,956	4,943	1,852,327	45,537
Impairment	(612,105)	-	(612,105)	-
Inventory production costs expensed to cost of sales	(439,099)	-	(673,387)	-
Gross margin before the undernoted	(169,248)	4,943	566,835	45,537
Fair value changes in biological assets included in inventory sold	(37,818)	-	(607,370)	-
Unrealized gain/(loss) on changes in fair value of biological assets	(1,103,910)	-	723,361	-
Gross margin	(1,310,976)	4,943	682,826	45,537
Expenses				
General and administrative (Note 17)	2,954,438	5,673,540	9,064,843	12,604,022
Share-based compensation (Note 15)	839,954	262,498	2,455,916	1,982,066
Depreciation and amortization (Note 6, 7, 9)	419,914	326,983	1,259,742	512,100
Impairment of goodwill (Note 8)	2,520,382	-	3,207,227	-
Total Expenses	(6,734,688)	(6,263,021)	(15,987,728)	(15,098,188)
Other income (expenses) (Note 19)	378,512	72,748	(2,117,968)	473,646
Net loss before taxes	\$ (7,667,152)	(6,185,330)	(17,422,870)	(14,579,005)
Income tax recovery				
Deferred tax recovery	-	-	-	-
Net loss after taxes	(7,667,152)	(6,185,330)	(17,422,870)	(14,579,005)
Net loss attributable to non – controlling interest	(981,337)	(113,464)	(1,135,349)	(219,562)
Net loss attributable to Shareholders of the Company	(6,685,815)	(6,071,866)	(16,287,521)	(14,359,443)
Exchange differences attributed to non - controlling interest	(526,882)	(435,347)	(1,670,375)	(435,347)
Exchange differences attributed to Shareholders of the Company	(1,049,682)	(574,154)	(1,776,294)	(1,279,009)
	(1,576,564)	(1,009,501)	(3,446,669)	(1,714,356)
Total comprehensive loss attributable to non - controlling interest	(1,508,219)	(1,122,965)	(2,805,724)	(1,933,918)
Total comprehensive loss attributable to shareholders of the company	(7,735,497)	(6,071,866)	(18,063,815)	(14,359,443)
Total comprehensive loss	\$ (9,243,716)	(7,194,831)	(20,869,539)	(16,293,361)
Weighted average number of common shares – basic and diluted	26,566,915	21,830,153	25,348,330	19,298,899
Net loss per share – basic and diluted	\$ (0.35)	(0.33)	(0.82)	(0.84)

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

Avicanna Inc.
Condensed Consolidated Interim Statements of Changes in Shareholders' Equity
For the Nine Months Ended September 30, 2020 and 2019
(Expressed in Canadian Dollars)

	Common Shares		Warrants	Share-based Payment Reserve	Deficit	Accumulated Other Comprehensive Loss	Non-controlling Interest	Total
	#	\$	\$	\$	\$	\$	\$	\$
Balance at December 31, 2018	15,646,965	21,492,039	5,218,984	1,515,107	(9,728,462)	(188,771)	8,070,778	26,379,675
Exercise of options	1,085,000	319,871	-	(79,871)	-	-	-	240,000
Exercise of warrants	2,701,598	4,150,196	(696,223)	-	-	-	-	3,453,973
Warrants expired	-	318,423	(318,423)	-	-	-	-	-
Exercise of first tranche special warrants	540,484	3,599,560	(3,599,560)	-	-	-	-	-
Issuance of special warrants	-	-	17,155,824	-	-	-	-	17,155,824
Exercise of second tranche special warrants	2,228,328	13,499,137	(13,499,137)	-	-	-	-	-
Shares issued for services	92,348	738,776	-	-	-	-	-	738,776
Share-based compensation	-	-	-	1,982,066	-	-	-	1,982,066
Warrants issued with convertible debentures	-	-	6,531	-	-	-	-	6,531
Partial sale of Sativa Nativa	-	1,751,634	-	-	-	-	1,048,366	2,800,000
Foreign exchange translation	-	-	-	-	-	(1,279,009)	(435,347)	(1,714,356)
Net loss	-	-	-	-	(14,359,443)	-	(219,562)	(14,579,005)
Balance at September 31, 2019	22,294,723	45,869,636	4,267,996	3,417,302	(24,087,905)	(1,467,780)	8,464,235	36,463,484
Balance at December 31, 2019	22,364,723	46,033,465	4,267,996	4,010,824	(30,800,436)	(1,124,524)	7,488,456	29,875,781
Exercise of options (Note 14)	100,000	-	-	-	-	-	-	-
Warrants expired (Note 14)	-	6,531	(6,531)	-	-	-	-	-
Issuance of shares (Note 14 [i] [ii])	4,022,721	4,616,801	-	-	-	-	-	4,616,801
Warrant allocation (Note 14 [i] [ii])	-	(657,611)	657,611	-	-	-	-	-
Issuance of Shares Q3 (Note 14 [iii])	1,952,410	2,733,374	-	-	-	-	-	2,733,374
Warrants value of Q3 issuance (Note 14 [iii])	-	(551,257)	551,257	-	-	-	-	-
Share-based compensation (Note 15)	-	-	-	2,455,916	-	-	-	2,455,916
RSUs exercised (Note 15)	141,528	98,685	-	(98,685)	-	-	-	-
SMGH Recapitalization (Note 14 [iv])	-	-	-	-	-	-	2,859,440	2,859,440
Foreign exchange translation	-	-	-	-	-	(1,776,294)	(1,670,375)	(3,446,669)
Net loss	-	-	-	-	(16,287,521)	-	(1,135,349)	(15,532,584)
Balance at September 30, 2020	28,581,382	52,279,988	5,470,333	6,368,055	(47,087,957)	(2,900,818)	7,542,172	23,562,059

