

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

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

	June 30, 2020	December 31, 2019
ASSETS		
Current assets		
Cash	\$ 81,697	\$ 441,757
Amounts receivable (Note 3)	1,428,490	1,202,924
Prepaid assets	930,962	704,632
Biological assets (Note 4)	31,285	117,367
Inventory (Note 5)	3,926,691	1,484,371
Total current assets	6,399,125	3,951,051
Right to use asset (Note 9)	441,581	539,710
Property and equipment (Note 6)	20,990,033	22,622,322
Intangible assets (Note 7)	10,686,561	11,063,900
Derivative asset (Note 10)	1,500,574	3,780,000
Investment	72	72
Goodwill (Note 8)	2,520,382	3,207,227
Total assets	\$ 42,538,328	\$ 45,164,282
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Amounts payable	\$ 6,335,553	\$ 5,177,634
Lease liability – current portion (Note 11)	224,950	224,950
Due to related party (Note 13)	2,249,862	3,319,116
Total current liabilities	8,810,365	8,721,700
Convertible debentures (Note 12)	742,810	715,626
Derivative liability (Note 12)	825	23,434
Lease liability (Note 11)	239,741	330,389
Deferred revenue (Note 10)	3,228,592	3,323,518
Deferred tax liability	2,173,834	2,173,834
Total liabilities	15,196,167	15,288,501
Shareholders' Equity		
Share capital (Note 14)	49,999,186	46,033,465
Warrants (Note 14)	4,919,076	4,267,996
Share-based payment reserve (Note 15)	5,626,786	4,010,824
Accumulated other comprehensive loss	(1,851,136)	(1,124,524)
Deficit	(40,402,142)	(30,800,436)
Non-controlling interest	9,050,391	7,488,456
	27,342,161	29,875,781
	\$ 42,538,328	\$ 45,164,282

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

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

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

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

	Three months ended June 30,		Six months ended June 30,	
	2020	2019	2020	2019
Revenue				
Service Revenue	\$ 92,106	\$ 16,571	\$ 255,658	\$ 40,594
Product Sales	617,362	-	714,713	-
Total Revenue	709,468	16,571	970,371	40,594
Inventory production costs expensed to cost of sales	(133,481)	-	(234,288)	-
Gross margin before the undernoted	575,987	16,571	736,083	40,594
Fair value changes in biological assets included in inventory sold	(540,884)	-	(569,552)	-
Unrealized (gain)/loss on changes in fair value of biological assets	(88,849)	-	1,827,271	-
Gross margin	53,746	16,571	(1,993,802)	40,594
Expenses				
General and administrative (Note 17)	2,924,462	4,243,276	6,110,405	6,930,482
Share-based compensation	1,277,770	674,929	1,615,962	1,719,568
Depreciation and amortization (Note 6, 7, 9)	330,685	128,822	839,828	185,117
Impairment of goodwill	686,845	-	686,845	-
Total Expenses	(5,219,762)	(5,047,027)	(9,253,040)	(8,835,167)
Other (expenses) income (Note 19)	(2,372,674)	522,257	(2,496,480)	400,898
Net loss before taxes	\$ (7,646,182)	\$ (4,508,199)	\$ (9,755,718)	\$ (8,393,675)
Income tax recovery				
Deferred tax recovery	-	-	-	-
Net loss after taxes	(7,646,182)	(4,508,199)	(9,755,718)	(8,393,675)
Net loss attributable to non – controlling interest	(697,412)	69,889	(154,012)	(106,098)
Net loss attributable to Shareholders of the Company	(6,948,770)	(4,578,088)	(9,601,706)	(8,287,577)
Exchange differences attributed to non - controlling interest	(540,254)	-	(1,143,493)	-
Exchange differences attributed to Shareholders of the Company	(782,729)	(672,317)	(726,612)	(704,855)
Net comprehensive loss	\$ (8,969,165)	\$ (5,180,516)	\$ (11,625,823)	\$ (9,098,530)
Weighted average number of common shares – basic and diluted	24,889,167	18,139,300	24,345,387	16,825,405
Net loss per share – basic and diluted	\$ (0.36)	\$ (0.25)	\$ (0.48)	\$ (0.49)

