Avicanna Inc.
Consolidated Financial Statements
For the Year Ended December 31, 2018 and 2017
(expressed in Canadian dollars, except share and per share amounts)

Independent Auditor's Report

To the Shareholders of Avicanna Inc.:

Opinion

We have audited the consolidated financial statements of Avicanna Inc. (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2018 and December 31, 2017, and the consolidated statements of operations and comprehensive loss, shareholders' deficiency 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, 2018 and December 31, 2017, and its consolidated financial performance and its consolidated cash flows for the years then ended, in accordance with International Financial Reporting Standards.

Basis for Opinion

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

Material Uncertainty Related to Going Concern

We draw attention to Note 1 in the consolidated financial statements, which indicates that the Company incurred a net loss and comprehensive loss of $7,478,168 during the year ended December 31, 2018 and currently does not produce revenue from operations. As stated in Note 1, these events or conditions, along with other matters as set forth in Note 1, indicate that a material uncertainty exists that may cast significant doubt on the Company’s ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other Information

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

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

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

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

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

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

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

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

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

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

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

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

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

MNP LLP

Mississauga, Ontario
July 9, 2019

Chartered Professional Accountants
Licensed Public Accountants

Avicanna Inc.
Consolidated Statement of Financial Position
As at December 31, 2018 and 2017
(Expressed in Canadian Dollars)

	December 31, 2018	December 31, 2017
ASSETS		
Current assets		
Cash	$ 69,295	$ 1,176,546
Marketable securities (Note 5)	-	10,000
Amounts receivable (Note 6)	258,608	75,337
Prepaid assets	863,624	45,381
Total Current Assets	1,191,527	1,307,264
Property and equipment (Note 8)	16,256,136	460,893
Intangible assets (Note 9)	10,733,266	129,550
Interest in equity accounted investee (Note 10)	-	144,875
Due from related parties	-	74,888
Investments (Note 11)	72	-
Total Assets	**$ 28,181,001**	**$ 2,117,470**
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Amounts payable	$ 1,455,565	$ 547,903
Shareholder advance	331,320	-
Advance subscription (Note 14)	-	728,500
Total Current liabilities	1,786,885	1,276,403
Term loan (Note 13)	14,441	-
Total Liabilities	1,801,326	1,276,403
Shareholders' equity		
Share capital (Note 14)	21,492,039	2,768,649
Warrants (Note 14)	5,218,984	581,185
Share-based payment reserve (Note 15)	1,515,107	120,634
Accumulated other comprehensive income	(188,771)	-
Non-controlling interest (Note 16)	8,070,778	-
Deficit	(9,728,462)	(2,629,401)
Total Shareholders' Equity	26,379,675	841,067
Total Liabilities and Shareholders' Equity	**$ 28,181,001**	**$ 2,117,470**

Nature of operations and going concern (Note 1)
Commitments (Note 20)
Subsequent events (Note 21)

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

Avicanna Inc.
Consolidated Statements of Operations and Comprehensive Loss
For the Years Ended December 31, 2018 and 2017
(Expressed in Canadian Dollars)

	For the Year Ended December 31, 2018	For the Year Ended December 31, 2017
Revenue	$ 117,971	$ 26,661
Expenses		
General and administrative	1,504,499	481,804
Consulting fees	1,198,855	1,281,819
Professional fees	1,915,725	544,986
Salaries and wages (Note 12)	1,543,325	52,064
Research and development	456,622	23,678
Selling, marketing and promotion	248,731	43,922
Share-based compensation (Note 15)	1,401,320	120,634
Write off of biological assets (Note 7)	122,284	-
Amortization (Note 8)	172,705	63,243
Total Expenses	8,564,066	2,612,150
Other income (expense)		
Foreign exchange loss	(136,501)	(3,216)
Gain on acquisition of previously equity accounted investee (Note 4)	1,129,976	-
Loss attributed from equity accounted investee (Note 10)	(27,607)	(12,317)
Other income	180,475	-
Interest income	10,355	1,453
Net Loss	**$ (7,289,397)**	**$ (2,599,569)**
Net loss attributable to non – controlling interest (Note 16)	(190,336)	-
Net loss attributable to Shareholders of the Company	(7,099,061)	(2,599,569)
	(7,289,397)	**(2,599,569)**
Foreign currency translation adjustment	(188,771)	-
Net comprehensive loss	**(7,478,168)**	**(2,599,569)**
Weighted average number of common shares – basic and diluted	13,587,925	9,017,231
Net loss per share – basic and diluted (Note 17)	$ (0.55)	$ (0.29)

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

Avicanna Inc.
Consolidated Statement of Changes in Shareholders' Equity
For the Years Ended December 31, 2018 and 2017
(Expressed in Canadian Dollars)

