AVICANNA

PURA H&W

RHO PHYTO

AVICANNA INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS

YEARS ENDED DECEMBER 31ST, 2022 AND 2021

March 31st, 2023

Special Note Regarding Forward-Looking Statements

This management's discussion and analysis ("MD&A") of Avicanna Inc. ("Avicanna" or the "Company") contains "forward-looking information" within the meaning of Canadian securities legislation ("forward-looking statements"). These forward-looking statements are made as of the date of this MD&A and the Company does not intend, and does not assume any obligation, to update these forward-looking statements, except as required under applicable securities legislation. Forward-looking statements relate to future events or future performance and reflect management's expectations or beliefs regarding future events. In certain cases, forward-looking statements can be identified by the use of words such as "plans", "expects" or "does not expect", "is expected", "budget", "scheduled", "estimates", "forecasts", "intends", "objective", "predict", "anticipates" or "does not anticipate", or "believes", or variations of such words and phrases or statements that certain actions, events or results "may", "will", "could", "would", "should", "might" or "will be taken", "occur" or "be achieved" or the negative of these terms or comparable terminology. In this document, certain forward-looking statements are identified by words including "may", "future", "expected", "intends" and "estimates". By their very nature forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. The Company provides no assurance that forward-looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on forward-looking statements.

The Company's anticipated future operations are forward-looking in nature and, as a result, are subject to certain risks and uncertainties. Although the Company believes that the expectations reflected in these forward-looking statements are reasonable, undue reliance should not be placed on them as actual results may differ materially from the forward-looking statements. Such forward-looking statements are estimates reflecting the Company's best judgment based upon current information and involve several risks and uncertainties, and there can be no assurance that other factors will not affect the accuracy of such forward-looking statements. See "Risk Factors" below.

This MD&A was prepared by management as of March 31, 2023, and is supplemental to and should be read in conjunction with the Company's consolidated financial statements (the "Financial Statements") for the years ended December 31, 2022, and 2021, and the accompanying notes thereto. The information contained in this MD&A is presented as of the date of the MD&A and is current to that date unless otherwise stated. The results reported herein have been derived from consolidated financial statements prepared in accordance with the International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board.

All amounts are expressed in Canadian dollars unless otherwise noted.

This MD&A is intended to assist the reader in better understanding operations and key financial results as of the date of this report. The Financial Statements and this MD&A have been reviewed and approved by the Company's Board of Directors on March 29, 2023.

Introduction

This MD&A, which should be read in conjunction with our Financial Statements and the notes thereto, provides additional information on our business, current developments, financial condition, cash flows and results of operations. It is organized as follows:

1. *Part 1 – Business Overview.* This section provides a general description of our business, which we believe is important in understanding the results of our operations, financial condition, and future trends.

2. *Part 2 – Results of Operations.* This section provides an analysis of operations for the years ended December 31, 2022, and 2021.

3. *Part 3 – Financial Liquidity and Capital Resources.* This section provides an analysis of our cash flow and outstanding debt and commitments, inclusive of the amount of financial capacity available to fund our ongoing operations and future commitments.

4. *Part 4 – Critical Accounting Policies and Estimates.* This section identifies those accounting policies that are considered important to our results of operations and financial condition and require significant management estimates.

We prepare and report our Financial Statements in accordance with IFRS, and the financial information contained herein are reported in Canadian Dollars.

Part 1 – Business Overview

Part 1 – Business Overview is presented and current as at the date of this MD&A.

Avicanna is a Canadian commercial-stage biopharmaceutical company established in research, development, and commercialization of evidence-based cannabinoid products for the global consumer, as well as medical and pharmaceutical market segments. Avicanna conducts its R&D in house and collaborates with leading Canadian academic and medical institutions in Canada. Avicanna has an established scientific platform and intellectual property portfolio that has contributed to the international commercialization of over thirty products across four main market segments:

Medical Cannabis & Wellness Products

The formulary of medical and wellness products is marketed under the RHO Phyto™ brand. The portfolio offers a diverse range of proprietary formulations including of oral, sublingual, topical, and transdermal deliveries with varying ratios of cannabinoids. The formulary is supported by ongoing consumer, patient, and medical community education and training.

Current Status and Market opportunity

RHO Phyto has been established as a leading medical brand in Canada and is currently available nationwide to patients in medical channels including a strategic partnership with Medical Cannabis by Shoppers™, a subsidiary of Shoppers Drug Mart Inc.™ ("Shoppers Drug Mart"), other national medical portals as well as clinical institutions such The University Health Network ("UHN") and the Odette Cancer Centre pharmacy of Sunnybrook Health Science Centre.

The products are also available in distinct provincial retailers in six provinces including Ontario, Alberta, British Colombia, New Brunswick, Manitoba, and Saskatchewan.

The product portfolio continues to develop through Avicanna's pipeline development efforts and continues to expand into new international markets where it is supported with medical education and patient support programs.

CBD Consumer and Derma-Cosmetic

Marketed under the Pura H&W™ or Pura Earth™ brands, these registered, clinically tested, derma-cosmetic products include a portfolio of functional CBD topical products that are designed for consumer and retail sales where CBD cosmetics are permitted.

Current Status and Market opportunity

Currently available in Canada across medical and cannabis adult-use channels through retailers in four provinces. These products are also in early stages of commercialization internationally where CBD is permitted under cosmetics designations including USA, Colombia, Ecuador, and in the European Union, initially in Germany, Switzerland, and Austria.

Pharmaceutical Preparations and Pipeline

Leveraging Avicanna's scientific platform Avicanna's long term business model is focused on the development of its pipeline of indication specific drug candidates which are currently in various stages of clinical development, registration, and commercialization. The pipeline developments are supported by the company's research and development, including real world evidence studies.

Current Status and Market opportunity

The proprietary cannabinoid-based drug candidates are designed to address unmet medical needs in the areas of neurology, depression, sleep, dermatology, and pain. The pipeline of products is intended to be marketed once drug applications have been submitted and approved from national drug agencies. Drug candidates from including Trunerox™ are in registration stage across several Latin American countries.

Cannabinoid Active Pharmaceutical Ingredients (API)

Marketed under the Aureus™ brand, the Company's API business unit offers cannabinoid API including CBD, CBG and THC in addition to standardized seeds through its organic, economical, and industrial-scale subsidiary based in Colombia. Aureus products are produced at Santa Marta Golden Hemp S.A.S. (SMGH), the Company's majority-owned subsidiary, which is also Good Agricultural, and Collection Practices (GACP) certified and United States Department of Agriculture (USDA) National Organic Program certified for its hemp cultivar.

Current Status and Market opportunity

The cannabis raw materials supplied by Avicanna's Colombian subsidiary form part of the Company's supply chain and source of reliable input products for its consumer retail, medical cannabis, and pharmaceutical products for Global markets. The business unit is also dedicated to providing consistent, high-quality source of input materials for the Company's global partners for use in the development and production of food, cosmetic, medical, and pharmaceutical products. The Company has formed several strategic supply relationships and has exported Aureus branded Colombia into 16 countries for research and manufacturing purposes.

Q4 2022 and year-end highlights

- **Financial highlights:** Revenue of $4 million an increase of 24% from 2021, which was led by product sales in Canada and new licensing revenue through various agreements with pharmaceutical industry companies. Continued cost saving efforts were represented by a 22% decrease in general and administrative expenses. These improvements resulted in a 35% improvement in adjusted EBITDA.

- **Successful transfer of manufacturing and re-stocking of commercial SKUs in Canada.** To diversify sources of production, the Company transferred the manufacturing of its commercial SKUs to four different licensed producers during 2022. The process resulted in short term stocking gaps during 2022 but was completed by the end of 2022 and the company sold nearly 60,000 units, representing an increase of 333% from Q3 2022 and total of 124,595 units sold in 2022, representing an 92% increase from 2021.

- **Expansion of proprietary portfolio across Canadian retail and medical channels.** The Company had a total 23 SKUs across medical and retail channels in Canada by the end of 2022, representing an increase of 44% from 2021. The company also added 18 new commercial listings during the fourth quarter of 2022 and had a total of 78 commercial Canadian listings in 2022, representing an increase of 123% from 2021.

- **Adoption of RHO Phyto medical cannabis products.** The addition of 3 new SKUs during 2022, the expansion of the brand to 2 new national marketplaces resulting in a total of 10 medical commercial listing. Through the strategic partnership with Medical Cannabis by Shoppers RHO Phyto products had over 100% increase in sales compared to 2021 and an increase of 30% of active patients.

- **Commercialization of 'Influid', a Proprietary Water-soluble technology in the Canadian Market.** Avicanna's patent-pending, water-soluble formulation, utilizes nanotechnology to overcome the challenges of solubility and absorption of cannabinoids due to their hydrophobic properties. The Self-Nano-Emulsifying Drug Delivery System ("SNEDDS") accelerates the overall speed and absorption of cannabinoids through surface area of contact in the gastrointestinal tract. Initial commercial use of the technology is a THC beverage infuser under the Viola brands and is now available nationally across several medical channels and across retail channels in Ontario and New Brunswick.

- **Launch of Medical Cannabis Education Online Portal, "Avicenna Academy" for Health Care Professionals.** The medical cannabis education portal provides modules, case studies and other medical education information and resources related to medical cannabis for health care professionals.

- **Launch of Real-World Evidence Study on Musculoskeletal Pain and Inflammation with the RHO Phyto(TM) CBG Transdermal Gel Topical Product.** A real-world evidence study conducted by Santé Cannabis out of Montreal, Quebec, evaluating the efficacy of Avicanna's proprietary transdermal gel containing 2% CBD and 1% CBG on 100 patients with osteoarthritis, rheumatoid arthritis, fibromyalgia, muscle and/or joint pain, localized pain, post-surgical pain, muscular and/or structural injuries.

- **Filing of complete Patent Specifications Relating to a Novel Cannabinoid Formulation for Reducing Incidence of Seizures and Sudden Unexpected Death in Epilepsy.** Recent in-vivo animal studies conducted at the University of Toronto pointed towards Formulation Candidate's anti-seizure properties allowing for formalization of the patent application.

- **Expansion of its Epilepsy Research Program with a New Collaboration with the University of Toronto**. Dr. Mac Burnham's team will continue to, and expand upon, its assessment of Avicanna's drug candidates for seizures.

Other highlights subsequent to Q4 2022

- **Shoppers Drug Mart partnership to transition Medical Cannabis by Shoppers to Avicanna**. On March 28, 2023, Shoppers Drug Mart and the Company announced that Shoppers Drug Mart will transition the Medical Cannabis by Shoppers business to Avicanna. As part of the transition, Avicanna will introduce MyMedi.ca, a new medical cannabis care platform.