The accompany notes are an integral part of these condensed consolidated interim financial statements

Avicanna Inc.
Condensed Consolidated Interim Statements of Cash Flows
For the Nine Months Ended September 30, 2020 and 2019
(Expressed in Canadian Dollars)

	For the Nine Months Ended September 30, 2020	For the Nine Months Ended September 30, 2019
Cash flows from operating activities:		
Net loss	\$ (17,422,870)	\$ (14,579,005)
Depreciation and amortization	1,259,742	512,100
Interest incurred on lease liability	29,549	21,488
Accretion of convertible debentures	41,774	27,221
Share-based compensation	2,455,916	1,982,066
Impairment of goodwill	3,207,227	-
Issuance of common shares for services	-	738,776
Loss on derivative asset	2,279,426	-
Expected credit losses	145,955	-
Inventory impairment	612,105	-
Gain on fair value of derivative liability	(23,894)	(20,690)
Recognition of deferred revenue	(248,766)	-
Changes in fair value of biological assets	(115,991)	-
Changes in non-cash operating elements of working capital (Note 18)	(2,908,110)	(4,255,656)
Cash used in operating activities	(10,687,938)	(15,573,700)
Cash flows from investing activities:		
Purchase of capital assets	(1,092,855)	(4,318,754)
Redemption in marketable securities	-	(3,523,613)
Purchase of intangible asset	-	(295,723)
Cash from partial sale of Sativa Nativa S.A.S.	-	2,800,000
Cash used in investing activities	(1,092,855)	(5,338,090)
Cash flows from financing activities:		
Issuance of convertible debentures	-	783,000
Payment towards lease liability	(166,913)	(92,729)
(Repayment of) Proceeds from loan	-	(14,441)
Increase in balance due to related parties	4,291,566	2,403,039
Proceeds from exercise of warrants	-	3,453,973
Proceeds from issuance of common shares	7,350,175	-
Proceeds from exercise of options	-	240,000
Proceeds from exercise of special warrants	-	16,638,042
Proceeds from issuance of special warrants	-	517,782
Cash provided by financing activities	11,474,828	23,928,666
Effect of movements in exchange rates on cash held	(34,704)	-
Net increase (decrease) in cash	(305,965)	3,016,876
Cash, beginning of period	441,757	69,295
Cash, end of period	\$ 101,088	\$ 3,086,171

During the quarter, the Company updated its Condensed Consolidated Interim Statements of Cash Flows presentation to reflect the effect of movements in exchange rates on cash held.

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

Avicanna Inc.

Notes to the Condensed Consolidated Interim Financial Statements

For the Nine Months Ended September 30, 2020 and 2019
(expressed in Canadian dollars, except share and per share amounts)

1. NATURE OF OPERATIONS AND GOING CONCERN UNCERTAINTY

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

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

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

As at September 30, 2020 the Company has an accumulated deficit of \$47,087,957 (December 31, 2019 - \$30,800,436), cash of \$101,088 (December 31, 2019 – \$441,757), and a working capital deficit of \$4,478,285 (December 31, 2019 – deficit of \$4,770,649). Additionally, the Company incurred a net loss after taxes of \$ 17,422,870 and used \$10,687,938 of cash from operating activities during the nine months ended on September 30, 2020. The Company will need to raise additional financing to continue operations, product development and clinical research. Although the Company has been successful in the past in obtaining financing and it believes that it will continue to be successful, there is no assurance that it will be able to obtain adequate financing in the future or that such financing will be available on terms that are advantageous to the Company. These material uncertainties may cast significant doubt as to the Company’s ability to continue as a going concern.