	Common Shares		Warrants	Share Based Reserve	Deficit	Accumulated Other Comprehensive Loss	Non-controlling Interest	Total
	#	$	$	$	$	$	$	$
Balance at December 31, 2016	**7,000,000**	**70**	**-**	**-**	**(29,832)**	-	**-**	**(29,762)**
Issuance of units (Note 14(i))	2,359,160	1,191,595	459,818	-	-	-	-	1,651,413
Share-based compensation (Note 15)	-	-	-	120,634	-	-	-	120,634
Issuance of common shares (Note 14(iv))	1,162,041	967,107	-	-	-	-	-	967,107
Issuance of units (Note 14(iii))	360,000	609,877	110,123	-	-	-	-	720,000
Warrant granted to consultant (Note 14(ii))	-	-	11,244	-	-	-	-	11,244
Net loss	-	-	-	-	(2,599,569)	-	-	(2,599,569)
Balance at December 31, 2017	**10,881,201**	**2,768,649**	**581,185**	**120,634**	**(2,629,401)**	-	**-**	**841,067**
Issuance of units (Note 14(vi))	2,007,508	3,412,234	602,782	-	-	-	-	4,015,016
Issuance of common shares (Note 14(viii))	325,323	2,374,858	-	-	-	-	-	2,374,858
Special warrants issued (Note 14(xi))	-	-	4,179,156	-	-	-	-	4,179,156
Issuance on acquisition (Note 14(vii))	150,000	300,000	-	-	-	-	-	300,000
Issuance on acquisition (Note 14(x))	1,477,818	10,788,071	-	-	-	-	-	10,788,071
Exercise of options (Note 14(v)(xiii))	225,000	51,847	-	(6,847)	-	-	-	45,000
Exercise of warrants (Note 14(ix)(xiv))	303,510	761,914	(144,139)	-	-	-	-	617,775
Shares issued for services (Note 14(xii))	276,605	1,034,466	-	-	-	-	-	1,034,466
Share-based compensation (Note 14)	-	-	-	1,401,320	-	-	-	1,401,320
Non-controlling interest (Note 15)	-	-	-	-	-	-	8,261,114	8,261,114
Foreign exchange translation	-	-	-	-	-	(188,771)	-	(188,771)
Net loss	-	-	-	-	(7,099,061)	-	(190,336)	(7,289,397)
Balance at December 31, 2018	**15,646,965**	**21,492,039**	**5,218,984**	**1,515,107**	**(9,728,462)**	**(188,771)**	**8,070,778**	**26,379,675**

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, 2018 and 2017
(Expressed in Canadian Dollars)

	For the Year Ended December 31, 2018	For the Year Ended December 31, 2017
Cash flows from operating activities:		
Net loss	$ (7,099,061)	$ (2,599,569)
Amortization	172,705	63,243
Share-based compensation	1,401,320	120,634
Loss from equity accounted investees	27,607	(144,875)
Non-controlling interest	(190,336)	-
Impact of foreign exchange losses	(188,771)	-
Issuance of common shares for services	1,034,466	-
Gain in fair value of equity accounted investees	(1,126,976)	-
Warrants granted for services	-	11,244
Changes in non-cash operating elements of working capital	978,260	415,905
Cash used in operating activities	**(4,990,786)**	**(2,133,418)**
Cash flows from investing activities:		
Purchase of capital assets	(3,867,701)	(512,359)
Redemption (Investment) in marketable securities	10,000	(10,000)
Purchase of intangible asset	(50,670)	-
Cash advanced to controlled entities prior to acquisition	(3,183,957)	
Cash acquired on acquisition of Santa Marta Golden Hemp S.A.S.	25,177	-
Cash acquired on acquisition of Sativa Nativa S.A.S.	26,804	-
Investment in Southern Sun Pharma Inc.	(72)	-
Investment in minority-controlled investee	-	(141,327)
Cash used in investing activities	**(7,040,419)**	**(663,686)**
Cash flows from financing activities:		
Funds received from shareholder advance	331,320	-
Funds received from term loan	14,441	-
Change in funds due from (to) related parties	74,888	(184,818)
Proceeds from issuances of special warrants	4,179,156	-
Proceeds from exercise of warrants	617,775	-
Proceeds from exercise of options	45,000	
Cash obtained for advance subscription of equity offering	-	728,500
Proceeds from issuance of common shares and units	5,661,374	3,338,520
Cash provided by financing activities	**10,923,954**	**3,882,202**
Net decrease in cash	**(1,107,251)**	**1,085,098**
Cash, beginning of period	**1,176,546**	**91,448**
Cash, end of period	**$ 69,295**	**$ 1,176,546**

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

1. NATURE OF OPERATIONS AND GOING CONCERN

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. In addition, during the year ended December 31, 2018, Avicanna obtained control of Santa Marta Golden Hemp S.A.S. ("SMGH") by acquiring 60% of the issued and outstanding shares. As such, the results for SMGH for the year ending December 31, 2018 have been consolidated with the Company's.

As at December 31, 2018 the Company has an accumulated deficit of $9,728,462 (2017 - $2,629,401), cash of $69,295 (2017 – $1,176,546), and a working capital deficit of $595,358 (2017 – surplus of $30,861). The Company will need to raise additional financing to continue operations, product development and clinical research. Although the Company has been successful in the past in obtaining financing and it believes that it will continue to be successful, there is no assurance that it will be able to obtain adequate financing in the future or that such financing will be available on terms that are advantageous to the Company. These material uncertainties may cast significant doubt as to the Company's ability to continue as a going concern.

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

2. BASIS OF PRESENTATION

Statement of compliance

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

These consolidated financial statements were approved and authorized for issuance by the Company's Board of Directors on July 9, 2019.

Basis of presentation

These consolidated financial statements have been prepared on a historical cost basis except for biological assets, 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 consolidated financial statements are presented in Canadian dollars, which is the Company's functional currency

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)

Basis of consolidation

These consolidated financial statements include the accounts of the Company, its wholly-owned subsidiaries 2516167 Ontario Inc. operating as My Cannabis ("My Cannabis") and Avicanna Latam S.A.S. ("LATAM"), its majority owned subsidiary Sativa Nativa in which the Company owns 70% of the issued and outstanding shares, and its majority owned subsidiary SMGH in which the Company owns 60% of the issued and outstanding shares. The Company is deemed to control a subsidiary when it is exposed to, or has the right to, variable returns from its involvement with an investee and it has the ability to direct the activities of the investee that significantly affects the investee's returns through its power over the subsidiary. Where the Company's interest in a subsidiary is less than one hundred percent, the Company recognizes a non-controlling interest in the investee. The results of subsidiaries acquired during the year are consolidated from the date of acquisition. All intercompany transactions, balances, revenues and expenses are eliminated on consolidation.