- **Expansion of Viola brands partnership to the United Kingdom.** The initial line of Viola-branded products for the UK, will include proprietary formulations in vaporizer formats for patients with medical authorizations through the Special Access Program. The prescription products will be commercialized under an agreement with IPS Pharma.

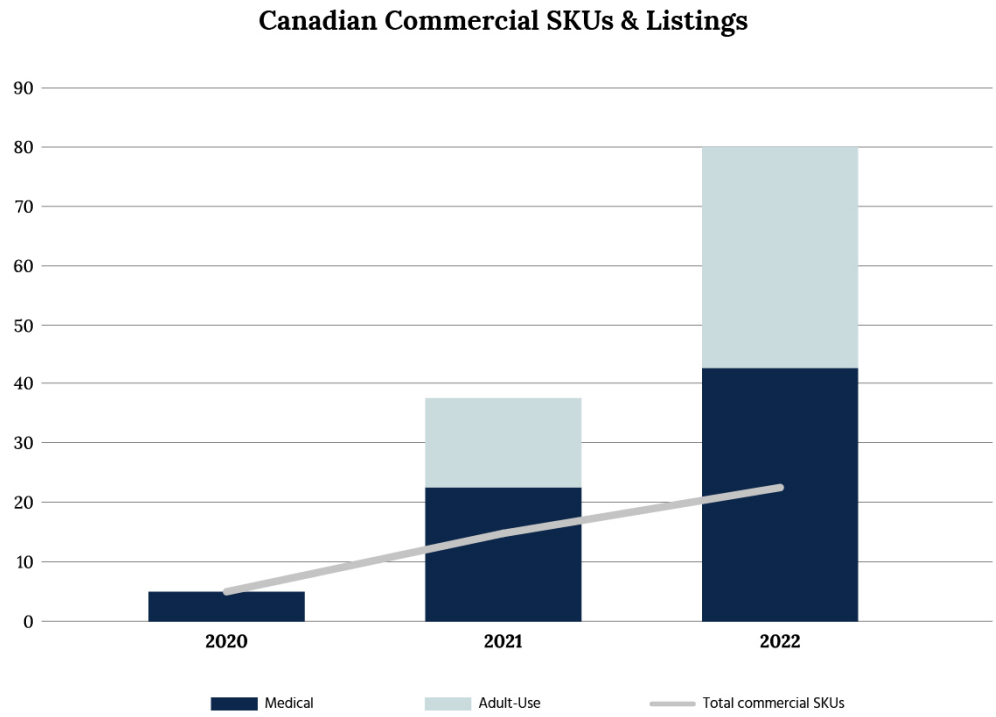
STRATEGY AND OUTLOOK

Summary of commercial activities

Canada

During the fourth quarter of 2022, the Company focused on further expanding its commercial operations in Canada and continuing to advance all four of its brands across medical and adult use channels.

The Company successfully completed the tech transfer and manufacturing of existing and new SKUs to four licensed producers providing manufacturing to Avicanna. The resulted gaps in delivery and stocking issues related products during late Q2 and Q3 attributed to the technical transfer and re-registration processes of the commercial SKUs has been rectified as all of the company's commercial SKUs were back in stock by end of Q4 2022. While necessary to diversify sources of production, the change resulted in lower-than-expected delivery of units and revenue in Canada during late Q2 and Q3. The long-term benefits of the change are expected to be increased product consistency, reliable delivery, and improved margins for the commercial SKUs in Canada.



The Company continued to expand its commercial efforts into medical channels with product launches into new commercial portals including Abbamedix and Canveda while furthering its strategic relationship with Medical Cannabis by Shoppers with a total of 23 available products across its portal.

	Q4 2021 *For the Three Months Ending* December 31, 2021	Q1 2022 *For the Three Months Ending* March 31, 2022	Q2 2022 *For the Three Months Ending* June 30, 2022	Q3 2022 *For the Three Months Ending* September 30, 2022	Q4 2022 *For the Three Months Ending* December 31, 2022
CAD SKUs Commercial	16	19	19	21	23
CAD Medical Listings	13	17	21	25	35
CAD Provincial Listings	23	35	38	35	49
Total # of Countries with Sales	12	12	15	17	19
Pura # of Countries with Sales	4	4	7	6	6
RHO # of Countries with Sales	3	3	3	3	3

International

At an international level, the Company has prioritized and optimized its business units. The global operations team is focused on the production and manufacturing of the company's Aureus branded products and proprietary finished products across cosmetics and pharmaceuticals designations. The activity and status of specific brands and across select regions is outlined below:

Product Line & Brand	Canada - Medical	Canada - Adult Use	USA	Colombia	UK	Ecuador	Brazil	Chile	Peru	Portugal	Germany	Barbados
RHO Phyto / Medical/Wellness	✔	✔										✔
Future Pharmaceutical Pipeline	*2024		*TBD	**2023		**2023	***2023					
Aureus API			✔	✔	✔	2023	✔	✔	✔	✔	✔	
re+PLAY	✔	✔	✔									
Viola	✔	✔			✔							
Pura H&W/Earth Dermacosmetics	✔	✔				✔					✔	

*Note: The above table indicates prospective future launch dates based upon reasonable assumptions from current information, which are subject to, and contingent upon, the regulatory applications, evaluations, and approvals processes in each of the indicated countries, respectively, among other factors. See "Risk Factors." * In Canada and the US, the company plans to proceed with the traditional pharmaceutical pathway, including R&D and full clinical development, towards developing of new products in accordance with Health Canada standards in Canada and Food and Drug Administration standards in the United States, respectively.,-**In Colombia and Ecuador, the company has submitted its drug candidate Trunerox to INVIMA in Colombia and also the company's distribution partner has submitted the dossier to ARCSA in Ecuador, for approval as a generic pharmaceutical product for the treatment of epilepsy. ***In Brazil, the company's collaboration partner has submitted a filing to ANVISA for Sanitary Authorization under RDC327.*

Select Strategic Relationships.

Medical Cannabis by Shoppers,

First launched in Ontario in January 2019, Medical Cannabis by Shoppers provides patients access to medical cannabis products from more than 30 licensed cannabis brands. Over the past four years, the platform has supported tens of thousands of patients, and has worked with patient groups to make access to medical cannabis easier. Since 2020 Avicanna and Medical Cannabis by Shoppers have had a successful partnership which has led to the commercialization of 23 of Avicanna's proprietary SKUs across 4 brands. The partnership also includes collaborations across several real-world evidence clinical trials including a study conducted at UHN which is sponsored by Medical Cannabis by Shoppers and a study conducted at The Hospital for Sick Children that is sponsored by Avicanna.

On March 28th, 2023, the Company announced that Shoppers Drug Mart has selected Avicanna as its partner to transition its Medical Cannabis by Shoppers business. As part of the transition, Avicanna will introduce MyMedi.ca, a new medical cannabis care platform. designed to enhance the patient journey. MyMedi.ca will have pharmacist-led patient support programs and aims to provide a similar product portfolio including various formats, brands, and competitive pricing.

With initial transitional support from the Medical Cannabis by Shoppers team, MyMedi.ca will provide a scientifically curated and diverse formulary of products in collaboration with Canadian licensed producers, and comprehensive training programs for the medical community. The online medical portal will also focus on patient education in areas such as harm reduction and will continue to provide specialty services to distinct patient groups including veterans in addition to reimbursement services for public and private providers.

Partnership with Sunnybrook Health Sciences Centre ("Sunnybrook"), In September 2021, access to Avicanna's RHO Phyto products were made available to patients and HCPs at the Sunnybrook. Pursuant to a relationship agreement, Sunnybrook distributes the Company's RHO Phyto products to patients with appropriate medical authorization at Odette Cancer Centre pharmacy. This relationship has focused on increasing healthcare provider and patient education on medical cannabis products and provide patients with a one stop process for accessing plant-based cannabis for medical use, in coordination with their hospital healthcare team. The ongoing efforts of the Sunnybrook Hospital pharmacy team and availability of RHO Phyto products have led to growth in Healthcare Professional referrals for medical cannabis expanding beyond the oncology department.

Exclusive license and supply agreement with an established South American pharmaceutical company, to commercialize up to 4 of Avicanna's proprietary cannabinoid-based pharmaceutical preparations. Pursuant to the agreement, Avicanna will license the Company's intellectual property and supply finished pharmaceutical products starting initially with its proprietary 10% cannabidiol oral preparation. In connection with the partnership Avicanna can earn up to $1.3M in licensing fees.

Knop Laboratorios ("Knop") in Chile, the Company has entered into a Master Supply Agreement with established Chilean pharmaceutical company Knop to supply a range of cannabinoid-based active pharmaceutical ingredients ("API") for the manufacturing, and commercialization of already commercial and pipeline of cannabinoid-based pharmaceutical products in South America. Knop is a Chilean pharmaceutical company and pioneer in herbal medicine with more than 90 years of experience in the field and active presence in several Latin American countries. Knop has a wide portfolio of registered products, including Cannabiol, a cannabinoid-based product already registered in Perú, and its own commercial infrastructure including strategic partnerships with over 80 "Knop Pharmacies" in Chile.

Viola Brands California Inc. ("VB Brands") partnership in Canada and the UK, Avicanna's agreement with VB Brands brings the equity-focused brand Viola, also founded by Al Harrington, to Canada. Initial products are available nationwide across Medical Cannabis portals in Ontario, Alberta, Saskatchewan, and New Brunswick. Avicanna is responsible for managing the overall commercialization of all Viola-branded products in Canada through its manufacturing, distribution, and sales infrastructure.

Medical Cannabis & Wellness Products Overview

Leading the Company's medical cannabis efforts is the RHO Phyto formulary of products which includes several oral, sublingual, and topical preparations in a range of cannabinoid ratios and doses. RHO Phyto branded products are available to patients nationwide through several medical portals in Canada.

Avicanna has expanded the RHO Phyto formulary and its other brands into retail sales channels through Canadian provincial retailers since late 2021. This strategic initiative was to increase brand awareness and increase access to individuals who are using cannabis for wellness purposes. Currently, RHO Phyto products are available for sale in retailers in six (6) provinces in Canada: Alberta, British Colombia, Manitoba, New Brunswick, Ontario, and Saskatchewan.

Successful proof of concept with Canadian patients and medical community. Validated by the addition of 3 new SKU during 2022, the expansion of the brand to 2 new national marketplaces resulting in a total of 10 medical commercial listing. Through the strategic partnership with Medical Cannabis by Shoppers RHO Phyto products had over 100% increase in sales compared to 2022 and an increase of 30% of active patients.