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 Six Months Ended June 30, 2020 and 2019
(Expressed in Canadian Dollars)

	Common Shares		Warrants	Share Based 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	1,060,000	281,871	-	(66,871)	-	-	-	215,000
Exercise of warrants	2,363,681	3,192,191	(540,510)	-	-	-	-	2,651,681
Warrants expired	-	18,103	(18,103)	-	-	-	-	-
Exercise of special warrants	540,484	3,599,560	(3,599,560)	-	-	-	-	-
Issuance of special warrants	-	-	17,155,824	-	-	-	-	17,155,824
Shares issued for services	45,346	362,760	-	-	-	-	-	362,760
Share-based compensation	-	-	-	1,719,568	-	-	-	1,719,568
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	-	-	-	-	-	(704,855)	-	(704,855)
Net loss	-	-	-	-	(8,287,577)	-	(106,098)	(8,393,675)
Balance at June 30, 2019	19,656,476	30,698,158	18,223,166	3,167,804	(18,016,039)	(893,626)	9,013,046	42,192,509
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
Warrants expired	-	6,531	(6,531)	-	-	-	-	-
Issuance of shares	4,022,721	4,616,801	-	-	-	-	-	4,616,801
Warrant allocation	-	(657,611)	657,611	-	-	-	-	-
Share based compensation	-	-	-	1,615,962	-	-	-	1,615,962
SMGH Recapitalization	-	-	-	-	-	-	2,859,440	2,859,440
Foreign exchange translation	-	-	-	-	-	(726,612)	(1,143,493)	(1,870,105)
Net loss	-	-	-	-	(9,601,706)	-	(154,012)	(9,755,718)
Balance at June 30, 2020	26,387,444	49,999,186	4,919,076	5,626,786	(40,402,142)	(1,851,136)	9,050,391	27,342,161

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

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

	For the Six Months Ended June 30, 2020	For the Six Months Ended June 30, 2019
Cash flows from operating activities:		
Net loss	\$ (9,601,706)	\$ (8,287,577)
Depreciation and amortization	839,827	185,117
Interest incurred on lease liability	20,627	-
Accretion of convertible debentures	27,184	12,349
Share-based compensation	1,615,962	1,719,568
Loss attributed to non-controlling interest	(1,297,505)	(106,098)
Impact of foreign exchange translation	(726,612)	(704,855)
Impairment of goodwill	686,845	-
Issuance of common shares for services	-	362,760
Loss on derivative asset	2,279,426	-
Loss on translation of foreign exchange on intangibles and fixed assets	2,392,148	-
Gain on fair value of derivative liability	(22,609)	(13,303)
Recognition of deferred revenue	(94,926)	-
Change in fair value of biological assets	86,082	(259,495)
Changes in non-cash operating elements of working capital (Note 18)	(1,736,297)	(2,333,969)
Cash used in operating activities	(5,531,554)	(9,425,503)
Cash flows from investing activities:		
Purchase of capital assets	(1,124,218)	(2,285,467)
Redemption in marketable securities	-	(10,923,613)
Cash from partial sale of Sativa Nativa S.A.S.	-	2,800,000
Cash used in investing activities	(1,124,218)	(10,409,080)
Cash flows from financing activities:		
Issuance of convertible debentures	-	783,000
Payment towards lease liability	(111,275)	-
(Repayment of) Proceeds from loan	-	(14,441)
Increase in balance due to related parties	1,790,186	1,022,611
Proceeds from exercise of warrants	-	2,658,212
Proceeds from issuance of common shares	4,616,801	-
Proceeds from exercise of options	-	215,000
Proceeds from issuance of special warrants	-	17,155,824
Cash provided by financing activities	6,295,712	21,820,206
Net increase (decrease) in cash	(360,060)	1,985,623
Cash, beginning of year	441,757	69,295
Cash, end of year	\$ 81,697	\$ 2,054,918