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

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

Foreign currency translation

The presentation currency as well as the functional currency of the Company and its subsidiaries, except for Sativa Nativa, LATAM, and SMGH is the Canadian dollar. The functional currency of Sativa Nativa, LATAM, 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.

Use of judgments, estimates and assumptions

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

Estimates are based on management's best knowledge of current events and actions that the Company may undertake in the future. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

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

Functional currency

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

2. BASIS OF PRESENTATION (continued)

Use of judgments, estimates and assumptions (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.

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

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
Property and equipment are tested for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. Intangible assets are tested for impairment annually. For the purposes of measuring recoverable values, assets are grouped at the lowest levels for which there are separately identifiable cash flows. The recoverable value is the greater of an asset’s fair value less costs of disposal and value in use. In assessing the value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and risk specific to the asset. An impairment loss is recognized for the value by which the asset’s carrying value exceeds its recoverable value.

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

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

2. BASIS OF PRESENTATION (continued)

Use of judgments, estimates and assumptions (continued)

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

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

3. SIGNIFICANT ACCOUNTING POLICIES

Revenue recognition
IFRS 15 outlines a single comprehensive model to account for revenue arising from contracts with customers and replaced the majority of existing IFRS requirements on revenue recognition including IAS 18, Revenue, IAS 11, Construction Contracts and related interpretations. The core principle of the standard is to recognize revenue to depict the transfer of control of goods and services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. The standard has prescribed a five-step model to apply the principles. The standard also specifies how to account for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract as well as requiring more informative and relevant disclosures. In April 2016, the IASB issued amendments to IFRS 15, which provided additional guidance on the identification of performance obligations, on assessing principal versus agent considerations and on licensing revenue.

The Company has adopted IFRS 15 with an initial adoption date of January 1, 2018. The Company utilized the modified retrospective method to adopt the new standard. There was no material impact on the Company's consolidated net loss or consolidated financial position resulting from the adoption of IFRS 15.

Revenue is recognized when all of the following criteria have been satisfied: significant risks and rewards of ownership have been transferred to the buyer, there is no continuing managerial involvement with respect to the good sold or services provided , revenue can be reliably measured at the fair value of consideration received or expected to be received, it is probable that the economic benefits associated with the transaction will flow to the Company, and the costs incurred or to be incurred in respect of the transaction can be measured reliably. Revenue is recognized at the fair value of consideration received or receivable, net of discounts and sales taxes.

The Company currently generates revenue from the consulting and patient referral services provided through the Company's wholly owned subsidiary My Cannabis. The Company recognizes revenue at the time when the consulting service is provided to the patient and consideration has been received in full. For its referral services, the Company recognizes revenue at the time when the customer acknowledges the referral and the consideration has been transferred in full.

Financial Instruments
The Company has adopted IFRS 9 with a date of initial application of January 1, 2018. IFRS 9 introduces new requirements for the classification and measurement of financial assets, amends the requirements related to hedge accounting, and introduces a forward-looking expected loss impairments model.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial Instruments

The standard contains three classifications categories for financial assets: measured at amortized cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). The classification of financial assets under IFRS 9 is based on the business model in which a financial asset is managed and its contractual cash flow characteristics. The standard eliminates the previous IAS 39 categories of held to maturity, loans and receivables and available for sale. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward in IFRS 9 and the adoption of IFRS 9 did not change the Company's accounting policies for financial liabilities.

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

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

The classification changes for each class of the Company's financial assets and financial liabilities upon adoption at January 1, 2018 had no impact on the measurement of financial instruments, which are summarized in the following table:

	Previous classification	**Classification under IFRS 9**
Cash	Loans and receivables	Amortized cost
Marketable securities	FVTPL	FVTPL
Amounts receivable	Loans and receivables	Amortized cost
Prepaid assets	Other assets	Amortized cost
Investments	Other assets	Amortized cost
Amounts payable	Other liabilities	Amortized cost
Shareholder advance	Other liabilities	Amortized cost
Term loan	Other liabilities	Amortized cost

As a result of the adoption of IFRS 9, the Company's accounting policies for financial instruments have been updated and applied from January 1, 2018 and in accordance with the transitional provisions in IFRS 9, comparative figures have not been restated. The changes in accounting policies will also be reflected in the Company's consolidated financial statements as at and for the year ending December 31, 2018. The Company has adopted IFRS 9 retrospectively, and the adoption of IFRS 9 did not result in any transition adjustments being recognized as at January 1, 2018.

As a result of the adoption of IFRS 9, the Company's accounting policies for financial instruments have been updated as described below. There was no impact on the consolidated financial statements as at and for the year ended December 31, 2018.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial Instruments (continued)

(i) Financial assets

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

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

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

(ii) Impairment of financial assets

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

(iii) Financial liabilities

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

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

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

Cash and cash equivalents
Cash and cash equivalents comprise cash deposits and/or highly rated and liquid securities with an original maturity of less than three months.

Biological assets
Biological assets are measured at a fair value of $nil as the Company has not obtained its sales license in the reporting periods and therefore can only grow cannabis for research purposes, and for registration purposes which are required as a pre-requisite for a sales license.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Property and equipment

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

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

For all property and equipment, depreciation is calculated over the depreciable amount, which is the cost of an asset less its residual value. Depreciation is calculated starting on the date that property and equipment is available for its intended use. For all other property and equipment, depreciation is calculated using the declining balance method using the following annual rates:

	Annual rate
Equipment	20%

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

Intangible assets

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

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

	Estimated useful life (years)
Licenses	20-25
Customer list	5

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of non-financial assets

Impairment of non-financial assets Long-lived assets are tested for impairment when events or changes in circumstances indicate that the carrying amount may exceed its recoverable amount. For the purpose of testing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating unit, or "CGU"). An impairment loss is recognized for the amount, if any, by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of the asset's fair value less cost to sell and the value in use (being the present value of expected future cash flows of the asset or CGU). Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the lesser of the revised estimate of recoverable amount and the carrying amount that would have been recorded had no impairment loss been previously recognized.