These condensed consolidated interim 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 condensed consolidated interim financial statements do not give effect to adjustments that would be necessary to the carrying values and classification of assets and liabilities should the Company be unable to continue as a going concern.

2. BASIS OF PRESENTATION

Statement of compliance

These condensed consolidated interim financial statements have been prepared by management in accordance with International Financial Reporting Standard (“IFRS”), as set out in the CPA Canada Handbook – Accounting (“CPA Handbook”) as issued by the International Accounting Standards Board (“IASB”). The policies set out below have been consistently applied to all periods presented unless otherwise noted. These condensed consolidated interim financial statements have been prepared in accordance with IAS 34 Interim Financial Reporting and do not include all information required for full annual financial statements. These condensed consolidated interim financial statements have been prepared using the same accounting policies described in Note 3 of the annual consolidated financial statements, except in relation to the adoption of new standards, as described below. These condensed consolidated interim financial statements should be read in conjunction with the Company’s annual consolidated financial statements for year ended December 31, 2019, which have been prepared in accordance with IFRS.

Avicanna Inc.

Notes to the Condensed Consolidated Interim Financial Statements

For the Nine Months Ended September 30, 2020 and 2019

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

2. BASIS OF PRESENTATION (continued)

These condensed consolidated interim financial statements were approved and authorized for issuance by the Company's Board of Directors on November 11, 2020.

Basis of presentation

These condensed consolidated interim financial statements have been prepared on a historical cost basis except for biological assets and derivative asset/liabilities which are measured at fair value, as explained in the accounting policies below. Historical costs are generally based upon the fair value of the consideration given in exchange for goods and services. These condensed consolidated interim financial statements are presented in Canadian dollars, which is the Company's functional currency.

Basis of consolidation

These condensed consolidated interim financial statements include the accounts of the Company, its wholly owned subsidiaries, 2516167 Ontario Inc. ("My Cannabis") and Avicanna LATAM S.A.S. ("LATAM") and its majority owned subsidiaries, Sativa Nativa in which the Company owns 63% of the issued and outstanding shares and SMGH in which the Company owns 60% of the issued and outstanding shares. Additionally, the Company consolidates Sigma Canada. As of September 30, 2020, the Company owned 39% of Sigma Canada and has the right to increase its ownership to 61% in future periods. Although the Company did not have legal control through its share ownership as of the reporting date, the share purchase agreement provides substantive rights to Avicanna which resulted in control under IFRS. More specifically, the Company elects a majority of the board members and significantly directs the relevant activities that affect the investee's returns through its direct involvement in the day to day operations of the business. For all other subsidiaries, the Company is deemed to control a subsidiary when it is exposed to, or has the right to, variable returns from its involvement with an investee and it has the ability to direct the activities of the investee that significantly affects the investee's returns through its power over the subsidiary. Where the Company's interest in a subsidiary is less than one hundred percent, the Company recognizes a non-controlling interest in the investee. The results of subsidiaries acquired during the year are consolidated from the date of acquisition. All intercompany transactions, balances, revenues and expenses are eliminated on consolidation.

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

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

Set out below are the details of the subsidiaries held directly by the Company:

Name of Subsidiary	Country of Incorporation	Proportion of ownership Interest	
		As at September 30, 2020	As at December 31, 2019
Avicanna Inc.	Canada	100%	100%
Sigma Magdalena Canada Inc.	Canada	39%	-
My Cannabis	Canada	100%	100%
Avicanna LATAM S.A.S.	Colombia	100%	100%
Sativa Nativa S.A.S.	Colombia	63%	63%
Santa Marta Golden Hemp S.A.S.	Colombia	60%	60%
Avicanna (UK) Limited	United Kingdom	100%	100%
Avicanna USA Inc.	USA	100%	100%

Avicanna Inc.

Notes to the Condensed Consolidated Interim Financial Statements

For the Nine Months Ended September 30, 2020 and 2019

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

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

2. BASIS OF PRESENTATION (continued)

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

Use of judgments, estimates and assumptions

The preparation of the condensed consolidated interim 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 judgements, estimates and assumptions applied in the Interim Financial Statements, including the key sources of estimation uncertainty, were the same as those applied in the Company's last annual financial statements for the year ended 31 December 2019.

3. AMOUNTS RECEIVABLE

	September 30, 2020	December 31, 2019
Trade and other receivables	\$ 1,489,635	\$ 384,846
Less: expected credit losses	(145,955)	-
Sales tax receivable	1,098,808	818,078
Total amounts receivable	\$ 2,442,488	\$ 1,202,924

Avicanna Inc.**Notes to the Condensed Consolidated Interim Financial Statements**

For the Nine Months Ended September 30, 2020 and 2019

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

4. BIOLOGICAL ASSETS

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

	September 30, 2020	December 31, 2019
Balance at the beginning of the period	117,367	-
Production costs capitalized	750,591	858,698
Gain in fair value less costs to sell due to biological transformation	723,361	103,887
Transferred to inventory upon harvest	(1,357,677)	(845,218)
Balance at end of the period	\$233,644	\$117,367

The Company measures its biological assets at their fair value less costs to sell. This is determined using a model which estimates the expected harvest yield in grams for plants 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 a 10% increase/decrease in each input would have on the fair value of biological assets.

