

Avicanna Inc.
Condensed Consolidated Interim Financial Statements
(Unaudited)
For the Three Months Ended March 31, 2021 and 2020
(expressed in Canadian dollars, except share and per share amounts)

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

	Note	March 31, 2021	December 31, 2020
ASSETS			
Current assets			
Cash		\$ 3,903,663	\$ 1,266,732
Short-term investments	4	-	1,250,000
Amounts receivable	5	1,606,865	1,005,290
Prepaid assets		804,888	1,321,586
Biological assets	6	167,976	650,780
Inventory	7	2,354,003	1,276,078
Total current assets		8,837,395	6,770,466
Right of use asset	10	294,387	343,452
Property and equipment	8	19,689,332	21,465,199
Intangible assets	9, 23	447,211	497,468
Deferred tax asset		34,451	34,451
Derivative asset	11	526,312	526,312
Investment	20	518,213	518,213
Total assets		\$ 30,347,301	\$ 30,155,561
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Trade payables and accrued liabilities		\$ 6,127,345	\$ 6,562,339
Lease liability – current portion	13	203,155	203,155
Income tax payable		20,684	20,684
Convertible debentures	14	425,440	1,573,695
Derivative liability	15	123,430	145,151
Due to related party	16	4,167,715	4,319,545
Total current liabilities		11,067,769	12,824,569
Lease liability	13	107,277	161,061
Deferred revenue	12	3,159,351	3,260,101
Total liabilities		14,334,397	16,245,731
Shareholders' Equity			
Share capital	17	62,851,227	57,468,839
Warrants	17	8,490,837	6,780,037
Share-based payment reserve	18	5,873,156	5,916,475
Accumulated other comprehensive loss		(3,482,464)	(2,112,995)
Deficit		(65,008,016)	(62,036,238)
Equity attributable to owners of the parent		8,724,739	6,016,118
Non-controlling interest	19	7,288,164	7,893,712
Total equity		16,012,904	13,909,830
		\$ 30,347,301	\$ 30,155,561

Nature of operations and going concern uncertainty – Note 1
Subsequent events – Note 24

Approved by the Board
/s/ John McVicar, Audit Committee Chair, Director

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

Avicanna Inc.
Condensed Consolidated Interim Statements of Operations and Comprehensive Loss
For the Three Months Ended March 31, 2021 and 2020
Unaudited
(Expressed in Canadian Dollars)

	Note	For the three months ended	
		March 31, 2021	March 31, 2020
Revenue			
Service Revenue		\$ 4,997	\$ 163,552
License Revenue	11	100,750	-
Product Sales		165,160	97,351
Total Revenue		270,908	260,903
Cost of goods sold		(90,542)	(100,807)
Gross margin before the undernoted		180,366	160,096
Fair value changes in biological assets included in inventory sold		(8,308)	(28,668)
Unrealized gain on changes in fair value of biological assets		231,665	1,916,120
Gross margin		403,723	2,047,548
Expenses			
General and administrative	22	2,840,556	3,185,943
Share-based compensation	18	171,781	338,192
Depreciation and amortization	8,9,10	265,039	509,143
Expected credit loss	5	41,639	-
Loss (Gain) on revaluation of derivative liability	15	140,568	(23,434)
Total Expenses		(3,459,583)	(4,009,844)
Other income (expenses)			
Foreign exchange loss		(10,474)	(9,009)
Gain on disposal of capital assets	8	53,738	-
Other income (expense)		42,644	(85,451)
Interest expense		(132,809)	(52,780)
Net loss		\$ (3,102,761)	\$ (2,109,536)
Exchange differences on translation of foreign operations		(1,913,827)	(547,122)
Net comprehensive loss		\$ (5,016,588)	\$ (2,656,658)
Net comprehensive loss attributable to non – controlling interest	19	(605,548)	(59,839)
Net comprehensive loss attributable to Shareholders of the Company	19	(4,411,040)	(2,596,819)
		\$ (5,016,588)	\$ (2,656,658)
Weighted average number of common shares – basic and diluted		36,344,033	22,970,463
Net loss per share – basic and diluted		\$ (0.14)	\$ (0.12)

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

Avicanna Inc.
Condensed Consolidated Interim Statements of Changes in Shareholders' Equity
For the Three Months Ended March 31, 2021 and March 31, 2020
(Expressed in Canadian Dollars)

	Note	Common Shares		Common Share to be Issued		Warrants	Share Based Reserve	Deficit	Accumulated Other Comprehensive Loss	Non-controlling Interest	Total
		#	\$	#	\$	\$	\$	\$	\$	\$	\$
Balance at December 31, 2020		35,871,941	57,355,314	101,722	113,526	6,780,037	5,916,475	(62,036,238)	(2,112,995)	7,893,712	13,909,830
Settlement of shares to be issued	17[i]	101,722	113,526	(101,722)	(113,526)	-	-	-	-	-	-
Share based compensation	18	-	-	-	-	-	171,781	-	-	-	171,781
Exercise of RSUs	18	104,781	136,130	10,797	9,177	-	(145,308)	-	-	-	-
Conversion of debentures	14	613,535	1,513,175	-	-	-	-	-	-	-	1,513,175
Exercise of warrants	17[ii]	99,595	124,883	-	-	(40,227)	-	-	-	-	84,656
Issuance of units	17[iii]	4,480,000	3,599,023	-	-	1,751,027	-	-	-	-	5,350,050
Forfeiture of RSUs and options	18	-	-	-	-	-	(69,793)	69,793	-	-	-
Foreign exchange translation		-	-	-	-	-	-	-	(1,369,469)	(544,358)	(1,913,827)
Net loss		-	-	-	-	-	-	(3,041,571)	-	(61,190)	(3,102,761)
Balance at March 31, 2021		41,271,574	62,842,050	10,797	9,177	8,490,837	5,873,156	(65,008,016)	(3,482,464)	7,288,164	16,012,904
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
Foreign exchange translation		-	-	-	-	-	338,192	-	-	-	338,192
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 consolidated interim financial statement.

