Avicanna Inc.
Condensed Consolidated Interim Financial Statements
(Unaudited)
For the Three Months Ended March 31, 2020 and 2019

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

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

	March 31, 2020	December 31, 2019
ASSETS		
Current assets		
Cash	$ 76,568	$ 441,757
Amounts receivable (Note 4)	670,497	1,202,924
Prepaid assets	1,129,470	704,632
Biological assets (Note 5)	2,110,703	117,367
Inventory (Note 6)	1,774,355	1,484,371
Total current assets	5,761,593	3,951,051
Right to use asset (Note 9)	490,646	539,710
Property and equipment (Note 7)	20,938,344	22,622,322
Intangible assets (Note 8)	10,864,475	11,063,900
Derivative asset (Note 10)	3,780,000	3,780,000
Investment	72	72
Goodwill (Note 22)	3,207,227	3,207,227
Total assets	$ 45,042,357	$ 45,164,282
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Amounts payable	$ 5,271,444	$ 5,177,634
Lease liability – current portion (Note 11)	224,950	224,950
Due to related party (Note 13)	3,428,114	3,319,116
Total current liabilities	8,924,508	8,721,700
Convertible debentures (Note 12)	728,946	715,626
Derivative liability (Note 12)	-	23,434
Lease liability (Note 11)	285,523	330,389
Deferred revenue (Note 10)	3,315,430	3,323,518
Deferred tax liability	2,173,834	2,173,834
Total liabilities	15,428,241	15,288,501
Shareholders' Equity		
Share capital (Note 14)	47,581,781	46,033,465
Warrants (Note 14)	4,776,481	4,267,996
Share-based payment reserve (Note 15)	4,349,016	4,010,824
Accumulated other comprehensive loss	(1,068,407)	(1,124,524)
Deficit	(33,453,372)	(30,800,436)
Non-controlling interest (Note 16)	7,428,617	7,488,456
	29,614,116	29,875,781
	$ 45,042,357	$ 45,164,282

Nature of Operations and Going Concern Uncertainty (Note 1)
Subsequent Events (Note 22)

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 Three Months Ended March 31, 2020 and 2019
Unaudited
(Expressed in Canadian Dollars)

		For the Three Months Ended March 31, 2020		For the Three Months Ended March 31, 2019
Revenue				
Service Revenue	$	163,552	$	24,023
Product Sales		97,351		
Total Revenue		260,903		24,023
Inventory production costs expensed to cost of sales		(100,807)		-
Gross margin before the undernoted		160,096		
Fair value changes in biological assets included in inventory sold		28,668		-
Unrealized gain on changes in fair value of biological assets		(1,916,120)		-
Gross margin		2,047,548		24,023
Expenses				
General and administrative (Note 18)		3,185,943		2,687,206
Share-based compensation (Note 15)		338,192		1,044,639
Depreciation and amortization (Note 7, 8, 9)		509,143		56,295
Total Expenses		4,033,278		3,788,140
Other (expenses) income (Note 19)		(123,806)		(121,359)
Net loss before taxes	**$**	(2,109,536)	**$**	(3,885,476)
Income tax recovery				
Deferred tax recovery		-		-
Net loss after taxes		**(2,109,536)**		**(3,885,476)**
Net loss attributable to non – controlling interest (Note 16)		543,400		(175,987)
Net loss attributable to Shareholders of the Company		(2,652,936)		(3,709,489)
Exchange differences attributed to non - controlling interest (Note 16)		(603,239)		-
Exchange differences attributed to Shareholders of the Company		56,117		(32,538)
Net comprehensive loss	**$**	**(2,656,658)**	**$**	(3,918,014)
Weighted average number of common shares – basic and diluted		22,970,463		15,885,863
Net loss per share – basic and diluted	$	(0.12)	$	(0.25)

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 Three Months Ended March 31, 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	1,155,000	410,402	-	(100,402)	-	-	-	310,000
Exercise of warrants	2,701,598	4,150,196	(696,223)	-	-	-	-	3,453,973
Options expired	-	89,510	-	(89,510)	-	-	-	-
Warrants expired	-	318,423	(318,423)	-	-	-	-	-
Exercise of first tranche special warrants	540,484	3,599,560	(3,599,560)	-	-	-	-	-
Issuance of special warrants	-	-	17,139,612	-	-	-	-	17,139,612
Exercise of second tranche special warrants	2,228,328	13,482,925	(13,482,925)	-	-	-	-	-
Shares issued for services	92,348	738,776	-	-	-	-	-	738,776
Share-based compensation	-	-	-	2,685,629	-	-	-	2,685,629
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	-	-	-	-	-	(935,753)	(489,625)	(1,425,378)
Net loss	-	-	-	-	(21,071,974)	-	(1,141,063)	(22,213,037)
Balance at December 31, 2019	**22,364,723**	**46,033,465**	**4,267,996**	**4,010,824**	**(30,800,436)**	**(1,124,524)**	**7,488,456**	**29,875,781**
Issuance of shares	822,721	1,548,316	508,485	-	-	-	-	2,056,801
Share-based compensation	-	-	-	338,192	-	-	-	338,192
Foreign exchange translation	-	-	-	-	-	56,117	(603,239)	(547,122)
Net loss	-	-	-	-	(2,652,936)	-	543,400	(2,109,536)
Balance at March 31, 2020	**23,187,444**	**47,581,781**	**4,776,481**	**4,349,016**	**(33,453,372)**	**(1,068,407)**	**7,428,617**	**29,614,116**