Assumptions:	As at September 30, 2020		As at December 31, 2019	
	Input	Change in Value	Input	Change in Value
THC Resin Yield	12.0%	\$17,259	-	-
THC Resin Price (USD/KG)	4,400	\$17,259	-	-
Weighted average of expected loss of plants until harvest [a]	10.0%	\$1,617	-	-
Expected yields for cannabis plants (average grams per plant)	94	\$14,551	-	-
Weighted average number of growing weeks completed as a percentage of total growing weeks as at period end	30%	\$14,551	-	-
Estimated fair value less costs to complete and sell (per gram) [b]	\$0.69	\$17,259	-	-
After harvest cost to complete and sell (per gram)	\$0.11	\$2,870	-	-

Avicanna Inc.**Notes to the Condensed Consolidated Interim Financial Statements**

For the Nine Months Ended September 30, 2020 and 2019

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

Assumptions:	As at September 30, 2020		As at December 31, 2019	
	Input	Change in Value	Input	Change in Value
CBD Resin Yield (2019 – CBD Isolate Yield)	10%	\$4,181	6%	41,753
CBD Resin Price (USD/KG) (2019 – CBD Isolate Price)	1,900	\$4,178	3,000	41,753
Weighted average of expected loss of plants until harvest [a]	10.0%	\$229	8.8%	\$21,173
Expected yields for cannabis plants (average grams per plant)	100	\$2,065	60	\$29,995
Weighted average number of growing weeks completed as a percentage of total growing weeks as at period end	41%	\$2,065	29%	\$24,772
Estimated fair value less costs to complete and sell (per gram) [b]	\$0.23	\$3,841	\$0.23	\$41,753
After harvest cost to complete and sell (per gram)	\$0.11	\$1,881	\$0.23	\$37,517

- a. Weighted average of expected loss of plants until harvest represents loss via plants that do not survive to the point of harvest. It does not include any financial loss on a surviving plant.
- b. The estimated fair value less costs to complete and sell (per gram) represents the expected sales price for the Company's active ingredients including isolate and resins less the remaining costs to complete and sell that product as finished product which is inclusive of all production activities.

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

The Company estimates the harvest yields for cannabis at various stages of growth. As of September 30, 2020, it is expected that the Company's cannabis plants biological assets will yield approximately 1,997,342 grams of dry cannabis when harvested.

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

During the year, the Company harvested 93,666,000 high CBG seeds and 9,500 kg of dried flower as a co-product. At point of harvest, the company recognized a fair value adjustment of \$1,982,159 based on the assumption of \$0.06/unit and \$0.05/gram of fair value less cost to sell for the seeds and dry flower, respectively.

Avicanna Inc.

Notes to the Condensed Consolidated Interim Financial Statements

For the Nine Months Ended September 30, 2020 and 2019

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

5. INVENTORY

	Capitalized Cost	Biological assets fair value adjustment	Fair value reversal	Cost impairment	Carrying value
Harvested Cannabis					
Raw Materials	\$ 124,495	(66,902)	-	-	57,593
Seeds	412,107	997,400	(997,400)	(141,374)	270,733
Dried Flower	80,652	136,860	(14,468)	(27,540)	175,504
	617,254	1,067,358	(1,011,868)	(168,914)	503,830
Active Pharmaceutical Ingredients					
Work in process	636,078	140,792	(199,756)	(372,208)	204,906
Finished goods	130,734	46,779	(59,785)	(70,983)	46,745
	766,812	187,571	(259,541)	(443,191)	251,651
Supplies and consumables	159,555	-	-	-	159,555
Finished goods (Cosmetic products)	1,169,378	-	-	-	1,169,378
At September 30, 2020	\$ 2,712,999	1,254,929	(1,271,409)	(612,105)	2,084,414

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

As of September 30, 2020, the Company recognized an impairment and reversed an unrealized gain that was included in inventory totaling \$1,883,514. Of the balance, \$612,105 is presented as inventory impairment, while the remaining balance of \$1,271,409 is presented in the unrealized gain/(loss) on changes in fair value of biological assets.