Income taxes

Current income tax

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

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

Deferred income tax

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

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

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

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

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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Provisions and contingencies

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

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

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

Loss per share

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

Share-based compensation

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

Share capital

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

New standards, amendments and interpretations not yet adopted by the Company

(i) IFRS 16 - Leases ("IFRS 16")

In January 2016, the IASB issued IFRS 16, which specifies how an IFRS reporter will recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17. IFRS 16 is effective for annual reporting periods beginning on or after January 1, 2019, and a lessee shall either apply IFRS 16 with full retrospective effect or alternatively not restate comparative information but recognize the cumulative effect of initially applying IFRS 16 as an adjustment to opening equity at the date of initial application. Early adoption is permitted if IFRS 15 has also been adopted. The Company has evaluated IFRS 16 and concluded that there is no impact on the Company's consolidated financial statements.

(ii) IFRIC 23 – Uncertainty over Income Tax Treatment ("IFRIC 23")

In June 2017, the IASB issued IFRIC 23, which clarifies the accounting for uncertainties in income taxes. IFRIC 23 is effective for annual period beginning on or after January 1, 2019. The requirements are applied by recognizing the cumulative effect of initially applying them in retained earnings, or in other appropriate components of equity, at the start of the reporting period in which the Company first applies them, without adjusting comparative information. Full retrospective application is permitted, if the Company can do so without using hindsight. The Company is in the process of evaluating the impact of IFRIC 23 on the Company's consolidated financial statements.

4. BUSINESS TRANSACTIONS

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

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

Pursuant to the acquisition, Avicanna transferred cash consideration of $947,244 and issued an additional 150,000 common shares of the Company at a share price of $2 per share to acquire an additional 35% of the issued and outstanding common shares of Sativa Nativa. As a result, the fair value of the consideration transferred was $1,247,244.

Prior to the acquisition, the Company advanced Sativa Nativa $154,798 in cash for certain capital expenditures. The balance has been included in the fair value of net assets acquired in the purchase price allocation as a due to related party.

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

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

4. BUSINESS TRANSACTIONS (continued)

Acquisition of Control of Sativa Nativa S.A.S. (continued)

The purchase price allocation was as follows:

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

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

Effective October 22, 2018, the Company acquired 60% of the issued and outstanding common shares of SMGH. SMGH is located in Santa Marta, Colombia and has a license to harvest, extract and sell medical cannabis. The total purchase price was $10,788,071 which was settled with the issuance of 1,477,817 common shares of the Company issued at a price of $7.30 per share. Prior to the acquisition, the Company advanced SMGH $3,029,159 in cash for certain capital expenditures. The balance has been included in the fair value of net assets acquired in the purchase price allocation as a due to related party.

The purchase price allocation was as follows:

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

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

5. MARKETABLE SECURITIES

Marketable securities are comprised of:

	Effective Interest Rate	Maturity Date	December 31, 2018	December 31, 2017
Government of Canada, Guaranteed Investment Certificate	0.90%	April 17, 2018	-	$ 10,000

The fair value of marketable securities was determined using Level 1 of fair value measurement.

6. AMOUNTS RECEIVABLE

		December 31, 2018		December 31, 2017
Trade and other receivables	$	111,571	$	3,690
Accrued interest		-		64
Sales tax receivable		147,037		71,583
Total amounts receivable	**$**	**258,608**	**$**	**75,337**

7. BIOLOGICAL ASSETS

The Company wrote off $122,284 of biological assets for the year ended December 31, 2018 (2017 - $nil). While the Company, through its subsidiaries Sativa Nativa and SMGH, has licenses to harvest, extract and sell medical cannabis, there are certain regulatory requirements that must be met in to be permitted to sell medical cannabis in the Republic of Colombia. Part of this process requires the Company to grow and register the strains of cannabis plants that it wishes to commercially harvest for sale. As at December 31, 2018, the Company was in the process of registering these strains and had not yet gained approval to officially sell. Therefore, any biological assets that were grown for the purposes of obtaining regulatory approval have been expensed for the year ended December 31, 2018.

		Amount
Balance as at December 31, 2017	$	-
Costs incurred during harvest		122,284
Write off of biological asset		(122,284)
Balance as at December 31, 2018	**$**	**-**

The Company values medical cannabis plants at fair market value from the date of initial clipping from the mother plants until the end of the growing cycle. As noted above, as the Company has not been approved to sell its current genetics and strains all costs related to the current harvest have been written off.

8. PROPERTY AND EQUIPMENT

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

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

8. PROPERTY AND EQUIPMENT (continued)

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

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

	Equipment	Land	Construction in Progress	Total
Cost				
Balance at December 31, 2016	$ -	$ -	$ -	$ -
Additions	512,359	-	-	512,359
Disposals	-	-	-	-
At December 31, 2017	$ 512,359	$ -	$ -	$ 512,359

	Equipment	Land	Construction in Progress	Total
Accumulated Amortization				
Balance at, December 31, 2016	$ -	$ -	$ -	$ -
Amortization	51,466	-	-	51,466
Disposals	-	-	-	-
At December 31, 2017	$ 51,466	$ -	$ -	$ 51,466

	Equipment	Land	Construction in Progress	Total
Net Book Value				
December 31, 2016	$ -	$ -	$ -	$ -
December 31, 2017	$ 460,893	$ -	$ -	$ 460,893

During the year ended December 31, 2018, the Company recorded $144,440 in depreciation (2017 - $51,466).