Avicanna Inc.
Condensed Consolidated Interim Statements of Cash Flows
For the Three Months Ended March 31, 2021 and March 31, 2020
Unaudited
(Expressed in Canadian Dollars)

	Note	For the Three Months Ended March 31, 2021	For the Three Months Ended March 31, 2020
Cash flows from operating activities:			
Net loss		\$ (5,016,588)	\$ (2,652,936)
Depreciation and amortization		265,039	419,913
Interest on lease liability		6,927	10,771
Accretion of convertible debentures		77,351	13,320
Share-based compensation		171,781	338,192
Expected credit losses		41,639	(59,839)
Impact of foreign exchange translation		-	2,719,362
Loss (gain) on fair value of derivative liability		140,568	(23,434)
Recognition of deferred revenue		(100,750)	(8,088)
Changes in non-cash operating elements of working capital	23	(1,031,351)	(2,081,921)
Cash used in operating activities		(5,445,384)	(1,324,660)
Cash flows from investing activities:			
Purchase of capital assets		-	(1,150,691)
Proceeds from disposal of capital assets		225,538	-
Sale of short-term investments		1,250,000	-
Cash used in investing activities		1,475,538	(1,150,691)
Cash flows from financing activities:			
Payment of lease liability		(60,711)	(55,637)
Increase in balance due to related parties		191,388	108,998
Exercise of warrants		84,656	-
Proceeds from issuance of common shares		5,350,050	2,056,801
Cash provided by financing activities		5,565,383	2,110,162
Net increase (decrease) in cash		1,595,537	(365,189)
Effect of foreign exchange differences		1,041,394	
Cash, beginning of year		1,266,732	441,757
Cash, end of year		\$ 3,903,663	\$ 76,568

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

Avicanna Inc.

Notes to the Condensed Consolidated Interim Financial Statements

For the Three Months Ended March 31, 2021 and 2020

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

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.

Avicanna Inc.

Notes to the Condensed Consolidated Interim Financial Statements

For the Three Months Ended March 31, 2021 and 2020

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

1. NATURE OF OPERATIONS AND GOING CONCERN UNCERTAINTY

Avicanna Inc. (“Avicanna” or the “Company”) was incorporated in Ontario, Canada. Avicanna is a Canadian vertically integrated biopharmaceutical company developing and driving biopharmaceutical advancements of plant-derived cannabinoid-based products with operations in both North and South America. To date, the Company has commercialized several product lines in both North and South America.

The registered office of the Company is located at 480 University Avenue, Suite 1502, Toronto, Ontario. The Company’s common shares are listed under the symbol “AVCN” on the Toronto Stock Exchange (“TSX”); the OTC US exchange under the symbol “AVCNF”; and the Frankfurt Stock Exchange under the symbol “ONN”.

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

As at March 31, 2021, the Company has an accumulated deficit of \$65,008,016 (December 31, 2020 - \$62,036,238), cash of \$3,903,663 (December 31, 2020 – \$1,266,732), and a working capital deficit of \$2,230,374 (December 31, 2020 – deficit of \$6,054,103). Additionally, the Company incurred a net loss after taxes of \$3,102,761 and used \$5,445,384 of cash from operating activities during the three months ended on March 31, 2021. When compared to the same period in prior year, the Company incurred a net loss of \$2,109,536 and used \$1,324,660 of cash from operating activities. The Company will need to raise additional financing to continue operations, product development and clinical research. Although the Company has been successful in the past in obtaining financing and it believes that it will continue to be successful, there is no assurance that it will be able to obtain adequate financing in the future or that such financing will be available on terms that are advantageous to the Company. These material uncertainties may cast significant doubt as to the Company’s ability to continue as a going concern.

2. BASIS OF PRESENTATION

Statement of compliance

These condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard 34 – *Interim Financial Reporting* (“IAS 34”) using accounting policies consistent with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”). Accordingly, certain disclosures normally included in annual financial statements prepared in accordance with IFRS have been omitted or condensed. These condensed consolidated interim financial statements should be read in conjunction with the Company’s audited consolidated financial statements for the year ended December 31, 2020.

These condensed consolidated interim financial statements were approved and authorized for issuance by the Company’s Board of Directors on September 7, 2021.

Basis of presentation

These condensed consolidated interim financial statements have been prepared on a historical cost basis except for biological assets and derivative financial instruments, which are measured at fair value through profit and loss, as explained in the accounting policies below. These condensed consolidated interim financial statements are presented in Canadian dollars, which is the Company’s functional currency. The Company currently views the business as one operating segment but expects this to change in future periods.

Functional and presentation currency

These condensed consolidated interim financial statements are presented in Canadian dollars, which is the functional currency of the Company. The functional currency of each subsidiary is presented in the table below.

Avicanna Inc.

Notes to the Condensed Consolidated Interim Financial Statements

For the Three Months Ended March 31, 2021 and 2020

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

2. BASIS OF PRESENTATION (CONTINUED)

Basis of consolidation

Subsidiaries are entities controlled by the Company. Control exists when the Company has power, directly or indirectly, over an entity and be is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through the power it has. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The following is a list of the Company's operating subsidiaries.