Avicanna Inc.**Notes to the Condensed Consolidated Interim Financial Statements**

For the Nine Months Ended September 30, 2020 and 2019

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

6. PROPERTY AND EQUIPMENT

	Equipment	Land	Construction in Progress	Infrastructure and Buildings	Total
Cost					
At December 31, 2019	\$ 2,747,358	10,361,920	4,411,987	5,724,943	23,246,208
Additions	-	-	1,092,855	-	1,092,855
Disposals	-	-	-	-	-
Transfers	-	-	-	-	-
Foreign exchange translation	(375,836)	(1,417,501)	(603,556)	(783,167)	(3,180,060)
At September 30, 2020	\$ 2,371,522	8,944,419	4,901,286	4,941,776	21,159,003
	Equipment	Land	Construction in Progress	Infrastructure and Buildings	Total
Accumulated Depreciation					
At, December 31, 2019	\$ 532,771	-	-	91,115	623,886
Depreciation	412,104	-	-	171,748	583,852
Disposals	-	-	-	-	-
At September 30, 2020	\$ 944,875	-	-	262,863	1,207,738
	Equipment	Land	Construction in Progress	Infrastructure and Buildings	Total
Net Book Value					
December 31, 2019	\$ 2,214,587	10,361,920	4,411,987	5,633,828	22,622,322
September 30, 2020	\$ 1,426,647	8,944,419	4,901,286	4,678,913	19,951,265

During the nine months ended September 30, 2020, the Company recognized depreciation expense on its property and equipment of \$583,852 (September 30, 2019 - \$144,440) on the consolidated interim statement of operations and comprehensive loss.

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7. INTANGIBLE ASSETS

	Customer Relationships	Ecommerce Platform	Licenses and Permits	Software Licenses	Intellectual Property	Total
Cost						
At December 31, 2019	\$ 141,327	386,010	10,737,198	92,488	111,614	11,468,637
Additions	-	-	-	-	-	-
Disposals	-	-	-	-	-	-
Foreign exchange translation	-	-	-	(14,444)	(16,578)	(31,023)
At September 30, 2020	\$ 141,327	386,010	10,737,198	78,044	95,036	11,437,614
Accumulated Amortization						
At December 31, 2019	\$ 68,307	19,301	311,415	3,854	1,860	404,737
Additions	21,199	57,902	401,589	32,378	15,629	528,696
Disposals	-	-	-	-	-	-
At September 30, 2020	\$ 89,506	77,203	713,004	36,232	17,489	933,433
Net Book Value						
December 31, 2019	\$ 73,020	366,709	10,425,783	88,634	109,754	11,063,900
September 30, 2020	\$ 51,821	308,808	10,024,194	41,812	77,547	10,504,182

During the nine months ended September 30, 2020, the Company recognized amortization on its intangible assets of \$528,696 (September 30, 2019 - \$198,400) on consolidated interim statement of operations and comprehensive loss.

8. IMPAIRMENT OF GOODWILL

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

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

	Santa Marta Golden Hemp S.A.S.	Sativa Nativa S.A.S.	Total
At December 31, 2018	\$ 2,520,382	686,845	3,207,227
Goodwill Impairment	\$ -	-	-
At December 31, 2019	\$ 2,520,382	686,845	3,207,227
Goodwill Impairment	\$ (2,520,382)	(686,845)	(3,207,227)
At September 31, 2020	\$ -	-	-

For the purposes of testing impairment, the recoverable amount of each CGU was based on the fair values less cost of disposal, estimated using discounted cash flows. As the carrying amount of each CGU for Sativa Nativa and Santa Marta Golden Hemp was determined to be higher than its recoverable amount, an impairment of \$3,207,227 was recorded as at September 30, 2020 (September 30, 2019 - \$nil).

Unless otherwise indicated, the fair value less costs of disposal in 2020 was determined similarly as in 2019. The calculation of the fair value was based on the following key assumptions.

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- Cash flows projections included estimates for five years with a terminal growth rate of 3% , based on current market conditions and past experience
- An after-tax discount rate of 30% (2019 – 25%) was applied in determining the recoverable amount of the unit.

The values assigned to the key assumptions represent management’s assessment of future trends in the cannabis industry and are based on both external sources and internal sources.

9. RIGHT OF USE ASSETS

As of September 30, 2020, the Company’s right of use asset consisted of the following:

	September 30, 2020
Balance at the beginning of the period	\$539,710
Additions	-
Depreciation expense	(147,194)
Balance at end of period	\$392,516

Depreciation expense for the period was \$147,194 which is included on the consolidated statement of operations and comprehensive loss.