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

9. INTANGIBLE ASSET

	Customer Relationships	Licenses and Permits	Total
Cost			
Balance at December 31, 2017	$ 141,327	$ -	$ 141,327
Additions	-	10,631,981	10,631,981
Disposals	-	-	-
At December 31, 2018	$ 141,327	$ 10,631,981	$ 10,773,308

	Customer Relationships	Licenses and Permits	Total
Accumulated amortization			
Balance at December 31, 2017	$ **11,777**	$ -	$ **11,777**
Additions	28,265	**-**	**28,265**
Disposals	-	-	-
At December 31, 2018	$ **40,042**	$ **-**	$ **40,042**

	Customer Relationships	Licenses and Permits	Total
Net Book Value			
December 31, 2017	$ 129,550	$ -	$ **129,550**
December 31, 2018	$ 101,285	$ 10,631,981	$ **10,733,266**

	Customer Relationships	Licenses and Permits	Total
Cost			
Balance at December 31, 2016	$ -	$ -	$ -
Additions	141,327	-	141,327
Disposals	-	-	-
At December 31, 2017	$ 141,327	$ -	$ 141,327

	Customer Relationships	Licenses and Permits	Total
Accumulated amortization			
Balance at December 31, 2016	$ **-**	$ -	$ **-**
Additions	11,777	-	11,777
Disposals	-	-	-
At December 31, 2017	$ **11,777**	$ **-**	$ **11,777**

	Customer Relationships	Licenses and Permits	Total
Net Book Value			
December 31, 2016	$ -	$ -	$ **-**
December 31, 2017	$ 129,550	$ -	$ **129,550**

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

During the year ended December 31, 2018, the Company recorded $28,265 in amortization (2017 - $11,777). As at December 31, 2018 Licenses and permits remain were not available for use as the Company did not have the ability to sell the Extracts. As such depreciation was not taken during the period.

10. INTEREST IN EQUITY ACCOUNTED INVESTEE

The following table summarizes, in aggregate, the financial information of the Company's investee.

	December 31, 2018	December 31, 2017
Current assets	$ -	$ 26,343
Non-current assets	-	90,999
Current liabilities	-	(112,651)
Net Assets	**$ -**	**$ 4,691**

The investee had no revenue as of December 31, 2018. The following represents in the breakdown of investments in investees:

	December 31, 2018	December 31, 2017
Sativa Nativa S.A.S.	$ -	$ 144,875

On August 18, 2017 the Company signed an agreement to directly purchase 35% of the outstanding common shares of Sativa Nativa, a corporation formed in Colombia, as a strategic investment. As part of the transaction Avicanna paid $107,193 and issued 50,000 common shares at a price of $1.00 per share in exchange for 33,108,108 common shares of Sativa Nativa. For accounting purposes the Company recorded the transaction at $157,193 representing its interest in the equity accounted investee. The Company's interest in Sativa Nativa is considered as an equity investment given its proportion of shareholdings to other shareholders.

Sativa Nativa and its Board of Directors elected to use December 31 for its year end date for the reporting period ending December 31, 2017. Sativa Nativa reported a net loss of $35,192 for the fiscal period ending December 31, 2017. In accordance with the equity method, Avicanna recorded a loss of $12,317 from its investee which is relative to its ownership of the outstanding common shares at December 31, 2017.

On February 28, 2018, the Company acquired an additional 35% of the issued and outstanding shares of Sativa Nativa (Note 4), bringing the Company's total holdings to 70% of the issued and outstanding shares. Immediately prior to the Company acquiring control, Sativa Nativa reported a net loss of $78,879 for the period from the beginning of the fiscal period to the acquisition date, February 28, 2018. In accordance with the equity method, the Company recorded a loss of $27,607 from its investee which is relative to its ownership of the outstanding common shares at immediately prior to the acquisition of control on February 28, 2018

11. INVESTMENT

In July 2018, the Company purchased 720,000 common shares, which represents an ownership of 4% of the total outstanding common shares at a price of $0.0001 per share for an aggregate purchase price of $72 in Southern Sun Pharma Inc. It owns a plot of land in South Africa, which it plans to develop and cultivate medical cannabis.

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

12. RELATED PARTY TRANSACTIONS

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

		December 31, 2018		December 31, 2017
Salaries	$	671,433	$	362,281
Share-based compensation		34,000		85,000
	$	**705,433**	**$**	**447,281**

13. TERM LOAN

		December 31, 2018		December 31, 2017
Term loan, payable monthly over 2 years, 22.0% annual interest	$	14,441	$	-

The term loan was provided to facility the purchase of a vehicle for use in Sativa Nativa's operations.

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 December 31, 2018, the Company had 15,646,965 common shares issued and outstanding (2017 – 10,881,201).

Transactions:

[i] On May 5, 2017, the company issued 2,359,160 units for gross proceeds of $1,651,413. Each unit was issued at $0.70 per unit and included one common share and one common share purchase warrant. Each warrant is exercisable into one common share at an exercise price of $1 per common share for a period expiring on the earlier of: (i) 24 months from the date of issuance; and (ii) 12 months subsequent to the IPO date. Fair value of the common share purchase warrants was determined using the Black-Scholes option pricing model with a market price per common share of $0.70, a risk-free interest rate of 0.67%, an expected annualized volatility of 90% and expected dividend yield of 0%. Gross proceeds of $1,651,413 were allocated to common shares and common share purchase warrants in the amount of $1,191,595 and $459,818, respectively.

[ii] In November 2017, the Company issued 25,000 common share purchase warrants were issued to a consultant of the Company as compensation for services rendered. Each warrant is exercisable into one common share at an exercise price of $1 per common share for a period of 5 years from date of issuance. 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 $0.70, a risk-free interest rate of 1.65%, an expected annualized volatility of 90% and expected dividend yield of 0%. The total fair value of these warrants of $11,244 was recognized as consulting expense within general and administrative expenses in the statement of operations and comprehensive loss.