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

Avicanna Inc.
Condensed Consolidated Interim Statements of Cash Flows
For the Three Months Ended March 31, 2020 and March 31, 2019
Unaudited
(Expressed in Canadian Dollars)

	For the Three Months Ended March 31, 2020	For the Three Months Ended March 31, 2019
Cash flows from operating activities:		
Net loss	$ (2,652,936)	$ (3,709,489)
Depreciation and amortization	419,913	56,295
Interest on lease liability	10,771	-
Accretion of convertible debentures	13,320	-
Unrealized gain on changes in fair value of biological assets	(1,993,336)	-
Share-based compensation	338,192	914,415
Loss attributed to non-controlling interest	(59,839)	(175,987)
Impact of foreign exchange translation	2,719,362	(32,538)
Issuance of common shares for services	-	256,624
Gain on fair value of derivative liability	(23,434)	-
Recognition of deferred revenue (Note 11)	(8,088)	-
Changes in non-cash operating elements of working capital (Note 22)	(88,585)	376,808
Cash used in operating activities	**(1,324,660)**	(2,313,872)
Cash flows from investing activities:		
Purchase of capital assets	(1,150,691)	(468,708)
Cash used in investing activities	**(1,150,691)**	(468,708)
Cash flows from financing activities:		
Issuance of convertible debentures	-	782,535
Payment of lease liability	(55,637)	-
Increase in balance due to related parties	108,998	-
Cash obtained for advance subscription of equity offering	-	831,554
Proceeds from exercise of warrants	-	1,492,514
Proceeds from issuance of common shares	2,056,801	-
Proceeds from exercise of options	-	90,000
Cash provided by financing activities	**2,110,162**	**3,196,603**
Net increase (decrease) in cash	**(365,189)**	**414,023**
Cash, beginning of year	**441,757**	**69,295**
Cash, end of year	**$ 76,568**	**$ 483,318**

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

NOTICE OF NO AUDITOR REVIEW OF CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

Under National Instrument 51-102, Part 4, subsection 4.3(3) (a), if an auditor has not performed a review of the condensed consolidated interim financial statements, they must be accompanied by a notice indicating that the interim financial statements have not been reviewed by an auditor.

The accompanying unaudited condensed consolidated interim financial statements of the Company have been prepared by and are the responsibility of the Company's management.

The Company's independent auditor has not performed a review of these condensed consolidated interim financial statements in accordance with standards established by the Chartered Professional Accountants Canada for a review of interim financial statements by an entity's auditor.

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%.. 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.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 March 31, 2020 the Company has an accumulated deficit of $33,453,372 (December 31, 2019 - $30,800,436), cash of $76,568 (December 31, 2019 – $441,757), and a working capital deficit of $3,162,916 (December 31, 2019 – deficit of $4,770,649). Additionally, the Company incurred a net loss after taxes of $2,109,536 (March 31, 2019 - $3,885,476) and used $1,324,660 (March 31, 2019 - $2,313,872) of cash from operating activities during the three months ended March 31, 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 interim 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 condensed interim 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 condensed 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 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.

These condensed consolidated financial statements were approved and authorized for issuance by the Company's Board of Directors on May 22, 2020.

2. BASIS OF PRESENTATION (continued)

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 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 December 31, 2019, 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 financial statements from the date control is effective until control ceases to exist.

Foreign currency translation

These condensed consolidated 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.

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.

2. BASIS OF PRESENTATION (continued)

Use of judgments, estimates and assumptions

The preparation of the condensed 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 condensed consolidated financial statements:

Functional currency

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

Business combinations

Determining whether an acquisition meets the definition of a business combination or represents an asset purchase requires judgment on a case by case basis. As outlined in IFRS 3, the components of a business must include inputs, processes and outputs.

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.

Biological assets and inventory

In calculating the value of the biological assets and inventory, management is required to make a number of estimates, including estimating the stage of growth of the cannabis up to the point of harvest, harvesting costs, selling costs, average or expected selling prices and list prices, expected yields for the cannabis plants, and oil conversion factors. In calculating final inventory values, management compares the inventory cost to estimated net realizable value. Further information on estimates used in determining the fair value of biological assets is contained in Note 4.

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.

2. BASIS OF PRESENTATION (continued)

Use of judgments, estimates and assumptions (continued)

Impairment of long-lived assets
Property and equipment and definite lived intangible assets are tested for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. Indefinite lived Intangible assets, including goodwill, are tested for impairment annually. For the purposes of measuring recoverable values, assets are aggregated into cash generating units ("CGUs") based on an assessment of the lowest levels for which there are separately identifiable cash flows. The determination of individual CGUs is based on management's judgement regarding shared infrastructure, geographical proximity and similar exposure to market risk. 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 condensed consolidated financial statements and the amount can be reasonably estimated. In cases where it is not possible to determine whether such a liability has occurred, or to reasonably estimate the amount of loss until the performance of some future event, no accrual is made until that time. In the ordinary course of business, the Company may be party to legal proceedings which include claims for monetary damages asserted against the Company. The adequacy of provisions is regularly assessed as new information becomes available.

Income 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.