Avicenna Academy

In October of 2022 Avicanna launched the "Avicenna Academy", a medical education portal, designed to make available practical information related to the potential use of medical cannabis, at no cost, to health care professionals. The portal includes a range of resources such as health care professional guidelines and modules focused on a range of topics including:

- The history of medical cannabis use
- The endocannabinoid system
- Potential therapeutic targets
- The current state of evidence

Addressing Symptom Management and Establishing Awareness in the Medical Community

Avicanna's plans for making education plans include information related to the potential for addressing a wide range of symptoms such as pain, sleep, appetite, anxiety, and depression that may be prevalent in a wide range of various clinical indications.

RHO Phyto formulations

- **Micro Drops:** The Micro Drops are blood-orange flavoured and utilize Avicanna's inverted emulsion technology to provide absorption and shelf-life stability. The product is administered with metered dosing using an oral syringe that allows for accurate titration.

- **Rapid Act Sprays:** The oral sprays are lemon-mint flavoured and utilize Avicanna's sublingual delivery technology to provide a rapid acting effect. The product is administered discreetly, is easy to use, and delivers accurate, consistent dosing in every spray.

- **Deep Tissue Gel:** The water-based gels utilize Avicanna's deep tissue technology and combines cannabinoids with synergistic terpenes and natural excipients including menthol and beta-caryophyllene in a pharmaceutical-grade, airless pump.

- **Ultra CBD local cream:** The high CBD topical cream is designed for application on sensitive skin and free from THC and allergens including terpenes, perfumes, and vitamins. Ultra CBD Topical Cream is, unscented, and oil based.

- **Water-soluble formulations –** nano-emulsion technology designed for instant dispersion and dissolution of cannabinoids which can be utilized for convenient titration in drug delivery and beverages.

- **Pipeline:** The Company continues to advance its pipeline of medical products through its scientific platform and R&D infrastructure which includes novel drug delivery mechanisms including:

- **Sustained and controlled-release tablets** – designed for the linear release of the drug over time and thereby maximizing pharmacological properties and reducing side effects particular to cannabinoids.
- **Oral capsules -** self-emulsifying cannabinoid technology designed to enhance absorption through a fast and effective dispersion mechanism.

SKU	Commercial Status	Delivery	Size	CBD	THC	CBG	Description
RHO Phyto							
Micro Drop 2:50	Commercial	Oral Drop	30 mL	1500 mg	60 mg	-	High CBD Oil
Micro Drop 5:20	Commercial	Oral Drop	30 mL	600 mg	150 mg	-	Balanced CBD Oil
Micro Drop 50 CBD	Commercial	Oral Drop	30 mL	1500 mg	-	-	THC-Free High CBD Oil
Micro Drop 100 CBD	Q2-22	Oral Drop	30 mL	3000 mg	-	-	THC-Free Very High CBD Oil
Micro Drop THC 10:0	Commercial	Oral Drop	30 mL	60 mg	300 mg	-	Low Dose THC Oil
Micro Drop CBG 20:10:10 THC:CD:CBG	Q2-22	Oral Drop	30 mL	300 mg	600 mg	300 mg	CBG:CBD:THC Oil
Rapid Act Spray 40 CBD	Commercial	Sublingual Spray	15 mL	600 mg	-	-	THC-Free CBD Spray
Rapid Act Spray 2:40 CBD	Commercial	Sublingual Spray	15 mL	600 mg	30 mg	-	High CBD Spray
Rapid Act Spray 10:20 CBD	Commercial	Sublingual Spray	15 mL	300 mg	150 mg	-	Balanced Spray
Rapid Act Spray 20:10 CBG:THC	Q2-22	Sublingual Spray	15 mL	30 mg	300 mg	-	THC:CBG Spray
Extra Strength Deep Tissue Gel (5:0.2)	Commercial	Transdermal Gel	50 mL	250 mg	10 mg	150 mg	CBG Transdermal Gel
CBG Transdermal Relief Gel (20:5)	Q2-22	Transdermal Gel	30 mL	600 mg	30 mg	150 mg	High CBD &CBG Transdermal Gel
Ultra CBD Topical Cream	Commercial	Transdermal Gel	30 mL	900 mg	-	-	High CBD Local Cream

Expansion and growth strategy

- **Expansion to new medical channels:** The Company continues to expand access to its Canadian product offerings to more patients and physicians through new channels under various agreements including Abbamedix and Canveda medical market places during 2022.

- **Expansion within adult use markets:** Expansion into new adult use channels including additional provinces and retailers and the expansion of product offerings across all four commercial brands, RHO Phyto, Pura, Viola and Replay, in the currently commercialized provinces. The Company expanded RHO Phyto to British Columbia increasing the Canadian commercial listings to six (6) provinces at the end of 2022.

- **Establishment of the wellness category:** In partnership with provincial boards and distinct premium retailers in Canada, Avicanna's product lines are well positioned for the wellness category, where consumers will have access to standardized and non-inhalation cannabis products without the requirements of medical documentation. Avicanna's team works with retailers to provide appropriate information and training.

- **Expansion into major hospitals:** Avicanna continues to leverage its relationships with members of the Canadian medical community to meet patient demand for access to standardized cannabinoid-based products. The Company will look to increase the footprint of RHO Phyto in Canadian hospitals with appropriate infrastructure to store and dispense qualified medical cannabis products.

- **Expansion of SKUs:** Since the initial launch of RHO Phyto in Canada with only two SKUs of Micro Drops in the third quarter of 2020, the Company has continued to expand the portfolio and continues to introduce additional doses and formulations of products as desired by the medical community and patients. The Company expanded to 10 SKUs of RHO Phyto which represents an increase of 43% from 2021.

- **International expansion:** The RHO Phyto products have been successfully commercialized in Canada, Colombia, and Barbados establishing the basis for a "proof of concept" for North America, the Caribbean, and South America where there has been initial patient, consumer, and medical community adoption. The Company will look to further expand its product offering in Canada and other potential markets in 2023 and beyond, as the Company hopes that international regulations continue to progress positively towards medical cannabis acceptance.

CBD Derma-Cosmetic Products

Marketed under the Pura H&W™ brand[1], or private-label brands, the Company's consumer retail products form a line of natural skincare products utilizing the benefits of hemp-derived CBD with synergistic natural ingredients. Pura product offerings are categorized in four distinct groups where several SKUs are available in specific markets:

Pharmaceutical pipeline and products

Leveraging Avicanna's scientific platform Avicanna's long term business model is focused on the development of its pipeline of indication specific drug candidates which are currently in various stages of clinical development, registration, and commercialization. The pipeline developments are supported by the Company's on-going research and commercial efforts including real world evidence studies.

The Company continues to progress its pharmaceutical pipeline including the advancement of the drug candidates across R&D, clinical development, and submissions for marketing authorizations with national drug agencies such as the US Food and Drug Administration (FDA), Health Canada, and Latin American health authorities including ANVISA in Brazil and INVIMA in Colombia.

- ***Pipeline status and support infrastructure***
    - The proprietary cannabinoid-based drug candidates are designed to address unmet medical needs in the areas of neurology, depression, sleep, dermatology, and pain.
    - Supported by the Company's scientific platform including pre-clinical and real-world evidence studies.
    - Supported by the Company's drug candidates being brought forward under medical cannabis designations and measuring valuable real-world evidence and patient outcomes.
    - Utilizing Avicanna's proprietary formulation and vertical integration to deliver a pharmaceutical CBD preparation into the Latin American Markets.

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Drug Development Program	Delivery	Development status	Clinical status	Registration
Refractory Epilepsy Trunerox™	Oral	✔	-	Generic Pharmaceutical
Multiple Sclerosis	Sublingual	✔	-	Generic/Phyto-therapeutic
Chronic Pain	Oral	✔	-	Phyto-therapeutic
Anxiety and Depression	Oral	✔	-	Phyto-therapeutic
Epidermolysis Bullosa	Topical	✔	Pre-clinical	Orphan Drug
Osteoarthritis	Topical	✔	Pre-clinical	Pharmaceutical
Seizure and Sudden Death - Epilepsy	Oral	In Development	Pre-clinical	Orphan Drug
Neuropathic Pain	Oral	In Development	PK Studies	Orphan Drug

- ***Potential marketing authorization and commercial pathways***:
    - **Generic pharmaceutical (Colombia, Ecuador)** - expected commercialization 2023)
    - **Natural drug or Phyto-therapeutic designations (Colombia, Ecuador)**
    - **Over the counter** (LATAM markets - expected commercialization 2023; EU (European Union) markets - expected commercialization 2024)
    - **Sanitary authorization RDC327 (Brazil) –** expected commercialization 2023
- ***Trunerox ™ – 10% CBD (100 mg/ml Cannabidiol)***
    - Pharmaceutical preparation under Good Manufacturing Practice (GMP) standards with completed technical dossier. Expected marketing authorization during 2023 in Colombia, Ecuador, and Brazil.

Scientific platform

With 6+ years of R&D, preclinical and clinical development on cannabinoids, Avicanna has established a cannabinoid-based scientific platform and continues to develop its intellectual property portfolio. Avicanna's dedication to product development and evaluating the potential role of cannabinoids for therapeutic benefit has been at the core of the Company's vision since its inception. The Company has successfully developed and delivered 31+ commercial products from its scientific platform where it owns all related intellectual property. Key attributes of Avicanna’s platform include:

- 31+ proprietary commercial products.
- 9 Canadian Government research grants awarded since 2020.
- 7 pending patent applications,
- Drug development pipeline that aims to optimize the absorption and bioavailability of cannabinoids, while considering drug delivery needs specific to each indication including sustained release tablets, transdermal patches, and nano participle formulations.
- 4 Health Canada cannabis research licenses issued to Avicanna or institutional collaborators over the past 4 years.

- Academic, research. and clinical collaborations over the past 5 years: Hospital for Sick Children, University of Toronto, University of West Indies, University of Guelph, University Health Network, Charles River Laboratories, Thompson Rivers University, Sunnybrook Health Sciences Centre (Hospital), and Sante Cannabis Contract Research Organization.

Pre-Clinical and Clinical Development

Avicanna's preclinical and clinical development is conducted in collaboration with leading university and hospital partners. In collaboration with our research partners, we have successfully obtained seven peer-reviewed government grants supporting our research projects over the past two years. All formulations developed and data generated in collaboration with our partners are considered Avicanna Intellectual Property. Highlighted below are some of the Company's ongoing research projects.