Subsidiaries	Jurisdiction of Incorporation	Ownership Interest	Functional currency
Avicanna UK	England	100%	British Pound Sterling
Avicanna USA	United States of America	100%	United States Dollar
2516167 Ontario Inc. ("My Cannabis")	Ontario, Canada	100%	Canadian Dollar
Sigma Magdalena Canada Inc.	Ontario, Canada	60%	Canadian Dollar
Sigma Analytical Magdalena S.A.S. ("Sigma Colombia")	Republic of Colombia	60%	Colombian Peso
Santa Marta Golden Hemp S.A.S. ("SMGH")	Republic of Colombia	60%	Colombian Peso
Avicanna LATAM S.A.S.	Republic of Colombia	100%	Colombian Peso
Sativa Nativa S.A.S. ("SN")	Republic of Colombia	63%	Colombian Peso

Intragroup balances, and any unrealized gains and losses or income and expenses arising from transactions with jointly controlled entities are eliminated to the extent of the Company's interest in the entity.

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

Foreign currency transactions

Foreign currency transactions are translated into Canadian dollars at exchange rates in effect on the date of the transactions. At the end of each reporting period, monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the foreign exchange rate applicable at that period-end date. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Foreign currency differences are generally recognized in profit or loss and presented within Gain (loss) on foreign exchange.

Foreign currency translation

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated into Canadian dollars at the exchange rates at the reporting date. The income and expenses of foreign operation are translated into Canadian dollars at the dates of the transactions. Foreign currency differences due to translation are recognized in OCI and accumulated in the translation reserve, except to the extent that the translation difference is allocated to NCI.

Use of judgments, estimates and assumptions

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

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

The 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 interim financial statements:

Avicanna Inc.

Notes to the Condensed Consolidated Interim Financial Statements

For the Three Months Ended March 31, 2021 and 2020

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

2. BASIS OF PRESENTATION (CONTINUED)

Business combinations

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

In a business combination, substantially all identifiable assets, liabilities and contingent liabilities acquired are recorded at the date of acquisition at their respective fair values. One of the most significant areas of judgment and estimation relates to the determination of the fair value of these assets and liabilities, including the fair value of contingent consideration, if applicable. If any intangible assets are identified, depending on the type of intangible asset and the complexity of determining its fair value, the Company may utilize an independent external valuation expert to develop the fair value, using appropriate valuation techniques, which are generally based on a forecast of the total expected future net cash flows. These valuations are linked closely to the assumptions made by management regarding the future performance of the assets concerned and any changes in the discount rate applied.

Biological assets and inventory

In calculating the fair value of the biological assets 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. Inventories of harvested cannabis are valued at the lower of cost or net realizable value. The Company estimates the net realizable value of inventories, considering the most reliable evidence available at the reporting date. The future realization of these inventories may be affected by market-driven changes that may reduce future selling prices. A change to these assumptions could impact the Company's inventory valuation and gross profit.

Estimated useful life of long-lived assets

Judgment is used to estimate each component of a long-lived asset's useful life and is based on an analysis of all pertinent factors including, but not limited to, the expected use of the asset and in the case of an intangible asset, contractual provisions that enable renewal or extension of the asset's legal or contractual life without substantial cost, and renewal history. If the estimated useful lives were incorrect, it could result in an increase or decrease in the annual amortization expense, and future impairment charges or recoveries.

Impairment of long-lived assets

When there are indications that an asset may be impaired, the Company is required to estimate the asset's recoverable amount. The recoverable amount is the greater of value in use and fair value less costs to sell. Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. Determining the value in use requires the Company to estimate expected future cash flows associated with the assets and a suitable discount rate to calculate present value.

In addition to assessing evidence of possible impairment, the Company also determines whether there is any indication that a previously recognized impairment loss for an asset other than goodwill no longer exists or may have decreased. The Company determines whether there has been a change in the estimate used to determine the asset's recoverable amount since the last impairment loss is recognized.

Long-term investment

The fair value of the Company's long-term investments are subject to limitation as the financial information for private companies in which the Company holds investments may not be readily available. Adjustment to the fair value of a long-term investment is based on management's judgement and may be a result of subsequent equity financing provided by third-party investors resulting in a valuation different than the current value of the investee company, significant events and restructuring of the investment company that may result in a material impact on the company's fair value, and financial information received from the investor company.

Fair value measurements

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Company takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date.

Avicanna Inc.

Notes to the Condensed Consolidated Interim Financial Statements

For the Three Months Ended March 31, 2021 and 2020

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

2. BASIS OF PRESENTATION (CONTINUED)

Functional currency

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

Provisions

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

Leases

The Company exercises judgment when contracts are entered into that may give rise to a right-of-use asset that would be accounted for as a lease. Judgment is required in determining the appropriate lease term on a lease-by-lease basis. The Company considers all facts and circumstances that create an economic incentive to exercise a renewal option or to not exercise a termination option at inception and over the term of the lease, including investments in major leaseholds, operating performance, and changed circumstances. The periods covered by renewal or termination options are only included in the lease term if the Company is reasonably certain to exercise that option.

Income tax provisions

Provisions for taxes are made using the best estimate of the amount expected to be paid based on a qualitative assessment of all relevant factors. Judgment is required in determining whether deferred income tax assets and liabilities are recognized on the condensed consolidated interim statement of financial position. Deferred income tax assets, including those arising from unutilized tax losses, require management to assess the likelihood that the Company will generate future taxable income in order to utilize the deferred income tax assets. Estimates of future taxable income are based on forecasted cash flows from operations or other activities. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the Company to realize the net deferred income tax assets recorded on the reporting date could be impacted.

The Company reviews the adequacy of these provisions at the end of the reporting period. However, it is possible that at some future date an additional liability could result from audits by taxing authorities. Where the final outcome of these tax-related matters is different from the amounts that were initially recorded, such differences will affect the tax provisions in the period in which such determination is made.

Determination of share-based payments

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

3. SIGNIFICANT ACCOUNTING POLICIES

These interim condensed consolidation financial statements have been prepared in accordance with the accounting policies adopted in the Company's most recent annual consolidated financial statements for the year ended December 31, 2020.