Leases
Leases requires lessees to discount lease payments using the rate implicit in the lease if that rate is readily available. If that rate cannot be readily determined, the lessee is required to use its incremental borrowing rate. The Company generally uses the incremental borrowing rate when initially recording real estate leases as the implicit rates are not readily available as information from the lessor regarding the fair value of underlying assets and initial direct costs incurred by the lessor related to the leased assets is not available. The Company determines the incremental borrowing rate as the interest rate the Company would pay to borrow over a similar term the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment.

Leases (continued)
Leases requires lessees to estimate the lease term. In determining the period which the Company has the right to use an underlying asset, management considers the non-cancellable period along with all facts and circumstances that create an economic incentive to exercise an extension option, or not to exercise a termination option.

Fair values
Certain of the Company's assets and liabilities are measured at fair value. In estimating fair value the Company uses market-observable data to the extent it is available. In certain cases where Level 1 inputs are not available the Company will engage third party qualified valuers to perform the valuation.

Information about the valuation techniques and inputs used in determining the fair value of biological assets is disclosed in Note 6, derivative asset in Note 11, financial instruments in Note 18 and the acquired intangible assets in Note 23.

3. SIGNIFICANT ACCOUNTING POLICIES

Leases
Effective January 1, 2019, the Company adopted IFRS 16, Leases, replacing IAS 17, which resulted in changes in accounting policies as described below. In accordance with the transitional provisions in the standard, IFRS 16 was adopted retrospectively without restating comparatives, with the cumulative impact adjusted in the opening balances as at January 1, 2019. The Company also utilized certain practical expedient elections whereby (i) there is no need to reassess whether an existing contract is a lease, or contains an embedded lease if previously determined under IAS 17, (ii) short term and low value leases are treated as operating leases, and (iii) there is no need to reassess the previous assessments in respect of onerous contracts that confirmed there were no existing onerous lease contracts. Under IFRS 16, leases greater than 12 months are now recognized on the balance sheet for lessees, essentially eliminating the distinction between a finance lease and an operating lease under IAS 17, where operating leases were reflected in the condensed consolidated statements of operations and comprehensive loss. There were no transitional adjustments upon adoption of this standard as all outstanding leases were entered in the current year.

The following are the Company's new accounting policies for its leases under IFRS 16:

The determination of whether an arrangement is, or contains, a lease is based on the substance of the agreement on the inception date.

As a lessee, the Company recognizes a lease obligation and a right-of-use asset in the consolidated statements of financial position on a present-value basis at the date when the leased asset is available for use. Each lease payment is apportioned between a finance charge and a reduction of the lease obligation. Finance charges are recognized in finance cost in the consolidated statements of operations and comprehensive loss. The right of-use asset is depreciated over the shorter of its estimated useful life and the lease term on a straight-line basis.

Lease obligations are initially measured at the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payment that are based on an index or a rate;
- amounts expected to be payable under residual value guarantees;
- the exercise price of a purchase option if the Company is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the Company exercising that option.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases (continued)
Lease payments are discounted using the interest rate implicit in the lease, or if this rate cannot be determined, the Company's incremental borrowing rate. Right-of-use assets are initially measured at cost comprising the following:

- the amount of the initial measurement of the lease obligation;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs; and
- rehabilitation costs.

Payments associated with short-term leases and leases of low-value assets are recognized on a straight-line basis as an expense in the consolidated statements of operations and comprehensive loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise primarily small equipment.

Revenue recognition
The Company recognizes revenue in accordance with IFRS 15. IFRS 15 specifies how and when revenue should be recognized based on a five-step model, which is applied to all contracts with customers. The Company's accounting policy for revenue recognition under IFRS 15 is to follow a five-step model to determine the amount and timing of revenue to be recognized:

1. Identifying the contract with a customer
2. Identifying the performance obligations within the contract
3. Determining the transaction price
4. Allocating the transaction price to the performance obligations
5. Recognizing revenue when/as performance obligation(s) are satisfied.

The Company currently generates revenue from patient referral services and sale of its cannabis-based products. Consulting and patient referral services are provided through the Company's wholly owned subsidiary My Cannabis. The Company recognizes revenue at the time when the consulting service is provided to the patient and consideration has been received in full. For its referral services, the Company recognizes revenue at the time when the customer acknowledges the referral and the consideration has been transferred in full. Revenue from the sale of the Company's cannabis-based products is recognized when the Company transfers control of the goods to the customers. Control of the product transfers at a point in time either upon shipment to, or receipt by, the customer, depending on the contractual terms. The Company recognizes revenue in an amount that reflects the consideration that the Company expects to receive considering any variation that may result from rights of return.

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 on a straight-line basis based on the asset's useful life as presented below:

	Estimated useful life (years)
Equipment	5-10
Infrastructure and Buildings	20-25

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
E-commerce platform	5
Software licenses	2
Intellectual property	5
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)

Business Acquisitions

A business combination is a transaction or event in which an acquirer obtains control of one or more businesses and is accounted for using the acquisition method. The total consideration paid for the acquisition is the aggregate of the fair values of assets acquired, liabilities assumed, and equity instruments issued in exchange for control of the acquiree at the acquisition date. The acquisition date is the date when the Company obtains control of the acquiree. The identifiable assets acquired, and liabilities assumed are recognized at their acquisition date fair values, except for deferred taxes and share-based payment awards where IFRS provides exceptions to recording the amounts at fair value. Goodwill represents the difference between total consideration paid and the fair value of the net-identifiable assets acquired. Acquisition costs incurred are expensed to profit or loss. Contingent consideration is measured at its acquisition date fair value and is included as part of the consideration transferred in a business combination, subject to the applicable terms and conditions. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with IFRS 9 Financial Instruments with the corresponding gain or loss recognized in profit or loss.