- Through the **University of Guelph** in collaboration with Dr. Jibran Khokhar, Avicanna's RHO Phyto products are undergoing pharmacokinetic, electrophysiological, and behavioral evaluation with comparison to basic Medium Chain Triglycerides (MCT) oil products. Additionally, various cannabinoid ratios and terpenes are being evaluated with Avicanna formulations in animal models of addiction and withdrawal from alcohol and nicotine, and neuropathic pain for pharmaceutical development.

- The collaboration with the **University Health Network** and Dr. Peter Carlen is focused on evaluating Avicanna's formulations with various cannabinoid and terpenes ratios for reduction of seizure frequency and severity in various preclinical models related to epilepsy as a part of the company's pharmaceutical pipeline.

- Expansion of Avicanna's research on cannabinoids in epilepsy to Dr. Mac Burnham at **University of Toronto.** Together, we are exploring the seizure attenuating effects using Avicanna's rare cannabinoids and advanced formulations in various animal models of epilepsy.

- The collaboration with **Thompson River University** led by Dr. Kingsley Donkar and team is focused on evaluating optimal cannabinoid and terpenes ratios for their effect on various bacteria and fungi in addition to the assessment of those ratios anti-inflammatory effects on tissue models including lung, nasal and airways caused by the COVID-19 virus.

Partner Institution & Researcher	Project Highlights	Project Status
University of Guelph - Dr. Jibran Khokhar	Preclinical pharmacokinetic and behavioral analysis of RHO Phyto products in comparison to MCT based products. Drug discovery for cannabinoid-based products in animal model of alcohol and nicotine addiction for attenuating withdrawal side effects.	Pharmacokinetic study: analysis of results expected in Q2-2022. Animal model of toxicosis completed – Commencing treatment study Q2 2022. Animal model of addiction completed – commencing treatment study Q3 2022. Currently, evaluating neuropathic pain model and expecting study to commence Q4 2022.
University Health Network - Dr. Peter Carlen	Filed US patent application for a novel Cannabinoid formulation in reducing incidence of seizures and sudden unexpected death in Epilepsy in Q4 2021.	Completed set up of epilepsy in organoid model to be used for high throughput testing of Avicanna's formulations. Avicanna's formulation to be tested in Q2 in an in vivo Epilepsy model to substantiate provisional patent filed. All on-going studies continue to evaluate other cannabinoids in various ratios for their effects on seizures.
Hospital for Sick Children – Dr. Elena Pope	Evaluation of Avicanna's 3% CBD cream in a real-world observational trial for individuals with various dermatological conditions including epidermolysis bullosa patients.	Study commenced Q1 2022. Results from the study are expected to supported application to Health Canada for Clinical Trial.
Thompson Rivers University – Dr. Kingsley Donkar	Evaluation of various ratios for cannabinoids in Avicanna formulation in tissue model of inflammation. Evaluation of cannabinoids for antibacterial effects.	Testing of tissue models for inflammation completed Q3 2022 and analysis ongoing. Analysis of results of various combinations of cannabinoids for antibacterial effects including bactericide, biofilm and minimum inhibitory concentrations expected to be completed by Q4 2022.
University of Toronto - Dr. Mac Burnham	Evaluation of rare cannabinoids and Avicanna formulations in preclinical models of epilepsy.	Testing of rare cannabinoids commenced in June 2022. Various aspects of the study have been completed while we continue to investigate other API.
Santé Cannabis - Contract Research Organization	Evaluation of Avicanna's 2% CBD and 1% CBG transermal gel in an observational real-world evidence study in patients with muscoskeletal pain and inflammation.	Testing of tissue models of inflammation began in Q4 2021. Results from study will be completed by Q2 2023 Testing of various combinations of cannabinoids for antibacterial effects including bactericide, biofilm and minimum inhibitory concentrations expected to be completed end of Q2 2023.

The Real-World Evidence Opportunity

The commercial availability of RHO Phyto in Canada has led to the inclusion of RHO Phyto products in several real-world evidence ("RWE") trials on specific therapeutic indications and patient populations. RHO Phyto products are participating in the University Health Network's Medical Cannabis Real-World Evidence (MC-RWE) clinical study led by Dr. Hance Clarke. The prospective, non-interventional, observational study will examine the efficacy of a select group of medical cannabis products on patient reported outcomes of pain, sleep, depression, and anxiety. The study

will track patients' use and symptoms over a 6-month period. Recently, the MC-RWE expanded to include patient outcomes related to epilepsy, where RHO Phyto products will be utilized. Avicanna has launched its pharmaceutical candidate for epidermolysis bullosa under medical cannabis legislation in Canada. This product has been included in RWE studies focused on specific endpoints related to the dermatological conditions and assessed by Dr. Elena Pope as a part of a long-term collaboration with the Hospital for Sick Children. Additionally, this product will be participating in the MC-RWE focused on patient reported outcomes on pain, sleep, anxiety, and depression.

Avicanna contracted with Santé Cannabis, a clinical research site and contract research organization ("CRO"), to evaluate our proprietary CBG transdermal gel in an observational real-world evidence study in patients with musculoskeletal pain and inflammation. The study will enroll 100 patients with arthritis including osteoarthritis, rheumatoid arthritis, fibromyalgia, muscle an/or joint pain, localised pain, post-surgical pain, muscular and/or structural injuries. The study will gather patient demographics, medical history, medication use, overall symptom questionnaires and complete a Musculoskeletal Health Questionnaire, a validated measure of symptoms and quality of life related to musculoskeletal pain and inflammation over a three-month period.

Data derived from RWE trials in Canada is expected to be a component of an overarching imperative of minimizing risk and maximizing efficacy from industry-leading research and development. The data is also expected to be utilized in the optimization of formulations, enhancement of clinical protocols, prioritization of pharmaceutical trials, and educational materials for the medical community.

Pharmaceutical trials

Avicanna's future pharmaceutical pipeline products are being planned to follow the traditional drug discovery and development process for submission to the applicable governmental agencies, such as Health Canada, for approval and market authorization. Avicanna's future pharmaceutical pipeline products are planned to use only plant-derived cannabinoid extracts, purified cannabinoids, including distillates and isolate. Avicanna's future pharmaceutical pipeline looks to address pain, dermatology, and various neurological disorders.

Epidermolysis Bullosa: The Company is continuing discussions with Health Canada in relation to the submissions required for the clinical trial to study the effects of its 3% CBD cream on pediatric patients suffering from Epidermolysis Bullosa. Recently the Company commercialized the 3% CBD cream under medical cannabis legislation in Canada to conduct prospective observational studies with Dr. Elena Pope and the Hospital for Sick Children.

Intellectual Property

As the Company continues to expand its research and development activities and further establish its scientific platform, the expectation is to grow its intellectual property portfolio through patent and trademark applications and other available intellectual property protection mechanisms. To date, the Company has seven patent-pending applications. In parallel to the patent protection of novel products and processes, the Company also takes necessary steps to protect its trademarks. To date, the Company has a total of 74 active trademark filings covering Avicanna's logos, word marks, design marks, and drug names in over a dozen countries in North and South America, Europe, Africa, Australia and Asia.

Proprietary oral delivery of cannabinoids

The Company is currently working on finalizing and commercializing its patent pending and proprietary formulations including a range of liquids, capsules, powders, and controlled release tablets utilizing Avicanna's self nano-emulsifying drug delivery systems (SNEDDS) technology. The formulations offer stability, bioavailability, and controlled release of

cannabinoids including (CBD, THC, CBG, CBN, and THCv). Avicanna intends to utilize the technology in its medical and pharmaceutical products and develop these formulations for the treatment of neurological diseases and disorders. Oral administration of cannabinoids is a route for non-invasive drug delivery. However, due to the highly lipophilic nature and poor water-solubility of cannabinoids, the elementary formulations currently available in the market have been generally described as having poor bioavailability and lack consistent drug delivery. Avicanna's proprietary compositions have been specifically designed to alter the hydrophobic nature of cannabinoids, resulting in drug solubility which leads to absorption and bioavailability either sublingually or orally.

The patent application entitled "Oral cannabinoid compositions and methods for treating neurological diseases and disorders" claims formulations that have been developed through Avicanna's R&D platform utilizing the Company's proprietary SEDDS technology and include a range of drug delivery formats with varying release and absorption profiles including:

Sustained and controlled-release tablets – designed for the linear release of the drug over time and thereby maximizing pharmacological properties and reducing side effects particular to cannabinoids.

Oral capsules - self-emulsifying cannabinoid technology designed to enhance absorption through a fast and effective dispersion mechanism.

Sublingual tablets – designed to provide rapid absorption of cannabinoids through the sublingual membrane to reduce first-pass metabolism and provide a solution for acute symptom management, and

Water-soluble formulations – nano-emulsion technology designed for instant dispersion and dissolution of cannabinoids which can be utilized for convenient titration in drug delivery and beverages.

Raw Material Business Unit - Cannabis Raw Materials, Seeds, and Bulk Formulations

The Company's cultivation and extraction operations are through the majority owned subsidiary, SMGH. SMGH is in Santa Marta, Colombia and serves two purposes in the Company's supply chain: (i) supply quality active pharmaceutical ingredients ("APIs") for the Company's products, and (ii) allows the Company to vertically integrate by controlling the costs at each stage of a product's life cycle. Additionally, the Company's products are made available under agreement to parties globally, with over 16 markets already opened. The Company has 300,000 square feet of cultivation capacity with production capacity of over 20,000 kg of biomass per year with complete extraction, analytical testing, and manufacturing infrastructure.

Cultivation and Extraction Capacity ***Santa Marta Golden Hemp S.A.S. (SMGH)***	**December 31, 2022**	**December 31, 2021**
Total square feet	300,000	300,000
Annual yield (kg)	26,400	26,400
Cost per gram - dried flower	$0.08	$0.09
Extraction capacity - dried flower per day (kg)	300	300

Aureus is the Company's business-to-business raw material brand for cannabinoid APIs and feminized seeds offered with quality testing and tracking. The Company extracts include crude oils, cannabinoid distillates, and isolated cannabinoids (CBD, THC, and CBG) derived from hemp and cannabis cultivars through its sustainable, economical, and industrial scale subsidiaries based in Colombia. The Company's SMGH subsidiary is further supported with GACP certification in addition to USDA National Organic Program certification it attained in 2019 for its hemp cultivar.