10. DERIVATIVE ASSET AND DEFERRED REVENUE

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

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

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

The Call Option is a derivative financial instrument. The Call Option was initially recorded at its fair value of \$3,780,000 and is included as a Derivative financial asset in the statement of financial position. The Company subsequently revalued the option as at September 30, 2020 at its fair value of \$1,500,574 and recognized a change in fair value of \$2,279,426 in the consolidated statement of operations

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and comprehensive loss. The value of the derivative instrument was determined using a discounted cash flow model with the following assumptions:

- Discount rate of 20%
- Probability of triggering event of 40%

The above license transfers both brand/ trademark as well as intellectual property related to product development. For LC2019 to benefit from the brand, there are activities that the Company would need to perform in order to support and maintain the value of the brand/ trademark. As ongoing activities are required to maintain the brand, the license to the brand/ trademark would be considered a right to access and therefore would be recognized over time. Consequently, the whole revenue derived from the above license has been recognized as deferred revenue. For the nine months period ended September 30, 2020, the Company recognized \$248,766 as revenue.

11. LEASE LIABILITY

As of September 30, 2020, the lease liability consisted of the following:

	September 30, 2020
Balance at the beginning of the year	555,339
Additions	-
Interest incurred on lease liability	29,549
Lease payments and interest	(166,913)
Balance at end of period	417,975
Lease liability – current portion	224,950
Lease liability – non-current portion	193,025

12. CONVERTIBLE DEBENTURES

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

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

	September 30, 2020
Balance at the beginning of the year	\$715,626
Additions	-
Accretion expense	41,774
Balance at end of period	\$757,400

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13. RELATED PARTY TRANSACTIONS

The following outlines amounts that were paid to key management and directors of the Company.

	For the Nine Months ended September 30, 2020		December 31, 2019
Salaries	\$	474,492	\$ 1,292,089
Share-based compensation		521,894	302,332
	\$	996,386	\$ 1,594,421

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

Additionally, as at September 30, 2020 the Company received advances from a related party who represents the minority shareholders of SMGH in the amount of \$4,952,124 (December 31, 2019- \$3,319,116). The advances relate to minority partners contributions towards the expansion of cultivation facilities. The balance owed to the related party is interest free and due on demand, under Colombian regulations, the Company has up to two years to capitalize these amounts.

14. SHARE CAPITAL

Authorized and outstanding share capital:

The authorized share capital of the Company consists of an unlimited number of common shares and unlimited number of preferred shares. As at September 30, 2020 the Company had 28,581,382 common shares issued and outstanding (December 31, 2019 – 22,364,723).

Transactions:

- [i] On January 24, 2020 the Company issued an aggregate of 822,721 Units (the “Units”) at a price of \$2.50 per Unit, for aggregate gross proceeds of approximately \$2.06 million. Each Unit was comprised of one (1) common share in the capital of the Company (each, a “Common Share”) and one-half of one (1/2) common share purchase warrant (each whole warrant, a “Warrant”). Each Warrant is exercisable into one common share in the capital of the Company (each, a “Warrant Share”) at a price of \$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 \$4.00 on the Toronto Stock Exchange.
- [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 \$2,560,000 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.

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14. SHARE CAPITAL (continued)

[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.

[iv] As noted above in note 13 the Company receives advances from minority partners towards the expansion of cultivation facilities. At the time of contribution, the balance is recognized as an interest free loan in accordance with Columbian regulation and the Company has up to two years to convert these balances into the equity of SMGH. As these amounts become due, the outstanding balances are converted into common shares of SMGH, consistent with current ownership splits. During the year the Company converted \$2,859,440 into the equity of SMGH. Refer to Note 13 for additional details.

Warrant Reserve

As at September 30, 2020 the following warrants were outstanding and exercisable:

	Warrants Issued / Exercised #	Weighted average exercise price \$
Outstanding as at December 31, 2018	3,936,134	2.15
Warrants issued	3,790,959	8.76
Special warrants exercised	(2,768,812)	8
Warrants expired	(625,962)	2.28
Warrants exercised	(2,701,598)	-1.28
Outstanding as at December 31, 2019	1,630,721	9.56
Warrants issued	2,208,538	1.41
Warrants expired	(73,937)	7.29
Outstanding as at September 30, 2020	3,765,322	4.83

On January 24, 2020, the company issued 411,361 Warrants at an exercise price of \$3.00, exercisable for 3 years. On May 6, 2020, the Company repriced 260,361 of these Warrants to an exercise price of \$1.20, the expiry date remains the same. The impact resulted in an increase in warrant reserve of \$194,880. On April 20, 2020, the Company issued 799,998 Warrants at an exercise price of \$1.20, exercisable for 2 years. On August 18, 2020, the Company issued 997,180 Warrant at an exercise price of \$1.40, exercisable for 2 years. During the nine months ended September 30, 2020, 73,937 Warrants expired.