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 Six Months Ended June 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 June 30, 2020 the Company has an accumulated deficit of \$40,402,142 (December 31, 2019 - \$30,800,436), cash of \$81,697 (December 31, 2019 - \$441,757), and a working capital deficit of \$2,411,240 (December 31, 2019 - deficit of \$4,770,649). Additionally, the Company incurred a net loss after taxes of \$9,755,718 and used \$5,531,554 of cash from operating activities during the six months ended on June 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 years ended December 31, 2019, 2018 and 2017, which have been prepared in accordance with IFRS.

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 August 14, 2020.

Avicanna Inc.

Notes to the Condensed Consolidated Interim Financial Statements

For the Six Months Ended June 30, 2020 and 2019

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

Basis of presentation

These condensed consolidated interim 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 condensed consolidated interim 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.

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 June 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.

Foreign currency translation

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.

Avicanna Inc.

Notes to the Condensed Consolidated Interim Financial Statements

For the Six Months Ended June 30, 2020 and 2019

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

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

	June 30, 2020	December 31, 2019
Trade and other receivables	\$ 768,809	\$ 384,846
Sales tax receivable	659,681	818,078
Total amounts receivable	\$ 1,428,490	\$ 1,202,924

4. BIOLOGICAL ASSETS

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

	June 30, 2020	December 31, 2019
Balance at the beginning of the period	117,367	\$ -
Production costs capitalized	621,961	858,698
Gain in fair value less costs to sell due to biological transformation	1,827,271	103,887
Transferred to inventory upon harvest	(2,535,314)	(845,218)
Balance at end of the period	31,285	\$ 117,367

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

The fair value measurements for biological assets have been categorized as Level 3 fair values based on the inputs to the valuation technique used. The Company's method of accounting for biological assets attributes value accretion on a straight-line basis throughout the life of the biological asset from initial cloning to the point of harvest.

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

For the Six Months Ended June 30, 2020 and 2019

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

The following table quantifies each significant unobservable input and provides the impact a 10% increase/decrease in each input would have on the fair value of biological assets. No comparative information is presented as the Company did not recognize biological assets at June 30, 2019.

Assumptions		As at June 30, 2020	
		Input	Change in Value
Weighted average of expected loss of plants until harvest [a]	[i]	7%	\$ 32
Expected yields for cannabis plants	[ii]	60g	\$ 773
Weighted average number of growing weeks completed as a percentage of total growing weeks as at period end	[iii]	64%	\$ 136
Estimated fair value less costs to complete and sell (per gram) [b]	[iv]	\$0.01	\$ 346
After harvest cost to complete and sell (per gram)	[v]	\$0.11	\$ 745

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

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

The Company estimates the harvest yields for cannabis at various stages of growth. As of June 30, 2020, it is expected that the Company's cannabis plants biological assets will yield approximately 58,088 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.

5. INVENTORY

	Capitalized Cost	Biological assets fair value adjustment	Carrying value
Harvested Cannabis			
Raw materials	\$ 613,324	1,148,922	1,762,246
Finished goods	-	-	-
	613,324	1,148,922	1,762,246
Active Pharmaceutical Ingredients			
Work in process	583,732	84,290	668,022
Finished goods	193,466	29,207	222,673
	777,198	113,497	890,695
Supplies and consumables	672,958	-	672,958
Finished goods (Cosmetic products)	600,792	-	600,792
At June 30, 2020	\$ 2,664,272	1,262,419	3,926,691

During the six months ended June 30, 2020, the Company successfully registered 21 of its genetics which provided the Company with the ability to sell its active pharmaceutical ingredients and dried flower inventory.