Based on the facts and circumstances that existed at the acquisition date, management will perform a valuation analysis to allocate the purchase price based on the fair values of the identifiable assets acquired and liabilities assumed on the acquisition date. Management has one year from the acquisition date to confirm and finalize the facts and circumstances that support the finalized fair value analysis and related purchase price allocation. Until such time, these values are provisionally reported and are subject to change. Changes to fair values and allocations are retrospectively adjusted in subsequent periods.

Biological assets

The Company's biological assets consist of cannabis plants. The Company capitalizes all the direct and indirect costs as incurred related to the biological transformation of the biological assets between the point of initial recognition and the point of harvest including labour related costs, grow consumables, materials, utilities, facilities costs, quality and testing costs. The Company then measures the biological assets at fair value less cost to sell up to the point of harvest, which becomes the basis for the cost of finished goods inventories after harvest. Cost to sell includes post-harvest production, which include API extraction, shipping and fulfillment costs. The net unrealized gains or losses arising from changes in fair value less cost to sell during the year are included in the consolidated statements of operations of the related reporting year.

Research and development

Research costs are expensed when incurred. Development costs are capitalized when the feasibility and profitability of the project can be reasonably considered certain. Expenditure on development activities, whereby research findings are applied to a plan or design for the production of new or substantially improved products and processes, is capitalized if the product or process is technically and commercially feasible and the Company has sufficient resources to complete development. The expenditure capitalized includes the cost of materials, direct labour and an appropriate proportion of overheads. Other development expenditure is recognized in the income statement as an expense as incurred. Capitalized development expenditure is stated at cost less accumulated amortization and impairment losses.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Inventories

Inventories of harvested work-in-process and finished goods are valued at the lower of cost and net realizable value. Inventories of harvested cannabis are transferred from biological assets at their fair value less cost to sell up to the point of harvest, which becomes the initial deemed cost. All subsequent direct and indirect postharvest costs are capitalized to inventory as incurred, including labour related costs, consumables, materials, packaging supplies, utilities, facilities costs, quality and testing costs, and production related depreciation. Net realizable value is determined as the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. Inventories for resale and supplies and consumables are valued at the lower of costs and net realizable value, with cost determined using the weighted average cost basis.

The line item "Inventory production costs expensed to cost of sales" in the consolidated statements of operations is comprised of the cost of inventories expensed in the year and the direct and indirect costs of shipping and fulfillment including labour related costs, materials, shipping costs and facilities costs

Financial Instruments

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

	Classification under IFRS 9
Financial Assets	
Cash	Amortized cost
Amounts receivable	Amortized cost
Derivative asset	FVTPL
Investment	FVTPL
Financial Liabilities	
Amounts payable	Amortized cost
Lease liability	Amortized cost
Due to related party	Amortized cost
Convertible debenture	Amortized cost
Derivative liability	FVTPL
Term loan	Amortized cost

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.

Convertible debentures

Convertible debentures are recorded on the consolidated statement of financial position at amortized cost. The convertible debentures are separated out into their liability and derivative liability components. The fair value of the liability component at the time of issue was determined based on an estimated interest rate of the debentures without the conversion feature-less the value associated to derivative liability as mentioned below. The fair value of the derivative liability was determined as the difference between the total proceeds on issuance of the convertible note less the value of the convertible debenture. Subsequent to initial recognition, the company will accrete the debenture over its contractual term using the effective interest rate method.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Derivative liability

The Derivative liability is recorded on the consolidated statement of financial position at fair value. The conversion features of the convertible debentures, whereby the holder of the notes can convert any accrued interest payments to common shares (see note 8) is determined to be an embedded derivative liability and is separately valued and accounted for on the statement of financial position with changes in fair value recognized through profit and loss. The pricing model the Company uses for determining the fair value of the derivative liability is the Black Scholes Model. The model uses market sourced inputs such as interest rates and stock price volatilities. Selection of these inputs involves management's judgment and may impact net income.

Derivative asset

The Derivative asset is recorded on the consolidated statement of financial position at fair value. The asset relates to the call option which was granted to the company as part of Avicanna's transaction with LC2019 Inc (See Note 11). The fair value of the option is determined by using a discounted cash flow which involves calculating the net present value of cash flows that are expected to be derived from future activities. The forecast cash flows are discounted by a rate that reflects the time value of money and the risk inherent in the cash flows. The Company will revalue the Call Option each reporting period and will recognize any changes in the fair value through profit and loss.

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.

Investment tax credits on Scientific Research and Experimental Development expenditures are reflected in intangible assets as deductions from development costs when such expenditures have been capitalized to intangible assets. Otherwise, investment tax credits on Scientific Research and Experimental Development expenditures are recorded as other income.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Income taxes (continued)

Deferred income tax (continued)

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.

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.