Milestones and highlights

- Completed commercial sales of Aureus branded products into sixteen international markets.
- Supply agreements with pharmaceutical companies in Argentina, Brazil, and Chile.
- Completed over thirty harvests under a low-cost cultivation model
- USDA National Organic Program certification for a hemp cultivar and recently attained GACP certification.
- Avicanna was ranked highest amongst global cannabis companies in the SAM Corporate Sustainability Assessment (CSA) in the 2020 Sustainability Yearbook, a sustainability index that has become the basis for numerous S&P Global Environmental, Social and Governance (ESG) indices.
- Currently has 29 federally registered genetics in Colombia through SMGH.
- Export of genetics in the form of feminized seeds into the US, Peru, Argentina, and Lesotho.

Additional information relating to the Company, including the Company's Annual Information Form for the year ended December 31, 2021, dated March 31, 2022, is available under the Company's SEDAR profile at www.sedar.com.

Part 2 – Results of Operations

The following table contains selected consolidated financial information for the years ended December 31, 2022, 2021, and 2020:

	Years ended December 31,		
Selected Consolidated Financial Information *(Canadian Dollars)*	**2022**	**2021**	**2020**
Statement of Financial Position			
Current assets	$ 7,064,418	$ 7,353,630	$ 6,770,466
Non-current assets	10,554,813	14,947,984	23,385,095
Current liabilities	11,405,259	12,195,665	12,824,569
Non-current liabilities	$ 2,755,321	$ 3,197,927	$ 3,421,162
Statement of Operations and Comprehensive loss			
Net revenue	$ 4,047,881	$ 3,268,906	$ 1,570,060
Gross margin	1,115,341	2,831,820	(570,115)
Operating expenses	(12,644,228)	(18,405,956)	(31,881,195)
Operating loss	(11,528,887)	(15,574,136)	(32,451,310)
Net loss and comprehensive loss	(14,400,024)	(19,549,503)	(34,796,590)
Loss per share – basic and diluted	$ (0.24)	$ (0.47)	$ (1.18)

Revenues

We report revenues in three key segments: North American, South America, and the rest of world. North America includes sales of the Company's medical and health products as well as revenue generated from the licensing of intellectual property and research and development services, all developed in North America and serving customers within Canada and the United States. South America includes sales of the Company's pharmaceutical and health products and sales of APIs to customers worldwide, all grown and developed in Colombia. Rest of world includes sales of products to customers in Europe and Central America.

	Years ended December 31,			
Revenue by Segment *(Canadian Dollars)*	**2022**	**2021**	**Change**	**Change (%)**
North America	$ 2,982,263	$ 2,256,216	$ 726,046	32%
South America	1,030,212	981,499	48,714	3%
Rest of world	35,406	31,191	4,215	14%
Net Revenue	**$ 4,047,881**	**$ 3,268,906**	**$ 778,975**	**24%**

North American net revenue totaled $2,982,263 for the year ended December 31, 2022, compared to $2,256,216 for the year ended December 31, 2021. This is comprised predominantly of product revenue. The Company made the strategic decision to change one of its manufacturing partners in Canada to enhance quality, consistency and improve margins. However, this tech transfer resulted in delayed delivery of products during the second and third quarters. Despite this setback, the Company did experience some sales growth with strong sales in the first and fourth quarters.

Revenues from South American sources were $1,030,212 for the year ended December 31, 2022, compared to $981,499 for the year ended December 31, 2021. The Company realized a significant increase in licensing revenue, resulting in higher overall revenue in South America. Additionally, sales of Aureus branded Active Pharmaceutical Ingredient ("API") from SMGH remained consistent with the prior year.

Revenue from Rest of World sources was $35,406 for the year ended December 31, 2022, compared to $31,191 for the year ended December 31, 2021. These are comprised of smaller product sales which experienced a minor increase in the current year.

Key Revenue Metrics

The following table summarizes the number of SKUs of the Company's products listed for sale (the "Listings") in the Canadian markets, the total units sold in the Canadian market, and provides a summary of the international revenue streams for the years ended December 31, 2022, and 2021.

	December 31,			
Key Revenue Metrics	**2022**	**2021**	**Change (#)**	**Change (%)**
Canadian Revenue Channels				
Medical (Listings)	35	13	22	169%
Adult use (Listings)	49	22	27	123%
Canadian finished goods sold (units)	124,595	64,962	59,633	92%
International Revenue Channels				
Finished products sold (units)	18,966	57,718	(38,752)	(204%)
Sale of API (kg)	176	206	(30)	(17%)
Sale of Seeds (units)	15,000	130,259	(115,259)	(768%)

* Listings for medical equals the number of SKUs available for sale nationwide.
** Listings for adult use equals the number of SKUs available for sale in a particular province. For greater clarity, the same SKU available in 2 provinces counts as 2 Listings.

By the end of 2022, the Company sold 124,595 units in the Canadian channel respectively, compared to 64,962 units in 2021, respectively. Although the management's decision to transfer manufacturing to a new contractor, resulted in delayed deliveries in the second and first two months of the third quarter, the Company was able to continue to increase delivered units in Canada by 92% in 2022. API sales in the international channels were 176kg for the year ended December 31, 2022, compared to 206kg for the year ended December 31, 2021.

Finished product sales were 18,966 for the year ended December 31, 2022, compared to 57,718 for the year ended December 31, 2021. 2021 sales were predominantly to a single international customer as part of a license and supply agreement. In the current year, the Company terminated the agreement due to non-compliance from the customer. Therefore, there were no repurchases in 2022.

Sales of seeds were 15,000 units for the year ended December 31, 2022, compared to 130,259 units for the year ended December 31, 2021. The drop in seed sales in the current year is due to a single customer who did not repurchase in 2022.

Gross Margins

The following outlines the gross margin by segment for the years ended December 31, 2022, and 2021.

	Years ended December 31,	
Gross Margin by Segment *(Canadian Dollars)*	**2022**	**2021**
North America	$ 1,066,895	$ 720,032
Gross margin %	*39%*	*32%*
South America	$ 23,610	$ 2,095,027
Gross margin %	*2%*	*213%*
Rest of World	$ 24,836	$ 16,761
Gross margin %	*70%*	*74%*
Total gross margin	$ 1,115,341	$ 2,831,820

Gross margins in the North American segment for the year ended December 31, 2022, were $1,066,895, compared to $720,032 for the year ended December 31, 2021. The Company has been actively working to improve margins in its product sales, which is reflected here. Additionally, license revenue in North America increased in 2022, which is an ultra-low margin revenue stream. Gross margins for the South American segment totaled $23,610 for the year ended December 31, 2022, compared to $2,095,027 for the year ended December 31, 2021. The decrease in gross margin is due to the changes in fair value of biological assets, which reflect changes in the yield as well as in the market price of CBD isolate and CBD resin. Additionally, a large portion of the revenue is from licensing fees which have a very high margin.

Gross margins in the Rest the World segment for the year ended December 31, 2022, was $24,836, compared to $16,761 for the year ended December 31, 2021.

Operating Expenses

The following table presents operating expenses for the years ended December 31, 2022, and 2021.

	Year ended December 31,			
Operating Expenses *(Canadian Dollars)*	**2022**	**2021**	**Change**	**Change (%)**
General and administrative expenses				
Office and general	$ 2,033,345	$ 2,244,188	$ (210,843)	(9%)
Selling, marketing and promotion	380,082	345,908	34,174	10%
Consulting fees	1,408,485	1,739,529	(331,044)	(19%)
Professional fees	942,000	2,342,823	(1,400,823)	(60%)
Salaries and wages	4,179,460	4,893,073	(713,613)	(15%)
Research	276,938	304,312	(27,374)	(9%)
Share based compensation	$ 1,042,566	$ 1,312,768	$ (270,202)	(21%)
Depreciation and amortization	887,332	893,987	(6,665)	(1%)
Expected credit loss	375,553	168,641	206,912	123%
Impairment of capital assets	1,118,467	4,160,727	(3,042,260)	(73%)
Total Operating Expenses	**$ 12,644,228**	**$ 18,405,956**	**$ (5,761,728)**	**(31%)**

Office and General expenses

For the year ended December 31, 2022, the Company incurred office and general expenses totaling $2,033,345, compared to $2,244,188 in the prior year.

Selling, Marketing and Promotion

For the year ended December 31, 2022, the Company incurred selling, marketing and promotional expenses totaling $380,082, compared to $345,908 in the prior year.

Consulting Fees

For the year ended December 31, 2022, the Company incurred consulting expenses totaling $1,408,485, compared to $1,739,529 in the prior year. Consulting expenses were comprised of third-party consultants, service providers, and investor relation services. As part of the Company's continued cost saving efforts, many of these services have been brought in house resulting in lower overall costs.

Professional Fees

For the year ended December 31, 2022, the Company incurred professional fees of $942,000, compared to $2,342,823 in the prior year. The decrease in professional fees is a result of both efforts to decrease operating costs by bringing tasks in house, as well as additional professional fees incurred in the prior year directly related to the management cease trade order ("MCTO").

Salaries and Wages

For the year ended December 31, 2022, the Company incurred salaries and wages of $4,179,460, compared to $4,893,073 in the prior year. The decrease in salaries is due to the decrease in headcount in 2022.

Research

For the year ended December 31, 2022, the Company incurred research and development expenses of $276,938, compared to $304,312 in the prior year.

Share-based Compensation

For the year ended December 31, 2022, the Company incurred share-based compensation expenses of $1,042,566, compared to $1,312,768 in the prior year. Share-based compensation decreased in the current year due to the share value which has been consistently low in 2022 and therefore resulted in lower valuations of share-based compensation. The quantity of share-based compensation increased in the current year compared to 2021.

Depreciation and amortization

Depreciation and amortization for year ending December 31, 2022, was $887,332, compared to $893,987 for the year ended December 31, 2021.

Expected Credit Loss

For the year ended December 31, 2022, the Company recognized an expected credit loss of $375,553, compared with $168,641 for the year ended December 31, 2021.

Impairment

For the year ended December 31, 2022, the Company recognized impairment on capital assets of $1,118,467, compared with $4,160,727 in the prior year. In 2021, the Company recognized an impairment on a significant balance of capital assets in two subsidiaries, SN and SMGH. These assets were comprised predominantly of properties under development. For the year ended December 31, 2022, the Company wrote down capital assets to their fair market value using available market information resulting in impairment on the land. No depreciable assets required further impairment.

Other income (expenses)

The following table presents other income and (expense) for the years ended December 31, 2022, and 2021.