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

For the Six Months Ended June 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					
December 31, 2019	\$ 2,747,358	10,361,920	4,411,987	5,724,943	23,246,208
Additions	-	-	1,124,218	-	1,124,218
Disposals	-	-	-	-	-
Transfers	-	-	-	-	-
Foreign exchange translation	(279,777)	(1,055,204)	(449,294)	(582,998)	(2,367,272)
At June 30, 2020	\$ 2,467,581	9,306,716	5,086,911	5,141,945	22,003,154
Accumulated Depreciation					
Balance at, December 31, 2019	\$ 532,771	-	-	91,115	623,886
Depreciation	274,736	-	-	114,499	389,235
Disposals	-	-	-	-	-
At June 30, 2020	\$ 807,507	-	-	205,614	1,013,121
Net Book Value					
December 31, 2019	\$ 2,214,588	10,361,920	4,411,987	5,633,827	22,622,322
June 30, 2020	\$ 1,660,075	9,306,716	5,086,911	4,936,331	20,990,033

During the six months ended June 30, 2020, the Company recognized depreciation expense on its property and equipment of \$389,235 (June 30, 2019 - \$122,768) on the consolidated interim statement of operations and comprehensive loss.

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

For the Six Months Ended June 30, 2020 and 2019

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

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	-	-	-	(10,707)	(14,169)	(24,876)
At June 30, 2020	\$ 141,327	386,010	10,737,198	81,781	97,445	11,443,761
Accumulated Amortization						
At December 31, 2019	\$ 68,307	19,301	311,415	3,854	1,860	404,736
Additions	14,133	38,601	267,726	21,585	10,419	352,464
Disposals	-	-	-	-	-	-
At June 30, 2020	\$ 82,440	57,902	579,141	25,439	12,279	757,200
Net Book Value						
December 31, 2019	\$ 73,020	366,709	10,425,783	88,634	109,754	11,063,900
June 30, 2020	\$ 58,887	328,108	10,158,057	56,342	85,166	10,686,561

During the six months ended June 30, 2020, the Company recognized amortization on its intangible assets of \$352,464 (June 30, 2019 - \$57,790) 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:

	For the Six Months end June 30	
	2020	2019
Santa Marta Golden Hemp S.A.S.	\$ 2,520,382	2,520,382
Sativa Nativa S.A.S.	-	686,845
	\$ 2,520,382	3,207,227

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

Avicanna Inc.

Notes to the Condensed Consolidated Interim Financial Statements

For the Six Months Ended June 30, 2020 and 2019

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

8. IMPAIRMENT OF GOODWILL (continued)

Unless otherwise indicated, the fair 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.

- Cash flows projections included estimates for five years with a terminal growth rate of 3% , based on current market conditions and past experience
- An after-tax discount rate of 25% (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 TO USE ASSETS

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

	June 30, 2020
Balance at the beginning of the period	\$ 539,710
Additions	-
Depreciation expense	(98,129)
Balance at end of period	\$ 441,581

Depreciation expense for the period was \$98,129 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.

Avicanna Inc.

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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 June 30, 2020 at its fair value of \$1,550,574 and recognized a change in fair value of \$2,279,426 in the consolidated statement of operations 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 six months period ended June 30, 2020, the Company recognized \$169,926 as revenue.

11. LEASE LIABILITY

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

	June 30, 2020
Balance at the beginning of the year	\$ 555,339
Additions	-
Interest incurred on lease liability	20,627
Lease payments and interest	(111,275)
Balance at end of period	\$ 464,691
Lease liability – current portion	224,950
Lease liability – non-current portion	239,741

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.

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

		June 30, 2020
Balance at the beginning of the year	\$	715,626
Additions		-
Accretion expense		27,184
Balance at end of period	\$	742,810

13. RELATED PARTY TRANSACTIONS

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

	For the Six Months ended June 30, 2020	December 31, 2019
Salaries	\$ 343,325	\$ 1,292,089
Share-based compensation	215,056	302,332
	\$ 558,381	\$ 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, Chief Agricultural Officer, and Chief Medical Officer.

Additionally, as at June 30, 2020 the Company received advances from certain related parties who represent the minority shareholders of SMGH in the amount of \$2,249,862 (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.