[iii] On December 22, 2017 the company issued 360,000 units for gross proceeds of $720,000. Each unit was issued at $2 per unit and included one common share and one-half common share purchase warrant. Each whole warrant is exercisable into one common share at an exercise price of $2.50 per common share for a period expiring on the earlier of: (i) 18 months from the date of issuance; and (ii) 3 months subsequent to the IPO date. 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, a risk-free interest rate of 1.64%, an expected annualized volatility of 90% and expected dividend yield of 0%. Gross proceeds of $720,000 were allocated to common shares and common share purchase warrants in the amount of $609,877 and $110,123 respectively.

[iv] During the year ended December 31, 2017, the Company issued 1,162,041 common shares for gross proceeds of $967,107. Of these common shares, 1,043,827 common shares were issued at $0.70 per common share and 118,214 common shares were issued at $2 per common share.

[v] On January 29, 2018, common shares were issued on the exercise of 25,000 stock options. The options were exercised at a price of $1 per common share for gross proceeds of $25,000. These stock options had a fair value of $6,847.

14. SHARE CAPITAL (continued)

Transactions (continued)

[vi] On January 29, 2018, the Company issued 2,007,508 units for gross proceeds of $4,015,016. Each unit was issued at $2 per unit and included one common share and one-half common share purchase warrant. Each whole warrant is exercisable to acquire one common share at an exercise price of $2.50 per common share for a period expiring on the earlier of: (i) 24 months from the date of issuance; and (ii) 12 months subsequent to the IPO date. Fair value of the common share purchase warrants was determined using the Black-Scholes option pricing model with a market price per common share of $2, a risk-free interest rate of 1.77%, an expected annualized volatility of 90% and expected dividend yield of 0%. Gross proceeds of $4,015,016 were allocated to common shares and common share purchase warrants in the amount of $3,412,234 and $602,782, respectively. As at December 31, 2017, proceeds of $728,500 related to this share issuance were received in advance.

[vii] On February 28, 2018, the Company issued 150,000 common shares to acquire 10% of the issued and outstanding common shares of Sativa Nativa S.A.S. The common shares of the Company were valued at $300,000 and were issued at a price of $2 per common share (Note 9).

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

[ix] On September 21, 2018, 94,000 common shares were issued on the exercise of 94,000 common share purchase warrants. The warrants were exercised at a price of $1 per common share for gross proceeds of $94,000. These warrants had a fair value of $18,322.

[x] On October 22, 2018, the Company issued 1,477,818 common shares to acquire 60% of the issued and outstanding common shares of Santa Marta Golden Hemp S.A.S. The common shares issued by the Company were issued at a price of $7.30 per share and had a total fair value of $10,788,071 (Note 9).

[xi] On December 13, 2018 ("First Tranche Closing Date") the Company issued 540,484 Special Warrants at $8 each for gross proceeds of $4,323,872 which was the first tranche ("First Tranche") of the Company's Special Warrants offering. As part of this transaction the company incurred issuance cost of $144,716, resulting in net proceeds of $4,179,156. Each Special Warrant holder is entitled to receive upon conversion one unit (each, a "Unit") of the corporation with each Unit consisting of one common share ("Common Share") in the capital of the corporation and one half of one Common Share purchase warrant (each whole warrant, "Whole Warrant" and together with the Common Shares, "Underlying Securities") with each Warrant entitling the holder thereof to purchase one Common Share in the capital of the corporation at a price of $10 for a period of two years after the closing date; subject to the Company's right to accelerate the expiry date of the Warrants upon thirty (30) days' notice in the event that the Common Shares become listed on a recognized stock exchange in Canada and the volume weighted average trading price of the Common Shares is equal to or exceeds $12.50 for a period of ten (10) consecutive trading days on such exchange. The Special Warrants issued will be automatically exercised into Underlying Securities, without any action, including additional payment, on the part of the Special Warrant holder, upon the earlier to occur of: (i) the date that is three business days following the date on which the Corporation obtains a receipt, from the applicable securities regulatory authorities, for the Prospectus, and (ii) the date that is 120 days following the First Tranche Closing Date. Additionally, 18,090 compensation warrants were issued to finders related to this sale of Special Warrants. The compensation warrants are exercisable into a Unit for a period of 2 years and an exercise price of $8 per compensation warrant. Fair value of the compensation warrants was determined using the Black-Scholes option pricing model with a market price per common share of $8, a risk-free interest rate of 1.89%, an expected annualized volatility of 90% and expected dividend yield of 0%. A fair value of $70,281 has been allocated to the compensation warrants.

[xii] During the year ended December 31, 2018, the Company issued 276,605 common shares for consulting services with a value of $1,034,466. Of these common shares, 195,638 common shares were issued at $2 per common share, 6,494 common shares were issued at $7.30 per common share and 74,473 common shares were issued at $8 per common share.

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

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

14. SHARE CAPITAL (continued)

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

Warrants

As at December 31, 2018, the following warrants were outstanding and exercisable:

	Warrants Issued / Exercised #	Weighted average exercise price $
Outstanding as at December 31, 2016	**-**	**-**
Warrants issued	2,564,160	0.99
Warrants exercised	-	-
Outstanding as at December 31, 2017	**2,564,160**	**0.99**
Warrants issued	1,003,754	2.50
Special warrants issued	540,484	10,00
Compensation warrants issued	18,090	8.00
Warrants exercised	(303,510)	(1.69)
Outstanding as at December 31, 2018	**3,822,978**	**2.15**

The following table is a summary of the Company's warrants outstanding as at December 31, 2018:

Warrants Outstanding			Warrants Exercisable	
Exercise price range $	**Number outstanding** #	**Weighted average remaining life** (years)	**Weighted average exercise price** $	**Number exercisable** #
1.00	2,290,160	0.30	1.00	2,290,160
2.50	974,244	1.08	2.50	974,244
8.00	18,090	1.95	8.00	18,090
10.00	540,484	1.95	10.00	540,484
Balance December 31, 2018	**3,822,978**	**0.47**	**1.53**	**3,822,978**

15. SHARE-BASED PAYMENT RESERVE AND STOCK OPTIONS

Share-based compensation is comprised of:

	Year Ended December 31, 2018	Year Ended December 31, 2017
Options to consultants	$ 131,475	$ 4,499
Options issued to employees	558,815	59,635
	$ 690,290	$ 64,134

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.