	Year ended December 31,			
Other Income (Expenses) *(Canadian Dollars)*	**2022**	**2021**	**Change**	**Change (%)**
Foreign exchange loss	$ 90,530	$ (77,419)	$ 167,949	217%
Gain on disposal of capital assets	7,585	51,975	(44,390)	(85%)
Unrealized loss on investment	-	(338,213)	338,213	-
Gain (loss) on revaluation of derivative liability	66,925	(138,904)	205,829	148%
Loss on revaluation of derivative asset	-	(526,312)	526,312	-
Other (expense) income	(168,607)	580,292	(748,899)	(129%)
Interest expense	(271,562)	(295,019)	23,457	8%
Accretion expense	(1,400,281)	(443,037)	(957,244)	(216%)
Loss on sale of Sativa Nativa S.A.S.	(1,530,994)	-	(1,530,994)	-
	$ (3,206,404)	**$ (1,186,637)**	**$ (2,019,767)**	**170%**

Other income (expenses) were ($3,206,404) for the year ended December 31, 2022, compared to ($1,186,637) for the year ended December 31, 2021. The increase is the result of:

- Accretion expense increase significantly in the current year due to the additional of the convertible debenture in January and the extension of the term loan in October. This is compared to 2021 when accretion was only recorded on the term loan issued in August 2021.
- A loss on the sale of Sativa Nativa S.A.S. is a new balance for 2022, with the transactions closing on June 29, 2022.

Adjusted EBITDA

The following table presents Adjusted EBITDA for the years ended December 31, 2022, and 2021:

	Year ended December 31,			
Adjusted EBITDA *(Canadian Dollars)*	**2022**	**2021**	**Change**	**Change (%)**
Net comprehensive loss	$ (14,400,024)	$ (19,549,503)	$ 5,149,479	(26)%
Exchange differences on translation	(335,267)	2,774,963	(3,110,230)	(112%)
Share-based compensation	1,042,566	1,312,768	(270,202)	(21%)
Depreciation and Amortization	887,332	893,987	(6,655)	(1%)
Estimated credit loss	375,553	168,641	206,912	123%
Interest expense (income)	271,562	295,019	(23,457)	(8%)
Other (income) expenses, net	168,607	(580,292)	748,899	(129%)
Accretion	1,400,281	443,037	957,244	216%
Unrealized gain on investment	-	338,213	(338,213)	-
Loss on revaluation of derivative asset	-	526,312	(526,312)	-
Loss (gain) on revaluation of derivative liability	(66,925)	138,904	(205,829)	(148%)
Unrealized changes in biological assets	(1,653,016)	(1,465,354)	(187,662)	13%
Inventory impairment	2,405,388	(669,116)	3,074,504	459%
Impairment of capital assets	1,118,467	4,160,727	(3,042,260)	(73%)
Unrealized changes in biological assets	1,530,994	-	1,530,994	-
Adjusted EBITDA	**$ (7,254,482)**	**$ (11,211,694)**	**$ 3,957,212**	**(35%)**

[1]Adjusted EBITDA is a non-IFRS measure and is calculated as the reported net loss, adjusted to exclude deferred tax (recovery) expense, impairments, share-based compensation, amortization, other (income) and expenses and removal of any one-time costs and fees.

The Adjusted EBITDA loss for the year ended December 31, 2022, was ($7,254,482), as compared to an Adjusted EBITDA loss of ($11,211,694) for the year ended December 31, 2021, respectively. The decrease in EBITDA loss was the result of further reductions in general and administrative expenses and growth in revenue.

Summary of Quarterly Results

The following tables presenting our quarterly results of operations should be read in conjunction with the Financial Statements and related notes. We have prepared the unaudited information on the same basis as our audited consolidated financial statements. Our operating results for any quarter are not necessarily indicative of the results for any future quarters or for a full year.

The following tables present our quarterly results of operations for the eight consecutive quarters ended December 31, 2022:

	Quarter Ended			
2022 Quarterly Results *(In Canadian Dollars)*	**December 31, 2022**	**September 30, 2022**	**June 30, 2022**	**March 31, 2022**
Net revenues	$ 1,136,100	$ 771,263	$ 1,102,557	$ 1,037,961
Net comprehensive income (loss)	(7,759,237)	(3,059,127)	(4,225,547)	643,887
Income (loss) per share	$ (0.12)	$ (0.05)	$ (0.08)	$ 0.01

	Quarter Ended			
2021 Quarterly Results *(In Canadian Dollars)*	**December 31, 2021**	**September 30, 2021**	**June 30, 2021**	**March 31, 2021**
Net revenues	$ 1,217,811	$ 987,967	$ 792,220	$ 270,908
Net comprehensive loss	(8,390,551)	(2,944,747)	(3,197,617)	(5,016,588)
Loss per share	$ (0.18)	$ (0.07)	$ (0.08)	$ (0.14)

Part 3 – Financial Liquidity and Capital Resources

The Company's primary liquidity and capital requirements are for capital expenditures, inventory, working capital and general corporate purposes. The Company currently has a cash balance of $1,194,040 on December 31, 2022. The Company's ability to fund operating expenses and capital expenditures will depend on its future operating performance, and its ability to raise capital which will be affected by general economic conditions, financial, regulatory, and other factors, including factors beyond the Company's control.

Management continually assesses liquidity in terms of the ability to generate sufficient cash flow to fund the business. Net cash flow is affected by the following items: (i) operating activities, including the level of trade receivables, accounts payable, accrued liabilities and unearned revenue and deposits; (ii) investing activities, including the purchase of property and equipment; and (iii) financing activities, including debt financing and the issuance of capital stock.

The following table provides a summary of the cash flows for the years ended December 31, 2022, and 2021.

	December 31,	
Cash flows *(In Canadian Dollars)*	**2022**	**2021**
Net cash (used in) provided by:		
Operating activities	$ (7,435,368)	$ (11,663,025)
Investing activities	810,236	760,828
Financing activities	9,901,485	10,060,016
Effect of exchange rate changes on cash	(2,113,317)	(393,547)
Net increase (decrease) in cash and cash equivalents	3,276,353	(842,181)
Cash, beginning of year	31,004	1,266,732
Cash, end of year	**$ 1,194,040**	**$ 31,004**

Cash used in operations during the year ended December 31, 2022, was ($7,435,368) compared to ($11,663,025) for the year ended December 31, 2021. The cash used in operations is primarily put towards bringing down significantly aged accounts payable, as well as purchases of inventory to facilitate product sales growth.

Net cash flows from investing activities totaled $810,236 for the year ended December 31, 2022, compared to $760,828 for the year ended December 31, 2021. The inflow in the current year is due to the sale of Sativa Nativa which result in a cash inflow as well as the sale of long-term investments. In 2021, investing activities showed a net inflow due to the sale of a short-term GIC.

Net cash flow from financing activities totaled $9,901,485 for the year ended December 31, 2022, compared to $10,060,016 for the year ended December 31, 2021. Through equity financing, the Company raised approximately $9 million in both the years ended December 31, 2022, and 2021. In addition, the Company raised an additional $1.4 million in convertible debentures in the year ended December 31, 2022, compared to $2.4 million in the debt raised in the year ended December 31, 2021.

The following table provides information about the Company's financing from the public and private sources during the years ended December 31, 2022, and 2021, and the actual use of proceeds from those financings compared to the intended use of proceeds from the offerings. The remaining cash related to financings raised for general corporate and working capital needs are prorated based timing of funds raised and the current years cash flow.

Date	Type	Gross Proceeds	Initially Intended Use of Proceeds	Actual Use of Proceeds
March 4, 2021	Private Placement Offering (See below)	$5,600,000	The net proceeds generated from the public offering amounted to $5,350,050. The Company's stated intended use of the net proceeds were for general working capital.	Management has not adjusted its originally intended use of the net proceeds of the financing. As of December 31, 2022, all funds have been fully deployed.
August 18, 2021	Term loan	$1,800,000	The Company's stated intended use for the net proceeds were for general working capital.	Management has not adjusted its originally intended use of the net proceeds of the financing. As of December 31, 2022, all funds have been fully deployed.
October 19, 2021	Private Placement offering (See below)	$3,900,000	The net proceeds generated from the public offering amounted to $3,835,000. The Company's stated intended use of the net proceeds were for general working capital.	Management has not adjusted its originally intended use of the net proceeds of the financing. As of December 31, 2022, all funds have been fully deployed.
January 28, 2022	Convertible Debenture	$1,550,400	The Company's stated intended use for the net proceeds were for general working capital.	Management has not adjusted its originally intended use of the net proceeds of the financing. As of December 31, 2022, all funds have been fully deployed.
March 31, 2022	Private Placement offering (See below)	$2,523,568	The net proceeds generated from the public offering amounted to $2,491,068. The Company's stated intended use of the net proceeds were for general working capital.	Management has not adjusted its originally intended use of the net proceeds of the financing. As of December 31, 2022, all funds have been fully deployed.
May 6, 2022	Private Placement offering (See below)	$1,473,826	The net proceeds generated from the public offering amounted to $1,428,826. The Company's stated intended use of the net proceeds were for general working capital.	Management has not adjusted its originally intended use of the net proceeds of the financing. As of December 31, 2022, all funds have been fully deployed.

Date	Type	Gross Proceeds	Initially Intended Use of Proceeds	Actual Use of Proceeds
August 17, 2022	Private Placement offering (See below)	$2,782,301	The Company's stated intended use of the net proceeds were for general working capital.	Management has not adjusted its originally intended use of the net proceeds of the financing. As of December 31, 2022, all funds have been fully deployed.
November 10, 2022	Private Placement offering (See below)	$626,763	The net proceeds generated from the public offering amounted to $606,805. The Company's stated intended use of the net proceeds were for general working capital.	Management has not adjusted its originally intended use of the net proceeds of the financing. As of December 31, 2022, all funds have been fully deployed.
December 21, 2022	Private Placement offering (See below)	$1,769,097	The net proceeds generated from the public offering amounted to $1,763,597. The Company's stated intended use of the net proceeds were for general working capital.	As of December 31, 2022, management had not adjusted its originally intended use of the net proceeds of the financing.

March 2021 Private Placement

On March 4, 2021, the Corporation closed a non-brokered private placement (the "March 2021 Offering"). Under the March 2021 Offering, the Corporation has issued an aggregate of 4,480,000 units (the "March 2021 Units") at a price of CAD$1.25 per March 2021 Unit for aggregate gross proceeds of approximately CAD$5.6 million. Each March 2021 Unit is comprised of one common share and one common share purchase warrant, each of which is exercisable into one common share at a price of $1.75 per share until March 4, 2024.

August 2021 Term Loan

On August 18, 2021, the Company entered into a term loan agreement for principal of $2,118,000, issued at a discount. Gross funding from the term loan was $1,800,000. The loan incurs interest at a rate of 5% for a term of 14 months. The loan principal is to be repaid at the maturity date, with interest paid monthly beginning 2 months after the issuance date.