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

4. AMOUNTS RECEIVABLE

		March 31, 2020		December 31, 2019
Trade and other receivables	$	74,192	$	384,846
Sales tax receivable		596,305		818,078
Total amounts receivable	**$**	**670,497**	**$**	**1,202,924**

5. 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:

	March 31, 2020		December 31, 2019
Balance at the beginning of the year	117,367	$	-
Production costs capitalized	456,124		858,698
Write down of biological assets	-		-
Gain in fair value less costs to sell due to biological transformation	1,916,120		103,887
Transferred to inventory upon harvest	(378,908)		(845,217)
Balance at end of the year	**2,110,703**	**$**	**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.

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

5. BIOLOGICAL ASSETS (continued)

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 March 31, 2019.

		As at March 31, 2020		
Assumptions		Input	Change in Value	
Weighted average of expected loss of plants until harvest [a]	[i]	6.5%	$	769
Expected yields for cannabis plants	[ii]	178g	$	19,437
Weighted average number of growing weeks completed as a percentage of total growing weeks as at period end	[iii]	78%	$	4,066
Estimated fair value less costs to complete and sell (per gram) [b]	[iv]	$0.08	$	59,610
After harvest cost to complete and sell (per gram)	[v]	$0.06	$	32,487

a. Weighted average of expected loss of plants until harvest represents loss via plants that do not survive to the point of harvest. It does not include any financial loss on a surviving plant.

b. The estimated fair value less costs to complete and sell (per gram) represents the expected sales price for the Company's 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 March 31, 2020, it is expected that the Company's cannabis plants biological assets will yield approximately 6,149,646 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.

6. INVENTORY

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

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

6. INVENTORY (continued)

		Capitalized Cost	Biological assets fair value adjustment	Carrying value
Harvested Cannabis				
Raw materials	$	128,279	(84,969)	43,310
Finished goods		-	-	-
		128,279	(84,969)	43,310
Active Pharmaceutical Ingredients				
Work in process		526,565	1,219	527,784
Finished goods		264,554	58,964	323,518
		791,119	60,183	851,302
Supplies and consumables		200,722	-	200,722
Finished goods (Cosmetic products)		679,021	-	679,021
At March 31, 2020	$	1,799,140	(24,786)	1,774,355

7. 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		-	-	1,150,691	-	1,150,691
Disposals		-	-	-	-	-
Transfers		-	-	-	-	-
Foreign exchange translation		(312,015)	(1,176,794)	(501,066)	(650,177)	(2,640,052)
At March 31, 2020	$	2,435,343	9,185,126	5,061,612	5,074,766	21,756,847

		Equipment	Land	Construction in Progress	Infrastructure and Buildings	Total
Accumulated Depreciation						
Balance at, December 31, 2019	$	532,771	-	-	91,115	623,886
Depreciation		137,368	-	-	57,249	194,617
Disposals		-	-	-	-	-
At March 31, 2020	$	670,139	-	-	148,364	818,503

		Equipment	Land	Construction in Progress	Infrastructure and Buildings	Total
Net Book Value						
December 31, 2019	$	2,214,588	10,361,920	4,411,987	5,633,827	22,622,322
March 31, 2020	$	1,765,204	9,185,126	5,061,612	4,926,402	20,938,344

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

7. PROPERTY AND EQUIPMENT (continued)

		Equipment	Land	Construction in Progress	Infrastructure and Buildings	Total
Cost						
December 31, 2018	$	1,077,894	10,361,920	5,012,228	-	16,452,042
Additions		400,839	-	6,393,327	-	6,794,166
Disposals		-	-	-	-	-
Transfers		1,268,625	-	(6,993,568)	5,724,943	-
At December 31, 2019	$	2,747,358	10,361,920	4,411,987	5,724,943	23,246,208
		Equipment	**Land**	**Construction in Progress**	**Infrastructure and Buildings**	**Total**
Accumulated Depreciation						
Balance at, December 31, 2018	$	195,906	-	-	-	195,906
Depreciation		336,865	-	-	91,115	427,980
Disposals		-	-	-	-	-
At December 31, 2019	$	532,771	-	-	91,115	623,886
		Equipment	**Land**	**Construction in Progress**	**Infrastructure and Buildings**	**Total**
Net Book Value						
December 31, 2019	$	2,214,588	10,361,920	4,411,987	5,633,827	22,622,322

During the three months ended March 31, 2019, the Company recognized depreciation expense on its property and equipment of $194,617 (March 31, 2019 - $49,229) on the consolidated statement of operations and comprehensive loss.

8. 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		-	-	-	(10,510)	(12,683)	(23,193)
At March 31, 2020	$	141,327	386,010	10,737,198	81,978	98,931	11,445,444
		Customer Relationships	**Ecommerce Platform**	**Licenses and Permits**	**Software Licenses**	**Intellectual Property**	**Total**
Accumulated Amortization							
At December 31, 2019	$	68,307	19,301	311,415	3,854	1,860	404,737
Additions		7,066	19,301	133,863	10,793	5,210	176,233
Disposals		-	-	-	-	-	-
At March 31, 2020	$	75,373	38,602	445,278	14,647	7,070	580,970
		Customer Relationships	**Ecommerce Platform**	**Licenses and Permits**	**Software Licenses**	**Intellectual Property**	**Total**
Net Book Value							
December 31, 2019	$	73,020	366,709	10,425,783	88,634	109,754	11,063,900
March 31, 2020	$	65,954	347,408	10,291,920	67,331	91,861	10,864,475