4. SHORT-TERM INVESTMENTS

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

Avicanna Inc.

Notes to the Condensed Consolidated Interim Financial Statements

For the Three Months Ended March 31, 2021 and 2020

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

5. AMOUNTS RECEIVABLE

		March 31, 2021		December 31, 2020	
Trade and other receivables	\$	873,487	\$	708,673	
Sales tax receivable		1,110,538		1,010,199	
Expected credit loss provision		(377,160)		(713,582)	
Total amounts receivable	\$	1,606,865	\$	1,005,290	

6. 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, 2021		December 31, 2020	
Balance at the beginning of the year	\$	650,780		117,367	
Foreign exchange adjustment		(50,940)		(8,372)	
Production costs capitalized		100,184		848,931	
Gain in fair value less costs to sell due to biological transformation		224,445		1,340,996	
Transferred to inventory upon harvest		(756,493)		(1,648,142)	
Balance at end of the period	\$	167,976		650,780	

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

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

The following table quantifies each significant unobservable input and provides the impact that a 10% increase/decrease in each input would have on the fair value of biological assets.

Assumptions: THC Resin	As of March 31, 2021		As of December 31, 2020	
	Input	Effect on Fair Value	Input	Effect on Fair Value
[i] THC Resin Yield	9.7%	\$17,954	12.0%	\$65,324
[ii] THC Resin Price (USD/KG)	4,400	\$18,317	4,400	\$65,306
[iii] Weighted average of expected loss of plants until harvest	3.0%	\$464	28.9%	\$173
[iv] Expected yields for cannabis plants (average grams per plant)	100	\$15,004	134	\$53,173
[v] Weighted average number of growing weeks completed as a percentage of total growing weeks as at period end	35%	\$15,004	88%	\$53,173
[vi] Estimated fair value less costs to complete and sell (per gram)	\$0.48	\$17,156	\$0.63	\$63,271
[vii] After harvest cost to complete and sell (per gram)	\$0.06	\$2,152	\$0.10	\$10,097

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

For the Three Months Ended March 31, 2021 and 2020

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

6. BIOLOGICAL ASSETS (CONTINUED)

	Assumptions: CBD Seeds	As of March 31, 2021		As of December 31, 2020	
		Input	Effect on Fair Value	Input	Effect on Fair Value
[i]	CBD Seeds Price (USD/UN)	\$0.50	\$2,353	\$0.50	\$2,506
[ii]	Weighted average of expected loss of plants until harvest	68.9%	\$5,185	11.1%	\$311
[iii]	Expected yields for cannabis plants (average units per plant)	3,000	\$2,344	2,500	\$2,491
[iv]	Weighted average number of growing weeks completed as a percentage of total growing weeks as at period end	16%	\$2,344	26%	\$2,491
[v]	Estimated fair value less costs to complete and sell (per gram)	\$0.60	\$2,352	\$0.62	\$2,504
[vi]	After harvest cost to complete and sell (per gram)	\$0.00	\$8	\$0.00	\$13

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

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

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

The Company estimates the harvest yields for cannabis at various stages of growth. As of March 31, 2021, it is expected that the Company's cannabis plants biological assets will yield approximately 1,076,862 grams of dry cannabis and 1,617,000 seeds in Santa Marta Golden Hemp. As of March 31st, 2021, Sativa Nativa is only growing R&D batches to enhance its genetic base.

The company has decided not to value at fair value certain seeds batches given the novelty of the market it will trade once harvested. Therefore, the Company has decided to reclassify as an expense the \$4,291 capitalized cost as of March 31, 2020.

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.

Avicanna Inc.

Notes to the Condensed Consolidated Interim Financial Statements

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7. INVENTORY

	Capitalized Cost	Biological assets fair value adjustment	Impairment	Carrying Value
Harvested Cannabis				
Seeds	\$ 405,058	(197)	(404,861)	-
Wet Flower	141,214	631,999	(2,878)	770,335
Dried Flower	85,641	120,877	(187,062)	19,456
	631,914	752,679	(594,801)	789,791
Active Pharmaceutical Ingredients				
Work in process	550,040	40,508	(468,631)	121,917
Finished goods	306,110	22,199	(75,233)	253,076
	856,150	62,707	(543,864)	374,993
Supplies and consumables	1,736,030	-	(546,880)	1,189,150
Finished goods	140,449	-	(140,381)	68
At March 31, 2021	\$ 3,364,543	815,386	(1,825,926)	2,354,003

	Capitalized Cost	Biological assets fair value adjustment	Impairment	Carrying Value
Harvested Cannabis				
Seeds	\$ 440,950	(3,266)	(437,598)	86
Wet Flower	72,550	103,751	(12,651)	163,651
Dried Flower	153,998	188,943	(276,501)	66,440
	667,498	289,428	(726,750)	230,176
Active Pharmaceutical Ingredients				
Work in process	891,575	(92,736)	(793,801)	5,038
Finished goods	870,755	50,347	(179,810)	741,291
	1,762,330	(42,389)	(973,612)	746,330
Supplies and consumables	816,559	-	(596,560)	219,999
Finished goods	180,466	-	(101,004)	79,462
At December 31, 2020	\$ 3,426,854	247,039	(2,397,925)	1,275,967

As of March 31, 2021 the Company recorded inventory impairment recovery of \$452,778 (March 31, 2020 - \$nil). Accumulated impairment of \$1,825,926 remains due to the costs capitalized exceeding the net realizable value of the inventory. The impairment recovery has been included in the cost of goods sold in the condensed consolidated interim statement of operations and comprehensive loss.

The Company recorded unrealized gain on biological assets of \$231,666 (March 31, 2020 – \$1,916,120) during the period ended March 31, 2021 and \$90,542 in cost of sales (March 31, 2020 - \$100,807).