The following table is a summary of the Company’s warrants outstanding as at September 30, 2020:

Warrants Outstanding Exercise price range \$	Number outstanding #	Weighted average remaining life (years)	Warrants Exercisable	
			Weighted average exercise price \$	Number exercisable #
1.00	25,000	1.58	0.01	25,000
1.20	1,061,358	3.86	0.34	1,061,358
2.00	997,180	1.88	0.53	997,180
3.00	150,000	2.31	0.12	150,000
8.00	147,380	0.50	0.31	147,380
10.00	1,384,404	0.86	3.68	1,384,404
Balance September 30, 2020	3,765,322	1.42	4.98	3,765,322

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15. SHARE BASED PAYMENT RESERVE AND STOCK OPTIONS

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

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

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

[i] Measurement of fair values

The fair value of share options granted during the periods ended September 30, 2020 and September 30, 2019 was estimated at the date of grant using the Black Scholes option pricing model using the following inputs:

	2020	2019
Grant date share price	\$0.85 - \$2.55	\$8.00
Exercise price	\$1.00 - \$5.00	\$8.00
Expected dividend yield	0%	0%
Risk-free interest rate	0.44% - 1.62%	1.7%-2.06%
Expected option life	6 – 10 years	7 – 10 years
Expected volatility	90%	90%

Employee and non-employee options

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

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

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

	Options issued/(exercised) #	Weighted average exercise price \$
Outstanding as at December 31, 2018	2,462,500	1.82
Options issued	504,320	8.00
Options expired	(20,000)	2.00
Options cancelled	(132,500)	8.00
Options exercised	(1,085,000)	0.04
Outstanding as at December 31, 2019	1,729,320	4.43
Options issued (b)	691,656	2.55
Options cancelled (a), (c)	(548,004)	6.55
Options exercised (d)	(100,000)	0.10
Outstanding as at September 30, 2020	1,671,567	3.40

- (a) On January 23, 2020, 319,260 options were cancelled and repriced and subsequently, 191,556 options were reissued with an exercise price of \$2.50. The vesting period remains the same and are fully vested in July 2022. Since fewer options were reissued, the Company accounted for the reduction as a cancellation and recognized an accelerated vesting totaling \$544,850 in relation to such reduction. In addition, since the total fair value of the share-based payment arrangement was reduced as a result of the modification (measured immediately before and after the modification), the Company continued to measure the remaining options based on their grant date fair values.
- (b) During the nine month period ended September 30, 2020, 500,100 stock options were issued through six separate issuances.
- (c) During the nine month period ended September 30, 2020, 51,310 options were cancelled, and 177,434 options forfeited. Accelerated vesting was applied to options that were cancelled or expired prior to their vesting date. The company recognized \$28,671 in accelerated share-based compensation expense during the quarter.
- (d) During the nine month period ended September 30, 2020, 100,000 options were exercised with an exercise price of \$0.10. The share price on the date of exercise was \$1.20.

During the nine months ended September 30, 2020, the Company recognized a total Shared Based Payment expense relating to Stock Options of \$1,587,336.

The following table is a summary of the Company's share options outstanding as at September 30, 2020:

Options Outstanding			Options Exercisable		
Exercise price range	Number outstanding	Weighted average remaining life	Weighted average exercise price	Number exercisable	
\$	#	years	\$	#	
1.00	295,000	3.87	0.18	277,500	
1.24	7,500	5.96	0.01	-	
1.39	43,000	5.42	0.04	21,500	
2.00	377,500	4.46	0.45	377,500	
2.10	10,000	5.32	0.01	-	
2.50	175,272	8.78	0.26	116,848	
2.75	363,450	5.32	0.60	-	
5.00	17,595	1.87	0.05	16,474	
7.30	67,000	4.83	0.29	67,000	
8.00	315,250	5.59	1.51	301,584	
Balance September 30, 2020	1,671,567	5.23	3.40	1,178,406	

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

[i] Restricted stock units

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

	RSUs Issued	Weighted average issue price
	#	\$
Outstanding as at December 31, 2018	-	\$0.00
RSUs issued	98,158	8.00
Outstanding as at September 30, 2019	98,158	8.00
Outstanding as at December 31, 2019	98,158	\$8.00
RSUs issued (a)	793,341	\$1.40
RSUs exercised (b)	(141,528)	\$2.99
RSUs forfeited	(4,593)	\$1.46
Outstanding as at September 30, 2020	745,378	\$1.97

- (a) During the nine months ended September 2020, Restricted Stock Units were issued to employees of the Company as compensation for a temporary salary reduction. In April 2020 534,428 units were issued with a grant price of \$1.46, vesting on October 27, 2020. In September 2020, another 258,913 restricted stock units were granted at a price of \$1.24, vesting on November 30, 2020.
- (b) The fair value of the share-based payment expense was determined using the market value of the share price on grant date. RSUs are settled by delivery of a notice of settlement by the RSU holder or, if no notice of settlement is delivered, on the last vesting date. As of September 30, 2020, 141,528 RSUs were vested (September 30, 2019- nil).