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

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.

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

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] Share-based payment arrangements

As at December 31, 2018, the Company had the following share-based payment arrangements:

Grant date/individual entitled	Number of instruments #	Exercise Price	Vesting conditions	Contractual life of option
Options granted to employees				
December 2016	1,050,000	$0.10	Note (i)	7 years
July 2017	50,000	$1.00	Note (ii)	7 years
September 2017	20,000	$1.00	Note (ii)	7 years
October 2017	90,000	$1.00	Note (ii), (iii)	7 years
May 2018	107,500	$2.00	Note (iv)	7 years
June 2018	17,000	$2.00	Note (iv)	7 years
July 2018	5,000	$7.30	Note (iv)	7 years
September 2018	5,000	$8.00	Note (iv)	7 years
October 2018	5,000	$8.00	Note (iv)	7 years
November 2018	17,000	$8.00	Note (iv)	7 years
Options granted to non-employees				
April 2017	250,000	$1.00	Note (ii)	7 years
May 2017	25,000	$1.00	Note (ii)	7 years
November 2017	100,000	$1.00	Note (ii)	7 years
January 2018	35,000	$2.00	Note (iv)	7 years
March 2018	225,000	$2.00	Note (iv)	7 years
April 2018	25,000	$2.00	Note (iv)	7 years
June 2018	15,000	$2.00	Note (iv)	7 years
July 2018	42,000	$7.30	Note (iv)	7 years
July 2018	25,000	$10.00	Note (iv)	7 years
September 2018	25,000	$7.30	Note (iv)	7 years
September 2018	85,000	$8.00	Note (iv)	7 years
October 2018	10,000	$8.00	Note (iv)	7 years
November 2018	234,000	$8.00	Note (iv)	7 years
Total share options	**2,462,500**			

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

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

Note (i): 1/4 vests 6 months after grant date and then 1/24 vests each month thereafter over an 18-month period resulting in 100% being vested after 24 months from the grant date.

Note (ii): 1/4 vests 6 months after grant date and then 1/12 vests each month thereafter over a 9-month period resulting in 100% being vested after 14 months from the grant date.

Note (iii): 1/4 vests 1 month after grant date and the remainder vests in equal amounts each month thereafter for 5 months resulting in 100% being vested after 6 months from the grant date.

Note (iv): 1/4 vests 1 month after grant date and the remainder vests in equal amounts each month thereafter for 11 months resulting in 100% being vested after 12 months from the grant date.

[ii] Measurement of fair values

The fair value of share options granted was estimated at the date of grant using the Black-Scholes option pricing model using the following weighted average inputs:

	2018	**2017**
Grant date share price	$3.75	$0.20
Exercise price	$3.86	$0.36
Expected dividend yield	0%	0%
Risk-free interest rate	2.06%	1.15%
Expected option life	7 years	7 years
Expected volatility	90%	90%

Employee and non-employee options

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

[iii] Reconciliation of outstanding equity-settled share options

	Options Issued / Exercised #	**Weighted average exercise price** $
Outstanding as at December 31, 2016	**1,400,000**	**0.10**
Options issued	560,000	1.00
Options exercised	-	**-**
Outstanding as at December 31, 2017	**1,960,000**	**0.36**
Options issued	877,500	5.10
Options expired	(150,000)	0.10
Options exercised	(225,000)	1.00
Outstanding as at December 31, 2018	**2,462,500**	**1.82**

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

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

The following table is a summary of the Company's share options outstanding as at December 31, 2018:

	Options Outstanding		Options Exercisable	
Exercise price range	Number outstanding	Weighted average remaining life	Weighted average exercise price	Number exercisable
$	#	(years)	$	#
$0.10	1,050,000	4.94	$0.05	1,050,000
$1.00	535,000	5.74	$0.20	513,632
$2.00	424,500	6.22	$0.30	265,588
$7.30	72,000	6.58	$0.19	24,149
$8.00	356,000	6.79	$1.00	23,829
$10.00	25,000	6.53	$0.09	9,409
Balance December 31, 2018	**2,462,500**	**5.53**	**$1.82**	**1,886,607**

16. 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, 2018.

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

As at December 31, 2017	$	-
Non-controlling interest on acquisition of Sativa Nativa (Note 9)		1,069,066
Non-controlling interest on acquisition of SMGH (Note 9)		7,192,048
Net loss attributed to non-controlling interest		(190,336)
As at December 31, 2018	**$**	**8,070,778**

17. LOSS PER SHARE

The calculation of earnings per share for the year ended December 31, 2018 was based on the net loss attributable to common shareholders of $7,275,265 (2017 – $2,593,680) and a weighted average number of common shares outstanding of 13,587,295 (2017 – 9,017,231) calculated as follows:

		For the year ended December 31, 2018		For the year ended December 31, 2017
Basic and diluted loss per share				
Net loss for the period	$	(7,275,265)	$	(2,593,680)
Average number of common shares outstanding during the year		13,587,295		9,017,231
Loss per share	**$**	**(0.55)**	**$**	**(0.29)**

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

18. INCOME TAXES

Current tax

The reconciliation of the combined Canadian federal and provincial statutory income tax rate of 26.5% (2017 – 26.5%) to the effective tax rate is as follows:

	2018 $	**2017** $
Net loss before recovery of income taxes	(7,099,064)	(2,599,570)
Expected income tax recovery	(1,881,254)	(688,886)
Tax rate changes and other adjustments	(119,042)	37,157
Share based compensation	371,350	31,968
Non-deductible expenses	(176,904)	19,111
Share issuance costs	(38,350)	-
Change in deferred tax asset not recognized	1,844,200	600,650
Income tax expense (recovery)	-	-

Deferred tax

The following table summarizes the components of deferred tax:

	2018 $	**2017** $
Deferred tax assets		
Losses carried forward	666,274	129,641
	666,274	**129,641**
Deferred tax liabilities		
Property and equipment and intangible assets	(121,249)	(129,641)
Investments	(545,025)	-
	(666,274)	**(129,641)**
Net deferred tax asset (liability)	**-**	**-**

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:

	2018 $	**2017** $
Losses carried forward - Canada	6,676,208	2,295,081
Losses carried forward - Columbia	2,023,205	-
Share issuance costs	115,773	-
	8,815,186	2,295,081

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

18. INCOME TAX (Continued)

The Canadian non-capital loss carry-forwards expire as noted in the table below. The Columbian loss carry forwards expire between 2018 and 2030. 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	28,477
2037	2,398,600
2038	4,915,406
	7,342,483

19. 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.

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:

	Carrying amount	Contractual cash flows	Year 1	Year 2	Year 3
Amounts payable	$ 1,455,565	$ 1,455,565	$ 1,455,565	$ -	$ -
	$ 1,455,565	$ 1,455,565	$ 1,455,565	$ -	$ -

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 not exposed to foreign currency exchange risk as it has minimal financial instruments denominated in a foreign currency and substantially all of the Company's transactions are in Canadian and US dollars. The Company receives many of its share issuance proceeds in USD and therefore any foreign currency translation risk is minimized.

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

19. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (continued)

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 (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. The Company is not exposed to other price risks as at December 31, 2018 and 2017.

Fair values

The carrying values of cash, marketable securities, 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.

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

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 and marketable securities are classified as Level 1 financial instruments. Amounts receivable, amounts payable and fund held for investment are classified as Level 2 financial instruments. During the year, there were no transfers of amounts between Level 1 and Level 2.

20. COMMITMENTS

The Company has rental leases and other agreements for select research activities which it is committed to pay the following amounts as at December 31, 2018.

		As at December 30, 2018
2019		546,775
2020		343,689
2021		238,689
2022		179,017
Total Commitments	$	1,308,170

21. SUBSEQUENT EVENTS

[i] On March 1, 2019 (the "Closing Date"), the Company completed a non-brokered private placement offering of convertible debentures (the "Debentures"). The Debentures were issued as part of a unit which included 62.5 Debenture Warrants for every $1,000 principal amount of Debenture acquired. Pursuant to the offering of Debentures, we raised gross proceeds of $783,000 and issued: (i) Debentures having an aggregate principal amount of $783,000 (issued in denominations of $1,000); and (ii) 48,937 Debenture Warrants. The Debentures are governed by and issued pursuant to the terms of the Debenture Certificates. The Debentures incur interest at 8% per annum and become due on the Maturity Date. Of the Debentures issued, an aggregate principal amount of $406,000 Debentures and 25,375 Debenture Warrants was acquired by a related party.

In connection with the issuance of the Debentures, the Company issued 48,937 Debenture Warrants. Each Debenture Warrant entitles the holder thereof to acquire one Common Share at a price of $10 per share for a period of 12 months following March 1, 2019, subject to our right to accelerate the expiry date of the Debenture Warrants upon 30 days notice in the event that our Common Shares become listed on a recognized stock exchange and the volume weighted average trading price of the Common Shares equals or exceeds $12.50 for a period of 10 consecutive trading days on such exchange.

[ii] On April 15, 2019, (the "Second Tranche Closing Date") the Company completed the second tranche of a special warrant offering whereby the Company issued 2,228,328 Special Warrants at $8 each for gross proceeds of $17,826,624. As part of this transaction the company incurred issuance cost of $670,800. Each Special Warrant holder is entitled to receive upon conversion one unit (each, a "unit") of the corporation with each unit consisting of one common share ("Common Share") in the capital of the corporation and one half of one Common Share purchase warrant (each whole warrant, "whole warrant" and together with the common shares, "underlying securities") with each Warrant entitling the holder thereof to purchase one common share in the capital of the corporation at a price of $10 for a period of two years after the closing date; subject to the Corporation's right to accelerate the expiry date of the Warrants upon thirty (30) days' notice in the event that the Common Shares become listed on a recognized stock exchange in Canada and the volume weighted average trading price of the Common Shares is equal to or exceeds $12.50 for a period of ten (10) consecutive trading days on such exchange. The Special Warrants issued will be automatically exercised into Underlying Securities, without any action, including additional payment, on the part of the Special Warrant holder, upon the earlier to occur of: (i) the date that is three business days following the date on which the Corporation obtains a receipt, from the applicable securities regulatory authorities, for the Prospectus, and (ii) the date that is 120 days following the Second Tranche Closing Date. Additionally, pursuant to the Agency agreement, the Company issued to the Agents 129,290 Compensation Units. Each Compensation Unit entitles the holder to acquire one Common Share and one half of one common share purchase warrant on the same terms as the units issuable on the automatic exercise of the Special Warrants.

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

[iv] On March 1, 2019, (the "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 any time at the option of the holder thereof into fully paid and non-assessable Common Shares at any time before the maturity date at the conversion price (the "Conversion Price"), representing a conversion rate of 125 Common Shares per $1,000 principal amount of debentures, subject to adjustment in accordance with the debenture certificates. Additionally, each debenture entitles the holder to acquire one common share in the capital 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.