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

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8. PROPERTY AND EQUIPMENT

	Equipment	Land	Construction in Progress	Infrastructure and Buildings	Total
Cost					
Balance at, December 31, 2020	\$ 3,016,452	9,088,419	4,973,217	5,604,076	22,682,164
Additions	1,974	-	-	-	1,974
Disposals	(484,701)	-	-	-	(484,701)
Foreign exchange translation	(17,706)	(1,293,564)	(32,980)	(100,926)	(1,445,175)
At March 31, 2021	\$ 2,516,019	7,794,855	4,940,237	5,503,150	20,754,262
Accumulated Depreciation					
Balance at, December 31, 2020	\$ 992,635	-	-	224,330	1,216,965
Depreciation	113,754	-	-	53,445	167,199
Disposals	(259,163)	-	-	-	(259,163)
Foreign exchange translation	(44,305)	-	(960)	(14,806)	(60,071)
At March 31, 2021	802,921	-	(960)	262,969	1,064,930
Net Book Value					
December 31, 2020	\$ 2,023,817	9,088,419	4,973,217	5,379,746	21,465,199
March 31, 2021	\$ 1,713,098	7,794,855	4,941,198	5,240,181	19,689,332

During the three months ended March 31, 2021, the Company recognized depreciation expense on its property and equipment of \$167,199 (March 31, 2020 - \$194,617) on the condensed consolidated interim statement of operations and comprehensive loss.

9. INTANGIBLE ASSETS

	Customer Relationships	Ecommerce Platform	Licenses and Permits	Software Licenses	Intellectual Property	Total
Cost						
At December 31, 2020	\$ 141,327	455,994	50,177	83,321	100,551	831,370
Additions	-	-	-	-	-	-
Disposals	-	-	-	-	-	-
Foreign exchange translation	-	-	(1,481)	-	-	(1,481)
At March 31, 2021	\$ 141,327	455,994	48,696	83,321	100,551	829,888
Accumulated Amortization						
At December 31, 2020	\$ 96,613	103,501	17,860	38,669	77,259	333,902
Amortization	7,076	26,653	3,150	5,390	6,505	48,775
Disposals	-	-	-	-	-	-
At March 31, 2021	\$ 103,689	130,154	21,009	44,060	83,765	382,676
Net Book Value						
December 31, 2020	\$ 44,714	352,493	32,317	44,652	23,292	497,468
March 31, 2021	\$ 37,638	325,839	27,687	39,261	16,786	447,211

During the three months ended March 31, 2021, the Company recognized amortization on its intangible assets of \$48,775 (March 31, 2020 - \$176,232) on condensed consolidated interim statement of operations and comprehensive loss.

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10. RIGHT TO USE ASSETS

As of March 31, 2021, the Company's right to use asset consisted of the following:

	March 31, 2021	December 31, 2020
Cost		\$
Balance at beginning of period	670,549	670,549
Additions	-	-
Balance at end of period	670,549	670,549
Accumulated Amortization		
Balance at beginning of period	327,097	130,839
Depreciation	49,065	196,258
Balance at end of period	376,162	327,097
Net Book Value	294,387	343,452

Depreciation expense for the three months ended March 31, 2021 was \$49,065 (March 31, 2020 - \$49,064).

11. DERIVATIVE ASSET

	March 31, 2021	December 31, 2020
Balance at the beginning of the year	\$ 526,312	\$ 3,780,000
Additions	-	-
Change in fair value	-	(3,253,688)
Balance at end of period	\$ 526,312	\$ 526,312

On November 26, 2019, the Company entered into a license agreement (the "License Agreement") with LC2019, Inc. ("LC2019") pursuant to which the Company has agreed to license certain proprietary formulations and brand elements to LC2019 for commercialization in the United States. As consideration for entering into the License Agreement, LC2019 and its shareholders have entered into a definitive option agreement (the "Option Agreement") that grants 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. As of March 31, 2021, the Company has not exercised the Option, and therefore does not have control of the entity.

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 Option was classified as a derivative financial instrument and was initially recorded at its fair value of \$3,780,000 in the condensed consolidated interim statements of financial position. As of March 31, 2021, the Company determined the fair value of the Option to be \$526,312

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12. DEFERRED REVENUE

		March 31, 2021		December 31, 2020
Balance at the beginning of the year	\$	3,260,101	\$	3,323,518
Additions		-		400,000
Revenue recognized		(100,750)		(463,417)
Balance at end of year	\$	3,159,351	\$	3,260,101

- [i] Pursuant to the terms of the License Agreement with LC2019, the Company transfers 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 cannabis remains federally illegal in the US, there exists restrictions in the benefits that the Company can derive from this license. Consequently, the revenue derived from the above license has been recognized as deferred revenue to be recognized into revenue evenly over a period of ten years. For the period ended March 31, 2021, the Company recognized \$94,500 into License Revenue in relation to this contract (March 31, 2020- \$94,500).
- [ii] On August 11, 2020, the Company entered into an exclusive Distribution Agreement with a third-party, granting them the exclusive right to promote, market and sell the Company's products. The Company received \$250,000 as consideration of the exclusivity partnership for a period of five years plus an automatic renewal period of five years (the "Exclusivity Fee"). The Company determined that its performance obligation with regards to the contract occurs over a period of time and therefore, revenue is to be recognized straight-line over a ten year period based on the term of the contract and the automatic term renewal. For the period ended March 31, 2021, the Company recognized \$6,250 into License Revenue in relation to this contract.
- [iii] On January 7, 2020, the Company entered into a Development Project whereby the Company received \$150,000 as consideration for formulation development. As of March 31, 2021, the Company had fulfilled 50% of its performance obligation with regards to the formulation development. The Company has not recognized any revenue from this contract during the period ended March 31, 2021. The Company recognized \$75,000 was into license revenue during the year ended December 31, 2020 with the remainder included as deferred revenue.