Total share-based payments related to RSUs totaling \$868,475 (September 30, 2019- nil) have been recorded in share based compensation expense.

16. 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 September 30, 2020, the Company has taken an expected credit loss of \$145,955, representing approximately 10% of all outstanding trade receivables. As of September 30, 2020, \$1,489,635 in trade and other receivables remained outstanding (December 31, 2019 - \$384,846). The Company applies the simplified approach to providing for expected credit losses as prescribed by IFRS 9, which permits the use of lifetime expected loss provision for all trade receivables. The loss allowance is based on the Company's historical collection and loss experience and incorporates forward looking factors, where appropriate.

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.

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

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	Carrying amount	Contractual cash flows	Year 1	Year 2	Year 3
Trade payable and accrued liabilities	\$4,815,132	\$4,815,132	\$4,815,132	\$ -	\$ -
Convertible Debentures	757,400	757,400	757,400	-	-
Lease liability	417,975	417,975	224,950	193,025	-
Due to related party	4,952,124	4,952,124	4,952,124	-	-
	\$10,942,631	\$10,942,631	\$10,749,606	\$193,025	-

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, convertible debentures, lease liability, investments, due to related party 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.

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

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

The fair value hierarchy requires the use of observable market inputs whenever such inputs exist. A financial instrument is classified to the lowest level of the hierarchy for which a significant input has been considered in measuring fair value. Cash is classified as a Level

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1 financial instrument and the derivative asset is classified as a level 3 instrument. During the year, there were no transfers of amounts between Level 1, Level 2 and Level 3.

The 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:

Significant unobservable input	Estimate of the input	Sensitivity of the fair value measurement of the input
Probability of triggering event	40%	A change of +/- 10% results in an increase (decrease) in the fair value of \$392,131

17. GENERAL AND ADMINISTRATIVE EXPENSES

	For the Three Months ended September 30,		For the Nine Months ended September 30,	
	2020	2019	2020	2019
General and administrative	\$ 1,038,269	\$ 1,416,728	\$ 2,791,201	\$ 3,552,014
Selling marketing and promotion	160,300	156,545	282,922	382,219
Consulting fees	523,057	602,931	1,182,064	1,661,199
Professional fees	355,098	858,539	1,181,768	1,738,766
Salaries and wages	702,660	2,383,046	3,290,127	4,677,185
Research and development	175,054	221,674	279,761	532,979
Board fees	-	34,077	57,000	59,660
	\$ 2,954,438	\$ 5,673,540	\$ 9,064,843	\$ 12,604,022

18. NON-CASH OPERATING ELEMENTS OF WORKING CAPITAL

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

	For the Nine Months ended September 30	
	2020	2019
Amounts receivable	\$ (1,385,519)	\$ (515,339)
Inventory	(1,212,434)	(2,220,549)
Prepaid assets	52,345	(2,781,275)
Trade payable and accrued liabilities	(362,502)	1,261,507
	\$ (2,908,110)	\$ (4,255,656)

Avicanna Inc.**Notes to the Condensed Consolidated Interim Financial Statements**

For the Nine Months Ended September 30, 2020 and 2019

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

19. OTHER INCOME (EXPENSES)

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

	For the Three Months ended September 30,		For the Nine Months ended September 30,	
	2020	2019	2020	2019
Gain on revaluation of derivative liability	\$ 1,285	\$ 7,387	\$ 23,894	\$ 20,690
Loss on revaluation of derivative asset	-		(2,279,426)	
Foreign exchange gain (loss)	25,441	(137,455)	(48,860)	(198,595)
Gain on fair value of biological assets	-	138,981	-	596,484
Other income (a)	545,023		473,589	
Interest expense	(47,282)	(20,524)	(141,210)	(85,264)
Interest income	-	84,359	-	140,331
ECL Provision	(145,955)		(145,955)	
	\$ 378,512	\$ 72,748	\$ (2,117,968)	\$ 473,646

(a) Other income includes SRED received and recognized during the period, for an amount of \$298,822.

20. SUBSEQUENT EVENTS

On November 2, 2020 the Company closed a non-brokered convertible debenture financing pursuant to which the Company has issued convertible debentures (the "Debenture") of the Company with an aggregate Principal Amount of \$1,100,000. In connection with the offering the Company also issued an aggregate of 550,000 common share purchase warrants to subscribers. The Debentures bear interest at a rate of 8.0% per annum and will mature on the date that is 12 months from the date of issuance. Subscribers also received a commitment fee of 4% payable on the principal amount.