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

8. INTANGIBLE ASSETS (continued)

		Customer Relationships	Ecommerce Platform	Licenses and Permits	Software Licenses	Intellectual Property	Total
Cost							
At December 31, 2018	$	141,327	-	10,631,981	-	-	10,773,308
Additions		-	386,010	105,217	92,488	111,614	695,329
Disposals		-	-	-	-	-	-
At December 31, 2019	$	141,327	386,010	10,737,198	92,488	111,614	11,468,637
		Customer Relationships	**Ecommerce Platform**	**Licenses and Permits**	**Software Licenses**	**Intellectual Property**	**Total**
Accumulated Amortization							
At December 31, 2018	$	40,042	-	-	-	-	40,042
Additions		28,265	19,301	311,415	3,854	1,860	364,694
Disposals		-	-	-	-	-	-
At December 31, 2019	$	68,307	19,301	311,415	3,854	1,860	404,736
		Customer Relationships	**Ecommerce Platform**	**Licenses and Permits**	**Software Licenses**	**Intellectual Property**	**Total**
Net Book Value							
December 31, 2019	$	73,020	366,709	10,425,783	88,634	109,754	11,063,900

During the three months ended March 31, 2020, the Company recognized amortization on its intangible assets of $176,232 (March 31, 2019 - $7,066) on consolidated statement of operations and comprehensive loss.

9. RIGHT TO USE ASSETS

As of March 31, 2020, the Company's right to use asset consisted of the following:

		March 31, 2020		December 31, 2019
Balance at the beginning of the period	$	539,710	$	-
Additions		-		670,549
Depreciation expense		(49,064)		(130,839)
Balance at end of period	**$**	**490,646**	**$**	**539,710**

The Company recognized a right to use asset during the year under IFRS 16. The right to use asset is depreciated on a straight-line basis over the term of its leases related to its corporate offices. Depreciation expense for the year was $49,064 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.

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

10. DERIVATIVE ASSET AND DEFERRED REVENUE (continued)

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

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

The Call Option is a derivative financial instrument. The Call Option was 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 will subsequently revalue the call option each reporting period and recognize any fair value changes in the consolidated statement of operations and comprehensive loss.

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. In addition, given the license is for cannabis related to product development, the company meets the criteria for right of use of intellectual property and recognize at a point time. However IFRS 15 states that revenue cannot be recognized for a license that provides a right to use intellectual property before the period during which the customer is able to use and benefit from the license As at December 31, 2019, cannabis is federally illegal in the US, therefore there exist restrictions in the benefits that the Company can derive from this license. Consequently, the whole revenue derived from the above license has been recognized over the useful life of the agreement. During the quarter there have been no major changes in the assumptions used to determine the fair value at December 31, 2019.

11. LEASE LIABILITY

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

		March 31, 2020		December 31, 2019
Balance at the beginning of the year	**$**	**555,339**	**$**	**-**
Additions		-		670,549
Interest on lease liability		10,771		33,157
Lease payments and interest		(55,637)		(148,367)
Balance at end of year	**$**	**510,473**	**$**	**555,339**
Lease liability – current portion		224,950		224,950
Lease liability – non-current portion		285,523		330,389

The Company has lease liabilities for leases related to its corporate offices. The weighted average discount rate for the three months ended March 31, 2020 was 8% percent.

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

12. CONVERTIBLE DEBENTURES

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

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

		March 31, 2020		December 31, 2019
Balance at the beginning of the year	$	**715,626**	$	**-**
Additions		-		675,466
Accretion expense		13,320		40,160
Balance at end of year	**$**	**728,946**	**$**	**715,626**

13. RELATED PARTY TRANSACTIONS

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

		For the Three Months ended March 31, 2020		**December 31, 2019**
Salaries	$	232,500	$	1,292,089
Share-based compensation		89,330		302,332
	$	**321,830**	**$**	**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 Financial Officer, Chief Scientific, Chief Agricultural Officer, Chief Technical Officer and Chief Medical Officer.

Additionally, as at March 31, 2020 the Company received advances from certain related parties who represent the minority shareholders of SMGH in the amount of $3,428,114 (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 March 31, 2020 the Company had 23,187,444 common shares issued and outstanding (December 31, 2019 – 22,364,723).

14. SHARE CAPITAL (continued)

Transactions:

[i] During the year ended December 31, 2019, 1,155,000 common shares were issued on the exercise of 1,155,000 stock options. Of the total options exercised, 950,000 were exercised at a price of $0.10 per common share, 195,000 were exercised at a price of $1.00 per common share and 10,000 were exercised at a price of $2.00 per common share for gross proceeds of $310,000. The options exercised were held at a fair value of $100,402.

[ii] During the year ended December 31, 2019, 48,937 common share purchase warrants were issued as part of the convertible debenture issuance (Note 7). Each warrant entitles the holder to acquire one common share of the Company (a "Warrant Share") at a price of $10.00 per Warrant Share for a period of 12 months following the Closing Date. The warrants issued were allocated a fair value of $6,531.

During the year ended December 31, 2019, 2,701,598 common shares were issued on the exercise of 2,701,598 common share purchase warrants. Of the total warrants exercised, 2,171,681 were exercised at a price of $1.00 per common share, 85,000 were exercised at a price of $2.00 per common share and 444,917 were exercised at a price of $2.50 per common share for gross proceeds of $3,453,974. The common share purchase warrants exercised were held at a fair value of $696,223.