13. LEASE LIABILITY

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

		March 31, 2021		December 31, 2020
Balance at the beginning of the year	\$	364,216	\$	555,339
Additions		-		-
Interest incurred on lease liability		6,927		37,552
Lease payments		(60,711)		(228,675)
Balance at end of year	\$	310,432	\$	364,216
Lease liability – current portion		203,155		203,155
Lease liability – noncurrent portion		107,277		161,061

The Company has lease liabilities for leases related to its corporate offices. The weighted average discount rate for the three months ended March 31, 2021 was 8% percent.

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13. LEASE LIABILITY (CONTINUED)

The total future minimum rent payable under the Company's lease at March 31, 2021 was as follows:

Due in less than 1 year	\$	203,155
Due between 1 and 2 years		107,277
Total lease payments		310,432
Amounts representing interest over the term of the lease		19,618
Present value of minimum lease payments	\$	330,050

14. CONVERTIBLE DEBENTURES

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

	March 31, 2021		December 31, 2020	
Balance at the beginning of the period	\$	1,573,695	\$	715,626
Additions (ii)		-		754,923
Accretion expense		77,351		103,146
Conversion February 25, 2021 (ii)		(200,000)		-
Conversion March 1, 2021(i)		(725,606)		-
Conversion March 17, 2021 (ii)		(300,000)		-
Balance at end of period	\$	425,440	\$	1,573,695

(i) 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. On March 1, 2021 these debentures and accrued interest of \$125,280 were converted into 113,535 Common Shares per the terms of the convertible debentures.

(ii) On November 2, 2020, the Company completed a convertible debenture offering and raised gross proceeds of \$1,100,000. The debentures bear interest at 8.0% per annum and have a maturity date one year from the date of the issuance of the debentures on November 2, 2021. The first year of interest payable will be capitalized into and added to the principal amount under the Debenture on the date of issuance. Each debenture is convertible in whole or in part, any time while any principal amount or interest remains outstanding, into common shares of the Corporation at \$1.00 per Share.

Additionally, each subscriber received one common share purchase warrant per \$2.00 of Principal for a period of two years from the date of issuance of the warrants, subject to the Company's right to accelerate the expiry date of the Warrants in the event that the daily volume weighted average trading price is equal to or exceeds \$2.00 on the TSX for a minimum of 10 consecutive trading days. Each whole warrant entitles the holder to acquire one common share of the Company at a price of \$1.50 per Common Share. Between the issuance date and the date that is 60 days from the issuance date, if the Company issues common shares or securities convertible into common shares at a price or exercise price below \$0.80 then the conversion price would be reduced to match that price or exercise price.

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

Additionally, the Company incurred \$199,926 in issuance costs in connection with this offering of convertible debentures. These costs were capitalized with debt and will be accreted over the term of the debentures.

A portion of proceeds is allocated to the Conversion Option and warrants based on the respective fair values of each instrument. The company used the Black-Scholes option pricing model to determine the fair value using the following assumptions: risk-free rate of 0.24-0.26%, volatility of 40% based on comparative companies, a discount for lack of marketability due to the four-month restriction period from the issuance date, and the maturity and exercise prices of the respective options.

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14. CONVERTIBLE DEBENTURES (CONTINUED)

As a result, the Company recognized the following:

Convertible debenture	\$	754,923
Issuance Costs		199,926
Derivative liability (Note 15)		145,151
	\$	1,100,000

During the period ended March 31, 2021, the Company recognized accretion expense of \$77,351 (March 31, 2020 - \$13,321) and interest expense of \$31,824 (March 31, 2020 - \$15,617) in relation to these convertible debentures.

On February 25, 2021, holders of the convertible debenture exercised \$200,000 of principal into 200,000 Common Shares of the Company and on March 17, 2021, an additional \$300,000 of principal into 300,000 common shares were issued on the exercise of convertible debentures.

15. DERIVATIVE LIABILITIES

	March 31, 2021		December 31, 2020	
Balance at the beginning of the year	\$	145,151	\$	23,434
Additions		-		145,151
Conversions		(162,289)		
Loss on change in fair value		140,568		(23,434)
Balance at end of year	\$	123,430	\$	145,151

On March 1, 2019, the Company completed a convertible debenture offering. The Conversion Option related to the convertible debentures was determined to represent a derivative liability. A portion of the proceeds was allocated to this financial instrument based on its respective fair value. As of March 31, 2021, the conversion option had a fair value of \$nil (December 31, 2020 - \$nil). During the period ended March 31, 2021, the debentures were fully converted.

On November 2, 2020, the Company completed a convertible debenture offering (note 18). The Conversion Option and the warrants issued in relation to the convertible debentures was determined to represent a derivative liability. A portion of the proceeds was allocated to this financial instrument based on its respective fair value. At inception, the Company used the Black-Scholes option pricing model to determine the fair value using the following assumptions: risk-free rate of 0.26%, volatility of 40% based on comparative companies, a discount for lack of marketability due to the four-month restriction period from the issuance date, and the maturity and exercise prices of the respective options. As a result, the Company recognized, a derivative liability of \$145,151, representing the conversion option of \$111,297 and warrants of \$33,854. At March 31, 2021, the Company determined that the fair value of the derivative liability was \$285,719 and a loss of \$140,568 was recognized (March 31, 2020 - \$nil).

On February 25, 2021, a fair value of \$72,714 was transferred to share capital on the conversion of debentures into 200,000 common shares. On March 17, 2021, a fair value of \$89,575 was transferred to share capital on the conversion of debentures into 300,000 common shares.