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 June 30, 2020 the Company had 26,387,444 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 CAD\$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 \$2.56 million. Each Unit was comprised of one (1) common share in the capital of the Company (each, a “Common Share”) and one-quarter of one (1/4) common share purchase warrant (each whole warrant, a “Warrant”). Each Warrant is exercisable into one common share in the capital of the Company (each, a “Warrant Share”) at a price of \$1.20 per Warrant Share until April 20, 2022, subject to the Company’s right to accelerate the expiry date of the Warrants upon thirty (30) days’ notice in the event that the ten (10) day volume weighted average trading price of the Common Shares is equal to or exceeds \$2.00 on the Toronto Stock Exchange.

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14. SHARE CAPITAL (continued)**Warrant Reserve**

As at June 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)	8.00
Warrants expired	(625,962)	2.28
Warrants exercised	(2,701,598)	(1.28)
Outstanding as at December 31, 2019	1,630,721	\$9.56
Warrants issued	1,211,358	1.42
Warrants expired	(48,937)	10.00
Outstanding as at June 30, 2020	2,793,142	\$6.02

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

Warrants Outstanding		Weighted average remaining life (years)	Warrants Exercisable	
Exercise price range \$	Number outstanding #		Weighted average exercise price \$	Number exercisable #
1.00	25,000	2.08	0.01	25,000
1.20	1,061,358	2.05	0.46	1,061,358
2.00	25,000	0.09	0.05	25,000
3.00	150,000	2.81	0.16	150,000
8.00	147,380	1.12	0.42	147,380
10.00	1,384,404	1.04	4.96	1,384,404
Balance June 30, 2020	2,793,142	1.48	6.06	2,793,142

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.

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15. SHARE BASED PAYMENT RESERVE AND STOCK OPTIONS (continued)*[i] Measurement of fair values*

The fair value of share options granted during the periods ended June 30, 2020 and June 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	\$1.39 - \$2.55	\$8.00
Exercise price	\$1.39 - \$5.00	\$8.00
Expected dividend yield	0%	0%
Risk-free interest rate	0.44% - 1.62%	1.7%-2.06%
Expected option life	7 – 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.

[ii] Reconciliation of outstanding equity-settled share options

	Options issued/(exercised)	Weighted average exercise
	#	\$
Outstanding as at December 31, 2018	2,462,500	1.82
Options issued	509,915	8.00
Options expired	(20,000)	2.00
Options cancelled	(169,500)	8.00
Options exercised	(1,155,000)	0.04
Outstanding as at December 31, 2019	1,627,915	4.43
Options issued	854,156	2.71
Options expired	(207,000)	8.00
Options cancelled	(340,570)	8.00
Outstanding as at June 30, 2020	1,934,501	3.78

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

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

Options Outstanding			Options Exercisable	
Exercise price range	Number outstanding	Weighted average remaining life	Weighted average exercise price	Number exercisable
\$	#	(years)	\$	#
\$0.10	100,000	3.44	\$0.01	100,000
\$1.00	345,000	4.00	\$0.17	315,000
\$1.39	43,000	5.67	\$0.03	1,178
\$2.00	417,500	6.24	\$0.44	417,500
\$2.10	10,000	5.57	\$0.01	1,178
\$2.50	191,556	9.03	\$0.25	63,244
\$2.55	5,000	0.12	\$0.01	3,916
\$2.75	385,950	5.57	\$0.56	55,690
\$5.00	24,245	3.06	\$0.06	12,930
\$7.30	72,000	5.08	\$0.27	72,000
\$8.00	340,250	5.83	\$1.43	340,250
Balance June 30, 2020	1,934,501	5.68	\$3.24	1,382,886

[iii] 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 December 31, 2019	98,158	\$8.00
RSUs issued	534,428	1.46
Outstanding as at June 30, 2020	632,586	\$2.47

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 June 30, 2020, 152,405 RSUs were vested (June 30, 2019- nil) and share based payments related to RSUs totaling \$305,810 (June 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.