[iii] During the year ended December 31, 2019, 540,484 common shares were issued on the exercise of 540,484 special warrants. The special warrants exercised were held at a fair value of $4,108,875. As noted above in note 10 (vii), upon the conversion of each Unit, each unitholder received one half of one common share purchase warrant which provides the right to purchase one Common Share in the capital of the corporation at a price of $10.00 for a period of two years after the closing date. As such 270,242 common share purchase warrants were issued at the time of conversion. Fair value of the warrants was determined using the Black-Scholes option pricing model with a market price per common share of $8.00, a risk-free interest rate of 1.89%, an expected annualized volatility of 90% and expected dividend yield of 0%. A fair value of $509,315 has been allocated to the warrants. Each common share purchase warrant subject to acceleration such that, if the Common Shares are listed and posted for trading on a stock exchange and the volume weighted average price of the Common Shares on such stock exchange is equal to or greater than $12.50 for a period of 10 consecutive trading days, the Corporation may at its option elect to accelerate the expiry of the common share purchase warrants by providing notice to the holders thereof, in which case the common share purchase warrants will expire on the 30th calendar day following delivery of such notice.

[iv] On April 15, 2019 ("Second Tranche Closing Date") the Company issued 2,228,328 Special Warrants at $8.00 each for gross proceeds of $17,826,624 which was the second tranche ("Second Tranche") of the Company's Special Warrants offering. As part of this transaction the company incurred cash issuance cost of $670,800 and compensation warrant cost of 517,782, resulting in net proceeds of $16,638,042 Each Special Warrant holder is entitled to receive upon conversion one unit (each, a "Unit") of the corporation with each Unit consisting of one common share ("Common Share") in the capital of the corporation and one half of one Common Share purchase warrant (each whole warrant, "Whole Warrant" and together with the Common Shares, "Underlying Securities") with each Warrant entitling the holder thereof to purchase one Common Share in the capital of the corporation at a price of $10.00 for a period of two years after the closing date. Additionally, 129,290 compensation warrants were issued to finders related to this sale of Special Warrants. The compensation warrants are exercisable into a Unit for a period of 2 years and an exercise price of $8.00 per compensation warrant. Fair value of the compensation warrants was determined using the Black-Scholes option pricing model with a market price per common share of $8.00, a risk-free interest rate of 1.89%, an expected annualized volatility of 90% and expected dividend yield of 0%. A fair value of $517,782 has been allocated to the compensation warrants. The transaction costs were measured based on the fair value of the equity instruments granted as the fair value of services cannot be reliably measured. Each common share purchase warrant subject to acceleration such that, if the Common Shares are listed and posted for trading on a stock exchange and the volume weighted average price of the Common Shares on such stock exchange is equal to or greater than $12.50 for a period of 10 consecutive trading days, the Corporation may at its option elect to accelerate the expiry of the common share purchase warrants by providing notice to the holders thereof, in which case the common share purchase warrants will expire on the 30th calendar day following delivery of such notice.

[v] During the year ended December 31, 2019, the Company issued 92,348 common shares for consulting services with a value of $738,776. All common shares were issued at a value of $8.00 per common share.

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

14. SHARE CAPITAL (continued)

[vi] During the year ended December 31, 2019, 2,228,328 common shares were issued on the exercise of 2,228,328 special warrants. The special warrants exercised were held at a fair value of $16,638,042. Upon the conversion of each Unit, each unitholder received one half of one common share purchase warrant which provides the right to purchase one Common Share in the capital of the corporation at a price of $10.00 for a period of two years after the closing date. As such 1,114,162 common share purchase warrants were issued at the time of conversion. Fair value of the warrants was determined using the Black-Scholes option pricing model with a market price per common share of $8.00, a risk-free interest rate of 2.00%, an expected annualized volatility of 90% and expected dividend yield of 0%. A fair value of $3,138,905 has been allocated to the warrants.

[vii] On January 24,2020, the Company issued 822,721 units for gross proceeds of $2,056,802. Each unit was comprised of one (1) common share in the capital of the Company and one-half of one (1/2) common share purchase warrant. Each warrant is exercisable into one common share in the capital of the Company (each, a “Warrant Share“) at a price of CAD$3.00 per Warrant Share until January 24, 2023, subject to the Company’s right to accelerate the expiry date of the Warrants upon thirty (30) days’ notice in the event that the ten (10) day volume weighted average trading price of the Common Shares (subject to the average trading volume per day being at least 30,000 Common Shares) is equal to or exceeds CAD$4.00 on the Toronto Stock Exchange. Fair value of the common share purchase warrants was determined using the Black-Scholes option pricing model with a market price per common share of $2.32, a risk-free interest rate of 1.62%, an expected annualized volatility of 90% and expected dividend yield of 0%. Gross proceeds of $2,056,801 were allocated to common shares and common share purchase warrants in the amount of $1,548,316 and $508,485, respectively.