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16. RELATED PARTY TRANSACTIONS

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

	March 31, 2021		December 31, 2020	
Salaries	\$	190,000	\$	798,333
Share-based compensation		147,832		671,150
	\$	337,832	\$	1,469,483

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

Additionally, as at March 31, 2021 the Company received advances from certain related parties who represent the minority shareholders of SMGH and Sativa Nativa in the amount of \$4,167,715 (December 31, 2020- \$4,319,545). The advances relate to minority partners contributions towards the expansion of cultivation facilities. The balance owed to the related party is interest free. As these amounts become due, the outstanding balances are converted into common shares of SMGH, consistent with current ownership splits. During the period ended March 31, 2021, \$nil was converted into equity in SMGH (December 21, 2020 - \$2,859,440).

Changes in the balances are disclosed in the following table:

	March 31, 2021		December 31, 2020	
Balance at the beginning of the year	\$	4,319,545	\$	3,319,116
Additions		191,388		3,859,869
Foreign exchange		(343,218)		
Balance recapitalized into shares in SMGH		-		(2,859,440)
Balance at end of year	\$	4,167,715	\$	4,319,545

17. SHARE CAPITAL

Authorized and outstanding share capital:

The authorized share capital of the Company consists of an unlimited number of common shares and unlimited number of preferred shares with no par value. As at March 31, 2021, the Company had 41,271,574 common shares issued and outstanding (December 31, 2020 – 35,875,941).

- [i] As of December 31, 2020, there were 101,722 Restricted Stock Units (“RSUs”) that were exercised but not yet settled. These shares were subsequently issued in January 2021.
- [ii] On February 25, 2021, 99,595 common shares were issued on the exercise of common share purchase warrants. A total of 99,595 warrants were exercised at a price of \$0.85 per common share for gross proceeds of \$84,656. The common share purchase warrants exercised held a fair value of \$40,227.
- [iii] On March 4, 2021, the Company issued an aggregate of 4,480,000 Units (the “Units”) at a price of \$1.25 per Unit for net proceeds of \$5,350,050, comprised of aggregate gross proceeds of \$5,600,000 less share issuance costs of \$249,950. Each Unit was comprised of one (1) common share in the capital of the Company each, a “Common Share”) and one (1) common share purchase warrant (each whole warrant, a “Warrant”). Each Warrant is exercisable into one common share in the capital of the Company (each, a “Warrant Share”) at a price of \$1.75 until March 4, 2024.

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17. SHARE CAPITAL (CONTINUED)

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

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

The fair value of the common share purchase warrants was determined using the Black-Scholes option pricing model with a market price per common share of \$1.17, a risk-free interest rate of 1.62%, an expected annualized volatility of 90% and expected dividend yield of 0%.

Warrant Reserve

As at March 31, 2021, the following warrants were outstanding and exercisable:

	Warrants Issued / Exercised	Weighted average exercise price
	#	\$
Outstanding as at December 31, 2019	1,630,721	9.56
Warrants issued	6,529,335	1.28
Warrants expired	(360,008)	9.91
Outstanding as at December 31, 2020	7,800,048	2.62
Warrants issued	4,480,000	1.75
Warrants exercised	(99,595)	0.85
Outstanding as at March 31, 2021	12,180,453	2.37

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

Warrants Outstanding			Warrants Exercisable		
Exercise price range	Number outstanding	Weighted average remaining life	Weighted average exercise price	Number exercisable	
\$	#	(years)	\$	#	
\$ 0.85	240,235	2.69	\$ 0.02	240,235	
\$ 1.00	25,000	1.08	\$ 0.00	25,000	
\$ 1.20	4,492,325	2.34	\$ 0.44	4,492,325	
\$ 1.50	550,000	1.59	\$ 0.07	550,000	
\$ 1.75	4,480,000	2.92	\$ 0.64	4,480,000	
\$ 2.00	997,180	1.38	\$ 0.16	997,180	
\$ 3.00	150,000	1.81	\$ 0.04	150,000	
\$ 8.00	131,551	0.04	\$ 0.09	131,551	
\$ 10.00	1,114,162	0.04	\$ 0.91	1,114,162	
Balance March 31, 2021	12,180,453	2.20	\$ 2.37	12,180,453	

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18. 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

There were no options issued during the period ended March 31, 2021. The fair value of share options granted during the periods ended March 31, 2020 was estimated at the date of grant using the Black Scholes option pricing model using the following inputs:

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

Employee and non-employee options

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

	Options issued/(exercised) / Exercised #	Weighted average exercise price \$
Outstanding as at December 31, 2019	1,627,915	8.00
Options issued	1,030,251	2.06
Options cancelled and forfeited	(605,499)	5.72
Options exercised	(100,000)	0.10
Outstanding as at December 31, 2020	1,952,667	2.94
Options forfeited [i]	(150,250)	6.87
Outstanding as at March 31, 2021	1,802,417	2.61

[i] During the three months ended March 31, 2021, 150,250 options were forfeited. The fair value of unvested units are removed from the share base reserve and reduced from retained earnings.

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

During the three months ended March 31, 2021, the Company recognized a total Share Based Payment expense relating to Options of \$125,596 (March 31, 2020 - \$272,754).