October 2021 Private Placement

On October 19, 2021, the Company closed a non-brokered private placement. Under this offering the Company issued an aggregate of 4,587,022 units at a price of $0.85 per unit for aggregate proceeds of approximately $3.9 million. Each of these units is comprised of one common share and one-half common share purchase warrant, each of which is exercisable into one common share at a price of $1.10 per share until October 19, 2024.

January 2022 Convertible Debenture

On January 28, 2022, the Company closed a non-brokered secured subordinated convertible debenture. Under this offering the Company issued an aggregate of 1,626 units at a price of $1,000 per unit for aggregate proceeds of approximately $1.6 million. Each Unit consists of an aggregate of $1,000 principal amount of secured subordinated convertible debentures and 545 common share purchase warrants.

March 2022, Private Placement

On March 31, 2022, the Company closed a non-brokered private placement. Under this offering the Company issued an aggregate of 7,210,194 units at a price of $0.35 per unit for aggregate proceeds of approximately $2.5 million. Each of these units is comprised of one common share and one-half common share purchase warrant, each of which is exercisable into one common share at a price of $0.40 per share until March 31, 2025.

May 2022, Private Placement

On May 6, 2022, the Company closed a non-brokered private placement. Under this offering the Company issued an aggregate of 4,210,931 units at a price of $0.35 per unit for aggregate proceeds of approximately $1.47 million. Each of these units is comprised of one common share and one-half common share purchase warrant, each of which is exercisable into one common share at a price of $0.40 per share until May 6, 2025.

August 2022, Private Placement

On August 17, 2022, the Company closed a non-brokered private placement. Under this offering the Company issued an aggregate of 7,949,433 units at a price of $0.35 per unit for aggregate proceeds of approximately $2.78 million. Each of these units is comprised of one common share and one-half common share purchase warrant, each of which is exercisable into one common share at a price of $0.40 per share until August 17, 2025.

November 2022, Private Placement

On November 10, 2022, the Company closed a non-brokered private placement. Under this offering the Company issued an aggregate of 1,790,750 units at a price of $0.35 per unit for aggregate proceeds of approximately $626,763. Each of these units is comprised of one common share and one-half common share purchase warrant, each of which is exercisable into one common share at a price of $0.40 per share until November 10, 2025.

December 2022, Private Placement

On December 21, 2022, the Company closed a non-brokered private placement. Under this offering the Company issued an aggregate of 5,054,562 units at a price of $0.35 per unit for aggregate proceeds of approximately $1.77 million. Each of these units is comprised of one common share and one-half common share purchase warrant, each of which is exercisable into one common share at a price of $0.40 per share until December 21, 2025.

Off Balance Sheet Arrangements

The Company has no off-balance sheet arrangements.

Related Party Balances and Transactions

Compensation expenses for Avicanna's key management personnel for the years ended December 31, 2022, and 2021 are as follows:

Related Party Compensation *(In Canadian Dollars)*	Year ended December 31, 2022	2021
Salaries and benefits	$ 655,794	$ 477,061
Share-based compensation	573,780	186,644
	$ 1,229,574	**$ 914,977**

Additionally, as of December 31, 2022, the Company received advances from certain related parties who represent the minority shareholders of SMGH in the amount of $3,843,196 ($3,659,931 as of December 31, 2021). The advances relate to minority partners contributions towards the expansion of cultivation facilities and ongoing operations. The balance owed to the related party is interest free and due on demand.

Subsequent Events

On January 28, 2023, the Company entered into agreements with the holders of convertible debentures (the "debentures") to amend the terms of the debentures and warrants issued with the debentures. Pursuant to the terms of the amending agreements, the exercise price of the warrants was amended from $1.10 to $0.55 per common share of the Company, and the expiry date amended from January 28, 2025, to January 28, 2026. Debentures bearing an aggregate amount of $876,000 will have their conversion price amended from $0.85 to $0.40 per Common Share (the "repriced debentures") while the remaining debentures bearing an aggregate amount of $1,062,000 will have their maturity date extended from January 28, 2023, to July 28, 2023 (the "extended debentures" and together with the repriced debentures, the "amended debentures"). A total of 3,439,409 common shares are issuable upon conversion of the amended debentures. On the agreement date, the repriced debentures were converted into an aggregate of 2,190,000 common shares.

On March 20, 2023, the Company closed a non-brokered private placement of 3,096,230 units of the Company, issued at a price of $0.40 per unit, for gross proceeds of $1,238,492. Each unit consists of one common share of the Company and one-half common share purchase warrant. Each whole warrant entitles the holder to acquire one common share of the Company, at an exercise price of $0.50 per share for a period of 3 year following the closing date.

Part 4 – Critical Accounting Policies and Estimates

Our significant accounting policies are fully described in Note 3 of the consolidated financial statements. Certain accounting policies require the application of significant judgement by management and, as a result, are subject to an inherent degree of uncertainty. We believe that the following accounting policies and estimates are the most critical to fully understand and evaluate our reported financial position and the results of operations, as they require our most subjective or complex management judgments. The estimates used are based on our historical experience, our observance of trends in the industry, information provided by our customers and information available from other outside sources, as appropriate. Actual results may vary from our estimates in amounts that may be material to the financial statements.

Inventory valuation

Critical judgment. Inventory is valued at the lower of cost and net realizable value. The valuation of our inventory balances involves calculating the estimated net realizable value of our inventory and assessing it against the cost. A component of this analysis therefore involves determining whether there is excess, slow-moving, or obsolete inventory on hand.

Assumptions and judgment. When determining whether there is excess, slow-moving, or obsolete inventory, management makes assumptions around future demand and production forecasts, which are then compared to current inventory levels. Management also makes assumptions around future pricing and considers historical experience and the application of the specific identification method for identifying obsolete inventory.

Impact if actual results differ from assumptions. If the assumptions around future demand for our inventory are more optimistic than actual future results, the net realizable value calculated using these assumptions may be overstated, resulting in an overstatement of the inventory balance.

Biological Assets Valuation

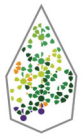
Critical judgment. In calculating the fair value of the biological assets, management is required to make a number of estimates, including estimating the stage of growth of the cannabis up to the point of harvest, harvesting costs, selling costs, average or expected selling prices and list prices, expected yields for the cannabis plants, and oil conversion factors.

Assumptions and judgment. Management uses available market information and transactional data to generate expectations of costs and prices. Estimates on the stage of growth and conversion factors are based on historical information from prior harvests. This information is compiled to determine the fair value of biological assets.

Impact if actual results differ from assumptions. The gain or loss on fair value of biological assets is included as part of gross margin. Differences between assumptions and results will be reflected on the profit and loss.

Estimated useful lives and depreciation and amortization of long-lived assets

Critical estimates. During the purchase or construction of our property and equipment, and during the acquisition or purchase of intangible assets, amounts are capitalized onto the statement of financial position. When the assets go into service, a useful life is assigned to determine depreciation and amortization expense. Useful lives are determined through the exercise of judgment.



Assumptions and judgment. The useful lives are determined based on the nature of the asset. Management considers information from manufacturers, historical data, and industry standards to estimate the appropriate useful life and salvage value. In certain cases, management may obtain third party appraisals to estimate salvage value.

Impact if actual results differ from assumptions. If actual useful lives differ from the estimates used, the timing of depreciation and amortization expense will be impacted.

Impairment of property and equipment and definite lived intangible assets

Critical estimates. Property and equipment and definite lived intangible assets need to be assessed for impairment when an indicator of impairment exists. If an indicator of impairment exists, further judgement and assumptions will be required in determining the recoverable amount.

Assumptions and judgment. When determining whether an impairment indicator exists, judgement is required in considering the facts and circumstances surrounding these long-lived assets. Management considers whether events such as a change in strategic direction, changes in business climate, or changes in technology would indicate that a long-lived asset may be impaired. When an impairment indicator does exist, judgement and assumptions are required to estimate the future cash flows used in assessing the recoverable amount of the long-lived asset.

Impact if actual results differ from assumptions. If impairment indicators exist and are not identified, or judgement and assumptions used in assessing the recoverable amount change, the carrying value of long-lived assets can exceed the recoverable amount.

Derivative liability fair value measurement

Critical estimates. The derivative liability is measured at fair value through net income (loss) using Level 3 inputs.

Assumptions and judgment. The valuation technique requires assumptions and judgement around the inputs to be used. Specifically, there is a high degree of subjectivity and judgement in evaluating the determination of the expected share price volatility inputs. Historical and peer group volatility levels are used to provide a range of expected volatility inputs.

Impact if actual results differ from assumptions. An increase or decrease in the share price volatility will result in an increase or decrease in fair value. Fair value estimates are sensitive to the expected volatility inputs.

Stock-based compensation

Critical estimates. We use the Black-Scholes option pricing model to calculate our share-based compensation expense.

Assumptions and judgment. The option pricing model relies on key inputs such as rate of forfeiture, expected life of the option, the volatility of our share price, and the risk-free interest rate used.

Impact if actual results differ from assumptions. If key inputs differ, the fair value of options will be impacted. A higher fair value of the options will result in higher share-based compensation expense over the vesting period of the option.

Income taxes

Critical estimates. Many of our normal course transactions may have uncertain tax consequences. We use judgment to determine income for tax purposes and this may impact the recognized amount of assets or liabilities, the disclosure of contingent liabilities or the reported amount of revenue or expense and may result in an unrealized tax benefit for transactions that have not yet been reviewed by tax authorities and that may in the future be under discussion, audit, dispute, or appeal.

Assumptions and judgment. We use historical experience, current and expected future outcomes, third-party evaluations and various other assumptions believed to be reasonable in making judgements.

Impact if actual results differ from assumptions. An unrealized tax benefit will be recognized when we determine that it is more likely than not that the tax position is sustainable based on its technical merits. In any case, if the outcome is different from our estimate this will impact our income taxes and cash flow.

Long-term investment

Critical estimates. Long-term investments include investments in a private company. The fair value of this investment is subject to limited as the financial information of private companies is not readily available.

Assumptions and judgment. Management applies judgement on the information utilized to determine the fair value of the investment which may include financial information received from the investment company, subsequent equity financing, significant events or restructuring of the investment company.

Impact if actual results differ from assumptions. Differences in actual results from assumptions could have a material impact on the gain or loss recording on the long-term investment, as well as the value reported on the statement of financial position.

Provisions

Critical judgment. Accrued for liabilities or which the timing and amount of the liability is uncertain.