Warrant Reserve

As at March 31, 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	411,360	3.00
Outstanding as at March 31, 2020	**2,042,081**	**8.24**

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

	Warrants Outstanding		**Warrants Exercisable**	
Exercise price range $	**Number outstanding** \#	**Weighted average remaining life** (years)	**Weighted average exercise price** $	**Number exercisable** \#
1.00	25,000	2.08	0.01	25,000
2.00	25,000	0.84	0.02	25,000
3.00	411,360	2.81	0.60	411,360
8.00	147,380	0.87	0.58	147,380
10.00	1,433,341	0.88	7.02	1,433,341
Balance March 31, 2020	**2,042,081**	**1.35**	**8.24**	**2,042,081**

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

15. SHARE BASED PAYMENT RESERVE AND STOCK OPTIONS

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

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

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

[i] Measurement of fair values

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

	2020	**2019**
Grant date share price	$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%	2.06%
Expected option life	7 – 10 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.

[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	824,156	2.71
Options expired	(207,000)	8.00
Options cancelled	(340,570)	8.00
Options exercised	-	-
Outstanding as at March 31, 2020	**1,904,501**	**3.78**

(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 March 31, 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	3.7	$0.01	100,000
$1.00	315,000	4.25	$0.17	315,000
$1.39	43,000	5.92	$0.03	1,178
$2.00	417,500	6.57	$0.44	417,500
$2.10	10,000	5.82	$0.01	1,178
$2.50	191,556	5.82	$0.25	47,100
$2.55	5,000	5.82	$0.01	1,675
$2.75	385,950	5.82	$0.56	23,615
$5.00	24,245	3.31	$0.06	887
$7.30	72,000	5.83	$0.27	72,000
$8.00	340,250	6.7	$1.43	340,250
Balance March 31, 2020	**1,904,501**	**5.95**	**$3.24**	**1,320,383**

16. NON-CONTROLLING INTEREST

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

		2020	**2019**
As at December 31	$	7,488,456	8,070,778
Increase in NCI from acquisitions (Note 4)		-	-
Increase in NCI from MVMD transaction		-	1,048,366
FX translation		(1,063,515)	(489,625)
Net loss attributed to non-controlling interest		543,400	(1,141,063)
	$	**6,968,341**	**7,488,456**

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 reduced to 63% of the then total issued and outstanding shares.

17. 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.

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

17. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (continued)

Credit risk (continued)

The Company believes that the trade and other receivables balance is fully collectable. As of March 31, 2020, $74,192 in trade and other receivables remained outstanding (December 31, 2019 – ($384,846)). The Company applies the simplified approach to providing for expected credit losses as prescribed by IFRS 9, which permits the use of lifetime expected loss provision for all trade receivables. The loss allowance is based on the Company's historical collection and loss experience and incorporates forward looking factors, where appropriate.

The Company has recorded a loss provision of $nil during the period-ended March 31, 2020 (March 31, 2019 - $nil).

Liquidity risk

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

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	$ 5,271,443	$ 5,271,443	$ 5,271,443	$ -	$ -
Convertible Debentures	728,946	728,946	728,946	-	-
Lease liability	510,473	510,473	224,950	224,950	60,573
	$ 6,510,862	$ 6,510,862	$ 6,225,339	$ 224,950	$ 60,573

The due to related party balance of $3,428,114 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.

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

17. 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, 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 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. As at March 31, 2020, the assumptions used to determine the fair market value of the derivative instrument were consistent with those used at December 31, 2019.

18. GENERAL AND ADMINISTRATIVE EXPENSES

	For the Three Months Ended March 31	
	2020	**2019**
General and administrative	$ 647,767	$ 883,010
Selling marketing and promotion	30,126	101,513
Consulting fees	265,887	246,094
Professional fees	662,352	401,122
Salaries and wages	1,507,503	930,702
Research and development	28,808	118,066
Board fees	43,500	6,699
	$ 3,185,943	**$ 2,687,206**

During the three months ended March 31, 2020, as part of its inventory costing process, the Company capitalized $473,133 of salaries to inventory and biological assets (March 31, 2019 - $nil).

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

19. OTHER INCOME (EXPENSES)

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

	For the Three Months ended March 31	
	2020	**2019**
Gain on revaluation of derivative liability	$ 23,434	$ 4,134
Foreign exchange loss	(9,009)	(133,078)
Gain on acquisition of previously equity accounted investee (Note 21)	-	
Loss attributed from equity accounted investee	-	
Other income	(85,451)	
Interest expense	(52,780)	
Interest income	-	7,585
	$ (123,806)	**$ (121,359)**

20. 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 Three Months end March 31	
	2020	**2019**
Amounts receivable	$ 532,427	$ (183,271)
Biological assets	(1,993,336)	-
Inventory	(289,984)	-
Prepaid assets	(424,838)	337,233
Accounts payable	93,808	824,298
	$ (2,081,923)	**$ 978,260**

21. 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 Three Months end March 31	
	2020	**2019**
Santa Marta Golden Hemp S.A.S.	$ 686,845	686,845
Sativa Nativa S.A.S.	2,520,382	2,520,382
	$ 3,207,227	**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 was determined to be lower than its recoverable amount, no impairment was recorded as at March 31, 2020 (December 31, 2019 - $nil).

21. IMPAIRMENT OF GOODWILL (continued)

Unless otherwise indicated, the fair less costs of disposal in 2019 was determined similarly as in 2018. 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% (2018 – 32%) 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.

22. SUBSEQUENT EVENTS

On April 21, 2020 the Company issued an aggregate of 3,200,000 Units (the "Units") at a price of CAD$0.80 per Unit, for aggregate gross proceeds of approximately CAD$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 CAD$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 CAD$2.00 on the Toronto Stock Exchange.