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

Exercise price range \$	Options Outstanding		Options Exercisable	
	Number outstanding #	Weighted average remaining life (years)	Weighted average exercise price \$	Number exercisable #
	1.00	623,000	1.57	0.35
1.24	7,500	0.02	0.01	7,500
1.39	38,000	0.10	0.03	22,167
2.00	367,500	0.81	0.41	367,500
2.50	171,372	0.79	0.24	57,624
2.75	350,950	0.94	0.54	116,983
5.00	14,595	0.00	0.04	13,562
7.30	32,000	0.08	0.13	32,000
8.00	197,500	0.51	0.88	195,833
Balance March 31, 2021	1,802,417	4.83	2.61	1,219,419

Restricted Stock Units

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

	RSUs Issued #	Weighted average issue price \$
Outstanding as at December 31, 2019	98,158	8.00
RSUs issued	946,797	1.33
RSUs exercised	(570,153)	1.73
RSUs forfeited	(34,166)	2.86
Outstanding as at December 31, 2020	440,636	2.30
RSUs exercised [i]	(104,781)	1.30
RSUs exercised but not yet settled [i]	(10,797)	0.85
RSUs forfeited [ii]	(23,754)	3.18
Outstanding as at March 31, 2021	199,582	3.40

[i] During the three months ended March 31, 2021, 115,578 restricted stock units were exercised. 10,797 units were yet to be settled as of March 31, 2021. The grant price of the exercised units ranged from \$0.85 to \$1.46.

[ii] During the three months ended March 31, 2021, 23,754 restricted stock units were forfeited. Forfeited units were removed from the share base reserve and reduced from retained earnings.

During the three months ended March 31, 2021, the Company recognized a total Share Based Payment expense relating to Restricted Stock Units of \$46,185 (March 31, 2020 - \$65,438).

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

Share based compensation is comprised of the following:

	For the Three Months Ended March 31	
	2021	2020
Stock options	\$ 125,596	272,754
Restricted Stock Units	46,185	65,438
	\$ 171,781	\$ 338,192

19. NON-CONTROLLING INTEREST

	March 31, 2021	December 31, 2020
Opening Balance	7,893,712	7,488,456
SMGH Recapitalization	-	2,859,440
Foreign translation	(544,358)	(946,419)
Net loss attributed to non-controlling interest	(61,190)	(1,507,765)
Ending Balance	7,288,164	7,893,712

20. LONG-TERM INVESTMENT

	March 31, 2021		December 31, 2020	
Balance at the beginning of the year	\$	518,213	\$	72
Unrealized gain on change in fair value		-	-	518,141
Balance at end of year	\$	518,213	\$	518,213

Long-term investment consists of 720,000 shares in Southern Sun Pharma ("Southern Sun") purchased for a total cost of \$72. In 2020, Southern Sun completed a financing through the sale of units at \$1.25 per unit. Each unit was comprised of one common share and one-half common share purchase warrant. Each whole warrant entitled the holder to purchase an additional share at \$1.50 at any time up to 18 months following the closing date. Due to this financing, the Company recognized an unrealized gain from the change in fair value of \$518,141 for the year ended December 31, 2020. As of March 31, 2021, there have been no events which would imply a change in the fair value of the investment.

21. 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.

The Company believes that the trade and other receivables balance is fully collectable. As of March 31, 2021, \$873,487 in trade and other receivables remained outstanding (December 31, 2020 - \$708,673). The Company applies the simplified approach to providing for expected credit losses as prescribed by IFRS 9, which permits the use of lifetime expected loss provision for all trade receivables. The loss allowance is based on the Company's historical collection and loss experience and incorporates forward looking factors, where appropriate.

The Company has recorded an additional loss provision of \$41,639 during the three months ended March 31, 2021 (March 31, 2020 - \$nil).

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21. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (CONTINUED)

Liquidity risk

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

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

	Carrying amount	Contractual cash flows	Year 1	Year 2	Year 3
Amounts payable	\$ 6,127,345	\$ 6,127,345	\$ 6,127,345	\$ -	\$ -
Convertible Debentures	425,440	600,000	600,000	-	-
Lease liability	310,432	310,432	224,950	85,482	-
	\$ 6,863,217	\$ 7,037,777	\$ 6,952,295	\$ 85,482	\$ -

The due to related party balance of \$3,972,270 is not intended to be repaid. As these amounts become due, the outstanding balances can be converted into common shares of SMGH, consistent with current ownership splits.

Market risk

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

Currency risk

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

Interest risk

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

Other price risk

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices of the Company's cannabis products (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

21. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (CONTINUED)

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 condensed consolidated interim 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

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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, 2021, the assumptions used to determine the fair market value of the derivative instrument were consistent with those used at December 31, 2020.

22. GENERAL AND ADMINISTRATIVE EXPENSES

	For the Three Months Ended March 31	
	2021	2020
General and administrative	\$ 723,148	\$ 647,767
Selling marketing and promotion	120,904	30,126
Consulting fees	485,940	265,887
Professional fees	228,882	662,352
Salaries and wages	1,159,543	1,507,503
Research and development	60,638	28,808
Board fees	61,500	43,500
	\$ 2,840,556	\$ 3,185,943

During the three months ended March 31, 2021, as part of its inventory costing process, the Company capitalized \$71,520 of salaries to inventory and biological assets (March 31, 2020 - \$473,133).

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23. 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	
	2021	2020
Amounts receivable	\$ (643,214)	\$ 532,427
Biological assets	482,804	(1,993,336)
Inventory	(1,077,925)	(289,984)
Prepaid assets	516,699	(424,838)
Accounts payable	(309,715)	93,808
	\$ (1,031,351)	\$ (2,081,923)

24. SUBSEQUENT EVENTS

On August 19, 2021, the Company closed a secured term loan financing of \$2,118,000. The Term Loan is subject to an original issue discount of approximately 15%, such that \$1,800,000 was advanced by the lender to the Company. The Term Loan is due October 19, 2022.

On March 29, 2021, due to an inability to meet deadlines on certain statutory filings, the Company filed an application with the Ontario Securities Commission (“OSC”) for a Management Cease Trade Order (“MCTO”). Approval was granted on April 12, 2021. The MCTO prohibits the Company’s management from trading in the securities of the Company until such time as the documents are filed.

On June 11, 2021, the Company was issued a Cease Trade Order (“CTO”) by the OSC due to an inability to file the required statutory disclosure documents.