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16. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (continued)

The Company believes that the trade and other receivables balance is fully collectable. As of June 30, 2020, \$768,809 in trade and other receivables remained outstanding (December 3, 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.

The Company has recorded a loss provision of \$nil during the period-ended June 30, 2020 (June 30, 2019 - \$nil).

Liquidity risk

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

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

	Carrying amount	Contractual cash flows	Year 1	Year 2	Year 3
Amounts payable	\$ 6,335,553	\$ 6,335,553	\$ 6,335,553	\$ -	\$ -
Convertible Debentures	742,810	742,810	742,810	-	-
Lease liability	464,691	464,691	224,950	224,950	14,791
	<u>7,543,054</u>	<u>7,543,054</u>	<u>7,303,313</u>	<u>224,950</u>	<u>14,791</u>

The due to related party balance of \$2,249,862 is not intended to be repaid. As these amounts become due, the outstanding balances can be converted into common shares of SMGH, consistent with current ownership splits.

Market risk

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

Currency risk

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

Interest risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company is not exposed to interest rate as it does not have any borrowings.

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16. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (continued)

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

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

The 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

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17. GENERAL AND ADMINISTRATIVE EXPENSES

	For the Three months Ended June 30,		For the Six months Ended June 30,	
	2020	2019	2020	2019
General and administrative	\$ 1,105,165	\$ 1,252,276	\$ 1,752,932	\$ 2,135,286
Selling marketing and promotion	92,496	124,161	122,622	225,674
Consulting fees	393,120	812,174	659,007	1,058,268
Professional fees	164,318	479,105	826,670	880,227
Salaries and wages	1,079,964	1,363,437	2,587,467	2,294,139
Research and development	75,899	193,239	104,707	311,305
Board fees	13,500	18,884	57,000	25,583
	\$ 2,924,462	\$ 4,243,276	\$ 6,110,405	\$ 6,930,482

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 Six Months ended June 30	
	2020	2019
Trade receivables	\$ (225,566)	\$ (138,468)
Inventory	(2,442,320)	(875,026)
Prepays	(226,330)	(2,751,283)
Accounts payable	1,157,919	1,430,808
	\$ (1,736,297)	\$ (2,378,772)

19. OTHER INCOME (EXPENSES)

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

	For the Three Months ended June 30,		For the Six Months ended June 30,	
	2020	2019	2020	2019
Gain on revaluation of derivative liability	\$ (825)	\$ 9,169	\$ 22,609	\$ 13,303
Loss on revaluation of derivative asset	(2,226,646)	-	(2,279,426)	-
Foreign exchange gain (loss)	(65,292)	71,938	(74,301)	(61,140)
Gain on fair value of biological assets	-	457,503	-	457,503
Other income	(71,434)	-	(71,434)	-
Interest expense	(93,928)	(64,740)	(93,928)	(64,740)
Interest income	85,451	48,387	-	55,972
	\$ (2,372,674)	\$ 522,257	\$ (2,496,480)	\$ 400,898

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20. SUBSEQUENT EVENTS

On August 11, 2020, the Company announced a strategic partnership with Red White & Bloom Brands Inc. (“RWB”), a multi-state operator active in the U.S. cannabis and hemp sectors, for the distribution of and commercialization of Pura H&W Hemp-Derived CBD-Based Topical Products in the United States. RWB will pay Avicanna an upfront fee in the amount of CAD\$250,000 in cash, along with minimum purchase requirements, including the purchase of USD\$250,000 worth of product within the first six months of the term, for the rights to be the exclusive distributor of Avicanna's Pura H&W branded cosmetic products in the US. Under the agreement, RWB also has the right to purchase Avicanna's cosmetic products for distribution into the US and certain other territories under brands of RWB's choosing. The initial product offerings under the agreement will include body and face lotions, cosmetic creams, gels and serums, as well as soaps and bath bombs.