Assumptions and judgment. Management assesses the likelihood that the liability will be incurred at the financial statement date, however it cannot be confirmed as such. The recording of such liability is based on Management's judgement.

Impact if actual results differ from assumptions. Could result in a timing difference in the recognition of expenses resulting in a difference in the current profit and loss.

Financial Instruments

The Company classifies its financial assets and financial liabilities into the following measurement categories;

(i) measured at amortized cost.
(ii) subsequently measured at fair value through other comprehensive income ("FVOCI")
(iii) subsequently measured at fair value through profit or loss ("FVPTL").
(iv) The classifications for each class of the Company's financial assets and financial liabilities are summarized in the following table:

Financial Assets	Classification
Cash	Amortized cost
Amounts receivable	Amortized cost
Investments	FVTPL
Financial Liabilities	**Classification**
Trade payables and accrued liabilities	Amortized cost
Lease liability	Amortized cost
Due to related party	Amortized cost
Loan payable	Amortized cost
Convertible debentures	Amortized cost
Derivative liability	FVTPL

(i) Financial assets

Financial assets are initially measured at fair value. On initial recognition, the Company classifies its financial assets at either amortized cost, FVOCI or FVTPL, 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.

(ii) FVTPL financial assets

Financial assets are classified as FVTPL when the financial asset is held for trading, or it is designed as FVTPL. Financial assets classified as FVTPL are stated at fair value with any resulting gain or loss recognized in the consolidated statements of operations and comprehensive loss. Transaction costs are expensed as incurred.

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 data where possible, but where observable market data is not available, judgement is required to establish fair values.

(iii) 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, past due status, the existence of third-party insurance and forward-looking macroeconomic factors.

(iv) 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 considering 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.

Risk Management

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 +
Trade payables and accrued liabilities	$ 4,752,796	$ 4,752,796	$ 4,752,796	$ -	$ -
Lease liability	372,121	413,181	150,248	150,248	112,686
Convertible debentures	1,861,201	1,938,000	1,938,000	-	-
Loan payable	976,397	1,034,110	872,267	179,551	-
	$ 7,962,515	**$ 8,138,087**	**$ 7,713,311**	**$ 329,799**	**$ 112,686**

The due to related party balance of $3,843,196 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 is the risk to the Company's earnings that arise from fluctuations in 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 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 all borrowing have fixed rates of interest which are not effected by these fluctuations. Loan payable, convertible debentures and lease liability are recorded at amortized cost using fixed interest rates.

Fair values

The carrying values of cash, amounts receivable, investments, amounts payable, current portion of loan payable and convertible debentures, approximate the fair values due to the short-term nature of these items. As of December 31, 2022, the carrying value of the non-current portion of loan payable is $179,551 (December 31, 2021 - $415,826) compared to a fair value of $160,185 (December 31, 2021 - $356,851). The risk of material change in fair value is not considered to be significant due to the short-term nature. It is not practicable to estimate the fair value of the balance due to related party, due to the nature of this liability. 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:

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 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. Warrants and derivative liability are classified as a level 2 financial instrument. As of the years ended December 31, 2022, and 2021, there were no level 3 financial instruments.

The following table discloses the fair value classification of financial instruments recognized at fair value through profit and loss:

	December 31, 2022			
	Level 1	Level 2	Level 3	Total
Financial liabilities at FVTPL				
Derivative Liability	-	972	-	**972**

	December 31, 2021			
	Level 1	Level 2	Level 3	Total
Financial assets at FVTPL				
Long-term investments	180,000	-	-	**180,000**

OUTSTANDING SHARE DATA

The authorized capital of the Company consists of an unlimited number of common shares (each, a "Common Share"). As of the date of this MD&A, there are 83,198,475 Common Shares issued and outstanding. In addition, there were 2,157,797 Common Shares issuable on the exercise of Stock Options, 28,096,314 Common Shares issuable on the exercise of Warrants, 2,046,379 Common Shares issuable on the vesting of Restricted Share Units and up to 1,249,411 Common Shares issuable on the exercise of the January 2022 Debentures, assuming a conversion price of $0.85 per share.

RISK FACTORS

Due to the nature of the Company's business, the legal and economic climate in which it operates and its present stage of development, the Company is subject to significant risks. Additional risks and uncertainties not presently known to management or that management currently considers immaterial may also impair the business and operations.

Factors that could cause actual results to differ materially from those set forth in forward-looking information include, but are not limited to: the future customer concentration; the ability to anticipate future needs of customers; no unusual delays to receive regulatory approvals for our clinical trials or cultivation quotas; our expectations with respect to the competitive landscape of the industry in which we operate and our present intentions to differentiate our business within that industry; the regulatory framework governing cannabis for recreational and medicinal use in Canada, Colombia, and any other jurisdiction in which we may conduct our business in the future; there being no significant delays in the completion of our cultivation facilities; there being no significant delays in the development and commercialization of our products; maintaining sufficient and effective production and R&D capabilities; our ability to analyze customer data; our ability to secure partnerships with manufacturers and distributors in international markets; the ability of our strategic partnerships to effectively operate; our ability to develop a brand to market our products successfully to consumers; future production and supply levels, and future consumer demand levels; the price of cannabis and cannabis related products; continuing to attract and retain key personnel; the demand for our products will grow for the foreseeable future; there being no significant barriers to acceptance of our products in the market; expected number of medical cannabis users and the willingness of physicians to prescribe medical cannabis to patients in the markets in which the Company operates; and, ability to access financing on commercially attractive terms.

The Company's overall performance and results of operations are subject to various risks and uncertainties which could cause actual performance, results and achievements to differ materially from those expressed or implied by forward-looking statements, including, without limitation, the following factors, some of which, as well as other factors, are discussed in the Company's Annual Information Form dated March 31, 2023 for the year ended December 31, 2022 available under the Company's profile on www.sedar.com, which risk factors should be reviewed in detail by all readers:

- our business segments are heavily regulated in Canada and Colombia;
- the regulatory regime is evolving and uncertainty exists regarding the impact of the regime on the Company;
- the political environment surrounding the cannabis industry is in flux and subject to change;
- the inability to successfully complete clinical trials or obtain regulatory approval of products;
- risks of foreign operations generally, including but not limited to agriculture and drug policies, nationalization, expropriation, contractual rights, foreign exchange restrictions, currency fluctuations, export quotas, royalty and tax increases, and risks of loss due to civil strife, acts of war, guerilla activities and insurrections;
- the potential inability to enforce judgments obtained in Canada against any person or company incorporated, continued, or otherwise organized under the laws of a foreign jurisdiction or that resides outside of Canada, even if the party has appointed an agent for service of process;
- the potential inability to obtain or retain licenses required to grow, store, and sell cannabis in Colombia,
- the potential inability to establish and maintain bank accounts;
- potential involvement in regulatory or agency proceedings, investigations, and audits;
- compliance with evolving environmental, health and safety laws;
- the potential risk of exposure resulting from the control of foreign subsidiaries in Colombia;

- potential government policy changes or shifts in public opinion;
- exposure to foreign exchange risks;
- inflationary risks based on Colombia's historic experience of double digit rates of inflation;
- the potential that Colombia will impose repatriation of earnings restrictions in the future;
- Colombian political and economic conditions are subject to intervention and change;
- constraints on marketing of products;
- the cannabis industry and market is subject to general business risks, and those associated with agricultural and regulated consumer products;
- competitive conditions, consumer tastes, patient requirements and spending patterns remain relatively unknown;
- there are no assurances that the cannabis industry and market will continue to exist or grow as anticipated;
- the industry is changing at rapid speeds, and we may be unable to keep pace;
- the consumer perception of cannabis can be significantly influenced by scientific research or findings, regulatory investigations, litigation, media, and other publicity;
- future clinical research into effective medical cannabis therapies could raise concerns regarding, and perceptions relating to, cannabis;
- limited history of operations;
- the inability to retain and attract employees and key personnel;
- potential for delays in obtaining, or restructuring conditions imposed by, regulatory approvals;
- potential increases in material and labour costs;
- we have incurred losses since inception and may continue to incur losses in the future;
- the ownership of the Common Shares is heavily concentrated among our directors and officers;
- the potential to experience difficulty developing new products and remaining competitive;
- the completion and commercial viability of new products in the prototype stage;
- construction risk in connection with the facilities in Colombia;
- potential for adverse environmental conditions, accidents, labour disputes and changes in the regulatory environment;
- reliance on third-party manufacturers and distributors;
- there can be no assurances of profit generation or immediate results;
- risks against which we are unable or unwilling to insure against;
- shareholder dilution pursuant to additional financings;
- transportation disruptions to our courier services;
- the cost of our key inputs is unpredictable;
- compliance with laws relating to privacy, data protection, and consumer protection;
- potential for information systems security threats;
- we are reliant on key suppliers and skilled labour;
- inability to effectively implement quality control systems;
- there is a potential for conflicts of interest to arise among our key stakeholders;
- we may be unable to sustain our pricing models;
- we may not be able to successfully identify or complete future acquisitions;
- we may be unable to effectively protect personal information;
- exposure to product recalls, liability claims, regulatory action and litigation based on products;
- we may be unable to protect intellectual property in relevant markets;
- the market price for the Common Shares may be volatile and subject to wide fluctuations;

- we may not be able to effectively prevent fraudulent or illegal activities by our employees, contractors, or consultants;
- we may not be able to effectively prevent security breaches at our facilities;
- management may not be able to effectively manage our growth;
- outside factors may harm our reputation;
- we may become subject to legal proceedings from time to time;
- management has limited experience managing public companies;
- we may be unable to effectively protect our trade secrets;
- securities analysts may publish negative coverage;
- our financial statements have been prepared on a going concern basis;
- we may be dependent on the performance of our subsidiaries;
- certain of our operating subsidiaries are not wholly-owned;
- there may be future sales of the Common Shares by directors, officers and principal shareholders; and
- interruptions or changes in the availability or economics of our supply chain.

For a discussion of the risks faced by the Company, please refer to the Company's Annual Information Form for the year ended December 31, 2022 and other public filings of the Company, each of which is available under the Company's profile on SEDAR, at *www.sedar.com.*

DISCLOSURE CONTROLS AND INTERNAL CONTROLS

The information provided in this report, including the information derived from the Financial Statements, is the responsibility of management. In the preparation of these statements, estimates are sometimes necessary to determine future values for certain assets or liabilities. Management believes such estimates have been based on careful judgments and have been properly reflected in the accompanying financial statements.

For the year ended December 31, 2022, there were no changes made in the Company's design of internal controls over financial reporting that have materially affected, or are reasonably likely to materially affect, its internal controls over financial reporting.